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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	IMPACT OF ORGANISED RETAIL ON UNORGANISED RETAIL IN INDIA <i>CMA JAYASHREE RAMANAN & DR. K.P.V.RAMANAKUMAR</i>	1
2.	AN ANALYSIS OF EMPLOYEE RETENTION PREVAILING IN MANUFACTURING INDUSTRY IN HOSUR, TAMIL NADU <i>DR. B. N. SIVAKUMAR, DR. V. NAVANEETHAKUMAR & K. R. KUMAR</i>	3
3.	HRD PRACTICES IN BANKS: A STUDY WITH REFERENCE TO PUBLIC AND PRIVATE SECTOR BANKS <i>DR. P. SUCHITRA</i>	7
4.	PRE-PURCHASE INFORMATION SEARCH BEHAVIOUR OF RURAL CONSUMERS TOWARDS PRE-OWNED CARS <i>DR. M. UMA MAHESWARI & DR. M. JEZER JEBANESAN</i>	13
5.	LINKING EMOTIONAL INTELLIGENCE, SALES PERFORMANCE AND SALES SUCCESS OF RETAIL SALESPEOPLE: A REVIEW APPROACH <i>DR. M. M. MUNSHI & SANJAY HANJI</i>	19
6.	REASONS AND EXPECTATIONS OF CUSTOMERS TOWARDS SHAMPOO BRANDS <i>KHAWAJA MUBEENUR RAHMAN & DR. ROSHAN KAZI</i>	24
7.	TEAM FORMATION STRATEGIES BASED ON PERSONALITY TYPES AND COMMUNICATION STYLES TO IMPROVE TEAM EFFECTIVENESS <i>DR. MARY CHERIAN & DR. KIRUPA PRIYADARSHINI M.</i>	28
8.	MICROFINANCE CRISIS IN ANDHRA PRADESH AND REGULATORY RESPONSE <i>K. LAKSHMI & DR. S. VASANTHA</i>	32
9.	COST OPTIMIZATION THROUGH 'INTERNAL TALENT RETENTION STRATEGIES': AN ANALYTICAL STUDY <i>DR. SONALI DHARMADHIKARI</i>	37
10.	TALENT MANAGEMENT: A NEW CORPORATE MANTRA <i>K. USHA</i>	42
11.	RATIONALITY AND EMOTIONALITY IN CUSTOMERS' ADVERTISING AND BRAND ELEMENT RECOLLECTION: A STUDY ON LOYAL CUSTOMERS OF CERTAIN BRANDS <i>VINOD URATH & N. R. NARAYANAN</i>	45
12.	INDUSTRIAL-CORPORATE SOCIAL RESPONSIBILITY <i>KONDA SANTOSH KUMAR & GHANATHE RAMESH</i>	49
13.	BRING YOUR OWN DEVICE (BYOD): AN EMPIRICAL STUDY ACROSS INDUSTRIES <i>RINKU MAHINDRU</i>	54
14.	FOREIGN BANKS IN INDIA: A LITERATURE REVIEW <i>NEHA NAINWAL</i>	58
15.	COST-BENEFIT ANALYSIS OF BUS TRANSPORT IN KUMBakonam REGION OF TAMIL NADU <i>DR. C. KUMARAN</i>	63
16.	RELATIONSHIP BETWEEN INDIAN CAPITAL MARKET AND FOREIGN INSTITUTIONAL INVESTMENT <i>DR. SUMAN DAHIYA GAINA</i>	66
17.	AN ANALYSIS OF EFFECTS OF ENVIRONMENTAL PERFORMANCE OF CONSUMER GOODS INDUSTRY AND THE FINANCIAL PERCEPTION OF THE INVESTORS: A COMPARISON OF INDIAN AND US FIRMS <i>AMO GH TALAN</i>	71
18.	DESIRED CONTRIBUTION: IMPACT OF PENSION FUND MANAGERS PERFORMANCE ON RISK AND RETURN <i>SATHISHA H K, SOWMYA G S & SUSHMA K</i>	76
19.	AGE WISE STUDY OF JOB SATISFACTION OF DELHI UNIVERSITY FACULTY <i>NARANDER KUMAR NIGAM & SAUMYA JAIN</i>	87
20.	THE EFFECT OF OWNERSHIP STRUCTURE ON AUDIT QUALITY <i>ROYA DARABI & NOTASH MOGHADAM</i>	94
21.	A REFLECTION ON THE NATURE OF CORPORATE GOVERNANCE IN INDIA <i>SHWETA SATUA</i>	100
22.	THE PERCEPTION OF AGRICULTURAL STUDENTS AND SELF-EMPLOYMENT IN AGRIBUSINESS: A CASE STUDY OF STUDENTS OF UNIVERSITY FOR DEVELOPMENT STUDIES, GHANA <i>HUDU ZAKARIA, HAMZA ADAM & AFISHATA MOHAMMED ABUJAJA</i>	104
23.	ISLAMIC BANKING AND IJARAH FINANCING IN PAKISTAN <i>KALSOOM AKHTAR, AIMAN CHISHTI, SAMRA KANWAL, NADIA ASLAM & SOBIA ASLAM</i>	109
24.	ENVIRONMENTAL AUDIT: STEP TOWARDS SUSTAINABLE DEVELOPMENT <i>DR. S. K. JHA</i>	118
25.	CHIT FUND- ROTATION OF MONEY <i>NAZIA ABBAS ABIDI</i>	122
26.	CURRENCY DEVALUATION: A STORY FROM 1966 TO 2013 <i>REKHA RANI</i>	124
27.	CHILD LABOUR AND TRADE LIBERALISATION <i>SIDDHARTH RATHORE</i>	129
28.	CORPORATE SOCIAL RESPONSIBILITY IN INDIAN BANKING SECTOR: A STUDY OF SONIPAT BRANCHES <i>KAVERI HANS & DR. MANISHA</i>	134
29.	AN ASSESSMENT ON JOB SATISFACTION OF ACADEMIC EMPLOYEES: A SURVEY ON ETHIOPIAN PRIVATE INSTITUTIONS OF HIGHER LEARNING <i>MULU ADERIE ALEMU</i>	138
30.	REGULATIONS IN INDIAN CORPORATE DEBT MARKET <i>ANSHIKA AGARWAL</i>	145
	REQUEST FOR FEEDBACK & DISCLAIMER	154

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CHIT FUND- ROTATION OF MONEY

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ABSTRACT

Today, investment is related to saving and deferring consumption. This word investment is investment is involved in a lot of areas of economy. There are basically two types of institution where an individual invest his/her money. The first one is bank and the second one is NBFC. Bank is one that holds banking license and works under the Rules and regulations of RBI. Whereas NBFC are financial institution that provide banking facility without meeting the services without meeting the legal definitions of bank. Chit Fund also comes under definition of NBFC by RBI under the sub head miscellaneous non banking company (MNBC). But RBI not laid down any regulatory frame work for them. Due to this a lot of chit fund companies are making fraud with poor people.

KEYWORDS

Chit Fund, NBFC, RSCA.

INTRODUCTION

There are so many ways of money investment by people, in which chit is a very common form of investing money by people. Chit fund is a kind of saving schemes that is practiced in India. These chit fund companies come under Non Banking Financial Companies (NBFC), NBFC is that under which a person enters into an agreement with a specified person that everyone of them shall subscribe a certain sum of money by the way of periodic installment over a definite period and that each subscriber, shall in his turn, as determined by lot or a auction or by tender or in such other manner as specified in the chit agreement, be entitled to the chit amount. Such chit fund schemes may be conducted by organized financial institution or may be unorganized schemes that are conducted between friends or relatives. In early decades these chit funds were in an unorganized form that was done through money lender. Chit fund business is mainly regulated under the Central Act of Chit Fund Act, 1982 and the rules framed under this Act are by various State Government for this purpose. Central Government has not framed any rule to operate this institution. As we know that a chit fund is financial institution, they are of various form and lack in standardized form. Chit funds have regular members who make periodical subscriptions to the fund. The periodic collection is given to some members of the chit funds selected on the previously agreed criterion. The beneficiary is selected usually on the basis of bids or by draw of lots or in some cases by auction or by tender. In any case, each member of the chit fund is assured of his/her turn before the second round starts and any members becomes entitled to get periodic collection again. Chit fund are Indian version of ROSCA (Rotating Saving And Credit Association), that found across the globe. ROSCA are the poor man's bank, where money is not idle for long but changes hand rapidly, that satisfies both consumption and production needs.

MATERIALS AND METHODS

While preparing this article focus has been kept on history of chit fund, types of chit fund and about types of chit fund companies. Both primary as well as secondary sources of information have been taken into consideration. Substantial care has been also taken for objectives and corrections that are present in the presentation.

RESULT AND DISCUSSION

There are a lot of chit fund companies as different chit fund operate in different ways and there are also a lot of fraudulent practiced by many private firms. Chit fund operation is not illegal, in fact the operation is almost unique to India and till recently when banks were rare, chit funds are the most acceptable way to get bulk cash for a lot of households that were looking for finance. A chit fund company uses a wide range of trick. The general pattern of the chit fund can be noticed by a simple formula:-

Monthly Premium*Duration of Month= Gross Amount

The chitty starts on an announced date and every subscriber come together for the lot. When there are more than one person want to take that minimum sum, lot are conducted and the "lucky subscriber" got the prize money, for the month. If no individual person is willing to take the minimum sum, then the reverse lot is conducted. Where subscriber open bid for lower amount. That person whose bidding amount is lowest sum gets the bid amount. In both cases the lot discount that is the difference between the gross sum and net amount is equally distributed among subscribers or it is deducted from the monthly premium. The same practice is repeated every month and each of the subscribers get a chance to receive same money. Basically, chit is a mutually beneficial scheme where in a group of people contributes towards the chit value and one member from the group is given the prize amount and the dividends are distributed to all other member. As for example: - if anyone consider a chit value of Rs. 1, 00000/- with 50 members in the group each member has to contribute Rs.2000/- where by (50*2000) Rs 100000/- is collected.

An Illustration To Explain How Chit Fund Works

If we suppose that there is commencing a new chit group. The value of chit is 500,000. This amount is known as Chit value.

Rs. 500,000+50 Months+50 People

For doing the illustration that how a chit works we will consider the duration of the chit to be 50 months. This is known as term period for the chit group. After that the foreman or the chit fund company has to gather 50 people who are interested in investing in this chit group. These 50 persons are called subscriber. Once, the chit group commences the foreman has to register of chits. He has to pay 100% of chit values as security. This amount can be withdrawn only after the chit group closes and every subscriber is paid what is due to him or her. This regulation protects the interest of subscriber to a certain extent. The amount collected from the members in the group is called pot. The amount to be saved every month by the subscriber is called chit value /No of person's i.e. 500,000/50=10,000. This is also known as monthly subscription. It may be noted here that the number of persons investing in a chit and duration of the chit is always the same. The maximum monthly contribution or subscription amount that a subscriber will pay is 10,000.

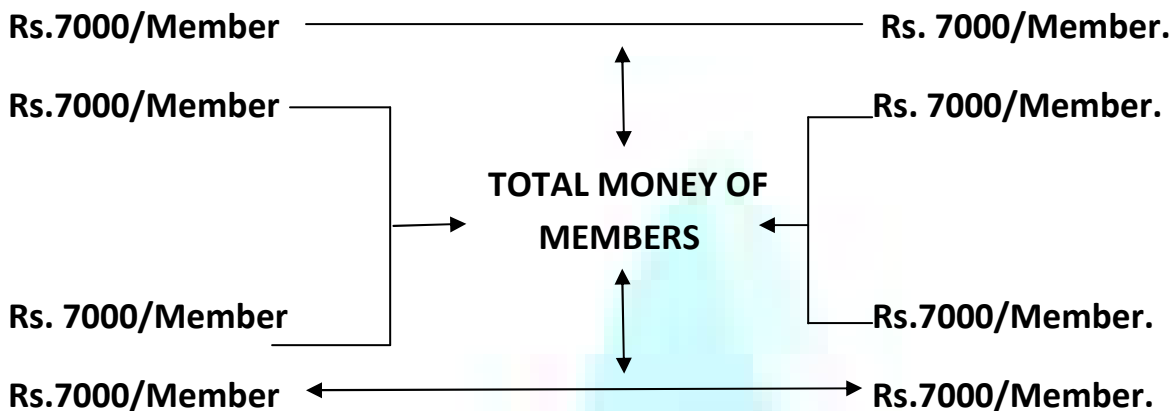
The subscriber does not always pay the entire subscription amount every month. Let us now see how and why a subscriber does not have to pay the entire amount.

HIGHEST BID 35% of Rs.500, 000 = 175,000 Discount**175,000 are called Chit Discount.**

The maximum discount or maximum bid permitted ranges from 30-40%. For the purpose of this illustration we have to assume that a subscriber has bid 35% of the chit value. 35% of 500,000 are 175,000. This amount is called Chit Discount.

5% of 500,000 = 25,000 that is Chits Company's commission.

150,000/50 Members = 3000 Dividend.



The company charges 5% of chit values as commission. In this illustration that amount would be 25,000. This would deduct from chit discount i.e. 175,000-25,000 = 150,000. This amount is available for equal distribution among the subscribers. In this example 150,000 would be divided equally among 50 subscribers. Each subscriber would get a discount of 150,000/50 = 3000. This amount is known as dividend. In the following month all subscriber would have to only pay Rs. 7000 instead of Rs. 10,000. This is because they have earned a chit discount of 3000. Depending upon the competition within the chit group the discount percent would vary. The least discount would be 5% which is the company's commission. The bidding process will continue until the end of the chit period. In this manner, the subscriber can borrow more than what they paid in the first half period of the chit term and save their money if they decide.

There are a lot of chit fund companies in which some are given below:-

- Golden Chit Fund Private Ltd.
- Bindia Funds Pvt. Ltd.
- Mutual Financial Brotherhood Pvt. Ltd.
- Trade Winds Chit Fund Private Ltd.
- Saradha Groups Financial Ltd.

These companies's have a ponzy scheme. They promise their client to double their money in a very short term but they become failure to fulfill their promises. A lot of poor family and middle class family want to make profit or earn money in a short period.

CASE 1

Saradha Group Company its Kolkata based chit Fund Company that was came under scam of fraudulent. It believed to be running a wide variety of collective investment schemes collapsed. As the case demonstrates, there is still a clear need for more transparency correction and regulation is not just India but at the highest level of global financial market.

CASE 2

The Economic Offences Wing (EOW) of Crime Branch (CB) arrested a director of controversial money circulation company Flourish India, on charges of embezzling nearly Rs. 100 crore public deposits.

The company ventured into real estate music, tourism and hospitality business by allegedly diverting public money collected through the money circulation wing. Though a case was recently registered against the company at Barpali Police station in Bargarh District, the CB subsequently took over the investigation.

CONCLUSION

Chit fund is not illegal the problem of chit fund is its rotation of money, its ponzy scheme that has been spread all over the India. So the Government of India and the market regulator SEBI, RBI will have to activate a mandatory regulatory mechanism to control the mushrooming activities of chit fund. People have to be aware before investing money in any Chit Fund or NBFC they have to take proper enquiry of the company.

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