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Navigating to Modern Finance: Impact on Chit Funds

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Abstract— ***Chit funds, a popular financial instrument in India, play a vital role in informal savings and investment practices. These pooled investment schemes involve a group of individuals contributing fixed amounts at regular intervals, with one member receiving the collected sum through an auction-like process. Widely popular in India, chit funds serve as informal savings and credit mechanisms, catering to diverse socio-economic segments. This research paper comprehensively explores chit funds, examining various types and providing insights into the top chit fund companies in India. It conducts a profitability analysis to assess their financial performance. Additionally, the study investigates the impact of modern financial instruments on chit funds, elucidating how contemporary financial tools influence their functioning. Through in-depth analysis, the paper offers a holistic understanding of chit funds, financial viability, and their susceptibility to the influence of modern financial instruments. Profitability is assessed through Net Present Value (NPV) in three scenarios based its time of lifting chit, measuring the present value of cash inflows against initial investments. This research paper will investigate the influence of contemporary financial instruments, such as stocks, bonds, and mutual funds, on chit funds. Through an examination of individuals' educational qualifications, income levels, financial goals, and risk tolerance, the study aims to elucidate the interplay between these factors and the dynamics of chit fund participation, shedding light on broader financial inclusion patterns. Research findings indicates that lifting the chit at the end of the period is profitable. Despite a trend towards diversified financial instruments, uneducated, low-income individuals persist in investing in chit funds, emphasizing a need for financial education and inclusion.***

Keywords: Financial Instrument, Financial Viability, Net Present Value (NPV), Risk Tolerance, Financial Inclusion.

I. INTRODUCTION

Chit funds have been an integral part of India's financial landscape, providing a unique and traditional form of collective savings and borrowing. In essence, a chit fund is a financial arrangement where a group of individuals comes together to contribute a fixed amount of money periodically. These contributions from a pool, and every period, one member is chosen through a bid or lottery to receive the entire sum. The process repeats until each member gets their turn. This system fosters a sense of trust and camaraderie among participants, as they collectively navigate the financial ups and downs of life [1].

Chit funds play a crucial role in catering to the financial needs of people who may not have access to formal banking systems. Particularly in rural and semi-urban areas, where traditional banking services may be limited, chit funds offer an alternative avenue for savings and credit. It serves as a social security net, allowing individuals to address unforeseen expenses, invest in education, or fund other life events without the stringent requirements often associated with mainstream financial institutions. While chit funds contribute significantly to financial inclusion, they also come with their set of challenges. Instances of fraudulent activities and mismanagement have prompted regulatory bodies like the Reserve Bank of India (RBI) to establish guidelines and monitor the sector more closely. Striking a balance between preserving the cultural significance of chit funds and ensuring their transparency and security remains an ongoing challenge for regulators [2].

Chit funds come in various forms, catering to the diverse financial needs and preferences of individuals. Whether participants are looking for a fixed savings plan, flexible tenure, profit-sharing, or an element of unpredictability, there is likely a type of chit fund that aligns with their financial goals. It is essential for participants to thoroughly understand the terms and conditions of the chit fund they join and ensure compliance with legal and regulatory requirements to protect their financial interests.

Top Chit Fund Companies in India:

Margadarsi Chit Fund, Shriram Chits, Government of Kerala Linked Chitty, Mysore Sales International, Purasawalkam Santhatha Sanga Nidhi Limited and Kapil Chit Funds are the top chit fund companies in India.

Problem Statement:

To assess the profitability of chit funds and analyze the influence of modern financial instruments on their performance.

Need:

This study will help to gain a fundamental grasp of chit funds and it also explores the diverse categories of chit funds to enhance knowledge about chit funds. The paper aims to provide a foundational grasp of renowned chit funds operating in India to assess the profitability of chit funds and to analyze the influence of modern financial instruments on Chit Funds.

Significance:

Findings from this research will offer practical guidance to market participants, policymakers, and regulators in navigating the evolving financial landscape. The research contributes valuable insights relating to profitability of chit funds and also help in comprehensive understanding about top chit fund companies in India.

Objectives:

- ✓ To assess the financial viability of chit funds.
- ✓ To analyze the influence of contemporary financial instruments on chit funds.
- ✓ To explore investor ' s behavior towards modern financial instruments.
- ✓ To assess the factors that influence the attitudes of investors towards credits and savings.

Scope:

This study will examine the influence of modern financial instruments like stocks, bonds, mutual funds on chit funds. This study analyses the responses of 100 people to measure their impact. This study will also give a comprehensive understanding about types of chit funds and top chit fund companies in India.

II. LITERATURE REVIEW

Dr. R. Rangarajan et al. (2013) conducted a study focusing on the attitudes of investors towards chit funds, small finance companies (investees), and the formation of consumer attitudes. The findings revealed a positive outlook among investors, particularly in the context of women investors, including married women, working and married women, and married homemakers. These women exhibited a strong perception towards investment for life improvement. Family influences played a significant role in encouraging timely investment and saving, especially when there was a real need for money, ultimately affecting living standards. The study also highlighted the presence of both sentimental and cognitive elements influencing individuals' attitudes towards credit and savings [3].

Prof. Silpy Gupta (2014) noted the challenge individuals face in distinguishing between lawful, safe enrolled chit fund companies and unregistered ones. The rural economy heavily relies on government-run small savings schemes due to a lack of awareness about finance and investment. Efforts by the All-India Association of Chit Funds and registered chit funds aim to enhance people's understanding of chit fund operations. Despite notable scams and frauds, there is a significant increase in unregistered chit fund companies. They avoid registration due to the complex registration and documentation procedures. The Saradha Group Chit Funds Scam involved over 200 private companies, with nearly 600 cases filed against Mr. Sudipta Sen, the chairman, setting a world record [4].

Santosha Kumar Mallick and Dr. Ansuman Sahoo (2016) discovered in their research that investors' perceptions accurately reflect how they view and measure different investment options. Factors such as the investment period, investment objectives, and investment choices were surveyed using both online and offline methods. For the prudent, investing is a present sacrifice for an uncertain future reward. Demographic variables such as age, education, and occupation significantly influence investors' choices. It is investors' behavior that shapes individuals in the realm of investment [5].

Ms. Rajat Arora (2015) noted that increased media coverage has made investors more cautious when investing in Chit Fund companies. In light of recent scams, there is a need for measures to be taken in times of fraud. The loopholes in household financial investments exposed by these scams highlight the necessity for a study to alert other investors. It is essential to establish a regulatory system under the Chit Funds Act to address the exploitation by politicians. To protect genuine investors and their livelihoods, chit funds must prioritize the safety of their investments [6].

Lakshmana Rao (2011) in his study on investors' perceptions towards mutual fund schemes, found that individuals aged 31 to 40 exhibit the highest awareness and adoption rates of various mutual fund schemes. The research also suggests a correlation between the respondent's residential status and their awareness of balanced fund and debt fund schemes. Specifically, it implies that individuals in this age group are more likely to be aware of and invest in mutual funds, and that where they live may influence their knowledge of specific types of funds [7].

Methods and Methodology

In present study is exploratory research design to investigate the profitability and impact of modern financial instruments, such as stocks, bonds, and mutual funds, on chit funds. A Structured questionnaire used to collect data from a sample size of 100 participants. Statistical tools like ANOVA are used to analyze the data with MS excel software for clear analysis.

Profitability analysis of chit fund:

This study analyzes chit fund profitability through three distinct cases, incorporating modern financial tools such as Net Present Value (NPV) and Profitability Index. These tools enhance the sophistication of the results, providing a comprehensive assessment of chit fund profitability and its comparison across different scenarios. The chit fund duration is 20 months. The three cases are

i. When chit was lifted in early period (1st month)
ii. When chit was lifted in middle of the chit fund term (10

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the month).
iii. When chit was lifted in last (20th month)

Table 1.0 Quotation of chit fund

S.NO	LIFT AMOUNT	EVERY MONTH
1	95000	5000
2	96000	5000
3	97000	5000
4	98000	5000
5	99000	5000
6	100000	5000
7	101000	5000
8	102000	5000
9	103000	5000
10	104000	5000
11	105000	5000
12	106000	5000
13	107000	5000
14	108000	5000
15	109000	5000
16	110000	5000
17	111000	5000
18	112000	5000
19	113000	5000
20	114000	5000

Note: In lifting the chit need to pay amount of Rs. 6000 per month.

Case 1: when chit was lifted in early months (1 month)

Table 1.1 Computation of Net present value of early month chit amount

s.no	every month	discount rate for 1rupee	present value of every month paid amount
1	5000	1	5000.00
2	6000	0.989	5934.72
3	6000	0.978	5868.00
4	6000	0.967	5802.00
5	6000	0.957	5742.00
6	6000	0.946	5676.00
7	6000	0.936	5616.00
8	6000	0.926	5556.00
9	6000	0.916	5497.21
10	6000	0.906	5437.39
11	6000	0.896	5378.23
12	6000	0.887	5319.72
13	6000	0.867	5204.59
14	6000	0.858	5147.96
15	6000	0.849	5091.95
16	6000	0.839	5036.55
17	6000	0.830	4981.75
18	6000	0.821	4927.54
19	6000	0.812	4873.93
20	6000	0.803	4820.90

Sum of present value of all cash inflows = 106912.43
Present value of cash inflow = 95000
Net present value = 95000 – 106912.43
= **Rs. (11912.43)**

Interpretation: In Case 1, the chit was lifted early, after 1 month. The chit value increased every month, with members contributing 5000 in the first month, and subsequently increasing amounts in the following months. The discount rate for each rupee was also considered, reflecting the time value of money. The present value of each month's contribution was calculated based on the discount rate, showing the decreasing value of future cash flows. The total present value of all cash inflows was found to be 106912.43, but the present value of the cash inflow was 95000, resulting in a net present value (NPV) of -11912.43.This negative NPV suggests that the early lifting of the chit led to a loss of value compared to the initial investment. This analysis highlights the importance of considering the timing of chit lifting, as early lifting can result in a lower return on investment due to the lower present value of future cash inflows. It also underscores the need for careful planning.

Case:2 when chit fund was lifted in middle of the term (10 month)

Table 1.2 Computation of NPV after 10months

s.no	every month	discount rate for 1rupee	present value of every month paid amount
1	5000	1	5000.00
2	5000	0.989	4945.60
3	5000	0.978	4890.00
4	5000	0.967	4835.00
5	5000	0.957	4785.00
6	5000	0.946	4730.00
7	5000	0.936	4680.00
8	5000	0.926	4630.00

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s.no	every month	discount rate for 1rupee	present value of every month paid amount
9	5000	0.916	4581.00
10	5000	0.906	4531.16
11	6000	0.896	5378.23
12	6000	0.887	5319.72
13	6000	0.867	5204.59
14	6000	0.858	5147.96
15	6000	0.849	5091.95
16	6000	0.839	5036.55
17	6000	0.830	4981.75
18	6000	0.821	4927.54
19	6000	0.812	4873.93
20	6000	0.803	4820.90

Sum of all present values of future cash outflows = 98390.87

Cash inflow at 10 month = 104000

Present value of future cash inflow at 10 month = 94248.20

Net present value = 94248.20 – 98390.87

Net present value = Rs. -4142.70

Interpretation: In case 2 the chit was lifted in middle of the term (10 month). Each month, an investment of ₹5000 is made, with a discount rate applied to calculate the present value of these future cash outflows. At month 11, the investment amount increases to ₹6000 per month, with the same discount rate applied. The total present value of all future cash outflows is calculated as ₹98,390.87. Additionally, a cash inflow of ₹104,000 is expected at month 10, with a present value of ₹94,248.20 calculated using the same discount rate. The net present value (NPV) of the investment is then determined as the present value of future cash inflow minus the present value of future cash outflows, resulting in a negative NPV of -₹4,142.70.This negative NPV indicates that the investment is not expected to be profitable, as the present value of the expected cash inflows is lower than the present value of the cash outflows. Therefore, based on this analysis, the investment opportunity does not seem financially viable.

Case 3: when chit fund was lifted at end of the term (20 the month)

Table 1.3 Computation of NPV at the end of 20th month

S.no	Cash outflow	Discount rate for 1rupee	PV of cash out flow
1	5000	1	5000.00
2	5000	0.989	4945.60
3	5000	0.978	4890.00
4	5000	0.967	4835.00
5	5000	0.957	4785.00
6	5000	0.946	4730.00
7	5000	0.936	4680.00
8	5000	0.926	4630.00
9	5000	0.916	4581.00
10	5000	0.906	4531.16
11	5000	0.896	4481.86
12	5000	0.887	4433.10
13	5000	0.867	4337.16
14	5000	0.858	4289.97
15	5000	0.849	4243.29
16	5000	0.839	4197.12
17	5000	0.830	4151.46
18	5000	0.821	4106.29
19	5000	0.812	4061.61
20	5000	0.803	4017.42

Sum of all present values of future cash outflows = 89927.02

Cash inflow at 20 month = 114000

Present value of future cash inflow at 20^{th} month = 91597.10

Net present value =91597.10 – 89927.02

Net present value = Rs. 1670.08

Interpretation: It involves a chit that was lifted at the end of its 20-month term. The sum of all present values of future cash outflows is 89927.02 units. At the end of the 20th month, there is a cash inflow of 114000 units, with a present value of 91597.10 units. The net present value (NPV) of this cash flow is calculated as the present value of cash inflow minus the sum of all present values of cash outflows, resulting in an NPV of 1670.08 units. This positive NPV indicates that the project is expected to be profitable, as the present value of expected cash inflows exceeds the present value of cash outflows. The NPV suggests that the project has the potential to generate positive returns and could be considered a viable investment opportunity, assuming the discount rate and cash flow projections remain consistent.

2.0 Assessing impact of modern financial instruments on chit funds:

Modern financial instruments such as Stocks, Mutual funds, Bonds considered for the analysis. The data was collected through questionnaire method and the sample size is 100.

Hypotheses testing:

Null hypothesis (H01): There is no significant impact of age on choose of investment instrument.

Table 2.1 Impact of Age on selection of Investment Instrument:

Age	Chit funds	Mutual funds	Stocks	Bonds	Fixed deposits
20 - 25	3	9	7	3	2
25 - 30	2	8	5	1	1
30 - 35	5	7	4	2	2
35 - 40	7	4	2	2	5
40 or above	7	2	1	1	7

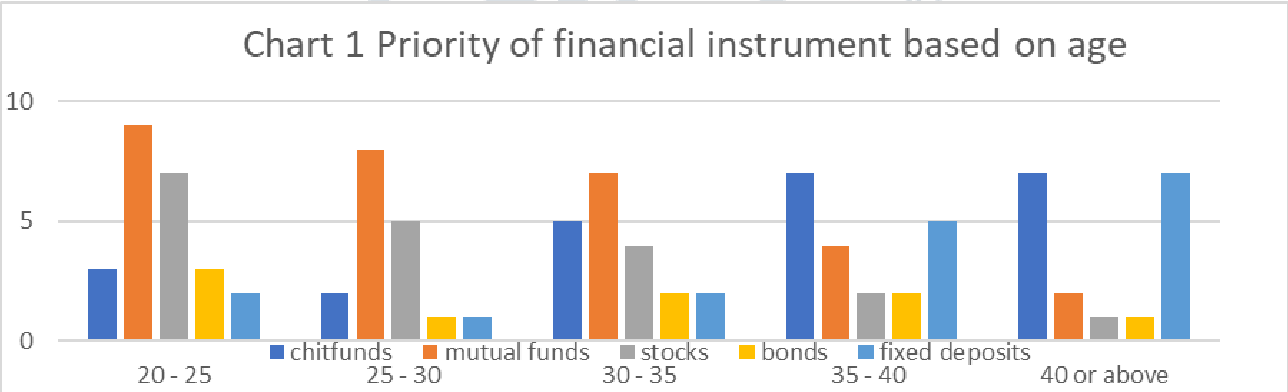
Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
3	4	21	5.25	10.91667
2	4	15	3.75	11.58333
5	4	15	3.75	5.583333
7	4	13	3.25	2.25
7	4	11	2.75	8.25

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	14	4	3.5	0.453564	0.768423226	3.055568
Within Groups	115.75	15	7.716667			
Total	129.75	19				



Interpretation: The data table presents average investment preferences among different age groups for various financial instruments, including chit funds, mutual funds, stocks, bonds, and fixed deposits. Notably, individuals aged 40 and above show a stronger inclination towards chit funds, possibly due to risk aversion, a preference for traditional investments, and trust in chit funds' long-standing market presence. Conversely, younger age groups (20-25 and 25-30) prefer mutual funds, stocks, and bonds, suggesting a more risk-tolerant approach and awareness of alternative investments. ANOVA analysis indicates no statistically significant difference in investment preferences across age groups, suggesting age alone may not dictate investment choices. Other factors like income, risk appetite, and financial goals likely play a more substantial role.

Null hypothesis (H02): There is no significant impact of Education on choose of investment instrument.

Table 2.2 Impact of Education on Choose of Investment Instrument

Education	Chit funds	Mutual funds	Stocks	Bonds	Fixed deposits
SSC	8	1	0	0	3
Intermediate	9	2	1	0	3

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Degree/b. tech	3	6	9	3	5
PG	3	8	7	4	2
PHD	2	3	8	5	4

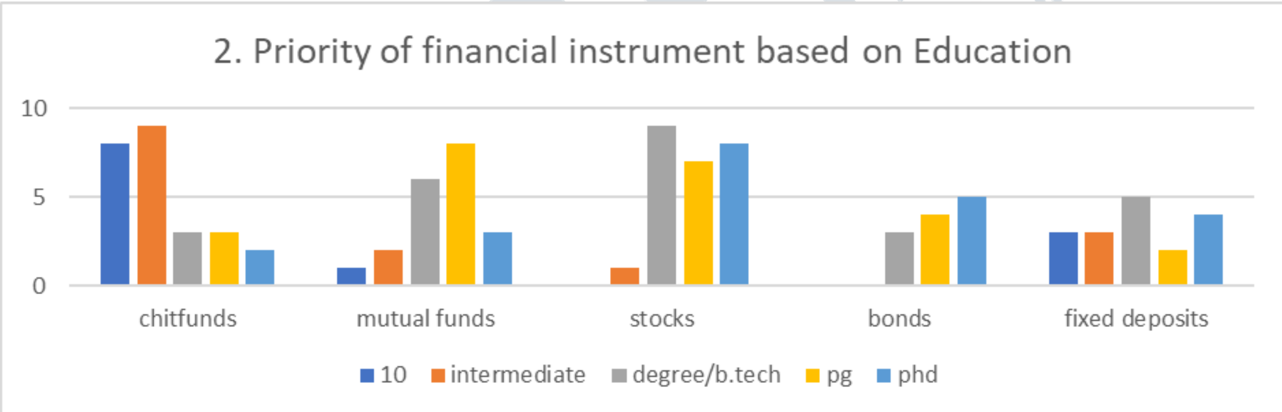
Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
8	4	4	1	2
9	4	6	1.5	1.666667
3	4	23	5.75	6.25
3	4	21	5.25	7.583333
2	4	20	5	4.666667

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	81.7	4	20.425	4.607143	0.012598	3.055568
Within Groups	66.5	15	4.433333333			
Total	148.2	19				



Interpretation: The analysis compares average investment preferences for chit funds, mutual funds, stocks, bonds, and fixed deposits across different education levels (10th/SSLC, Intermediate/PUC, Degree/B. Tech, PG, PhD) using ANOVA. Results show a significant difference in preferences among education groups (F (4, 15) = 4.607, p = 0.0126), indicating education level influences investment choices. Higher education levels correspond to increased preferences for mutual funds, stocks, and bonds, and decreased preferences for chit funds and fixed deposits. This aligns with expectations, suggesting higher education leads to a greater understanding and acceptance of complex investment instruments with potentially higher returns but higher risk. PG and PhD holders show the highest preference for stocks, indicating a preference for higher-risk, higher-return investments. Conversely, they show the lowest preference for chit funds, suggesting a perception that chit funds offer lower returns or sophistication.

3. Null hypothesis (H03): There is no significant impact of Income on choose of investment instrument.

Table 2.3:

Income	Chit funds	Mutual funds	Stocks	Bonds	Fixed deposits
10000-20000	9	1	2	1	1
20000-30000	8	3	2	1	2
30000-40000	3	5	4	2	3

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40000-50000	2	5	9	8	1
50000 or above	1	4	10	9	2

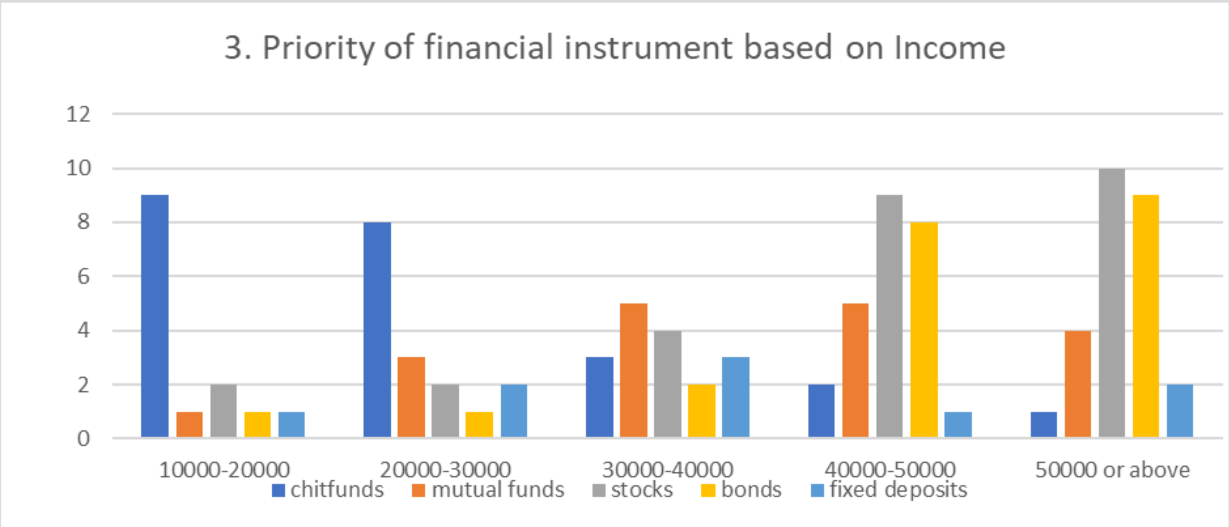
Anova: Single Factor

SUMMARY

Groups	*Count*	*Sum*	*Average*	*Variance*
9	4	5	1.25	0.25
8	4	8	2	0.666667
3	4	14	3.5	1.666667
2	4	23	5.75	12.91667
1	4	25	6.25	14.91667

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	78.5	4	19.625	3.226027	0.042493155	3.055568
Within Groups	91.25	15	6.083333			
Total	169.75	19				



Interpretation:

The ANOVA analysis revealed significant differences in mean investment amounts among income brackets (F (4, 15) = 3.226, p = 0.042) for financial instruments like chit funds, mutual funds, stocks, bonds, and fixed deposits. Lower-income earners (10,000 to 20,000) showed a preference for chit funds, while those in higher brackets favored stocks, bonds, and fixed deposits. Mutual funds were popular across income groups. This suggests income influences investment choices. Chit funds may be more accessible or perceived as less risky for lower-income individuals. In contrast, higher-income earners may prefer the liquidity and potential returns of stocks, bonds, and mutual funds. These findings underscore the role of income in shaping investment preferences, indicating a need for tailored financial products and services to cater to varying income levels.

4. Null hypothesis (H04): There is no significant impact of modern finance on chit funds

Table 2.4 Impact of Modern finance on chit funds.

	Chit funds	Mutual funds	Stocks	Bonds	Fixed deposits
Age	24	30	19	9	17

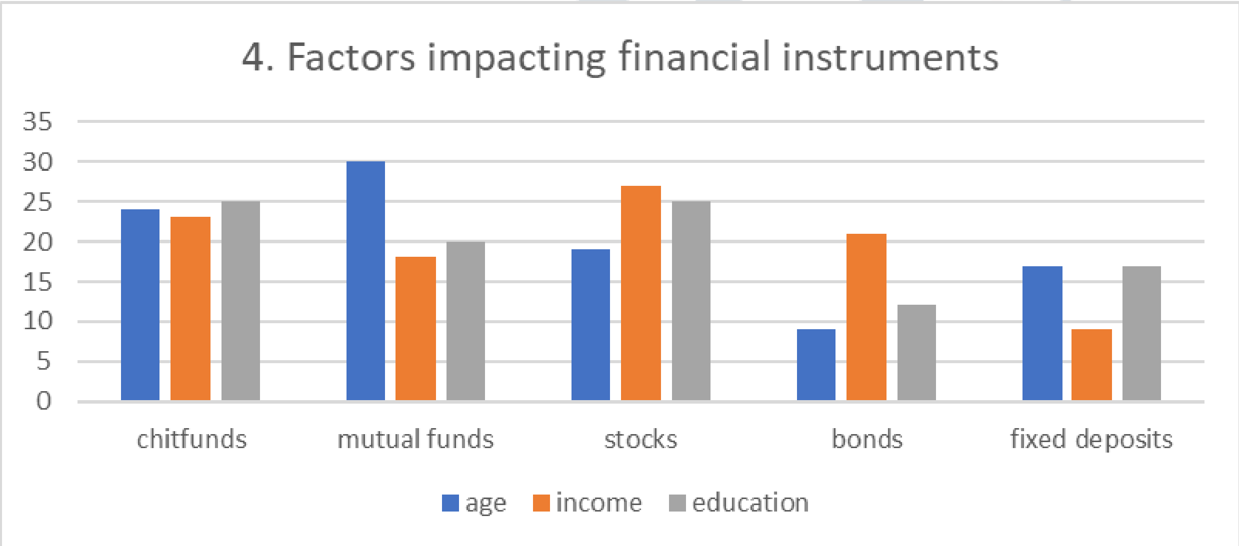
Income	23	18	27	21	9
Education	25	20	25	12	17

ANOVA: Two-Factor Without Replication

SUMMARY	*Count*	*Sum*	*Average*	*Variance*
23	4	75	18.75	56.25
25	4	74	18.5	29.66667
30	2	38	19	2
19	2	52	26	2
9	2	33	16.5	40.5
17	2	26	13	32

ANOVA

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Rows	0.125	1	0.125	0.00491	0.948546362	10.12796
Columns	181.375	3	60.45833	2.374795	0.24802234	9.276628
Error	76.375	3	25.45833			
Total	257.875	7				



Interpretation:

The ANOVA results indicate that there is no statistically significant difference in the average age of respondents across the different categories of financial instruments (chit funds, mutual funds, stocks, bonds, fixed deposits). The p-value for rows is 0.9485, which is greater than the significance level of 0.05, suggesting that there is no significant effect of financial instrument type on age. Similarly, the ANOVA results show that there is no statistically significant difference in income among respondents based on their preferred financial instruments. The p-value for columns is 0.2480, also above the 0.05 significance level, indicating no significant effect of financial instrument type on income. In terms of education, there is no statistically significant difference among respondents based on their preferred financial instruments. The p-value for rows is 0.9485, above the significance level of 0.05, suggesting no significant effect of financial instrument type on education level.

III. RESULTS

1. It is beneficial to lift chit at the end of the term.
2. Education has its impact on choose of financial instruments.
3. Income levels have its impact on financial instruments.
4. Educated people are shifting their investments from chit funds to modern financial instruments.
5. Low-income people are not shifting to modern finance.

IV. DISCUSSION

Navigating to modern finance involves a significant transformation in various financial sectors, including traditional practices like chit funds. Chit funds, which have been a popular savings and borrowing mechanism in many communities, are not immune to these changes. The impact of modern finance on chit funds can be analyzed from multiple perspectives:

1. With the advent of modern financial regulations, chit funds are required to comply with stringent rules to ensure investor protection and financial stability. This may involve enhanced reporting requirements, transparency standards, and regulatory oversight, which can impact the operational dynamics of chit funds.
2. Modern finance is characterized by the integration of advanced technologies such as block chain, artificial intelligence, and digital payment systems. Chit funds may need to adopt these technologies to streamline operations, enhance transparency, and improve customer experience. Digital platforms can facilitate easier participation, payment processing, and documentation management for chit fund subscribers.
3. Traditional chit funds often rely on personal relationships and trust within communities. However, modern finance emphasizes data-driven risk management techniques. Chit funds may need to implement sophisticated risk assessment models to evaluate the creditworthiness of participants and mitigate default risks effectively.
4. Modern finance aims to promote financial inclusion by extending access to financial services to underserved populations. Chit funds can contribute to this goal by leveraging technology to reach remote areas and marginalized communities. Mobile-based applications and digital platforms can enable individuals to participate in chit funds conveniently, thereby fostering greater financial inclusion.
5. Chit funds face competition from a wide array of alternative investment vehicles offered by modern financial institutions, such as mutual funds, peer-to-peer lending platforms, and digital savings apps. Chit funds need to differentiate themselves by offering unique value propositions, personalized services, and competitive returns to retain their relevance in the market.
6. As financial literacy improves and awareness of alternative investment options grows, chit funds may need to invest in educational initiatives to educate potential investors about the benefits, risks, and mechanics of participating in chit funds. Building trust and credibility through transparent communication and investor education can enhance the reputation and sustainability of chit funds in the modern financial landscape.

V. CONCLUSION

This research concludes that despite modern alternatives, financial education is crucial for inclusive participation, especially among marginalized groups. Overall, the analysis proposes education significantly shapes investment preferences, with higher education correlating with a greater propensity towards more diversified and potentially higher-yield instruments. In conclusion, navigating to modern finance presents both challenges and opportunities for chit funds. By embracing regulatory compliance, leveraging technology, implementing effective risk management strategies, staying competitive, promoting financial inclusion, and investing in education and awareness, chit funds can successfully adapt to the changing financial landscape and thrive in the modern economy.

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Furthermore, I extend our gratitude to the academic institutions, research organizations, and industry associations for their role in fostering collaboration, knowledge-sharing, and intellectual discourse in the field of finance and economics.

Last but not least, I wish to express an appreciation to the readers and stakeholders who engage with this discourse, whether through critical reflection, thoughtful discussion, or practical application, their interest and participation contribute to the ongoing dialogue surrounding the evolution of finance and its impact on diverse financial instruments and practices.

Conflict of interest

As we observe into the discourse on "Navigating to Modern Finance: Impact on Chit Funds," it is imperative to address potential conflicts of interest that may influence the perspectives and opinions presented herein**.** While every effort has been made to provide objective analysis and impartial insights, it is essential to acknowledge that personal or professional affiliations may influence individual viewpoints and interpretations**.** While we strive to uphold the highest standards of integrity and impartiality, we acknowledge that conflicts of interest are inherent in the complex landscape of finance and economics. We remain committed to transparency and accountability in our efforts to explore the implications of modern finance on chit funds. Thank you for your attention to this matter.

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