



# ISLAMIC FINANCE GATEWAY

## India's First Sharia Complaint Chit Fund

This week's focus session looked at India's first sharia-compliant chit fund, Zayd Chit Funds Pvt Ltd, established in 2011 and managed by Bangalore-based Infinity Consultants. The discussion was facilitated by the company's Managing Partner, Saif Ahmed.

The session first addressed the (lack of) Islamic finance in India, primarily attributed to the limitations in sharia-compliant regulations and limited support from the general public. Ahmed explained that the country's Banking Act would need to be modified if Islamic banking is to be allowed. This, he said, would have to be done through Parliament with a two-thirds majority.

With a lack of support for Islamic banking from both government and the general public, sharia-compliant products could, however, be introduced through two non-banking routes. The first is the NBFC (non-banking financial company) route regulated by the Reserve Bank of India (RBI) and the second is the capital markets and venture capital route regulated by the Securities Board of India (SEBI).

Zayd Chit Funds Pvt Ltd is a licensed chit fund company operating under provisions of the Chit Fund Act of 1982. Chit funds are savings vehicles, with members saving a fixed amount for a fixed period. Every month an auction takes place where subscribers bid at a discount of minimum five percent to maximum 40 percent to get the full chit value. The discount is meant to be shared equally between members and is considered the dividend.

The Zayd sharia-compliant chit fund works differently. Ahmed explained that all contributions are pooled and names are drawn on a lottery basis at zero percent discount, hence ensuring that participants get the full amount excluding the company's management fee. This commission is limited to five percent of the face value of the chit. The chit fund also participates in the groups as a subscriber. As a policy, they take the first chit for themselves.

Community members questioned the sharia-compliance of the fund considering the lottery process. Ahmed refers to the practice of the sahaba, or the closest companions of Prophet Muhammad, saying: "This is not gharar or maysir - lots were drawn by the sahaba to decide many things as to who will be first, etc."

Infinity's website lists six chit funds, with values ranging from Rs60,000 (\$1095) to Rs150,000 (\$2737) on durations of 10 to 12 months. The company is also working on Islamic microfinance services to meet the largely unbanked and very poor Indian population.

