

India Code

The Prize Chits and Money Circulation Schemes (Banning) Act, 1978

(ACT NO. 43 OF 1978)

[*As on the* 8*th September*, 2026]

LIST OF AMENDING ACTS

1. The Delegated Legislation Provisions (Amendment) Act, 1985 (4 of 1986).
2. The Jammu and Kashmir Reorganisation Act, 2019 (34 of 2019).

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LIST OF ABBREVIATIONS USED

Cl., cls.	. . . . .	*for*	Clause, clauses.
Ins.	. . . . .	,,	Inserted.
Notifn.	. . . . .	,,	Notification.
S., ss.	. . . . .	,,	Section, sections.
Sch.	. . . . .	,,	Schedule.
Subs.	. . . . .	,,	Substituted.
w.e.f.	. . . . .	,,	with effect from.

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THE PRIZE CHITS AND MONEY CIRCULATION SCHEMES (BANNING) ACT, 1978

ARRANGEMENT OF SECTIONS

SECTIONS

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THE PRIZE CHITS AND MONEY CIRCULATION SCHEMES (BANNING) ACT, 1978

ACT NO. 43 OF 1978

[12*th December,* 1978.]

An Act to ban the promotion or conduct of prize chits and money circulation schemes and for matters connected therewith or incidental thereto.

BE it enacted by Parliament in the Twenty-ninth Year of the Republic of India as follows:—

1. Short title and extent.—(*1*) This Act may be called the Prize Chits and Money Circulation Schemes (Banning) Act, 1978.

(*2*) It extends to the whole of India [1]***.

2. Definitions.—In this Act, unless the context otherwise requires,—

(*a*) "conventional chit" means a transaction whether called chit, chit fund, *kuri* or by any other name by or under which a person responsible for the conduct of the chit enters into an agreement with a specified number of persons that every one of them shall subscribe a certain sum of money (or certain quantity of grain instead) by way of periodical instalments for a definite period and that each such subscriber shall, in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the chit agreement, be entitled to a prize amount.

Explanation.—In this clause "prize amount" shall mean the amount, by whatever name called, arrived at by deducting from out of the total amount paid or payable at each instalment by all the subscribers,

(*i*) the commission charged as service charges as a promoter or foreman or an agent; and

(*ii*) any sum which a subscriber agrees to forego, from out of the total subscriptions of each instalment, in consideration of the balance being paid to him;

(*b*) "money" includes a cheque, postal order, demand draft, telegraphic transfer or money order;

(*c*) "money circulation scheme" means any scheme, by whatever name called, for the making of quick or easy money, or for the receipt of any money or valuable thing as the consideration for a promise to pay money, on any event or contingency relative or applicable to the enrolment of members into the scheme, whether or not such money or thing is derived from the entrance money of the members of such scheme or periodical subscriptions;

(*d*) "prescribed" means prescribed by rules made under this Act;

(*e*) "prize chit" includes any transaction or arrangement by whatever name called under which a person collects whether as a promoter, foreman, agent or in any other capacity, monies in one lump sum or in instalments by way of contributions or subscriptions or by sale of units, certificates or other instruments or in any other manner or as membership fees or admission fees or service charges to or in respect of any savings, mutual benefit, thrift, or any other scheme or arrangement by whatever name called, and utilises the monies so collected or any part thereof or the income accruing from investment or other use of such monies for all or any of the following purposes, namely:—

(*i*) giving or awarding periodically or otherwise to a specified number of subscribers as determined by lot, draw or in any other manner, prizes or gifts in cash or in kind, whether or not the recipient of the prize or gift is under a liability to make any further payment in respect of such scheme or arrangement;

(*ii*) refunding to the subscribers or such of them as have not won any prize or gift, the whole or part of the subscriptions, contributions or other monies collected, with or without any bonus, premium, interest or other advantage by whatever name called, on the termination of the scheme or arrangement, or on or after the expiry of the period stipulated therein,

but does not include a conventional chit;

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1. The words "except the State of Jammu and Kashmir" omitted by Act 34 of 2019, s. 95 and Sch. V (w.e.f. 31-10-2019).

(*f*) "Reserve Bank" means the Reserve Bank of India constituted under the Reserve Bank of India Act, 1934 (2 of 1934).

3. Banning of prize chits and money circulation schemes or enrolment as members or participation therein.—No person shall promote or conduct any prize chit or money circulation scheme, or enroll as a member to any such chit or scheme, or participate in it otherwise, or receive or remit any money in pursuance of such chit or scheme.

4. Penalty for contravening the provisions of section 3.—Whoever contravenes the provisions of section 3 shall be punishable with imprisonment for a term which may extend to three years, or with fine which may extend to five thousand rupees, or with both:

Provided that in the absence of special and adequate reasons to the contrary to be mentioned in the judgment of the court, the imprisonment shall not be less than one year and the fine shall not be less than one thousand rupees.

5. Penalty for other offences in connection with prize chits or money circulation schemes.— Whoever, with a view to the promotion or conduct of any prize chit or money circulation scheme in contravention of the provisions of this Act or in connection with any chit or scheme promoted or conducted as aforesaid,—

(*a*) prints or publishes any ticket, coupon or other document for use in the prize chit or money circulation scheme; or

(*b*) sells or distributes or offers or advertises for sale or distribution, or has in his possession for the purpose of sale or distribution any ticket, coupon or other document for use in the prize chit or money circulation scheme; or

(*c*) prints, publishes or distributes, or has in his possession for the purpose of publication or distribution—

(*i*) any advertisement of the prize chit or money circulation scheme; or

(*ii*) any list, whether complete or not, of members in the prize chit or money circulation scheme; or

(*iii*) any such matter descriptive of, or otherwise relating to the prize chit or money circulation scheme, as is calculated to act as an inducement to persons to participate in that prize chit or money circulation scheme or any other prize chit or money circulation scheme; or

(*d*) brings, or invites any person to send, for the purpose of sale or distribution, any ticket, coupon or other document for use in a prize chit or money circulation scheme or any advertisement of such prize chit or money circulation scheme; or

(*e*) uses any premises, or causes or knowingly permits any premises to be used, for purposes connected with the promotion or conduct of the prize chit or money circulation scheme; or

(*f*) causes or procures or attempts to procure any person to do any of the above-mentioned acts,

shall be punishable with imprisonment for a term which may extend to two years, or with fine which may extend to three thousand rupees, or with both:

Provided that in the absence of special and adequate reasons to the contrary to be mentioned in the judgment of the court, the imprisonment shall not be less than one year and the fine shall not be less than one thousand rupees.

6. Offences by companies.—(*1*) Where an offence under this Act has been committed by a company, every person who, at the time the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

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(*2*) Notwithstanding anything contained in sub-section (*1*), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to, any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation.—For the purposes of this section—

(*a*) "company" means any body corporate and includes a firm or other association of individuals; and

(*b*) "director", in relation to a firm, means a partner in the firm.

7. Power to enter, search and seize.—(*1*) It shall be lawful for any police officer not below the rank of an officer in charge of a police station,—

(*a*) to enter, if necessary by force, whether by day or night with such assistance as he considers necessary, any premises which he has reason to suspect, are being used for purposes connected with the promotion or conduct of any prize chit or money circulation scheme in contravention of the provisions of this Act;

(*b*) to search the said premises and the persons whom he may find therein;

(*c*) to take into custody and produce before any Judicial Magistrate all such persons as are concerned or against whom a complaint has been made or credible information has been received or a reasonable suspicion exists of their having been concerned with the use of the said premises for purposes connected with, or with the promotion or conduct of, any such prize chit or money circulation scheme as aforesaid;

(*d*) to seize all things found in the said premises which are intended to be used, or reasonably suspected to have been used, in connection with any such prize chit or money circulation scheme as aforesaid.

(*2*) Any officer authorised by the State Government in this behalf may—

(*a*) at all reasonable times, enter into and search any premises which he has reason to suspect, are being used for the purposes connected with, or conduct of, any prize chit or money circulation scheme in contravention of the provisions of this Act;

(*b*) examine any person having the control of, or employed in connection with, any such prize chit or money circulation scheme;

(*c*) order the production of any documents, books or records in the possession or power of any person having the control of, or employed in connection with, any such prize chit or money circulation scheme; and

(*d*) inspect and seize any register, books of account, documents or any other literature found in the said premises.

(*3*) All searches under this section shall be made in accordance with the provisions of the Code of Criminal Procedure, 1973 (2 of 1974).

8. Forfeiture of newspaper and publication containing prize chit or money circulation scheme.—Where any newspaper or other publication contains any material connected with any prize chit or money circulation scheme promoted or conducted in contravention of the provisions of his Act or any advertisement in relation thereto, the State Government may, by notification in the Official Gazette, declare every copy of the newspaper and every copy of the publication containing such material or the advertisement to be forfeited to the State Government.

9. Power to try offences.—No court inferior to that of a Chief Metropolitan Magistrate, or as the case may be, Chief Judicial Magistrate, shall try any offence punishable under this Act.

10. Offences under this Act to be cognizable.—All offences punishable under this Act shall be cognizable.

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11. Act not to apply to certain prize chits or money circulation schemes.—Nothing contained in this Act shall apply to any prize chit or money circulation scheme promoted by—

(*a*) a State Government or any officer or authority on its behalf; or

(*b*) a company wholly owned by a State Government which does not carry on any business other than the conducting of a prize chit or money circulation scheme whether it is in the nature of a conventional chit or otherwise; or

(*c*) a banking company as defined in clause (*c*) of section 5 of the Banking Regulation Act, 1949 (10 of 1949), or a banking institution notified by the Central Government under section 51 of that Act or the State Bank of India constituted under section 3 of the State Bank of India Act, 1955 (23 of 1955), or a subsidiary bank constituted under section 3 of the State Bank of India (Subsidiary Banks) Act, 1959 (38 of 1959), or a corresponding new bank constituted under section 3 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970), or a Regional Rural Bank established under section 3 of the Regional Rural Banks Act, 1976 (21 of 1976), or a co-operative bank as defined in clause (*bii*) of section 2 of the Reserve Bank of India Act, 1934 (2 of 1934); or

(*d*) any charitable or educational institution notified in this behalf by the State Government, in consultation with the Reserve Bank.

12. Transitional provisions.—(*1*) Notwithstanding anything contained in this Act, a person conducting a prize chit or money circulation scheme at the commencement of this Act may continue to conduct such chit or scheme for such period as may be necessary for the winding up of the business relating to such chit or scheme, so however that such period shall not in any case extend beyond a period of two years from such commencement:

Provided that the said person shall furnish to the State Government or to such officer as may be authorised by it in this behalf and to such office of the Reserve Bank as may be prescribed in such form and within such period as may be prescribed, full information regarding the chit or scheme along with a winding up plan prepared in accordance with the provisions of any rules that may be made by the State Government in this behalf under this Act:

Provided further that if the State Government is satisfied, on an application made by the person conducting the prize chit or money circulation scheme, that the chit or scheme cannot be wound up within the period fixed in the winding up plan furnished to the State Government under the foregoing proviso, it may, in consultation with the Reserve Bank, permit such person to continue to conduct the business relating to the said chit or scheme for such further period as may be considered necessary having regard to the circumstances of the case and the interests of the members of the said chit or scheme.

(*2*) The State Government may, in consultation with the Reserve Bank, approve the winding up plan furnished under sub-section (*1*) with or without modifications or reject the same and may grant or refuse to grant permission to continue to conduct that chit or scheme:

Provided that no such winding up plan shall be modified or rejected without giving an opportunity of being heard to the person who conducts such prize chit or money circulation scheme.

(*3*) If any person fails to furnish full information regarding the said chit or scheme along with its winding up plan in the form and within the period prescribed, he shall forfeit his right to continue the business relating to the said chit or scheme on the expiry of such period.

(*4*) Notwithstanding anything to the contrary contained in any agreement or arrangement entered into between any person conducting any such chit or scheme and the subscriber, the person conducting the chit or scheme shall, within such period as may be prescribed, refund the monies or the subscriptions collected till the date of default referred to in sub-section (*3*).

(*5*) If any person fails to comply with the provisions of sub-section (*4*), he shall be punishable with imprisonment for a term which may extend to two years, or with fine which may extend to three thousand rupees, or with both:

Provided that in the absence of special and adequate reasons to the contrary to be mentioned in the judgment of the court, the imprisonment shall not be less than one year and the fine shall not be less than one thousand rupees.

13. Power to make rules.—(*1*) The State Government may, by notification in the Official Gazette and in consultation with the Reserve Bank, make rules for the purpose of carrying out the provisions of this Act.

(*2*) In particular and without prejudice to the generality of the foregoing power, such rules may provide for—

(*a*) the office of the Reserve Bank to whom full information regarding any prize chit or money circulation scheme may be furnished under the first proviso to sub-section (*1*) of section 12, and the form in which and the period within which such information may be furnished;

(*b*) the particulars relating to the winding up plan of the business relating to prize chits or money circulation schemes.

[2][(*3*) Every rule made under this section shall be laid, as soon as may be after it is made, before the State Legislature.]

14. Repeals and saving.—(*1*) The Andhra Pradesh Money Circulation Scheme (Prohibition) Act, 1965 (Andhra Pradesh Act 30 of 1956), as in force in the State of Andhra Pradesh, and in the Union territory of Chandigarh and the Madhya Pradesh Dhan Parichalan Skeem (Pratishedh) Adhiniyam, 1975 (Madhya Pradesh Act 19 of 1975), are hereby repealed.

(*2*) Notwithstanding the repeal of any Act referred to in sub-section (*1*), anything done or any action taken under the provisions of any such Act shall, in so far as such thing or action is not inconsistent with the provisions of this Act, be deemed to have been done or taken under the provisions of this Act as if the said provisions were in force when such thing was done or such action was taken and shall continue in force accordingly until superseded by anything done or any action taken under this Act.

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1. Ins. by Act 4 of 1986, s. 2 and Sch. (w.e.f. 15-5-1986).

STATEMENT OF OBJECTS AND REASONS

In June 1974, the Reserve Bank of India had constituted a Study Group under the Chairmanship of Shri James S. Raj, the then Chairman, Unit Trust of India, for examining in depth the provisions of Chapter III B of the Reserve Bank of India Act, 1934, and the directions issued thereunder to non-banking companies in order to assess their adequacy in the context of ensuring the efficacy of the monetary and credit policies of the country and affording a degree of protection to the interests of the depositors who place their savings with such companies. In its report submitted to the Reserve Bank in July 1975, the Group observed that the prize chit/benefit/savings schemes benefit primarily the promoters and do not serve any social purpose. On the contrary, the Group has stated that they are prejudicial to the public interest and affect the efficacy of the fiscal and monetary policies of the country.

2, Prize chits would cover any kind of arrangement under which moneys are collected by way of subscriptions, contributions, etc. and prizes, gifts, etc. are awarded. The prize chit is really a form of lottery. Its basic feature is that the foreman or promoter who ostensibly charges no commission collects regular subscriptions from the members. Once a member gets the prize, he is very often not required to pay further instalments and his name is dropped from further lots. The institutions conducting prize chits are private limited companies with a very low capital base contributed by the promoters, directors or their close relatives. Such schemes confer monetary benefit only on a few members and on the promoter companies. The Group had, therefore, recommended that prize chits or money circulation schemes, by whatever name called, should be totally banned in the larger interests of the public and suitable legislative measures should be undertaken for the purpose.

3. The Bill proposes to implement the above recommendation of the Group by providing for the banning of the promotion or conduct of any prize chit or money circulation scheme, by whatever name called, and of the participation of any person in such chit or scheme. The Bill provides for a period of two years within which the existing units carrying on the business of prize chits or money circulation schemes may be wound up and provides for penalties and other incidental matters. The repeal of the existing State legislations on the subject has also been provided for in the B1ll.

NEW DELHI; H. M. PATEL.

The 19*th April,* 1978.