Chapter – 6

Summary, Findings and Suggestions
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6.1 Introduction

Need for establishing unit type of investing institution was felt as early as 1931 when the Indian Central Banking Inquiry Committee submitted its report. In his minority report, Manu Subedar observed that an immeasurable benefit to India is bound to grow from the establishment and proper working of Unit Trust and the assistance which they will give to the investor in the creation of intermediate securities which do not exit now, in providing a channel for investment industrial and other fields were the primary investor would be too scared or too ignorant. Further, the Shroff Committee in its report submitted in 1954 reinterated the desirability of Unit Trust of India capital market and observed that investment trust of the unit type are “suitable in India where in order to increase capital available for industries, small savings have to be drawn into the investment market.” The committee, therefore, suggested that both the public and private sectors should set such institutions.

However, the Government did not take cognizance of these recommendations with the result that unit trust could not be established although these institution had acquired tremendous popularity and gained immense success in the USA and Japan by that time.
In 1963 when the whole stock market was in a state of despondence following the Chinese aggression and the uncertainty engulfed the entire economy. Joint stock companies found it difficult to raise capital from the market owing to diffidence of investors with the result that the industrial development in the country came to a grinding halt. The Government, therefore, undertook aggressive programmes to mobilize long-term saving of the people and direct them into productive channels so as to foster industrial growth in the country. Emergence of Unit Trust of India in 1964 was part of these efforts. The trust was established in 1964 under the unit trust of India Act, 1963.

The income levels of Urban and middle class people are saving part of their income to invest in profitable and safe avenues, as they are aware of the benefits if they invest their money in capital market. In such a scenario, the mutual funds have a chance to channel such savings.

Basically mutual funds are functioning as a financial institution to mobilize resource from various investors to invest the in financial assets, since the average investor does not have the necessary resources, time, knowledge and expertise to participate in today's complex and volatile investment markets. Further, the mutual funds ensure its participants a professional management for portfolio selection, diversifies the
investment in large number of companies and selected various forms of securities via shares, debentures and bonds.

6.2 Objective of The Study:

UTI's contribution to the society was perceived by most segments to be in the areas of Stock Market development and investor enlightenment. Housing was another area where almost 20% of the individual respondents (users and non-users) felt UTI had contributed. Little was known about its forays into other areas of contribution to society.

The Comprehensive objectives of this proposed research work are as follows:

1. To examine how well the UTI has fulfilled its objectives with which it was set up under UTI Act. 1963.
2. To assess the fund deployment pattern of UTI.
3. To explore and find out the strong and organized distribution machinery through which it undertakes the sales activity of the units all over the country.
4. To identify the critical factors in the working of UTI as a financial institution.
5. To examine the contribution of the UTI to the growth of financial sector, the capital market and stock exchanges.
6. To find out the range and utility of various UTI schemes and their financial performance.

7. To analyse and find out how much high return the unit investment gives and also the tax benefit provided to the corporate investors.

8. To assess the relative weakness in the areas of grievance redressel and the answering of queries.

9. To examine the various schemes undertaken by UTI and their achievements.

10. To analyse and find out the hitherto neglected area, (region-wise and industry-wise)

11. To examine the role UTI has been playing to increase the country’s rate of saving.

12. To compare the assistance provided to the new enterprises with the assistance provided to the existing undertakings by the UTI.

**Present Trend of UTI Investment:**

The trust has connected all its Branches and offices of its Registrars through any UTI Branch regardless of the place where the investment records are maintains. Similarly, unit holder complaints can be transmitted to and addressed to by any UTI Branch / Registrar office in the quickest possible time through VSAT. Unit holders, therefore, may
approach the nearest UTI office for any information, service or complaint redressel irrespective of the schemes maintained by any other UTI branch/Registrar office.

❖ **Highlights (1998 – 99)**

1. Total funds turnover (sales plus repurchases and redemptions.) in 1998 – 99 at Rs. 30,435 crore at 29 % increase over the previous year.

2. Annual sales up by 18 % to Rs. 15,505 crore.

3. UTI’s investible funds as on 30th June, 1999 stood at Rs. 61,000 crore.

4. Unit Schemes 64 (US ’64) alone mobilizes Rs. 4,596 crore.

6.3 An Overall Assessment of The UTI:

1. On the completion by UTI of thirty years of existence the Social Audit Committee was appointed by the Board of Trustees of the Unit Trust of India to look into the working of UTI. According to this committee, the UTI was created to spread investment consciousness to mobilise the savings of the public, particularly small investors including those in the rural sector, and to Invest these savings in shares and securities and other financial instrument harnessing
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household savings for industrial development of the country and to provide fair return of the investors. UTI has grown into India’s largest institutional investor in the Corporate Sector.

2. According to the committee there are good reasons for UTI not disclosing its investment on a daily or weekly basis as that could lead to speculation in the market and misuse by others of the special financial and investment skills acquired by UTI and its concerned officers.

3. There was a feeling among dealers in shares and some large investors that UTI does not have enough trenchancy in respect of its investments, particularly regarding the schemes the US’ 64 as neither the NAV of the scheme nor its full investment list is made public. But recent its balance sheet started disclosing its major investment even for US’ 64, and some that NAV can be estimated. The exact NAV (Net Assets Value) however can not be calculated since some of UTI’s assets like term loans do not have market determined values.

4. As far the officers and employees are concerned, there was general accord that UTI was a good and progressive employer, of course there was resentment that becomes of informal linkages with RBI and IDBI, salaries received by UTI officers and staff were much
lower as compared to those mutual funds. But it should be appreciated the UTI is unlike other small sized, newly born Mutual Funds in the private sector so while improving its remuneration levels, it has to take a balanced and sober approach in this respect.

5. In respect of the qualities and expertise of officers of UTI, there was a general measure of satisfaction and appreciation. The cardinal strengths of UTI are its honesty, security and innovativeness. UTI has a dedicated work force of only 2,300 to supervise a large field force of over 90,000 agents and chief representatives, in keeping with the principles of promoting self-employment and decentralization. The committee funds it significant that Rs. 55,000 crores are handled by just 2,300 employees productive work culture.

6. On the completion of nearly forty years of existence by UTI, the first question that arises in my mind that whether the UTI has been able to perform its task and achieve the objectives with which it was set up under the UTI Act, 1963. or not as its main objective was to harness household savings for industrial development of the country and to provide fair return to the investors.

7. The General Impression we get of UTI was a good one. Even amongst other members who have not invested in any of UTI, schemes like share Broker, investors in share etc have a good image
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of UTI, as it manages the funds placed at its disposal by investors at a very low lost, keeping the expense ratio extremely low and reasonably.

8. But most of us say investors have a feeling that UTI does not have enough trenchancy in respect of its investments, particularly regarding the US’ 64 as neither the NAV of that schemes nor its full investment list is made public. Even though they have started disclosing its balance sheet through which we can able to know its major investment.

9. For US’ 64 but the exact NAV however cannot be calculate since some of UTI’s assets like term loans do not have market-determined values.

10. If we talk about the officers or the staff of the UTI, no doubt they are excellent in respect of the qualities and expertise as the main strength of UTI are its honesty, security and innovativeness. According to the Social Audit Committee appointed by the Board of Trustees of the UTI, it has dedicated work force of only 2300 to supervise a large field force of over 90,000 agents and the committee fuide its significant that Rs. 55000 crores are handled by just 2300 employees this is a sign of a highly productive work culture.

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11. Compare to the benefits given to LIC agents, the chief representatives and agents if UTI are not happy with the rate of commission and other facilities are concern. Even they have the occasional complain that the literature explaining the different schemes local language are not available in adequate quantities whenever it is needed.

12. Many of the investors are of the opinion that UTI, should be declined from the RBI and IDBI and can function independently without any undue constraints.

13. Because it was felt that the initial capital contributed by RBI, LIC and others to Unit schemes 1964 today forms a negligible part of the total investible funds of UTI and it will be better to return that initial capital to the concern institution independently, without the interference of these institutions.

14. According to the Social Audit Committee, the officers and employees are getting the salaries much lower as compared to those of other Mutual Funds, but there is no feeling of adverse discrimination amongst women employees. There was certain measure of dissatisfaction with the promotional opportunities and the training facilities granted to members belonging to the operations sector.
15. There are many cases of substantial delay in effecting transfers of units, receipts of bonus units etc. and also some of the investor did not get any response to the complain written by them to the Register. But I should say, it may be due to the work-load or the sudden increase in the volume of work which the registrars have been called upon to handle.

16. Most people would accept that an investment in shares is a risky propositions but somehow it seems that Unit holders have not expected Unit Trust to be subject to the same kind of fluctuations. Unit holders should appreciate that Unit trusts, especially those of a specialist nature, really can go down as well as up as the promotional literature should make dear.

17. Being the first and the only mutual fund for almost two decades, UTI, had the first mover advantage. It reaped in pioneering profits and earned the flattering title of the big full of the Indian Stock Markets.

18. The UTI has also paid special attention to gender issue. Its Rajlakshmi scheme provide a nest-egg for the girl child when she attains the age of 20, aiding marriage expenses, its Grihalkshmi scheme aims to give women above 18 a regular source of income for 30 years, improving their financial strength and independence, it has
taken care to select a substantial percentage of women as its agents, giving many of them a comfortable livelihood, and it has a reputation for gender fairness in recruitment.

19. The UTI has played a significant role in increasing the country’s rate of savings, in nurturing equity and debt markets to the point where India has emerged as major capital market in Asia; attracting global investors, in setting high productivity standards in the financial sector; in the all important task of institution building, in creating new savings schemes to help religious and charitable institution, windows and retired people in need of steady incomes, for education and careers, for providing medical insurance to the aged, and socially relevant purpose.

20. In respect of Master gain'92 and some other schemes, it is found that many rural investors had purchased units in these schemes and when they sold the same they did not sign the transfer forms properly because of poor education, lack of experience and for want of proper guidance.

6.4 Social Objectives of the UTI.

Over all UTI’s operation have been entirely geared to meet the objectives set out in the UIT Act and serve the needs of the investors within the
The main Objectives of UTI are as follows:

1. It mobilizes savings of the community and channelises them to productive investment. By promising triple benefits of safety, liquidity and profitability of investments, the trust encourages individual savings.

2. It gives one a chance to indirectly own shares and debentures in a large number of selected companies and thus enables the investors to share in the widening prosperity of industrial growth.

3. It emphasizes the importance of research and professional skill formation in investment and financial management within UTI in the financial sector.

4. It tries to operate on no profits, no loss while keeping the costs of operation lowest among all financial institutions.

5. To contribute to the growth of the financial sector, the capital market, the stock exchange as well as the Corporate sector through responsible and cooperative behaviour, innovative response to the emerging needs of the economy.
6. To introduce tailor made schemes to help social transformation, e.g. schemes that address to solve through investment management, the needs of the children, girls etc, the victim of Bhopal gas accidents.

6.5 Suggestions:

1. The proper selection, training and development of employees ensure success (Schlesinger & Heskett, 1991). Implementation of a strategy is a fairly difficult task. It requires a service orientation which is more of a software to excellence. The 7 - S framework of MC Kinsey (Peter & Waterman, 1982) is a prescription for service industries where personnel holds the key to success and the process needs sharing of values by every employee in an organization.

A system to manage expectation is, however, not complete when it is targeted only to customers. The service marketing is very much internal also. The employees of the service firm have to share the same concept as the customers. In fact, the service has to be marketed first to the intermediate customers who are the employees of the persons. In such a case, a service strategy has to be focused internally also as shown in Figure 26. A complete strategic vision, external and internal. A limited vision, when due importance is not given to caring of employees, traps the service into a cycle of failure.
It is clear from the cycle that proper selection; training and development of employees ensure success.

The cycle of success.
2. Should educate the investors about the principles of prudent investing about the need to take a reasonably long term view of equity investments, not getting swayed by short-term volatility.

3. Educating customers, as knowledgeable customer is easy to handle. Such customers understand the service and its usages as well as the limitations of the server. They make better decisions and get satisfied easily. Communication from the service firms helps them set their expectations realistically. Their perception to the service is also more realistic and thus attainable within the process adopted by the service organization.

4. The challenge before the industry is to reach out to such investor whom the mutual funds will be able to attract at this stage which are more likely to gain from the fund performance in the medium term and convince them of this fact according the author of the article “Mutual Fund – Still coming of age.” by Naimatullah.

5. A customer of a service carries only experiences along. It is also necessary that this experience is pleasant. To ensure this a feedback system is essential. The customers the Unit holders satisfaction level is determined through this system that helps in improving the services. This is done to ensure that nothing is forgotten.
Sometimes, the customers are also contacted at a later time. This feedback tells the retained experiences and the kind of word-of-mouth message that could have passed to other. Contact personnel are a good source of such information. They are in direct contact with the customers and can inform on the behaviour of the customer during service encounters, which can give credibility to the organization, particularly when the firm acts immediately on the matter and informs the customers even after the customers has left.

6. The finance Act, 2000 delivered twin flows to the mutual fund industry. First was the abolition of sections 54EA and 54EB of the income tax Act. The second and the one which hurt most was the increase in tax on dividends declared, distributed or paid by domestic, companies and debt based schemes of UTI/MFs from 11 % to 22 % (inclusive of surcharge.), the investor cannot treat it as TDS for setting it off against his total tax liability. More over, the investor is robbed of saving tax on this income by making an appropriate contribution to section 88. All close-ended schemes, equity based or otherwise and open-ended debt based schemes suffer the dividend tax. This could be exempted or should remove so as to attract the investor to invest in unit schemes and to get the chance taxes on dividends.
7. Quality is a state of mind. An organization can give quality service only when it considers quality as a strategic than a run-of-mill matter. It is all-pervasive and every person has a responsibility to quality.

A quality programmes in an organisation has three stages: Quality achievement, Quality Maintenance and Quality Improvement. Quality is achieved by defining and expressing it through determinants that are tangible objects as well as tangible clues. Standard are then set for these determinants. In the second stage, it is ensured that these standards are adhered to and any deviation is noted. These deviations are corrected and assessed for their validity.

A high quality service, is, however, possible only when the firm inculcates a quality culture and considers every activity in a holistic frame than individually. Ultimately it depends on how you perform in front of the customers service.

8. Unit holders should track price of mutual funds daily in the newspaper and research detailed port folio characteristic by checking the prospectus and related reports so that it will safeguard minimize the risk of loss from foul play Surinder pal Singh in his article Mutual fund investing programme. Survival and success, had suggested that the.
9. Training and Development of personnel has always been a weak area in India. It is in fact, a low priority area which will be attended to only if there are funds to spare, to give a factual anchor to the claim that “we train our people.” In Product selling, training important, but in services selling, training is a necessity. Not just initial training, not just sporadic training, but reasonably heavy does of no-going continuous training. Because in service, there can be reparation but not replacement. In product marketing, if anything goes wrong, the manufacturer can replace the product. When services are sold, this is not possible; damage done is irrevocable.

10. Before investing the investor should scrutinize carefully the performance record of all the schemes managed by the Mutual fund. A fund which has many schemes giving good performance clearly shows high quality investment expertise. Above all investor should also take care to see that mutual fund which he invests in is sponsored by a reputed name and is likely to be in business for many more years.

11. In marketing a service, the focus is mainly on people, not a product. The greater the size of the operation the more the number of people involved. The offer of services can be standardized only to a limited extent. Time large no. of people required, makes motivation and
control more difficult. There are limitations to replacing a human service with a machine. Because services are people-based, it is difficult to be guide only by systems. It needs the human touch. Random checks will give an idea of quality offered, but will never be totally representative as with random checks with products.

The employee here can make or mar the service and in turn, ruin the corporation. There has to be correct employee corporation coupling. Any mismatch can be disastrous. A person whose personality can be graded as one star and who will at best become two star if trained, will not be suitable for a particular employment. And I am not talking of one star looks or physical appearance. I refer to attitude, to skills, apart from appearance.

12. The investors would be well advised to monitor the investments once made and it's the performance is not upto expectation he should look at scratching to other schemes. “A world of caution while selecting between equity and fixed income funds. Typically equity returns are volatile in the short run but out perform debt over the longer term.” (Namatullah, managing director, SBI, Funds Managements Ltd. Mumbai). Thus, an investor should take care to invest in equity funds with at least a one-year time horizon.
13. Most of the problem in service quality are caused due to the gaps that exits in the communication between the firm and the investor. These gaps have been depicted in Fig. 27. The first gap is the incorrect interpretation of the customer expectations. The incorrect transaction of these expectations into quality specifications creates the second gap. The third gap lies in the delivery of the service. The fourth gap is the unclear transmission of the message through several media. The fifth gap is between the expected quality and the perception of quality of the firm by the customers.

These gaps are caused because either the firm does not listen to the customer or it over promises, or its communications are not understood. The possible causes of each of these gaps are depicted in Fig 27. A high quality service is achieved only when these gaps are bridged.
14. To ensure efficient resource allocation. Because facts do indicate the
we have a capital market which is more imperfect than is necessary.
These imperfections are not because of the behaviour of players but
the rules governing the market. Outmoded rules, without any market efficiency logic are still in use, hindering efficient resource allocation.

15. A service organization does not always mean a service – Oriented Organisation. This is because of two basic reasons: myopic view to the business and the interest in the number than the satisfaction of customers. The former leads to profit as the main objective. This encourages cost cutting at the cost of quality and such transactions that are not in the interest of the customers. This has an adverse impact on the credibility of the organization. The interest in mere number of the customer affect personalization most, the factor so very insensitivity. This is the cause of uninterested employees and dissatisfied customers. It is, therefore necessary that each customer is treated individually. This is possible only when the firm is interested more in the satisfaction of the customer than considering them as number.

16. I entirely agree with Dr. Bhalla that political economic in India affects, the course of reformers or policies regarding financial markets, and we hope that political economy will, over a period of time become more and more responsive to the needs of a market oriented regime.
17. Services are more labour oriented. As a result, it is difficult to replicate the service performance to the fullest. Also, it does not require large investments in service business. It is the skill that is more imp. The capital investments are important but not essential. This has resulted in mushrooming of services at the cost of quality. Even addition to the service mix of the firm is without much of preparation as it seems to require a simple addition to the literature at the least or to the manpower at the most.

18. Mr. Chitale mentioned in his presentation about “the lender’s problem and enforcement of counteracts.” Yes, the legal frame. Work continues to haunt lenders, Unless, we do something about this many of the problems that afflict the debt market will continue to be there. The default risk and the (NPA) non-performing assets problem are accentualised by the prevailing legal framework.

19. The main problem associated with labour intensity is the inseparability of the provider, the service and the customer. Services are performed in the presence of the customers. There are no chanced for lapses. Repairs and replacements are not possible. Even a frown or the face of the provider can spoil the sale. This is one of the major sources of customer dissatisfaction.
20. Problem of measuring investor confidence. One side, the investors are not trusting any mutual fund to invest their fund. On the other hand the people are happy putting money in week banks knowing that their non-performing assets, are huge in terms of risk. I believe that restoring investors, confidence is a problem for the entire financial market and not for the equity market alone. There are a lot of problems as well as risks in the debt market. Yet people are still happy putting money in debt and fixed income securities.

21. Low returns on equity is the main problem. In my opinion, it is basically the returns which are creating the problem. The equity market Dr. Bhalla mentioned in his article, has given low returns. It is partly because of high transaction costs and lack of competition. Over all the equity market, in general, has given low returns. In the recent years relatively less attractive returns than what has been available in the debt market when the government is offering returns of 11% or 12% and even the weak banks issue securities, which are answered debt at no more than 200 basis points above the government securities, then how can we expect people to invest money in the equity market.

22. By retracing that past to see what the investors dream was four year agro, why had it gone how, what happened after it had gone sour and
where do we go from here? If we go back a few years and look at the entire scenario of investors’ confidence, we find an era of a veritable administered economy. It was a very cost atmosphere where profits were almost assured to most producers. What we really saw was an era of exaggerated pricing caused largely by the issuers’ misunderstanding about own prospects in a competitive scenario and open system. Surely in such a scenario, the investors would be even worse off than the issuer in terms of understanding the future prospects. So typically we have this whole “Investors dream gone-sour scenario” after the economy made the transition from a closed to an open system.

23. Knowledge intensity and/or Brand insensitivity of profits. Another aspect that rarely considered is the growing knowledge and/or brand intensity of corporate profits in a globalised competitive economy. I am afraid that in India we are too far profits are increasingly going to become knowledge – intensive. This has been discussed in detail by using in the next chapter. The realisation regarding knowledge intensity is very slow. Therefore we will have to change our approach.

24. In our system it is the household savings which are the savings. Hence unless the private savers of money is able to operate with a
certain amount of confidence in the equity and bond markets directly or through intermediaries, you will not have a well-developed financial market.

I was most impressed by some of the literature and charts that Dr. L.C. Gupta had made in his research, one or two of these charts show is really striking. Based on a survey, which was mentioned in chapter 2 (B), they show that only 15% of the people felt that non-govt. bonds are safe. In contrast nearly 80% of the people felt that the bond floated by the IDBI are safe, although the IDBI's profitability picture is different, and the markets reaction to IDBI shares is different when compared to some of the private companies.

25. All the mutual funds including unit schemes should be controlled and regulated within the uniform pattern

26. The mutual funds violating the regulatory frame-work and guidelines issued by the appropriate authority must be brought within the area of civil and criminal lows.

27. Some independent institutions should be created to provide information about risk-return and over all ratings of the different Units schemes of UTI. Such an institution can be created on the
Lines of one known as “Morning Star Inc.” a mutual fund rating service, based in Chicago (U.S.A.)

28. The management of the funds should be legally violating the “general objective” of the fund. Apart from other objectives, the interest small investors pertaining to profitability should be duly taken of the net return to investors must be better than the interest carried on bank deposits. Further these returns must provide some heading against inflation as well.

6.6 Overall Conclusions

An important point that needs to be kept in mind is that a non-transparent market can never become a nation wide market.

Reforms are a containing process. The basic objectives of reforms should be designed to protect investors’ interest and sustain their confidence in the industry and this is possible if mutual funds develop on healthy lives and become effective instruments for mobilization of resources. Investment in equities can be elusive but unit schemes can make than seductive.