

Speech of Shri P. Chidambaram, Hon'ble Finance Minister
On the occasion of UTI's Golden Jubilee Celebrations
On February 2, 2014 at Mumbai

Mr. Leo Puri, Mr. U. K. Sinha, Former CMDs of UTI, Mr. G. S. Patel, Mr. Jagdish Capoor, Mr. S. A. Dave, all those who have been associated with UTI in the past, bankers, players in the capital markets, in business and industry, Ladies and Gentlemen.

Golden Jubilees are special occasions and I was very happy to accept the invitation to mark the Golden Jubilee of UTI. I take this opportunity to extend my heartiest congratulations to all of you, those who have worked with UTI in one capacity or another and those who are now with UTI - officers & staff - all of you who have been part of the remarkable journey for the last 50 years.

Both Mr. Puri and Mr. Sinha have given you a short tour of history of UTI. UTI as a brand has gained currency throughout the country. At one point of time I think it was among the most recognised three letters - just as LIC was recognised anywhere in the country, UTI was also recognised everywhere in the country.

It was a powerful brand and as a virtual monopoly it dominated the market. Thanks to changes made from time to time, the new stage that was created was yielded to the public sector organisation and to private sector. Nevertheless, UTI remained one of our most successful mutual funds and in many ways it is the organisation which promoted the mutual fund industry in this country. It also promoted a number of other institutions, the UTI Bank - now Axis Bank, UTI Securities Limited, the National Stock Exchange, the National Securities Depository Limited, the Stock Holding Corporation of India Limited and the Infrastructure Leasing & Financial Services Limited. Many of them have become major players in their own right and they draw attention to the stellar contributions that are being made by NSE, NSDL and the IL&FS. In a way UTI even though it has faced some difficulties has been proud of its progeny whom it has created in the market.

Mr. Sinha mentioned the circumstances under which the restructuring of UTI took place. I think it was one of the boldest decisions taken by the Government in the year 2003. While the first tentative steps were taken by Shri Yashwant Sinha, then Finance Minister, the restructuring was mid-wifed by Shri Jaswant Singh, Finance Minister and then when I joined the Finance Ministry in May 2004, we took it forward and completed the restructuring of UTI. It is a good example of Governments, even when Governments change and the main actors change; it is a good example that despite bitter political rivalry, there is also a deeper bipartisan consensus when it comes to taking crucial decisions affecting the economy. It is my sincere hope that, as we enter the field of bitter political rivalry, we will

remember that there must be a bipartisan approach to the challenges that India's economy faces and to the steps that have to be taken to stabilise India's economy.

I asked myself how would the UTI crisis had been faced if we had all the instruments and all the institutions that have now been recommended by the FSLRC, the commission to rewrite our financial sector laws. When an institution like UTI gets into distress the first port of call should be the Resolution Corporation. That is largely recommended, that we must put in place a Resolution Corporation that will identify financial firms that are in trouble but not yet bankrupt and will force them out of business through sale or liquidation. When there is a systemic crisis involving an organisation like UTI, the first responder must be a place where all regulators can gather and function like a virtual war room. If I had gone through the recommendations of FSLRC as Indian Financial Code that they have recommended, the war room in such a crisis would be the Technical Secretariat of the Financial Stability and Development Council which will have a sound information base in the form of Financial Data Management Centre. In the absence of Financial Data Management Centre and absence of Financial Stability and Development Council, the war room, I am afraid, usually turns out to be the office of the Finance Minister.

But all this will have meaning only when we acknowledge the need for Micro-prudential Regulation. While our regulation is focussed on Macro-prudential Regulation - we are good regulators of the macro economy - we do not have Microprudential Regulations. It is worth remembering that neither the old UTI Act nor the SEBI Act has defined Microprudential Regulation. Microprudential Regulations is about verifying promises made to consumers by players in the capital market. If the mutual fund says that the unit is worth Rs. 8 we need someone to verify that the underlying portfolio is worth Rs. 8. If a mutual fund promises assured returns of 10% we need someone to verify that there is a locked in position on the market that you will deliver a 10% returns. These are the things that flow from Microprudential Regulation that were not understood in 1964 when UTI was created and I am afraid, we are only now beginning to understand the need for Microprudential Regulation. I say this because I think we cannot lose time in implementing the recommendations of the FSLRC.

We have divided the recommendations into legislative actions and non-legislative actions. And I am deemed to report that FSLRC when I addressed my first seminar, I said I realise that it's not possible to initiate and complete legislative actions as required within the term of this cabinet. But we will begin work and then we hope that legislative actions can be completed in calendar 2014. But we can take all the steps that have been recommended under the head non-legislative actions and I am happy to inform you that a lot of measures on non-legislative actions have been initiated in the Ministry of Finance and I hope that they will be unveiled and rolled out in the weeks and months ahead. But it is my sincere appeal to all the political parties, to all the Members of the Parliament, now and those

who will be elected to the next parliament that we must complete legislative actions based on FSLRC recommendations in calendar 2014. And we must have the major part of the Indian Financial Code in place in the year 2014. On behalf of my party, I can assure the financial community that if we find a place in the Government, we will complete major legislative actions to put in place an Indian Financial Code by the end of calendar 2014.

I am happy that UTI despite the fact that it has slipped from the top rank to a few notches below, continues to enjoy the confidence of a large number of investors. Assets under Management of UTI are little over Rs.75,000 crores, about 9% of the total Assets under Management of the mutual fund industry. I am also happy to note that recently UTI received the Outlook Money Award for the Best Fund House of the Year 2013. Investor services have been improved significantly to provide hassle free modes of transactions. Today one can transact with UTI through the internet etc. Many of you may not know that UTI AMC has launched one of the largest investor education programmes in the country under the name 'Swatantra'. This has been launched in partnership with the Ministry of Corporate Affairs, Government of India. UTI AMC has also created a niche for itself in the alternate asset management space with companies like UTI Capital Limited and UTI Ventures Limited.

Besides, UTI has initiated a number of micropension initiatives to bring in small investors into the mutual fund fold. Some of them are SEWA, Ahmedabad, Bihar Teacher's Pension Yojna, COMPFED, Patna Bihar, SHEPHERD in Tiruchinapalli, Tamil Nadu, Gramin Dak Sevak in collaboration with Department of Post, Maandeshi Mahila Gramin Bank in Maharashtra and the Paradeep Port Trust. These initiatives deserve to be commended and among these initiatives they have today a membership of little over 150,000 members contributing pension contribution every month towards their pension benefits.

Recently SEBI has made a number of changes to promote the mutual fund industry. I know there is a debate and I am engaged in discussions with the SEBI Chairman. Some players in the market have attributed the stress faced by the mutual fund industry, to the ban on the entry load that was imposed by SEBI. Following the ban, there was a sharp decline in the gross mobilisation of funds. It dropped by nearly 22% from 88.59 lakh crores in 2010-11 to 68.19 lakh crores in 2011-12.

After a series of consultations and deliberations, SEBI took certain steps to re-energise the mutual fund industry. Among the steps were - increase in penetration of mutual fund products and energising the distribution network by increasing the limits of expenses that is charged by AMCs to the Fund, improving the reach of MF products in smaller cities and towns beyond the top 15 cities, alignment of interest of investors, distributors and AMCs and investor protection by addressing issues of mis-selling and churning. I am happy to note that the above actions have

had a positive impact on the mutual fund industry. I am told that 946 new branches have been opened in cities beyond the top 15 cities upto December 2013. And the Assets under Management from such cities has increased to around nearly 12% at the end of December 2013.

I am also told that the cumulative gross inflows from such cities have increased by 2.77% during the period October 2012 to December 2013. The total AUM has increased to Rs. 8.26 lakh crores at the end of December 2013 as compared to only Rs. 6.80 lakh crores at the end of April 2012. But I would urge the mutual fund industry to continue to engage SEBI and I would urge SEBI to constantly revisit the regulations so that the mutual fund industry is able to mobilise much greater savings from the people of India.

Going forward, what we need to do. I think the first thing that we all have to do is to regain the trust of the retail investor. I don't know when the trust was broken but I know that the trust has not been fully restored. Today I opened two branches of a bank in two small village. In the period of about 3-4 weeks in the run up to the opening of the branch, each of the Branch Managers has been able to mobilise deposits - savings account and current account - of over Rs.5 crores each from a small village of Tamil Nadu. If a Branch Manager working with 2-3 people in a period of 3-4 weeks can mobilise Rs. 5 crore for a nationalised bank, I ask myself why should the mutual fund industry not be able to mobilise such funds. The reason, ladies and gentlemen, is people repose a great deal of trust in nationalised banks; people have not yet reposed the trust that seems to be broken between the mutual fund industry and the investor. So regaining trust is the first step.

The second step is to promote financial literacy and investor education. You have to try different models, use different vehicles, collaborate with different institutions to promote financial literacy and investor education.

The third step is to leverage technology. Banks have used technology to extend their reach, ATMs and banking correspondence have reached out to the remotest corners of the country. Today, a bank launched a mobile ATM that will go around the district halting at a village for 3-4 hours a day and then moving onto the next village. There are many technological tools that are available and I would urge the mutual fund industry to employ these tools and reach out to the people.

The fourth step should be to extend the geographical coverage of the industry, I know that it is tempting and easy to remain in the top 15 cities which is why SEBI provided some incentives for the people to go beyond the top 15 cities. There are 53 cities in this country which have a population of more than 10 million and there are nearly, I think, about 200 cities which have a population of more than 10 lakhs. That is where the mutual fund industry should go.

And finally there must be better corporate governance. Better corporate governance is based on sound ethics, transparency and accountability. I think if the mutual fund industry takes these measures and perhaps some other measures it is possible to rediscover the magic of 1964.

In conclusion, may I appeal to all of you that we should work together in the next few years to lay the foundation of the Indian financial sector for the next 50 years. The future of the mutual fund industry lies in increasing financial literacy and showcasing the suitability of mutual funds in an investor's portfolio. AMCs and product distributors need to work closely to achieve the target of higher penetration of mutual funds and household savings. There is a very important role of independent financial institutions apart from banks in the growth and stability of the economy and the capital markets. UTI with its unique identity and a well recognised brand, will have to play a pioneering role in the Indian context as an independent asset manager and contribute to the development and growth of the Indian financial markets. I compliment UTI on completing 50 golden years and wish it another 50 years, another 100 years and the best for the future.

Thank you.