

# CAG raps GIC AMC for bailing out underperformed scheme

**Business Times Bureau**

MUMBAI: THE Comptroller and Auditor General of India (CAG) has pulled up the General Insurance Corporation Asset Management Company (GIC AMC) for bailing out its underperformed scheme hit by volatile market conditions. The AMC took upon itself the obligation of meeting the shortfall of Rs 0.46 billion arising out of the redemption in one of its schemes — GIC Big Value Scheme, in June 1997.

The CAG in its transaction audit observations report 2000, which was released in April 2001, has observed that GIC AMC had promised of assured returns without taking into account the volatility and uncertainty of the market. This, CAG blames, has resulted in GIC AMC having to meet the shortfall of Rs 0.46 billion.

“It is very much within law if the sponsor (GIC) infuses money into the asset management company in case an assured return scheme could not deliver expected results,” said B. Chakraborty, chief executive officer of GIC MF. “However, I would not be able to comment on the scheme since I took charge over mutual fund division only two days ago,” he added. Mr Chakraborty added that GIC schemes are regulated by Securities and Ex-

change Board of India (Sebi).

The report asserted that the utilisation of public funds for restoring confidence and loyalty of the investors and to keep promises made by sponsors regardless of stock exchange volatility was not justifiable especially since majority of equity shares were held by a foreign promoter and a non-government company. GIC AMC has defended its decision to meet the shortfall stating that the payment was made in accordance with the legal advice obtained by the company which asked them to pay the minimum return in accordance with the assurance given in the scheme.

GIC Big Value Scheme, a five-year closed-ended scheme was launched in June 1992 with an assured return of 15 per cent per annum. The scheme was redeemed on the due date of June 30, 1997 at the assured terminal redemption price of Rs 21.48 per unit even though the net asset value of the scheme in June 1997, was only Rs 15.45. This resulted in a shortfall of Rs 0.46 billion, which was funded through issue of additional rights equity (Rs 0.15 billion), loans from GIC and its subsidiaries (Rs 0.18 billion) and internal resources of GIC AMC (Rs 0.13 billion).