

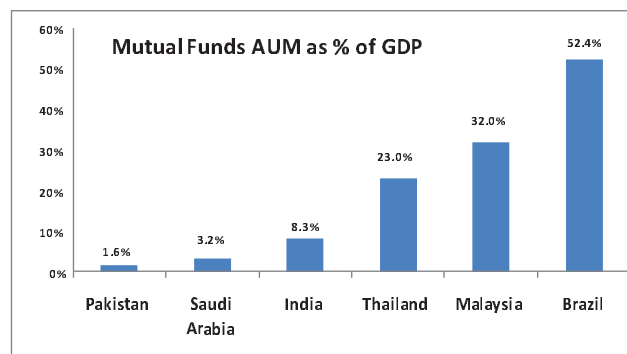
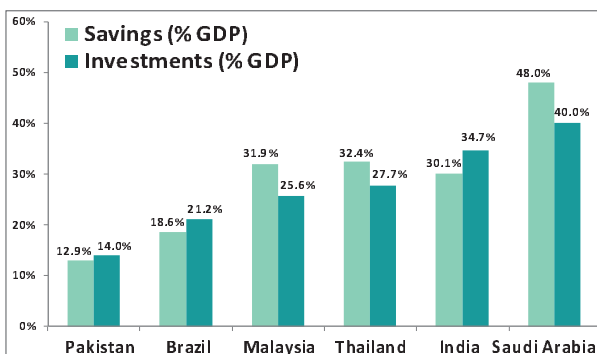


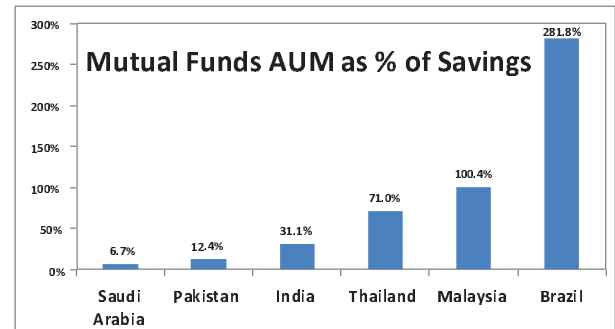
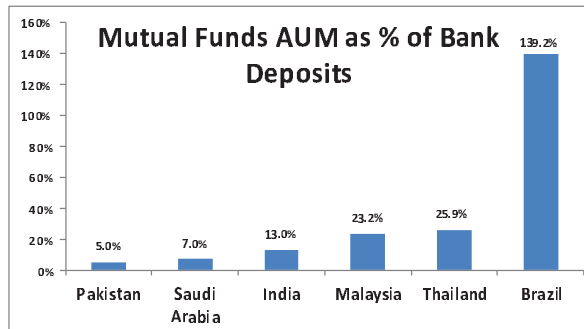
## Chairman's Review

Dr. Amjad Waheed, CFA

Domestic savings is a key determinant of economic growth of a developing country because higher savings rate leads to higher investment that enhances productive capacity of the economy. Pakistan's savings rate at 13% of GDP (economy) is significantly below that of other emerging economies (please see chart below). Mutual funds play multi faceted role in an economy. They mobilize savings and channelize it into broad range of avenues such as equities; sovereign and corporate bonds; and real estate etc. They provide professional investment management and low cost diversification to small savers. These also help reduce systematic risks in the equities, debt and money markets. Tax credit available to unit holders of mutual funds and voluntary pension schemes help promote private savings.

Mutual Funds Assets in Pakistan's are around US\$ 4 billion versus US\$ 162 billion in India. India's economy is about eight times larger than Pakistan. Even after adjusting for this difference, Pakistani Mutual Funds Assets should have been around US\$ 20 billion. This would have helped improve savings rate leading to higher level of development and economic uplift of the country.





\*Source For All Charts: Respective countries Monetary and Securities Authorities, 2012, Pakistan & India 2013-14

### Regulatory Support to Enhance Retail Business

In Pakistan, retail segment constitutes only 24% of total assets of the industry. Internationally, about 80% of mutual fund assets are owned by the retail sector, while remaining are owned by the corporate sector. Pakistan Mutual Fund Industry has great potential to expand the retail investor base both in urban and rural areas. Presently, there are around 200,000 investors in the country versus 30 million bank account holders. More than Rs. 5 trillion is in current and savings account (CASA) deposits of the banking sector on which investors earn an average return of 5% per annum. Money market mutual funds presently offer a return of around 8.0% per annum with a high level of safety. However, investors in Pakistan, in general, are not even aware of money market funds. This is because there are less than one thousand sales staff marketing mutual funds in the country. By comparison, over hundred thousand sales staff are marketing insurance products in the country. Large expenditures are required to set up a retail distribution network to cater and educate the retail investor. This cannot be financed by about the 1% per annum fee, on average, charged by the industry. Therefore, in line with international practices, the following Regulatory Support needs to be provided to the mutual fund industry:

- a) Charging of a certain percentage of marketing, selling and distribution expenses to a fund. Internationally, distribution and marketing expenses are allowed to be charged to mutual funds. Pakistan is an exception where such expenses are not allowed to be charged to a fund.
- b) Charging of certain other expenses i.e. NAV-related expenses, Shariah advisory fee, etc. to a fund. These expenses should be allowed to be charged to a fund on an actual basis, subject to a cap as disclosed in the constitutive documents of a fund. Pakistan is an exception where such expenses are not allowed to be charged to a fund.
- c) Series Funds: Series of Capital Protected and Fixed Income Series Funds should be allowed to be launched with a single set of constitutive documents, and the registration fee on such funds should be much lower than that on standard funds. Also, the minimum fund size requirement of Rs. 100 million should not apply to these funds.

### Regulatory Support to Enhance the Scope of Products and Services

Several international jurisdictions permit multiple fund management activities by asset management companies (AMCs). In line with international practice, AMCs in Pakistan should also be allowed to launch the following types of funds subject to fulfilling certain requirements related to capital enhancement and capacity building: Real Estate Investment Trusts, Private Equity Funds, Infrastructure Funds, Venture Capital Funds, and Currency Funds.

### Acknowledgements

I am thankful to the Finance Ministry, SECP, NCCPL, and CDC for their continued support to the industry. I hope that the Finance Ministry and SECP will continue to facilitate us to bring our regulations in line with international standards, and allow us to launch new products and services. We in turn will try our best to play our role in improving the savings and investment rate in the country; and development of our capital markets and economy.