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## A lot of room for growth in mutual funds industry

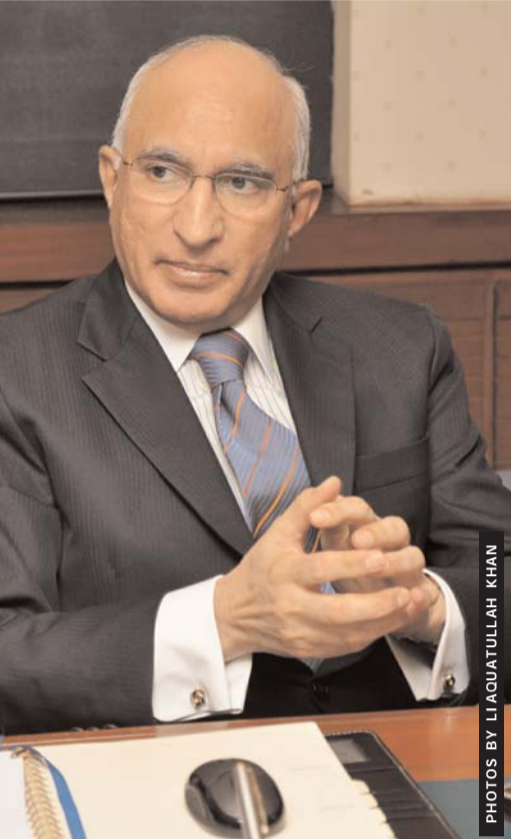
Rashid Mansur, CEO, JS Investments Limited

### INTERVIEW

Muhammad Yasir is *Daily Times*' Senior Business Reporter



Rashid Mansur has received his early education from Forman Christian College Lahore and The Punjab University. He started his career from Habib Bank Limited as a management trainee officer and served the bank for 18 years, of which 10 were in the overseas branches. He qualified as an associate of the Chartered Institute of Bankers London and as a fellow of the Institute of Bankers Pakistan. Since then he has continued serving the financial sector at different private and public sector organisations, at various high level positions. He has been president and CEO of two investment banks, a Leasing Modaraba and, in the public sector as the chairman and CEO of Board of Investment, government of Punjab, before joining JS Investments in 2010, as the CEO of the company.



PHOTOS BY LIAGUATULLAH KHAN

**Daily Times: How do you see the mutual funds industry's growth in Pakistan?**

**Rashid Mansur:** In the last one decade, the Assets Under Management (AUM) of the industry grew at a rate which was 10 times more than deposits with banking institutions, other non-banking finance institutions and national savings schemes. The average growth rate for deposits with banks grew at a rate of almost 15 percent in the last one decade, while for national savings schemes, growth stood at almost 9.0 percent.

The mutual funds industry experienced a remarkable average growth rate of 41 percent in AUM, which reflects the increasing awareness of mutual funds products and a shift in appetite of investors from plain vanilla bank accounts to more structured investments.

Despite these statistics, there is still a lot of room for growth and improvement in this sector. The mutual funds industry was 1.8 percent of gross domestic product (banking deposits: 31 percent and NSS: 11 percent of GDP) at the end of 2010, which is a lot below peer and regional averages. For example, AUM to GDP ratio of India is 7.0 percent while Turkey is at 3.0 percent, though the regulatory and structural frameworks are more or less the same.

**DT: How do you see the trend of new people investing in mutual funds? Are you satisfied with the number of people coming to the industry?**

**RM:** The number of people coming in the industry cannot be called as satisfactory, though it has improved over a period of time. As per data made available by the Mutual Fund Association of Pakistan (MUFAP), there were over 124,000 investors' accounts in open-end funds under management of all Asset Management Companies (AMCs). The retail constitutes a very decent percentage of the said accounts (95 percent), but assets are at low levels of 22 percent of total industry's assets. Furthermore, Pakistan is a populous country of around

180 million individuals, this figure could have been much higher but there is room for more retail penetration on part of AMCs, and I feel that decent efforts are being made to increase awareness level among the masses.

**DT: What are the advantages of investing in mutual funds compared with shares of limited companies?**

**RM:** Other than management by a team of professionals with in-depth experience as well as knowledge of the investment and strong regulatory oversight of mutual funds by Securities and Exchange Commission of Pakistan (SECP), there are many other benefits for investors.

Unlike other savings schemes where withholding tax is deducted on profit, there is no tax applicable on investment in any mutual funds, other than capital gains tax, which is exempted in case the investment is held for at least one year. Individuals can also avail tax credit on their income tax for the year if they are invested in mutual funds and pension funds. This tax savings facility can be availed by both salaried and self-employed individuals in accordance with the Income



**The regulatory environment for asset management industry in Pakistan has come of age pretty well in the last five to 10 years, with the introduction of a more comprehensive regulatory framework, enhanced regulatory capabilities and adoption of int'l best practices, both by the regulators and the industry "**

Tax Ordinance, 2001. The amount of tax credit entitlement is subtracted from annual income tax payable for the year, thus giving an overall tax saving.

**DT: What are benefits for people of different income bracket to invest in mutual funds?**

**RM:** When we say that mutual funds are for everyone, we actually mean it. They cater to needs of all investors without any specific segregation on bases of their investment amount, like an investment as low as Rs 100 (par value of a single unit) can be made by any investor. An investment solution is available for



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everyone according to the risk appetite of that investor.

**DT: How do you see the growth of Shariah products in Pakistan?**

**RM:** Generally speaking, Shariah products have already taken place on the global stage, which is evident from the fact that leadership in this industry has been spread out from Malaysia and GCC to Europe, Japan and Australia. This product is now being seen as 'good for business' and a growth market, as compared to previous branding for 'Muslims only products'.

Mutual funds industry provides Shariah investment solutions to its investors in the form of asset allocation, pure equity, income, aggressive income and money market

conditions. After a detailed SWOT analysis of JS Investments, our vision, mission and statement of broad policy objectives were revised. Consistent value creation for our clients coupled with maintaining high standards of ethical behaviour and fiduciary responsibility form the bed rock of this transition; along with focus on taking products to the people through a highly talented, diligent and diverse skill set of people working at JSIL.

Our mutual fund product suite is among the most diverse range of products under a single AMC. These include 10 open ended, two close ended, two pension funds, and separately managed accounts, which are all aimed to suit the requirements of investors and attract them to invest in our products.

**DT: What is the strategy of JSIL products to attract investors?**

**RM:** JSIL subscribes to dynamic business management and continues to appraise itself in line with the changing business cycles. Post the 2008 crisis, JS Investments was repositioned in line with the changing ground realities of the investment management industry resulting from prevalent macro economic

**DT: What are your views on the regulatory environment governing Pakistan's asset management industry and what are your recommendations for its improvement of regime?**

**RM:** The regulatory environment for asset management industry in Pakistan has come of age pretty well in the last five to 10 years, with the introduction of a more comprehensive regulatory framework (NBFC&NE Regulations and Rules), enhanced regulatory capabilities and adoption of international best practices, both by the regulators and the industry. This progression has allowed the

sector to show a reasonable growth in terms of AUM, the number of operators, in addition to an effective demo/geographic spread, based on proactive marketing, which resulted in greater public awareness.

I feel confident in saying that the AMC industry has flourished quite well as a regulated market participant providing an attractive yet viable saving option for larger investor base, both for the individuals as well as the institutions, in the country.

However, as always, there is ample room for improvement and to support the development of the AMC sector. The regulatory basis will need to shift from a rule-based

framework to guideline-based framework, with in-built flexibility to cater to innovation and help provide more investment products to the investors. The time and growth factors shall compel us to adopt self-regulation aspects of sector management to ensure a sound, sustained and growth-oriented existence in the financial services landscape of the country.

**DT: The awareness of mutual funds is very low among the people of Pakistan. What is JSIL doing to increase the knowledge of mutual funds among the masses?**

**RM:** It is essential that the mutual funds industry increases its outreach and penetration in both the urban and rural areas, because mutual funds are an extremely easy and effective mode of investing for the masses. With mutual funds, the larger segment of the economy/population like households individuals, can benefit from the diversification of portfolio, professional fund management, access to various financial markets, etc, and all that at a very affordable cost.

We are diligently working to expand our retail network and are joining hands with numerous distribution partners (leading local and multinational financial institutions), to use their existing branch network to enhance retail penetration in mutual funds.

**DT: What are the challenges and risk for AMCs in the country?**

**RM:** In terms of challenges, the one and foremost challenge that still needs to be addressed by the whole industry is retail penetration. There is a need for enhanced investor education by AMCs through platforms of MUFAP, SECP and stock

exchanges as well as at individual levels.

One such initiative has recently been undertaken for money market funds, but there is a lot of room for door-to-door and street-to-street awareness for mutual funds products. Plus, there are many risks that have direct bearing on this nascent industry. Under current conditions, the economic and financial uncertainty due to stressed socio-political conditions is one of the major threats faced by this industry.

This leads investors to invest in fixed return and low risk market products of banks and national savings schemes, leaving little room for growth of AMCs. However, recently measures by the government have facilitated AMCs by baring the institutional investments in NSS.

However, more steps are required to be undertaken to improve AUMs in mutual funds industry for enhanced profitability. In addition, we have recently enhanced our presence on the social media, which has greatly gained popularity in Pakistan, and are constantly promoting mutual funds and increasing awareness levels online.

The MUFAP has also undertaken numerous initiatives to promote investor awareness through various media, including the recently concluded Money Market Awareness Campaign, which was aimed to increase the awareness levels for money market funds, in the masses. Many new initiatives will be launched soon with the objective of informing the public about the numerous advantages on investing in various categories of mutual funds, and they will be completely supported by JS Investments. ■

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