The Biggest Challenge for the Mutual Fund Industry in Pakistan - Attracting Retail Investors

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Pakistan's key challenge is to improve the savings rate in the country, which at 13.8% of GDP is amongst the lowest in the world. One of the reasons for this low savings rate is that the average profit rate on about Rs 4.7 trillion of bank deposits is only about 6% p.a., which is less than half of the prevailing inflation. This encourages savers to spend rather than save.

An alternative to bank deposits are the money market funds, which invest in only AA and above rated short-term instruments. Some of the income funds have also limited their investments to short-term bank deposits and Treasury Bills, with no investment in the stock market and TFCs. The present return on such funds is 10% p.a. to 11% p.a., along with a reasonably high level of safety. Rationally, a lot of individual savers should start investing in these funds. However, in reality this has not happened as yet. Retail investment in such funds is limited to a few thousand investors, and a major chunk (over 80%) of investment in these funds belongs to corporations. Sales staff and the distribution network of mutual funds are very limited relative to the banks, and therefore the message has not gone through as yet. The key challenge for the mutual fund industry is to attract individual investors to such funds.

The Pakistani stock market has a very high volatility (standard deviation) of around 25% p.a., and therefore has not been able to attract a large number of investors. There are around 250,000 UIN numbers of which active UINs are less than 50,000.

Considering the above factors, NAFA has recently launched four Savings Plans where individual investors can invest their savings. Investment in the Plans entitles these individual investors to Free Life Insurance (both natural and accidental), without any medical tests. Employees of companies that invest their provident / pension funds in NAFA Savings Plans will also be entitled to the Free Life Insurance based on the terms of the Plans.

The key features of the Plans are:

Free Life Insurance equal to the amount invested in these plans. (up to Rs. 2,400,000/- per person).

NAFA Mahana Amdani Plan and NAFA Bachat Plan carry a low risk profile as they are invested primarily in banks (A and above rated) and Government T-bills (AAA rated). The underlying funds of these Plans do not invest in TFCs or the stock market. Presently, the return on these plans is around 10% per annum, however, it may change over time based on the inflation and interest rate environment in the country.

NAFA Sarmaya Izafa Plan and NAFA Sarmaya Izafa Plus Plan initially invest in low risk assets (banks and T-bills) and the investment is gradually switched over a two to four year period to high risk assets (TFCs and equities). The rationale behind this strategy of gradual shifting is reduction in risk and earning a reasonable rate of return for investors.

A key benefit of the plans is that investors can withdraw their investment at any time they wish, and the amount will be transferred to their bank account generally within 2 business days.

We are hoping that the benefits / advantages of such plans offered by the mutual fund industry, in terms of attractive profits and free life insurance, will encourage investors to save rather than consume. This is expected to improve the savings rate in the country in due course of time.