

## *Developing Pakistan's capital market*

According to a World Bank estimate at least 2 Billion people around the world do not use financial services, and 50% of those adults in poor households do not even have a bank account. Pakistan is no exception. In Pakistan it is estimated that only 14 percent of the population have access to financial services. Most people do not have a bank account, and, those that do, end up leaving their savings in accounts that earn them very low profits. Out of Pakistan's large middle class estimated at between 35-40 million people only 325,000 individuals have investment accounts. This is indeed very low when compared to regional players such as India, Turkey and Malaysia. The average annual return for the KSE-100 index has outperformed all other avenues of investing. Yet, participation by retail investors either directly or indirectly remains very low. Why is this so? The answer lies in lack of financial inclusion

Financial inclusion has been defined as the delivery of financial services at affordable cost to the low-income sections of a population. Researchers agree that for any financial inclusion strategy to succeed it must be undertaken in collaboration with the private sector, whose commitment and investment in infrastructure and services is essential for its success. Every successful financial inclusion strategy has three features:

- 1) It must give equal access to financial services and products to all users;
- 2) It must be possible for the investors to use the financial services and products being offered; and
- 3) It must offer investment products in a responsible manner, keeping in view the risk profile and interest of the investor.

Financial services providers owe a duty of care to the potential investor in the context of a financial inclusion strategy. Financial services and investment products provided under a financial inclusion strategy should not rely on aggressive sales practices that may result in potential harm such as over-indebtedness of the less-informed investor. It is important that potential investment clients receive clear and understandable information about the risks involved in the products being sold. Sellers' of investment products should clearly identify mechanisms in place for resolving disputes and filing complaints. The investors' interest must take precedence in all dealings of sellers of financial products. Creation of financial access requires investment in infrastructure and human resources. In Pakistan the providers of financial services are concentrated in the big cities leaving investors residing in smaller cities and villages at a considerable disadvantage both in terms of financial access and awareness about investment products and services needed for improving their financial condition.

Innovative ideas are needed to bring success to the execution of any financial inclusion strategy, and here the efforts of the SECP deserve to be applauded. To improve financial access in Pakistan, Chairman Securities and Exchange Commission of Pakistan (SECP), Zafar Hijazi imagined the concept of creating capital market business hubs across Pakistan. To convert his idea into reality, capital market business hubs (CMBH) are planned to be established throughout Pakistan by targeting cities that have small industries and residents receiving foreign remittances from relatives working abroad, such as Mirpur, Abbottabad, Sialkot, and Dhodial. Abbottabad was chosen as the site for the first CMBH and is now operational. Eleven entities, including five asset management companies (AMCs), two brokerage firms and a bank along with CDC and the Karachi stock exchange have initially opened their branches in the Abbottabad Sarmayakari Markaz (Markaz). It is pertinent to mention here that SECP has also established its facilitation point within the Markaz to facilitate investors with respect to regulatory guidance.

These Sarmayakari Markaz will address the investment needs of two types of investors:

- 1) Knowledgeable investors who intend to invest directly through brokers; and
- 2) Less informed investor for whom MUFAP has extended facilitation by having presence of 5 asset management companies.

Mutual funds are an ideal investment product for increasing financial inclusion by offering the low-income and less informed investor professional management, diversification and safe custody of assets. They can play an important role in the economic development of our country by pooling funds and making them available through the capital market in the form of equity and debt capital. The setting up of CMBHs across Pakistan offers the mutual fund industry, which represents 70% of the non-banking financial sector, an opportunity to offer their investment products to low income investors in remote and underserved areas.

Accordingly, mutual funds should develop products that are economical for the low-income investor with easy investment and divestment terms. They should follow best international practices for the protection of the investor by focusing on investor education and use of technology to reduce cost. To help build confidence in the mutual funds industry they should operate with due care always putting the investor's interest before their own.

It is hoped that through this Markaz existing and potential investors in Abbottabad and neighboring areas will take advantage of financial services now available to them under one roof and make the Markaz a success.

By replicating the CMBH in other underserved areas new markets for investment products will be created which in turn will help increase our investor base and help with capital formation urgently needed for the development of Pakistan's economy. Stakeholders should wholeheartedly support CMBH initiative keeping in view the long-term growth of our capital markets and demand for investment products and services that will be created by a large pool of investors.

Another important element in improving financial inclusion is to increase awareness about financial products among the general public. A large section of Pakistan's population has no knowledge about how to go about improving their financial condition by using financial services and investment products available in the financial market. To address this gap the SECP has launched an aggressive investor education program under the brand name Jamapunji designed to help investors understand and evaluate available investment choices, avoid fraud and address any misalignment of investor and industry interests. The SECP investor education initiative encompasses the financial products and services ranging from non-banking and insurance products to money management, financial and retirement planning.

Through effective regulation and enforcement, SECP is dedicated to the development of markets that are transparent, protect investors' interests and are accessible to all. It is envisioned that the development of CMBHs throughout Pakistan will go a long way towards increasing our retail investor base, which in turn will help with capital formation that can be directed towards worthwhile projects essential for job creation and the development of our economy. It is hoped that through these efforts Pakistan's capital market will one day become a regional hub for financial services. **By Shaukat Mahmood Malik CPA, USA: Advisor, Investor Education and International Relations Department, SECP.**