National Savings Schemes re-opened to "institutions"

According to press reports, from 2 Oct 2006 all National Savings Schemes (NSS), except Pensioners' and Bahbood, have been re-opened for new investment by "institutions". This ends a ban imposed on 25 March 2000. But banks and insurance companies will continue to be de-barred from NSS.

We have repeatedly said that this ban should be lifted for Provident, Pension and Gratuity Funds. An example is our Letter of July 2006. However we do not claim that our advocacy caused the change!

This is the second time a ban was imposed, and then lifted. On 4 Feb 1990, the former Khas Scheme was banned, followed by a ban on DSC's on 20 June 1990. These bans were lifted on 2 Feb 1993.

The official notification was not available at the date of writing. The press reports do not specifically mention provident, pension and gratuity funds. But, subject to any googly in the official notification, it seems these funds can now invest in NSS. However, trustees of such funds must not slip into the habit of investing only in NSS. Consideration should be given to investment in ordinary shares and mutual funds, to the extent appropriate in the light of their risk profiles, and having regard to the underlying assets of the mutual funds. Appropriate advice should be taken.

Not right to open NSS to entities set up to make profits

The key special features of NSS are (a) they are "on tap" and (b) they are immune to market fluctuations, because premature encashment values are guaranteed.

Permission to invest in NSS should be restricted to Provident, Pension and Gratuity Funds; EOBI (because it is a pension fund); and non-profit and charitable organisations.

Entities set up to make profits, irrespective of form or ownership, should be excluded. They should not benefit from the special features of NSS mentioned above.

The inclusion of public sector enterprises (excluding banks), private educational and health institutions, private corporate sector (excluding banks) and Non-Banking Financial Institutions, excluding insurance companies, in the new permission should be reviewed. Originally, they were not allowed to invest in NSS. Then, to the surprise of many, such permission was given. Perhaps this contributed to the imposition of the ban on 25 March 2000. Government seems to swing from one extreme to the other.

(Private educational and health institutions should be allowed to invest in NSS if run by non-profit bodies or charitable trusts).

Investment by Income Mutual Funds in CFS not necessarily a good thing

The stated reason for the 25 March 2000 ban was to encourage the development of the bond and securities market. This has not happened to the extent envisaged. The reasons are many. For instance, the hiatus in Pakistan Investment Bond (PIB) auctions, no transparent secondary PIB market, no PIB trading on the stock exchange, the lack of development of the Term Finance Certificate market and its illiquidity, and so on.

But one unfortunate development was that "Income Mutual Funds" invested heavily in the "Continuous Financing System" (CFS), or its predecessor the badla. CFS and badla directly feed speculative stock trading.

We have nothing against speculation.

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Speculation provides the liquidity which enables serious investors to buy and sell in large amounts.

But we question whether CFS qualifies for investment grade, or whether it is a "junk bond". Has it ever been rated? Public funds, including provident, pension and gratuity funds, should not be used to finance speculation by investment in CFS.

The Finance Bill, 2006, proposed that income to mutual funds from CFS would not be tax exempt. So it seems Islamabad is aware of this problem. But this proposal was dropped in the Finance Act, 2006, following representations from mutual funds.

If the new permission to invest in NSS reduces the flow of public money, including provident, pension and gratuity funds, into CFS, it would be a good thing.

Speculators should either use their own money, or persuade banks to lend them money on appropriate security and/or with an appropriate margin.

The Metabolic Syndrome

The US National Cholesterol Education Program (NECP) defines "Metabolic Syndrome" (MS) as the presence of three or more of the following risk factors:

(1) Waist girth more than 40 ins (102 cm) in men, or 35 ins (88 cm) in women.

(2) Triglycerides 150 mg/dL or more.

(3) HDL below 40 mg/dL in men, or 50 mg/dL in women.

(4) Blood pressure 130/85 mmHg or more.

(5) Fasting glucose 110 mg/dL or more.

MS is increasing in the US. At ages 20-39, about 7% have MS. Over 60, 40% have MS.

The Swiss Re, a very large re-insurer, tracked 35,470 individuals issued life policies, for an average period of 7.3 years up to the policy anniversary in 2001. The results are described in a paper by Pinkham, Cumming and Minuk in the North American Actuarial Journal of July 2006. Some salient points:

(a) At the base-line: 24% were obese. 28% had low HDL. 25% had high blood pressure. 30% had high triglycerides. 4% had a high glucose level. And 14% had MS.

(b) Raised blood pressure caused 53% extra deaths. Glucose status caused 41% extra deaths. HDL status caused 27% extra deaths. These results were statistically significant. This means that the extra deaths were too many to be caused by random fluctuations.

(c) Obesity caused 14% extra deaths, but the variation was not statistically significant.

(d) Surprisingly, triglyceride status caused 24% <u>fewer</u> deaths. The result was statistically significant. "Triglyceride values between 150 and 400 yielded better mortality than values below 150, when controlling for all other MS factors". However triglycerides of 400 or more showed extra deaths of 71%.

(e) The number of risk factors any one individual has is highly significant. The effect is more than adding up the effects of each risk factor.

Patients' Behbud Society for AKUH

This Society collects zakat to help very poor persons to use the Aga Khan University Hospital. Samee-ul-Hasan of our firm is on the Committee. A brochure is enclosed, which speaks for itself.

1 Oct 2006 was our 31st birthday,

and we are grateful to Almighty and Supremely Merciful Allah for the progress we have made, and the support of our clients.

Agile actuaries

The word "actuary" is derived from the Latin *actuarius*. Laurie Dennett, in her book *Mind over data - an actuarial history*, says that the word originally meant "fast" or "agile".