

Opening Remarks of the Deputy Governor of the

Saudi Arabian Monetary Agency

Jammaz Abdullah Al-Suhaimi at the Mutual Funds Awards Ceremony 2003

held on 16th May 2004 at the Al-Faisaliah Hotel – Riyadh

I would like to welcome you and thank you for attending the 2003 Mutual Funds Awards Ceremony. This ceremony has now been run for the past five years, and is an important initiative by Saudi banks to strengthen the mutual fund industry in the Kingdom.

Firstly, allow me to congratulate the organisers of this event. The organization of this Ceremony has only been possible by the concerned parties working together. The Institute of Banking, the banks represented through the IPC, the local media represented by Al-Watan, the international media and accounting firms represented by Reuters and Ernst & Young have worked together successfully for this event which is aimed at improving communication, as well as enhancing the flow of data to the investor. We hope that such events will increase the awareness of the local investors, as well as lead to the further development of the local capital markets, which will help to strengthen our

economy and create more jobs over time. It is due to diligence and efforts of all of you that this Awards Ceremony has become an important platform for all banks to reach out to an ever-widening circle of investors.

Secondly, let us remember that award ceremonies have always been organized to acknowledge and celebrate the “best achievers”. In this spirit, I would like to briefly share with you:

- ¶ My perspective on the strong base that the industry has achieved to date
- ¶ Where I see further benefits from making the entire market place a “best achiever”, and finally
- ¶ What SAMA intends to do to support such improvements.

Where is the industry today?

We now have 175 mutual funds offered by ten Saudi banks. When the Awards Ceremony was first held, we had 105 mutual funds. The growth in assets has been even more dramatic. At the end of 1997, total assets in all mutual funds were 18.7 billion Saudi Riyals. Today, total assets stand at 55.21 billion Saudi Riyals – an increase of 195.24 percent. At the end of 1997, total participants in all mutual funds were 59,939. Today, as at the end of 31st March 2004, this figure stands at 172,000, an increase of 186.78 percent. The results clearly have been very encouraging.

The diversity of investment types that Saudi mutual funds offer is also extremely wide. There are sixteen mutual fund categories that are eligible for the Awards Ceremony tonight. These categories range from local and international equity funds to bond, money market, and trade funds. The range is truly impressive, resulting from the growing capability among banks in Saudi Arabia to handle the sophisticated area of asset management.

Mutual funds promote domestic savings and benefit the local economy by channelling these savings into productive projects via the domestic capital market. Therefore, the development of the local capital markets and the mutual fund industry go hand in hand. To date, mutual funds have invested over SAR 38.61 billion into the domestic capital markets, which is crucial for building a proper platform for job creation, and for economic development and growth in the Kingdom.

Summarising, we can say that we have a strong base of mutual funds products as well as investors that are keen on using the products to satisfy their personal savings needs.

What are key benefits of further improvement?

The purpose of this Awards Ceremony is not just to mark a milestone for progress made to date; it is also to spur Saudi banks to increase their efforts to deliver even better products to local investors in the years to come. The progress made is not only impressive; it has been achieved as a result of an enormous investment in the improvement of skills and infrastructure. Yet, we should not rest, since the benefits of continuing on this route to “best achievement” are ample:

¶ **Benefits of broader access:** As our society develops, saving and investing becomes ever more important. Mutual funds as investment vehicles are ideal for the retail investor. Instead of individual stock picking that can be risky and time consuming, asset managers structure collective investment schemes. In addition to professional management, this allows access to capital markets and investment opportunities that the retail investor normally would not have had, be they bond investment opportunities, real estate projects, or corporate ventures through IPOs and capital issues.

¶ **Benefits of better advice:** The progress that banks have made in the last five years has paid off in the ability of banks to advise customers on their investment requirements. For instance, the majority of banks now offer an asset allocation service that not only includes the principles of

diversification, but also matches investors' risk-taking ability with the profile of their investment. This service will support building a stronger savings culture in the Kingdom, where prudent wealth aggregation prevents irrational exuberance.

¶ **Benefits of better efficiency:** Collaboration with the overseas fund managers has ensured transfer of both technology and skills. Banks have benefited from training and access to automated systems support. Further, banks are able extract competitive pricing from these external fund managers and are able to offer genuine savings to local investors in terms of commissions and other costs.

How will SAMA support further improvements?

Mutual funds promote domestic savings and benefit the local economy by channelling these savings into productive projects in our economy via the domestic capital market. The more that the capital markets can help promote real economic opportunities, the more jobs will be created, and we will all benefit from a stronger economy. Therefore, the development of the local capital markets and the mutual fund industry go hand in hand. To facilitate this development, SAMA will focus on three key regulatory aims:

- Requiring world-class standards (e.g., for listing, transparency, and corporate governance) to ensure fair and full competition
- Requiring full market disclosure to enable investors to make informed decisions
- Building a professional and effective infrastructure for the market place.

SAMA regularly reviews its regulations to ensure that they are in line with international regulatory standards. Good corporate governance is becoming an increasingly important consideration for both investors and our regulatory regime. We have supported further self-regulation of the industry, by requiring each bank to establish a formal investment committee. This committee oversees the management of the funds and ensures that the fund manager is investing in line with the approved terms and conditions of the funds. I am also glad to report that the Institute of Banking has developed and now offers courses in the areas of financial planning and wealth management. As has occurred in the local equity market, soon all bank employees advising private clients will be able to demonstrate their proficiency and competency through a standardised certification.

SAMA's regulatory focus is to promote ethical market practice through ensuring transparency of product offerings. We aim to ensure that prospectuses adequately inform investors, so they can easily understand the terms and conditions. SAMA scrutinizes each mutual prospectus prior to approval, and banks must seek SAMA's approval to change any of the terms and conditions of the prospectus. We also require that banks publish the Net Asset Value of each fund weekly, which is then available through all the major publications, and augmented by un-audited statements on a semi-annual basis and audited statements on an annual basis. These financial statements are drawn up in accordance with the International Accounting Standards.

With the aim of enhancing efficiency, SAMA has invested in infrastructure. Through TADAWUL, the industry has now the capability to reach out to investors through the Internet. Investors today can access the TADAWUL website and examine information on any mutual fund in the universe of mutual funds offered by Saudi banks. This information includes the latest prices, a history of the mutual funds' Net Asset Value, and a mini prospectus that enables investors to decide whether they want to invest in the mutual fund. Investors are also able to compare the performance of all mutual funds within and across categories for all banks in Saudi Arabia. This development is ongoing in response to market requirements. Soon I hope that local banks will be able to

use this platform to market their mutual funds and their asset management capabilities outside Saudi Arabia.

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In conclusion, the mutual funds industry has come a long way since its beginning about 20 years ago, but at the same time it has a long way to go to ensure a strong and robust mutual fund market place that does its share to help support continued economic growth and development. As an impartial central banker, I congratulate all banks and all fund managers on the individual and collective progress that you have made to date, and I encourage everyone to abide by the highest standards and best practices to serve not just your current customers but also a new generation of mutual fund investors in the future.