PILGRIMS FUND BOARD
AND
EMPLOYEES PROVIDENT FUND
AS
FINANCIAL INSTITUTIONS
A Comparative Study of Performance
(1983 – 2004)

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ABSTRACT

Pilgrims Fund Board (PFB) – more popularly known as ***Tabung Haji*** **(Pilgrims Fund** or **Pilgrimage Fund)** despite the introduction of **TH** as its shorthand in 1997 – is a dual-role statutory body. It was established in 1963 with the objective of facilitating Malaysian Muslims to perform *haj* by pooling and investing their savings in profitable economic activities which are in accordance with Islamic principles. The basic function of *Tabung Haji* is however, *haj* management: managing and providing various services and facilities for Malaysian Muslims while they are preparing for, or on, pilgrimage.

Another dual-role deposit-taking institution which is influential in the management and development of the Malaysian socio-economy is **Employees Provident Fund (EPF)**. Founded in 1951, the EPF is the world's first national provident fund, a mechanism devised for providing lump-sum payments to the Malaysian workers (employees) at the time of their retirement. Being the country's largest contractual savings institution, Employees Provident Fund serves as the central pillar of the Malaysian system of social policy and social security. Being the country's largest contractual savings institution, the EPF is a crucial financial intermediary that provides a key source of domestic funds for financing the Government development projects. Further, through its investments, trading, lending and outsourcing activities, the EPF has contributed enormously towards the development and stability of Malaysian capital market.

In a nutshell, notwithstanding that the PFB and the EPF were created with their specific roles, to enable them to meet these roles effectively, they have to operate as financial institutions: They are savings institutions; they are institutional investors. The present study examines and compares the performances of Pilgrim Fund Board and Employees Provident Fund as financial institutions. The study rotates around the null hypothesis that the performance of the PFB is not significantly different from that of the EPF.

The sample period for the study is twenty-two years; that is, 1983 through 2004. To examine and analyse the data, several measurement or analytical tools are utilized. The data are inter alia, examined by utilising the following quantitative tools: some selected financial ratios, arithmetic mean, geometric mean, standard deviation, correlation coefficient, cumulative wealth index and Sharpe measures.

By and large, during the sample period of the study, the PFB is found to have outperformed the EPF. Notably, *Tabung Haji* is detected to be significantly better than Employess Provident Fund, from the following perspectives:

- Annual growth in total assets;
- operating efficiency ratio as well as asset utilisation ratio;
- annual growth in net savings; and
- annual growth in investment.

It is also interesting to note that annual dividend rates for the PFB and the EPF are not significantly different. Moreover, our evidence indicates that annual dividend rates for

both institutions are significantly correlated with interest rates in the economy. Then, have interest rates in the market been functioning as the reference points in the determination of (the recently controversial) annual dividend rates for these institutions?

Chapter One

INTRODUCTION

Pilgrims Fund Board (**PFB**) and **Employees Provident Fund** (**EPF**) are two well-known non-bank 'financial intermediaries' which, de facto, have been operating since the early days the Malaysian financial system. Both institutions were established by the Government with the general aim of encouraging savings among Malaysians, but with different specific objectives. Even though the PFB and the EPF could be viewed as deposit-taking institutions as well as institutional investors, each of these entities is entrusted with its own social goals to be met.

What is so special with the PFB then? The beauty of the PFB as a Government organisation is that, with its 'formal' establishment in the early 1960s it has come up with a product that 'systematically' satisfies two fundamental needs of the Malaysian Muslims: **religious** and **financial**. While on the one hand the importance of the PFB lies in its role as the only (Government) agency which is responsible for discharging comprehensive services pertaining to *haj* affairs for Malaysians (when they are in Malaysia – preparing for *haj*; and in Saudi Arabia – performing *haj*), on the other hand it is a symbol of economic and financial success for Muslims in this country. It facilitates Malaysian Muslims to perform *haj* by pooling and investing their savings.

With a modest start as a savings institution for the 'poor' Muslims to accumulate savings economically for their pilgrimage in Mecca, throughout its history of some forty years *Tabung Haji* (pilgrimage fund) has evolved into a development financial institution – an