“The MPF Awards” 2017
Opening Remarks by Guest of Honour

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Francis, distinguished guests, ladies and gentlemen, good evening.

Thank you for inviting me to this special occasion.

It is always a challenge of speaking after an eloquent speaker like Francis. But let me start by congratulating all the award winners who have put in exceptional effort into enhancing Mandatory Provident Fund (MPF) products and services for the benefit of scheme members.

The MPF System just celebrated its 16th birthday last December which, by international standard, is still in its adolescence. And one might ask, “How is this kid doing?”

In the face of some public discontent with the System, I feel obliged to spread the words that the MPF System has been fulfilling its key purpose of helping the working population in Hong Kong in making savings for their retirement.

Statistics shows that the MPF System has been adding value to scheme members’ retirement savings since its inception. During the 16 years to January 2017, the System has achieved, net of fees and charges, an annualized return of 3.2%, which is almost 80% more than the corresponding inflation rate of 1.8% over the same period.

The total MPF assets is also on the rise. As at January 2017, the System accumulated $673 billion, and 21% of which, or $140 billion, was investment returns, net of fees and charges.

Despite its achievements, the MPF System is still attracting criticism including, as you are well aware, that the fees are too high, returns are too low, and there are too many funds making investment choices difficult for some scheme members.

The Mandatory Provident Fund Schemes Authority (MPFA) is determined to make MPF better by addressing these concerns.

Among our various efforts and initiatives on this front is the launch of the Default Investment Strategy, or DIS in short.

The DIS will be launched in less than a month on 1 April. Let me assure you that the DIS is a major, and serious, reform of the MPF System, in spite of the fact that it is going to be launched on April Fools' Day.

The aim of the DIS is to standardize the default investment arrangement amongst all MPF schemes. It is a long term investment strategy designed primarily for scheme members who are not interested in managing, or do not know how to manage their MPF. Scheme members can choose to adopt the DIS if they consider that it suits their investment needs.

The DIS also aims to address public concerns about the difficulty of selecting MPF funds as well as the high MPF fee levels, and will provide scheme members with better retirement protection.

We believe the automatic, age-dependent, de-risking approach of the DIS, along with fee caps (of 0.95%) will benefit scheme members. It assists them in managing the long-term risks associated with investing MPF savings for some 40 years, during which those savings may be exposed to multiple investment and market cycles.

While investment returns are subject to market fluctuations, fees are known in advance. As far as scheme members' interests are concerned, the lower the fees, and all other things being equal, the higher the net returns. This is what we expect, among others, how the DIS will work for bringing higher returns for scheme members.

In light of the interest rate normalization and new

Administration in the US, the financial market is facing a challenging year ahead. We of course count on the expertise of MPF investment managers around the room tonight to deliver good results for our scheme members.

Over the past years, to bring down the level of fees, the MPFA introduced different means and initiatives, including enhancing and standardizing fee disclosure to facilitate comparison and informed decision, implementing the Employee Choice Arrangement to allow better working of market forces, streamlining and simplifying administrative processes to cut down administrative costs, requesting trustees to offer low fee funds, and working with trustees to merge less efficient schemes and funds.

All of these have helped reduce the MPF Fund Expense Ratio ("FER") by 24% from 2.10% in December 2007 to 1.57% in December 2016. We, however, think that there is still room for further reduction.

According to a recent study by the MPFA, it was found that larger and older funds do not necessarily have lower FERs. Despite benefitting from economies of scale, larger funds and older funds generally have higher FER than smaller funds and younger funds. It was also found that funds with a higher FER are not necessarily associated with better investment performance. Some of the results of the study even show that funds of higher FER tend to be associated with poorer investment performance and vice versa.

Private pension systems around the world, including our MPF System, are facing the same challenges of how to reduce fees. The reduction so far in Hong Kong has not gone far enough, and the community would like to see deeper and quicker fee reduction.

The current average FER of MPF mixed assets funds is 1.73%. The FER of the mixed assets funds under the DIS will be much lower due to the fee caps, which we hope will have a benchmarking effect, enhancing competition among MPF funds and bringing about further fee reductions.

During our recent visits to the District Councils and labour unions to introduce the DIS, many commented that the fee caps should be lower than the current level. There were also views that the fee caps should be extended to other MPF funds as well. It reminds us of the importance for the MPF industry to keep up the efforts and explore every possibility in reducing fees.

Tonight, we are here to recognize the excellence of MPF schemes, some of which excel in very specific areas such as governance, administration, performance, customer service, technology usage, and innovation.

Whilst I am going to step down as a Director of the Authority later this month after serving on the Board for the last 6 years, I would like to thank you for all you have done for the industry and would encourage you to keep up your good work for the 2 million plus scheme members in Hong Kong.

On that note, thank you once again for your invitation and I wish you all a very enjoyable evening.

Thank you.