

Lipper Fund Awards 2019

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Keynote Speech

“One Platform, One MPF

Our vision for a digital future”

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Mr Richard Goldman, Ms Alice Kwok, distinguished guests, ladies and gentlemen, good afternoon.

1. Thank you for inviting me to speak about our vision for a new MPF eco-system that will enable Hong Kong working people to enjoy a hassle-free journey to save for their retirement.
2. Before I begin, I would first like to congratulate the winners of this year’s Lipper Fund awards. Well done! Your contributions have done much to advance the fund industry in Hong Kong, and in particular, your exceptional efforts have helped add value to investors’ investment, many of whom, I believe, are MPF scheme members.
3. As the supervisory authority of the MPF System, I am pleased to note that quite a number of award winners today are from the MPF industry. It is encouraging to see a lot of familiar faces from the MPF industry. Together, we can take pride of what the MPF System has achieved over the past 18 years. As you may be aware, the net asset value of all MPF schemes is now at \$893.3 billion, which is around

74% of Hong Kong's fiscal reserves, making it a stable and sizable retirement protection for Hong Kong people.

4. Since the implementation of the System, the Government and the MPFA have taken big strides to enhance the design and architecture of the MPF system. As early as 2002, the MPFA introduced the review mechanism for adjusting the minimum and maximum relevant income level to address the issue of adequacy of retirement savings of our MPF members. In recent years, we have successfully implemented various major reforms, including the Employee Choice Arrangement (ECA) ("semi-portability"), Low Fee Funds in each MPF Scheme and the Default Investment Strategy (DIS), all of which have enhanced market competition and provided scheme members with better protection for their retirement savings.
5. These achievements would not have been possible without the support of the overall fund industry, including all of you here today.
6. In today's fast-paced world, consumers are increasingly embracing digital solutions in their daily activities, from on-line shopping, to ordering food, or making charitable donations and crowdfunding. Our existing MPF scheme administration system, however, has not kept up with this trend. As a result, the MPF System is losing out in achieving higher market efficiency and better user experience which are key success factors for players in the financial services industry.
7. Looking beyond the MPF space, we note that other financial services sectors have seized the opportunities offered by technological advancement to overhaul their business models and redefine their values as financial services providers by delivering on demand, 24/7 services into the hands of customers who, these days, literally seem unable to put down their smart phones. In the banking industry, we have entered a new era of Smart Banking and virtual banking, while insurance

companies are competing to be the first to adopt InsurTech. Among financial advisers, we have seen the advent of all kinds of wealth management tools, including robo-advisers and e-distribution platforms for funds.

8. These and other Fintech solutions are sure to catapult the entire MPF industry into a new age of open architecture and enhanced operational efficiency. It is critical for fund industry as well as other service providers who wish to play a key role in the development of retirement savings and investment businesses in Hong Kong to fully appreciate that the overall benefits brought by digital transformation i.e. through the wider adoption of Fintech and the concept of “digital first” would outweigh your short term concerns on costs in transforming current business operations.
9. As most of you may have already heard, the MPFA was entrusted by the Government in late 2018 to design, develop and operate a user-centric eMPF Centralized Platform to standardize, streamline and automate the MPF scheme administration processes.
10. This digital transformation of the MPF will be the single biggest reform of the MPF scheme to date, and one of the largest publicly-financed financial infrastructure projects in Hong Kong in recent years.
11. The Centralized Platform is meant to deal with the problems caused by the decentralized mode of the System all these years, including the cumbersome administration processes, the proliferation of MPF accounts and a high volume of paper-based transactions which have contributed to the high administration cost, and the fragmented user experience which may have de-motivated many scheme members to actively review, manage or consolidate their MPF accounts.
12. By converting the MPF System to a digital model, everyone will benefit. Just as important, the greater transparency offered by the Centralized Platform will

enable members to work out the best deal among the more than 480 funds available, paving the way for full portability of member benefits in future. Ultimately, this should create more competition and reduce fees, while encouraging scheme members to take a more active role in managing their MPF accounts.

13. Despite these benefits, some might wonder if the shift towards digital means the MPF industry will lose out. Absolutely not. The entire asset management and MPF trustee industry, as well as their parent companies such as insurance companies and banks should benefit from the new business environment created by the Centralized Platform so as to create a more direct and positive customer experience. For trustees and administrators, it will help to create higher operational efficiency and lower overhead costs. As streamlined processes will eliminate duplication and reduce compliance costs, they will have an opportunity to rationalize their workflows which, in a market that is consistently rated among the freest in the world, should be welcome news.

14. Unlike the current situation where there exist 12 scheme administration and IT systems amongst 14 trustees, the Centralized Platform will be a single platform owned and managed by the MPFA and operated in a non-profit making manner. The Centralised Platform will therefore help to level the playing field for all current and prospective fund managers who wish to sponsor and launch low-fee schemes, thanks to the new platform infrastructure shared across the whole system. The Centralised Platform will be able to support a full range of fund managers to participate in the MPF System - whether you are an active fund manager, an ETF provider or an index fund manager. Independent professional trustees (not tied to in-house fund managers) that meet the relevant regulatory requirements need not maintain a huge IT capability and platform in order to team up with independent fund managers to offer new and more cost-efficient MPF schemes. Through wider participation of different types of fund managers and scheme

sponsors, we hope to see more competitive pricing structure across the MPF System and offering better and lower fee options to more than 4 million participants in the MPF System.

15. So you will ask – what is the progress of the development of the Centralised Platform? We have just entered into a very critical stage of developing the Centralized Platform. To get a clearer picture of how to build this platform, we have in late March issued a request for information (RFI). From this RFI, we are aiming to get details on how the Centralized Platform will handle the more than 4 million employees, self-employed persons and personal account holders, as well as the nearly 300,000 employers, under the existing MPF System. So far, we have been very encouraged by the response we have received from business solutions and technology firms, global, regional and local, which shows that there is a high level of enthusiasm for building this platform.
16. The next step, later this year, will be to call for proposals on building the infrastructure and operating it.
17. The key point to note is that the Centralized Platform will be more than just an IT project. It will be the start of a change management process for all the stakeholders of the MPF System, who will be encouraged to contribute ideas on how to continue improving the platform, the scheme administration and related regulatory activities.
18. From an operational perspective, converting to an automated, electronically-managed system will be no easy task. It will involve capturing the MPF-related data of all contributing employers and scheme members during the transitional phase and safely managing the transfer of the existing nine million MPF accounts. As the single largest publicly funded financial infrastructure, cyber-security and

data privacy are both top priority items when we consider how to ensure that the Centralised Platform is both user-friendly and safe to use.

19. Although the financial savings will not be immediately forthcoming due to the initial expense of setting up the system — that will depend on the length of the transition process and the rate of take-up by users — we believe these savings will be substantial. Once in operation, the savings from the Centralized Platform are estimated to be in the region of HK\$22.5 billion to HK\$23.6 billion, spread out over a period of 20 years.
20. The MPFA will set up a company to own and operate the Centralized Platform. The company is neither a trustee nor a regulatee of the MPFA. Once the Centralized Platform has been completed, we plan to roll it out, in phases, starting in the year 2022.
21. While the Centralized Platform is a strong start towards improving the efficiency of the MPF System, we are also looking at measures to increase adequacy by encouraging more voluntary savings, especially in light of the increasing longevity of our population.
22. For instance, we have been promoting making voluntary contributions and tax deductions as an incentive to save more. Another option would be to put more emphasis on improving members' financial literacy, and we will announce shortly the launch of an integrated fund platform, with information on fee levels and fund performances throughout the 400-plus funds.
23. Although the Centralized Platform of the new eMPF is still in the formative stage, we expect to have a detailed plan in place in the very near future.

24. Meanwhile, what we need is the support of the service and product providers to come up with suitable long-term investment fund products and to focus not just on short term gains. To that end, we have launched an "investment solutions lab" in collaboration with the industry to try out new investment concepts that would help our members achieve lower costs and greater transparency throughout the savings and withdrawal phases.

25. While many of the proposals for the Centralized Platform will undoubtedly be unique to Hong Kong, we share the same vision of most other pension scheme providers throughout the world. That is, to provide the best possible savings structure for our MPF members; to help them accumulate sufficient savings for a secure retirement; and to open up the provident fund market in a way that is fair and in line with free market principles.

26. We know the public is eagerly expecting positive changes from this exercise. I hope that you share our vision of a single, Centralized Platform and that you work together with us to make the eMPF a reality.

Thank you.