

# CHAIRMAN'S STATEMENT



## **Chairman's Statement** **David Wong**

It is MPFA's vision to build a retirement savings system valued by the people of Hong Kong. Ever since I took the helm of MPFA, I have been minded to lead reforms to uphold the integrity of the MPF System and make it better for the retirement protection of scheme members.

## **Reforms for a Better Future**

As the MPF System involves over 4 million scheme members, prudence should be taken when planning the reforms, with the long-term benefits for scheme members always in mind. Equally important is the agility to navigate through uncharted waters when the reforms are being implemented.

While it takes time for the effect of reforms to be seen, I am pleased to see that with the support and encouragement of stakeholders and the professionalism of the MPFA team, some seeds sown earlier on have borne fruit. What's more, a number of breakthroughs were made in the process.

### **eMPF – a new ecosystem**

Even though we faced unprecedented challenges in the year, we have taken firm strides in pursuing the eMPF Platform project – a fundamental reform that modernizes the MPF System and better meets the needs of scheme members in future. In the past 12 months, we were on track in achieving all the major milestones, aiming to award a contract for the project by end of 2020.

Through the implementation of the project, MPFA assumes a leadership role in transforming the industry and ecosystem of MPF. The tender is based upon a set of common standards for scheme administration processes. These are the first ever common standards agreed among and adopted across an industry that is diversified and comprising different models.

With scheme administration standardized, streamlined and automated under the eMPF Platform, greater cost-efficiency would be achieved, bringing employers and scheme members a completely new user experience. The expected reduction in operating costs will bring about greater room for fee reduction and consequentially better returns for scheme members.

This is a leading project that would promote the broadest use and adoption of financial technology amongst the working population in Hong Kong. This broad based platform will be one of the most transformational developments in the MPF System since inception, and will contribute to the development of Hong Kong into a Smart City.

### **Expansion of the universe of investments**

Given the volatile global financial markets and low interest rate environment, scheme members, including those who stay invested after retirement, are looking for more stable returns.

Following continuous dialogue with the MPF industry practitioners, guidance was released on the development of retirement solutions that meet the needs of scheme members in both contribution and withdrawal phases.

The development was facilitated through the Investment Solutions Lab, a supervisory arrangement under which solution providers may submit proposals to MPFA for feedback at an early stage of development. The first ever post-retirement solutions are expected to be launched in 2020.

Meanwhile, MPFA has been working on the building blocks for such solutions. For example, permission has been given to use listed real estate investment trusts more extensively for MPF investment purpose. I am confident in seeing a more diverse range of investment strategies and asset classes available in the coming year for the industry to develop retirement solutions for scheme members.

### **Tax-deductible voluntary contributions (TVC) launched**

For the first time, the Government uses tax deduction to incentivize scheme members to make extra MPF contributions. By making TVC, scheme members can add to their retirement savings while enjoying tax concession.

With active promotion by MPFA and incentives offered by trustees, response to TVC has been overwhelming. As at 31 March 2020, the end of the first tax year in which TVC was introduced, there were more than 38 000 TVC accounts, with over \$1.7 billion of TVC made.

### **Default Investment Strategy (DIS) gaining more popularity**

DIS represented a breakthrough by providing an optimal retirement savings solution using a default choice architecture combined with fee controls.

Since the launch of DIS three years ago, the two constituent funds under DIS, namely the Core Accumulation Fund (CAF) and the Age 65 Plus Fund (A65F), have registered annualized returns of 1.8% and 3.3% respectively, outperforming mixed assets funds which recorded an annualized return of 0.8% in the same three-year period.

DIS is well received by scheme members in Hong Kong, with as many as 2.3 million MPF accounts (22.5% of the total) invested or partially invested in DIS funds as at 31 March 2020, accounting for 5.5% of total MPF assets. It is also hailed by the international community as an effective option for long-term retirement savings.

### **Support Employment and Member Protection**

The path of reform is not easy, but scheme members' need for better retirement protection has given us impetus to forge ahead.

The needs of scheme members have always been our prime concern. In this difficult year, we put in extra efforts to offer necessary support to them.

### **Supporting employment**

At this moment, businesses in Hong Kong are fighting hard to survive. The Government's Employment Support Scheme (ESS), announced shortly after the end of the financial year covered in this report, seeks to help employers retain their employees during the pandemic.

MPFA has provided the Government with expert advice and technical support on issues relating to the MPF System and the Occupational Retirement Schemes Ordinance regime during the conception of ESS, and rendered assistance to facilitate its expeditious implementation. ESS has met with good response, and according to information available at the time of writing, over 1.47 million employees will have their employment secured in the coming months.

### **Protecting members' benefits**

#### ***Discipline for long-term retirement savings***

Over the last two decades, the MPF System has exhibited its robustness and resilience despite market cycles. The upward trend has been maintained with steady growth in asset size.

On numerous occasions during the year, we helped scheme members gain the right perspective about the investment of retirement savings, which is a long-term undertaking spanning some 30 to 40 years.

We stress the key message about the core principle for MPF: that is relying on the dollar cost averaging strategy to help reduce overall volatility risk by smoothing out the market's ups and downs. Scheme members who lack the knowledge or time to invest on their own may rely on DIS, designed to be consistent with the objective of building up long-term retirement savings.

### **Better trustees' governance**

Throughout the years, the governance standard of the MPF industry has been enhanced. Since the first Workshop on Governance of MPF Trustees in 2017, trustees' awareness of the importance of high governance standards has been raised, and their commitment to putting scheme members' interests first strengthened.

Trustees have made continuous efforts to improve the governance oversight and enhance the cost-efficiency of MPF schemes. Since the launch of the Governance Charter in 2018, seven schemes have been merged into three and 10 MPF funds consolidated into five for achieving better economies of scale; 84 MPF funds have reduced fees and by up to 91 basis points; over 90% of trustees have appointed at least two independent non-executive directors (INED) and/or appointed INED or non-executive director as chair of the board to strengthen the independence and oversight of the board. Most trustees continued to promote digitalization by launching digital tools like chatbot, e-notification and e-enrolment for scheme members to further enhance their experience.

The enhanced requirements for transparency of information of MPF funds have made trustees more accountable for the decisions they make regarding those funds, giving priority to scheme members' interests.

### **Recovery of outstanding contributions**

In the past 20 years, we have recovered over \$2 billion of MPF contributions in arrears on behalf of scheme members. During the past year, when the economy suffered a downturn, we monitored the situation closely, and stood ready to assist scheme members in protecting their MPF rights.

### **Acknowledgements**

In this challenging year, I am most thankful to my fellow Board members as well as members of various committees for their dedication and support.

In particular, members of the Steering Committee on the eMPF Platform Project have met more frequently than the Management Board to deliberate over the strategic plans and resources management of the project, making it possible to attain key project milestones under demanding conditions. I must thank them for their commitment and wise guidance.

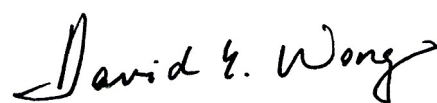
As always, the chairmen and members of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee have rendered us valuable advice and support.

While rolling out special measures to support employers and the working population, the Government remains steadfast in its policy support and financial commitment in MPF-related initiatives, in particular TVC and the eMPF Platform project. For this I am immensely grateful.

The MPF industry has demonstrated great commitment to various initiatives to improve the MPF System and assist scheme members, playing a role also in the speedy implementation of ESS. I wish to express my gratitude to them for their professional efforts and contributions.

Our fellow financial regulators work closely with us in supervising the MPF industry. Other partners, including labour unions, business chambers and employer bodies, provided invaluable input to facilitate improvements to the MPF System. To them, I owe an enormous debt of gratitude.

Last but not least, my sincere appreciation goes to the staff members of MPFA who, under the leadership of the Managing Director, Ms Alice Law, discharge their duties with great enthusiasm and professionalism. Despite their heavy workload in their usual regulatory and supervisory work and in taking forward the eMPF Platform project, they selflessly devoted extra time and efforts to support the community in these trying times.



**David Wong Yau-kar**  
*Chairman*