

CHAIRMAN'S STATEMENT



In the coming years, developments in the financial sector will largely be driven by financial technology (fintech). This will also be true in the MPF space. It is expected that the launch of the eMPF Platform would promote the broadest use and adoption of fintech amongst the working population in Hong Kong, contributing to the development of Hong Kong into a Smart City.

Dr David Wong Yau-kar, GBS, JP
Chairman

July 2020 was historic for the MPF System: the net asset value of all MPF schemes surpassed \$1 trillion. This represents assets accumulated in the accounts of about 4.5 million scheme members to provide basic support upon their retirement.

Hong Kong has come a long way since the time when only one-third of the working population had some form of retirement protection.¹

Retirement Savings System Suitable for Hong Kong

Back in year 2000, the MPF System was implemented as the second pillar of old age financial protection in accordance with the World Bank's multi-pillar approach. Hong Kong is one of the pioneers in setting up such a mandatory system to tackle the mounting challenge of providing financial security for the elderly.

As a privately managed defined contribution system, the MPF System is financially sustainable. With contributions made by employers and employees, it is fully funded with assets dedicated to meet future retirement benefits payable to scheme members, and thus unaffected by the credit risks of the employers or the Government.

The MPF System helps scheme members develop investment discipline and set aside small sums regularly for their retirement reserves. With a small amount of contributions every month, scheme members are able to invest in quality markets and diversified portfolios through stringently regulated financial products managed by major financial institutions.

As a long-term investment, MPF can take advantage of the dollar-cost averaging mechanism to smooth out the effect of short-term market fluctuations and reduce overall volatility risk. Indeed, the MPF System proves itself to be resilient, having ridden out a number of economic downturns and maintained an upward trend with steady growth in asset size.

After 20 years of accumulation, the net asset value of all MPF schemes as at 31 March 2021 was \$1,169.29 billion, of which 64% (\$745.5 billion) were contributions (net of amounts withdrawn) and 36% (\$423.79 billion) were investment returns. From its inception to March 2021, the MPF System achieved an annualized return of 4.9% (net of fees and charges), higher than the corresponding inflation rate of 1.8% over the same period.

Coming a Long Way

It is encouraging to see the steady growth of the MPF System throughout the years, despite different challenges at various stages of its development.

In the early days, the greatest challenge was to promote acceptance of a mandatory and privately managed retirement savings system, which was not only new to Hong Kong but also rare around the world.

With guidance given to the industry, capacity building for practitioners, and legislative exercises to refine the MPF legislation, the infrastructure of the MPF System was put firmly in place.

The growing transparency of information on MPF schemes and funds, complemented by intense educational efforts about the MPF System and the features of different fund types, helped employers and scheme members understand their MPF rights and obligations and acquire knowledge on how to manage MPF matters.

Period of Growth

The second decade of the System saw various initiatives to allow scheme members to enhance the value of their MPF savings.

The Employee Choice Arrangement, implemented in 2012, gives employees greater autonomy in their choice of MPF investments.

¹ As at 31 March 2021, over 85% of the employed population is covered under MPF schemes, schemes governed by the Occupational Retirement Schemes Ordinance, or statutory retirement schemes.

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Launched in 2017, the Default Investment Strategy (DIS) makes available a simple and fee-controlled retirement solution to scheme members. Designed for scheme members who are not good at or interested in managing their MPF, the DIS adopts globally diversified and age-based de-risking investment principles. The fee control has a benchmarking effect to bring about further MPF fee reduction across the board.

The Government's introduction of Tax Deductible Voluntary Contributions (TVC) in 2019 allows scheme members to save more for retirement while enjoying tax concessions.

Over the years, the scope of permissible investments has been broadened to include global listed real estate investment trusts and gold exchange traded funds, as well as more approved stock exchanges. The expansion in investible assets facilitates the development of MPF products that would better meet scheme members' investment needs.

To facilitate proper management and preservation of the increasing amount of MPF savings, the transparency of MPF information was further enhanced, notably with the launch of the online one-stop MPF Fund Platform in 2019. Improvements to the presentation of information on scheme members' MPF accounts further help scheme members manage their MPF.

In the meantime, efforts were devoted to promoting a high standard of governance among MPF trustees, stressing the importance of putting scheme members' interests first.

The Next Decade

In the coming years, developments in the financial sector will largely be driven by financial technology (fintech). This will also be true in the MPF space.

The eMPF Platform, a smart digital platform under development, is set to bring about a new MPF ecosystem. With scheme administration processes standardized, streamlined and automated, greater cost-efficiency would be achieved, bringing employers and scheme members a completely new user experience. The expected reduction in operating costs would bring about greater room for fee reduction and consequentially better returns for scheme members.

We are looking forward to a smooth transition into a new paperless ecosystem to be brought about by the eMPF Platform. In recent years, more and more employers and scheme members started to use the digital services and tools introduced by MPF trustees to handle MPF administration. The COVID-19 pandemic further accelerated the digital transformation process. According to a survey, as at December 2020, 45% and 57% of employers had adopted digital means to submit MPF contribution information and make MPF payments respectively, compared with 41% and 50% in late 2019. Moreover, 98% of scheme members' instructions on fund switching and change of investment mandate were submitted electronically.

It is expected that the launch of the eMPF Platform would promote the broadest use and adoption of fintech amongst the working population in Hong Kong, contributing to the development of Hong Kong into a Smart City.

Closing

When legislation was introduced to set up the MPF System in the mid-1990s, I was in full support as I found the System suitable for Hong Kong. It was with great pleasure that I took up the chairmanship of MPFA six years ago, as this gave me the opportunity to participate in this worthwhile cause.

These six years have been a pleasant experience for me. It is my honour to be part of the growth of the MPF System, opening up new frontiers and witnessing many key developments, including the launch of DIS and TVC, the approval of new stock exchanges including Mainland stock exchanges, and, above all, the initiation of the eMPF Platform project.

The onslaught of the COVID-19 pandemic in 2020 posed great challenges to the eMPF Platform project. Serious disruptions to meetings and office work created hurdles both to potential tenderers in the preparation of their tender submissions and to the project team in the evaluation of tender proposals and other preparatory work. It was with great efforts that the team managed to attain the key milestones of the project.

I look forward to the new MPF era that comes with the full implementation of the eMPF Platform a few years down the road. Furthermore, with the proposed abolition of using employers' mandatory MPF contributions to offset severance payment and long service payment, I am hopeful that financial protection for the retired will be further strengthened.

Vote of Thanks

Throughout the years, I have been most fortunate to work with very capable and committed colleagues on the Management Board and its committees. In particular, members of the Steering Committee on the eMPF Platform Project have devoted great efforts to oversee the project, making it possible to achieve the key milestone of awarding the contract for the project.

My heartfelt thanks also go to members of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee for their valuable advice and continued support.

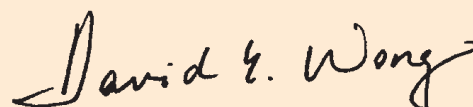
I sincerely appreciate the indispensable support of the Government all along, especially its strong policy support and substantial financial commitment to the eMPF Platform project despite the great challenges posed to public finances by the current economic situation.

Meanwhile, the industry has shown great commitment and contributed significantly to various initiatives to improve the MPF System. Our fellow regulators have collaborated closely with us in our supervisory work. Other partners, including labour unions, business chambers and employer bodies, have provided invaluable input. I am most grateful to them for their contributions.

The staff of MPFA have put in another year of dedicated hard work and relentless efforts. I am proud of their professionalism and strong commitment.

Having served MPFA for almost nine years, the Managing Director Ms Alice Law is moving on in mid-2021. I must commend her for her dedication in leading the MPFA team to take forward the work of MPFA.

On the threshold of its third decade, the MPF System is ready for further growth. I am very pleased that Mrs Ayesha Macpherson Lau, a seasoned professional and distinguished leader with an exemplary record of public services, is taking up the chair of MPFA. I am sure that under her capable leadership, MPFA will rise to the challenges of the post-pandemic world with confidence and professionalism.



David Wong Yau-kar

Chairman

(17 March 2015 to 16 March 2021)