

## **For information**

### **Legislative Council Panel on Financial Affairs**

#### **Update on the Implementation of the eMPF Platform**

## **INTRODUCTION**

This paper updates Members on the development of the eMPF Platform as well as sets out the key features and legislative proposals for the implementation of the eMPF Platform.

## **BACKGROUND**

### *Limitations of current system*

2. Currently, the administration of Mandatory Provident Fund (MPF) schemes operates under a decentralized landscape. There are about 4.4 million scheme members with about 10 million accounts in 28 MPF schemes administered by 14 trustees either internally or through third-party administrators, involving 12 scheme administration platforms with different standards. The multiple business models, data standards, process designs and administration system infrastructure make it difficult to achieve standardization and economies of scale. Moreover, among the around 30 million MPF administration transactions per year, more than 65% are paper-based. All these have contributed to the high administration costs of the MPF System.

### *Development and benefits of the eMPF Platform*

3. In December 2018, we briefed the Panel on the proposal<sup>1</sup> to set up the eMPF Platform, which provides a common, integrated electronic platform to facilitate the standardization, streamlining and automation of MPF scheme administration processes. The platform will not only unleash digital transformation by leveraging the latest technology but also entail a change management process, creating a new ecosystem that meets modern day needs. A comparison of the key features and processes of the existing system and the eMPF Platform is at **Annex A**.

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<sup>1</sup> LC Paper No. CB(1)309/18-19(04)

4. The Platform is anticipated to bring tremendous benefits to scheme members, employers, trustees and the Mandatory Provident Fund Schemes Authority (MPFA), and create new opportunities for the further development of the MPF System and the financial sector. The key benefits of the eMPF Platform for the different groups of stakeholders are highlighted below and detailed at **Annex B** –

- (a) **For scheme members**, the Platform will serve as a one-stop electronic platform for managing their MPF portfolio across different schemes anytime and anywhere via online and mobile applications. Scheme members can manage their accounts more effectively by performing a wide range of functions such as payment, viewing and tracking the performance of funds, account consolidation, etc. on a real-time, secure and paperless basis. In addition to enhancing user experience, the automated system also increases efficiency<sup>2</sup>, flexibility, reliability and accuracy. More importantly, the Platform is expected to achieve cost savings arising from enhanced operational efficiency and provide greater room for reduction in the Administration Fee<sup>3</sup>. With a common and low-cost infrastructure shared across the industry, the eMPF Platform will also help to level the playing field for all current and prospective players who wish to launch more cost-efficient MPF schemes. All these will help create room for fee reduction<sup>4</sup>.
- (b) **For employers and self-employed persons**, they can handle their MPF contributions through electronic means. The standardized administrative procedures and automation can reduce paper work, human errors, and inadvertent delay or default contributions and the resulting contribution surcharge.

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<sup>2</sup> By way of illustration, with the implementation of ePASS by MPFA in 2012, and adoption of E-Payment for MPF Transfer System by trustees in 2014, the actual time taken to process members' requests for transfer of their MPF benefits from one trustee to another has been reduced such that the out-of-market time is shortened by about one week, reducing the risk of scheme members' exposure to market fluctuations during the transfer process and at the same time enhancing its accuracy. Upon full implementation of the eMPF Platform, it is expected the time for processing a transfer request would be further reduced.

<sup>3</sup> Currently, out of an average Fund Expense Ratio of 1.44%, the portion of "Administration Fee" of MPF schemes mostly ranges from about 0.4% to 0.8% as at 30 April 2020. Fund Expense Ratio is a ratio that measures the total expenses of an MPF fund as a percentage of the fund's asset value. Such expenses mainly come from fees and charges (such as management fees or special charges for some types of funds), which would affect the investment return of an MPF fund.

<sup>4</sup> The magnitude of reduction in administration costs may however not be realized in the inception years due to expenditure by trustees in system adjustments for interfacing and inter-operability. It would take time for the eMPF Platform to stabilize given the extent of streamlining of processes and data standardization. Also, the actual cost savings will depend on the extent of digital take-up by the employers and scheme members and the length of the transition process.

- (c) **For trustees**, while they will continue to be accountable for their fiduciary duties to scheme members, the standardization, streamlining and automation of MPF scheme administration will reduce trustees' administrative burden and the associated compliance burden and cost.
- (d) **For MPFA**, the Platform will improve efficiency, reliability and accuracy of the MPF System and facilitate enforcement actions. It will also ensure a level playing field for the healthy and sustainable development of the MPF System for the benefit of scheme members and Hong Kong. The Platform may also pave way for future MPF reform initiatives such as Full Portability.

5. As a major financial infrastructure, the Platform will elevate digital capabilities of the pension industry and add fresh impetus to the development of more Fintech applications for retirement planning. In addition to providing better support for digital payment and e-ID to enable scheme members to access e-services more conveniently, there will also be scope for the wider use of data analytics for macro-planning, policy-making and statistical purposes, thereby boosting the development of Hong Kong as a smart city.

6. According to the projection by MPFA's consultant, assuming the digital take-up rate will reach 90% in five years, the cumulative quantifiable future financial savings that could be derived was estimated to be in the region of \$22.5 billion to \$23.6 billion spread over 20 years. The above benefit figure is of indicative reference value only. We will need to update the analysis at a later stage having regard to factors such as the actual operating cost of the eMPF Platform. However, any financial savings materialized will create room for fee reduction for scheme members.

## **LATEST DEVELOPMENTS**

7. The Government has been working closely with MPFA and the industry to press ahead with the development of the eMPF Platform as a public utility. The Government has tasked MPFA to set up a wholly-owned subsidiary to own and operate the eMPF Platform (i.e. the eMPF Platform Company). As mentioned in our earlier briefing for the Panel, the Government plans to fund the infrastructure costs and provide seed money for the setting-up and initial operation of the eMPF Platform Company. After the initial years of operation, the eMPF Platform Company should operate on a self-financing mode through charging fees for the services provided on a cost-recovery basis.

8. Since 2018, we have achieved the following progress –
- (a) with Panel Members’ support of the proposal<sup>5</sup>, the non-recurrent public funding requests of \$3,367.15 million and \$536.48 million for the project were approved by the Legislative Council (LegCo) in May 2019 and 2020 respectively;
  - (b) we introduced the Mandatory Provident Fund Schemes (Amendment) Bill 2019 into LegCo on 23 October 2019<sup>6</sup>, as the first phase legislative exercise, to empower MPFA to set up a wholly-owned subsidiary (i.e. the eMPF Platform Company) to take forward the eMPF Platform project; and
  - (c) a Request for Proposal (RFP) for the eMPF Platform was issued in December 2019, openly inviting interested parties to build and operate the eMPF Platform. Following the closure of RFP on 29 April 2020, we have been working full steam with an aim to award the tender in the second half of 2020. It remains our current target to complete the development of the Platform by 2022 the earliest.

## **KEY ELEMENTS OF IMPLEMENTATION**

9. To pave the way for the launch and smooth operation of the eMPF Platform, it is necessary to provide proper legal basis for the designation of the eMPF Platform as the gateway for specified administrative procedures, and delineate the roles, functions, powers, responsibilities and the interface of the Government, MPFA, the new eMPF Platform Company, trustees and other stakeholders. As mentioned in the Panel paper in December 2019<sup>7</sup>, we need to implement the eMPF Platform project through legislative amendments to the Mandatory Provident Fund Schemes Ordinance (Cap. 485) and its related subsidiary legislation. In addition, it is also necessary to promulgate new operating rules, guidelines and other instruments, or amend existing ones, to provide for the safe, smooth and efficient operation of the eMPF Platform for the benefit of all users and the society as a whole. Some key features of the new framework are highlighted in the ensuing paragraphs.

### ***The eMPF Platform and the eMPF Platform Company***

10. We propose that the Secretary for Financial Services and the

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<sup>5</sup> We further updated Members on the progress of the project in March 2019 (LC Paper No. CB(1)791/18-19(01)) and the further funding requirements in December 2019 (LC Paper No. CB(1)175/19-20(08)).

<sup>6</sup> The Bill is being scrutinized by LegCo.

<sup>7</sup> LC Paper No. CB(1)175/19-20(08)

Treasury (SFST) should be empowered to designate a system as the platform for the administration of MPF schemes and impose such conditions as appropriate. Specified administration processes of MPF trustees must be handled through the eMPF Platform centrally.

11. The eMPF Platform Company, a wholly-owned subsidiary of MPFA, will be formed pursuant to the amendment legislation<sup>8</sup>. It will be governed by its own Board of Directors with a robust governance structure. There should be sufficient safeguards to ensure that the Company will fulfil all relevant statutory requirements and discharge its functions and responsibilities efficiently and effectively.

12. The Company will own and operate the eMPF Platform. It shall be responsible for –

- (a) ensuring the safe, smooth and efficient operation of the Platform in accordance with all relevant legislation, conditions, rules and other regulatory requirements to minimize the likelihood of any disruption to the functioning of the Platform;
- (b) operating the Platform in such manners to facilitate the performance of MPF scheme administration work and such other functions as may be required in future; and
- (c) up-keeping and maintenance of the Platform on an on-going basis.

13. While the eMPF Platform Company will not be a regulatee of MPFA, MPFA will assume an oversight role through certain statutory powers essential to preserve system integrity and stability. Such powers include –

- (a) the power to approve the operating rules of the eMPF Platform Company governing the operation of the designated platform, including amendments thereto; and
- (b) the power to suspend the eMPF Platform or any part of it where the circumstances require to safeguard system integrity and stability.

### ***MPF trustees***

14. Despite the introduction of the eMPF Platform, the fiduciary duties of MPF trustees, which are intertwined with scheme administration functions, will remain unchanged. Specified administration processes of MPF trustees must be handled through the eMPF Platform centrally. MPF trustees shall

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<sup>8</sup> The Mandatory Provident Fund Schemes (Amendment) Bill 2019, which was introduced into LegCo on 23 October 2019 and is currently under scrutiny by LegCo.

have in place effective systems and procedures to enable efficient and effective operation of the eMPF Platform and provision of administration services by the eMPF Platform Company. MPFA may direct remedial actions against non-compliance by MPF trustees.

### ***Delineation of roles and responsibilities between the eMPF Platform and MPF trustees***

15. The eMPF Platform Company will provide administration services (both electronic and manual) to assist trustees in scheme administration functions based on the common standards agreed among trustees whereas exceptions will be referred to the relevant trustees for instructions. The operating rules promulgated by the Company and approved by MPFA will set out the process flow and the delineation of duties of the Company and trustees in respect of each and every administration processes. The Company will enter into an agreement with trustees which will define the respective rights and obligations of the Company and trustees. Trustees will continue to handle fund-related activities.

16. With the eMPF Platform performing administrative tasks to assist trustees in their discharge of duties, the policy intent is that trustees will only be subject to financial penalty (section 45B of Cap. 485) or criminal prosecution if the relevant non-compliance is due to their own acts or omissions. Hence, the compliance burden on trustees will be reduced correspondingly.

### ***Simplification and automation of processes under the eMPF Platform***

17. At present, many administrative tasks, processes and deadlines relating to the administration of MPF System are prescribed in the legislation. As a result of the implementation of the eMPF Platform through standardization, streamlining and automation of procedures, some tasks will be performed by the Platform instead of the trustees, some procedures will become obsolete while some statutory deadlines will be shortened to reflect the streamlined processes (please refer to **Annex A** for details). Furthermore, it is preferable for matters of administrative nature to be provided in operating rules and guidelines rather than legislation so as to allow more flexibility for MPFA and the eMPF Platform Company to update or adjust these requirements from time to time to meet fast changing needs. Against this background, amendments to the legislation will be necessary by removing obsolete sections and revising certain requirements.

18. For instance, the following administration processes will be performed by the Platform instead of the trustees, rendering the existing legal requirements obsolete –

- (a) **Contributions:** trustees are currently required to check calculations of mandatory contributions<sup>9</sup> and inform MPFA of failure to make mandatory contributions by employers and self-employed persons<sup>10</sup>; and
- (b) **Unclaimed benefits:** trustees are currently required to take specified steps with respect to unclaimed benefits<sup>11</sup>. These include ascertaining unclaimed benefits, issuing relevant notices and submitting regular reports to MPFA, etc.

19. Similarly, there will be room to shorten the statutory timeline for some administrative procedures to reflect the streamlined processes under the Platform. Examples include the enrolment of new scheme members and the issue of the Notice of Participation<sup>12</sup> as well as the transfer of MPF benefits from one trustee to another<sup>13</sup>.

### ***Transitional arrangements and other relevant matters***

20. To ensure the smooth transition from the existing system to the implementation of the eMPF Platform, we have to manage the migration, standardisation and cleansing of data to facilitate the inter-operability of the existing administrative systems of 14 trustees and the eMPF Platform. To enable the eMPF Platform to establish such database, it is necessary to provide proper legal basis for the trustees and MPFA to legally transfer to the eMPF Platform Company their existing records necessary for the operation of the eMPF Platform. Specifically, the amendments should provide that certain historical records in the custody of trustees and MPFA which are, in the opinion of the eMPF Platform Company, required for it to perform its functions, must be transferred to it on or before the launch date of the platform.<sup>14</sup> The eMPF Platform Company should ensure that there are proper procedures and systems to safeguard against unauthorized access to the records transferred. The Personal Data (Privacy) Ordinance (Cap. 486), which regulates the handling of personal data, will also apply to the eMPF Platform Company.

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<sup>9</sup> Section 132 of Mandatory Provident Fund Schemes (General) Regulations (Cap. 485A)

<sup>10</sup> Section 135 of Cap. 485A

<sup>11</sup> Section 170 onwards of Cap. 485A

<sup>12</sup> Section 31 of Cap. 485A

<sup>13</sup> Section 153 of Cap. 485A

<sup>14</sup> For other historical records, trustees will continue to be responsible for their safekeeping, as well as necessary modifications and retrieval.

21. It is also necessary to empower the sharing of information between MPFA, the eMPF Platform Company and trustees on an ongoing basis to ensure that the information is kept up-to-date. To this end, we propose to impose an obligation on MPFA, the eMPF Platform Company and trustees to disclose or allow access to the information if the disclosure or access facilitates performance of functions by the recipient. Again, safeguards under Cap. 486 will continue to apply.

22. It is crucial that the transition to the eMPF Platform must not interrupt the existing day-in-day-out operation of the MPF System. Hence, from the risk management perspective, there is a need to implement a phased onboarding plan by trustees.

23. Our initial proposal is to arrange trustees to be transited to the eMPF Platform on a “batch by batch” basis after the completion of the platform. Subject to the proposal from the RFP tenderer, the tentative timeline is as follows –

<b>Critical milestones</b>	<b>Year</b>
Completion of building and testing of eMPF Platform	End 2022
Migration of trustees and operation of the eMPF Platform by batches*	Early 2023 to end-2024
Migration completed and full operation of the eMPF Platform	Early 2025 (the earliest)

\* Except functions involving transfer of data and funds between different trustees, e.g. transfer of MPF benefits among trustees

24. To tie in with this phased transition, SFST will be empowered to make a commencement notice to provide for the phased commencement of various provisions applicable to different trustees as appropriate.

***Other consequential or miscellaneous amendments***

25. The implementation of the eMPF Platform is a large-scale and complicated project encompassing different sectors. We will review the need for consequential or related amendments to other legislations.

26. We will also propose miscellaneous amendments to further enhance the regulatory control of the MPF System, such as –

- (a) without prejudice to the generality of the existing powers, to



empower MPFA to conduct such activities including public education and promotion in furtherance of the development of the MPF System and the effective operation of the Ordinance;

- (b) to provide flexibility by empowering MPFA to specify by way of guidelines (instead of requirements in law) the control objectives governing the internal control measures that trustees must establish<sup>15</sup> and other matters relating to the administration of the eMPF Platform and the operation of the eMPF Platform Company;
- (c) to enhance the powers of MPFA to better protect scheme members' interests; and
- (d) to enable the sharing of data by the eMPF Platform with the Census and Statistics Department and other relevant government departments for statistical purposes.

27. We have also received other suggestions from stakeholders including –

- (a) amending section 41 of the Ordinance to allow trustees to disclose MPF scheme members' information to other parties, such as financial consultants, for purposes such as retirement planning with the express consent of scheme members for the disclosure; and
- (b) amending section 206 of Cap. 485A to provide for digital notifications by default unless the members concerned opt out of e-communication.

## **NEXT STEPS**

28. To put in place the framework outlined in paragraphs 10 to 27 above, it is necessary to amend Cap. 485, its subsidiary legislation and other relevant rules and regulations. In conjunction with MPFA, we have been engaging key industry bodies and relevant stakeholders. We welcome views from the Panel and members of the public on the above legislative proposals. We will take into account the views and comments received in preparing the upcoming legislative exercise. Our target is to introduce the amendment bill into LegCo in 2021.

**Financial Services and the Treasury Bureau  
May 2020**

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<sup>15</sup> Section 39 of Cap. 485A

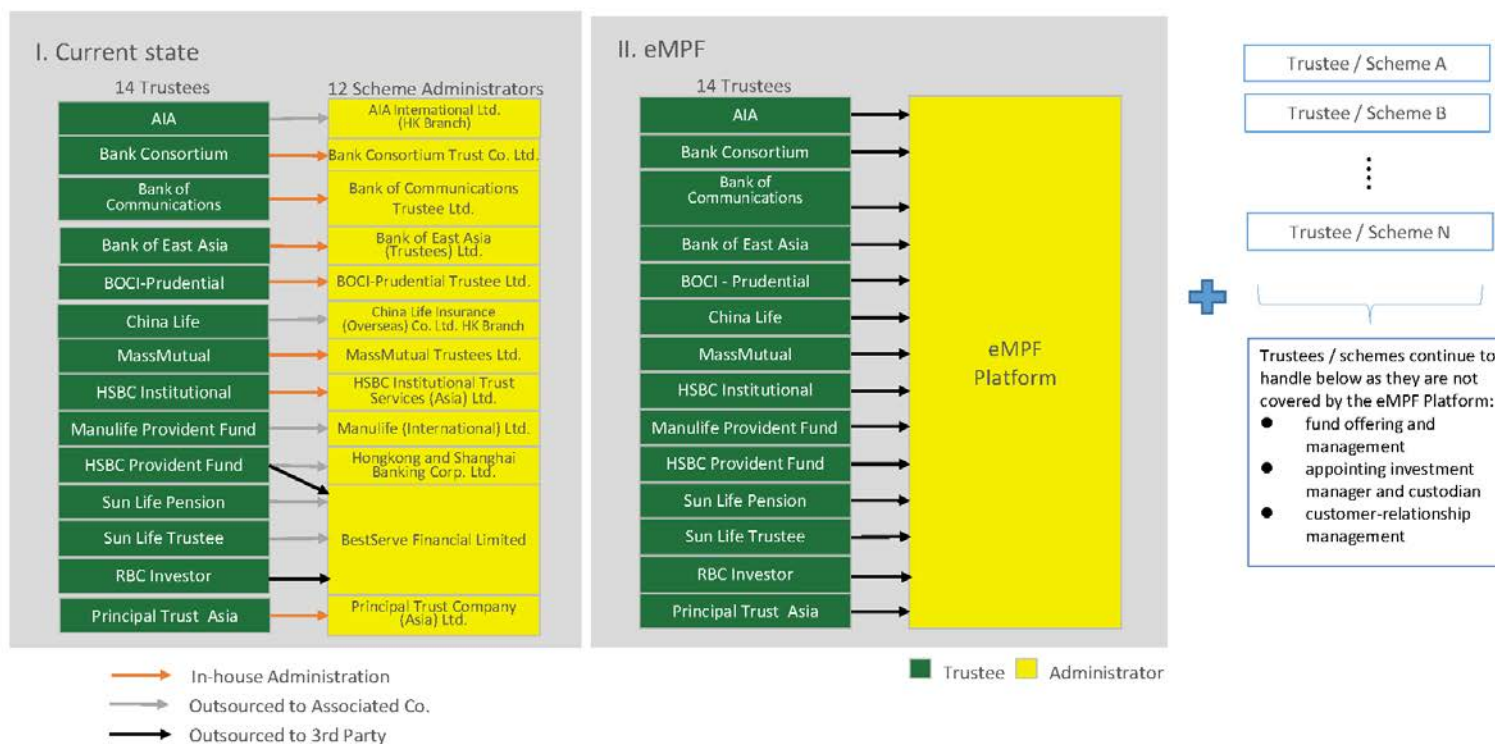
## Comparison of the Current System and New System under the eMPF Platform

### I. Current System vs System under the eMPF Platform

#### Processing of Scheme Administration under the eMPF Platform

Apart from a small number of trustees who outsource to BestServe Financial Limited, each trustee operates MPF scheme administration services through its own scheme administrator.

Under centralized administration, all trustees would use the eMPF Platform to handle MPF scheme administration processes. This would standardise and streamline administration processes, deliver enhanced user experience for members and employers, and create cost reduction through synergies.



## II. Key Changes in Selected MPF Scheme Administration Processes under the eMPF Platform

Administration processes	Before eMPF	With eMPF
Enrolment	<ul style="list-style-type: none"> <li>● A Notice of Participation will be issued to new scheme members within a certain timeframe (30 days)</li> </ul>	<ul style="list-style-type: none"> <li>● A more efficient process as well as a shorter timeframe for the issuance of the notice</li> </ul>
Contributions	<ul style="list-style-type: none"> <li>● Employers need to complete monthly remittance statements, check entries against payroll information and compute contribution amounts</li> <li>● Trustees are required to check calculations of mandatory contributions and inform MPFA of failure to make mandatory contributions by employers and self-employed persons</li> </ul>	<ul style="list-style-type: none"> <li>● Employers can submit contribution data and make contribution payments online in a one-stop manner. Accuracy of entries will be checked automatically at real-time</li> <li>● Automated checking and reporting</li> </ul>
Investment instructions	<ul style="list-style-type: none"> <li>● Access to multiple accounts via different platforms</li> </ul>	<ul style="list-style-type: none"> <li>● One-stop viewing of all MPF accounts across trustees</li> </ul>
Transfer of benefits	<ul style="list-style-type: none"> <li>● Scattered and decentralized handling of transfer of benefits between trustees</li> <li>● The current statutory timeline is 30 days for the transferor trustee to effect the transfer upon receiving the request for transfer</li> </ul>	<ul style="list-style-type: none"> <li>● One-stop handling of requests for transfer of benefits across trustees</li> <li>● The timeline can be significantly shortened</li> </ul>
Default contribution recovery	<ul style="list-style-type: none"> <li>● Multiple efforts by trustees and MPFA in default contribution chasing and reporting</li> </ul>	<ul style="list-style-type: none"> <li>● More automatically handled by the eMPF Platform</li> </ul>
Handling of unclaimed benefits	<ul style="list-style-type: none"> <li>● Tedious efforts by trustees in verification, giving notices and reporting</li> </ul>	<ul style="list-style-type: none"> <li>● More automatically handled by the eMPF Platform</li> </ul>

**Functions and Benefits of the eMPF Platform**

(a) For scheme members

- Create room for fee reduction as a result of standardization, streamlining, automation and economies of scale;
- A single platform, via web portal and mobile app, using a unified and customer-friendly user interface for mobile operation anytime, anywhere;
- 24/7 e-Payment gateway and mobile payment (e.g. Faster Payment System) for making voluntary contributions;
- One-stop and simple handling of all MPF administrative tasks, such as updating of personal profile across trustees;
- Real-time viewing of consolidated investment status and account balance across schemes as well as shortened lead-time for processing investment instructions. This will facilitate active MPF account management and consolidation of MPF accounts, thus enhancing investment flexibility and reducing overall MPF system management cost;
- Smart interactive enquiry system with chatbot;
- Subscription to important notifications such as receipt of contributions to ensure timeliness and accuracy of contributions, and reduce possible dispute with employers or trustees;
- Integrated search on scheme information to facilitate comparison of fees and performance across different schemes and funds;
- Introduction of multi-functional and more user-friendly self-service kiosks to cover a full range of MPF services;
- Market openness and seamless platform to drive MPF management fees down through open competition;

(b) For employers

- 24/7 e-Payment gateway and mobile payment (e.g. Faster Payment System) for making contributions;
- Digital and automated handling of contribution and remittance information with instant checking to avoid human errors and reduce associated human resources efforts in payroll matters;

- Digital and automated reminder of contribution due date to avoid inadvertent delay or default contributions, and hence reduce non-compliance cost (e.g. 5% surcharge due to late payment of contribution);
- (c) For trustees
- Change from compartmentalised and fragmented handling of scheme administration processes to standardized, streamlined and automated handling, thereby enhancing operational efficiency and achieving economies of scales of the MPF System;
  - Reduce administrative burden and optimize workflow through agreed common standards;
  - Allow trustees to better utilize their resources to other areas which can generate more value to scheme members;
  - Use data analytics technique and business intelligence tools to facilitate the collection and analysis of data on scheme members' profile and their investment preference, hence facilitating the efforts of trustees in offering more tailor-made products / services;
- (d) For MPFA
- Improve reliability and accuracy of the MPF System and facilitate enforcement actions;
  - Allow flexibility for across-the-board future system enhancements;
  - Help ensure a level playing field for all current and prospective players who wish to launch more cost-efficient MPF schemes given the provision of a common and low-cost infrastructure shared across the industry;
  - Use data analytics technique and business intelligence tools to facilitate the collection and analysis of data on scheme members' profile and their MPF activities, hence facilitating the efforts of MPFA in enhancing the protection of scheme members' interest;
  - Pave way for future MPF reform initiatives such as Full Portability;
- (e) For general benefits of Hong Kong
- A key Fintech infrastructure that will foster the development of Fintech, elevate digital capabilities of the pension industry and encourage the development of more Fintech applications for retirement planning;
  - Potential use of data analytics for macro-planning, policy-making and

statistical purposes; and

- Support digital payment and e-ID to enable scheme members to access e-services more conveniently and encourage the wider adoption of smart city solutions.