

# **Lipper Fund Awards 2016 Presentation Ceremony**

## **Keynote Speech**

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1. Thank you for inviting me to this special occasion.
2. I would like to congratulate those who are commended today for achieving the best investment performance results in their respective categories of funds, in particular, of course, the management of MPF funds. I see their success translates automatically into good investment outcomes for our scheme members.

### **Development of MPF System**

3. As we all know, the MPF System has been set up for 15 years. It is a second pillar system of the World Bank approach to Old Age Protection, i.e. a mandatory, privately managed, and fully funded system. The key purpose of the MPF System is to assist employees in accumulating savings for their retirement.
4. Overseas experience shows that it normally takes about 40 years for a retirement protection system to mature. The MPF System, by international standard, is still a relatively young system.
5. In measuring the progress of the MPF System, the statistics speak for themselves. Before the MPF System was implemented, it is estimated that only about a third of Hong Kong workers were covered by any sort of occupational retirement protection scheme.
6. After the launch of the MPF System, as at December 2015, 85% of Hong Kong's workers (about 3.2 million) were covered by the MPF System or

some other forms of retirement scheme. Most of the remaining workers are not legally required to join any local retirement scheme.

7. In the 15 years to 30 November 2015, the MPF System achieved an annualized rate of return of 3.1%, exceeding the corresponding inflation rate of 1.8% over the same period.

8. As at the end of November 2015, the System accumulated \$590 billion in assets of which, one-fifth, or \$114 billion, was investment returns, net of fees and charges.

9. The value of MPF has been increasingly recognized by employees and employers as indicated by the increasing voluntary contributions (or “VC”) and special voluntary contributions (or “SVC”) being made to the System.

10. The amount of VC and SVC made in the third quarter of 2015 were three times and 53 times respectively of the amounts made in the fourth quarter of 2005, amounting to \$2.16 billion and \$1.63 billion respectively. The growth of VC and SVC is a vote of confidence by MPF scheme members.

### **Measures to address criticisms on fund choice, fees and return**

11. Despite the importance of the MPF System, there have always been critics that the fees charged to MPF funds are too high, and that there may be too many funds in the MPF System which makes investment choice difficult for some scheme members. You would have noted that we have taken actions to address these concerns.

12. To help bring down level of fees, the MPFA has made use of different means and introduced a range of initiatives, including enhancing and standardizing fee disclosure to facilitate comparison and informed decision, implementing the Employee Choice Arrangement (or “ECA”) 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.

13. All of these helped reduce the MPF Fund Expense Ratio (“FER”) by almost 25% from 2.10% in December 2007 to 1.60% in November 2015 (which has recently dropped to 1.59%). In addition, almost 40% of all funds are low-fee ones, charging a management fee of 1% or lower, or an FER of 1.3% or lower. We would of course like to see more funds in this category as assets continue to grow and for fees to continue to come down as scale is achieved.

14. In addressing the issue of too many funds that are available for choice, the MPFA has encouraged the industry to consolidate funds/schemes, with a view to achieving greater scale and simplicity. Also, the introduction of the Default Investment Strategy, or DIS in short, will help address existing concerns about too many fund choices, and the high fee of managing MPF funds. In a moment, I will share with you two important tasks, including DIS, set as priorities by the MPFA in this and the next year.

### **Two key tasks ahead**

15. Firstly, as I mentioned, we have proposed mandating each MPF scheme to provide a DIS.

16. It is designed to provide all scheme members with a simplified investment option that is consistent with the overall objectives of retirement savings. We believe as our scheme members age, the automatic de-risking approach of the DIS along with a fee control of 0.75% will benefit scheme members, especially for those who find it difficult to make investment choices or simply don’t have the time or do not want to do so.

17. We are hopeful that the DIS Bill will soon be passed by the Legislative Council and the initiative can be launched at the end of this year.

18. Secondly, in parallel with the DIS, the MPFA has also embarked on another major initiative which explores possible measures to streamline and standardize the administration of MPF schemes as far as possible. In this regard, the MPFA has already appointed a consultancy to conduct a study on the development of what is tentatively called the “eMPF”.

19. By means of a centralized electronic platform, the objectives of this initiative are to lower the operating costs of MPF providers, allow employers and scheme members to deal with various MPF matters more conveniently and efficiently, and provide scheme members with better-quality services. We will move ahead in this direction with a view to making scheme administration simpler and less costly.

### **Contributions from the fund industry**

20. To achieve good investment results for our scheme members, low fee alone will not be sufficient and there is no doubt the investment fund industry plays an important role in the management of MPF funds.

21. There is a set of MPF investment regulations in place to ensure appropriate risk management and investment diversification. Over the years, a number of new investment products and vehicles have been introduced and developed for MPF investment purposes, including various exchange traded funds and expanding the investment universe of fixed income securities.

22. More importantly, in the last two years, the industry has worked with the MPFA in developing and designing the DIS. This is a complex and technical task. Some aspects of the DIS are still to be finalized by the industry. In this respect, I wish to emphasize that the professional effort and contributions from the investment management industry are commendable and indispensable. I look forward to your continual support in this respect.

### **Conclusion**

23. Prudent management of investment risk and performance by MPF investment managers will continue to be a key element contributing to the long-term success of our MPF System. Alongside other regulatory support and reforms, and efforts in investor education, we look forward to the continual refinement and development of the MPF System to meet the long term retirement needs and protection of the Hong Kong working population.

24. We also look forward to your ideas and cooperation in bringing about future improvements and changes, in particular bringing the implementation of the DIS to fruition, which will be in the interest of all scheme members, as well as all key stakeholders of the MPF System.

25. Once again, thank you for inviting me to the function today and let me congratulate all the award recipients for their achievements last year, and I wish you a prosperous year ahead.

26. Thank you.