Keynote Speech

Mr Joseph Chan, JP

Acting Secretary for Financial Services and the Treasury

1. Ayesha (Chairman of the Mandatory Provident Fund Schemes Authority (MPFA), Mrs Ayesha Macpherson Lau), Yan-chee (Managing Director and Executive Director of the MPFA, Mr Cheng Yan-chee), distinguished guests, ladies and gentlemen,

2. Good afternoon.

3. It is my great pleasure to address you for the MPF Symposium 2023. This is a great platform where industry leaders gathered to exchange views on this symposium's theme, the future of MPFTech.

4. With the continuous effort of both the Government and the community over the past years, with the MPFA together, our MPF system maintains a steady progress and growth. As at end-September this year, there were over 4.6 million scheme members in the MPF system, involving over 11 million accounts, 404 constituent funds, and 26 schemes managed by 13 trustees, and some $80 billion contributions each year. Besides, the total MPF assets amounted to around $1,088 billion. Forty-three per cent of the assets were invested in equity funds, and 34 per cent in mixed assets funds. The net annualised internal rate of return since 2000 was 2.2 per cent, higher than the inflation rate over the same period of 1.8 per cent.

5. Under a challenging economic environment and a highly volatile market, the MPF system recorded a negative return of 5.9 per cent in the financial year of 2022-23. Nonetheless, we must not lose sight of the design and objective of the MPF as a long-term savings and investment scheme in the overall framework of retirement protection. We should focus on the long-term investment returns, rather than investment performance in individual years or short-term market fluctuations. Indeed, the MPF system has recorded positive return in 14 years since its inception in 2000. Driven by the compounding effect and dollar cost averaging principles, the cost price of purchasing fund units will be evened out, mitigating the impact of short-term market fluctuations on long-term investment returns.

6. A financially secured retirement is probably everyone's ultimate goal after having worked diligently for almost half of their life. To enhance retirement savings of employees, driving fee reductions has always been one of the top priorities under the MPF system. We launched the fee-controlled Default Investment Strategy (DIS) back in 2017 with the feature of "automatic de-risking", aiming to reduce the investment risks faced by members when they are approaching retirement age and suiting for long-term retirement savings investment. Looking into the development of DIS, around 28 per cent of MPF accounts have chosen DIS funds as at end-September this year.

7. Over the years, the average fund expense ratio (FER), which reflects the level of MPF charges, has dropped by around 36 per cent from 2.1 per cent in 2007 to a new low of only 1.35 per cent at the end of September this year. In addition, 30 per cent of MPF constituent funds are now charging an FER of less than 1 per cent. We believe DIS has a positive effect in bringing down fees of other MPF funds. In addition, enhancement has been made on increasing the transparency of fees and costs of the MPF system to enable easy comparison by scheme members and increase market competition.

8. The Government and the MPFA endeavour to improve the adequacy of the MPF System by diversifying MPF investment. Several measures on risk diversification and investment optimisation have been carried out in recent years. For instance, as earlier in 2012, we launched the "Employee Choice Arrangement", commonly known as "MPF Semi-portability", with a view to giving employees more autonomy in handling their MPF investment. In 2020, we included the Shanghai and Shenzhen Stock Exchanges in the list of "Approved Stock Exchanges" to facilitate MPF investment in China A-shares. In June last year, we added the Central People's Government's central bank and the three Mainland policy banks in the list of "exempt authority" to facilitate MPF investment in sovereign bonds and enhance investment rules. In November last year, we refined the approval criteria for new constituent funds to enhance requirements for coverage and diversification in relation to the existing range of constituent funds, and to encourage investment in single country equity funds and specialty funds (e.g. ESG-themed funds, sector funds).

9. As announced in the 2023-24 Budget by the Financial Secretary, there are further initiatives in the pipeline to meet the growing aspirations for stable MPF funds. As an initial step, a certain proportion of the future issuances of government green bonds and

infrastructure bonds will be earmarked for priority investment by MPF funds, thereby providing scheme members an additional investment option. The Hong Kong Monetary Authority and the MPFA are also looking into the establishment of an MPF fund with stable return at low cost.

10. With the constant reviews and reform measures, we will continue to collaborate closely with stakeholders to promote market competition in the MPF industry, drive down fees, improve MPF investment choices and returns, and strengthen the scheme members' selection and management of their own retirement benefits.

11. Today's theme is the future of MPFTech. Indeed, enhancement on technology is our key strategy echoing with the global trend and our expectation in boosting efficiency. The MPFA is pressing ahead with the development of the eMPF Platform, a centralised and integrated electronic platform to standardise, streamline and automate the administration processes of MPF schemes, thereby enhancing and revamping operational efficiency of the MPF system, reducing administration costs for millions of scheme members and improving user experience.

12. We expect that the average MPF administration fee will reduce by around 30 per cent during the first two years of operation of the eMPF Platform, and will continue to drop steadily thereafter, with a view to achieving total cumulative cost savings of $30 to $40 billion for scheme members during the first 10 years of operation of the eMPF Platform. A drastic reduction in administrative burden that the industry could then redeploy its resources to other value-adding areas, such as optimising investment management and retirement planning services, for the benefit of scheme members.

13. At the viewpoint of user experience, the eMPF Platform will serve as a one-stop shop for performing various MPF administration functions, ranging from accessing account details, switching funds, consolidating accounts, withdrawing MPF benefits, and comparing performance and expense of different MPF funds, etc.

14. Paving the way for future reforms and evolution of the MPF system, we believe that with more accessible information, the eMPF Platform further connects employers, employees and MPF intermediaries, and drives healthy competition among MPF trustees in

benefitting scheme members, as well as enhancing user experience and driving greater efficiency.

15. With the phased implementation of the eMPF Platform, scheme members could manage their MPF accounts with greater convenience on a real-time, secure and paperless basis. As pledged in the Chief Executive's 2023 Policy Address, we target to commence phased onboarding of MPF trustees to the Platform in early 2024 and achieve full implementation in 2025.

16. Ladies and gentlemen, the Government and the MPFA will continue to develop and improve our MPF system for the retirement benefits of Hong Kong's working population. Throughout the process, we will continue to work closely with you, market participants and industry stakeholders.

17. On this note, I would like to thank all of you for your staunch support and ongoing contribution to Hong Kong's future. I wish to express my gratitude to the MPFA for organising today's symposium. I wish you all the best of health in the year to come. Thank you.