

CHAIRMAN'S STATEMENT

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A YEAR OF ACCOMPLISHMENTS

Another year has gone by since the Mandatory Provident Fund Schemes Authority (MPFA) published its first annual report. I am now pleased to present the second report of the MPFA for the period 1 April 2000 to 31 March 2001, which, judged by any standard, was a year of accomplishments.

SETTING THE STAGE

The decision to go ahead with the full implementation of the Mandatory Provident Fund (MPF) System on 1 December 2000 as previously planned was confirmed in April 2000, after a thorough analysis of the readiness of the community, the industry and the MPFA. During that time, the Hong Kong economy was recovering steadily from the economic downturn caused by the Asian financial turmoil and was expected to have attained several consecutive quarters of positive growth by December 2000. It was



also anticipated that the businesses would be able to make suitable adjustments to their cost structures to absorb the increased operating cost due to MPF, which was estimated to be 0.7% on average for all business sectors.

As far as the MPF industry was concerned, the MPFA had already completed the processing of the initial batches of licence applications, making available a great variety of choices in service providers and MPF products in the market. As at the

beginning of the financial year, there were 21 trustees and 45 master trust schemes, most offering four or more choices of funds to scheme members. Furthermore, almost 30 000 individuals were licensed and registered as intermediaries who would offer their services to MPF customers.¹

As the MPF market involves many different sectors of the financial services industry, cooperation amongst regulators, and harmonization of policies, standards and procedures across different regulatory areas are very important

for effective and efficient supervision. In this respect, the MPFA had already established a good rapport with related financial regulators as well as relevant Government departments.

¹ One of the approved trustees applied for withdrawal of approval during the year. As at the end of the financial year on 31 March 2001, there were 20 trustees, 47 master trust schemes, 299 constituent funds, 231 approved pooled investment funds and 30 891 registered intermediaries.

At the beginning of the year, the MPFA was in full gear in preparing for the target implementation date of 1 December 2000. An 18-month intensive Public Education and Publicity Campaign had been launched to prepare the community for MPF. Plans for staff training and for bringing up the staffing to the approved establishment level, as well as the development of an Information Management System to facilitate the carrying out of MPFA's regulatory and supervisory functions were well underway.

HIGHLIGHTS OF THE YEAR'S WORK

With the stage set, the most important challenge for the MPFA and its staff was to launch the MPF System on 1 December 2000 and ensure its smooth initial operation. This involved monitoring the readiness of the trustees and scheme administrators in operating their MPF businesses, the progress in processing enrolment applications and their preparedness for accepting contributions. At the same time, the processing of licence applications of MPF products and service providers was continuing. As regards

the MPF interface with those schemes registered under the Occupational Retirement Schemes Ordinance, the MPFA had to ensure that the arrangements stipulated under the MPF Schemes (Exemption) Regulation were implemented smoothly.

The large-scale territory-wide Public Education and Publicity Campaign launched since January 2000 penetrated all sectors and levels of the community. It successfully raised public awareness of the imminent implementation of the MPF System, addressed adverse comments, enhanced public acceptance and ultimately encouraged enrolment in MPF schemes. The Government also gave its staunch support by designating the promotion of MPF as one of its major publicity campaigns for 2000-2001.

Steps were also taken to prepare the MPFA in carrying out its enforcement duties, which involved formulation of the appropriate policies and strategies, and recruitment and training of staff to carry out the enforcement activities. All the functions of the Information Management System critical to the launch of the MPF System were developed and were fully supported

by a set of backup systems. The strength of the Call Centre was scaled up significantly to cope with the rising workload of answering hotline enquiries prior to the launching of the System and for the initial months of its operation. The MPFA was also fully equipped with trained personnel and appropriate systems to handle the expected influx of complaint cases arising from the millions of accounts from the start of MPF contributions.

Major strides were made in organizational development. The MPFA has settled in and bonded more closely, with the arrival of the Managing Director, Mr Rafael Hui, and two other executive directors early in the year. Major recruitment exercises were completed. Practices, procedures, policies in different areas of work were reviewed and further enhanced, including those in the areas of human resources management and financial control. The treasury functions were developed. It has even started preliminary rounds of review of the operational and administrative aspects of the relevant legislation based on the experience gained in the implementation processes.

MPF IN OPERATION

The figures speak for themselves. At the end of March 2001, four months after the start of the System, the enrolment rates in MPF schemes stood at 82% of employers, 92% of employees and 90% of self-employed persons.² Before there was MPF, only about one-third of the 3.25 million workforce had some form of retirement protection. As of March 2001, 82% of the workforce was covered by some form of retirement protection scheme. The MPFA's Enquiries and Complaints Handling Systems have been registering an average of 1 000 calls a day and has handled over 1 380 complaints since the launch of the MPF System.

The Managing Director's report will give you more details of the MPFA's accomplishments, which will also be further elaborated in the following chapters.

² The bases of these percentages are the relevant employers, employees and self-employed persons as defined under the Mandatory Provident Fund Schemes Ordinance.

THE MISSION HAS JUST BEGUN

MPF is one of the biggest social programmes ever undertaken in Hong Kong and is completely new. Despite all the painstaking preparation and its initial smooth operation, the system has only had a few months' operational experience. Given the dynamic complexity of our economy and the intricate diversity of the income structure of our workforce, no one can at this stage definitively predict all the outcomes, much less unintended consequences. The challenge is therefore for the Government, the MPFA, the MPF industry and the community, all in the same boat, to navigate through the uncharted waters with flexibility, sensitivity and practical sense.

Having achieved the major milestone of launching the MPF System, the MPFA is now ready to embark on a series of new initiatives in consolidating its work, strengthening its regulatory and enforcement abilities and increasing its productivity, with a view to facing up to new challenges in perfecting the operation of the System. Far from being complacent,

the MPFA understands that its mission of implementing a territory-wide retirement protection system has only just begun.

Before I close, I must not forget to place on record my deep appreciation for the valuable contributions and dedicated efforts of my fellow Management Board members, members of the MPF Schemes Advisory Committee and the MPF Industry Schemes Committee, and those of other committees of the MPFA such as the Guidelines Committee. Last but not the least, I would like to express my sincere gratitude to the management and staff for their commitment and drive as launching MPF by adopting the "big-bang" approach is no mean feat. Without their hard work, dedication and perseverance, the important chapter of the history of development of retirement protection schemes in Hong Kong could not have been written.



Charles Lee Yeh-kwong

Chairman