

Managing Director's Report



Mrs Diana Chan
Managing Director

MPFA works with a new vision

“MPF – a way of life” has been our corporate vision for some years. The statement articulates our aspiration to the notion that MPF should become an integral and routine part of everyday life of the working population. Now that MPFA has come to a more advanced stage of development and the MPF System is becoming more mature, we consider it timely to adopt a new vision statement that reflects more appropriately the role that MPFA is taking on: “Our vision is to build a retirement savings system that is valued by Hong Kong people.” We at MPFA see it as our mission to lead improvements to the MPF System to make it more efficient and user-friendly, and better meet the needs of the working population.

Major results of the year and the way forward

A new milestone in MPF reform

It has been our objective to ensure scheme members’ interests are adequately protected during their lifelong MPF journey. At the same time, we see the need to allow greater flexibility in withdrawing MPF accrued benefits, one of the important sources of income to meet financial needs after retirement. At present, MPF accrued benefits can only be withdrawn in a lump sum when scheme members retire at 65 or satisfy the circumstances of early retirement. Our proposal to give scheme members an option to withdraw accrued benefits in phases received broad public support. In the year, we assisted the Government in preparing and introducing legislative amendments into the Legislative Council to effect the proposed change. In this legislative exercise, amendments in respect of some other areas were covered, including the addition of the grounds of terminal illness for early withdrawal

of MPF benefits, and proposals to streamline MPF administration processes and facilitate the use of electronic means of communication for better efficiency. The legislative amendments were passed on 21 January 2015. We are preparing for the implementation of the new provisions.

Standardization, streamlining and automation of MPF scheme administration

Unlike a retail investment fund, MPF scheme administration involves many more processes including collection of contributions, follow-up on default contributions, provision of periodic reports, processing of transfer and fund switching requests, and payout of accrued benefits. As an advocate of the MPF System, we have been exploring ways to improve MPF scheme administration for greater cost-efficiency and effectiveness, thus creating room for reduction of MPF fees.

Apart from the short-term measures completed last year, as mentioned above, proposals to simplify certain administration procedures and facilitate the use of electronic means of communication were included in the legislative exercise concluded in the year. Furthermore, an E-Payment for MPF Transfer system was launched in June 2014. This system automates payment and settlement for the transfers of MPF accrued benefits between trustees, further shortening the time needed for the transfers, and enhancing the accuracy and efficiency of the transfer process.

We are now considering further fundamental measures to standardize and streamline the administration of MPF schemes and to make it paperless as far as possible, and have developed a preliminary conceptual model of the infrastructure and processes. We will commission a consultancy study on the feasibility and cost-benefit of the model. Going forward, with appropriate measures in place and general support of the industry, employers and scheme members, we hope that the improvement

drives will make MPF operations more efficient at lower costs and let scheme members enjoy more flexibility and better quality services in the long run.

Towards easier and better investment choices

Another fundamental reform in the making is the launch of a default investment strategy ("DIS"). It is to ensure that all MPF schemes make available a well-designed low-fee fund that represents good value for scheme members. In mid-2014, the Government and MPFA launched a joint public consultation on DIS. Noting the general support for the broad proposals set out in the consultation paper, the MPFA Management Board endorsed the plan to take them forward as quickly as possible.

The agreed proposals represent a new policy direction for the MPF System. Mandating a standardized DIS across MPF schemes will simplify the investment decision process which can be difficult to many scheme members. The DIS will adopt an investment approach with investment risk reduced automatically as a scheme member approaches 65 to better meet long-term retirement savings objectives. It will also be subject to fee control to provide good value for money.

The Government and MPFA aim to launch DIS in 2016. We are working with the industry on the technical issues, and will support the Government in the legislative process.

Promoting good governance and risk culture in the MPF industry

MPF trustees have the duty to act in the best interests of scheme members. With a view to enhancing trustees' governance arrangements in relation to fulfilment of their duties, we are conducting a round of regulatory visits to, and intensive regulatory dialogues with, trustees' boards of directors. Based on the findings of the visits, to be completed in 2015-16, we will evaluate the areas in the Compliance Standards for

MPF Approved Trustees¹ that need to be enhanced. Meanwhile, we have started thematic on-site inspections to assess how trustees ensure proper record keeping of scheme members' account and unit balances, and are working through the operational issues with trustees to ensure smooth implementation of the legislative amendments passed in the year.

The statutory regulatory regime for MPF intermediaries came into force in late 2012 and the operation has been smooth. Under the regime, MPF intermediaries are required to register with MPFA before they can carry out sales and marketing activities or give advice in relation to MPF schemes. By the end of a two-year transitional period in October 2014, we have renewed the registration of some 26 000 pre-existing MPF intermediaries who wish to continue to conduct regulated MPF sales and marketing activities under the new regime. MPF intermediaries are expected to meet certain standards of conduct, and any substantiated cases of non-compliance with the statutory conduct requirements will be subject to disciplinary sanctions imposed by MPFA.

MPF intermediaries play a crucial role in servicing scheme members. To safeguard scheme members' interests, it is important that MPF intermediaries are familiar with their duties and responsibilities and adhere to good governance principles and ethical standards, and that sufficient training is provided to them. In the coming year, we will further enhance the quality of continuing training for intermediaries.

Achieving better alignment of MPF contribution levels with the earnings distribution of the working population

The amount of MPF mandatory contributions is subject to a minimum and a maximum level of relevant income ("RI") which are adjustable over time to reflect changes in the earnings distribution of the working population. Following a review of the adjustment

mechanism which we conducted at the Government's request, we developed a proposal on an automatic mechanism, under which the RI levels are to be determined and adjusted according to a few objective benchmarks. The proposal sought to keep contribution levels better aligned with the earnings distribution of the working population and provide more certainty and improve efficiency in the adjustment process. We conducted a public consultation in early 2015 to collect views on the proposal and are now reviewing the consultation responses and will propose the way forward for the Government's consideration.

Protecting scheme members' interests

MPFA's primary objective is to protect scheme members' rights and interests. We closely monitor various parties' compliance with the MPF and ORSO legislation, handle complaints, investigate suspected breaches or non-compliance and take necessary enforcement actions. In the year, we recovered over \$130 million outstanding MPF contributions and about \$896,000 outstanding ORSO contributions on behalf of employees.

Better supporting scheme members in looking after their MPF accounts

We have been encouraging scheme members to actively look after their MPF investment and educating them on how to make informed MPF decisions. Through a wide range of means and platforms, we reach different sectors of the working population and the younger generation to educate them on MPF as well as the importance of retirement planning and saving for the future, and to raise public awareness of new initiatives and developments of the MPF System. In the year, we launched an all-in-one thematic website on MPF investment education to provide comprehensive information on MPF investment under one roof, making it more convenient for members of the public to access information that would help them manage their MPF properly.

¹ The "Compliance Standards for MPF Approved Trustees" were first developed in 2005 with the assistance of international consultants and issued by MPFA on 28 July 2005 to give trustees guidance in establishing a structured framework for monitoring their compliance with statutory duties and responsibilities.

Corporate social responsibility

We strive for a sustainable future through our commitment to the retirement protection of Hong Kong's workforce and, in the process, through making responsible and caring efforts towards our staff, the environment and the community. We aim to maintain a happy, healthy and engaged workforce, and implement environment friendly initiatives within MPFA to contribute to a green future. In extending our care for the community, our staff members and their families and friends gave more than 2 900 hours of volunteer service in the year. With recent efforts to enhance our corporate website with designs to promote barrier-free and convenient access for all including those with special needs, we have won a Silver Award in the Web Accessibility Recognition Scheme 2015 co-organized by the Office of the Government Chief Information Officer and the Equal Opportunities Commission. Furthermore, in recognition of our endeavours in corporate social responsibility, MPFA was awarded the 10 Years Plus Caring Organization logo and received numerous other awards in the year.

Vote of thanks

I must express my gratitude to the Chairman and other members of the Management Board, and the chairmen and members of its committees and working groups. We would not be able to accomplish so much in the year without their insightful guidance and unfailing support. My sincere appreciation also goes to the chairmen and members of the MPF Schemes Advisory Committee and Industry Schemes Committee, who have rendered MPFA valuable advice and support.

We are most reluctant to bid farewell to the outgoing MPFA Chairman, Hon Anna Wu. As a founding director of MPFA (1998-2005), she has been supporting and caring about the MPF System and MPFA right from the beginning and was heavily involved in establishing the organization and launching the MPF System. Taking up the chairmanship of

MPFA since 2009, she has made significant and long-lasting contributions to reforming the MPF System and led MPFA to accomplish a number of milestone developments. I cannot thank her enough for her inspiring leadership and unwavering support over the years.

I am also grateful to Hon Andrew Leung and Hon Wong Kwok-kin, who retired from the Management Board in March 2015, and would like to extend a warm welcome to Dr David Wong as MPFA's new Chairman and other newcomers to the Management Board, MPF Schemes Advisory Committee and Industry Schemes Committee.

Taking this opportunity, I would like to thank the frontline regulators who helped make the transition from the old to the new regulatory regime for MPF intermediaries a successful one, and who worked closely with MPFA to foster strong supervision of MPF intermediaries' regulated activities relating to offering advice and marketing of MPF products. I also extend my gratitude to the industry for their cooperation and support to MPFA in implementing various initiatives to refine and reform the MPF System.

At MPFA, I am most fortunate to work with a professional, dedicated and enthusiastic team. My heartfelt thanks go to all my colleagues for their relentless efforts and strong commitment in pursuing corporate objectives, goals and initiatives in fulfilment of MPFA's mission and vision.



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