



Opening Remarks
at
Private Retirement Scheme Conference
25 June 2013
YBhg Datuk Ranjit Ajit Singh
Chairman, Securities Commission Malaysia

Distinguished guests
Members of the Media
Ladies and Gentlemen

Good morning

Introduction

1. First and foremost, I would like to wish you all a warm welcome to the Securities Commission's Private Retirement Scheme Conference 2013. This event holds particular significance as it is the first conference to be held since the official launch of PRS framework last year. I would like to extend a special word of appreciation to the expert speakers who have travelled from abroad to join us here this morning as well as our industry speakers who are participating in the afternoon session. It is enlightening to see a diverse cross section of employers and participants displaying interest in today's conference.
2. The rollout of Private Retirement Scheme otherwise known as PRS late last year marked a major milestone for the pension landscape and investment management industry in Malaysia. Built on top of the mandatory occupational scheme of the Employees Provident Fund (EPF), the introduction of a private pension pillar in Malaysia was driven by the pressing need to provide alternative avenues for investment. As the third pillar of the multi-pillar pension framework¹, PRS operates on a decentralised market based approach, offering

¹ recommended by the World Bank

flexibility in terms of the contribution rates as well as investment choices to service the growing needs of the Malaysian population.

Ladies and Gentleman

3. Before delving further into today's topic, on behalf of the SC, I would like to take this opportunity to thank all the Providers for their diligent commitment and contribution to the PRS initiative. I also would like to acknowledge the role of the Private Pension Administrator Malaysia towards putting together the administrative framework as well as working on industry issues. The launching of such a pivotal framework would not have been accomplished without the support and collaborative efforts of all the key players in the industry.

Benefits and Growth of the PRS industry

4. The birth of PRS is timely considering the increasing life expectancies and rising living standards in Malaysia. Today, Malaysia alongside numerous countries around the world are moving towards an aging population. Consequently, this may lead to society being faced with the daunting task of securing a comfortable retirement for its people.
5. The rationale behind the introduction of PRS has always been clear and compelling. The simple truth is this: A vast majority of Malaysians are not saving sufficiently for their future. This has been evidently illustrated, including in HSBC's recent report on the 'Future of Retirement Survey on Malaysia'², which found that almost 70% of respondents worry they will not be able to cope financially when they retire. Furthermore, a notable 40% expect a worse standard of living during retirement in contrast to their current situation as working professionals. Against this backdrop, this critical initiative underscores the pressing need for individuals to take charge of their own retirement planning through alternative avenues for investment.
6. It is well researched that there is a tendency for savers to withdraw a substantial portion of savings for other purposes during their working life. PRS which forms an integral feature of the overall pension landscape would help Malaysians overcome the potential shortfall in retirement income. PRS also

² HSBC's The Future of Retirement – A New Reality, 2013 Malaysian Report

functions to deepen the capital market further by providing a broader spectrum of intermediation channels in mobilising national savings. Of the total national savings, private savings was estimated to be at RM238.6 billion in 2011, which translated to 12.6% of nominal GDP³. There is also a clear macroeconomic argument for the development of the PRS industry, which is to avoid repeating the missteps observed by some developed countries in terms of the ballooning size of pension obligations that is unsustainable over the long term.

Ladies and gentlemen

7. One of the biggest misconceptions made by the general public in their approach to retirement is a lack of planning. Critical to any successful venture is effective planning and foresight. The hosting of this PRS Conference is significant in our continuous efforts towards embedding a deeper level of understanding and awareness of PRS for all Malaysians.
8. Since the official launch of the framework, a fully functioning Private Pension Administrator was established whose prime objective is to safeguard the interests of contributors supported with a comprehensive regulatory framework. As part of the private pension ecosystem, the industry plays an instrumental role in ensuring an effective governance structure, sound risk management practices and well-placed internal controls. These essential components are intended to provide trust and confidence that is very much needed for a thriving PRS industry.
9. It's been six months since PRS has been rolled out. 9 Schemes with 33 retirement funds have been launched by 7 PRS Providers. With the acquisition of ING Funds Bhd., and after fulfilling a due assessment, Kenanga Investors Bhd. became the newest addition to the existing batch of approved PRS Providers. We look forward to the roll out of its fund options under PRS this year.
10. At this early stage, we have over 30 thousand PPA account holders (30,500) with total NAV reaching a RM100 million (RM97.5million). It is also heartening to see the geographical reach of the PRS as there are numerous account holders in every single state of Malaysia as well as near equal gender

³ MOF, 2012

representation with the number of male members and female members at 55% and 45% respectively.

11. A factor worth pointing out is that participation in PRS from the self-employed segment is now just below 20%. I cannot stress enough the importance for all stakeholders to further encourage participation from the self-employed. This segment of the population is important as they do not fall under the umbrella of any statutory retirement scheme. The challenge also lies in encouraging participation from those below a certain income tax threshold as the present incentives would not benefit them. In this regard, a more extended PRS system, which is integrated with measures in the labour market would be needed in order to sustain participation from all segments of the population.
12. Analysing the early PRS statistics in greater depth, the demographic spread reveals that only 6% of members are below the age of 30, while 25% are within the ages of 30 to 40. Behind these statistics, underscores a crucial message; Younger age groups need to be educated on the fundamental value of supplementing their savings to ensure greater sufficiency of their retirement incomes.
13. To foster a higher level of participation, the SC is engaging with the industry to design measures to incentivize participation based on a study of the current demographics and international best practices. Some of the measures reviewed include a proposal for higher tax incentives or a government co-contribution for specific target markets, such as for the younger demographic to join the PRS. Key policy considerations would rest on identifying effective ways to increase coverage and sustain accumulated contributions.
14. To widen the accessibility of PRS to all members of the population, from the self-employed as well as the younger demographics, it is now more important than ever for providers and distributors to expand coverage across the nation. In several countries, mobile officers are used as effective distribution channels. We also see countries embracing an increasingly technological environment by utilising mobile phones to carry out transactions. In more recent years, direct sales using internet based platforms has emerged in importance for today's generation.

15. The growth trajectory of the PRS is reflective of its early stage. Increasing the product range and garnering greater contributions to PRS requires the continuous efforts of all players in the industry. Contributions to increase general awareness of PRS are particularly valuable. Investor education programmes notably those that focus on raising old-age savings awareness and getting investors to change their behaviour must be the focus of the industry towards achieving its growth objective. In driving participation, providers must take on a more consumer focused role to ensure right funds are being channeled to the most appropriate investors.

The importance of employer contribution

Ladies and gentlemen

16. Globally, employers play a key role in influencing a worker's decisions on retirement. Therefore, another key aim of today's PRS Conference is to encourage employers understanding on their role in empowering employees to be responsible for their retirement decisions.
17. On this note, today's PRS Conference has been structured into two parts; During the first session, we will hear from international subject matter experts who will present common global challenges as well as to bring diverse perspectives on enhancing the growth of the private pension industry. Following through, the second session will comprise break-away sessions specifically designed for employers to interact with the respective PRS Providers.
18. With this, it is our hope that you will walk away with a deep sense of appreciation of why all employers should embrace PRS. It will also provide us with an invaluable insight as to how other countries have approached and delivered on their respective private pension systems.

Ladies and gentlemen

19. For employers, voluntary supplemental retirement schemes offer many benefits, including tax deductions and opportunities for making additional contributions based on performance or length of service. Proactive employer involvement in this instance reflects traits of a socially responsible employer and one that seeks to retain its talent. We are starting to see employers from major institutions opting to contribute to the PRS. The SC has already taken essential steps to offer PRS to our employees.
20. For employers that seek to offer PRS for their employees, 'automatic enrolment' is a popular measure in developed countries such as the United States, New Zealand and the United Kingdom. It is a powerful tool that can shape behaviour and provide a high level of participation from employees. Under such a plan, employees who are eligible would automatically become members of a PRS Scheme unless they opt out at no cost to them within a certain number of months.
21. Such plans which are non-compulsory in nature rely on inertia and soft compulsion approach, with an end result that could help significantly improve adequacy in retirement savings among all ranks in a company and most importantly help them overcome low replacement rates⁴ when they retire. In the context of Malaysia, the gross income replacement rate of Malaysians was estimated by the OECD to be approximately 30% of the earnings of an average income earner, which is lower than the OECD average of 57%.
22. Another attractive savings option within the PRS is where employee's own savings are matched by contributions by his/her employer. In the U.S., 'employer match' has emerged as one of the important factors in an employee's decision to participate in a retirement scheme.
23. Further, our guidelines was recently amended (in April) to provide for vesting of contributions based on terms of service. Vesting generally gives employees increasing ownership rights to employers' contributions depending on their length of service.

⁴ Replacement rate provides a formal measure that indirectly captures the relationship between retirement income and wage levels. It is often expressed as a ratio of pension receipts over the final earnings before retirement of an average individual.

New developments in the PRS architecture and key challenges

Ladies and gentlemen

24. The future prospect of Malaysia's PRS industry to flourish and expand remains immense. Irrespective of our achievements thus far, much more needs to be accomplished. As an avenue to raise common issues and to highlight strategies to drive growth of PRS, the SC held an Industry Roundtable earlier this year in April to engage with all the providers and the Board of the Private Pension Administrator. Moving forward, a key deliverable is that providers must continuously strive towards delivering a more attractive investment proposition, in the form of a good risk-return profile, and lower transaction costs over the long term.
25. According to the latest statistics⁵, growth funds, which have an equity exposure of up 70%, are the most favored choice by members. On a note of caution, investors are encouraged to focus on the importance of long term investment planning rather than chasing short term returns.
26. Moving on to transaction costs, while it is encouraging that the commission rate to investors have been reduced for PRS, providers must continue to offer competitive fees and demonstrate how their fee structures fit the PRS target market. To empower investors and to enhance transparency, a user friendly fee comparison table of all the relevant fees and charges are made available on the Private Pension Administrator's website.
27. An important issue that could affect the participation of the PRS is the lack of awareness among the public on the need and importance of a retirement plan. In this respect, we are encouraged by the lead demonstrated by the Private Pension Administrator in setting up an industry development fund, which will launch an intensive education and public engagement campaign over a 5 year period. The contributions from all PRS Providers to this development fund are a testament to their commitment towards the success of this pivotal scheme. Information dissemination can be a powerful instrument to increase

⁵ May 2013

participation and to combat inertia or lack of knowledge. However, it is vital for educational campaigns to be well targeted in order to be successful. On the part of SC, we will be hosting a PRS Exhibition which will be open to the public this Saturday at our premises and will look for opportunities to work with the PPA and the industry on their own efforts.

28. The centralised administration model adopted for PRS through a single Private Pension Administrator (PPA) is expected to contribute to more efficient channelling of savings to investment activities. The tools and services provided by the PPA to its members also serve to heighten transparency and awareness. Such value-added services would include performance and cost analyses as well as other user-friendly tools such a retirement calculator, which would enable members to make informed comparisons among the range of fund options available. By alleviating potential information asymmetry, the services provided by the PPA to members would also promote competition within the PRS industry and act as an important tool for investor empowerment.

Conclusion

Ladies and gentlemen

29. Timely developments and opportunities for potential improvements need to be seized upon to further enhance the retirement landscape. Let me reiterate the importance for concentrated and combined efforts of all stakeholders to develop initiatives towards strengthening the foundation of retirement for all Malaysians.
30. On this note, I hope you will find this conference a knowledge enriching experience on the overall architecture of the PRS and the potential benefits it provides to serve our society. We recognise there are challenges to be addressed. Therefore it is essential for all actors within this industry to fulfill their respective roles to ensure the continued success and sustainability of the PRS industry.

Thank you very much for your kind attention.