

HONG KONG: February 2nd 2007

REPUTEX REPORT INDICATES A NEED FOR MORE COMPETITION IN HONG KONG'S MPF SCHEME.

At a special gala dinner yesterday to celebrate the 10th anniversary of the founding of the Hong Kong Retirement Schemes Association (HKRSA) which coincides with the 6th anniversary of Hong Kong's MPF scheme, the HKRSA announced the findings of a special survey to examine the performance of Hong Kong's Mandatory Provident Fund (MPF) providers against local and international benchmark standards. The HKRSA commissioned Reputex, a leading international specialist in ratings and research, to conduct the survey.

At the invitation of the HKRSA, the Chief Executive of Reputex, Laurel Grossman, presented the key findings to an audience of over 200 representatives of employers and employees who are participants of the various retirement schemes as well as representatives of the service providers.

Speaking, Ms Grossman reported on the specialist research project which has been undertaken by Reputex, commissioned by the Hong Kong Retirement Schemes Association.

Ms Grossman claimed that the relatively high level of regulation has up to this point contributed positively to the establishment of the MPF scheme, but in areas that could not be mandated, Hong Kong lagged behind. She also recommended to the Hong Kong government to consider freeing up the MPF scheme to market forces by allowing greater competition. Results also showed that despite a range of efforts by the MPFA and MPF providers, members are still not taking advantage of opportunities to educate themselves how best to better financial resources for their retirement. "At this point in time there is a distinct lack of competition across providers. The MPF is relatively static, but as market forces come into play which they inevitably will, member education will be pivotal to extended voluntary participation in the scheme."

Looking even further ahead, performance areas singled out for significant future potential for improvement included risk evaluation systems that take account of future environmental and social impacts on financial performance.

Grossman proposed that the Hong Kong government being the MPF's major stakeholder might reasonably consider trading increased voluntary contributions for reduced fees. "Other countries are increasingly aware of and acting on next generation risk exposures such as carbon, workplace and water. Financial analysts should be taking greater account of these types of issues, especially given the long term nature of retirement fund investments. Hong Kong can consider encouraging increased voluntary contributions for reduced fees but this should only apply where funds can demonstrate financial modeling that takes account of broader risk definitions."

“Hong Kong has an outstanding opportunity to develop enhanced models for risk assessment and sustainable investment through its MPF platform. To do this it would be necessary for the government to enhance competition and promote a more active market dynamic. While I am pleased to say that the MPF is a reliable platform for retirement savings that the people of Hong Kong can trust, this is the very time to be progressive rather than rest easy.”

The Hong Kong Retirement Schemes Association is of the view that the amounts being provided under the MPF would not be adequate for retirement and tax benefits should be given to encourage voluntary contributions to enhance savings. There is also a need for the government to review how the MPF retirement benefits should be paid. Instead of a lump sum payment, monthly pension, which is adopted by most other countries, is a better way to ensure financial security in old age. Now is a good time for Hong Kong to set a realistic but challenging target so that more money can be saved for our old age, and we hope that in 25 years’ time the MPF will be able to support at least half of our retirement living.

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