

# Role of Insurance Companies in Hong Kong Pensions Business

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# Agenda

- ❖ Introduction of Hong Kong Pensions Business
  - ❖ ORSO vs MPF
  - ❖ Insurance Policy vs Trust Based
  - ❖ Running of a Pension Scheme
  - ❖ Pension Products
  - ❖ Type of Service Providers
  - ❖ MPF Statistics
- ❖ Characteristics of Pension Service Providers
- ❖ Summary of Current HK MPF Market
- ❖ Going Forward

# Hong Kong Pensions Market

## - Exempted ORSO Scheme vs Mandatory Provident Fund (MPF)

### Exempted ORSO Scheme

- Voluntary
- No minimum contribution rate
- Contributions based on basic salary
- Benefits can be received in cash upon termination of employment
- Vesting as per scheme rules
- **Trust or Insurance Policy based**
- Few investment restrictions
- Employer benefits taxable if exceeds IRD proportionate benefits (vesting scale)

### MPF

- Mandatory
- Effective December 1, 2000
- Min. 5% / 5% contribution rate
- Contributions based on relevant income
- Benefits subject to portability and preservation
- 100% immediate vesting
- **Trust based**
- Many investment restrictions
- Employer benefits tax free

# Trust Based MPF

## - How Insurance Company Copes With This Change?

### Why Trust Based?

- Universal Accepted Concept – Easy to sell to general public
- Standardized Legal Structure – More confident to end users
- Trend in Asia – PRC, Hong Kong, Taiwan, The Philippines, etc.

### Trust Based vs Insurance Policy –

### Does It Really Provide Extra Assets Protection?

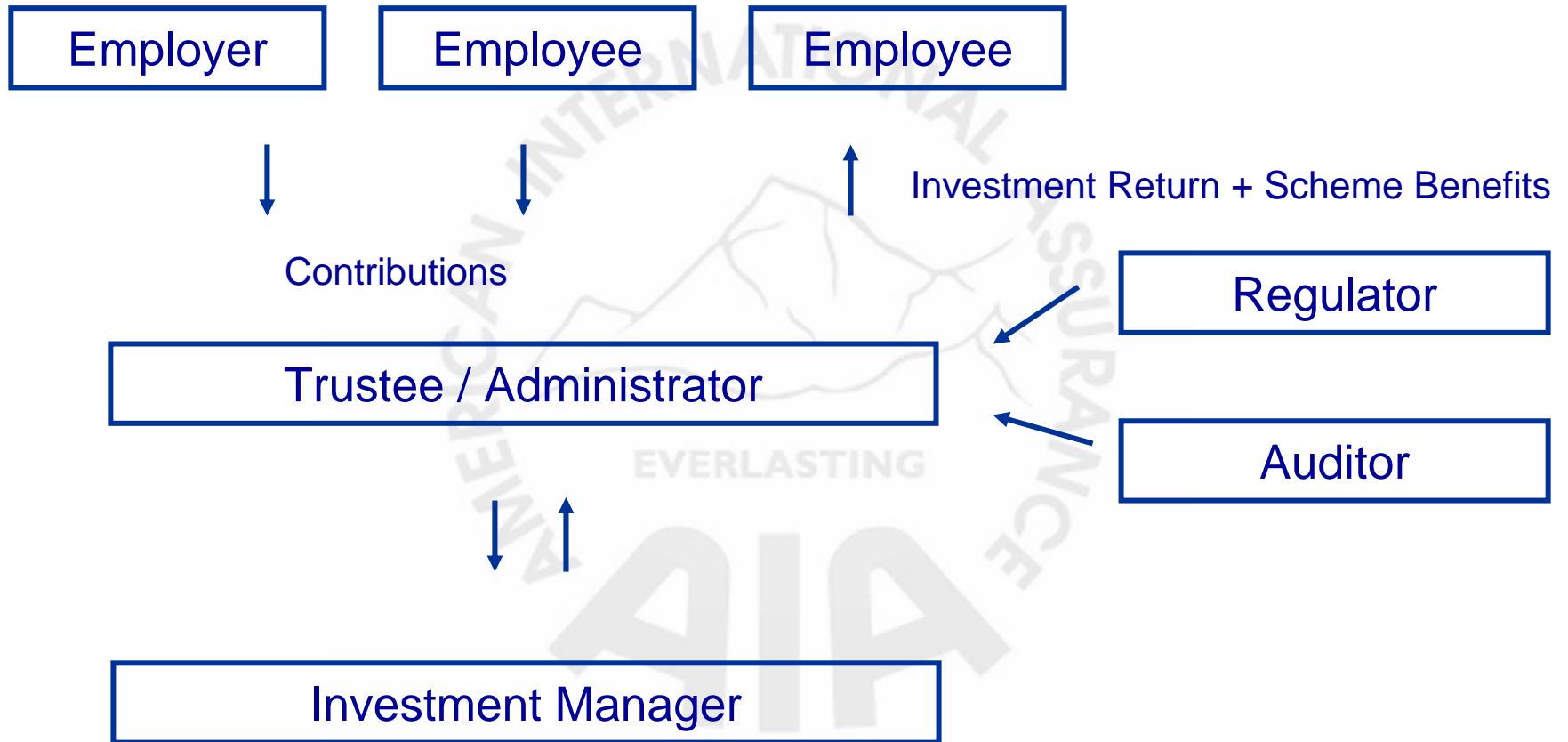
- Not Necessary
  - Separate Account – “Implied Trust”
  - Underlying Investment

### How Insurance Company Cope With This Change?

- Setup a separate Trust company to be the Approved Trustee of the MPF Scheme

# Running of a Pension Scheme

## - Mechanism



# Pension Products

## Pension Products

Funds Type  
(Unitized Funds / Policy)

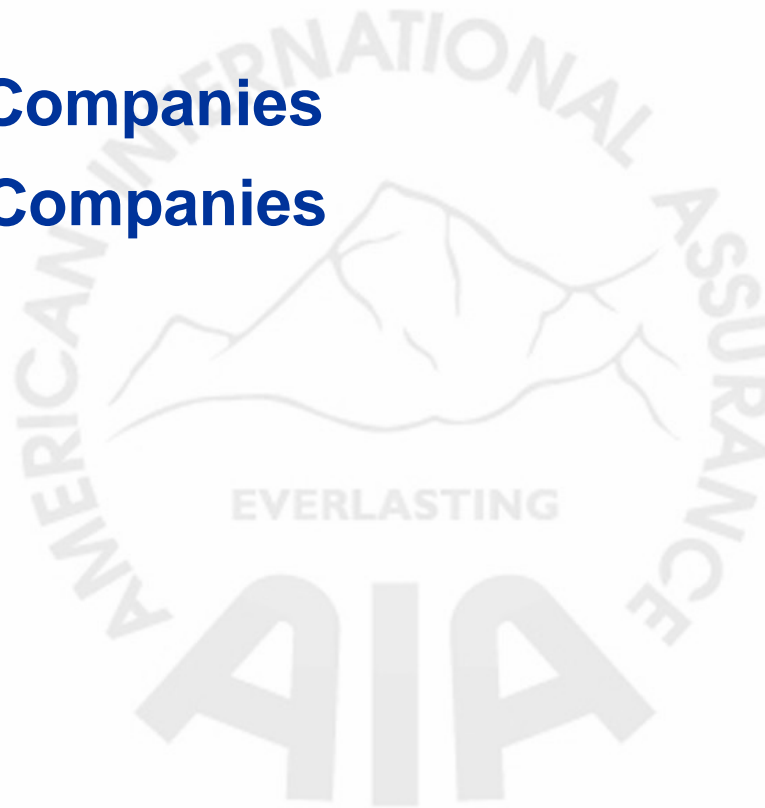
- Lifestyle Funds
  - Bond Funds
  - Equity Funds
- Guaranteed Funds
- Capital Preservations

Annuity Type  
(Not a developed market  
in Hong Kong)

# Hong Kong MPF Environment

## - Types of Service Providers

- ❖ **Banks**
- ❖ **Insurance Companies**
- ❖ **Securities Companies**

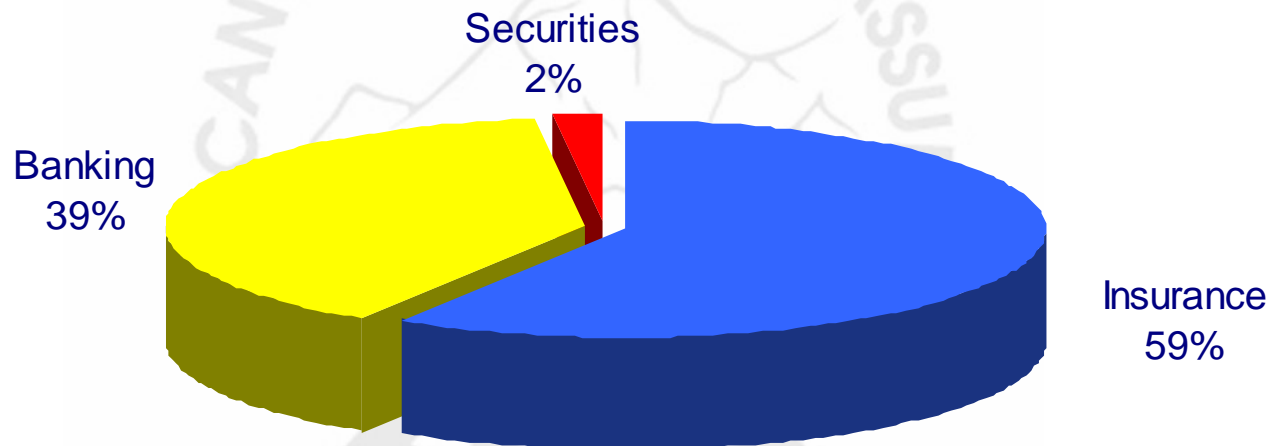


# Hong Kong MPF Environment

## - Distribution Channels

% Share of Individual Registered Intermediaries by Major Line of Business of the Intermediary's Primary Sponsoring Corporation

As of Dec 31, 2004



Source: MPFA, Mandatory Provident Fund Schemes Statistical Digest - Dec. 2004



# Top 5 Service Providers for HK MPF

- As at Dec 2004

<b>Top 5 Service Providers</b>	<b>Type of S.P.</b>
AIA-JF	Insurance-Securities
Bank Consortium	Bank
BOC Prudential	Bank-Insurance
HSBC / Hang Seng Bank	Bank
Manulife	Insurance

- ❖ **Total Asset Under Management for HK MPF Market: HK\$120,183 million\***
- ❖ **The top 5 service providers together capture 72.9% market share in terms of AUM#**

\* Source: MPFA - Mandatory Provident Fund Schemes Statistical Digest Dec 2004

# Source: Watson Wyatt – MPF Watch Annual Report 2004

# Characteristics of Pension Service Providers

## - Insurance Companies

### Strength

- ❖ Distribution
  - ❖ Mainly **Agency** and **Direct Sales**
  - ❖ Strong agency distribution network covers small to medium companies.
  - ❖ Some form alliance with 3<sup>rd</sup> party distributors (e.g. securities house)
- ❖ Product – Ability to offer investment funds with **guaranteed** natures
- ❖ More focus on after sale services by both Agency and/or designated customer services executives
- ❖ More willing to package better products to customers via partnership with other professional entities e.g. professional FMC and custodian
- ❖ Good brand names and high credit rating
- ❖ Other value added bank services packaged, e.g. Insurance products, and/or Credit Card, etc.

### Weakness

- ❖ Inconsistent services due to varying quality of agents
- ❖ Not perceived to be strong in Fund Management

# Characteristics of Pension Service Providers

## - Banks

### Strength

- ❖ Distribution
  - ❖ Mainly **Direct Sales** (Corporate RM or Branch Staff)
  - ❖ Large corporate clients base
  - ❖ Extensive branch network for market penetration
- ❖ Good brand names and high credit rating
- ❖ Other value added bank services packaged, e.g. Credit Card, higher credit limits, etc.
- ❖ Usually with closed architecture with distribution, administration and fund management by Bank and/or their related affiliates.

### Weakness

- ❖ Less focus on after sales services
- ❖ More focus on offering in-house products only
- ❖ Not perceived to be strong in fund management
- ❖ Normally not offering funds with guaranteed nature except those with associate and/or affiliate insurance Cos.

# Characteristics of Pension Service Providers

## - Securities Companies

### Strength

- ❖ Distribution
  - ❖ Mainly **Direct Sales** for large corporations
  - ❖ Strong on consultancy referral businesses
  - ❖ Limited coverage on small to mediums companies
  - ❖ Some form alliance with bank or insurance company to extend the distribution coverage
- ❖ Strong brand name as professionals for delivering superior fund performances and better services
- ❖ Clients are usually of large company with good size of AUM
- ❖ More services oriented with high quality of staff

### Weakness

- ❖ Unable to offer funds with guaranteed nature unless packaged with other service providers.
- ❖ Limited investment on technology for supporting MPF as SME are not perceived to be their core market segment

# Summary of Current HK MPF Market

- ❖ Banks has got over 50% of overall MPF market share, with insurers and securities companies sharing the remaining on approximately 2:1 ratio
- ❖ The top 5 MPF service providers have got over 70% of the overall MPF market share
- ❖ Common Characteristics of Successful MPF Service Providers are:

# Summary of Current HK MPF Market

## Common Characteristics of Successful MPF Service Providers are:

- ❖ Guaranteed Funds Available via Insurance Companies
- ❖ Strong In-House Distribution Networks
- ❖ Single Fund Manager Products
- ❖ Simple Products (i.e. Guaranteed Funds, Capital Preservation Funds, Life-Style Funds, etc.)
- ❖ Strategic Partnership (i.e. Bank-Insurance Companies, Insurance-Securities Companies)
- ❖ Major Investment into Systems/Technology Development for those with In-House Administration Capabilities
- ❖ Professional Trustee Services

# Going Forward

## ❖ Retail Market

- ❖ Deferred Accounts
- ❖ Voluntary Contributions – use MPF as a low fee investment savings vehicle

## ❖ Annuity

- ❖ What to do with the lump sum payout?
- ❖ What if retirees want a secured stream of income after retirement without worrying about investment?
- ❖ How can government discourage retirees to use the lump sum payout for gambling?

**Answer: Annuity but**

**Need Lobbying for Tax Benefits to Generate Public interest**