Kenanga Investors

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Giving the industry a much-needed boost

The Edge Special Report

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It has been about 2½ years since the debut of the Private Retirement Scheme, but fund providers say more incentives from the government and greater awareness among the public would give the industry a much-needed boost.

BY EMILY CHOW

When the Private Retirement Scheme (PRS) was introduced in late 2012 as another source of retirement savings, in addition to the Employees Provident Fund (EPF) contributions, the Securities Commission Malaysia (SC) said it expected PRS funds to have RM30.9 billion under management within 10 years.

Today, with eight providers, 46 funds and more than RM850 million worth of assets under management (AUM), according to PRS central administrator Private Pension Administrator Malaysia (PPA), the nascent industry is still far from the target. PRS fund providers, however, remain optimistic about the industry's future.

According to Ho Seng Yee, CEO and regional head of retail distribution at RHB Asset Management Sdn Bhd, the awareness of the PRS has increased from less than 5% at its launch in 2012 to 35% at the end of last year. "The take-up rate has gone up over the years, owing to repeat customers and increased awareness due to publicity campaigns by the PPA and PRS providers," he says.

"The number of members [PRS contributors] and AUM have also increased — from 64,709 members and AUM of RM280 million at end-2013 to 128,975 members and AUM of RM716 million at end-2014, and to 142,085 members and AUM of RM851 million at end-April."

AIA Pension and Asset Management Sdn Bhd (APAM) reports encouraging growth for the PRS industry, despite its small size compared with the EPF and unit trust industry. CEO Mark Wang says the industry has seen a good take-up rate among the younger age group, with many contributors opting for growth funds.

PRS providers are required to offer three types of funds — growth, moderate and conservative. The equity exposure of these funds is limited to 70%, 60% and 20% respectively.

APAM has RM61 million worth of AUM and more than 10,000 PRS contributors enrolled to date. "The demographics of our PRS customers are balanced across all age groups. But initially, we received more contributions from older customers," Wang says.

In terms of fund preference, he notes that the younger age group has adopted a more aggressive investment style, which is consistent with the product's risk profiling.

"Then there are customers who choose PRS funds solely based on investment returns or shariah considerations," Wang says.

For Kenanga Investors Bhd, its growth funds are the most popular across all age groups. CEO Ismitz Matthew De Alwis points out that, based on industry figures, almost half the PRS industry's AUM of RM840.49 million is invested in growth funds.

"It is by far the most popular fund type for PRS. We believe that since the scheme is a long-term savings plan for retirement, contributors prefer higher returns over the long run due to the higher equity component, and Kenanga Investors follow this trend," he says, adding that the fund house's biggest group of PRS contributors are below 30 years old.

"We believe the government's PRS Youth Incentive and on-the-ground education for retirement is showing results among the Gen Y," he says.

The one-off, RM500 incentive is offered to contributors aged 20 to 30 who have deposited at least RM1,000 into their PRS fund during the year 2014 to 2018. Another government incentive to encourage PRS take-up is a tax relief on contributions of up to RM3,000 for a 10-year period ending 2021.

A FURTHER PUSH

While PRS players acknowledge these incentives have encouraged more contributors to come on board, they say more needs to be done to help the industry get to the next level. Several players want the government to provide incentives for employers to diversify EPF contributions into PRS and increase the tax relief for the scheme so that it is on a par with the EPF.

For APAM's Wang, this would help reposition PRS as a retirement product. "A further increase in tax breaks for PRS contributions from the current RM3,000 will help a great deal because RM3,000 in savings per year will not be sufficient to cover the retirement needs of individuals 10 or 20 years from today," he says.

"The average EPF balance upon retirement is only RM150,000, which is far from enough to sustain a person in their retirement years. Our statistics show that the average PRS contribution ranges between RM2,000 and RM2,500.This tells us that PRS is still perceived as a tax-saving product, to a large extent."

Chan Ai Mei, chief marketing officer at Affin Hwang Asset Management Bhd, agrees to the notion of giving corporations more incentives to implement PRS fund contributions as this would make it easier for providers to penetrate the market. Currently, there is no push or sense of urgency within corporations to adopt the PRS, she says, as this would give their human resource (HR) department more work.

"HR processes are very simple today, as the EPF process is already there. For them to adopt PRS ... additional data needs to be given to the PRS providers. There is also the [additional PRS] system they need to adopt," Chan elaborates.

"HR managers would need to do more work. This is the main issue. Some of them don't see having this additional benefit as a way of helping retain employees."

Despite having a strong corporate base (65% of its assets are from corporations), Chan says Affin Hwang finds it easier to market PRS funds to individual contributors than gaining critical mass by targeting corporates due to the relationship between the service agents and clients. Since agents already market unit trust funds, selling funds to individual contributors is seen as low-hanging fruit.

"We really have to make the process seamless [for corporates to adopt PRS]; it must be as easy as it is for EPF. But it isn't there yet and we are trying to bridge this gap. A lot of investment costs will be needed for us to build towards that," she says.

Since the current mandatory contribution of an employer towards an employee's EPF is 12% to 13% of his or her salary, Chan suggests further contributions by the employer on top of that should be channelled towards the PRS.

"That will do a lot of good for PRS providers, to develop the industry further and to give a lot more depth," she says, adding that increasing the current tax relief to RM6,000 for the PRS would put it on a par with the EPF.

But, even if the additional incentives are given, the PRS providers still face challenges. Wang, for one, says there is room for improvement in the areas of product awareness and sales processes.

Despite the good efforts of the PPA and PRS providers, he adds, it will still take time for people to understand the importance of having a retirement fund and how it differs from regular savings and investments.

"Take the Mandatory Provident Fund (MPF) in Hong Kong. It took more than 10 years of awareness building and public education on retirement planning to arrive at where it is today," says Wang.

APAM aims to simplify the PRS sales process, while maintaining sufficient risk disclosure to contributors. Wang believes digitisation and electronic channels are the way forward. He hopes to start selling its PRS products via its iPad-based sales technology (iPOS), as it does with its other insurance and financial products, over the next 12 to 18 months.

For RHB's Ho, the challenge would be in translating investor knowledge into action, as he recognises that awareness of one's retirement needs does not necessarily translate into PRS enrolment.

"Many people are still unaware of the need to have sufficient planning and savings for retirement. Attracting new contributors has been challenging, and we have not achieved the quantum growth expected," he says.

"Perhaps having a bigger portfolio of PRS funds to include Islamic funds may give leverage in attracting new contributors. This may address some of the diverse needs of investors."

A key challenge in attracting new contributors and having the current ones increase their PRS contribution amounts, though, boils down to debt.

"Consumer credit flows have increased drastically over the last few years, for credit cards, unsecured loans and mortgage loans," says De Alwis. "It's becoming increasingly clear that we can't look at savings in isolation."

According to him, saving for retirement is becoming increasingly hard. Baby boomers are estimated to own more than half of the country's wealth.

Generation X did not have retirement provisions as generous as those of the baby boomers, but had an easier time moving up the property ladder compared with today. For the average first-time home buyer in 1994, a house cost 2.3 times more than their salary, says De Alwis.

"Today, however, things have changed fundamentally for Gen Y or millennials. First-time home buyers [of this generation] can expect to pay five times their salary for property," he adds.

"They are most affected by the relentless rise in house prices, which isn't matched by a rise in wages. As a result, home ownership is becoming an increasingly unlikely prospect for many. This could force an unfortunate choice between saving for retirement and borrowing for a mortgage — both important stores of wealth for the long term."

For De Alwis, the debt scenario is likely to put pressure on long-term savings over the medium term. Combined with a lack of understanding about PRS and the importance of supplementing retirement savings, he believes education and awareness will kick-start retirement planning.

"Many Malaysians are still under the impression that they have enough EPF savings for their retirement. The EPF, which currently has 14,192,832 members, recommends having at least RM196,800 in basic savings upon retirement, but only 22% of its active 54-year-old contributors met this minimum last year," he says.

WHAT'S AHEAD?

More PRS providers and funds are expected to make their way into the Malaysian market in the future. While eight providers are deemed sufficient at this current stage, as this provides a reasonable number of product offerings to customers and encourages healthy competition in terms of investment performance and quality of service, more providers will come in as the market matures, industry players say.

"PRS in Malaysia is in its infancy, if we look at Hong Kong, which has a longer history of retirement funds, the number of funds amounts to 7,700, which are provided by banks, insurance companies, asset managers and trust companies," says RHB's Ho.

"Considering the local industry will be more mature in a few years, the number of providers should increase."

Over time, PRS funds will have to wean themselves off the currently used feeder fund strategy. As it usually takes time for fund sizes and take-up rates to gain traction, the SC allows providers to employ this strategy for the first five years or until a PRS fund exceeds RM200 million in AUM.

This means players are allowed to channel PRS fund contributions into an existing collective investment scheme, such as a unit trust or investment-linked fund, before being required to directly invest in the asset class.

"Based on the current AUM and number of PRS funds in the market, the average size per PRS fund is RM18 million. There is still a long journey ahead for all providers to be launching funds managed just for PRS," says De Alwis.

It is critical for players to reach economies of scale, as the pension fund and investment industry is capital-intensive.

"PRS providers have spent millions on systems, fund managers, marketing, distribution and training.

Thus, the industry needs to grow bigger and faster to reach economies of scale. When the industry grows to a certain economic scale, we believe there will be more providers wanting to launch PRS funds," says Wang

For De Alwis, what could be considered is implementing a national savings strategy supported by an independent body like the PPA to get people to save more for retirement.

"You can have auto enrolment or an account opening with money contributed via a central body and onwards distribution to selected PRS providers," he says.

"Companies will be the collection and payment 'outlet'. This will make things convenient and flexible for members in selecting their desired intermediaries."

Ultimately though, the PRS industry can only flourish in a thriving capital market.

"The growth of the unit trust and pension fund industry is dependent on the development of the capital markets, so we need deeper, bigger and more mature stock and bond markets to support the growth of the pension fund industry. In more developed markets, customers use unit trust funds to accumulate wealth while they invest in pension funds and insurance for retirement protection. All these vehicles are inter-related."

PRESSING ON DESPITE CHALLENGES

Comparison of PRS providers' conventional growth and moderate funds

COMPILED BY KUEK SER KWANG ZHE

	AMINVESTMENT SERVICES BHD	CIMB-PRINCIPAL ASSET MANAGEMENT BHD	AFFIN HWANG ASSET MANAGEMENT BHD	MANULIFE ASSET MANAGEMENT SERVICES BHD	PUBLIC MUTUAL BHD	RHB ASSET MANAGEMENT SDN BHD	AIA PENSION AND ASSET MANAGEMENT SDN BHD	KENANGA INVESTORS BHD
Upfront fee	Up to 3%	0.5% to 3%	None	Up to 2%	Up to 3%	0.5% to 1%	Up to 3%	For lump sum investment: Up to 1.5%/For regular contribution plan: NA
Annual management fee	1% to 1.5%	1.4% to 1.5%	1.3% to 1.8%	1.5% to 2.25%	1% to 1.5%	1% to 1.5%	Up to 1.5%	Up to 1.55%
Initial contribution amount	For lump sum investment: Up to RM500/For regular savings plan: up to RM100	RM100	RM100	RM100	RM1,000	RM100	RM100	For lump sum investment: RM1,000/For regular contribution plan: RM100
Subsequent contribution amount	Up to RM100	RM50	RM50	RM100	RM100	RM100	RM100	RM100
Growth PRS fund; exposure to foreign assets	AmPRS — Growth Fund; up to 50%	CIMB-Principal PRS Plus Growth; up to 20%	Affin Hwang PRS Growth Fund; 59% (as at Feb 28)	Manulife PRS — Growth Fund; up to 30%	Public Mutual PRS Growth Fund; 20%	RHB Retirement Series - Growth Fund; NA	AIA PAM — Growth Fund; 30% (as at end-April)	Kenanga OnePRS Growth Fund; NA
Moderate PRS fund; exposure to foreign assets	AmPRS — Moderate Fund; up to 40%	CIMB-Principal PRS Plus Moderate; up to 10%	Affin Hwang PRS Moderate Fund; 60% (as at March 31)	Manulife PRS — Moderate Fund; up to 30%	Public Mutual PRS Moderate Fund; 10%	RHB Retirement Series — Moderate Fund; NA	AIA PAM — Moderate Fund; 25% as at end-April	Kenanga OnePRS Moderate Fund; NA

The data above was collected from the official website of the Private Pension Administrator (PPA) and the corporate communications department of the PRS providers. For more information, please refer to the respective fund providers. The PRS providers also offer conservative funds, many of which are fully invested in local assets.

DIFFERENT MARKETING STRATEGIES

Each PRS provider is employing its own strategies to grow its contributor base. Kenanga Investors Bhd, for example, is working to penetrate the corporate sector. According to CEO Ismitz Matthew De Alwis, the provider is working with companies that want to introduce PRS as part of employee benefits.

"This is a mid-term initiative that will only prove itself over the next three to five years. Corporate employers need to play a bigger role in promoting PRS to their employees," says De Alwis.

AIA Pension and Asset Management Sdn Bhd is relying on fund distribution through their agency force, with 3,000-plus registered PRS consultants or agents representing 19% of the total industry. CEO Mark Wang reports encouraging growth in the last 12 months.

RHB Asset Management Sdn Bhd and Affin Hwang Asset Management Bhd employ a multi-pronged approach using banks, corporates and PRS consultants as channels.

"Sales are more successful with a broader distribution channel base to market the products," says chief marketing officer Chan Ai Mei.

"Industry-wide, there are 20,000 PRS consultants, 11 Institutional PRS Advisors (IPRAs) and nine Corporate Private Retirement Scheme Advisors (CPRAs). Three out of 11 IPRAs and seven out of nine CPRAs are distributing our products."

IPRAs are approved banking and financial institution distributors marketing for a panel of PRS providers, while CPRA are independent advisers marketing for a panel of providers.

Although Affin Hwang only has 261 PRS consultants, a 1% market share of the 20,000, it aims to increase this number and to work closely with CPRAs and IPRAs. "Our strategy is to grow together with them," says Chan.

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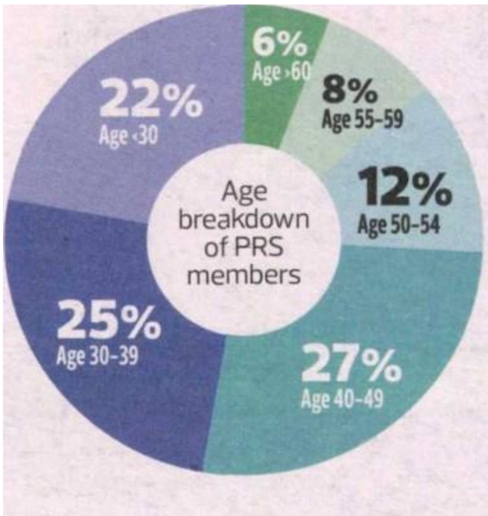

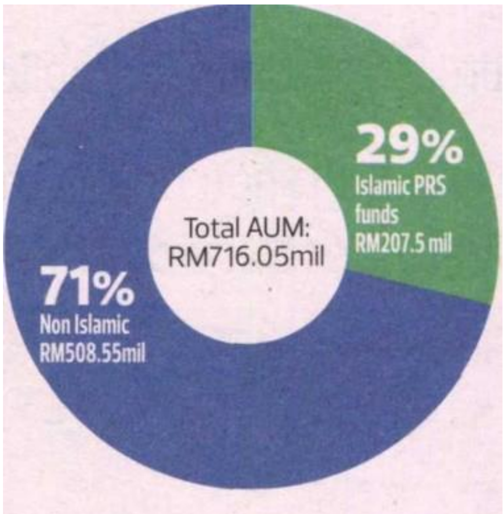

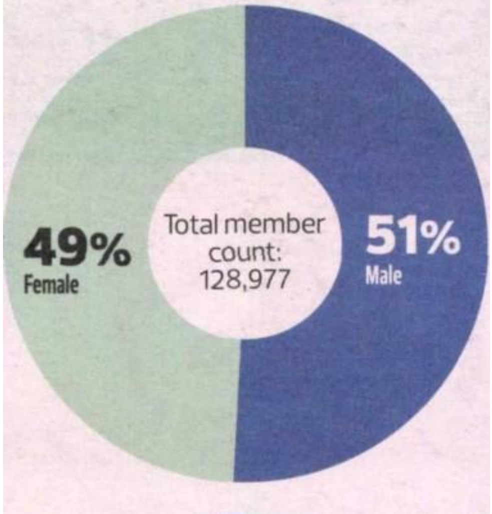

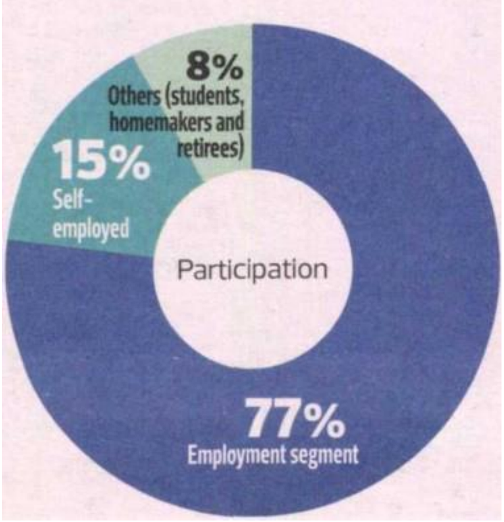

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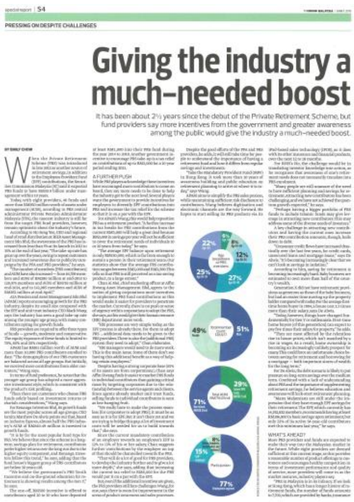
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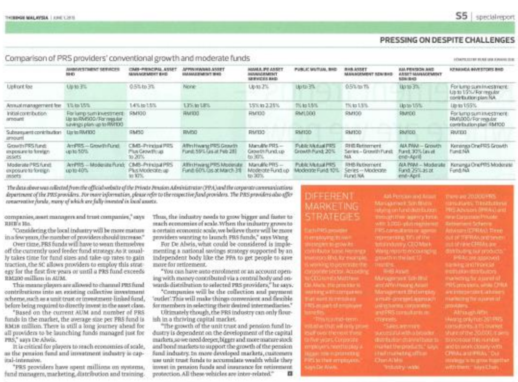
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