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# More PRS providers to make their entrance

Healthy market competition creates new synergy among players and improves product innovation

**BY JARIN**

**WITH** eight private retirement schemes (PRS) providers serving the local market, the expectation is that more providers be allowed in due course to enter the private pension space in the spirit of creating healthy competition among players and offering product variety for investors.

Fund managers and financial advisers alike say that opening up the local PRS market to more financial institutions will allow investors to have a wider selection of funds while permitting the PRS providers to compete for a slice of the PRS pie.

"More competition has been proved to boost competition, it always better for the consumers. As the private retirement scheme matures, the regulator should allow more fund managers to participate and offer a wider variety of savings options to the public," says Fortrose Capital Asset Management (M) Sdn Bhd CEO Thomas Yong.

He adds that there is room for more PRS players as this will give investors greater product variety, given the unique skill sets and capabilities possessed by different providers.

"When all, what is vital is the collective effort of industry players to work in synergy or form strategic partnerships towards a common objective of promoting the welfare of Malaysian retirees via informed resources, high quality products, and professional consultative services," he says.

Last April, the Securities Commission (SC) approved eight PRS providers which include AmInvestment Management Sdn Bhd,

The PRS is established by the SC to facilitate transactions and promote efficient administration of account holders to monitor their PRS funds.

Fortrose Capital's Yong says it is logical for the regulator to limit the number of fund manager presently to allow a manageable initial review and monitoring of the framework as the PRS is a newly devised scheme.

Whitman Independent Advisory Sdn Bhd founder and managing director Yip Ming Tai says some financial institutions may not have made submissions as they opt to wait on the sidelines until the PRS market further develops.

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**Those that did apply to provide PRS but did not receive the approval could be due to a lack of experience or not having the relevant management in place."**

American International Assurance Bhd, CIMB-Victoria Asset Management Bhd, Hong Kong Investment Management Bhd, ING Funds Bhd, Mandiri Trust Bhd, Public Mutual Bhd and RHB Investment Management Bhd Bhd. However, it seems unlikely that the regulator will authorize more PRS providers in the short-term. Prisma Pension Administration (PPA) chairman Swire Zetter Mohd Haniffa was quoted as saying last month that the regulator will not increase PRS licenses to financial institutions for now as the regulator wants to allow the existing eight players to re-configure their expenses. These eight players were selected from 20 submissions

to provide PRS but did not receive the approval could be due to a lack of experience or not having the relevant management team in place," he adds.

The Top reports more financial institutions to apply as the market cools forward.

For example, Maybank Asset Management (formerly known as Maybank Investment Management Sdn Bhd) is keen to enter the PRS space, given its recent strength and expanded investment capabilities, and with the backing of its parent company Maybank Group.

"Consent to the PRS submission and selection process period, Maybank Asset Management can

## Develop PRS market with education and more incentives

Yong says the regulator should consider further incentives to improve the long-term investors' checks for saving in encouraging long-term retirement savings among investors.



The private retirement of some PRS market can be further developed through education and providing more room from to give the full benefits of investors.

Maybank Asset Management Sdn Bhd CEO and MD Nor Azman Bahi says the development of the local PRS market will depend on the regulator's actions to make awareness and education among investors.

"Building awareness, education should also consider independent and unbiased perspectives particularly among the working population to educate them on the topic," he adds.

Whitman Independent Advisory Sdn Bhd founder and MD Yip Ming Tai agrees, adding that the authorities and existing PRS providers should conduct an education campaign.

"Besides creating awareness about the right PRS providers, the authorities should also highlight that investors not approach compare PRS providers and financial level PRS advisers. Whereas one of the key factors in selecting PRS advisers and we have had up with advice



A private retirement scheme helps individuals accumulate savings for retirement and complements the mandatory contributions made to the EPF.

deserve a restructuring exercise to consolidate all asset management businesses under one roof. Following the post-structuring phase in December 2012, we conducted an application to the SC to be qualified in one of the PRS service providers and an overall approval from the SC," says Azman.

He adds that Maybank Group can be a key player in the retirement landscape with its top ranking in terms of overall market share across all retail financial products, a strong insurance and mutual operator, a leading Islamic bank and extensive branches nationwide.

"An approval demand for PRS amongst retail investors is anticipated as indicators point towards a nation with improved household income coupled with better advanced financial planning knowledge and exposure," says Azman.

Malaysia's per capita income grew by 3.4% to about RM11,000 in 2012 from RM10,500 in 2011. The overall savings forecast for executive level salary increase is expected to be higher this year at 6.4% compared with the actual average salary increase of 0.29% in 2012 on the back of Malaysia's forecasted economic growth of 4.7% this year.

"Malaysians, looking back to their Asian values, have always believed in saving for a rainy day or old age - a habit that is deeply ingrained in us from a young age. Now, the PRS is a secondary option for retirement savings among investors on top of their Employees Provident Fund (EPF) savings," adds Azman.

Whitman's Yong says the eight approved PRS providers are companies with either an existing or a

trust management license or an insurance license.

"PRS providers require a separate license (initially the need to apply and receive approval from the regulator) and they then need to launch completely new funds that meet the PRS requirements," he says.

These eight PRS providers also have the knowledge and experience in dealing with private pension funds as their foreign counterparts are private pension fund providers in their respective markets such as Hong Kong, Canada or the US.

"In these private fund managers not only have the experience, but the IT system in place to support the roll-out of the PRS in Malaysia.

"As PRS is open to individuals as well as employees (companies), IT systems need to be in place and designed to instant contributions from an employee's monthly salary," adds Yong.

A key difference between unit trusts and PRS funds is that the latter requires long-term management while the former can be for shorter periods of four to five years.

A PRS is a voluntary long-term investment scheme meant to help individuals accumulate savings for retirement and complement the mandatory contributions made to the EPF.

Fortrose Capital's Yong says any full-fledged fund manager with a proper framework in place for client financial planning, portfolio structuring and management, and the human resource capability to manage unit trust schemes would generally be able to manage a PRS scheme effectively. **www**



“PMS providers” he says. Asset fund companies PMS providers (which are independent financial advisers) and individual PMS advisors (from other financial institutions) can market and distribute a PMS provider's funds after having set up the required PMS provider. While the tax limit of up to RM2,000 per annum for individual PMS contributions for 35 years starting 2010 serves as a pull factor for investors, you suggest that the amount be doubled to RM4,000 to motivate investors further as the current tax relief is still small.

Lastly, the current collective funds list should be risk rated as the Private Pension Administrator will change the member RM25 with the PMS provider will charge anywhere between RM20 and RM70 (depending on the PMS provider) to switch funds first time the calculation requested after one year," adds he.

Asari also says the regulations

should consider widening the range of asset classes and allow for higher returns to attract investors' interest.

The new Capital Asset Management (CAM) and PMS (Private Pension Management) Regulations should consider further liberalization to increase the long-term liquidity of PMS to allow investors to participate in long-term retirement saving or to invest in their retirement saving or to invest in their retirement saving or to invest in their retirement saving.

As most other investors have returns from their investments, investment performance should be well short of inflation in the long term. PMS currently allows account holders to withdraw a portion of their savings to be used for retirement — not just for retirement but also for emergency needs and other purposes. However, only four fund managers have been allowed to provide advisory managed investment portfolios," he says.

Maybank Asset Management's advice is to use retail investors shopping for PMS funds or PMS providers to consider the following elements — age, income, investment objectives, risk tolerance, and fees and charges.

“These factors are important as they will influence the type of product the investor will get for. A younger investor may have a higher tolerance for risk and hope to invest in an

aggressive portfolio fund or opt to invest in a more conservative one, for example, a bond fund. It is a trade-off between the risk and the return of the investment. The risk and return of the investment will depend on the asset class and the PMS provider's track record, management style and experience.

Do your homework to make a comparison of the PMS funds available in the market as fees and charges will differ from one PMS provider to the next. Lastly, remember that PMS funds are long-term investments to set your goals accordingly and take into account relevant inflation and other factors before you invest. It is important to ensure that you are investing in a PMS fund that meets your financial goals, he says.

“Remember, for a investor who are unable to choose to invest in PMS or equity plans (as both investments qualify for the benefit of RM2,000 under Budget 2012 for a 35-year period), the says there are several key

differences between equity funds and PMS.

“Equity plans are provided by insurance companies and require investors to make regular fixed payments. Thus, if you only RM1,000 per annum you will have to continue doing so or a penalty will be imposed. In the case of PMS, your payments can vary freely,” he says.

Secondly, equity investors provided a monthly guaranteed income during the payout stage while PMS does not provide such a guarantee. However, you says that if an investor selects PMS funds wisely — be it bond, equity or balanced funds — PMS funds can perform better than equity plans which has limited potential returns.

“Based on our calculation, the potential return for equity plans is 4-5% but PMS funds can perform better than this if you choose the funds well,” he adds.

Finally, an investor can withdraw the total cost of invested in the PMS fund on hitting the age of 55 but this is not the case with equity plans.

Asari says the development of the local PMS market will depend on whether suitable products to meet investors' and underwriting among investors.

