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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.

Maybank Asset Management Sdn Bhd CEO and MD Nor Azman Isahak agrees.

"As in any industry, healthy market competition generally results in better and more innovative products and services that give an edge to advances in innovation. Healthy external markets over the last decade have influenced positive behaviour. Thus, in order to the ever-changing needs of investors, it is foreseeable to have a synergy among a larger pool of industry players serving in their distinct abilities or areas of specialisation," explains.

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 Advisors 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.

Meanwhile, those that did apply

“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-Principal 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 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 for to give the full benefits of investors.

Maybank Asset Management Sdn Bhd CEO and MD Nor Azman Isahak 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 conduct independent and unbiased awareness campaigns among the working population to educate them on the topic," he adds.

Whitman Independent Advisors 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 the PRS providers and financial level PRS advisers. Whichever one of the four financial level PRS advisers and we have had up with advice

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 Yip 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 at their foreign counterparts are private pension fund providers in their respective markets such as Hong Kong, Canada or the US.

"In these pension 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 Yip.

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. ■■■■



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



PRIS providers," he says.

Asset-linked insurance PRIS policies (which are independent financial products) and traditional PRIS policies (from other financial institutions) are available to PRIS providers' funds, after having agreed with the relevant PRIS provider. While the tax limit of up to RM2,000 per annum for individual PRIS contributions for 35 years, starting 2010, served 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.

Given the current collective mood for risk, should the riskiest of the Private Pension Administration will share the burden (RM2) with the PRIS provider will charge anywhere between RM20 and RM70 (depending on the PRIS provider) to switch funds first to allow can only be requested after one year," asks you.

Asari's 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 (Pris) Bill (CAMS) Terms of Reference that the regulator should consider further liberalization to increase the long-term liquidity of assets for retirement saving and to allow retirement saving across markets.

As most other investors have returns from their investments, investment performance should be well short of inflation in the long term. CAMS currently allows account holders to nominate a portfolio of their choice to be automatically reinvested — not with funds or directly managed investment portfolios. However, only four fund managers have been allowed to provide asset-linked managed investment portfolios," he says.

Maybank Asset Management's, Asari's also says that investors shopping for PRIS funds or PRIS 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 hop to invest in an

aggressive portfolio fund or opt to invest in mature value who may have a lower tolerance for risk and may choose to invest in a more conservative portfolio or conservative fund," he says.

Asari's also says that investors should consider the fund's underlying assets and the risk associated with the asset classes, as well as the PRIS provider's track record, management style and experience.

Do your homework to make a comparison of the PRIS funds available in the market as fees and charges will differ from one PRIS provider to the next. I urge investors that PRIS funds are long-term investments to set your goals accordingly and take into account relevant tax issues, such as whether to invest in a tax-advantaged vehicle like a provident fund, an EPF and your financial goals, he says.

Asari's also says for investors who are unsure of whether to invest in PRIS or equity plans (as both investments qualify for the benefit of RM2,000 under Budget 2012 for a 35-year period), he says there are several key

differences between equity plans and PRIS.

"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 PRIS, your payments can vary freely," he says.

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

"Based on our calculation, the potential return for equity plans is 4% but PRIS 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 PRIS fund on hitting the age of 65 but this is not the case with equity plans.

Asari's says the development of the local PRIS market will depend on whether established institutions to raise awareness and conduct marketing among investors.

