



Keynote Address

Dato' Seri Dr. Awang Adek Hussin

Chairman, Securities Commission Malaysia

**"Forum on Improving Long Term Retirement Planning and Savings
Behaviour"**

Conference Hall 1, Securities Commission Malaysia

6 November 2023, 2:30pm

Key Highlights:

Speaking at the forum on 'Improving Long Term Retirement Planning and Savings Behaviour' SC Chairman, Dato' Seri Dr Awang Adek Hussin stated that the SC is expanding the PRS framework to allow current PRS providers and Digital Investment Management to offer algo-based PRS, encouraging younger people to start retirement savings.

Here are highlights from his speech:

1. The SC has prioritised building a robust voluntary pension systems to allow Malaysians a private option to supplement the public mandatory retirement scheme and provide longer-term savings flexibility.
2. PRS has grown steadily throughout the years, increasing by 25% between 2018 and 2022, from RM2.7 billion to RM5.4 billion.
3. Through outreach and incentives like the PRS Youth Incentive, membership base has increased by 40%, from 416,000 in 2018 to 577,000 in 2022, with most members under 40.
4. Behavioural Insights (BI) are being embedded in product design, marketing and advisory to advance the retirement agenda.
5. The SC staff discussion paper on encouraging retirement savings in Malaysia from a behavioural perspective highlights the need for embedding BI into market development strategies.

6. PRS providers must conduct more awareness programmes to boost retirement savings.

Full Speech:

Bismillahirrahmanirrahim

Dif-Dif Jemputan, Tuan-Tuan dan Puan-Puan Yang Dihormati Sekalian

Assalamualaikum warahmatullahi wabarakatuh dan salam sejahtera

1. Pertama sekali, saya ingin mengucapkan selamat datang kepada semua ke Suruhanjaya Sekuriti pada hari ini, bersempena dengan "*Forum on Improving Long Term Retirement Planning and Savings Behaviour*".
2. Forum ini akan memberi tumpuan kepada perubahan landskap persaraan, dengan penekanan khusus terhadap peranan tingkah laku (*behaviour*) dalam mempengaruhi pertumbuhan masa depan skim persaraan sektor swasta.
3. Menyedari peripentingnya perbincangan mengenai simpanan persaraan, kita dapati pelbagai pihak berkepentingan daripada sektor swasta dan awam turut hadir pada hari ini. Usaha kolektif ini amat penting dalam menangani salah satu cabaran utama Malaysia, iaitu kecukupan simpanan persaraan.

PRS supports public mandatory pension system as private sector driven solution

Ladies and gentlemen,

4. Malaysians, like many around the world, face the pressing challenge of not having enough resources to support their retirement. This concern heightens in the face of changing demographic and economic landscape, especially after the pandemic.
5. In Malaysia, we observe the Rakyat's heavy reliance on the government for their aged-care needs, and this has put tremendous strain on the government's budget¹. The Government is fully aware of this, as reflected in the "Madani Economy Framework"

¹ In fact, estimates by EPF indicate that the Federal Government budget is likely to see a 33% increment in healthcare spending by 2030, attributed to aging related health expenses

which emphasises the need for improvements to ensure that Malaysians have adequate savings for retirement.

6. This is a national issue that requires public-private collaboration, including the capital market. Aligned with Government policy and global ageing phenomena, the Private Retirement Scheme industry was developed back in 2012 to address retirement security challenges. Broadening and deepening voluntary pension systems was recognised as a necessary part of the solution.
7. In this respect, the SC prioritised building robust voluntary pension systems to give Malaysians a private option to supplement the public mandatory retirement scheme and provide longer-term savings flexibility. It provides a dedicated regulatory and approval framework for all components of the system to ensure high standards in governance and prudent risk management to protect members.
8. Over the years, PRS has grown steadily. Since 2018, assets under management (AUM) have risen by a compounded annual growth rate of 25% from RM2.7 billion in 2018 to RM5.4 billion in 2022².
9. Additionally, thanks to outreach efforts and incentives such as the PRS Youth Incentive, our membership base has grown by 40% from 416,000 in 2018 to 577,000 in 2022, with most members under 40.

Strategies to encourage participation: Longevity planning (decumulation, Target Date Funds) and greater advisory role

Ladies and gentlemen,

10. While the PRS industry has seen continued steady growth in AUM and membership, PRS coverage compared to the labour force is still low. Due to the evolving nature of work and the labour market structure, private retirement schemes must adapt to help more Malaysians meet their retirement needs.

² Total AUM of PRS as at Sept 2023 is RM5.86 billion, with 567,775 members in total.

11. Voluntary private pension systems need more flexibility in retirement planning, from accumulation to decumulation. This includes strategies to generate income during retirement, managing expenses, and addressing potential longevity risks.
12. While phased or programmed withdrawals and a post-retirement income fund have been added under PRS, investors must still be empowered with the tools and options they need to retire comfortably. A one-size-fits-all approach may not be suitable for everyone, therefore financial planners and consultants must play a vital role in longevity planning.
13. Moving forward, incorporating financial planning solutions and a greater advisory role may help investors better achieve their financial goals and maintain financial security in retirement.
14. Furthermore, the introduction of target date funds is a significant advancement in retirement planning customisation. Global best practice now favours default funds based on lifecycle investment principles. This approach allows for a smoother transition from accumulation to decumulation, because the fund's risk profile aligns with investor needs.
15. In this respect, we note that Target Date Funds were recently launched by one of Malaysia's PRS Providers. As regulators, we support such innovations because they take into account human behaviour. Target Date Funds simplify the process through automation, following behavioural economics, which suggests that **simpler choices provide better outcomes**.

Behavioural interventions as a strategy for the development of the market

Ladies and gentlemen,

16. While structural challenges like rising costs of living prevent Malaysians from adequately planning and saving for retirement, behavioural interventions can help overcome the initial inertia, build momentum and drive better retirement planning.
17. Over the years, the SC has seen Behavioural Insights (BI) increasingly embedded in product design, marketing and advisory. While human behaviour and decision-making are complex, we cannot deny the power of BI to nudge the retirement agenda forward. The use of default schemes and tax relief for investors are practical applications of these

insights. They simplify decision-making, encourage participation, and promote better financial outcomes for individuals seeking to secure their retirement.

18. The recent SC staff discussion paper on encouraging retirement savings in Malaysia from a behavioural perspective, emphasises the need for embedding BI into market development strategies via two key interventions.
19. First, effective communication at strategic life cycle touchpoints helps people appreciate the benefits of long-term savings.
20. Second, enhancing access to retirement platforms and automating contributions through direct debit simplifies saving, which elevates participation rates. The ease of saving is a key factor; hence, the Private Pension Administrator (PPA) is piloting initiatives with PRS Providers to increase contribution rates.
21. Building on these interventions, the concept of “sidecar savings” is a compelling example of behavioural science in action. The science of human behaviour shows that people struggle to save money because they prioritise immediate needs and rewards, above long-term goals.
22. The sidecar savings concept recognises this tendency by providing an emergency fund that is separate and easily accessible. This makes members feel more in control of their finances and reduces the temptation to dip into long-term savings for short-term needs.

Growing fintech trend to improve competitive positioning: robo-advise and micro-investing

Ladies and gentlemen,

23. Along with BI, advancements into fintech and digital transformation provide new opportunities. Fintech, notably robo-advisory distribution platforms and mobile app-based e-service providers, are powerful tools that can cater to the youth segment.
24. Furthermore, digital solutions that provide automated, algo driven financial advice, make investing simpler and more accessible, especially for those with less financial knowledge. Micro-investing, on the other hand, allows people to invest small amounts of money, often as little as a few Ringgit at a time.

25. Because of these developments, the SC is expanding the PRS framework to allow current Providers and Digital Investment Management to offer algo-based PRS. Digital or ePRS, will offer an alternative fund type structure, and allow smaller contributions to pre-approved model retirement portfolios. This accessibility will encourage young people to start retirement savings without feeling overwhelmed or financially strained.
26. For employer contributions, digitisation can be used if customer relationships are at a corporate level. The biggest challenge will be making the process pain-free for employers, who will have to modify their payroll systems to handle payments into multiple funds and schemes.
27. Overall, Providers must upgrade their services, improve operations, reduce costs and increase engagement.

Conclusion: Need for greater awareness and a multifaceted approach

28. Looking ahead, there is a growing need for Malaysians to take proactive steps to secure their financial future. This might include diversifying their investments, seeking greater reliance on financial advice, and exploring alternative retirement savings such as PRS.
29. Furthermore, all Providers should conduct more awareness programmes, to boost retirement savings. Young people's retirement expectations are changing, and so should our expectations of the managers who manage these savings.
30. Finally, addressing retirement savings shortfalls require a multifaceted approach that addresses both the structural and specific aspects of the issue. Continuing discussions and greater clarity on the way forward will be most useful. And for that, thank you for your participation in today's forum.
31. Thank you.