

ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

Session 5

The Role of Regulators

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SUMMARY PAPER

Background

- Malaysia has an extensive Pillar II framework – Employees' Provident Fund (EPF), Pensions Trust Fund (PTF), Social Security Organisation (SOCSO) and Armed Forces Fund (AFF).
- EPF is the largest institutional investor in Malaysia and guarantees investors a minimum of 2.5% dividend annually. (2007 : Divd rate of 5.8%). It maintains a 30% floor on investments in Malaysian government bonds and 20% ceilings in both equities and non-Malaysian assets. As a result, EPF mainly invests in government securities.
- There's growth in private pension funds, pension funds managed by asset management companies ("AMC"), unit trust funds and life insurance funds.
- As at 31 December 2007, there are 65 private pension funds managed by 20 fund managers, amounting to RM1.5 billion (USD 469mil) From this, MIDF Amanah has the largest share – managing 13 funds amounting to RM327 million (USD 102mil) (20% of total funds).
- Development of the pension fund industry goes hand in hand with the development efforts of the Malaysian Capital Market and its 9th Malaysian Plan.

Regulation Approach

- To date, there is no sole pensions' regulator in Malaysia – Securities Commission, National Economic Action Council, Bank Negara Malaysia and Inland Revenue Board all play respective roles in developing the pensions industry.
- A dedicated Investment Management Supervision department was established in May 2007 to supervise the fund management industry. This is in line with OECD principles on supervision.
- As per *OECD principle No. 4 : Adequacy of the private schemes*, fund managers in Malaysia who managed private pensioned plans are licensed entities whom are subjected to a fit-and-properness assessment.
- Each of the Pillar II retirement fund structures are governed by their own Acts.

Pertinent Issues in the Malaysian Pension Industry

Tax Incentives

- **Product wise**

Unit Trust Management Companies have requested for tax exemptions throughout the investment tenure (i.e. till retirement) and upon withdrawal.

- **Investors**

Several tax incentives have been introduced in the past few years to promote life insurance products, such as tax exemption **on annuity proceeds** and tax relief for insurance premiums, annuity, education and medical policies.

Lack of Alternatives to EPF

- EPF is seen as a safe haven, with average returns of 5% over the past 10 years. Also, the dearth of low risk investment instruments makes it difficult to beat EPF's track record.

Limited Supply of Assets/ Investments

- In addition to the lack of viable investment alternatives, lack of long tenure instruments, liquidity in the bond market (conventional and Islamic) has made them less suitable for long term investors, i.e. pension funds.

Market and Longevity Risks

Limited Global Exposure Hinders Efficient Diversification

- While the unit trust industry makes gradual progress towards a sizeable global exposure, exposure to global markets is still limited.

Dearth of Talent Pool in the Fund Management Area

- Structural weaknesses (i.e. limited investment instruments and products, absence of viable alternatives) and the lure of higher remuneration incentives abroad, has hindered the development of the fund management talent pool.