

# **International Social Security Conference 2016 – Active Ageing: Live Long and Prosper**

## **Your Retirement Aspiration: Making it a Reality**

**Jessica Chew  
Bank Negara Malaysia  
10 August 2016**



# Retirement aspiration ...

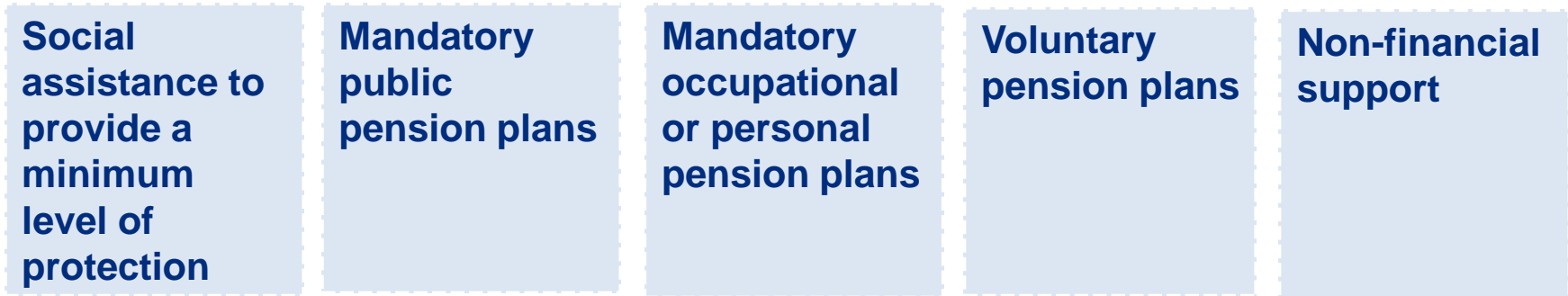
- 1 **Building up an adequate provision during the accumulation phase**
- 2 **Optimal use of funds during the decumulation phase to meet uncertain needs over an uncertain lifespan**

# Social Security System in Malaysia

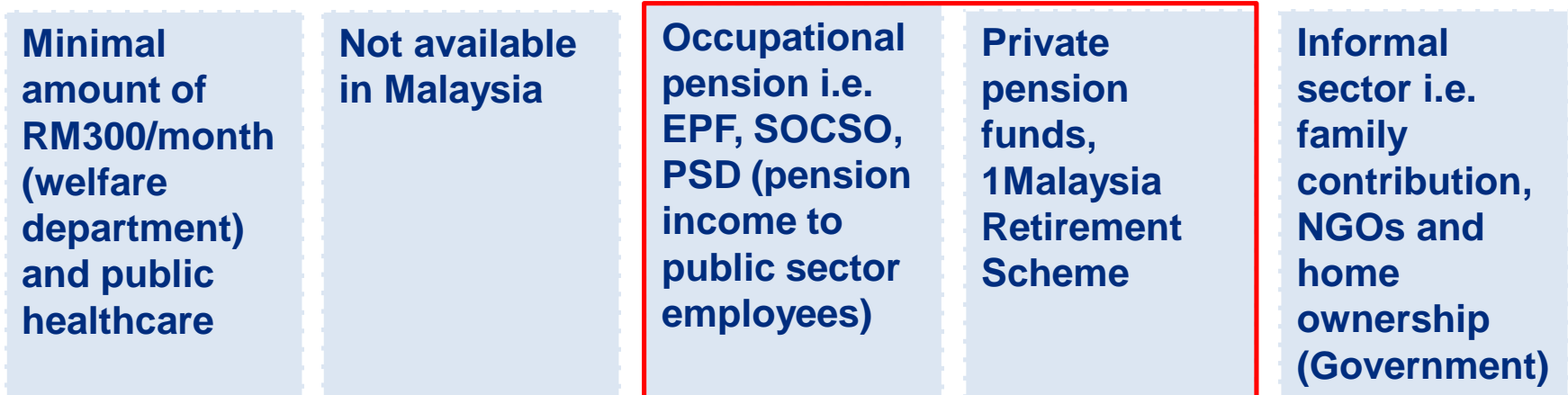
...under-developed voluntary pillars and challenges in delivering retirement income more efficiently and effectively under mandatory pillar



## WORLD BANK'S MULTI-PILLAR FRAMEWORK



## MALAYSIA SOCIAL SECURITY SYSTEM



# Significant proportion of Malaysians are not prepared for retirement

Majority of Malaysians worry about financial health and needs at old age



**33%**  
**VERY WORRIED**



**59%**  
**A BIT WORRIED**



**8%**  
**NOT WORRIED AT ALL**

But concerns do not appear to drive actual behaviour



**Ready for  
retirement?**  
**40%**  
**YES**

- Of 82% who claim to have strategies planned to meet expenses at old age, top five strategies include relying on children/partner (15% - 25%), will always work (25%) and government financial assistance (10%)



**60%**  
**NO**

- Underlying biases: under-estimating life expectancy, preferring to maximise disposable income today, optimism over ability to stretch income-earning period through phased retirement

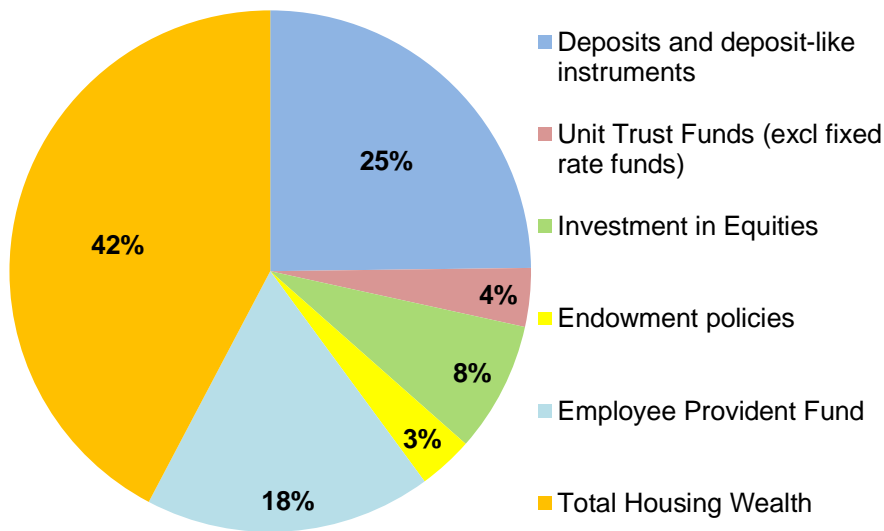
Source: BNM's Financial Capability and Inclusion Demand Side (FCI) Survey 2015



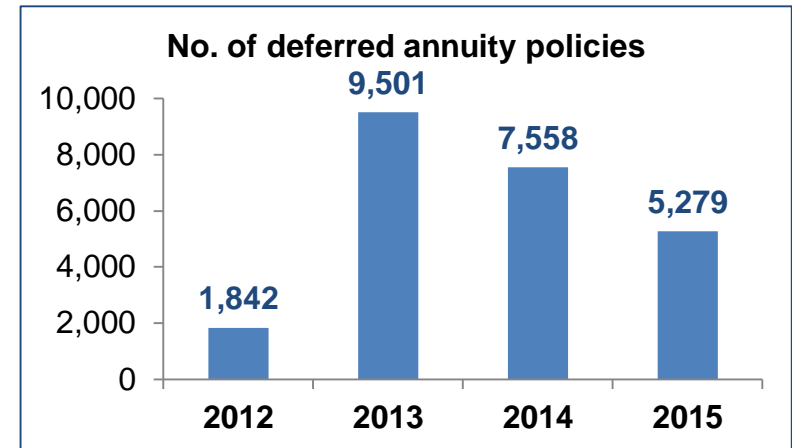
# Most Malaysians adopt a passive strategy for retirement

## Accumulation phase

Total Financial Assets and Housing Wealth  
Q4 2015



## Decumulation phase



*Only 24,180 policies with total annual premiums of RM280.2 million sold in the 4 years since tax incentives introduced*

Malaysians have various options to build their funds during the accumulation phase but most do not actively evaluate options to apply funds at retirement to provide a regular income stream during the decumulation phase

# Compounding issues

- **Low income levels in an environment of rising costs**
- **Heightened investment uncertainty**
- **Uncertain lifespan**
- **Uncertain expenses during retirement**
- **Lack of retirement product options**
- **Low financial capability, high product complexity and higher individual risks**

# 1 Re-shaping reality...through financial education, awareness and advice

- Integration of financial education into formal school curriculum
  - Financial education programmes targeted to all life stages
  - Establishment of financial education network to coordinate and drive financial education initiatives at national level
  - Leveraging on technology to expand reach and accessibility
- Improving access to and quality of advice on retirement planning
    - ✓ Financial adviser (FA) reforms
    - ✓ Strengthening the regulation of proper advice in the sale of life insurance products
    - ✓ Plain language initiative and better disclosures
    - ✓ Making better use of consumer behavioural insights



MyTabung



MyBNM



MyLINK



MyRinggit

## 2 Expanding product options for individuals



### Diversified and innovative pension products to help individuals manage risks of retirement

- Annuities – to mitigate longevity and inflation risks, and “locked-in” savings to minimise pre- and post-retirement leakages
- Long-term care insurance
- Financial solutions for retirees such as reverse mortgages

### Life Insurance and Family Takaful (LIFE) Framework expected to substantially improve conditions for greater innovation

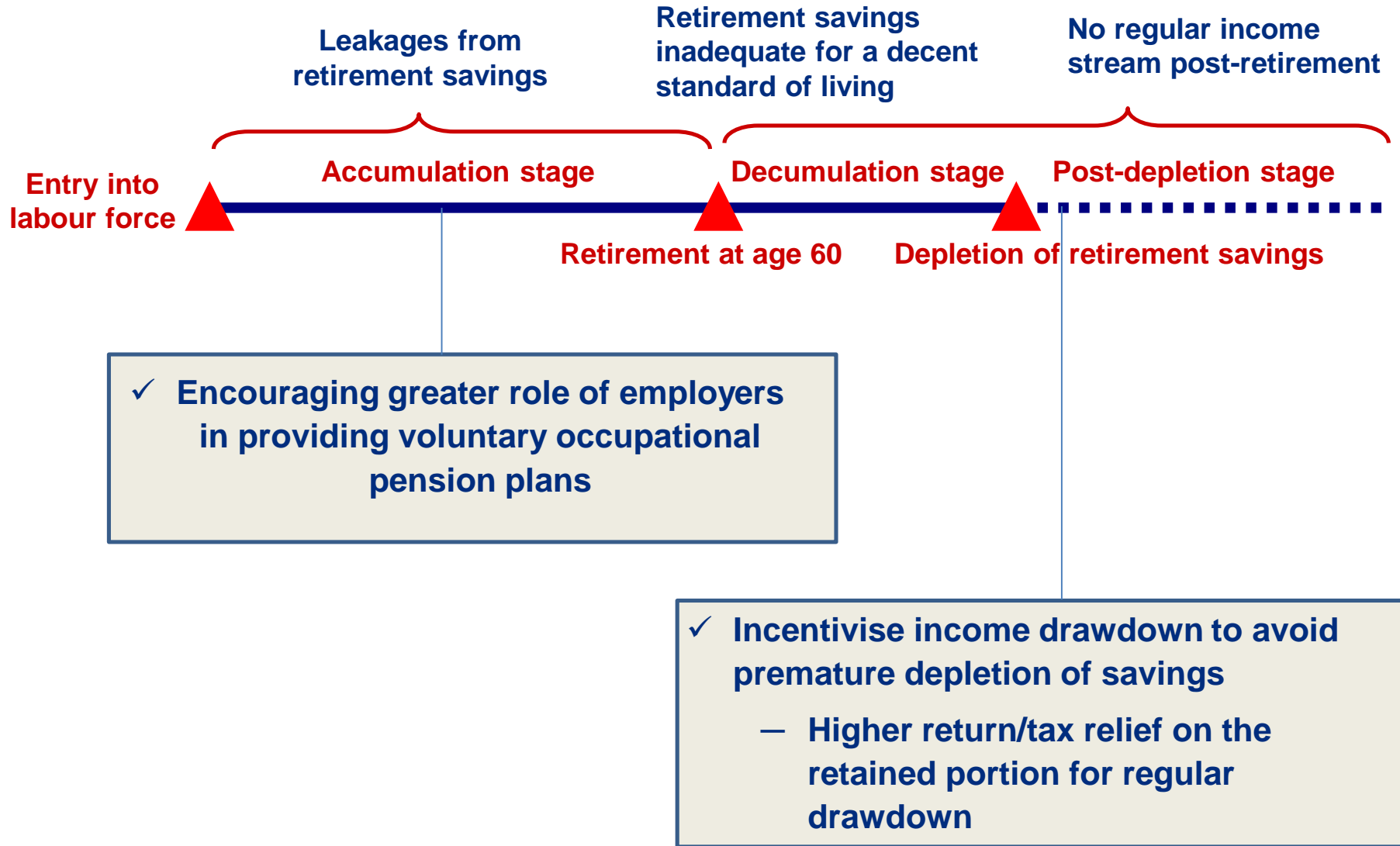
- i. Gradual removal of limits on operational costs to promote product innovation while preserving policy value
- ii. Diversified distribution channels to widen outreach
- iii. Greater alignment between product suitability and incentives

### Admission of new market entrants based on best interests of Malaysia

- effect on efficiency, productivity and quality of financial services



### 3 Improving incentive structures



## Desired consumer protection outcomes

**Fair  
treatment of  
consumers**

**Enhanced and informed  
participation in the financial  
system by consumers**

**Sustained public  
confidence and trust in  
the financial system**

### **Disclosure and sales practices**

- ✓ **Product transparency and disclosure**
- ✓ **Proper advice**

### **Fair Treatment of Financial Consumers**

- ✓ **Principles set out expectations on financial service providers on fair treatment of financial consumers**

### **Deposit insurance and guarantee scheme**

- ✓ **PIDM - deposit insurance, takaful and insurance benefit protection**

## **Assistance and redress mechanisms**

- ✓ **Establishment of a financial ombudsman scheme (FOS) to enhance financial dispute resolution arrangements**

Thank You

