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Subject: (Embargoed) Speech by Mr Ngiam Tong Dow, 18 Feb 2000, 7.30pm

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**KEYNOTE SPEECH BY MR NGIAM TONG DOW
CHAIRMAN, CENTRAL PROVIDENT FUND BOARD
AT THE 1999 INVESTMENT FUND AWARDS
ON FRIDAY, 18 FEBRUARY 2000, 7.30 PM
AT THE RITZ-CARLTON HOTEL**

1. Good evening, ladies and gentlemen. I am happy to be here for the fourth annual Investment Fund Awards. I congratulate the organisers, The Business Times, Standard Chartered Bank and Reuters, for sponsoring these awards.

2. The quantum of funds that are managed in Singapore has grown significantly over the years. Total assets under management were about S$12 billion in 1989. This has grown to S$204 billion in June 1999 --- a 17-fold increase over the 10-year period. The number of asset management companies in Singapore has also grown from 44 in 1989 to 189 today.

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3. The number of funds or unit trusts vying for the awards has also tripled, from 46 in 1996 to 112 in 1999. For the first time, awards are being given in the five-year category, in addition to the one-year and three-year categories. A total of 30 funds with a five-year track record qualified under this new category. It helps to demonstrate to investors the kind of long-term returns that unit trusts can provide.

4. Unit trusts and investment funds are an important segment of the financial sector in their own right. For this reason, Singapore has over the years actively promoted the fund management industry with generous fiscal and other

incentives. Another reason is the recognition of unit trusts as an important investment instrument for retirement planning.

5. All of us should not take retirement matters for granted. We should learn to plan early and invest our savings wisely, especially where our CPF savings are concerned. In fact the government had announced on numerous occasions that investing in unit trusts is preferred to punting on the share market. However, to the man-in-the-street, the unit trust is still a new phenomenon. Allow me to illustrate this using some CPF data. Although the overall quantum of funds managed had increased tremendously over the last 10 years, the amount of CPF savings invested in unit trusts remains insignificant. As at the end of 1999, only S$423 million of CPF savings were invested in unit trusts compared to S$5.3 billion invested in shares.

6. Just liberalising the fund management industry and getting the government's endorsement is clearly not enough. There is a strong need for the industry to do more to encourage CPF members to invest in unit trusts. The pool of CPF savings is nothing to be sniffed at either - there is still another S$26 billion in CPF savings that can be potentially invested.

7. In my view, the industry can do more in the following areas:

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7.1 EDUCATION

Ensuring the financial security of Singaporeans in their old age is a vital challenge. I would like to encourage all of you in the industry to play an active part in public education -- in particular the need for personal financial planning. The key messages that must be driven home to Singaporeans are that they should take charge of their own financial needs -- and not depend on their family or the state -- and that they should start early in providing for their retirement. As private-sector professionals, you can make a decisive contribution in making sure that these two messages -- 'Take Charge' and 'Start Early' -- sink in.

It is your role as an industry to embark on proactive education to reach out to the man-in-the-street. There is a need to meet the people on their level, to talk their talk on their terms. If you want more CPF investors to invest in your products, they must know what they are buying.

7.2 MORE RETIREMENT PRODUCTS

Products also need to be more varied to cater for the different risk appetites of investors. Last year, as part of the Inter-Ministerial Committee (IMC) on the Ageing Population, a Workgroup on Financial Security made several recommendations on the role and functions of the CPF and other instruments in the context of a comprehensive framework to provide financial security in old age. The IMC Workgroup has, for example, recommended stepping up contribution rates for the Special Account with age to ensure Singaporeans put aside more savings for old age, and allowing the investment of Special Account savings in excess of the Minimum Sum in 'safe' private-sector retirement instruments. The CPF Board and its parent ministry, the Ministry of Manpower, are now studying these recommendations together which, if implemented, could present an excellent opportunity for fund managers to develop more innovative and 'safe' retirement products to enhance Singaporeans' retirement savings.

7.3 HIGH EXPENSE RATIO

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For individual investors, unit trusts have long been a good way to invest as it allows them to benefit from diversified portfolios and the skills of professional fund managers. But a continuing concern, judging from the recent spate of readers' letters in The Business Times, is the high fees charged by unit trusts. This is an area where the industry can do more – by lowering your administrative, management and other avoidable costs.

Another contributing factor to high expense ratios could be the small size of some funds. Smaller funds tend to be inefficient. Perhaps, you as fund managers can consider closing your smaller funds, amalgamating them with others with similar investment objectives or absorbing some of the expenses of running small funds.

So far, the government has not regulated this area and has left this to the industry. However if this situation persists, the CPF Board may consider stipulating a minimum fund size as one of the admission criteria to the CPF Board's Investment Scheme.

7.4 LONG SETTLEMENT TIME

For the industry to remain efficient and competitive, settlement time must be fast. In the case of share trading, the settlement time will be reduced from T+5 to T+3 from 15 March 2000. Similarly, there is also a need for the fund management industry to examine how it can shorten the current settlement time, which can be as long as 10 to 14 days when investors use their CPF savings. The CPF Board, in consultation with the industry, is currently reviewing the processes to expedite the settlement times. This consultative approach is applicable to all aspects of the Board's work, to ensure that feedback is channeled and coordinated for better productivity and efficiencies.

7.5 RATE OF RETURN

Besides striving for efficiency and keeping charges low, the industry should also strive to achieve superior risk-adjusted returns for its investors on a consistent basis. It is difficult to persuade investors to leave their CPF savings in unit trusts to be managed by fund managers unless you establish a track record of outperforming the market and what the CPF pays. Last year's sterling results achieved by the industry is a good start. Out of 52 CPF-approved unit trusts that had at least 1-year track record, 45 have outperformed the average CPF interest rate over the past one year. The average CPF interest rate for last year was about 3.5% per annum.

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Whilst CPF members should make investments to enhance and maximise their risk adjusted rate of return, this must be counterbalanced with prudence and responsibility.

7.6 PRUDENCE

Recently there was an article in the Business Times where the writer questioned the necessity of CPF's two-tier system of approving unit trusts for its members. The Board had already replied and I would like to take this opportunity to reiterate that the Board has taken this more cautious approach to ensure that the unit trusts that are offered to CPF members are suitable for investment by retirement savings. The fund management industry should therefore support and not question the Board on this approval process.

7.7 RESPONSIBILITY

Finally, the decision to invest lies ultimately with the individual investors. The decision to invest must be balanced. My concern is that there is a tendency for some investors to over-invest. This can be seen from the recent financial crisis. As many as 69,000 CPF members had to dip into their Special Accounts to pay their housing instalments when the CPF contribution rate was cut. Out of these, about 14,000 of them had used up all their Ordinary Account balance for housing and investments. With the market uncertainty then, the members could not liquidate their investments without incurring losses.

Therefore while trying to attract more funds, it is also your responsibility as fund managers to advise your investors of the potential pitfalls of over-investment, and worse, over-trading.

8. FUTURE

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The gradual liberalisation of the use of CPF savings will stimulate the growth of the fund management industry. However, there is more. Another key IMC recommendation with significant implications is that measures be taken to develop a role for the private sector to complement the CPF system and to encourage Singaporeans to contribute voluntarily to private pension funds. I welcome this recommendation. For too long, Singaporeans have relied solely on CPF savings for their retirement needs. Because the CPF has been used for a variety of other social needs, and also because of increasing life expectancy, many Singaporeans do not have enough in their CPF for their retirement. They must supplement their CPF with private savings and invest them in instruments that yield good returns.

9. Last, but not least, it remains for me to thank the organisers and sponsors of these awards, and to congratulate the winners. To those who won awards, I am sure you will not rest on your laurels. For those who didn't, I am sure you will strive even harder. May I wish all of you a happy and prosperous year.

10. Thank you, and have a pleasant evening.

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16 Feb 2000

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