

**For discussion on
2 December 2019**

**Legislative Council
Panel on Financial Affairs**

Progress Update on the eMPF Platform

PURPOSE

This paper aims to update Members on the latest development of a common electronic platform (“eMPF Platform”) to facilitate the standardization, streamlining and automation of Mandatory Provident Fund (“MPF”) scheme administration processes.

BACKGROUND

2. In December 2018, we briefed the Panel on Financial Affairs (“FA Panel”) on the proposal¹ to set up the eMPF Platform to maximize operational efficiency so as to create room for fee reduction, and to create a predominantly paperless MPF experience. Members supported the proposal and the non-recurrent public funding of \$3,367.15 million was approved by the Legislative Council (“LegCo”) in May 2019. We further updated Members on the progress of the project in March 2019², including the plan to issue a Request for Information (“RFI”) by the end of March 2019, the target to issue the Request for Proposal (“RFP”) for the eMPF project within 2019 and the first-phase legislative exercise in 2019 to empower the Mandatory Provident Fund Schemes Authority (“MPFA”) to set up a wholly owned subsidiary to own and operate the eMPF Platform.

¹ LC Paper No. CB(1)309/18-19(04)

² LC Paper No. CB(1)791/18-19(01)

3. Since then, the Government has continued to work closely with MPFA to press ahead with the development of the eMPF Platform. MPFA has been tasked by the Government to design, develop and operate the eMPF Platform. A Steering Committee³ was established under the Management Board of MPFA in March 2019 to provide strategic steer and general oversight on the progress and deliverables of the project. In addition, we continue to engage and collect inputs from the industry through the Working Group on eMPF⁴ (“Working Group”) and its two Task Forces⁵. Parties concerned have been working full steam on the eMPF Platform. Progress on key areas is set out in the ensuing paragraphs.

LATEST PROGRESS

Common standards on MPF scheme administration processes and additional functionalities

4. Since December 2018, the Working Group and the two Task Forces, comprising representatives of the trustees, have had extensive and detailed discussion with a view to agreeing on a set of common standards and core functionalities for inclusion in the relevant tender documents. Whilst the major Technical Specifications (comprising Functional and System Specifications) were drawn up by the Working Group in September 2018⁶, parties concerned have continued to discuss and evaluate refinements that might be necessary and desirable. In this connection, we have identified further requirements to facilitate the interface between users and the eMPF Platform to enhance user experience and encourage digital take-up. At the same time, the industry has also suggested some additional

³ Apart from members of MPFA’s Management Board, government representatives from the Financial Services and the Treasury Bureau (“FSTB”), Labour Department and Office of the Government Chief Information Officer (“OGCIO”) also participate in the Steering Committee to provide policy inputs.

⁴ Under the direction of the Financial Secretary, a Working Group on eMPF co-chaired by FSTB and MPFA was set up on 2 June 2017 to steer the development of the eMPF Platform. The Working Group comprises representatives of FSTB, OGCIO, MPFA and the existing 14 MPF approved trustees who are administering MPF schemes.

⁵ The two Task Forces examine issues on standardization and promotion of digital take-up respectively.

⁶ The Functional Specifications were drawn up in consultation with MPF trustees in the Working Group.

functionalities to be taken up by the eMPF Platform. These additional functionalities include know-your-customer (“KYC”) / anti-money laundering (“AML”) support capability for customized trustees’ practices and needs. Another additional key functionality is the computation and administration of member-level fund unit balance.

5. Whilst the above additional requirements and functionalities could enhance the capabilities of the eMPF Platform, they would also expand the scope of the Technical Specifications which were used as a basis to estimate the costs and time required for designing and building the eMPF Platform as set out in the funding proposal presented to Members. In this regard, the Government has all along been open-minded to the provision of any technical solutions on the eMPF Platform which are conducive to enhancing the overall cost-efficiency, and thereby achieving fee reduction for the benefits of scheme members. Additional funds would need to be earmarked to accommodate the incorporation of the additional functionalities in the project.

Tendering exercise

6. In line with the plan reported to Members in March 2019, MPFA conducted an RFI exercise in the end of March, which was completed in May 2019. Overall, the results are encouraging and provide useful inputs for launching the RFP.

7. Notwithstanding the additional functionalities as set out in paragraphs 4 and 5 above, with the concerted efforts of the industry and MPFA, MPFA plans to issue the RFP for the eMPF Platform within December 2019, with a view to awarding the tender in the second half of 2020. Subject to the result of the tendering exercise, it remains our target to have the eMPF Platform ready by 2022 the earliest and the on-boarding to the eMPF Platform by all trustees by phases within the subsequent two to three years.

8. To facilitate the alignment between the functionalities and features of the eMPF Platform and users' needs and expectations, a stakeholder engagement exercise targeting companies of various scales, human resources practitioners and relevant service providers was carried out between October and November 2019.

Legislative exercise

9. Following the progress updates for Members in March 2019, the Mandatory Provident Fund Schemes (Amendment) Bill 2019 was introduced into LegCo on 23 October 2019. The Bill will empower MPFA to set up a wholly owned subsidiary to take forward the project of the eMPF Platform. Our current target is complete the legislative exercise within the 2019-20 legislative session such that MPFA can set up the wholly owned subsidiary to take up the preparatory work of the project as soon as practicable.

10. Further to this first-phase legislative exercise, the Government and MPFA will carry out the second-phase legislative exercise to conduct an overhaul of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) to reflect the changes in the MPF scheme administration work flow and enable the implementation and operation of the new eMPF Platform. Formulation of proposals for the second-phase legislative exercise is under way.

Promotion on digital take-up

11. As highlighted to Members in December 2018, the realization of the benefits of the eMPF Platform will hinge on the readiness and pace of digital take-up by users including employers, scheme members and the trustees. The introduction of the eMPF Platform will allow employers and scheme members to manage their MPF-related issues through one single platform. Employers will be able to handle all MPF administrative work more conveniently through the eMPF Platform. The process of arranging

enrolment and making MPF contributions will become less prone to errors and default contributions due to administrative errors will be reduced, thus helping to save both costs and resources. While trustees will remain accountable for their fiduciary duties towards scheme members, their administrative work and the associated compliance burden are expected to be reduced significantly after the streamlining, automation and centralization of administration processes by the eMPF Platform. In addition, the eMPF Platform will provide various functions (e.g. notification on receipt and allocation of contributions) to scheme members, which are expected to enhance protection of scheme members' benefits and MPFA's regulatory efficiency.

12. In tandem with the development of the eMPF Platform, efforts are being stepped up to encourage digital take-up. Since December 2018, MPFA has launched dedicated programmes to promote the wider adoption of electronic means for handling MPF transactions amongst employers and employees. Messages on digital transformation are being disseminated to different stakeholders (e.g. employer associations, labour unions, etc.) from May 2019 onwards through various online and offline publicity channels. MPFA has also promoted digital transformation to target sectors through large-scale events. For instance, on 26-27 November 2019, the "MPF e-Tools Experience Day" was held targeting employers and human resources practitioners to let them experience the efficiency of digital tools and services in processing human resources and MPF-related tasks.

Other preparatory work

13. As a large-scale infrastructure, the eMPF Platform will have interface with various stakeholders on different aspects. In this connection, MPFA has been liaising with different agencies and Government bureaux / departments such as the Hong Kong Interbank Clearing Limited in exploring feasible payment solutions and the Office of the Privacy Commissioner for Personal Data in developing satisfactory data privacy approaches.

NON-RECURRENT NEW FUNDING REQUIREMENTS

Additional IT costs (\$281.6 million)

14. As mentioned in paragraphs 4 and 5 above, some additional non-recurrent funding provisions are required to enhance the IT infrastructure of the eMPF Platform in the following aspects –

- (a) to provide additional hardware and software support for ensuring an effective interface between the eMPF Platform and trustees such that the latter can assist their clients to handle paper-based transactions during the transitional period upon the migration of MPF administration work from trustees' existing individual systems to the eMPF Platform;
- (b) to provide software support for employers to facilitate them to use the eMPF Platform upon and after the migration; and
- (c) to further increase data storage capacity and functionalities for common standards of AML/KYC on-boarding capability and services for members.

Funding requirement for the wholly owned subsidiary for the first two years of set-up and operation (i.e. 2020-21 and 2021-22) (\$254.88 million)

15. As set out in paragraph 23 of the FA Panel paper¹, funding approved by LegCo in paragraph 2 above does not cover the seed money for the set-up and initial years of operation of the eMPF Platform entity to be formed by MPFA. Funding will be required for the first two years of set-up and operation (i.e. 2020-21 and 2021-22) of the eMPF Platform entity (or by MPFA before the wholly owned subsidiary is set up) to take charge of the tendering and development of the eMPF Platform.⁷ In addition,

⁷ Including costs for furniture and equipment, office fitting out, office rental and the hiring of staff for essential functions covering project management, legal and human resources, etc.

further funding is required for the enhanced engagement of the trustees on the preparation of digital take-up during 2021-22 for better preparation of on-boarding arrangements after the implementation of the eMPF Platform.

16. In the longer run, the recurrent costs of the eMPF Platform and the wholly owned subsidiary will be recovered from trustees as service charge on a cost-recovery basis. Meanwhile, trustees also need to invest in adapting their IT and other systems to dovetail with the implementation of the eMPF Platform. Before the wholly owned subsidiary achieves breakeven, the Government plans to provide seed money to bridge the funding gap. The amount of seed money required will be determined having regard to factors including the results of the tendering exercise, the cost-recovery model, service level of the eMPF Platform and duration of transition. We will consult Members on this third-phase funding requirement in due course.

17. The additional funding requirements mentioned in paragraphs 14 to 16, as an increase in commitment to the approved funding in paragraph 2 to be sought in accordance with established mechanism, will be \$536.48 million spanning over the financial years of 2020-21 (\$136.12 million) and 2021-22 (\$400.36 million). Depending on the result of the tendering exercise, there may be savings or additional funding requirements.

WAY FORWARD

18. The Government and MPFA will continue the preparatory work for the eMPF Platform, including to –

- (a) complete the tender exercise, including assessing and awarding the tender in the second half of 2020;

- (b) discuss with the industry on details of the future operation and work out business model and scale of the wholly owned subsidiary in the long run;
- (c) discuss with trustees on data framework and governance;
- (d) liaise with different agencies and Government bureaux / departments on interface issues with the eMPF Platform;
- (e) prepare for the second-phase legislative exercise; and
- (f) promote digital transformation.

Financial Services Branch
Financial Services and the Treasury Bureau
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