



**Institute for
Capital Market
Research
Malaysia**

Pension Systems and Asset Management in the Context of Population Aging in the Region 2023

***“Capital markets and the asset
management industry in Malaysia:
An understanding of structural and
individual barriers to long-term savings”.***



Structural challenges impacting long-term savings and capital markets



Structural Megatrends Accelerated by COVID-19

Advancements in technology

Evolving nature of work

Demographic change + Retirement dilemma

Structural inequalities

Climate change

Labour Markets

Low wages Fresh graduates' median salary fell by a quarter from just over RM2,000 in 2019 to a paltry RM1,550 in 2020.

High youth unemployment and underemployment- 40% of youth are unemployed and 60% of youth are working outside of their field of expertise;

Low women participation rate There are only 54% of women are in the labour force with many opting to drop out around the age of 30;

Gig, informal and independent workers

Social Protection Gaps

Low social insurance coverage and protection – 55% of the working age population adults are not covered by any form statutory contribution (either EPF or SOCSO)

Fragmentation of social assistance programmes can lead to overlapping programmes causing both inclusion and exclusion errors. E.g. a UNICEF survey found that 35% of families that received financial aid in 2018 were not qualified (inclusion error) and 34% of households did not receive family allowances despite being eligible (exclusion error) .

Capital Markets as an Enabling Mechanism

Structural upgrade of the economy; and

Augmentation of the retirement savings landscape



Individual (behavioural) challenges impacting long-term savings and capital markets



Three cognitive biases* - status quo bias, loss aversion, present bias can impact an individual's decision to save for retirement

Present bias reflects the difficulty for an individual to act now in the interest of the future. It can also be exacerbated by poverty, financial and mental stress. Financial scarcity and stress can reduce a person's capacity to make sound decisions and solve problems

Retirement inadequacy

- Study by ICMR showed that those below 40 years old met the threshold for retirement savings as determined by EPF. However, as soon as they reach 41 years old, more than half of the EPF contributors are not able to meet the target basic savings for each age group.
- EPF savings as a source of emergency savings during COVID-19

Low financial resilience

1. BNM survey highlighted that while 84% of Malaysians do save on a regular basis, these savings are typically withdrawn by the end of the month
2. In ICMR study on Millennials and Gen Z in 2021, it was found that "saving for retirement" is not a top priority in younger generation's financial goal
3. Data on financial literacy shows Malaysia ranks lower than average compared to OECD Financial Literacy Score, particularly on "attitude" which measures long-term financial planning

Problems with mental accounting

Challenges in saving for retirement especially for low-income group as their needs for short-term liquid and emergency savings outweigh long-term savings for retirement

Impact the individual's capability to save for retirement

Retirement readiness needs a nuanced and tiered approach leveraging on BE

e.g opt out, defaults, reduce choices for pension funds to reduce decision fatigue, framing

Understanding the structural and behavioural barriers of different segments of the population e.g. demographic, gender, income and financial literacy levels and risk tolerance

Trust and relatability matters especially for the younger generation
Trust of financial advisors and intermediaries are a big concern

Source: ICMR,

*according to Benartzi and Thaler (2007)



Key characteristics of identified investment groups

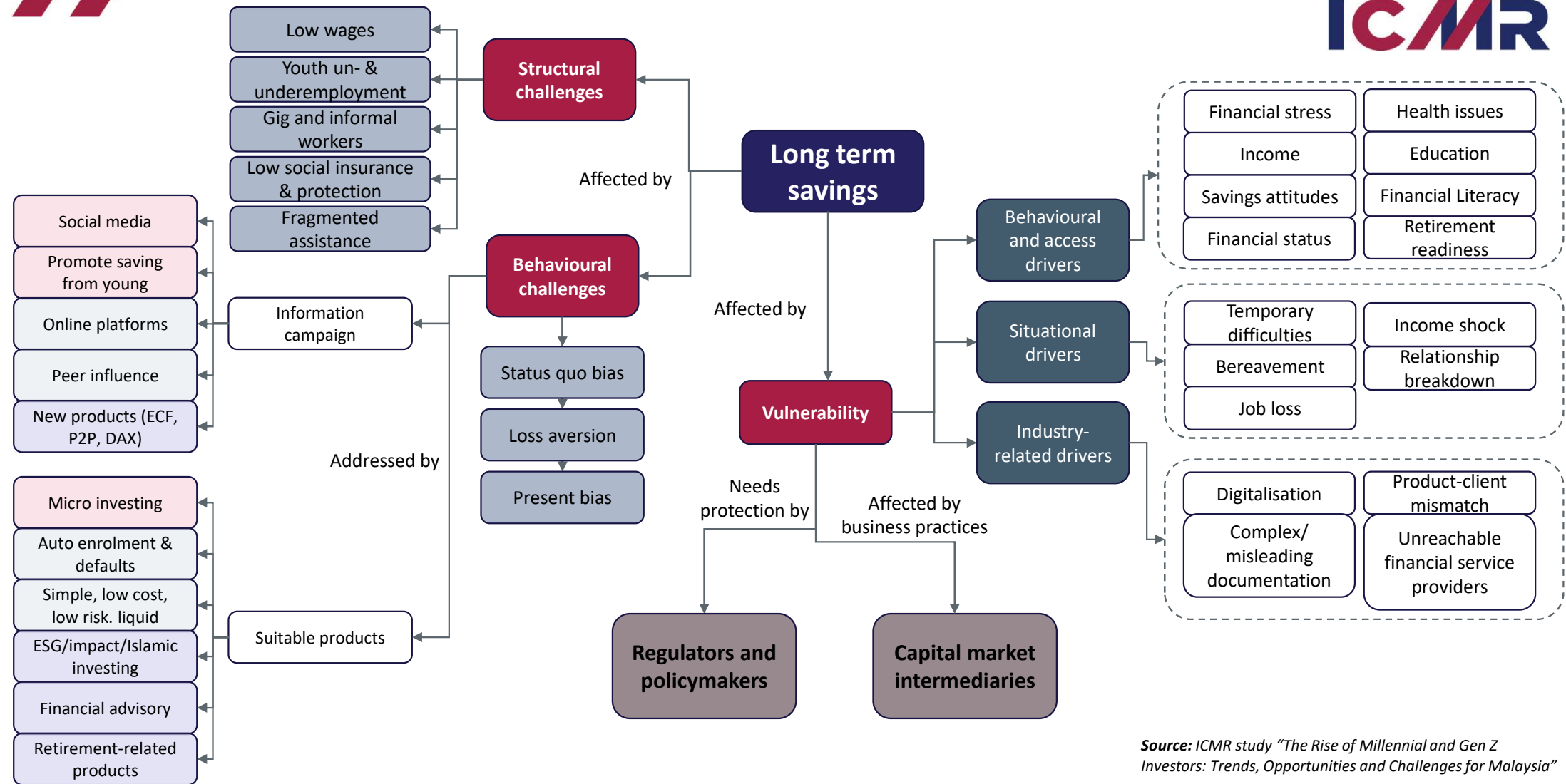


Group	Gender (majority)	Largest household income groups	Income source (majority)		Risk Tolerance (self-assessed)	Financial Literacy (self-assessed)
A - Not invested in capital markets (22%)	Female (58%)	Less than RM4,999 (69%)	Salary (65%)	Allowance (19%)	Risk averse (40:34:26)	Only know a little (65%)
B - Only invests in 1 low-risk unit trust product (33%)	Female (61%)	RM3,000 – RM9,999 (71%)	Salary (82%)	Freelance income (26%)	Low-moderate risk taker (26:35:39)	Only know a little (65%)
C - Diversified capital market investments (45%)	Male (60%)	RM5,000 – RM15,000++ (71%)	Salary (87%)	Bonus (44%)	Risk taker (14:30:57)	I am quite knowledgeable (48%)

Note: Findings on characteristics and groups found in Millennials and Gen Z study in 2021 (n:1,500) are similar with the findings from Vulnerability study in 2022 (n:2,019)

Source: ICMR study “The Rise of Millennial and Gen Z Investors: Trends, Opportunities and Challenges for Malaysia”

Conceptual map introducing results from internal research



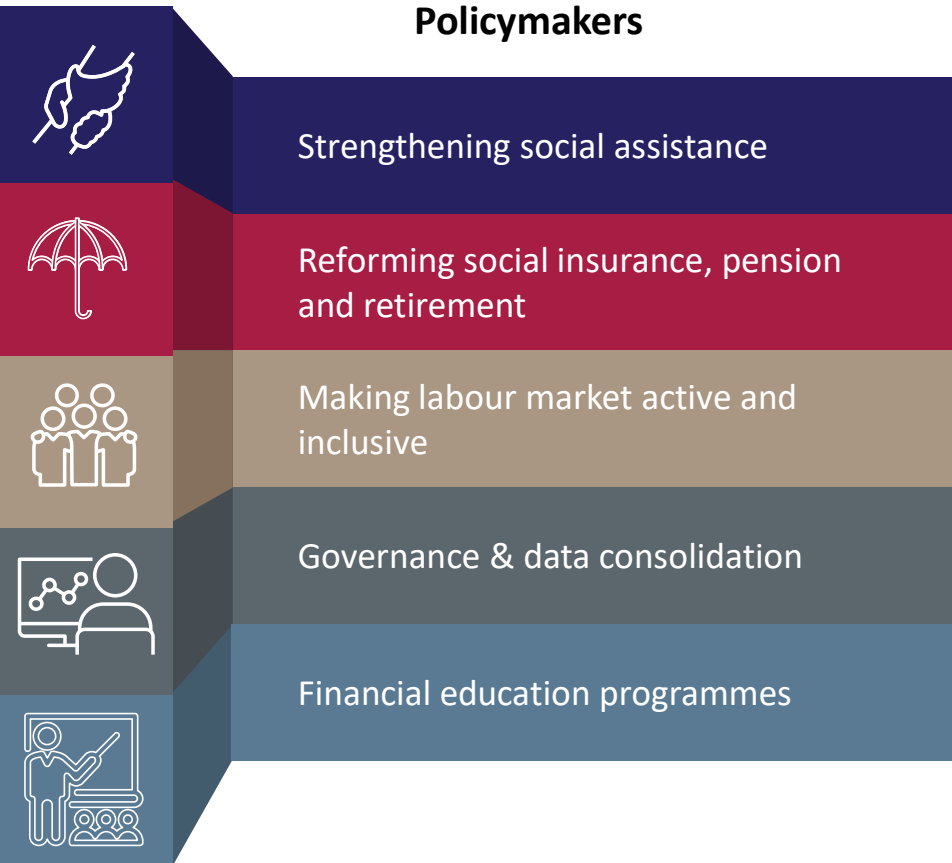
Source: ICMR study "The Rise of Millennial and Gen Z Investors: Trends, Opportunities and Challenges for Malaysia"



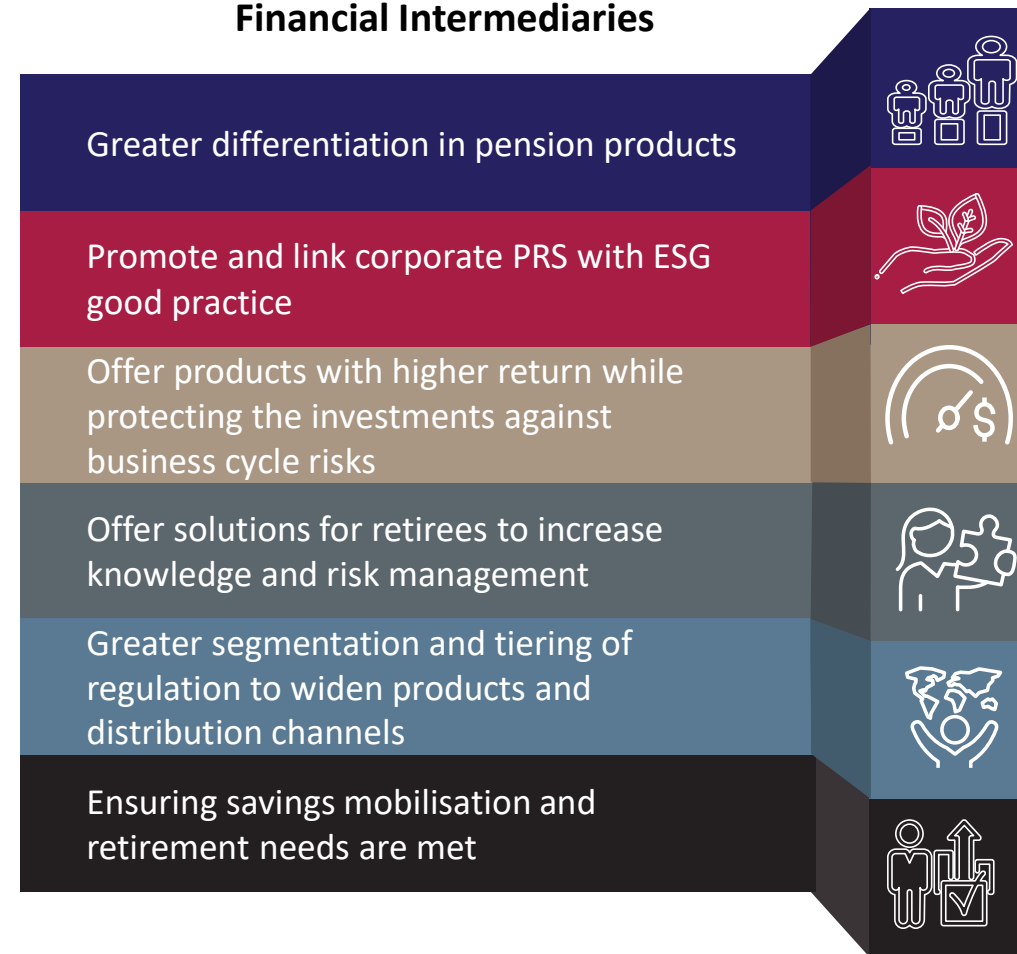
Roles of various bodies to address structural challenges affecting long-term savings



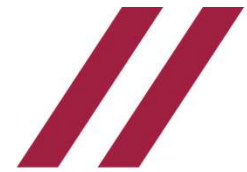
Role of Government and Policymakers



Role of Capital Market and Financial Intermediaries



Source: ICMR study "The Rise of Millennial and Gen Z Investors: Trends, Opportunities and Challenges for Malaysia"



Thank You