Second Pension Conclave, New Delhi, 4th February, 2016

Second Pension Conclave with the theme “Universal Pension- Coverage, Adequacy and Sustainability” was organised by the Pension Fund Regulatory and Development Authority on 4th February 2016 at New Delhi. The event was graced by Hon’ble Minister of State for Finance, Government of India, Shri Jayant Sinha who augmented the conclave. There were presentations and panel discussions by eminent domain experts from World Bank- Mr Onno Ruhl, Country Director, Mr Robert Palacios, Senior Pension Economist and Mr William Price, Sr. Financial Sector Specialist, and distinguished economists, thinkers and academicians like Prof. Mukul Asher, Prof. Charan Singh etc. The Conclave was also attended by the different stakeholders under NPS viz.Public and private sector banks, Point of Presence, Corporates, Central record keeping agency, Trustee bankand Annuity Service providers.

The discussions covered wide ranging sub-themes viz. (i) Pension reforms as part of the financial sector and fiscal reforms, (ii) social and economic aspects of the pension reforms, (iii) adequacy and sustainability of the pension to fulfil Government of India’s policy and vision of pensioned society with universal pension for all segments of population, (iv) best global practices in the pension sector (v) pension funds as source of long term funds for the infrastructure growth and capital market deepening and (vi) ensuring a clear vision for long term outcomes from the pension systems.

Inaugural Session: Pension reforms

Shri R.V.Verma, Member, PFRDA welcomed the delegates and initiated the conference by introducing PFRDA; its inception and role. He informed the milestones of the pension coverage achieved by PFRDA in terms of subscribers and AUM which crossed the mark of 1 crore and 1 lakh crore respectively, in November, 2015 and portrayed the path to reach out the uncovered gaps due to regulatory overlaps.

Mr Onno Ruhl, Country Director, World Bank spoke on his rich and diversified experience in India. India faces the challenge of demographic dividend, ageing population and skilling enhancement of youth. Currently, the country has around 160 million people and by 2030, 190 million people will cross 60 years of age. The country requires synergising the efforts towards providing a platform for financial inclusion and developing a system to link pension to pay.

The Hon'ble Union Minister of State for Finance, **Shri Jayant Sinha**, released a handbook on NPS and distributed prizes to Banks for their performance in the Atal Pension Yojana. State Bank of India received the award for highest Atal pension Yojana (APY) accounts sourced, Andhra Bank for best performing bank in the category of Public Sector Banks, Tamilnad Mercantaile Bank for best performing bank in the category of Private Banks, Madhya Bihar Gramin Bank for the best performing bank in the category of Regional Rural Banks and Kottayam District Cooperative Bank for best performing bank in the category of Cooperative Banks. In his speech he stressed upon the priority to provide the universal pension security including income security, health and life insurance to the people and believed in the philosophy to empower Indian with tools and knowledge to take ownership of their own retirement. In his address he stressed upon the fact that it is the right time when the advantage of young India with its demographic dividend and the growing economy can be leveraged with skill development and mitigation of low level financial literacy and expanding the coverage of pension with the participation of private sector with a sense of urgency. He stressed the importance of enrolling people into pension schemes as quickly as possible, to take the advantage of the large number of young people in the country who would otherwise become dependent on the state and society in the old age.

Shri Hemant Contractor, Chairman, PFRDA, in the keynote address, gave an overview of the developments in terms of NPS infrastructure and product development during the last two years He informed that

PFRDA was instrumental in notifying 14 Regulations defining the role and responsibilities of all stakeholders of NPS. During the last year PFRDA has spruced up the pension product making it user friendly by introducing the online mode for registration and contribution upload under NPS. Currently 16 Banks are providing this facility. Around 35 Banks are using the SBI payment gateway, which can facilitate the said service to all citizens of India. The online exit shall be mandatory from 1st April, 2016 to facilitate the exit process. He mentioned that PFRDA was constantly striving to improve the risk/ reward profile of the investment portfolio and in the process had permitted investment in new investments such as REITS, INVITS, IDFs etc. He also added that effort was required to meet the challenges facing the unorganised sector including low awareness and low income levels to save for the future. An effective distribution channel with proper incentive structure would go a long way in expanding the reach of NPS among the masses. 2 It was important to include as many people in the pension plans, so that they would not face deprivation in their old age.

Session 1: Expanding coverage with long term sustainability

- The session covered discussion on pension as an old age social security measure with the issues and challenges in expanding the coverage for an inclusive pension regime. NPS has more than 1.14 crore subscribers and total Asset Under Management (AUM) more than Rs.1.09 Lakh crores.

- **Dr Mukul Asher**, Professorial fellow, Lee Kuan school of Public Policy, Singapore, opined that *each* pension scheme need not be designed to provide the full retirement resources, a ***combination*** of different methods and instruments can be harnessed to provide retirement income security. The design of the pension system should instill trust and credibility that the pension promises will be kept, and the tax and regulatory policies should be predictable. He emphasized that in a specific pension scheme it is essential to recognize that it is the pension organizations who deliver pension services. Focus should be on improving the organizational performance in undertaking the core functions of any pension scheme. Implicit in these functions is for the pension organization to be governed in a manner which sustains credibility of pension promises, and fosters trust by the pension scheme members and by the general public in those responsible for managing the organization. The incentives inherent in design and implementation of schemes by the organization to relevant stakeholders should therefore be recognized and appropriately structured. There are several areas where shifts in thinking about public pension funds merits consideration. Focus on both market and non-market components of household welfare to provide a bundle of goods and services needed in retirement rather than just monetary benefits. There an urgent need to shift the focus of public pension organizations and other stakeholders such as the 'civil society groups' from welfare-orientation to professionalism in pension design and performance of core functions.

Ms Ashu Suyash, MD & CEO, CRISIL, highlighted the challenges India faces today in the retirement space. According to her, the country faces weak coverage, higher fiscal costs and inadequate accumulation of corpus, for individuals covered by retirement plans. If social safety net is not built for the citizens, pension burden of the government could rise to 3.9% of GDP by 2050, from 2.2% now. Defined contribution formula introduced under NPS by the Government for its employees in 2004 will trim government employee pension burden to 0.7% of GDP by 2050 from 2.2% of GDP now. Adequacy of corpus is also a challenge, under both Defined benefit and Defined contribution pension schemes in India. Enhancement of retirement coverage under unorganized and self-employed sector is need of the hour. She suggested that increase in share of organized sector employment will help bring larger section of working population under ambit of retirement products, such as EPF and NPS. The administrative network of institutions such as India Post, Zilla Parishads, Gram Panchayats, Co-operative societies and Market Committees should be leveraged. Independent advisor model for distributing pension products, especially amongst unorganized sector needs to be promoted and incentivized. She was of the view that aggregator model could facilitate daily collection of contributions, especially from self-employed sectors. Funded Defined Benefit products, such as Atal Pension Yojana, for lower strata of society may be evaluated. Advertisements and investor awareness meets could be effective medium for both organized and unorganized sectors.

William Joseph Price, Senior Financial Sector Specialist, World Bank Group deliberated upon expanding pension coverage with long run sustainability. According to him, good pension policy looks for broad and diversified sources of retirement income for a country. Different sources are needed to expand coverage and ensure sustainability – since no one 'pillar' can achieve everything. Policy design needs to be routed in the nature of the labor and capital market – now and developing them for the future. There is a chance for greater savings to help fund better infrastructure – but it does not happen organically – proactive, efficient and well-targeted policy and regulation are vital. India is often highlighted as a young country but the share of the elderly is set to double by 2050 – creating only a short demographic 'window'. Current contributions into pensions are also very low – creating a significant challenge despite being a 'young' nation. Health costs that rise strongly with age add another dynamic to be proactive on tackling pension costs and the consequences of not balancing sustainability whilst expanding coverage can be painful. India already has many pension channels that can be leveraged more effectively and coherently – building on new PFRDA Act. In theory pension assets provide a source for long term finance – including for infrastructure and improved coverage needs to be built on a strong supervisory foundation focused on improving long run outcomes.

Ms Monika Halan, Editor, Mint Money spoke on the distribution aspects of NPS. The financial product being invisible, is created when it is described. Hence, the need for a distributor who explains and sells the product and has the trust of the investors. Transparency of the financial product in terms of costs and benefits with the presence of bench marks is essential. The financial product should be portable with opportunity for switching and minimum exit cost and comparable with other financial products in the market. NPS is a good product in all these aspects. However, it is placed in a bad market.

Session II: Pension Policy and implementation of NPS: Social pension for unorganized/ informal sector

Dr. Charan Singh, RBI Chair Professor at the Indian Institute of Management, Bangalore, India gave an insight into the minds of average middle class Indian about old age security and mode of savings based on his empirical studies. The unorganised sector is characterised by limitations in cash flow, low level of disposable income and the inability to save for old age. The main instruments of saving still remain the gold, real estate and chit funds. There is a greater need for financial literacy. The increase in life expectancy and the gender disparity shall lead to consequences like high cost of medical care. The Atal Pension Yojana with the low amount of intended pension at the time of retirement and non-coverage of a large section of population over 40 years of age are bit challenging.

Dr. Shashank Saksena, Economic Adviser in the Department of Financial Services gave an insight to the inception of National Pension System. The shift from DB to DC was based on the realisation of the fact that DB was not sustainable for government employees. NPS was devised to remove sector specificity and to realise economies of scale and scope. It is financially sustainable and cost efficient. The defined contribution models are generally criticised worldwide due to high costs. So at design stage of NPS care was taken to have unbundled architecture which includes best institutions to offer services in which they have comparative advantage. He also informed that the NPS was open to private sector also post numerous surveys and research. A classic case of myopia is observed among the people with respect to savings for their future. The behavioural insights show the saving instruments and collection agencies which are trusted by the people. Such studies can provide course correction in redesigning pension system and how to market the product according to the needs of the people. He said the biggest challenge for PFRDA is to increase the coverage of NPS. No country has been successful in obtaining good coverage for voluntary pension schemes. NPS has taken the advantage of empirical studies, research in human psychology, behavioural economics to make the product simple. It is imperative that financial literacy be increased so that people can take advantage of NPS which is cost effective, portable and provides opportunity to invest beyond the traditional investment products like small saving schemes and gold.

Robert Palacios, Senior Pension Economist at the World Bank, spoke about the evolution of pension schemes over time across the world including in India. The evolution of employment linked pension in India and introduction of mandatory schemes for private sector were covered. He shared the difficulties countries are facing in increasing the coverage of pension schemes. He was happy about the recent development in the financial sector in India in terms of insurance, pension , banking. In his presentations he focussed on the aspects viz.

1. To consider NPS as a major factor for paradigm change in shape of Indian economy
2. Employment linked pension : India and the world
3. History of pension sector across the world
4. Importance of pension for India in coming decades
5. Social pension and the policy tools
6. Increasing voluntary contribution based pension schemes for formal and informal sector
7. Financial incentive and its importance to develop the market
8. Architecture of NPS and key areas to be focussed on

Session III: Issues in expanding pension penetration; NPS Architecture and its value proposition; Challenges in marketing and capacity building initiatives

Dhirendra Kumar, founder and CEO of Value Research was very positive about the developments in NPS during the last year. He spoke about the choice to the subscribers to be given in terms of allocation of funds in different asset classes. He emphasized the importance of equity investments in NPS, which can provide better return in long run, simultaneously also providing choice in asset allocation. He was in favour of floating guaranteed return scheme by PFRDA. Due to marketing of pension schemes, subscribers' benefit should not be compromised. The exclusive tax deduction available under section 80 CCD(1B) will have far reaching impact for increasing awareness about NPS. Atal Pension Yojana is also a revolutionary schemes for the weaker section of society. He also emphasized on providing incentives to the participants (intermediaries) to increase the awareness about NPS. In order to make NPS comparable to other similar pension schemes in the market there is a need to bring them at par in terms of taxation.

Amitabh Chaudhry, Managing Director and Chief Executive Officer, HDFC Life threw light on the positive aspects of NPS and insisted that it needs marketing to increase its penetration. Majority of the population lacks the vision to think and plan for the future. NPS needs to be brought at par with other pension schemes to bring parity and competitiveness among the pension schemes in the market. NPS growth will be instrumental for the growth of the economy also. There is a need to tap the untapped (weaker sections as well as the Corporates through financial education. He suggested starting annuity early for the weaker section as the investment horizon is long. Expansion may be achieved through incentivising PFs and POPs and that the horizon of approved securities for investment may be increased to make NPS attractive in consultation with Government.

Sanjay Chandhoke, Head, Urban Skills, India focussed on capacity building of subscribers and the challenges in capacity building. He provided solutions for removing challenges for capacity building and talked about clear objectives and vision of PFRDA. He also discussed the PFRDA's APY capacity building initiatives.

Mr. Balram P. Bhagat, CEO & Whole Time Director, UTI Retirement Solutions Limited raised the following issues:

1. Fund Management under the NPS has been under the strict vigilance of NPS Trust and the Regulator PFRDA starting from the appointment process of the Pension Fund Managers. The fund managers were appointed by three layered process

a) Asking for Expression of Interest by the Regulator

b) Submission of technical proposal and its independent valuation by independent organization like CRISIL.

c) Calling for Commercial Bids

By following this process the PFRDA appointed the best of asset managers in the country having full process of investments, Risk Management capabilities at minimal cost. Therefore, they have the services of the best asset managers of the country for managing Pension Assets under NPS. Moreover, the Investment Management Guidelines of NPS are one of the most stringent guidelines and therefore the subscriber should be rest assured that their funds are managed by the best professionals and in their best interest.

2. Further, PFRDA is the only regulator which reviews the fund performance on quarterly basis with the help of an independent agency like CRISIL.

3. It is beyond doubt that the NPS is the best retirement plan available in the country with lowest expense ratio. The only missing link is the absence of the financial retirement advisers in the whole system which can connect this scheme with the individuals i.e. the investors.

4. He opined that there are two types of investors i) the informed investors, ii) the uneducated and uninformed investors.

The informed investors are not getting into the NPS on account of differential tax treatment on the withdrawals from NPS in comparison to other retirement plans. Most of them are opinion that in NPS it is not tax saving, but it is tax differed. That means, with EET the investors will be taxed heavily on withdrawal, whereas in most of the other retirement plans EPF, PPF etc. the tax treatment is EEE.

The second kind of investors i.e. the uninformed investors are not getting into the system because there is no one to advise them to get into the NPS. This is the main reason the NPS is not getting popular. However, in times to come we expect a lot of participation from general public into the NPS scheme.

Vote of Thanks

While giving the vote of thanks to the dignitaries and eminent panelist Dr. Badris Bhandari, Whole Time Member (Economics) PFRDA mentioned that creating awareness and financial education is a challenging task and PFRDA would solicit the cooperation of all its associates or intermediaries, in the NPS architecture, the government and the stake holders, civil society and the media. On its part, PFRDA has been periodically engaging with the stakeholders and the public at large explaining the salient feature of the NPS scheme and the process involved, tackling the issues both from the demand side by creating awareness among the prospective subscribers and supply side by training and building capacity of the institutions involved in the promotion of NPS and APY.

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