

Regulatory Challenges in Pension Industry

17 th GCA Program

3 February 2015

Mumbai

Pension Regulator's Role

- PFRDA tasked with promoting and regulating pension funds
- Unique role for a Regulator
- PFRDA regulates National Pension System and other pension schemes not regulated by other enactments

Promotional Role

- Very low pension coverage in country – less than 12% popn covered by pension plans
- Existing pension coverage largely for formal sector – civil servants, defence, organised workers
- Informal sector largely uncovered

PFRDA Role in Pension Promotion

- Several variants of NPS introduced in last few years, catering to different segments
- NPS Corporate Scheme for corporates and their employees
- NPS Citizen Scheme for private sector individuals
- NPS Svavalambhan for informal sector

Progress so far

scheme	Subscribers(lacs)	AUM(cr)
NPS Govt	38	66000
NPS Corporate and	4.5	5500
NPS Citizen		
NPS Svavlamban	38	1400

Challenges to Promotion

- Large mass of informal sector – financial literacy low
- Income levels in informal sector low- pension needs to be supplemented by Govt support
- Current incentive structure needs reorganising to induce intermediaries to participate better
- Low level of awareness about pensions in general and NPS in particular

How PFRDA proposes to face challenges

- Svavalamban is part of Jan Dhan Yojana and will be included in Phase II
- PFRDA tying up with banks to cover Jan Dhan account holders with Svavlamban pension accounts
- Jan Dhan will also publicise Svavlamban and help create better awareness
- Financial incentive structure is being reassessed to attract better participation from intermediaries

PFRDA Role of Regulator

- PFRDA Act empowers PFRDA to –
- Register and regulate intermediaries
- Protect the interests of subscribers
- Establish grievance redressal mechanisms
- Collect and analyse data
- Educate subscribers and intermediaries
- Inspect, audit and investigate intermediaries

Current Situation

- PFRDA Act passed in 2013
- Regulations being finalised and notified
- Process of issuing fresh licences and registration of intermediaries to start soon after notification of regulations

Challenges in Regulation and Supervision

- Under DC pension, risks are borne by subscribers
- Hence greater need to protect their interests
- Consumer protection can be ensured through-
- Effective laws and regulation
- Better disclosure and transparency
- Greater awareness and information
- Responsible conduct by intermediaries

Risks needing Regulatory oversight

- Investment risk – funds put to best use by fund managers
- Operational risks – efficiency in collection, remittance, bookkeeping, custody
- Costs – to be kept reasonable
- Decumulation – compulsory annuitisation of a portion of funds

Role of Actuaries in NPS

- Since subscribers take the risk of underperformance, actuaries can help them-
 - - with amount and rate of contribution
 - - choice of investment pattern
 - - choice of Pension Fund Manager
 - - switching to different schemes
 - - annuity purchase decisions

Finally,

- Urgent need to increase pension coverage in the country
- Making people aware of need to save for pension a big challenge
- Task is possible if all stakeholders, including Actuaries, put in concerted efforts !