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Draft Consultative Paper

***Policy options, operations,
eligibility criteria & registration of POPs***

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Glossary

ADB	Asian Development Bank
ARA	Authorized Retirement Advisor
CDSL	Central Depository Services Limited
CRA	Central Recordkeeping Agency
DDO	Drawing & Disbursement Officer
DP	Depository Participant
IIEF	Invest India Economic Foundation
IRES	Indian Retirement Earnings and Savings survey (2004)
IRDA	Insurance Regulatory & Development Authority
NAV	Net Asset Value
NPS	New Pension System
NSDL	National Securities Depository Limited
P&AO	Pay & Accounts Office (or Officer)
PFM	Pension Fund Managers
PFRDA	Pension Fund Regulatory and Development Authority
POP	Point of Presence
PRA	Personal Retirement Account
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
SEBI	Securities and Exchange Board of India
TIN	Tax Information Network (of CBDT)

1. Executive Summary

1. The central government introduced the new pension system (NPS) with effect from 01 January 2004. The NPS is mandatory for new entrants to central government service (excluding Armed Forces) and will be available to all other citizens of India in the next few months. In 2004, over 50,000 new central government employees have already joined the NPS. The Government commitment to this pension reform initiative has been further ratified on 29 December 2004 through the promulgation of the Pension Fund Regulatory and Development Authority (PFRDA) Ordinance 2004.
2. The NPS is based on *personal retirement accounts* (PRAs) created by individual members. In this system, a member will accrete savings into his PRA while he is working and use the accumulations at retirement to procure a pension for the rest of his life. Members in this system will enjoy a variety of important rights including portability across jobs and locations, choices regarding fund managers and schemes, freedom to switch between service providers, low transactions costs, nationwide access, and protection against fraud and malpractice through a dedicated regulator.
3. The success of the NPS in providing broad-based access to retirement savings will depend on a nationwide service delivery infrastructure. In order to lower the costs of access and service delivery under NPS for the public, the existing network of non-proprietary, third-party distributors including banks, postal branches and depository participants will be harnessed into the NPS to serve as points of presence (POPs). Some large employers (central and state governments, autonomous bodies) may be permitted to act as POPs for their own employees. Micro-finance Institutions, NGOs and unions may also be permitted to undertake a limited set of POP functions for their customers and members.
4. The registration of entities as POPs will be broadly based on capital, years in existence, existing regulatory oversight by other financial regulators, and experience and capacity to electronically link to the CRA and efficiently transmit information and funds on behalf of NPS members. These POPs will also be expected to cross-sell the NPS to their existing financial customers to facilitate widespread participation in this new pension system.
5. Nearly 50,000 branches of banks, India Post and other third-party distributors across India are already regulated by RBI, SEBI and IRDA and may be eligible to

serve as POPs under NPS. These entities are already providing access for EPFO, PPF and other retirement and financial services and may be well placed to facilitate a secure transactional and funds transfer environment to NPS members without any significant human or infrastructural capacity enhancement. Based on the interest in POP services expressed by several entities which already have the necessary human, IT and telecom capacity, it is expected that a nationwide service delivery network for NPS can be put in place within a few months.

6. POPs will be registered on the basis of the eligibility criteria specified by the PFRDA and will operate under the POP regulations of PFRDA. POPs will also be required to comply with the operational guidelines notified by the CRA. The CRA will help enforce PFRDA regulations and shall be authorized by the PFRDA to identify any irregularities on the part of POPs including errors, delays, frauds and malpractices, and to report them to the PFRDA for appropriate action.

2. System Overview

1. The new pension system (NPS) announced by the Government of India will initially target new entrants to central government service (excluding Armed Forces). After a few months, it will be available to all other citizens of India. Each member of the new pension scheme will be allotted a unique *personal retirement account* (PRA) number. This pension system will initially be based on two types of sub-accounts created by individual members:
 - a) a Tier-I non-withdrawable and tax deferred *pensions* account (for all individuals), and
 - b) a Tier-II withdrawable *savings* account with no tax advantages (for all individuals subject to minimum deposits per year in the Tier-I account).

The number of such sub-accounts may be altered as the system evolves and depending on the needs and performance of the NPS.

2. A member will accrete savings towards his retirement into his PRA through his working life. This PRA will stay with the member regardless of where he stays or works – including spells of unemployment, self-employment, changes in jobs or location. He will be able to use a nation-wide network of competing pension service providers (POPs) to access this system for opening a PRA, accreting new contributions, receiving account or system information and for obtaining retirement benefits.
3. A member will have complete control on how his contributions and savings in his PRA are managed. He will be able to select a professional Pension Fund Manager (PFM) from a pool of competing pension fund managers. Each PFM in this system will offer a choice of three simple and standard pension schemes with different risk and return profiles. If he desires, the member will be free to allocate his savings across multiple PFMs and schemes. If a member is unable to select a PFM, his savings will be directed to a 'Default' scheme. He will also be able to seamlessly switch his savings between fund managers and products as and when he desires. With individual accounts and complete freedom of choice, a member will be able to easily alter his risk profile in an optimum fashion over time – he will be able to move from a high return scheme with relatively higher risk at a young age, to a low or near-zero risk, modest returns portfolio when approaching retirement if he desires. The member will receive periodic, consolidated statements of his PRA which will reflect his wealth in his PRA across various products and PFMs. This

will be the sum total of his contributions at that point in time and the returns that these contributions have earned.

4. On retirement, a member will be able to use a part of his savings accumulated over the years in his PRA to buy an annuity to obtain a pension for the rest of his life.
5. In this process of accumulating retirement savings, the Pension Fund Regulatory and Development Authority (PFRDA) will provide the members of this scheme with a sound regulatory framework and an umbrella of safety with respect to prevention of fraud and malpractice.

2.1 Roles of participants in the new pension system

1. The NPS targets two categories of participants (**members**):
 - a) It will be applicable to all employees of the Central Government (excluding Armed Forces) who join service after 01 January 2004. For these employees, participation in NPS and contributions to the Tier-I (pension) account is *mandatory*. Every month, the Government (as employer) will deduct 10% of the salary (basic+DA+DP) of these employees, match it with an identical contribution from its side, and transfer the full 20% contribution to the relevant employee's Tier-I pension account. The employee will select the PFM(s) and scheme(s) to which this 20% monthly contribution will flow. The cost of opening this account and the fees and charges levied by the CRA and PFMs on all twelve depositions in a year may be borne either by the Government or its employees as per the terms of employment. Every employee will be able to voluntarily invest additionally into either the Tier-I or in Tier-II account subject to certain stipulations.

The Tier-II account will allow deposits/withdrawals at any POP location. The fees and charges levied by POPs/CRA/PFMs for transactions under Tier-II accounts will be borne by the employee. The amount and periodicity of contributions into the Tier-II account will be decided by the employee and will be over and above the mandatory contributions into the Tier-I pension account. The government will not contribute to this account. If a government employee resigns from service, his pension wealth and his PRA will be unaffected. However, once he ceases government service, he will obviously no longer be eligible to the 10% government contribution and will thereafter be free to contribute voluntarily into his Tier-I account. The status of tier-II account, however, shall not change.

- b) The second category of members will include all other citizens of India including employees of State Governments which decide to adopt the NPS for

their employees, employees of firms outside of the EPFO, employees excluded from the EPFO, self-employed professionals, non-resident Indians (NRIs) and others in the informal sector who will participate in the NPS on a voluntary basis. These members will also be allowed to operate the Tier-I and Tier-II accounts with identical features and benefits as available to central government employees. They will be free to decide the amount and periodicity of contributions into these accounts. For these members, there will be no matching contribution by the Central Government. However, employers will be free to make contributions into the PRAs of their employees if they wish. Unlike in the case of the central government, these contributions by employers may not be mandatory¹. The members who choose to open Tier-II accounts may do so after they have invested at least Rs. 3600 in a year (2003-04 prices) into their Tier-I accounts (implying a contribution of Rs.10 per day).

Once an account has been opened, the transaction logic would be the same for both categories of members. In both categories of members and account types, the members will receive a unique account number, accrete contributions into this account, select a PFM and product, switch between PFMs and products, and receive consolidated account statements.

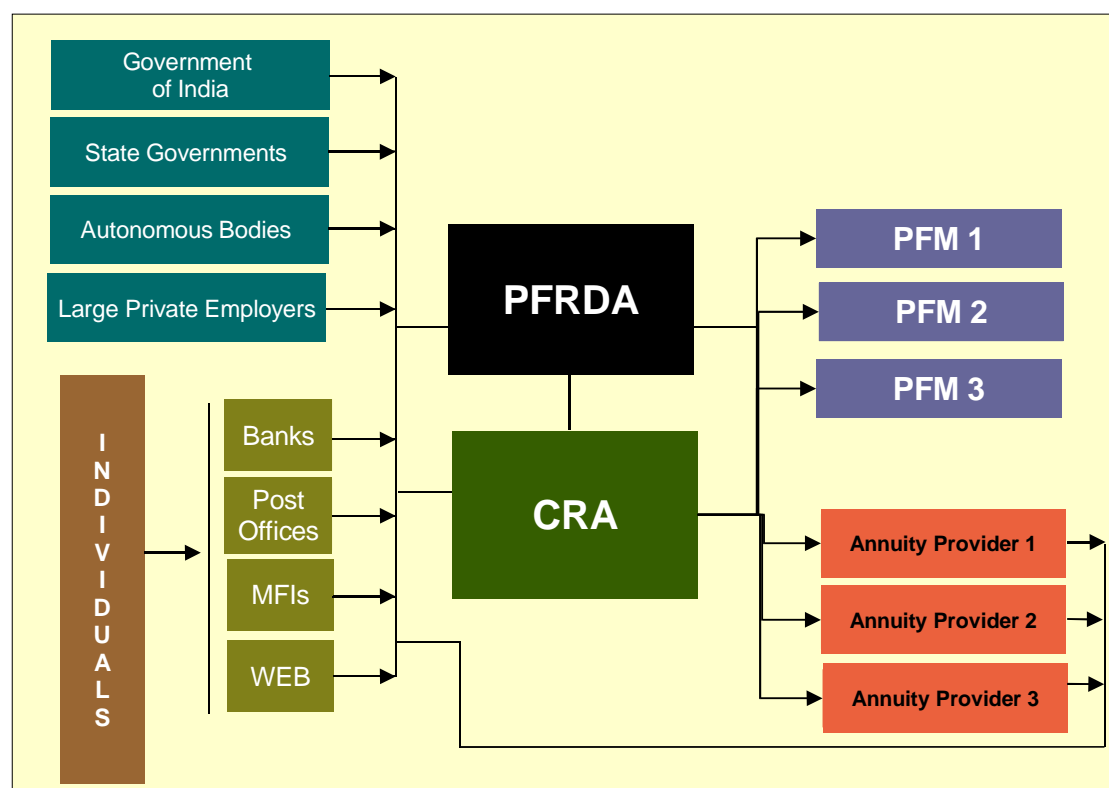
2. **Points of presence (POPs)** will be the retail service providers for the NPS and will offer a host of services to members. POPs will assist members in opening new PRAs and issue PRA I-Cards; collect, verify and transfer contributions and/or instructions regarding PFMs and schemes to the CRA with relevant and correct member account information; collect and transfer complaints from members to the CRA; provide performance data as well as account information and statements to members; and communicate changes in personal information of members to CRA. Once a member retires, the CRA may use this same service network to deliver the lump sum terminal accumulations to members. Banks, post offices, depository participants and other secure entities which are capable of electronic connectivity with the CRA and can transfer funds will serve as POPs. For central government employees, the relevant Pay & Account Offices (P&AOs) under the Controller General of Accounts (CGA), and Drawing & Disbursement Officers (DDOs) which jointly manage the government's payroll process, will perform some of the POP functions. Designated officers of Autonomous Bodies, Union Territories and other departments which are outside the scope of the CGA, will serve as POPs for their own new employees who are covered by the NPS. Some micro-finance institutions, NGOs and unions may be permitted to offer POP services to their own customers and members.
3. The recordkeeping and administration functions for all members of this pension system will be centralized and performed by the **Central Recordkeeping Agency**

¹ The tax treatment of contributions by employers to the voluntary Tier-I accounts of their employees and whether this can be treated as a deductible expense from the employer's income may be examined in a separate note.

- (CRA). The CRA will issue a unique account number to each member, maintain a master database of all personal retirement accounts and record the transactions related to each member's PRA. The CRA will receive and consolidate member contributions and instructions and transmit them to the relevant PFM and scheme on a daily basis. The CRA will also enforce operational guidelines of the PFRDA (on POPs, PFMs and other service providers) and generate compliance reports on mandatory contributions of government employees. The CRA will be electronically connected to the POP network and will use this network to deliver information and transactional services to NPS members across the country.
4. An initially limited number of competing, specialized professional **pension fund managers** (PFMs) will manage the retirement savings of members. Every day, the CRA will receive payments and/or instructions regarding (a) new contributions to PFMs and schemes, (b) changes (switches) in PFMs or schemes, and (c) terminal withdrawals. The CRA will reconcile and collate all such instructions and funds received from members through the POP/P&AO network or the Internet. For each scheme of each PFM, the CRA will arrive at a single amount which will include the sum of all fresh contributions as well as incoming transfers from other schemes. From this, the CRA will deduct the total outflow from the specific scheme (which may be on account of transfers or terminal withdrawals) to arrive at a *net* amount payable or receivable from each scheme of each PFM. Once all such balances are determined, the CRA will remit a single, netted amount to the PFM (which be the sum total of the netted amounts across all three schemes of the PFM) along with a statement specifying the exact amount to be invested under each of the 3 schemes on a daily basis. PFMs will comply with the investment guidelines issued by the PFRDA for allocating these assets under each scheme. Firms with requisite fund management experience and which satisfy the eligibility criteria specified by PFRDA will be eligible to apply for a PFM license.
 5. **Authorized Retirement Advisors** (ARAs) will undertake sales and marketing of the NPS to potential members and deliver advisory services regarding PFMs and schemes to existing members. They will advise and assist members with opening retirement accounts, as well as with selecting appropriate pension fund managers and products. The ARAs will conform to a uniform code of conduct and ethics and will be required to pass a certification examination prescribed by the PFRDA in order to obtain a periodically renewable work license. The ARAs may be affiliated to specific PFMs, POPs or may work as independent advisors. Existing agents and distributors of mutual funds and insurance firms will also be able to serve as ARAs by passing this certification examination. The transaction forms filled by the members of the new pension scheme and deposited through an ARA will bear the latter's certification number. Using this, the CRA will be able to track ARA transactions, volume of transactions and the fees payable/paid to each ARA. The PFRDA shall determine the ceiling on fees that can be charged by ARAs.

6. When a member retires, he will be mandated to use a specified part of his terminal accumulations in his PRA to buy an annuity. Each member will be able to choose an **annuity provider** from a pool of competing annuity providers who will be responsible for delivering a regular monthly pension to the member for the rest of his life. Life insurance firms registered with the IRDA will serve as annuity providers. The retirement age for non-government employees, which is the age at which they will be able to withdraw their savings and buy an annuity, will be decided by the PFRDA.
7. In this entire process of accumulations and withdrawals, a sound regulatory framework would give individuals an umbrella of safety with respect to problems of risk management and prevention of fraud. The **PFRDA** will regulate charges, entry and exit, quality and provision of service of POPs, ARAs, CRA and PFMs during the accumulation phase of this pension system. The PFRDA shall also approve periodic investments on account of CRA system upgrades. The process of delivery of pensions to members by annuity providers will be regulated by the IRDA. However, if a member chooses to not withdraw his savings as a lump sum and decides to instead phase out his withdrawals from his PRA, he will continue to interact with the POPs, CRA and PFMs and will thus remain the responsibility of the PFRDA as well.

Figure 1: Institutional Architecture of the New Pension System (NPS)²



² POPs (Banks, Post Offices, SEWA, Web); CRA (Central Recordkeeping Agency); PFM (Pension Fund Managers); PFRDA (Pension Fund Regulatory and Development Authority)

3. Functional and Service Obligations of POPs

Nationwide, low-cost and efficient access to the scheme by the public will be a key factor in the success of NPS. Points of Presence (POPs) will be the front-end service providers for the NPS. Large banks like the State Bank of India (SBI) and the Post Office Savings Bank (POSB), which already offer a variety of financial services to millions of individuals from several thousand locations across India, will be expected to serve as POPs. Each branch of such entities which is authorized to serve as a POP should be able to electronically connect to the CRA to upload or download information and instructions on behalf of their customers. Each branch of a POP will also be able to transfer member contributions to the CRA's bank – either directly or through the banking channel (if the POP is not a bank).

The ability of a POP to accurately transfer information, instructions and funds to the CRA, as well as to provide a secure, low-cost and efficient service environment to customers from multiple locations will be of paramount interest to the PFRDA. Ownership, capital, existing regulatory oversight, outreach capacity and the ability to electronically transfer information and funds will serve as broad eligibility criteria for registration of entities as POPs. Entities which are already regulated by other financial regulators (SEBI, RBI and IRDA), nominated government departments, intermediaries with adequate experience in delivering retail financial services, and large employers will be permitted to serve as POPs under the NPS.

For central and state government employees under the NPS, the relevant P&AOs, DDOs and treasuries which manage the government's payroll process, will perform some of the POP functions. They will be responsible for the initial services to government employees including (a) handing over of the system information literature on joining service, (b) account opening, (c) deducting and transferring the 10% employee contribution and matching government contribution to the CRA on behalf of each employee as per the choice of PFM and scheme, and (d) deduction and transfer of employee contributions to Tier-II accounts to the CRA as per the choice of PFM and scheme. Autonomous Bodies, Non-civil Ministries and Departments (Posts, Railways, Telecom, CGDA, etc.), Union Territories and other state government bodies including Grant-in-Aid institutions will be required to depute a nodal officer to perform these basic POP functions. Once this initial contribution reaches the PFM and the units are credited into the PRA of the relevant employee, he will be able to avail of all other services (switching PFMs and schemes, account statements, NAV information etc.) by opening a *service account* with a POP or by directly accessing the CRA over the Internet or phone. The transaction and service charges of this service

account will be borne by the employee.

A majority of India's informal sector workforce is either self-employed or works with daily or weekly wages and faces unpredictable income flows. Most of these informal sector workers are probably excluded from modern finance and are not using formal mechanisms including banks, postal branches, etc. to channel their savings. Importantly, a majority of these workers may only be able to accrete modest, infrequent contributions which will be very sensitive to transaction costs. It is therefore essential to establish cost-efficient mechanisms for collecting and transferring such modest contributions. In this context, a number of micro-finance institutions (like SEWA and BASIX), NGOs, self-groups, worker associations and unions, which have credibility and direct access to the informal sector workforce, can also be harnessed into collection of contributions and delivery of benefits. Importantly, a majority of welfare associations and MFIs already deliver social assistance, income generation, credit, savings and insurance facilities to their members/customers. It is conceivable that this channel can serve an extremely useful role in the NPS to:

- a) educate, inform, motivate and encourage their members to join the NPS and to regularly and adequately contribute to their retirement savings,
- b) channel product, performance and system information to their members, and
- c) periodically collect and 'pool' small-value contributions and to transmit them as a lump-sum to specific products and fund managers under the NPS on behalf of their members.

The PFRDA will prescribe the specific eligibility criteria for MFIs and other similar agencies which will provide services to a limited group of members. The CRA will prescribe the technical specifications for the infrastructure that these agencies must have in order to provide efficient services to their members.

3.1 POP service obligations

A POP will be expected to provide a number of important services to individuals. These will include:

- a) cross-selling the NPS to their existing customers,
- b) actively promoting retirement planning, and marketing the NPS to other ways to grow the NPS customer base, including among the lower and middle income groups,

- c) providing a single-window for efficient access to transactional services (account opening, channeling contributions to selected PFM/s and scheme/s, channeling instructions regarding switches across PFMs and schemes, delivering withdrawals from Tier-II accounts) over multiple decades,
- d) providing a single-window for transparent access to informational services (account balance statements, PFM performance data, complaints, changes in personal contact information) over multiple decades,
- e) addressing problems of dormant accounts by motivating NPS members to continue periodic, adequate contributions into their NPS accounts,
- f) delivering NPS benefits – lumpsum, phased and annuitized, and
- g) in some cases, pooling and transfer of several small individual contributions as viable transactions into the NPS.

Once a member retires, the CRA may use this same service network to deliver the lump sum terminal accumulations to a member. Annuity providers may also use the same service delivery network to deliver monthly pensions to each member.

3.2 Relationship between POPs and CRA

1. The POP network (including banks, post offices, depository participants, P&AOs, large employers and all other entities which act as service providers) will be electronically connected to the CRA (either directly or indirectly through their internal networks). All branches of some POPs may have the ability and infrastructure to directly connect to the CRA. In other cases, such branches may be connected to the head-office of the POP on an intranet – here, the connectivity and transactions from various branches will first be channeled to and pooled in the main server of the POP and thereafter routed to the CRA³.
2. The POPs will be the interactive service delivery channel for the NPS and shall be provided cryptographic keys, interlinking formats, system specifications and access codes by the CRA once they are registered with the PFRDA. If required, the CRA will also provide the NPS software to each POP. Service locations/branches of a POP will use the software/formats, electronic connectivity and their keys/access codes to connect to the CRA and to transmit member instructions and information on contributions to the CRA. Full service (bank) POPs will use their existing infrastructure and funds transfer licenses to also channel member contributions to the CRA. If a POP is not a bank, it will use the banking channel to transmit funds to the CRA.

³ The Closed User Group (CUG) Policy of the Government of India may need to be revised to enable a network of POP branches to talk to the CRA network.

3. In the case of central and state government employees (mandatory participation), each relevant P&AO or DDO will be registered with the CRA and will also be issued a unique access code by the CRA. The P&AOs / DDOs will be electronically connected to the CRA using the Internet. These P&AOs / DDOs will use their respective access codes to access the CRA and the bank or Post Office which is used for payroll related transactions, to transfer the mandatory contributions to the CRA. The P&AOs/DDOs which are not automated, will access the CRA either through a POP or through telephone/fax. In this case, the P&AO will use the POP or telephone/fax to transmit information on contributions and member instructions regarding PFMs or schemes but will use the banking channel to transmit funds to the CRA. For instructions through the telephone or fax, the CRA may demand some additional verifications and checks.
4. For some transactions, the CRA will interface with members only through the POP service network or P&AOs. These will include transactions related to opening new accounts, transfer of new contributions, or withdrawals from Tier-II accounts. However, for non-financial transactions (switching between PFMs or schemes, viewing account balances or statements, reporting changes in employment status or contact information, registering a complaint, or requesting information on their account), members will also be able to interact with the CRA through the Internet and telephone or from Limited Service POP locations. Internet or telephone access will be protected by issuance of a unique user ID (which can be the unique account number) and a password (I-PIN for Internet access and a T-PIN for access through telephone) by the CRA to each member. Issuance of a *numerical* unique account number (instead of an alpha-numeric number) will be essential – especially for telephone access. In the future, members may also be able to undertake financial transactions on NPS using the Internet, ATMs or smart cards (for switching funds from their bank accounts to their retirement accounts).
5. The CRA will prescribe a curriculum and facility for NPS operations training to each POP, P&AO and DDO office. Their staff shall be required to pass a POP Operations examination mandated by the PFRDA and enforced through the CRA. This examination shall be conducted by NSE Certification for Financial Markets (NCFM).
6. The PFRDA may prescribe certain limits for POP service charges and fees and POPs will be able to charge any fees below the prescribed ceiling. These fees and charges will be monitored by the CRA. The CRA will also be charged with the responsibility of reporting these fees and charges in a standard format to the PFRDA and the members. Regular, standard disclosure of fees and charges will be important for fostering competition among POPs and lowering transactions costs to customers.

3.2.1 Open Architecture for Access Software

The CRA software system will be required to be an open architecture, in the sense of having fully documented interfaces. While encryption would be used for security, the full details of the protocols, encryption procedures, and feed formats would be available in the public domain, so as to foster innovative and low-cost software development by POPs and other service providers. The POP shall not be forced to use proprietary software through the technology choices of the CRA. There would be no role for 'security through obscurity'. POPs and other service providers who have to electronically connect to the CRA would have the option of either using/buying software from the CRA, or developing their own software or buying software from some third party. If the POPs decide to not use software from the CRA, they will not require any permissions or approvals or empanelment procedures. The CRA would be free of 'security through obscurity'.

The CRA website will be required to freely disseminate the following documents and files to the POPs:

- a) the full document of the interface language / data formats / file formats, and
- b) sample source code of a skeletal working application that utilizes this feed format.

The CRA would be required to depute staff to process questions and problem reports that would be received by email, from external software developers. The CRA would be free to choose whether to conduct (paid) training programs on how to build the NPS connectivity software.

3.2.2 POP-CRA inter-linkages

- a) The CRA system architecture will allow POPs, P&AOs and DDOs to electronically access information, and transmit instructions and funds in a secure manner and using a variety of media (V-SAT, Internet, telephones, ATMs, etc.) with strict reconciliation features and safe-guards to avoid duplications, delays, errors and fraud. The POPs, P&AOs and DDOs will be provided the necessary software specifications and file formats by the CRA. The software procured from the CRA or developed by the POPs, P&AOs and DDOs will be able to determine the identity of the member in each situation and especially at the time of issue of a new PRA number, and also at the time of vesting/exit.
- b) Since the CRA will receive and reconcile the mandatory contributions by government employees every month, it will be required to monitor and report incorrect or delayed contributions by the P&AOs / DDOs on behalf of the government employees.

- c) The CRA will be responsible for monitoring the security, efficiency and accuracy of POP transactions. POPs will register as service providers with the CRA on the basis of eligibility criteria approved by PFRDA, including experience, capital and technology infrastructure. The POPs will sign a service and functional obligations agreement with the CRA. Once a POP is registered, its operations and services will be governed by the Operations Manual prescribed by the CRA and approved by the PFRDA.
- d) Since POPs will not be required to maintain any member records locally, a member will not be required to be 'tied' to any POP on a mandatory level. Instead, members will be free to use the same POP for all transactions (if they wish) on the basis of convenience of location, lower charges or better services. The POPs will be liable to the CRA for errors, malpractices and delays and the CRA may advise the PFRDA to impose appropriate penalties on the POPs. If the services or performance of a POP are found to be unsatisfactory, or if a POP is unable to discharge its service and functional obligations efficiently, the CRA will advise the PFRDA to cancel the POPs registration. Since members will not be 'tied' to a POP, cancellation of a POP's registration may not cause any excessive problems to members. However, in this situation, the CRA may suggest alternative POPs to the members whose services have been disrupted⁴.
- e) Each POP location will be required to comply with the following:
- ensure efficient electronic connectivity with the CRA,
 - undertake an annual, external systems, operations and controls audit by a qualified auditor, and
 - insure themselves and their customers against losses arising from any possible business risk or systems failure.

3.2.3 Errors, delays and penalties

- a) **Delays in transfers:** CRA will capture, report and act upon delays caused by POPs and P&AOs. These could include delays in transmission of funds or instructions from POPs / P&AOs to CRA. The CRA, in consultation with the PFRDA, will publish system benchmarks for performance standards and transaction time-frames. For instance, it may be specified that all contributions must reach the CRA within a maximum of 3 working days. If a POP delays the transfer of a member's contribution beyond this time-frame, the CRA will be able to identify the source of delay, levy penalties and compensate the member for any losses incurred by them. In this situation, the POP which is responsible for the delay, will be required to compensate the member by paying an interest at the prevailing rate on 91-day T-bill for each additional day taken for effecting the transfer to the member. In the event of a delay caused by P&AO, the government shall have to compensate the member for any losses. The CRA will credit such penalties into the appropriate

⁴ Members will face a problem with interrupted service delivery if no alternative POP exists in the location

member account. Each POP may be required to make a refundable security deposit with the PFRDA – this deposit may also be debited for payment of penalties and fines.

- b) **Errors:** Errors may occur when a new PRA account is opened by a POP or when funds are transmitted by the POPs to the CRA. These errors may include a mismatch between funds and instructions, or errors in data entry related to account numbers, or errors related to PFM or scheme selection, etc. These errors may subsequently lead to reversal and rectification transactions. Such transactions may have profit or loss implication for members as the NAV may be different when the corrections effected. This process needs to be carefully controlled and a member should be compensated appropriately by the concerned POP or the CRA (depending on the source of error). A POP will take the member's approval on the system generated report of the member's instructions and on detection of error by the member, rectify the same. PFRDA may prescribe the compensation amount and the mode of recovery from POP and the payment thereof to the member.

This PFRDA and CRA will specify the restrictions and rules governing the flow of transactions (instructions, information and funds) and the operational role of POPs in delivering a variety of identified customer services. The CRA will define a standard set of account opening protocols including identity verification criteria and publish standardized forms for opening new accounts and for future account transactions.

3.3 Role of POPs in sales and distribution of NPS

In addition to providing a broad-based service delivery channel to the NPS and a single window access to the scheme to the public at large, the POPs may be expected to also undertake sales and distribution functions. Banks, post offices and other large third-party distributors are expected to use their staff and agents to deliver information and services on NPS and aggressively cross-sell the concept of retirement saving to their existing financial customers. Cross-selling will drive down the cost of sales and marketing of the NPS while increasing the revenues for POPs as this will enable them to also levy a specified sales and distribution charge on their customers. This charge will be in addition to the POP service charges levied by them. POP staff and agents that are involved in selling the NPS to the public will be expected to undergo training and pass the Authorised Retirement Advisers examination – the curriculum for which will be specified by the PFRDA. This examination will also be conducted using the NCFM facility.

3.4 Statistics on potential POPs

A large number of well regulated entities, engaged in providing retail financial services, and which are capable of serving as POPs already exist – covering all districts in the country.

These include:

1. Over 35,000 branches of nearly 350 banks in the 2nd Schedule to the Reserve Bank of India Act, 1934 (2 of 1934) – all of whom are permitted to engage in foreign currency transactions;
2. 577 NBFCs including RNBCs, to whom Certificate of Registration under Section 45 IA of RBI Act, 1934 have been issued to hold/accept deposits from the public (as on July 31, 2004);
3. 390 Depository Participants with over 3000 branches covering 400 cities and towns registered with SEBI and NSDL/CDSL;
4. Over 4000 post offices linked through a dedicated V-SAT network – currently providing cash management services to private and foreign banks and electronic remittance services in collaboration with Western Union (at least one such postal branch exists in every district in India); and
5. Over 75 micro-finance institutions (MFIs) like SEWA and BASIX which are members of SA-DHAN and are currently providing a range of financial services including credit and insurance to nearly 3.5 million rural poor across the country.

Using existing financial service providers will lower the costs of transactions, marketing and service delivery to NPS customers. Banks and other third-party financial distributors will be able to use their existing information and service delivery capacity to deliver information and services to NPS customers. The experience with marketing of demat accounts by DPs, and cross-sales of mutual funds and insurance by banks provides an insight to the direction of NPS cross-sales.

4. Policy issues and choices

The preliminary findings from the Indian Retirement Earnings and Savings (IRES) survey (2004) commissioned under the ADB TA on Pension Reforms for the Unorganised Sector suggest that over 20 million informal sector workers in India are “extremely interested” in participating in the NPS and have the capacity to contribute an average of Rs.12,500 per annum into this scheme. This implies an existing annual market value of Rs.25,000 crore. This population of potential NPS members is spread across income deciles, and based in urban as well as remote rural locations in India. Importantly, a similar number of workers with similar capacity to pay have indicated that they are “somewhat interested” in this scheme.

The success of NPS will be judged by the number of such individuals that NPS intermediaries are able to locate, sell the scheme to, and service over multiple decades. In the NPS design, the CRA and PFMs are not expected to interact directly with the public. Hence, for the scheme to succeed, a nation-wide network of credible retail service providers (POPs) is essential to motivate millions of individuals to save for retirement and to continue regular, adequate contributions over multiple decades on a *voluntary basis*. POPs will therefore be the single most important intermediary for NPS members and will be expected to perform a number of system-critical roles.

The ability of POPs to accurately and swiftly transmit information, instructions and funds to the CRA, as well as to provide a secure, low-cost and efficient service environment to members from multiple locations is of paramount interest to the policymakers. If the scheme is unable to locate and reach all potential members, or if members face frauds, delays or errors, or if they do not receive efficient services and objective information, or if the fees and charges are prohibitive for low income members, the scheme will fail to gain broad-based coverage and thus fail in meeting its intended objectives.

This section examines the following policy questions – the answers to which will impact broad based coverage of NPS:

- a) How should POPs be selected? and,
- b) How should POPs be motivated to maximize voluntary NPS coverage?

4.1 How should POPs be selected?

The eligibility criteria for POPs will broadly include (a) a track-record of successful marketing and delivery of retail financial services, (b) infrastructure and capacity to electronically link to the CRA and transmit information and funds on behalf of, and to NPS members, and (c) existing registration with other financial regulators. The PFRDA will specify POP service obligations and service benchmarks. These services and service benchmarks will in turn determine the IT, telecom and other infrastructure capacity that an entity must possess (or set up) to be registered as a POP. *Where* the bar is set (in terms of service obligations and service benchmarks), will determine the *number* of eligible POPs and any decision on this will lead to important trade-offs. Some policy options are outlined below:

- i. **Option 1:** If the PFRDA decides that POPs must be SEBI or RBI or IRDA regulated entities, *and* have experience with marketing financial products and delivering retail financial services, *and* be electronically connected to the CRA to be able to rapidly transmit funds, information and instructions, the number of capable (and hence eligible) POPs may be small and concentrated mainly in urban locations. Importantly, these entities tend to levy high fees and charges and (as the IRES data also shows) only persons in the higher income deciles have access to institutions which satisfy all above criteria. Therefore, while the NPS will achieve a high, uniform standard of service delivery, the system will be faced with a limited and geographically skewed coverage of mainly higher income earners with this approach. Lower income workers will not be able to afford the services of these POPs.
- ii. **Option 2:** On the other hand, lowering this bar, and allowing well regulated POPs more flexibility in the time taken in transmitting funds and instructions to CRA, or in delivering information and account statements to members, may increase the number of eligible POPs. These POPs will in turn reach a higher number of customers with a more uniform geographical and income distribution in comparison to *Option 1*. This option may also allow lower income workers to participate in the scheme due to lower fees and charges by some POPs. However, this will also cause differential service standards across POPs, and will be at the cost of service efficacy, and will cause delays in investment of savings and a greater regulatory burden for PFRDA.
- iii. **Option 3:** In the interest of maximizing coverage, the PFRDA may also consider *multiple levels* or categories of POPs and register a limited number of firms as *full-service POPs*. Such POPs (refer *Option 1*) will be expected to offer all NPS services (including electronic funds transfer) under optimum service benchmarks and would include private, foreign and some PSU banks, some postal branches, and all DPs. Well regulated entities with lower infrastructure capacity (refer *Option 2*) may be registered as *limited service POPs* and may either offer a limited number of

services, or all services of lower quality to the public. These can include most postal branches, and most branches of PSU banks, cooperative banks, and RRBs. Some large employers [central government, central (non-civil) departments, union territories, autonomous bodies, grant-in-aid institutions, state governments, and other large private sector firms] and MFIs / NGOs may play a useful role in pooling employee or member contributions and transferring them to the CRA. The PFRDA may consider registering these entities as *targeted POPs*. These targeted POPs may be permitted to only service their own employees or members. They could be prohibited from offering POP services to the public. While *Option 3* will lead to the highest access to the scheme, the heterogeneity of service providers and the differential service standards across service providers will impose the highest regulatory burden and therefore risks on NPS members.

These three policy choices, along with the outcomes associated with their implementation, are encapsulated in Table 1.

Table 1: Policy choices on POPs and related outcomes

Option	Who can be a POP?	Impact on coverage	Impact on service standards	Impact on POP costs	Regulatory concerns
1.	Well regulated entities already capable of delivering all services, including EFT and electronic transfer of information	Least. Limited access through private and foreign banks, DPs, some PSU banks and some India Post Branches. Access limited mainly to high income members	Highest quality of standard services though with high fees and charges	Low due to existing infrastructure – office, IT, telecom, human capital	Nil
2.	Well regulated entities but with limited existing capacity – can offer either limited services or all services with longer lead-time	More than 1: including balance PSU banks, cooperative banks, RRBs, and India Post branches, brokers. More uniform income and geographical distribution than 1	Lower quality of services than 1. Also differential service standards. POPs may either offer limited services or all services at with lower efficacy. May lower costs to members.	Can be low if allowed to offer limited or slow service. Will face costs to move to the service level of 1	More than option 1
3.	Differential categories of POPs – full service (1), limited service (2) and targeted POPs	More than 1. May include employers, MFIs, e-chaupal, etc.	Less than 1: Differential service standards.	Same as 2	Maximum

4.2 How can POPs be motivated to maximize voluntary NPS coverage?

Worldwide, voluntary pensions are sold and not bought. In the Indian context, POPs will be the front-end drivers to achieve broad-based voluntary NPS coverage. They will need adequate financial incentives to approach the task of NPS marketing and sales with sustained energy, innovation and commitment. Therefore, eligible entities will have to derive sufficient profits to serve as POPs and the structure and level of POP fees and charges will directly impact their actions and behavior. If POPs derive low profits under NPS, they will have lower incentives to actively promote NPS, and this will directly impact voluntary coverage among informal sector workers – especially among lower and middle income workers. Importantly, the NPS will also compete with other financial services being offered by a POP – as financial distributors and agents will have an incentive to promote products on which commissions and fees are higher.

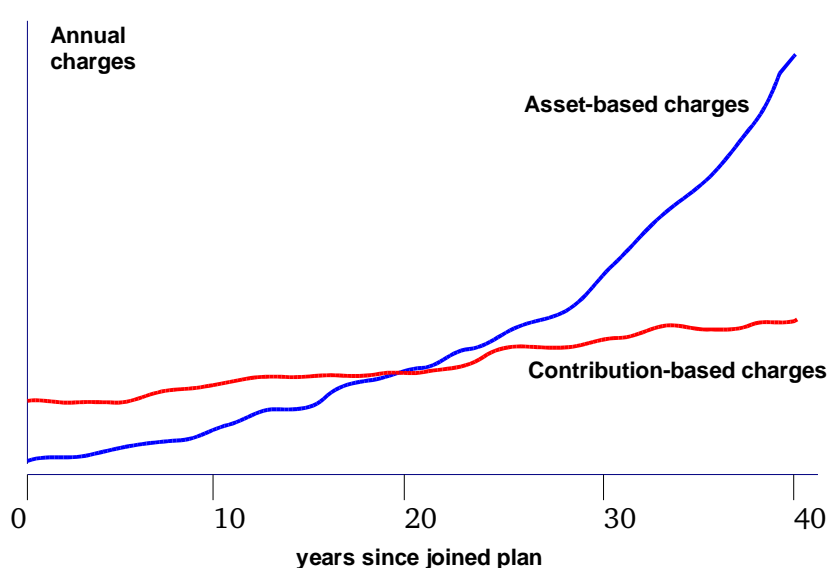
A large proportion of potential NPS members will include low and middle-income workers capable of small contributions and modest account balances – they will be most vulnerable to fees and charges. The structure and level of charges levied by POPs will be therefore be equally important for members and will directly impact coverage, member behavior and benefits. For example, if POP's rely only on front-end commissions and transaction fees, their charges may be too high and will in turn crowd out lower income groups and hence lower the system's potential coverage. Based on global experience with fees and charges, a variety approaches may be considered for the NPS. Charges can either be front-loaded (contribution-based) and help recover initial capital costs of service providers, or back-loaded (asset-based) or a combination. POP's may levy flat annual charges, flat transaction-based fees, charges proportional to contributions, asset-based charges, or a combination. These charges can either be fixed and based on a regulated ceiling, or free and determined through competition. Fees and charges are an essential policy decision as these will accumulate and interact in complicated ways over the lifetime of a member and directly impact retirement wealth.

The following section presents a variety of policy options for fees and charges, examines various income models and corresponding business outcomes for POPs, simulates their impact on coverage and benefits and highlights some important trade-offs with each approach. This section also includes a simulation of the business impact of the current fees and charges by (a) DPs, (b) insurance agents, and (c) mutual fund distributors, and their corresponding impact on terminal accumulations.

- i. **Contribution or Asset-based fees?** This is an important policy choice, especially when the system is new and the assets are small, as contribution-based charges can generate larger up-front revenues for service providers (than fees on assets). However, contribution-based charges do not generate any revenues for service providers from dormant accounts – which nevertheless require servicing. On the

other hand, asset-based charges ensure continued revenues from non-contributors. Importantly, asset-based fees redistribute costs from high-income workers to low-income workers, and from older workers (with larger savings) to relatively newer entrants. Importantly, asset-based charges encourages service providers to maximize assets by attracting new members and maximizing investment returns. It is however important to note that even modest asset-based charges will grow as assets increase and thus have a large impact on terminal accumulations compared with high contribution-based charges. The impact of asset-based and contribution-based charges is simulated in Fig 1.

Figure 1: *Impact of different charges over time*



- ii. **Flat transaction-based charges** (where a POP levies a flat, uniform fee regardless of the transaction size), are pro-rich and penalize small-value contributions. Such charges provide a disincentive for frequent, small-value contributions (which may be preferred lower income earners who face unpredictable incomes) and force members to only remit large infrequent contributions. Flat charges will also determine the threshold for viable transaction sizes and will crowd out lower income workers. However, a POP will derive identical profits from high-income and low-income customers and will have no incentives to cater to only high-value customers. A POP will have a direct incentive to increase its NPS customer base. A POP may also have an incentive to motivate more frequent switches and periodic contributions – as a POP will not earn any revenues from dormant accounts.
- iii. **Flat annual account-based charges** may also penalize low-income members. However, this will counter the problems of servicing dormant accounts though it may lead to more frequent switches.

- iv. ***Fees as a percentage of contributions*** will have a lower impact on low-value contributions and impose higher costs on high-value contributions. In this model, higher-income customers will cross-subsidize the lower-income workers. However, this may also skew sales and service delivery by POPs in favor of high-income members as POPs will have lower incentives to deal with middle and low-income workers.
- v. ***A combination of flat fees and percentage of contribution charges*** may assist in smoothening the revenues that POPs derive across a variety of NPS members while retaining the incentives for promoting the scheme to new customers.
- vi. ***Charges based on assets under management (AUM)***, may also be considered without compromising the integrity of NPS. Here, POPs may levy zero (or near zero) front-end fees, and will instead receive a share in the asset management fees. In this case, PFRDA may allow a POP to receive an AUM-based fee which is a percentage of accumulated assets of each customer of the POP. In this situation, POPs will have an incentive to maximize contributions *and* customers across income levels and contribution capacities. However, this may cause additional administrative loads on the CRA.

4.2.1. Lessons from retail distribution and service charges in Indian finance

Banks and other third-party financial distributors levy a variety of fees and charges on customers of securities markets, insurance and mutual funds. Some of these charges (e.g. of DPs) are not regulated while a ceiling is prescribed by IRDA and SEBI on the charges for some products (e.g. mutual funds and unit-linked pension plans of insurance firms). In some cases (e.g. transfers to EPFO), banks are permitted to hold contributions for a few days and this 'float' enables banks to levy lower transaction fees. In other cases (e.g. small savings and PPF), the government directly subsidizes the cost of service delivery and customer transactions and pays India Post a flat fee as a percentage of collections.

Considering the aggressive competition between private financial distributors and service providers, we can assume that their current charges provide adequate profits. Therefore, NPS fees and charges will need to (in the very least) match the fees in Indian finance. However, in order to motivate these service providers to cross-sell NPS to their current financial customers, actively promote larger coverage to new customers, and deliver efficient services to plan members, the fees and charges under NPS should positively compete with the fees and charges on other financial services.

This section analyzes the impact of existing fees and charges in financial services on service provider revenues as well as on retirement benefits of NPS members. The current fee structures and levels for DPs, insurance agents and mutual fund distributors are provided in Table 2.

Table 2: Existing charges of retail financial distributors and service providers

POP type	Annual charge	Flat transaction-based charge	Percentage of contribution charge
Depository participants (HDFC Bank)	Rs.299	Rs.25 (or 0.04% of contribution – whichever is higher)	0.04% of contribution (or Rs.25 per transaction, whichever is higher)
Mutual Funds	-	-	2.50%
Unit-linked Pension Plans of Insurance Firms	-	-	2.00%

Source: IRDA, SEBI and HDFC Bank

This section simulates the impact (in real terms) of the above prevailing charges on (i) POP revenues, and (ii) terminal savings of two NPS members with (a) different savings capacity, and (b) differing contribution frequencies (annual and monthly) under standard assumptions⁵.

Table 3: Impact of existing financial service and distribution charges on POP revenues⁶ from members and on member benefits (simulation in INR in real terms)

POP model / Contribution frequency	Terminal wealth: A	Terminal wealth: B	Monthly annuity of A	Monthly annuity of B	Replacement rate of A	Replacement rate of B	POP revenue from A	POP revenue from B	Total POP revenue
DP (12 monthly contributions)	306759	3439828	2117	23735	26.17%	29.35%	20965	20965	41930
DP (1 annual contribution)	326860	3459929	2255	23873	27.88%	29.52%	11340	11340	22680
Mutual Fund (12 monthly contributions)	334543	3389284	2308	23386	28.54%	28.91%	5446	54460	59906
Mutual Fund (1 annual contribution)	337892	3392634	2331	23409	28.82%	28.94%	5446	54460	59906
Insurance (12 monthly contributions)	336283	3406691	2320	23506	28.68%	29.06%	4356	43568	47924
Insurance (1 annual contribution)	339634	3410041	2343	23529	28.97%	29.09%	4356	43568	47924

Simulations based on the IIEF Pensions Policy Toolkit, 2004 (<http://www.iief.com>)

- 5 **Assumptions:** Member A and B contribute 10% of their income for 35 years. Member A (with starting monthly income of Rs.3000) makes 12 monthly contributions of Rs.300 each; and a single annual contribution of Rs.3600. Member B (with starting monthly income of Rs.30,000) makes 12 monthly contributions of Rs. 3000 each; and a single annual contribution of 36000. No switches are assumed. Annual wage growth of 2.96% assumed for both A and B leading to monthly income just before retirement of Rs.8,081 for A and Rs.80,881 for B. Portfolio and returns: 60% in G-Secs (earning 2% real returns), 30% corporate bonds (earning 4% real returns), 5% in domestic equity (earning 6% real returns) and 5% in international equity (earning 9% real returns). Charges of CRA (same for A and B): Rs.20 annual fee and Rs.5 per transaction. Charges of pension fund manager (same for A and B) of 0.30% per annum on assets.
- 6 **POP charges:** (for DPs) Rs.299 annual charge, and Rs.25 per contribution; (for mutual fund distributors) 2.5% of contributions; (for unit-linked insurance plan distributors): 2% of contributions

We can see from Table 3 that

- i. POP revenues from a member do not change with periodicity of contributions when charges are levied as a *percentage of contributions*. Importantly, the total revenues of POPs from members A and B (with different savings capacity) also remain unchanged with differing contribution patterns. However, since a POP will derive more revenues from B, it will have an incentive to promote the scheme to higher-income members when service obligations are identical across members with different income and contribution capacities.

Simulation: *Even with the high percentage of contribution charges witnessed in Indian finance, we see a negligible reduction in yield for both categories of customers (compared with international charge ratios). For instance, using identical fees as for mutual funds, the reduction in yield for member A is 1.61% and 1.60% for member B. Using an identical fee charged by insurance agents for unit-linked pension plans of insurance firms, the reduction in yield is 1.28% for A and 1.27% for B.*

- ii. POP revenues from low and high income members will be identical when a flat transaction or annual fee is charged. However POP revenues will decline when the periodicity of contributions decreases. Importantly, flat charges will have a greater negative impact on low-value contributions.

Simulation: *Using the relatively higher charges (of Rs.299 per annum + Rs.25 per contribution) of demat service providers (DPs), the reduction in yield for member A is 6.83% with annual contributions and 3.46% with a single annual contribution. The impact of flat (annual and/or transaction) charges is lower for higher value customers – the reduction in yield for B with identical flat charges is only 0.60% with monthly contributions and 0.32% with annual contributions.*

- iii. If a POP derives an asset-based fee, which is percentage of assets under management instead of a front-end load (fee or commission), POP revenues from a customer will grow over time. This may prompt a POP to (a) compete for existing NPS customers, and (b) compete for attracting new customers in the scheme.

Simulation: *If a POP receives (say) 10 bps (0.01%) of assets of member A, it will earn a total of Rs.4505 over a 35 year period (in real terms) leading to a reduction in yield of 1.30%. With a similar charge, the POP will earn a total of Rs.45,758 from customer B – implying a reduction in yield of 1.33%.*

4.3 Policy choices and issues

1. What should be the eligibility criteria for POPs in terms of experience with marketing and delivering retail financial services, infrastructure, and existing regulatory oversight?
2. What should be the service obligations of POPs? What should be the service benchmarks for POPs?
3. Should we focus on uniform service quality and limit the number of POPs and therefore initially limit access and coverage to the higher-income members in urban locations?
 - OR should POPs be registered under different *categories* (full service and limited service) depending on their service capacity leading to more wide-spread though non-uniform service quality? What risks would we face and how should these POPs be regulated?
 - OR should large employers and MFIs be also registered as *targeted* POPs? What services should we expect them to provide? What risks will we face and how should these POPs be regulated?
4. What charge structures and levels will motivate POPs to cross-sell and actively promote the NPS?
5. Should PFRDA prescribe a ceiling on POP fees and charges and how can these be regulated?
6. Should fees and charges be uniform across POPs? Should POPs be allowed to charge differential fees to different customers?
7. Should POPs have coverage targets? How should these be set?

5. Eligibility criteria for POPs

As already specified, the retail service delivery network will be closely monitored by the PFRDA and the CRA to ensure that customers of the NPS do not face any incidence of mis-selling, fraud, delays or errors in transfer of information, instructions and funds. Initially, only large employers, government departments and well regulated financial service providers will be permitted to serve as POPs. Over time, the IT and telecom infrastructure, and therefore the financial intermediation capacity and outreach can be expected to improve – thereby providing wider, cost-efficient access to the public for channeling their retirement savings under the NPS.

5.1 POP categories

POPs will be categorized as per the following broad functional and service capabilities:

1. **Full service Public POPs:** These POPs will have the specified infrastructural and IT capacity, as well as regulatory permissions for collection and electronic transfer of funds to the CRA. These POPs will typically be public, private and foreign banks operating in India and regulated by the Reserve Bank of India (RBI), other financial institutions engaged in providing financial services to the public including depository participants regulated by the Securities and Exchange Board of India (SEBI), non-banking finance companies (NBFCs) regulated by the RBI, and other institutions authorized by the Government of India to provide financial services to the public (including postal branches with V-SAT connectivity);
2. **Limited Service Public POPs:** Entities which do not have regulatory permissions for funds transfer but which have the IT and telecom capacity for electronic connectivity with the CRA will fall in this category. These POPs will use the banking channel for effecting funds transfers to the CRA. These entities should however be already regulated by a financial regulator and must have adequate experience in provision of retail financial services. Brokerages registered with national electronic exchanges including NSE, BSE, NCDEX, MCX and third-party (non-banking) financial distributors will fall in this category;
3. **Targeted POPs:** Large employers (Government of India, State Governments and other large private and public sector entities), as well as Micro-finance Institutions (MFIs), NGOs, unions and worker associations may be permitted to serve as POPs

for their own employees and/or members on a case-to-case basis. These firms may however not be permitted to undertake POP functions for the general public. The infrastructural and IT capacity of these entities to provide information and funds transfer facilities to their employees/members, years in existence, number of individuals covered, net worth, and any other criteria that may be specified by the PFRDA will determine their approval to serve as targeted POPs. Pay and Account officers (P&AOs) of the Central Civil and Non-civil Ministries and Departments, and DDOs and treasury offices of the State Governments and Local Bodies and Municipalities will fall in this category of Targeted POPs.

5.2 Eligibility criteria for POPs

1. Any establishment may act as a POP for its own employees. However the net worth of such an establishment (if it is a private establishment) should not be less than Rs.25 crore or as otherwise decided by the PFRDA.
2. The following categories of establishments may act as POPs for the public:
 - a) A public financial institution as defined in Section 4A of the Companies Act, 1956 (1 of 1956);
 - b) A bank included for the time being in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934);
 - c) A foreign bank operating in India with the approval of the Reserve Bank of India;
 - d) An institution engaged in providing financial services, promoted by any of the above mentioned institutions, jointly or severally;
 - e) A non-banking finance company with a net worth of not less than Rs.50 crore in addition to net worth specified by any other authority;
 - f) A micro-finance institution which has been in existence for at least 3 years, or
 - g) An institution authorized by the Government of India and engaged in providing financial services to the public.
3. The following criteria should also be satisfied by the establishments/organizations listed in category 2 above:
 - a) The applicant should have at least 3 years experience in providing financial services to the public;

- b) The applicant should not have been convicted in matters relating to moral turpitude, misappropriation of funds and securities, theft, embezzlement of funds, fraudulent conversion or forgery;
- c) The applicant should not have been expelled, barred or suspended by any regulatory body, self regulatory organization, or any recognized stock exchange;
- d) The applicant should have adequate office space and the necessary IT infrastructure specified by the CRA for POP operations/services. The CRA shall have the sole discretion to decide whether in its opinion, the applicant has adequate infrastructure facilities at the time of granting approval for POP services. The applicant shall satisfy the CRA that it has made adequate arrangements for conducting effective and safe POP operations including security measures, software and hardware requirements, risk containment and insurance requirements, as may be specified by the CRA;
- e) The following shall be exempt from requiring a certificate of registration as POP and shall be deemed to be POPs for their own employees:
 - i. All Pay and Account Offices (P&AOs) of the Central civil and non-civil ministries and departments including those which are under the purview of the Controller General of Accounts (CGA);
 - ii. All designated offices of grant-in-aid institutions, autonomous bodies, Union Territories and other establishments / departments which are outside the purview of the Controller General of Accounts (CGA) and whose employees are covered by the NPS; and
 - iii. All Pay and Account Officers (P&AOs), DDOs and Treasury Offices of State Governments, local bodies and municipalities.

While the above categories of establishments may be deemed POPs, they will be required to register with the CRA, obtain a unique POP code, and undergo NPS system operations training before commencing operations under the NPS.

5.3 Registration of POPs

1. PFRDA Regulations will specify the format in which eligible entities may apply to become POPs.
2. An applicant will need to submit the duly completed application form to the CRA. This application will include specific ownership, capital, organizational, experience, network, human and IT capacity details of the applicant.
3. An application by an entity which is not eligible, or by an entity which does not

- have the specified network and IT capacity, or an application which is not complete in all respects or does not conform to the instructions specified by the PFRDA and CRA shall be rejected. However before rejecting any application, the CRA will give to the applicant an opportunity to comply with the objection.
4. Once the CRA is satisfied that the applicant is eligible to serve as a POP (based on the PFRDA eligibility criteria and the CRA's infrastructure and IT requirements), it will forward the application to the PFRDA for formal approval to the applicant to serve as a POP.
 5. Thereafter, at least one staff member at each service location of the applicant shall undergo certification training related to the operational aspects of the NPS and will be required to pass the POP Certification examination conducted by NCFM.
 6. The applicant will be required to install the system software specified by the CRA at each location which will provide POP services to the public. The CRA will physically verify the systems and test its connectivity with all service locations of the applicant.
 7. The applicant shall be required to sign a bilateral service and access agreement with the CRA. After signing the agreement, the applicant will pay the connectivity charges (to cover the operational costs of the CRA in providing training and access) and refundable security deposit to the CRA to become operational.
 8. The applicant will complete the registration process by paying the POP registration and annual fees to the PFRDA. The fee will be specified by the PFRDA.
 9. Once the CRA is satisfied with compliance on technical specifications, it will issue a certificate of registration and commencement of POP business to the applicant.
 10. Each location with a certified staff member and with the requisite system software and hardware will be permitted to offer POP services to the public.
 11. The applicant shall be deemed to be a POP with effect from the date on which it is registered with the PFRDA.
 12. This Certificate of Registration as a POP shall be valid for a period of five years. During this period, the POP will be required to comply with any system or software specification changes or upgrades by the CRA, and offer the full set of services to NPS members as specified by the PFRDA from time to time.

5.3.1 Period of POP registration

The certificate of registration issued or renewed shall be valid for a period of five years from the date of its issue or renewal, as the case may be.

5.3.2 Renewal of POP registration

Three months before the expiry of the period of validity of a certificate of registration, the POP shall, if it so desires, make an application for renewal of registration to the CRA. The conditions of renewal will be decided by the PFRDA. The certified staff of the POP at its service locations will be required to undergo training and renewal of their certification by passing the POP certificate examination.

5.3.3 Termination of POP registration

The service agreement between the POP and the CRA shall cease under the following cases:

- a) At the end of the registration period,
- b) On the expulsion of the POP by the PFRDA, or
- c) On surrender of the registration by the POP.

The POP will require the PFRDA's permission to voluntarily surrender its registration and cease provision of POP services. Such approval by the PFRDA shall be granted after it verifies that

- a) there is no suspense balance or pending contributions in the accounts of the POP,
- b) the POP has no outstanding payments to the CRA and PFRDA, and
- c) no unresolved conflicts or outstanding complaints against the POP exist, which have relevance to NPS members.

Termination of the POP service agreement shall not affect any claims arising in respect of transactions effected by the POP while it was a POP. The POP, upon cancellation of the certificate of registration by the PFRDA, shall issue a public notice in one national English daily newspaper and in one vernacular daily newspaper, informing the public about discontinuing its services under the NPS.

5.3.4 Expulsion of a POP

The CRA shall recommend expulsion of a POP to the PFRDA under the following conditions:

- a) In case the POP commits repeated breach of the provisions of the rules (regarding its operation and guidelines for these operations), despite repeated reminders from the CRA in this regard,
- b) If the quality of services rendered by the POP are not satisfactory in the opinion of the CRA as evidenced by complaints by NPS members, or
- c) If the POP carries on its activities in a manner which is detrimental to the interests and continued existence of the CRA as well as the interests of the NPS members in general.

5.3.5 Surrender of registration by a POP

The CRA may cease to provide any access or services to a POP upon receiving a notice

of not less than thirty days from the POP that the POP no longer wishes to continue providing POP services. The CRA shall in turn notify other POPs, clients of the specific POP and the PFRDA within seven days of receipt of such notice from the POP. If an entity decides to surrender its registration and cease services as a POP, it shall be barred from applying for a POP registration a period of five years.

5.3.6 Suspension of a POP

The PFRDA may suspend a POP and prohibit the entity from offering POP services if the POP is found to be in violation of its terms of registration based on its own findings, on the basis of a report and recommendation from the CRA, or on the basis of complaints received from the POP's customers. In this situation, the PFRDA will instruct the CRA to suspend its connectivity with the POP. Such suspension shall continue till the POP furnishes satisfactory evidence of complying with the directions of the PFRDA. The PFRDA may require a POP to suspend its business in part or in whole *inter alia* under the following conditions:

- a) If in the opinion of the PFRDA or the CRA, the financial condition of the POP is such that it has gone below the networth norms set for a POP,
- b) If the POP violates the provisions of other Acts, Rules or Regulations (such as SCRA, RBI or the Companies Act) by which it is also governed,
- c) If the POP fails to comply with the regulations and directions of the PFRDA, or
- d) If the POP is found by the CRA to be unable to continue offering POP services to the NPS members.

The suspension of a POP will continue until the PFRDA permits it to resume its business on rectification of those conditions which led to its suspension.

5.3.7 Consequences of suspension of POP

The suspension of a POP shall have the following consequences

- a) Suspension of the entity's rights as a POP,
- b) Rights of members unimpaired – the suspension shall not affect the rights of the NPS members who are customers of the suspended POP,
- c) Fulfillment of obligations – the suspended POP shall be bound to fulfill all obligations outstanding at the time of its suspension as directed by the PFRDA and CRA, and
- d) Further business prohibited – the entity will be prohibited from providing POP services

5.4 POP costs, charges and revenues

The POP will face initial capital expenditure on setting up or upgrading its hardware, software and telecom capacity to connect to the CRA and provide informational and transactional services to its customers. The POP shall be required to pay an application and registration fee to PFRDA. In addition, the POP shall also be required

to pay a refundable security deposit along with annual insurance charges to the CRA. The CRA will negotiate an insurance policy to cover business risks and system failure risks for all POPs.

POPs will be able to charge an annual and/or transactions-based fee to their customers for a variety of services including opening new accounts, providing periodic or on-demand account statements, channeling funds or instructions regarding Tier-I or Tier-II accounts, effecting withdrawals from Tier-II accounts. The PFRDA may prescribe a ceiling on such fees and charges by POPs.

The POPs may also engage ARAs for marketing the NPS to the public. However, fees for such ARAs shall not exceed the ceilings prescribed by PFRDA. The transaction form used by each ARA shall bear its unique ARA registration number. This number shall be transmitted to the CRA by the POP for recording the fees payable and paid to each ARA.

The POP may be required to submit a report on its fees from POP or sales functions to the PFRDA.

5.5 Regulatory framework for POPs

- a) **Connectivity:** Every POP shall maintain adequate means of communication (as defined by the PFRDA from time to time) with the CRA. Each service delivery location of a POP shall be electronically connected to the CRA – either directly or indirectly through its internal network.
- b) **Monitoring, reviewing and evaluating internal systems and controls:** Every POP shall establish appropriate mechanisms for the purposes of reviewing, monitoring and evaluating its internal controls and systems.
- c) **System:** The POP will be free to decide the hardware configuration and software platform for providing services to the public and for interlinking with the CRA. The CRA which will be connected to the CRA, using appropriate telecommunication links. The hardware, software and telecommunication equipment capacity shall be specified by the CRA.
- d) **Safety:** A POP shall be required to have an appropriate back-up system for computer and communications infrastructure. The systems approval will be granted by the CRA only after rigorous testing. The POP hardware, software and communication systems will be continuously reviewed by the CRA in order to make them more secure. These reviews will be a part of an ongoing exercise wherein security considerations will be given as much importance as operational efficiency.

- e) **Protection of data:** The POP shall take necessary steps to protect the transmission and storage of data under its system. The data shall be protected from unauthorized access, manipulation and destruction. The transmission of data shall be in encrypted form and will have to be decrypted at the CRA's end so as to eliminate the possibility of unauthorized interception of data.
- f) **Liability to clients and CRA:** The POP shall ensure that a member's identity and transmission requests are verified and supported by valid documents. The POP shall be liable for any errors of judgment in its behalf.
- g) **Operation of a PRA account:** The POP shall, within two working days, inform a members in respect of any instructions which have not been executed and the reasons of non-execution.
- h) **Reconciliation:** Every POP shall complete all transactions related to member instructions by the close of business day on a daily basis.
- i) **Record of services rendered:** Every POP location shall locally maintain the personal details of identification of all members registered through it and being serviced through it. In addition. each POP location will locally maintain the following records and related documents for all member transactions for a period of 30 days from the transaction:
 - i. Records of all transactions with the CRA and with all members,
 - ii. Records of instructions and documents received from members, and
 - iii. Complaints and corresponding resolution actions taken.
- j) **Manner of maintaining records:** All records of member instructions and transactions must be kept electronically and as hard copies locally by each POP location for a period of 30 days from the date of the transaction. The POP shall ensure that the integrity of the data is maintained at all times and takes all precautions necessary to ensure that the records are not lost, destroyed or tampered with. To prevent such loss or destruction, the POP shall ensure sufficient back-up of records.
- k) **Personal retirement account details:** Members shall have the right to request details of their PRA from a POP. A POP shall have a facility to provide printouts for account information to a member. The POP may charge a fee for this service subject to a ceiling prescribed by PFRDA.
- l) **Performance, PFM and system information:** All POPs shall be required to display the current NAV of all schemes and such other details of performance including charges of various service providers in a format prescribed by the PFRDA during normal working hours.

m) **Indemnification of CRA:** Each POP shall indemnify the CRA against all costs, fees, expenses, liabilities, taxes, actual losses and damages of any nature whatsoever incurred by the POP, directly or indirectly, as a result of, or in connection with the following matters:

- i. The participation of the POP as a service provider under NPS and/or its interlinkages with the CRA, including the provision of services by the POP to the public and the provision of services by the CRA to the POP and all other matters,
- ii. A failure by the POP to comply with the PFRDA regulations and/or the rules specified in its agreement with the CRA,
- iii. Actions by the CRA or its officers and employees taken by placing reliance upon instructions or communication believed in good faith by any of them to have been given by or on behalf of the POP (including, but not limited to, the giving of effect to such instructions or communications by any of them) or the failure of the POP to give instructions to the CRA.

However, nothing contained above shall apply if the CRA is guilty of negligence, willful misconduct or fraud on its part and is responsible for the losses.

n) **Procedure of inspection of a POP by CRA:**

1. Where the CRA deems it necessary, it may appoint one or more persons (from its own staff or professionals) as an inspecting authority to undertake inspection of the books of accounts, other records and documents of the POP to the extent they pertain to the CRA operations for any of the purposes specified below:
 - i. As to whether the books of accounts and other books are being maintained in the manner required,
 - ii. To investigate into any complaints received from members who are customers of the POP, or complaints from other POPs, or any other person on any matter having a bearing on the activities of the entity as a POP under the NPS,
 - iii. To investigate suo-moto, for any reason where circumstances so warrant an inspection into the affairs of the POP in the interests of the public in general,
 - iv. To facilitate reconciliation of records in case the records of the POP with the CRA remain unreconciled for a period exceeding three working days,
 - v. To comply with any of the directives issued in this behalf by any court or regulatory authority including the PFRDA and the Government.
2. When the CRA appoints outside professionals as an inspecting authority, it

shall notify to the POPs the names and addresses of the professionals or firms so appointed as an inspecting authority at the time of inspection.

3. When outside professionals are appointed as an inspecting authority in respect of a POP and such professionals are already related in any other capacity with the POP, then such POP shall forthwith inform the CRA of such relationship.
4. Where, after the appointment of any outside professional as an inspecting authority in respect of any POP, the POP or any of its associates engages the inspecting authority for its services in any other capacity, the inspecting authority shall not engage itself in such other professional capacity with the POP or with any of its associates without the prior written consent of the CRA.

o) Obligations of a POP during inspection:

- i. It shall be the duty of every POP to produce to the inspecting authority, such books, accounts and other documents in his custody or control, or arrange to produce where such books, accounts and other documents are in any other person's custody or control, and furnish the inspecting authority such statements and information within such time as the said inspection authority may require.
- ii. The POP shall allow the inspecting authority to have reasonable access to its premises and also extend reasonable facilities for examining any books, records, documents and computerized data in his possession and also provide copies of documents or other materials which, in the opinion of the inspecting authority, are relevant to the inspection.
- iii. The inspecting authority, in the course of inspection may examine or record statements of any member, director, officer and employee of the POP, or of any associate of such POP.
- iv. However, the inspecting authority shall not have the right to examine any person or inspect any records which do not pertain to the operations of the POP as a service provider under NPS.

p) Submission of report:

- i. The inspecting authority shall, as soon as possible, submit an inspection report to the CRA.
- ii. The inspecting authority shall maintain complete confidentiality and shall not disclose any information contained in the documents submitted to it or inspected by it to any person, firm, company or authority unless required by any law for the time being in force.
- iii. The CRA shall after consideration of the inspection report, communicate the findings to the POP to give it an opportunity of being heard before any action is taken by the PFRDA or CRA on the findings of the inspecting

- authority.
- iv. On receipt of the explanation, if any, from the POP, the PFRDA or CRA may call upon the POP to take such measures as they may deem fit in the interest of the NPS members.
 - v. In case the report of the inspecting authority indicates the existence of any grounds for taking disciplinary action against a POP, the CRA, if so satisfied shall send a copy of the inspection report to the PFRDA for further action in this regard.
- q) **Prohibition of assignment systems:** No POP shall assign or delegate its functions as POP to any other person, without the prior approval of the CRA and the PFRDA.
- r) **Compliance:** The PFRDA may also make it mandatory for the POP to appoint a compliance officer, who shall interact with the CRA on behalf of the POP for compliance with the prescribed rules for the POP.
- s) **CRA right to rectify:** The CRA reserves the right to rectify any erroneous transaction made to the accounts of a POP and shall thereafter inform the concerned POP of such rectification.