



# How PFRDA will develop the private pension market in India

(1 May 2008)

MEENA CHATURVEDI  
ED PFRDA

## IMPETUS FOR PENSION REFORMS IN INDIA

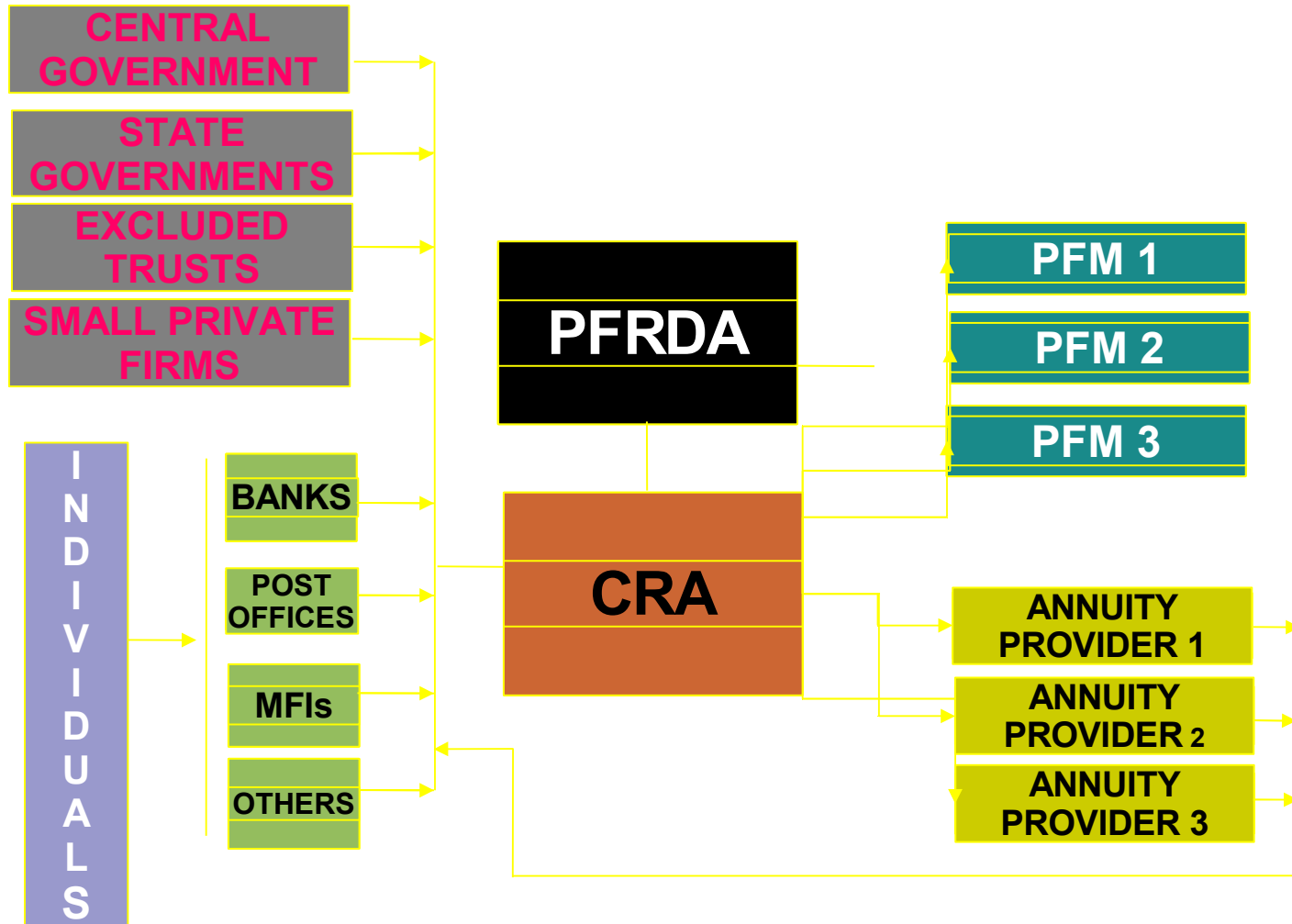
- **LARGE PART OF WORKFORCE WITHOUT ANY OLD-AGE SECURITY COVER** : ONLY ABOUT 13% OF INDIA'S WORKFORCE OF 425 MILLION HAS SOME FORMAL PENSION COVER
- **GROWING FISCAL STRAIN** : IMPLICIT PENSION DEBT OF PROVIDING PENSION SECURITY TO LESS THAN 3% OF WORK FORCE ESTIMATED AT 65% OF GDP, GROWING AT AN AVERAGE ANNUAL RATE OF OVER 20%
- **DEMOGRAPHIC TREND** : POPULATION OVER 60 GROWING AT A RATE OF 3.8% AND ESTIMATED TO SWELL TO 110.5 MILLION IN 2010 AND 330 MILLION IN 2050

**THE NEW PENSION SYSTEM OR NPS  
AS IT IS COMMONLY KNOWN HAS  
EMERGED AS THE MOST VIABLE  
SOLUTION TO INDIA'S PROBLEM OF  
INADEQUATE PENSION SECURITY  
COVER AND FISCAL BURDEN ON  
ACCOUNT OF PENSION LIABILITY**

## **BASIC FEATURES OF THE NPS**

- **DEFINED CONTRIBUTION**
- **PORTABLE INDIVIDUAL ACCOUNTS (TIER I & TIER II)**
- **MARKET DRIVEN RETURNS**
- **PFRDA AS THE REGULATOR**
- **TO COVER UNORGANISED SECTOR WORKERS (VOLUNTARY) AND NEW RECRUITS TO GOVT (MANDATORY)**
- **SIMPLE, COST EFFECTIVE AND ROBUST ARCHITECTURE**
- **CENTRAL RECORDKEEPING AGENCY (CRA), PENSION FUND MANAGERS (PFMs), POINTS OF PRESENCE ARE CRITICAL PLAYERS OF NPS ARCHITECTURE**

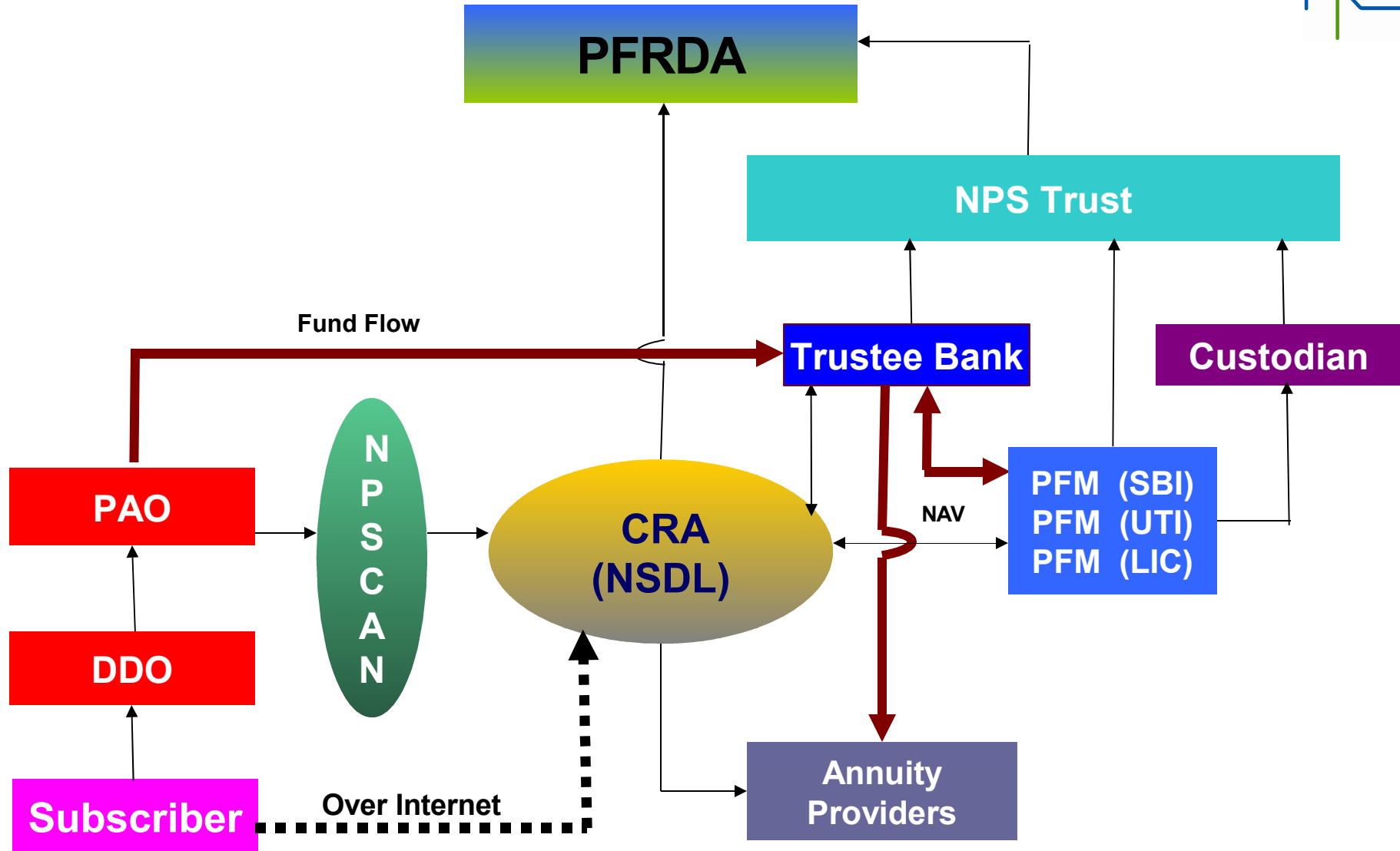
# NPS Architecture



## **MAJOR MILESTONES**

- **PFRDA SET UP THROUGH AN EXECUTIVE ORDER IN OCTOBER 2003**
- **NPS INTRODUCED FOR NEW RECRUITS TO CENTRAL GOVERNMENT FROM 1 JANUARY 2004**
- **PFRDA BILL INTRODUCED IN PARLIAMENT IN MARCH 2005**
- **NPS ADOPTED BY 19 STATE/UT GOVTS IN RESPECT OF THEIR NEW RECRUITS**
- **NPS ARCHITECTURE PUT IN PLACE BY PFRDA**

# NPS Architecture



Information Flow  
Funds Flow

## **IMPLEMENTATION OF NPS ARCHITECTURE**

- **PFRDA HAS APPOINTED NSDL AS THE CRA**
- **CONTRACT HAS BEEN SIGNED WITH NSDL ACCORDING TO WHICH CRA WILL BECOME FULLY OPERATIONAL BY 1 JUNE 2008**
- **SBI, UTI AMC AND LIC HAVE BEEN SELECTED AS SPONSORS OF PENSION FUNDS**
- **SPONSORS HAVE ALREADY INCORPORATED THEIR PENSION FUNDS AS NEW COMPANIES UNDER THE COMPANIES ACT 1956**
- **NPS CUSTODIAN AND TRUSTEE BANK APPOINTED**
- **NPS TRUST SET UP**
- **NPS CORPUS OF CENTRAL GOVT OF ABOUT Rs. 1200 CRORE TRANSFERRED TO THE PFs FOR INVESTMENT**

## **SELECTION PROCESS**

- **THE SELECTION WAS MADE THROUGH A TRANSPARENT AND COMPETITIVE BIDDING PROCESS**
- **IN VIEW OF GOVERNMENT'S REQUEST BIDS WERE INVITED ONLY FROM PUBLIC SECTOR ENTITIES**
- **TWO STAGE SELECTION PROCESS WAS ADOPTED FOR SELECTION OF CRA AS WELL AS FUND MANAGERS**
- **DUE WEIGHTAGE WAS GIVEN TO TECHNICAL AS WELL AS COMMERCIAL PARAMETERS**
- **INDEPENDENT EVALUATION COMMITTEES WERE CONSTITUTED FOR THE PURPOSE**
- **HIGHLY COMPETITIVE FEES AND CHARGES TO COME DOWN WITH INCREASE IN NUMBER OF SUBSCRIBERS, ASSETS UNDER MANAGEMENT**

## **THE WAY AHEAD**

- **THE NPS ARCHITECTURE TO BE MADE AVAILABLE TO THE STATE/UT GOVTS**
- **NPS CORPUS OF STATE/UT GOVT TO BE TRANSFERRED TO PENSION FUNDS**
- **TIER II TO BE MADE OPERATIONAL FOR GOVERNMENT EMPLOYEES**
- **OPTION TO GOVT EMPLOYEES NOT COVERED BY NPS TO JOIN ON VOLUNTARY BASIS(TIER II)**
- **NPS TO BE MADE AVAILABLE TO OTHER CITIZENS OF INDIA ON A VOLUNTARY BASIS**
- **EET TAX STATUS TO BE SOUGHT FOR SAVINGS UNDER NPS**

## **THE WAY AHEAD**

- **MORE INVESTMENT OPTIONS TO BE MADE AVAILABLE TO SUBSCRIBERS**
- **DEVELOPMENT OF LIFE CYCLE FUNDS AS DEFAULT OPTION**
- **TO GRADUALLY MOVE FROM RULE BASED REGULATION TO RISK BASED REGULATION**
- **TO GRADUALLY SHIFT FROM ON-SITE SUPERVISION TO OFF-SITE SUPERVISION**
- **TO CREATE AWARENESS ABOUT OPTIONS AND OPPURTUNITIES UNDER THE NPS**
- **TO EVOLVE SYSTEMS FOR IMPROVING THE LEVEL OF FINANCIAL LITERACY IN GENERAL**

## **GEARING UP-CREATING NPS AWARENESS**

- **ALL PLAYERS INCLUDING INDIVIDUAL SUBSCRIBERS TO BE SENSITISED TO THE REQUIREMENTS OF NPS**
- **TARGETTED CAMPAIGNS TO EDUCATE AND CREATE AWARENESS AMONGST THE NPS SUBSCRIBERS**
- **DIFFERENT MEDIUMS OF COMMUNICATION TO BE TAPPED FOR THE PURPOSE**
- **SIMPLE AND EASY TO COMPREHEND FORMATS IN REGIONAL LANGUAGES TO BE USED TO EDUCATE INDIVIDUAL SUBSCRIBERS**



## CONTACT PFRDA

- **PFRDA WEB-SITE** : [www.pfrda.org.in](http://www.pfrda.org.in)
- **PHONE NUMBERS** :  
PBX : 011-26897948, 011-26897949  
FAX : 011-26897938  
Mr.Siddharth Sharma, General Manager : 011-26897945,



**THANK YOU**