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Extending Coverage of the New Pension Scheme in India
Analysis of Market Forces and Policy Options

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working papers

Foreword

This Working Paper by Simone Stelten is her Master of Public Policy thesis, submitted in April 2011. She graduated at the Hertie School of Governance in May 2011. The thesis is a study of the (voluntary) New Pension Scheme which was launched by the Government of India in May 2009 in an effort to increase pension coverage, particularly in the informal sector of the economy. Although she admits that it is perhaps still early to assess the status of this scheme, she asks the question why so few (only 0.04 percent of the total workforce) so far have taken up this insurance. The number lags far behind the potential, it is claimed. Why has the scheme attracted so few new subscribers, and which public policy solutions can increase the enrollment rate?

Simone Stelten's thesis is very well-structured, -researched and –documented. Simone Stelten succinctly presents the scope and relevance of the study, and the approach and methodology before providing a theoretical and analytical framework for the study. The empirical analysis focuses on the pension demand and supply sides, and discusses the low coverage of pension subscribers in light of the mismatch of supply and demand. Based on findings and discussions, she provides a number of well-motivated recommendations as to how the coverage of the New Pension Scheme can be increased. The study was thought out and developed under the supervision and guidance of Robert J. Palacios, Department of Social Protection of the World Bank.

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Extending Coverage of the New Pension Scheme in India

Analysis of Market Forces and Policy Options

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Master's Thesis

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Executive Summary

India has one of the world's fastest growing economies, but it also has vast structural problems that hinder the country's socioeconomic development. Most jobs are generated in the informal sector, where more than 80 percent of all workers are employed. Most Indians lack financial resources for retirement and rely on their families, whereas the family is becoming a less reliable source of support in old age due to decreasing fertility and the increasing mobility of the young. Longevity has increased rapidly, while people over 60 years of age are the fastest growing age cohort. Thus, there is a strong need to increase pension coverage for the population that largely consists of informal sector workers.

The New Pension Scheme (NPS) was launched by the Government of India in May 2009 to increase pension coverage, particularly to the informal sector. NPS is a voluntary defined contribution scheme, which is distributed through licensed private sector institutions. The Pension Fund Regulatory and Development Authority (PFRDA) in 2010 introduced two further reforms to increase coverage: the "Swavalamban" subsidy for poor workers, and NPS-Lite, which is a means of conducting group enrollments. NPS is distributed through "Points of Presence" (PoPs), which are financial sector institutions, including banks and insurance companies. NPS-Lite is distributed through "aggregators", which are local institutions including NGOs and self-help groups. The current number of 167,002 voluntary subscribers lags far behind its potential. Against this backdrop, the study addresses two research questions. First, why has the NPS approach attracted so few new subscribers until now? Second, which public policy solutions can increase the NPS enrollment rate?

The NPS market forces are at the center of the analysis**.** The study develops its own theoretical framework that consists of a set of criteria to assess the (mis-)match of demand and supply to explain where policy options should be better targeted to address the current low enrollment rates. This study identifies four reasons for low coverage, which show a comprehensive picture of policy shortcomings in terms of all criteria. The scheme does not satisfy the demand for secure financial investments; its legal status and institutional architecture question the long-term stability of scheme and investments; there are severe shortcomings in the management of the scheme's distribution channels, and a targeted marketing strategy has not been developed, which is necessary to attract the population.

This study proposes a policy package of seven short- and long-term measures to increase NPS coverage. The most immediate and largest effects should result from two measures – improving the incentives for the PoPs and developing a targeted pull-marketing strategy. The potential of the proposal is to increase coverage up to 40 million in the medium run (5 years) and there is a vast market of 100 to 130 million persons with sufficient savings capacities in the long run.

TABLE OF CONTENTS

List of Figures

List of Tables

List of Abbreviations

A.	Appendix
ADB	Asian Development Bank
ASP	Annuity Service Provider
BPL	Below Poverty Line
CRA	Central Recordkeeping Agency
DB	Defined Benefit
DC	Defined Contribution
EPF	Employee Provident Fund
EPFO	Employees Provident Fund Organisation
EPS	Employees Pension Scheme
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoI	Government of India
IFMR	Institute for Financial Management and Research
IIEF	Invest India Economic Foundation
IIMS	Invest India Market Solutions Private Ltd.
IISS	India Income and Savings Survey
INR	Indian Rupee
IRDA	Insurance Regulatory and Development Authority
MFI	Microfinance Institution
MoF	Ministry of Finance
LE(0)	Life expectancy at birth
LE(30)	Life expectancy at age 30
LDC	Less Developed Countries
LIC	Life Insurance Corporation of India
MoHF	Ministry of Health and Family Welfare
MoLE	Ministry of Labour and Employment
NCEUIS	National Commission for Enterprises in the Unorganized Sector

I. Introduction

If an emerging economy like India wants to foster "sustainable and inclusive growth", fight poverty, and reduce inequalities (Planning Commission 2008), its government needs to provide a social safety net for its population. Otherwise, people will fall back into poverty again and again because of substantial income reductions due to social risks, including sickness, employment injury, and old age (Krishna 2010). Yet how can a country like India, which struggles with an increasing informal sector[1], a poorly educated, non-registered and mobile population, establish social safety nets such as a pension system for a billion-plus population? Pension reform is one of the most difficult challenges in India's "second generation" of economic reforms (IIEF 2011),[2] which requires innovative public policy solutions primarily at the central government level.

In January 2004, the Government of India (GoI) established the "New Pension Scheme" (NPS) for central and state government employees. Extended on 1 May 2009 to all citizens, the NPS is an ambitious initiative that provides voluntary contributory pensions to India's vast informal sector. This paper focuses on this latter NPS pillar for all citizens.[3] The responsible Pension Fund Regulatory and Development Authority (PFRDA) implemented an internationally unique approach to distribute the scheme through a "system of licensing and registration arrangements" (Butel, Bhardwaj 2010: 4) with private sector financial institutions (MacKellar 2009: 20). This new public-private partnership aims at distributing NPS on a large scale in India but the current number of 167,002 voluntary NPS subscribers lags far behind its potential (Interview Nair 2011; Sanyal et al. 2011: 18). To assess the malfunction of the NPS, the study will address two research questions:

1) **Why has the NPS approach attracted so few new subscribers until now?**

2) **Which public policy solutions can increase the NPS enrollment rate significantly?**

[1] The development literature distinguishes formal from informal sectors. "Employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, [and] social protection (...)" (Hussmanns 2004: 6; see also II.2).
[2] The "first generation" refers to the liberalization of the economy and the opening of the markets after the foreign exchange crisis in 1991. "Second generation" reforms try to stimulate socioeconomic development with more comprehensive policies including economic, fiscal, and social policies (Jenkins, Khilnani 2004).
[3] Hereafter, "NPS" refers to this pillar only and not to the NPS for civil servants.

I.1 Scope and Relevance

The rapidly growing Indian economy[4] almost only generates informal jobs, which are not subject to labor law and do not foresee any form of social security for the aging population. Estimates of the percentage of the Indian workforce that comprises the informal sector range from 81 to 86 percent (Butel 2010; NCEUIS 2007: 4). The informal sector is where an estimated 95 percent of all new jobs in India are generated (Mariathasan 2010: 23). India is projected to become the most populous country by 2026 (Nelson 2010) but the age cohort over 60 is growing fastest among the population and will reach 200 million in 2030 (UN 2008). Hence, India will become a rapidly ageing country before it becomes a high-income economy (Asher, Bali 2010: 68). Longevity increased rapidly. Today, poor Indians have an average life expectancy at age 30 of 73 years (based on WHO 2009). At the same time the traditionally very strong Indian family, which has taken care of the elderly, is transforming because of rapidly decreasing fertility, rural depopulation, and altering value systems (PFRDA 2009). In 2007, an estimated 8.7 percent (37 million) of the approximately 425 million Indian workforce aged 15 to 65 was enrolled in a formal retirement plan including both public and private schemes (based on OECD 2009).[5] In summary, the demographic transition, fiscal constraints, changing family structures, and low pension coverage define the importance of increasing coverage for the population that largely consists of informal sector workers.

With the NPS reform of 2009, the GoI has tried to implement a scheme that increases coverage, particularly to the informal sector. As the analysis of the demand shows, enrollments lag far behind their potential of 40 million in the medium term. This paper provides policy recommendations to expand pension coverage, addressing Indian policy makers and technical assistance agencies that support social security provision in India. Many LDC in Asia, Africa, or Latin America share both the problem of low pension coverage and the conditions of aging populations as well as rising informal sectors (Asher 2009; Olivier 2009). Institutional structures and development stages make country-based approaches necessary. Nevertheless, this paper provides a case study that is relevant for other countries as well.

[4] GDP growth is projected to reach 8.43 percent in 2011 (Nasser 2010).
[5] OECD 2009: 86, adjusted to a larger estimate on the size of the workforce based on Butel 2010: 109. Today the enrollment rate should be slightly higher due to additional enrollments in the last two years.

I.2 Approach and Methodology

NPS is a voluntary defined contribution (DC) scheme,[6] i.e. people have to favor NPS investments over other investments. Both market forces – demand and supply – need to be analyzed to understand where and how policy options should be targeted to address the current low enrollment rate resulting in these vast numbers of persons who will be without pension coverage in old age. Based on a comparison of the demand side for pensions in India and the NPS supply side, the study will assess the degree to which there is a mismatch of both sides resulting in low enrollment rates. The analysis is based on a review of the available literature, government documents, including regulations and policy papers of the PFRDA, as well as surveys including the following main sources:

- IIMS Dataworks India Income and Savings Survey (IISS 2007 and 2008), and IFA Survey 2008 for indicators on the Indian financial and insurance market,
- National Sample Surveys (NSS 1993-94; 2004-05) for indicators on female dependency and income,
- New Pension Scheme Survey (NPSS 2004)[7] for indicators on market segments, occupations, and financial behavior, and
- UN Population Prospects (UN 2008) for demographic indicators.

The study is additionally based on expert interviews with Indian stakeholders including Rani Nair, Executive Director of PFRDA, T. Koshy, Former Executive Director of the Central Recordkeeping Agency (CRA), Gautam Bhardwaj, Director of the Invest India Economic Foundation (IIEF), and Nishant Jain, Senior Technical Specialist on Social Protection at the German Development Agency GIZ. The interviews were conducted during a research stay in New Delhi in January 2011 (A. 1).

There are two limitations of approach and methodology. First, there are limitations due to a lack of adequate data. Most surveys on India including the census are not conducted annually. The analysis often relies on data from 2004 due to the very relevant NPSS. For several indicators, there are different estimates, which are addressed in the

[6] In a defined benefit (DB) system, the pension amount is predetermined. In a DC system "contributions are defined by a lump sum amount or percentage of salary. However benefits in this system depend sometimes on the returns of assets and sometimes are predetermined." (Sanyal et al. 2011: 19).

[7] The data differ from data of the NSS 2004-05, which is used in public reports (NCEUIS 2007: 4). The NSS does not measure most indicators on saving capacities and financial behavior, which is measured by the NPSS. Thus, for consistency, the analysis will be based on the NPSS concerning both labor market data and financial behavior and will indicate when there are large differences between survey data.

individual cases to provide a comprehensive picture. Second, there are conceptual limitations due to questions that require further investigation. There are vast development differences between the 28 Indian states. In general, India has a north/south gradient. Most western and southern states are more developed, which is expressed in lower mortality, lower fertility, better education, and higher incomes (Adlakha 1997). The following analysis will, for the most part, rely on generalized data for India and differentiate only between rural and urban areas. In particular, this paper can only remain on this simplified level concerning policy options. If policy options are considered for implementation, additional research will be needed to check their appropriation for different Indian states. The same concern applies to the cost-analysis of the proposals, which has been simplified and would need to be analyzed further.

I.3 Structure of the Paper

The paper is divided into five chapters. *Chapter II* provides a theoretical and analytical basis for the empirical analysis in three steps. First, it develops a theoretical framework for the study by defining indicators for the analysis of supply and demand as well as criteria for the successful implementation of voluntary DC pension schemes in LDC. Second, it summarizes the development of the public pension system in India. And third, it provides a statistical picture of the policy problem. *Chapter III* constitutes the main part of the empirical analysis and investigates the market forces of NPS and in how far both sides match. The demand analysis provides a clearer picture of the relevant market segment in terms of gender, age, occupations, residential area, education, financial literacy, saving patterns, and the level of trust towards the private sector. In order to assess the supply of the NPS, the approach will be described in terms of its institutional architecture, enrollment processes, investment options, and marketing approaches. The chapter concludes with the answer to the first research question on reasons for low NPS coverage. *Chapter IV* answers the second research question on ways to increase NPS coverage. Finally, *Chapter V* concludes with a set of concrete policy recommendations, a medium-term outlook on the potential development of the NPS-scheme, and questions for further research.

II. Theoretical and Analytical Framework for the Study of Pensions in LDC

Traditional social security approaches are based on a strict interpretation of social security as "formal employment-based social insurance" (Olivier 2009: 3). This concept is not applicable to LDC because the majority of the populations are informal workers (Ahmad 1991; Olivier 2009). Particularly in the case of India, it is important to differentiate between the (in)formal sectors and (in)formal work[8] because there is an increasing share of informal employment in the formal sector (NCEUIS 2007: 4). This raises the relevance of finding social security solutions for informal workers in the informal and in the formal sector. The characteristics of informal employment are relevant for the design of pension schemes for three reasons. First, there is no possibility for social security wage deductions, as they are known in most OECD countries. Second, workers and enterprises are not registered, which complicates the identification of persons and data collection. Third, incomes are low on average. Thus, pension schemes must be designed in a way so that they are voluntary, allow for low contributions, and are financed by workers' contributions as long as workers have savings capacities.

The International Labour Organization (ILO) and the World Bank (WB) were the first institutions that extensively provided theoretical insights and empirical studies on social protection and pensions in LDC. The ILO established the "Social Protection Floor Initiative" in 2009, which is an institutionalized framework for knowledge sharing of researchers and policy makers. The WB established a research forum with its "Pension Primer" in 1998 with a strong focus on LDC. Nevertheless, social security in emerging economies is a research area that is still in its infancy.

Holzmann and Jorgensen established a theoretical framework of social risk management (SRM), which applies to LDC. SRM is seen as an "investment in human capital formation" targeting the poor and those at risk of poverty to foster socioeconomic development and increase individual and societal welfare (Holzmann, Jorgensen 2000: 2). Traditionally, people have shared risks informally in extended families or egalitarian

[8] The terms (in)formal and (un)organized are used interchangeably and were first mentioned by the ILO in 1972 (WB 2011). "The unorganised sector consists of all unincorporated private enterprises owned by individuals or households engaged in the sale and production (...) operated on a proprietary or partnership basis (...). Unorganised workers consist of those working in the unorganised enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/social security benefits provided by the employers" (NCEUIS 2007: 3).

tribal systems. Yet, urbanization, declining fertility, and changing value systems are leading to “a break-down of (…) informal risk-sharing mechanisms” (Holzmann, Jorgensen 2000: 4). Holzmann and Jorgensen differentiate between SRM arrangements (informal, market-based, and public), SRM strategies (prevention, mitigation, and coping), and SRM instruments. The latter refers to the actual instruments that are chosen to match supply and demand (ibid: 3). According to this analytical differentiation, this study looks at NPS as an SRM arrangement but questions the scheme’s instruments to find out why the scheme does not match demand and supply.

Studies on pensions in LDC have primarily focused on SRM arrangements. A prominent example is the WB’s promotion of five pillar pension systems (Holzmann, Hinz 2005: 1). SRM instruments, i.e. questions on implementation problems, create a relatively new research field (Asher, Bali 2010). Case studies on DC pensions in LDC primarily cover countries, which have pioneered the development of pension systems, such as Argentina, Chile, and Uruguay. But these countries are of limited relevance for the case of India because these countries have larger formal sectors, covering 60 to 80 percent of the workforce (Ginneken van 2003: 285). Most African and Asian countries with larger informal economies like India struggle more with the implementation of pension systems, and have rarely been at the center of social security research.

This is the first study, which applies an analysis of both market forces to the case of low NPS coverage. Other studies applying this approach are not known. Based on the NPSS 2004, Butel and Bhardwaj have already analyzed the demand for NPS (Butel 2010; Butel, Bhardwaj 2010), which is a main reference for the analysis of the demand side in this study, particularly concerning the identification of market segments and their financial behavior. However, this study will partly interpret the NPSS in a different way than these authors and complement the demand analysis with further data.

The following three sections define the analytical guidelines for this paper and the background of the research problem. Section II.1 develops a set of indicators and criteria to assess the implementation of such schemes. Section II.2 introduces the background of the NPS reforms in the context of the Indian pension system. And section II.3 provides a statistical description of the research problem.

II.1 Framework to Analyze Coverage Gaps of DC Pensions in LDC

There is no comprehensive theoretical background on functional mechanisms of implementation issues related to pensions. By collecting insights from other empirical studies, this study has tried to create a framework to analyze the implementation of voluntary DC pensions in LDC. According to James, two preconditions must prevail for the effective implementation of public DC pension schemes: (1) rudimentary capital markets and (2) considerable government regulations to prevent fraud and excessive risk (Sanyal 2011: 17 based on James 1997). Asher and Bali add five institutional and functional criteria such as that contributions are collected reliably, benefits are paid timely and correctly, the fund is managed in a financially secure way, records are kept accurately, and financial statements are produced to guarantee for transparency (Asher, Bali 2010: 49). India fulfills James' basic criteria, and the PFRDA has implemented an institutional architecture that fulfills Asher's and Bali's criteria (Butel 2010) but still the NPS has not been implemented successfully (Sanyal 2011). That a scheme fulfills criteria to function from a pure institutional and financial point of view does not mean that it also attracts subscribers. Thus, there are further complex requirements for the implementation to become successful. "Successful implementation" should not only mean that the scheme works but that the scheme effectively attracts its target group to subscribe so that pension coverage is extended. Target groups of social protection in LDC are usually associated with the neediest (Suryahadi et al. 2010: 278). However, in contrast to the usual policies, which are publicly funded, voluntary DC schemes do not target the neediest as long as they do not have savings capacities.

Rajan describes the process of implementing pensions in LDC as "a major issue of social engineering (…) [which] will require the construction of institutional bridges under conditions of limited resources and assets in a system in which public-private relationships wreak of distrust (…)" (Rajan 2008: 31). Similarly, Asher and Bali describe implementation as "a complex logistical task, even more so for (…) countries with large populations" (Asher, Bali 2010: 68). Thus, the implementation of such schemes in LDC is hindered by several conditions, including corruption, limited financial resources, poverty, and as in India the challenge of country and population size. Another vital condition is the aforementioned prevailing informality of work.

To better understand the functional mechanisms that influence the success of a DC pension scheme, it can be differentiated between the back-end and front-end of a scheme. Whereas the back-end includes the design of the institutional architecture of a scheme, how funds are managed, how records are kept, the front-end refers to the direct customer-interface including aspects such as how and by whom the product is distributed, the enrollment process, and how a scheme is marketed (Interview Palacios 2011). Attraction of subscribers is back-end and heavily front-end driven. Of course, a subscriber has to be convinced by the investment scheme, and the scheme must function, for which Asher's, Bali's, and James' criteria are vital. However, a subscriber must also be attracted by the scheme's marketing and distribution channels. The subscriber's demand and access to a scheme depend on conditions as they are described by Rajan.

As a result, once James', Asher's, and Bali's requirements are fulfilled, the all-encompassing requirement for voluntary DC schemes to be implemented successfully is that the characteristics, which define and characterize the demand for pensions, have to be matched by the supply side of the pension scheme. Thus, this study approaches the research question for low coverage based on a comparative analysis of the NPS market forces. The analysis requires two different analytical tools comprising of indicators and criteria. First, indicators are necessary to guide the analysis of demand and supply. On the one hand, the indicators will define which aspects of the demand side are relevant for the design of the scheme. On the other hand, they will define which aspects of the supply side (the NPS) are necessary to analyze in order to assess, in a second step, how and why both sides do or do not match. Secondly, criteria are necessary to assess the degree to which demand and supply sides match and where policy options should be targeted to increase coverage. The following list of indicators and criteria serves as analytical framework for the analysis in the following chapters.

A) Indicators of demand and supply:

1) Demand:

a) Demographics: For a basic picture of the NPS demand, data on the current and future age pyramid are relevant. Life expectancy is the most important demographic indicator because it is linked to the adequacy of the NPS retirement age. Data on

demographic characteristics of further sub-groups of the population such as scheduled castes and tribes is very relevant for social protection in general. That being said, these groups belong to the poorest and most disadvantaged segments in India and will not have the savings capacities for NPS as a contributory scheme (Deshpande 2000 and 2001; Borooah 2005). Thus, they can be neglected from the NPS demand analysis and should be targeted through publicly funded schemes, such as NOAPS.

b) Labor market status, income, and savings capacities: There are two perspectives on the NPS market segments. First, the market could simply be defined in terms of labor market status, i.e. all workers who are not eligible to formal sector schemes. But only a certain share of this group is able to afford NPS that builds on workers' contributions. Thus, a second perspective on savings capacities of this group is necessary to define potential market segments. The informal workforce is divergent in terms of income and savings capacities with important implications for the size of the NPS market segments. Finally, the development of labor market segments and real wages is relevant to getting an outlook on the future development of NPS market segments.

c) Occupations and education: As shown in a study on Chile, the level of education correlates with the rate of participation in a voluntary pension scheme (Holzmann, Packard, Cuesta 2000: 22). The finding is so obvious that it would be surprising if education would have a different effect in India. Not only do the elderly require knowledge of the schemes and financial products that are offered (Asher, Bali 2010: 67), literacy is also required to master the bureaucratic act of enrolling in such a scheme. Therefore, it is necessary to analyze data on education of the NPS market segments. Occupations would provide important information for NPS distribution strategies and marketing approaches if they could be used as proxies for market segments. The indicators are coupled because it would be interesting to see whether occupational groups differ in levels of formal education. If occupations could be used as proxies for market segments, their educational levels would be relevant to assess how they would need to be approached.

d) Residential area: 77 percent of the total Indian workforce lives in rural areas (Butel 2010: 110) but whether the majority of potential NPS customers live in rural areas, and how they are distributed across the 28 Indian states, needs to be investigated.

e) Language skills: English is the operating language of the Indian administration. Thus, it needs to be analyzed which languages are spoken by the majority in India, and in how far English can be used as the operating language in a pension scheme.

f) Financial behavior and confidence in financial organizations: These indicators are highly relevant for the design of both the investment characteristics of NPS, and of the marketing approach. They will indicate the financial behavior, investment preferences of the market segments, and confidence in financial organizations. Thus, this analysis will show in how far marketing and distribution strategies can rely on financial literacy[9] and the existence of bank accounts, and if the market segments have already built confidence in financial institutions, which are the major distributors of NPS.

2) <u>Supply:</u>

a) Institutional architecture: Of primary interest are the institutions, which distribute the scheme, and those, which provide the annuities. These aspects can point to eventual failures of NPS including reasons why distribution channels underperform. Thus, it is vital to analyze the incentives for the distribution channels to enroll subscribers. Moreover, an unclear process of annuity-provision could be a reason that raises skepticism of potential subscribers.

b) Investment rules: The rules and conditions of investments are one of the most relevant aspects to attract subscribers to a long-term saving scheme. Relevant characteristics include terms for withdrawals, investment choices, rate of return, tax treatment, and retirement age. However, NPS characteristics can only be assessed against the background of the demand in terms of financial behavior and investment priorities.

c) Enrollment process: This indicator is relevant to understand the bureaucratic effort and transparency of the enrollment process, i.e. how complex are forms that have to be filled out, what is the operating language, and are their further charges and fees connected to enrollment.

d) Pull Marketing: New voluntary products that require own contributions have to convince customers. Thus, it needs to be analyzed how PFRDA tries to attract potential subscribers; if and how the institution markets the scheme.

[9] The "ability to make informed judgments and to take effective decisions regarding the use and management of money" (IIMS 2008a: 1).

B) Criteria for the assessment of voluntary DC pension market forces:

1. Applying a holistic market perspective and developing a scheme that satisfies workers' financial preferences: Participation in the NPS is voluntary and "will be driven entirely by consumer sentiment" (Butel 2010: 103). People have to actively decide to pay into an NPS account while they decide against other spending or saving options. Thus, in order to fulfill this criterion, NPS would need to offer what people demand in terms of investment conditions. In addition, NPS must be viewed as one of several long-term saving options and put in the context of the Indian pension sector and its competing products. This means that NPS needs a higher rate of return, equal or better tax treatments, but it probably also needs to fulfill a high level of investment security, withdrawal possibilities, and flexibilities of contribution. The latter is important to incentivize poorer segments to participate because they witness greater uncertainties of income (Rusconi 2009: 72).

2. Building confidence in long-term (political) stability and the feasibility of scheme and investment: With regard to social security and pensions, it is vital to take long-term perspectives of seven to eight decades into account to assess the stability of a scheme over a long period (Asher, Bali 2010: 68). Both the actual and perceived sustainability of investments must be taken into account because these policies require public trust in their long-term reliability. Hence, "considerations of political economy have to be part of system design and reform" (Holzmann, Jorgensen 2000: 24). On the one hand, this criterion requires that the financial burdens of the scheme are fiscally sustainable and politically accepted in the long run. On the other hand, this criterion requires that people who invest their own money can built the required confidence in the security of their investment for old age. The latter aspect points to the fact that the administration of a scheme such as NPS can actively built public confidence if certain requirements are fulfilled including a sound legal basis, institutionalized possibilities to voice grievances, as well as transparency of all rules and cash flows.

3. Developing effective distribution channels and utilizing the private sector: In order to implement and deliver pension schemes, particularly in LDC, it is vital to utilize the comparative advantages of various actors including the private sector – especially of those with local expertise including municipalities, local NGOs, and think tanks. "They are characterized by different degrees of asymmetric information (…). All have different

advantages but none can provide perfect social risk management instruments." (Holzmann, Jorgensen 2000: 26). The comparative advantages might change over time as markets develop, which should allow for changes of arrangements over time (ibid). Thus, according to Holzmann and Jorgensen, governments of LDC should act as regulator and supervisor but would ideally build on private experiences and infrastructure to deliver such instruments (ibid). Though the private sector might be an efficient distribution channel in general, their performance depends on three aspects: First, on the finding of effective incentives for organizations to perform; second, on people's confidence in these organizations; and third, on the access of potential subscribers to these organizations.

4. **Implementing targeted and tailored (pull-) marketing approaches:** Marketing of voluntary pension schemes in LDC is necessary to attract people for two reasons. First, the concept of pensions is not known to the majority and second, income in old age is not a primary concern of most people (Holzmann et al. 2000). Marketing theories differentiate between push and pull marketing strategies. Following a push strategy, the producer would "push" its products through distribution channels. The producer tries to convince companies, which should sell the product, with conditions that are so advantageous for the trading companies that selling the producer's product becomes one of their priorities. This aspect is already covered in criterion 3. With a pull strategy, the producer tries to "pull the consumer towards the point of sale" (Buttle 1996: 3). Then, the producer's marketing activities target the end consumer. In the case of NPS a targeted approach would consider consumer peculiarities including level of education, language skills, financial behavior etc.

Particularly pull-marketing raises administrative costs (Suryahadi et al. 2010: 281). Targeting efforts in general should be limited to a situation where welfare benefits still exceed economic costs. Unfortunately, this is difficult to measure and it is a question of political will and the priorities of the government.

II.2 Development of the Public Pension System in India

For a long time pension provision targeted only central and state government employees and formal sector workers based on financing through employer and employee participation (Swarup 2008: 2). Besides options offered by private and civil

society organizations, there were no pensions for the vast majority of the population, i.e. workers in the informal sector including the economically disadvantaged segments of the population. In the last decade, the GoI started a reform process towards a more comprehensive multi-tier pension system, which generally is the most effective option to meet the demands of various groups (Asher, Bali 2010: 64 f; Robalino, Holzmann 2009).

The debate on the NPS reform process started in 1998 because the GoI wanted to improve the financial sustainability of the pensions for civil servants and to extend pension coverage to the informal sector (Swarup 2008; ADB 2003). In 1998, the Ministry of Welfare, later renamed the Ministry of Social Justice and Empowerment (MoSJE), commissioned the Invest India Microeconomic Foundation (IIEF) with the first comprehensive study on old age social and income security ("OASIS"). The GoI and IIEF set up an inter-ministerial OASIS Expert Committee (Mariathasan 2010: 24), which produced two final reports with concrete policy proposals. The OASIS Reports became the basis for the development of NPS. The PFRDA Bill provides the regulatory basis for the implementation of NPS for all citizens. Though the bill has not been passed by Parliament since 2005 (compare III.2), the NPS reforms have been implemented. Today, the Indian public pension system consists of four pillars[10]:

The first pillar is the oldest one and includes the pensions for central and state government employees. Pensions were defined under the Directive Principles of State policy. The directive was amended in 2003 to implement the **New Pension Scheme (NPS)** in 2004, which meant a change from the formerly DB scheme into a DC scheme. Employees have to contribute a minimum of 10 percent (of salaries) and there is a matching 10 percent government contribution. Civil servants employed since 2004 have to enroll in the NPS. The old scheme still provides pensions for employees who joined the civil service prior to 2004. There are further special schemes for employees of the public enterprises Indian Railways, and India Post. (IIEF 2009)

The second pillar comprises the pensions for formal sector employees. There are several schemes with different target groups: According to the EPF&MP Act 1952, the **Employees Provident Fund Organization (EPFO)** compulsorily covers formal sector workers with monthly earnings of Indian Rupees [INR] 6,500 or less at firms with 20 or more members in defined industries. The two most important schemes managed by the

[10] The four pillars are the author's own description. The GoI does not differentiate between pillars.

EPFO are the **Employees Provident Fund (EPF)** and the **Employees Pension Scheme (EPS).** The EPF was created in 1952 and has a DC rate of 16 percent and addresses workers with high salaries. The EPS is a DB-scheme and was introduced in 1995. It requires an employer's contribution of 8.33 percent and includes a government-contribution of 1.16 percent of the wage. "Firms not covered under EPFO may run their own pension and provident fund for the benefit of their employees subject to certain regulations" (OECD 2009: 84). There are special schemes for coal miners under the Coal mines PF&MP Act 1948, and for companies in defined industries under the Payment of Gratuity Act 1972. (IIEF 2009)

The third pillar is a social pension, the **Indira Gandhi National Old Age Pension Scheme (NOAPS)**, launched in 1995, for all persons below poverty line (BPL)[11] aged 65 and above (IIEF 2011; Old Age Solutions 2010). The pension amount consists of INR 200 [3.18 €] per month from the central government plus smaller contributions by the state. For the 2011-12 budget, the finance minister proposed to reduce the eligibility age to 60 and to increase the GoI's contribution to INR 500 [7.95 €] per month for those above 80 years (Asher 2011). "The NOAPS is known to have many problems in terms of coverage, targeting failures, inadequate payment levels and ineffective administration" (Butel 2010: 148 f.).

The forth pillar includes voluntary DC pensions available to all citizens. In 1968 the GoI introduced the **Public Provident Fund (PPF)**, which is not a typical pension scheme but a voluntary tax-advantaged DC saving option using personalized accounts. This scheme has been open to all citizens but since it uses income tax rebates as incentives for customers, it has mainly attracted formal sector workers, who pay income taxes (Siraj 2009). Annual contributions can range from INR 500 to 70,000 [from 8 to 1109 €] and are tax-exempt. The GoI fixes the rate of interest annually, currently at eight percent (Madrasi 2011). Accounts can be opened at India Post and the State Bank of India. Withdrawals are possible after five years. Fifteen years of contributions give entitlement to a pension (India Post 1968). The combination of tax-exempt contributions

[11] BPL is a need-testing tool for several social protection programs designed by the GoI. The last BPL Census (2002) involved 13 different criteria on asset ownership, education, occupation etc.. Based on scores, households are ranked per district and an individual cut-off score is applied with the result of a relative poverty and deprivation index (Dreze, Khera 2009: 3).

and easy withdrawal opportunities likely leads to the system being used for tax evasion by wage-earning, tax-paying individuals, and not for old-age provision.

Since 1 May 2009, the **NPS** was extended and made available to all citizens. The reformed NPS particularly addresses the informal sector workforce. This NPS strand does not involve the 10 percent government contribution but in the Union Budget 2010-11, the GoI introduced a temporary subsidy – the Swavalamban benefit - for informal sector workers. Moreover, PFRDA developed a second version of NPS that is **NPS-Lite**, which became available on 1 April 2010. NPS-Lite is a different way of distributing the scheme and it has different investment rules targeting economically disadvantaged persons. This NPS strand, including NPS-Lite, is the focal point of this paper. (Asher 2003; Asher, Bali 2010; Swarup 2008; WB 2001)

In addition to publicly provided schemes, there are micropensions offered by microfinance institutions, long-term saving options offered by banks, and pension schemes offered by insurance companies that provide the investor with a choice of funds (IIEF 2009). Among those private sector products, micropensions have gained considerable relevance in India, whereas the other two options are rarely distributed (Interview Bhardwaj 2011). Micropensions address the needs of very specific individual groups or local communities and design tailored solutions based on low contributions and low premium (Churchill 2006: 12). In terms of coverage the Self-Employed Women's Association (SEWA) is one of the most successful examples. In 2009, 50,000 self-employed women were enrolled in SEWA's micro-pension scheme (Buisness Standard 2009). As micropensions are solutions targeting only specific groups, they cannot be considered as a solution to cover masses of workers but can certainly considered as means to provide tailored social protection to the economically most disadvantaged.

Several authors reveal that India lacks a comprehensive pension system (Bloom et al. 2010; IIEF 2009). However, considering the described four pillars, this interpretation is not correct as the schemes potentially cover all different target groups in terms of sectors and industries quite comprehensively. Thus, it must be stressed that the problem of low pension coverage in India is not due to a lack of available schemes, and therefore it must be caused by implementation failures.

II.3 A Statistical Picture of the Policy Problem

As measured by the NPSS 2004, on average around one third of the Indian workforce is unconfident that their children will financially take care of them in old age (Butel 2010: 141). But coverage of pension schemes is low in India. In 2007, an estimated 10.2 percent (= 37 million) of the projected 363 million paid Indian workforce aged 15 to 65 were enrolled in a pension scheme. This equals coverage of an estimated 8.7 percent of the total workforce[12]. The remaining 388 million lack any form of formal pension coverage. Table 1 shows the coverage in millions with regard to the aforementioned public pension schemes plus estimates for private sector pensions. Formal sector pensions have by far the largest share.

Table 1: Coverage of pension schemes in India (various years)

Pension Scheme	Coverage (in millions)	Coverage Features
EPFO*[1]	15,0	Compulsory, formal sector (180 defined industries)
Formal sector coverage outside EPFO*[2]	5,0	Compulsory, formal sector (e.g. coal miners, merchant navy)
PPF*[3]	1.0	Voluntary; open to all citizens
NOAPS*[4]	3.5	Social assistance for BPL persons
NPS*[5]	1.4	Compulsory for civil servants; open to all citizens
Previous civil servants pension scheme*[6]	9.0	Compulsory for employees of the civil service that entered prior to 2004
Private sector schemes including micropensions*[7]	2.1	Voluntary
Total	**approx. 37.0**	

(*[1] Mariathasan 2011: 22; *[2] OECD 2009: 84; *[3] Butel 2010: 140 based on NPSS 2004; *[4] Butel 2010: 149; *[5] Interview Nair 2011; *[6] estimated based on Economist 2008; *[7] no data available, estimated based on subtraction of 37 m. minus the other schemes)

Voluntary pension products "have failed to capture a significant market" (Butel 2010: 104). The NPS has been designed with the aim of changing the low coverage

[12] There are different projections on the size of the workforce, e.g. Mariathasan projects 450 million (Mariathasan 2010: 22). Butel projected a size of 425 million „based on the actual population according to the 2001 Census, uprated by a 1.8% per annum growth factor" (WB estimate; Butel 2010: 119). For data consistency reasons, the study uses Butel's projection.

situation, but it is far from performing better than the other schemes. About 1,417,588 workers, including civil servants, have joined the scheme since May 2009 (Interview Nair 2011; data from 12 March 2011). About 90 percent of all subscribers are civil servants for whom the scheme is mandatory (ibid). Of the 1.4 million, 167,002 persons subscribed voluntary. Of the voluntary subscribers, 105,732 persons subscribed to NPS-Lite (table 2). Thus, about 0.04 percent of the total workforce has voluntarily subscribed to NPS. Around 4.5 percent of all subscribers are formal sector workers (A. 6).

Table 2: Number of NPS subscribers as of 12 March 2011

	NPS for civil servants	***NPS for all citizens***	***NPS-Lite for poor citizens***	***All NPS pillars***
Number of branches	-	8,894	20	-
Average number of subscribers per branch	-	7	5,287	-
Total subscriptions	**1,250,586**	**61,270**	**105,732**	**1,417,588**

(Interview Nair 2010; Sanyal et al. 2011: 18; compare A. 6 for data on February)

Subscriptions to the voluntary NPS for all citizens have increased at a constant but very slow pace. In contrast, NPS-Lite has witnessed a much higher enrollment rate in the last months and has overtaken the number of NPS subscriptions although NPS-Lite has been available since April 2010 and NPS since May 2009. On 7 February 2011, about two years after the launch of the scheme (not included in table 2), 42,982 workers have subscribed to NPS and 30,227 to NPS-Lite (PFRDA 2011; A. 6). About one month later on 12 March 2011, NPS-Lite suddenly had 75,505 subscribers more while NPS only received a few thousand new subscribers in the same period (Interview Nair 2011). Moreover, there is a considerable performance difference between the distribution channels of NPS and those of NPS-Lite (table 2). Each branch distributing NPS on average only managed to enroll seven persons compared to branches distributing NPS-Lite that on average managed to enroll 5287 persons each. In summary, there is a general low coverage problem of NPS but the problem is more severe with regard to the “original” NPS compared to NPS-Lite.

III. Market Forces of the NPS

The following chapter analyzes both market forces of the NPS scheme and builds on the analytical framework of Chapter II. Demand and supply are analyzed separately in sections III.1 and III.2. Based on the analysis of both market forces, the match of demand and supply is assessed in section III.3 to answer research question 1 on the reasons for low NPS coverage.

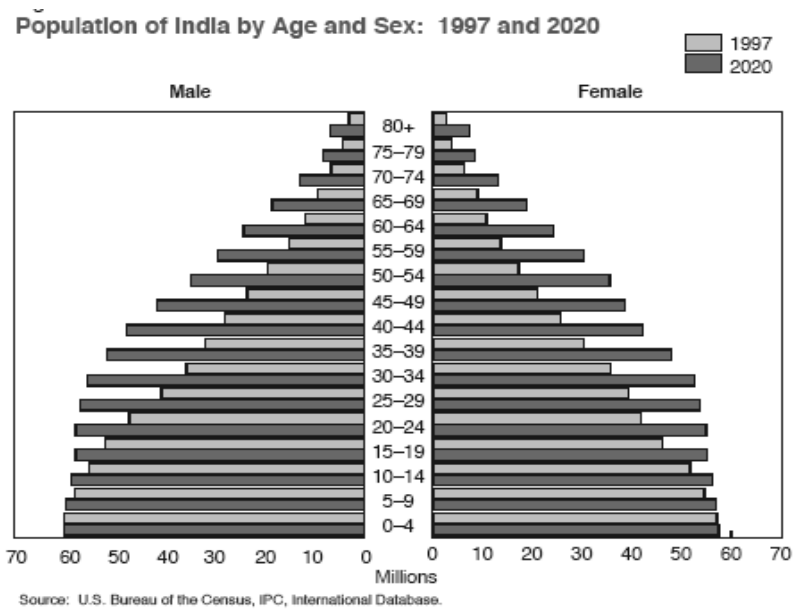
III.1 The Demand for Pensions in India

The Indian workforce is a very heterogeneous group in terms of pension relevant indicators. In order to know the parameters to adequately improve NPS, it is necessary to get a better picture of the demand side.

a) Demographics[13]

The **age pyramid** of the Indian population has started changing from the typical pyramid of a rapidly growing population to a pyramid of a stationary population (Figure 1). The latter is characterized by relatively constant numbers up to age 50 whereas afterwards mortality has "a larger effect" (Goldstein 2009: 11). A stationary population pyramid will be reached in the next two decades (ibid.).

Figure 1: Population of India by age and sex: 1997 and 2020



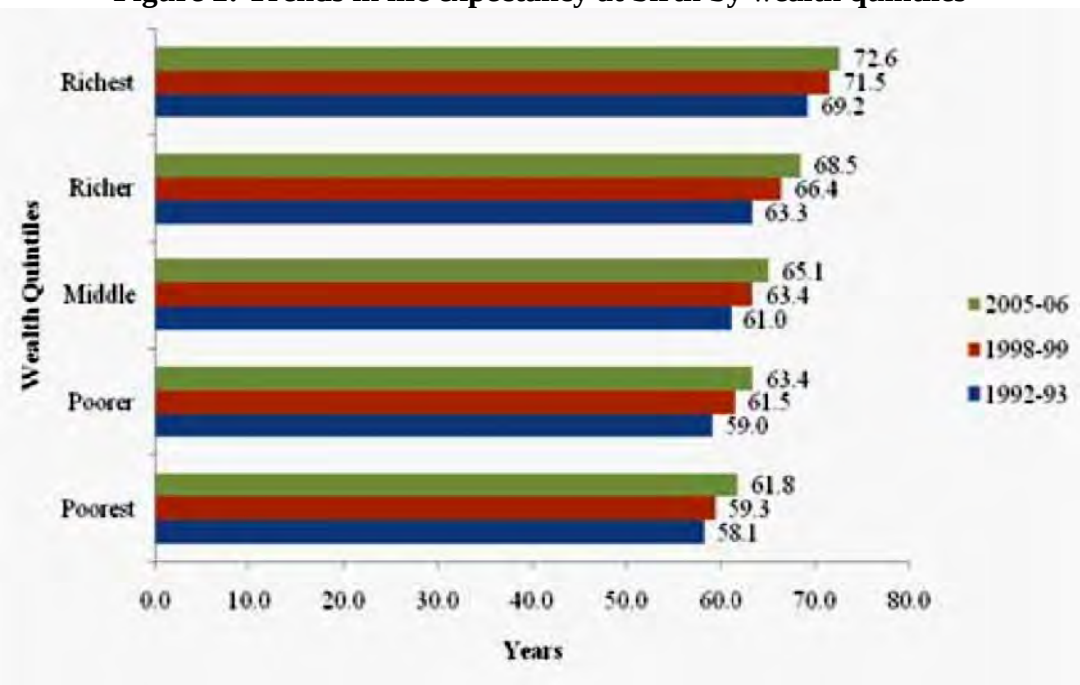
(Adlakha 1997: 1)

[13] There is a data inadequacy because many people do not know their exact ages (Visaria 2000: 7). Although statisticians try to correct data by mathematical smoothing, there remains an certain error.

The pattern of aging in India has just started unfolding. In 2005, India reached the threshold according to which the UN defines a country as “aging”, i.e. at least seven percent of the population is 60 and older (Prakash 1999: 2). Thus, now is the right time for the GoI to approach pension policies for the majority of the workforce before the pressure of an aging population becomes more severe in the next two to three decades. In 2010, the median age is projected to be 25 years and is projected to rise to 38.4 years in 2050 (UN 2008). The 60+ cohort is growing the fastest within the population. The **number of the aged** has risen by 300 percent from roughly 20 million to about 80 million from 1950 to 2005 (Bhattacharya 2000: 5). In the next 10 years, the share of elderly is projected to grow to 10 percent of the total population and to 20 percent in 2050, accordingly with 134.5 million elderly in 2020, 200 million in 2030, and 315.6 million in 2050 (UN 2008, Asher 2005: 14).

Socioeconomic development has led to a rapidly increasing **life expectancy** at birth (LE(0)). For the period 1950 to 1955, the LE(0) was only 37.1 years for females and 38.7 years for males. Both have risen to 63.5 years for both sexes, 65 years for females and 62.1 years for males, in the period 2000 to 2005 and they are projected to further increase to 75.4 years for females and 71.4 years for males for 2045 to 2050, which has mainly been caused by decreasing infant mortality (UN 2008). However, LE depends on the financial status of the household (Mohanty, Ram 2010).

Figure 2: Trends in life expectancy at birth by wealth quintiles



(Mohanty, Ram 2010: 1)

Figure 2 shows that between 1992-93 and 2005-06, LE(0) has increased quite consistently for all wealth quintiles. That being said, a large gap has remained between the richest and the poorer and poorest. The decision to retire is not made at birth but rather at ages 25 to 40, when LE is higher than at birth, because mortality risks were overcome. There is no data on LE at later ages sorted by financial status, but the average life expectancy at age 30 (LE(30)) is 76.2 for females and 73.1 for males (WHO 2009). Conversely, the average LE(30) is shaped heavily by the poor masses, so this paper estimates that LE(30) of the poorer and poorest quintiles is at a maximum one to two years lower than the total average, around 73 years for both sexes. Women on average live longer and there is a so-called "feminization of the elderly", which is an international trend. India had a **male-female ratio** of the elderly at age 65+ of 0.88 in 2001, i.e. 880 males for 1,000 females (Chan et al. 2010: 96). As LE has increased rapidly, most workers are used to having experienced deaths of people who were in their 50s or early 60s. Accordingly "IISS 2007 results show that this perception is still widespread with less than one in eight workers believing that they will survive into their seventies" (IIMS 2008: 2).

There are large differences in the stages of the demographic transition between the states. Although the fertility rates of most states continue to be above 2.1 children per woman (TFR in Bihar of 4.0; in Uttar Pradesh of 3.8), some states already have fertility rates that compare to European countries. Karnataka (1.9), Kerala (1.7), and Tamil Nadu (1.7), for example, go hand in hand with higher LE (UN 2008).

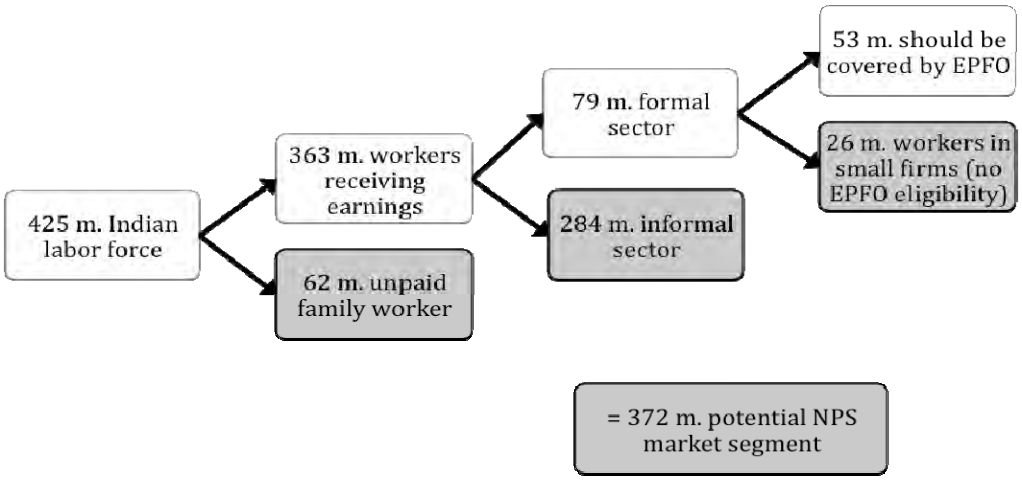
As a result of the demographic transition, there is a rising demand for old age security, particularly of women. The choice for an internationally used retirement age of 60 years of age would be reasonable considering the rapidly rising LE.

b) Labor market status, income, and savings capacities

About 85 percent (363 million) of the total workforce comprising 425 million persons receive earnings while the other 15 percent or 62 million are unpaid family workers. As shown in Figure 3, the 363 million earners are divided into 284 million informal sector workers and 79 million formal sector workers. The formal sector consists of 53 million earners, who belong to the target group of the EPFO, and 26 million workers in small firms, who are excluded from EPFO coverage. Excluding

income, savings capacities, and coverage of workers by pension schemes other than EPFO-schemes, as shown in Figure 3, the NPS market encompasses 284 million informal sector workers, 62 million unpaid family workers, who could also be counted as informal workers, and 26 million formal sector workers, who are not eligible for EPFO, which equals 372 million persons, i.e. 87.5 percent of the total labor force. (Butel 2010: 109)

Figure 3: Potential NPS market share based on labor market status



(Own illustration based on NPSS 2004, see also Butel 2010: 109 ff.)

With NPS being a DC scheme, its potential market is limited to those workers who can pay the contribution for a sufficient amount of time so that enough pension claims can be accumulated. This excludes 18 percent of the informal sector that are unpaid family workers and the chronically unemployed (Butel 2010: 103 f.). The ADB undertook a conservative and realistic baseline study for the GoI to segment the pension market based on the assumption that there would be no subsidies for contributors and that contributors would have to bear all administrative costs for commercial partners (Butel 2010).[14] It is based on the NPSS 2004 and assumes that pension contributions are sourced either in real earnings, reduced personal/household expenditure, or in the redirection of existing savings (ibid). Moreover, the survey only included the age cohort 30-50. While the survey assumes that those 50+ do not have

[14] IIMS came up with an estimation on the private pension market: "(…) with up to an estimated eight crore [= 80 million] workers ready to participate" (IIMS 2008: 2). The report concludes, "the average annual bank savings of individuals with bank accounts at Rupees 39,000 [619 €] suggests that (...) the group can easily support regular and meaningful pension contributions" (IIMS 2008: 117). But the conclusion is overly simplistic because the average bank savings will likely be shaped drastically by a very small number of very wealthy persons.

enough time to collect enough money, “younger workers incomes are likely on average to be unrepresentatively low” (Butel 2010: 105). The real potential market is probably larger because a certain share of people under 30 years of age might be interested in a pension scheme.

The NPSS “asked respondents to indicate what part of their present discretionary expenditure they could harvest for other purposes if they felt there was good reason to do so” (ibid), which indicates the potential pension market if these people could be convinced to invest in a pension scheme. Figure 4 shows the annual savings capacities of NPSS 2004 respondents. In all categories, workers in urban areas have higher savings capacities than the rural counterparts. Average annual capacities of INR 10,747 [170.33 €] appear surprisingly high for all earners.

Figure 4: Annual savings capacities

	Urban	Rural	Total
Self employed farmers	15424	9831	10418
Own account wage labour	4294	2863	3429
Regular salaried/fixed term contractual employee (Informal Sector)	8884	6889	8430
Regular salaried/fixed term contractual employee (formal private sector)	15963	7702	14193
Regular salaried/fixed term contractual employee (public sector)	22101	18300	21204
Self-employed business owner	20607	9232	16674
Self-employed professional	21859	14997	20296
Other own account worker	13135	7231	11362
All earners	14079	7401	10747

(Butel 2010: 60)

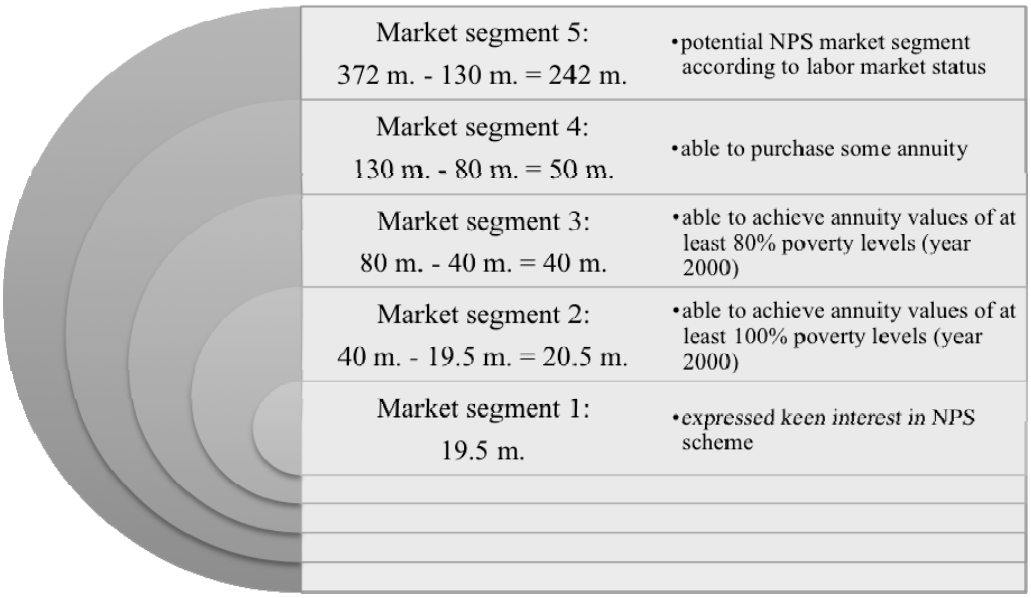
Based on the findings on available discretionary expenditure, the study calculated the potential pensions that contributors could expect with the NPS assuming that they pay into the scheme on a monthly basis over the full period of membership (Butel 2010: 107). However, in reality people will probably be willing to invest only a certain fraction of their actual savings capacities in a pension scheme. Figure 5 shows how the 372 million individuals in Figure 3 can be divided into five market segments.

Market segment 5 consists of 242 million persons. The majority of them are the least likely able to afford NPS because they do not have savings capacities.[15] Market

[15] However, due to the statistical approach, this group includes all persons, who based on their savings capapcities would belong to the other market segments but who were excluded there because they only

segments 1 to 4 total 130 million workers aged 30 to 50 who would be able to purchase some annuities. Yet, out of these 130 million only 40 million would be able to collect annuities high enough to live above the national poverty level[16] after retirement (**market segment 2**). Included in the 40 million are also 1.34 million formal sector salaried workers in small firms, who are excluded from EPFO (A.2). Overall, 40 percent of the respondents expressed keen interest in NPS. With regard to the 40 million who are able to afford NPS and annuities of at least poverty line level, 19.5 million expressed keen interest in NPS (**market segment 1**). Another 40 million could collect annuities high enough to live on a level of 80 to 100 percent of the national poverty level (market segment 3; Butel 2010: 106).

Figure 5: Potential NPS market segmentation based on savings capacities



(Own illustration based on NPSS 2004, see also Butel 2010: 109 ff.)

According to Bhardwaj, with the expectation of rising **incomes** market segments 1 to 3, comprising of 80 million persons, are potential NPS customers in the short- to medium-term (Interview Bhardwaj 2011). The expectation of rising incomes, however, is quite unrealistic. As shown in A. 8, trends in real wages of both male and female casual workers in urban areas declined slightly in 2004-2005 compared to

include respondents in the age group 30-50. All workers between 15 to 30 and 50 to 65 years of age, are included in the 242 million.

[16] Measurement of the poverty level is based on statistics from 2000 (Butel 2010: 106). The GoI defines "poverty line for the urban areas is Rs. 296 per month and for rural areas Rs. 276 per month, i.e. people in India who earn less than Rs. 10 per day. As per GOI, this amount will buy food equivalent to 2200 calories per day (...)" (India Watch 2010).

1999-2000. In the formal sector, real wages have increased slightly for male rural workers in the same period by approximately INR 4 [0.06 €] per day but decreased remarkably for rural females by INR 20 [0.32 €] and slightly for urban females (ibid; Appendix 8). This development "is truly remarkable for a country in which real GDP has been growing at an average rate of 8 percent over this period, and where much of this growth has been concentrated in urban areas" (Ghosh 2011: 146). As developments of wages differ so much with regard to gender and location it is unrealistic to expect real wages to go up just because of GDP development. As a result, a realistic NPS market rather consists of market segments 1 and 2.

Thus, NPS is not a pension scheme that could be afforded by those at the very bottom of the income distribution, in particular women and scheduled castes and tribes. Elderly women living in urban areas are a very vulnerable group. According to the NSS survey of 1993 to 1994, 64 percent of elderly females in urban areas categorized themselves as fully dependent with regard to food, clothing, and health care in contrast to 46 percent of men, 58 percent of females in rural areas, and 45 percent of males in rural areas (Rajan 2006: 13). Elderly females have the highest demand for social security (Asher 2009: 7). Conversely, women are not the major target group of the NPS approach because they have much less discretionary income that could be invested in a pension scheme. Since the suppression of women is all-encompassing in the Indian society, it is important to focus on female empowerment on a much broader footing. The same applies to scheduled castes and tribes.

c) Occupations and Education

The rapid development of the Indian economy has been based on a very small knowledge and IT-intensive fraction of the economy. Due to a lack of structural economic change, the vast majority of the population has to continue work in low productivity, low-paid activities (Ghosh 2011: 126). The Indian economy is still an agricultural economy with 60 percent of the workforce employed in this sector although this sector is responsible for only 20 percent of the GDP (ibid). According to the NPS 2004 Survey and in line with the described macro-economic development, 70 percent of the 19.5 million persons in market segment 1 belong to only **three occupational categories**: traditional and merchandised farmers (26.6 percent; 5.2

million persons), small retailers (27.4 percent; 5.3 million persons), and self-employed persons (15.6 percent; 3 million persons) (Figure 6, A. 2). Unfortunately, this categorization is not clear-cut since most of the retail workers are also self-employed and there is no information on the definition of the category of self-employed versus self-employed in other categories.

Figure 6: Occupations in market segment 1

(Own illustration based on NPSS 2004, Butel 2010: 113)

Surprisingly, although the incomes of traditional **farmers**, in contrast to the incomes of merchandised farmers, belong to the lower income ranges, their savings capacities are broadly similar to the savings capacities of other occupational groups with higher average incomes (Butel 2010: 116). In terms of education, both traditional and merchandised farmers belong to a rather uneducated group in terms of formal education. Less than 30 percent have completed at least primary education, while 80 percent of the rest are illiterate (Butel 2010: 116). This fact, in particular, poses major challenges to finding a strategy towards approaching this group.

The **small retailers** can be divided into 70 retailing categories. However, more than half of them belong to six types: “grocery and general stores, clothing and footwear stores, household items, shops, certain street vendors and eateries of various kinds” (Butel 2010: 117; A. 3). On average, small retailers have a minimum of primary education and belong to medium income ranges with some exceptions, such as the grocers, who have higher incomes but same savings capacities as the average in market segments 1 and 2 (Butel 2010: 119).

Self-employed workers are the broadest group with 57 sub-occupational categories. Sixty-five percent of the self-employed group belongs to only five sub-occupational categories.[17] Because the economy does not generate enough paid jobs, the number of self-employed workers, who account for more than half of the current workforce, is rising (Ghosh 2011: 127). The development is most evident for two-thirds of all rural women, who are self-employed (Ghosh 2011: 141).

Literacy has improved in the last decades. The adult literacy rate for the age cohort 15+ has increased from 34 percent in 1971 to 52 percent in 1995. Yet, female literacy is much lower than male literacy, 38 versus 66 percent respectively (Adlakha 1997: 7). According to the 2005-06 National Family Health Survey, 79 percent of elderly females reported to have no education at all, compared to 46 percent of elderly males (NFHS 3: 28). However, since levels of education increase for younger generations, the elderly of the next generations will have higher levels of literacy and education and at least this access barrier will likely be overcome in the long run.

In summary, occupations could provide a useful proxy for market segments thinking of NPS and distribution strategies. Appropriate ways to reach farmers and self-employed would cover almost the entire workforce. But one of the biggest challenges will be the coverage of farmers because of their high illiteracy rates that is apparent even in the wealthier market segments 1 and 2.

d) Residential area

With regard to the 80 million persons who are able to afford annuities of at least 80 percent poverty line level, according to the ADB study they are slightly more likely to live in rural than in urban areas (Butel 2010: 110). But market segment 1 has an urban focus with regard to the retailers and the self-employed, which obviously does not apply to the large group of farmers.

Persons belonging to the three most prevalent occupational groups in market segments 1 and 2 can be especially found in three of the 28 Indian states, Rajasthan,

[17] (1) Commission-based agents, including timber, and livestock auctioneers, insurance and real estate agents, (2) self-employed professionals, including doctors, lawyers, architects, and civil engineers, (3) residential building contractors involved with household construction and repairs, (4) certain categories of transport workers concerned mainly with the provision of passenger services, and (5) home-based workers providing household laundry, cabinet making, and beautician services (Butel 2010: 124).

Gujarat, and Karnataka. In Rajasthan and Gujarat, there is an outstandingly high probability of one in nine households that includes a person who belongs to the three occupational groups in market segments 1 or 2. The state Karnataka has a ratio of one in 12 households (Butel 2010: 136; Appendix 5). This is relevant information for the analysis of policy recommendations in Chapter IV because these three states could be used for pilot projects to test reforms of the NPS system when they target market segments 1 and 2 (Butel 2010: 137). Effects of eventual pilot projects should quickly become apparent in these states.

As shown in A. 5, there are also some states where almost no worker belonging to market segments 1 or 2 lives, including Annachal Pradesh, Sikkim, Himachal Pradesh, and Uttarainchal. As NPS marketing and distribution efforts will only be of very limited success in these states, it would be reasonable but politically controversial to limit the activities in these states only to a minimum. Instead, it could be tried to intensify social- and micropension efforts in these states until data show that living standards increased and that there are people who can afford NPS.

e) Language skills

The most widely spoken common language in India is Hindi, which is spoken by almost 70 percent of the respondents to the NPSS 2004 (read and write ca. 50 percent) with slightly higher levels in urban than in rural areas. Most people - 98.2 percent of the respondents to the NPSS 2004 (read: 73.2 percent; write: 72 percent) - speak their individual local languages (Butel 2010: 54). “English is only 44th on the list of languages in India with the most native speakers” (Azam et al. 2010: 3). According to the India Human Development Survey 2005, one in five Indians “report having the ability to speak English, comprised of 4% who can converse fluently in English and 16% who can converse a little in English” (Azam et al. 2010: 5). English speaking skills are better among younger, better-educated, higher castes, and male persons (ibid). There is no language data for the persons in market segments 1 and 2 but, based on the three major occupational groups, an English language pension scheme would not work for most of farmers. For the other two groups, it is difficult to estimate their English abilities. Certainly, the limitation to the English language,

which is the language of policy makers and civil servants in India, would exclude maybe even the majority of the target group.

f) Financial behavior and confidence in financial organizations

Saving preferences have been shaped by short time horizons because most workers have irregular incomes and limited savings capacities (Interview Bhardwaj 2011). For instance, 36.6 percent of respondents in the NPSS saved for the marriage of their children (Butel 2010: 62), but only 31 percent of all respondents saved for old age security (ibid). A first sign for the development towards more long-term oriented savings is that "significant numbers of upper income workers are presently investing in insurance endowment policies" (Butel 2010: 129). On average, 64.5 percent of all earners with relatively equal percentages for all occupational groups in the age cohort 30 to 50 have not thought about retirement at all (Butel 2010: 69).[18]

As shown in Table 2, on average less than one quarter of persons in market segments 1 and 2 have no bank account at all, which can be translated into a relatively high rate of **financial literacy** in the two wealthiest market segments.

Table 3: Relations of potential NPS customers in market segments 1 and 2 with other financial institutions

Market Segment	No Account %	Post Office %	Nationalised Bank %	Rural Bank %	Cooperative Bank %	Private Bank %	Life Insurer %
Farmers	20.5	29.6	37.4	16.6	7.3	negligible	33.0
Other Agricultural workers	25.0	23.3	32.5	14.0	5.8	negligible	22.5
Wage Earners	31.0	24.3	29.7	9.4	7.0	2.0	31.4
Salaried Employees	18.4	21.5	46.6	9.8	8.6	5.5	54.6
Shopkeepers	11.6	24.2	51.7	6.5	11.6	4.5	55.0
Self-Employed	19.0	25.7	57.0	5.3	7.9	7.5	59.0
Others	16.6	20.2	42.0	7.9	7.9	3.5	46.5

(Butel 2010: 142)

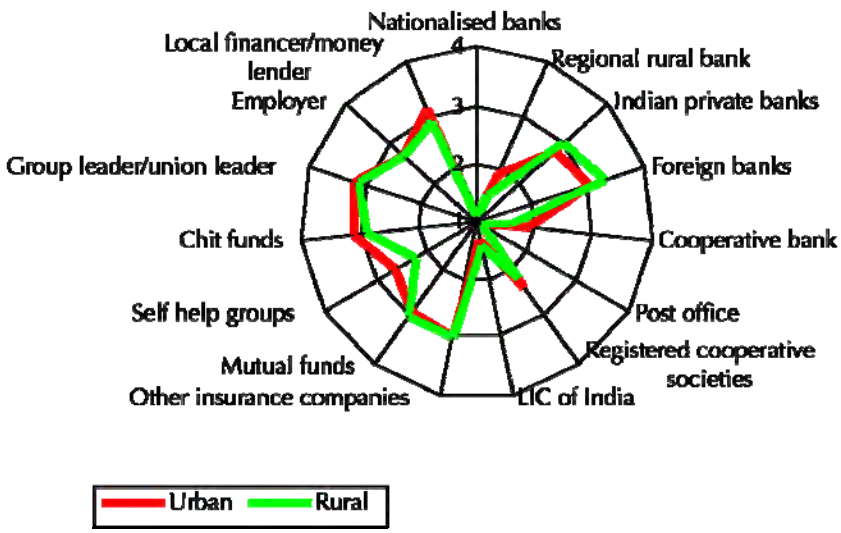
Highly frequented financial institutions are nationalized banks, India Post, and life insurers, while the major life insurer LIC has the highest market share of all life

[18] Only 6.2 percent are "consciously preparing for retirement", 7.2 percent are "not preparing but expecting to retire", and 22.1 percent are "neither preparing nor expecting to retire". The only outliers are civil servants, who are enrolled in a compulsory pension scheme (Butel 2010: 69).

insurers. Farmers are the only occupational group that also tends to bank with rural banks. Private banks have a relatively low market share in all groups.

The radar diagram in Figure 7 shows the results for the respondents' degree of **confidence in different financial institutions** on a scale from 1 ("definitely will trust them with my money") to 4 ("definitely won't trust them with my money") (Butel, Bhardwaj 2010: 66). According to the findings, urban and rural respondents had very similar perceptions. Respondents fully trust in the LIC, nationalized banks, and India Post. There are relatively low levels of trust in most other institutions, including private banks, mutual funds, and insurance companies other than the LIC (ibid). The IISS 2007 shows that confidence in all institutions decreases for lower income groups, which is pronounced for Indian private banks, and mutual funds (IISS 2007: 16).

Figure 7: Degree of confidence in financial institutions



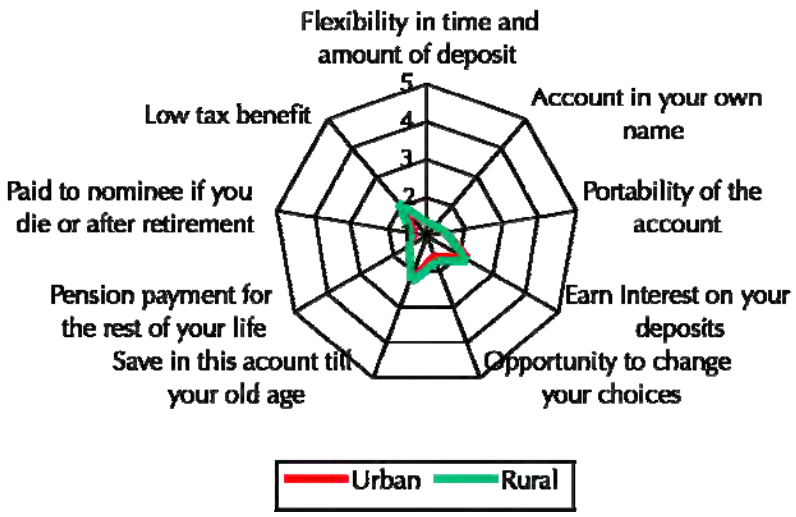
(Butel/Bhardwaj 2010: 66)

Recalling Table 2, one quarter of even the wealthiest market segments 1 and 2 on average do not have bank accounts or insurance contracts at all. Thus, confidence decreases with lower incomes, and lacking experience with financial institutions. As shown in A. 9, most people lack an opinion on the riskiness of modern financial products. In contrast, people are able to assess the riskiness of classical investment that they are familiar with, including precious metals, and agricultural land. Hence, low trust in private banks, for instance, does not mean that people would not cooperate with these institutions when they are used as NPS distributors. Rather it appears to mean that there is a high degree of unfamiliarity leading to natural

skepticism but that there would be ways to build up confidence by raising financial literacy and developing adequate campaigns.

The majority of respondents are highly risk-averse.[19] On average 76 percent of all workers favor safe investments over high returns. Farmers, at 76.4 percent, were the most risk-averse group. (Butel 2010: 71) Respondents were also asked how they perceive the features of NPS on a scale of 1 to 5, with 1 meaning "total acceptability", 4 "not acceptable", and 5 "don't know". The findings are shown in Figure 9.

Figure 8: Acceptability of NPS features



(Butel, Bhardwaj 2010: 74)

According to this survey, the major features of NPS appear to be very acceptable to the respondents with similar levels in urban and rural areas (Butel, Bhardwaj 2010: 75). The positive survey result, however, might be caused by the fact that the questionnaire did not formulate any of the more critical NPS points clearly, i.e. that it is not possible to withdraw full investments prior to retirement and that there is no guarantee on rates of return or on a minimum pension (compare III.2).

[19] Priorities for risks versus returns were tested based on three hypothetical choices. Choice 1: "You have Rs.1000 to investment and in one year's time, it may grow to Rs.2000 but you may also lose money and get back only Rs.500." Choice 2: "You have Rs.1000 to investment and in one year's time, it may grow to Rs.1200 but you may also lose money and get back only Rs.800." Choice 3: "You have Rs.1000 to investment and in one year's time, it will grow to Rs.1050 and you will not lose any money." (Butel 2010: 71)

III.2 The NPS Supply Side

The NPS has a simple concept. Subscribers open an NPS account and contribute money during their working age. This money is invested according to their preferences and at the point of retirement, subscribers withdraw their investment to buy annuities, which will then provide for a monthly pension until they die.

a) Institutional architecture

The Ministry of Labor and Employment (MoLE) is responsible for the NPS while the Ministry of Finance (MoF) is involved with all pension schemes (IIEF 2005). The NPS architecture itself consists of PFRDA, the National Securities Depository Limited (NSDL), which is the Central Recordkeeping Agency (CRA), competing pension fund managers (PFM), Points of Presence (PoPs) and aggregators.

PFRDA is the new pension regulation authority. The agency is still awaiting parliamentary approval of the PFRDA Bill from 2005, which defines the authority's responsibilities and the NPS architecture. Left parties have opposed the bill because the savings of the poor should not be "subjected to the greed of the private sector" and because the scheme would not provide enough securities for poor people's savings (Dave 2006: 14). The non-adoption of the bill has consequences for the legal status of the whole NPS regulation, as outlined in the "Registration of Intermediaries Regulations", which can be finalized and notified only after the PFRDA Bill is passed (PFRDA 2005). Once the bill is passed, PFRDA will not only regulate and develop NPS but becomes responsible for the whole Indian pension sector including all pension schemes described in chapter II.2. The idea was the creation of one institution that has enough leeway to develop a comprehensive pension system (Swarup 2009). According to Swarup, the bill will be reintroduced in the parliamentary session in 2011 (Mariathasan 2011: 24). .

Despite the lack of formal legislation, PFRDA was allowed to start implementing NPS. PFRDA regulates, supervises, and develops the NPS architecture and all its intermediaries (Swarup 2008: 9), which are described in the following paragraph. As argued by Jain, this all-embracing PFRDA mission leads to conflicting interests (Interview Jain 2011). The performance of the private sector is vital for the success of PFRDA. Hence, its supervision might not be taken seriously. As long as there are no

public scandals about PFRDA not properly supervising the NPS architecture, this institutional design does not adversely affect NPS enrollments. Nevertheless, this situation of conflicting institutional interests is a weak point of PFRDA's public standing and the trust of experts like Jain in PFRDA. This conflict could only be solved by institutionally dividing regulation and supervision of the sector.

In detail, the PFRDA regulates and supervises the following **intermediaries:**

The National Securities Depository Limited (NSDL) was appointed as the **Central Record Keeping Agency** (CRA). The tasks of the authority include issuing account numbers, recording data of the customers, providing annual account statements, and all other relevant information via modern technical devices including SMS and online accounts. (PFRDA 2009)

Six Pension Fund Managers (PFMs) invest retirement assets in line with investment guidelines issued by PFRDA. NPS follows the rationale that returns will be higher if several fund managers compete for rates of return. (PFRDA 2009: 241)

Annuity Service Providers (ASPs) will deliver the regular monthly pension. Once subscribers decide to retire, they have to buy annuities from their investment at an ASP (ICICI Bank 2010). Annuities generate "fixed monthly (periodic) income which a subscriber will get against the corpus invested" (PFRDA 2009: 258). The size of the annuity depends on the corpus size. PFRDA is currently nominating the ASPs (Interview Nair 2011). Surprisingly, this did not happen before NPS was opened to subscribers, who likely want to know how they receive their pensions.

The Trustee Bank, which is the State Bank of India, has to take care of the funds under the NPS and the Board of Trustees is the registered owner of all NPS assets. The Trustee Bank facilitates the transfers across all entities of the NPS system, e.g. between PoP and PFM, PoP and ASP. It has to issue fund receipts and confirmations to CRA and reconcile funds with CRA (PFRDA 2009: 239).

"Points of Presence" (PoPs) are the service-providers for NPS subscribers. They are financial sector institutions such as banks or insurance companies, which are licensed by PFRDA to become PoPs. The tasks that PFRDA subscribes to PoPs include enrollment of subscribers, receiving of instructions including changing subscriber details investment schemes, and contributions of subscribers, which they have to submit to CRA, as well as the paying out of benefits to subscribers (PFRDA

2009: 239). PoPs are electronically connected, which ensures the portability of NPS accounts so that subscribers can easily switch PoPs (Swarup 2008: 7 f.). The choice for this distribution channel follows the rationale of utilizing an existing network of financial institutions for two reasons. First, they provide for the necessary infrastructure to conduct service provision in terms of both staff and technology. Second, the fact that contracted institutions already have customer relations provides cross-selling opportunities. (Interview Jain 2011)

A.10 shows the list of PoPs, including the State Bank of India, several regional state banks, private banks, and the LIC. In February 2011, there were 8,894 PoPs operating in the whole country (PFRDA 2011 b). This number appears to sufficiently provide for an adequate level of coverage as long as the PoPs are evenly distributed so that there is access in all regions where persons in market segments 1 or 2 live (compare III.2d). Yet, most of the banks are more present in cities. Recalling Butel's analysis of the coverage of financial institutions even with regard to market segment 1, 19 percent of this relatively wealthy group cannot be reached directly by the PoPs (Butel 2010: 141). But as not all Indian banks are PoPs the actual number of persons in market segment 1 that is covered by PoPs is certainly smaller than the remaining 81 percent (15.8 million). Since market segment 1 is the richer part of the population, PoP coverage of the other segments is likely much lower.

PoPs receive a monetary benefit per subscriber. In February 2011, PFRDA decided to increase the incentive from INR 50 to INR 150 [2.77 €] per subscriber for the current financial year (PFRDA 2011 c). PFRDA wants to incentivize PoPs to intensify the promotion of NPS (ibid). But still an interviewed PoP mentioned that the financial incentives were too low to intensively promote NPS and that they can only provide a basic NPS service on this level (Interview Ragunathan 2011). Even the annual maintenance charge for NPS is higher than the one-time charge for the PoP (an overview about the charges follows in C and in A. 13). The rationale of cross-selling is not free of conflicts because there is certain competition between NPS and the ordinary products of PoPs, which is intensified due to fraud incentives for PoPs (Interview Bhardwaj 2011). PoPs can easily channel persons who might be interested in NPS to other saving options and to their own products. According to Bhardwaj, this particularly applies to the richer segments because PoPs make more money when they

sell them their own products. The NPS flat charges will make more sense for PoPs when they receive them for poorer customers (ibid.).

Aggregators are only part of the NPS architecture in the **NPS-Lite** version, which was operationalized by CRA from 1 April 2010 (PFRDA 2010). NPS-Lite is a different way of distributing the scheme and conducting acquisitions specifically targeting economically disadvantaged persons. The definition of this group is not specified by PFRDA and it refers to anybody who makes contributions up to INR 50,000 [793 €] p.a. (PFRDA 2010). The idea is to conduct enrollments on a group basis through institutions – mainly non-profit NGOs – that already have contacts to the economically disadvantaged. In the case of NPS-Lite, the aggregator becomes the "main interface between the NPS-Lite subscriber and NPS architecture" (PFRDA 2010: 3). Individuals open the account through the aggregator and get an individual NPS-Lite account. Instead of PoPs, aggregators become the service provider for NPS-Lite subscribers and aggregators conduct the enrollments with CRA (PFRDA 2010: 7).[20] Hence, they have the same responsibilities as PoPs in the "normal" NPS architecture. The rationale is twofold. First, economies of scale are utilized in the enrollment process. Individual enrollments are more expensive for PFRDA and time-consuming. Group enrollments reduce administrative and transactional costs, in particular fees and charges, which makes smaller investments more viable. Second, when it comes to the economically disadvantaged who are not used to long term saving and banking, there are better outcomes with group enrollments due to the group dynamics. People share experiences and become more willing to take risks when they see that others do the same (Interview Bhardwaj 2011).

Any PoP can become an aggregator, as well as NGOs, self-help groups, or any other organization that fulfills standards as prescribed by PFRDA, such as having trained staff and fulfilling the "capability to manage large customer" (PFRDA 2010: 5 ff.; PFRDA 2010 a: 1). On 18 March 2011, 20 aggregators have been registered under NPS-Lite since April 2010 (Interview Nair 2011; full list in A. 11). There are several large organizations with numerous clients. For instance, SEWA had 1,256,944 members in 12 states in 2009. Since 2006, it offers its own micropension scheme

[20] There are clear roles and procedures for aggregators, i.e. they have to install an oversight office, an account office, and a collection center, which should guarantee smooth functioning but, for the purpose of this paper, these details are not relevant to understanding the NPS supply side. Further information can be found in PFRDA 2011 f.

(SEWA 2011). According to Nair, SEWA became interested in NPS because of the Swavalamban subsidy and it also wanted to offer NPS-Lite to its members. SEWA is currently considering if it could transfer its 50,000 own micropension accounts (Buisness Standard 2009) to NPS-Lite (Interview Nair 2011).[21] PFRDA also appointed several organizations of informal sector workers such as the Karnataka Unorganized Workers Social Security Board, and the Construction Worker Welfare Board in Hyderabad. Welfare boards[22] are very promising aggregators as they already support their members in the area of social protection (Interview Jain 2011).

While PoPs focus on market segments 1 and 2, aggregators appear to be the more appropriate distribution channel to focus on economically weaker segments 3 and 4. Coming back to the different performance of PoPs and aggregators as described in Chapter II.3, it is remarkable that NPS-Lite has become more successful in a few months than the "original" NPS. There are two major differences in the functional mechanisms of both distribution channels, which cause the different performance of aggregators and PoPs. First, PFRDA designed a more effective incentive scheme for aggregators compared to the one for PoPs. For aggregators, the incentive amount increases with higher performance based on large-scale enrollments as shown in Table 4 whereas PoPs receive a flat rate per subscriber. In addition, this financial incentive scheme does not seem to be their only intention at least not of all aggregators as the case of SEWA shows, where the concern to provide better social benefits to its members additionally improved performance.

Table 4: Incentive scheme for aggregators

No of subscribers under aggregator*	***Per capita incentive***
Above 100,000	INR 10 [0.16 €]
Above 300,000	INR 17 [0.26 €]
Above 500,000	INR 22 [0.34 €]

**As defined under section 15.3 of regulations. This would be applicable only for new and active acquisitions during the year under consideration.*

(PFRDA 2010c: 3)

[21] Other large aggregators include Alankit, a financial services organization with 15 million customers and 18 regional offices in several states, Bandhan Microfinance, which targets women and has 3.3 million clients and 1,553 branches in 18 states, and the Society for the Elimination of Rural Poverty, which offers financial services to farmers.

[22] The GoI established welfare funds for several typical informal sector occupations. They are financed through contributions from employers, workers, and the government. Welfare boards administer the funds, which are invested in social protection programs for their members (Interview Jain 2011).

Second, aggregators approach their target groups in a more tailored way whereas PoPs only wait for customers to ask for NPS. For instance, the aggregator IFMR (Institute for Financial Management and Research) directly approaches their customers in rural areas, who on average have "very limited education and no knowledge about pensions" (Interview Chaudhary 2011). Aggregators do not only promote NPS-Lite and hand out enrollment forms but actively offer financial consultancy so that people get the impression that they are not left alone with their investment decisions. Chaudhary describes the IFMR proceedings as follows: "Our wealth managers (…) talk to households about their plans and financial goals, which include retirement plans and how much they need to save to maintain the same lifestyle. Post this we explain them the product features of NPS-Lite (…)" (Interview Chaudhary 2011). PoPs offer the same service but only after people actively ask for it, which certainly represents a higher access barrier for most persons, especially since confidence in private financial institutions is low as shown in Chapter III.1. However, it cannot be expected that these 20 aggregators continue to perform on this level because they have their own missions and a fixed number of clients. Aggregators will likely not be able to extend their outreach heavily only to distribute NPS-Lite.

b) Investment rules

There are two types of accounts, Tier-I and Tier-2. **Tier-1** is practically non-withdrawable. Subscribers can withdraw only 20 percent of their invested money before 60 and they have to invest the remaining 80 percent in an annuity. At age 60, subscribers have to invest at least 40 percent in an annuity; the remaining can be withdrawn in lump sum or in a phased manner between ages 60 and 70 (OneMint 2010). There is a minimum contribution rate of INR 500 [7.95 €] for Tier-1 accounts per contribution, subscribers have to make at least one contribution p.a., and they need to contribute a minimum of INR 6,000 p.a. [95.40 €] (PFRDA 2009: 250; 271). **Tier-2** is a voluntary add-on to Tier-1 accounts. Investments can always be withdrawn from this account (PFRDA 2009: 241). Subscribers must make at least one contribution p.a. and keep a minimum balance at the end of the year of INR 2,000 [31.64 €]. Non-compliance results in a penalty of INR 100 [1.57 €] p.a. The account will be closed when the values become zero (IMYIDEAS 2010). Transfers are only possible from Tier-2 to Tier-1 (PFRDA 2009). **NPS-Lite accounts** only have the

Tier-1 option but without a minimum contribution and with a maximum of INR 50,000 [793 €] total annual investment (PFRDA 2010 a: 1). In view of the average annual savings capacities of INR 10,747 [168.22 €] of all earners (Figure 4, p. 24), the limit of the maximum investment appears high for a scheme targeting economically disadvantaged. Tier-1 withdrawal and retirement rules also apply to NPS-Lite.

The Swavalamban Yojana Scheme was announced in the Union Budget 2010-11. The scheme is a subsidy to support the economically disadvantaged segments. The GoI contributes INR 1,000 [15.9 €] per year to each NPS/NPS-Lite account opened in the years 2009 to 2012 and for the next five years (Financial Chronicle 2011). The benefit is available to persons who join NPS/NPS-Lite with a minimum contribution of INR 1,000[23] and a maximum contribution of Rs 12,000 [190.8 €] p.a., provided the subscriber is not in regular government employment, and is not covered by any other social security scheme. Eligibility is not additionally tested on a needs basis so that the policy practically also subsidizes wealthier persons. Swavalamban benefits are credited directly into the subscriber's account (Interview Nair 2011).

There are **two investment choices** for subscribers**.** The PFMs invest in three classes: E (equity), G (government securities), and C (credit risk bearing fixed income instruments). First, subscribers have to choose one of the six PFMs for managing their investment. Second, they have to choose between an "auto choice" and an "active choice" investment option. In the "auto choice" mode, PFMs will invest according to the rule: the older the person, the more secure and conservative the investment has to be. This enables novices to circumvent difficult investment choices (Sanyal et al. 2011: 17). "Active choice" means subscribers indicate the percentage share of the three available asset classes. There is a portfolio restriction on a maximum of 50 percent investment in equity. (PFRDA 2009)

The rate of return is not guaranteed. The authority calculates itself with 8 percent return rate, which is a very conservative assumption against the background of recent return rates. A "contribution of INR 10 a day from age 25 (INR 3,600 a year) until age 60 would provide a monthly inflation-indexed pension of INR 1,500 on retirement at 61, an amount well above the poverty line monthly income" (Rajan 2008: 32). In 2009-10, despite the financial crisis, NPS had return rates of "26 in

[23] Bhardwaj criticizes that Swavalamban requires a minimum of INR 1,000 p.a. The GoI should incentivize saving in general by also matching lower contributions (Interview Bhardwaj 2011).

equities, 11% in corporate bonds and 5% in government bonds with a simple average of 12%" (Sanyal et al. 2011: 19). In contrast, the PPF has a fixed rate of return of 8 percent (Dlima 2011). In 2009, pension funds in OECD countries had on average a rate of return of 6.5 percent in real terms (OECD 2011: 182).[24] Thus, from a national as well as international perspective, the NPS return rate is highly competitive.

Currently, the scheme's **tax benefits** apply the Income-Tax Act, 1961, which means that the scheme falls under the EET (exempt-exempt-taxable) category: contributions and returns are exempt, withdrawals – but not annuities - attract tax (Dhall 2009). In contrast, PPF and EPFO schemes fall under EEE, i.e. contributions, returns, and withdrawals are tax-free (ibid). However, with the New Direct Tax Code (DTC), which will replace the existing Income Tax Act on 1 April 2012, NPS will also fall under the EEE category. In addition, if the employer would decide to contribute up to 10 percent of the salary to the account, this contribution will be tax-free as well (Dlima 2011).

The Retirement age for both NPS and NPS-Lite is age 60. In March 2011, the retirement age of persons receiving the Swavalamban subsidy, which was launched in 2010 to subsidize economically disadvantaged groups, was decreased from age 60 to age 50 provided that there was a minimum tenure of 20 years (Financial Chronicle 2011). The GoI does not mention any rationale for this act (Asher 2011), which is opposite to reform trends in other countries. Increasing longevity and a life expectancy at age 30 of approximately 73 years, even for the poorer segments, would result in a relatively long average retirement period of 23 years.

c) Enrollment process

All resident Indian citizens between 18 and 55 years can open an NPS/NPS Lite account. Interested citizens can visit one of the PoPs or aggregators.[25] For NPS subscriptions, the Subscriber Registration Form "UOS-S1" is available online and at

[24] The best performing pension funds among OECD countries in 2009 were Chile (23%), Hungary (17%), the Netherlands (16%), and Luxembourg (14%). On the other hand, in countries like the Czech Republic and Korea, pension funds had, on average, low positive investment rates of returns (under 5%). Pension funds in Iceland even experienced a negative performance in 2009 (–10%). (OECD 2011: 182)

[25] In 2011, India started the Unique Identification project, which is a registration of the entire population, where every Indian will be registered and will receive a passport, the UID Card. Once this process is complete, it will be a major facilitator for social security registration in general (Mariathasan 2011: 25).

the PoPs, which has to be filled out and returned to the PoP (India Post 2011). For NPS-Lite, the same applies to the "Application for Allotment of Permanent Retirement Account Number (PRAN) under NPS Lite", which needs to be returned to an aggregator (CRA 2011). According to the **"Know Your Customer" (KYC) conditions**, the subscriber has to provide a proof of identity and an address proof. There are many options for both, including passports or water bills (PFRDA 2009: 267 f.). Subscribers are required to bring original documents, two photocopies, and attach a recent color-photograph. The reason is to make sure that there is only one account per person. For the basic NPS Tier-1 and for NPS-Lite accounts, subscribers do not require a bank account, but for Tier-2 subscriptions they do. The Forms are simple and only consist of two pages including name, date of birth, address, and choice of investment option. There are special forms for both NPS and NPS-Lite customers if they want to request the Swavalamban subsidy. All forms are only available in English, which will be a major burden for a large part of the target group, especially of NPS-Lite, who are not English speakers.

Along with the enrollment documents, the subscriber has to make the **first contribution** with a minimum amount of INR 500 for a Tier I account, INR 1,000 for Tier-II, or INR 100 for an NPS-Lite account. The PoP/aggregator issues a receipt through which the subscriber can track the status of the application. Contributions can be made either by cash, as local check, or via demand draft electronic clearing service (PFRDA 2009: 250). Within a certain time schedule, PoPs/aggregators direct applications and contributions to the CRA, which forwards the capital to the PFM, who then invests it in the chosen fund. CRA issues the PRAN number and within 15 days after the application it will dispatch the PRAN kit with two pin-numbers, which will be used to check statements of transactions online or to change details submitted to PoPs (PFRDA 2009: 269 f.). The PoP will hand out a Welcome-Kit to the subscriber, which is an information package about the NPS rules and functional mechanisms (PFRDA 2011e). CRA also provides a **web-based interface**[26] where subscribers can view details and request to change details online, generate a portfolio query, and view the transaction history, raise grievances, and reset pin-numbers (PFRDA 2009: 236).

[26] www.cra-nsdl.com

A. 13 provides an overview of **charges and fees**. The main factor is an annual maintenance charge of INR 280 [4.44 €] for NPS. The other charges are lower including a charge of INR 6 [1 Cent] per transaction. Charges for NPS-Lite accounts include an INR 70 [1.1 €] annual subscriber charge; the first 12 transactions are free and afterwards it is INR 5 per transaction (Appendix 13).

In sum, all processes are very transparent, there are processes for grievances, charges especially for NPS-Lite are low, and the bureaucratic effort of the enrollment process appears to be efficient and does not seem to be a major subscription burden besides the English language barrier.

d) Pull-Marketing

According to Bhardwaj and Jain, the GoI has failed in approaching the people in a targeted way (Interviews Bhardwaj and Jain 2011). There is a wide difference between what PFRDA planned and what the agency has actually implemented. In the "NPS-Lite - Swavalamban Promotion Framework", PFRDA planned two media campaigns (PFRDA 2010c: 1). In the "nationwide campaign", PFRDA wanted to release advertisements on NPS-Lite in "all National level newspapers with large coverage" and the agency planned to commission a company to broadcast advertisements in TV and radio channels (PFRDA 2010c: 1). According to Nair, PFRDA is currently planning a TV spot advertisement with the Hindi slogan "pension nahi yeh pran hai" [This is not pension, this is life] (Interview Nair 2011). Besides this TV spot, PFRDA has not started implementing the other above-mentioned plans. Marketing has been reduced to a simple information campaign without any targeting in terms of income groups, occupations, or age. Main results of this are two flyers, which can be found in A.12. The first flyer advertises both NPS and NPS Lite and the second advertises only NPS and is distributed by the PFRDA to all PoPs to use for NPS advertisement.

A problematic situation is that roles are not clearly defined between aggregators, PoPs, and PFRDA with regard to the promotion and marketing of the strategy. With regard to the aggregators, PFRDA appears to outsource marketing and promotion (PFRDA 2010b: 13). PFRDA funds their promotion activities on a case-by-case basis (PFRDA 2010c: 3). There is no such possibility for PoPs.

III.3 Mismatch of Supply and Demand: Reasons for Low Coverage

NPS could potentially provide future pensions of at least poverty level to around 40 million persons (market segments 1 and 2). With NPS-Lite and the Swavalamban subsidy, NPS could be afforded by another 40 million (market segment 3) with savings capacities to purchase annuities on a level of 80 to 100 percent of the national poverty level, and for a certain share of market segment 4 encompassing another 50 million. In sum, the potential market for NPS and NPS-Lite is about 100 to 130 million persons. There are many convincing features of NPS, which match the demand side: The scheme offers the best return rates and tax treatments, it is portable and flexible in terms of investments, and it offers a choice of service providers and fund managers. Structures and processes are relatively simple, transparent and enrollment processes are not bureaucratic. The following policy problems could be identified as the main causes for low NPS-coverage. This assessment integrates the theoretical analysis of criteria for the assessment of pension market forces and the analysis of both market forces that was conducted in the previous two sections:

1. Applying a holistic market perspective and developing a scheme that satisfies workers' financial preferences: NPS fulfills parts of this criterion with its competitive rate of return, tax treatments, and flexible contribution rules. But NPS does not offer several investment options that other Indian schemes do offer and which are demanded by vast shares of the market. The scheme has no real early withdrawal-possibilities and no guaranteed rate of return, which PPF has. This policy choice is reasonable to avoid subscribers using NPS only as a short-term saving option with high returns. However, it likely causes a certain share of the economically disadvantaged persons to refuse investing in NPS as they have irregular incomes and could need the investment prior to retirement. As shown in II.3, enrollment rates for other products, such as the PPF, are not better either. Nevertheless, if a person decides to invest in a long-term saving scheme and important criteria are not fulfilled by the scheme but by competing schemes, this will also cause continuing low enrollment. But a more severe shortcoming is that NPS does not satisfy the general preferences to secure investments as there are no guaranteed returns.

2. Building confidence in long-term (political) stability and the feasibility of scheme and investment: The scheme is financially sustainable because it is a fully

funded scheme. Even with an aging society, India will not face any financial difficulties with this scheme. Nevertheless, PFRDA leaves both the general and the expert public with the impression of an unstable political and legal situation for four reasons. First, the GoI implemented PFRDA and NPS without Parliament having passed the PFRDA Bill resulting in pending regulations and a nebulous legal status of NPS rules. Second, PFRDA's double mission of regulation and supervision leads to conflicting interests. Third, from the consumer's perspective, it will be even more worrisome that PFRDA has not decided about the ASP and the concrete process of annuity provision. This will reduce the trust of potential customers in the scheme as long as they do not know by whom and how exactly their annuities will be paid. Fourth, it is vital to notice that the Indian workforce is highly risk averse concerning financial investments. People favor security over high returns and public financial institutions over private banks. NPS has a huge private sector involvement due to PoPs and PFMs. This situation combined with the fact that the NPS is a product without any guarantees on the rate of return has probably frightened off large shares of the market, especially poorer market segments 3 and 4.

3. Developing effective distribution channels and utilizing the private sector: In its push-marketing approach, PFRDA has tried to utilize expertise, customer relations, and private sector infrastructures of local organizations, such as financial sector institutions, NGOs, self-help groups, trade unions, and welfare boards. While this distribution-approach is generally a very reasonable concept, its implementation has almost completely failed for three reasons. First and most importantly, PFRDA has not provided enough incentives for PoPs to turn NPS enrollments into one of their priorities. The NPS based revenues of POPs have to compete with revenues from other financial products. The flat rate of INR 150 per subscriber is too low to provide enough incentives. As a result, PoPs are incentivized to channel potential NPS subscriber to other financial products. Second, as already described with regard to criterion 2, this distribution channel has even more problems to function effectively because of the lacking confidence in private financial organizations. And third, the question of access of potential subscribers to PoPs and aggregators is unclear. PFRDA has not developed any map and does not have any data on regional distribution.

4. Implementing targeted and tailored (pull-) marketing approaches: PFRDA has a generic pull-marketing strategy, which is not implemented, and completely lacks a

targeted pull-marketing strategy that would address different occupational groups. Pull-marketing is the only way to reach those persons who are not customers of PoPs or aggregators and to raise demand for a product under the following three circumstances. First, neither the product nor the concept of pensions is known to the majority of workers. Second, the majority will not see a reason to invest in NPS as they do not believe that they will survive into their seventies, and two thirds of all workers have never thought about retirement (Butel 2010: 69). Third, the majority distrusts private financial institutions and they favor short-term and secure savings. In addition, enrollment forms are only available in English, although four fifths of the population does not understand English, so they will be likely left out.

Thus, NPS has vast shortcomings concerning all four criteria resulting in an all-encompassing structural problem. The failure of PFRDA to fulfill criterion 3 (effective distribution channels) is more responsible for the low coverage of wealthier market segments 1 and 2. In contrast, failures in terms of criteria 1 (satisfaction of financial preferences) and 2 (public confidence) have more impacts on the low coverage of poorer market segments 3 and 4. Failure to fulfill criterion 4 appears to adversely affect coverage of all market segments. As a result, developing the right policies to solve these different failures will have corresponding effects on the enrollment rates in different market segments, which needs to be considered in the solution analysis that follows. It would be a political choice to rank the reasons for low coverage because simultaneously the relevance to provide access to wealthier vs. poorer segments would be ranked. However, in terms of pure numbers irrespective of the market segments, it is obvious that if distribution channels are not interested in distributing the product, and if the product and its advantages are not known to the public, NPS enrollment rates will likely stay low in the long run. In contrast, the other shortcomings, such as that the PFRDA Bill has yet to pass or that the scheme does not operate in regional languages, are less relevant in terms of immediate enrollment quantity. There are still millions of potential NPS subscribers who speak English and understand enrollment forms. Large shares of people who already subscribed to NPS probably do not know that the bill has not been passed; hence, it would not hinder the masses to subscribe. Nevertheless, these shortcomings are part of a NPS concept that is unconvincing right now and they need to be tackled in a comprehensive way.

IV. Matching Demand and Supply: Recommendations to Increase NPS Coverage

The problem analysis concluded that the reasons for low NPS coverage are located on different levels of the NPS architecture. As a result, there cannot be a single solution to increase NPS coverage. Rather it requires a whole policy package with short- and long-term measures that address the current, multifaceted shortcomings. The following sections explain recommendations that address the fulfillment of all four criteria. While some recommendations are straightforward and do not require extensive elaboration, others are more complicated and offer options for further action:

In order to fulfill criterion 1:

1. PFRDA should improve the security of NPS investments for two reasons: First, the opposing left parties have asked for these changes of the NPS regulation in order to accept the pending PFRDA Bill. Thus, the GoI might need this concession to achieve the political consensus to pass the bill (Point 2). Second, this measure would allow the GoI to defy public skepticism, in particular of the poorer market segments 3 and 4, about the security of saving. How legislation should be changed requires further research. There are two options: either the GoI guarantees a minimum pension or it ensures a minimum rate of return. Prima facie, a minimum pension might attract even more subscribers, but it could also be a high risk for the long-term financial sustainability of the scheme. The guarantee for a rate of return of 8 percent seems like the best option. This rate is realistic because even at the lowest points of the recent financial crisis, NPS had a return rate of 12 percent, and it is necessary to be able to compete with PPF, which currently offers the same guarantee.

In order to fulfill criterion 2:

2. The GoI should convince Parliament to adopt the PFRDA Bill as soon as possible. A fixed regulation would equip PFRDA with the formal authority to supervise the NPS architecture and to start regulating the whole pension sector, including the other schemes. Only after the legislation is passed, PFRDA should continue with further implementations because the legal status of the NPS regulation is nebulous and provides a disastrous impression of the long-term reliability of NPS. This

step will be vital to fulfill criterion 1.

3. **PFRDA should nominate the ASPs** after the PFRDA Bill is passed in order to raise the transparency of the scheme's architecture and to increase the trust of potential subscribers in the functioning of the scheme.

In order to fulfill criterion 3:

4. **PFRDA should increase the effectiveness of its distribution channels,** particularly the PoP performance**.** There are two policy options according to the various experts interviewed in January 2011.

a) Coordination of NPS-Lite and RSBY enrollment processes: This option follows the rationale of utilizing possible synergies from coordinating NPS and RSBY enrollment processes. RSBY is a government funded health insurance for BPL-households. With 23,362,463 active RSBY smart cards on 31 March 31 2011 (RSBY 2011), the RSBY enrollment process has been much more successful than the NPS process. The main reason for the better performance of RSBY is that RSBY attracts subscribers easily because they only have to invest INR 30 per enrollment with an immediate effect (Interview Jain 2011). They receive health insurance but do not have to invest their own money. Interviewed experts thought that two features of RSBY could be utilized to foster NPS enrollments if both enrollment processes were coordinated. First, the attractiveness of RSBY could be used to also attract persons to join NPS (Interviews Bhardwaj, Chopra, Jain, Palacios 2011). Second, the data – name, address, age, proof of identity – would only need to be collected once. According to Palacios, the smart card, which is used for RSBY, could then be extended to a social security smart card, which would also save the NPS data (Interviews Bhardwaj, Chopra, Jain, Palacios, Nair 2011)

Conversely, the coordination of both processes could not work without considerable restructurings for four reasons. First, RSBY enrollments are conducted by insurance companies selected by the state governments. Second, RSBY has a different policy cycle. Insurers only enroll beneficiaries four months a year and insurers are paid on this monthly basis. Third, the enrollment process itself differs from the NPS approach. RSBY enrollments take only around 10 minutes for one individual and

his/her household because there is no need for consultancy (Interview Chopra 2011). The fourth issue is that eligibility depends on BPL-status. (RSBY 2011)

To coordinate both enrollment processes, either the insurance companies of the RSBY architecture would need to engage in NPS enrollments as well, or PoPs and aggregators would need to conduct RSBY enrollments, too. Only the second option makes sense because NPS has the more complex and knowledge-intensive enrollment process, which could not simply be conducted by the RSBY insurance companies. The remuneration of insurance companies and their selection would need to be adjusted to the new situation. Combined enrollments would be much more time-consuming and require more consulting efforts. The whole policy design of the schemes would need to be adjusted because both schemes have different target groups. This would be possible but much more expensive for the GoI. There are two options: either subsidizing NPS for BPL-persons or extending RSBY eligibility to wealthier households such as NPS market segments 3 and 4, which belong to the poorer segments but who are not as poor as BPL-persons. Then, a new procedure would need to be found to test such an eligibility status and to facilitate RSBY enrollments during the whole year.

Hence, this paper advances the recommendation to further follow the idea of combined enrollments if there would be the political will to adjust target groups of both programs. In this case that it becomes the interest of the GoI, the RSBY enrollment process and policy cycle should be adjusted to the NPS system. Though this scenario might rather be an option in the medium- to long run, there is already a need to foster coordination and collaboration of the responsible ministries MoLE, MoHF, and MoF for the implementation of a comprehensive social security system and to avoid inefficient parallel structures in the future.

b) Increasing the Incentives for PoPs

Compared to the previous option, it seems more advisable to improve existing structures. Fortunately, the aggregators have started performing fairly well in recent months so that the primary concern of PFRDA should be to increase incentives for PoPs. Rather than simply raising incentives per subscriber, PFRDA should implement an incentive scheme, which fulfills two criteria. On the one hand, it should incentivize enrollments on a larger scale and on the other hand, it should introduce competition between PoPs as a means to raise their performance. Thus, PFRDA should introduce

competitive policies and performance management of PoPs. For instance, PFRDA could post rewards based on a benchmarking system. PoPs already provide monthly statements to PFRDA that could be used to reward PoPs. Rewards should be based on quantitative targets for numbers of enrolled subscribers, which has also been an effective tool for aggregators. The target should be slightly higher than the achievement of a current best practice PoP as an indicator of what PoPs can potentially achieve. A quarterly or half-year cycle should be envisaged for benchmarking periods. Rewards should be supported by publishing PoP achievements as advertisement. For instance, an article on the best performing PoP could be published together with an interview of the branch manager, where he/she should explain the recipe for the success on the PFRDA website. Thus, both manager and the whole institution would additionally be incentivized through public recognition, which they currently lack. Nevertheless, the reward would need to be a considerable lump-sum bonus. Clearly, this would raise costs for the GoI but considering that the scheme is otherwise fully funded, this appears to be a reasonable additional investment. In order to test such a performance management model, pilot projects should be conducted in Gujarat, Rajasthan, or Karnataka with highest density of persons belonging to market segments 1 and 2.

5. **PFRDA should map regional coverage of both aggregators and PoPs.** Based on results, PFRDA should approach organizations to become aggregators/PoPs in regions with low coverage of service providers.

<u>In order to fulfill criterion 4:</u>

6. **PFRDA should implement a pull-marketing strategy:** There are clear-cut market segments, which differ with regard to savings capacities, familiarity with financial products, education, and saving priorities. Thus, there is no one-size-fits-all marketing solution but there are different options to decide on target groups for marketing concepts. Finding an appropriate marketing strategy clearly involves extensive research on media behavior and methods of advertising in India. At first glance, two options appear most relevant. First, PFRDA could design different strategies to reach different income groups. Market segments 1 and 2 will likely be attracted by the competitive rate of return and tax exemptions. They are likely accessible via advertisements in the biggest daily newspapers and through television commercials. Market segments 3 and 4 have much higher shares of illiteracy, are poorer, demand more financial security and probably have access to radio information but not to TV and newspapers. General

advertisements could be published on rickshaws and busses that are widely used everywhere in India. A basic marketing message should transport the following key facts. Today, even poor Indians on average reach 73 years of age. Everybody who wants to retire one day should have a pension to fall back on in old age, as to not depend on the income of their children. If you save only INR 100 with the New Pension Scheme of the Government of India per month for 30 years, you will yield a vast pension corpus at age 60 of INR 182,641 (IIMS 2008: 21). The scheme is flexible concerning investments, portable all over India, and has higher return rates compared to similar schemes; more information is available at institutions xyz, which are regulated and supervised by a government authority.

Second, PFRDA could target different occupational groups. In particular, farmers comprise a large share of the market segments but they are the most difficult to reach because they mostly live in rural areas and they score the lowest on formal education and literacy. Thus, they will probably be left out by most forms of media advertisement.

7. In addition to English, PFRDA should offer enrollment forms in Hindi and in the most relevant regional languages. The same should apply to advertisements and media campaigns.

V. Conclusion

The process of pension reform initiated in the early 1990s resulted in the implementation of the NPS to expand the low pension coverage in India, particularly for the country's vast and growing informal sector. The new pension authority PFRDA operationalized the voluntary DC scheme in May 2009. Now, almost two years after the implementation, NPS has attracted only 167,002 voluntary subscribers.

It was assumed that the coverage of NPS could only be increased if supply and demand match. This paper identified four criteria to assess the (mis-)match of demand and supply and to explain where policy options should be better targeted to address the low enrollment rate: (1) applying a holistic market perspective and developing a scheme that satisfies workers' financial preferences, (2) building confidence in long-term (political) stability and the feasibility of scheme and investment, (3) developing effective distribution channels and utilizing the private sector, and (4) implementing targeted and tailored (pull-) marketing approaches.

As argued in the problem analysis in Chapter III, there is no simple answer to the reasons for low coverage. The status quo of the policy shows a comprehensive picture of policy shortcomings with regard to all four criteria that could be translated into four reasons for low coverage. First, the fact that there is no guarantee on returns and no real early withdrawal possibility has likely frightened off potential subscribers. Second, PFRDA has challenged the trust of the population in the long-term political stability of NPS due to the unclear legal status of the legislation and the process of annuity provision. Third, two factors block the distribution of the scheme: on the one hand, the workforce has low trust in private financial institutions. On the other hand, private sector institutions are the major distribution channels, so far 8,894 PoPs, who have not been incentivized enough to turn NPS into one of their sales priorities. Each PoP managed a highly discouraging average of seven enrollments since the implementation of the scheme in May 2009. Finally, PFRDA has not developed a targeted pull-marketing strategy, which is necessary to explain the rationale of a pension scheme to the population, who does not know that they will survive into their seventies. However, targeting has also failed in a simple aspect, which is the operating language. English is not spoken by four fifths of the population but is used in the enrollment process, at least for the enrollment forms.

PFRDA realized the low performance of NPS in the course of 2010. Instead of improving the existing scheme, the institution developed new features, NPS-Lite, and the Swavalamban subsidy. These reforms meant a practical increase of the NPS target group. Though never officially mentioned but practiced through the PoP-approach, initially NPS targeted the comparatively small Indian middle class, customers of banks, and insurance companies. By introducing NPS-Lite, the target group was extended to the vast group of economically disadvantaged people. NPS-Lite proved much more successful than NPS, although some features of NPS – almost no early withdrawal possibilities, no guaranteed returns – are not in line with the financial preferences of lower income segments. These efforts have yielded better results because of the higher incentives of aggregators, who are rewarded based on mass enrollments, but also because aggregators do not only follow cost-benefit considerations.

Thus, a priority for the future is certainly to foster and extend the promising aggregator network. Furthermore, it is the role of PFRDA to solve the other NPS shortcomings, which are still major barriers to the potential great success of NPS. According to the problem analysis and the four criteria, this paper presented a set of seven proposals that should improve NPS and achieve much higher enrollment rates. The most immediate and largest effects in terms of increasing coverage should result from two recommendations. First, PFRDA should improve the push-marketing of its major distribution channel, the PoP network, by introducing performance management and increasing incentives for PoP. The second policy problem concerns the lacking pull-marketing strategy of PFRDA. The institution needs to develop a general awareness campaign and establish targeted marketing tools. Detailed recommendations were described in Chapter IV. If distribution channels are not interested in distributing the product, and if the product and its advantages are not known to the public, NPS enrollment rates will likely stay low in the long run. In contrast, the other shortcomings are less relevant in terms of immediate enrollment quantity. Nevertheless, these shortcomings are part of a NPS concept that is unconvincing right now and they need to be tackled in a comprehensive way that includes the following five proposals. As soon as possible, the GoI should convince Parliament to adopt the PFRDA Bill to bring about clarity in the complicated legal situation. PFRDA should consider improving the security of NPS investments for two reasons. First, the opposing parties on the left have asked for these changes so that they might be necessary concessions to pass the bill.

Second, with this measure the GoI would disprove public skepticism, in particular of the poorer market segments 3 and 4 who likely fear that their savings are not secure. Along these lines of improving confidence in the scheme, PFRDA should nominate the ASPs to clarify the process of annuity provision, which will be one of the most interesting parts of the scheme for every investor. In order to make sure that the network of PoPs and aggregators covers the whole country, PFRDA should map regional coverage of distributors and strategically fill regional coverage gaps in order to improve NPS access all over India. Finally, PFRDA should offer enrollment forms not only in English but also in Hindi and in the most relevant regional languages. The same should apply to advertisements and media campaigns.

If the GoI and PFRDA intend to develop the scheme in the described direction, the scheme has the potential of covering 100 to 130 million persons in the long run. The challenges are too complex to expect coverage to go up to these levels in the short run. Through the PoP network, however, it should be possible to enroll 20 million persons, who are able to afford NPS and who expressed keen interest in the scheme, and through the effective aggregator network, another 20 million subscribers will become a realistic scenario in the medium run if the described policies are conducted.

Finally, it is important to apply a broader policy perspective because pensions are a means to a broader end than providing income in old age. In a comprehensive social security system, they should contribute to raising socioeconomic growth and cohesion. The introduction of social security for workers in informal jobs is of high and even increasing relevance because almost the entire job growth in India is informal as described in Chapter II. This is an alarming signal as informalization goes hand in hand with the circumvention of minimum social standards and labor legislation. India has a massive problem with the fact that the economy is not producing enough jobs and certainly no regular employment. The challenges arising from this situation require comprehensive reforms of economic policies, education, and social security, which will have highly comprehensive effects. Aspects such as high rates of (financial) illiteracy and low savings capacities are of course the most important reasons for low pension coverage in general and low enrollment rates of the NPS. However, these aspects could not be included in this study since it is not the role of a pension scheme to solve these problems. Regardless, improvements in these broader socioeconomic development fields will have the largest effects on voluntary pension enrollments in the long run.

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Appendix

1) List of Interview Partners

Transcriptions of all interviews can be requested from the author.

- **Gautam Bhardwaj** is Director of the Invest India Economic Foundation (IIEF), which he founded in 1990. The IIEF is the major Indian think tank and policy consultancy that focuses on pensions and old age security. The Ministry of Social Justice and Empowerment commissioned the OASIS (Old Age Social & Income Security) Project, which prepared the NPS reform, to the IIEF. Gautam Bhardwaj was a member of the OASIS project group and co-authored the OASIS Report. He was involved in further research projects, including several projects by the ADB, and has been actively involved in the NPS reforms as a policy consultant to the Ministry of Finance.

  The interview was conducted on 11 January 2011 at the India Habitat Centre, New Delhi, and focused on the institutional architecture, history of the pension reforms, market segments, and current challenges. The author is also thankful for the invitation to the IIEF's Thursday Seminar on 20 January 2011, and insights from **Ashish Aggarwal** (co-promoter of Invest India Micro Pension Services (IIMPS)), and **Wyly Wade** (consultant at the World Bank India).

- **Nitin Chaudhary** is Senior Manager at IFMR Rural Finance (The Institute for Financial Management and Research) in Chennai, India. IFMR is one among currently 20 aggregators distributing NPS-Lite. IFMR Rural Finance offers financial products to low income groups in rural areas.

  The written interview was conducted on 16 February 2011 and focused on the experiences of IFMR as an aggregator, enrollment process, and data on subscribers.

- **Sumita Chopra** is a consultant with the World Bank in New Delhi. She is an expert on the RSBY health Insurance scheme of the GoI, Unique Identification and other programs, in particular providing Smart Card-based solutions and enrollment processes.

  The interview was conducted on 28 January 2011 at the World Bank office in New Delhi and focused on enrollment processes and the potentials of social security smart cards.

- **Nishant Jain** is Senior Technical Specialist on Social Protection at the GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) in India. He was a technical advisor for the RSBY health insurance project and has been involved in consulting the Ministry of Labour and Employment on NPS implementation.

  Interviews were conducted on January 10 and 24, 2011 in the GIZ office in New Delhi. The interviews focused on the potentials of NPS and NPS-Lite, enrollment processes, and synergies with RSBY.

- **T. Koshy** was Executive Director at the CRA until January 2011 (Central Recordkeeping Agency) in Mumbai, India.

  The telephone interview was conducted on 24 January 2011 and focused on enrollment processes, the potentials of NPS-Lite mass enrollments, and challenges to improving NPS.

- **Rani S. Nair** is Executive Director of the PFRDA (Pension Fund Regulatory and Development Authority). She developed NPS-Lite.

  The interview was conducted on 27 January 2011 at the PFRDA in New Delhi. The interview focused on the rationale and potentials of NPS and

NPS-Lite, the authority's perspective on major challenges and possible solutions.

- **Robert Palacios** is Senior Pension Economist at the World Bank. As a member of the team that produced "Averting the Old Age Crisis" in 1994, Mr. Palacios has written extensively on topics of pension reform. He has also been involved in pension reform operations in various countries around the world. Mr. Palacios has worked for several years at the World Bank's India office and manages an applied research project known as the Pension Reform Primer.

  As supervisor of the Master's Thesis, he was not directly interviewed, but several insights from conversations with him shaped the development of this paper.

- **Srinivas Ragunathan** is General Manager at CAMS (Computer Age Management Services) in Chennai, India. CAMS branches work as both PoP and aggregator. CAMS offers Transaction Processing and Customer Care in the Mutual Fund Industry.

  The telephone interview was conducted on 10 February 2011 and focused on CAMS' experiences as both POP and aggregator.

2) Characteristics of Potential Customers in Market Segments 1 & 2

Characteristics	Urban Millions of Persons		Rural Millions of Persons		All India Millions of Persons	
	Market Segment 1	Market Segment 2	Market Segment 1	Market Segment 2	Market Segment 1	Market Segment 2
Occupational Status						
▪ Traditional/Mechanised Farmers	N.P	0.36	0.82	4.00	0.80	4.36
▪ Animal Husbandry/ Agricultural Labourer	N.P	N.P.	N.P.	0.80	N.P.	0.80
▪ Wage Labourers	N.P	1.18	N.P	1.10	0.34	2.28
▪ Salaried Employees in Small Firms[5]	N.P	0.81	N.P	0.33	0.30	1.14
▪ Owners of Small Retail Businesses	N.P	2.82	0.36	1.52	0.97	4.34
▪ Self-employed Workers including professionals	N.P	1.91	N.P	0.65	0.47	2.56
▪ Other Occupational Codes	N.P	0.64	N.P	N.P.	0.20	0.84
Education						
▪ Sub-Matriculate	0.47	2.60	0.96	5.27	1.4	7.87
▪ Matriculate and higher	1.00	5.26	0.71	3.20	1.8	8.46
Marital Status						
▪ Single[6]	0.15	0.61	0.05	0.34	0.20	0.95
▪ Married	1.40	7.25	1.60	8.00	3.00	15.25
Expectation of Home Ownership in Retirement						
▪ Yes	1.5	7.30	1.6	7.88	3.1	15.18
▪ No	0.05	0.55	0.05	0.07	0.1	1.12
Earnings From Primary Occupation						
▪ Under Rs. 50000 a year	0.4	2.8	0.73	5.28	1.13	8.08
▪ Rs. 50000 to 99999 a year	0.55	2.4	0.46	1.72	1.01	3.96
▪ Over Rs. 100000 a year	0.57	2.66	0.5	1.44	1.07	4.1
▪ Mean Earnings of Total Group (Rs)	133600	112000	106000	69000	119000	90000
▪ Median Earnings of Total group (Rs)	78000	70000	60000	40000	70000	52000
Unearned Income						
▪ Percent with Unearned Income	17%	23%	26%	21%	21%	22%
▪ With Total Incomes Over Rs. 50000 a year	62%	76%	67%	49%	66%	62^
▪ Mean Annual Value for the Total Group (Rs)	33000	33000	27000	22000	29000	27000
▪ Median Annual Value for the Total Group (Rs)	30000	24000	15000	13000	22000	15000

(Butel 2010: 112)

Characteristics	Urban Millions of Persons		Rural Millions of Persons		All India Millions of Persons	
	Market Segment 1	Market Segment 2	Market Segment 1	Market Segment 2	Market Segment 1	Market Segment 2
Private Savings						
▪ Percent with Bank/PO Investments[7]	87%	80%	83%	80%	85%	80%
▪ Median Value in Rs	20000	12000	14000	10000	15000	11000
▪ Percent with Equity Investments	0.05%	0.02%	neg	neg	0.05%	neg
▪ Median Value in Rs	8000	17000	*******	*******		*******
Asset Holdings						
▪ Percent with Agricultural Land	28%	16%	75%	35%	52%	43%
▪ Median Value (Rs)	162000	125000	200000	150000	199000	170000
▪ Percent With Owner Occupied	84%	72%	94%	44%	89%	79%
▪ Median Value (Rs)	200000	200000	80000	50000	150000	115000
▪ Percent With Other Real Estate	18%	11%	14%	5.0%	16%	10.5%
▪ Median value (Rs)	100000	150000	100000	50000	100000	100000
Life Insurances						
▪ Number with Endowment Policies	0.63	3.40	0.39	2.73	1.02	6.13
▪ Mean Rs Value	217000	169000	168000	134000	198000	153000
▪ Number with Life Policies	N.P	0.53	N.P	0.30	0.30	0.83
▪ Mean Rupee Value	N.P	147000	N.P	147000	150000	147000
Debt Levels						
▪ Percent With Outstanding Debts	14%	15%	23%	24%	19%	20%
▪ Mean value of Debts (Rs)	152000	46000	52000	52000	88000	60000
▪ Median Value of Debts (Rs)	58000	26000	23000	20000	30000	20000
Family Support in Old Age						
▪ Number Confident of Receiving Support	0.90	4.30	1.20	4.80	2.10	9.00
▪ Not Confident	0.63	3.60	0.48	4.70	1.11	7.20
Number Using Modern/ Electronic Banking Methods	0.35	1.80	0.33	1.10	0.68	2.90
Holding Membership in an Organised Group	10%	5.5%	14%	10%	12.5%	7.8%

(Butel 2010: 113)

Explanation with regard to the market segments: Both segments refer to the 19.5 million workers, who belong to the primary market segment and who already expressed keen interest in the scheme:

- **Market segment 1:** Those who at the present time are either actively planning to, or expecting to, retire (3.2 million workers).

- **Market segment 2:** Those who at the present time have not given thought to their retirement income needs (16.3 million workers). (Butel 2010: 111)

3) Summary View of Market Segment 1

Market Segments	Number of Potential Customers (millions)
Farmers	
▪ Traditional	4.00
▪ Mechanised	1.00
▪ Other Agricultural Producers	0.80
Small Retailers	
▪ Grocers, Greengrocers & General Stores	1.60
▪ Clothing & Footwear	0.60
▪ Eateries	0.50
▪ Household Items	0.30
Other Retailers	2.30
Self-Employed Workers	
▪ Commission based Agents	0.60
▪ Self Employed Professionals	0.26
▪ Home Based Workers	0.40
▪ Passenger Transport Services	0.40
▪ Residential Building Contractors	0.30
▪ Other Self-Employed Workers	1.00
Skilled/Semi-Skilled Wage Labourers	2.50
Salaried Employees Not Covered by EPFO	1.44
Small & Medium Manufacturing Unit Owners	0.3
Street Vendors	0.7
Pre-January 2004 Public Sector Employees Wishing to Join NPS Tier 2	0.70
Total Potential Market	19.7

(Butel 2010: 135; modified by the author)

4) Small Retailing Businesses in Market Segment 1:

Type of Retail Outlet	Millions
Grocery Stores (including greengrocers) & General Stores	1.6
Clothing & Footwear Stores	0.6
Eateries includes tea rooms sweets shops, snack bars, restaurants bakeries, juice stalls & ice cream parlours)	0.5
Household Item Shops including cooking utensils, crockery and electrical appliances stores	0.3
Street Vendors	0.7
Other Retail Types	1.6
Total	5.3

The following is a full list of the remaining types of retailing businesses listed under "Other Retail Types" in the Table 3.9. None of the retailing types listed appeared in Market Segments 1 & 2 in sufficient numbers to validly project the results on an all India basis. Where a description in the list appears in the plural this means that there was more than one such entry found in Market Segments 1 & 2; when in the singular, only a single entry was found.

Coal Suppliers	Sports Store	Seeds/fertilizer supplier
Spectacles supplier	Gift shops	PC merchant
Scrap metal merchants	Butchers shops	Tea leaf merchant
Fish shops	Handbag store	Toy shops
TV/radio repair shops	Stationary shops	Wine merchants
Cosmetics shops	Printers	Florists
Kitchen appliances store	Jewellers & Goldsmiths	Hardware stores
Barbers shops	Flour millers	Welding shop
Watchmaker's shops	Importer	Chemists
Small Hotel Owners	Coconut seller	Firewood Merchant
Furniture stores	Lottery outlets	Travel Agent
Motor bike showroom	Spice Merchant	Photographic Studio
Marble Merchants	Garage Shop	Salt wholesaler
Car batteries shops	Mineral water wholesaler	Book stores
Bicycle sales shop	Motor spare parts shop	Tent rentals
Telephone Booth Operators		

(Butel 2010: 118)

5) State Distribution of Key Occupations in Market Segments 1 & 2

State	Population (Millions)			Number of Persons in Market Segments 1 & 2 (Millions)			Probability of Households Containing a Market Segments 1 or 2 Customer*
	Urban	Rural	Total	Urban	Rural	Total	
Andhra Pradesh	20.0	55.0	75.0	0.39	0.54	0.95	1 in 25
Arunachal Pradesh	0.22	0.87	1.09	0.00	0.00	0.00	
Assam	3.4	23.2	25.7	0.09	0.11	0.20	
Bihar	34.5	131.5	166.0	0.16	0.60	0.77	
Chhattisgarh	4.2	16.6	20.8	0.04	0.11	0.15	
Delhi	12.8	1.0	13.8	0.45	0.00	0.45	
Gujarat	18.9	31.7	50.6	0.68	0.75	1.44	1 in 9
Haryana	6.1	15.0	21.1	0.25	0.28	0.54	
Himachal Pradesh	0.6	5.5	6.1	0.02	0.04	0.06	
Jharkhand	6.0	20.9	26.9	0.09	0.11	0.20	
Karnataka	18.0	34.9	52.9	0.49	0.71	1.19	1 in 12
Kerala	8.3	23.6	31.9	0.09	0.12	0.21	
Madhya Pradesh	16.1	44.3	60.4	0.27	0.33	0.60	
Maharashtra/ Goa	41.7	36.4	78.1	0.84	0.42	1.26	1 in 18
J & K	2.5	7.6	10.1	0.06	0.04	0.11	
Other NE states	1.84	5.69	7.53	0.02	0.03	0.05	
Orissa	5.5	31.2	36.7	0.12	0.13	0.25	
Punjab	8.2	16.0	24.2	0.18	0.14	0.33	
Rajasthan	13.2	43.3	56.6	0.49	1.01	1.49	1 in 9
Sikkim	0.06	0.48	0.54	0.00	0.00	0.00	
Tamil Nadu	27.2	34.9	72.1	0.17	0.04	0.21	
Uttar Pradesh	34.5	131.5	166.0	0.55	0.94	1.49	1 in 24
Uttaranchal	2.2	6.3	8.5	0.05	0.04	0.10	
West Bengal	22.5	57.6	80.2	0.50	0.62	1.12	1 in 20
	279.7	723.04	1002.74	6.06	7.11	13.17	

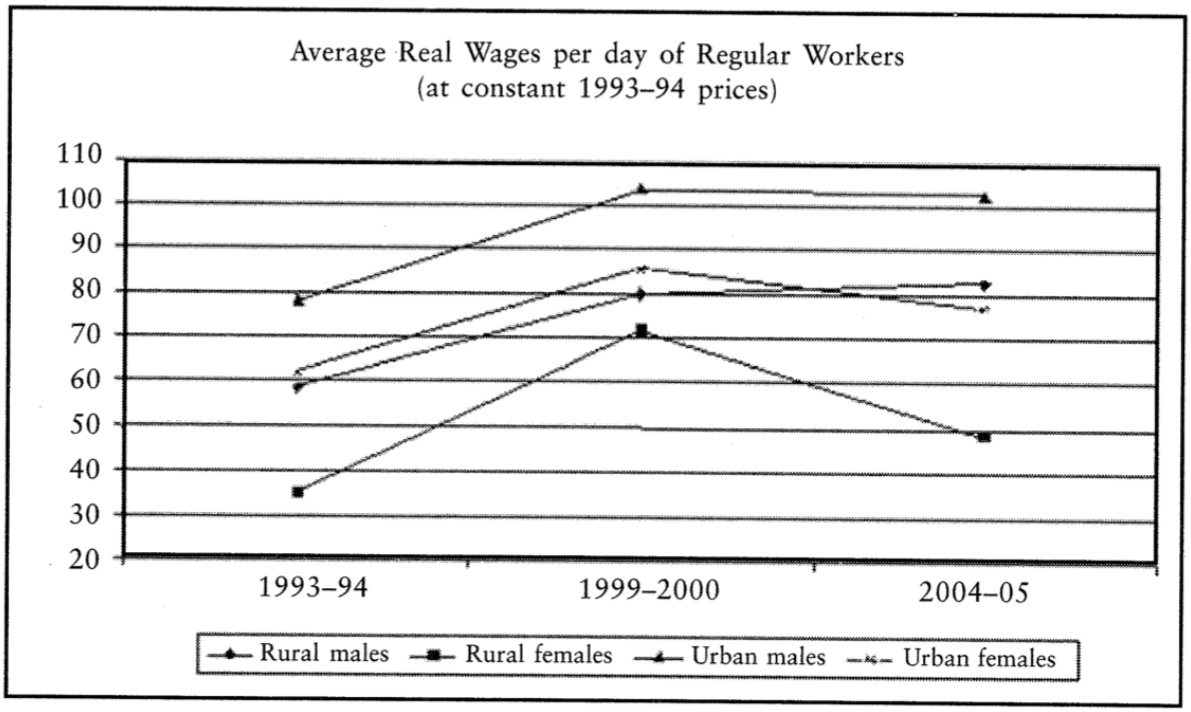
(Butel 2010: 136; 2001 Census, NPS National Data Survey)

6) Subscribers Registered under NPS as of 7 February 2011

Subscriber Registered under NPS	
Status Report as on February 7 2011	
Ministries/ Sector	**Number of Subscribers**
Central Government	709887
Central Government Autonomous Bodies	18892
State Governments	507843
Unorganized Sector*	38857
Corporate Sector	4125
NPS Lite	30227
Total	**1309831**
** Till date 4437 Tier II accounts has been activated*	

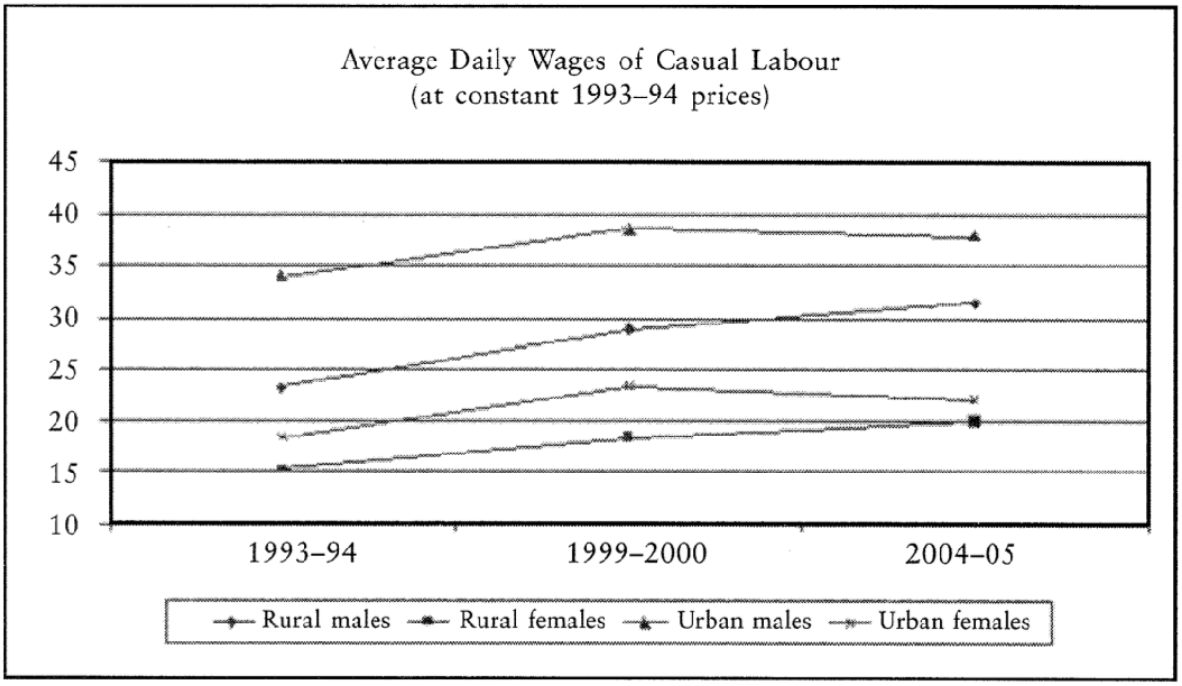
(PFRDA 2011)

7) Development of Real Wages per day of Regular Workers



(Ghosh 2011: 144)

8) Real Wages of Casual Workers



(Ghosh 2011: 146)

9) Risk Perceptions of Latent Demand

Risk Perceptions of Latent Demand*

In percent

Financial instrument	Risky	Not risky	No opinion
Gold	**31**	**66**	**3**
Silver	30	67	3
Chit funds	**27**	**31**	**42**
Livestock	26	61	13
Non Bank Financial Companies	**21**	**38**	**41**
Equities	20	10	70
Self help groups	**15**	**55**	**30**
Microfinance bodies	13	27	60
Commodity futures	**13**	**11**	**76**
Mutual funds	12	17	71
Residential housing	**8**	**89**	**3**
Agricultural land	8	89	3
Residential plot	**7**	**90**	**3**
Central government securities	4	57	39
Bank deposits	**3**	**96**	**1**
Life Insurance	4	91	5
Postal savings schemes	**3**	**95**	**2**

* Percent are rounded to the nearest whole percent.

(IIMS 2008: 12)

10) List of PFMs and PoPs as of December 2010

Power of Choice

NPS allows you to choose from any one of the following six entities (in alphabetical order) to manage your pension fund:-

- ICICI Prudential Pension Funds Management Company Limited
- IDFC Pension Fund Management Company Limited
- Kotak Mahindra Pension Fund Limited
- Reliance Capital Pension Fund Limited
- SBI Pension Funds Private Limited
- UTI Retirement Solutions Limited

You can also switch from one Pension Fund to another Pension Fund.

You may also choose any one service provider from the following entities (in alphabetical order) appointed as Points of Presence (POPs):-

	(Toll Free No/Contact No.)
• Abhipra Capital Ltd.	1800-3001-7777
• Alankit Assignment Ltd.	011-42541234/42541771/1773
• Allahabad Bank	033-22104754
• Axis Bank Ltd.	1860-425-8888
• Bajaj Capital Ltd.	1800-3000-6000/1800-3000-9000
• Central Bank of India	022-22153691
• Citibank N.A	1800-180-0123
• Computer Age Management Services Pvt. Ltd.	044-30611606/07/08
• ICICI Bank Limited	022-28308110
• ICICI Securities	–
• IDBI Bank Limited	1800-22-1070/1800-200-1947
• IL & FS Securities Services Ltd.,	022-42493000
• India Post	–
• Integrated Securities Ltd.	044-28140815
• Kotak Mahindra Bank Limited	1800-116-022 from North India/ 1800-226-022 from rest of India +912266006022 from abroad
• Marwadi shares & Finance Ltd.	0281-2332001/7
• Muthoot Group	–
• Oriental Bank of Commerce	1800-180-1235/0124-2340940
• Reliance Capital Limited	022-30462300
• State Bank of Bikaner and Jaipur	1800-180-6005
• State Bank of Hyderabad	040-23387471
• State Bank of India	022-22740832/22742821
• State Bank of Mysore	1800-425-2244
• State Bank of Patiala	1800-180-2010/0172-2648011
• State Bank of Travancore	1800-425-5566
• Steel City Securities Ltd.	–
• Stock Holding Corporation of India Ltd.	011-26425335/6/7
• Syndicate Bank	–
• The South Indian Bank Ltd.	1800-843-1800/0484-2351923
• Union Bank of India	1800-022-2244
• UTI Asset Management Company Limited	022-66786410/1800-221-230
• UTI Technologies	022-67931087
• Yes Bank	–
• Zen Securities Ltd.	–

(Source: PFRDA 2011 e: 7))

11) List of Appointed Aggregators as of March 2011

(PFRDA 2011 a)

12) PFRDA Flyer to Promote NPS

National Pension System (NPS)-
ensuring old age income security for all

Why Pension?
All your life, you have worked to support yourself.
You have been self-**reliant.....**

In old age, you do not want to depend upon others for your sustenance, food, clothes and medicines.

If you save towards pension today, you will have a monthly income when you stop working.

Even Rs.100 per month, saved from the age of 30 years onwards would yield an estimated corpus of Rs.1,49,035 @8% rate of return, at the age of 60 years.
If rate of return is more, the corpus will grow more. The earlier you join, the returns on your savings will be higher.
NPS Lite aims at ensuring a pension of at least Rs 1000 per month based on your contributions and government support under Swavalamban Scheme.

What is NPS-Lite?

NPS was initially for Government employees, and was later extended to all citizens of India. Recognizing the need to provide income security to marginal income earners and to people from economically disadvantaged sections of society, a scheme has been launched exclusively for such sections of society. NPS-Lite is a scheme of the Government of India and PFRDA.

What is Swavalamban?

As part of the Government's initiative towards 'Financial Inclusion', the Finance Minister has announced a new scheme called "Swavalamban" to encourage subscribers to take the all important step of saving for their old age, where Govt of India will also contribute Rs 1000 per year to the pension account (for details please see reverse)

NPS– Pension nahi yeh pran hai.....

NPS Lite- Making pension possible for the economically disadvantaged

Features of Swavalamban/NPS-Lite

Each subscriber will get an identity card with his photograph, name and signature, known as "PRAN Card". This card establishes his/her membership of the Swavalamban/NPS-Lite scheme.

Each subscriber can contribute as little as Rs. 100 per month. There is no fixed monthly contribution. Contribution can be made, whenever the subscriber is comfortable and has the necessary disposable income.

To avail of the benefit of Rs. 1000 in each of these years – 2010-11, 2011-12, 2012-13 and 2013-14 – the subscriber has to deposit a minimum of Rs 1000 and a maximum of Rs 12000 during each of these years.

Money will be collected by organizations, known as "Aggregators", who have been approved by PFRDA.

The list of Aggregators, who have been approved for collection of contributions of Swavalamban/NPS-Lite scheme, will be displayed on the PFRDA's website: www.pfrda.org.in. The Aggregator will collect the money, and issue a receipt to the subscriber. The aggregator will deposit the collections every Friday (by uploading on the system) in a designated NPS-Lite Bank Account. If the subscriber registers his mobile telephone number in his application for PRAN Card, Central Recordkeeping Agency will send a sms in confirmation of receipt of money.

At present, Swavalamban/NPS-Lite scheme is the extension of the scheme, which is available to the Government servants, i.e., 85% of the money will be invested in debt and 15% will be invested in equity as per the Government guidelines.

i) A subscriber can choose any of the following fund managers: SBI, UTI, ICICI, Reliance, Kotak and IDFC.

(ii) Alternatively, a subscriber can choose 3 PFMs viz. SBI, UTI and LIC. The money will be bifurcated amongst the fund managers at a ratio determined by PFRDA.

Once a year, a statement of account of the entire transaction and the market value of the corpus will be sent to the aggregator for distribution to the subscribers.

a) At the age of 60, the subscriber can withdraw 60% of the pension wealth in lump sum and a minimum 40% of the pension wealth to be annuitized. Exit before age 60 years requires a minimum annutization of 80% of the pension wealth.

(b) If the annuitized pension wealth does not yield an annuity of Rs 1000 per month, the percentage of pension wealth to be annuitized would be increase so that the pension amount becomes Rs 1000 per month, failing which the entire pension wealth would be subject to annutization. This minimum pension sealing may be revised from time to time.

In case of death of the subscriber, the entire money can be withdrawn by his/her heirs immediately, without annuitizing any portion of the corpus.

Costs of the Scheme :

The Swavalamban/NPS-Lite account provides security and gives complete details of all transactions to the subscriber. Each subscribere will have a separate Individual Retirement Account. This account will show the investments made and the NAV of the corpus. At the time of joining, the subscriber will pay a one-time cost of Rs. 35 for obtaining a PRAN Card.

Every year, Rs. 70 per annum will be deducted from the NAV of the NPS account for meeting the cost of record-keeping.

Subscriber Support

There is a Central Grievance Management System (CGMS)–under which any subscriber can either log his/her complaint through his/her Aggregator, or can send a written complaint to PFRDA or CRA. This complaint will be monitored by PFRDA and CRA.

The subscriber can also access his aggregator, and ask to see his account on the computer to see that his contributions have been properly recorded.

"Swavalamban" gives you Rs. 1000 per year for this and next 3 years to help you start your pension corpus. The Finance Minister has announced a **new scheme "Swavalamban" in the Budget 2010. To** avail of Swavalamban benefit, you need to invest between Rs. 1000 – 12,000 per year for each of these years.

Don't Wait! Don't Delay! Join Today

सत्यमेव जयते

New Pension System (NPS)

To provide for your old age pension

pfrda
Pension Fund Regulatory and Development Authority

No better way to save for your old age income security!

- Open to all citizens aged between 18-60 years
- Pension available from the age of 60 years
- Attractive investment schemes to choose from
- Professional record-keeping and fund management
- Transparent fee based system
- Withdrawal facility as and when you wish, under Tier II
- No entry and exit loads

NPS

Pension nahi yeh pran hai

NPS is available at selected Service Provider (SP) branches of various Point(s) of Presence

Allahabad Bank 033-22104754, Axis Bank 1800 233 5577 / 1800 209 5577 / 1800 103 5577, Central Bank of India 022-22153691, Citi Bank- 1800-180-0123., Computer Age Management Services Private Ltd. 044 - 30611606 / 07/ 08, ICICI Bank 022-28308110, IDBI Bank Toll Free Number for MTNL/BSNL subscribers 1800-22-1070 Toll Free Number for other than MTNL/BSNL subscribers 1800-200-1947, IL&FS Securities Ltd. 022-42493000, Oriental Bank of Commerce 011-47651319, Reliance Capital Ltd. 022-3046 2300, State Bank of Bikaner & Jaipur 18001806005, State Bank of Hyderabad 09866582590/04023387471, State Bank of India 1800 112211, State Bank of Indore 1800-425-2241,State Bank of Mysore 1800-425-2244, State Bank of Patiala 1800 180 2010/0172-2648011, State Bank of Travancore 18004255566, The South Indian Bank 1800 843 1800 (Toll free)/1800 425 1809(Toll free)/0484 235 1923, Union Bank of India 1800-022-2244, UTI Asset Management Co. Ltd 1800221230, Kotak Mahindra Bank 1800-102-6022.

For more information, application form & offer document, walk into your nearest Service Provider branch of the above-mentioned Point(s) of Presence or log on to www.pfrda.org.in

(PFRDA 2011 d)

13) Fees and Charges for NPS and NPS-Lite Accounts

a) NPS accounts:

Intermediary	Charge head	Service charges*	Method of Deduction
CRA	PRA Opening charges	Rs. 50	Through cancellation of units
	Annual PRA Maintenance cost per account	Rs. 280[1]	
	Charge per transaction	Rs. 6[1]	
POP (Maximum Permissible Charge for each subscriber)	Initial subscriber registration and contribution upload	Rs. 40	To be collected upfront
	Any subsequent transactions[2]	Rs. 20	
Trustee Bank	Per transaction emanating from RBI location	Zero	Through NAV deduction
	Per transaction emanating from a non-RBI location[4]	Rs. 15	
Custodian[5] (On asset value in custody)	Asset Servicing charges	0.0075% p.a for Electronic segment & 0.05% p.a. for Physical segment	Through NAV deduction
PFM charges	Investment Management Fee[3]	0.0009% p.a.	Through NAV deduction

*Service tax and other levies, as applicable, will be levied as per the existing tax laws. There are no additional CRA charges for the maintenance of Tier II account.

1 The number of accounts in CRA reaches 30 lakh the service charges, exclusive of Service Tax and other taxes as applicable, will be reduced further to Rs 250 (Rupees two hundred and fifty only) for annual PRA maintenance per account and Rs. 4 (Rupees four only) for charges per transaction. CRA's charge for maintenance of your permanent retirement would include charges for maintenance of electronic information of the balances in your PRA, for incorporating changes to PRA details received by the CRA in electronic form, for sending annual account information once a year in printed form etc.

2 These include
   1. Regular subscriber's contribution.
   2. Change in subscriber details.
   3. Change of investment scheme/fund manager.
   4. Processing of withdrawal request.
   5. Processing of request for subscriber shifting.
   6. Issuance of printed Account statement.
   7. Any other subscriber services as may be prescribed by PFRDA.

3 The Investment Management Fee is inclusive of all transaction related charges such as brokerage, transaction cost etc. except custodian charges and applicable taxes. The Investment Management Fee is calculated on the average monthly assets managed by the pension fund.

4 Trustee Bank charges are not charged to subscriber directly. Transaction refers to the entire chain of activities starting from receipt of electronic instructions/ receipt of physical instrument to transfer of funds to the designated PFMs. On the outflow side, it would include all activities leading to credit of beneficiary account.

5 Charges for Demat/Remat, Receipt of shares & SEBI charges are extra.

(PFRDA 2011 e: 4)

b) NPS-Lite accounts:

Intermediary	Activity	Charges	Method of Deduction
Central Record Keeping Agency (CRA)	**Account Opening Charges**	**Rs. 35/-** (Digitization will be carried out by CRA – FC)	**Through cancellation of units from each subscriber pension account**
	Annual Maintenance Charges[1]	**Rs. 70/-** per annum with 12 free subscriber contributions per financial year.	
	Transaction Charges[2]	Nil for first 12 transactions and Rs. 5/- per transactions beyond 12 free subscriber contributions in each year	
Trustee Bank	Per transaction emanating from a Non RBI location[3]	**Rs. 15** *(Trustee Bank, levies collection charges of Rs. 15 per transaction for collection of funds, only at Non RBI Centers)*	**Through NAV deduction**
Custodian[4] (On asset value in custody)	Asset Servicing Charges	**0.0075% p.a** for Electronic segment & **0.05% p.a** for Physical Segment	**Through NAV deduction**
PFM	Investment Management Fee[5]	**0.0009% p.a** *(PFMs get a fee of Rs 90,000 for every Rs.1000 crores of corpus they manage.*	**Through NAV deduction**

***Service tax and other levies, as applicable, will be levied as per the existing tax laws.**

[1] When the number of accounts in CRA reaches 15 lakh the service charges, exclusive of Service Tax and other taxes as applicable will be reduced to Rs. 50 (Rupees fifty only) for annual PRA maintenance per account. CRA's charge for maintenance of permanent retirement account includes charges for maintenance of electronic information of the balances in PRA, for incorporating changes to PRA details received by the CRA in electronic form, for sending annual account information once a year in printed form etc.

[2] Transaction cost will be reduced to Rs. 4/- and Rs. 3/- per transaction when the thresholds of 15 lakh and 30 lakh subscribers respectively are attained

[3] Trustee Bank charges are not charged to subscriber directly. Transaction refers to the entire chain of activities starting from receipt of electronic instructions/ receipt of physical instrument to transfer of funds to the designated PFMs. On the outflow side, it would include all activities leading to credit of beneficiary account.

[4] Charges for Demat/Remat, Receipt of shares & SEBI charges are extra.

[5] The Investment Management Fee is inclusive of all transaction related charges such as brokerage, transaction cost etc. except custodian charges and applicable taxes. The Investment Management Fee is calculated on the average monthly assets managed by the pension fund.

(PFRDA 2010: 14)