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Public private support key to NPS success

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One of the most significant policy reforms in the post-independence Indian economy is the introduction of the New Pension System (NPS) as a part of social security reform.

NPS is a national policy initiative attempting to tackle the problems arising from increased longevity, insufficient retirement savings and absence of formal social security, particularly for the unorganised and informal segment of labour force.

The NPS, introduced since 1st January, 2004, mandatory for central government employees who joined services on or after that date, has been accepted by 22 state governments and subsequently opened to all citizens on voluntary basis with effect from May 1, 2009. NPS is a unique low-cost technology-driven system with provision of portability, switch over, mandatory annuitisation, flexible pay outs, multi-option portfolio and multiple fund mangers.

Further, infancy in regulation no way makes the system vulnerable. Rather the regulatory mechanism and the speed at which that has been introduced is quite commendable.

It is necessary to make NPS a successful vehicle for retirement savings. This is possible only through the national ownership of the NPS.

However, some critical observations from experts highlight the weakness of the system, ignoring the brighter aspects of this far-reaching initiative. Many of them are directed towards the poor response to NPS for the citizens known as non-government sector. This does not mean that there is no further scope of improving operation-related issues of NPS. However, it cannot be denied that ignoring the importance, necessity and positive aspects-if one points out at only the drawbacks-potential beneficiaries will be scared and be driven way. Can we afford that when NPS has just started?

Some of the reasons often cited for a poor response from the non-government segments are the following:

Low fund management fee: Who is responsible for that? It is we, the fund managers, who quoted so low fee knowing well that it is not possible to mange funds commercially with such a low management. Then why to criticise now?

Higher enrollment cost: But this may happen if one considers only the least amount of contribution, a little more than say Rs 20,000 and above will cost on par with mutual fund or may be even less. One should not forget that NPS is only three months old and as the system evolves, system-related weaknesses would be removed.

Absence of distributors: Prohibiting the flow of funds to NPS. But if we want to make the system a low-cost initiative, ways should be found to retain cost at minimum. A system tends to be sound and able to attract potential investors when the system itself and other who manage it at the ground level induce confidence among the potential investors. The poor response to NPS, thus, may not be due to any structural weakness of system but probably due to the failure of generating enough confidence. Intermediaries have some role to play to remove the misconception if any and take the NPS forward.

NPS is a national initiative and for the citizens of the country as a whole who are engaged not only in the government sector but also in the private and informal sector.

Various stakeholders like fund managers, point of presence (PoP) accepted to be the part of this new initiative knowing the architecture, business model and other business considerations. Media has emerged as a strong medium of opinion making and is playing a crucial role in educating the public about the various aspects of any new initiative.

Though the government and regulator have their own role but responsibilities of other stake holders are also essentially critical. Therefore, coordinated efforts and actions by public and private entities are required to implement NPS successfully. This action can be called as public private support (PPS) for NPS.

Objectives: Public private support is basically a confidence building, awareness developing financial education programme for retirement savings, the core component being NPS. This is a national-level literacy mission with the major objectives to create awareness about potential adverse impact of ageing and population explosion, benefits of NPS, necessity for financial savings, long-term impact of early savings for retirement, understanding and analysing individual risk tolerance level and taking informed need-based and risk-based retirement savings decision etc.

Ownership: Unless the ownership is clearly identified no programme can be effective enough to achieve the desired goal. Therefore, we need to clearly spell out ownership, responsibility and accountability of the owners. Since NPS is a national programme, it needs to be owned by a cross-section of entities in addition to the government and regulator. Intermediaries like the sponsors of fund managers, point of presence, central record keeping agency etc, who have opted to be a part of NPS, have the important role to play in the process since in course of time they will receive financial and non-financial benefits directly or indirectly. Corporate have also an important role to play for making NPS a success, since it will provide retirement benefit support to the workers.

PPS Fund: The national-level programme like PPS requires huge budget and owners of PPS need to translate ownership into responsibility through financial contribution to PPS fund. Further, since it is a national priority programme, contribution from other profitable entities may also be accepted. The government may provide suitable tax benefits for such contribution.

PPS coverage: PPS would cover all- young and old, educated and illiterate, organised and unorganised sector. It should cover schools, colleges, higher education institutions, factory offices, organised and unorganised labour force etc. Hence the material, the mode of delivery should be uniquely designed to suit the purpose of specific section to be covered.

PPS trainer: PPS transmission mechanism need to be crafted carefully. NPS is a socio-economic programme (SEP), therefore, the trainers need to be highly skilled, should motivate and be purpose oriented. A special band of trainers drawing from all the entities involved in execution of the programme should be trained first, who in turn take the NPS education to the people. Media and journalists are also to be trained, since they play a critical role in educating their readers.

National coordination committee: Effective implementation of PPS call for coordinating the programme without any leakage. Also, we need to set up a national co ordination committee drawing experts from stake holder of public and private sector.

PPS would have immense beneficial impact on NPS in terms of increasing awareness, enrollment and contribution. In most of the countries such awareness programmes were launched along with the pension reforms .Pension awareness campaign had significant influence on expanding pension awareness, increasing the number of contributors and contribution.

We can, therefore, expect that required modification in areas to strengthen the system will take place with experience. In the mean time we need to carry forward the NPS through market development initiatives, including educating the potential subscribers about scheme and benefits. Moreover in initial years, managing NPS funds may not be a very profitable proposition.

Therefore the system needs long-term players who have such views and take up market development programme keeping the long-term profitability .

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