Retirement Planning - Issues and Challenges in the Indian Context

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“By providing financial protection against the major 18th and 19th century risk of dying too soon, life insurance became the biggest financial industry of the century. Providing financial protection against the new risk of not dying soon enough may well become the next century’s major and most profitable financial industry,..”

Peter Drucker
Scope of the presentation

- Current Indian scenario
- Why retirement planning important for India?
- Challenges in selecting modes of communication
- Modes of reaching people – Indian experience
- Lessons Learnt
CURRENT INDIAN SCENARIO
INDIA – A land of diversities ……..

Diversity
- Largest Democracy
- 29 states
- 23 official languages and 2000 dialects
- Most diverse nation in terms of religion and social practices

Strengths
- 1.3 billion population
- World’s 11th largest economy – nominal GDP
- World’s 3rd largest economy - PPP
- The 487-million worker Indian labour force - service sector (56% of GDP), the industrial sector (26%) and agriculture (18%)

Challenges
- Average literacy level 61%
- Poverty – 27%
- Rural population – 69%
- Formal pension system covers only 12% of population
Existing Products

Pension oriented

- Civil Pension Scheme
- Employee Pension Scheme
- Targeted social assistance programme
- Annuity Schemes by Insurance Companies
- Micro Pension
- New Pension Scheme

Preferential tax treatment

Provident fund

Retirement Oriented Savings

Employees Provident Fund
- Public provident fund

Preferential tax treatment
Existing Products

Civil pension Scheme

- Central and state government employees
- Part of Union and state budgets
- Defined benefits based on last drawn salary
- New pension scheme for employees who joined after 2004

Employee pension scheme

- Providing pension to members, widows, widower, children, orphans, physically disabled members, dependent parents, nominee
- Managed by employee provident fund organisation

New Pension Scheme

- For all citizens
- NPS lite for economically disadvantaged and not financially well to do
- Government contributes Rs. 1000 (US$ 16.6) per year to each eligible account, subject to the account being current by annual subscription

Micro pension scheme

- by various microfinance institutions
- Poor encouraged to save very small amounts and after fixed years start getting pension
- Successful example – UTI and SEWA Bank
**Existing Products**

**Annuity Schemes**
- Launched by insurance companies
- Regulated by Insurance Regulatory and Development Authority

**National Social Assistance program**
- Presently, comprises of five schemes, namely -
  - National Old Age Pension Scheme
  - National Widow Pension Scheme
  - National Disability Pension Scheme
  - National Family Benefit Scheme
  - Annapurna – subsidised food security through public distribution system

**Employee provident fund**
- Retirement savings for salaried employees
- Compulsory employee and employer contribution @ 12% and 1.11% as administrative cost by employer
- Tax deductions for the contributions made every year

**Public provident fund**
- For all residents of India
- Government of India decides the rate of interest
- Minimum tenure of 15 years
- Contributions – tax deduction upto one lakh and interest earnings exempted from tax
• 35 % of Insurance Industry – Pension plans – US$ 258 billion

• Pension and Annuity to grow at CAGR of around 10%

• New Pension Scheme growing at more than 100% - US$ 7 billion

• Limited presence of global players
Reasons for slow growth of pension market

• Absence of suitable long-term financial instruments

• Investments in equity miniscule

• Returns adjusted to inflation most times are negative

• Lack of effort and commitment on the part of employers

• Perception that retirement planning is merely restricted to long term savings and insurance products

It is now that equity linked retirement product are gaining attraction
WHY RETIREMENT PLANNING IS IMPORTANT FOR INDIA?
Why retirement planning ..... 

General
- Increased life expectancy
- Reduced fertility rates
- Savings restricted to physical assets or short term and medium term products

Unorganised sector
- 88% in unorganised sector
- No access to formal channels of pension
- Uneducated

Organised Sector
- Movement from ‘defined benefits’ system to ‘defined contribution’ system
- Lack of individual choices and portability in the formal pension products
- Increasing pension liability for central and state governments
CHALLENGES IN SELECTING MODES OF COMMUNICATION
Challenges..

• Diversity in languages

• Almost 30% of population – illiterate

• Diversity in social and cultural aspects – mere translation not effective

• Geographical vastness and accessibility

• Two entirely different segments of population – one that is well to do fully awareness of products and choices – the other, poor, illiterate
# Modes of communication

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<th>Mode of Communication</th>
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| **Print Media**       | • Educated  
                       • 330 million – circulation  
                       • Countrywide penetration -14 to 15 % - penetration in cities -70% and rural as low as 5% |
| **Oral Communication through Resource Persons** | • Expensive but effective  
                       • Vastness of the country and population a hurdle  
                       • An effective medium to target specific sections of population |
| **Electronic Media**  | • Illiteracy not a hurdle  
                       • Easy conversion into regional languages  
                       • Most effective medium |
| **New media**         | • YouTube / internet / Social media etc.  
                       • Growing in importance |
Print Media

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Financial Education through Resource Persons (RPs)

- Retirement planning an important topic
- As a target group - soon to be retired people for special immediate focus
- 1000 RPs covering 28 states covering 45% of districts across the country
- Total of 17,000 programs since launch in 2009 covering 12,75,000 participants
Electronic media

* Easier to reach out to population speaking a variety of languages – SEBI’s media campaign in 14 languages

* Geographical reach by radio is 98% and penetration level approx 97%

* Second largest mobile users in the world – around 700 million – made radio popular
Ponzi schemes and fraudulent Collective Investment Schemes - a big problem

- A major menace
- Lack of financial literacy and access to financial intermediation an issue
- Structural weakness exploited by unscrupulous elements
- Action taken by SEBI
Lessons Learnt

• Financial literacy is the KEY

• Financial access a major target to be achieved

• Multiple regulators and regulatory gaps

• Coordinated efforts between regulators growingly important. Financial Stability and Development Council in India, which encompasses all regulators in the financial sector viz RBI / SEBI / IRDA / PFRDA / FMC / MCA

• Tightened laws to combat the menace of ponzi schemes
Mass media campaigns

Do not go by hearsay

Unrealistic returns
Thank You

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