Pension Fund Regulatory Development Authority

What is the issue?

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- Pension Fund Regulatory Development Authority completes five years of functioning,
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- It is imperative at this juncture to reflect on its success, shortcomings and the way ahead.
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What is PFRDA?

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- The interim PFRDA was established in 2003.
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- This was to oversee the National Pension System (NPS), and regulate India's pensions sector.
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- The interim PFRDA transitioned into the PFRDA with the passage of Pension Fund Regulatory Development Authority (PFRDA) Act, 2013.
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- PFRDA has come a long way, but there are still some gaps in India's pension regulatory framework.
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- **Significance** - The PFRDA Act is the linchpin of India's pension regulatory framework.
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- The Act is being supplemented by regulations issued by the PFRDA.
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- They regulate the functioning of key intermediaries under the NPS framework.
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- These include the NPS Trust and the Pension Funds and Points of Presence (PoPs).
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How has the NPS evolved?

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- The National Pension System (NPS) was introduced in 2003.
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- Concerns of inadequate coverage and fiscal unsustainability of traditional civil-servant pensions led to NPS's creation.
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- The NPS was visualised as a defined-contribution pension scheme.
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- It had features including individual pension accounts, multiple pension funds, etc.
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- Initially, NPS covered only government employees.
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- It was extended to all citizens by 2009, barring members of the armed forces.
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- Subsequent reforms focused bringing India's vast unorganised sector workforce into the NPS net.
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- In this line were introduced a simpler variant of NPS, 'NPS-Lite' in 2010.
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- Likewise, the 'Swavalamban' scheme was introduced in 2010.
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- Under this, the government co-contributes to the pension corpus of unorganised sector workers not covered by social security schemes.
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- Similarly, the 'Atal Pension Yojana' was introduced in 2015.
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- In this, the government guarantees a minimum post-retirement monthly pension.
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- It also extends co-contribution benefits to unorganised sector workers.
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What are the concerns with PFRDA?

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- **NPS** - A major concern in India’s pension regulatory framework is a widespread lack of clarity.
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- E.g. being a regulator of the pensions sector, PFRDA is also responsible for promoting and developing the NPS
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- This gives rise to concerns of a potential conflict of interest.
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- It thus requires a clearer delineation of the PFRDA’s role, for greater regulatory accountability.
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- **NPS Trust** - NPS Trust is a critical intermediary in the NPS framework which -
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i. holds subscriber funds and assets in its custody
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ii. implements PFRDA’s regulations
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iii. supervises and monitors other intermediaries
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- It does these all remaining under the PFRDA’s supervision.
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- At present, the NPS Trust and the PFRDA possess overlapping and concurrent powers.
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- The powers are in relation to inspecting other NPS intermediaries.
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- This again lacks clarity, leading to accountability and conflict of interests concerns.
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- **Act** - The foreign shareholding limits for Indian insurance companies are currently 49%.
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- Also, the foreign exchange regulations cap foreign shareholding in the pensions sector at 49%.
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- But PFRDA Act caps foreign shareholding in Indian pension funds to be one

of the higher from the following two -
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i. 26% of the pension fund’s paid-up capital
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ii. the limits specified for Indian insurance companies under the provisions of the Insurance Act
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- The choice from dual percentages as specified in the Act creates unnecessary confusion.
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- **Consumer protection** - NPS serves as a universal product securing citizens’ retiral incomes.
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- But there is an inadequate emphasis on financial consumer protection.
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- E.g. the web-based grievance portal for NPS subscribers allows complaints registration only in English.
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- There are similar concerns with the PFRDA (Redressal of Subscriber Grievance) Regulations, 2015.
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- It fails to specify clear grounds for approaching the office of the Ombudsman, functioning as the grievance redress authority.
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- Inadequate attention to consumer protection also reflects in the recent PFRDA (Points of Presence) Regulations, 2018.
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- PoPs are intermediaries and help in on-boarding subscribers to the NPS.
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- The Regulations require PoPs to maintain confidentiality of subscribers’ personal information.
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- But the regulations fall short of
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i. detailing specific standards of care required of PoPs
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ii. expressly penalising PoPs who fail in protecting confidentiality
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- The absence of such safeguards undermines the protection of subscribers' personal information.
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- Addressing these gaps and strengthening the underpinnings of India's pensions framework should be a priority.
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Source: BusinessLine

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