Pension Fund Regulatory Development Authority

What is the issue?

\n\n

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

\n\n

What is PFRDA?

\n\n

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

\n\n

How has the NPS evolved?

\n\n

\n
- The National Pension System (NPS) was introduced in 2003.
\n
- Concerns of inadequate coverage and fiscal unsustainability of traditional civil-servant pensions led to NPS's creation.
\n

\n\n

\n
- The NPS was visualised as a defined-contribution pension scheme.
\n
- It had features including individual pension accounts, multiple pension funds, etc.
\n
- Initially, NPS covered only government employees.
\n
- It was extended to all citizens by 2009, barring members of the armed forces.
\n
- Subsequent reforms focused bringing India’s vast unorganised sector workforce into the NPS net.
\n
- In this line were introduced a simpler variant of NPS, ‘NPS-Lite’ in 2010.
\n
- Likewise, the ‘Swavalamban’ scheme was introduced in 2010.
\n
- Under this, the government co-contributes to the pension corpus of unorganised sector workers not covered by social security schemes.
\n
- Similarly, the ‘Atal Pension Yojana’ was introduced in 2015.
\n
- In this, the government guarantees a minimum post-retirement monthly pension.
\n
- It also extends co-contribution benefits to unorganised sector workers.
\n

\n\n

What are the concerns with PFRDA?

\n\n

\n

- **NPS** - A major concern in India’s pension regulatory framework is a widespread lack of clarity.
\n
- E.g. being a regulator of the pensions sector, PFRDA is also responsible for promoting and developing the NPS
\n
- This gives rise to concerns of a potential conflict of interest.
\n
- It thus requires a clearer delineation of the PFRDA’s role, for greater regulatory accountability.
\n
- **NPS Trust** - NPS Trust is a critical intermediary in the NPS framework which -
\n

\n\n

\n

i. holds subscriber funds and assets in its custody
\n
ii. implements PFRDA’s regulations
\n
iii. supervises and monitors other intermediaries
\n

\n\n

\n

- It does these all remaining under the PFRDA’s supervision.
\n
- At present, the NPS Trust and the PFRDA possess overlapping and concurrent powers.
\n
- The powers are in relation to inspecting other NPS intermediaries.
\n
- This again lacks clarity, leading to accountability and conflict of interests concerns.
\n
- **Act** - The foreign shareholding limits for Indian insurance companies are currently 49%.
\n
- Also, the foreign exchange regulations cap foreign shareholding in the pensions sector at 49%.
\n
- But PFRDA Act caps foreign shareholding in Indian pension funds to be one

of the higher from the following two -
\n

\n\n

\n
i. 26% of the pension fund’s paid-up capital
\n
ii. the limits specified for Indian insurance companies under the provisions of the Insurance Act
\n

\n\n

\n
- The choice from dual percentages as specified in the Act creates unnecessary confusion.
\n
- **Consumer protection** - NPS serves as a universal product securing citizens’ retiral incomes.
\n
- But there is an inadequate emphasis on financial consumer protection.
\n
- E.g. the web-based grievance portal for NPS subscribers allows complaints registration only in English.
\n
- There are similar concerns with the PFRDA (Redressal of Subscriber Grievance) Regulations, 2015.
\n
- It fails to specify clear grounds for approaching the office of the Ombudsman, functioning as the grievance redress authority.
\n
- Inadequate attention to consumer protection also reflects in the recent PFRDA (Points of Presence) Regulations, 2018.
\n
- PoPs are intermediaries and help in on-boarding subscribers to the NPS.
\n
- The Regulations require PoPs to maintain confidentiality of subscribers’ personal information.
\n
- But the regulations fall short of
\n

\n\n

\n
i. detailing specific standards of care required of PoPs
\n

ii. expressly penalising PoPs who fail in protecting confidentiality
\n

\n\n

\n

- The absence of such safeguards undermines the protection of subscribers' personal information.
\n
- Addressing these gaps and strengthening the underpinnings of India's pensions framework should be a priority.
\n

\n\n

\n\n

Source: BusinessLine

\n