India: leveraging mass market financial inclusion for pensions

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INDIA
Unorganised Sector in India

• Around 83% of the workers are in informal employment where there is no formal employer – employee relationship.

• Not governed by any enforceable contract and hence are not covered under any kind of old age income security scheme.

• A large number of workers are self-employed in the agriculture sector, small businesses – tea stalls, street vendors, hawkers, rickshaw pullers, domestic helpers, maids, drivers, cooks, etc.
Employment Pattern

- 6.8% employed in enterprises with 10 – 20 workers
- 10.5% employed in enterprises with 6 - 10 workers
- 65.6% employed in enterprises employing less than 6 workers
Challenges

• Identification, income, lack of access to financial infrastructure and financial capability

• Income in the informal sector is frequently seasonal and volatile

• Saving for retirement requires regular contributions and needs to be preserved until retirement

• Lack of awareness about old age security
Financial Inclusion

The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country at affordable rate to unlock its growth potential.

<table>
<thead>
<tr>
<th>Total Households</th>
<th>Urban and Rural Households</th>
<th>Households availing banking services</th>
</tr>
</thead>
<tbody>
<tr>
<td>246.7 mn</td>
<td>Rural: 167.8 mn</td>
<td>91.4 mn (54.46%)</td>
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<tr>
<td></td>
<td>Urban: 78.9 mn</td>
<td>53.4 mn (67.68%)</td>
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</tbody>
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## Strategies

**Started in 2005**

<table>
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<tr>
<th>Opening of ‘No-frills’ accounts - With very little or no minimum balance, charges, simplification of KYC norms</th>
<th>Focus on unbanked/under-banked villages with more than 2000 population - 74,414</th>
<th>Use of Business Correspondents - Bank representatives (NGOs/SHGs/Insurance Agents/Farmers’ Club etc.), create awareness about savings, help opening of bank accounts, arranging loans</th>
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Jan Dhan Yojana

Strategy shifted to households

**Phase I**
- Opening of bank accounts
- Financial Literacy Programme

**Phase II**
- Extension to credit, insurance and pension

No. of accounts opened under JDY – 24.27 crore (242.7 million) with deposit of Rs. 42,504 crore ($6.34 billion)
ATAL PENSION YOJANA - A BRIEF

Entry
• All Citizens of 18-40 years
• Register through Banks
• Choose Pension Rs 1000-Rs 5000

Accumulation
• Deposit contribution regularly
• GoI co-contributes for eligible Subscribers up to Rs 1000 per annum for 5 years according to contribution of the Subscribers, if they join before March 16.

Exit at 60 yrs
• Minimum guaranteed Pension payable to Subscribers at 60 years
• Minimum guaranteed Pension payable to Spouse after death of Subscribers
• Return of indicative pension wealth to nominees after death of spouse
Subscriber Walks into Branch

Submit completely filled APY form, Aadhar and mobile no.

Bank Official scrutinises the form

Bank Official enters account number in APY module

SMS alert to subscriber on activation of PRAN

PRAN allotted to the subscriber

System generated acknowledgement containing PRAN handed over to subscriber

Additional details entered by bank official and submits the request.

Subscriber details fetched from CBS
Pricing & Contributions

Pricing

- Low cost product
- <$2 to banks for opening accounts
- Very low maintenance charges

Contributions

- Govt. contributes 50% of contribution or Rs.1000 ($15) per annum whichever is lower to those who enrolled up to 31\textsuperscript{st} March 2016, for a period of five years
Channel Partners

Banks along with post offices are the nodal agencies for promotion and implementation of APY (228 Banks with 135,000 branches and 16913 post offices)

Non Banks such as MFI s, NBFCs, Micro insurance/MF agents acts as business facilitators to banks for sourcing APY.

Enrolment through net banking portal of banks
Promotional Efforts

- Publicity – Print, TV and Radio
- Initiated by Govt of India
- Later, taken over by PFRDA
- Training & capacity building of bank & Post Office Staff by PFRDA. 90,000 officials trained in a year
Changes brought in APY

- Option for spouse to continue to contribute in APY account of subscriber for balance period on premature death of subscriber
- Facility of upgrade and downgrade of pension amount
- Option for quarterly and half yearly payment
Challenges in APY

• Financial literacy/ hard to convince the subscriber to opt for pension due to long term commitment.
• Benefits under APY foreseen as very meager after vesting period
• Banks/Post offices need to push product
Proposed Initiatives

- Auto enrolment for unorganised sector workers in APY
  - Target Group - Micro Industries, Small Scale Industries (less than 20 employees), Asha Workers, Aanganwadi Workers, Gram Panchayats, construction boards etc.
  - Obligation on employer to enroll their underlying employees
  - Employer contribution towards the pension will be voluntary.
  - Option to the employee to opt-out after a year
  - Health and insurance coverage to the employee
  - Tax rebate to the employer for the contributions made

- One more option of pension amount of Rs 7500 ($112) p.m. under APY
- Increase the age limit to 50 years
THANK YOU