

Financial Literacy & NPS

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PFRDA: What we do

- Established by Govt. resolution; proposed to be statutory in due course
- Mandate: regulation and development of pension sector
- Administers New Pension System (NPS)
- For Govt. employees: 1 Jan 2004
- For Unorganised sector: 1 May 2009
- First of its kind: available to all citizens

NPS: Distinctive Features

- DC, voluntary, IRA based
- 3 sets of intermediaries
- POPs: open accounts, accept contributions
- CRA: mobility across regions/ professions
- PFM: professional, appointed through bidding
- Electronic transfer of info and funds
- Very low costs
- Individual has choices of PFM, invest. Schemes etc

NPS: Recent Developments

- Contribution by Govt.: Budget announcement
- States encouraged to follow
- 39 POPs registered, over 50,000 POS
- We plan to make the distribution network most comprehensive
- Option of opening accounts online
- NPS at your desktop is an avowed objective

Fin. Literacy and NPS

- Inclusion must also look at post working life
- NPS must be an integral part of inclusion/ literacy campaigns
- RBI initiative to bring villages of 2000 within banking fold perfectly fits in our plan
- Synergy with employment guarantee program- move towards livelihood guarantee
- Pension Ganga must touch every vulnerable

Literacy Campaigns: bird's eye view

- Many laudable initiatives
- Ministry of Corporate Affairs, RBI, NABARD, Regulators, Stock exchanges, banks (Citi, ICICI etc)
- NGOs: Microfinance touches more than 80 million lives
- National Alliance for Financial Literacy (NAFIL)
- ICICI Foundation

The way ahead

- Need for a national level coordinating agency
- Experience of US, UK, Australia, NZ
- Funding issues: Govt., regulators, PPP
- Need for innovative solutions
- Key components:
 - Linkage with school education
 - Online tools/ tech. based solutions
 - Helpline (national/ regional)

Literacy: other important issues

- What is it aimed at?
 - Ability to make informed decisions or ask right questions
- Need to lay standards of fin. Literacy
 - LTCM failed with 3 Nobel laureates on board
 - Greenspan (2007) admitted he was aware of the risk in MBS much before the crisis (2008)
- Literacy campaign has to be a continuous process

Fin. Literacy and regulation

- Complementary and not substitutes
- Reg. very important as risk is rapidly shifting to consumer: literacy alone not sufficient
- Stability requires a dynamic review of policies, practices (e.g., leveraging) and products (MBS), all of which can pose a risk collectively or individually
- Literacy only a means, not an end
- A broader view transcending regulatory silos required