CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS
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7.1 INTRODUCTION

This chapter presents a conclusive overview of the research study by bringing forward the significant points of the previous chapters. The study attempts to summarize the contribution to knowledge and how that knowledge has stimulated subject matter that could promote further research in the field.

With the analysis of primary and secondary data, interviews with the policyholders of pension products, prospective buyers of pension products and interaction with the experts in the field of insurance and pension, the researcher made some observations and derived some conclusions while carrying out the research work. These observations have been summarized below in the form of findings and suggestions.
7.2 KEY ISSUES IN RESPECT OF POLICYHOLDERS AND PROSPECTIVE BUYERS

While analyzing the questionnaires of policyholders and prospective buyers, it was found that most of the key issues were common among them. Those are not mentioned separately.

7.2.1 AWARENESS

Awareness of pension plan increased with age, income and education. The occupation played an important role as it was observed that awareness among the service category of profession was much higher followed by 'businessman’ and other categories. Though the awareness level was good the yet the penetration level was too low.

SUGGESTIONS

- *The insurance companies should tap the untapped market by using innovative marketing strategy.*
- *Consumer Awareness and Education Programmes should be conducted frequently.*
• Semi-urban and Rural area should be tapped as the population and longevity was significantly high.

7.2.2 PLANNING FOR RETIREMENT

The survey found a widespread lack of planning for retirement both occupation-wise and education-wise. It was found that businessmen were not investing in pension plans; probably they could be exploring other investment avenues. Whereas the ‘service’ professionals perceived the pension plans consciously as forms of saving for retirement. It was also observed that most of the graduates had not started planning for retirement.

SUGGESTIONS

• Insurance companies should target businessmen and less educated people for selling pension plans as per the survey findings.
• Consumer Awareness and Education Programmes should be introduced periodically through newspapers, television, internet etc.
7.2.3 CONSIDERATION FOR BUYING PENSION PLANS

The customers considered investing in voluntary pension plans primarily due to the perceived ‘security of funds’ followed by ‘efficient service’. The ‘Trust with the brand name’ ‘years of experience’ and ‘easily approachable’ aspects of insurance provider were some of the other important factors.

Above 70% policyholders of pension products preferred ‘security of money’, ‘retirement benefits’, ‘tax benefits’ and ‘options of taking pension’ as most important while buying a pension policy.

SUGGESTIONS

• Insurance companies can take into account these preferences for designing the insurance policy to build a confidence among the customers. The preferred criteria should be highlighted in the advertisements.

7.2.4 TAX INCENTIVES

Since the tax benefits are defined by the Government of India, the customers get the automatic benefit of tax after buying a pension policy. Of the total pension payouts, 1/3rd of the amount is tax-free whereas 2/3rd of the amount is taxable. It was observed that the
awareness about the tax incentives on contribution and accumulation stage of pension policy is very low. Eventually, the customers wanted to buy pension policy to reduce the tax burden. The customers are more concerned about tax at payout than accumulation and contribution stage because due to taxation, the amount of payouts gets reduced.

**SUGGESTIONS**

- *The Government should pass the Direct Tax Code which will be immensely helpful on exemption of tax on payout stage also. This will attract more customers towards pension policies.*

- *The agents while selling the pension policies should explain the tax benefits stage-wise i.e. on contribution, accumulation and on maturity.*

- *The amount of tax exemption of Rs. 1 lakh on insurance policies should be increased which will force the customers to buy pension policies along with other insurance policies.*

### 7.2.5 LIFE INSURANCE COVER FOR PENSION POLICIES

Most of the pension policies do not offer life insurance cover. It was observed from the feedback of the customers that they
expected life insurance cover to be provided along with pension policy. Generally the people were under the impression that any insurance policy included life insurance cover. It was not informed them at the time of selling. It was also observed from the feedback that the vital points of the policy were not disclosed at the time of selling.

**SUGGESTIONS**

- The insurance companies should design the pension policies which will cover life insurance also.

- The agents should explain in detail the characteristics of the policy to the customers to minimize the wrong impression of the policy which is leading to mis-selling.

- The insurance companies should take a strict steps to curb the mis-selling. The agents should be guided properly to disclose all features of the policies to win the confidence of the customers.

**7.2.6 LOW RATE OF RETURNS**

It was observed from the feedback of the customers that the rates of returns on ULIPs were significantly low. The funds had yielded low returns. There were fewer options for fund allocation.
SUGGESTIONS

- Due to the volatility of the capital market, the pension fund was showing low rates of returns in ULIPs. It is the skills of the fund managers to invest the pension fund in such a way which can give good rates of returns.

- The options to fund allocation should be expanded.

7.2.7 CUSTOMER PERCEPTION ABOUT PENSION PROVIDER

It was evident from the study that customers’ perception about the provider was quite satisfactory. Most of the customers preferred ‘security of funds’, ‘efficient service’ and ‘easily approachable’ aspects of provider as ‘most important’ than other factors.

7.2.8 CUSTOMER PERCEPTION ABOUT PENSION PRODUCT

It was evident from the study that customers’ perception about product was quite reasonable. The preferences were matching with the available features of the pension product. The customers
had considered ‘Security of Money Invested’ the ‘most important’ factor followed by ‘Retirement Benefits’, ‘Tax Benefits’, etc.


The Insurance companies can take into account these preferences for designing the policy so as to get maximum returns and build a confidence among the customers about security of money. Eventually, the assessment of Tax Benefit were found to be on a higher side which means that customer wanted to buy pension policy to reduce the tax burden. It also showed that not only ‘security’ and ‘tax benefits’ were most important but also ‘retirement benefits’ and ‘options of taking pension’. Since the awareness level was increased along with longevity, the customer had become selective in exploring the number of options of pension and retirement benefits.

7.2.9 NEEDS AND PREFERENCES OF CUSTOMERS

While analyzing the needs and preferences of customers regarding pension products the following was the outcome:
• It was evident from the following table that the opinion about needs and preferences of the product was diverse. As discussed earlier, the customers preferred ‘High Investment Returns’ and ‘Security of Money Invested’ as ‘most important’. Yet, it showed that customers were not keen about the ‘Death Benefits’ than ‘High Investment Returns’.

• While analyzing preferences about Tax Incentives, it showed that the customers were more concerned about ‘Tax on Maturity’ than ‘Accumulation’ or ‘Contribution’.

• The respondents preferred ‘Regular Contact over Phone’ as it was much easier way for obtaining information rather than information through email or internet account access.

• The preferences for policyholders to buy ULIPs were more than traditional policies, whereas preferences of prospective buyers were more towards conventional policies and less ULIPs. This might have been due to the changed regulations in the year 2010.

• The customers preferred to contribute annually followed by monthly and other modes. Hence, the varied needs and preferences of different customer segments were adequately met by the modes that were provided by the companies.
• Majority of the customers preferred annual statements of accounts for their policy for tracking the fund which could be further utilized for building up a good corpus.

• The preference of the Policyholders’ for investment portfolio selection was more towards ‘balanced’ option indicating preference for ‘less conservative portfolio with a mix of bank deposits, bond and equities’ followed by ‘equity’ and ‘conservative’. The ‘conservative’ portfolio consists of government securities.

7.2.10 CHANNEL PREFERENCE

The overwhelmingly preferred channel of buying pension plans was the ‘insurance agents’ followed by ‘banks’. Bancassurance was popular in other countries except India. But gradually this business was growing at a rapid speed as the findings represented it as second preferred channel. However, now a days, customers also prefer buying the pension plans directly from insurance companies. The peculiar reason for this preference was that, if the customer buys pension policy online, he is eligible to get 5% discount. Few life insurance companies have started direct marketing section to enable the customers to make hassle free transactions.
7.2.11 CUSTOMER EXPECTATIONS

Customer expectations about the pension products on various factors were evaluated as given below:

- It was observed that ‘periodic information on pension account statements’, ‘promptness in settlement’ were ‘most important’ expectations of the customers. The policy servicing was very much important for insurance companies to retain and repeat the customers.

- The ‘portability’ option introduced by insurer reduced the hassle of accessing policy from one location only.

- It was also been observed that customer’s expectations about information to be given by insurer before buying policy with regard to tax benefits, investment options, performance records of the funds were fulfilled.

- Customers’ expected ‘regular contact over phone’ option as ‘most important’.
7.2.12 SERVICE EXPERIENCE

The views from the customers about service experience from the insurance provider were taken and the result of the same is depicted below:

- Almost 71% policyholders were satisfied with the insurers about different service experiences. The service experience with regard to providing account information, transferability of the job, regular contact over phone was considered to be the most important and satisfying.

7.2.13 OVERALL BUYING EXPERIENCE

The views from the customers about experience of buying pension products from the insurance providers are detailed below:

- While analyzing buying experience of customers, it was found that 70% policyholders were very happy about ‘convenient location for contact’ as ‘most important’ whereas different charges charged to the buyers were observed to be not satisfactory. The internet access was also considered as least important.
• The experience of buying pension policies from the insurance agents and then banks were good. These channels of buying pension products were most preferred channels for the customers.

• In spite of maximum satisfaction level of existing products, 33% of policyholders wanted to buy other pension plans.

7.3 KEY ISSUES IN NEW PENSION SYSTEM

7.3.1 DESIRABILITY OF THE TOTAL SHIFT FROM DEFINED BENEFIT TO DEFINED CONTRIBUTION

The experts commented on the desirability of the shift from Defined Benefit to Defined Contribution which is explained in detail below:

• Due to the volatility in the interest rates market, the cost of guarantee for a defined benefit scheme would be very high. This would reduce the returns to the subscriber to such an extent that the annuity amounts available post retirement would be significantly affected. Whereas the expected annuity from defined contribution schemes would provide better income security for old age, given the long horizon.
• Those people who changed their job frequently, the Defined Contribution was good option as they could carry their contribution to new employer in case of NPS.

• The compounding impact of interest rate is beneficial at the time of retirement in NPS.

7.3.2 UNDESIRABILITY OF THE TOTAL SHIFT FROM DEFINED BENEFIT TO DEFINED CONTRIBUTION

The experts also commented on the undesirability of the shift from Defined Benefit to Defined Contribution. It was observed from the experts’ comments that the issue of total shift from Defined Benefit to Defined Contribution had some negative implications also which are explained in detail below:

• The shift from Defined Benefit to Defined Contribution was not desirable from the view point of customers as 85% of the experts expressed undesirability of the shift.

• In Defined Benefit schemes employee guarantee, a certain percentage of his final salary at the time of retirement irrespective of inflation. But in case of Defined Contribution his pension was purely depending on the contributions during the accumulation stage and the investment returns. Besides, it
was uncertain about the quantum of the actual pension at the time of retirement.

- Pension is an important social security measure. Definite income is necessary to face the longevity and medical expenses in the old age. Longevity is increasing so pension rate is decreasing to bring down the annuity. To tackle the risk of inflation and longevity Defined Benefit was most desirable from the viewpoint of customer.

- Contribution was deducted from the salary of employee for which the benefits were not known in advance.

- Customer was interested in certain amount of pension payable after retirement age. In case of Defined Benefit this desire was met. In case of Defined Contribution there were uncertainties, which come in the way, and ultimately he ends up getting pension, which was not of the order of whatever he had thought.

- The benefits were defined without contributing single money. Pension was linked to inflation which was 50% of the retirement salary, so employee was sure of getting 50% of salary and now unknown about future.

- Defined Contribution entails only the available corpus which will be used for getting annuity after retirement. This might
be inadequate and will not have any relation to the final salary.

**SUGGESTIONS**

- *The government should keep the Defined Benefit pension option as it was and should make it mandatory to the employees to subscribe to NPS as well.*
- *Defined Benefit is the most desirable option in the interest of the customers.*

### 7.3.3 EARLY WITHDRAWAL

Money may get withdrawn for frivolous reasons and not enough would be available as corpus at the time of retirement. NPS is like Systematic Investment Plan (SIP), it is based on evenly spread investment. It averages out the market risk, fine tune the returns. In such circumstances if it is allowed then the purpose of long term saving is defeated.

**SUGGESTIONS**

- *Only under medical emergency early withdrawal should be allowed because the employee is accumulating for his future*
and if he were not going to survive due to medical problem the money would not be useful.

7.3.4 BENEFITS OF DEFINED CONTRIBUTION

There are numerous benefits of Defined Contribution which are stated below:

- In Defined Contribution the governments need not create a corpus for paying the pensions to the employee. Hence, the cost to government automatically comes down and which will be more sustainable in long run.
- NPS has been fetching good returns in the last 3-4 years as per the PFRDA’s website which in turn can create substantial retirement corpus for the employee. Due to the portability of NPS, the employees can avoid duplication of policies / accounts of pensions which will ultimately beneficial to the employees.
- Good asset allocation strategy can be followed to generate higher returns.
- A person can create a good corpus as per his financial capacity by contributing more.
• If a person’s financial literacy is good, he can invest prudently in different segments to get higher returns.

7.3.5 HELP FROM THE PENSION PROVIDER IN FINAL PAYOUT AND ANNUITY

In Defined Contribution Pension plan, subscriber does not have any specific idea about final payout and the annuity. The insurance provider can help in final payout and annuity.

SUGGESTIONS

• Pension provider should provide annual statements to the customer to enable him to know the volume of his corpus built up. By offering minimum capital guarantee to the customer and educating him in investments would build a confidence about the product.

• The insurance provider can give expert investment support.

• The pension provider can reduce the management expenses to least minimum and manage funds in most optimal way within the regulatory set up to earn highest rate of return on investment to build up highest corpus at the time of retirement.

• The pension provider may promise to offer immediate annuity at a discount at the time of payment.
• Over a long-term period an insurance advisor can predict the level of return and hence annuity.

7.3.6 NPS MEETS THE PREFERENCES / REQUIREMENTS OF CUSTOMER

• The expert respondents were asked whether NPS met the preferences of customers. Almost 75% experts commented that it met the preferences / requirements of customers. It was expressed that the NPS was a low cost, flexible and good investment choice featured policy.

• Any product which has been designed in an excellent manner to meet customer requirements with the unique feature of portability, simplicity and cost economics needs significant improvement in the way it is sold, so that it reaches its full potential.

SUGGESTIONS

• Pension Fund Managers should provide minimum guarantee of returns to the customers and should calculate the pension at the time of purchasing the policy so that the customer would know approximately how much pension he would get at the time of retirement.
• Fund choices should be increased by PFRDA.

7.3.7 REQUIREMENT OF INTERMEDIARY BETWEEN CUSTOMER AND PFRDA

• It was suggested by the expert respondents that an intermediary was required to push this product. Financial literacy in India is not at a level at which a citizen can plan their finances for the future. In advanced countries, this may not be necessary. In the UK, the Stakeholder Pension Providers do not offer any incentive to the Independent Financial Advisors (IFA). Yet the IFAs do distribute the stakeholder pension in the expectation that the client would engage them for advice.

• The subscriber will ultimately generate a better return for himself by paying some amount (commission) to intermediary.

• Intermediary is required not only to explain the need of pension product to the people but also to provide necessary service, such as opening an account, depositing contributions regularly, switching, time to time monitoring, providing fund statements, etc.
• The experience is that in case of any financial product, the customer has to be sold a product; nothing flies off the shelf automatically.

SUGGESTIONS

• A wide distribution network is required. While this will add its costs, NPS can still remain significantly cheaper (50%-75%) than the next cheapest alternative available in the form of mutual funds. Given the further advantages, it has in terms of portability, simplicity etc., it can easily succeed in meeting its target of assuring old age income.

• Distribution channel helps in procuring large volume of business and channels are frontline underwriters.

• Aggressive campaign is required to increase the sale of product.

• Though it will add to the cost of the policyholders, but advice can help to boost the retirement corpus.

7.3.8 ALLOCATION TO EQUITY

• Interviews with the expert respondents revealed that the PFRDA was not allowing the subscriber more than 50% allocation to equities to avoid loss to the subscribers due to
capital market fluctuations. The standard asset allocation as per the age of the subscriber was pre-defined by PFRDA. The experts endorsed the capping of 50% allocation by PFRDA.

- Though asset liability matching is possible for equities and pension product due to their long-term nature, it is not advisable to expose (more than 50% [high quantum]) of corpus to the vagaries of the market because volatility is very high in 100% equity.

**SUGGESTIONS**

- *Allocation in different funds should not be forced investing.*
  The voluntary decision of subscriber should be taken into consideration. If a subscriber is educated enough to take high risk in equities and earn more money, the regulator should allow him to take it.

- *It is agreeable that the allocation limit of investors who are not market savvy and opt for auto choice. However, certain investors, who are young and have a long investment horizon and who understand the markets, may have a higher risk appetite. Such investors may be allowed to have higher equity allocation*
7.3.9 LOW COST STRUCTURE

Out of 18 experts, 11 experts felt that it was a low cost structure whereas 5 experts felt that since too many agencies were involved in it, it was relatively high cost structure. One of the experts opined that Fund Management was low, transaction and account management was high.

SUGGESTIONS

- Entire NPS should be under one umbrella to avoid too many agencies.
- Distribution channels should be strong like other insurance policies.
- The incentives for selling NPS should be reasonable.

7.3.10 PRUDENT INVESTMENT BY PRIVATE PENSION FUND MANAGER

- The experts also stated that a Pension Fund Manager chosen by the authorities on the basis of the criteria fixed should be investing prudently to maximize the returns to the subscribers. “Private” or “Public” should not make a difference’. The competition would force them to behave correctly in the market.
• It was also opined that government pension fund manager would work more for policyholders whereas private pension fund managers will work for shareholders.

7.3.11 RECOMMENDATIONS OF THE RESEARCHER TO IMPROVE NEW PENSION SCHEME

• NPS should provide proper guidance to the subscribers for building up the appropriate corpus for pension as is done in the UK.

• PFRDA should put more pressure on pension fund managers to give competitive rates of returns to the subscribers.

• The financial intermediaries have to be roped in for selling this product. The pension fund managers also need to be given a free hand to market this product with adequate incentives. This will lead to reworking of the whole cost structure of the product.

• To facilitate investment advice and re-look at the way the product is distributed to the masses.

• The investment pattern should be changed. There should be more exposure to equity.
• Taxation pattern should be revised to attract more subscribers.

• Instead of multiple agencies, it should run through single entity only.

• The number of pension fund managers should be increased with sufficient expertise to have the competition among them to reduce the expenses. The option of the subscriber to switch over from one pension fund managers to another will set the things right.

• The product feature should offer some guarantee viz. a) Capital guarantee b) Guarantee of minimum return c) Zero exit charges d) Promoters capital is a cushion. e) Guaranteed annuity.

• An awareness campaign needs to be carried out.

• All the issues, which are raised by the Aggregators, are to be addressed. Clear guidelines are to be issued and the total study in both stages (accumulation and payout) is to be done. The subscriber should be given a clear picture of the product from beginning to the last stage.
7.3.12 PENSION REFORMS LEND STABILITY TO CAPITAL MARKET

The opinion from the experts had taken regarding the role of pension reforms in lending stability to capital markets. It was opined by the experts that the money invested in NPS automatically goes into the capital market. Since it was a long term saving instrument, the pension fund manager could prudently invest money to get high rates of returns to the subscribers as well as it helped to widen and deepen the capital market.

SUGGESTIONS

- The NPS has been entering slowly in the market but as soon as the intermediaries enter the system, it is going to reach the masses and the funds will be invested in Equity and Bond market which will definitely help to widen and deepen the capital market.

- If the regulator allows investing more in equity, then the capital market would certainly widen. Since pension is a long term investment, pension fund managers will have to invest in capital market and bond market which will automatically widen and deepen.
• If the participation becomes strong and lucrative the funds can be utilized for long-term investments viz. Infrastructure developments, power projects which would give good returns and would help to deepen the bond market and equity market also. Returns are also good due to evenly spread investments in long term.

• Ideally reforms should encourage fund managers to invest more in fixed return assets.

• There shall be mobility of funds which leads to economic growth.

7.3.13 REFORMS ARE IN TUNE WITH THE NEEDS AND REFERENCES OF CUSTOMERS

The PFRDA’s reforms are in tune with the needs and preferences of customers. The PFRDA wisely introduced NPS to cover all classes of population under one umbrella with a low cost structure. Though initially NPS was taking time to gear up, but as soon as the distribution channels were properly established and the drive for educating the customers was seriously done, the NPS would become one of the most low cost and maximum policyholders’ scheme in the world.
SUGGESTIONS

- PFRDA should be aggressive. There should be more products for customer to choose as per their need.
- Investment pattern should be changed. It should be voluntary.

7.4 PROVIDENT FUND

7.4.1 FRAGILE ADMINISTRATION

There was lack of reliability in the database of EPFO about employees and pensioners. Due to improper record keeping, duplicate accounts were created with the EPFO.

SUGGESTIONS

- Record keeping should be done using unique identification number.
- NPS numbering system (Permanent Retirement Account Number - PRAN) can be followed.
- Portability should be given to avoid duplication of the records of the same employee when he switches over the job.
7.4.2 PREMATURE WITHDRAWAL

The EPFO offers variety of withdrawal options to the members before their retirement. This hinders to build a good corpus for the employees at the time of retirement.

SUGGESTIONS

- Premature withdrawal should be restricted only to severe medical health problems.
- Withdrawal should be limited to 50% only.

7.4.3 RATE OF RETURN

The rate of returns of the EPFO schemes has been decided by the Government of India every year. Due to stringent investment guidelines, the fund yielded poor rate of returns. It also provides more incentives for early withdrawal which affected the accumulation of significant retirement savings.

SUGGESTIONS

- Investment guidelines should be revamped.
- Investment should be made in domestic equity market.
- International investment should be permitted.
- Choice of fund investment should be given to the subscriber.
7.4.4 TAX TREATMENT

The tax treatment on retirement/pension funds was limited to Rs. 1,00,000/- p.a. Interest incomes and lump sum withdrawals from provident funds were tax-exempt, but benefits and annuities were not. This promoted employees to withdraw lump sum instead of withdrawing at retirement age, thereby defeating the concept of income security for old age.

SUGGESTIONS

- *Tax exemption on retirement savings should be increased to minimum Rs. 2,00,000/- p.a.*
- *Early withdrawal should be restricted.*

7.5 REGULATORY ISSUES

The retirement fund was managed by different statutory bodies. NPS is supervised by Pension Fund Regulatory and Development Authority. The Occupational/individual pension of insurance companies are supervised by Insurance Regulatory and Development Authority, mutual funds retirement plans are supervised by Stock Exchange Board of India. The fragmented nature of statutory bodies obstructed the cohesiveness of the
regulatory body in terms of retirement plans. The investment guidelines were also different for all regulators.

**SUGGESTIONS**

- *All retirement plans should come under one statutory body who can manage the whole funds for giving better returns to the customers.*
- *In view of the one supervisory body, funds can be invested in equities as well as international equity to earn high rate of returns. The growth of capital market attracts foreign investors.*
- *The fund size will be enormous which can lead to grow Indian economy.*
- *The funds can be invested also in government projects to improve infrastructure.*

### 7.6 INSUFFICIENT COVERAGE

According to the project OASIS report, 11% of the working population in India was covered under the formal old-age income security schemes and almost 89% of the population was not covered under any of the social security schemes. It was observed from this study that though the awareness level was good, most of the people
had not taken any pension plan. Managing expenses after retirement due to longevity and health problems without any pension coverage was difficult. It also appeared that many of the elderly poor were excluded from social assistance programs of the government and some of them were unaware about the same.

SUGGESTIONS

• Consumer awareness and education programme for retirement planning has to be urgently conducted by the Government of India.

• Social security schemes for old age poor people to be introduced specifically in rural areas.

• The habit of savings for retirement is to be compulsorily inculcated among the people.

• Government should offer special tax benefit on all retirement plans.

• Government should be increased the tax exemption amount.

• One house minimum one retirement plan to be made compulsory by the Government.
7.7 CUSTOMER AWARENESS AND EDUCATION PROGRAMME

The lack of awareness about the retirement savings lead to insufficient coverage of pension plans. Indian customers were habitual to invest in gold, fixed deposit, equity. It was also observed from the study that most of the people do not know about pension plans. Those who know were unaware how to buy, how to invest, how much to save, how to build the corpus, what will be the returns, etc.

SUGGESTIONS

- *The Customer Awareness and Education Programme for retirement planning should be introduced by the government.*
- *The representatives from the government or other bodies should guide the people where to invest, how much to invest.*
- *Customer help-lines for such activities should be activated 24x7.*

7.8 REVERSE MORTGAGE

Reverse mortgage loan was introduced in Union budget in 2007 with the conditions of self acquired and self occupied property
with loan of maximum 60% of value of the property and term 10 to 20 years. It was the type of mortgage in which a home owner could borrow money against the value of his home. No repayment of the mortgage was required until the borrower dies or the home was sold. A reverse mortgage provided income that people could tap into for their retirement. A person was eligible post retirement or after age 60 years to provide for regular income by staying in his own house, without repaying the loan and interest.

This was one of the greatest steps towards the pension reforms.

7.9 PENSION REFORMS IN INDIA

The absence of a country-wide social security system, the ageing and social change in the unorganized sector and fiscal stress of the defined benefit pension schemes in the organized public sector were the major factors driving the pension reforms in India. The government had introduced New Pension System in 2004. The transition from Defined Benefit to Defined Contribution was gradually implemented by the government starting from central government employees. Most of the state governments embraced the NPS during last 5 years. NPS had been extended to all citizens of India who do not cover under any pension plans.
It was important to have appropriate legal framework and regulatory structure in place to manage the NPS. Creation of a new regulatory body, Pension Fund Regulatory and Development Authority was one of the important steps of the government towards pension reform. The setting up of the Central Record Keeping Agency (CRA) and permitting various pension fund management agencies were major initiatives of the government.

The Pension Fund Regulatory and Development Authority (PFRDA) Bill 2011 has been passed by Parliament on 6th September 2013 which was pending since the year 2005. It’s an important legislation as India has a huge population that needs social security cover. NPS has a corpus of around Rs.35,000 crore with around 53 lakh subscribers, including those of 26 state governments.

**EPFO Reforms**

The government introduced several amendments to the Employee Provident Fund recently for creating a safety net and avoiding duplication of accounts due to lack of portability. EPF has close to 12 crores accounts of which 4.5 crores were operative\(^1\). This means many workers had neither transferred their funds from

\(^1\) Statement made by Mr. R.C. Mishra, Central PF Commissioner, Indian Express, Dec. 2012
previous accounts to new accounts, nor made withdrawal claims. The amendments were listed below:

- The EPFO launched an online passbook facility for subscribers for greater transparency.
- The Employees' Provident Fund Organization is now planning to roll out a number portability system that would make the 'Aadhaar' card number a permanent EPF account number for an employee throughout his career.
- Portability - Besides curbing manipulation by unscrupulous companies, the move will eliminate the hassle of transferring funds to a new account number every time a person switches jobs and help accumulate EPF contributions for a longer time.
- The EPFO also proposed and amended administrative reforms such as:
  - Grievance redressal within 15 days.
  - Settlement of claims within 10 days.
  - Settlement of death claims within 3 days.
  - Pension to be disbursed by last working day of the month and to be credited to pensioners' bank account by 3rd of every month.
100% conversion of pensioners' bank accounts to CORE banking account number.

7.10 MANAGERIAL AND THEORETICAL IMPLICATIONS

The researcher would like to reiterate the basic objective of ensuring that the supply of pension products is matching with the customer needs. The results of this research would be immensely beneficial to the customers, insurers and policy makers while designing the pension products.

Implications on Insurance Companies

As per the findings, though the awareness level regarding pension products and insurance products was good but penetration was very low. Hence, the insurers must design appropriate marketing strategies for tapping the customers.

Implications on Regulator – PFRDA

New Pension System (NPS) is an upcoming product. It could not establish itself properly in the market due to various reasons. The researcher tried to find the gaps in the product through the experts’ views with special focus on various features of NPS. The
findings of the present study would be helpful to the regulator for further amendments.

**Implications on Customers**

The study would be of direct benefit to the customers in number of ways:

- It can create awareness among the people for buying a pension policy which is a need of the society due to longevity.
- The study can be helpful to the policyholders for getting the detailed features of the pension products about which awareness level was very low.
- The study can be of immense help to the customers for getting comparative features of the selected company’s products at a glance.

7.11 **CONCLUSIONS**

The study revealed that the awareness level of savings for retirement needs to be increased. This would enhance the penetration level too. There is lot of scope for insurance providers for tapping the untapped / potential market. The sustainable market
increases the coverage of the pension products. Building an educational foundation about retirement planning for the future is one of the important steps for pension market development.

The customer expectations and perceptions about the pension products are absolutely matching with the supply of existing pension products. Some of the responses will be of immense help to the insurer for designing a more suitable product as per customers’ needs.

The rapid growth of pension market in India will widen and deepen the capital market and, as a result, will help in boosting economic growth of India. Pension fund investment, being the long term investment, is beneficial to capital markets, bond markets, mortgage markets, infrastructure development and housing development.

The shift from Defined Benefit to Defined Contribution is not desirable from the view point of customer. This is because Defined Benefit schemes, which are generally non-contributory schemes managed by employer, guarantee pension benefit at the time of retirement irrespective of market fluctuations during intervening period. However, in case of Defined Contribution schemes, the pension is depending on the contributions during the accumulation
stage and the investment returns and as such there is uncertainty about the quantum of the actual pension at the time of retirement.

A pension reform is a collective step of the regulator, public and private insurers and citizens of India. Minimum savings for retirement is a dire need in the current scenario. Considering the need of the time, the reform of the Pension Fund Regulatory and Development Authority must always be in tune with the needs and preferences of customer.