

'Living too long a serious threat to Indians'

Mayur Shetty, Jul 6, 2011

MUMBAI: Banks and other intermediaries who provide access to the National Pension System may now be a bit more forthcoming in opening pension accounts.

The panel, headed by GN Bajpai, looking into revitalizing the National Pension System has recommended that these entities be paid a commission of up to 0.5% of the investment. In an interview with TOI, Bajpai speaks on why the product, despite being the best for retirement savings, needs to be pushed.

The panel has said that financial products have to be pushed.

Any financial product in India has to be sold as nobody queues up for buying any financial insurance product. Have you seen anybody queuing up to buy insurance or mutual funds? That is the ethos of this country. The NPS is a wonderful product, it is the equivalent of pure desi ghee and we have not tampered with the product at all. But it still has to be pushed. Pension is a time bomb which is ticking in Indian society. Without protection, retirees will ultimately become dependent on society.

Your recommendation for ad valorem charges comes at a time when markets like UK are moving away from commissions.

In UK and the West, pension has become a pull product because of the level of financial literacy. But the mindset of Indian society is different and people do not want to think about these requirements. I am talking about the mindset today which may change tomorrow.

What will be the impact of revised charges on investors' savings?

The impact would be that those who make low contribution will be better off. Even for those who pay more it is not that the sky is the limit in respect of charges - there is a limit in absolute terms. Today, there are some commentators who feel that system is loaded in favour of the rich because in percentage terms the smaller investors are paying more in terms of charges.

When you talk about financial inclusion, do you mean to say that a pension plan should be opened with every bank account?

On financial inclusion there is a lot of publicity going around. But when they talk about banking products, they should also be taking about pension and insurance. Living too long is a serious threat to Indians because we have not made adequate provisions. We have always worried about

dying too soon but have not made preparations for living too long. Ultimately, why do you want a bank account? It is to park your surplus funds.

Will extending the government scheme to contribute Rs 1,000 into every small investors account not put pressure on the Centre's finances?

If you start expenditure for this, it is actually an investment because money goes straight into the account of the pensioner. Secondly, there is zero leakage because the money cannot be spent and it goes into investment which, in turn, will have a spillover effects. We are not saying that it should go on forever. It can be reviewed later.

What changes have you proposed for the PFRDA?

Basically, PFRDA will have to build more regulatory capacity. When you have eight or nine fund managers with Rs 10,000 crore it may not matter. But tomorrow when this goes to Rs 1 lakh crore with many more fund managers, a different regulatory capacity would be required.