For more information, please contact:
Shilpi Tripathi at +91-9953779905, stripathi@ncaer.org
Sudesh Bala at +91-9899262692, sbala@ncaer.org

Investing in Investor Education in India: Priorities for Action

Five investor education workshops with financial regulators

NCAER hosts its third session on investor education and protection in the National Pension System

New Delhi (Thursday, February 18, 2021): The National Council of Applied Economic Research (NCAER) hosted its third workshop on investor education and protection with financial regulators, with this edition focusing on the National Pension System. At the heart of the workshop was the National Strategy for Financial Education 2020-25, which recognizes the unique challenges of creating a financially aware and empowered India, and the need to converge efforts across multiple stakeholders that regulate and manage India's financial resources.

The workshop, inaugurated by NCAER Director General **Shekhar Shah**, commenced with **Satyajit Dwivedi,** CEO of the National Centre for Financial Education (NCFE) setting the context with the recent NCFE survey on financial literacy and inclusion. He highlighted that *"approximately 20% percent felt no need for pensions, and 18% were not aware. This amounts to over one third of the population that is not investing in pension plans, which is such critical need for ensuring the financial safety for any individual."*

The keynote address at the workshop was delivered by **Supratim Bandyopadhyay,** Chairperson of the Pension Fund Regulatory and Development Authority (PFRDA). "*The customer base (for the NPS) is growing at a fast pace of nearly 35% in terms of assets within the past year",* he said. He thanked NCAER for providing this forum for discussion and said that "*I strongly believe that webinar and dialogues like these will go a long way in creating financial awareness and financial well-being of investors*."

The government perspective on investor education and protection was presented by **Madnesh Kumar Mishra,** Joint Secretary (Pensions) at the Department of Financial Services. He flagged several measures taken by the government to widen the base of subscribers, and highlighted that the PFRDA will soon release the second phase of its subscribers' education program.

He mentioned that "*To make the NPS more robust, the NPS trust needs to be separated from the PFRDA. Several amendments have been proposed and presented to the Cabinet for consideration. Furthermore, research suggests that by year 2030-35, the government employees' contribution to pension funds will be around 35 lakh crore. This makes the canvas of the Indian pension system huge, and funds can be used for both providing a social security net and contribute towards infrastructure development.*"

Karan Gulati at the National Institute of Public Finance and Policy (NIPFP) laid out the foundational issues in the field. He noted that pension programmes serve as an important tool of financial stability and security after retirement, where one in five Indians will be over the age of 60 by the year 2050. Even then, the pension sector currently covers only about 17% of the working population. He highlighted that the each of the government pension schemes require making decisions regarding how, and how much pensioners should invest, and when they should withdraw. But investors—often many decade before retirement— who have to make these critical decisions, are often not well equipped to do so.

The session included a discussion by leading pension sector experts, including **Renuka Sane**, NIPFP, **Deepti Bhaskaran**, formerly at *Mint*, **Kulin Patel**, Global Pensions Expert & Pensions Actuary, **Gautam Bhardwaj**, PinBox Solutions and **Sumit Shukla**, HDFC Pension Management Company. The rich discussion led to the following conclusions:

- While the NPS has a robust architecture, there is a gap between the demand and supply side in the Indian pensions market. More innovation is required in the financial products offered, and needs to be customised depending on the target population.
- Flexibility is an essential component, which is currently missing in the NPS structure. Measures like promoting compulsory contribution to the NPS is necessary, but removal of withdrawal restrictions can enhance participation. Funds need to have a diverse investment portfolio, such as the option of investing in the international and equity markets.
- The several pension funds that exist under different regulatory regimes may be brought under the unified regulatory framework.
- Investors need to be educated not merely about wealth creation, but also about the sustainability of income in the old age. More studies are required to bring behavioural changes in the investors, and communication to investors needs to be more personalised.
- Presently there is a debate around the costs associated with the distribution agents, which could be addressed by selling products directly to the end consumers. For this, existing digital platforms can be used to open a pension account, and investors must be protected with metrics like risk and suitability analysis at the time of onboarding.

Concluding the webinar, the workshop chair, **Deepak Mohanty**, Whole Time Member (Economics), PFRDA, highlighted that financial education and literacy at this stage becomes essential, where pensioners are informed enough to take these critical decisions. Even as the NCFE highlights a financial literacy rate of 27%, he opined that pension literacy might be significantly lower, which is being focused upon in the face of a large and gradually ageing population.

Shekhar Shah's remarks bring together the overall relevance of NCAER's IEPF Chair Unit's efforts, "*These workshops provide both an opportunity for our regulators to tell us their concerns, for researchers and data specialists to hear them, and create a research agenda that NCAER and other research institutions like us can pursue and support regulators in terms of an action plan for accelerating investor education and protection. This is part of the deepening of the financial sector that we are all concerned with, which has become critical during the pandemic. This moment allows us both an opportunity to reset many of these issues, given the openness to adjustment, reform, and adaptation that is likely to be present in all parts of the economy.*"

These five NCAER workshops with key financial regulators—SEBI, PFRDA, IRDA, and RBI—serve as an opportunity for participants to both learn from the regulators about their strategies for investor education and to contribute to refining the priorities for action and for further research and data collection in this area. The next workshop in the series is scheduled for **the second week of March, 2021**. The upcoming workshops will address customer education across banking and payment systems. These will result in a consolidated sectoral action plan to implement the National Strategy for Financial Education against the backdrop of the findings of the NSFEs 2019 Financial Literacy and Inclusion Survey.

These workshop series are led by NCAER's IEPF Chair Professor Dr K P Krishnan. The NCAER's IEPF Chair has been established to conduct research on contemporary issues related to investor education and protection and analyse economic, legal, and regulatory issues that are the root cause of the lacunae's in investor protection in India and ways to bridge these.

About NCAER | The National Council of Applied Economic Research

Established in 1956, **NCAER** is India's oldest and largest independent, non-profit, economic policy research institute. NCAER's work cuts across many sectors, including growth, macro, trade, infrastructure, logistics, land, labour, urban, agriculture and rural development, human development, poverty, and consumers. The focus of NCAER's work is on generating and analysing empirical evidence to support and inform policy choices. It is also one of a handful of think tanks globally that combine rigorous analysis and policy outreach with deep data collection capabilities, especially for household surveys. More on NCAER is available on www.ncaer.org.

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Sudesh Bala at +91-9899262692, sbala@ncaer.org

NATIONAL COUNCIL OF APPLIED ECONOMIC RESEARCH
NCAER India Centre, 11 Indraprastha Estate, New Delhi 110002
Tel: +91-11-2345 2698, +91-11-6120 2698 | Email: events@ncaer.org

www.ncaer.org

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