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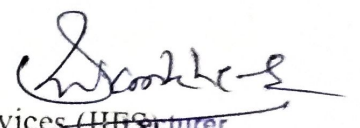
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## Emerging Pension Market in India

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### Abstract

*Pension market is the new emerging market of the emerging Indian economy. It accounts for near about 30 percent of total insurance market. It has several growth potentials as well as challenges due to heterogeneous financial market structure. The market has taken place new direction with the establishment of PFRDA that has resulted into an establishment of pension companies and foreign investment in the pension market. The paper has outlined in details regarding existing status of pension market, growth potentials and challenges.*

**Keywords:** Pension market, emerging Indian economy, financial market, PFRDA, pension companies and foreign investment

### Introduction

Pension market is the new emerging market of the emerging Indian economy. It has several growth potentials as well as challenges due to heterogeneous financial market structure. This is because, the entire financial system is divided into Banking, Insurance, Capital Market, Money Market etc. which are all characterized by organized and unorganized structure. There have been in place several reforms for the organized growth in particular and creation of uniform financial system in general. Since the majority of working population is working in unorganized sector with unregulated financial transaction and saving. The challenges to protect them from uncertain events have been growing rapidly. Insurance plays a significant role for bringing entire population into mainstream of saving and investment but due to lack of their reach to large number of population and lack of significant awareness among the population regarding financial planning, the sector didn't see expected growth. Private players have brought out several new initiatives to tap the untouched market, resulted into development in the financial planning awareness among the masses. This has created a growth potential for post retirement planning products of insurance company. Initially all the life insurance company developed their strategies for creating awareness about during and post retirement planning and accordingly started selling pension products. In order to develop, promote and regulate the pension market, the government of India enacted PFRDA act and accordingly the new arms of insurance companies got established in the form of New Pension Companies during the last two years.

A vast majority of this population is not covered by any formal old age income scheme and they are dependent on their earning and transfer from their children or other family members. The pension budget of the Central Government and the State Governments is something like Rs. 65,000 crore per year. It is growing at an alarming rate of over 20 per cent per annum. Sooner than later, this burden on Government finances will become unsustainable.

So far as existing coverage of old age reforms system is concerned, only about 16 per cent (Government employees 4% & Non government employees 12%) of the total workforce is today covered by any formal social security system. The remaining 84 per cent do not have access to any formal scheme for accumulating wealth to sustain them after retirement.

### Retirement Planning

In view of the changing nature of employment, changing life style and changing pattern of society, it is essential for every individual to have retirement planning. Government and their supporting organizations are in place to provide for assured income after retirement through various schemes. But due to lack of awareness of the financial management of personal financial resources, large number of people faces problems of income source for post retirement life. Those who are employed in Private sector and in self employment need to take kind attention to source of income for post retirement life. Similarly due to low literacy and low growth of employment many of the people are not availing the various saving options. Pre liberalization of Insurance sector the government owned companies were not addressing the problem to the extent said above as they were in monopoly business. They were running their operation in 'lucky go happy' pattern. After opening of the economy to private players, many private Sector Insurance Companies have entered into Insurance Market and they introduced innovative life insurance plans.





of global standard to Indian clients that includes pension product too.

### Demographics and culture

India is ranked the second in the world in terms of its population, with 121 crore people (according to the 2011 censuses). This is around one sixth of the world's population. India is expected to be the world's most populous country by 2025, outstripping China, according to a UN report, "world population prospects". Published in 2012. More than 60% of India's population is in the age group of 15-59 years. This is a demographic dividend of which the country is proud. However, at the same time, the percentage of its population that is above 60 years is increasing every year due to improved longevity, driven by an enhanced focus on health care, rising income level and better standard of living in the country. As per the analysis and projection of population growth over the coming years by 2030, 12% of the India's population will be in the bracket of 60+ years, which translates in to 18 to 19 crore people; a very large population that is higher than that of many developed countries.

The demand shows that the government is required to lot because only 29.94% population is working and rest 70% population either they are seasonal worker or partly worker, the situation is alarming, government require taking strong speed action to provide the employment generation to the deserving workforce.

The age group 60+ is having 10.39 crore which is 8.58% of the total population, out of which 3.26 crore was the working which is 2.98% of the total population and 8.99% of the total working population. This age group working population of 3.26 crore is having 2.52 crore male population and 0.74 crore is female population the percentage of male population 77.4% where female is 22.60%. Table 2 is tabulated bellow for the reference.

### The factual problem

Firstly, India has a large population of young people. Secondly, the rate of pension coverage is very low. Only 11% of workers are covered by a formal pension system. The remaining 89% stay uncovered. Studies have shown that there is no formal pension system in place for informal sector workers, which means about 370 million workers are uncovered.

Thirdly, the current system has become financially unviable for the Central and State Governments. (Dr H Sadhak November 2008)

### Literature

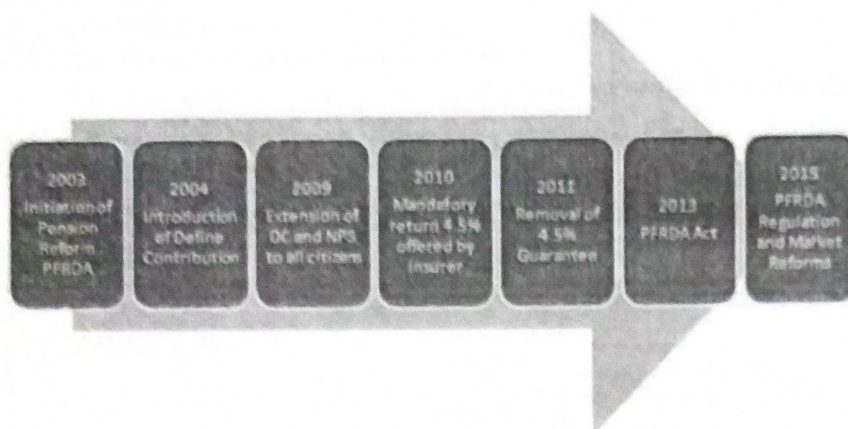
The studies relating to this are Swinkels and others (2006), Bodie and others (1998) the study of Plantinga (2005), Franzoni and others (2004) finds that same and stated that defined benefits experienced serious difficulties at the beginning of this new century. Further, the forces of globalization have caused a high flux of employees from one organization to another, from one country to another, making it almost impossible to run a DB system. R Vaidyanathan (2004). It is also argued that low coverage level, underperformance of provident fund schemes due to investment restrictions, and financial difficulties in administering unfunded public pension programs have rendered the current system ineffective and unsustainable. (RanadevGoswami). The study conducted by Clark and Gordon (2000) is relevant for the present paper, it stated that, With the retirement of the baby boom generation beginning in the first decade of the 21st century and increased global competition between rival systems of economic governance, pension systems are an important and growing area of research in economics and management. Jens and Anna (2016) extended the same literature and found that, Pension funds only quite recently have explored alternative assets, prodded by financial crises that devastated equity returns and led to low bond returns. Silke and Anita (2016) extended more clarity and stated that, increasing disruptions and heterogeneity in employment biographies, a growing number of unemployment experiences, later labour market entries, and an increase in atypical forms of employment lead to declines of statutory pension entitlement accumulation over the life course. Ilja Arefjevs, Marija Lindemane (2014) assess the market potential. It is found that the market growth, saturation and competition model is developed for the markets market growth and saturation factors and state of competition added to the model. The research outcome is a cross-country comparison of market growth, saturation and competition to support strategic decisions by financial companies operating in the private pension saving market. Mercedes Alda (2016) study the socially responsible (SR) pension funds. They examine three aspects barely documented in pension funds. First, flows may be affected by the fact that pension fund investors are restricted because they cannot disinvest until retirement, although they can switch the investment to another fund. Second, as both pension funds and SR funds are concerned with social welfare, SR pension funds present a special social interest and possibly different behavior. Third, the influence of flows on style timing abilities, as far as we are aware, has not been studied before. their results indicate that both pension funds experience greater flows when they are younger and smaller, and have received flows in the past.

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## Evolution of Pension reforms in India



### Existing Types of pension plan in India:

- Deferred Annuity
- Immediate Annuity
- Annuity Certain
- With cover and without cover pension plan
- Guaranteed period annuity
- Life annuity
- NPS
- Pension Fund

### Pension Systems in India before PFRDA

Pension	For Whom	Govern and Regulated	Schemes
Government pensions (Unfunded Defined Benefit Pension)	government employee and State		
Abandoned pension schemes	for the employees of the private sector	Employees Provident Fund and Miscellaneous Provisions Act, 1952	combination of defined benefit and defined contribution schemes: Employees Provident Fund Scheme (EPF), 1952 Employees Deposit-Linked Insurance Scheme (EDLI), 1976 the Employees Pension Scheme (EPS), 1995
Tax advantaged voluntary plans	offered either to people who are already covered by the above two schemes (and can use this to top up their retirement plans) or the majority of the people who are in the self employed sector		Public Provident Fund, Pension plans of the Life Insurance Corporation, the private life insurance companies, group super-annuation plans
social assistance schemes	for people who are well below the poverty line	run by NGOs which operate on a social basis	
General Provident Fund which provides for a lump sum payment on retirement			
Gratuity			

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**Pension Distribution under Pillar –III**

Before enactment of PFRDA, there were broadly two main avenues through which pension products were distributed:

- Life insurance players
- The National Pensions System (NPS)
- After enactment of PFRDA the third avenue has come into existence”
- Pension Companies

**Pension fund companies in India**

Government Sector	Private Sector
LIC Pension Fund Ltd.	HDFC Pension Management Co. Ltd
SBI Pension Fund Pvt. Ltd	ICICI Prudential pension fund management co ltd
UTI Retirement Solution Ltd.	Kotak Mahindra Pension Fund Ltd.
	LIC Pension Fund Ltd.
	Reliance Capital Pension Fund Ltd.
	SBI Pension Fund Pvt. Ltd
	UTI Retirement Solution Ltd.
	Birla Sun Life Pension Management Ltd.

**Schemes applicable to Government Employees**

- Central Government Schemes
- State government schemes

**Schemes applicable to Individuals & Corporates**

- NPS Lite Schemes
- Corporate CG Schemes
- Scheme-E (Tier-I & Tier-II)
- Scheme-C (Tier-I & Tier-II)
- Scheme-G (Tier-I & Tier-II)
- Atal Pension Yojana

The all the schemes is Regulated by PFRDA Act, Regulation, Guidelines, Circulars etc.

**Role of Insurance companies in pension products**

The insurance sector plays an important role in provision of pensions. Insurance products help customers accumulate savings for their retirement, and on retirement, annuity products convert lump sum funds into regular income. Furthermore, insurance companies accept and pool risks. Pension plans offer an opportunity to the life insurance companies to manage their longevity and investment risk. The contribution of the premiums from annuity and pension products constitutes 25% of the total life insurance business. However, annuity and pensions (as a percentage of the total business) have declined in recent years due to changes in regulations. Here very specifically researcher would like to mention that the private life insurance sector companies is having major role in awareness and finding the huge untapped market of pension, right from 2004, ICICI Prudential, HDFC Life, are the pioneers in product that to selling 80CCC for tax benefit and ULIP products.

The pension products of these private players made easy to rich to customer and sell annuity products. Due to the exhaustive marketing strategy, tactfully timely private life insurance companies brought the pension product for classes as well for masses and very big amount of premium had been collected in the boom era of ULIP.

**Customer awareness**

The major issues in the growth of Pension market in India is customer awareness. It is necessary to understand the active and dormant needs of the customer in general and understanding consumers' mind-sets in particular. This has to be at two levels that are at urban and rural areas. This requires developing Marketing and distribution strategies and the Advocacy and education.

**Potential of the pension market in India**

- Emerging market- growing post retirement life
- Majority are uncovered under formal pension system
- Study conducted by FICCI-KPMG, the post-reform pension market in India will grow to Rs4,064 billion (US\$90 billion) in 2025.
- domestic pension funds to invest in the equity market
- strategy to create a large pool of domestic institutional investors

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**Challenges and Issues**

- Appropriate Regulation of Pension Market
- Ensuring the reasonable pricing of the product that benefits customer as well as profit to seller
- Bringing more private players into the pensions sector
- customer awareness- salaried non-Government employees, workers in the rural and un-organized sector

**Suggestion**

- Covering large population into pension system through automatic or mandatory enrolment of workers of every sector through existing distribution networks like India Post, Co-operative banks, NGOs, Self-help Groups, Microfinance Institutions.
- Increases of Public awareness about the need for pensions through National level education campaigns by the government, regulators, through a depth market research and creation of trained and certified pension professionals.
- Providing reasonable incentives to various stakeholders

**Conclusion**

Insurance products help customers accumulate savings for their retirement, and on retirement, annuity products convert lump sum funds into regular income. Furthermore, insurance companies accept and pool risks. Pension plans offer an opportunity to the life insurance companies to manage their longevity and investment risk. Here very specifically researcher would like to mention that the private life insurance sector companies is having major role in awareness and finding the huge untapped market of pension, right from 2004, ICICI Prudential, HDFC Life, are the pioneers in product that to selling 80CCC for tax benefit and ULIP products. The private sector has developed well and contributed very high, in terms of employment generation, revenue to government, service quality to customers, innovation and application of technology, customer education and awareness program, spreading education to the best possible location of the country. As private sector contributed lot; in coming years keeping into consideration the growth trend researcher expect good growth in the industry as well high quality of service to the clients.

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