



**WORLD BANK GROUP**



Strengthening Financial Sectors

# **Expanding Coverage with Long Run Sustainability**

**PFRDA Second Pension Conclave  
4 February 2016**

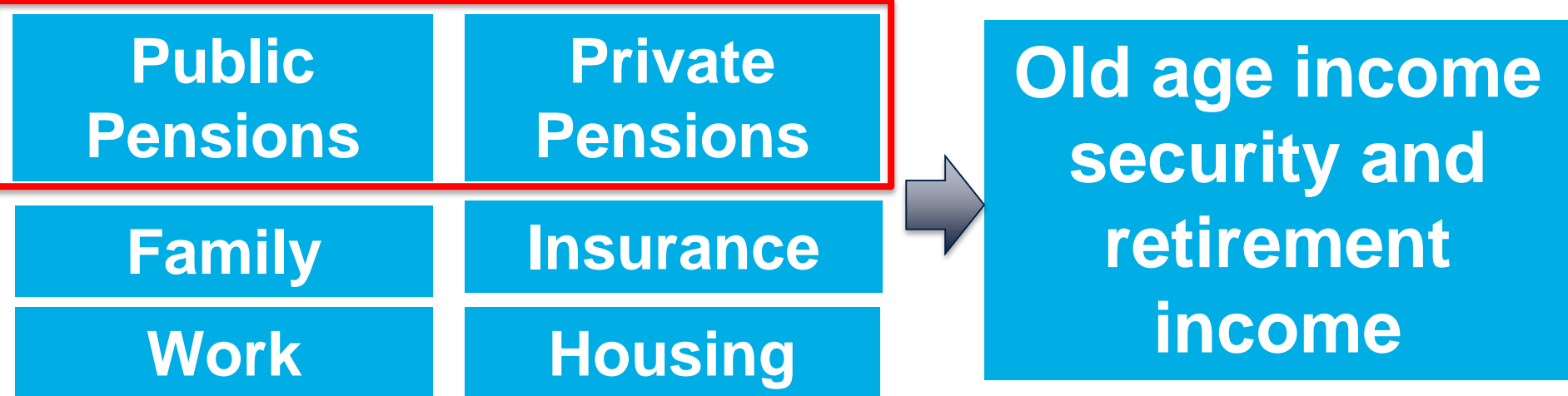
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Senior Financial Sector Specialist  
World Bank Group

# Good pension policy looks for broad and diversified sources of retirement income for a country

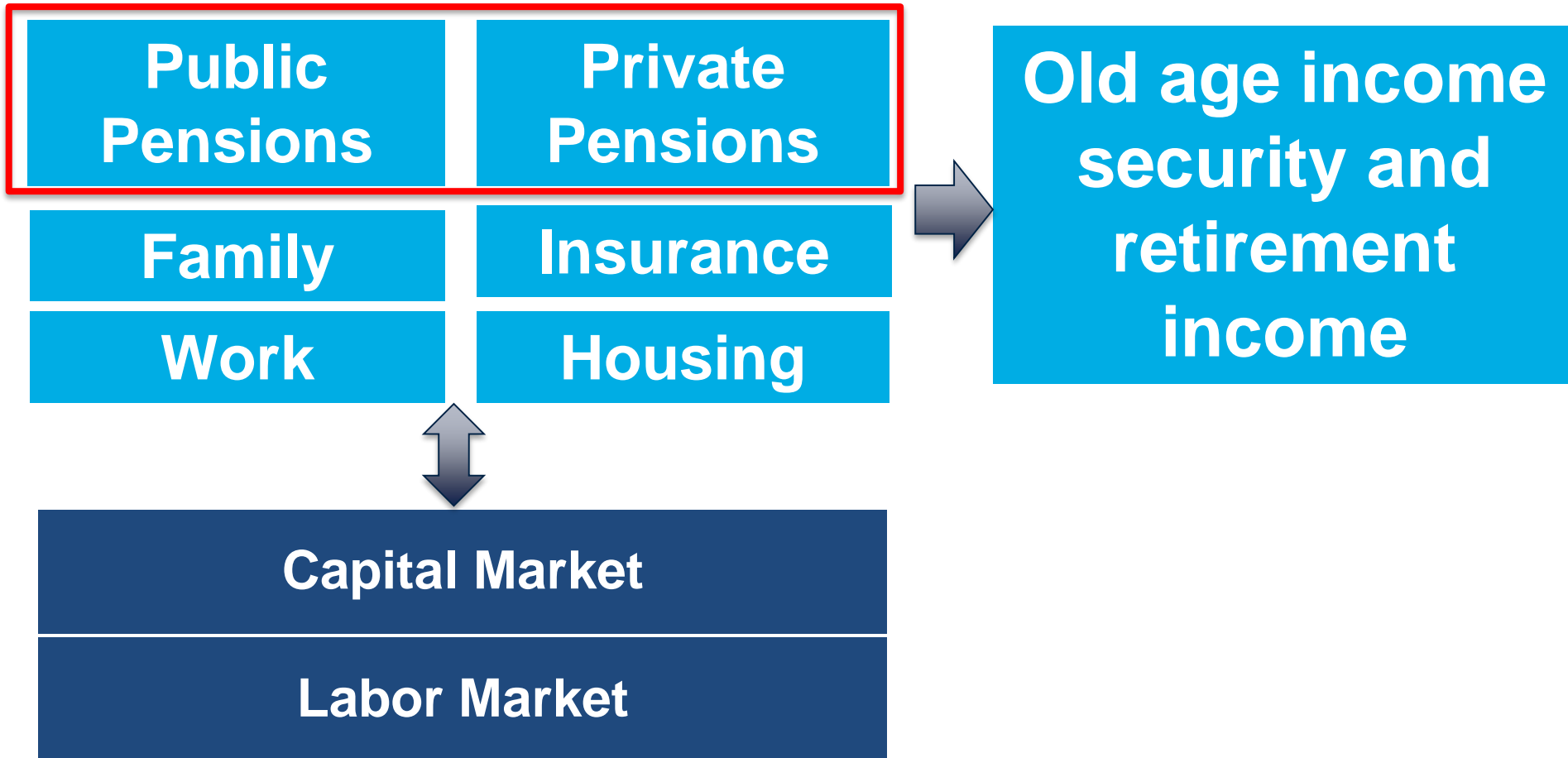


Old age income security and retirement income

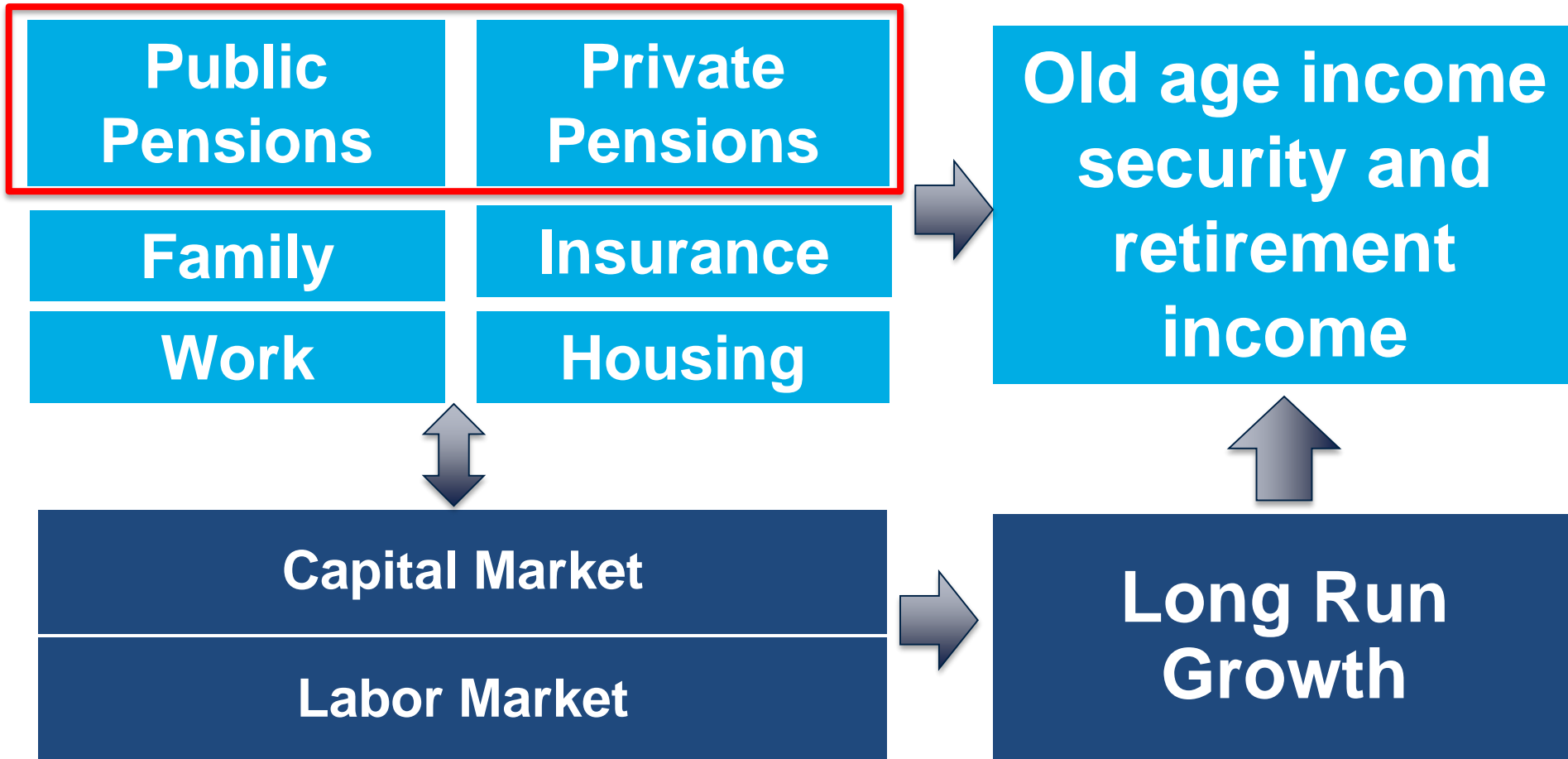
**Different sources are needed to expand coverage and ensure sustainability – since no one ‘pillar’ can achieve everything**



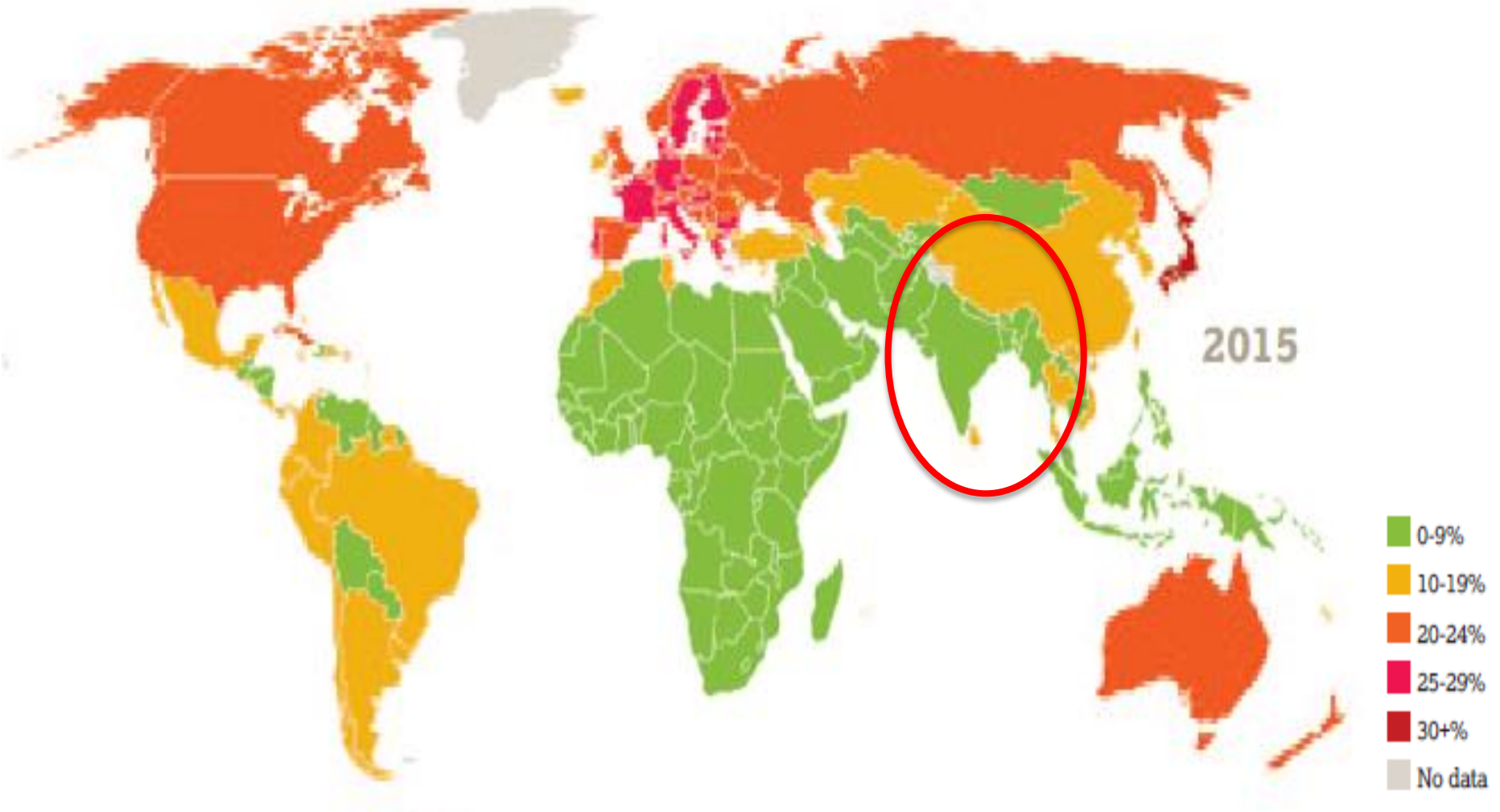
# Policy design needs to be routed in the nature of the labor and capital market – now and developing them for the future



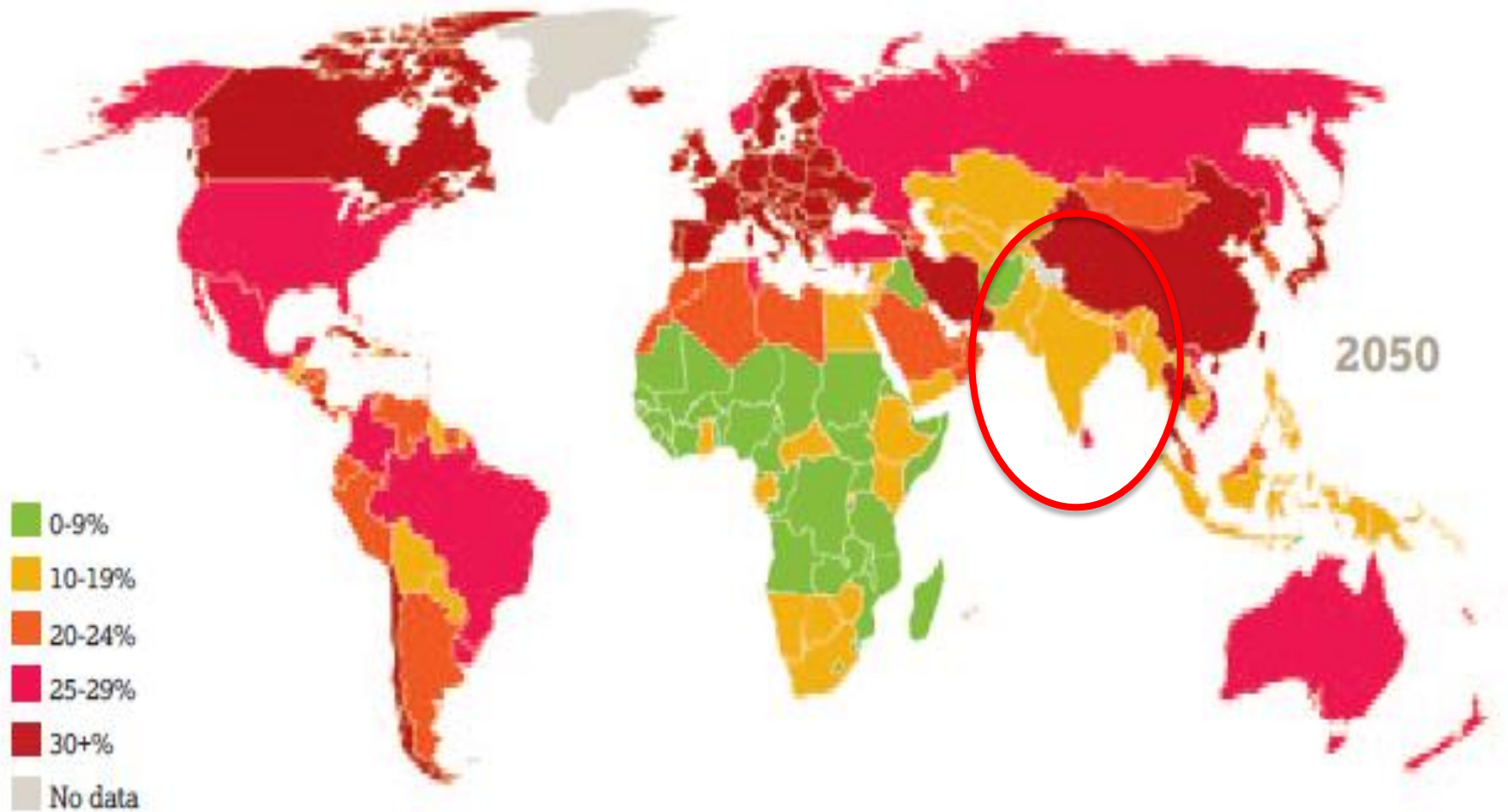
**There is a chance for greater savings to help fund better infrastructure – but it does not happen organically – proactive, efficient and well-targeted policy and regulation are vital**



# India is often highlighted as a young country



# But the share of the elderly is set to double by 2050 – creating only a short demographic ‘window’



# Current contributions into pensions are very low – creating a significant challenge despite being a ‘young’ nation

Active Members of Mandated Pension Schemes as % of Population Ages 15–64

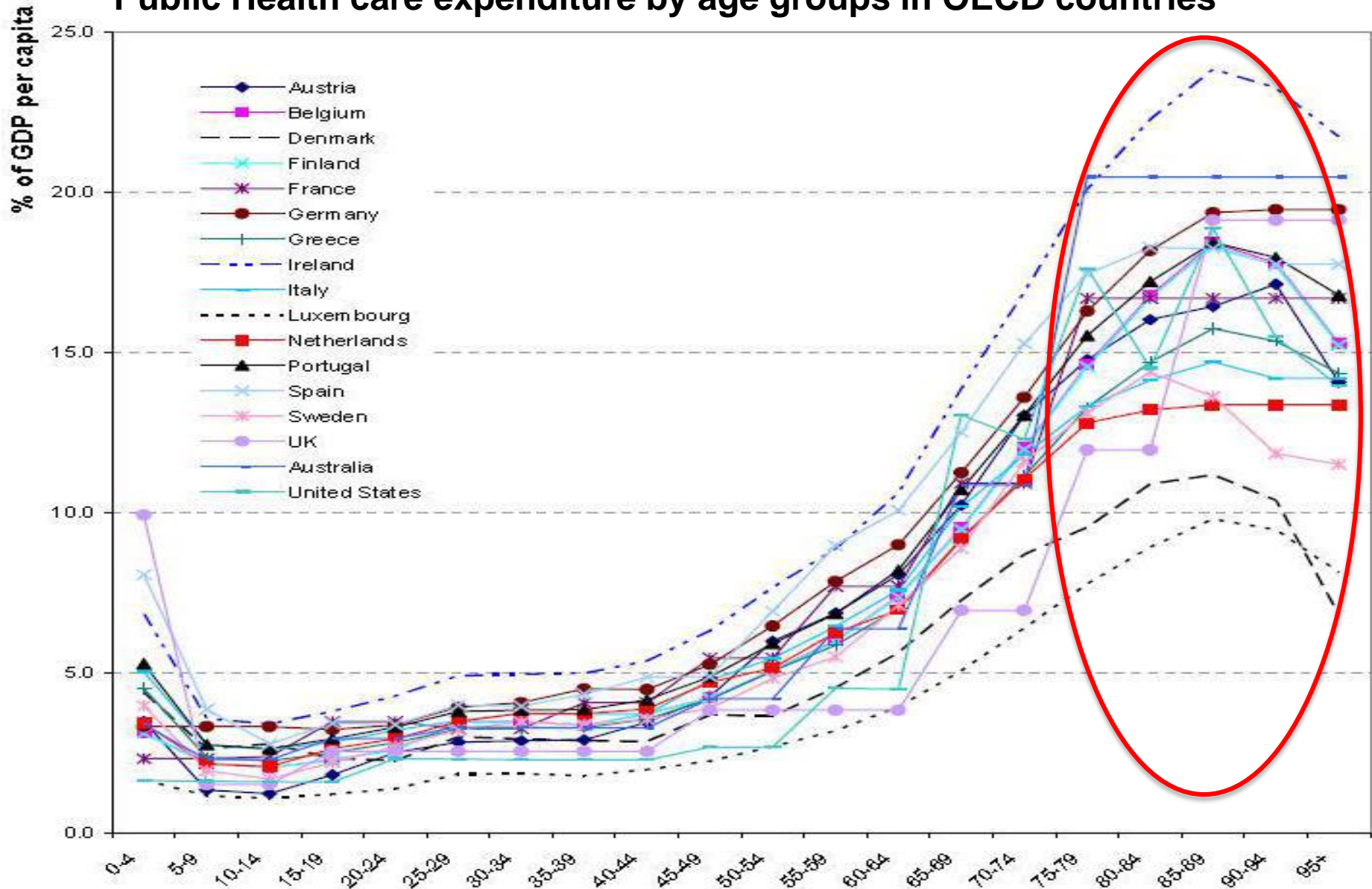
0%–32.9%    33.0%–65.9%    66.0%–99.0%





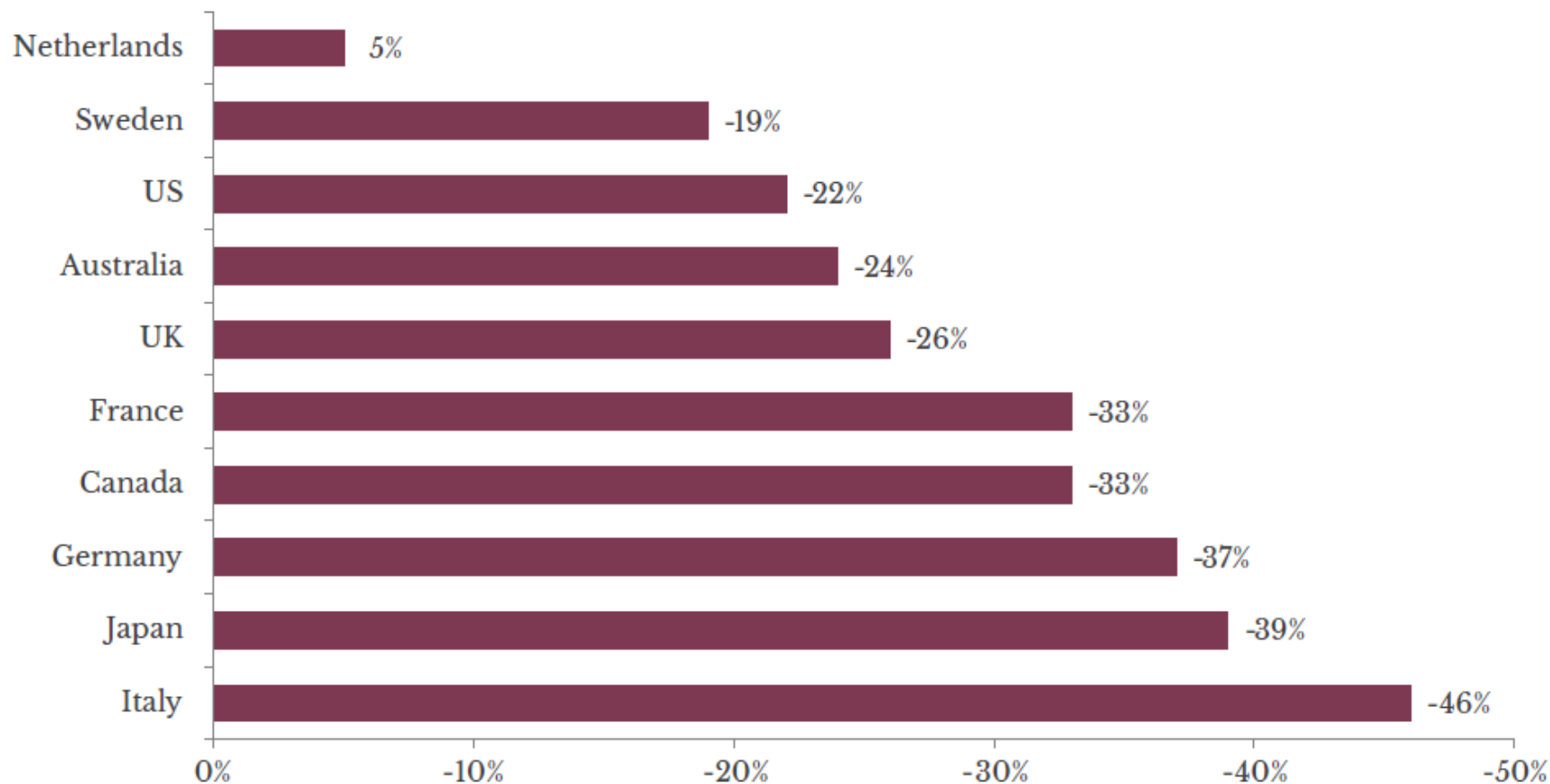
# Health costs that rise strongly with age add another dynamic to be proactive on tackling pension costs

## Public Health care expenditure by age groups in OECD countries

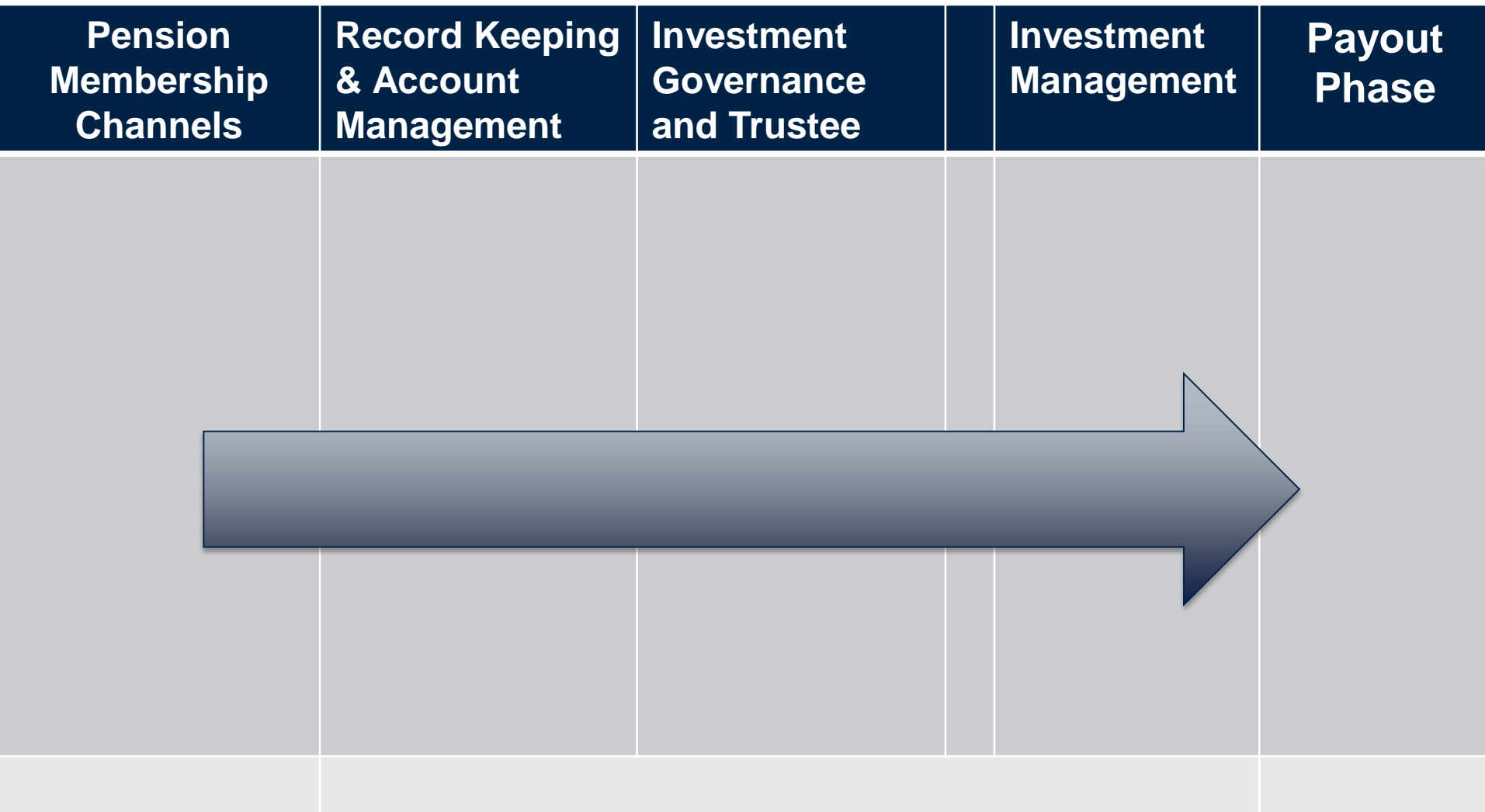


# And the consequences of not balancing sustainability whilst expanding coverage can be painful

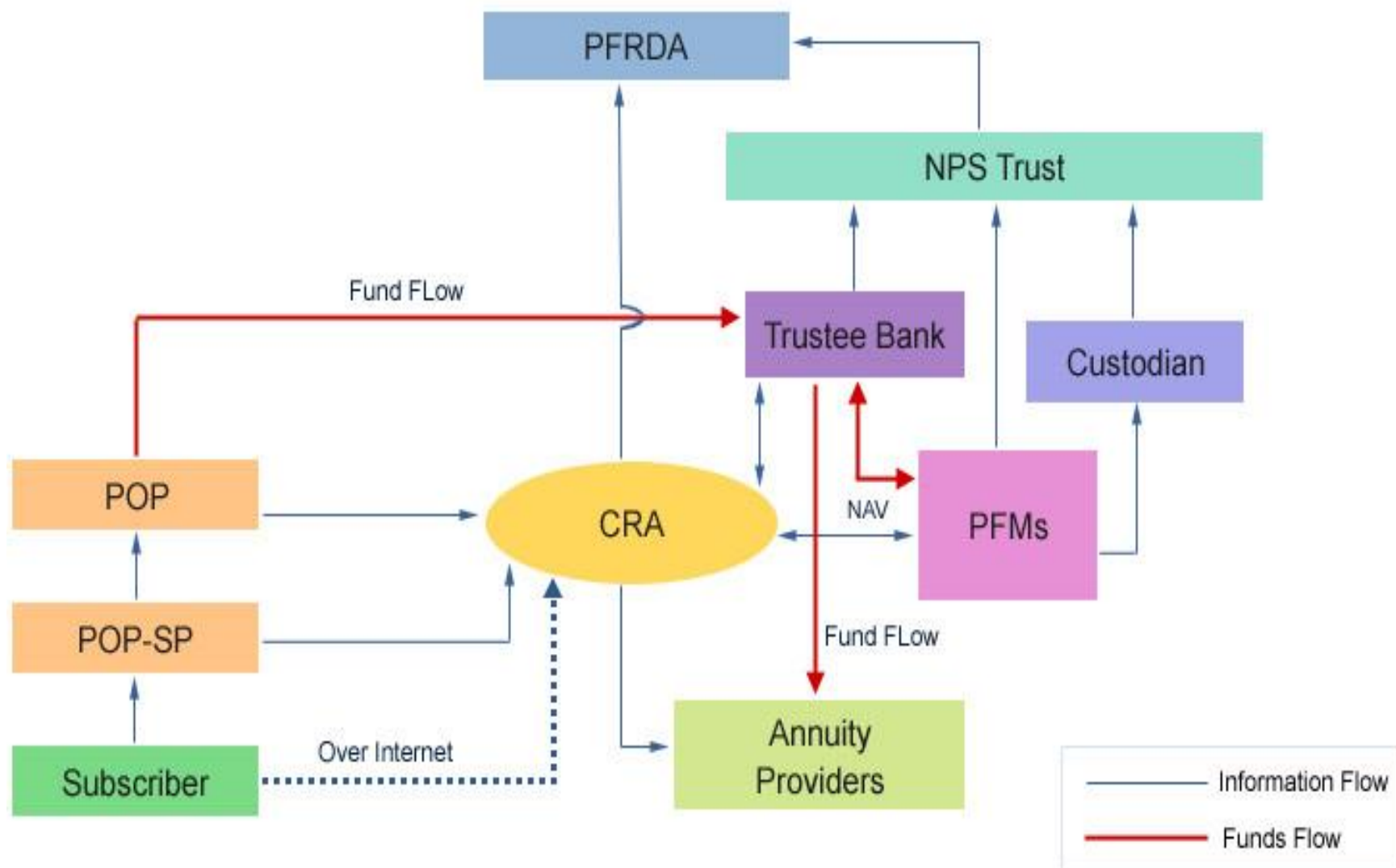
Cumulative Percentage Reduction in Current-Law PAYGO Pension Benefits to the Elderly (Aged 60 & Over) Relative to “Current-Deal” Benefits,\* from 2010 to 2040



The value chain from collection to payout is delivered in many ways across countries – with big differences in outcomes



# The NPS model embodies some strong structural solutions



# India already has many pension channels that can be leveraged more effectively and coherently – building on new PFRDA Act

Program	Type	Workers	Intermediaries
NPS	DC	Organized	NPS system
NPS Lite	DC	Unorganized low-income	NPS system
APY	DB	Unorganized low-income	NPS system
EPFO	DC	Organized	EPFO system
Other Provident Funds	DC	Organized	Trusts; insurers, banks, investment managers, self-administered
Superannuation	DB, DC	Organized	Trusts; insurers, banks, investment managers, self-administered
Gratuities	DB	Organized	Trusts; insurers, banks, investment managers, self-administered, or unfunded
Individual	DC	Organized and unorganized	Insurers, banks, or investment managers

# Coverage expansion needs to act at a number of levels

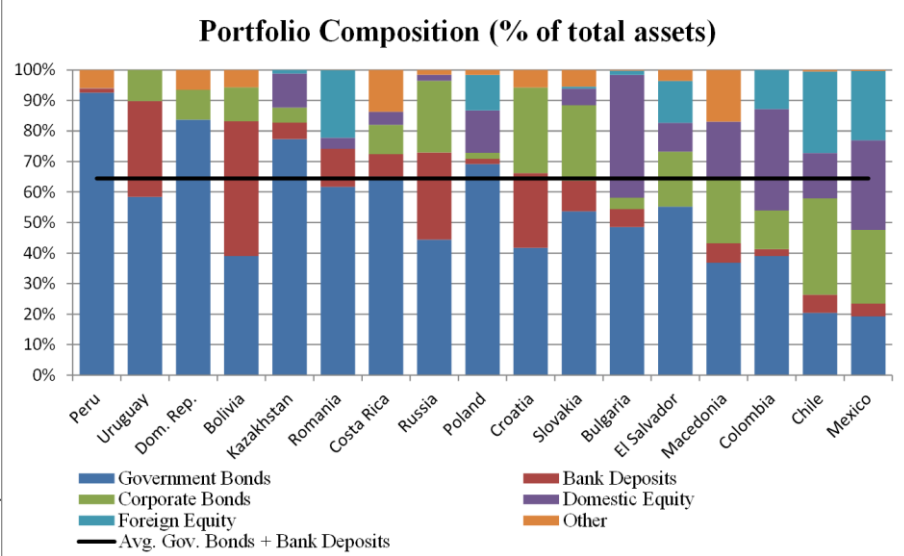
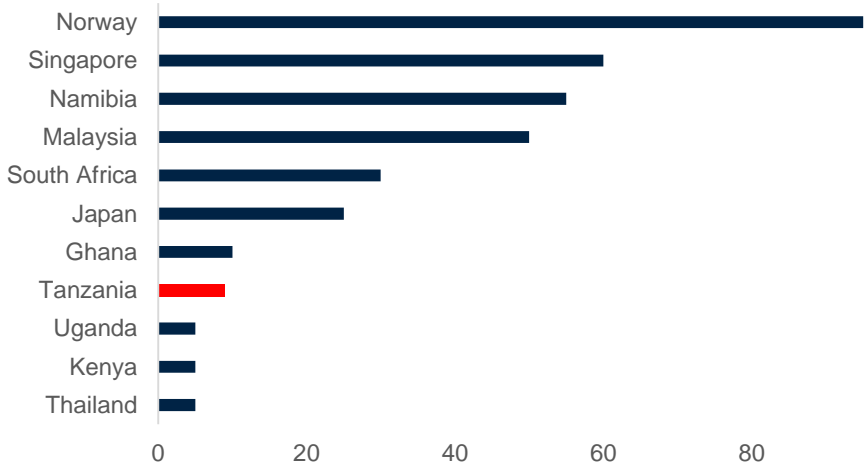
- 1. Product – including accumulation and payout**
- 2. Processes**
- 3. Distribution**
- 4. Generic promotions/ publicity and Retirement Literacy**
- 5. Organic coverage growth of NPS/ APY**
- 6. Growth Opportunities from transfers and expansion**

A segmented approach will be vital given the diversity in the labor market – ranging from work with formal sector employers, formal workers employing staff informally, and the unorganized sector – itself segmented following analysis

# Many countries have generated large pension assets – but without generating the diversification and long run orientation they had hoped

- Pensions / social security fund often largest pool of domestic capital – but lacking investment instruments
- Investment Diversification – has disappointed with too much in government bonds in many countries / and investment has suffered

Public Pension Assets % GDP



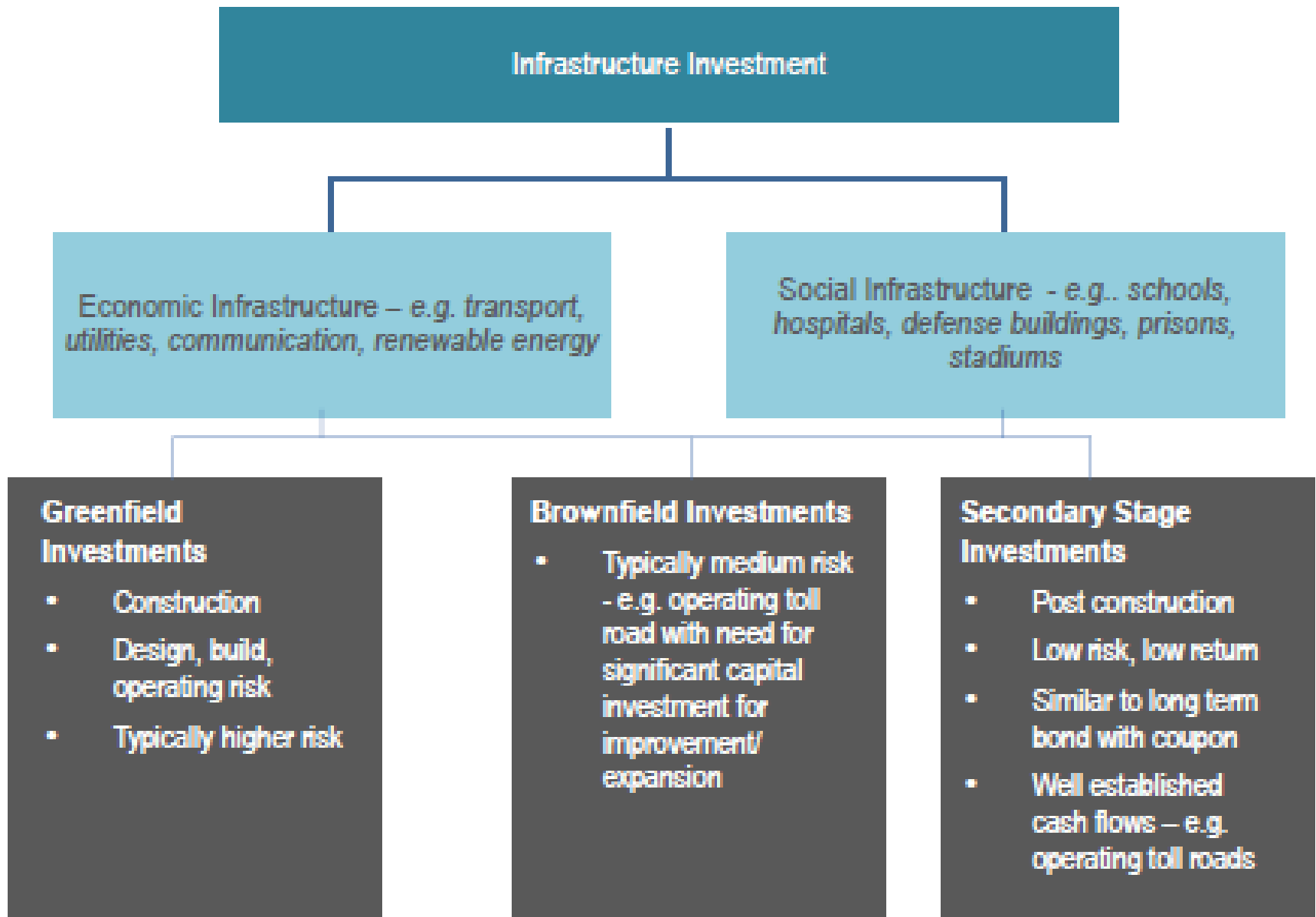
Source: Musalem and Souto (2010)

# In theory pension assets provide a source for long term finance – including for infrastructure

<b>Institutional Investors</b>	<b>AUM USD \$</b>	<b>Current Investment in EMDE Infrastructure</b>	<b>Potential Investment in EMDE Infrastructure</b>	<b>Comments</b>
<b>OECD Institutional Investors</b>	79 trillion +	<1% = total leading investors c10% most in domestic markets	1% assets = \$750 billion	WEF (2011) breakdown of institutional investors AUM to truly long-term capital = \$6.5 trillion Around 1% of this implies c\$50 billion target <sup>12</sup>
<b>Emerging Market Institutional Investors</b>	4.5 trillion  NB growth potential – e.g. EM pension funds currently \$2.5 trillion AUM estimated to rise to \$17.4 trillion by 2050	Even more limited than leading OECD investors  Chilean pension funds 1.5%	1% assets = c\$50 billion	This target could be much higher as many EM institutions can only invest in domestic markets
<b>Sovereign Wealth Funds</b>	4 trillion	0-5% <sup>13</sup>	c5% assets = c\$250 billion	Many of new EM SWF being set up to specifically invest in domestic infrastructure
<b>EM pension reserve and social security funds</b>	1 trillion	Limited – ad hoc examples (up to 10%)	10% assets = c\$100 billion	High target as these funds are often the largest single source of capital in a developing country



# 'Infrastructure' is a broad term and specific segments need to be well targeted and understood



# There are a set of core questions to answer to establish successful institutional infrastructure investment

Are there institutional investors with investment funds? (Pension / social security funds, insurers, SWFs)

- Yes (type, size)
- No: Create or reform funded pension / social security system

Are there substantial investment limits / constraints?

- No
- Yes: Review
- Quantitative limits
  - asset classes / investment vehicles
  - liquidity
- Investor regulation
  - funding & solvency
- Foreign investments

Are there infrastructure assets to invest in?

- Yes: private / privatized
- Yes: public - private / PPP
- No: Develop / review infrastructure policy

Are there working capital markets? (equities / bonds/ derivatives)

- Yes
- No: Develop / reform capital markets

Is the bank intermediation working ?

- Yes
- No: reform banks
- No: development banks
- No: multilateral development agencies

Is there a favourable macro-environment (political, law, institutions)

- Yes
- No: reform / improve
  - political stability
  - rule of law
  - regulatory certainty
  - institutions

# Improved coverage needs to be built on a strong supervisory foundation focused on improving long run outcomes

## Perimeter

- Programs subject to PFRDA supervision
- Fill gaps where pension products are unregulated
- Avoid overlaps: work with other agencies and liaise through FDFC

## Outcomes

- Identify desired outcomes re efficiency, sustainability, coverage, adequacy, security
- For programs within the perimeter – clarity on development role

## Risks

- Identify risks to the achievement of outcomes be proactive
- At various levels: program, plan, intermediary
- Risk Based approach uses most sensible solution – can include detailed rules and is tailored to specifics of each country

# A rigorous process of data collection, risk assessment and risk mitigation is central to improving outcomes

## Perimeter

- Identify programs and gather data
- Consult with government, regulators, other stakeholders
- Take steps needed to close the gaps

## Outcomes

- Outcomes-based assessment re international standards & best practice
- Focus on outcomes subject to control or influence by PFRDA
- Establish metrics and goals

## Risks

- Develop risk map for the private pension system
- Identify potential adverse events that could affect outcomes
- Estimate the likelihood and impact of such events

## Strategy

- Develop a regulatory strategy for dealing with the most significant risks
- Strategy include regulation, supervision, communication, other activities
- Establish a process for monitoring progress and updating the strategy