

# MicroSave India Focus Note 94

## Micropensions: The Scope and Progress to Date

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*“The three great objectives- the security of home, the security of livelihood and the security of social insurance - are, it seems to me, a minimum of the promise that we can offer to our people...”*

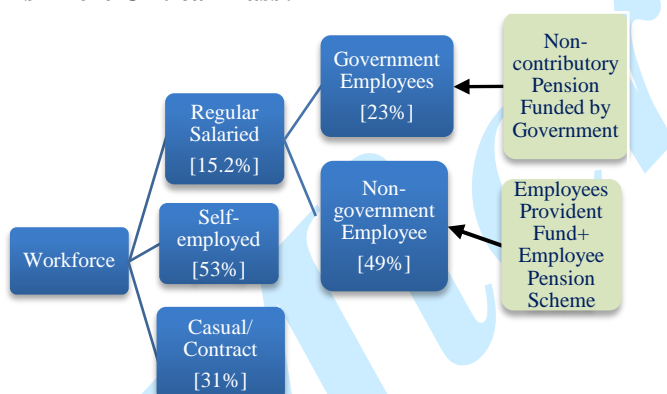
- Franklin D. Roosevelt

Financial inclusion efforts, started almost four decades ago with microcredit, are now being advanced by microsavings and microinsurance. However, micropensions, though important, have lagged behind.

India has 786<sup>1</sup> microcredit institutions and over 125<sup>2</sup> microinsurance schemes that cater to needs of the low-income segment. However, while 88%<sup>3</sup> of the India's formal sector workforce has pension arrangements, there are not sufficient pension products for the low income, unorganised sector. This Note assesses if there is an adequate business case for micropensions in India. It also identifies the uniqueness in the existing micropension models in India.

### Workforce and Pensions (OASIS report)

#### Is There Critical Mass?



According to the latest census (2011), India has a workforce of 402 million. While government employees are covered by a state sponsored PAYG<sup>4</sup> scheme, private sector employees of India are covered through the Employees Provident Fund (EPF), a defined contribution (DC) scheme and the Employee Pension Scheme (EPS),

which is a defined benefit (DB) scheme. Still 28% of the salaried workforce and approximately 340<sup>5</sup>-393<sup>6</sup> million workers of the unorganised sector are excluded from any form of pension. Thus, the low-income unorganised workforce is too numerous to be ignored.

#### Is There A Need For Contributory Pension?

Traditionally, the Indian joint family structure and dependence on children to look after their parents in their old age were used as a proxy for social security. However, with the changing social structure and rapid domestic migration, both of these trends have declined significantly in recent years. India's ageing population<sup>7</sup> is also expected to rise from 87.5 million in 2005 to nearly 200 million by 2030,<sup>8</sup> which will further add to the pressure on old age social security. The government's proposed National Social Security Scheme<sup>9</sup> has excluded a vast section of the low income unorganised workforce, probably because of its anticipated burden on the exchequer.<sup>10</sup> Contributory pension schemes, therefore, are the only option left for unorganised workers.

#### Are The Potential Clients Willing To Pay?

Invest India Income and Savings Survey 2007 indicated that approximately 61 million low income unorganised workers are interested in saving for retirement, and nearly 25.8 million of them can afford (and willing) to pay Rs.2,300 (US\$51.56) per year for a private contributory pension scheme. It is estimated that the potential for such micropension savings in India is approximately Rs.201.3 billion (US\$2.5billion) per year.<sup>11</sup>

#### Is There A Delivery Channel For Pension?

Efficient delivery of services is the biggest challenge for financial inclusion. A market research study<sup>12</sup> conducted by *MicroSave*, found that public sector banks, LIC and India Post are the preferred savings intermediaries of the low income group, followed by Non Bank Financial Companies (NBFCs) and informal RoSCAs. However, the research also reveals that the low income clientele refrain from savings in formal channels due to lack of awareness, poor accessibility and cumbersome processes.

<sup>1</sup> According to NABARD

<sup>2</sup> For details of the schemes please view *MicroSave* IFN86: [Microinsurance Product types of India](#)

<sup>3</sup> Who according to IIMS Dataworks survey (2007) earns Rs.17,880 per year (USD1.5 per day)

<sup>4</sup> Pay-As-You-Go

<sup>5</sup> According to National Commission for Enterprise in the Unorganised Sector (NCEUS) report, 2006

<sup>6</sup> National Sample Survey 2004-05

<sup>7</sup> Persons aged above 60years

<sup>8</sup> Mukul G. Asher and Savita Shankar; Time to Mainstream Micro-pension in India; 2007

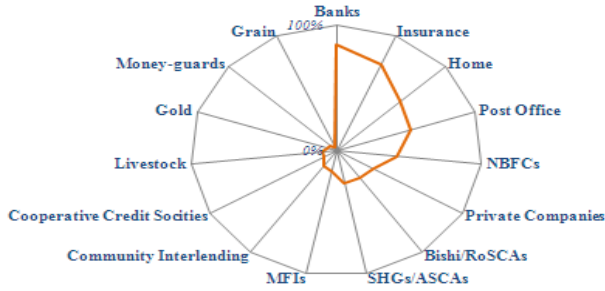
<sup>9</sup> Unorganized Sector Workers' Social Security Act, 2008

<sup>10</sup> The Scheme proposes expenditure of nearly 0.5% of the GDP in the scheme, according to the NCEUS

<sup>11</sup> "Pension Reforms for Unorganised Sector; ADB, 2006 and IIMS DataWorks Survey 2008

<sup>12</sup> For full research please see [Deposit Assessment in India](#)

## Use Of Financial Services By Low Income Households India

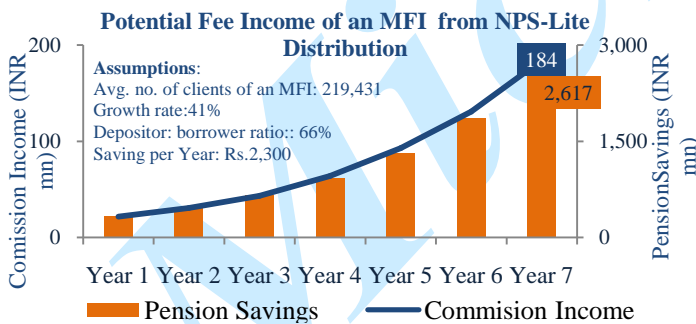


However, due to the nature of their savings habits and transactions, the nature and association of clients with some of these intermediaries is also often transient. Delivering a long term pension products and motivating the clients to buy through the same intermediary will require massive sensitisation of both the channel as well as the clients.

Currently there are three prominent models of micropension in India: the NPS-Lite, the IIMPS and the Abhaya Hastham schemes.

### NPS-Lite Scheme

NPS-Lite is conceived by the [PFRDA](#)<sup>13</sup> for the unorganised workforce under India's pension sector reforms initiative. This is primarily a self contributory pension scheme with the option of linkage with the co-contributory [Swabalamban Scheme](#). It is argued that the growth of this scheme can only be attributed to the government's generous co-contribution.<sup>14</sup> Recognising the challenge of delivering the scheme, PFRDA allowed MFIs and insurance agents as potential distributors.



Source and Assumptions: from MFI Benchmarking, 2009 (MIX Market) and M-CRIL Indian MFIs' Growth Index, 2011

Some MFIs<sup>15</sup> have also found this as an opportunity to overcome the trust deficit they have experienced in recent times both from clients as well as government. The potential fee income from the scheme, for a large aggregator, stands at 3.68% of the savings or Rs.92 (US\$2.01) per account. Moreover, the scheme requires strict adherence to the turn around times (TAT) for all the transactions. Whether MFIs (and other aggregators) can maintain the TAT with their existing manual

operations and still manage the cost of operations are the factors that will decide the future of the scheme.

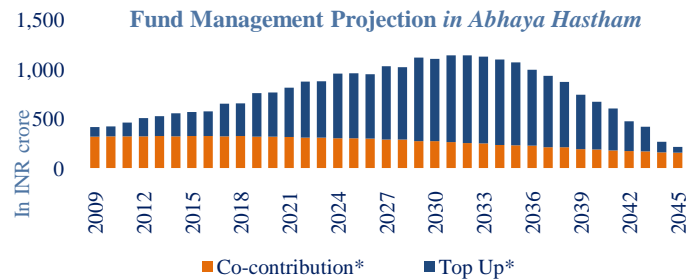
### Invest India Micro Pension

Invest India Micro Pension (IIMPS) is another contributory pension scheme for low income, unorganised workers. It has a unique transactional and administrative platform (called sCube), which takes care of the TAT and transactions monitoring. The revenue model of IIMPS does not differ much from the NPS-Lite. However, IIMPS engages with each of the aggregators to customise their processes and the revenue distribution model. It has separate models for banks, MFIs, apex organisations and business correspondents. The challenges in IIMPS model, however are:

- To manage these multiple stakeholders for service quality; and
- To streamline the processes and transactions, while the processes for each distributor are customised.

### Abhaya Hastham Co-contributory Pension

This is a co-contributory<sup>16</sup> pension<sup>17</sup> scheme for the women of Andhra Pradesh delivered through the Self Help Groups (SHGs) of SERP, the government sponsored NGO. The pension comes with life insurance cover of Rs.30,000 (US\$672) and a scholarship of Rs.1,200 (US\$26.89) per month for children of the clients. To date nearly 4.3 million members have enrolled for the pension scheme. Though demonstrating good outreach, this scheme is highly dependent on the government subsidy and is expected to be nearly self sufficient only by the year 2045.



Source: SERP Internal Presentations

### Conclusion

Delivering a long term savings instrument like pensions to the low income segment is a huge distributional as well as behavioural challenge. The success of any micropension scheme will ultimately depend upon:

- The level of trust a distributor enjoys from its clients, which is essential for a long term association;
- The outreach of the distributor, to bring scale;
- Efficiency, to handle operations in a timely manner, and
- The revenue model of the scheme, which will decide whether the commission is sufficient to motivate the distributor to mobilise resources.

<sup>13</sup> Pension Fund Regulatory and Development Authority

<sup>14</sup> Till May 2011, approximately 0.6 million NPS-Lite accounts have been opened as compared to only 47,000 in voluntary NPS

<sup>15</sup> Recently Bandhan, became an aggregator, while Dia Vikas (a social investor in microfinance) has committed 15 of its investee MFIs as aggregators.

<sup>16</sup> Members of the SHG and the Government co-contribute INR 1 per day, deposited with LIC of India on annual basis

<sup>17</sup> Pensions (minimum Rs.500 or USD 11.21 per month) can be drawn from the age of 60, if the member contributed for 10 years