FOREIGN INVESTMENT IN INDIA – PENSION SECTOR

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1. The Indian government in continuation of its economic reforms decision has proposed the foreign direct investment ("**FDI**") to the extent of 49% in insurance sector besides opening the pension sector for FDI on par with the insurance sector[2]. The Pension Fund Regulatory and Development Authority Bill 2011 ("**PFRDA Bill**") to implement this decision will be moved in the next (winter) session of the Parliament. The decision to opening the pension sector for FDI is widely welcomed by the business associations like FICCI, ASSOCHAM and CII. It is expected that PFRDA Bill will become a law in next session of Parliament.

2. **SALIENT FEATURES OF PFRDA BILL:** The salient features of PFRDA Bill are as under:
   (a) Establishing a statutory regulatory body to be called the Pension Fund Regulatory and Development Authority ("**PFRDA**") which will undertake promotional, developmental and regulatory functions in respect of pension funds.
   (b) Empowering the PFRDA to regulate the National Pension System ("**NPS**"), as amended from time to time.
   (c) Empowering the PFRDA to perform promotional, developmental and regulatory functions relating to pension funds (including authorising and regulating intermediaries) through regulations or guidelines, prescribing the disclosure standards, protecting the interests of subscribers to schemes of pension funds.
   (d) Authorising the PFRDA to levy fees for services rendered, etc., to meet its expenses.
   (e) Empowering the PFRDA to impose penalties for any violation of the provisions of the PFDRA Bill (when it becomes law) and rules, regulations, etc. to be issued thereunder.
   (f) To establish a vibrant pension advisory committee with representation from all major stakeholders to advise the PFRDA on important matters of framing of regulations under the PFRDA Bill.
   (g) Registration of all intermediaries operating in the pension sector.
   (h) The membership of the PFRDA will be confined to professionals having expertise in economics, finance or law only.
   (i) FDI upto 26% or such percentage as may be approved for the insurance sector, whichever is higher, is to be incorporated in the PFRDA Bill. Thus if insurance amendment bill is passed to allow 49% FDI, the pension sector will automatically have 49% FDI.

3. **FDI IN PENSION SECTOR:** As per para 6 of statement of objects and reasons of the PFRDA Bill, FDI for pension sector intermediaries may be determined and notified in the PFRDA BILL and outside the Foreign Exchange Management Act, 1999 in line with other

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[2] If FDI limit in the insurance sector is not enhanced to 49%, then FDI in the pension sector will be 26% at par with the insurance sector.

financial sectors in India.

4. **OPPORTUNITIES FOR FOREIGN INVESTOR IN PENSION SECTOR:** As per clause 2(g) of the PFRDA Bill, "intermediary includes pension fund, central recordkeeping agency, National Pension System Trust (means the Board of Trustees who hold the assets of subscribers for their benefit), pension fund adviser, retirement adviser, point of presence (means an intermediary registered with the PFRDA under section 26(3) as a point of presence and capable of electronic connectivity with the central recordkeeping agency for the purposes of receiving and transmitting funds and instructions and pay out of funds) and such other person or entity connected with collection, management, recordkeeping and distribution of accumulations. Therefore, pension sector will offer huge opportunities to foreign investor in India besides helping Indian economy to grow, offering better investment options & services to the consumers and more employment opportunities in India.

5. **CONCLUDING REMARKS:** In last one year or so, economic growth in India has slowed. The fiscal deficit was increasing and inflation (including food inflation) was high. There is huge need for capital in infrastructure sector which is to be mobilised through private investments. It is suggested by various researches/studies that FDI in pension sector will not only help in raising funds for capital intensive pension industry which requires huge capital but it will also enhance the funds available for investment in other sectors specially the infrastructure sector which requires huge funds over next five years to stimulate the Indian economic growth. Besides this, FDI and PFRDA Bill will ensure entry of international market players who will bring specialised products and services in the pension industry to make it more attractive, competitive and consumer friendly.

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