Pension Fund Regulatory and Development Authority is in the process of drafting regulations for Retirement Advisers. Towards this end, the Authority has prepared a Concept Note which is being placed on the website of PFRDA for Stakeholders and public comments. The comments may please be forwarded to email: akhilesh.kumar@pfrda.org.in by 10th of September 2015 **or** sent to the following address:

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Concept Note on

Introduction of Retirement Adviser

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1. Background

Population Ageing, which entails an increasing share of elderly people in the population, is a major global demographic trend which will increase rapidly during the twenty-first century. Population ageing is taking place in nearly all the countries of the world. Globally, the number of older persons (aged 60 years or above) is expected to be more than double, from 841 million people in 2013 to more than 2 billion in 2050. According to the Ministry of Statistics, GOI, in India the elderly (aged 60 years or above) accounted for only 7.4% of the population in 2001 which has increased to 8.4% of the population in 2011. While India is 'young' with a median age of 25, the proportion of the elderly is set to rise to 10.7% of the population by 2021 against a background of rapid transformation in household structures. In India, average life expectancy at the age of 60 years is approximately 18 years. Lifespan has been increasing due to better health and sanitation conditions in the country. However, the average number of years of employment has not been rising commensurately. The result of this is an increase in the number of post-retirement years without regular income. Therefore it is more critical now than ever before to ensure regular income for life after retirement. The need for retirement saving is thus inherent and a foregone conclusion.

The extended household is changing to a nuclear one, and the elderly are no longer dependent on their children for their financial needs. Other changes, such as the migration from the village to the city, are also leaving many elderly people in rural areas without any family support.

The existing social security schemes cover a very small percentage of working population in the unorganized sector and there is a need of increasing the social security coverage to meet the challenges of increasing life expectancy. An increase in life expectancy has created an imperative for consumption leveling and retirement savings.

With the rapidly rising retiring population across all sections of society, accompanied by the decline of the traditional family support structure, the need of the hour is an old age income security programme.

2. Retirement Planning

The objective of Retirement Planning is not only to determine the requirement but also the investments made during working age to achieve post retirement requirements. It is a process of both planning and management of financial resources, during the working years, for the period after retirement. Retirement Planning includes identifying a suitable savings program and managing assets. Future cash flows are estimated to determine if the post retirement financial requirement will be met out. A holistic approach to retirement planning considers financial preparation for life after paid work ends.

The emphasis one puts on retirement planning changes during different life stages. In the early stage in a person's working life, retirement planning is about setting aside enough money for retirement. During the middle of an individual's career, it might also include setting up specific income flow or asset targets and taking the steps to achieve them. In the last few years leading up to retirement, financial assets are more or less determined, and therefore, the emphasis changes to non-financial aspects like lifestyle.

When it comes to retirement planning, Indians have largely saved and invested with a dual focus on saving taxes and generating guaranteed returns. Limited education about financial saving, and lack of retirement planning outlook poses a grave challenge in increasing the penetration of pension schemes.

Creating awareness about pension schemes regulated by PFRDA, educating people about the benefits of retirement planning and clear articulation of scheme details will play a critical role in boosting participation in this voluntary scheme. The PFRDA Act, 2013, mandates an orderly growth of pension sector and provision of old age income security, which thereby implies that pension is available for all masses, cutting across, educational, regional, economical, social and political barriers. An orderly growth is an inclusive growth.

Retirement Planning has become more important due to increasing cost of living and rising inflation.

3. Retirement Adviser

Educating and making people aware of the benefits of the retirement planning and creating awareness about the pension schemes regulated by PFRDA is critical for increasing participation in the voluntary segment of NPS and other pension scheme regulated by PFRDA. The role of an advisory entity would be critical in propagating the schemes to the masses in order to achieve adequate social security. This requires penetration into the grass root level.

Retirement Advisers, with adequate knowledge of a prospect's needs and means, and knowledge of the pension products, will be in a better position to advise individuals, who have different levels of education, financial literacy, wealth, income potential, capacity to save and financial goals.

Retirement Adviser can play a significant role in helping the prospects/subscribers in deciding retirement plans.

4. Scope of Work of Retirement Adviser

a) Creating awareness of NPS and other pension scheme regulated by PFRDA will be the core responsibility of the Retirement Adviser.

b) To facilitate on-boarding of the prospective subscriber to National Pension System or other pension scheme regulated by PFRDA.

c) To advise prospects on the necessity of retirement planning, level of contributions they could make, considering their current and future potential income to achieve desired retirement goals and other issues connected with taking of these decisions.

d) To help prospects and other citizens in planning for retirement savings.

e) The adviser is expected to exercise professional due diligence while dealing with prospects and have the necessary skills towards this end.

f) The adviser should allow a free and frank atmosphere while dealing with prospects, which shall allow them to take informed transactional decisions.

g) The adviser needs to collect and suggest prospects , the most suitable scheme taking into consideration the following aspects of the prospects and based on utmost good faith and fair market practices:

i. Due diligence on the requirements of the prospect to suggest them the most suitable products by collecting basic information of the prospect such as information around: age, marital status, dependents, current assets, liabilities, income, planned purchases, planned retirement age; plans post retirement, family history of health and longevity and the current health position.
ii. Identifying prospect's financial and retirement goals.
iii. Analyzing prospect's current financial situation and current investments.
iv. Risk profiling of the prospect/subscriber.
v. Asset Allocation
vi. Investment allocation strategy
vii. Periodic monitoring and balancing.
viii. Likelihood of immediate and near future financial commitments of either self or family.

h) A Retirement Advisor will enable the subscribers to avail the benefits of pension schemes regulated by PFRDA by supporting them in making simple decisions about contributions, investments allocation and selection of Pension Funds.

i) A Retirement Adviser will partner with corporates and Government departments to run awareness programmes on retirement planning for their employees.

j) A Retirement Advisor should be able to appropriately guide and advice the subscriber about the risk and return profiles of the different financial securities and also advise the most suitable ratio of fund allocation in each of the asset classes viz. Equity, Government Securities, Corporate Bonds after duly considering the profile of the prospect and prevailing market conditions, and expected growth in the various parameters of economy and financial markets.

k) Retirement Advisors may create awareness on the fund performance of each fund manager including comparison of the returns of the scheme and investments made by the pension funds, on the basis of information made available/approved by Authority.

l) Retirement Advisors would transmit information and documents to intermediaries in a time bound manner and maintain utmost confidentiality of personal information collected from subscribers and cannot use it for any other activity.

5. Eligibility for Retirement Adviser

a) Who can become Retirement Adviser

Any firm or body corporate or an individual who wishes to engage in the activity of providing advice on National Pension System or other pension scheme regulated by PFRDA to prospects/subscribers or other persons or group of persons.

b) Education qualification

Individuals and the proprietors, partners and representatives of a Retirement Adviser shall have the minimum qualification of being a Graduate in any discipline.

c) Certification from an accredited institute

Individuals and the proprietors, partners and representatives of Retirement Advisers to ensure that the individuals offering retirement advice shall have, at all times, a certification on retirement planning or retirement advisory services from an Institute accredited by PFRDA.

Provided that certification shall not be mandatory in the following cases:

(i) an Investment Adviser registered with SEBI under its regulations

(ii) a Certified Financial Planner of Financial Planning Services Board

(iii) any other cases as specified by PFRDA

d) Performance Guarantee

i) Retirement Advisers which are body corporate or partnership firm on registration shall provide performance guarantee of Rs. 5 lacs to the Authority before commencement of business. The Guarantee shall be valid for a period of six months beyond the registration period.

ii) Retirement Advisers who are individuals or proprietors on registration shall provide performance guarantee of Rs. 50 thousand to the Authority before commencement of business. The Guarantee shall be valid for a period of six months beyond the registration period.

e) Registration as Points of Presence or Points of Presence-Corporate

There shall be no restriction on institutional Retirement Adviser for applying for registration as Points-of Presence or Points-of-Presence-Corporate, subject to fulfilment of eligibility criteria for the same.

6. Application for Registration

An application for grant of certificate of registration to PFRDA shall be accompanied by a non-refundable application fee

i) For Individuals: Rs. 500/-

ii) For other than individuals: Rs. 5,000/-

7. Registration Fee

a) A firm or a body corporate applying for Retirement Adviser has to submit registration fee of Rs. 10,000/- at the time of grant of registration /renewal.

b) Individual applying for Retirement Adviser has to submit registration fee of Rs. 1,000/- at the time of grant of registration /renewal.

8. Exemption from registration and Certification.

(i) The following persons/entities shall not be required to seek registration subject to the fulfilment of the conditions stipulated therefor, —

(a) Any intermediary/entity regulated by PFRDA.

(b) Any other entity as may be specified by the PFRDA.

(ii) The following persons/entities shall not be subjected to certification for registration subject to the fulfilment of the conditions stipulated therefor, —

(a) Any advocate, solicitor or law firm, who provides retirement advice to their clients, incidental to their legal practice;

(b) Any member of Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Institute of Cost and Works Accountants of India, Actuarial Society of

India or any other professional body as may be specified by the Authority, who provides retirement advice to their clients, incidental to his professional service;

(c) Any other entity as may be specified by the PFRDA.

9. Period and Validity of Registration

The certificate of registration granted to a retirement adviser to act as such, shall be valid for a period of three years from the date of its issuance.

10. Renewal of Registration

The Retirement Adviser should submit an application for renewal of certificate of registration three months before expiry of the certificate of registration.

The application for renewal shall be dealt with in the same manner as if it were a first time application.

11. Suspension and Cancellation of Certificate of Registration

The certificate of registration issued to the Retirement Adviser will be subject for suspension or cancellation in the following cases, if the Retirement Adviser :

a) Fails to comply with any of the conditions subject to which the certificate has been granted;
b) Contravenes any of the provisions of the Pension Fund Regulatory and Development Authority Act, 2013, the regulations framed

thereunder and such other guidelines or directions issued by the Authority from time to time; or;

c) Fails to furnish any information relating to his activities as retirement adviser as required by the Authority;
d) Furnishes wrong or false information, or conceals or fails to disclose material facts in the application submitted for obtaining the certificate.
e) Does not submit periodical returns as required by the Authority
f) Fails to resolve the complaints of the subscribers or fails to give a satisfactory reply to the Authority in this behalf.
g) Does not co-operate with any inspection conducted by the Authority
h) Acts in a manner against the interest of the subscriber or against public interest;
i) Against whom any investigation has been commenced in relation to fraud or financial impropriety or has been convicted of commission of any economic offences.

12. General Responsibilities and Obligations

i) General responsibility.

a) A Retirement Adviser shall act in a fiduciary capacity towards its prospects/subscribers and shall disclose all conflicts of interests as and when they arise.
b) A Retirement Adviser may have a tie up with the registered POPs for providing services to the prospects. There shall be no

restrictions on the no. of POPs with whom the Retirement Adviser may make a tie up.

c) A Retirement Adviser shall not receive any consideration by way of remuneration or compensation or in any other form from any person other than the prospect/subscriber being advised, in respect of National Pension System (NPS) or other pension scheme regulated by PFRDA for which advice is provided.

d) A Retirement Adviser shall not collect any cash amount for investment/contribution to the pension account of the subscribers in the capacity of Retirement Adviser.

e) The Retirement Adviser shall advice the prospects/subscribers how to fill in the registration form for enrolment, Exit forms, various other forms required to modify/change personal master details, nomination, POP, PFM, investment choice etc.

f) The Retirement Adviser shall advice the subscribers on a periodic basis about the performance of POPs, PFs, underlying asset portfolio, NAV, general financial market trend etc. through e-mail, newsletters etc.

g) The Retirement Adviser shall advice the subscribers on a periodic basis about the change in various policy & guidelines issued by PFRDA, CRA or its intermediaries.

h) A retirement adviser shall maintain an arms-length relationship between its activities as a Retirement Adviser and other activities.

i) A Retirement Adviser which is also engaged in activities other than retirement advisory services shall ensure that its retirement advisory services are clearly segregated from all its other activities, in the manner as prescribed hereunder.

j) A Retirement Adviser shall ensure that in case of any conflict of interest of the retirement advisory activities with other activities, such conflict of interest shall be disclosed to the prospects/subscribers, beforehand.

k) A Retirement Adviser shall not divulge any confidential information about its prospect/subscriber, which has come to its knowledge, without taking prior permission of its prospect, except where such disclosures are required to be made in compliance with any law for the time being in force.

l) A Retirement Adviser shall follow 'Know Your Customer' procedure as specified by the Authority from time to time.

m) A Retirement Adviser shall abide by Code of Conduct as specified by PFRDA.

n) In case of change in control of firm of the Retirement Adviser, timely intimation should be given to PFRDA.

o) Retirement Advisers should furnish to the Authority information and reports as may be specified by the Authority from time to time.

p) It shall be the responsibility of the Retirement Adviser to ensure that its representatives and partners, as applicable, comply with the certification and qualification requirements as specified by PFRDA at all times.

ii) Risk profiling.

Retirement Adviser shall ensure that,-

a) it obtains from the prospect/subscriber, such information as is necessary for the purpose of giving retirement advice, including the following:-

(i) age;

(ii) income details;

(iii) existing retirement savings/ assets;

(iv) risk appetite/ tolerance;

(v) liability/borrowing details.

(vi) dependent family members

b) it follows a process for assessing the risk, a prospect/subscriber is willing and able to take, including:

(i) assessing a prospect's capacity for absorbing loss;

(ii) identifying whether prospect is in a position to understand the concept of market risk involved in the process of investment.

(iii) appropriately interpreting prospect responses to questions and not attributing inappropriate weight to certain answers.

(iv) is able to understand and appreciate that retirement plans involve long gestation period, and early liquidation or exit, from the scheme is not beneficial

c) where tools are used for risk profiling, it should be ensured that the tools are fit for the purpose and any limitations are identified and mitigated;

d) any questions or description in any questionnaires used to establish the risk a prospect is willing and able to take are fair, clear and not misleading, and should ensure that:

e) questionnaire is not vague or use double negatives or in a complex language that the prospect may not understand;

f) questionnaire is not structured in a way that it contains misleading questions.

g) once the assessment is done risk profile of the prospect is communicated to the prospect;

h) risk assessment is updated periodically on the basis of the information provided by prospects/subscribers.

iii) Disclosures to prospects/subscribers.

a) A retirement adviser shall disclose to a prospective subscriber, all material information about itself including its business, disciplinary history, the terms and conditions on which it offers advisory services, affiliations with other intermediaries and such other information as is necessary to take an informed decision on whether or not to avail its services.

b) A retirement adviser shall disclose to its prospect, any consideration by way of remuneration or compensation or in any other form whatsoever, received or receivable by it.

c) A retirement adviser shall disclose to the prospect any actual or potential conflicts of interest arising from any connection to or association with any intermediaries under NPS or any other pension scheme regulated by PFRDA, including any material information or facts that might compromise its objectivity or independence in the carrying on of retirement advisory services.

d) A retirement adviser shall, while making an advice, make adequate disclosure to the prospect of all material facts relating to the key features of the products or securities, particularly, performance track record of various investment asset class and annuity schemes offered by various PFMs and ASPs.

e) A retirement adviser shall draw the prospect's attention to the warnings, disclaimers in documents, advertising materials relating to an investment choice and annuity choice which it is recommending to the prospect/subscriber.

13. Maintenance of records.

a) A Retirement Adviser shall maintain the following records,-

i) Know Your Customer records of the prospect/subscriber;

ii) Risk profiling and risk assessment of the prospect/subscriber;

iii) Suitability assessment of the advice being provided;

iv) Copies of agreements with prospects/subscribers, if any;

v) Retirement advice provided, whether written or oral;

vi) Rationale for arriving at advice, duly signed and dated;

vii) A register or record containing list of the prospects/subscribers, the date of advice, nature of the advice and fee, if any charged for such advice.

b) A Retirement Adviser, other than an individual Retirement Adviser generating a fees of amount of not more than the limit as specified by PFRDA for retirement advisory services, shall undertake yearly audit in respect of compliance with these regulations from a member of Institute of Chartered Accountants of India or Institute of Company Secretaries of India.

14. Segregation of execution services.

Retirement Advisers which are banks, NBFCs and body corporate providing distribution or execution services to their prospects shall keep their retirement advisory services segregated from such activities:

Provided that such distribution or execution services can only be offered subject to the following:

(a) The prospect shall not be under any obligation to avail the distribution or execution services offered by the Retirement Adviser.

(b) The Retirement Adviser shall maintain arm's length relationship between its activities as retirement adviser and distribution or execution services.

(c) All fees and charges paid to distribution or execution service providers by the prospect shall be paid directly to the service providers and not through the Retirement Adviser.

15. Appointment of Compliance Officer

A Retirement Adviser which is a body corporate or a partnership firm shall appoint a compliance officer who shall be responsible for monitoring the compliance by the Retirement Adviser in respect of the requirements of the Act, regulations, notifications, guidelines, instructions issued by the Authority.

16. Fees to be charged by the Retirement Adviser

i) An individual Retirement Adviser offering advice to an individual prospect and facilitating on-boarding to National Pension System may charge fees from the prospect, subject to the maximum of charges as specified by PFRDA The upper ceiling for advisory & onboarding for a prospect shall be Rs. 120/- which shall be subject to change by PFRDA from time to time. For subsequent services, the individual Retirement Adviser may charge Rs. 20/- per transaction or Rs. 100/- annually which shall be subject to change by PFRDA from time to time. Payment of fee will be only on completion of the registration process/on-boarding of the subscriber.

ii) Retirement Adviser which is a body corporate, firm etc. advising a prospect/subscriber may charge fees, subject to any ceiling as may be specified by PFRDA, if any. The fees charged should be as per the written agreement between the prospect/subscriber and the Retirement Adviser. Further, a Retirement Adviser shall ensure that fees charged to the prospects/subscribers are fair and reasonable.

17. Grievance Redressal

(a) A Retirement Adviser shall redress subscriber grievances promptly.

(b) A Retirement Adviser shall abide by and be bound by the provisions of the Pension Fund Regulatory and Development Authority (Redressal of Subscriber Grievance) Regulations, 2015.

18. Penal provisions

In case of any loss caused to the subscriber/s by an act of the Retirement Adviser, PFRDA may invoke the Performance Guarantee submitted by the Retirement Adviser and may have to compensate the subscriber/s in addition to PFRDA initiating penal action keeping in mind the extent of violation and level of violation as per the provisions of the PFRDA Act and applicable regulations.