PENSION FUND MANAGEMENT PRACTICES: PUBLIC SECTOR FUND MANAGERS DOMINATING PENSION FUND MARKET IN INDIA

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Abstract

The success of all pension fund schemes is based on the performance efficiency and integrity of fund management with regard to investment policy, investment objectives, and tackling returns and risks. In India, the number of pension and provident fund managers is low, and a lack of competence results in the attainment of investment policies and objectives on par with inflation and the equity market. Here, the number of subscribers, the amount contributed, and assets under the management of various sectors of a pension fund are increasing, but the pace of increase is declining. An efficient pension fund system and its efficient management should hold two broad objectives: to maintain financial viability for the pension fund scheme and to provide development-oriented investment. This will ensure the safety of selected investments, adequate yield, liquidity for meeting obligations when due, and portfolio diversification.

Key words:- Pension Fund, Pension Fund Management, Target Asset Allocation, Assets under Management, Risk Management.

Nearly 90 per cent of the population of India was below the age of 60, and the proportion of the working-age population stood at 44 per cent in 2015. However, the population is aging every day (crisis PFRDA Report, 2017). The proportion of the elderly in the total

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Indian population increased from 8.6 per cent in 2011 to 5.6 per cent in 1961. According to the 'Population Projections for India and States 2001–2026, this number would increase further to 12.4 per cent by 2026.

The retirement income plans of Indian investors and pension fund managers are affected by several factors. These problems include poor funding, inadequate diversification, and weak governance (S. Srinivas and Susan Thomas, 2003). Reform in the pension system is a long-drawn-out process that requires ideological commitment in the first place. Keywords for pension reform are flexible. This implies that maximum provision needs to be provided for local experiments (Nandita Markandan). With the implementation of the New Pension System (NPS), pension fund exposures to corporate bonds and private participation in the pension scheme have increased. Improvements in the corporate bond market have also facilitated this process (Imam 2011). Accordingly, various schemes were offered by the listed private Pension Fund Managers (PFMs), and subsequently, the number of subscribers and the amount contributed also increased over time. Thus, PFMs should be able to meet the expectations of subscribers as part of achieving the objective of delighting subscribers. The application of risk-adjusted performance measures makes it relevant to capture the attention of subscribers (Murari 2020).

Objectives of the Study

The underlying objectives of the study are to have an understanding of the key aspects of pension fund management practices and to evaluate the role of pension fund managers in India in terms of the amount of asset allocation to various instruments and Assets Under Management (AUM).

Methodology of the Study

The evaluation of the role of the pension fund is made by classifying it into different securities on which investments are made and funds invested by various fund managers. In order to evaluate the amount of asset allocation to various instruments and assets under management (AUM) of various pension funds, the annual report (2014-15 to 2019-20) of the Pension Fund Regulatory & Development Authority (PFRDA) and annual report of NPS Trust from the year 2013-14 to 2020-21 are considered.

Pension Fund

A fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employee. It is a common asset pool meant to generate stable growth over the long run and provide pensions to employees when they commence retirement life. Pension funds are commonly run by some sort of financial intermediary for the company and its employees, although some larger corporations operate their pension funds in-house. According to OECD (Organisation for Economic Co-operation and Development), "a pension fund is a legally separated pool of assets forming an independent legal entity that is bought with the contributions to a pension plan for the exclusive purpose of

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financing pension plan benefit".

Pension Fund Management

In order to introduce competition and to provide choices to the subscribers, PFRDA has allowed multiple fund managers. The subscriber will have a choice to select from multiple pension fund managers, namely LIC Pension Fund Ltd., SBI Pension Fund, and UTI Securities Ltd to manage the funds of central and state government employees. Further, PFRDA has appointed six fund managers to manage the funds of all citizens, excluding central and state government pension funds. Pension funds are managed by Pension Fund Administrators and they are responsible for taking investment decisions but in some jurisdictions, pension fund management can be by Asset Management Companies and Insurance Companies and some management decisions may be the responsibility of the Board of Trustees. Pension Fund Custodians are those who keep custody of pension funds. Regulation of pension funds requires the appointment of a custodian, depository institution, or trustee, standard of conduct, and suitability of the operation of pension funds.

Pension Fund Managers

There are seven pension fund managers managing the pension wealth of subscribers. They are:

Public Sector PFMs:

1. SBI Pension Funds Pvt. Ltd.
2. UTI Retirement Solutions Ltd.
3. LIC Pension Fund Ltd.

Private Sector PFMs:

1. HDFC Pension Management Co. Ltd.
2. ICICI Prudential Pension Fund Management Co. Ltd.
3. Kotak Mahindra Pension Fund Ltd.
4. Aditya Birla Sunlife Pension Management Ltd

Aspects of Pension Fund Management

Pension fund management consists of the following:

Investment Policy

A clear-cut investment policy is the key to achieve a good return on investment. It helps to fix the investment objectives and strategy based on market conditions; investment policy is a combination of philosophy as well as planning. A good investment policy would specify clearly the investment objectives. The investment objectives of pension funds tend to-

a. Maximum expected return.

b. Minimise volatility of expected return.

c. Achieve a real rate of return.

d. Maintain funding ratio.

e. Minimising funding ratio volatility.

Target Asset Allocation

A fund's asset allocation determines its investment performance more than the stock picking, sector weightage, and trading strategies. How well a fund achieves its objectives is determined by how well its trustees have drawn up a long-term asset allocation policy. Pension fund managers in India do not need to worry about the dilemma of asset allocation, as it is prescribed by the government.

The investment pattern (Table 1) prescribed for pension funds in India consists of government securities, Debt securities, Equity and related or similar securities, Money Market securities, Asset-Backed, Trust, Stock Trading & Miscellaneous securities. There is no allocation of funds to asset-backed, trust, stock trading, and miscellaneous item up to and during the year 2014-15. During the period from 2015-16 to 2018-19, there is a drastic change in the pattern by increasing the allocation to debt instruments by 5 per cent and allocation to asset-backed, trust, stock trading, and miscellaneous items also by 5 per cent. At the same time a reduction of fund allocation by 5 per cent to government securities. During the year 2019-20, there is an increase in the allocation of funds by 5 per cent on government securities and money market securities.

Safety of Funds

The regulated investment pattern should really ensure safety. Combine the safety of funds with wealth creation, i.e., save money for a secured future. The investment pattern seems to equate the public sector with safety irrespective of the actual credit rating of the enterprise. The guideline allows investment in any public financial institution or public sector company without reference to its rating. Even in the recently introduced 10 per cent allocation to the private sector, the minimum rating has been specified as investment grade which makes a wide spectrum of companies eligible for investment by provident and pension funds.

Risk Management

Due to the crucial role of private pension systems within the financial markets, and their increasing importance as a source of retirement income for individuals, the effective regulation and supervision of pension funds is becoming more important. Pension regulations are increasingly focused on governance and

Table 1

Guideline on Asset Allocation (Investment pattern)

Type of Securities	Years (Figures in Percentage)					
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Govt. Securities	55	50	50	50	50	55
Debt Securities	40	45	45	45	45	45
Equity & Related	15	15	15	15	15	15
Money Market Securities	5	5	5	5	5	10
Asset Backed, Trust, Stock Trading & Miscellaneous	Nil	5	5	5	5	5

Source: Annual Report, PFRDA, 2019-20

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risk management issues. One of the main objectives of risk-based supervision is to ensure sound risk management at the institutional level taking into account both the quality of risk management and the accuracy of the risk assessment.

The risk management system can be defined as the process designed to provide reasonable assurance regarding the achievement of objectives in terms of effectiveness, efficiency, and resilience of operations, reliability of financial reporting, and compliance with laws and regulations. The governing board of the pension fund or plan should be responsible for defining, implementing, and improving the pension fund or plan's risk management system, and for establishing a highly ethical standard throughout the organization. In order to document the risk management strategy, a risk register may be used, including an assessment of the implications of risks identified and solutions for managing risk including-

a. Removing the risk source.

b. Avoiding the risk by discounting the activity that gave rise to the risk.

c. Mitigating the likelihood or/and consequences of the risk.

d. Sharing or transferring the risk with other party.

e. Retaining or increasing the risk by informing choice in order to pursue opportunities.

Funds in India have not had to define their risk tolerance as a formality. Statement of risk tolerance has sometimes found expression in their investment policy where some funds have decided to invest in on AAA-rated securities. This view of risk tolerance is purely asset-side oriented. Table 2 shows the proportion in terms of the per cent of funds invested on various instruments (Assets) as per the guidelines of investment allocation. It shows the achieved (A) and Target (T) per cent of asset allocation.

Exposure of AUM of NPS

Assets under Management include the return on the corpus, under the NPS has witnessed an increase over the period from 2014-15 to 2019-20. On March 31st, 2020 the corpus fund increased to 417,479 crore from 318,214 crore with a 31.19 per cent growth.

Table 2

Exposure of NPS to Various Instruments (Percentage)

Year	Gov. Sec. & SDL		Corporate Bond		Equity		MM & FDs		Net Current Assets	
	A	T	A	T	A	T	A	T	A	T
2014-15	52.60	55.00	33.51	40.00	10.20	15.00	1.27	5.00	2.42	NA
2015-16	50.66	50.00	35.29	45.00	10.65	15.00	0.91	5.00	2.48	5.00
2016-17	47.93	50.00	35.21	45.00	13.50	15.00	1.15	5.00	2.20	5.00
2017-18	48.27	50.00	34.35	45.00	13.94	15.00	1.18	5.00	2.26	5.00
2018-19	47.32	50.00	35.00	45.00	14.17	15.00	0.88	5.00	2.63	5.00
2019-20	51.33	55.00	34.40	45.00	10.26	15.00	2.11	10.00	1.90	5.00

Note: A: Achieved, T: Target

Source: Annual Report, PFRDA, 2014-15 to 2019-20

From the table 3 it clear that there is an exponential growth from the year 2014-15 to 2019-20 in the AUM of various pension fund managers in India.

Figure 1 is Pension fund manager wise AUM of both public and private sector shows an increasing trend from the year 2015 to 2021.

From figure 2, the AUM of public sector pension fund managers during the year 2020-21, SBI accounts for the largest share of the fund (40 per cent) and the rest equally by UTI and LIC. Considering the private sector pension fund managers, HDFC accounts for 64 per cent of the total fund, and the balance amount is managed by ICICI (29 per cent), Kotak (6 per cent), and Birla (1 per cent).

Considering pension fund's contribution to AUM in terms of size (figure 5), public sector pension fund managers occupied 96 per cent and the balance 4 per cent is by the private sector fund manager during the year 2020-21.

Considering pension fund's contribution to AUM in terms of size, SBI Pension Fund Pvt. Ltd., having the largest corpus fund, and HDFC Pension

Table 3

Exposure of AUM of NPS to Various Instruments

Year	Security Type (Amount of investment Rs. In crore)					
	Gov. Sec. & SDL	Corporate Bond	Equity	MM & FDs	Net Current Assets	Total AUM
2014-15	42527.00	27092.00	8247.00	1030.00	1959.00	80855.00
2015-16	60185.00	41931.00	12656.00	1087.00	2951.00	118810.00
2016-17	83674.00	61470.00	23557.00	2014.00	3846.00	174561.00
2017-18	113230.00	80572.00	32703.00	2760.00	5314.00	234579.00
2018-19	150576.00	111384.00	45086.00	2802.00	8366.00	318214.00
2019-20	214303.10	143607.74	42826.57	8827.22	7914.90	417479.50

Source: Annual Report, PFRDA, 2014-15 to 2019-20

Figure 1

Trend of AUM by Pension funds Managers in India

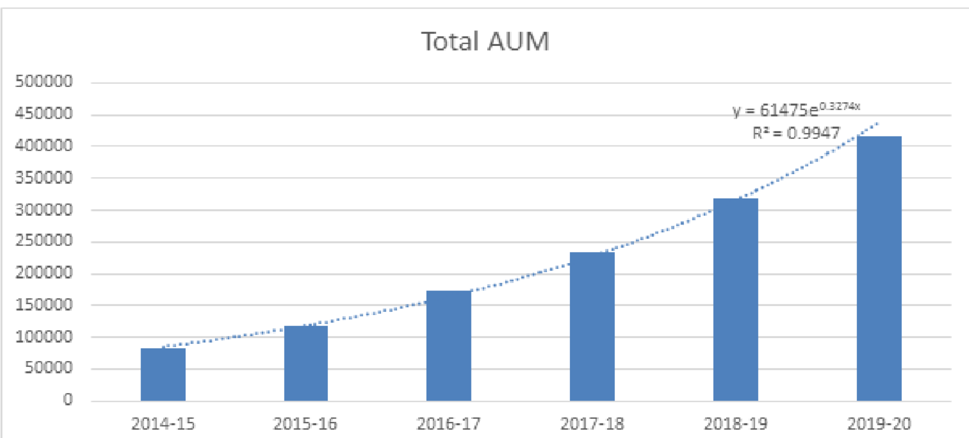


Table 4

Assets under Management (AUM) – Pension Fund Managers-wise

Year	Pension Fund Managers							
	Public Sector			Private Sector				
	SBI	UTI	LIC	ICICI	Kotak	Reliance	HDFC	Birla
2015	31407.00	24831.00	24010.00	369.00	108.00	77.00	53.00	-
2016	46019.00	35918.00	35512.00	701.00	173.00	111.00	376.00	-
2017	66723.00	52043.00	52709.00	1442.00	312.00	169.00	1163.00	-
2018	89283.15	70130.28	69483.28	2325.49	231.00	536.18	2560.34	29.43
2019	121959.00	93707.84	92719.22	3475.97	784.64	289.35	5164.69	113.22
2020	160491.00	122201.00	121028.00	4353.00	991.00	-	8265.00	150.00
2021	222615.00	166209.00	163389.00	7559.00	1572.00	-	16383.00	297.00

Source: Annual Report, PFRDA, 2014-15 to 2020-21

Figure 2

AUM of Public Sector PFMs

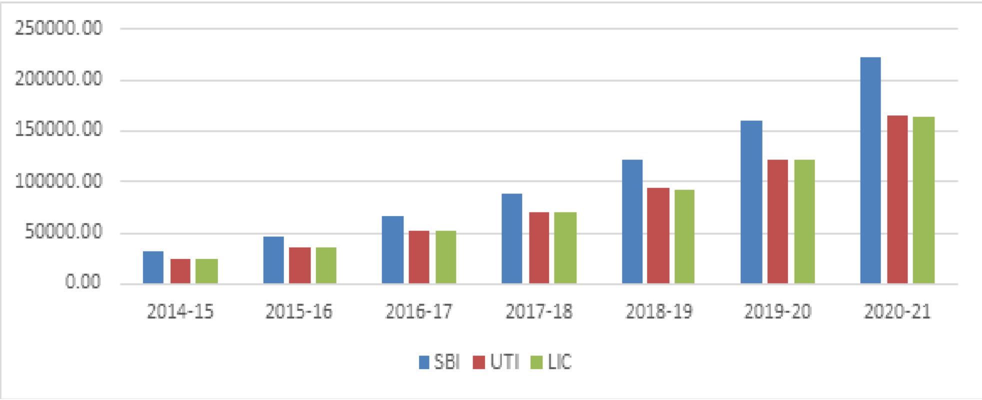


Figure 3

AUM of Private Sector PFMs

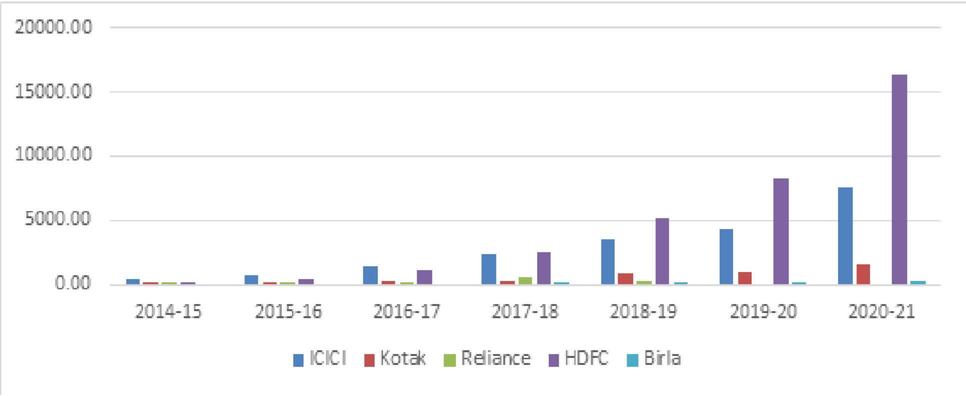
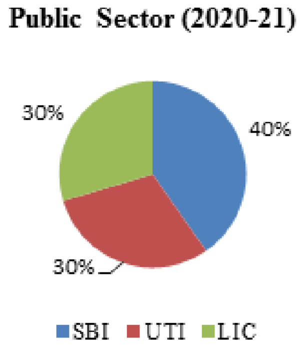


Figure 4

Share of Each Fund Managers



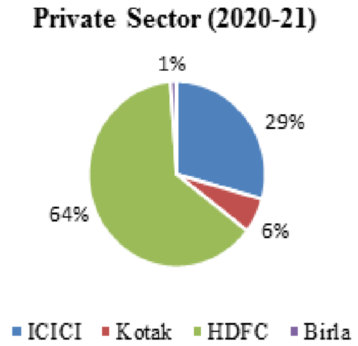
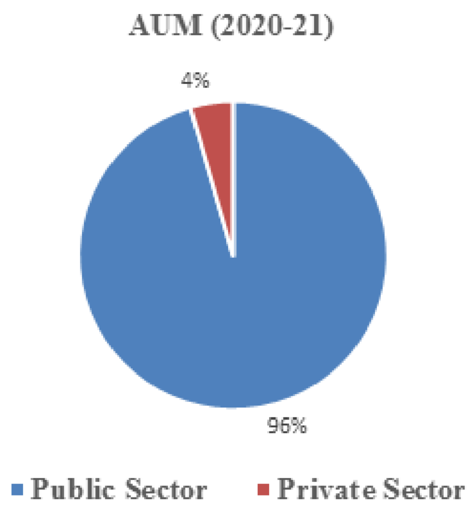


Figure 5

Share of AUM among Public and Private Sector Fund Managers



Management Company Ltd., account for the highest growth in AUM in per cent between 2020 and 2021.

Findings

1. The Assets under the Management of NPS have witnessed an increase over the period from 2014-15 to 2019-20 with 31.19 per cent growth on March 31st, 2020.
2. Pension fund manager wise AUM of both public and private sector pension fund managers shows an increasing trend from the year 2015 to 2021.
3. SBI accounts for the largest share of the fund (40 per cent) and HDFC accounts for 64 per cent of the total fund in respect of both public and private sector fund managers.

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4. Pension fund contribution in AUM in terms of size, public sector pension fund managers occupied 96 per cent of the Pension Fund Market, and the balance 4 per cent is by the private sector fund managers.
5. SBI Pension Fund Pvt. Ltd. has the largest corpus fund in terms of pension fund contribution in AUM.
6. HDFC Pension Management Company Ltd., accounts for the highest growth (98.22 per cent) in AUM between 2020 and 2021.

Conclusion

In India, the number of pension and provident fund managers are less, and a lack of competence result in the attainment of investment policy and objectives on par with inflation and the equity market. Pension fund contribution in AUM in terms of size, public sector pension fund managers occupied a dominant position than the private sector fund managers. An efficient pension fund system and its efficient management should hold two broad objectives to maintain financial viability for the pension fund scheme, and to provide development-oriented investment. This will result in ensuring the safety of selected investments, adequate yield, liquidity for meeting obligations when due, and diversification of the portfolio.

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