Inclusive financial system for the aged[1]

Changing Contours of Indian Population

India, the seventh largest country in size, continues to occupy the second largest populated country after China. The aged population in India (i.e. over 60 years) that stood at 84.7 million (7.5 per cent) in 2005 is expected to rise to 141 million (10.2 per cent) by 2020 and thereafter reach 194 million (13 per cent) in 2030. Even though income levels are going up and poverty declining, it can be reasonably expected that a significant number among the aged population would be in the low income category. The aged population requires additional attention both from the society and from the Government. More funds need to be allocated for pension, health and other social benefits of the aged people, while declining savings of the aged population could pose a threat in meeting such additional expenditure.

India is one of the highest savers among the emerging market economies. Gross Domestic Saving, as percentage of GDP at current market prices, increased from 23.5 per cent in 2001-02 to 34.8 per cent in 2006-07. Household savings rose from 22.1 per cent in 2001-02 to 23.8 per cent in 2006-07. Financial savings however constituted only 47.5 per cent of total household savings in 2006-07

Preserving the value of savings

Till as late as 10 years ago, we had a fairly long period high inflation and interest rates; many persons planned their savings for old age, assuming that these rates would continue for long. The drop in rates after 1998 led to decline in returns for the retired who were dependent on interest income. Employers providing defined benefit schemes found that the extent of unfunded portion of the liability was increasing. Not all persons realised that they needed to save at rates higher than the inflation rate; inflation could erode the value of their savings and that health care and typical old age expenses could eat into their capital. The Reserve Bank’s goal of inflation of around 3 per cent in the medium term, as articulated in its monetary policy statements, is thus critical not only for maintaining self accelerating growth and greater integration with global economy, but also to ensure that the value of savings for the old age is preserved. The best that Reserve Bank can do for ensuring a sustainable pension system is to accord high priority to price stability, which is precisely what it is doing.

[1] Speech delivered by Ms. Usha Thorat, Deputy Governor, RBI at the 8th Annual IEEF Retirement Policy Conclave jointly hosted by Invest India Economic Foundation (IEEF) and the PFRDA at New Delhi on April 30, 2008.,

Financial protection awareness and financial literacy

Recent surveys such as those conduced by NCAER[2] in conjunction with Max Life show that higher rate of household savings at macro level can be explained in terms of increasing concerns for social security, high cost of education, health and meeting other social commitments. Saving for old age is not found to be a dominant factor. At the same time an overwhelming 96 per cent of households feel that they cannot survive for more than one year on their current savings in case they lose their major source of household income; yet 54 per cent households feel that they are financially secure. Financially-at-risk urban Indians appear to be even more optimistic than their rural counterparts. This clearly indicates that Indians do not take a long-term view of their financial security. There is therefore, a pressing need for financial literacy for better understanding of financial risks. At the global level, Olivia Mitchell[3], Wharton professor of insurance and risk management, and chaired professor at Singapore Management University is also of the same view: “Global ageing makes for a much riskier world, inasmuch as people tend to retire too young, save and diversify too little, and outlive their assets.” Her research shows that many workers are underestimating retirement challenges, including the risk of outliving their assets, the future cost of healthcare and the erosive power of inflation in retirement and she too, therefore, stresses the importance of financial literacy.

Another compelling reason for financial literacy is the fact that most employers have moved or are moving away from defined benefit schemes to defined contribution schemes, which require employees to be able to better estimate their old age needs and plan accordingly, starting sufficiently early. Such schemes also allow workers to take their savings with them when they change jobs. In this new environment, where individuals have greater responsibility for determining their own retirement income, factors such as general financial knowledge, an understanding of the retirement saving process become critical to achieving one’s retirement objectives. A survey showed that only 18 per cent of the people surveyed answered correctly the question as to how much $200 would grow to, at the end of two years, at 10 per cent per annum interest! The importance of starting early is illustrated in a case where two persons of same age save Rs 5000 per month at 9 per cent per annum interest. One starts early at the age of 25 and the other at 35. At 60, the former has Rs 1.23 crore while the latter ends up with only Rs 53 lakh!

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[2] ‘How India Earns, Spends and Saves’ Results from the Max New York Life-NCAER India Financial Protection Survey, Rajesh Shukla

[3] ‘Managing Retirement Risk in an Ageing World: The Global Picture’ – an article from the Singapore Management University’s website **http://knowledge.smu.edu.sg/index.cfm?fa=viewfeature&id=1074**

Greater efforts by employers can assist workers in their retirement planning and enable them to achieve their retirement objectives. We, in the RBI, offer an excellent retirement planning program for employees; only, it is offered towards the end of one's career rather than an earlier period when time value of money makes all the difference.

Financial literacy alone is not enough

While focus on financial literacy could lead to informed and responsible consumers, it cannot by itself ensure consumer protection. There has to be "responsible" selling of products; especially to vulnerable sections of society including, among others, senior citizens and low income groups. In particular, banks selling insurance, capital market and pension products have to be sensitive to the fact that the essence of financial services is trust. A bank accepts deposits on trust and assures a return. A bank customer relationship is fiduciary and not based on transaction –it is a long standing relationship and there is every need for banks to act with responsibility. As a recent Penn study[4] on financial literacy put it, "Nothing is inherently wrong with consumers or the modern, complex, and ever-changing financial services marketplace, but the interaction between the two creates welfare-impairing outcomes. Potential general approaches to improve that interaction include enhancing the resources with which consumers approach the market, changing the financial decision environment, or bringing seller incentives in line with consumer incentives." Various approaches suggested include providing affordable expert advice, akin to pro bono legal services, having true transparency requiring simplified products where benefits and costs are clearly understood and rules of thumb can be applied, having retirement savings rules with default rules that place consumers into higher welfare enhancing rates of retirement savings; aligning incentives of sellers of consumer financial products to bring them into closer alignment with consumers' best interests. According to the study, regulatory interventions must navigate the heterogeneity of consumer knowledge, skills, and behavioral traits, taking care not hinder marketplace changes that would enhance consumer welfare.

Financial inclusion and Financial Protection

As you are aware RBI and the GOI have been pushing for greater financial inclusion. This implies, first of all, providing an accessible and safe place to the people at large for putting their savings which can be withdrawn in case of emergency. What RBI is trying, is to see that the un-banked population gets access to bank accounts. Such bank accounts are also critical to ensure a

[4] Against Financial Literacy Education, Lauren E. Willis (2008), University of Pennsylvania Law School

safe and reliable payments system for old age pensions. Pension payment for BPL families and unorganised sector targeted at nearly 300 million workers, can be paid through bank accounts thereby not only saving the cost of making the payments, but also minimising leakages and pre-empting payments in the names of persons who do not actually exist. Bio metric smart cards /mobile technology and use of business correspondents as agents by banks have made “no frills” banking accounts accessible to low income families. A very successful example of using such accounts for old age pension payments can be seen in the State of Andhra Pradesh, where a pilot carried out in the Warangal district is being up-scaled to cover all districts. Building up savings in such accounts and provision of small overdrafts facilitates creation of track record and gives confidence to the saver that emergency needs will be met. RB now treats such overdrafts upto Rs.25,000/- against no frills accounts and credit provided under GCC at rural and semi urban branches as priority sector under indirect credit to agriculture. Further, RBI has allowed banks to use ex-servicemen, retired bank and government employees to be business correspondents to provide doorstep banking to the customers in remote areas that are far from a bank branch. These measures viz. use of intermediaries and IT solutions have now made it possible to provide accessible banking facilities to the large parts of the population that were hitherto outside the access of formal banking. It is easy to see how critical this payments infrastructure will be for providing old age pensions, besides life, health, weather, asset and livestock insurance especially in rural areas - Insurance is very important as it reduces credit risk and allows greater flow of credit at lower cost. Thus there is a huge synergy between financial inclusion and financial protection for achieving a more inclusive financial system.

Housing, Health and Life Style

As is found in surveys, savings in India is mainly for owning a house, meeting emergency needs, education of children and social events such as marriages. Compared to the earlier period of high interest rates, owning a house in India has became quite affordable with lower interest rates and tax breaks. There has been a steady increase in housing loans from 3.4 per cent of GDP in 2001 to 8.5 per cent of GDP in 2006. As share of credit, it moved up to 12 per cent of NBC in March 2007. The average interest rate on housing loans has consistently declined from around 16 per cent in 1995-96 to around 8 per cent in 2004-05, though it hardened moderately thereafter (NHB, 2006). Reflecting these developments, housing stock in the country had also increased from 148 million units in 1991 to 187 million units in 2001 and is expected to further gone up to 218 million units in 2007 (NHB, 2006).

While on the one hand, there is an improvement in longevity, on the other hand, cost of good health care facilities is spiralling and there is little social security. The availability of affordable health insurance services to senior citizens is limited. The Government, on December 6, 2006, launched an exclusive health insurance scheme, *Varistha* Mediclaim for Senior Citizens, offered by National Insurance Company. The Union Budget 2007-08 announced that the other three public sector insurance companies would also offer a similar product to senior citizens. There is, however, still a large gap between the supply of health insurance facilities available to older people and demand/requirement for the same.

The IRDA constituted a committee in April 2007 to look into, among others, issues relating to health insurance schemes for senior citizens, streamlining procedures and suggest possible incentives to the senior citizens for adopting healthier lifestyles. The Committee made various recommendations including on proper product designing according to the needs of senior citizens and their capacity to pay, drafting of insurance policies in simple language, uniform definition of terminology and standard terms and conditions for the Industry, portability of covers, sharing of information etc. It also recommended that insurers should offer Personal Accident coverage as an optional rider along with the senior citizen health insurance products. This would help offer both forms of protection simultaneously.

Banking/Financial Products and Services for Senior Citizens

I turn next to some of the specific measures relating to financial products and banking services for senior citizens taken by GOI, RBI and the banking system in the recent period.

(i) Senior Citizens Savings Scheme

Government of India had launched the Senior Citizens Savings Scheme, 2004 (SCSS) with attractive interest rate exclusively for the benefit of senior citizens, with effect from August 2, 2004. SCSS accounts can be opened with Post Offices and Agency banks. The salient features of the scheme are available in the RBI’s website. An important advice to senior citizens is to fill in Form 15 G and 15H, if they do not attract TDS provisions.

(ii) Senior citizen friendly measures - investment in Government Securities

Several friendly measures for senior citizens have been incorporated in the Government Securities Act, 2006 (Act) and the Government Securities Regulations, 2007 (Regulations), which have come into force with effect from December 1, 2007. These include -

- Automatic redemption facility for Government securities, including Relief/Savings Bond.
- Simplified procedure in the event of death of holder
- Ability to pledge or borrow against such securities
- Nomination is permitted

(iii) Facilities for pensioners

Almost all the pensioners, by virtue of the retirement age fixed by the Government, are senior citizens. The following facilities, among other, are available to pensioners:

- Credit of pension to pensioners' accounts on last 4 days of month so that the pensioner can draw pension on the 1st day of the next month itself.
- Joint account with spouse allowed.
- Pension slips to be issued at first time and thereafter whenever there is a change.
- For incapacitated pensioners - branch to depute an officer to the residence of the pensioner for getting/certifying the life certificate.
- Banks to access the Government website and effect payment of revised Dearness Relief without waiting for RBI instructions.
- Banks to accept nominations furnished by pensioners in Form 'A' or 'B' in respect of payment of arrears of pension of the deceased pensioner.

RBI has issued necessary instructions to all the banks disbursing pension to ensure that the pensioners get the best possible customer service. Most of the agency banks have since set up Centralised Pension Processing Centres (CPPCs) which will be responsible for receipt of the Pension Payment Orders (PPOs), calculation of pension/Dearness Relief etc. and crediting the amount directly to the pensioners' accounts through this system.

(iv) Deposit Scheme for senior citizens

Banks have been permitted to formulate, with the approval of their Boards, fixed deposit schemes specifically for resident Indian senior citizens offering higher and fixed rates of interest as compared to normal deposits of any size. These schemes should also incorporate simplified procedures for automatic transfer of deposits to nominee of such depositors in the event of death. Deposits over five year have enjoy tax exemption under 80C. TDS is applicable unless Form 15 H is submitted to the bank. Since RBI receives many complaints that tax is deducted, senior citizens would do well to file Form 15 H in time.

(v) Reverse Mortgage Loans

Reverse mortgage provides an opportunity to house owners to avail of a monthly stream of income against the mortgage of his/her house, while remaining the owner and occupying the house throughout his/her lifetime, without repayment or servicing of the loan. Realising the potential benefits, the Union Budget 2007-08 announced the introduction of 'reverse mortgage' by NHB. NHB issued the final operational guidelines for reverse mortgage loans (RMLs) on May 31, 2007. Many banks have already introduced RMLs. For tax purposes it have been clarified that reverse mortgage would not amount to “transfer”, and stream of revenue received by the senior citizen would not be “income”.

(vi) Simplification of procedure - deceased account holders

Another area, where Reserve Bank has accorded a lot importance relates the simplification of the procedure for handling the accounts of deceased account holders so as to ensure that settlement of a deceased account holders account proceedings is smooth and without any impediment. For those with non resident legatees, inheritance can be remitted within the liberalised remittance scheme of $200,000 per annum available to every resident.

(vii) Specific instructions issued by RBI to banks in dealing with senior citizens

- Banks have been issued with special instructions aimed at facilitating opening and operations of accounts by old and incapacitated people.
- The banks have been advised to invariably provide passbooks to all account holders. Such an advice to banks was issued only in keeping in mind the interests of the senior citizens.
- Changes in any instructions on the operation of Senior Citizens deposit accounts should be confirmed within one month to the depositor in writing.

(viii) Facilities for remittances and operations on NRE /NRO accounts jointly with NRI

Some of the facilities that may be of interest to senior citizens are -

- Under the Liberalized Remittance Scheme, Residents are permitted to remit up to USD 200,000 per financial year (April-March) for any permitted current or capital account transactions or a combination of both. This would also include remittances towards gift and donation, acquisition of houses, shares, MFs, etc.

- Residents are eligible to obtain USD 100,000 or its equivalent for medical treatment abroad. A person visiting abroad for medical treatment can obtain foreign exchange exceeding the above limit, provided the request is supported by an estimate from a hospital/doctor in India/abroad.
- In connection with private visits abroad, viz., for tourism purposes, etc., foreign exchange up to USD10,000, in any one financial year may be obtained by Residents from an authorised dealer on a self-declaration basis.
- A resident can transfer property to his NRI heirs by a deed of settlement i.e. facility whereby the property is passed on to the legatees, during the lifetime of the owner/parent who normally retains a life interest in the property.
- Housing loans taken by NRIs can be repaid by his close relatives in India.
- Resident power of attorney holder can remit funds out of the balances in NRE account to the non-resident account holder provided specific powers for the purpose has been given.
- Banks can also allow operations on an NRO account in terms of such a Power of Attorney, provided such operations are restricted to (i) all local payments in rupees including payments for eligible investments and (ii) remittance outside India of current income in India of the non-resident individual account holder, net of applicable taxes.

Monitoring of Customer Service

Reserve Bank is continuously taking steps to ensure that customers get treated fairly. The quality of service rendered by banks is monitored by Reserve Bank with special emphasis on service rendered by banks to pensioners. Banks have been advised to include senior citizens in their Branch level Customer service committees. Any non observance of the RBI guidelines or bank’s code of commitment to the individual customer can be taken up first with the bank’s own consumer redressal machinery and if no satisfactory response is obtained by the customer he can complain to the Reserve Bank’s Banking Ombudsmen who have offices at 15 centres, details of which are available on the Bank’s website.

Some tips to the Senior Citizen

- Obtain from bank and read the BCSBI's Code of Banks' Commitment to Customers
- Clearly understand the concept 'Average Quarterly Balance' before opening accounts.
- Do not keep the card and its PIN together and never disclose the card number or CVV number to others. Beware of 'phishing attacks' in the online transactions and ensure that no information about the bank accounts and passwords is revealed except in making a transaction in a secured site.

- Note that there is no interest payable on the post maturity in the various senior citizen Government deposit schemes.
- Finally, if you have a complaint, first approach his bank for resolution and then take up with the Banking Ombudsman if the bank does not resolve your complaint.

Banks' sensitivity to senior citizens

Senior citizens can be forgetful, they pay attention to detail , they need to be patiently handled and finally we all must realize that one day we too will be a senior citizen expect to be treated with respect and sensitivity.