

## **Appointment as Aggregator by PFRDA**

This article gives a brief background on the National Pension System (“**NPS**”) which is an initiative of the sector regulator i.e., Pension Fund Regulatory and Development Authority (“**PFRDA**”), and the role of an aggregator (“**Aggregator**”) in the NPS along with the eligibility criteria and the application process for enrolment as an Aggregator as per the laws in force in India. It shall be noted that this article numerates the procedure for appointment of Aggregator, for the time being in force in India in relation to this matter.

### **National Pension System**

NPS is an easily accessible, low cost, tax-efficient, flexible and portable retirement savings account. Under the NPS, the individual contributes to his retirement account and also his employer can co-contribute for the social security/welfare of the individual. NPS is designed on a defined contribution basis wherein the subscriber contributes to his account, there is no defined benefit that would be available at the time of exit from the system and the accumulated wealth depends on the contributions made and the income generated from investment of such wealth.

### **NPS Lite**

NPS Lite is a model of NPS which is low-cost, feature optimized model, aimed at economically disadvantaged sections of the society. The NPS Lite model has been developed by PFRDA to provide a uniform platform for old age income security to all sections of society and facilitate economically weaker sections of the society to join the NPS platform. NPS Lite is intended to reach its target population through specific entities identified by PFRDA, termed as Aggregators, explained in further detail below.

### **Aggregators**

Aggregators are entities identified by PFRDA for making NPS available to their constituent subscriber base and maintain them into NPS Lite system. Thus, Aggregators shall be the main interface between the NPS Lite subscriber and NPS architecture. The Regulations for Aggregators under NPS Lite-2010 (hereinafter referred to as “**Regulation**”) is the regulatory framework that governs the NPS Lite model and the functioning of Aggregators.

### **Eligibility Criteria to be an Aggregator**

As set forth in the Regulation, the eligibility criteria to enroll as an Aggregator are as follows:-

- (i) Entity to be registered (under act of central or state government) and/or adequately regulated by any of the financial sector regulator(s);

- (ii) Registered entity must have been registered under any of the following:-
  - Societies Registration Act 1860 ( or a State amendment of this Act)
  - Indian Trusts Act, 1862
  - Charitable and Religious Trusts Act, 1920
  - Indian Companies Act, 1956 ( section 25, for non profit companies)
  - Indian Companies Act 1956 with necessary certification from RBI (for NBFCs)
  - Indian Companies Act 1956, for any other company
  - Any other act/rule as specified by PFRDA from time to time
- (iii) Any other entity or class of entities not registered as per above, at the discretion of PFRDA, if such entity/class of entities facilitates inclusion of their subscriber base under NPS and have established capability with proven track record in the area of their operation;
- (iv) Entity must have been in business of financial services or commodity development for last three (3) years with proven track record and be financially viable;
- (v) Entity must have formal governance structure i.e., (a) members on board having adequate experience in financial services / social development; (b) at least one third of the Directors (or equivalent) must be independent; and (c) entity must have 'Audit Committee' in place headed by an independent director (or equivalent);
- (vi) Entity must satisfy the following net worth criteria:-
  - INR 1 Crore for being in business for last 3 – 5 years;
  - INR 50 lakhs for being in business for more than 5 years;
  - the net worth criteria can be relaxed completely/partly at the discretion of PFRDA for entities having exceptional track record and more than 10 years of experience;
- (vii) Entity must have capability to manage large customer databases suitable to their organisation and must meet other technology parameters set forth by PFRDA in the "Guidelines in Supplement to "Regulations for Aggregators under NPS Lite-2010"" (hereinafter referred to as "**Supplemental Guidelines**");
- (viii) Entity must have cash management and transfer capabilities as set forth by PFRDA in the Supplemental Guidelines;
- (ix) Entity must have trained staff with sufficient capability as prescribed by PFRDA; and
- (x) Entity or any of its directors/promoters must not have been subjected to any disciplinary proceeding(s) under the rules, regulations and bye-laws of any regulator/disciplining body during the last three years.

### **Aggregators – role and responsibilities**

The basic roles and responsibilities of an Aggregator as enumerated in the Regulation includes:-

- (i) Promotion of NPS and awareness about the need for old age income security among its constituent group members;
- (ii) Meeting the 'Know Your Customer' requirements in respect of potential NPS subscribers as mandated under AML/CFT requirements. KYC requirements in case of NPS Lite subscribers shall be governed by provisions of RBI Master Circular no RBI/2008-09/72 dated July 01, 2008 and as amended from time to time till separate orders on this aspect are issued by PFRDA;
- (iii) Discharge of responsibilities relating to fund and data upload within prescribed time limits;
- (iv) Collection of contributions from subscribers and ensuring its passage to Trustee Bank.
- (v) Ensuring availability of services including distribution of Annual Statement of Transactions and showing online statements to its underlying subscribers as mandated under NPS-Lite;
- (vi) Handling grievances received from subscribers and their resolution; and
- (vii) Any other responsibility as assigned to them by PFRDA to ensure protection of subscribers' interest.

### **Registration Process to Function as Aggregator**

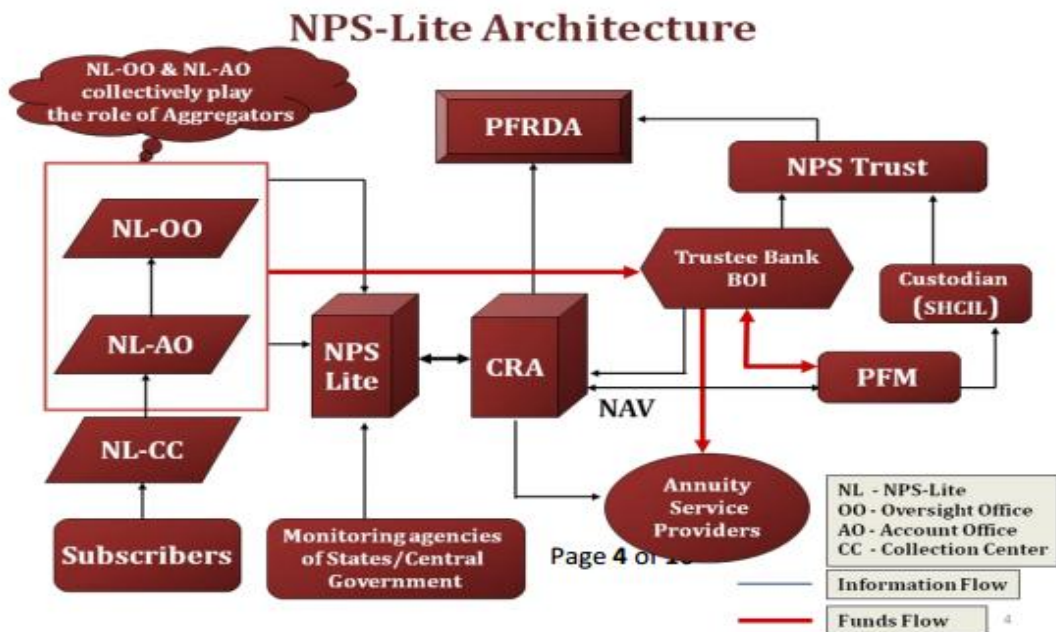
The NPS Lite model has a three tier architecture as per which each Aggregator has to register one of its offices as oversight office (“**NL-OO**”) in NPS Lite to monitor and control the operations being performed by its underlying offices. Aggregator is also expected to designate office(s) as collection centers (“**NL-CC**”) for performing the functions of collection and processing of contributions of underlying subscribers. The broad roles of designated offices of the Aggregator and the sequence of registration of these offices are as under:

- (i) Registration of NL-OO - NL-OO is expected to undertake monitoring & controlling functioning of its underlying offices (NL-AOs i.e., uploading office and NL-CCs) towards discharging services as per the service standards defined by PFRDA. NL-OO is required to fill up the registration form (N1 form) and submit the same to Central Recordkeeping Agency (“**CRA**”). The NL-OO is required to self-authorize the form before submission of the same to CRA (NSDL, Mumbai);
- (ii) Registration of NL-AO - Upon successful registration of the NL-OO, registration of NL-AO shall commence. The NL-AO is expected to undertake contribution upload on CRA Lite system and fund transfer to Trustee Bank for its underlying subscribers. NL-AO is required

to fill up the registration form (N2 form) and submit the same to NL-OO for authorization. Upon authorization, NL-OO shall send the form to CRA for registration.

- (iii) Registration of NL-CC – NL-CCs or collection centers are expected to interface with subscribers and perform key functions relating to collection of registration forms, undertaking KYC, contribution collection and passing the contribution information and funds to NL-AO for further processing. Registration of NL-CCs will be undertaken upon completion of registration of NL-AO in NPS Lite. The NL-CCs registration form (N3 form) shall be authorized and forwarded by the respecting NL-AOs to which they are linked.

Provided herein for your understanding is a diagram of the NPS architecture with the process flow across all the intermediaries.



**Requirement of Security Deposit**

Each entity enlisted as an Aggregator shall have to submit a security deposit in the form of a demand draft or a bank guarantee from a scheduled commercial bank.

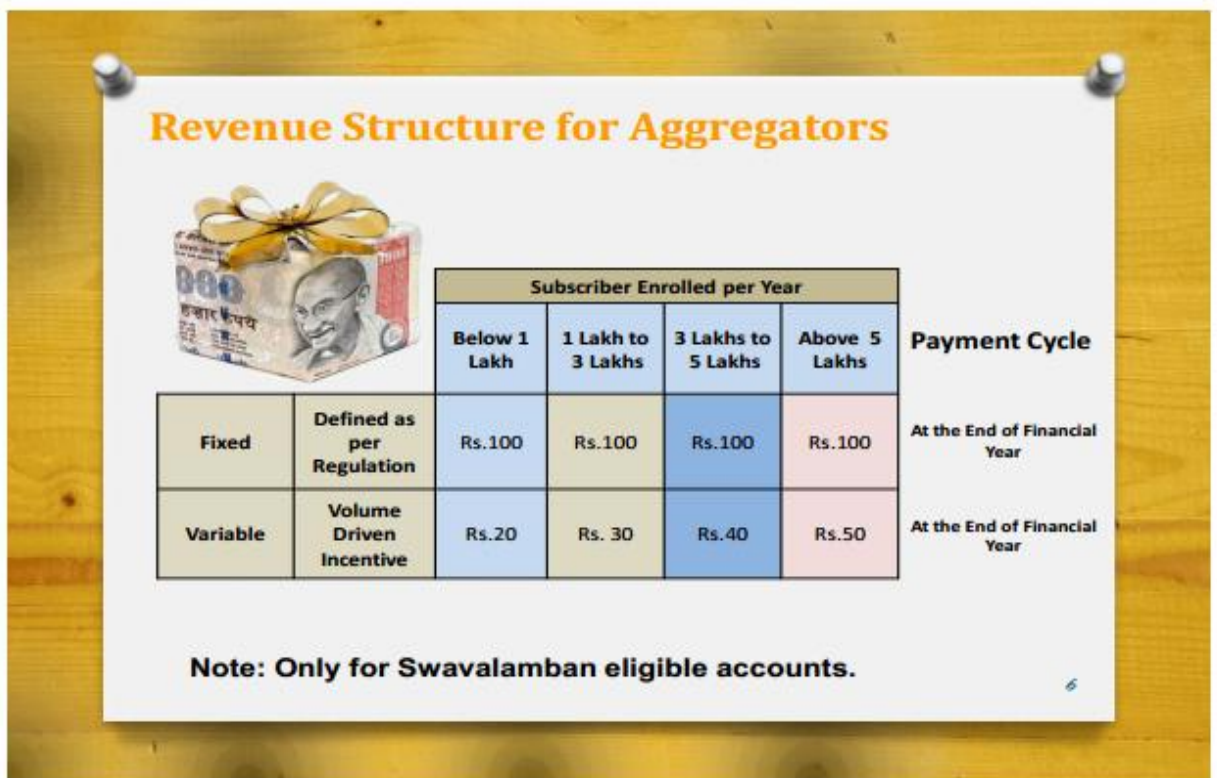
As per Amendment dated November 14, 2011 to the Regulation, quantum of security deposit shall be 1% of the net worth; or INR 20 lakhs whichever is less, subject to a minimum of INR 5 lakhs or as prescribed from time to time.

**Swavalamban Scheme**

The Regulation shall also apply for implementation of “Swavalamban Scheme” of the Government of India through NPS Lite. Under the Swavalamban Scheme, the Government of India will contribute INR 1,000/- (for a period of 4 years) to every NPS account subject to certain conditions set forth in Operating Guidelines of Swavalamban Scheme issued by Deptt. of Financial Services, Govt of India vide their letter no. 13/10/2006-PR dated 21st June 2010.

However, from the point of view of facilitating the Swavalamban Scheme as an Aggregator, provided below is the revenue structure set forth by PFRDA.

**Revenue Structure for Aggregators**



**Revenue Structure for Aggregators**

		Subscriber Enrolled per Year				Payment Cycle
		Below 1 Lakh	1 Lakh to 3 Lakhs	3 Lakhs to 5 Lakhs	Above 5 Lakhs	
<b>Fixed</b>	<b>Defined as per Regulation</b>	Rs.100	Rs.100	Rs.100	Rs.100	At the End of Financial Year
<b>Variable</b>	<b>Volume Driven Incentive</b>	Rs.20	Rs. 30	Rs.40	Rs.50	At the End of Financial Year

**Note: Only for Swavalamban eligible accounts.**

## Illustration:

### Illustration on Revenue Structure



	Subscriber Registration			Remuneration					
	Year 1	Year 2	Year 3	Year 1		Year 2		Year 3	
				Fixed	Variable	Fixed	Variable	Fixed	Variable
New Subscribers	80000	120000	310000	Rs 80,00,000	Rs 16,00,000	Rs 1,20,00,000	Rs 36,00,000	Rs 3,10,00,000	Rs 1,24,00,000
Renewal Cases	0	80000	200000	0	0	Rs 80,00,000	0	Rs 2,00,00,000	0
<b>Total</b>	<b>80000</b>	<b>200000</b>	<b>510000</b>	<b>Rs 96,00,000</b>		<b>Rs 2,36,00,000</b>		<b>Rs 6,34,00,000</b>	

**Note: Only for Swavalamban eligible accounts.**

**Incentive shown here are indicative amounts for illustration purpose only.**

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**ECA's Commitment:**

- ❑ Complete assistance for making the necessary filings, applications etc. for obtaining PFRDA approval.
- ❑ Informal discussion with contact personnel within PFRDA so as to perfect the application before the same is submitted.
- ❑ Follow up support at various points in time during and after the pendency of the application so as to ensure that any additional documents/records requested by the PFRDA is submitted in a systematic and timely manner.
- ❑ Updating Company on a regular basis as to the status of the pending application.

**Disclaimer**

Our article is based on the laws of India as on date. The laws and Rules mentioned herein are subject to changes from time to time and any such changes may affect the article. We have no responsibility to update our note for events and circumstances occurring after the date of this memorandum, unless specifically requested for.

We do not, in giving this article, accept or assume responsibility for any other purpose or to any other person to whom this memorandum is shown or in whose hands it may come unless expressly agreed by us in writing.

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