

Banking Pension Summit 2008



[L - R] R N Vadivelu, Arpan Thanawala, Dr Ajit Ranade, C H Venkatachalam, Bhavesh Sanghvi

Indian Banks' Association (IBA) and Birla Sun Life Insurance Company Limited (BSLI) jointly organised the Banking Pension Summit on August 12, 2008 at Hotel Trident, Mumbai, to address the concerns on pension liabilities in the banking industry and provide a platform to evaluate the solution of outsourcing the fund management to an insurance company with better asset class mix and flexibility for building the retirement portfolio resulting into superior returns and decreasing liabilities in the long run.

The delegates and speakers were welcomed by Vikram Mehmi, president and CEO of BSLI and by K Unnikrishnan, deputy chief executive of IBA.

The keynote address by Dr R Kannan, member (actuary), Insurance Regulatory and Development Authority (IRDA) highlighted the fact that stress testing done by actuarial valuation as per AS-15 (revised) guidelines shows that the increase in pension liabilities lies with the weightage of 75 percent on interest rate, 15 percent on mortality and 10 percent on expenses cost. He also made out a case on the equity asset class by showing the risk-return behaviour in the last 10 years with 5 percent and 25 percent equity, resulting into an average yield of 8.5 percent and 18.2 percent respectively. The pension products sold by insurance companies have the flexibility to build the portfolio with debt and equity instruments and hence should be seen as a competitive solution for earning superior returns and reducing the pension liabilities.

In his special address, R N Vadivelu, chief executive of

Foreign Exchange Dealers' Association of India (FEDAI) urged the banks to introspect the pros and cons in the present self-managed funds with a specific reference to money parked in low yielding Special Deposit Scheme (SDS) of RBI, which could be denting into the overall yield of the pension fund portfolio. According to him, a probable solution to derive optimum returns out of this money lies in the notification issued on May 1, 2003 by the ministry of finance allowing withdrawal of SDS money in case of either winding up of trust, obligatory payments to employees or tying up in a scheme of insurance with an IRDA approved insurance company.

The need for outsourcing the fund management to insurance companies for such investment should be evaluated based on some key factors such as guaranteed returns on a compounded basis, capital protection and optimum asset mix, insisted the former banker.

The second session comprised of an open panel discussion on the credibility of insurance companies to manage the accumulation portion of pension funds to maximise the buying power of annuity. The panel chaired by Dr Ajit Ranade, group chief economist and president, Aditya Birla Group and comprising of C H Venkatachalam, general secretary, All India Bank Employees' Association; Arpan Thanawala, partner, Thanawala Consultancy Services; R N Vadivelu, chief executive, FEDAI and Bhavesh Sanghvi, head-group marketing and sales, BSLI, concluded on the consensus that outsourcing of pension funds to insurance companies may be considered by the banking industry to reduce the pension liabilities.