Let Babus Choose NPS Asset Classes

No justification for any arbitrary allocation

The Pension Fund Regulatory and Development Authority (PFRDA) reportedly would like the National Pension System (NPS) to invest 50% of civil servants' contributions to their pension corpus in equities. Moving away from the present irrational allocation among different asset classes is welcome. However, the regulator must not take investment decisions on behalf of civil servants. Instead, the choice on the asset class and the fund manager should be thrown open to each civil servant subscriber, just as it has been done for a voluntary saver. Right now, there is just one default scheme for civil service members of the NPS: up to 50% of the contribution in government bonds, up to 45% in other debt instruments, up to 15% in equities and up to 5% in asset-backed and trust-structured investments. Absurdly, the rule is linked to investment norms of the Employees' Provident Fund Organisation (EPFO). It must be scrapped.

Leeway in investment will allow, say, a young recruit to the civil service allocate more of her savings to equity. But a conservative employee may not want to invest in stocks. She should have the choice to opt out. A person's risk-taking ability comes down with age, reducing the exposure to equity. There is no reason why a civil servant cannot have an 'active choice' to decide how her pension wealth is to be invested across asset classes. Applying the auto choice for those who do not want to manage their NPS investments makes sense. So, the proportion of funds invested across asset classes will be determined by a predefined portfolio that varies according to the age of the subscriber. The larger point is to have the same set of investment rules for civil servants and voluntary subscribers.

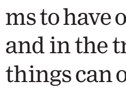
The government should also remove hurdles in the path of employees' voluntary migration from the EPFO to the NPS, which has a better institutional structure for superior returns. Enrolment that will enhance the pool of funds to be managed by the NPS and greater flexibility to fund managers to invest in asset classes such as private equity and real estate will make the NPS even better.

Revival of Like-by-Like a Decent Prospect

JSW Steel, which has big brownfield expansion plans, is reportedly making a bid for Bhushan Steel, in tie-up with Piramal Enterprises' stressed assets fund with Bain Capital. With its solid presence in high-end steel, JSW Steel is a beneficial suitor for Bhushan Steel, which is heavily into auto-grade steel, and so, likely to offer a better acquisition price as well. Acquisition by another steel company would be preferable to acquisition by a financial investor. A quick turnaround of stressed assets like Bhushan Steel is desirable, so that valuable assets are quickly deployed productively.

And Bhushan Steel is among 12 stressed assets identified by the Reserve Bank of India for immediate bankruptcy resolution. Meanwhile, the steel industry in India has reportedly emerged as one of the world's largest, with production capacity of over a 100 million tonnes per annum, which is expected to touch 150 MT by 2020. However, steel is a capital-intensive cyclical industry, and we need more brownfield expansion to reap scale economies.

Hence the greater need for intra-industry merger and acquisition activity in the steel industry here. It is also welcome that UK-based metals specialist, Sanjeev Gupta of Liberty House, has reportedly bid for stressed assets here and has plans to invest in sectors such as renewable energy, shipping and ports, and infrastructure. Meanwhile, JSW Steel has outlined its strategy to have 40 MT of steel capacity within a decade, with focus on brownfield expansion. It has also tied-up with JFE Steel Corp of Japan to make auto steel. As for Bhushan Steel, it is into cold-rolled products and does make the widest sheets, but seems to have operationally slipped in the face of lacklustre demand in the trough of the steel cycle. When the chips are down, things can only look up.



Depositing tomato seeds in a pot would give more assured returns than a bank

Can a Tomato Bank Really Bear Fruit?

Hopefully, the State Bank of Tomato (SBT) launched by a local Youth Congress unit in Lucknow as a form of protest against the rising price of the indispensable vegetable — or fruit, to be precise — will not land the 'promoters' in a soup. Forking out ₹100 for a kilo of tomatoes definitely makes Indians see red, but the terms offered by SBT may not stand up to scrutiny. One bank 'depositor', for instance, has revealed that his 500-gm deposit would earn him a kilo in six months' time. However, considering the reality that the price of tomatoes will inevitably fall to a fraction of the current rate, double the weight at a later date may actually be far less than the deposited value. It may be wiser for potential tomato savers to carefully extract the seeds and deposit them in pots for a greater assured returns.

How the other purported offers of the SBT such as "80% loans on tomatoes" and "attractive interest rates for depositing tomatoes, especially for the poor" actually work out remains to be seen too. As for SBT's lockers for safekeeping — presumably in response to some traders reportedly asking for security cover from tomato thieves — canning or bottling would surely be the more sensible option. The tomato bank's promoters are presumably aware that if they fail to deliver, the long arm of the law will ketchup with them.

CURSOR Senior citizens number 11 crore in India, and are a challenge and an opportunity

FDs? Grandpa Needs More

T K Arun

India is a young country, 50% of the population is below 25 years of age and 65% are below 35. But 8.6% of Indians are above 60, according to the 2011 Census. That works out to over 110 million people today. Should the dazzle of the anticipated demographic dividend blind us to the plight of this large and growing group?

They are not a very educated lot. Literacy among the 60-plus is 44%, up from 27% in 1991. Once you hit 60, you can expect to live on for almost 18 more years, on average.

How should they fend for themselves? Looked after by their children, even as they look after their children's children? Or by means of the returns on their own savings, supplemented, if needed, by state pensions?

Old, Not Decrepit

These are not, of course, mutually exclusive options. The sons who abandon their widowed mothers at Vrindavan or lose their pious parents at the Kumbh Mela are a minority. Most people would like to look after their parents. Parents provide an incentive as well, possessing assets that could pass on to their children.

But this does not work out, as the population becomes increasingly mobile, people migrating within and without the country.

India did a smart thing by setting up the National Pension System. The NPS replaces, for those who joined the civil service after December 31, 2003, the pay-as-you-go pensions that earlier batches of civil servants get. This latter kind of pensions become unaffordable when populations age, the proportion of those who work and pay taxes falls.

Younger civil servants make defined contributions, 20% of their salary, to the NPS. Uncivil servants and ordinary mortals can become voluntary subscribers to the NPS. Their savings are invested by professional fund managers in different asset classes, to earn returns that grow the corpus. When they retire, the corpus can be used to buy annuities or other assets yielding an income stream.

Right now, the tax treatment of the corpus is fiddly. While the accumulations in the Employees' Provident Fund (EPS) are exempt from tax altogether on maturity, only a proportion of NPS withdrawals are tax-exempt. The market for annuities is far from perfect. People might prefer to buy a home and live off its rental income or the income stream produced by reverse-mortgaging it, than by buying a suboptimal annuity scheme. There is no point in depriving them of this choice.

What is beyond dispute is that the favourite saving instrument of the Indian senior citizen, the bank fixed deposit (FD), is no longer attractive. As India moves to a low-inflation, low-interest rate regime, bank deposits would struggle to offer a rate of return higher than the rate of inflation.

Savings generate a return because someone invests them, meaning, deploys them to acquire some claim or the other on the economy's productive capacity. Equity yields direct ownership of firms, offering high returns and the risk of total loss, if the firm goes bust. Debt is safer, but offers lower returns. Real estate investment trusts hold out rental incomes.

FILE PHOTO

The Age of Golden Ageing

Ideally, savings should get deployed in diverse assets, to mitigate risks. Since most ordinary savers do not have the expertise to choose asset classes and assets, it is safer to entrust the savings to professional fund managers. Mutual funds are a good bet. But they have costly fund management fees, apart from other costs.

Give Them NPS Tier 2

The cheapest access to diverse asset classes, professional fund managers and an electronic account in which to hold assets is via a voluntary subscription to the NPS. The NPS has a Tier 1 account, which locks up savings till you reach 60. Anyone with a Tier 1 account can have a Tier 2 account, from which funds can be withdrawn at short notice, almost like from a bank account.

The government should open up access to the NPS Tier 2 accounts for senior citizens who, by virtue of being over 60, are not eligible to have a Tier 1 account, and are thus, at present, not eligible for a Tier 2 account either. Through this, seniors who are confounded by the falling rates on FDs and small savings schemes, can acquire easy, low-cost, reliable and portable access to diverse forms of claims on the productive capacity of the Indian economy.

Seniors require special kinds of health insurance. If care is assured in case of debilitating critical illness, they can be incentivised to spend their pensions, instead of squirrelling them away. This would be good for the economy, particularly in tourism and other recreation, besides for their quality of life.

Their expertise and experience, when shared with teams of younger workers, could boost economic productivity. The challenge here is how to organise and deploy such teams.

Who will look after the aged, if their children are far away? Stuffing them in old-age homes is an option inferior to young volunteers looking them up once a day at their own homes. The volunteers could notch up social credits they can redeem for college admissions, their own pensions. Or political volunteers could hope to convert systematic compassion into votes.

Old age calls for creative debate.

The simplest way senior citizens can access fund management expertise, diverse asset classes and a portable demat account is via an NPS Tier 2 account

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WORK ENVIRONMENT

Yes, Opinions Can Be Harmful

Malika Rodrigues

So here's a question for the people (shout-out to #notallmen but let's face it, they're mostly men) who have issues with the firing of James Damore, a Google engineer who wrote and circulated a manifesto questioning the rationale, impact and legality of Google's diversity initiatives: what exactly does a person who holds reprehensible (read: 'politically incorrect') opinions actually have to do before you can accept that he and his actions are harmful to a work environment and his co-workers?

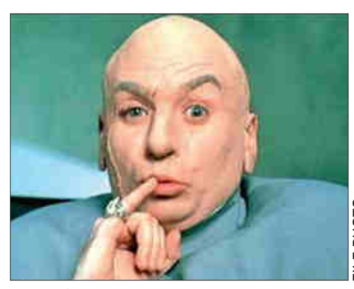
Does nothing count as 'harm' until you've got women being propositioned by their supervisors, assaulted and insulted in the office?

Supporters of Damore claim he's a victim of Google's 'ideological echo chamber' who's being silenced, someone who has only ever expressed his opinions. (Let's leave aside the fact that expressing one's opinions on company time is a corporate perk extended to very few, my esteemed colleagues on this page among them.) 'He hasn't acted on his opinions,' they say.

But if someone's opinions are that women — 50% of the world's population, by the way, despite what photos in the business papers might make you think — are just biologically less able, they are going to be interacting with women on that premise. All. The. Time.

And that is exactly how they harm women, and women's careers. They tune out when a woman in a meeting is speaking — because they don't believe women have ideas worth listening to, because women lean more towards 'aesthetics rather than ideas'. They will not pick a woman for a challenging assignment because women have 'higher anxiety, lower stress tolerance'. They'll evaluate her performance on that challenging task through the lens of their prejudice: is she 'agreeable'? Then she's probably not assertive enough to get the job done.

If someone believes that women lack a biological drive towards higher status, and thus don't have the work ethic that makes them put in insanely long hours, they're going to select only those people who are willing to cede their rights to time and space off for career-advancing opportunities.



FILE PHOTO

You think, therefore you're bad enough

And these beliefs — opinions — are going to influence your decisions when you interview people, make hiring choices, and when you mentor other people who are going to be doing these things in your company.

Your beliefs are not just going to sit there in your little Google doc. They're going to create a workplace that's hostile to the women in it, and that #notallmen is a recognised form of sexual harassment that happens to be illegal. So, yes, quite a bit of harm done.

This 'manifesto' goes on to attack sensitivity training — aimed at reducing 'microaggressions', like that well-known tendency to interrupt women more — and unconscious bias training. Because apparently being aware of how your opinions are impacting your behaviour is something that's just too stressful for people (read: #notallmen) to deal with, and will cause a backlash.

Yes, apparently, the class of employees that accounts for 69% of Google's workforce, and who are biologically less likely to be neurotic, experience stress and are more likely to be assertive and status-driven, can't handle that particular experience.

In short, Google did the right thing by firing someone who admits to being biased against a large class of employees and potential employees, who believes that propagating that bias does not harm the employees he's biased against, and who isn't able to deal with attempts to wean him off this harmful behaviour.

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GOVERNMENT SKILLING

GoI, Go Build Thy Capital

M Muneer

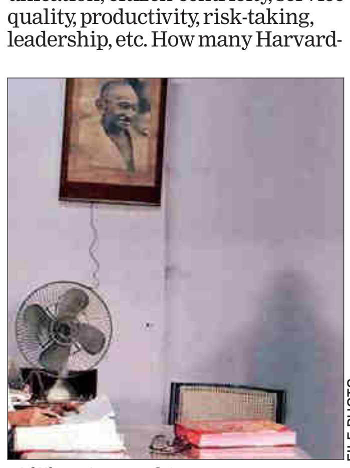
Rajiv Gandhi had famously stunned the nation when he said that only 15 paise of every rupee earmarked for the poor actually reach them. With Aadhaar and digitisation, things may have ameliorated, but no one knows for sure. Imagine the possibilities if 100% reach the final beneficiary.

Here's another one for the imagination: you walk into a sarkari office with dread for a certificate and get treated as if you're in a luxury car showroom. Every government servant you encounter truly service-oriented? Far-fetched?

Not necessarily. It is plausible if GoI develops its human capital akin to the private sector, and aligns it to the vision and mission. Government must invest in constituting 'government capital' (GC): a bundle of intangible assets that includes human capital, information capital (such as the Aadhaar, PAN and other systems), leadership capital, innovation and education ecosystems, the Centre and state brands, culture of meritocracy and fairness, execution capabilities and so on.

To do this, the government folks — including the policymakers — must get trained and skilled. Almost all the intangible assets that form GC will be driven by one: human capital. Yet, government hardly thinks about building and growing this most critical capital. Bureaucrats elbow their way through to be sent to the best universities across the world for additional training. But training must be contextual to the policies of the elected governments for it to derive value.

Worse, the training of the-less-than-1,700 IAS officers at Ivy Leagues at huge costs has poor returns on investment since most of them use it for personal benefits. This amount could have been better utilised had there been training for other employees for such normal things as communication, citizen-centricity, service quality, productivity, risk-taking, leadership, etc. How many Harvard-trained bureaucrats resort to training their subordinates? Productivity suffers from there itself with top-down communication and no two-way discussions.



FILE PHOTO

Skilling them softly

Historically, countries with large GC have succeeded in creating far bigger per-capita GDP growth. Countries like Saudi Arabia, Nigeria and Venezuela have high natural resources, but made poor investments in their people and systems, creating far less output per person and experiencing much slower growth rates than countries like Singapore, Israel and South Korea, which have few natural resources but invested heavily in human and other capital. GC creates value at both macro and micro economic levels.

GoI instituted the Skill India programme based on an OECD report arguing for developing countries to build their skilled labour for economic progress. The fact that India was way behind — at 10% skilled human capital in comparison to the 50-92% of developed nations — prompted GoI to drive Skill India without applying further thought. The report didn't specify that the skilling should begin at home, and that it is very much the government's business to skill its employees.

Had that happened first, the Skill India mission would have delivered wonders. Currently, it is a breeding ground for profiteering and nepotism. This is also a classic case of overdependence on external consultants when one's own employees have irrelevant skills. A bureaucracy driven by rules and regulations will always float a tender and use the consultant to mandate everything else. If developed well, government employees would be the torchbearers in driving ecosystems so needed for the future of job-creation, innovation, education and just about everything else.

Exactly how many people are employed in government? According to the Seventh Pay Commission, no one really knows! And how about productivity? There is no data on this either, but it is much lower than in the developed world and certainly dismally lower than in the private sector.

With the global economy looking bleak, government will have to stick to an austerity drive and get its employees to do more with less, and differently. It should get employees to 'own' its many initiatives. Also, urgently needed is a system to develop the capability and capacity to redesign GoI's service, become 'human capital architects' by providing evidence-based, innovative thinking. This should include emboldening and expediting fraternisation, co-designing across public services, and creating enabling frameworks.

If the human capital is aligned to the mission, significant outcomes can be triggered. And with equitable natural resources and intangible assets, India could leapfrog on growth rates if action is taken quickly today.

The writer is chief evangelist, Medici Institute

the speaking tree

Climb Every Mountain

RAKESH SAKSENA

The inscription on the wall beckoning all visitors at the imposing façade of the Himalayan Mountaineering Institute, Darjeeling, reads thus, "May you climb from Peak to Peak". The museum within details the valour, grit and determination of all the Everest heroes: those who made it to the Himalayan heights, those who tried and did not, and the hardship associated with climbing the highest peak. The climb from peak to peak is all about the stupendous team effort, attitude, will power, fortitude, discipline, sacrifice and endurance required to put a couple of individuals on the top.

For the achievers, the need to dream beyond what is possible, passion for the job, enthusiasm and sense of purpose are the prime tasks. The attitude to set clear goals, patience and perseverance even when the results are not visible, and the ability to take failure in one's stride sets these men and women apart. Positive thinking is critical.

Even with technological innovations, the human spirit still remains the biggest asset, and team work, the best support system. Every member in the team can make a difference — understanding, communication and dialogue are the foundation, and the focus is on humility — the need to "over-perform and underplay".

To be a team player since one never has all the answers is a reminder of the superhuman effort of hundreds of team members who make it possible for a few to attain glory. We need to dream beyond what is possible, and never ever give up, but keep trying and moving on.

Chat Room

Shell Banned or Shell-Shocked?

Sebi has notified that more than 300 companies would now be traded on the stock exchanges only on the first Monday of the month, and with riders, which sends a warning to investors in these companies. Shell companies are floated to hoodwink not just investors but also banks and tax authorities. The move will help curb corporate frauds and make our stock exchanges more attractive to small investors. The government should clamp down on these companies to recover the money defrauded by them.

S N KABRA
Mumbai

Digital Ease for the Masses

Apropos 'Digital Desis' by Shelley Singh (Aug 8), the government has continuously highlighted the benefits of using electronic transactions over the traditional means. Despite cheap data rates, half of the population is digitally excluded. The data clearly shows that a big part of the country's population is untouched by digital ease.

They still take recourse to laborious procedures that involve cash withdrawals and payments by cheques. India should leverage on digital speed to make the economy aerodynamic.

NANDANI KABRA
Ujjain

A Tragicomedy Called Trump

This refers to the Edit, 'Helping Foreign Rulers, Just by Comparison' (Aug 8). Donald Trump is only living by the kind of hyperbole he threw at his audience during the presidential election. They lapped it up for mysterious reasons. Trump may not be Trump if he behaves by the rule book; with his sacking spree as comical as his appointments. So, the question is not whether he will ever act in a responsible way but whether he would ever act in a sober and sensible way. Hats off to the American democracy that has been extremely patient with their president and is giving him enough time to trip over.

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