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Can Provident, Pension and Gratuity Funds now invest in National Savings Schemes? Clarification by Central Directorate of National Savings

The Central Directorate of National Savings (CDNS) issued a press note on 1 Oct 2006, which said that from 2 Oct 2006 all National Savings Schemes (NSS), except Pensioners' and Bahbood, have been re-opened for new investment by "institutions". This was reported in A & H Letter No 78 of Oct 06.

But Provident, Pension and Gratuity Funds (Retirement Funds) were not specifically mentioned. To clear up this point, we corresponded with the CDNS. We warmly appreciate their responses to our letters. The correspondence is on our web-site www.akhasan.com. Important extracts are:

From CDNS letter of 14 Nov 06: "It is further clarified that all funds of an institution, irrespective of their nature, can be invested in the selective National Savings Schemes subject to the condition that the institution, to which these funds relate to, fulfills the eligibility criteria governing the institutional investment. The notifications shall be furnished shortly."

From our letter of 27 Nov 06: "The inference from your above letter is that despite the absence of an explicit reference to Provident, Superannuation and Gratuity Funds, such Funds set up by any of the institutions listed in your Press Note/administrative instructions can now invest in DSC's, SSC's, RIC's etc."

From CDNS letter 6 Dec 06 "... the inference drawn in your letter is reflective of our clarification referred to in the [CDNS letter of 14 Nov 06]."

As we understand it now, if an "institution" is permitted to invest in NSS, then Retirement Funds set up by it can also invest in NSS. But if the "institution" itself is not permitted to invest in NSS, then its Retirement Funds are also de-barred.

As at 21 Dec 06, the Notifications were not available. But the CDNS web-site listed the institutions permitted to invest in NSS as:

- a. Registered Charities (Non-profit bodies).
- b. Public Sector Enterprises excl Banks.
- c. Private Educational & Health Institutions.
- d. EOBI.
- e. Private Corporate Sector registered with the SECP excluding Banks.
- f. Non-Bank Financial Institutions (NBFIs) excluding Insurance Companies.

Anomalies now created

The 1966 DSC Rules specifically permitted Recognised Provident Funds, and Approved Superannuation and Gratuity Funds, to invest in NSS, regardless of which enterprise or body sponsored or set up such Funds. But they did not permit a business enterprise itself to invest in NSS, regardless of its form, or the nature of its business.

This was logical and coherent.

But now a limited company engaged in commerce or industry can itself invest in NSS, and so can a Retirement Fund set up by it. However, a Retirement Fund set up by a partnership, a bank or an insurance company cannot invest in NSS.

This is anomalous. As advocated in our Letter No 78, it would be wiser and fairer to revert to the 1966 position.

Phenomenal expansion of private sector life insurance in India

The growth of Indian private life insurance companies is a phenomenon.

Growth of New Premiums over prev year
(Source: Journals of Ins Regulatory & Dev Authority)

Y.e. 31 Mar	LIC (Public Sector)	Private Sector Cos	Total
2003	(-) 2%	N/A	N/A
2004	2%	170 %	11 %
2005	5%	122%	21 %
2006	16%	80%	32 %

New Premiums are "Annual Premium Equivalent" i.e. 10% of Single Pms + 100% of Non-Single pms

The private sector's first complete year ended Mar 2003: new premiums were Ind Rs 6.628 billion. In its 3rd complete year ended Mar 2006, new premiums were Rs 71.575 billion, 10.8 times the first year.

The Life Insurance Corporation (LIC) lagged behind initially, but joined the act recently. In the 6 months to Sep 2006, compared with the 6 months to Sep 2005:

- # the LIC's new premiums grew by 138%
- # private cos' new premiums grew by 114%
- # total new premiums grew by 130%.

Total new premiums were Ind Rs 151 billion for the 6 months to Sep 2006, compared with 118 billion for the full year to Mar 2003.

Another phenomenon: expansion of telephones in Pakistan

The expansion of telephones in Pakistan is another phenomenon. This revolution in telephony, and the accompanying reduction in long-distance phone charges, are real boons for Pakistanis. The number of subscribers is now 33% of the whole population, and well over 50% of the adult population. This somewhat overstates phone penetration, because some have two or more.

Pakistan telephone subscribers in millions
(Source: Pak Telecom Authority www.pta.gov.pk)

At end of	Land-lines	WLL	Mobiles	Total
Jun 00	3.06	-	0.31	3.36
Jun 01	3.23	-	0.74	4.00
Jun 02	3.66	-	1.70	5.35
Jun 03	4.05	-	2.40	6.45
Jun 04	4.50	-	5.02	9.53
Jun 05	5.28	0.27	12.77	18.31
Jun 06	5.24	1.03	34.51	40.79
Jul 06	5.25*	1.12	36.78	43.14
Aug 06	5.25*	1.23	39.19	45.68
Sep 06	5.25*	1.32	41.50	48.08
Oct 06	5.25*	1.37	44.35	50.97

* Assumed figures. Actuals not stated
WLL = Wireless Local Loop

On 25 Mar 06, the CBR Chairman said that it costs US \$ 200 to create the infra-structure for one mobile subscriber. At that point, infrastructure for 40 million had already been set up, at a total cost of US \$ 8 billion.

Demand pull and sales push

Sales are the result of demand pull + sales push + logistical ability to handle or deliver on sales. This assumes that market size is not a limiting factor.

In life insurance, demand pull is negligible. Perhaps success is due 85% to sales push, and 15% to logistical ability to handle sales.

For telephones in Pakistan, our guess is 60% is due to demand pull, and perhaps 20% each to sales push and logistics.

Prudent statements

The CDNS has not said in plain words that Retirement Funds can now invest in NSS. It has left this to be inferred. This reminds us of a dispatch from a newspaper correspondent. Reporting on an accident, he said "casualties cannot be stated definitely, but there were more than 5 and less than 7".

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