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# With Aadhaar we have been able to cut the umbilical cord with the employer

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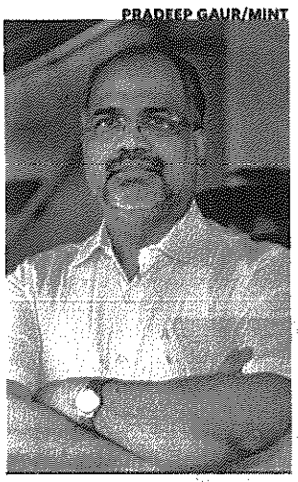

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**V.P. Joy**
Central Provident Fund Commissioner

For the Employees' Provident Fund Organisation (EPFO), 2017 was a significant year as it centralised its systems and took a tech leap to offer seamless digital solutions to the subscribers. Specifically, EPFO subscribers who had linked their Aadhaar number with their Universal Account Number (UAN) were able to experience smoother withdrawals, transfers and other activities from their provident fund account. EPFO took another leap of faith and hiked equity exposure to 15% of the incremental flows through the ETF route. V.P. Joy, central provident fund commissioner, took us through the big bang reforms that took place in 2017. Edited excerpts:

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**With the launch of UAN, EPFO has seen many technological advancements. How have these helped employees?**

With UAN, we could link various accounts of employees into an umbrella account and they could see their balances online. But we couldn't offer any real online service as the EPF data was decentralised in 120 servers across various EPF offices. Centralization was the most difficult and challenging task in digital transformation of the EPFO.

The online services and detaching of members' accounts from the employer became possible only when we centralized our systems at the National Data Centre last year and it became operational fully this year. Now there are mainframe servers in Delhi and Hyderabad as back-up.

Earlier, provident fund accounts were scattered across regional provident fund centres. An employee of Chennai could retrieve her information only from the regional provident fund office of Chennai. With centralization, benefits of UAN were made available to employees through online services this year. Contribution collection too became centralized. Earlier the employer would put in money and it would take 3-4 months to reflect in the accounts. Now it happens in a couple of days. This also enables to track defaulting employers and now we have built an effective real-time default tracking and management system. For employees, we have introduced shorter transfer and withdrawal forms with which they can completely eliminate the employer authentication while making a claim.

**But all of this depends on having Aadhaar.**

Yes. Aadhaar verifies the identity of the employee, for which earlier we depended on the employer. We have also introduced composite claim forms for withdrawals, which don't need verification by the employer if employees' UAN is verified with Aadhaar. Further, we launched the facility online and on mobile phones where employees can make a withdrawal claim. With Aadhaar we have been able to cut the umbilical cord with the employer. In fact, because of Aadhaar now we will see a drop in inoperative accounts because till now we needed employers' intervention to verify an employee.

And due to centralization of our systems and Aadhaar, even the process of transfer is automated. A new employer just needs UAN of the employee to register her with EPFO. The system will update the account history tagged to the UAN and the transfer is automatically completed. And because KYC can be processed through the UAN and Aadhaar, we have eliminated the verification process by the former employer and also the form-filling exercise completely.

**But many people have trouble matching their Aadhaar details with EPFO database, and cannot use online facilities.**

Yes, that's a problem especially with the old database as many employees left out basic information. We have an online facility to correct details as per their Aadhaar. For instance, we don't need a certificate if the difference in date of birth with that in Aadhaar is a year or less, or if the gender is not mentioned. The employee needs to give Aadhaar details online, which are verified by the back office and changes approved in the system.

**You have decided to increase equity allocation to 15% this year, and unitize the equity corpus. By when will this happen? What happens to the money thus far invested in equities?**

We are planning to account for the equity component by next financial year. Going forward, employees will have two accounts. The cash account will have 85% of the contributions and will accumulate interest the way it happens now. The equity account will have the remaining 15% of the contributions. This account will be unitized and employees can track their fund value by looking at the NAV and units held by them. Everything else remains the same, with respect to withdrawals, advances and transfer rules. Employees will have the freedom to decide the account they would like to withdraw money from.

Talking about the existing corpus, so far we have invested Rs35,000 crore through ETFs. We are yet to take a call on how and when to retire this investment. The Central Board of Trustees is yet to take a call on this but we will have to liquidate the corpus eventually at the appropriate time.

**The Employees' Pension Scheme (EPS) also got a lot of attention this year after a Supreme Court order last year allowed employees to increase their contribution to EPS and increase pension eligibility. This is going to increase EPFO's liabilities. How are you preparing for it?**

EPS is a defined benefit scheme where the pension is given based on a formula and it's not fully based on the contributions. Yes, till 2014 there was a rule that allowed a member to contribute on a higher salary in order to get a higher pension as the pension formula is based on the terminal average salary from which you contribute into the EPS. Now a few years back when the interest rates were high, people preferred fixed deposits and PF deposits as they chose to contribute on the minimum salary (8.33% of Rs6,500) to the EPS even when their salaries were more. Now with the decreasing interest rate trend, EPS looks much more attractive as it is a defined benefit system. And so many erstwhile members want to pull the money from the banks, pay arrears to the EPFO and get a higher pension. But there is no provision in the statute to make a retrospective pension contribution to the EPS. The clamour around EPS happened because interest rates are falling and defined pension system looks attractive. But we need to realise that in a falling interest regime, EPS itself cannot take new commitments which will weaken it.

The position in this matter has been clarified by EPFO. Only those employees that were contributing 12% of their actual salary and not 12% of the capped wages on monthly basis earlier to the EPFO are eligible to increase their contribution in the EPS by agreeing to contribute 8.33% of the actual salary and not 8.33% of the capped wages to the EPS. They need to make a request and EPFO will reclassify the money from EPF to EPS. For those who have withdrawn their money from provident fund, they will need to plough back the due amount with the interest accrued to EPS.

Also keep in mind that the provision to increase the contributions to EPS was allowed till 2014 and not after that. So the reclassification is mainly important only for people who left the EPFO before 2014. For those who are still contributing to EPS, the 2014 amendment no longer allows them to increase their contributions beyond the capped wages. For people who retired before 2014, we have a rough estimate on the liabilities. The matter relating to exempt establishments is sub-judice.

**How do you look back at 2017 and what are the challenges ahead?**

Our biggest achievement as an institution that manages corpus for 47.5 million employees is the centralization of our system and that has speeded many things. We were also able to put in place a default management framework where we track defaulting establishments who don't credit money on time and take legal action against them. In fact, we also publish the list of defaulting establishments and over time this number is coming down. We now offer value-added services that let you make withdrawals instead of a mere check of your passbook online. There is now an EPFO app in Umang that you can use to access EPFO online services from your smartphone. But all of these services depend on people linking their Aadhaar, which is the next big challenge for us. So far we have only 15 million employees that have seeded and verified their Aadhaar with their UAN. We need all the employees to verify their Aadhaar to the UAN so that we can go paperless and all applications are online. Then there are no forms to be filled and submitted just your UAN, the service you want and Aadhaar for verification is all that you will need. We plan to go paperless by the 15 August next year. The next big challenge is to clean the old database and merge old accounts.

**We plan to go paperless by 15 August next year. The next big challenge is to...manage old accounts**

**Deepti Bhaskaran**
*deepti.bh@livemint.com*