ECONOMICS

Share Article

Establishing A Robust Management Information System an Imperative for India's EPFO and ESIS to Meet Members Aspirations and Country's Needs

In article 11:10 AM, Jan 20, 2021

Mukul Asher and V Ramakrishnan (https://myind.net/Home/authorArchives/2543)

The Context and the Theme

There is a widespread consensus that India's nearly seven decades old EPFO (Employees' Provident Fund Organization) and ESIS (Employee State Insurance Scheme), designed to provide retirement income security, and health care services to private sector workers respectively, have not delivered the desired outcomes for their members in spite of large investments made in them.

The EPFO with assets under management of INR 16.6 Trillion (8.3% of GDP), and ESIS, with assets of INR 0.8 trillion are among the largest Non-Banking financial institutions in the country. Much more is expected of them in contributing to the wellbeing and financial security of the retired and leveraging India's capital market development.

EPFO administers three mandatory schemes, a provident fund scheme, called EPF (Employees' Provident fund) which is a mandatory savings scheme for those businesses employing over 20 workers; Employees' Pension Scheme (EPS) which provides pension on a defined benefit basis to eligible members; and EDLI (Employees Deposit Linked Insurance Scheme), is an insurance cover provided to its members. These three require different skills, with EPS and EDLI requiring robust actuarial skills.

The combined contribution rate of the three schemes varies between 18.83 and 20.83%.

The ESIS administers health insurance scheme. Its contribution rate is 3.25% of the wages by the employers, and 0.75% by the employees, for a total of 4.0%.

The members and society expect that in return for entrusting such high mandatory contributions, EPFO and ESIS as organizations are managed competently, and professionally, and that they adopt to emerging technologies, including digital economy, to deliver effective returns to members.

Thus between 22.83 and 24.83% of wages are mandatorily entrusted to EPFO and ESIS. This puts high responsibility on these two organizations to deliver commensurate services.

A strong case exists that without substantive reforms in design, governance structures, and investing in more robust Management Information system (MIS), these two organizations are not likely to meet 21st century aspirations of their members regarding service quality and delivered outcomes

What gets measured gets done and good data well collated and presented help set the tone and trend for both decision makers and managers.

A necessary first step is a compass for managers to set goals and assess progress of planned activities on an on-going basis, the key role of MIS. It helps consolidate data but leaves information for action to the skill of the manager. The data provided help plan reactive interventions.

A dashboard is an evolution and helps quantify the outcomes associated with Key Result Areas or KRAs which it helps align. The MIS graduates to a scorecard by linking various deliverables tightly; it transforms into a proactive forward looking integrated framework and anticipates the potential pitfalls and provides a more holistic view of performance of the enterprise and institution. The information distilled can help pre-emptive action to anticipate a problem and develop a solution.

A dashboard aligns the directors and senior managers; a scorecard links the senior managers objectives and tasks to the operational goals and targets.

While the combination seamlessly connects direction, management and supervision it requires a firm foundation. A well-designed MIS provides that base and helps users understand that good quality timely numbers are essential to meet aspirations and to deliver desired outcomes.

For the EPFO and ESIS sourcing raw data could present challenges. Hence, it is advisable to set a sound MIS framework, gain experience and skills, and graduate to a dashboard-scorecard system in the medium term.

This column focuses on only the MIS aspect of the needed reforms of EPFO and ESIS. Both need to establish and then competently and professionally manage a robust MIS which is capable of providing the information to management and to their stakeholders on a regular timely basis.

What Information Should the MIS Deliver to EPFO and ESIS Management?

The suggestions made in this column of what should the MIS deliver are preliminary, and will need to be refined as experience is gained and as new policy priorities emerge.

1. Both organizations should provide total members (sometimes called subscribers) and total actual contributors to the three schemes of EPFO (EPF, EPS, and EDLI) and of the ESIS scheme for health care Both flows during a given period (e.g., a six-month period) and a stock on a given date should be reported.

These are important as they indicate the extent to which those who are members are actually contributing (there should be minimum difference between the two). Given the trends in this ratio, appropriate measures to improve the compliance ratio, and to eliminate duplicate accounts can be instituted.

The actual contributors to total labour force ratio provide an indication of the extent to which the two organizations are able to provide coverage to the labour force.

2. The MIS must provide contributions to and withdrawals by members for different purposes for each scheme during a period, perhaps quarterly.

In any retirement income security scheme, it is the power of compound interest that significantly affects the total corpus available to members at retirement.

If pre-retirement withdrawals to contributions ratio is high, power of compound interest is reduced, adversely affecting total balance of a member available for retirement. This is particularly relevant for the EPF scheme as it permits fairly generous pre-retirement withdrawals.

The EPFO should also provide the number of persons withdrawing at the specified age of age of 55, and the average balance withdrawn classified into few brackets.

The ESIS should report the contributions and the expenses on providing benefits plus administrative expensive. It does appear currently the expenditure on benefits is too low compared to the contributions.

The MIS would permit examination of this trend, and the management can make appropriate policy decisions.

3. Both organizations, for all their schemes, need to provide density of contributions (number of months of contribution divided by total potential months of contribution) on a periodic basis, perhaps once a year. It would be more policy-relevant if such data are provided for each state as well as country as a whole.

For Provident and Pension Funds, members with a low density of contributions are likely to face low accumulated balances at retirement age, and therefore are likely to have lower ratio of retirement income to pre-retirement income. i.e., the replacement rates.

For the pension and life insurance schemes of EPFO, and for the ESIS, without high density of contributions, the schemes would not be financially viable.

4. The EPFO needs to publish annually balances of its members (Active and Non-active) by income range, gender, and age group. Such information would help assess the extent to which member balances are concentrated (if a small proportion of members have disproportionately large proportion of balances) that would require policy responses. Disaggregation by gender would help in gender analysis of the EPF scheme.
5. The ESIS needs to focus more on health outcomes, including through preventive care, it aims to achieve, and not just on health outputs/inputs (such as number of beds, operations performed, or patients visited). Its MIS should be constructed for its management to compare per unit costs of standard medical procedures across its hospitals. The Dashboard of the ESIS should Incorporate this feature.
6. Annually, the two organizations need to provide rate of return earned by different schemes and by asset classes and the stock of assets for each scheme.

Annual dividend actually credited to the accounts of the members in each scheme also should be published annually.

Annually, administrative costs, and investment management cost as percent of contributions, and as percent of assets needs to be reported.

The investment management strategy also needs to be reported annually.

7. The actuarial valuations by independent professionals need to be undertaken for three schemes of EPFO, and for ESIS at regular intervals to assess their sustainability
8. These should be put in public domain for public policy debate. As this has not been the practice, this requires mind-set change of the decision makers, and of the organizational leadership.

Concluding Remarks

The EPFO and the ESIS are at a juncture where constructing a robust MIS (Management Information System) has become an urgent imperative if these organizations are to meet the needs of the country, and are to meet aspirations of its members. Such MIS will require an organizational change, which needs to be handled with sensitivity and competence.

The MIS in turn would generate information suggested above which would help improve management decision making, performance and delivered outcomes.

The current Annual Reports, Operational Statistics and their documents, largely unchanged for decades, would undergo a drastic reformulation once a robust MIS is in place.

Image Source: Medium

Comments

(https://myind.net/Home/authorArchives/2543)

Mukul Asher and V Ramakrishnan (https://myind.net/Home/authorArchives/2543)

Contributor Profile (https://myind.net/Home/authorArchives/2543)