NPS: All you need to know about 'penny drop' feature

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In order to protect the interest of National Pension Scheme (NPS) subscribers for timely credit of money in case of withdrawal, the Pension Fund Regulatory and Development Authority (PFRDA) recently introduced Instant Bank Account verification via the 'penny drop' feature. This feature will be adopted by the Central Record-Keeping (CRA) agencies for verifying bank accounts on time. Once the withdrawal request is verified and authorised in the CRS system, the proceeds will be credited to the subscriber's bank account.

"This should help in operational ease at the time of withdrawal as the bank set up is pre-verified and any discrepancies can be addressed in advance," said Vishal Dhawan, financial advisor and founder at Plan Ahead Wealth Advisors.

What is the penny drop feature?

When any NPS subscriber places a request for money withdrawal, they have to provide details like the bank account number and IFSC code among others. Now, often the amount does not get credited to the customer's savings account within the stipulated time.

This could even be due to account-related issues like invalid account number, wrong account type or IFSC code, mismatched name or if the account is dormant or frozen. The 'penny drop' facility will be effective in such scenarios and help avoid any delay in withdrawals. NPS authorities will first verify the bank account and then initiate any withdrawal request.

How does the penny drop feature work?

Essentially, the bank account will be verified by making a 'test transaction' of Re 1 (hence the name penny drop) in the subscriber's registered bank account. KFintech CRA (KCRA) will complete an instant authentication to check if the bank details provided by the subscriber is valid and the account holder's name is similar to the one mentioned in PRAN. The 'success' or 'failure' of the penny transaction will be notified by the service provider based on validation of savings account number according to the CRA records.

Upon successfully finishing the instant bank verification, the NPS subscriber will be allowed to complete his/her withdrawal request. Besides, if the penny drop transaction fails for a subscriber due to a mismatch in name or some other mistake, the customer will be denied a request for money withdrawal. In case the bank account details are incorrect, an alternate account number or additional supporting documents will have to be submitted for updating the CRA records.

What you should know

Notably, NPS has a lock-in period up to the age of 60 and it only allows withdrawal up to a maximum of three times throughout the tenure. It gives an investor the option to put money in equity, government bonds and corporate bonds.

"Considering the need for focussed retirement savings and the long time frame associated with this financial goal, the low cost structure of the NPS along with its choice of asset classes and managers makes it a good choice for investment," Dhawan said.

Additionally, investors now enjoy the facility of complete withdrawal of NPS if their accumulated balance reaches Rs 5 lakhs. Even a partial withdrawal is also possible through a self-declaration. No supporting documents are needed for a partial withdrawal.

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