STRENGTHENING URBAN SAFETY NETS IN INDIA (P157292)

Summary Note

1. Introduction

1.1. ***Despite strong momentum in reform and innovations, India's social protection program mix is yet to adequately serve the needs of structural transformation.*** A social protection system that responds to a more middle income, more urban, diverse and more decentralized India is needed. India has experienced sustained growth and poverty reduction in recent years, however poverty and vulnerability remain high (World Bank 2016). At present, a majority of programs remain focussed on rural and static populations**.** For chronic poor households very near the poverty line, a safety net can provide protection by transferring a basic level of assistance. But for those households who have made substantial progress, social protection programs need to provide insurance through instruments that minimize the impact of shocks to ensure households consolidate their welfare gains. The needs of the growing number of vulnerable and urban poor remain inadequately addressed, and the urban SP system is largely unprepared to address the needs of mobile populations - a group that is likely to continue to grow as economic reforms deepen. A greater emphasis should be placed on prevention strategies, helping people manage risks before they cause deprivation. This includes expanding coverage of social insurance and formal sector pension programs. Protection for huge informal sector assumes priority. Expanded coverage of social pensions, access to health coverage under health insurance programs, and opening of pension programs such as Atal Pension Yojana for the informal sector can accelerate inclusion by helping protect households against risks, together with enhancing portable coverage for the large number of migrant workers.

1.2. ***The analytic outputs generated through the RSR supported Strengthening Urban Safety Nets task have aimed to improve design and delivery of urban social protection interventions with focus on pensions and social insurance.*** Completed activities have provided international experience and analytic support to help state governments (Delhi, Himachal Pradesh, Odisha), financial service providers (State Bank of India) and regulators (Pensions Fund Regulatory Development Authority) in (i) adapting design and delivery mechanisms for identification, enrollment and benefit transfers to more densely clustered, dynamic and mobile populations in urban centers. The results and analysis have highlighted specific areas for modifying standard operating procedures for enrollment, monitoring and budgeting in urban areas for PFRDA and at the state level. (ii) reduce barriers to entry faced by the urban poor, particularly recent migrants and slum-dwellers into social programs; and (iii) improve uptake of risk prevention programs (such as health insurance and co-contributory pension schemes) amongst unorganized workers in urban areas.

1.3. ***Organization***: The current note summarizes key activities and lessons. Following the introduction, the second section sets out the context for support to urban social protection in India. The third section outlines core tasks and deliverables. The final section provides summary diagnostics and lessons.

2. Context Setting: Urban Social Protection in India

2.1. ***While poverty has reduced in recent decades, vulnerability remains high, new sources of vulnerability have emerged, and the diversity of needs among the poor has increased.*** The poverty headcount rate has more than halved in the last 20 years, dropping from 46.1% below $1.90 per day in 1993 to 21.3% in 2012. A range of human development indicators have also improved markedly over the same period. Yet despite the impressive progress, India is home to the largest number of poor people in the world. Poverty rates remain higher and indicators are worse in several low income states (LIS). With increasing urbanization, the share of the urban poor in total has increased, particularly in small and medium towns. In addition, a large proportion of households, both poor and non-poor, may be vulnerable to poverty even though they may not be currently poor. Variability of incomes and coping with recurring shocks are a common feature, especially among poor households. Despite these developments, social protection spending remains largely focused on programs to alleviate chronic poverty, concentrated overwhelmingly on rural areas. Divergence in income and social indicators across and within states has also increased the diversity of social protection needs in different parts of the country, including growing needs among the urban poor.[1] Basic subsistence needs and services remain the priority in some areas, while other areas are facing second generation challenges of expanding social protection instruments to deal with economic modernization, and the new risks and vulnerability it brings. The table below captures the vulnerable[2] proportion of populations in various states with highest shares of urbanization in India. The share of vulnerable groups has been increasing over time in Delhi (from nearly 37 per cent in 1993 to 40 per cent in 2011). This trend is not uniform across states. Punjab has shown an almost 10 percentage point drop in vulnerability share over the same time period, but the share has been higher than in Delhi (51 per cent in 2011). In general, the share of the vulnerable in Delhi has mostly remained lower than for the other states as well as for India as a whole.

Table 1: Percentage of Vulnerable Households in Select States

State	1993	2004	2009	2011
Himachal Pradesh	52.7	54.8	54.9	55.4
Punjab	60.1	50.5	52.0	50.8
Chandigarh	42.1	33.2	23.4	30.5
Haryana	50.0	53.0	47.2	49.2
Delhi	36.8	48.6	42.9	40.0
Gujarat	52.3	50.4	52.8	54.8
Daman & Diu	60.9	70.9	36.8	54.6
All-India	*44.5*	*47.3*	*51.0*	*53.6*

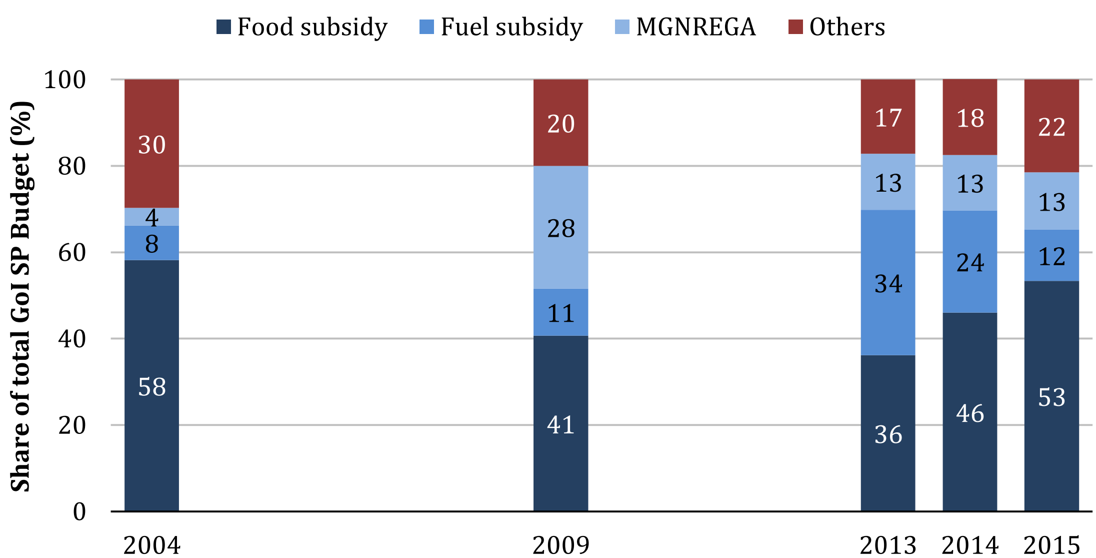
(NSSO: World Bank 2014)

[1] See for example the World Bank's Pathways to Poverty Reduction synthesis paper (2016) and India Poverty Assessment (2006) for evidence on divergence across the country in key indicators.

[2] Per capita monthly expenditures between PL and 2*Poverty line

2.2. ***India's social protection program mix has been diversified in the past decade, however government spending continues to emphasize protective measures such as public works and subsidies.*** As Figure 1 indicates, subsidies remain at the heart of the social protection system in India (Bhalla 2014), with food and fuel subsidies accounting for more than half the expenditure incurred on social protection programs. In 2014-15, Rs. 122675.81 crores were spent on food subsidies[3]. This was an increase from Rs. 42489 crore in 2009-10. The current 2015-16 budget allocated Rs. 124419 crore for food subsidies. Since 2005, there have been concerted efforts by state and central governments to strengthen investments in social protection programs. State government initiatives and spending have increased on social sector spending from 37% in 2005 to 41% of state budgets in 2014[4] (RBI 2014). At the central level, nominal spending on centrally sponsored social protection schemes as a share of total Government of India expenditures has increased from 9% in 2004 to 15% in 2014. In nominal terms, central government spending on social protection programs as a share of GDP has also increased from 1.4% in 2004 to 2.2% in 2013-2014. Spending on insurance programs is limited, and design features remain oriented towards rural settings without adequate flexibility to tackle concerns emanating from the rural-urban transformation process.

Figure 1: Social Protection Expenditures, Government of India 2004-2015



Source: Union Budget 2004,2009,2013-2015

2.3. ***While protective programs have received a major boost, the government has simultaneously invested in preventive instruments such as insurance programs.*** Social insurance programs such as Rashtriya Swasthya Bima Yojana (revised and now part of the National Health Protection Scheme) and Aam Aadmi Bima Yojana were initiated in 2008. These schemes aimed at providing insurance coverage to the poor in the unorganized sector for health shocks, accidents and death in the household. In the past year, the NDA government has launched two new co-contributory social insurance schemes -- Pradhan Mantri Jeevan Jyoti Bima Yojana

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[3] Union Budget of India, 2014-15: http://indiabudget.nic.in/budget2014-2015/ebmain.asp

[4] See Figure 4 in Statistical Appendix for details

(PMJJBY) and the Pradhan Mantri Suraksha Bima Yojana (PMSBY)—to provide insurance for disability, death and accidents. The Atal Pension Yojana (APY) provides pensions to those in jobs which do not allow access to formal sector provident fund and pensions. In the case of APY, the central government is a co-contributory partner, making approximately 50 percent of the total contribution to each eligible subscriber account, for a period of 5 years (PFRDA 2015[5]).

2.4. ***There is increasing effort afforded to extend social security to unorganized workers.*** The Unorganized Workers' Social Security Act was passed by parliament in 2008. The Act aims to create an institutional framework which can enable state governments to cater to the social security and welfare needs of unorganized workers – including home-based workers, self-employed workers and daily-wage workers. The Act mandates the constitution of a National Social Security Board meant to guide formulation of social security schemes for life and disability cover, health and maternity benefits, old age protection and any other benefit as may be determined by the Government for unorganized workers (MoLE 2009). Recent announcements envision every worker in the unorganized sector being issued a smart card with a unique identification number for accessing social schemes and benefits. The Ministry of Labour and Employment is expected to issue portable benefits card for unorganized workers, called 'U-WIN.' (MoLE 2015[6]).

2.5. ***In 2010 and again in 2015, the GOI announced a multiple-year co-contribution for National Pension Scheme and Atal Pension Yojana respectively.*** Nearly 90% of the GOI co-contribution budget however has lapsed every year due to low public response to the scheme and associated fiscal incentives. Since 2009, 10 State Governments have also notified a similar co-contribution (of between Rs.1000 and Rs.1200) for NPS and/or APY. However, less than 1% of the 280 million working age Indians living in these 10 States have voluntarily opted for APY or NPS (aggregate pension coverage in these States was less than 2.5 million by June 2016; Please refer Table 1 below).

2.6. ***The Strengthening Urban Safety Nets task has been providing technical assistance to the PFRDA in developing field-tested strategies to expand pension coverage among the unorganized sector.*** This task has been in partnership with the Finance and Markets NLTA to PFRDA financed by FIRST. In the first stage (October 2015 through September 2016) this involved development of evidence based recommendations for policy and regulatory interventions aimed at expanding secure and convenient access to simple and affordable pension products by low income excluded citizens using existing financial inclusion infrastructure. In line with this goal, the Project Team has carefully reviewed the NPS and APY products, ecosystem, process architecture and implementation arrangements that have evolved over the years. In this process, the Urban Safety Nets activities also supported reviews of existing procedures for enrolment, regular contributions and customer protection, and has identified several areas for coordinated and cooperative action between the PFRDA, central and state governments, financial inclusion infrastructure providers and pension sector stakeholders. A smaller component of the task supported expanding coverage of social insurance programs through leveraging urban Socio-

[5] https://www.sbp.co.in/govt-business/pdf/APY_Brochure.pdf
[6] http://labour.nic.in/content/dglw/Guidelines_for_Social_Security_UWIN_Card_29042015.pdf

Economic Caste Census data for the Ministry of Health and Family Welfare, GoI and state government of Odisha.

3. *Core Activities and Outputs*

TASKS	Activities and Outputs	Status and Follow-Up
Component 1: Assessing Social Protection Delivery to Informal Workers across the Urban Spectrum	1.1 Presentation based on exit interviews of APY users and PMJDY customers in Delhi and Shimla 1.2 Report on the social protection profile of Slum Dwellers in Delhi	• Survey work completed and reports/presentations shared with concerned state governments and PFRDA. • Presentation of analysis on program performance and coverage followed by by DEA request for DBT support from Odisha, MoLE and Delhi state government.
Component 2: Piloting Mechanisms to enhance Social Protection Delivery to Informal Workers	2.1 Note summarizing important international lessons on urban safety nets 2.2 Report assessing implementation of reforms on outreach and targeting of pensions in urban slums through intermediation and information campaigns (Pinbox Solutions)	• Task completed in Delhi in partnership with SBI and PFRA. • Core outputs and recommendations for enhancing coverage shared with clients and PMO • Resulted in request from MoLE and Government of Telengana to scale up pilots
	2.3 Recommendations to enhance coverage based on review of pensions in urban areas.	• Review of co-contributory pensions completed and shared with PFRA • Could not be completed for social pensions as DEA did not approve Delhi/MoRD request for NLTA

TASKS	Activities and Outputs	Status and Follow-Up
	2.4 Presentation and 2.5 Report based on analysis testing quality of SECC as a pilot tool for beneficiary identification for social insurance programs (OPM) in Odisha.	• Task supported Universal Health Insurance NLTA provided by HNP GP • Lessons and analysis shared with MoHFW. • Can feed into policy discussions on urban SECC

4. Summary Diagnostics and Key Recommendations

4.1. ***International experience suggests replicating systems from rural areas rarely yields positive outcomes for urban populations, as the nature of risks and points of service contact are extremely different.*** Urban safety nets need to vary based on the size of towns and nature of urban poverty concentration. In India, urban social protection interventions remain fairly neglected. Most national social programs are designed and targeted for a static and rural population, with limited policy and program attention devoted to adapting appropriate design and delivery mechanisms for identification, enrollment and benefit transfers to more densely clustered, dynamic and mobile populations in urban centers. The urban poor are not a homogeneous group and are characterized by a greater degree of volatility and insecurity of incomes, livelihoods and shelter. In addition, the informality and cyclicality of certain types of jobs in urban areas –whereby many in the labor force are no longer tied to a particular *place* for shelter or social security benefits – makes targeting and outreach of services extremely difficult. In 2005, unorganized sector workers constituted about 70 per cent of the urban workforce, and a quarter of these workers were below the poverty line (NCEUS 2009). Furthermore, an "urban area" is a catch-all phrase for a diverse range of settings – mega-cities, large cities, secondary cities and small towns. Social protection needs and poverty profiles vary vastly across this urban continuum of spaces, jobs and living conditions (Bhan 2014, Kundu 2009, Kannan 2011).

4.2. ***Data on safety nets in India highlights that coverage in urban areas lags rural areas.*** For example, while half of India's rural households use the PDS, only 30% of urban households do so. Despite being the dominant urban safety net in terms of spending (Charris 2011), urban clients form a small share of the PDS. As per NSS estimates, in 2004/05, only 9% of total PDS users were resident in urban areas. This share has increased to 11% in 2011/12. Outreach of RSBY remains low in urban areas due to difficulties in enrolling urban populations (Palacios et al 2009). Urban uptake of the PDS remains low with very high levels of leakage in northern states such as Delhi, Punjab and Haryana. Low uptake of programs can be partly attributed the different needs and profiles of urban populations, who reside in locations with functioning food markets and private options for insurance. Limited information is available on the diversity and depth of shocks faced by households in urban areas. In larger metropolitan cities, housing and health emerge as major sources of risk. The urban SP system is largely unprepared to address the needs of mobile populations - a group that is likely to continue to grow as economic reforms deepen.

4.3. ***Survey data from urban areas also highlights the need to adapt the design of enrolment and entry procedures to suit urban conditions.*** In rural programs, village elected representatives are responsible for many aspects of program administration, particularly beneficiary identification. The risks of exclusion are exacerbated in urban spaces where constituencies are dense and large, constraining the ability of urban local bodies to receive and screen applicants. Comparing the experience of social pensions between urban Haryana and Delhi highlights this problem. Despite both states requiring attestations from urban elected representatives on application forms, very few respondents in urban Haryana felt political connections were important, while majority in Delhi felt that connectedness mattered for program entry. This difference is associated with the use of municipal bodies in Haryana for program administration. An average citizen in Delhi relies on political party cadre members who reside in their colonies to access their MLAs. Survey data shows that only 21.4% of the sampled slums had a MLA office in the neighborhood and very few residents were aware of any office to access an MLA directly. The catchment population for an urban MLA in Delhi is on average roughly 175,000 persons. In contrast, an urban local body in Haryana caters to a smaller group by design. At present, there are 830 elected members of Municipal Councils/Committees in Haryana –with a catchment of approximately 3200 persons each. In terms of physical offices, there are 42 Municipal councils/committee offices catering to 63,000 persons each (Bhattacharya et al 2015). Thus, urban interventions need to adapt to local municipal guidelines and governance arrangements.

4.4. ***Social insurance and pensions are an important preventive form of social protection, yet uptake amongst informal workers remains low.*** Data from recent surveys in the slums of Delhi, urban areas in HP and urban Odisha highlight low coverage of social insurance and pension programs especially for SCs/STs and OBC households. For example, only 7% households in Delhi's slums had enrolled in RSBY. This was a lower share amongst SC and ST households. According to administrative data, the Atal Pension Yojana (APY) and the National Pension Scheme (NPS) have managed to attract less than 2% of the excluded informal sector workforce. 50% of the total accounts held by low income citizens in APY and NPS are already dormant. Less than 1% of the 280 million working age Indians in 10 states with co-contribution schemes have enrolled with APY or NPS. The Prime Minister's *Jan Dhan Yojana* (PMJDY) has already provided banking access to nearly 250 million excluded Indians while the *Jan Suraksha Yojana* has delivered accident and life insurance cover to some 120 million low income citizens in less than 2 years. In comparison, the *Atal Pension Yojana* (APY) and the *National Pension Scheme* (NPS) have collectively managed to attract only 7 million informal sector individuals (or less than 2% of the excluded informal sector workforce) although the NPS was launched in 2009 and APY was launched 18 months ago (under PMJDY). Relatively poor voluntary pension coverage is largely due to low publicity and public awareness of the 2 schemes, a poorly designed distribution model and unattractive commercial incentives, increasingly complex product rules, lengthy (paper-based) account opening procedures and KYC challenges faced by most of the low income informal sector target subscribers. Savings persistency across APY and NPS subscribers is also alarmingly low (as well over 50% of the total accounts held by low income citizens are already dormant).

4.5. ***If the present status with broad-based pension exclusion is allowed to continue, the majority of India's currently young informal sector citizens, including those who could***

otherwise afford to save for their own retirement, will inevitably fall back on tax-funded social protection programs when they are old. The population of elderly is estimated to grow to 200 million by 2030 and to 300 million by 2050. Consequently, by 2050, the federal and state governments may be forced to spend over US$100 billion a year in aggregate terms to pay an old age pension of even US$1 per day to the projected population of 300 million elderly. This estimated expenditure on social pensions will likely consume the bulk of federal and state government revenues and could crowd out public expenditure on health, education and infrastructure. Clearly, without an urgent and effective policy, regulatory and business response to the challenge of broad-based pension exclusion, poverty among the elderly will emerge as the dominant cause for increased poverty in India. On the other hand, if individuals with Aadhaar-seeded bank accounts joined the APY or NPS, India could witness nearly US$0.5 trillion in long-term retirement savings within the next decade. Universal enrolments in APY or NPS can therefore help reduce potential future budgetary pressures by increasing self-provision for retirement while contributing to economic growth and infrastructure development by increasing aggregate long-term household saving.

Table 1: Current Pension Coverage Levels and Potential Future Fiscal Outcomes

State Governments that have notified a co-contribution to APY or NPS	**Working age population** (million)	**Voluntary Coverage since 2010**	**Coverage as % of working age population (%)**	**Annual future fiscal cost of a social pension** (US$ mn)	**Cumulative AUM in 5 years with 10% coverage** (US$ mn)
Andhra Pradesh	53.7	164,828	0.31%	19,601	1,624
Assam	18.8	198,182	1.05%	6,862	571
Chhattisgarh	15.3	178,725	1.16%	5,585	451
Delhi NCR	11	49,329	0.45%	4,015	331
Gujarat	37.9	123,693	0.32%	13,834	1,143
Haryana	15.5	73,832	0.47%	5,658	481
Himachal Pradesh	4.3	23,875	0.53%	1,570	120
Karnataka	39.2	797,833	2.03%	14,308	1,173
Madhya Pradesh	45.2	180,465	0.40%	16,498	1,353
Rajasthan	39.4	102,297	0.26%	14,381	1,173
Total	**280.3**	**2,413,608**	**0.86%**	**102,310**	**8,420**

(Source : PFRDA 2016)

4.6. ***Expanding informal sector coverage of social insurance and pensions is a challenge, predicated on the effectiveness of the outreach and beneficiary identification processes.*** Registering informal workers in India remains cumbersome (Majumdar and Borbora 2013, Bhattacharya et al 2015), despite a series of worker welfare funds and enactment of the

Unorganized Workers Act 2008. As a follow up to the implementation of the Unorganized Workers Social Security Act, the National Social Security Board was set up on 18 August 2009. As per the provisions of the Act, each state government is mandated to set up worker welfare boards to provide insurance and medical support to informal sector workers. However, the National Social Security Board for Unorganized Workers is limited to an advisory role, and does not have sufficient powers to implement, monitor or enforce social security. With the exception of a few states such as Tamil Nadu, West Bengal, Chhattisgarh, Karnataka and Kerala, a majority of the states have not even set up their state level welfare boards (WEIGO 2012, Kannan 2013).

4.7. ***Worker welfare funds represent one of the models developed in India for providing social protection to workers in the informal economy.*** India has a federal structure and these funds have been set up by various State governments as well as by the Central government of India. The funds target for informal workers in specific industries and, in most cases, are raised from a cess or tax on the production/output in specified industries, especially those in which there is no direct recognized employer-employee relationship and typically without any contribution from government or the workers. An example of a Central Fund is the Bidi Workers Welfare Fund where a welfare cess is collected along with tobacco taxes on *bidis* and transferred to the Ministry of Labour, which has established an autonomous welfare board, comprised of representatives from employers, government, and workers, to plan and administer the various benefits under the welfare scheme. States set up the Construction Workers Welfare Funds, whereby state governments collect a cess on construction projects worth more than one million rupees and transfer the amount raised to the Welfare Fund for Construction Workers. The Fund is responsible for registering workers and extending social security benefits such as health and life insurance. Despite the establishment of worker funds, utilization by workers remains low. According to labor ministry data, Rs 11,127 crore has been collected by various state governments across the country as building and construction workers' cess until 30 September 2013. Of these funds, 87% were unutilized. The Delhi construction workers' welfare fund spent 8.53% of the Rs 1,196 crore raised, while Uttar Pradesh utilized 0.91 % of Rs 739 crore raised. Haryana reported an expenditure of 2.17 % of Rs 803 crore. The Labour Department of Maharashtra collected Rs 2,500 crore since 2008 as cess from builders and real estate developers for the welfare of construction workers but managed to disburse only 6% of the funds to beneficiaries.

4.8. ***Intermediation services can help enhance coverage for pension products.*** The results from the pilot suggest that handholding support covers service level gaps and provide information. By the close of the SBI pilots on 26 March 2017, a total of 107 APY clients had been educated and enrolled by 6 SBI BC-CSPs. This implies an average of 21 enrolments per CSP in roughly one month – a jump of nearly 700% from the average monthly enrolments observed prior the pilot at Delhi. Considering the savings capacity of many of the CSP clients including the urban poor, and the concerns related to savings persistency essential for availing the APY defined benefits voiced by clients who were approached for APY, it is recommended that PFRDA considers a mechanism to automatically transfer the savings and membership of irregular or dormant APY customers to the NPS – the defined contribution scheme. This will ensure that even people with intermittent incomes or those who face sustained period in which they are unable to save for old age, have the ability and an incentive to return to the scheme when their economic situations improve.

4.9. ***While the SECC can serve as a robust platform for identification, analysis suggests major gaps in data quality in urban areas.*** One of the activities financed by the task recanvassed the SECC tool in urban wards to assess divergence and accuracy for targeting the health insurance program in Odisha. The exclusion errors were high, and varied across wards. The analysis finds that the urban SECC was incomplete database, and did not include all the residents in the sampled wards. However, the SECC is the most robust database as present, the state government and MoHFW could consider the following policy recommendations when using the SECC for targeting in urban areas:

i. **Leverage a unique ID for all individuals:** The state government needs to create a unique for each household to link them across datasets. Matching beneficiaries by names is both time consuming and impractical. The state government could consider using the Aadhar number as a unique ID for everyone. The prevalence of Aadhar, though controversial, is quite high in the sampled districts
ii. **Improve data storage and management capacity:** We found several blank values in the SECC, and several villages with missing data. This could have implications for targeting. The state government could invest in improving data collection and storage capacity, to minimise errors and omissions.
iii. **Redressal systems through local level functionaries:** If the state government uses the SECC as a targeting tool, it must invest in processes and grievance redressal systems to ensure that those excluded from SECC can still identify or register themselves on the database to access various social protection schemes of the government.
iv. **Re-canvass survey tools** in areas with serious divergence identified by EB level analysis

4.10. ***Importantly, with the acceleration of PMJDY and DBT, the government has already created the necessary national infrastructure for enabling expansion of pension and social insurance coverage at the state level***. The current financial architecture and DBT allow for secure, convenient and low cost collection of individual retirement contributions as well as for delivery of pension benefits to citizens without the risk of leakages, fraud or reconciliation errors. The following strategies may be considered by the Government to achieve population-wide pension inclusion at the same pace and scale as the PMJDY.

i. **Pension Inclusion Mission Office**: India's pension inclusion and coverage initiative should build on the hugely successful pan-India implementation management and monitoring model of the Prime Minister's Jan Dhan Yojana (PMJDY) by establishing a dedicated “Pension Inclusion Mission Office”. This proposed pension inclusion mission office should be housed within the Department of Financial Services and have the responsibility and authority for achieving meaningful, time-bound targets for both voluntary pension coverage and persistency. The mission office should proactively provide the Central and State Governments, PFRDA and various other pension sector stakeholders with expert, on-demand technical assistance for design and implementation of inclusive coverage strategies, as well as on-tap MIS on implementation outcomes and progress on an ongoing basis. In this way, the mission office will play a pivotal role in fostering a well-coordinated policy, regulatory and business response to building a mass-market for the NPS and APY, especially among women and the more difficult to reach parts of the labour force.

ii. **Digital Pension Inclusion and Coverage Toolkit**: In line with the Prime Minister's "Digital India" vision, a Digital Pension Coverage Toolkit, with ready-to-deploy technology tools and digital platforms to integrate the PMJDY, UIDAI and NPCI infrastructure is proposed to be developed under this Project. This Digital Pension Coverage Toolkit will assist States to offer secure and convenient access to an affordable and integrated pension and insurance solution by low income excluded households. The Mission Office should actively offer this Toolkit to State Governments along with on-ground implementation management and monitoring support to help them achieve more meaningful, mass-scale voluntary coverage.

iii. **Auto-enrolment for NPS and APY**: Jointly with the UIDAI, NPCI and banks, the Government should mount an intensive, nation-wide "auto-enrolment" drive for APY and NPS. This recommendation is also in line with the consultation paper recently issued by the PFRDA on auto-enrolments. The government should automatically open "virtual" APY and NPS accounts for the ~300 million Aadhaar-seeded bank accounts including the bank accounts recently opened under PMJDY. The government should simultaneously launch an extensive publicity campaign to inform and encourage these bank account-holders to "activate" their APY or NPS accounts by simply providing their bank an auto-debit/ NACH mandate for periodic pension contributions deduction and transfer. The proposed Mission Office should work closely with NPCI and UIDAI to harness the "India-Stack" infrastructure (Aadhaar eKYC and e-Sign) to instantly register auto-debit mandates for NPS or APY contributions. The Government should bear the transaction costs of registration and processing of automated NPS and APY contributions. The Government should also oblige banks to waive the present high penalties on account of failed auto-debits/ NACH mandates as such penalties will have a hugely adverse impact on the terminal accumulations of lower income informal sector workers who may face frequent contribution interruptions on account of unpredictable incomes.

iv. **Continuation of Fiscal Incentives and Aadhaar integration**: The Government should re-launch its fiscal incentives program with a matching co-contribution ceiling of Rs.1800 per year per subscriber for a 5-year period. As was done recently for APY, the federal and state governments can limit their fiscal commitments on account of conditional transfers for pensions by offering fiscal incentives on a first-come-first-served basis for a limited period. This will help cap the fiscal commitments of the federal and state governments. Importantly, all existing and future NPS and APY accounts should be seeded with Aadhaar to mitigate the risk of multiple accounts and leakages under the proposed fiscal incentives program. However, and especially in view of the recent experience with a much lower than expected (or budgeted) public response to co-contributions under NPS-Lite Swavalamban and APY, any further fiscal incentives for APY or NPS should be rolled out only after appropriate prior stakeholder consultations, planning and preparations. The mission office should ensure that PFRDA, NPS/ APY intermediaries, banks and State Governments are adequately prepared to jointly launch a well-coordinated national publicity and promotions campaign and are fully capable also of dealing effectively with an escalated interest in voluntary enrolments in order to more optimally respond to a sudden spurt in demand. The Mission Office should take the lead on preparatory work, coordinated implementation, impact monitoring and MIS dissemination.

v. **Special Incentives for Women Subscribers**: PFRDA data clearly shows that women are more concerned about retirement income security than men as roughly 75% of NPS-Lite subscribers and nearly half of all APY clients are women even though women form barely 15% of India's paid workforce. The Government should therefore aim at a greater gender balance in targeting fiscal incentives in favor of women given that women are more vulnerable to old age poverty than men as they enjoy a higher life expectancy than men but are disadvantaged compared to men due to their relatively lower incomes, a shorter working period, and interruptions in employment due to childbirth and other family responsibilities. The Government should extend a special additional co-contribution benefit of Rs.600 per year to women subscribers for APY and NPS for a 5-year period.

vi. **Identical fiscal incentives for APY and NPS**: Subscribers for both NPS and APY should be eligible for the same GOI co-contribution benefit. An eligible subscriber who wishes to open both accounts should receive the subsidy in only one of these scheme accounts.

vii. **Encourage greater State Government ownership and support for pension inclusion**: Through the Mission Office, the GOI should proactively engage with State Governments to encourage them to take greater direct responsibility and ownership for public awareness and enrolments for APY and NPS. Each State Government should be encouraged to supplement the GOI co-contribution budget by announcing an additional co-contribution from their own budgets. The Mission Office should provide on-demand technical assistance to State Governments for design and implementation of innovative strategies and interventions to achieve optimum voluntary coverage. The proposed Pension Coverage Toolkit, including ready-to-deploy technology tools and platforms, financial literacy and training materials, as also digital process maps for integrated social security solutions delivery, proposed to be developed under this Project, will further assist and support State Governments on appropriate decisions and interventions aimed at voluntary coverage expansion.

viii. **Bundle insurance benefits with NPS and APY**: To help jumpstart early mass-scale voluntary account activation and persistent savings, and in line with the successful PMJDY strategy, the Government should offer the Pradhan Mantri Suraksha Bima Yojana (PMSBY) and the Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) free of cost for a 5-year period to each active NPS and APY contributor. A part of the proposed fiscal incentives budget of Rs.1800 per subscriber per year can be used for paying the insurance premium. NPS/ APY target beneficiaries who are already eligible for and covered by a State Government funded insurance program (as is the case in Andhra Pradesh), should have the option to avail the full matching cash co-contribution by the GOI. By combining insurance with pensions, APY and NPS subscribers will achieve more immediately visible relief against short-term risks. This will increase the perceived value and attraction of the bundled option leading to a higher demand for the integrated social security solution. Importantly, insurance will help cover the cost of life-cycle risks and emergencies that cause income interruptions and are usually funded through past savings. This will in turn smoothen incomes and cash-flows of NPS and APY subscribers and lower the resistance to an illiquid long-term retirement savings option.

ix. **Offer more optimum commercial incentives to motivate cross-selling**: The Government of India could increase the one-time front-end commercial incentive for opening or activating NPS or APY accounts to Rs.500 per account. In effect, the government would pay the current enrolment fee for the first five years as an upfront, lump sum payment for each new enrolment. The proposed higher upfront commission will significantly increase the interest of banks and other third-party distributors in cross-selling NPS and APY to millions of existing banking and financial services customers. This will also encourage banks and distributors to make higher front-end investments into appropriate subscriber education and information delivery. The applicable fee for each distributor should be computed by the CRA and transferred to the concerned intermediary in the month following the new account opening/ activation. An increase in front-end commercial incentives for new enrolments should however be implemented in tandem with strong safeguards and disincentives by PFRDA to prevent mis-selling. These may include Helpline call-backs to new clients to verify their knowledge of APY/ NPS processes, product features and benefits. Commercial incentives for new account activation should be payable only for customers who have been correctly informed regarding the scheme(s). Also, PFRDA should implement stiff penalties for mis-selling as well as a “claw-back” provision where fees already paid to a distributor should be refundable if an account become dormant within the first 24 months.

x. **GOI to bear the full administrative cost of APY and NPS**: The Government should implement an equitable policy on fees and charges, by fully subsidizing the higher account opening fees for distributors, as well as the flat fees and charges for the CRA for account activation and administration (as is already the case for federal and state government employees covered by the NPS). This will ensure a uniform policy for all citizens who join the NPS or APY including civil servants and informal sector workers. The GOI should also subsidize any cost for ongoing services including auto-debits for NPS and APY contributions. This is especially important since the NPS contribution floor has been lowered from Rs.6000 to Rs.1000 per year on the basis of earlier recommendations by the Project team following consultations with PFRDA and DFS. NPS and APY subscribers should be expected to pay only the asset management fee charged by pension funds (and which is deducted automatically from the NAV) and any transaction fee payable to BCs or banks for remitting cash into their bank accounts. This will also ensure that accumulated balances in temporarily or permanently dormant accounts are not eroded by flat annual administrative fees and charges.

xi. **Launch an extensive public awareness and publicity campaign**: The GOI should earmark an appropriate budget for a sustained national publicity and promotions campaign using simple, effective messages. This campaign should not attempt to convert the public into investment experts. It should focus on mass-scale generic awareness about the urgency and importance of retirement savings, as well as awareness of key product features, benefits and incentives (if any). The publicity campaign should use an integrated information, education and communication (IEC) strategy involving traditional print and electronic mass-media as well as field meetings through credible field partners and community networks, civil society organizations and non-traditional media to actively promote the concept of retirement savings.

xii. **Commission periodic surveys for market scoping and barriers to uptake**: The mission office (in consultation with PFRDA and pension intermediaries) should commission regular surveys (including tele-surveys through the Helpline) among both current (active and dormant) and potential NPS and APY subscribers to obtain direct feedback on outlook, concerns, constraints and confidence regarding retirement and old age income security. This effort should simultaneously monitor the impact and efficacy of public awareness and promotion campaigns and help identify the weak points in the value chain on an ongoing basis. The survey effort should include a panel as well as an annual national survey to build a robust, time-series view of retirement literacy, subscriber satisfaction and persistency. The data should ultimately help profile and segment the demand for voluntary pensions and demand shifts in response to changes in incomes, affordability and demography across geographies and occupations. This will in turn facilitate a more informed and effective policy, regulatory and business response to voluntary coverage expansion and barriers to uptake while helping identify early coverage opportunities. The PFRDA should simultaneously undertake a study on the mortality experience of NPS and APY mandatory and voluntary subscribers based on the evidence already at hand.