

# Are pensions reaching the “last mile?” Insights into the digitization of payments —Part I

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“*Maro pension naa aawe ab, jaane kya baat hui, chhe mahine hogye ab toh...*” (I no longer get my pension; it has been more than six months now. I wonder what has happened) complains Shayara Devi, who lives with her only son in a kutchha house made from mud in a village in Rajasthan. Her pension of INR 750 (USD 10.3) is critical to her survival, as it is her only income.

More than 33 million elderly people, widows, and persons with disabilities from below-poverty line (BPL) households receive pension payments from the Government of India’s (GoI) National Social Assistance Program (NSAP). Payments under NSAP are made to ensure minimum national standards of livelihood and social security.<sup>1</sup>

NSAP is a Centrally Sponsored Scheme<sup>2</sup> (CSS) that started in August, 1995. It receives 100% of its funding from the Ministry of Rural Development (MoRD). While the central government provides 100% of funding for NSAP, most states contribute an additional amount—or at least an equal contribution—to eligible beneficiaries to ensure they receive a basic level of assistance. This scheme comprises five sub-schemes:

- Old Age Pension Scheme (OAPS): Eligible beneficiaries in the age range of 60 to 79 years old receive an amount of INR 200 (2.76 USD) per month, while those above age 80 receive INR 500 (6.61 USD) per month.
- Widow Pension Scheme (WP): Beneficiaries in the age range of 40 to 79 years receive INR 300 (4.13 USD) per month, while those above 80 receive INR 500 (6.89 USD) per month.
- Disability Pension Scheme (DP): Beneficiaries in the age range of 18 to 79 years who suffer from severe or multiple disabilities<sup>3</sup> receive INR 300 (4.13 USD) per month while those aged above 80 receive INR 500 (6.89 USD) per month.

- National Family Benefit Scheme: Bereaved households that have lost the bread-winner in the age group of 18 to 59 years of age and are categorized as BPL receive one-time, lump-sum assistance of INR 20,000 (275.53 USD). The benefit is paid to the surviving member of the household of the deceased poor, who local inquiry confirms is the next head of the household.<sup>4</sup>
- Annapurna Scheme: Those eligible include senior citizens who remain uncovered under OAPS and receive 10 kg of either wheat or rice per month.

The eligibility of beneficiaries is based on the BPL Census 2011<sup>5</sup>, which the MoRD conducts in rural areas and the Ministries of Urban Development and Home Affairs conducts in urban areas. To enroll, official documents must be verified. These documents include certificates of birth or school to show proof of age, certificates of disability, or certificate of death of the deceased husband for widow pension. The following bar graph provides the number of beneficiaries for OAP, WP, and DP.

<sup>1</sup> Minimum national standards of livelihood refer to an amount of money needed for a person to meet their basic needs. The Poverty Line in India is the measure for this. <https://www.downtoearth.org.in/news/new-poverty-line-rs-32-for-rural-india-rs-47-for-urban-india-45134>

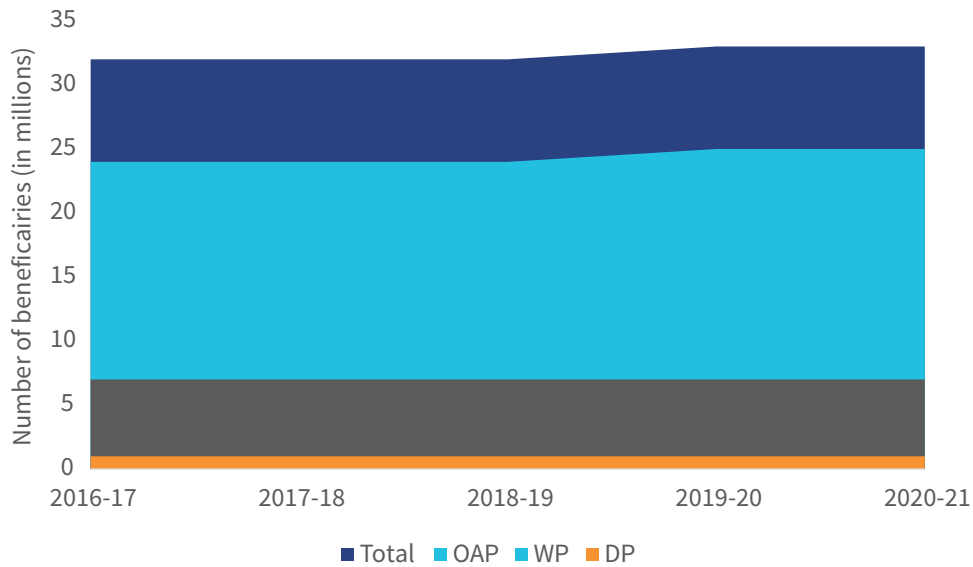
<sup>2</sup> Centrally Sponsored Schemes are schemes funded jointly by the center and states and implemented by state governments. NSAP is a 100% CSS meaning the central government funds the scheme entirely.

<sup>3</sup> As per the Persons with Disabilities Act, 1995, “persons with severe disability” means a person with 80% or more of one or more disabilities. As per the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999, “multiple disabilities” means a combination of two or more disabilities.

<sup>4</sup> For the purpose of the scheme, the term “household” would include spouse, minor children, unmarried daughters, and dependent parents. In case of death of an unmarried adult, the term “household” would include minor siblings and dependent parents.

<sup>5</sup> The Census is a decadal population enumeration exercise conducted in India by the Registrar General of India, Ministry of Home Affairs, GOI. For the enumeration of BPL persons, estimates of poverty line as per the Planning Commission guidelines are used.

Figure 1: Number of beneficiaries for select NSAP Programs (in millions)



Source: <https://nsap.nic.in/>

This note focuses on the digitization of pension payments and the challenges associated with last-mile delivery under OAP, WP, and DP.

### Digitization of pension payments and last-mile delivery

From the inception of the program through 2014, state governments disbursed pension payments in cash either through doorstep delivery or through money orders via postal staff.<sup>6</sup> This system had its share of inefficiencies, such as inclusion and exclusion errors, delay in payment and “leakages”, and “last-mile delivery challenges”.

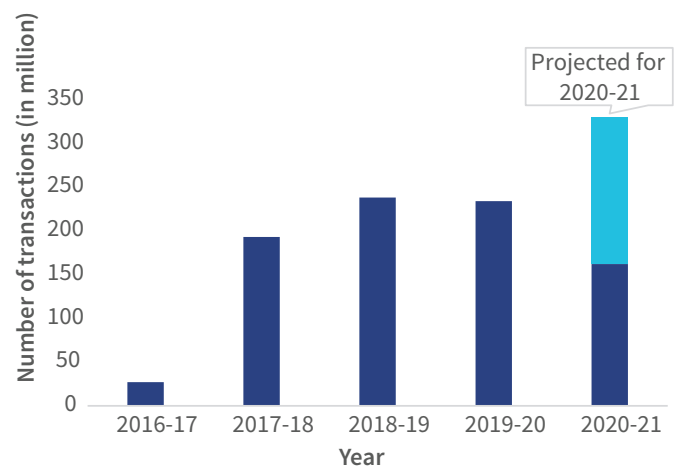
The GoI initiated the digitization of pension payment to plug leakages and streamline payments in 2014 under the National e-Governance Initiative 2006. This involves inking the *Aadhaar*<sup>7</sup> number of beneficiaries with their bank or postal accounts and digitizing the beneficiary database through the NSAP-PPS (Pension Processing System) software, which has been adopted by 21 states.<sup>8</sup> A few state governments maintain their beneficiary databases and MIS for pension delivery, for example, *Bhamashah* in Rajasthan or *Samagra* in Madhya Pradesh.

Following this initiative, state governments began disbursing pension payments using Direct Benefit Transfer (DBT) into the *Aadhaar*-linked bank or postal accounts of beneficiaries. Currently, 20 states disburse pension payments via DBT, six states through a mix of

digital and cash modes, and three states via doorstep delivery of cash.

The GoI and state governments disbursed INR 56.67 billion (USD 0.78 billion) through 157 million transactions in the year 2020-21. The estimated savings from the digitization of pension payment was INR 5.24 billion (USD 72.2 million) primarily by removing 0.75 million “ghost”<sup>9</sup> and ineligible beneficiaries. The number of DBT transactions has fallen from 2018-19 to 2019-20 as some states, such as Andhra Pradesh switched over from digital payments to cash in 2018.

Figure 2: Number of DBT transactions (in millions)



Source: <https://nsap.nic.in/>

<sup>6</sup> A postal worker is a person who delivers letters, packages, and money orders to the residents of a village, district, or city.

<sup>7</sup> Aadhaar number is a 12-digit random number issued by the UIDAI (Unique Identification of India Authority) to the residents of India after satisfying the verification process laid down by UIDAI. Any individual, irrespective of age and gender, who is a resident of India, may voluntarily enroll to obtain an Aadhaar number.

<sup>8</sup> NSAP PPS: NSAP-Pension Processing System is developed by the NIC. It provides details of all beneficiaries and facilitates end-to-end transactions from point of origination to the point of disbursement.

<sup>9</sup> Ghost beneficiaries are those who had been wrongly included as scheme beneficiaries, but have been filtered/excluded from the list of beneficiaries post digitization of databases and Aadhaar seeding.

While digitization has streamlined the NSAP management system and improved its efficiency, we have identified the following last-mile delivery challenges:

**Access to banks and withdrawal points:** Despite efforts to improve last-mile cash-in and cash-out (CICO) infrastructure, challenges persist. DBT beneficiaries prefer going to banks even if a business correspondent (BC)<sup>10</sup> is available in the vicinity. Our studies in Rajasthan, Andhra Pradesh, and Jharkhand have highlighted this pattern. Lack of trust in BCs, higher transactional hassles, such as cash shortages, overcharging, and denial of banking services (specifically withdrawals) are the primary reasons cited by beneficiaries for their preference of banks.

Further, the meager incentive structure offered to BCs proves counterproductive to effective beneficiary coverage. In Andhra Pradesh in 2015, BC coverage was not ubiquitous and their commission rates, established by the banks, were minimal at INR 2 (0.026 USD) per transaction for a pension disbursement amount of INR 1,000 (13.14 USD), that is, 0.2%. This left BCs inadequately incentivized to effect “last-mile” delivery to pensioners.

After 2015, the commission rates were revised to 1% per transaction for DBT payments, which is also below the 3.14 %, recommended by the Task Force on Aadhaar-enabled Unified Payment Infrastructure—a rate that MSC’s analysis also confirmed as both necessary and appropriate. Also, BCs in India earn far less than their counterparts in Africa and countries in Asia and Africa. Although agent profitability in India has doubled in the past two years, about one-third of agents continue to make losses.

In times of contingencies, such as the recent COVID-19 lockdown, the inadequacy of commissions from DBT transactions is even starker. During the lockdown, BCs incurred additional expenditures to deliver DBT announced under the Pradhan Mantri Gareeb Kalyan Yojana (providing emergency cash transfers and other support to beneficiaries). The income of BCs from non-DBT transactions collapsed due to low economic activity, and the current commission rates were too low for the BCs to undertake additional expenditures to deliver last-mile payments.

This situation is compounded by the low overdraft limit set by the banks. Due to issues around trust that customers and banks have with the BCs, banks set limits on the amounts that BCs can withdraw in a day to serve their customers. Large-scale withdrawals by beneficiaries through BCs along with other DBT disbursements (like NSAP payments) meant that BCs ran out of cash frequently, which makes it difficult for them to deliver pensions effectively.

**Data digitization issues resulting in inconvenience and exclusion:** In general, digitization improved the delivery of services for beneficiaries. Yet in a few cases, it led to inconvenience and exclusion. For example, in Rajasthan, the pension database was augmented with the Bhamashah Resident Data Hub portal (BRDH), a unified database for all welfare payments and benefits. There, data errors and inconsistencies in the date of birth, age, and bank account details in the BRDH portal led to halting or reduction in pension for approximately 8% of beneficiaries.

In a few cases, bank accounts opened by beneficiaries became inactive or dormant and pension benefits, therefore, did not reach their accounts. Also, beneficiaries reported having multiple accounts opened through multiple schemes, which confused beneficiaries about where the pension was being credited.

Reports from Jharkhand and several other states also highlight similar challenges faced by beneficiaries due to digitization. Common issues include errors in linking Aadhaar number with bank account and failure of biometrics authentication to withdraw pension at BCs, among others. The elderly, laborers, and the disabled, who are the most vulnerable groups, struggle with fingerprint authentication, as their biometrics often fail over time (“false negatives”). So, they are asked to update or re-enroll their biometric details.

Beneficiaries are often unable to travel to the access points or enrollment centers to authenticate themselves because of the opportunity cost involved (in terms of distance and financial cost). Hence, they are being excluded from the pension subsidy. Thus, technical glitches and inconsistencies or errors in databases have created hassles for some beneficiaries.

**Lack of communication and grievance resolution mechanisms:** A lack of clear and regular communication and absence of effective resolution mechanisms adds to the woes of beneficiaries. A major cause of concern is the ambiguity around addressing grievances about delays and discrepancies in payment amounts. Beneficiaries lack understanding of whom to hold responsible for inconsistencies in the delivery of pension payments—banks or the relevant government department that initiated the cash transfer.

While digitization has enhanced transparency and plugged leakages, the insights discussed in this blog lead us to believe that the digitization process requires targeted structural reforms to be truly beneficiary-centric. The second part of this blog series provides detailed recommendations to ensure the successful implementation of NSAP.

<sup>10</sup> Business correspondents (BCs) are individuals or entities engaged by a bank in India (commercial banks, regional rural banks, and local area banks) to provide banking services in unbanked or under-banked geographical territories. BCs work as bank agents and serve as substitutes for the brick-and-mortar bank.