TAKSHASHILA INSTITUTION

Reimagining Social Security for 21st Century India

A radical approach - Multi-Contributor Social Security (MCSS) system

Arindam Amaresh Goswami

Takshashila Discussion Document 2024-13
Version 1.0, July, 2024

This discussion document details out the design of a reimagined social security system, called Multi-Contributor Social Security (MCSS) system.

Recommended Citation:
Arindam Amaresh Goswami, "Reimagining Social Security for 21st Century India", Takshashila Discussion Document 2024-13, July, 2024, The Takshashila Institution.

Executive Summary

Our social security system suffers from inadequate coverage and financing, necessitating an urgent reimagining to broaden its reach and diversify its funding sources. A significant challenge lies in effectively connecting potential contributors with those in need of a social security safety net.

To address this, this paper proposes a Multi-Contributor Social Security system (MCSS). In this system, individuals can designate a bank account for MCSS contributions, which can come from various entities, including governments, employers, employees, philanthropists, individuals, and companies under CSR, with tax benefits for contributors. A key feature of this system is that contributors can search for and select recipients based on criteria such as age, income, and specific needs, and can specify the purpose of their contributions. Account holders can also broadcast the categories of their needs.

This reimagined social security system aims to simplify the process for contributors to discover and connect with intended recipients, creating a dependable social safety net that is not solely reliant on employers or the government.

This document has been formatted to be read conveniently on screens with landscape aspect ratios. Please print only if absolutely necessary.

Author
Arindam Goswami is a Research Analyst working in the High-Tech Geopolitics Programme at The Takshashila Institution.

Acknowledgments
The author would like to thank Nitin Pai, Pranay Kotasthane and Anupam Manur for their valuable comments and feedback.

Table of Contents

1. Introduction

1.1 Financing and coverage

Social security in India is plagued by two major issues: limited coverage and inadequate financing. It primarily benefits the organised sector, excluding gig workers and those in the unorganised sector. Even within the organised sector, about 53 percent lack social security benefits, according to the Periodic Labour Force Survey (PLFS) report.[1] Overall, more than 90 percent of India's workforce is engaged in informal employment.[2] The National Pension System (NPS), theoretically accessible to all, has poor coverage with only about 6.2 crore subscribers (approximately 10% of the workforce) as of March 2023.[3]

The financing problem stems from the fact that social security in India is either employer-based or funded by the government. The NPS and the Old Pension System (OPS), a Defined Benefits system with no employee contributions, are financially burdensome for the government. Various government schemes for unemployment allowances, insurance, and other benefits strain government resources, with pensions consuming around 9 percent[4] of the central government's revenue and 19 percent[5] of its expenditure.

The Employee State Insurance Corporation (ESIC) was recently in the news for considering an extension of its coverage to unorganised and gig sector workers.[6] On July 24, 2023, Rajasthan became the first Indian state to pass legislation aimed at providing social security benefits to gig workers.[7] These efforts are part of various initiatives by governments to expand social security beyond the formal sector. But given the financial constraints and the piecemeal approach towards widening the net, this won't be sufficient to expand the coverage of our social security system in its current form.

Thus, there is an urgent need to reimagine our social security system to broaden its coverage and open it to contributions from multiple sources.

It is time to redefine the "social" aspect in our social security framework.

1.2 Wealth redistribution

During the 2024 Indian election campaign, a broader debate emerged about implementing wealth and inheritance taxes to address economic inequality. Amid widening economic disparities and growing demands for social justice, discussions around wealth and inheritance taxes have intensified, highlighting the role of taxation in promoting economic equity and strengthening social security. In the realm of economic policy, few issues generate as much debate as wealth and inheritance taxes.

At its core, this debate extends beyond fiscal policy. Instead of solely focusing on increasing revenue, it is essential to consider how the funds will be distributed equitably. This brings the critical role of social security to the forefront. Rather than introducing additional taxes, which could potentially hinder entrepreneurship, capital formation, economic growth, innovation, and investment, it's important to explore alternative ways to use existing wealth for more equitable and voluntary redistribution.

Taxation is often viewed as coercive, except by governments. People, especially the wealthy, are generally more receptive to voluntary altruism and philanthropy. According to recent reports, the number of Indian philanthropists contributing ₹5 crore or more to charity reached a record high of 119 individuals in 2022-23, up from just 27 in 2016-17, with donations totalling ₹8,445 crore in FY23, an increase from ₹5,623 crore the previous year.[8] In FY 2022, private contributions totalled about $13 billion (INR 1.05 lakh crore). Private philanthropy has maintained an average growth rate of approximately 8% from FY 2017 to FY 2022. Corporate social responsibility (CSR), family philanthropy (including ultra-high net worth individuals [UHNIs] with a net worth above INR 1,000 crore, high net worth individuals [HNIs] with a net worth of INR 200–1,000 crore, and affluent individuals with a net worth of INR 7–200 crore), and retail giving collectively contributed around 86% of private philanthropy in India. CSR spending has increased by 13% over the past five years, reaching $3.3 billion

(INR 27,000 crore) in FY 2022. Although the growth rate slowed in FY 2022, we anticipate it will maintain its historical growth trajectory and reach $6.4 billion (INR 52,000 crore) by FY 2027. Family philanthropy has increased by 12% over the past five years, reaching $3.6 billion (INR 29,600 crore) in FY 2022, primarily driven by the growth of HNIs and affluent givers (with a net worth of INR 7–200 crore). Retail giving, which accounts for just over 22% of total contributions, has grown modestly at 6% annually from FY 2017 to FY 2022, but is projected to increase at a faster rate of 9% annually, contributing approximately 29% of total private giving by FY 2027. However, despite a 9% increase in cumulative wealth, UHNIs in India donate significantly less than their counterparts in the US, UK, and China. Indian UHNIs could increase their total contributions by 8 to 13 times if they matched the giving levels of their counterparts in China, the UK, and the US. Indian UHNIs donate between 0.04% and 0.06% of their wealth, while Chinese UHNIs contribute between 0.37% to 2.15%. UHNI contributions have been volatile, decreasing by 5% in FY 2022 when excluding contributions from outliers (people donating over 10% of their wealth in the specified year). [9]

This funding disparity underscores the potential for private philanthropy to play a larger role in fostering inclusive growth and the need to facilitate this more effectively. As the landscape of philanthropy evolves, leveraging digital technology and engaging private entities can pave the way for innovative approaches to maximise the impact and reach of charitable contributions, revolutionising social security.

This is where this discussion document proposes a new, reimagined social security system, called the Multi-Contributor Social Security (MCSS) system which can help in tackling both the funding and coverage problems.

This idea was first proposed by Nitin Pai from The Takshashila Institution,[10] and this discussion document expands on that idea.

In the following section, we will look into features of this proposed system.

Nitin Pai from The Takshashila Institution also wrote about this reimagined social security system on his blog.[11] The basic idea is that the government can achieve the greatest impact by fostering a multi-contributor model that engages the entire society in supporting those in need.

2. Features

The following figure lays out the various components of the system:

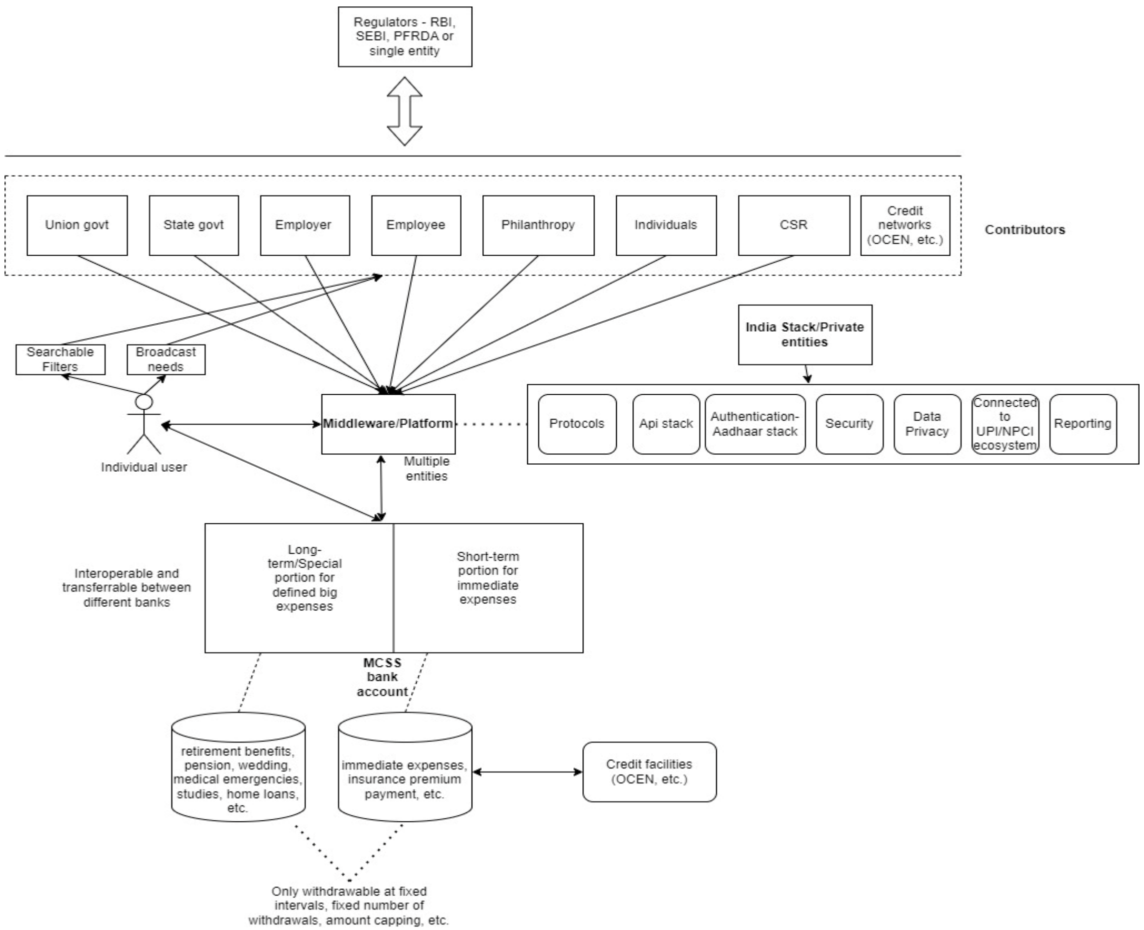

Figure 1: MCSS design

2.1 Components

1. **MCSS Bank account**: This will be a special type of bank account opened with a bank. It will have two components – a long-term/special portion and the short-term portion. Both will be described further in this document.
2. **Middleware platform**: As will be described in following sections, this system has to be very flexible and customisable. Due to its complex nature, it would be better to have this exposed via a middleware/platform; maybe as an India Stack open network. In the alternative, we could just define the protocols, standards, security and data requirements, and minimum basic functionalities, and allow private sector entities to develop it. The middleware will act as the orchestration layer for functionalities like searchability, discoverability, interoperability, keeping track of different portions of the MCSS account, etc. Any value-added functionalities in the future would also be built at the middleware layer.
3. **Contributors** – These will be the various entities that would make monetary contributions to a person's MCSS bank account. These will either login via the middleware platform or the specific bank.
4. **Regulators**: These will be the regulators for this system. This could be a single hybrid regulator or multiple regulators.

The platform will be built in a plug-and-play, interoperable model, using Application Programming Interfaces (APIs). This will help us to build functionalities on top of the base framework without requiring massive changes every time. Different players can build different features as wrappers to expand the system.

One can study the IndiaStack[12] set of open APIs to understand how this interconnected, plug-and-play model can look like.

5. **External services such as credit facilities** like Open Credit Enablement Network (OCEN) that can plug into the system at the middleware layer or at the banking layer.

2.2 Deepdive into the details

Let's go into the details of the various aspects of this system:

2.2.1 MCSS account

1. This is a multi-contributor social security system: Multiple entities should be able to contribute to this individual-based social security system:
    1. Union government
    2. State government
    3. Employer
    4. Employee
    5. CSR
    6. Philanthropy
    7. Individuals
    8. Credit networks (OCEN, etc.)
2. Contributions go into a designated MCSS account.
3. At a time, one person can have only one MCSS account. This will keep the system simple and easy to operate. It should be linked to the user's PAN.

4. We can either have restrictions on who can have this account, like income range, education levels, etc., which the RBI can enunciate, or keep it truly universal. Our recommendation is to keep this truly universal, i.e. open to all. It is meant as a social security/safety net for all.
5. Every MCSS account should have a unique ID, which we can call the MCSS account number. The individual bank account number, which would be different for each bank, would map to this MCSS account number. This would help in interoperability of this account and also in maintaining the history for the user across banks, thus maintaining continuity for the user.
6. The MCSS unique ID can also be plugged into the UPI/NPCI system so that the MCSS unique ID itself could be used to make transfers to the underlying bank account.
7. Integrating the MCSS system/platform with the UPI/NPCI system, would also make it easy for contributors to use this system seamlessly for their contributions.
8. Ideally this should be a no-minimum balance account because this is supposed to be a safety net for individuals. Having a minimum balance requirement for such an account, and penalties based on that, would defeat the purpose.
9. It cannot have other characteristics of a savings account, such as issuing debit cards, regular withdrawals and bank-to-bank transfers (NEFT, RTGS, etc.) other than those allowed under the rules for the specific purposes of the MCSS system, etc. Since this account will have different parts dedicated to different uses, as has been delineated below

Interconnectedness of systems is very essential if we want to take advantage of the network effects of any system. IndiaStack, UPI, etc. have demonstrated the benefits of having interconnected, plug-and-play platforms. Global trends are shifting towards systems that are more open and capable of interoperability. In a recent Bank for International Settlements (BIS) working paper, Nandan Nilekani and others propose the "concept of the "Finternet" as a vision for the future financial system: multiple financial ecosystems interconnected with each other – much like the internet… Unified ledgers are a promising vehicle to turn this vision into reality."[13]

Hence, having this MCSS system built in such a way that the platform is interoperable and can be plugged into existing systems like the UPI/NPCI system is very important. Such systems can be scaled up in a plug-and-play model based on demand and future requirement of newer features. We don't want to create just another isolated system.

- the benefits of this account will have to be tailored according to these, so as to maintain strict compartmentalization. For example, withdrawals may be allowed only from the short-term portion of the account which is dedicated to immediate expenses.

10. Use JAM (Jan Dhan - Aadhaar - Mobile) trinity to increase its penetration.
11. This can be part of the India Stack platform, and can be one of the Open Networks being built as part of the India Stack networks. This will be elucidated further below.
12. Anybody should be able to open this account, or designate/convert one of his existing bank accounts as a MCSS account.
13. This account should be usable digitally as well as manually, through bank branches and other offline bank instruments.

2.2.2 Different portions of the MCSS account

14. Different parts of this account:
    1. A long term/special portion for defined bigger expenses like retirement, wedding, medical emergencies, studies, home loans, etc.
    2. A short-term portion for immediate expenses, medical insurance premium payment, etc.
15. Some parts of this system will be mandatory. We can mandate pension savings from the long-term portion, insurance coverage via the short-term portion, investments into NPS, etc. These suggestions will ensure that the safety net doesn't devolve into another savings account

without any retirement/pension arrangements or social security aspects. The MCSS system is, first and foremost, a social security system intended as a safety net for people in need.

16. The retirement part of the long-term portion could be like the current NPS system (40% into an annuity plan at retirement, etc) or it could be built into this portion independent of the NPS.
17. The rules about pensions and retirement benefits will have to be defined very clearly by the Pension Fund Regulatory and Development Authority (PFRDA), or whichever regulator is defined for this system. It should specify all details like how much should be the annuity component, how much of this component can be withdrawn prematurely and for what purposes, etc.
18. We can define different thresholds for each of the above parts of the MCSS account. We could design this system in such a way that the first deposits into this account should go into the short-term portion, and once that crosses a threshold limit, contributions can flow into the long-term portion. This ensures that components like insurance premiums, which will get paid from the short-term portion, will be the first to be serviced by contributions into the account. This is in line with the understanding that this MCSS system is also designed as an immediate safety net for individuals. Hence, while long-term components like retirement benefits are important, we recognise that this system is also to majorly act as a source to fulfil small, immediate and important expenses (for instance, withdrawing money to deal with

an accident or illness), which will act as a social security/safety net for the individual, and will be defined under the rules. We can mandate that withdrawals and other usages of the short-term portion can be allowed only once it reaches the threshold. Similar thresholds can be defined for withdrawals and other usages of the long-term portion also. This paper does not go into the details of what these rules should be, other than specifying the concepts. In our opinion, these are complex aspects and require relevant expertise. Hence, the RBI would be best suited to define these rules. However, let's look at this with the following hypothetical example to get a better understanding of what the process might look like:

1. Say, a recipient X has an MCSS account. The first contributions into their account go into the short-term portion. After the amount in this portion reaches above, say, Rs. 75,000, the next contributions flow into the long-term portion. From that portion of the account, they invest into NPS for retirement/pension benefits. Based on the frequency of the contribution and the amount opted for, they would need to maintain a minimum amount in the long-term portion for the NPS investment.
2. Now, if they unfortunately meet with an accident and have to withdraw Rs. 50,000 for the medical expenses, this comes out from the short-term portion. This brings

down the total amount in the short-term portion below Rs. 75,000. Hence, the next contributions will go towards replenishing this.

3. However, if the medical expenses were to be more than Rs. 75,000 and the long-term portion could service this excess amount without eating into the minimum amount needed for an upcoming NPS investment/contribution, then the withdrawal could be allowed; otherwise, it would have to be disallowed.
4. We could also have limits defined for each type of withdrawal, both monetary limits as well as limits on the number of times withdrawals could be allowed for a specific purpose. For example, withdrawals for education could be allowed from the long-term portion only 3-4 times in the entire lifetime of the user, and only up to Rs. 75,000 per withdrawal.

19. MCSS bank account holders should be able to specify their granular needs, so that contributors can filter users based on that and decide their contributions.

2.2.3 Searchability and discoverability

20. Contributors should be able to search for:
    1. Individuals
    2. Groups filtered out based on criteria like age, income, livelihood sector, specific needs, etc.
21. The primary feature of the MCSS system is that it eases discoverability and searchability. MCSS could revolutionise the system at a micro level by simplifying the discovery and social connection process, enabling social security to be "socially/crowd"-funded.

2.2.4 Interoperability and transferability

22. This system should be:
    1. Inter-operable - Since the basic protocols for this MCSS account are to be the same across different providers, these accounts should be operable across different providers. The interfaces should be standardised. This can be facilitated through the middleware/India Stack.
    2. Transferable - A user should be able to transfer his MCSS account to another provider. This should be easy and hassle-free to do. This can also be facilitated through the middleware/India Stack.

23. Both of these facilities should not cause the MCSS account number to change, or cause any disruption in the functionalities of this account, like retirement/pension benefits, premium payments, etc.
24. Interoperability and transferability might require a few changes in various systems. For instance:
    1. As of now, it is not possible to switch bank mandates for active SIPs, without closing the SIP and creating a new one. But if this MCSS account is to be transferable, then we require a mechanism to allow this. SEBI will have to come up with guidelines for this.
25. Retirement plans are generally through pension accounts (NPS, etc.) and annuity plans. If the MCSS account itself is going to act as a pension account, we will require suitable changes to the law to accommodate this. In the alternative we can restrict pension plans to the current route only, using the long-term portion of the MCSS account.
26. There could be one-time payments into this account or recurring, subscription-like mandate payments.
27. The middleware can provide contributors visibility into all of their contributions across different users.

2.2.5 Need for a middleware

28. Due to the complex nature of the bank account, it would be better to have it exposed via the middleware or as an IndiaStack open network.
29. Middleware is the platform which will orchestrate all the functionalities of this system.
30. The purpose of the middleware platform is to expose all of the customizability, searchability and discoverability to contributors and recipients. This middleware should be exposed via application programming interfaces (APIs). More details about the middleware are provided in the section below titled "Functionalities of the middleware".
31. This will have to be a middleware or platform designed by a public-private entity or something like the IndiaStack, or in the alternative, the regulators or the government could just define the protocols, standards, minimum basic functionalities, security and data privacy requirements, and allow private sector entities to develop it.
32. It can be one of the Open Networks being built as part of the India Stack networks.
33. Interoperability and transferability should be non-negotiable aspects.
34. It will also ensure faster adoption of this across the ecosystem; otherwise each bank will have to develop this entire capability.

35. Alternatively the Central Recordkeeping Agencies (CRA) as in the NPS system, which has 3 CRAs (CAMS, KFintech, NSDL) could be used.
36. NPS has a Trustee Bank (Axis bank) which handles all the transfers. In the MCSS case, it will be the individual bank account which will handle all the withdrawals and deposits.
37. However, considering that we want the data to be centrally available for interoperability, it makes sense to develop it in one single place, like at IndiaStack or some government entity. Otherwise with private sector entities coming in, data sharing will be a hassle.

CRAs are used to maintain Know Your Customer (KYC) data at a central location to be used by different entities. It helps in centralised recordkeeping and administration purposes.

2.2.6 Data security and privacy

38. Data security mechanisms – These will need to be updated regularly to be in line with global standards. Considering that this system will have data about banking, investments, pensions, and a whole host of other sensitive data, security measures cannot be emphasised enough. There should be stringent audit and reporting mandates and mechanisms in line with those in the banking and fintech sector, and some more. Again, we can define just the standards and protocols that need to be followed while building this system, and leave it to the private entities building it to implement them.

39. Data privacy measures need to be in line with Digital Personal Data Protection Act, 2023, and more extensively, the General Data Protection Regulation (GDPR).
40. The system should be able to maintain anonymity of contributors and account holders to each other if so desired. Anonymity of contributors in general also might be desired.

2.2.7 Regulator(s)

41. Since there are multiple types of entities involved here, there will be multiple regulators - RBI for the banking part, SEBI for the investment part, PFRDA for the pension part.
42. We can think of a single entity as a regulator with representation from each of the above-mentioned regulators. This might simplify things and give users a single regulator to approach in case of issues.

2.2.8 Income tax benefits

43. Contributors should be able to get tax benefits for their contributions. These will follow the exact same rules as under Section 80G of the Income Tax Act.
44. There will be some concerns around money laundering, round-tripping and tax evasion. We need proper auditing and income tax returns processing mechanisms to deal with this. Since these accounts and transactions will have PAN and/or Aadhaar data linked with

Given that the general trend for the income tax regime in India is to move towards a system with no or very few exemptions, income tax benefits might not be a very significant part of this system. It makes sense also because having too many tax exemptions makes the tax code convoluted and open to misinterpretations and manipulation. It also increases the litigation cost. However, to incentivise the usage of this system, we might choose to provide Section 80G benefits for contributions into an MCSS account.

them, it shouldn't be difficult to keep a track of these for income tax purposes.

3. Functionality of the middleware

The purpose of the middleware platform is to expose all of the customisability, searchability and discoverability to contributors and recipients. This middleware should be exposed via application programming interfaces (APIs).

Banks and various fintech companies should be able to just plug into this system and offer functionalities out of the box. In that context, this has to be extendable and scalable.

Banks with their legacy systems would not be able to build this up fast. This is where the agility and efficiency of the private sector will have to be leveraged.

3.1 Functionality for recipients

1. Customer opens MCSS bank account with any bank.
2. An MCSS unique ID is generated at the middleware/platform layer (IndiaStack or government entity) and the bank account number is associated with this MCSS unique ID. This MCSS unique ID will be

same throughout the life of the MCSS account, even if it is transferred to another bank.

3. At the time of opening the account, the user can choose to provide information about themself which can be used by contributors to search for them using various filters. This voluntarily provided information, along with the mandatorily provided information at the time of opening the account, will be shared with the middleware with his consent, for exposing behind a secure API.
4. The user's account will also be created on the middleware layer, with his consent.
5. The user can choose to remain anonymous on the middleware platform and only allow his data to be used in an aggregated manner.
6. The user can log onto the middleware and specify his needs, so that his searchability is improved.
7. He can withdraw from his account based on the withdrawal rules.
8. He can prematurely close the account.
9. He can choose to move his account to some other bank, retaining the MCSS unique ID.
10. All of this can be provided at the middleware layer.
11. Even after a user has migrated to another bank, the previous data needs to be made available to the middleware platform. The middleware platform will not be storing any data as such. That will be stored at the bank side only. All of the required data will have to be exposed by the banks. The middleware will be just an interface to access this. The filtering related data can be stored at the middleware.

3.2 Functionality for contributors

1. The contributors create an account on the middleware platform, providing KYC data.
2. They specify other details that can help with their transactions and in improved targeting of recipient based on what areas they want to contribute to, like education, marriage, etc.
3. They can log into the middleware and search for individuals and groups filtered out based on criteria like age, income, livelihood sector, specific needs, etc.
4. They can decide to donate to a number of users at once or to individuals.
5. Contributors can choose to maintain anonymity from recipients.
6. Contributors can extract various kinds of reports based on income tax purposes, targeting purposes, etc.
7. Contributors can choose to link their bank account directly into this platform so that they can seamlessly transfer money, and also schedule regular payments if that is the mode they choose to opt for.
8. Integrating the MCSS system/platform with the UPI/NPCI system, would also make it easy for contributors to use this system seamlessly for their contributions.

4. Data ownership and flows

- Data fiduciary will be the common middleware platform and banks who acquire data of the data principal, i.e. the user.
- Data controller will also be the same since they will be processing the data and providing it in a filtered manner to the contributors.
- Once a user closes his MCSS account or opts out of this system, their data will need to stay in the system for tracking purposes. It can be archived but should be open to being queried.
- PII data of any user should not be exposed to the outside world, even when a contributor is making a targeted contribution.
- A user should have the right to ask for a right to be forgotten, i.e. his data to be no longer visible to anybody other than for tax and legal purposes.

5. Costs

1. It is difficult to estimate the costs associated with such an endeavour, because there are quite a few variables. This is, after all, a voluntary, though open, system of contributions. Only part that is amenable to estimations is the costs based on governmental support. This can be based on some assumptions, but it is worthwhile to look at these estimates to understand the fiscal space required for this.
2. On top of the governmental transfers will be the voluntary transactions. These cannot be estimated properly, so that has not been

attempted in this paper, though we have some data around private philanthropy.

3. Union Government will have to initiate this by making some transfers initially. The figures for this could be derived from:
    1. Minimum wage numbers
    2. Unemployment allowances.
    3. Using the poverty level numbers to determine amounts to be transferred.
4. The above numbers could be split in the ratio of 60-40% between Central and State Governments.
5. The calculations can be different for employed and unemployed persons.
6. India uses a complex method of setting minimum wages that defines nearly 2,000 different types of jobs for unskilled workers and over 400 categories of employment, with a minimum daily wage for each type of job. It also differs based on the following factors: state, area within the state based on development level (zone), industry, occupation, and skill level. So, the amount to be transferred can be decided by each state based on the above parameters. India has a national-level minimum daily wage of approximately INR 178 (equivalent to US$2.15), translating to around **INR 5,340 (approximately US$65) per month**. It's important to note that this figure serves as the baseline wage, subject to adjustments based on factors, such as geographical location and specific criteria. Range from INR 160 (US$1.93) per day in Bihar to INR 423 (US$5.11) per day in Delhi, in accordance with the Minimum Wages Act of 1948.

7. If we consider the number 50 crores, which is the number of people who have opened Jan Dhan accounts till now, then the monthly number works out to around **Rs. 2,67,000 crores, which is approximately 1% of India's GDP**. This is too high a number for monthly transfers.
8. Pradhan Mantri Berojgari Bhatta Scheme 2020 - Unemployment Allowance in India scheme - fixed monthly unemployment allowance of Rs. 2,000-3,500. If we consider Rs. 2,000, then for 50 crore people, that works out to Rs. 1,00,000 crores per month, which is approximately 0.4% of GDP.
9. Different states have their own unemployment allowance schemes, which they can consider while making transfers. These schemes can be subsumed under this social security system.
10. In India, the poverty line lies at 1,286 rupees per month for urban areas and 1,059.42 rupees per month for rural areas. Considering Rs. 1,100 as the number, for 50 crore people, this works out to Rs. 55,000 crores per month.
11. Apart from this, the government will have to spend some amount in promoting this system.
12. Tax benefits will cause significant reduction in tax collections. That is another significant cost which needs to be borne in mind. But since the estimates for that will vary based on the finer details, that has not been estimated in this paper.

Let's do some back-of-the envelope calculations with some assumptions for arriving at some ballpark estimates for the costs involved.

- To calculate cost for governmental transfers, we could consider the following criteria:
    - Minimum wages
        - approximately Rs. 4,000 per month
        - Approximately 6-10 crore wage earners below minimum wage.
        - This leaves out around 20 crore self-employed people. Let us assume that one-fourth of them, i.e. 5 crore people are earning less than minimum wage.
    - Unemployment allowances
        - Average approximately Rs. 3,000 per month
        - Around 5-10 crore people unemployed as per the unemployment rate, and around 30-35 crore people in poor-quality jobs
    - Poverty line
        - Around Rs. 1,200 per month
        - 30-40 crore people living below poverty line
    - Number of JanDhan accounts opened – 50 crores
- If we take a ballpark average of the above three per month amounts (i.e. Rs. 4,000, Rs. 3,000, Rs. 1,200), we could assume an average cost for governmental transfers per month per recipient to be around Rs. 2,700 per month.

- Government could consider starting with transferring money for unemployed persons, people below the poverty line, unorganised sector workers, gig workers, old people, people with serious illnesses, etc. to reduce the fiscal burden.

- The transfers for the sundry government schemes for insurance, unemployment allowances, etc. could be made to the MCSS accounts of the beneficiaries.

- Let's take the higher number (of beneficiaries under the four different criteria considered above – minimum wages, unemployment allowances, poverty line, number of JanDhan accounts opened) for calculation purposes – 50 crores. Let's use this number and the average amount of Rs. 2,700 to calculate ballpark numbers for government contribution.

Let's look at the estimates in the following tables:

Criteria used	Amount per month	Number of beneficiaries	Total amount per month	Percentage of GDP
Minimum wages	Rs. 4,000	13 crores	Rs. 52,000 crores	0.30%
Unemployment allowance	Rs. 3,000	17 crores	Rs. 51,000 crores	0.30%
Poverty line	Rs. 1,200	30 crores	Rs. 36,000 crores	0.20%
JanDhan accounts	Rs. 2,700	50 crores	Rs. 1,35,000 crores	0.80%

Table 1: Cost as percentage of GDP

The above table shows the ballpark cost estimates as percentage of GDP based on various assumptions and criteria. The highest coverage is as per the JanDhan accounts data, while the lowest is based on the unemployment data.

Criteria used	Number of beneficiaries	Contributor	Amount per month (Rs.)	Yearly amount (Rs.)
Minimum wages	13 crores	Government	4,000	48,000
		Private philanthropy	6,000	72,000
			Total:	**1,20,000**
Unemployment allowance	17 crores	Government	3,000	36,000
		Private philanthropy	4,500	54,000
			Total:	**90,000**
Poverty line	30 crores	Government	1,200	14,400
		Private philanthropy	2,500	30,000
			Total:	**44,400**
JanDhan accounts	50 crores	Government	2,700	32,400
		Private philanthropy	1,600	19,200
			Total:	**51,600**
			Average:	**76,500**

Table 2: Expected amount in user's account

The above table tries to come up with ballpark estimates of the amount that individuals can expect in their accounts based on various assumptions and criteria.

6. Legal Changes

Implementing a comprehensive financial system necessitates significant legal changes to ensure data security, prevent money laundering, and address tax evasion. Key amendments are suggested for the RBI Act, 1934, to define new financial entities, their roles, performance standards and dispute resolution mechanisms. A separate law might be more effective, providing clear guidelines for entities handling financial transactions and fostering innovation without regulatory overreach. Principles like openness, deregulation, and privacy should be embedded in the founding documents. Technical guidelines for API interfaces should be created, not by the RBI which is not particularly suited for issuing such technical details, but by a diverse group of technical experts, lawyers, civil society experts, government representatives, representatives from regulatory agencies, judiciary and executive, with a preponderance of experts.

The system would require integration into the SEBI Act, 1992, defining new intermediaries and aligning definitions across laws to avoid regulatory burdens. Additionally, aspects related to pensions under the PFRDA Act, 2014, the Pensions' Act, 1871, etc. need robust definitions to protect the interests of informal sector workers. This is the main part of the MCSS system. The MCSS system is meant to be a safety net and social security system for the vast majority of Indians, especially those who fall under the informal sector. Accordingly, this has to be very robustly defined. It should not be too onerous, but at the same time be safe enough. The new entities and platforms have to be defined properly. The processes and limits on transactions have to be set out clearly – for instance, what are the withdrawal limits on the long-term portion of the MCSS account, what are the premature closure or withdrawal norms, etc. There might also be a need for a new or hybrid regulator with representatives from each of the above-mentioned regulators to oversee these changes and ensure a streamlined approach.

These laws should be pretty detailed in nature, leaving very little to delegated legislation. Delegated legislation should draw their authority from strictly defined sources in the laws, and no more than that which is fair and reasonable. They surely should not have authority to define new transgressions or penalties, or change dispute resolution mechanisms.

This paper points towards some changes that might be required in our laws, though it is not in the scope of this paper to go into the details of these changes.

7. Benefits

1. The main idea behind the MCSS system is to make it easy to connect potential contributors with people in need of a safety net. The middleware platform should make it easier for people to find recipients for their contributions and for people in need to broadcast their needs.
2. It makes discoverability and searchability easier. It provides various filters for discoverability.
3. It provides an added avenue for private philanthropy, given that this is set to increase in the years to come.
4. Contributors should be able to customise their contributions to specific groups of people based on various criteria.
5. It helps people in need to broadcast their needs and reach out to potential contributors.
6. There are crowdfunding platforms which also help to raise money. Where the MCSS platform will be different is that it will more effectively connect contributors and recipients. Recipients can use this platform to broadcast their needs and details, allowing contributors to filter and search for specific individuals or groups to support. This enhanced searchability and discoverability, not available on crowdfunding platforms, will offer direct and customizable avenues for philanthropy, both specific and general. Additional features can be built in a plug-and-play model, distinguishing it from pure

crowdfunding platforms. Contributions to the MCSS account are designated for specific purposes such as retirement benefits, insurance, or education, unlike general crowdfunding campaigns.

7. The contributions can fetch contributors some tax benefits.
8. This loosens the tight coupling between the social security system and employers and the government.
9. It brings in the agility and innovative capabilities of the private sector to the social security arena, where we require a major overhaul to achieve the intended benefits more efficiently and effectively.
10. We already have a robust digital public infrastructure (DPI) in the form of the IndiaStack, Aadhaar, UPI, etc. This reimagined design leverages that to build things quickly, efficiently and in a scalable and extendable manner.
11. Extensibility, scalability and customizability are important features of such a system, where various entities can build features on top of this as wrappers, to serve different use-cases.

8. Pitfalls

1. We need to ensure that the basic functionalities of retirement benefits, pensions and insurance coverages are not relegated to the background when this system gets built.
2. Security and privacy concerns have to adequately addressed. Multiple entities will have potential access to a lot of private, sensitive data. We need to ensure that there are proper data access controls in place.
3. Since there will be concerns of money laundering and income tax evasion, audit and monitoring mechanisms have to be robustly defined and clearly implemented.
4. There are multiple entities envisaged in this ecosystem. All of them have to be clearly defined. Without clarity about roles and scopes, there will be chaos and confusion.
5. The question of who will be the regulator for this system has to be defined very clearly. It would be better to have a single, hybrid regulator.
6. Functionalities will get built on top of this system. There should be regulatory and policy certainty and consistency, otherwise innovation in this field will be scuttled.

9. References

[1] Periodic Labour Force Survey (PLFS). October 9, 2023. National Sample Survey Office. https://www.mospi.gov.in/sites/default/files/publication_reports/AR_PLFS_2022_23N.pdf

[2] India's pension scheme review must prioritise fiscal prudence, development spending, economists say. April 11, 2023. The Economic Times. https://m.economictimes.com/news/economy/finance/indias-pension-scheme-review-must-prioritise-fiscal-prudence-development-spending-economists-say/articleshow/99403732.cms

[3] PIB Press Release. March 10, 2023. PIB. https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1905533

[4] India's Pension Scheme Review Must Prioritise Fiscal Prudence, Development Spending, Economists Say. April 12, 2023. The Economic Times. Accessed June 13, 2024. https://economictimes.indiatimes.com/news/economy/finance/indias-pension-scheme-review-must-prioritise-fiscal-prudence-development-spending-economists-say/articleshow/99403732.cms?from=mdr.

[5] IAS Parliament. The Expenditure on Pension. Accessed June 13, 2024. https://www.iasparliament.com/current-affairs/the-expenditure-on-pension.

[6] ESIC considers to extend medical benefits to unorganised, gig workers. May 30, 2024. Business Standard. https://www.business-standard.com/economy/news/esic-considers-to-extend-medical-benefits-to-unorganised-gig-workers-124011700798_1.html

[7] Rajasthan passes Rajasthan Platform Based Gig Workers (Registration and Welfare) Act, 2023. August 30, 2023. India Corporate Law.
https://corporate.cyrilamarchandblogs.com/2023/08/rajasthan-passes-rajasthan-platform-based-gig-workers-registration-and-welfare-act-2023/

[8] More philanthropists around, but donations tell a different story. November 3, 2023. Mint.
https://www.livemint.com/news/india/more-philanthropists-around-but-donations-tell-a-different-story-11698949756899.html

[9] India Philanthropy Report 2023. March 1, 2023. Bain and Company.
https://www.bain.com/insights/india-philanthropy-report-2023/

[10] Pai, Nitin. "Modi Govt Needs to Open the JAM for Public Contributions, PM CARE Alone Can't Deliver." March 30, 2020. The Print.
https://theprint.in/opinion/modi-govt-needs-to-open-the-jam-for-public-contributions-pm-care-alone-cant-deliver/391692/

[11] Pai, Nitin. "Reimagining Social Security for the 21st Century." June 23, 2021. Nitin, You Can't Be Serious!.
https://www.nitinpai.in/2021/06/23/reimagining-social-security-for-the-21st-century

[12] IndiaStack. "IndiaStack: Transforming the Way India Leverages Technology." Accessed June 29, 2024.
https://indiastack.org/

[13] Carstens, Agustin, and Nilekani, Nandan. "Finternet: the financial system for the future". April 2024. BIS Working Papers No. 1178. Bank for International Settlements.
https://www.bis.org/publ/work1178.htm

The Takshashila Institution is an independent centre for research and education in public policy. It is a non-partisan, non-profit organisation that advocates the values of freedom, openness, tolerance, pluralism, and responsible citizenship. It seeks to transform India through better public policies, bridging the governance gap by developing better public servants, civil society leaders, professionals, and informed citizens.

Takshashila creates change by connecting good people, to good ideas and good networks. It produces independent policy research in a number of areas of governance, it grooms civic leaders through its online education programmes and engages in public discourse through its publications and digital media.