

Get paid for AadhaarPay?

UIDAI's new plan could change the game for AEPS

Since digital payments will increase the government's tax collection potential—as the payments can be tracked, unlike those based in cash—in the ideal situation, it should create a fund for paying the commission (Merchant Discount Rate or MDR) to banks for debit/credit cards or for payments made through wallets or direct bank transfers through apps like BHIM. If this is not done, as we saw in the case of petrol pumps when the MDR was reintroduced some weeks ago, merchants may refuse to accept electronic payments—in which case, it is just a matter of time before the demonetisation gain of forcing people to use more digital payments will soon get frittered away. This is where the UIDAI's plan to promote Aadhaar Enabled Payment System (AEPS) comes in, and makes it a far more attractive proposition than, say, debit/credit cards or even wallets, according to a report in Business Standard. Under AEPS, which is available under the BHIM platform, a merchant attaches a ₹3,000 biometric scanner to the headphone jack of her phone; a user then puts her biometrics on the scanner after a bill is generated and, since the Aadhaar is linked to a bank account, a payment automatically gets transferred to the merchant's account.

In the normal course, the bank will charge the merchant a fee which, particularly for low-value transactions, may be too high and may make the merchant prefer cash instead of using AEPS. What UIDAI is proposing is that, instead of charging merchants a commission for each AEPS transaction, the banks should pay them—if the government decides to pay or defray the MDR for all digital payments, the UIDAI solution will mean merchants will benefit even more. UIDAI's argument is easy to appreciate. If a person in a village wants to buy Rs 100 worth of rations, she will go to a business correspondent (BC) of a bank and withdraw the funds; this money will then be given to the ration shop as a payment—the bank, in order to incentivise BCs, gives them a commission of up to 1% on each such withdrawal/payment even today. So, instead of paying the BC a commission, UIDAI argues, why not pay this straight away to the ration-shop owner? Since this model will reduce the BC's commission, the bank needs to see how it can sustain the model or whether simply co-opting more shops in the village to act as BCs is a workable alternative. From the bank's point of view, it is still a win-win because both the consumer and the merchant maintain an account—this gives the bank a float and, thanks to AEPS, there is no need to maintain either a branch or an ATM to service customer needs.