


Don't waste the crisis; leverage Aadhaar for cashless inclusion

By Shankkar Aiyar | Published: 27th November 2016 04:00 AM |

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Don't_Waste

The debate on demonetisation, aka delegalisation of high-value currency notes, and the ensuing impact on the economy will continue for some time now—between definitions of near term, medium term and long term and between what constitutes pain and what is recognised as gain. What is undeniable is the opportunity the cash crisis offers for the establishment to reboot its thinking and strategy.

Last week, this column (Cash Crisis: Who to Blame Can Wait, What Must be Done Cannot! <http://bit.ly/2grlITH>) presented a few thoughts on what must be done—PDS quota to the poor on credit, allowing farmers to use old notes, roping in retailers as outlets for cash disbursement—and there has been movement on this front. Much more needs to be done to mitigate disruption and to reboot growth.

India's transformation and many revolutions have arrived in the wake of crises. This is one crisis that must not be wasted. The biggest threat to transformation is incrementalism and the creation of committees. The first consequence of any crisis is conversations of a binary nature within the administration. Typically, it is stranded between “oh it has not worked” and “oh this just cannot be done”. The inescapable fact is that India fares poorly on financial inclusion—and this is most visible in the disruption in the economy. From farms to factories to families cash, is the reigning currency of the economy.

To appreciate the curvature of the political economy, consider the data points. India's population of 1,311 million is served by 1.34 lakh bank branches. Two thirds of India lives in 5.9 lakh villages, which are served by 50,000 branches. Take the largest states. Uttar Pradesh with 150 million persons in 97,942 villages has 7,370 “rural” branches. Bihar, with over 90 million persons in 39,015 villages, has 3,037 “rural” branches. Considering that over 800 million people live in rural India, the ratio denies, or at least delays, access to the financial inclusion.

India is poised at the gateway of a revolution in financial inclusion. There have been two silent revolutions since the creation of UIDAI under Nandan Nilekani—the registration of residents under Aadhaar and the installation of payment gateways that afford India the opportunity to leapfrog over historic handicaps and spur financial inclusion.

To appreciate the opportunity, consider this. India has a billion persons registered under the unique identification of Aadhaar. India has a billion persons with mobile phones.

The country is ready with a dynamic financial transaction architecture in the Unified Payments Interface—an interoperable mobile first payment system, a uniquely Indian achievement under the National Payments Corporation Limited. The need is to work out a plan to bring the three pieces—Aadhaar registrations, mobile users and network and the payment gateways—into play.

Ideally, Aadhaar should be rendered a bank in the Cloud. Very simply, the 12-digit identity number can be converted into an account number vested in Aadhaar Bank in the Cloud. Here is how it could work. Using the Aadhaar number, a person should be able to deposit cash at a bank or a post office or a retailer to deposit his cash, and the credit gets recorded in his account in Aadhaar Bank in the Cloud. Similarly, outflows or payments get reflected in the Aadhaar account. The simplest analogy is

the roaming arrangement enjoyed by one SIM card across telecom networks. The creation of

Aadhaar Bank in the Cloud demands political will and could be subjected to questions on technology and regulatory issues.

Progress on digitisation of inclusion need not be detained by navigation of regulatory wrangles. Aadhaar is not just an identity number; it can be a financial address of a person and can propel conversion of the cash economy to a less-cash economy. The supply-demand mismatch in cash affords a window of opportunity. For starters, the government could promote the use of Aadhaar-based digital transactions—via Aadhaar-linked accounts and creation of new instruments like Aadhaar-linked pre-paid RuPay cards.

The existing architecture allows for both Internet-based and non-Internet-based transactions via the unstructured supplementary data service (USSD) using GSM channels. The system can be developed in tiers. It is estimated that there are over 350 million smartphone users. These persons can use Internet-based apps to access UPI. The 300 million users of feature phones can transact using the USSD services.

Using Aadhaar, the person should also be able to access cash from the account from any disbursement point—whether bank ATMs, payment banks, post offices' hand-held systems or retailers like grocery shops, petrol pumps, seed/fertiliser outlets. The architecture of UPI is built for person to person, person to merchant and person to government transfers. Indeed, Aadhaar is already on the interoperable payments gateway—Aadhaar-Enabled-Payment System (AEPS).

AEPS allows balance enquiry, cash withdrawal, cash deposit, Aadhaar to Aadhaar funds transfer. The Aadhaar bridge systems allow direct cash transfers of LPG subsidies, pensions, MGNREGA payments, scholarships, state government welfare schemes and can be leveraged to be ready even for, say, transfers like universal basic income.

There will be the usual rant about the poor and their ability to use technology, but remember over eight of 10 persons use prepaid recharge coupons, migrants working abroad leave parents with pre-paid cash cards and agri labourers in Himachal and Punjab send home money via mobile transfers.

The creation of Aadhaar Bank will enable those hitherto excluded from the system into the fold and bring the value of public savings into the real economy. The imperative is to learn from history to make India future ready.

A quarter of a century ago, Indians waited years for a telephone connection, thanks to poor policy, costs and last-mile connectivity issues. In the 90s, India opened up the sector; technology brought with it the facility to skip the landline cycle and young entrepreneurs created the infrastructure.

The mobile revolution, though, had to await political will—Atal Bihari Vajpayee's quest to connect India with Bharat. In 2016, India is poised at a similar intersection. By bringing Aadhaar, mobiles and the payment gateways into play, India can leapfrog into the future.

shankkar.aiyar@gmail.com

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