

Aadhaar Pay as a potential agent for driving cashless payments in rural areas



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Photo by Ashwani Sharma for BRLPS JEEViKA - Sunil Kumar making payment for purchases through Aadhaar Pay

into Aadhaar Pay through a phone application of her bank using her Aadhaar number. She typed in the payment amount, while Sunil typed in his Aadhaar number, selected his Aadhaar linked bank name and authenticated with a fingerprint. The payment was completed instantly, and both Rakhi and Sunil received confirmation SMS messages on their phones. Sunil was very happy that Aadhaar Pay saved him from running to a bank branch and standing in queue for cash withdrawal.

Sunil's story highlights the need for a "payment solution" that would simply digitize transactions especially for those with low literacy levels in rural areas. Typically, illiterate people do not request banks for ATM cards, and they are less likely to use a smart phone. Most of the times, banks also deny issuance of ATM cards to the illiterate. Women who usually receive remittances digitally also find it difficult to use money available in their bank accounts digitally for making daily payments. Therefore, they prefer to withdraw cash for their monthly expenses from bank branch or nearby CSP outlets.

Due to predominant usage of cash, JEEViKA struggles to graduate its community members into individual banking clients in the absence of digital transactional history with financial institutions. In 2016, JEEViKA launched Digital Financial Services Program to develop digital ecosystem in rural areas for delivering last mile banking services and digitising payments. Under the programme, it partnered with various financial service providers such as banks and mobile money providers to test various types of approaches for digitisation of financial transactions.

JEEViKA has created a cadre of women banking agents known as *Bank Sakhis* to provide basic banking services such as deposit, withdrawal and fund transfer to the community. As a pilot test in four village panchayats, JEEViKA got mobile wallets opened for around 3,600 SHG members to equip them to digitise

Rakhi is a female entrepreneur who runs a small garment shop in rural Bihar. She is also a very active member of a self help group (SHG) promoted by JEEViKA. Sunil Kumar, who is a regular customer of her shop came to purchase some dress material and realised at the time of payment that he did not have enough cash. He requested Rakhi, to set the material aside for him as he would have to bring back some cash from a nearby bank branch or a Customer Service Point(CSP).

Rakhi informed Sunil that he didn't have to worry and could pay her from his bank account directly, without visiting any bank branch. Sunil was confused as he was not aware about the possibility of making a payment from his bank account without an ATM card or smart phone. After understanding Sunil's confusion, Rakhi explained to him how payment can be made at shops using *Aadhaar Pay*.

Sunil had never heard about Aadhaar Pay and it's working mechanism. However, he decided to give it a try. Rakhi logged

some of their regular financial transactions such as SHG loan repayment, mobile recharge, DTH recharge, and money transfer. JEEViKA conducted handholding session for its members on how to operate mobile wallets.

The pilot suffered certain setbacks due to women lacking the ownership of a mobile phone, low digital literacy, lack of interoperability and difficulties in adding money in wallets. After analysing the learnings from the pilot, JEEViKA was exploring an easy and secure cashless payment system especially for those without mobile phones, without ATM cards and with low digital literacy levels. Aadhaar Pay seemed to be a promising solution for promoting cashless payments among merchants¹ in rural areas.

What is Aadhaar Pay?

Aadhaar Pay is a smartphone app for individual merchants developed by National Payments Corporation of India (NPCI) and launched in April 2017. With this app, merchants can receive instant payments in their bank accounts from the customers having account with any of the banks. The customer pays by just providing Aadhaar number and biometric authentication. The customers need to have their bank account linked with Aadhaar and should know their Aadhaar number at the time of making payment. To use Aadhaar Pay, merchants need to have a bank account, biometric authentication device and a smart phone with internet connection.

Benefits to customers

1. Easy and secure option for cashless payments for people without smartphones or ATM cards- The cashless payment options at merchant outlets are usually card swipe, mobile wallets, BHIM QR code or Bharat QR code. To utilise any of these options, customers need to have either debit/credit card or smartphone with internet or both debit card and smartphone in case of BHIM QR or Bharat QR code. In rural India, debit card ownership is just 26%, and out of that just 12% uses their debit cards mainly for withdrawal of cash from ATM machines. ²

As per a study conducted by JEEViKA in rural Bihar, it was found that 67% of women own phones with only 10% owning smart phones. The ones with phones mostly use it for receiving only calls and not so much for making calls or text messaging. Only less than 1% women use their mobile phones for any financial transactions using BHIM app, mobile wallets or USSD due to low digital literacy skills leading to inhibitions of conducting transactions.

Most people shy away from ATM cards due to fear of password loss/theft and eventually losing money. On the other hand, now almost 79% of people in rural areas in India have a bank account and most of them have Aadhaar seeded with their bank accounts³. With Aadhaar Pay, customers do not need any debit/credit cards, install multiple payment applications on phone, type detailed USSD codes to make money transfers or carry a mobile phone for making cashless payments. They just need their Aadhaar number at the time of making a payment.

Payments through Aadhaar Pay are secure as there is biometric authentication. Thus, merchants cannot use the Aadhar number to make any payments without the concerned person's biometric authentication. Payments are assisted by merchants, so even the illiterate or the semi-literate can easily conduct transactions by just giving their Aadhaar number or showing the Aadhaar card to the merchant. SMS confirmation of payment is also sent to the mobile phones of both merchant and customer.

2. Interoperable and instant- The payments are real time and can be made from any Aadhaar seeded bank account. The facility of Aadhaar Pay is available 24/7.

¹ Merchants refers to retail businesses or shopkeepers

² Source: Global Findex Database, 2017

³ Source: Global Findex Database, 2017

3. No transaction charges- Customers do not have to pay any additional charge for making payments through Aadhaar Pay. They are free from incurring additional cost of visiting bank branch, ATM, CSP outlet for cash withdrawal to make daily purchases.

4. Small value payments- Through Aadhaar Pay, customers can pay any small value payment such as Rs. One also to merchants freeing them from the hassle of looking for small change.

Benefits to Merchants

1. Low Capex and Opex cost-High Capex and Opex cost of POS terminals has been one of the key deterrents for adoption of cashless payments by small scale retail merchants in India. Only 6% merchants in India accept digital payments and 97% of retail transactions are conducted in cash⁴. Banks usually charge one -time cost for the device and a monthly service fee for POS terminals, depending on the type of POS device and business turnover of merchant. Some banks charge a monthly service fee of Rs. 175 to 300 for GPS enabled POS terminal and a one- time device cost of Rs. 1000-1500. ⁵

Small scale retail merchants and merchants in rural areas are generally not interested in getting POS terminals as they have small value transactions and the demand for cashless payments is also non-existent from customers. QR code based cashless solution does not require investment in any device and does not have monthly service fee, therefore it can be a cost -effective solution for small scale merchants. However, in rural areas where there is low penetration of ATM cards and smartphones amongst customers it might not be a relevant solution.

For rural areas, Aadhaar Pay limits the need for investment in POS device and all transactional requirements can be done through merchant's own smartphone and a biometric device. A biometric device generally costs around Rs. 2,000 which is a one-time investment by the merchant and there are no onboarding fees by the banks. Aadhaar Pay provides the merchants interoperable and instant account to account payment solution like POS (card swipe), BHIM QR code/Bharat QR code with a technology that is more customer centric for rural demographics.

2. Low Merchant Discount Rate (MDR) Charges- Merchants would be charged a minimal MDR of 0.25% of transaction value unlike card transactions where merchants must pay MDR in the range of 0.5-1% ⁶of the value of transaction. There will be no MDR charges for transaction value up to Rs. 2,000 as it will be borne by the government of India. Merchants will receive 0.5% of transaction value as an additional incentive for each transaction carried out using Aadhaar Pay. Minimum incentive will be Rs. 2 and maximum Rs. 50 per transaction, and merchants can receive a maximum Rs. 2000 per month as an incentive. ⁷

⁴ Survey by Cashless Catalyst Program funded by USAID; <http://www.digitaldevelopment.org/beyond-cash>

⁵ Source: Personal Interviews with retail merchants

⁶ Source: Interviews with merchants using POS terminals

⁷ Effective end date of incentive scheme was March 31st, 2019, there is no information about extension of scheme on public domain

JEEViKA Rolls out Aadhaar Pay

To promote cashless payments in rural areas, JEEViKA decided to pilot test Aadhaar Pay with its members who own retail businesses. In December 2018, JEEViKA provided Aadhaar Pay facility to around five retail businesses managed by its members in Samastipur district. These retail businesses are spread across different types of products such as apparels, grocery, stationary, hardware and cosmetics and have daily turnover in the range of Rs. 500 to Rs. 5,000.

Apart from the merchants, Aadhaar Pay is also available with BC agents of one of the partner banks of JEEViKA. One of the key benefits which merchants mentioned after using Aadhaar Pay was decrease in the volume of credit transactions of customers. Earlier customers used to ask them to make a note of the due amount and used to pay back in subsequent months, but now merchants are able to get the payments if customers have money in their bank account.



Jagtarni Devi, Aadhaar Pay merchant in Morwa block

There is no need to maintain a diary of due balances after installing Aadhaar Pay device in shop, says Jagtarni Devi, one of the merchants in Morwa block of Samastipur district. Despite its several advantages transaction volumes through Aadhaar Pay has been slow. There are certain barriers leading to the snail-paced adoption of Aadhaar Pay in the digital payment space, which are as follows:

1. Lack of awareness- There is hardly any awareness about Aadhaar Pay solution and its benefits amongst both customers and merchants. This has been primarily due to lack of both above the line (ATL) and below the line (BTL) marketing activities by the banks, NPCI and government of India. Vibha Kumari, a merchant, confesses that customers usually are still sceptical about “Aadhaar Pay” and fear that she may misuse their bank account. In the absence of any publicity campaigns about Aadhaar Pay in print media or broadcast media, customers find it difficult to trust Aadhaar Pay. Currently, those who are slightly educated and trust the merchants are giving Aadhaar Pay a trial.

2. Lack of incentives to create behaviour change- Currently, there are hardly any incentives for small retail merchants to invest around Rs. 2,000 in a biometric device, conduct transactions digitally instead of cash and assist customers in making payments. “We do not face any difficulty in accepting payment in the form of cash from customers, so there is not much benefit for us in using Aadhaar Pay”, says Rakhi Devi, one of the merchants.

In order to bring behaviour change, banks would need to provide some incentives to these small-scale merchants to switch to digital payments. In addition to this, the merchant also needs to motivate and convince their customers about the benefits of Aadhaar Pay. To enable this, banks may provide the biometric device at subsidised cost or provide some cashback incentives to the merchants who are conducting substantial volume of digital payments through Aadhaar Pay. To push customers towards digital payments, there can be some monetary incentives in the form of cashbacks in their bank accounts like BHIM UPI and mobile wallets.

3. Regional Rural banks not on Aadhaar Pay platform -Majority of people in rural areas have bank accounts with Regional Rural Banks (RRBs). Many of the RRBs are still not on Aadhaar Payment Platform, as a result many of the willing customers are not able to utilise Aadhaar Pay for their cashless payments.

4. Low Digital Literacy Skills of Merchants- In Aadhaar Pay system, merchants need to have better digital literacy skills in order to conduct the transactions. Digital literacy skills of merchants in 40 plus age group is generally low, and they have to depend on their children or other members to conduct Aadhaar Pay transactions. However, this skill gap can be overcome if there is monetary incentive for the merchants to learn how to operate Aadhaar Pay.

5. Non-Availability of Aadhaar Number with Customers- As the customers are not used to conducting payments using their Aadhaar number, they do not carry their Aadhaar card or remember their Aadhaar number when they go to the market for purchases. This challenge can be easily overcome, once the awareness and trust in Aadhaar Pay is developed.

Initiatives by JEEViKA to overcome constraints in the adoption of Aadhaar Pay:

Supply side initiatives:

1. Free biometric device- To push the merchants for a behaviour change, JEEViKA's partner bank has provided free biometric authentication device to some of the merchants.

2. Training of merchants- JEEViKA has provided special handholding sessions for merchants on operating Aadhaar Pay and understanding the benefits of using it. The training was also provided to other members in the family of merchants, in cases where merchants have low digital literacy skills. It also regularly monitors the Aadhaar Pay transaction volume of merchants to provide any required support.

Demand side initiatives:

3. Digital Financial Literacy- JEEViKA is making its SHG members aware about Aadhaar Pay, its usage process, benefits during its Digital Financial Literacy Trainings through audio-visual tools. The merchants selected by JEEViKA for Aadhaar Pay are also JEEViKA's SHG members, so these merchants are also creating awareness about the payment solution in their SHG meetings.



Training of merchant and her children on Aadhaar Pay

Way Forward

Aadhaar Pay creates an ecosystem especially for rural demographics wherein customers have ease of payments and merchants have access to a comparatively low-cost payment solution. The potential of Aadhaar Pay is currently underutilised and banks and the government need to invest heavily in generating awareness and incentive schemes for Aadhaar Pay amongst merchants and customers. In India, around 1.21 billion people have an Aadhaar number⁸ and around 40 crore bank accounts are seeded with Aadhaar number, if 1.5 lakh bank branches in India can register even 20-25 merchants in their operational areas, cashless payments can surge.⁹

To harness the potential of Aadhaar Pay, JEEViKA will be facilitating onboarding of more merchants on the Aadhaar Pay platform. JEEViKA is exploring potential use cases for Aadhaar Pay within JEEViKA like

⁸ Source: UIDAI State/UT wise Aadhaar saturation report, February 2019

⁹ <https://economictimes.indiatimes.com/news/economy/policy/aadhaar-payment-app-set-to-simplify-digital-transactions/articleshow/56148959.cms>

their rasoi chains, ¹⁰Farmer Producer Organisations (FPOs), non-farm enterprises (3000+) and PDS outlets. In order to enhance demand of Aadhaar Pay in the rural community, JEEViKA plans to use various modes such as discussions in SHG meetings and WhatsApp groups of community mobilisers to spread awareness about Aadhaar Pay. With Aadhaar Pay, now cashless payments in rural areas is achievable.

¹⁰ Rasoi chains means food canteens owned and managed by JEEViKA members