Going digital

All technology is vulnerable. What is needed is mitigation of risks of Aadhaar, not its abrogation

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THE SUPREME COURT has declared the Right to Privacy a fundamental right, albeit subject to reasonable restrictions in legitimate state interest. In this context, the role of Aadhaar in transforming India will surely be debated. India has embarked on a major revolution towards a transparent economy through digital payments. Digital payment, thus far, has been the exclusive privilege of a few who could afford debit or credit cards and could handle pins, passwords, OTPs and so on. India's cash-to-GDP ratio is around 12 per cent, among the highest in the world. The share of digital payments is said to be about five per cent of total personal consumption or even lower at two per cent of total transactions, which are among the lowest in the world. Now with 1.17 billion Aadhaar cards and an equal number of mobile phones, we have the opportunity to take digital payment to the masses.

Aadhaar will help India leapfrog traditional payment systems such as cheques, drafts, debit cards, POS (point-of-sale) devices and transition to modes of digital payments not seen even in the most advanced countries. BHIM with UPI was launched by the prime minister on December 30, 2016. UPI will have a far-reaching impact because it is India's own internet of digital payments. UPI is real time and fully interoperable across all banks. There are 350 million smartphone users in India, who can use UPI to make digital payments up to Rs 1 lakh without any card or POS device. Merchants can also use the Bharat QR Code to receive payments.

There are 300 million Indians living in rural and urban areas, who do not have credit cards, debit cards, smartphones or feature phones or who are not financially literate to handle PINs, passwords etc. How do they pay digitally? For them, BHIM-Aadhaar, launched by the prime minister on April 14, will prove to be convenient. In this mode, a retail corner shop would not need an expensive POS device such as a debit or credit card swipe machine. He can use his own smartphone with a fingerprint scanner, which costs around Rs 2,000, install the BHIM-Aadhaar app and link it to his bank account. Customers can pay small amounts upto Rs 2,000 without needing a debit or credit card. Upon Aadhaar authentication of the fingerprint, the money will be debited from the Aadhaar-linked bank account of the customer and credited to the merchant's account. Each one of the more than 700 million people who have linked their Aadhaar with their bank accounts, can now use her or his fingerprint to make payments.

However, beneficiaries of the cash economy as well as traditional payments systems oppose using Aadhaar in digital payments by raising concerns about the Aadhaar database being insecure, fingerprints being vulnerable to hackers etc., as if the payment systems based on physical signatures, cheques, debit cards, ATM cards, PIN etc. were absolutely safe and had no vulnerabilities. They circulate stories showing how unsafe biometrics are, how a silicon replica of a fingerprint was used to hack into an iPhone etc, and thereby create a phobia against new technologies. They conveniently forget that people have been writing cheques and putting their physical signatures on documents for ages, knowing fully well how easy it is to forge a signature. Similarly, we read about frauds in ATMs, debit cards and internet banking through cloning, scheming, spoofing, phishing etc., and yet we have not stopped using them. Every technology is vulnerable and subject to risks. What is needed is mitigation of risks, not abrogation of technology.

The Aadhaar-based payment system has been robust and secure, which is evident from the track record of the Aadhaar Enabled Payment System (AEPS). The AEPS provides doorstep banking through more than 1,30,000 banking correspondents to people living in remote villages and enables them to withdraw or deposit money using their fingerprints on Aadhaar-based micro-ATMs. In the last four years, more than 700 million transactions have been carried out without a single case of financial loss due to fraud or identity theft. Besides, Aadhaar continuously reviews emerging threats and takes measures to counter them and minimise risk.

Further, three major reforms happened in the last six months, which would make UPI and Aadhaar-based payment systems even more secure. First, in February 2017, Parliament amended the Income Tax Act to mandatorily link PAN with Aadhaar. Second, the Supreme Court in the *Lokniti Foundation* case has required that more than 100 crore existing mobile SIM cards be biometrically verified with Aadhaar by February 2018. Third, the government amended the Prevention of Money Laundering Rules in June this year to require every bank account to be verified and linked with Aadhaar and PAN by December 31, 2017. In BHIM-Aadhaar and UPI, since the bank accounts and mobile numbers of the sender and receiver of the payment are linked to their Aadhaar and PAN cards, the transactions will undoubtedly be safer. In the worst case, if there is an unauthorised transfer from an account, the beneficiary can be identified through Aadhaar.

India has set an ambitious target of achieving 2,500 crore of digital payment transactions this year. Efforts are on to bring down transaction costs so that consumers are not at a disadvantage for choosing to pay digitally. The US in 2010 undertook reforms to protect consumers of digital transactions. The EU also passed regulations in 2015 to rationalise and reduce transaction fees. Similar steps are necessary in India to ensure mass adoption of digital payments.

Democratisation of digital payments through UPI and BHIM-Aadhaar will lead to a less cash economy, rid the country of black money and tax evasion and bring large numbers into the financial mainstream.

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