How is Aadhaar making banking smooth for people at the last mile?

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One of the many use cases for Aadhaar is in banking, more interestingly, banking in remote and rural areas which are not covered by bank branches. In such regions, banks engage business correspondent agents (BCAs) to provide banking services through a micro-ATM. At a BCA outlet, an account holder can use her debit card to withdraw, deposit or transfer money. Lately, linkage of Aadhaar to bank accounts followed by the advent of Aadhaar Enabled Payment System (AEPS) is changing the banking experience at the last mile. Some of the issues faced by BCAs and end users with respect to debit card-based transactions are now being smoothened by AEPS.

In an ongoing field study in the state of Himachal Pradesh, we have observed a positive shift in banking experience of users due to simplification of transaction mechanism through AEPS.

BCAs and users are reporting almost no transaction failure for transactions attempted through AEPS. In contrast, debit card-based transactions were reported to be more prone to technical failure. Aakash, a BCA operating ~25 kms away from closest town, reported 142 failed card-based transactions during the month of March 2018.

While transaction failure creates inconvenience for users, BCAs, in some cases, reported cash loss. Rahul, another BCA 15 kms away from closest town, reported, "Customer wanted to withdraw INR 3000. I swiped the card, entered the amount and completed the transaction. Online portal showed an error, but customer received a message on his mobile saying account has been debited. I had to give him the cash, but that cash never came to my account". We have heard different versions of this story from at least four BCAs.

Another positive shift is that opening of a new bank account has become a one-day process using Aadhaar based e-KYC that also eliminates need to carry physical documents. Lal Singh, a BCAs reported, "Account opening used to take almost a week due to lengthy document submission and verification processes. But now I can give you a bank account number by evening or next day at the most".

In addition, customer doesn't need to carry a debit card and remember ATM PIN. User can transact through AEPS using Aadhaar number and biometric only. This also eliminates the need for users to memorize PIN number, entering wrong PIN number leading to card blockade, non-acceptance of damaged card, etc.

The icing on the cake is the fact that AEPS enables interoperability for deposits, transfer and withdrawal between 118 banks in India! Debit card-based system, earlier, only facilitated interoperability for withdrawals.

Above features of AEPS have led to a better user experience, higher level of trust, and a hustle free environment for users. BCAs and users are exhibiting more confidence in Aadhaar based transactions.

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There are certainly some issues with AEPS that need fixing. Some BCAs are reporting problem in fingerprint detection in cases of a user being in farming or hard labor professions. Since impression of any finger can be used for verification, and usually one of the fingers is detected by the biometric capturing device, this issue has been fixed locally by BCAs for now.

Another issue with Aadhaar based banking is the limit of INR 10,000 placed on any transaction. This limits the utility of AEPS for users and they have to resort to debit card-based transactions that allows INR 20,000. National Payments Corporation of India (NPCI) may soon have to relook at the transaction cap.

Overall, Aadhaar based transactions seem to be making banking more convenient and reliable for users and offer superior banking experience at the last mile.