



## Aadhaar Card: A Tool for Financial Inclusion with special reference to State Bank of India in Patna

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**Abstract :** Aadhaar has become the most important factor for financial inclusion. For giving impetus to financial inclusion, the government of India relaxed certain KYC (Know Your Customer) norms and took initiative by allowing the use of Aadhaar Card, both as an identity proof and proof of residence to open the bank account. Aadhaar is a 12-digit UID (Unique Identification Number) issued by the Government of India to every resident of India. It is the world's biggest biometric ID programme. As on July 28, 2016, 1.03 billion of Indian

residents have been issued Aadhaar card. UIDAI (Unique Identification Authority of India) plays a very vital role in making financial inclusion real and impactful. Aadhaar, is a universal, digital, secure verification, which can be used as a financial address, and provides multiple applications like e-KYC, Subsidies, Pensions etc. Aadhaar number will help its owner to provide access to services like banking, mobile phone connections, Passport, Driving License and other Government and Non-Government services. Aadhaar owners can avail the entitled benefits throughout his or her life across the country. It suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas. More importantly, financial inclusion is inevitable in creating economic opportunities to the poor, and sustaining it and continues to participate, so that they become successful economic agents to the growth process of the country. It is in fact, one of the essential conditions for reduction of poverty and socio-economic inequalities in the society. The Aadhaar card would be able to bring in bottom-most members of the society into the formal financial system by helping them set up a bank account using Aadhaar numbers. This is the reason why Aadhaar card has become so powerful a tool for financial inclusion.

**Keywords:** Aadhaar card, Financial Inclusion, Direct Benefit Transfer, KYC, Online Authentication, UIDAI, UID.

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## Introduction :

With the progress of the Indian economy, especially when the focus is on the achievement of sustainable development, there must be an attempt to include maximum number of participation from all the sections of the society. But there was lack of awareness and financial literacy in rural areas and had no access to formal credit, which made them an excluded segment from the formal banking system. Large numbers of poor are in need of being provided with much needed financial assistance, in order to get them out of their conditions of poverty. Therefore, it is essential for any economy to aim at inclusive growth, involving each and every citizen in the economic development process.

The Government of India has constituted the Unique Identification Authority of India (UIDAI) which will provide every resident (from rich to the most marginalized sections) with a unique 12 digit identification number called Aadhaar, that will serve as a proof of identity, allowing his/her to access the benefits like banking, mobile phone connections, governmental and non-governmental services which serve them and are also helpful to government in achieving its goals of social justice and inclusion.

The Authority issues a unique twelve digit identification number (UID) that can be verified and authenticated in a cost-effective manner, and that is enough to eliminate duplicate and fake identities. Any individual, irrespective of age and gender, who is a resident in India and satisfies the verification process laid down by the UIDAI, can enroll for Aadhaar. Each individual needs to enrol only once, which is free of cost. "Each Aadhaar number will be unique to an individual and will remain valid for life. On the overall basis, the enrolments translate into a coverage of 81 per cent, while adult enrolment for Aadhaar is currently pegged at 96 per cent" [PTI (4th August 2016) in THE HINDU].

RBI and Ministry of Finance have modified the KYC regulation leading to Aadhaar becoming a document in the list of acceptable KYCs. This is a great boon for the financial service providers. This enables UIDAI to electronically pass on the resident's consent along with the demographic information to banks for opening the bank account. In addition, residents could also use Aadhaar to open accounts individually at bank branches.

The Government has linked Aadhaar number with various other welfare scheme benefits. This eliminates most of the intermediate hassles and leakages in the functioning of Government bodies. UID is fundamentally the key instrument by which one can identify the beneficiary. The concept of Unique Identity (UID) is to act as a catalyst for achieving financial inclusion in the country.

The Aadhaar Act was published in THE GAZETTE OF INDIA Part 2- Section 1 No. 19, published by authority. It states, "An act to provide for, as a good governance, efficient, transparent, and targeted delivery of subsidies, benefits and services, the expenditure for which is incurred from the Consolidated Fund of India, to individuals residing in India, through assigning of unique identity numbers to such individuals and for matters connected therewith or incidental thereto." [THE GAZETTE OF INDIA (2016)].

## Financial inclusion and Aadhaar :

Financial Inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups. UIDAI enables residents of India to access various services that were never accessible to them before, that is, Aadhaar helps in easier financial inclusion. Financial inclusion enables improved and better sustainable economic and social development of the country.

"The reason why financial inclusion is important in India is clear from the fact that it can accelerate socio-economic growth rate, bring down poverty and income inequality and add value to the country's sustainable and inclusive growth. Financial inclusion should, therefore, be a key component of any strategy to promote inclusive, balanced and sustainable growth" [Patel Amrit (2016)]. The main objective is ensuring access to formal credit to everyone and especially to those who depend on informal means for their financial needs and financial education, so that they can make the best use of money. Government is pushing to get more and more people under the formal financing umbrella, as 'direct cash transfer' into banks, that cut the leakages.

Financial inclusion is one of the most appropriate methods, through which inclusive growth can be achieved in India, where large sections are unable or helpless to participate in the financial system. "Financial

inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, the poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions.” [Singh Charan (2014) ]. Financial inclusion is considered to be an important determinant for social inclusion of the poor and vulnerable. It is, in fact, one of the essential conditions for reduction of poverty and socio-economic inequalities in the society.

As per the “Prevention of Money Laundering Act, 2002” and its amendments before September 2010, the only acceptable valid identity and address documents for institutions were Passport, Driver’s License, Voter ID card and PAN Card. None of these documents are available to all residents of India. Hence, without Aadhaar, it is impossible for a large number of residents to open bank accounts and become a part of the financial sector.

In the words of Dr. Raghuram Rajan, “The Supreme Court ruling today on Aadhaar Card will be quite helpful, making us use it in banking services. It will make it easier for financial inclusion”

Aadhaar has become the financial address to those residents of India who have seeded their bank accounts. They can get LPG subsidies, scholarships, MNREGA payments, subsidy on commodity products and can take advantage of various other financial schemes, like Jan Dhan Yojana, Atal Pension Yojana, Jivan Bima Yojana etc.

Aadhaar provides financial prosperity to each stakeholder in the system, including residents, government, and service providers, like banks. The Aadhaar eco-system has the ability to completely revolutionize the financial sector of India. It also opens avenues for residents to access various services that were never accessible to them before.

### **Financial benefits of Aadhaar**

‘In the new innovation of economy, the government has to think in terms of building platforms and ecosystems, developing minimal and simple solutions that can scale up, and provide a reasonable regulatory regime’ [Nilekani Nandan, 2015]. Aadhaar is one of those steps which have manifold benefits. Following are

the benefits of Aadhaar:

1. **Aadhaar as a KYC** : Aadhaar provides a formal identity and address proof to all residents of India and is a valid KYC (Know Your Customer) document to open an account in the financial sector. The Guinness world record holder scheme, Pradhan Mantri Jan Dhan Yojana (PMJDY), accepts the Aadhaar card number as the only document sufficient to open the bank account. This makes the whole account opening process quick and easy for the customer. Aadhaar also provides a service called e-KYC that is an electronic form of KYC. This service makes KYC process paperless, instantaneous, secure and economical. e-KYC service extends the power and convenience of Aadhaar to paperless transactions and enables on line authentication.
2. **Aadhaar as a financial address** : Once a resident links his/her Aadhaar number to a bank account, the Aadhaar number becomes a financial address of that resident. In order to identify a person in the financial system for any purpose (e.g. transfer of Government benefits, person to person payments, credit-card companies trying to track transactions), one needs to know that person’s Aadhaar number only. Under the scheme **Mahatma Gandhi National Rural Employment Guarantee (MNREGA)**, wages are credited directly to the bank account of the worker. Students who receive scholarships from the government can get the money in their bank account, when the bank account which is on the name of the student is linked with their Aadhaar number.
3. **Aadhaar based Direct Benefit Transfer (DBTL)** : ‘The 12 digit individual identification number on Aadhaar card is used to get subsidy amount directly in the bank account’. You can get direct benefit transfer by linking the bank account to the LPG number. LPG cylinder subsidy amount is directly credited in the Aadhaar linked bank account after the LPG consumer number is linked. The

difference between market price and subsidized rate is credited, which is the subsidy amount. "All state benefits will now be directly transferred to intended beneficiaries' bank accounts linked to the 12-digit biometric identity number provided by UIDAI, a step that is aimed at plugging leaks." [Roy Suranjana (2016)].

4. **Fraud Prevention** : Typically in the financial sector frauds occur due to various reasons - people owning multiple fraud accounts, lack of proper identification documents attached to such accounts, untraceable transactions, and stealing of credit/debit card data. Once accounts are linked to unique Aadhaar numbers and electronically verified, there will be no ghost accounts as each account will be linked to a "real" person (via an Aadhaar number). Each transaction will be associated with a unique Aadhaar number and a transaction which flows through multiple entities will be easily identified at each level using the Aadhaar number. Thus the Aadhaar number will become a universal identification number for tracking transactions, independent of the number of entities involved in a transaction.
5. **Monthly Pension** : All the pensioners from the centre will now have to register their Aadhaar card number in their respective department in order to receive monthly pension. This move was initiated because there have been fraudulent incidents as beneficiaries requesting pension were found to be fake.

#### Objectives :

- To understand the nature and scope of Aadhaar card in the banking sector.
- To analyze and narrow down the most effective use of Aadhaar card.
- To study how banks maintain customer profile through UID.
- To examine the degree of contribution of online Aadhaar authentication in the banking process.

#### Hypotheses :

- The Aadhaar card has increased the level of financial access to banking services.
- UID has enabled its users to take advantage of financial schemes.
- Aadhaar card has enhanced security of banks through online authentication.
- It has facilitated easy access to loans from banks.

#### Research Methodology :

1. **Area of study** : Branches of the State Bank of India in Patna region.
2. **Tools and Techniques of Data Collection**: Interview through questionnaire with employees and customers of the State Bank of India
3. **Data Analysis**

Primary Data: Personal interview, Questionnaire, Survey and Observations.

Secondary Data: Internet, Research papers, newspapers and magazines. The data is represented by tables, pie-charts, bar diagrams and graphs.

#### Findings and Analysis :

The data analysis has been done on the basis of the case study of the views of 20 bank employees and 80 customers of 10 State Bank of India branches in Patna who use Aadhaar card.

#### Hypothesis 1 : Aadhaar Card Has Increased the Level of Financial Access to Banking Services

Through the following analysis the hypothesis has been proved

(a) Number of Bank Accounts Increased in Post Aadhaar Card period : It is evident from Table 1 and Figure 1 that maximum bank employees (70%) agreed that Aadhaar card has increased the number of bank accounts. However, 30% disagreed with it.

(b) Aadhaar Enabled Payment System Allowed to Access Bank Accounts from Anywhere in India: It is evident from the analysis of Table 2 and Figure 2 that 50% customers took the advantage of Aadhaar Enabled Payment System which allowed access to bank account from anywhere in India, while 20% of them did not

participate and the rest 30% had no knowledge about it.

### **Hypothesis 2: Financial Scheme Mostly Undertaken by Customers Through UID**

It has been summed up from the survey that aadhaar card has enabled its user to take advantage of financial schemes. Employees and customers both agreed to it. As it can be seen in Figure 3(A) and Figure 3(B), 50% of employees said Atal Pension Yojna has been undertaken mostly by Consumers and maximum customers (44%) had the opinion that Jeevan Jyoti Bima Yojna is mostly undertaken by them, whereas 7% customers said that they have not taken part in any financial scheme. No employee agreed with it. Thereby, the second hypothesis that UID has enabled its users to take advantage of financial schemes is proved correct.

### **Hypothesis 3: Financial Security Increased because of e-KYC**

It can be summed up from figure 4 that all Bank employees use e-KYC service for authentication of an individual, which has led to an enhanced financial security of banks, as they have a better way to keep the information of their customers. Hence, the third hypothesis that the Aadhaar card has enhanced security of banks through online authentication is proved right.

### **Hypothesis 4 : The Process of Loans Transaction has Eased after Aadhaar**

In the analysis of Figure 5(A) it was summed up that 90% of bank employees disagreed with the investigation process being decreased after aadhaar, while 10% of them agreed that aadhaar card has lowered the investigation process. From Figure 5(B), which shows customers view point, it has been analyzed that 72% of customers do not find any ease in borrowing loans through Aadhaar, whereas 20% do find it easy. The rest 8% of the customers were unaware of this. Hence, the hypothesis that Aadhaar card has facilitated easy loans from the bank is proved wrong.

### **Suggestions :**

1. **A uniform identity number** can be made from the Aadhaar number. Today, we have different identity numbers for electricity and different for gas connection. These numbers can be merged and Aadhaar number can be taken as a single identification number. This would enable the consumer as well as the government to keep a close check on all our economic activities.

2. **ATMs without ATM card:** The individual has to handle many cards-each for a different purpose. Aadhaar card can be put to use as an ATM card. Just as **DCB bank** has accepted Aadhaar for ATM purpose, SBI should also accept to withdraw money.
3. **Financial education:** Financial literacy and awareness drives should be adopted to make people understand the benefits of linking with the banking system so that Aadhaar can be put to fuller utilization. Financial education should be included in the school curriculum to educate young minds
4. **Provision of credit history of all self-help group (SHG)** members by linking with individual Aadhaar numbers to check over-indebtedness. This will ensure credit discipline and will also provide comfort to banks.
5. **Mobile banking** should be encouraged to increase the level of financial inclusion, so that financial access becomes convenient. There is a need for better utilization of the mobile banking facility. It will maximize G2P (Government to person) payments.
6. **Privacy Concerns:** There should be efforts made by the government to protect the private data of Aadhaar users. Software should be designed to safeguard the data. The Data should not be privatized, rather it should belong to government as it is concerned with social welfare.

### **Conclusion :**

Despite tremendous growth of the banking sector in India both horizontally and vertically, a large section of the Indian population continues to remain unbanked, even after attaining 67 years of our Independence. For this, the government of India took the initiative of constituting UIDAI, which provides every resident with a 12-digit number, the brand name of which is 'Aadhaar', meaning base, which contains the resident's biometric and demographic information. It serves as a universal proof of an individual's identity. The Authority issues a unique identification number (UID) that can be verified and authenticated in a cost-effective manner, and that is enough to eliminate duplicate and fake identities. The UIDAI would ensure that residents across India can access the benefits and services that are meant for them.

Aadhaar Card has become an effective tool for financial inclusion. Financial inclusion is one of the most appropriate methods, through which inclusive growth can be achieved in India, where large sections of the society were unable and helpless to participate in the financial system. It promotes and develops the culture of saving. Before issuance of Aadhaar, it was a hassle for the marginalized section of the society to open a bank account but after its implementation, Aadhaar platform has provided a way for the Government of India to directly reach each resident of the country by using the resident's Aadhaar number only.

It is not possible to achieve financial stability, economic stability and inclusive growth without financial inclusion. The reason why financial inclusion is important for India is that it can accelerate the socio-economic growth rate, bringing down poverty and income inequality and adding value to the country's sustainable and inclusive growth. The Aadhaar card will be able to bring in the bottom-most members of the society into the formal financial system, by helping them set up their bank account using Aadhaar numbers.

Citizens do not have the need to depend on any intermediaries or agents to avail civic services. Rather, Aadhaar has proved to be the best tool for financial inclusion. Consequently, transparency would be maintained between citizens and government and this would help and decrease a fraudulent practice and thereby the growth of the nation.

This study suggests strategies to ensure maximum financial inclusion in underprivileged and unbanked areas. We got the positive opinion of both employees and customers during our survey. The present study endeavors to analyze the bankers' viewpoint towards Aadhaar Card as a tool of financial inclusion. After analyzing the employee's views as well as customers' view, we came to the conclusion that UID is fundamentally the key instrument by which one can identify the beneficiary. Without Aadhaar, the excluded segments would never have taken up the benefits of financial schemes and would have remained in the never ending cycle of poverty. Aadhaar has played a vital role in linking all the regions of society, especially the remote areas with the formal credit system, thus serving them the avenues they have never been served with and helping them to become a part of the financial sector. Hence, it is one of the best initiatives, government has yet taken up for sustained developmental progress.

## LIST OF TABLES

**Table 1. Number of Bank Accounts Increased after Post Aadhaar Card was Introduced**

Views of Bank Employee	Number of Bank Employee	Percentage
Yes	14	71%
No	6	29%

**Table 2. Aadhaar Enabled Payment System Allowed to Access Bank Accounts from Anywhere in India**

Views of Customers	No of Customers	Percentage
Yes	40	50%
No	16	20%
Don't Know	24	30%

**Table 3. Financial Scheme Mostly Undertaken by Customers Through UID**

Financial Scheme	Number of Bank Employees who agreed	Percentage of Bank Employees who agreed	Number of Bank Customers who agreed	Percentage of Bank Customers who agreed
Jan Dhan Yojana	5	25%	15	19%
Jeevan Jyoti Bima Yojna	5	25%	35	44%
Atal Pension Yojna	10	50%	23	29%
No Scheme	0	0%	7	8%

**Table 4. Financial Security Increased Because of e-KYC**

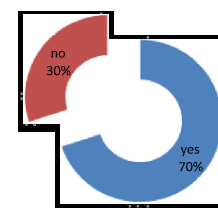
Views of Bank Employee	Bank Employee who agreed	Percentage
Yes	20	100%
No	0	0%

**Table 5. The Process of Loans Transaction has Eased after Aadhaar**

Views of Bank Employees	Number of Bank Employees	Percentage	Number of Customers	Percentage
Yes	2	10%	16	20%
No	18	90%	58	72%
Don't Know	0	0%	6	8%

## LIST OF GRAPHS

**Views of Employees**



**Figure 1. Number of Bank Accounts Increased Post Aadhaar Card period**

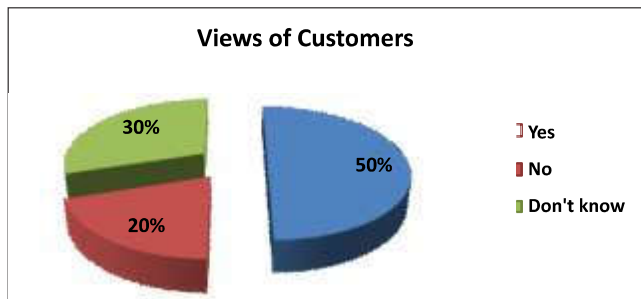


Figure 2. Aadhaar Enabled Payment System Allowed to Access Bank Accounts from Anywhere in India

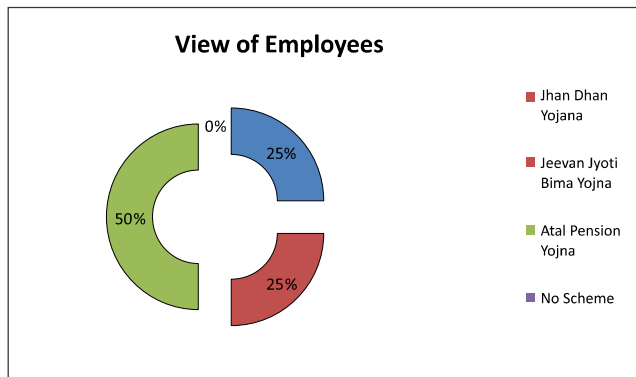


Figure 3(A). Financial Scheme Mostly Undertaken by Customers Through UID

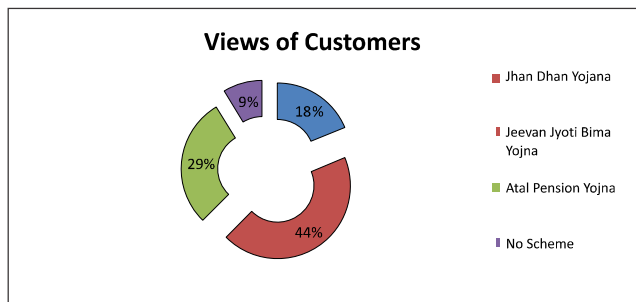


Figure 3(B). Financial Scheme Mostly Undertaken by Customers Through UID

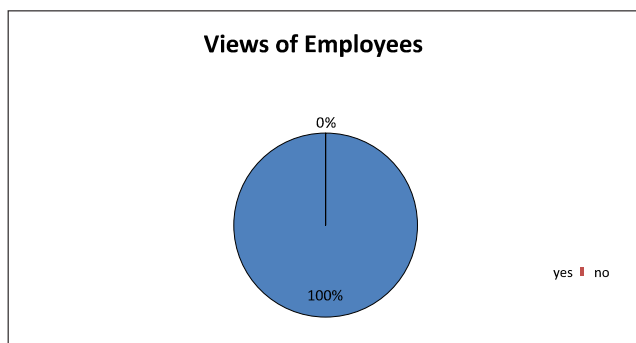


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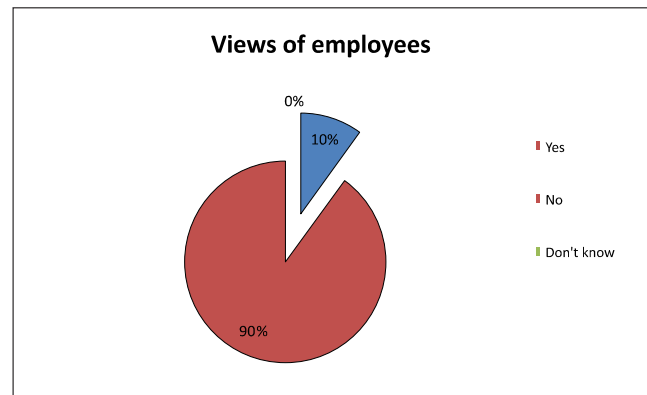


Figure 5(A). The Process of Loans Transaction has Eased After Aadhaar

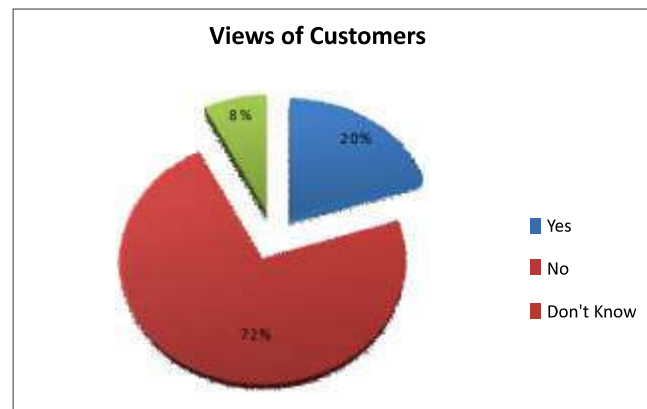


Figure 5(B). The Process of Loans Transaction has Eased After Aadhaar

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