

# Aadhar and Financial Inclusion

**Nitin Singh**  
Student Manager, SIMS

The much sought after and of course coveted goal of financial inclusion is the silver bullet for lurking sustainable growth. Yawning divide between rural and urban is spooking our growth. Disparity of financial and even basic banking services is a major stumbling block in the path of nation's prosperity. With the rapid advancement of urbanization making inroads into the rural hinterlands, it is imperative that people inhabited there need greater access to banking facilities. With the 72% population nesting in rural India, ignorance or turning a deaf ear would be fatal for economy as well.

Penetration of urbanization is quite evident and growth in urbanization in this fiscal year was pegged at a whopping 32%. Commiserate to that, financial inclusion has become a major panacea for economy. As 60% of our GDP contribution is from rural and small towns. But stark reality is that only 47% of our population is still banked!! Alas, looking at the gloomy and poor global economic scenario, it is indispensable that we must spur our internal market. If we can recuperate our botched domestic market, there would be an increased demand and supply. It will give boost to market sentiments and investments too.



**Figure 1**

## **Amalgamation of Aadhar and Financial Inclusion**

Aadhar is touted to be an elixir for Direct Cash Transfer Scheme. With burgeoning fiscal deficit, it was inevitable to rein in mounting subsidies. Subsidies in cooking fuel, fertiliser, food etc, given to BPL families is the major reason for skewed fiscal deficit. Vicariously, Aadhar was chosen to accomplish the task cut out. Definitely, Aadhar has its pros that will cut down on middlemen, leakages and evasion of subsidies.

According to Aadhar project, eligible people must have bank accounts. Cash in place of subsidies would be transferred directly to their respective accounts. But here comes a grave idiosyncrasy. Paucity of banking facilities

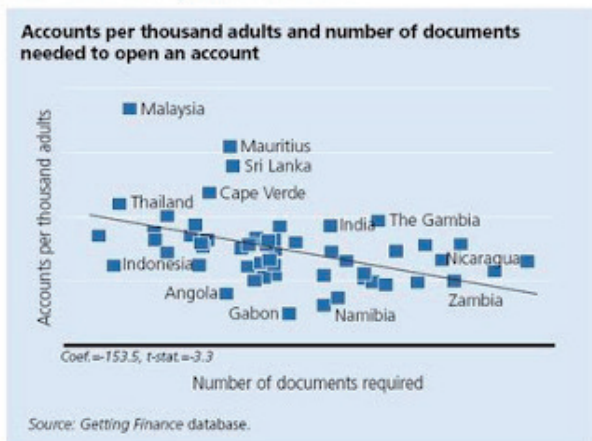
becomes the moot point. Now to tide over this intricate issue, people must have bank accounts with them.

Though, it is a daunting task for government to facilitate banking facilities in each and every nook and cranny of vast nation. But due to the exigency associated with it and it is the only option available with government to exercise. Therefore, Aadhar and financial inclusion must be on the same page to stave off bungled economy.

There are some systemic flaws which dither integration of Aadhar and financial inclusion. However, government has tried to roll out Aadhar project in a phased manner. But at the speed with which project is carried out is not adequate. Issues in biometric identification and databases are also impeding speed of project. Lack of skilled labour is another issue.

FIGURE 1.4

**More documents, fewer accounts**



**Figure 2**

However, it will smooth process of documentation in account opening. Banks can verify Aadhar cards for identification purpose. That means, Aadhar will buttress financial inclusion in this way also.

But the issue of paramount importance is of cost incurred to government on this project.

Executing such a humongous project covering mammoth population is challenging. It is evident that expenditure involved in it is astronomical. Apart from that the project needs a good amount of time too. Due to dearth of skilled labour which can work in remote areas, drift is observed in project.

**Financial Inclusion – A buzzword**

In every national daily, it is seen that financial inclusion is making to the headlines. Gradually, financial inclusion is gaining traction. In various quarters of media, this has become buzz now. Many multinational organizations and banks are conducting various multifaceted programmes and drive to rev up inclusion.

FINANCIAL INCLUSION - A SNAPSHOT			
Particulars	Mar 10	Mar 11	June 11
Total villages covered	54258	100183	107604
Through branches	21475	22662	22870
Through BCs	32684	77138	84274
Through other modes	99	383	460
Urban locations covered through BCs	433	3757	4524
No-frill accounts	4.93 crore	7.39 crore	7.90 crore
No-frill accounts (amount in Rs crore)	425707	5702.94	5944.73
No-frill accounts with overdraft	1.31 lakh	6.32 lakh	9.34 lakh
No-frill accounts with overdraft (amount in Rs crore)	8.34	21.48	37.42

(Source: RBI)

**Figure 3**

RBI has taken some measures to promote financial inclusion. But as inclusion does not come into the core business of banks, they are turning Nelson's eye to it. Taking all these intricacies into consideration, it is ostensible that inclusion is a Herculean task for government.

But as around every bevy of dark clouds there is a silver lining. Hence financial inclusion can see the light of the day if consolidated and integrated efforts are poured in. Recent upturn in banking licences can alleviate the situation.

So far efforts taken by RBI have come a cropper. With uptick in more banks operating in our nation, there would be more penetration of banking access to people yet remained oblivious. Thus, there is a golden opportunity for RBI to introduce more effective and beneficial requisites mandated to banks for licences.

In this era of cut throat competition, every financial institution or bank vie for marginal market shares as these tad shares can prove to be cliff-hangers. To extract every possible profit out of populace, organizations cannot afford to expend their resources on noncore businesses, where probability of being a leader in the pack is diminutive. So, drawing their attention to inclusion is an arduous task. What our government can leverage is that it must incentivize the inclusion process in a manner so that people and bank involved are benefitted. Banking Correspondents involved are reluctant to work into rural areas.

### **Aadhar can go haywire**

Infrastructure needed to accomplish Aadhar project is gargantuan. Especially in remote rural areas setting up workshops for Aadhar is laborious and costly too. Duplication of data stored in National population register is another stubborn issue. Technology related issues can emerge anytime like integration of banking details and biometric data. If tardy progress of Aadhar project is not monitored continuously then it can gather dust by being just a run of the mill project by government. GOI must demarcate a dedicated ministry to keep a tab on Aadhar project. GOI can incentivize people who come for Aadhar registration. That will refurbish mental predilection of people too.

### **In a nutshell**

Firstly, financial inclusion and Aadhar project must be integrated swiftly to plug any possible loopholes. In a nutshell, I can say that looking at current prospects if intricacies are not weeded out from system in time then situation can worsen.

The mission would be completed only if imperfections are regularly revamped in time. For this to happen, coordinated efforts of both GOI and RBI are most important. Though, financial inclusion is a gigantic and Herculean task. GOI and RBI have their task cut out. And these two must dispense their duty in letter and spirit to alleviate widening poverty.

Financial Inclusion's elusive and laborious goal is hard to achieve but integrated efforts can make us succeed.

Any policy paralysis would aggravate the blight. Unrelenting fiscal deficit is the major cause for bleak economy. And in order to stem the nip in bud itself it is vital for us to arrest it. Now panacea for that to happen is financial inclusion. Inclusion is possible only with the on-board coordination with Aadhar project. If we wish to see India transforming into proverbial Golden Sparrow of yore then inclusion is the light of the day for us.

### **References**

1. [www.indiabudget.nic.in](http://www.indiabudget.nic.in)
2. [www.india.gov.in](http://www.india.gov.in)
3. [www.rbi.org](http://www.rbi.org)
4. <http://indiamicrofinance.com/wp-content/uploads/2011/09/Financial-Inclusion-India-State-of-the-Sector-Report.pdf>
5. [http://www.developmentoutlook.org/2012/08/financial-inclusion-conference-2012\\_8.html](http://www.developmentoutlook.org/2012/08/financial-inclusion-conference-2012_8.html)
6. <http://www.infosys.com/finacle/solutions/thought-papers/Documents/Taking-the-Financial-Inclusion-agenda-forward.pdf>

