

A Big Leap Forward to Less-Cash Future

Bhim-Aadhaar payments are bound to succeed

Prime Minister Narendra Modi inaugurated on Friday a new way to make payments: put your thumb to a merchant's payment terminal and the specified amount would be deducted from your bank account. This portends the demise of debit card-based transactions and associated merchant discount rates. This is most welcome. The PM also announced incentives for consumers who bring other consumers to this Bhim-Aadhaar payment platform and for merchants who use it to receive payments. Broad adoption of such digital payments would bring an expanding share of the informal economy to the formal sector, with obvious gains for tax and data collection.

Two different activities take place when a thumbprint is used to authorise a payment: it queries the Aadhaar database to identify the owner of the print and his Aadhaar number, then a separate transaction deducts the amount to be paid from the bank account linked to that Aadhaar number and credits it to the account linked to the terminal capturing the thumbprint. Both these transactions



make use of the National Payments Corporation of India's facilities, and, presumably, it would be reimbursed the cost of running these two 'bridges', from the government's Financial Inclusion Fund. The merchant and the consumer would be spared any charge for making the payment digitally.

Using cash is expensive for the system. The Reserve Bank of India has to print notes, lug them around in currency chests, replace them periodically with new notes, and destroy the replaced notes. Banks have to transport money to different branches, stuff ATMs, spend money on guards, note-counting machines, etc. Shops and establishments have to pay for security. The government loses revenue on opaque transactions. Digital payments avoid these costs. The saving should be deployed to pay for the cost of carrying out digital payments.

Thumbprint-enabled payments presuppose people have bank accounts and also money in those accounts. The new payment banks will help people have accounts they can access. For merchants' payment terminals to work, data connectivity must shed its current patchiness.