

AADHAAR CARD AS A TOOL OF FINANCIAL INCLUSION: A STUDY OF BANKERS' PERSPECTIVE**Virender Singh Atwal**Research Scholar,
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Chaudhary Devi Lal University, Sirsa – 125055**(Abstract)**

For giving impetus to financial inclusion, government of India relaxed certain KYC norms and took initiative by allowing the use of Aadhaar Card for both as an identity proof and proof of residence to open the saving account. Hence, Aadhaar Card becomes an effective tool of financial inclusion. This effort of financial inclusion will certainly go a long way in promoting economic growth, reducing poverty and maintaining financial stability. The present study endeavors to analyze the bankers' viewpoint towards Aadhaar Card as a tool of financial inclusion. For this study, sample size is of 300 bank employees from State Bank of India (SBI), Punjab National Bank (PNB), Oriental Bank of Commerce (OBC), Union Bank of India (UBI) and Haryana Gramin Bank (HGB); selecting 75 respondents each of four districts viz. Sirsa, Kaithal, Panipat and Mahendergarh. The study is based on primary as well as secondary data. Primary data is collected through a pre-tested structured questionnaire on five-point Likert Scale from bank employees of the selected banks. The secondary data is collected from the websites, RBI reports, NABARD reports, IBA Bulletin and journals. For analyzing the collected data, ANOVA has been used to test the hypotheses and validate the results of the study. It is concluded that there is no significant difference among the district-wise bankers' viewpoint with regard to Aadhaar Card as a tool of financial inclusion by Government of India. However, a significant difference among the bank-wise respondents' viewpoint is found in this regard. It is recommended that the Aadhaar Card-UID enabled bank account targets to be a global address for residents, similar to an email ID or a mobile phone number and will be able to eliminate the identity-related existing frauds.

Keywords: Aadhaar Card, Financial Inclusion, GOI Initiatives.

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INTRODUCTION

The financial inclusion has become the centre of focus in India for a long period of time. The main objective of the financial inclusion is to cater the basic financial services offered by the banks to that population of the nation which is unbanked. The Reserve Bank of India and the Ministry of Finance, Government of India has designed multidimensional strategies for the successful execution of those policies which can attain the inclusive and sustainable

development of the country. Still, there is a huge gap between the actual and desired standard and benchmark for achieving the inclusive growth in a wider perspective. Just opening more and more new branches of the scheduled commercial banks in the remote area will not serve the basic purpose of financial inclusion. 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. More importantly, financial inclusion is inevitable in creating economic opportunities to the poor, sustaining it, overcoming the risk associated with it and continues to participate so that they become successful economic agents to the growth process of the country. Financial inclusion is considered to be an important determinant for social inclusion of poor and vulnerable. It is in fact, one of the essential conditions for reduction of poverty and socio-economic inequalities in the society. Keeping this in mind, Government, RBI, banks and other financial institutions are making policy interventions to accommodate the vulnerable in financial system, and developing the various strategies for financial inclusion in India in the larger context of inclusive growth in the country (*RBI, 2008*).

For making the mission of financial inclusion a grand success, government took various plans and projects. The government's Unique Identification (UID) number project initiated recently is expected to become the initial linkage for widespread financial inclusion in the country. 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. It will draw on the strengths of the banking industry and the communication channels to provide a reliable and effective service mechanism to every individual in the country. UID provide online authentication services from any authentication centre that can also be done even through a cell phone. The Unique Identification number (UID), which identifies individuals uniquely on the basis of their demographic information and biometrics, gives individuals the means to clearly establish their identity banks have been implementing many commendable initiatives in this direction and have also recently committed to cover all villages with population of more than 2,000 by March, 2015 (*Chakrabarty, 2012*).

In order to ensure financial inclusion, various initiatives were taken up by RBI/GOI like nationalization of banks, expansion of banks branch network, establishment and expansion of cooperative and RRBs, introduction of priority sector lending, lead bank scheme, formation of SHGs and state specific approach for government sponsored schemes to be evolved by SLBC, RBI vides mid-term review of annual policy statement for the year 2005-2006, advised the banks to align their policies with the objective of financial inclusion. Banks were advised to make available a basic banking 'No frills' account either with 'nil' or very minimum balances as well as charges that would make such accounts accessible to vast sections of population. Besides this, it has been emphasized upon by the RBI for deepening and widening the outreach of financial services so as to cover a large segment of the rural and poor sections of population.

Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. A more focused and structured approach towards financial inclusion has been followed since the year 2005 when Reserve Bank of India decided to implement policies to promote financial inclusion and urged the banking system to focus on this goal. But all could not give pace to the mission and policy of financial inclusion. Analyzing the situation government of India took initiative to take every citizen of India in the financial ambit by issuing a unique identification number *i.e.* Aadhaar No. In this, the impression of all fingers with thumb and retina of one's eye was scanned and thereafter, it was inserted in a chip and issued to that individual in the shape of a Unique ID card *i.e.* Aadhaar Card. It was made necessary to quote Aadhaar No. in every financial transaction (*Nair and Tankha, 2015*).

REVIEW OF LITERATURE

The articles appeared on different aspects of financial inclusion covered in journals/ magazines do not give a comprehensive viewpoint. *Dehijia and Gatti (2002)* stated that financial depth plays a role in lowering inequality and increasing the income of the bottom 80 per cent of the population Child labour, which is positively correlated with poverty, has been found to be influenced by the financial depth of a country. This could be because poor households in countries that have well-developed financial systems in place are less vulnerable to economic shocks. Finally, provision of financial services to poor people need not only be for increasing income, empowering women, or starting small businesses – it may simply aim to help them “manage better what little money” they already have. *Rajan and Zingales (2003)* ensured that poor households and small entrepreneurs need not depend on middlemen. The study concluded that an underdeveloped financial system can be uncompetitive, conservative and inimical to poor or small entrepreneurs. *Honohan (2004)* examined that the four central functions of finance are: mobilizing savings allocating capital; monitoring the use of credit funds by entrepreneurs; and transforming risk by pooling and repackaging it. These functions need to be buttressed by legal, regulatory and informational structures that enhance the quality of the financial system, which cannot be measured simply by looking at the scale or the breadth of the system. *Reddy (2007)* highlighted that the process of financial inclusion consists of seeking each household and offering their inclusion in the banking system. *Ramji (2009)* assessed the implementation of the financial inclusion drive and the use of banking services by households of Gulbarga, a District in the state of Karnataka, which is one of the first locations claimed to have achieved 100 per cent financial inclusion. The results showed that 36 per cent of the total sample remained excluded from the mainstream of banking. Those which are in the ambit of banking periphery are mostly under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) than under the financial inclusion drive. Accounts were opened by household to receive government assistance. These accounts were opened through Self- help groups. This was also got reflected that government schemes are the best way out to reach

larger chunk of population, especially in case of opening bank accounts. *Sarma (2010)* highlighted that the promotion of an inclusive financial system is a policy priority in many countries. While the importance of financial inclusion is widely recognized, the literature lacks a comprehensive measure that can be used to measure the extent of financial inclusion across economies. This paper attempts to fill this gap by proposing a multidimensional index of financial inclusion (IFI). The proposed IFI captures information on various dimensions of financial inclusion in one single number lying between 0 and 1, where 0 denotes complete financial exclusion and indicates complete financial inclusion in an economy. *Anand (2011)* explored the practical aspect of the banking services expansion and business growth. This banking services expansion if tied up with Aadhar Card issuance will serve the dual purpose of cost effectiveness when adding low balance no frills accounts, as well as will help banks serve the social cause of financial inclusion in rural areas as directed by RBI to Indian Banks. The operational aspects of implementing banking services customer acquisition along with Aadhar card issuance has been analyzed and concluded that widespread implementation of the Aadhaar project provides a one of its kind opportunity to financial service providers to ride on the platform and reach the masses at minimal cost. *Borsel and Gujarathi (2012)* revealed that poverty is not merely because of the insufficient income, but rather the absence of wide range of capabilities, including security and ability to participate in economic and political systems. Today, the term 'bottom of the pyramid' refers to the global poor most of them live in the developing countries. These large numbers of poor are required to be provided with much needed financial assistance in order to sail them out of their conditions of poverty, therefore, therefore it is essential for any economy to aim at inclusive growth involving each and every citizen in the economic development progression. *Chopra and Hamza, (2013)* concluded that UIDAI can, and will play a very vital role in making financial inclusion real and impactful. Nevertheless, considerable front-end work must be done, and many barriers removed, before unbanked poor can realize the impact. *Kaur and Singh (2014)* examined the recent trends in financial inclusion in India with special reference to Pradhan Mantri Jan Dhan Yojana (PMJDY), highlighting its key areas, despite tremendous growth of banking sector in India both horizontally and vertically, a large section of Indian population continues to remain unbanked even after attaining 67 years of our Independence. The study suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas. *Norris, et al. (2015)* developed a micro-founded general equilibrium model with heterogeneous agents to identify pertinent constraints to financial inclusion and evaluated quantitatively the policy impacts of relaxing each of these constraints separately, and in combination, on GDP and inequality. The study suggested that alleviating different financial frictions have a differential impact across countries, with country-specific characteristics playing a central role in determining the linkages and tradeoffs between inclusion, GDP, inequality, and the distribution of gains and losses. *Atorley; Shah and Pandey (2015)* highlighted that Aadhaar data is likely to create a huge

opportunity for leveraging analytics for customizing services and offerings. The Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Bima Yojana (PMBY), the launch of Pradhan Mantri Micro Units Development and Refinance Agency Ltd (MUDRA Bank) focusing on SME financing needs, launch of Differentiated Banking License (which also includes payments banks) as well as common service centers are other prominent initiatives that have generated a lot of interest from market participants and have delivered on several fronts.

OBJECTIVES OF THE STUDY

The objective of study is to analyse the bankers' viewpoint towards Aadhaar card as a tool of financial inclusion.

RESEARCH HYPOTHESIS

To validate the results of the study, following hypotheses are formulated:

H₀₁: There is no significant difference among the district-wise respondents' viewpoint towards Aadhaar Card as a tool of financial inclusion.

H₀₂: There is no significant difference among the bank-wise respondents' viewpoint towards Aadhaar Card as a tool of financial inclusion.

RESEARCH METHODOLOGY

The present study is exploratory-cum-descriptive in nature. The population for the present study is the respondents of selected banks of the selected districts of state of Haryana *i.e.* bank officials who are dealing with the various schemes covered under financial inclusion. For this study, a sample of 300 bank employees is selected on the basis of judgement sampling from the selected banks *i.e.* State Bank of India (SBI), Punjab National Bank (PNB), Oriental Bank of Commerce (OBC), Union Bank of India (UBI) and Haryana Gramin Bank (HGB) (15 respondents from each selected banks) of the selected four districts of the state *viz.* Sirsa, Kaithal, Panipat and Mahendergarh (75 from each selected districts). The study is based on primary as well as secondary data. Primary data is collected with the help of pre-tested structured questionnaire from bank employees of the selected banks on five point Likert scale *i.e.* Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD). The secondary data is collected from the websites, annual reports of RBI and NABARD, IBA Bulletin, journals, etc. For analyzing the collected data, weights are assigned in order of their importance *i.e.* 1 to Strongly Agree (SA), 2 to Agree (A), 3 to Neutral (N), 4 to Disagree (D), 5 to Strongly Disagree (SD). ANOVA technique has been used to test the hypotheses and validate the results of the study.

RESULTS AND DISCUSSIONS

District-wise Analysis

Table-1 illustrates the analysis of district-wise response of bankers with regard to Aadhaar Card as a tool of financial inclusion. Out of total respondents, 211 respondents (70.3 percent) strongly agree and 64 (21.3 percent) agree with Aadhaar Card as a tool of financial inclusion. Maximum respondents *i.e.* 47 respondents (15.7 percent) of Sirsa; 58 respondents (19.3 percent) of Kaithal; 54 respondents (18 percent) of Panipat and 52 respondents (17.3 percent) of Mahendergarh strongly agree with Aadhaar Card as a tool of financial inclusion. Comparatively, Kaithal is put at the top (Mean=1.32, SD=0.76), followed by Panipat (Mean=1.41, SD=0.82), Sirsa (Mean=1.52, SD=0.83) and Mahendergarh (Mean=1.59, SD=1.10) in terms of Aadhaar Card as a tool of financial inclusion. Statistically, district-wise ANOVA results exhibited in Table-1 shows that there is no significant difference among the district-wise bankers' viewpoint towards Aadhaar Card as a tool of financial inclusion ($p=0.270$), therefore the null hypothesis (H_{01}) is accepted at 5 percent level of significance.

Table 1: Analysis of District-wise Response on Aadhaar Card-UIDAI

| Districts | N/P | SA | A | N | D | SD | Total | Mean | S.D. | ANOVA | |
|--------------|-----|------|------|-----|-----|-----|-------|------|------|-------|-------|
| | | | | | | | | | | F | Sig. |
| Sirsa | N | 47 | 21 | 4 | 2 | 1 | 75 | 1.52 | 0.83 | 1.313 | 0.270 |
| | P | 15.7 | 7.0 | 1.3 | 0.7 | 0.3 | 25.0 | | | | |
| Kaithal | N | 58 | 14 | 1 | 0 | 2 | 75 | 1.32 | 0.76 | | |
| | P | 19.3 | 4.7 | 0.3 | 0.0 | 0.7 | 25.0 | | | | |
| Panipat | N | 54 | 16 | 1 | 3 | 1 | 75 | 1.41 | 0.82 | | |
| | P | 18.0 | 5.3 | 0.3 | 1.0 | 0.3 | 25.0 | | | | |
| Mahendergarh | N | 52 | 13 | 3 | 3 | 4 | 75 | 1.59 | 1.10 | | |
| | P | 17.3 | 4.3 | 1.0 | 1.0 | 1.3 | 25.0 | | | | |
| Total | N | 211 | 64 | 9 | 8 | 8 | 300 | 1.46 | 0.89 | | |
| | P | 70.3 | 21.3 | 3.0 | 2.7 | 2.7 | 100.0 | | | | |

Source: Survey, **Note:** N= No. of Respondents, P= Percent, df=3,296, *Significant at 5 percent level

Bank-wise Analysis

The bank-wise responses with regards to Aadhaar Card as a tool of financial inclusion are given in Table-2, which reveals that out of total respondents, 211 respondents (70.3 percent) strongly agree, followed by 64 (21.3 percent) agree with Aadhaar Card as a tool of financial inclusion. Whereas maximum respondents *i.e.* 41 respondents (13.7 percent) from SBI; 48 respondents (16.0 percent) from PNB; 39 respondents (13 percent) from OBC, 46 respondents (15.3 percent) from UBI and 37 respondents (12.3 percent) from HGB strongly agree with Aadhaar Card as a tool of financial inclusion. Comparatively, UBI is placed at the top (Mean =1.27, SD=0.55), followed by PNB (Mean =1.30, SD=0.79); OBC (Mean =1.51, SD=0.93); UBI (Mean =1.52, SD=0.75) and SBI (Mean =1.70, SD=1.23) in term of Aadhaar Card as a tool of financial inclusion. Statistically, bank-wise ANOVA results show that there is a significant difference

among the bankers' viewpoint with regard to Aadhaar Card as a tool of financial inclusion ($p=0.046$), therefore the null hypothesis (H_{02}) is rejected at 5 percent level of significance.

Table 2: Analysis of Bank-wise Response on Aadhaar Card-UIDAI

| Districts | N/P | SA | A | N | D | SD | Total | Mean | S.D. | ANOVA | |
|-----------|-----|------|------|-----|-----|-----|-------|------|------|-------|--------|
| | | | | | | | | | | F | Sig. |
| SBI | N | 41 | 8 | 3 | 4 | 4 | 60 | 1.70 | 1.23 | 2.455 | 0.046* |
| | P | 13.7 | 2.7 | 1.0 | 1.3 | 1.3 | 20.0 | | | | |
| PNB | N | 48 | 10 | 0 | 0 | 2 | 60 | 1.30 | 0.79 | | |
| | P | 16.0 | 3.3 | 0.0 | 0.0 | 0.7 | 20.0 | | | | |
| OBC | N | 39 | 17 | 0 | 2 | 2 | 60 | 1.51 | 0.93 | | |
| | P | 13.0 | 5.7 | 0.0 | 0.7 | 0.7 | 20.0 | | | | |
| UBI | N | 46 | 13 | 0 | 1 | 0 | 60 | 1.27 | 0.55 | | |
| | P | 15.3 | 4.3 | 0.0 | 0.3 | 0.0 | 20.0 | | | | |
| HGB | N | 37 | 16 | 6 | 1 | 0 | 60 | 1.52 | 0.75 | | |
| | P | 12.3 | 5.3 | 2.0 | 0.3 | .0 | 20.0 | | | | |
| Total | N | 211 | 64 | 9 | 8 | 8 | 300 | 1.46 | 0.89 | | |
| | P | 70.3 | 21.3 | 3.0 | 2.7 | 2.7 | 100.0 | | | | |

Source: Survey, **Note:** N= No. of Respondents, P= Percent, df=4,295, *Significant at 5 percent level

CONCLUSIONS AND POLICY IMPLICATIONS

It is concluded that there is no significant difference among the district-wise bankers' viewpoint, however there is significant difference among the bankers' viewpoint from the selected banks with regard to Aadhaar Card as a tool of financial inclusion. As Aadhaar Cards-UID plays a key role in the financial inclusion by providing national portability of identity of migrant population, which would give them access to basic services such as banking and telecom services therefore it is recommended that the Aadhaar Card-UID-enabled bank account targets to be a global address for residents, similar to an email ID or a mobile phone number. Central and state governments will be able to eliminate the identity-related existing frauds as Aadhaar Card-UID Number is also acceptable throughout the world. This will also be helpful in ensuring the compliance with Anti-Money Laundering laws and Financial Action Task Force standards.

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