



Loopholes in Aadhaar-Enabled Payments

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Why in News

A series of recent scams have **exposed the vulnerabilities of the Aadhaar-enabled Payment System (AePS)**.

Key Points

- **Aadhaar-enabled Payment System (AePS):**
 - AePS is a **bank led model which allows online interoperable financial transactions at PoS** (Point of Sale/Micro ATM) through the Business Correspondent (BC)/Bank Mitra of any bank using the Aadhaar authentication.
 - This system **adds another layer of security to financial transactions** as bank details would no longer be required to be furnished while carrying out these transactions.
 - It was **taken up by the National Payments Corporation of India (NPCI)** - a joint initiative of **Reserve Bank of India (RBI)** and **Indian Banks' Association (IBA)**.
- **Advantages Associated with AePS:**
 - **Decongesting Banks:** Like other micro-ATM systems, it has helped to decongest banks. It can be particularly useful to migrant workers who have no ATM facility.
 - **Deepening Social Security:** It will help in deepening social services after the proliferation of cash transfer schemes from governments to vulnerable citizens.
 - **Enabling Last-Mile Service:** It will ease the payments which will be done at the doorstep instead of travelling long distances.
 - Interoperable system ensures that the customer is not tied to one bank's BC.
 - **Removing Middlemen:** The middlemen who exploited the poor and illiterate would now be eliminated.

- **Existing Loopholes:**

- **Fraudulent BC:** Sometimes BC, leveraging the financial illiteracy of people, provides less money to the consumer but enters more money to be credited into the BC's account.
 - Manytimes, BCs deny receipts to poor people, if they demand one at all.
 - A corrupt BC can even get away with asking a gullible customer to put her finger in the PoS machine under some pretext, without giving her any money.
- **No accounting of Fraudulent Transactions:** AePS has no record of the fraudulent BC, it only shows the transaction records.

This makes poor people more vulnerable, who already are facing scarcity of funds.
- **Systemic Issues:** Failure in transactions owing to biometric mismatches, poor connectivity or weaker systems of certain banking partners, also affect the AePS.

Way Forward

- Providing financial literacy will help in reduction of cases of fraudulent BC.
- Roaming BCs should perhaps be banned, at least in states with low literacy levels.
- Better grievance redressal facilities must be made available to the victims of AePS fraud.

Source: IE