

# AN ANALYTICAL STUDY OF PAYMENT BANKS AND THEIR FINANCIAL PERFORMANCE IN INDIA

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## **ABSTRACT: -**

The Indian financial service has undergone major changes in the banking industry, which witnessed radical changes during this time period. The Indian banking system has developed new responses to deal with the emerging situation. In 2014, the RBI introduced two new categories of banking into the Indian financial system, namely payment bank and small bank. The objective of introducing these new categories of banks is to provide a much-needed rigour to the financial inclusion drive. Payment bank predominantly targets to provide payment and remittance services to low-income families, small enterprises, migrant labourers, and other individuals in the formal sector. A payment bank is a revolutionary initiative by the government of India to enhance the banking penetration in India. The main goal of this work is to comprehend the concept and functions of a payment bank, evaluate the financial performance of a payment bank, investigate the factors affecting payment bank adoption and learn that a payment bank is one of the key drivers of economic growth. The study was executed based on data sources from corporate websites, academic institutions, government entities, RBI document and publications.

Keywords: payment bank, Reserve Bank of India, financial system.

## **INTRODUCTION: -**

The institution called bank plays a very important and crucial function in every economy. At present phenomenon in India. Inclusion of all sorts of the population financially is one of the important policy concerns to spread benefits through which every citizen will have access to money. In pursuance of this concern payment bank is a new model of banks, conceptualized and implemented by the reserve bank of India (RBI) considering the recommendations of Nachiketa mor committee in the year 2013, for furthering the cause of financial inclusion. Payment banks differ from the traditional commercial banks primarily with regards to the limited banking services they can offer.

The RBI goal with payment banks is to increase financial inclusion and to enhance the use of financial services in the most distant places to bring every section of the economy into the mainstream financial system. To boost financial inclusion in India, the India Government is encouraging MFS in the nation through PPI's mobile banking and payment bank by expanding the admit of financial and banking services. Even though people have been using mobile banking and PPLs for a long time, payment bank is considered comparatively a new concept in India, which is said to be based on the M-pesa payment system of Kenya. The RBI permitted 'in principle, approval to eleven applicants for Payments Banks including Aditya Baklanova Ltd, Reliance Industries Ltd, Airtel M-commerce Service Ltd, Shri Dilip Shanti lal Service Ltd, cholamandal Distribution

service Ltd, Fino paytec Ltd, National Securities Depository Ltd, Tech Mahindra Ltd, Vodafone m-pesa Ltd. At present only 6 payment banks are operating that is Jio paymen bank, Airtel payment Bank, Indian post payment bank, Fino payments banks, Jio payment bank, NSDL payment bank. The present paper attempted to study the need of Payment banks, how the payment bank is operated in India and to learn about their financial performance.

## REVIEW OF LITERATURE: -

Payment bank has become a significant and influential entity in the nation's financial sector. Payment banks introduced by RBI in 2014 aim to promote financial inclusion by reaching underserved populations key players like Paytm, Airtel, Fino, Jio and India post payment bank have helped bridge the rural urban financial gap. Despite high initial operating cost, these banks continue to grow by offering innovative, customer centric services and expanding access through strategic partnerships. Their role is vital in transforming India's financial landscape. (Mamtha VG and Dr, Nimi Dev R 2024). Payment banks aim to serve migrants, small business and low-income groups by offering secure, tech-driven services where commercial banks cannot reach. With deposit limits and no lending ability, they earn through third-party products. Promoting awareness, especially in rural area, is key to enhancing their role in financial inclusion (Jyoti Bhati and K. R Gole 2025). No modern payment system like Debit cards, Internet banking and e-commerce have replaced cash in money transactions. However, millions in India still lack access to banking services (Sabitha Godasa 201). The payment banks were launched to promote financial inclusion, especially among underserved populations. Out of the 11 licensed, only six are operational, each adopting different expansion strategies. IPPB stand out for its strong rural reach and trust, while other like paytm and Airtel face challenges in awareness and profitability. Despite operational issues, payment bank has expanded access points and customer base, showing potential to bridge the financial gap through innovation, partnerships and trusted infrastructure (Harsh Upadhyaya and Yogesh C. Joshi 2021). The user-friendly design convenience, affordability security and efficient cash management are crucial factors influencing the adoption of payment banks. Studies using confirmatory factor analysis validate these dimensions as significant in shaping customer preferences for digital transactions (Mehta and Shah 2020).

## OBJECTIVES: -

- 1) To know the financial performance of payment banks in India.
- 2) To study the concepts of payment bank in India.
- 3) To examine the development the payment bank in India.

## METHODOLOGY: -

This paper analyses payment banks financial performance in India and provides a conceptual, descriptive analysis of how they are operated. The study based on secondary data collected from credible and diverse sources such as government publications, reports by the Reserve Bank of India, scholarly articles, news portals, annual reports of payment banks, financial journals, publication and websites.

## EVALUATION OF PAYMENT BANKS: -

On 23 September 2013, headed by Nachiket Mor Committee was formed by the Reserve bank Of India for analyzing comprehensive financial services for small Business and low-income

households. On 7 January 2014, the committee submitted its recommendations of formation of bank with a new category called payment bank. RBI on 17 July, 2014, released the draft for payment bank, inviting comments for suitable and interested entities along with the general public. Finally on 27 November, RBI released guidelines for setting up a payment bank.

In 2015, RBI released the list of 41 applicants for payment bank with the declaration that an external advisory committee (EAC) head by Nachiketa Mor evaluate the license applications. At time of the presentation of budget, It was specially mentioned that India post will use its large network to run payments banks. The advisory committee, on 6 July 2015, after scrutinizing financial records and performance, submitted its report. Initially, the RBI issued license to eleven applicants to launch payment bank. But out of three surrendered their licenses at the early phase.

The license give was valid for 18 months within which, licenses had to fulfill various requirements to initiate operations. The payments banks were has allowed to engaged in banking activities within the period. It is the further planned that RBI will consider granting full license to these entities' U/S 22 of the Banking Regulation Act 1949 subject to fulfillment of conditions. RBI in its guidelines also mentioned main objective to set up payment bank would e mainly to further financial inclusion among individual 's who do not have aces to formal banking by not having access to small accounts and remittance services to labor working elsewhere for their native small business low-income households, other unorganized sector entities and individual users. Payment bank on successful fulfillment of their motives will lead the country to all unbanked or under- banked areas at remote places to allow facilitate the provision of all services offered by the bank and other retail services to be part of an organized Indian economy. The key feature of payment banks according to guidelines of RBI fare as mention below and set control for the functioning of these banks.

23 SEPTEMBER 2013	<ul style="list-style-type: none"> <li>• NACHIKET MORE COMMITTEE FORMED BY RBI FOR AALYSES COMPRESENSIVE FINANCIAL SERVICE FOR SMALL BUSINESS AND LOW INCOME HOUSEHOLD.</li> </ul>
7 JANUARY 2014	<ul style="list-style-type: none"> <li>• COMMITTEE SUBMITTED IT'S RECOMMENDATIONS OF TE FORMATION OF BANK WITH A NEW ACTEGORY CALLED PAYMENT BANK.</li> </ul>
17 JULY 2014	<ul style="list-style-type: none"> <li>• RBI RELEAASED THE DRAFT FOR PAYMENT BANKS INVITING COMENTS FOR SUITABLE AND INTERESTED ENTITIES ENTITIES ALONG WITH THE GENERAL PUBLIC.</li> </ul>
FEBURY 2015	<ul style="list-style-type: none"> <li>• RBI RESEASED THE LIST OF 41 APPLICANT FOR PAYMENT BANK</li> </ul>
28 FEBURY 2015	<ul style="list-style-type: none"> <li>• DURING THE PRESENTATION OF BUDGET IT WAS ANNOUNCED THAT INDIA POST WILL USE IT'S LARGE NETWORK TO RUN PAYMENT BANK.</li> </ul>
6 JULY 2015	<ul style="list-style-type: none"> <li>• THE EXTERNAL ADVOSORY COMITTEE AFTER SCRUTINISING FINANCIAL RECORD AND PERFORMANCE SUBMITTED IT REPORT.</li> </ul>
19 AUGUST 2015	<ul style="list-style-type: none"> <li>• RBI GIVE ' IN - PRINCIPLE' LICENSES TO ELEVEN ENTITIES TO LAUNCH ENTITES TO LANCH PAYMENT BANK OUT OF THESE WERE SURRENDERED.</li> </ul>

Registration of a payment bank is permitted under the companies Act 2013 and also banking Regulation Act 1949, foreign exchange management Act 1999, Payment and Settlement Act 2007 and other statutory and prudential regulations issued by Reserve Bank Of India and regulatory authority from time to time.

**FINANCIAL PERFORMANCE OF PAYMENT BANK: -**

Payment banks were introduced in India as a means to enhance financial inclusion, particularly for low-income individuals, small businesses, and rural populations. These banks operate with a minimum paid-up capital of Rs 100 crores and are required to maintain a capital adequacy ratio of 15 % based on risk-weighted assets. Promoters must hold at least 40% of the equity for the first five years. Registered as public limited companies under the Companies Act, 2013, and licensed under section 22, Banking Regulation Act 1949, under section 42(6)(9), RBI Act 1934, payment banks are restricted from offering loans or credit cards. They are allowed to accept deposit provide debit cards, and facilitate payment and remittances. These banks must operate digitally, adhere to RBI’s corporate governance and “fit and proper” criteria for directors, and set up a Grievance Redressal Cell under the banking ombudsman scheme. Furthermore, at least 25% of their outlets should be in rural, unbanked areas. Payment banks serve as a vital tool in India’s financial ecosystem by offering accessible, secure, and technology-driven services that bridge the gap between the formal banking sector and underserved communities.

**FINANCIAL RATIO OF PAYMENT BANKS: -**

Payment banks aim at providing payments and remittance services to migrant labour workforce, low-income households, small businesses, other unorganized sector entities and other user. At end June 2020,2021,2022,2023,2024, six payments banks operational in the country. That is six banks are Airtel payment Banks, Paytm Payments Banks, India Post Payments Banks, Fino Payments Banks, Jio Payments Banks and NSDL payments Banks.

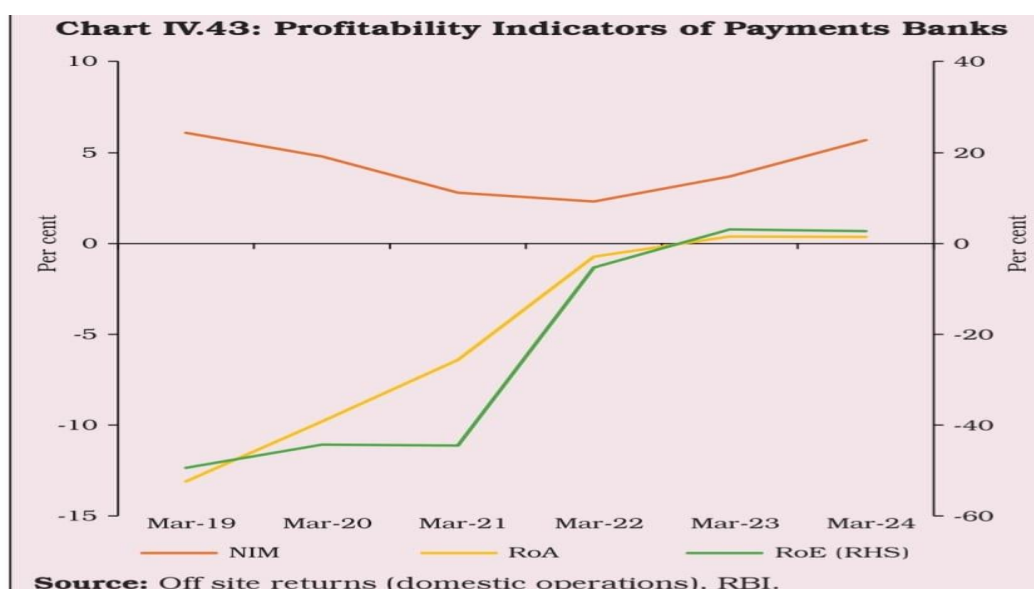
ITEM	MAR 20	MAR 21	MAR 2022	MAR 23	MAR 24
Return on assets	-9.8	-6.4	-0.7	0.4	0.4
Return on equity	-44.3	45.3	-5.3	3.1	2.7
Investment to assets	48.4	57.1	56.1	52.7	55.9
Net interest margin	4.8	2.8	2.3	3.7	5.7
Efficiency (cost income ratio)	124.8	116.9	102.2	98.3	97.2
Operating profit to working fund	-109	-6.1	-0.6	0.5	0.8
Profit margin	-23.9	-20.3	-2.6	1.5	1.3

(source :- RBI REPORT 2020,2021, 2022, 2023, 2024)

Payment Banks in India were introduced to enhance financial inclusion by providing small savings accounts and payment/remittance services to low-income households. While their operational

model is innovative, their profitability and sustainability have often been questioned. Table first, analysing the financial performance of the payment bank over five years (FY2020to2024) using key ratios.

The return on assets improves significantly over the years-9.8% to 0.4%. This shift from negative to positive indicates improved asset utilisation and operational profitability. Return on equity was impressively high in 2020 and 2022(44.3%and 45.3%) but dropped sharply in 20222 (-5.3%), reflecting financial stress or equity dilution. A recovery to 2.7 in 2024 suggests the bank is regaining investor value, albeit slowly. Investment to assets remained stable, ranging from 48.4% to 57.1%, reflecting consistent investment patterns.Net interest Margin showed a healthy trend, declining to 2.3% in 2022 and improving to 5.7% in 2024. This growth indicates the banks' improved capability to earn interest income relative to its interest bearing assets, which is a positive sign for long-term profitability. Efficiency (cost-income ratio) decreased from 124.8% in 2020 to 97.2% in 2024. Although still above100% in earlier years, the steady decline reflects better cost control and operational efficiency. Operating profit to working fund a deep negative figure (-109%) in 2020 to a positive 0.8% in 2024; this ratio shows that the bank has managed to turn its operations profitable. It indicates better utilisation of its working capital. Profit margin improved drastically in 2020 -23.9% 2024 is 1.3% this marks a remarkable turnaround from sustained losses to consistent profit, showing improved income management and expense control.



The profitability indicators of payment banks in India have shown a significant turnaround in recent years. Between march 2019 and march 2021, these banks experience persistent losses, as reflected by negative value of return on assets and return on equity with rod dropping as low as -50 % net interest margin though positive showed a declining trend during the same period. However, starting from march 2022 there has been a marked improvement in financial performance. Roa and ROE moved into positive territory. Signaling the banks return to profitability. Simultaneously, NIM also improved, indicating enhanced efficiency in generating interest income. This upward trend suggests that payment bank have strengthened their operational strategies and financial stability in recent years.

**CONCLUSION: -**

The principal objective of formation of payment banks is financial inclusion which will further improve the well-being of grass-root population as an economic ladder. Payments banks have emerged as a significant innovation in India’s financial ecosystem, particularly in promoting financial inclusion. Introduced

by the Reserve bank of India in 2014, these banks have expanded outreach, especially in rural area, and increase access to basic banking products like saving accounts and digital payments. Their efforts have helped bridge the gap between formal banking and marginalized communities, supporting broader economic participation.

Although payment bank has made progress in expanding access to banking services, their financial performance continues to face serious challenges. Important indicators such as return on assets and return on equity remain low or negative, showing that these banks are struggling to earn stable profits. While there has been some improvement in net interest margins, it has not been enough to significantly boost profitability. In addition, operating profit ratio and overall profit margin are still quite low. These issues reflect the high cost of running payment bank and the limited ways they currently have to earn income. To become financially sustainable, payment banks must find new revenue sources, manage their costs more efficiently, and offer a broader range of services.

These finding underscore the need for payments banks to focus on diversifying their service offerings, improving cost efficiency and leveraging technology. Building grater trust in rural communities and enhancing financial literacy will also be critical for encouraging adoption. By addressing these challenges, payments banks can strengthen their financial viability and fulfill their financial viability and fulfill their potential as important drives of inclusive economic growth in India.

Ultimately, while payments banks have taken important steps toward financial taken financial inclusion their long-term success will depend on their ability to innovate, achieve operational sustainability and expand customer engagement. with continued efforts in these areas, payments banks can play a transformative role in India's financial ecosystem and contribute significantly to the nation's inclusive development goals.

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