

Payment Bank and Digital Transformation: Assessing Their Impact on Traditional Banking

Mr. Ratne Ravindra Kailas

Ph.D. Research Scholar Department of Commerce, S.N Arts D.J Malpani Commerce and B.N. Sarda Science College Sangamner, Maharashtra, India.

Prof. (Dr) Rajaram Wakchaure

Professor & Head, Dept. of Commerce and Management, Arts, Science and Commerce College, Rahata, Maharashtra, India.

Abstract

Payment banks and broad digital transformation initiatives have reshaped India's banking landscape by shifting large parts of routine payment flows away from traditional bank branches toward low-cost, technology-centric channels. This paper—based entirely on secondary data (RBI, NPCI, EY, PwC, Government sources and industry reports)—examines the evolution of payment banks since RBI licensing (2015), quantifies the growth of digital payments (UPI and other channels), and assesses the implications for traditional banks (market share in payments, operational efficiency, inclusion). Key findings: UPI and payment-centric providers have driven a very rapid increase in transaction volumes and users, creating both opportunities (financial inclusion, cost reduction) and threats (fee income pressure, disintermediation) for full-service banks. Managerial recommendations include hybrid partnerships, API/open-banking strategies, and customer education. (RBI, 2016).

Keywords: Payment Banks, Digital Transformation, UPI, Financial Inclusion, Traditional Banks, India.

1. Introduction:

Since the RBI introduced licensing for payment banks (policy issued 2014/2015; operating guidelines published later), India has experienced a profound shift in retail payments and basic banking services. Payment banks (e.g., Airtel Payments Bank, India Post Payments Bank, Fino) are designed to accept deposits up to prescribed limits and provide payments/remittance services but are not permitted to lend. At the same time, the Unified Payments Interface (UPI) and other digital innovations have become the dominant retail rail for low-value transactions, driving dramatic transaction volume growth and bringing large new user cohorts into digital financial services. These changes have forced traditional banks to accelerate digital adoption while losing ground in frictionless payments and P2P / merchant transaction flows (RBI, 2016)

2. Revised Objectives:

- a) To document the growth and adoption of payment banks and digital payment systems (with emphasis on UPI) in India (2015–2025).
- b) To assess the impact of payment banks and digital payments on transaction volumes, customer behaviour, and the payment-related revenue of traditional banks.
- c) To evaluate socio-economic effects (financial inclusion, merchant onboarding) attributable to payment banks and digital transformation.

3. Research Methodology:

This is a **secondary-data-only** study. Data sources consulted include: RBI circulars and payment system reports, NPCI (UPI product statistics), government portals (Ministry/Financial Services), industry reports (EY, PwC), IBEF, reputable news outlets (for regulatory/timing context) and publicly available research reports. Analysis is descriptive and comparative: time-series highlights, tabular snapshots, and qualitative synthesis of implications.

4. Literature Review:

RBI & Regulatory Background: RBI’s licensing and operating guidelines for payments banks (2014–2016) created a differentiated banking model focused on inclusion and payments. The regulatory design restricted lending but encouraged deposit mobilisation and payments innovation (RBI, 2016).

UPI & Payments Growth: Industry analyses (EY, PwC, NPCI statistics) document very rapid growth in UPI transactions—e.g., EY reports UPI rising from ~8,324 crore transactions in FY23 to ~13,096 crore in FY24 (57% YoY growth in that year). NPCI live statistics show millions of users and tens of millions of merchants on UPI platforms. These works emphasise UPI’s centrality to India’s payments ecosystem and its role in enabling new players to capture payment flows. (india, March 2025)

Industry Reports & Market Structure: PwC and IBEF syntheses describe the structural shift: digital rails capturing high volumes of small transactions while traditional banks maintain strength in credit and relationship services. They also highlight competitive and regulatory issues (e.g., market share caps, fraud risk management). (www.pwc.in, 2025)

(Where peer-reviewed academic literature was limited for the 2023–2025 window, this paper relies on verified industry/regulatory sources for up-to-date statistics.)

5. Secondary Data Analysis:

Table 1. UPI: Selected indicators (FY23 → FY24)

Indicator	FY23	FY24	Source
UPI transactions (number, crore)	8,324	13,096	EY (India payments report) (india, March 2025)
UPI users (approx., million)	—	491 (2025 press note)	NPCI / PIB (Govt. press release) (www.pib.gov.in/PressNoteDetails , n.d.)

According to Table 1, UPI’s transaction count jumped markedly year-on-year in the FY23→FY24 window—evidence of rapid adoption of digital payment rails. This growth indicates that a larger share of routine retail transactions is being routed through digital payment providers, which benefits low-cost payment specialists (payment banks, wallets, fintech apps) and reduces fee and interchange income for traditional banks on such transactions. (india, March 2025)

Table 2. Broader Digital Payment Volumes (selected years)

Financial Year	Total digital payment transactions (crore)	Source
FY 2017–18	2,071	Ministry – Digital Payments overview. (DFS Digital Payments, n.d.)
FY 2023–24	18,592	Ministry – Digital Payments overview. (DFS Digital Payments, n.d.)

A multi-year explosion in overall digital transactions (CAGR ~44% per the government summary) shows systemic change—traditional cash/branch models are being complemented and often replaced by digital rails for many customer interactions. This trend supports the hypothesis that payment banks and fintech have large addressable markets for payments and basic savings services. [Department of Financial Services](#)

6. Main Findings & Discussion:

- a) **Rapid Payments Adoption:** UPI and other digital channels have grown at double-digit rates; UPI in particular has become the dominant volume driver for retail payments. (See Table 1. and NPCI/EY data.) ([india, March 2025](#))
- b) **Payment Banks' Role in Inclusion:** Payment banks, because of their focused model and agent networks, help reach previously unbanked customers; the regulatory cap on deposits and prohibition on lending make them complementary to traditional banks rather than direct competitors in credit markets, but they compete strongly in payments and deposits (RBI, 2016).
- c) **Revenue & Disintermediation Pressure:** Traditional banks face pressure on payments fee income and transactional customer touchpoints, as payment processors and fintech apps capture high-frequency flows. This may reduce cross-sell opportunities unless banks adapt via partnerships or superior value propositions in credit and wealth services. ([india, March 2025](#))
- d) **Operational Efficiency & Digitization Gains:** Digital transformation helps banks lower operational costs and offer faster services; RBI and industry reports document rising digital maturity among banks, though gaps in UX and merchant coverage persist. ([india, March 2025](#))
- e) **Risks & Controls:** Rapid growth has also meant an uptick in digital fraud / scams; industry reports highlight rising fraud incidents in UPI and stress the need for stronger KYC, transaction monitoring and consumer education. ([india, March 2025](#))

7. Managerial & Policy Implications:

- a) **For Traditional Banks:** adopt hybrid models — strengthen APIs, partner with payment banks/fintech, prioritise seamless omnichannel experiences, and focus on products where trust and long-term relationships matter (credit, mortgages, corporate banking).
- b) **For Payment Banks / Fintech:** invest in robust KYC/fraud mitigation, scale merchant acceptance, and explore co-branded product bundles with banks that can offer credit.
- c) **For Regulators:** monitor concentration risks (market-share caps on UPI participants were discussed/delayed in recent regulatory conversations), ensure consumer protection and fraud remediation frameworks are strong. ([AA1SCU0S, 2025](#))

8. Limitations:

This paper uses **only secondary data**; it therefore cannot capture micro-level customer motivations or bank-level confidential metrics.

Rapidly changing figures (monthly NPCI statistics, regulatory updates) mean some numeric values may evolve after this draft—citations are provided to the primary live sources to enable easy verification and updates (NPCI, 2018)

9. Conclusion:

Digital transformation and payment banks have jointly accelerated a shift in transactional banking: high-volume, low-ticket payments are moving to digital rails (UPI and payment bank front-ends), while traditional banks retain comparative advantages in credit and relationship banking. Sustainable coexistence will depend on strategic partnerships, technology investment, and effective consumer protections.

10. References:

1. National Payments Corporation of India (NPCI) UPI — Product Statistics (live) NPCI product statistics page. [NPCI](#)

2. Press Information Bureau (PIB). “India’s UPI Revolution” (PIB press note, Jul 2025). [Press Information Bureau](#)
3. Reserve Bank of India (RBI). Operating Guidelines for Payments Banks(2016).[Reserve Bank of India+1](#)
4. EY (2025). The Digital Payments Ecosystem of India (industry report). (Contains FY23→FY24 UPI transaction figures cited in this paper). [EY](#)
5. Ministry of Finance / Financial Services — Digital Payments overview (Government portal, digital payments statistics). [Department of Financial Services](#)
6. PwC (Indian Payments Handbook). Indian Payments Handbook (2024–2025 edition). [PwC](#)
7. Reuters (2024–2025 coverage). Articles re: UPI market-share cap delays and industry context. [Reuters](#)

• **Copyright & License:**

© Authors retain the copyright of this article. This work is published under the Creative Commons Attribution 4.0 International License (CC BY 4.0), permitting unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.