

Comparative Analysis of Payments Banks in India: Performance, Challenges, and Opportunities

Dr. Manoj Minj,

Department of commerce, V.R.D.G.G. College Takhatpur, Bilaspur C.G. India.

Abstract

The Reserve Bank of India (RBI) introduced Payments Banks in 2015 as a novel model to drive financial inclusion and promote digital transactions. These banks were designed to provide small savings accounts, payments, and remittance services to unbanked and underbanked populations. Unlike traditional banks, Payments Banks cannot lend or issue credit cards, restricting their revenue models but compelling them to innovate with technology and partnerships. This paper undertakes a comparative analysis of leading Payments Banks in India—India Post Payments Bank (IPPB), Airtel Payments Bank, Paytm Payments Bank, and Fino Payments Bank—based on financial performance, outreach, technological adoption, and regulatory environment. Drawing from secondary data sources including RBI reports, company annual reports, and academic studies, the study highlights differences in operational models and customer focus. The findings suggest that while Payments Banks have contributed to financial inclusion and digital adoption, sustainability challenges persist due to profitability concerns, regulatory restrictions, and competitive pressures. The paper concludes with policy implications and strategic recommendations for strengthening the Payments Bank ecosystem.

Keywords: Payments Banks, Financial Inclusion, Digital Banking, India Post Payments Bank, Paytm Payments Bank, Airtel Payments Bank, Comparative Analysis

1. Introduction

The Indian banking sector has undergone significant transformation over the last two decades, particularly with the integration of technology and the rise of digital payment platforms. To deepen financial inclusion, the RBI introduced the concept of Payments Banks in 2014, following the recommendations of the Nachiket Mor Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households. In 2015, the RBI granted in-principle licenses to 11 entities including telecom companies, fintech firms, and the Department of Posts (RBI, 2015).

Payments Banks were expected to provide small savings accounts, facilitate payments and remittances, and act as a bridge between formal financial institutions and underserved segments. However, restrictions on lending and caps on deposit amounts (currently ₹2 lakh per customer, revised in April 2021) limited their profitability models. Over time, only a handful of Payments Banks survived, while some returned their licenses citing unsustainable operations.

This paper provides a comparative analysis of four active Payments Banks—India Post Payments Bank, Airtel Payments Bank, Paytm Payments Bank, and Fino Payments Bank—examining their business models, financial performance, technological strategies, and challenges in achieving sustainable growth.

2. Literature Review

Research on Payments Banks is relatively nascent, given their recent establishment.

- **Financial Inclusion:** Studies emphasize that Payments Banks can accelerate financial inclusion by leveraging mobile penetration and rural networks (Bansal, 2017).
- **Digital Transformation:** Sharma and Chandel (2018) noted that telecom-backed banks like Airtel and Paytm benefit from synergy between communication services and digital payments.
- **Challenges:** Kumar and Patel (2020) highlighted the profitability constraints, regulatory restrictions, and technological risks facing Payments Banks.
- **Comparative Studies:** Few comparative works exist. Most focus either on a single Payments Bank (e.g., India Post) or general digital banking trends. This gap underscores the need for a structured comparative evaluation.

3. Objectives of the Study

1. To analyse the financial and operational performance of leading Payments Banks.
2. To compare customer outreach, technological adoption, and business models.
3. To identify challenges and opportunities in sustaining Payments Banks.
4. To suggest policy and strategic recommendations for enhancing their viability.

4. Methodology

- **Research Design:** Descriptive and comparative analysis.
- **Data Sources:** RBI annual reports, company annual/financial reports (2018–2023), SEBI disclosures, and peer-reviewed journals.
- **Comparative Framework:** Indicators include deposits, customer base, transaction volume, technology adoption, and regulatory compliance.
- **Scope:** Four leading Payments Banks in India—IPPB, Airtel Payments Bank, Paytm Payments Bank, and Fino Payments Bank.

5. Comparative Analysis of Payments Banks

5.1 India Post Payments Bank (IPPB)

- Launched in 2018, leveraging 1.55 lakh post offices and 3 lakh postal employees.
- Customer base: 6+ crore accounts by 2023 (IPPB Annual Report, 2023).
- Focus: Rural penetration, doorstep banking, government schemes (DBT transfers).
- Strength: Trust and existing postal infrastructure.
- Weakness: Technology adoption and operational efficiency.

5.2 Airtel Payments Bank

- First Payments Bank to launch (2017).
- Over 15 crore users as of 2023, riding on telecom customer base.
- Revenue model: Payments, insurance partnerships, FASTag, and recharge services.
- Strength: Mobile-first model, strong digital presence.
- Weakness: Limited-service diversification beyond telecom-linked offerings.

5.3 Paytm Payments Bank

- Launched in 2017, integrated with Paytm's wallet and UPI services.
- Handled the highest UPI transaction volumes until 2023.
- RBI restrictions in 2024 on fresh deposits raised sustainability concerns.
- Strength: Strong fintech ecosystem, urban tech-savvy customer base.
- Weakness: Regulatory hurdles, dependence on parent company.

5.4 Fino Payments Bank

- Established in 2017, focused on rural areas with agent-led banking model.
- Over 1 crore customers and 7 lakh merchants.
- Revenue model: Transaction fees, insurance distribution, remittances.
- Strength: Low-cost, agent-driven model.
- Weakness: Smaller scale compared to rivals.

6. Key Comparative Findings

Table 1: Comparative Indicators of Payments Banks (2023 Data)

Indicator	IPPB	Airtel Payments Bank	Paytm Payments Bank	Fino Payments Bank
Ownership	Govt. of India (DoP)	Bharti Airtel	Paytm (One97 Comm.)	Fino PayTech
Year of Launch	2018	2017	2017	2017
Customer Base (approx.)	6 crore	15 crore	10 crore+	1 crore+
Rural Penetration	Very High	Moderate	Low-Moderate	High
Revenue Model	Deposits + DBT	Recharges, FASTag, payments	Wallet, UPI, ecosystem tie	Agent-led transactions
Strength	Trust + postal network	Mobile synergy	Digital ecosystem	Low-cost outreach
Limitation	Tech adoption + cost	Limited diversification	Regulatory issues	Limited scale

7. Challenges

1. **Profitability Concerns:** No lending; revenue depends on transaction fees and partnerships.
2. **Regulatory Restrictions:** Strict RBI compliance (e.g., deposit caps, KYC norms).
3. **Technological Risks:** Cybersecurity and frauds in digital transactions.
4. **Competition:** UPI-driven apps, fintech NBFCs, and traditional banks.
5. **Awareness Gaps:** Rural customers still prefer cash.

8. Opportunities

- **Financial Inclusion:** Strong potential to serve rural India.
- **Partnership Models:** Cross-selling insurance, mutual funds, and pensions.
- **Digital India Push:** Government support for cashless economy.
- **Tech Integration:** AI, blockchain, and big data for fraud prevention and customer analytics.
- **DBT and Government Schemes:** Leveraging subsidies and welfare transfers.

9. Policy Implications

- Relaxing deposit caps to enhance viability.
- Allowing selective lending under strict regulation.
- Strengthening cybersecurity frameworks.
- Encouraging partnerships with fintechs and cooperative banks.

10. Conclusion

Payments Banks have emerged as an innovative experiment in India's banking landscape. While IPPB has succeeded in rural outreach, Airtel and Paytm have leveraged telecom and fintech ecosystems, and Fino has built a niche in low-cost models. However, profitability and sustainability remain key concerns due to restrictive regulations and competition. For Payments Banks to thrive, regulatory reforms, technological innovation, and strategic partnerships are essential. The success of Payments Banks will determine India's ability to achieve holistic financial inclusion in the digital era.

References

- Bansal, S. (2017). Role of payment banks in financial inclusion. *International Journal of Commerce and Management Research*, 3(2), 12–16.
- India Post Payments Bank. (2023). *Annual Report 2022–23*. New Delhi: IPPB.
- Kumar, R., & Patel, M. (2020). Payment banks in India: Prospects and challenges. *Journal of Banking and Finance*, 14(1), 45–56.
- Reserve Bank of India. (2015). *Guidelines for Licensing of Payments Banks*. RBI Circular, November.
- Sharma, P., & Chandel, A. (2018). Digital banking in India: Opportunities and challenges. *Asian Journal of Management*, 9(3), 221–230.