



## Payment Bank as a Driving Force for Financial Inclusion: Assessing the Role and Financial Performance of Payment Banks

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*Abstract: The Indian banking sector has witnessed substantial development in volume and complexity of digital transactions in the past decade but still a gap exists in the provision and access of financial services. One of the initiatives introduced by the RBI is the concept of Payment Banks, aimed at providing basic banking services to underserved populations, particularly in semi-rural and rural areas among economically disadvantaged and marginalized sections. This research paper explores the significant role of payment banks play in promoting financial inclusion. The proposed study conducted relied on secondary data and is descriptive in nature. This paper highlights the various ways payment banks can effectively enhance financial inclusion and assesses the progress and accomplishments of the payments banks and concluded that they play a crucial role in delivering subsidies directly to beneficiaries' accounts. Competition between traditional and payment banks can lead to improved banking services at reduced costs, further promoting financial inclusion. However, certain bottlenecks must be addressed to fully unlock the benefits of payment banks. empowering individuals and communities to participate in the broader economy.*

**Index Terms – Payment bank, Financial Inclusion, Financial Performance, Digital Transaction**

### I. INTRODUCTION

The Indian banking sector has experienced remarkable upsurge in magnitude, volume and complexity of digital transactions throughout the past decade. However, there is persistent gap in the provision of basic financial services to underprivileged and marginalized populations, despite significant advances in financial sustainability, competitiveness and profitability, and. Recognizing the importance concerning this issue the Central bank of India (RBI) being the banking regulator, has introduced various financial inclusion initiatives to prioritize the provision of basic financial services to historically underserved populations, including the underprivileged and marginalized. While Advancements are heading towards increasing financial inclusion, there is a substantial journey ahead to ensure that all individuals and communities have availability to affordable and Streamlined banking financial services. The Government and the Central bank (Reserve Bank of India) are trying to implement various measures to enhance foster Financial Inclusivity and augment the reach of financial services in India, particularly for marginalized communities in remote areas, financially vulnerable groups, Impoverished sectors and Microenterprises. Several Actions and Programs have been executed, including the Digital India Campaign, (PMJDY), the launch of fund transfer systems such as RTGS and NEFT and the promotion of digital payments among others. One of the initiatives introduced by the RBI is the concept of Payment Banks, aimed at providing basic banking services to underserved populations, particularly in rural areas and among low-income groups and small businesses. Payment Banks are designed to facilitate low-value, high-volume transactions and offer services such as savings accounts, remittance services, and bill payments. By leveraging technology and digital platforms, Payment Banks can reach remote areas and provide affordable financial services to those who previously lacked access to them. Together, these efforts are

aimed at driving financial inclusion and creating a more inclusive and sustainable financial system in India. The RBI remains committed to prioritizing financial inclusion and promoting a more equitable and sustainable financial system in India.

Payment mechanism	Loan Advancement	Accepting Deposits	Interest	Cash Payment
Payment Banks	NO	YES	YES	YES
Digital Wallet	YES	YES	NO	NO
Commercial Bank	YES	YES	YES	YES
Payment Network (Master cards )	NO	NO	NO	YES

Source: Compiled by Author

### Review of Literature

**Damle et al. (2016)** This research paper conducts a comprehensive review of the parameters for financial inclusion and the business models of the existing system and payment banks. It addresses the challenges faced by the traditional banking system, such as Business Correspondents (BCs), ATMs, mobile banking, Basic Savings Bank Deposits, and prepaid instruments (PPIs), and explores how payment banks can overcome these challenges.

**Abid (2017)**. The concerned study aims to investigate the Transformation occurring in the banking sector through emergence of a novel category of banks known as Payments Banks. The Reserve Bank of India embarked on a significant measure on August 19, 2015, by granting approval of 11 payment banks with the aim of extending banking services to the financially marginalized localities. This study delves into the fundamental tenets of payment banks and the challenges they face in their operations.

**Mittal (2017)** The key objective of the concerned paper is to analyze customer's inclination for utilizing the services provided by the payment banks in comparison to traditional banks making use of bivariate correlation analysis, Pinpointing the specific services that consumers prefer from payment banks and highlights the Pivotal role of convenience and ease in facilitating the expansion of the customer base for these banks. Additionally, the research investigates how factors such as educational background, occupation, and age group influence customers' decisions in selecting payment banks.

**Shrey et al. (2018)** This research paper explores the prospects of payment banks in India, which is a recent endeavor in the banking sector. The Availability of banking services in rural areas and underdeveloped areas is a vital obstacle for the Indian economy. Payment banks aim to resolve this issue by catering to low-income households and small businesses, focusing on high-volume but low-value transactions.

**Gupta et al. (2019)** This study focuses on examining the determinants influencing the behavioral intention of the Unreached segment of the population to adopt payment bank services. The research integrates variables of UTAUT model incorporating perceived credibility. The study investigates both the direct relationships between these factors and the intention to adopt payment bank services, as well as potential mediating and moderating effects. Data was acquired through a direct survey in New Delhi, India with 660 responses analyzed using structural equation modeling (SEM)

**Kaur et al. (2020)** In the concerned study key Factors of customers' behavioral intentions were examined that play an important role in adoption of payment banks in India. The study incorporates the use of TAM model with additional variables social influence, facilitating conditions and initial trust and even explores the moderating effects of self-efficacy, age, income. Through convenient sampling in Punjab, India a total 507 responses were obtained and analyzed using SEM. It was demonstrated perceived ease of use has the strongest influence on behavioral intentions, followed by initial trust and social influence.

**Kaur et.al (2022)** This study seeks to explore the factors influencing users' intention to use payment bank services in India. By integrating various quality dimensions with trust and the service provider's reputation, the research model aims to bridge the intention-to-use and actual usage gap. The model was validated using data from 393 Indian users, analyzed through partial least squares using SmartPLS. The results indicate a significant impact of satisfaction and intention to use on the actual usage of payment bank services.

**Objectives of the Study**

- ❖ To Examine the Role of payment banks (PBs) in driving financial inclusion in the economy.
- ❖ To Assess progress and accomplishments of payment banks (PBs)

**Research Methodology**

Data for this study have been gathered from diverse secondary sources, including journals, company websites of the payment banks (PBs), newspaper articles, and central bank of India (RBI) website. The study is based on quantitative data, which is presented and examined using charts and tables.

**Payment bank Role in advancing Financial Inclusion**

**Providing Basic Banking Services:** -Payment banks play a pivotal role in providing essential banking services to unbanked populations, particularly in underserved areas. Services such as deposits, withdrawals, and remittances enable individuals to securely manage their finances and participate in economic activities.

**Extending Reach:** -Leveraging technology, payment banks overcome geographical barriers and reach remote areas where traditional banking infrastructure is limited. By offering mobile banking and digital platforms, payment banks ensure individuals in rural and underserved regions can conveniently access their accounts and conduct financial transactions.

**Enabling Digital Payments:** -Payment banks actively promote the adoption of digital payment methods, reducing dependence on cash-based transactions. This shift to digital payments facilitates financial transactions for individuals who may lack access to physical currency or face challenges in handling cash securely.

**Empowering Small Merchants and Microenterprises:** -Payment banks facilitate electronic payments for small merchants and microenterprises, empowering them to accept digital payments from customers. This expands their customer base, enhances their financial management capabilities, and fosters economic growth at the grassroots level.

**Encouraging Savings:** -Payment banks incentivize savings by offering interest-bearing accounts and promoting financial literacy. These initiatives empower individuals to build financial resilience, plan, and escape the cycle of poverty.

**Facilitating Remittances:** -Payment banks simplify the process of sending and receiving remittances, particularly for migrant workers. By offering affordable and efficient remittance services, payment banks reduce the cost and complexity associated with cross-border transactions, making financial inclusion more accessible to this population.

**Collaborating with Government Initiatives:** -Payment banks establish partnerships with government programs aimed at promoting financial inclusion. Through these collaborations, payment banks streamline the distribution of government subsidies, pensions, and welfare payments directly into beneficiary accounts, ensuring efficient disbursement and eliminating intermediaries.

**Financial products tailored to underserved sections-** Payment banks can develop and provide financial products that are specifically designed to cater to the unique needs and preferences of underserved segments. These tailored offerings can include micro-savings accounts, insurance products that are affordable and suitable for the target population, as well as flexible loan options. By customizing financial products to meet the requirements of underserved individuals and communities, payment banks can better address their specific financial challenges and promote greater financial inclusion.

**Data analysis and Interpretation**

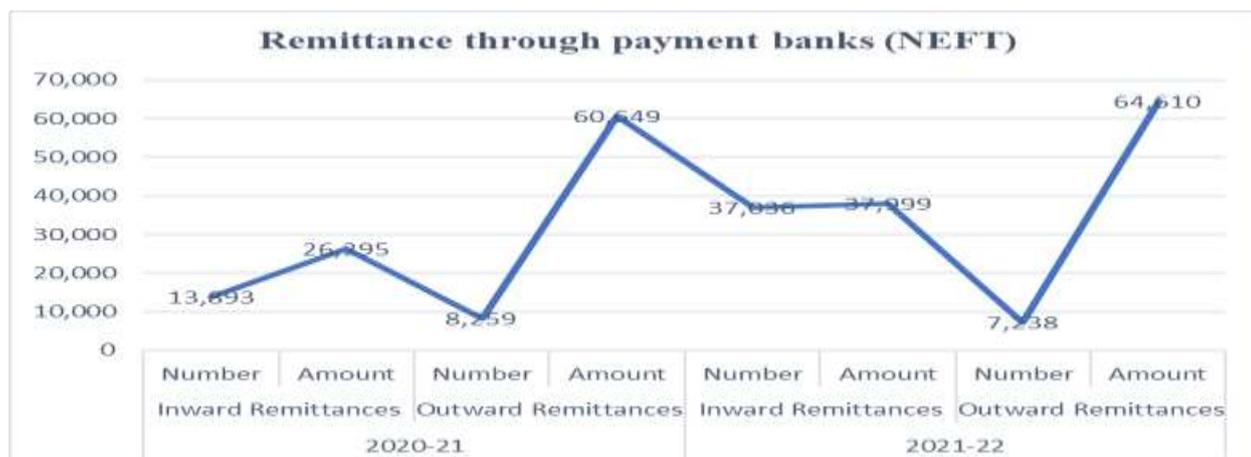


Figure-1, Source: Off-site returns (domestic operations), Data pertains to 6 PBs.

Interpretation During the specified timeframe of 2021-2022, there was a good amount rise in the volume of remittances(both inwards and outwards facilitated by PBs (Payment Banks). Specifically, the volume of inward remittances experienced a substantial increase, while outward remittances witnessed even higher growth rate.

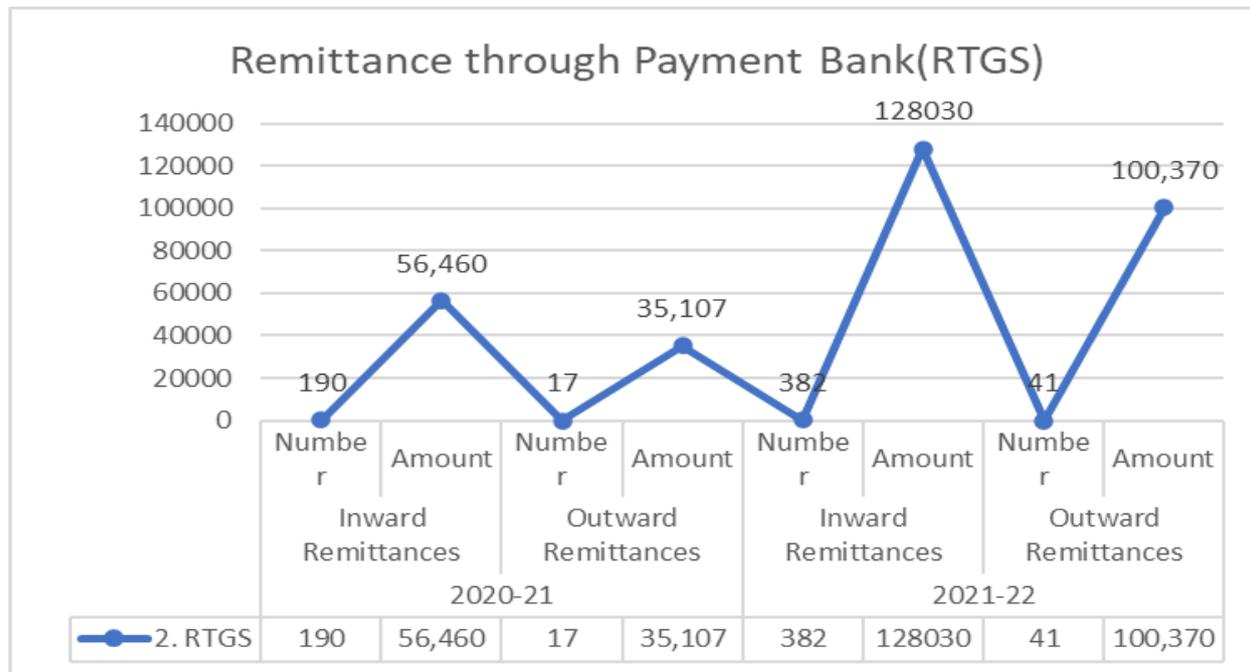


Figure-2, Source: Off-site returns RBI, Data pertains limited to 6 PBs.

Interpretation- In the period of 2021-2022, Payment Banks (PBs) observed a significant surge in both inward and outward remittances. The volume of inward remittances experienced a notable growth rate, while outward remittances saw an even higher increase of growth rate.

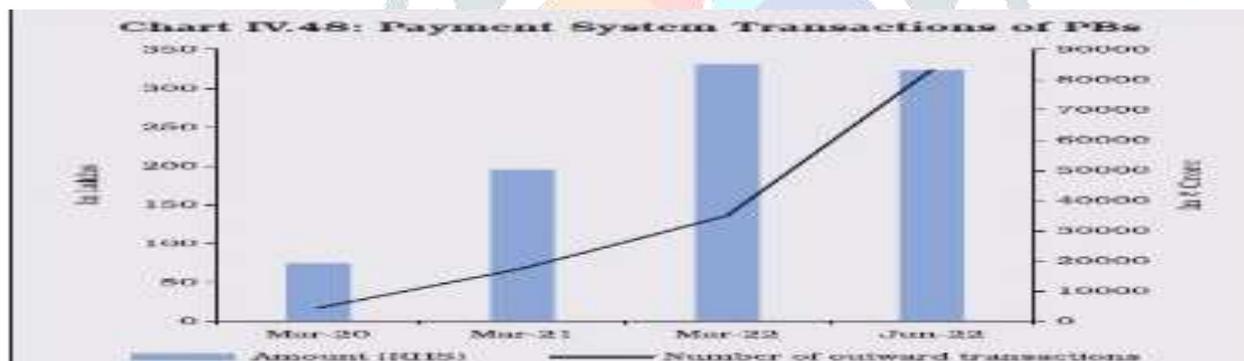


Figure-3, Source: Monthly Data Release by RBI (Include NEFT and RTGS transaction)

Interpretation-Remittance operations played a significant role in the income generation of Payment Banks (PBs) Notably PBs witnessed a substantial increase in their transactions within centralized payment mechanisms such as NEFT (National Electronic Funds Transfer) and RTGS (Real-Time Gross Settlement). Specifically, from March 2020 to June 2022, these transactions surged by approximately 19 times. Moreover, the monetary value associated with these transactions also experienced a significant growth, exceeding a fourfold increase.

## Financial Performance of Payment banks

		(Amount in ₹ crore)		
Sr. No.	Item	2019-20	2020-21	2021-22
A	Income (i + ii)			
	i. Interest Income	348	360	460
	ii. Non-Interest Income	3,115	3,562	5,416
B	Expenditure			
	i. Interest Expenses	62	100	157
	ii. Operating Expenses	4,324	4,584	5,826
	Provisions and Contingencies	-96	36	24
	of which,			
	Risk Provisions	3	9	17
	Tax Provisions	-100	22	5
C	Net Interest Income	286	260	303
D	Profit			
	i. Operating Profit (EBPT)	-923	-762	-107
	ii. Net Profit/Loss	-827	-798	-130

Figure-4, Source: Offsite returns (domestic operations), RBI

Payment Banks (PBs) concluded the 2021-2022 fiscal year with losses primarily attributed to high operating expenses. Despite achieving a consecutive four-year improvement in efficiency, as evidenced by a declining cost-to-income ratio, PBs faced thin profit margins, even among the profitable ones. The Net Interest Margin (NIM) experienced a decline for the third consecutive year. Other performance metrics like return on equity (RoE), Return on Assets (RoA) and other ratios shown in the figure remained negative throughout the year. However, it is worth noting that the extent of losses reduced considerably, indicating progress in mitigating the losses, the ongoing improvement in efficiency and the reduction in the extent of losses signify positive developments in their financial performance.

### Conclusion

Payment banks were introduced to increase financial inclusion by implementing government benefit transfer schemes. They play a crucial role in delivering subsidies directly to beneficiaries' accounts. Competition between traditional and payment banks can lead to improved banking services at reduced costs, further promoting financial inclusion. However, certain bottlenecks must be addressed to fully unlock the benefits of payment banks. Initiatives like M-Banking, IPPB, and PMJDY aim to reach the unbanked and underbanked across society and geography, providing access to banking facilities, government benefits, loans, insurance, and interest on savings.

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