AN ANALYTICAL STUDY ON PAYMENTS BANKS IN INDIA

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ABSTRACT
This research paper aims to conduct a comprehensive analysis of the financial performance of payments banks in India by utilising select financial indicators. By doing a past trend analysis the study seeks to provide insights into the financial health and stability of payments banks in India and identify challenges facing the banks. The study further entails a comparative financial analysis of payments banks. The findings of this research would contribute to a better understanding of the payments bank sector in India and inform stakeholders about their overall performance.

Keywords: Payment Banks, Financial Analysis

INTRODUCTION
Payment banks were granted permission to operate in India by the Reserve Bank of India (RBI) in 2014 as differentiated financial institutions whose primary purpose would be to promote financial inclusion by catering to the unbanked population who were excluded from the financial fold and did not have access to basic banking services. Payment banks are critical in expanding access to banking services in India, especially amongst marginalized communities like migrant labourers, low-income households, small businesses, unorganized sector entities, and other users.

Payment banks differ from the traditional commercial banks primarily with regards to the limited banking services they can offer. Payment banks were allowed to accept demand deposits and provide payment and remittance services, however they are not permitted to carry out lending activity. Payment banks are restricted on the amount of maximum deposit they can accept which has been increased from Rs.1lakh to Rs. 2lakh. They are allowed to issue debit cards and provide mobile banking services. Payment banks are expected to leverage technology to cut costs and improve efficiency.

Since payments banks are not allowed to lend, interest income from lending, which is a major income source for most traditional banks is unavailable to payments banks. Thus, payments banks have to rely on other sources of income such as from providing payment and remittance services, income earned on transactions such as utility bill payments, point-of-sale terminals, ATM cash withdrawals, loan referral services, insurance, para banking services. Payments banks are also permitted to work as business correspondents for other banks and commission earned from this activity also serves as a source of income. Instead of earning interest income from lending, payments banks earn interest income from investing mandatory 75% of the deposits in government securities and 25% of the deposits with scheduled commercial banks.

REVIEW OF LITERATURE
Neelam & Tiwari (2020) analysed the performance of payments banks in India with regards to their contribution to financial inclusion.[1] **Iyer et al. (2018)** identified lack of awareness of payments banks as a major barrier to them achieving their financial inclusion goals. They also identified remittances and ease of use as two major drivers of payments bank.[2] **Mittal et al. (2017)** discussed how payment banks, driven by technological advancements, aim to enhance banking convenience for customers. The paper investigated the influence of demographic variables like educational background, occupation, and age group on customers' choice of payment banks. [3] **Anuj Gautama (2022)** analysed the evolution of payments banks in India, both before and after demonetization, highlighting the unique business models and operational frameworks and future prospects.[4]

STATEMENT OF THE PROBLEM:

The research paper is aimed at analysing the financial performance of multiple payments banks in India and conduct a comparative assessment of the six prominent payments banks operating in the country.

RESEARCH METHODOLOGY:

The research is based on secondary data sources.

Secondary Data Collection: Secondary data has been collected from research journals, publications, books, newspaper articles. Several governmental and non-governmental reports such as those of RBI, annual reports of the various payments banks etc have also been utilised.

LIMITATIONS OF THE STUDY:

a) Study is based on secondary data sources and does not entail primary research.

b) Scope of research is constrained to 2015 as payment banks are a new type of financial entity and hence there is limited availability of historical data for analysis.

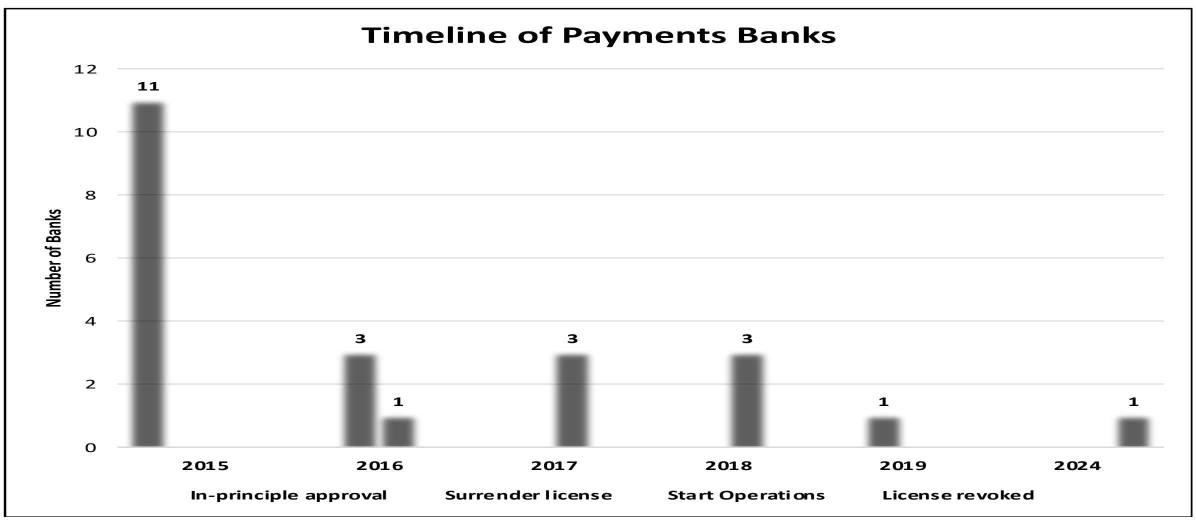
RESEARCH OBJECTIVES

1) To assess the growth of Payments Banks in India and determine overall financial performance trends.

2) To perform a comparative financial analysis of select payments banks.

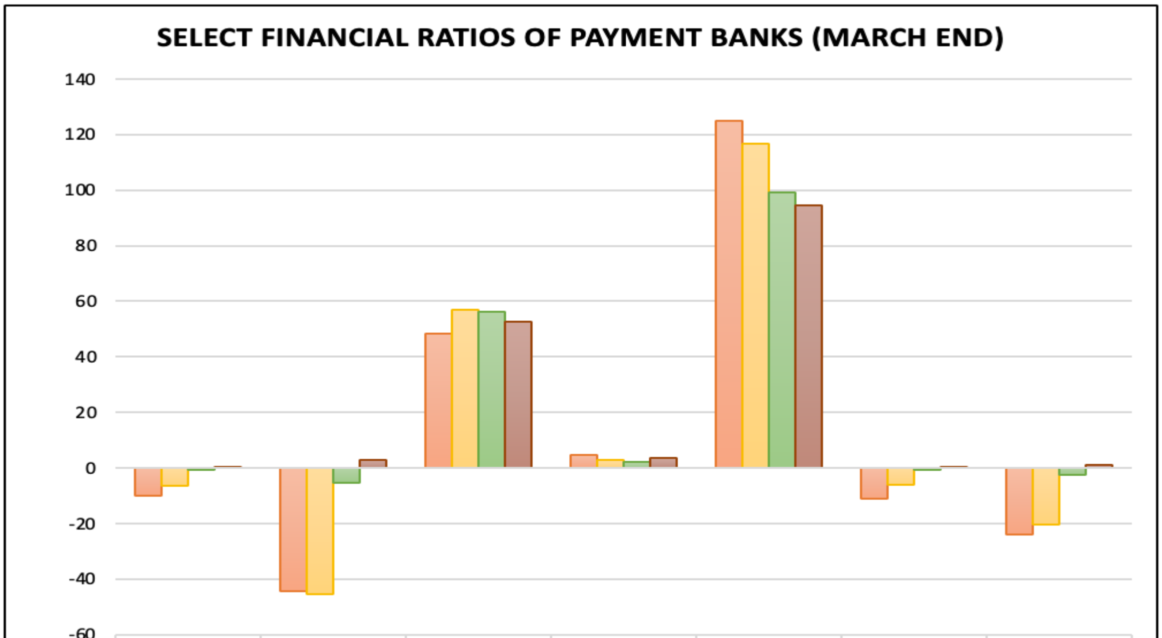
Data Analysis

Assess the growth of payments banks in India and analyse their overall performance



In August 2015, RBI granted in-principle approval to 11 applicants for setting up payments bank, out of the 41 applications received.[5] The first payments bank set up in India was the Airtel Payments Bank Ltd. in 2016. 3 out of the 11 applicants, namely Cholamandalam, Dilip Shanghvi IDFC Telenor combine and Tech Mahindra surrendered their licenses in 2016 some citing profitability concerns due to a long gestational payback period as the reason.[6] In 2017, Paytm, India Post and Fino Payments Bank started operations. In 2018, the remaining three applicants – Jio, NSDL and Aditya Birla Idea started their payments bank operations. But in just around a year and a half of starting operations Aditya Birla Idea Payments Bank shut shop in 2019.[7] Vodafone m-Pesa which was also granted a license but which was to be merged with the Aditya Birla Idea Payments Bank therefore also departed the payments bank ecosystem leaving only six functioning payments banks in 2020.[8] By June 2023, these six operational payment banks had set up 88 branches mainly located in semi-urban areas.[9] In 2024, RBI imposed restrictions on Paytm Payments Bank due to compliance issues disallowing onboarding of new customers, thereby leaving only five fully operational payments banks in India.

The chart below displays overall consolidated financial ratios of the 6 payments banks which were operational from FY 20 to FY 23 namely - India Post Payments Bank Ltd, FINO Payments Bank Ltd, Paytm Payments Bank Ltd, NSDL Payments Bank Limited, Jio Payments Bank Ltd., Airtel Payments Bank Ltd.



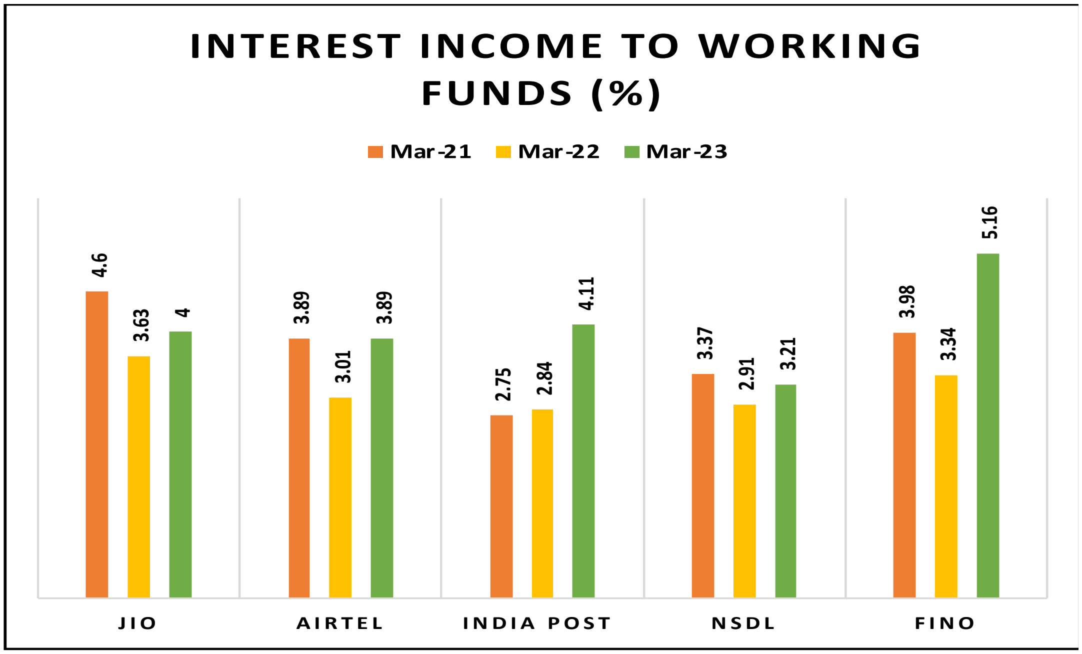
	Return on Assets (%)	Return on Equity (%)	Investments to Total Assets (%)	Net Interest Margin (%)	Efficiency (Cost-Income Ratio) (%)	Operating Profit to working funds (%)	Profit Margin (%)
2020	-9.8	-44.3	48.4	4.8	124.8	-10.9	-23.9
2021	-6.4	-45.3	57.1	2.8	116.9	-6.1	-20.3
2022	-0.7	-5.2	56.2	2.3	99.1	-0.6	-2.5
2023	0.4	3	52.7	3.7	94.6	0.5	1.3

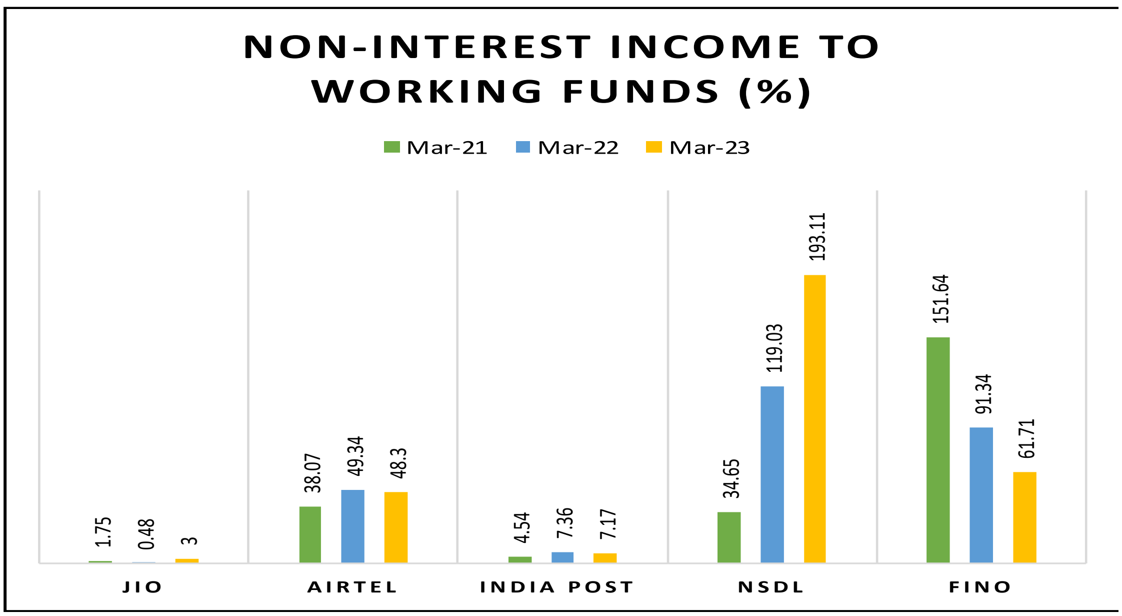
Source: RBI Report on Trend and Progress of Banking in India 2019-20 to 2022-23

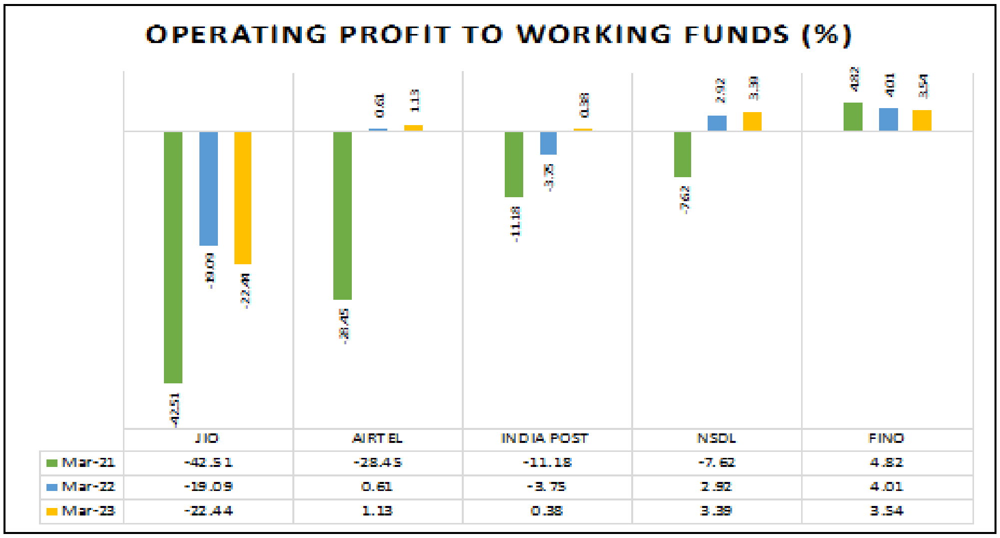
Profitability analysis – Overall, payments banks have taken a very long time to become profitable due to high operational and set up costs and restricted sources of income on account of inability to earn interest income on lending activity. FY 2023 showed a marked improvement in profitability metrics as compared to the previous three financial years with return on assets, return on equity, operating profit and profit margin all turning positive. Net Interest Margin, which is the ratio of net interest income to interest earning assets, also grew in FY 2023 after having shown a declining trend in FY 2021 and FY 2022.

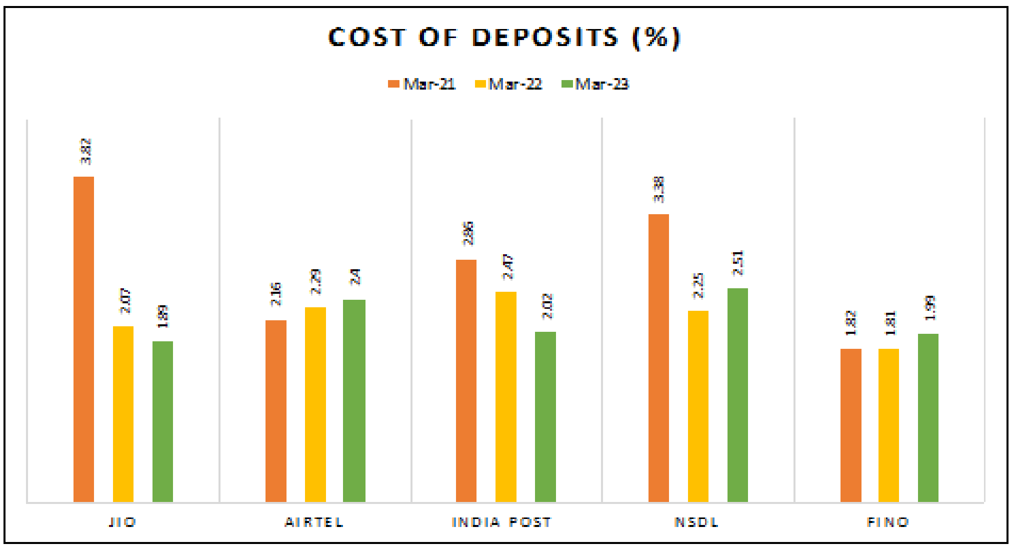
Efficiency analysis – A decline in cost to income ratio of payments banks over the span of 4 years from FY2019-20 to FY 2022-23 is an indication of improvement in operational efficiency and reduction in non-interest expenses, which is also evident in the increasing operating profit to working funds ratio. The direct impact of reduction in operating costs is seen in overall consolidated profit margin, Return on Assets (ROA) and Return on Equity (ROE) of payments banks being positive for the first time in FY 2022-2023.

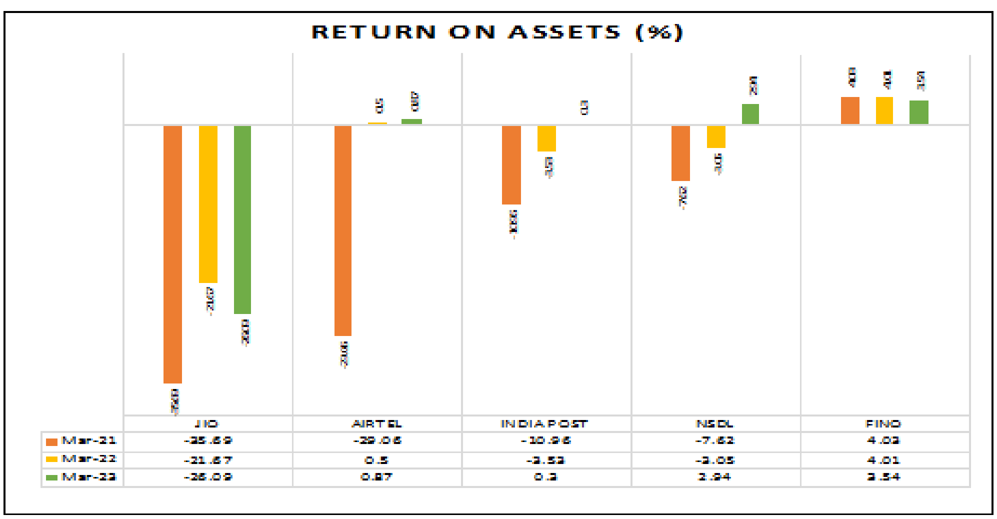
Comparative Analysis of the five operational payments banks


INTEREST INCOME TO WORKING FUNDS (%)
Mar-21
Mar-22
Mar-23
4.6
3.63
4
3.89
3.01
3.89
2.75
2.84
4.11
3.37
2.91
3.21
3.98
3.34
5.16
JIO
AIRTEL
INDIA POST
NSDL
FINO


NON-INTEREST INCOME TO WORKING FUNDS (%)
Mar-21
Mar-22
Mar-23
1.75
0.48
3
38.07
49.34
48.3
4.54
7.36
7.17
34.65
119.03
193.11
151.64
91.34
61.71
JIO
AIRTEL
INDIA POST
NSDL
FINO


OPERATING PROFIT TO WORKING FUNDS (%)
	JIO	AIRTEL	INDIA POST	NSDL	FINO
Mar-21	-42.51	-28.45	-11.18	-7.62	4.82
Mar-22	-19.09	0.61	-3.75	2.92	4.01
Mar-23	-22.44	1.13	0.38	3.39	3.54


COST OF DEPOSITS (%)
Mar-21 Mar-22 Mar-23
JIO
AIRTEL
INDIA POST
NSDL
FINO


RETURN ON ASSETS (%)
	JIO	AIRTEL	INDIA POST	NSDL	FINO
Mar-21	-35.69	-29.06	-10.96	-7.62	4.03
Mar-22	-21.67	0.5	-3.53	-3.05	4.01
Mar-23	-26.09	0.87	0.3	2.94	3.54

For payments banks the major source of income is non-interest other income as compared to interest income given their unique revenue model which restricts lending activity. Jio Payments Bank's income generation from non-interest income sources as a proportion to working funds is poor compared to its peers. While Jio Payments Bank, also showed a decline in cost of deposit across the 3 years, the benefit of this declining cost did not reflect in its profits as non-interest operating expense seems to be higher as evidenced in its declining operating profit from FY 22 to FY 23. Jio Payments Bank trend of operating profit matches that of its ROA, thereby making it evident that operating costs are a drag on the profitability. All these causes have led Jio Payments Bank to being the worst performer on profitability metrics.

Airtel Payments Bank has showed profitability in the last two financial years but its Operating Profit to working fund and ROA are not significantly high. Its non-interest income as a proportion of working funds also saw a decline from FY 22 to FY 23, while its cost of deposits in the same period saw an increase. There is a need for Airtel Payments Bank to increase its income generating capacity from non-interest income sources if it wants to sustain its profitability in the longer run.

India Post while not having sufficient non-interest income to working funds as compared to its peers, has shown a consistent decline in cost of deposits and doubled its interest income to working funds from FY 22 to FY 23. It has also shown improved operational efficiency from FY 2022 to FY 23 as seen in its increasing operating profit to working funds ratio. Its profitability in FY 23 seems to be a consequence of controlling costs and improving interest income.

NSDL Payments Bank has shown a significant increase in its ability to generate non-interest income from its assets from FY 2022 to FY 2023. This was reflected in its ROA being positive for the first time in FY 2023 this despite it having a positive operating profit to working funds in FY 2022.

FINO Payments Bank turned profitable sooner compared to its peers, but its ROA and Operating Profit over the last 3 years have shown a marginal declining trend while its cost of deposits is showing a marginal increasing trend. FINO Payments Bank has also seen a steep decline in its non-interest income to working funds without any significant increase in its interest income as a percentage of working funds. This fall in its ability to generate income from its asset base is a cause of concern and can hamper profitability going forward.

CONCLUSION

Payments Banks despite the restrictions imposed on them with regards to lending activity have started displaying profitability however the longer gestation period which was expressed as a concern by entities which surrendered their licenses did in fact materialise as overall profitability of the sector was only observed after around five years after operations began for the banks. Jio Payments Bank has still not been able to go profitable and even the banks which did turn profitable are not generating very high returns on asset. FINO Payments Bank which did display better profitability as compared to its peers is also stagnating in terms of its returns over the past 2 years. There is a need to expand the income base of these banks and for them to meet their true goal of financial inclusion they should be permitted to carry out micro-lending activities.

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