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A Multi-Model Strategic Assessment of Payment Banks

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Abstract

In 2016 the concept of payment banks were introduced to improve financial inclusion. Payment banks provide banking services without giving credit. This paper provides insights about comprehensive strategic analysis of payment banks using three established frameworks: SWOT, PESTLE, and Porter's five forces model. The SWOT analyses provides insights of strengths and weaknesses of payment banks and try to identify the opportunities and threats in providing financial inclusion especially in rural and unbanked sector. The PESTLE analysis explores the macroeconomic parameters – political, economic, social, technological, legal and environmental factors which influence the functioning and sustainability of payment banks. Porter's five forces model examines industry competitiveness by examining the bargaining power of customers and suppliers, threats of substitutes and new entrants, and degree of competitive rivalry. This paper provides insights about challenges and opportunities of payment banks in financial inclusion in India. The findings will be useful for policymakers, financial institutions, investors and scholars to understand the strategic position of payment banks in the rapidly evolving digital economy.

Keywords: *financial inclusion, bank, macroeconomic parameters, financial institutions.*

Introduction

Payment banks are banks that provide banking services but they cannot provide loans or issue credit cards. Other banking services such as deposits, withdrawal, remittances, and payments are offered by payment banks. Payment banks primarily offer services through digital channels.

In September 2013, a committee was formed by RBI to study 'Comprehensive Financial Services for Small Businesses and Low-Income Households' which was headed by Nachiket Mor. In 2014 the committee suggested the idea of payment banks which would cater to low-income groups and small businesses. In 2015

RBI drafted guidelines for payment banks and invited applications for license of payment banks. 41 entities applied for payment banks out of which 11 entities were given licenses for payment banks. In 2017 Bharti Airtel became the first to launch India's first payments bank called the Airtel Payment Banks. Today 5 companies are actively performing operations in the payment bank industry and their names are listed below:

1. Airtel Payments Bank
2. India Post Payments Bank
3. Fino Payments Bank
4. Jio Payments Bank
5. NSDL Payments Bank

This paper tries to conduct a strategic analysis of the payments bank industry using the tools – *SWOT, PESTLE, and Porter's Five Forces Model.*

SWOT

SWOT analysis (strength, weakness, opportunity, and threat) is a strategic tool used to understand internal and external environment (R & K.B, 2023). Strengths and weaknesses provide insights about the internal environment whereas opportunities and threats provide insights about the external environment(Benzaghta, Elwalda, Mousa, Erkan, & Rahman, 2021). SWOT analysis can be used to evaluate any process, person, organization, project, industry or business and thus helps in strategic planning. SWOT analysis was developed by Albert Humphrey in the 1960s.

Strengths

Financial inclusion – Reaching out to the unbanked and underbanked populations especially in rural and semi-urban areas. According to World Bank Global Findex 2025 report 89 percent of adults in India have bank accounts. 88.7 percent of adults have accounts in traditional banks or similar financial institutions whereas 23.1 percent of adults have accounts in digital banks(Business, 2025)

Low-cost operations – Uses digital technology and there is no need of physical branches to provide services. With minimum infrastructure payment banks can operate. Traditional banks require physical branches, ATMs, and offices and thus have to incur high real estate expenditure and maintenance cost. Whereas payments bank does not require physical branches and thus save real estate expenditure. Payments bank require majorly technology personnel as their working staff and business correspondents to reach out to potential customers. Whereas traditional banks have to hire branch managers, tellers, and office personnels. Payments banks avoid training expenses and HR expenses of employees.

Technology driven – There is focus on mobile and digital platforms and thus ensures better scalability and customer convenience.Since payments banks use mobile apps, UPI, and internet banking consumers can do transactions 24x7. On real time basis transactions are being done. AI and analytics is used which helps in improving fraud detection and operational risks are reduced.

Support from regulators – Government as well as RBI is trying to promote cashless economy and encouraging financial inclusion. There are various government schemes such as Pradhan Mantri Jan Dhan Yojana (PMJDY), digital India mission, and direct benefit transfer (DBT) which are using payments bank as channel to reach out to rural population. RBI and NPCI have partnered with payments bank for financial literacy campaigns in rural India.

Weaknesses

Restricted license – Any non-banking entity canapply for registration of payments bank. The entity must have 5 years of business track record and should be considered fit and proper. Minimum 100 crore of paid-up capital is required by payments bank. 40% of equity for 5 years should be with the entity applying for payments bank license. Payment banks cannot issue credit cards or offer loans

Thin margins – Profitability is a challenge as payment banks relies heavily on transaction fees and float income. Payments banks were introduced to promote financial inclusion. The business model of payments is low-margin high-volume. Since payments banks cannot offer credit their profit margin remains low or negative.

Trust and awareness issues – Customers lack awareness regarding payment banks and may have trust issues with the digital model

Dependence on partner banks – There is a limit on the deposit in payment bank accounts and for deposits more than 2 lakh they have to depend on traditional banks

Opportunities

Untapped rural markets – There is still a large segment of population which is outside the reach of traditional banking system

Partnership models – There is a strategic partnership with fintechs, NBFCs and traditional banks payment banks can offer a variety of financial products

Government initiatives – Initiatives such as Jan Dhan Yojna, direct benefit transfer (DBT) and digital India gives a boost to the payment bank model

Digital transformation of MSMEs – With growing digital adoption by small businesses there is opportunity for merchant services and B2B payments

Threats

Intense competition – Payment banks are facing intense competition from traditional banks, fintech startups, and neobanks

Cybersecurity risks – As payment banks are based on the digital platform they are vulnerable to cyberattacks, data breach, and frauds

Regulatory changes – Any shift in the policies can have impact on the revenue models of payment banks

Customer attrition – As payment banks can provide limited products there is a possibility that users may shift to traditional banks

Sustainability challenges – Many payment banks have struggled to scale up and even exited. Example – Aditya Birla Payment Bank shut down its operations

PESTLE Analysis

PESTLE analysis is an acronym for Political, Economic, Social, Technology, Legal, and Environment. It was developed by Francis Aguliar to analyze the external factors which will influence the business. This analysis helps organizations identify the threats and opportunities and thus develop strategic plans which can improve the operational efficiency (Belsare, 2025).

Political Factors

Political factors try to identify government stability and rules and regulations laid out by the government. It helps identify how the government can influence the business in present as well as in future. Current political scenario of India is stable and this is good from the perspective of investors.

Government initiatives – Government of India and RBI have been actively promoting payment banks to improve financial inclusion

Regulatory framework – There are a strict compliance requirement which influences growth of payment banks. Paytm Payment Banks was shut down as they defied the compliance requirement established by RBI for payment banks

Policy support – Initiatives such as Jan Dhan Yojna and digital India are aligned with the model of payment banks

Political stability – There is political stability and this supports long-term financial reforms and digital penetration

Economic Factors

Economic factors try to identify how the economy is performing. The macro-economic factors identify inflation rates, inflation rates, and unemployment levels. Whereas micro-economic factors identify the purchasing power of people. There is growing economic scenario in India and around 45% of income is being contributed by rural India.

Financial inclusion push – There is push from government to bring the unbanked and underbanked population in the banking framework

Low-cost deposits – Payment banks support small savings and thus encouraging population living in rural and semi-urban areas to become part of banking system

Revenue challenges – Payment banks limited revenue streams as they cannot issue loans or give credit and majorly rely on transaction fees

Growth in digital economy – There is boom in digital payments and thus payment banks have a strong growth potential

Competition – Payment banks face intense competition from fintech, commercial banks, and UPI based apps

Social Factors

Social factors include demographics details, culture, beliefs, and attitude of people. India has a large youth population which indicates more people contribute to the economic growth of country. A large population still lives in rural India however there has been significant increase in urbanization.

Changing consumer behaviour – After demonetization and covid-19 pandemic there has been growing acceptance for cashless transactions.

Trust issues – Digital only model of payment banks could be problem and people living in rural India might prefer traditional banks

Financial literacy – There is low financial literacy thus impacting the adoption of payment banks in financial inclusion

Demographics – India’s youth is tech savvy and are adopting digital financial services at a faster rate

Technology Factors

Technology is being updated every day. Automation and innovation are key factors for technological advancements. With automation and innovation goods and services are being offered in new ways and better ways are being used to reach out to consumers.

Digital infrastructure – Government schemes such as UPI, Aadhaar-enabled payments, high mobile penetration and internet growth are some positive signs for payment banks

Cybersecurity – Digital fraud risks and data breach are major challenges

Innovation – AI, biometrics, and blockchain may enhance efficiency and trust issues

Interoperability – Integration with existing banking and payment systems boosts the usage of payment banks

Legal Factors

Legal factors include laws and regulations related to worker protection, safety protection, and consumer rights. Organizations need to adhere to the legal aspects in conducting business.

RBI guidelines – There are stringent compliance regarding KYC, transaction limits and capital adequacy

Consumer protection – Legal safeguard for customers increases trust but it also increases the operational costs

Data privacy laws – Payment banks must ensure stronger data security

Licensing requirements – New players are restricted because of high entry barriers

Environment Factors

Environmental factors include ecological and environment aspects. Organizations conduct business in such a way that the carbon footprint is reduced and the ecology of earth is impacted in the minimal way.

Reduced paper usage – As payment banks encourage digital infrastructure thus there is less paper usage which promotes eco-friendly and cashless economy

Sustainable financial push – Digital and green financial practices are encouraged

Energy consumption – Rising data centre usage may impact sustainability if not managed efficiently

Porter's Five Forces Model

Porter's five forces model was developed by Michael Porter in 1979. 5 forces were identified by Michael Porter which can impact the industry. The five forces are – new entrants, customers, suppliers, substitutes, and rivalry within industry (Environment, 2018).

Threat of New Entrants

Regulatory approval required – There are strict guidelines to get license to operate as payment banks.

Capital requirements – RBI mandates that only those entities which have minimum 100 crore paid up capital can operate thus restricting the entry of small players in the payment bank industry

Brand trust is critical – Since customers deposit their money in the saving accounts of the bank thus new entrants will face trust issues

Although fintech companies can provide digital wallets or payment solutions quickly but they cannot provide complete banking solution to the customers. Threat of new entrants in the payment bank industry is low because of strict guidelines and trust issues.

Bargaining Power of Customers

Low switching cost – Customers can shift to various payment banks easily

Wide choice – There are multiple options available to customers to choose and these includes multiple banks, UPI apps, wallets, and digital banks

Price sensitivity – Customers prefer low or no transaction fees and cashbacks

Trust and convenience – Customers are willing to move to those who offer better digital experience and are trustworthy

Customers have a high bargaining power because of many alternatives available to them.

Bargaining Power of Supplier

Dependence of telecom infrastructure – Payment banks have to integrate with the telecom networks to provide digital banking solutions

Relationship with business correspondents – Payment banks work in collaboration with fintech companies and neo banks to offer various products and thus ease in doing business

Limited deposit usage –Payment banks cannot lend money and must invest deposits in government securities. This reduces flexibility and increases dependency

The bargaining power of suppliers is moderate as telecom providers, business correspondents (BCs), and government agencies also need provide better services to customers.

Threat of Substitutes

UPI-based apps are providing fast and free transfers

Traditional banks are providing full banking services thus making payment banks less attractive

Fintech innovations such as BNPL (buy now, pay later), neobanks, digital lending reduce reliance on payment banks

There is high risk of substitutes from UPI based apps and traditional banks

Industry Rivalry

Therea are few players in the payment bank industry but there is intense competition as all are trying to attract the same segment of customers

Margins are thin as revenue is earned only through transaction fee and float income. Profitability is difficult for payment banks.

Some payment banks had to shut down their operations because of unsustainable business model

There is intense competition within the industry as there are few players offering financial services to similar unbanked and underbanked population.

Conclusion

The strategic analysis of payment banks industry shows that there is a positive future for payment banks. Government's approach to digital and cashless economy is positive sign for payment banks to do business. However payment banks face strong competition from traditional banks, UPI based apps, fintech companies and neo banks. Trust and security are important aspect which payment banks need to focus upon. There are strict guidelines laid by RBI because of which entry of new players un the payments bank industry is highly difficult. There is a huge unbanked and underbanked population and with better financial literacy payment banks can attract more people to use the financial products being offered by them. The future of payment banks looks bright as they are getting support from government. But to sustain in the industry will be challenging for payment banks

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