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# PAYMENTS BANKS

## Healthy growth in transaction volumes to drive profitability of payments banks

NOVEMBER 2022

# Agenda

1. Executive Summary

2. Background of payments banks

3. Regulatory landscape


4. Business profile


5. Financial performance

6. KFI comparison amongst payments banks

# Agenda

7 Key risks identified

8 ICRA's outlook

# Payments banks – Executive summary

# Highlights

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- Payments bank (PB) licensing was done with the objective to further financial inclusion by providing small savings accounts and payment/remittance services to the migrant labour workforce, low-income households, small businesses, other unorganised sector entities and other users, by enabling high volume-low value transactions in deposits and payment/remittance services in a secured technology-driven environment.
- PBs have witnessed healthy growth in their transaction volumes with increasing digitisation and financial inclusion. However, the share of PB transaction volumes remains low in the overall banking space.
- With increasing transaction volumes, some PBs have become profitable while some are close to their breakeven points.
- PBs' profitability not only remains prone to competition from other market players operating in a similar domain, but also to changes in the product mix. An increase in the share of low-yielding products with the same level of indirect costs could adversely affect PBs' profitability.
- PBs are also prone to operational risks, which include cash mismanagement and fraud, given the high cash handling activities and external merchant/agent-driven business model of PBs.
- PBs are relatively new in the banking space compared to traditional banks, which have decades of experience. Further, the scope of activities for PBs is limited, whereas traditional banks have more scope for diversification in their area of operations and revenue streams.

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# Thank You!