

## **CORPORATE GOVERNANCE: REASON FOR THE DOWNFALL OF PAYTM**

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### **Abstract:**

*Demonetization paved the way for a cashless economy which made paytm in India a big hit. It was considered safe, confidential to use. The present research is focused to study the RBI's move of restricting the company to make any transactions due to its non compliance and to ascertain whether the breach is due to non fulfillment of corporate governance principles or not.*

*Key words: Demonetization, Corporate Governance, Digital Payment, E- Wallet, Money Laundering.*

### **INTRODUCTION**

When the nation was struggling for cash, paytm emerged as those rainy drops in the heat wave which helped economy to go cashless. One of the largest mobile communication providers offers its customers a wide range of services from transfer of money, bill payments to ticketing services, retail brokerage to mobile games etc.

**Paytm** which is payment through mobile was founded by Vijay Shekhar Sharma in august 2010 in Noida, Delhi. Initially it was started as a prepaid DTH recharge to post paid mobile, landline bill payments. With the initial investment of 2 million the company was founded under One 97 Communications.

### **Evolution**

Year	Move
2014	It launched wallet with deals for ticket booking. Uber and Indian Railways used it as a payment option.
2015	Added payments of education fees, recharges, water and electricity and gas which increased the user from 1.8 crores to 10.4 crores.
2016	Provided movie, flight, amusement, event ticketing along with gift cards.
2017	It launched paytm gold that allowed users to buy Rs.1 of pure gold online.
2018	Paytm Payments Bank was launched which allowed every seller to accept the payment in their wallet via a QR code.
2019	It launched a loyalty program named paytm first which was subscription based.
2020	It became partners with Tata Starbucks to enable the customers during pandemic to order food online.
2021	It launched its IPO raising 18,300 crore rupees at a valuation of Rs. 165 crores thereby making it one of the largest IPO's of India ever.

### **Fundings and valuation**

Year	Funded by	Valuation
2011	Sapphire Ventures	\$10 million
2016	Mountain Capital	\$5 billion
2017	Soft Bank	\$10 billion
2018	Berkshire Hathaway	\$ 356 million
2019	US asset manager T Rove and Ant Financial	\$ 1 billion

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## SHAREHOLDERS AND THEIR HOLDINGS

Shareholders	Shareholdings
Vijay Shekhar Sharma	19.42%
Ant Group	13.55%
SVF India Mauritius	17.46%
Saif Lii Mauritius	10.59%
Axis Trustee Services Ltd	4.77%
Saif Partners India Pvt Ltd	4.5%
Bh International Holding	2.41%
Canada Pension Plan Investment Board	1.71%
Total	75.24%

### FEATURES OF THE BANK:

Although with the suffix of a Bank the Paytm Payments Bank is different from the conventional Commercial Banks in the sense that it:

1. Only deposit money and facilitate transfer. Unlike other banks they cannot provide loans and issue credit cards.
2. They provide hassle free account opening in just glimpse of an eye with the mobile application by filling the KYC form.
3. One can keep zero amount in the paytm saving account with no penalty.
4. It does not charge on the fund transfer via UPI.
5. International Payments are not possible with Rupay Debit Card which comes digitally with a card number and CVV on it.
6. 3% charge is applicable for the transfer from paytm wallet to Paytm Bank Account.
7. It does not facilitate Demand Draft and Cheque Book facility.

### REVIEW OF LITERATURE

**Pande (2015)**, made his study on 11 payments bank of India which have made financial inclusion easier. The study showed that RBI has made certain restrictions on the operations of such banks which are far away from the usual banking operations.

**Aggarwal & Bhatnagar (2016)**, studied the challenges faced by payments banks and their future on 6 C parameter namely Customer Engagement, Channels of Service, Cost, Capital, Culture and Collaboration. The results showed that such banks provide higher customer engagement by providing all day access to services at a click of a person with minimum cost.

**Tadse and Nannade (2017)**, the study aimed to analyze the satisfaction level of customers and the problems faced by them. The respondents were categorized on the basis of their age, monthly expenses on the application, their purpose and frequency of spending.

**Vineeth & Geetha( 2017)**, the study was done in Ernakulum district to analyse the development of Information and Communication Technology. It focused on the usage of paytm mobile services from customers and vendors point of view. The results showed that there has been a significant increase in the online payments after demonitisation.

**Komirishetty & Simha ( 2018)**, the study analysed the growth of paytm after demonetization which gave all the shopkeepers, small artisans a QR code in order to expand the consumers.

**Nazimasha & Rajeshwari ( 2018)**, the study was aimed to analyse the importance of paytm in promoting cashless economy. It focused on various services offered by paytm to promote digital India.

**Samnder & Gramopadhye( 2018)**, the study analyzed the level of customer satisfaction towards UPI applications. The objective was to evaluate the purpose of paytm sage by consumers, the various factors that enforce the usage and the problems that a consumer faces while dealing with the app.

**Senthil(2019)**, studied the growth in adoption of paytm post demonetization. It analyzed the various sales promotion schemes used by the company such as cash discounts, gifts, coupons, offers, reduced service charges in order to attract, retain and repeat the customer.

**Vaishnavi & Shruti(2019)**, analyzed the acceptance of payments banks by the middle, lower income groups. The increased awareness has decreased the operational expenditure and burden of commercial banks.

## RESEARCH METHODOLOGY

### (I) Objectives:

1. The study is undertaken to analyze the reasons of restrictions imposed by RBI on Paytm Bank.
2. It is aimed to study the working of Paytm.
3. To analyze the Corporate Governance parameter of Paytm Bank.
4. To understand the basic features of Payments Bank and Digital Payment System.

(II) **Research Design:** The study is Descriptive in nature.

(III) **Data Collection:** All the data is collected through Secondary sources including research papers, newspapers, and official websites.

(IV) **Limitations:** The research consists of certain limitations as under-

1. The study focus primarily on the Paytm Payments Bank.
2. All the aspects of PPBL are not covered under the study.
3. The research is based on the study of papers, journals and might sound biased.

## FINDINGS

Corporate Governance is the system by which companies are managed, directed by the board. The basic principles of good governance include accountability, transparency, fairness, responsibility and risk management. The board is the primary body in governance mechanism which is elected by the shareholders to represent their interests. They ensure that the code is complied with.

Reserve Bank of India has restricted the Paytm Payments Bank from conducting its operations with effect from 1 march 2024 including deposit taking, fund transfer due to non compliance of various regulations. Customers can use the existing money in the wallet but cannot add more after 29 February 2024.

PPBL is an offspring of One 97 Communications Limited where Vijay Shekhar Sharma has 51% stake in the bank and rest is held by the parent company.

RBI had already given warnings and earlier also they had imposed a fine of 5.39 crores due to non compliance of regulations. Even after giving a sufficient time to rectify the mistakes the bank was negligent to do so. The issue concerned was KYC of its customers. In an audit report it was found that single PAN card was used for various accounts which were leading to money laundering and questionable transactions of Paytm.

The investment by Alibaba group (a Chinese e commerce company) also raised speculations about the goodwill due to growing political differences between India and China and it was rumored that Paytm is leaking Confidential financial data of its customers to china. After such issues Paytm reduced Alibaba's shareholdings from 40% to 13%.

Following the restrictions the share price of Paytm declined from 1500 to 487 rupees which will make it very difficult for the company to retain its customers. Board is expecting a loss of 300-500 crores this year on its Earnings before interest, tax, depreciation. In its next move the company might opt for a third party partnership to build customer confidence and make its come back.

## **CONCLUSION**

As far as Corporate Governance is concerned the management was run independently by the board. Considering the whole default as breach of governance norms would not be fair as the negligence is only a small part related to the banking regulations. There seems to be no issue of fraud by the management to state the corporate governance is the reason for paytm's downfall.

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