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CRITICAL ANALYSIS OF CORPORATE GOVERNANCE FAILURE IN THE PAYTM PAYMENT BANK CASE

Abstract

Corporate governance has gained a lot of importance in the growing time, profit alone is not only the factor to save a company from failure, company must ensure strong corporate governance rules and policies are in alignment with the shareholder and the board. This paper focuses on how a bad corporate governance could lead to failure of a company big as Paytm payment bank, the company suffered a setback due to its negligence in maintaining transparency, accountability and fairness, which are a key to good corporate governance.

Keywords:- *Good Corporate Governance, Paytm Payment Bank Case, Shareholders, Transparency.*

Introduction

A good corporate governance is generally when the board of directors monitors the overall organization, maintains transparency and implements rules, policies, resolution that encourage positive corporate behaviour and work culture. The building blocks of good corporate governance is uncompromised responsibility of directors, accountability, regular transparency and communications. An organization's profit isn't the main justification for it to be a decent organization. However, solid corporate Governance rules, strategies, and practices in arrangement with the investors, board, the executives, workers, and merchants ought to be set up to keep away from misfortune or failure.¹ One 97 Communications, better known as Paytm for its digital payments app, is the parent company of Paytm Payments Bank. Within a month, the Reserve Bank of India directed Paytm Payments Bank to cease providing any banking services, including taking deposits and handling payments. By February 29th, all fundamental transaction services via Paytm's different platforms that use the Unified Payments Interface (UPI), IMPS, and Aadhaar-enabled payments will be suspended by the central bank. Persistent non-compliances and continued material supervisory concerns in the bank were found by the RBI during its external audit of Paytm²

¹ Conmy, S. (2023) What is good corporate governance?, The Corporate Governance Institute. Available at: <https://www.thecorporategovernanceinstitute.com/insights/guides/good-corporate-governance/> (Accessed: 20 February 2024).

² www.ETBFSI.com (2024) RBI bans Paytm payment bank from onboarding customers due to non-compliance issues - ET BFSI, ETBFSI.com. Available at: <https://bfsi.economictimes.indiatimes.com/news/policy/rbi-bans-paytm-payment-bank-from-onboarding-customers-due-to-non-compliance-issues/107297899> (Accessed: 20 February 2024)

Reasons for Paytm payment bank fallout

Paytm payment bank has a history of non-compliance starting from providing false information, not maintaining KYC guidelines, investigation was made owing to the concerns in the data breach, cyber-security³. There is a CNBC report which has found that RBI has discovered that a single pan account was linked to more than 100 of customers, the total value of transactions in some accounts are in crores which is beyond the limits prescribed by RBI, these all raises serious money laundering issues. Also RBI has found that Paytm has 35 crore wallet accounts out of which 31 crore wallet our inoperative. Adding to the gravity of the situation, the RBI found co-mingling of the group's financial and non-financial businesses with its promoter group companies, violating licensing conditions and RBI directives. The PPBL's dependence on the IT infrastructure of its parent entity, One 97 Communications Limited (OCL), raised concerns about data privacy and sharing. There is lack of transparency from the promoters, the payments made by PPBL to its parent entity OCL is not disclosed under the financial statement, Agreements were often being revised to benefit the OCL or its group companies, and apparently detrimental to the bank and its clients. ⁴ All these regulatory compliances not met by PPBL and lack of transparency poses a serious question on the promoters, if timely actions had been taken by the board of directors it would have save the company from such crisis. Poor governance structures and an ineffective board failed to discharge its duty towards minority shareholders and other stakeholders. In order to make sure corporate governance failure don't happen time and again the board members and independent director, must be held responsible for the financial mismanagement, frauds and corporate failures. ⁵

Company has a set of obligation towards society, investors, consumer and shareholder. Paytm as a company has miserably failed in fulfilling its obligations, lack of transparency in its

³ Kayastha, A. (2024) Repeated flouting of RBI warnings may cost PPAYTM its payments bank licence, Business Line. Available at: <https://www.thehindubusinessline.com/money-and-banking/repeated-flouting-of-rbi-warnings-may-cost-paytm-its-payments-bank-licence/article67808514.ece> (Accessed: 22 February 2024).

⁴ RBI's crackdown on Paytm Payments Bank: The inside story (2024a) CNBCTV18. Available at: <https://www.cnbctv18.com/finance/paytm-payments-bank-rbi-crackdown-the-inside-story-18970171.htm> (Accessed: 22 February 2024).

⁵ Fall of the titans: How shoddy corporate governance destroys companies (no date) Forbes India. Available at:

[https://www.forbesindia.com/article/take-one-big-story-of-the-day/fall-of-the-titans-how-shoddy-corporate-governance-destroys-companies/91361/1#:~:text=The%20Paytm%20and%20Byju%27s%20debacle,minority%20shareholders%20and%20other%20stakeholders.\(Accessed:22February2024\).](https://www.forbesindia.com/article/take-one-big-story-of-the-day/fall-of-the-titans-how-shoddy-corporate-governance-destroys-companies/91361/1#:~:text=The%20Paytm%20and%20Byju%27s%20debacle,minority%20shareholders%20and%20other%20stakeholders.(Accessed:22February2024).)

financial statements is like a betrayal to its investors and minority shareholders. Paytm's

money laundering concerns and hundreds of crores of questionable dealings raise unanswerable questions on its fairness and honesty, due to which interest of consumers and society at large is hampered. This is unquestionably not going to be excused by the partners and since public cash and certainty is involved here, so the regulator and even government likewise isn't probably going to have a merciful methodology. If a corporate has not had the option to respect the governance code, it's doomed. All the partners of an enterprise like, the investor, private or general masses, even government might save the corporate on any counts of mis-happening but not on corporate Governance. It resembles last toll in the final resting place. A corporate can manoeuvre and get out effectively of any emergency yet governance issues are without cure.⁶

Conclusion

Owing to the current situation the company is trying to control the damage done and improve the governance within its company, Paytm parent company One 97 Communications has set up an advisory committee under the chairmanship of former SEBI chairman M Damodaran to strengthen compliance and regulatory matters, The committee will also include former Institute of Chartered Accountants of India president M M Chitale and banking veterans like R Ramachandran, former chairman & MD of Andhra bank. The appointment of a high profile panel with members who have advised Sebi and RBI in the past, is seen as a move to position the listed company as following corporate governance standards. The company's management is committed to drive sustainable business growth, while adhering to a regulatory and compliance framework," the firm said in a statement.⁷

⁶ Satya Innovative (2024) Paytm's demise: A deep dive into corporate governance issues, Medium. Available at: <https://medium.com/@satyainnovative/paytms-demise-a-deep-dive-into-corporate-governance-issues2ce471399537> (Accessed: 22 February 2024).

⁷ TNN / Updated: Feb 10, 2024 (no date) Paytm to set up Advisory Panel - Times of India, The Times of India. Available at: <https://timesofindia.indiatimes.com/business/india-business/paytm-to-set-up-advisory-panel/articleshow/107569825.cms#> (Accessed: 22 February 2024).