

A Case Study on the Rise and Downfall of Paytm and its Impact on Indian Digital Payment Service

Sai Ramakanth T

Research Scholar, JAIN Deemed to be University, Bangalore

ABSTRACT

After Demonetization, the Role of the Banking sector provided an easier way of digital payment, the concept of UPI ensured a significant and cost-effective way of transferring money from one person to another. Mobile phones, Technological innovations, and Internet communications provided paperless Transactions. To provide an effective Payment Mechanism NPCI (National Payment Corporation of India) has been established for the control of UPI operations in India. The Government of India under The Ministry of Finance ensures the Potential Contribution to the Digital economy. This Book chapter shall explain the Rise and Downfall of Paytm and Its Subsidiary Paytm Payments Bank and Its Impact in India.

Keywords: Digital Economy, Digital Payments- Retail sector, UPI, RBI, NCPI

Introduction

Unified Payments Interface (UPI) stands as a revolutionary digital payment system in India offering a seamless and instant transfer of funds between bank accounts using a smartphone. Launched in April 2016 by the National Payment Corporation in India (NCPI), UPI swiftly transformed the country's payment landscape, fostering financial inclusion and propelling the nation towards a cashless economy. At its core, UPI enables users to link multiple bank accounts to a single mobile application, eliminating the need for cumbersome bank-to-bank transfers. Through a simple Registration process, users obtain a unique virtual payment address (VPA), acting as an alias for their bank account. This VPA replaces the need for disclosing sensitive account information during transactions, enhancing security and privacy. One of UPI's stand-out features is its interoperability, allowing users to transact with any bank or payment service provider on the UPI network. Whether it is splitting bills with friends, paying utility bills, or shopping online, UPI offers a convenient, real-time payment experience round the clock, 365 days a year. UPI is a revolutionary digital payment system introduced by National Payments Corporation, which has transformed the landscape of digital transactions in India, offering a seamless, instant, and secure mode of transactions in India, which is considered to be instant, faster and secure between two banks with the help of a smartphone connected to the Internet. UPI eliminates the need for Traditional methods of payment such as cash, cards, or Internet banking, which also provides a convenient solution for individuals and businesses to make and receive payments

History of Paytm and its impact on Digital Payment service In India

Paytm (an acronym for "pay through mobile") is an Indian multinational financial technology company,

which specializes in digital payments and financial services; based in Noida, India Paytm was founded in 2010 by Vijay Shekhar Sharma under One97 Communications. The company offers mobile payment services to consumers and enables merchants to receive payments through QR code payment, Payment Sound box, Android-based payment terminal, and online payment gateway. In partnership with financial institutions, Paytm also offers financial services such as microcredit and buy now pay later to its consumers and merchants. On November 18, 2021, One97 Communications, the parent company of Paytm, went public in the largest IPO ever held in India and was listed on the Indian stock exchanges. Paytm announced a gross merchandise value (GMV) of ₹13.2 lakh crore (US\$170 billion) for the fiscal year 2022–2023.

Stake Holders of Paytm

Post-IPO shareholding (as of June 2022)

Shareholders	Shareholding
Vijay Shekhar Sharma	19.42%
Ant Group	13.5%
SVF India Holdings (Cayman) Ltd	17.46%
Saiph Iii Mauritius Company Ltd	10.59%
Axis Trustee Services Ltd	4.77%
Saif Partners India Iv Ltd	4.5%
Bh International Holdings	2.41%
Canada Pension Plan Investment Board	1.71%
Total	75.24%

(Source: Wikipedia)

Paytm is the first payment app in India to surpass 10 crore downloads in 2017. In the same year, it introduced Paytm Gold, a service that lets customers purchase pure gold online for as little as ₹1. In addition, Paytm Payments Bank was introduced. Inbox, a messaging app that allows for in-chat payments, and By 2018, it began enabling businesses to take credit card, Paytm, and UPI payments straight into their bank accounts at no cost. Additionally, it introduced the "Paytm for Business" app, which is now known as the "Business with Paytm App" and lets retailers monitor daily settlements and payments. By March 2018, its merchant base is expected to increase to over 70 lakh. For long-term investments, it introduced the Paytm Gold Investments Plan and Gold Gifting, two new wealth management offerings.

Paytm Business Model



The top digital payment and financial services platform in India, Paytm, uses a flexible business strategy to meet the demands of both businesses and customers. Fundamentally, Paytm started as a provider of digital wallets, giving customers an easy method to keep money online and conduct transactions. It makes money via transaction fees. Beyond just being a wallet, Paytm also functions as a payment gateway, allowing businesses to take online payments in exchange for a processing charge. With an online marketplace where customers can buy a variety of products and make money through commissions on purchases, the platform further expands its offers. Making use of its location, As a Payments Bank, Paytm has expanded into the banking industry. It makes money through fees associated with banking transactions as well as interest on deposits. In addition, Paytm provides services for booking tickets, insurance, wealth management products, and paying utility bills. It makes money through a variety of commissions and transaction fees. With an emphasis on monetization and customer engagement, Paytm also offers marketing and advertising services to companies looking to reach its sizable user base. For a regular charge, it provides consumers with unique benefits through membership services like Paytm First. In general, Paytm's business strategy is to offer a wide range of digital financial services and make money through commissions, interest income, transaction fees, and advertising to become a major force in the digital economy of India. As a Payments Bank, Paytm has expanded into the banking industry. It makes money through fees associated with banking transactions as well as interest on deposits. In addition, Paytm provides services for booking tickets, insurance, wealth management products, and paying utility bills. It makes money through a variety of commissions and transaction fees. With an emphasis on monetization and customer engagement, Paytm also offers marketing and advertising services to companies looking to reach its sizable user base. For a regular charge, it provides consumers with unique benefits through membership services like Paytm First. In general, Paytm's business strategy is to offer a wide range of digital financial services and make money through commissions, interest income, transaction fees, and advertising to become a major force in the digital economy of India.

Controversy and issues, that led to the downfall of Paytm in India

Based in California On November 18, 2016, PayPal filed a lawsuit against Paytm at the Indian trademark office for utilizing a logo that looked similar to its own about of its color design. A video of an undercover reporter meeting with Ajay Shekhar Sharma, the brother of Paytm's vice president, was posted by the Indian investigative news company Cobra post in May 2018 He allegedly stated during the meeting that the business had infringed on user privacy and policies by giving the Indian government accessibility to the private data of Paytm users in the Indian state of Jammu and Kashmir. Subsequently, Buzz Feed revealed that Sharma has a close connection with the Bharatiya Janata Party, the ruling party in India. The company replied by tweeting that it never disclosed user data to third-party organizations. Paytm has seen its fair share of problems and controversies in recent years, which has prompted periods of scrutiny and conjecture on the company's future. A notable dispute occurred in 2020 when Google temporarily withdrew Paytm from its Play Store due to violations of its gambling laws. This incident brought to light issues with platform oversight of financial transactions and regulatory compliance. Furthermore, Paytm has been under fire for its user data privacy and security policies after many data breaches and vulnerabilities were reported. These kinds of things have called into doubt the platform's dedication to protecting user data and upholding confidence. Moreover, Paytm's aggressive foray into several industries, such as banking, insurance, and e-commerce, has raised competition and operations. Following an investigation that revealed the business was disclosing customer information to Chinese organizations that held an indirect investment

in Paytm Payments Bank, the Reserve Bank of India prohibited the payment service provider from accepting new clients in March 2022.

Following an investigation that revealed the business was disclosing customer information to Chinese organizations that held an indirect investment in Paytm Payments Bank, the Reserve Bank of India prohibited the payment service provider from accepting new clients in March 2022. The Reserve Bank of India, the nation's banking regulator, issued an order on January 31, 2024, directing Paytm Payments Bank Ltd to cease the majority of its operations on February 29, 2024. RBI discovered that before client onboarding; the company had not carried out adequate background checks on the source of funding. The FAQ was amended, and this date was further extended to March 15, 2024. A 20% reduction in the workforce is possible. The incapacity of customers to open new accounts rendered it harder for Paytm to attract new users and collect deposits, two things that are essential to the development and longevity of a payments bank. Additionally, this restriction caused a decline in confidence among current and prospective users, which hurt Paytm's reputation in the industry.

The prohibition brought to light regulatory concerns about Paytm Payments Bank's adherence to RBI regulations, posing issues with the company's governance and risk management procedures. The event was widely watched by stakeholders and investors, which impacted investor confidence and might have an effect on Paytm's future funding and value prospects.

References

1. Paytm website: <https://paytm.com/>
2. Economic Times article on Paytm: <https://economictimes.indiatimes.com/tech/tech-bytes/paytm-payments-banks-mobile-wallet-business-hits-a-nadir/articleshow/109699326.cms?from=mdr>
3. Wikipedia: <https://en.wikipedia.org/wiki/Paytm#:~:text=11%20External%20links-,History,landline%20bill%20payments%20in%202013.>