



Analysis on the Use of Plastic Money

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ABSTRACT:

In present era, it is impossible to imagine modern bank transactions, commercial transactions and other payments without using the plastic cards. Plastic currency is now gradually becoming a necessity across the globe as more and more developed countries are opting for plastic compared to paper as there are several inherent advantages. The growing involvement of smart phones has made technology applications much more accessible to users. The Government also move forward for a “Digital India” and its focus on growing electronic payments is significant drivers of growth in replacing physical payments with technology backed solutions. India is at the stage of an amazing shift to wards electronic money from traditional cash. For instance, the Pradhan Mantri Jan Dhan Yojana (PMJDY), is slowly building recognition among people to move from paper to electronic money. The PMJDY alone has seeded over 150 million Rupay cards in the last year, in addition to the 400 million debit cards already in circulation. There is still emergence for significant increase in the usage of debit cards in the years to come as card. This paper focus on the challenges and future prospects of plastic money in India.

Money is regarded as a medium of exchange and payment tool. Initially barter system was used as the significant mode of payment. Over the years, money has changed its form from coins to paper cash. Today it is available in formless form as electronic money or plastic card. Travelling, dining and jewelry are some the top purchases that Indians make through credit cards. Fuel accounts for a very small portion of credit card purchases as these are largely paid through debit cards. It has been estimated that there are likely to be around half million potential card users in the near future. Growth in the use of plastic money mainly credit and debit cards has been phenomenal. The plastic money can be in the form of Credit cards or Debit cards. Initially positioned as a status symbol, these cards have caught on in a big way among the educated population of the country.

Debit cards are like digitized versions of cheque books; they are linked to your bank account. Most debit cards are free with a checking account at a bank or credit union. Credit cards offer a line of credit (i.e., a loan) that is interest-free if the monthly credit card bill is paid on time.

India's credit card industry has seen a surge in the number of cards and the types of cards on offer. The scenario has changed dramatically with the entry of State Bank of India (SBI), a domestic major in the banking sector. More and more nationalized banks and private sector banks are aggressively launching credit card with value added features. Indian consumers are using the plastic money for everyday spends such as petrol, hospitals, telephone services and home furnishing.

Introduction

Indian economy has flourished with the advent of liberalization, Privatization and globalization. Banking sector isn't an exception too. These reforms have presented a challenge before Indian banking sector to shake hands with the pace of latest technology. Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be problem free but it should be able to meet new challenges posed by the technology and the other external and internal factors but, mere technology up gradation or introduction of innovative products cannot improve the state of affairs till customers don't respond to it positively. Hence, it becomes very necessary for the banks to offer the services or products while taking into consideration the customers' wants, preferences, perceptions and convenience. The banks' services are not simply confined to their particular branch customers only. Customer is now treated as customer of banks as a whole, which implies that he is currently capable of enjoying facilities such as anywhere, anytime banking (Kamesam, 2003). This concept as enabled the bankers to ascertain long term connection with their customers. Hence, Electronic banking is the new trend significantly adopted by banking sector worldwide because of its wider scope for the customers as well as banks at large. Various sophisticated products have been launched by the banks which facilitate them to satisfy the basic necessities of their customers. With entry of tech savvy private sector banks and foreign banks, the competitive environment has started prevailing in banking sector too. No doubt, Public sector banks have large network of ancient branches to approach their customers as compared to the private and foreign players.

However, with the assistance of information technology, it has now become possible for banks to deliver products and services with efficiency and to improve customer base without opening new branches. Hence, these new private and foreign players are trying to compete with them on the basis of adoption of new technological services like plastic cards, PC banking, Electronic Funds Transfer (EFT), net banking etc. to approach the maximum customers in spite of having fewer physical branches (Venkatesan and Kumar,2007).

Attributable to this reason, public sector banks also are likely to move towards electronic banking, which ultimately leads the entire banking sector to the remarkable improvement with respect to its efficiency, client services, productivity, profitability etc.

Thus, Banks are now reengineering the way in which their services can be reached to their customers by bringing inflexibility in their “distribution channels”. The information technology has replaced the brick or traditional banking with the wide range of e-banking products and services like ATM (Automated Teller Machine), net Banking, Credit Cards, PC banking, Fts, Debit Cards, smart Cards etc. With the effect of this dynamic environment, Indian banking has witnessed exceptional growth since 2006 as banking sector is growing by 18% and it is six times over the last decade growth.

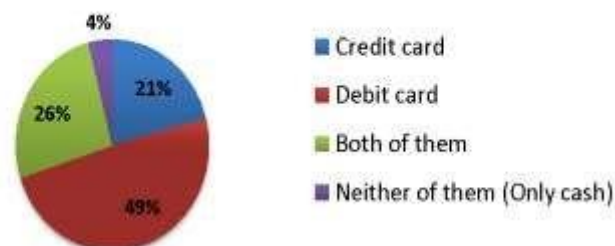


Money is regarded as a medium of exchange and payment tool. Initially barter system was used as the significant mode of payment. Over the years, money has changed its form from coins to paper cash and today it is available in formless form as electronic money or plastic card. The major change in banks which has been brought in by the technology is through introduction of products which are alternative to cash or paper money. Plastic cards are one of those types of innovations through which the customers can make use of banking services just by owning the card issued by bank and that too without restricting himself in the official banking hours. Plastic cards as the component of e - banking have been in use in the country for many years now.

Types of Plastic Money

- Debit card
- Atm cards
- Credit cards

Most Beneficial medium of transaction



Objectives of the Study:

- To know the perception of people towards plastic money.
- To know the importance of plastic money in the daily life of consumers' w.r.t credit and debit cards.
- To study the benefits of debit card and credit cards.
- To find out the market leader among the various banks/ companies issuing credit and debit cards
- To know the problems faced by respondents using plastic money.
- To study the satisfaction level of consumers towards plastic money

Literature Review:

Cunningham Julie (Nov 98), Kansas state university in the study “College Student Using the Credit Card” stated that there is a need to determine whether college students are responsible with their credit cards. This study was concerned with the problem faced by the credit cardholders. Consumer perception regarding credit cards and debit cards is very much different as it is precisely in a defined sector. Role of online commerce or payment over the internet .it future prospects of credit card and debit card in India. It also includes consumer preference among debit card and credit card, consumer satisfaction level in case of both cards.

Loebecke S. Elliot (Jan 98) in his article “Smart Card Based Electronic Commerce: Characteristics and Roles” stated that the origin of smart cards began when consumer requirementsforconvenienceandsecurityoutspacedthecapabilitiesofmagneticstripe cards.

Providing increased data storage and added security, smart cards were introduced in Europe in the early 1970's as stored value cards for payphones. These early smart cards were disposable and were a 23 effective means to reduce losses. Today's advanced contact less and dual-interface smart card technologies – together with emerging digital signature laws and the development of biometric techniques – can bring a range of services to life on a single piece of silicon.

Swift, Kevin (May 1998) in his article “Credit Card and Debit Cards: What New? Where to?” stated that trends have changed and forces have impact on the card issuer, and forecasting its future and the resulting impact on the card economy through the year 2002. The report takes a different viewpoint from many studies of the industry which examined trends from the issuers viewpoint. This study takes those trends as the end – point, and looks at the forces that will impact the card issuers. It offers insight into the combination of industry, economic, demographic, and technological changes that will have an effect on credit and debit card products, and how together they will reshape the industry landscape and result in a credit/debit card industry that will look far different in the year 2002 that it does today. The convergence of the internet and various consumer and other electronic technologies in combination with a desire on the part of companies in a number of industries to forge new alliances and offer enhanced services has established a role for electronic cash.

Hayashi, Fumiko and Weiner Stuart E. (Sept 2005) in their article “Competition and Credit and Debit Card Interchange Fees” stated that there is a bridge between the theoretical and empirical literatures on interchange fees. Credit and debit card industries are examples of two-sided markets. The distinguishing Feature of two-sided markets is they contain two sets of end users, each of whom needs the other in order for the market to operate. In the case of credit and debit cards, the two end-user groups are cardholders and merchants. Payment card systems take one of two principal forms. They may be three-party systems: Cardholders, merchants, and a single financial institution that offers proprietary network services, for example, American Express. Alternatively, they may be four-party systems: cardholders, merchants, card-issuing banks, and merchant acquiring banks, using the services of a multi-party network such as MasterCard, Visa, or a domestic debit card 24 network. In four-party systems, the interchange fee is an instrument that networks can use to achieve a desired Balance of card holder.

Chakravorti, Sujit in his article “Theory of Credit Card Networks: A Survey of the Literature” stated that Credit cards provide benefits to consumers and merchants not provided by other payment instruments as evidenced by their explosive growth in the number and value of transactions over the last 20 years. Recently, credit card networks have come under scrutiny from regulators and antitrust authorities around the world.

Focusing on interrelated bilateral transactions, sever altheoretical mode ls have been constructed to study the implications of several business practices of credit card networks

Hunt, Robert in this article “An Introduction to the Economics of Payment Card Networks” stated that how payment cards work and explains how the market for consumer payment methods differs from most other markets economist's study. These differences have implications for when, why, and how the rules of anti trust law—which regulate how firms may exercise market power – should be applied to this industry. He focused on general-purpose credit cards, such as Visa or MasterCard, and debit cards. We do not discuss department store cards, oil company cards, or bankcards when they are used at ATMs Debit cards allow customers to pay for goods and services at the point of sale by authorizing a withdrawal from their checking or savings account. Most ATM cards can be used at the point of sale as debit cards. Such transactions are called PIN debit transactions because the cardholder must enter a four-digit personal identification number (PIN) to authorize the transaction. Funds are then immediately withdrawn from the associated bank account.

Research Methodology:

Research methodology deals with the method of study i.e., how the study can be carried out and what techniques can be used. It is the careful investigation and enquiry in a systematic manner in order to find solution to find problems in research. It consists of defining and redefining the problems, formulating the hypothesis or suggestions solutions, collecting data and evaluating the data and at last carefully testing the conclusions to determine whether they fit the formulated hypothesis or not.

RESEARCH DESIGN:

Research design states the conceptual structure within which research is to be conducted. Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevant the research purpose with economy in procedure. The different research designs available are:

- Exploratory research: it generally emphasis on discovery of ideas and insights. It's more qualitative rather than quantitative.
- Descriptive research: it is concerned with determining the frequency with which some thing occurs or extent relationship between two variables. This study will be having exploratory research which is based on discovery of ideas and insights.

SAMPLING PLAN: -

Universe: the universe consists of all people who are using plastic money for different purposes. Sample size: this refers to the number of respondents to be selected from the universe to constitute a sample. Large samples give more reliable results than the small samples. So, the sample size of 100 respondents was taken into consideration in case of research work, which includes both debit and credit card holders.

Sampling unit: sampling unit implies that who are there spondents. In this sample all those who are using debit cards and credit cards.

Sampling technique: the technique used for my study is convenient sampling that consists of questionnaire, which are given to respondents who are the regular users of plastic money.

METHODS OF DATA COLLECTION:

PRIMARY DATA:

Primary data is that data which is collected for the first time and thus happen to be original in character. In the study, primary data will be collected from direct source of information like customers with the help of questionnaire survey and personal interview.

Questionnaire: The second tool used for study is questionnaire. Various questions regarding the purposes of plastic money and various procedures for obtaining credit cards, necessity of credit cards, increasing relevance of plastic money among consumers, market leader among various companies issuing credit and debit cards.

SECONDARY DATA:

30 Secondary data are those which have already been collected by someone. For this study there will be following secondary data.

- Websites
- Magazines
- Articles And Newspapers
- Books

TOOLS OF ANALYSIS:

- Diagrams and Tables: Various graphs and tables are used to describe the performance of different credit cards and debit cards.
- Weighted Average: Weighted average method is also used to analyze the comparison between plastic money. Weighted average means finding out the average by assigning the weights to different actors. Formula for calculating weighted average is $\frac{\sum W_i X_i}{W_i}$.
- Pie chart and percentage: Pie charts and percentage are also used as a tool for analysis.

DATA ANALYSIS AND INTERPRETATION

1: To know about respondents who are using the plastic money:

Respondents were asked whether they use plastic money or not. The results are as follows:

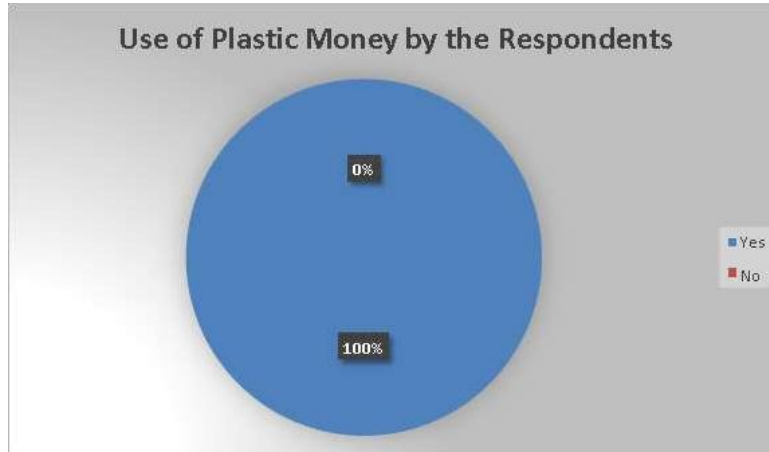


Figure 5.1 Use of plastic money by the respondents

Interpretation: From the above figure it can be interpreted that 100 respondents who are taken for the study are using plastic money and hence it can be said that majority respondents now a days are using plastic money.

2: Card possessed by respondents:

Respondents were asked to explain that which card they possess and the results are as follows:

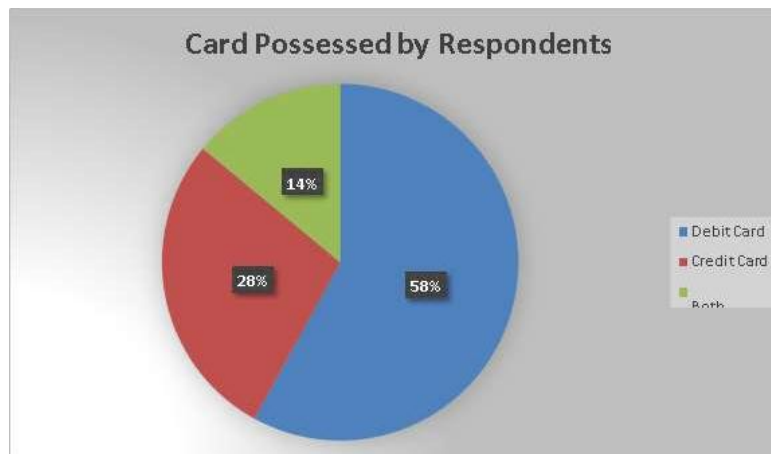


Figure 5.2 Card possessed by respondents

Interpretation: From the above data collected we can interpret that that people mostly have debit card, as credit card is little expensive than debit card so people mostly prefer debit card, but still people have applied for their credit card also. Some people have both debit card and credit card.

3: Debit cards of different companies/banks owned by respondents:

Respondents were asked to explain that how many no. of debit card owned by them and the results are as follows:

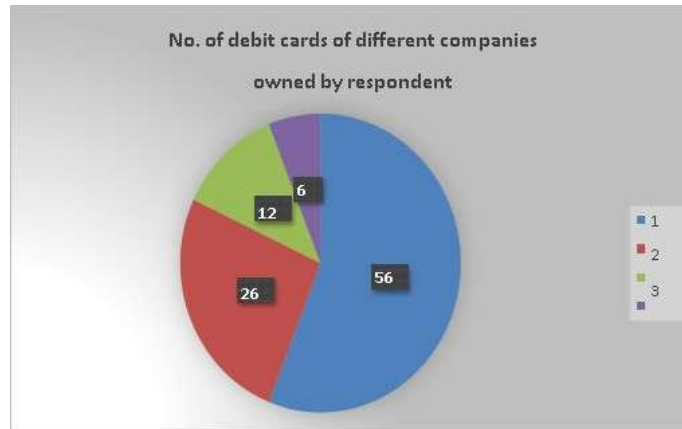


Figure 5.3 No. of debit cards of different companies owned by respondent

Interpretation: The above chart reveals that mostly people have one debit card; about 26% of the respondent are using two debit cards from different companies, it's clear that people are satisfied with their debit card.

4: No. of credit cards of different companies/banks owned by respondents:

Respondents were asked to explain that how many no. of credit card owned by them and the results are as follows:

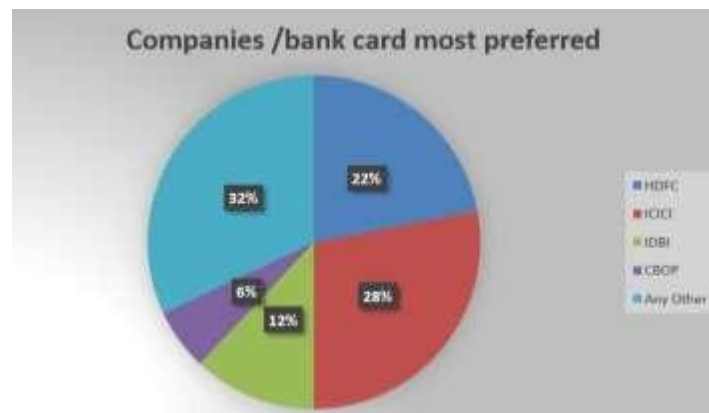


Figure5.4 No. of credit cards of different companies owned

Interpretation: From the above information it can be interpreted that 46% of the respondent have one credit card from different companies and 22% have don't own credit card. But still people have knowledge about these cards.

5: Companies /bank card owned by the respondents.

Respondents were asked to explain which company/bank card owned by them. The result are as follows:

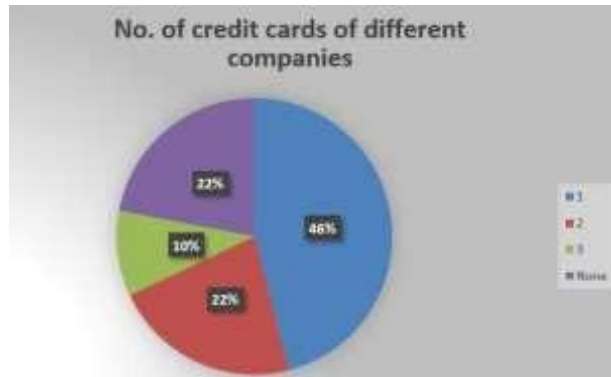


Figure 5.5 Companies /bank card most preferred

Interpretation: From the above data it’s clear that people mostly prefer ICICI bank to get the plastic money, after that respondent prefer PNB and HDFC bank people usually like to have credit card with whom they have account.

6: Time period of using the debit card/credit card/both:

Respondents were asked to explain the time period for which they are using them. The result are as follows:

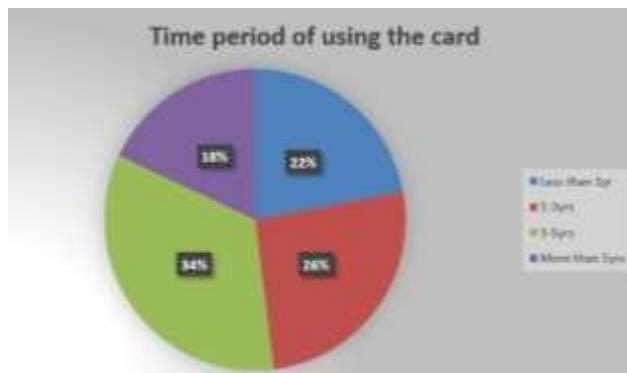


Figure 5.6 Time period of using the card

Interpretation: The above data reveals that mostly people are using plastic money from last 3 to 5 yrs. and rest are using it for less than one yr. plastic money become a trend from the last few years.

7: Purpose for using the card:

Respondents were asked to explain the purpose of using the card. The results are as follows:

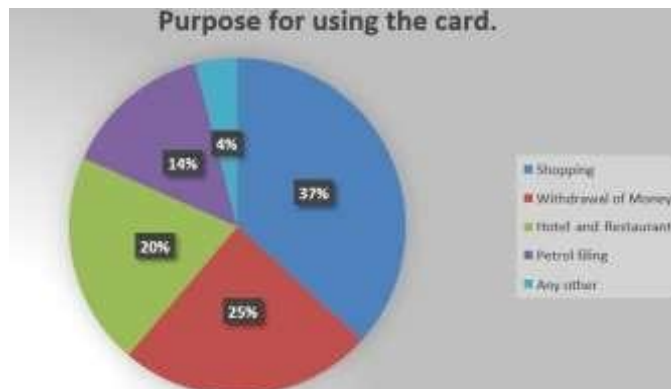


Figure 5.7 Purpose for using the card.

Interpretation: It is clear that mostly people use the card for the shopping purpose. and then for withdrawal of cash, 20% use it for going for hotel and restaurants. So the plastic money is used by the respondent everywhere.

8: Card which is more beneficial:

Respondents were asked to explain which card is more beneficial according to them. The result are as follows:

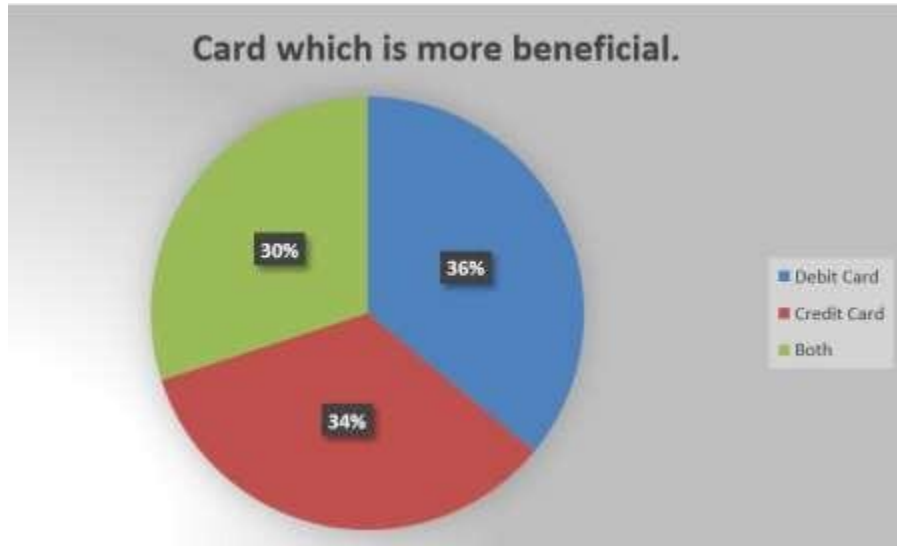


Figure5.8 Card which is more beneficial

Interpretation: From the above table it is clear people mostly prefer debit card but credit cards are not far behind, about 34% of the respondents feel that credit card is more beneficial than debit card and some feel that both are beneficial.

9: Benefits provided by debit card:

Respondents were asked to rank the benefits provided by debit card on a scale. The result are as follows:

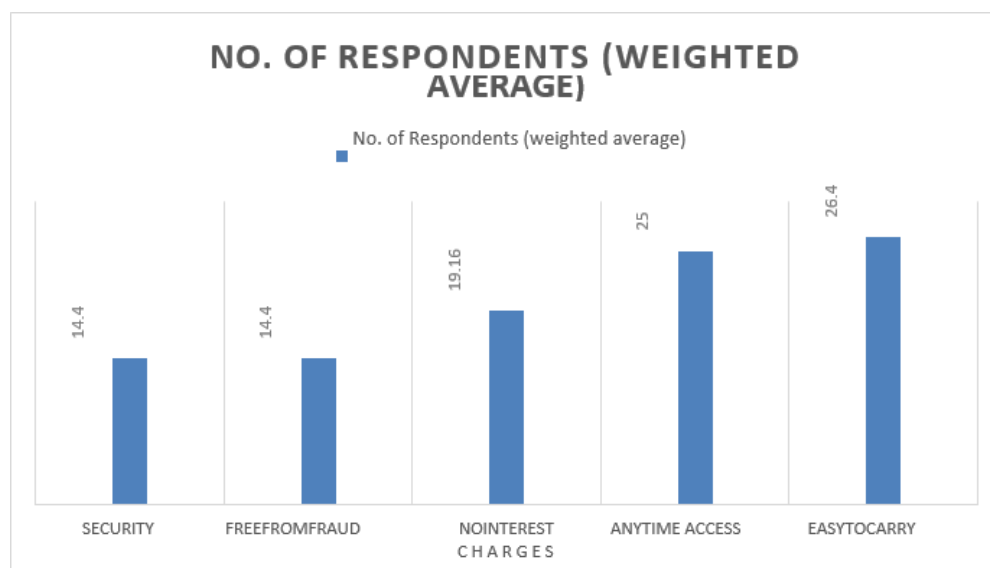


Figure 5.9 Benefits provided by debit card

Interpretation: From the above collected data it is clear that respondents are highly dissatisfied with the security matters relating to debit card. After calculating the weighted average, it is clear that mostly respondents believed that it is easy to carry but they are highly dissatisfied with security and fraud

10: Benefits provided by credit card:

Respondents were asked to rank the benefits provided by credit card on a scale. The result is as follows:

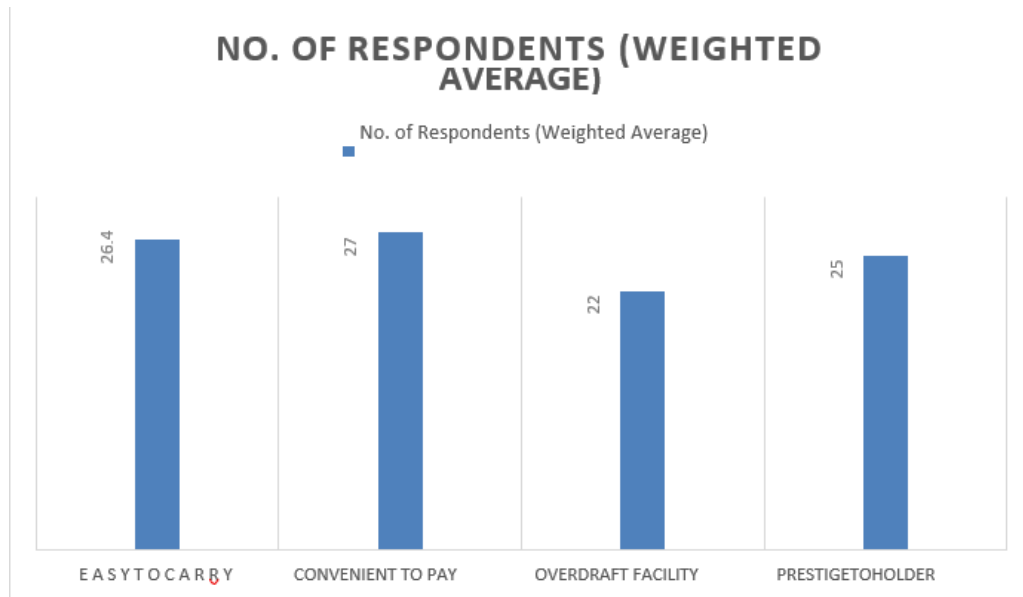


Figure 5.10 Benefits provided by credit card

Interpretation: from the above study it can be seen that respondents agreed that credit card is easy to carry and it give prestige to the holder. After calculating weighted average it is clear that convenient to pay is the most preferred benefit among respondents

11. Problems faced in processing the card:

Respondents were asked to rank the problems provided by card. The result are as follows:

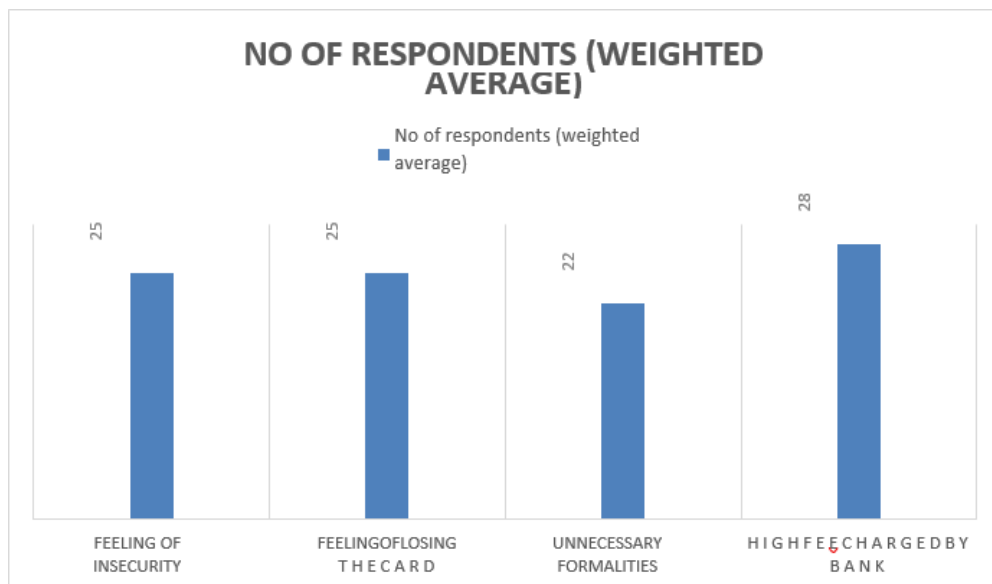


Figure 5.11 Problems faced in processing the card

Interpretation: From the graph it is clear that that the cardholders have the problem in processing the card. According the weighted average the problem which is faced by most of the respondents is the high annual fee charged by the banks. They also face the problem of losing the card and being misused by some other person.

12. Future prospects of plastic money:

Respondents were asked to explain to future prospects of plastic money. The results are as follows

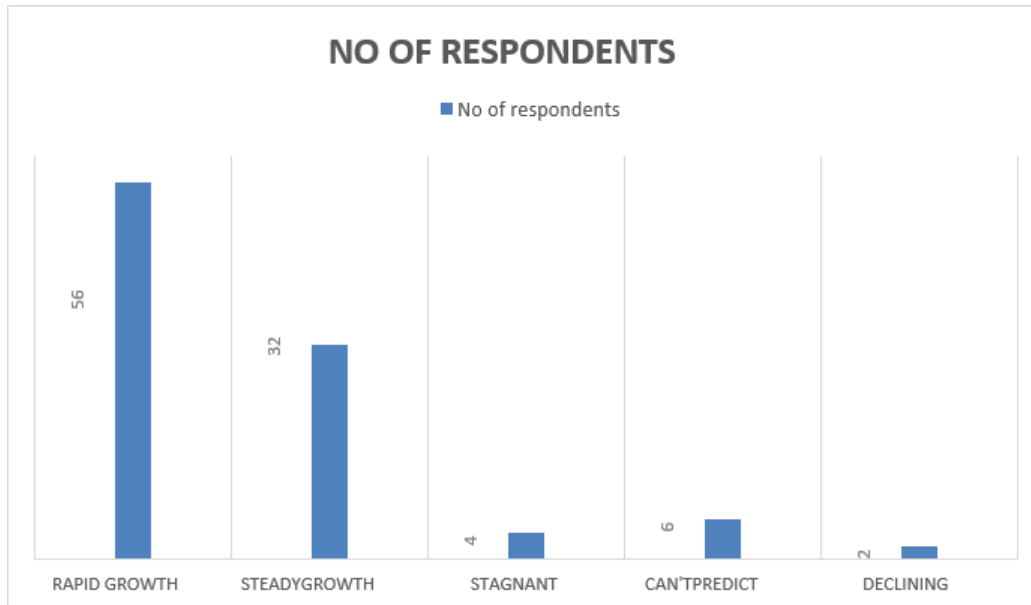


Figure 5.12 future prospects of plastic money

Interpretation: It is clear from the graph mostly people believe that the future of plastic money is at boom. 56% believe that there will be steady growth and 32% are of the view of steady growth. 6% can't predict anything.

CONCLUSION

As per the student of financial market, my conclusion is in the last few years, spending pattern through plastic money has changed drastically. Money, in and of itself, has no actual value; it can be a shell, a metal coin, or a piece of paper. Its value is symbolic; it conveys the importance that people place on it. Money derives its value by virtue of its functions: as a medium of exchange, a unit of measurement, and a storehouse for wealth.

Money is valuable merely because everyone knows that it will be accepted as a form of payment. Throughout history, both the usage and the form of money have evolved. According to some theories, money is inherently an intangible concept, while currency is the physical (tangible) manifestation of money. Consumers were more open to the possibility of owning a financial card, and also willing to use their cards to settle dues. The status symbol aspect of cards played its part in bringing about such robust growth over the space of a year.

There are many ethical issues and challenges for plastic money issuing banks/companies. Security relating to card should be first priority for each bank/company. According to projections, the number of financial cards in circulation will register a compounded annual growth rate of nearly 51 per cent. Inadequate of commodity money led to the evolution of metallic money (gold and silver). The problem of uniformity of weight and purity of precious metals led to private and public coinage. E-commerce has given a better way to use the plastic money in the form of debit cards.

The process of evolution of some better medium of exchange still continues. As the volume of transactions increased, even paper money started becoming inconvenient because of time involved in its counting and space required for its safe keeping. This led to introduction of Bank Money (or credit money) in the form of cheques, drafts, bills of exchange, credit cards, etc. These days plastic money in the form of debit cards is becoming popular. Thus, bank money has become the most important form of money in modern times because it is not only a very convenient form of money for large payments, but also eliminates risks and is durable.

Consumers are preferring these cards mostly for shopping online E-commerce has given a better way to use the plastic money. At last, it is concluded that plastic money has a very bright future in the coming years because of the increasing trend of e-commerce.

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