

Plastic Money - An Overview

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ABSTRACT

The current study presents an overview of the development of banking in India from time to time specifically focused on the plastic cards usage trends since these have been introduced in Indian banking sector. Various types of plastic cards provided by banks in India like ATM cards, Debit Cards, Credit Cards and Smart cards have been discussed. The study also highlights the role of these cards as electronic payment tool to be used by customers and discusses clearing and settlement process of these cards. Some future plans made by various banks and institutions are also summarized in a way that it depicts the picture of its future growth and prospects in India.

Keywords: Plastic Money; Electronic Banking; Information Technology.

INTRODUCTION

Indian economy has flourished with the advent of Liberalisation, Privatisation and Globalisation. Banking sector is not an exception too. These reforms have presented a challenge before Indian banking sector to shake hands with the pace of new technology. However, mere technology upgradation or introduction of innovative products cannot improve the state of affairs until 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' needs, preferences, perceptions and convenience. Also, the banks' services are not just confined to their particular branch customers only. Customer is now treated as customer of banks as a whole, which means that he is now capable of enjoying facilities such as anywhere, anytime banking (Kamesam, 2003). This concept has enabled the bankers to establish long term connection with their customers. Hence, Electronic banking is the new trend significantly adopted by banking sector worldwide due to its wider scope for the customers as well as banks at large. Various sophisticated products have been launched by the banks which help them to meet the basic requirements of their customers. With the 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 traditional branches to approach their customers as compared to the private and foreign players. However, with the help of information technology, it has now become possible for banks to deliver products and services efficiently 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), Internet banking etc. to approach the maximum customers in spite of having less physical branches (Venkatesan and Kumar, 2007). Due to this reason, public sector banks are also likely to move towards electronic banking, which ultimately leads the entire banking sector to the remarkable improvement with respect to its efficiency, customer services, productivity, profitability etc. Thus, Banks are now reengineering the way in which their services can be reached to their customers by bringing in flexibility in their "distribution channels" (De Sarkar et. al. 2001).

Paper money was first used in China around the seventh century AD, only to be discarded in 1433. The use of paper currency re-emerged in England in 1694. The biggest problem which was occurring with the paper note is wear, the paper notes have very small life due to shifting of ownership from time to time and their usage. Australia was the first to develop the plastic notes which have longer life and when worn out they are recycled for further utilizing. The plastic notes also secure the government for copying because paper note is easily copied but plastic note cannot be copied at present. In the late 1990's, plastic cards market in India, comprising Credit cards, Smart cards, Debit cards, Charge cards, Stored value cards, and others picked up momentum like never before, growing at an annual rate of 25%. Analyst attributed this growth largely to the rapidly increasing user base of debit cards. Though initially, there were only two players, (HDFC and Citibank) debit card market base grew considerably through 1999 and reached the three million mark in March 2000. The

usage figures indicated a very healthy growth of the market in future, as 7 out of 10 cardholders were reportedly using their card regularly.

Plastic Cards: A Key Element of Electronic Banking

Money is always regarded as an important 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 (Ramasamy et. al., 2006). Hence, the major change in banks which has been brought in by 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. However, the card-based usage has picked up only during the last five years. Payment by cards is now becoming a much preferred mode for making retail payments in the country (Report on trend and progress of banking in India 2006- 07, RBI). Thus, plastic cards are such payment tool which gives a customer an opportunity of non-cash payment of goods and services and are designed to facilitate small value retail payments by offering a substitute for bank notes and coins and thus to complement traditional payment instruments. The role of various parties involved in plastic cards payment (Retail Payment System, 2004)

- i. Customers or Cardholder: The authorized person holding the card and can use it for purchase of goods and services also.
- ii. Card issuing bank: The bank or institution which issues the card to its eligible customers.
- iii. Merchants: Entities which sell the goods and services to the cardholder and duly agree to accept the card for payment.
- iv. Bank Card Association: The associations (VISA, Master Card, American Express) which act as an intermediate between card issuing bank and merchant's bank and authorize the transaction.

Automated Teller Machine (ATM)

Automated teller machines played a vital role in the development of plastic cards. In India, there is a continuous rise in the usage of ATMs by the customers. According to a survey conducted by Bank net India in 2006, 95% people prefer using ATMs to traditional mode of banking (1). Since 2000, sufficient number of ATMs have been installed by various banks in India while taking into consideration its popularity and usage among the customers. The ATMs installed by banks in year 2000 was just 1000 in number which increased to 27088 in year 2007 signifying the tremendous growth in 7 years. The group wise share in the number of ATMs, according to which the nationalized banks in India has contributed maximum to the rise of on-site ATMs as well as total number of ATMs.

As far as the growth and number of offsite ATMs are concerned new private sector banks have led over the other group of banks. At the early stage, customers could only use ATMs of that respective bank where they are having account. But currently, this constraint has been weeded out for the convenience of customers as they can use ATMs of other banks also where they don't have any account. It is known as interbank networks and banks charge extra fee termed as "inter-change fee" for usage of this service. Reserve Bank has encouraged the banks to join together in small clusters so that their ATM networks can be shared. Currently, there are various such ATM network clusters functioning in India (See Table 1). The number of ATMs shared by these networks which indicates that National Financial Switch (NFS) is sharing the largest number of ATM with its member banks while Mitra is having least number of ATMs to be shared with its member banks.

Debit Cards

Debit card is a magnetically encoded plastic card issued by banks which has replaced cash and cheques. It allows the customers to pay for goods and services without carrying cash with them. In some cases, debit card is multipurpose which can also be used as ATM for withdrawing cash and to check account balances. It is issued free of cost with the savings or current account (Mishra, 2007). Debit card is one of the best online e-payment tool through which the amount of purchase is immediately deducted from customer account and credited to merchant's account provided if that much amount is available in customers account. It has overcome the delayed payment process of cheques, due to which sometimes merchants have to suffer. To transact through debit card is easy and authentic way in which a card is swiped through the terminal with magnetic code reader and it records customer's bank and account number (Caskey and Gordon, 1994). Customer has to enter the PIN code in the terminal in order to perform the transaction through which the information is travelled to electronic network linked to the merchant's bank with the bank that issued debit card to the customer. If the transaction is approved then the customer account is duly debited and merchant account is credited with that amount. The whole process is performed instantaneously inspite the involvement of large number of parties. Hence, debit cards are considered effective where customers value it as convenience and merchants see it as lowering cost or enhancing sales.

Credit Cards

The term "credit card" generally refers to a plastic card issued to a cardholder, with a credit limit, that can be used to purchase goods and services on credit or obtain cash advances. It is issued by banks holding the logo of one of the bank card association private and foreign banks, many public sector banks have also entered the Debit card segment leading to the increase in acceptance and the total base. Most banks now issue Debit cards in place of ATM cards and have already converted all their ATM cards into Debit cards. The reason banks are so eager to push debit cards is that it helps them cut costs significantly (Choudhury S., 2007). Hence, these days, only a few pure ATM cards can be seen prevailing in the market like Visa, MasterCard, Dinners club etc. after proper verification of accountholders. Unlike debit cards, credit cards also provide overdraft facility and customer can purchase over and above the amount available in his account and thus regarded as authentic payment tool (Mishra, 2007). Interest charges are levied on the unpaid balance after the payment is due. Cardholders may pay the entire amount due and save on the interest that would otherwise be charged. Equated Monthly installments (EMI) scheme is also offered by some banks to the customers who make huge purchases so that they can feel convenient while paying back the outstanding amount (Vardhaman, 2008).

Smart Cards

Smart Cards Smart Cards or Stored Value Cards is relatively new payments technology. It is a plastic card, with or without magnetic stripe, capable of storing, retrieving and manipulating data and used in variety of applications (Weninger and Laster, 1995). It is also known as Electronic Money or E Purse issued by banks to its customers having the size as of credit card. A customer needs not to have currency in his pocket as value or amount is stored in the card itself by transferring it from his account, due to this feature it is regarded as electronic purse. The emergence of Smart Card arises in order to issue multipurpose cards which function as credit cards, debit cards and ATM cards so that it suits all types of customer base and their choice. These are generally the reloadable cards in which money is loaded into it by transferring the required amount from customers account via ATMs, telephone or internet.

Petro Card

Some petroleum companies allow customers to pay for the fuel through electronic medium. It offers a scheme of gifting points to the customers when they pay for fuel using the petrocard.

Virtual credit cards

Virtual credit cards, which can give you the convenience of a normal credit card without requiring you to actually carry it. All you have to do is to sign up for this facility and pre-load it with the amount you want. The next time you are making an online purchase, you can transact with the virtual card instead of the physical card. Mobile wallets or e-wallets are a variation of this product. Unlike mobile wallets, virtual cards are one-time-use cards and it expires within 24-48 hours after use, leaving no chance of misuse by others. Most banks issue it as an add-on to the primary card. The details of your card like the card number, expiry date, etc. are visible online for transacting with it online. The main benefit of this card is that you don't have to lose your sleep over losing your card or having to carry it 'safely' while you are on the move. This helps when you are on short trips to other locations and expect to make significant purchases. The transactions using virtual credit cards are visible online in your primary credit card statement. Currently, virtual cards are offered by ICICI Bank, SBI and Kotak Bank.

Present Scenario of Plastic Cards

Now a days, a modern customer and client cannot think of banking without the facility of plastic cards. Today credit and debit cards have largely replaced cheques as alternatives to cash. Both are reasonably secured compared to cash and are widely accepted. User friendliness and feasibility are the main features of plastic money that have made plastic money popular not only in India but also all over the world.

1. Credit cards usage for travel bookings

Consumers started to make their bookings using cards and it has become a lifestyle choice for most urban consumers.

2. Electronic transactions grew strongly with the help of Reserve Bank of India (RBI)

The consumers who were using online shopping for a long period switched to net banking facilities over cash on delivery as this was more convenient and fast. This included online shopping for groceries, especially in metropolitan cities such as Bangalore, Hyderabad, Mumbai, Delhi, Chennai and Kolkata.

3. Mobile banking applications become common for all banks

Use of smart phones became one of the most common forms of banking. As to provide consumers with a convenient and secure banking facility, almost every leading bank in the country, private or public, launched their mobile applications for all the leading Smart phone operating system platforms i.e Android, IOS and Windows.

4. Security

Lost cash can be used by anyone. If you lose a credit or debit card, you can call 24.7 helpline number and report to the bank and thus get protected from unauthorized use of your card. However, different banks may have different liability policies, consult your bank if they offer any liability waiver.

5. Universal Acceptance

Most credit and debit cards are accepted worldwide. Try that with a personal check! If you need cash, you can make withdrawals from ATMs or banks around the world that accept your credit or debit card.

6. Emergency Protection

A credit card will get you through almost any emergency you can think of. It is like a security blanket that will cover you for e.g. airline insurance, life insurance etc depending upon the credit card.

7. Convenience

Credit and debit cards offer no-hassle shopping – no cash, no checks, no additional identification.

8. Simplified Record Keeping

Credit and debit cards give you a record of all your transactions for the month, so keeping track of where your money goes is easier.

9. Hygienic

Paper money is dirty and unhygienic as it travels from one person to another whereas on the other hand plastic money usually remains with 2.3 individuals maximum therefore it is clean and hygienic.

10. Environment Friendly

One of the major causes of deforestation is paper and this is where plastic money is better than paper money as it reduces deforestation.

CONCLUSION

The plastic money in the form of cards has been actively introduced by banks in India in 1990's. But it was not very popular among Indian consumer at the time of its introduction. The change in demographic features of consumers in terms of their income, marital status, education level etc. and up gradation of technology and its awareness has brought the relevant changes in consumers' preferences. These changing preferences have also modified their outlook and decision regarding the acceptance and non- acceptance of particular product and services in the market. Thus, the plastic cards are gaining popularity among bankers as well as customers and getting accepted in the market place. It can be well imagined from the discussion that no doubt, the plastic cards market is growing at a large pace in India yet it has long way to go as it lacks behind if compared to the usage trends of other countries. Hence, it has become important that the payment system in India has to be modernized enough to be at par with the systems prevalent in other countries, since our domestic financial markets are increasingly getting integrated with markets abroad (Country Survey-India, 2005). RBI is also taking important steps in order to enhance its usage and popularity through initiatives like regulating card market to maintain the security levels and to build up confidence of bankers and customers. Despite the strong advances in e-payments, an estimated 90 percent of personal consumption expenditure in India is still made with cash (Country Survey-India, 2005), which indicates the tremendous growth potential of this business. So this can be considered as mere beginning which indicates the bright future prospects of plastic card market in India. In nutshell, we can say that the Indian banking sector is accepting the challenge of information technology as all the groups of bankers have now recognized it as essential requirement for their survival and growth in future.

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