

## **A Study on Impact of Usage of Plastic Money in India**

**K.Neelavathi, Ramya Chavali, Uttej Rao**

*M.Com, PGDCA, M.Phil Senior faculty in commerce Department of Commerce-Bhavans Vivekananda Degree College. E-mail id: kneelu27@yahoo.co.in*

*Bcom (Hons.) Bhavans Vivekananda Degree College*

*Bcom (hons.) BhavansvivekanandaDegree College Email id: uttejrao39@gmail.com*

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**Abstract:** *The term innovation means that 'to create one thing new' banks no longer restricted themselves to traditional banking activities, however explored newer avenues to extend business and capture new market. Today, we are having a reasonably well developed banking industry with totally different categories of banks. A number of them have engaged within the areas of consumer credit, master cards, merchant banking, net and phone banking, leasing, mutual funds etc. Some banks have already started subsidiaries for merchant banking; leasing and mutual funds are within the method of doing. This study presents an outline of the event of banking in India from time to time specifically centered on the plastic cards usage trends since these are introduced in Indian banking sector. Varied types of plastic cards provided by banks in India like ATM cards, Debit Cards, Credit Cards and smart cards are mentioned. The study additionally highlights the role of those cards as electronic payment tool to be utilized by customers and discusses clearing and settlement method of those cards. Some future plans made by various banks and institutions are also summarized in a way that it depicts the image of its future growth and prospects in India.*

**Research methodology:** *in this study primary data is compiled using structured questionnaire method along with reference of secondary information from various research articles and certified journal publications*

**Keywords:** *Plastic money, Electronic Banking, credit card, debit card*

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### **I. Introduction**

Indian economy has flourished with the advent of liberalization, Privatization and globalisation. 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 less 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 in flexibility 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, EFTs, 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.

## II. Literature Review

The literature relating to the topic as under: ManideepKaur and KamalpreetKaur (2008), in their article, "Development of Plastic Cards Market: Past, Present and Future Scenario in Indian Banks" conclude that 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 Despite the strong advances in e-payments, an estimated 90 percent of personal consumption expenditure in India is still made with cash 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 .P Manivannan (2013) in his research paper "Plastic Money a way for cash Less Payment System" examined that Plastic Money i.e. usage of Credit card was measured a luxury, and has become needed. These plastic money and electronic payments was and used by only higher income group. This facility extended not only to customers in urban areas or cities, but also to customers residing in rural area. However, today, with development of banking and trading activity, the fixed income group or salaried classes are also start using the plastic money and electronic payment systems and particularly Credit cards.

In this research paper an attempt has been made to study an overview of the development of banking in the plastic cards usage trends since these have been introduced in Indian banking sector. The study also highlights the role of these cards as electronic payment tool to be used by customers and discusses the penetration of these cards in replacement of cash and paper money. The factors for adoption of plastic money in replacement of cash and paper money have been identified which shows the preference of the customers for plastic cards over the cash and paper money

Figure-1 Table showing the recent trend of plastic money

<b>It's Trending Downwards</b>					
		<b>DEBIT CARDS</b>		<b>CREDIT CARDS</b>	
	<b>Share of currency in Money supply (%)</b>	<b>No. of transactions per card</b>	<b>Value of transaction per card (₹)</b>	<b>No. of transactions per card</b>	<b>Value of transaction per card (₹)</b>
<b>2011-12</b>	13.9	19.44	2,684	18.15	3,055
<b>2012-13</b>	13.6	18.03	2,917	20.42	3,117
<b>2013-14</b>	13.1	17.51	2,976	26.22	2,975
<b>2014-15</b>	13.1	14.10	2,998	29.34	3,105
<b>2015-16</b>	13.7	13.97	2,915	32.31	3,078

Source: The Economic Times Blog

### Objectives

- To understand the impact of plastic money in the economy.
- To know the privileges enjoyed by the customers with the plastic money facility given by the banker.
- To show the result of plastic cash on day to day basis with a primary study of an unbiased sample

### Theoretical insights

#### Plastic Money-Types

##### Charge Card

A charge card carries all the features of credit cards. However, after using a charge card you'll need to pay off the whole amount billed, by the due date. If you fail to do so, you're possible to be considered a defaulter and can sometimes have to pay up a steep late payment charge.

##### Amex Card

Amex stands for American express and is one of the well-known charge cards. This card has its own merchant establishment tie-ups and does not rely upon the network of MasterCard or Visa.

### **MasterCard and Visa**

MasterCard and Visa are international non-profit organizations dedicated to promote the growth of the card business across the globe. They have designed a vast network of merchant institutions so that customer's world-wide might use their respective credit cards to make various purchases.

### **Debit Cards**

Debit card is a magnetically encoded plastic card issued by banks which has replaced money and cheques. It permits the customers to pay for goods and services without carrying cash with them. In some cases, debit card is multipurpose which can even be used as ATM for withdrawing money and to check account balances. It is issued free of cost with the savings or current account. Debit card is one of the best online-payment tool through which the amount purchase is immediately subtracted 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. There are presently 2 ways in which debit cards transactions are processed

1. Onlinedebit (also known as PIN)
2. Offline debit (also known as signature debit)

### **ATM Cards**

These cards are typically used at ATM machines (ATMs) to withdraw money, make deposits, or transfer funds between accounts. ATM card is used by inserting the card into an ATM machine and enter a personal number, or PIN, for security. The system checks the account for adequate funds before allowing any transaction

### **ADVANTAGES OF PLASTIC MONEY**

- Purchasing Power:

Credit or Debit cards made it easier to buy things. Now we don't have any need to carry money in a large amount. Plastic money is accepted everywhere, anytime.

- Time Saving:

Through a credit card or debit card you can purchase anything from anyplace without spending money on fare or cash transition. Just provide your card details to seller store or corporations and settle your order. Now you don't have to worry about time wastes. Use internet for minimum time reduction.

- Extra Safety:

While you are not carrying money, how can it be lost? But if your card has lost, simply contact to your bank or financial institution, which provide you cards. It will block the account and no-one can draw one coin without your permission. Therefore it's 100 percent safe without any tension.

### **DISADVANTAGES OF PLASTIC MONEY**

- Shops using other Vendors:

There are numerous shops that accept credit cards of a specific company only. In this situation the money is the only manner of payment for those who use a credit card of another company.

- Less global Availability:

There are numerous cases where various firms do not let their cards to be utilized in areas wherever they have a regional dispute with.

- Worn out Magnetic Strip:

The magnetic strip of a credit card can get worn out due to large use. If such a condition happens while travelling, and this is the only way of cash that the consumer has, then he or she must wait until the time they receive a new card, which can take a minimum of forty eighth.

- Increased Debt and High Interest Rates:

Credit Card from financial institutions and corporations charge high interest rates (May be 10% to 25%) on more money if you fail to pay off up to the fix date of the month. This interests their earning, for which they provide you additional shopping for limits then your money. This is not a good idea that you owe loan on high interest rates and spend it in unnecessary things or purchasing. This is complete money wastages.

- Fraud:

Credit cards are often stolen. A thief may use them directly or to get their information (which is needed in cash exchange). In today's technical intelligence it is also possible to get a clone of any credit card or debit card, which works like original and they can give you a heavy loss. Thusbe aware from credit cards fraud as they are like stolen your cash from your pocket without your information.

### **III. Findings and Conclusion**

The below are the questions posed to the respondents for the purpose of primary data collection and analysis with ---

Sample size-80 respondents

Mode of data collection-Structured Questionnaire

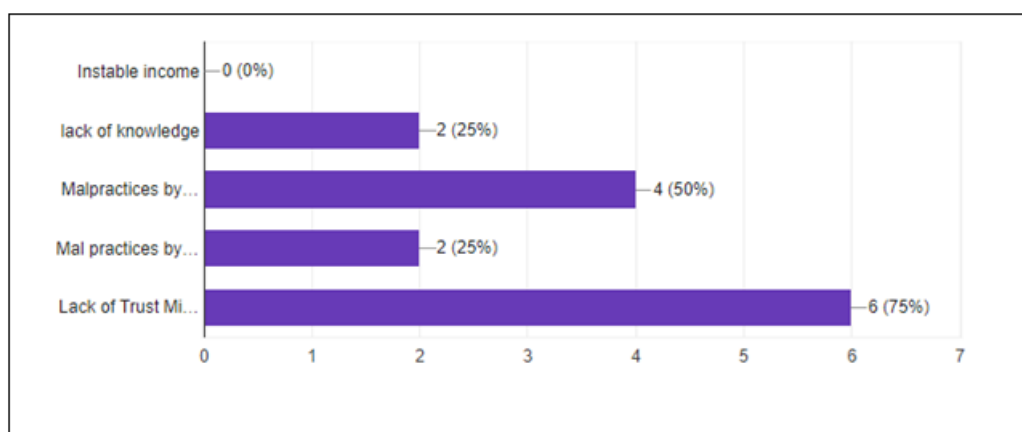
Theoretical data representation with supportive quantitative percentages obtained from the primary source of data collected through questionnaires portraying the results there off.

### Theoretical Analysis

From the data obtained, it is observed that

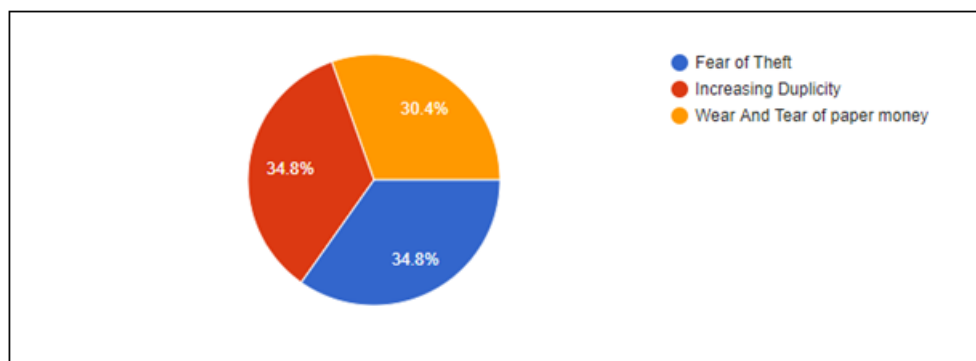
- More than 84% of the respondents belonged to the age group of 18-25 years who are career beginners and portrays that they have a higher interest towards usage of plastic money of all means. Followed by the age group of 25-35 years and 35-45 years amounting to about 10% of the respondents who are in their career growth and mid career? Finally a very small percentage of 5% belonged to 50 years and above who were at their career decline or retirement stage and are not very comfortable with usage of plastic money.Hence it is observed that there exists relation between career stage and usage of plastic money as it encompasses their earnings and job security for repayment.
- The female group of 51.5% is slightly more inclined towards usage of plastic money for all means followed by the male group of 48.5%.According to the survey conducted it is inferred that the women are comfortable in using plastic money in comparison with the men. Also it can be inferred that banks and financial institutions are in a pace to capture the female population higher than the male population for avoidance of credit default which is observed to be less among the female population.(in case of credit cards only)
- 68.3% of the sample group prefers credit cards followed by ATM card and debit cards (31.7%). By this result we inferred that most of them are flexible with the usage of credit cards to debit cards because of various reasons being ease of post-paid credit, immediate availability of purchasing power, increased credit limits and installment credit clearance facility.
- The crux of the survey i.e.; 48.5% of respondents are interested in using both cash and card for different kinds of payments as per the requirement and feasibility of purchase location and situation, followed by only card with 27.3% and only cash with 24.2%.Hence, it is inferred that both the means are important for payment purposes. But when card and cash are compared card is given much preference to cash as it is easy to handle and fear of loss is minimized due to its PIN protection encrypts that do not enable malpractice or usage of cards by others. .
- 78.8% of the respondents find that usage of plastic money is safer and secured where 21.2% of them find that usage of plastic money is unsecured for the reasons being primarily lack of trust in plastic money, malware and software issues in payment gateways and point of service mechanism, malpractices by payment gateways, banks negligence and retail outlets and lack of sufficient knowledge and literacy about usage of plastic money as portrayed in the response graph below.

**Figure-2 Graph showing respondents views on why plastic money is unsecured**



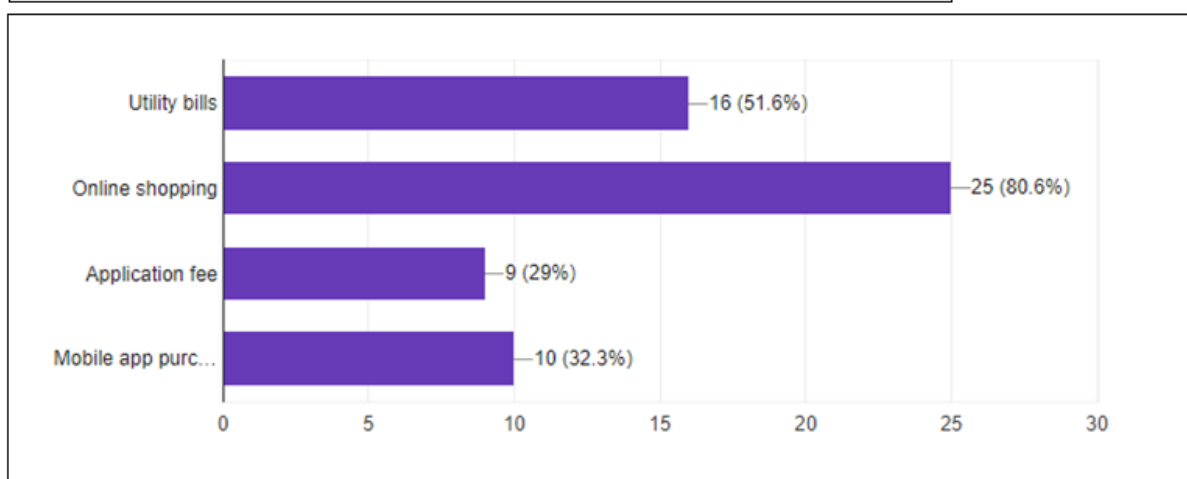
- For the respondents who have a positive approach towards usage of plastic money, the reason for them not preferring paper cash were that 34.8% of the respondents do not prefer paper money because of the increasing duplicity and fear of theft and 30.4% do not prefer paper money because of wear and tear of paper money as portrayed as given in the below graph.

**Figure-3 Graph showing respondents reasons for not preferring paper cash**



- 90.9% of the respondents think plastic money will penetrate into society more in future with increasing literacy and awareness about its usage and benefits but the remaining 9.1% think that plastic money will not penetrate in to society any more due to increasing insecurity, excessive transactional costs and excessive transparency of transactions not in favor of the population mindset.
- 54.5% of the respondents think more of plastic money transactions over cash transactions will help to curb black money circulation in economy and money laundering effect can be minimized with excessive transparency of transactions whereas the rest 45.5% neither agreed nor disagreed but responded neutral on the possibility discussed.
- Maximum usage of plastic money was for utilities listed as under-----
  - Utility bills-(51.6%)
  - Online shopping-(80.6%)
  - Mobile app purchases-(32.3%)
  - Application fee payments-(29%)

**Figure-4 Graph showing listed top utilities of plastic money usage**



- 62.5% perceive that biometric identity is the best security measure to protect from misuse of plastic money followed by pin number and password with 21.9% and 15.6% as the security measures to be adopted for a better and safer usage of plastic money.

#### IV. Conclusion and Suggestive measures

As observed in the study, it is inferred that the changing phase of technology has taken a step towards the transformation of transactional framework in the economy. This change has proposed people to initiate the usage of plastic money instead of the conventional hard cash for carrying out transactions on a daily basis which also enables them the advantage of credit purchases and post-repayment option for the amount of credit utilized on these cards. It has become the best, easiest and more comfortable way to handle money with

the advent of this plastic money. Like every coin has two sides, this initiation also has its own advantages and disadvantages as mentioned in the theoretical framework above. Security of transactions is a major concern for people which is hindering to get more inclined towards plastic money and also repayable capacity which plays a vital role.

Thus government needs to take steps to build better and safer payment gateways with high security programmed software which does not give a lead to data theft or hacking of monetary details of the users.

Banks should educate people through awareness programs briefing about the uses of plastic and the usage directions to the financially illiterate population as well as the existing customers. To encourage more and more people to use plastic money.

Government needs to adopt this as a mass initiative and make plastic money usage facility available to the untapped population of the economy to make plastic money more in usage in our country.

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