



## Plastic Money: Some Benefits & Challenges

Anupama

### ABSTRACT

*In today's economy it is difficult to envisage modern bank operations, business transactions and other payments without using the plastic cards. Plastic money is now increasingly becoming the norm across the world as the developed countries are opting for plastic compared to paper as there are several inherent benefits. And with it life becomes easier and development would take better place. This paper focuses on the benefits and challenges of plastic money in India.*

**KEYWORDS :** Plastic money, Credit card, Debit card.

### Introduction

The introduction of advanced technology based systems in banking services world over resulted in great changes in terms of how financial institutions offer services to customers. Use of plastic money has come as a form of convenience to financial institution customers.

Plastic money is gradually strengthening its position with the potential of further growth in the future. It is worthwhile to observe how plastic money will evolve in the future in a competitive environment in terms of safety, efficiency and convenience. The use of plastic money has been expanding quite rapidly and its development is a prominent trend in the area of retail payment. There are many evident advantages of an electronic mode of transfer as compared to conventional clearing house because banks are increasingly turning to technology for managing their payments. Some of the value attributes include secure payments, cost-cutting, payment on due date and easier cash management compared to conventional systems. Plastic money in recent years is gaining momentum in India as merchant establishments and customers are realizing the safer mode of making payments compared to conventional payment. Financial institutions have realized the acceptance of traders and customers, which has motivated them in leveraging on these systems. The plastic culture is influencing into the daily purchasing habits of Indian customers and the payment card business is growing as never before. Over the past few years, customer attitude towards the use of traditional cash and cheques payments has changed drastically leading to improved way of making payment. With the change in technology and the improvement in the payment system has led to further development in plastic money. This development in plastic money helps the customers to satisfy their ever changing needs. The role of various parties involved in plastic cards payment

- 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.

### Meaning and Definition of Plastic Money

Plastic money or polymer money, made out of plastic, is a new and easier way of paying for goods and services. Plastic money was introduced in the 1950s and is now an essential form of ready money which reduces the risk of handling a huge amount of cash. It includes debit cards, ATMs, smart cards, etc. Credit cards, variants of plastic money, are used as substitutes for currency.

Plastic money refers to credit cards, you use them whenever you want and pay later (with interest, of course). It makes it too easy for people to buy things they normally could not afford, which makes it easier to get into debt.

The term plastic money has been used in different settings to describe a wide variety of payment systems and technologies (Basel, 1996). According to Basel (1998) plastic/electronic money refers to "stored value" or prepaid payment mechanisms for executing payments via point of sale terminals, direct transfers between two devices, or over open computer networks such as the internet. "Stored-value" products are generally prepaid payment instruments in which a record of funds owned by or available to the consumer is stored on an electronic device in the consumer's possessions, and the amount of "stored value" is increased or decreased, as appropriate, whenever the consumer uses the device to make a purchase or other transaction. Stored value products include "hardware" or "Card-based" mechanisms (also called "electronic purses"), and "software" or "network-based" mechanisms (also called "digital cash"). Plastic money which includes stored value card could be of three types—single-purpose card, closed-system or limited-purpose card and general-purpose or multipurpose card. The single-purpose card generally with a magnetic chip recording the amount of fund therein is designed to facilitate only one type of transaction e.g., telephone calls, public transportation, laundry, parking facilities etc. Here, the distinguishing point is that the issuer and the service provider (acceptors) are identical for the cards. These cards are expected to substitute coins and currency notes. The closed system or the limited-purpose cards are generally used in a small number of well-identified points of sale within a well-identified location such as corporate/university campus. The multi-purpose card on the other can perform variety of functions with several vendors' viz., credit card, debit card, stored value card, identification card, repository of personal medical information etc.

These cards may reduce demand for currency accounts in the bank for likely reduction in transaction costs, and prudent portfolio management.

Also, RBI (2002) quoted European central Bank (1998) definition which states that plastic money is an electronic store of monetary value on a technical device used for making payments to undertakings other than the issuer without necessarily involving bank accounts in the transaction, but acting as a prepaid bearer instrument. Basel (1998) argues that banks may participate in electronic money schemes as issuers, but they may also perform other functions. Those include, distributing electronic money issued by other entities; redeeming the proceeds of electronic money transactions for merchants, handling the processing, clearing, and settlement of electronic money transactions; and maintaining records of transactions.

### Types

1. **Debit Card:** Debit card is a magnetically encoded plastic card issued by banks which provides an alternative payment method to 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. There are currently two ways that debit cards transactions are processed i) Online debit (also known as PIN), ii) Offline debit (also known as signature debit). Off-line debit cards can be used wherever VISA or MASTER CARD is accepted.

2. **Credit Card:** 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 like Visa, MasterCard, Diners club etc. after proper verification of account holders. 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 Instalments (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). Clearing and settlement through credit card is a simple and reliable process in which bank plays a crucial role.

3. **Charge Card:** A charge card is a means of obtaining a very short term (usually around 1 month) loan for a purchase. Thus, a charge card is a convenience instrument, not a credit instrument. A charge card carries all the features of credit cards. However, after using a charge card you will have to pay off the entire amount billed, by the due date. If you fail to do so, you are likely to be considered a defaulter and will usually have to pay up a steep late payment charge. Under this facility, the cardholder needs to make a consolidated payment to the issuer for all purchases affected with the card during a specified period of time. The Diner's club card of Citibank, American Express, Travel and entertainment cards falls under the category of charge card. American Express is one of the well-known charge cards. This card has its own merchant establishment tie-ups and does not depend on the network of MasterCard or Visa.

4. **Combi Card:** These are magnetic stripe plastic cards with a microprocessor chip attached to them. They can work as normal credit cards and also have an additional function of storing information which store loyalty points, information about balance etc. ABN Amro and ICICI bank have already launched this card which can store loyalty points for customer and customers can redeem their points from the card itself.

5. **Smart Card:** Smart cards, sometimes called chip cards, contain a computer chip embedded in the plastic. It has the capacity to store up to 80 times more information than other magnetic stripe cards. Smart cards carry the electronic proof of its holder's identity enabling its holder to make secure purchases anywhere on the globe, leading to a dramatic increase in e-commerce. It is estimated that by the year 2018, five billion smart cards will be in use in over 100 countries covering 24 percent of the world populations. Presently, smart cards are used primarily for telephones, healthcare, transportation, movies, fast food outlets, internet banking and loyalty programs. There are two types of Smart cards. First, contact Smart cards that require insertion into a reader and contact-less smart cards which require only close proximity to an antenna via radio waves. Smart card is currently introduced by BRTS which stands for Bus Rapid Transit Services in Gujarat in India.

6. **In Store Card:** Also known as in-house cards. These cards are issued to customers by a retailer or company and in general can only be used in that retailer's outlet or for purchasing the company's products. Store cards are enticing because they offer shoppers discounts for signing up, such as 10% or 15% off the first item

cardholder buy. After that cardholders receive special offers and membership evenings to be a part of their little club.

7. **Farmers Green Card/Rural Card:** Farmer green card can be issued to parties for undertaking any activities coming under the purview of direct finance to agriculture. The scheme enables the cardholder to get instant credit from the branch which has issued the card. These cards provide farmers to buy agricultural inputs without repeating visits to the bank branch. Dena Bank took the initiative to launch Rural card. Presently banks like Canara Bank, Corporation Bank, are also providing the same.

### Benefits of Plastic Money

Evolution of e-banking technologies, such as internet banking from e-commerce, has changed the nature of customer banking relationships. This has many rewards over traditional banking delivery channels which comprise an increased customer base, cost savings, mass customization, and product innovation and offering of services regardless of geographic area and time (Giannakoudi, 1999). Polatoglu and Ekin (2002) identified quick transactions, easy access and fast response as important attributes in the use of plastic money. The use of plastic money has released banks from the constraints of time and geographical location (Kass, 1994; Goi, 2005) and also allowed banks to cut cost on transactions, improve their delivery and respond better to the demand of the market (Chang, 2003; Sullivan and Wang, 2005). So, there are several benefits of using plastic money:

- **Easy to handle:** Credit or Debit cards made it easier to purchase things. This eliminates the need for carrying huge cash which is risky and inconvenient too. It prevents carrying out heavy wallets, hence, reducing the chances of theft. Plastic money is accepted everywhere, anytime.
- **Time Saving:** Through a credit card or debit card you can purchase anything from anywhere without spending money on fare or cash transaction. Just provide your card details to seller store or companies and finalize your order. Now you don't have to worry about time wastes. Use internet for minimum time consuming.
- **Extra Safety:** In case of cash there is a high risk of losing cash and a chance of cash getting stolen. However, in case of debit/credit card you can report the matter to the bank and block the card to avoid misuse.
- **Quick Transactions:** In the situation of immediate need for money, one can withdraw / debit the demanded cash amount from the account and thus prevents any risk of getting marooned in travelling. Using cards you have the unique advantage and convenience of using it anywhere in the country or even abroad.
- **Credit Facility:** In case of credit card you have the option of buying on credit or paying later. Although the charges are high, it helps you in case of emergencies and contingencies.
- **Easy availability:** Now a day's every bank facilitates with Credit cards as long as the account becomes active. The cash ATM machines are also open 24/7, therefore whenever in need one does not have to wait for the banks to open, but can take out the money using the card.
- **Miles of Cards:** Most credit card companies offer miles on every purchase. This indicates that by using the card for purchasing, there are points added which get aggregated in the user's account. Lastly, when a good amount of these points get collected, the consumer can use them for purchasing any product for free, hence making a double use of money is another advantage of plastic money.

- **Online Payments:** You can use cards for online payments, fund transfers and various other transactions.

### Challenges of Using Plastic Money

People perceive risk as a characteristic in the use of plastic money (Ho and Ng, 1994). These include financial risk, performance risk, social risk and psychological risk. They suggest that people perceived an existence of risk was present with the use of plastic money. Physical risk in the use of plastic money occurs when personal information is accessed by a third party. Social risk refers to the older generation who may disapprove of the use of banking due to their perception that non-plastic money is personal and friendly. Financial risk represents the financial loss in using plastic money as consumers may perceive that reversing a transaction, stopping a payment after discovering a mistake or a refund may not be possible.

- **Shops Using Other Vendors:** There are numerous shops which accept credit cards of a specific company only. In this situation the cash is the only way of payment for those who use a credit card of another company.
- **Less Global Availability:** there are many cases where various companies do not permit their cards to be used in areas where they have a regional dispute with.
- **Worn out Magnetic Strip:** The magnetic strip of a credit card can get worn out due to massive use. If such a condition happens while travelling, and this is the only way of cash that the consumer has, then he or she has to wait till the time they receive a new card, which can take a minimum of 48 h.
- **Increased Debt and High Interest Rates:** Credit Card provider financial institutions and companies charge high interest rates (may be 10% to 25%) on extra money if you fail to payoff up to the fix date of the month. This interest is their earning, for which they give you extra buying 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 can be stolen. A thief may use them directly or to get their information (which is required in money 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 financial loss. So be aware from credit cards fraud as they are like stolen your money from your pocket without your information

### Conclusio

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 arrival of malls, multiplexes, online shopping stores and shopping complexes encourage the customers to make use of plastic cards. In present times, Indian customers find it easier to make physical payment (credit card or debit card payments) rather than carrying too much cash contributing to the growth of plastic money in the country. The prevalence of growing competition has further fuelled the usage of plastic cards in the country like never-before. It benefits the consumer through enhanced product offerings at a lower cost and that too with lucrative deals delighted with rewards scheme, loyalty bonus points, promotional campaigns etc. But some customers are not able to utilize cards effectively due to its complex nature and they don't actually know how to operate it for specific purpose. Cost has also remained an issue in case of credit cards. The interest levied on outstanding amount is very high which sometimes takes the customers in debt trap ultimately discouraging the potential customers to make use of it. However, all these hurdles will diminish over time and positively influencing trends are expected to continue in the near and far-future. Also, the growth of plastic cards

in future would depend upon the capacity building of the banks to meet the challenges and make use of the opportunities profitably. However, the kind of technology used and the efficiency of operations would provide the much needed competitive edge for success in plastic cards business. Furthermore, in all these customers' interest is of paramount importance. 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. 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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