



Plastic Money : Roadmay Towards Cash Less Society

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ABSTRACT

In the world glance as per technology changes suitable changes should be adopted by the economy. And among all the changes in economy lead to some drastic changes in to the transaction. Now days in any transaction Plastic money becomes inevitable part of the transaction. And with it life becomes more easy and development would take better place. Relating to Indian scenario how the plastic money took place in the banking world would be focus by the researcher over here. And along with the plastic money it becomes possible that control the money laundry and effective utilization of financial system would becomes possible which would also helpful for tax legislation.

Keywords :

INDIAN BANKING INDUSTRY

Without a sound and effective banking system in India it cannot have a healthy economy. The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors.

The first bank in India, though conservative, was established in 1786. From 1786 till today, the journey of Indian Banking System can be segregated into three distinct phases. They are as mentioned below:

1. Early phase from 1786 to 1969 of Indian Banks

2 .Nationalization of Indian Banks and up to 1991 prior to Indian banking sector Reforms. New phase of Indian Banking System with the advent of Indian Financial & Banking Sector Reforms after 1991.¹

Phase I

The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks, mostly Europeans shareholders.

During the first phase the growth was very slow and banks also experienced periodic failures between 1913 and 1948. There were approximately 1100 banks, mostly small. To streamline the functioning and activities of commercial banks, the Government of India came up with The Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No. 23 of 1965). Reserve Bank of India was vested with extensive powers for the supervision of banking in india as the Central Banking Authority.

Phase II

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalised Imperial Bank of India with extensive banking facilities on a large scale specially in rural and semi-urban areas. It formed State Bank of india to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiary of State Bank of India was nationalised in 1960 on 19th July, 1969, major process of nationalisation was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi. 14 major commercial banks in the country was nationalised.

Phase III

This phase has introduced many more products and facilities in the banking sector in its reforms measure. In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalisation of banking practices.

The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The entire system became more convenient and swift. Time is given more importance than money.

CURRENT SITUATION WITH RESPECT TO BANKING

Currently (2007), banking in India is generally fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets relative to other banks in comparable economies in its region. The Reserve Bank of India is an autonomous body, with minimal pressure from the government. The stated policy of the Bank on the Indian Rupee is to manage volatility but without any fixed exchange rate-and this has mostly been true. With the growth in the Indian economy expected to be strong for quite some time-especially in its services sector-the demand for banking services, especially retail banking, mortgages and investment services are expected to be strong. One may also expect M&As, takeovers, and asset sales. In March 2006, the Reserve Bank of India allowed Warburg Pincus to increase its stake in Kotak Mahindra Bank (a private sector bank) to 10%. This is the first time an investor has been allowed to hold more than 5% in a private sector bank since the RBI announced norms in 2005 that any stake exceeding 5% in the private sector banks would need to be vetted by them. Currently, India has 88 scheduled commercial banks (SCBs) - 28 public sector banks (that is with the Government of India holding a stake), 29 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 31 foreign banks.

They have a combined network of over 53,000 branches and 17,000 ATMs.² According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

HISTORY OF MONEY:

Money is anything that is commonly accepted by a group of people for the exchange of goods, services, or resources. Every country has its own system of coins and paper money. It is hard to imagine our world without money. A long time ago there was no such thing as money. Before money was invented people had to get their food, clothing and other needs by trading things. There is a special name for this kind of trading "barter". The word barter comes from a French word barater, which means to trade.

The problem in the barter system was the people traded some of the things that they didn't need or wanted. To solve the problems of barter system there was the introduction of commodity money. A commodity is a basic item used by almost everyone. In the past, salt, tea, tobacco, cattle and seeds were commodities and therefore were once used as money. However, using commodities as money had other problems. Carrying bags of salt and other commodities was hard, and commodities were difficult to store or were perishable.

After that old gold and silver coins of about 11 grams were introduced. After 11 grams of gold and silver there was an introduction with the silver Rupee were issued gold coins called the Mohur weighing 169 grains and copper coins called Dam. First time in 1903-04 coins were made with the machine. On 15th August 1950, a new series was introduced replacing the king's portrait by the Lion Capital of the Ashoka Pillar. In 70th there was gradual discontinuance of 12 and 3 paise coins.

Towards cashless society:

The world has been dreaming of a cashless society ever since credit instruments were introduced in the 1950s. With the increase in smartphone penetration and 3G networks becoming a reality, the outlook for mobile payments in India is optimistic. While we have over 900 million mobile subscribers, less than 40% of our countrymen have bank accounts. One of the lowest ATM density in the world, low share of Debit/Credit cards in the total retail electronic payments, further contribute a strong business case.

Organizations are now also increasingly looking beyond the most basic forms of mobility like email. They are now investing in sales force automation, CRM, ERP, Business Intelligence as they now recognize mobility to be a significant enabler of revenue generation.³

Due to major social and technological advancements, the banking landscape is undergoing massive change. Key drivers for this are generation Y consumers as well as early adopters of new technologies and systems, who are driving debate around a cashless society and more specifically mobile payments. The market is seeing increased availability of sophisticated technologies that can enable cashless transactions; however the perceived disadvantages such as the need for high IT investment by various service providers, security concerns, lack of technological awareness and the traditional mindset of Indians who prefer to use physical money seem to outweigh the potential benefits.

Overall, there is currently a lot of innovation taking place in the following areas in India, which will encourage development of a cashless society and help the market move towards the idea of new payment methods such as m-payments:

A less known player, Uniphore, provides speech-based mobility solutions to illiterate mobile subscribers, where many do not have a bank account. The company has developed a speech biometrics technology to meet special needs of the uneducated segment and is currently serving 200,000 bank-

ing customers, of which 100,000 are illiterate farmers.⁴

BIRTH OF PLASTIC MONEY:

Credit cards as we know them today date back about 60 years, but buying on credit has been around for a while. European merchants offered credit vouchers to customers as early as the 1890s. Stores also offered customers a paper or metal "card" that could be used only in their stores and for years, it was up to each store to approve and monitor their customer's creditworthiness. That changed after the Second World War, with what is largely considered to be the first plastic charge card: The Diners' Club card, introduced in New York City in 1950, the card allowed Diners' Club members to eat at 27 restaurants in New York City on credit. However cardholders had to pay the balance back in full to the Diners' Club within 30 days.

LITERATURE REVIEW

Debit card users in India likely to touch 47-crore mark by 2011

FE Bureau

Posted: Saturday, Jul 17, 2010 at 2224 hrs IST | financial express

Debit card users are growing at a rapid pace in India, closely following the penetration level of the telecom sector. The volume of debit card transactions in India is expected to touch 47 crore per year by 2011, with a cumulative transaction value of over Rs 19,369 crore, on account of the increased interest shown by consumers, a study said.

"The main driver for the growth of debit (cards) in emerging markets is the increasing number of people with access to full banking services. Debit card numbers have risen substantially in markets such as Brazil and India," a study conducted by American payment processing company First Data said, citing estimates released by Euromonitor International.

In 2010, there will be 40.7 crore debit card transactions in India, totaling Rs 16,697 crore in transaction value, the study estimates.

Speaking to FE, Amrith Rau, vice-president & country manager at First Data, said that in 2009-10, there were close to 235 million and 170 million credit card and debit card transactions, respectively. At the same time, year 2008-09 saw 260 million and 125 million credit and debit card transactions.

The biggest challenges in emerging markets like India, the survey says, are converting customers into active debit card users. "In India and Mexico, banks report that between 9-

20% of their debit card portfolios are being used at the point of sale, which is well below the rate in mature markets," it added.⁵

Indian use of plastic money in strong surge

Sachin Kumar, Hindustan times, Mumbai, August 15, 2011

The spending through credit cards rose by 30% year-on-year to Rs22,128 crore during the April-June quarter of 2011-12 against Rs16,948 crore last year, according to data released by the Reserve Bank of India (RBI). Spending through debit or ATM cards, increased by 45% year-on-year to Rs11,691 the April-June quarter compared to Rs8,065 crore last year.

"It's a natural progression for country like India, which is growing rapidly and more people availing banking facilities," said Anand Selvakumari, country business manager, global consumer group, Citibank. "However, there is still much potential left as penetration of plastic money in India is less than countries such as the US and China."

However, bankers are likely to be cautious in selecting their customers for credit cards due to the uncertainty in the global economy. "We will continue expanding our cards

base in India, but will select customers cautiously," said Selvakesari.

Bank of Baroda has started distribution of weaver credit cards to handloom weavers in the State.

E.H. Rahiman, General Manager (Tamil Nadu and Kerala) of Bank of Baroda, told The Hindu on Saturday that the card holders would be able to withdraw amount using the card and the limit would be fixed depending on their term and working capital loans. The banks in the State would distribute 20,000 weaver credit cards and Bank of Baroda would distribute 1,000 to 1,500 of these. Under financial inclusion, the bank had covered 81 villages and opened ultra small branches in all these villages.

Bank of Baroda launched a campaign last month and a three-day home and auto loan expo was held here from Saturday as part of the campaign. The event at Grand Regent would be open from 10 a.m. to 8 p.m. and had 25 stalls. On display were projects related to apartments and villas in different parts of the city, Tirupur, Erode, and Tiruchi.⁷

Plastic money racket busted, five arrested

TNN Apr 24, 2012, 03.07AM IST

HYDERABAD: The Cyberabad police on Monday nabbed an 'ingenious' gang involved in a racket of skimming and cloning debit and credit cards and seized Rs one crore worth property from their possession.

Police arrested Polavaram Kamal Kumar, 28, a web designer of Solitaire Towers, Kondapur, Ammar Ali alias Guddu, 31, a techie from Tamil Nadu, Zameer Shaik, 26, a web designer from Mumbai, Ajay Lal Mathur, 22, a waiter of a Delhi hotel and Sha Jamal, 30, of Bihar.⁸

Credit Card and Debit Card Users in India

There are more debit card users than credit cards users in India as per the new RBI data.

In 2005-06, the number of cards was 17.3 million, which shot up to 27.5 million in 2007-08. But keeping with the law of gravity, the numbers came down to 24.6 million in 2008-09. The situation worsened in 2009-10, with the numbers fell to 18.3 million.

On the other hand the debit card usage is increasing. In 2005-06, the number of debit cards in the market was just 49.8 million. In 2007-08, the numbers grew to 102.4 million and, in 2009-10, to 181.4 million.⁹

Plastic money: Sign of modernising economy

However, according to the recent estimates by the Reserve Bank of India (RBI), the use of cashless transactions through credit card usage among Indians is actually falling. For example, according to RBI, on an average, the annual number of transactions per credit cards in India stands at 11 and it is only 1 in case of debit cards.

According to RBI, although the number of credit cards increased to a crore during three financial years from 2005 to 2008, the number of transactions through credit cards fell in financial year 2009-10. For example, while purchases of about 25 crore saw the use of plastic money in 2008-09, the figures fell by over two crore transactions in the financial year 2010.¹⁰

WHAT IS PLASTIC MONEY AND ITS TYPES:

The plastic money generally a credit or debit card with a magnetic strip many people carry in their wallets or purses is the end result of a complex banking process. Holders of a valid card have the authorization to purchase goods and services up to a predetermined amount, called a credit limit.

The particular which are required to appear on a credit card are name of the customer, 16 digit card number, validity date,

the visa hologram and the visa logo, name of the issuing bank, signature panel, magnetic strip and personal identification number.

Types of credit cards:-

Smart Card

A plastic card containing a computer chip and enabling the holder to purchase goods and services, enter restricted areas, access medical, financial, or other records, or perform other operations requiring data stored on the chip. Smart card is currently introduced by BRTS which stands for Bus Rapid Transit Services in Gujarat in India.

Currently or soon, you may be able to use a smart card to:

- Dial a connection on a mobile telephone and be charged on a per-call basis
- Establish your identity when logging on to an Internet access provider or to an online bank
- Pay for parking at parking meters or to get on subways, trains, or buses. (For e.g. BRTS smart card system)
- Give hospitals or doctors personal data without filling out a form
- Make small purchases at electronic
- Stores on the Web (a kind of cyber cash)
- Buy gasoline at a gasoline station

Charge card

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.

When you use a credit card you are not declared a defaulter even if you miss your due date. A 2.95 per cent late payment fees (this differs from one bank to another) is levied in your next billing statement.

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 depend on the network of MasterCard or Visa.

MasterCard and Visa

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

Diners Club card

Diners Club is a branded charge card. There are a wide variety of special privileges offered to the Diners Club cardholder. For instance, as a cardholder you can set your own spending limit. Besides, the card has its own merchant establishment tie-ups and does not depend on the network of MasterCard or Visa.

However, since this card is typically meant for high-income group categories, it may not be acceptable at many outlets. It would be a good idea to check whether a member establishment does accept the card or not in advance.

Global card

Global cards allow you the flexibility and convenience of using a credit card rather than cash or travelers checks while travelling abroad for either business or personal reasons.

Co-branded card

Co-branded cards are credit cards issued by card companies that have tied up with a popular brand for the purpose of offering certain exclusive benefits to the consumer.

For example, the Citi-Times card gives you all the benefits of a Citibank credit card along with a special discount on Times Music cassettes, free entry to Times Music events, etc.

Affinity card

The card issuer ties up with popular organizations/ institutions which are often non-profit organizations (Citi-WWF card or the Stan chart-Cricket cards) to offer an affinity card. When the card is used, a certain percentage is contributed to the organization /institution by the card issuer.

Add-on cards

An add-on card allows you to apply for an additional credit card within the overall credit. You can apply for this card in the name of family members like your father/ mother/ spouse/ brother/ sister/ all children above 18 years of age. Your billing statement would reflect the details of purchases made using the add-on card. You are liable to make good all the payments for the purchases made using the add-on card(s).

Types of Debit cards:-

There are currently two ways that debit cards transactions are processed

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

ATM Cards

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

Check Cards

These cards can be used to purchase products at any merchant that accepts VISA or MasterCard credit cards. On the surface, they look exactly like ATM cards. However, check cards cannot be used at automatic teller machines. When using a check card no PIN is used.

ADVANTAGES OF PLASTIC MONEY

- **Purchasing Power:** Credit or Debit cards made it easier to purchase things. Now we don't have any need to carry hard cash in a large amount. Plastic money is accepted everywhere, anytime.
- **Time Saving:** Through a credit card or debit card you can purchase anything from anywhere without spend money on fare or cash transition. Just provide your card details to seller store or companies and finalize your order. Now you don't have need to worry about time wastes. Use internet for minimum time consuming.
- **Extra Safety:** While you are not carrying cash, how can it be lost? But if your card has lost, just contact to your bank or financial institution, which provide you cards. It will block the account and nobody can draw a single coin without your permission. So it is 100% safe without any tension.

DISADVANTAGES OF PLASTIC MONEY

- **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 hrs.
- **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 pay off 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 be 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 be 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.

Steps taken by the other countries towards cashless transaction

As per a recent Washington post article, in Sweden, only 3% of transactions involve cash. Credit and Debit cards are dominant in Sweden payment system. Not only in Sweden, but in most of the developed countries, above 90% of transactions are cashless. Mobile payment is bringing new way of cashless payment system. Other prominent countries are Norway, Austria, Finland etc.

In the United States today, only 7 percent of all transactions are done with cash, and most of these transactions involve very small amounts of money.

Another method that can be used to make financial identification more secure is to use implantable RFID microchips. All over the United States, employees are being required to carry badges that contain RFID chips, and in some instances employers are actually requiring employees to have RFID chips injected into their bodies. More advanced RFID technology is the chipless RFID ink developed by a company called Somark which can be applied directly to the skin of an animal or a human. These "RFID tattoos" are applied in about 10 seconds using micro-needles and a reusable applicator, and they can be read by an RFID reader from up to four feet away. These new technologies can ensure security in a cashless society to a large extent.

- China Bank, BancNet, and Mabuhay Taxi, one of the biggest and oldest taxi fleet operators in Davao, have teamed up to pioneer cashless payments in the city's transport system. Under the memorandum of agreement signed by the parties last April 12,
- The over 200 units of Mabuhay Taxi, the famous "blue cabs" of Davao, will be equipped with wireless POS terminals by BancNet. Mabuhay Taxi is the first taxicab company in the Philippines to offer this service to its passengers. Now,passengers don't have to pay cash in select Black Mabuhay Taxis, all they have to do is swipe their ATM/ Debit Card."

Reserve bank of India pitches for cashless Society

With the Indian economy expanding rapidly at more than 7.5 per cent per annum and the middle-class budding, several financial firms believe and predict that the use of plastic money in India will become very popular. However, according to the recent estimates by the Reserve Bank of India (RBI), the use of cashless transactions through credit card usage among Indians is actually falling.

The Reserve Bank of India (RBI) has prepared a road map to provide card swipe machines to more than one crore retail businesses in the next three years to promote electronic transactions for ushering in a less-cash society in the country.

According to the road map prepared by the central bank for cash-less transactions, all schools and colleges in the country will also be equipped to handle plastic transactions.

According to an RBI estimate, only six lakh retail traders accept credit card in the country. Steps are being taken to make the facility available to at least one crore retailers by 2015.A The government and its financial institutions will initially bear the cost of each card swap machine made available to retailers.

Paper-less transactions are also expected to make household payments, including electricity, telephone, house tax and

insurance bills, easy. On an average, each household pays over 50 types of bills per year in India, involving crores of rupees in cash payments

The government mandated that all payments by the government departments above Rs 25,000 should to be made electronically.

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