



PLASTIC MONEY AN OPPORTUNITY OR THREAT

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ABSTRACT

The launching of plastic money is indeed one step future in meeting the social objectives expected of today's banking. It is treated as a position symbol and as a means of transportation of consumerism, India banks spurned this business till recently as did not go along very well with the spirit of authority and saving which they were expected to promote. But with increasing economic and financial liberalization and growing opulence of the urban inner class, banks feel it desirable to enter this line of business. As of now, so many banks are in the field above and beyond the non-banking institutions. In India almost major banks are issuing the plastic money. Initially, the plastic money was created to help the customers for their local small purchases to the merchants. Later on, plastic money has become predominant, the means for consumer to obtain goods and services. In this level it is necessary to know this facility is it an opportunity or threat. Hence an attempt has been made to know the answer for this question.

KEYWORDS

Plastic money, Opportunity, Liberalisation.

Introduction

The organism of trade over and done with barter is as old as the social evolution. Barter system is a structure of altercation in which people sell goods and chattels & services in order to obtain supplementary goods and chattels & services through uninterrupted exchange. The functioning of a barter economy was however cumbersome and inconvenient due to double coincidence of wants.

Emergence of Money:

Technical hitches of barter led to the introduction and improvement of money. Coinage deserves to be ranked among the outstanding inventions of the entire history of mankind. The birth of money came as a multifold blessing to mankind. Money has been defined in various ways. Some say, 'Money is what money does' (Walker). In other words anything that performs the functions of money is money. Money matters makes it clear that money plays an important role in the economic system. Modern life is very complicated, and even a layman is aware that money plays an important role in modern life. It is impossible to carry on modern production and solve the problems of distribution without the intervention of money. In short, money accelerates the working of an economic system.

Banking originated in ancient Mesopotamia where the royal palaces and temples provided secure places for the safekeeping of grain and other commodities. As the civilization grew with the development of economic systems the development in the banking was also inevitable. This paved the way for the development of paper money, Bills of exchange, cheques and other incidental transactional areas. Credit is considered as an important instrument of promoting and sustaining economic growth of modern economies. Money is the basis of credit creation by the banks in the economy, on account of the increasing importance of credit in modern times it is held by the many that man today's living in a credit money economy. Credit is characteristic of a system whereby exchanges normally affected. There are others who regard credit as a means of transferring capital. John Stuart Mill wrote that from the point of view of society credit merely transfers capital that is already in existence.

Origin of Plastic money:

The word credit comes from Latin, means trust. Credit was first used in Assyria, Bablylon and Egypt 3000 years ago. The bill of exchange the forerunner of banknotes was established in the 14th century. One-third cash and two-thirds debts settled by bill of exchange. Paper money followed in the 17th century. W.Christopher Thornton placed the first advertisement for credit,

which offered furniture that could be paid off weekly. In 1875 cheques came into use. From the 18th century until the early part of 20th Tallymen sold clothes in return for small weekly payments. In the 1920s, a shopper's plate – "buy now, pay later" system was introduced in the USA. It could only be used in the shops, which issued it. This marked the first use of magnetic stripes on cards. The London Transit Authority installed a magnetic stripe system in early 1960's. San Francisco Bay Area Rapid Transit installed a paper-based ticket, the same size as the plastic moneys in the late 1960's.

The beginning of plastic money has been traced to John C. Biggins, a end user credit specialist at the Flatbush National Bank of Brooklyn, New York. In 1946 Biggins launched a credit plan called 'Charge-it'. The programme featured a form of scrip that was accepted by local merchants for small purchases. The merchant deposited the scrip in their bank account after the sale was completed and the bank billed the customer for the total scrip in their bank account after the sale was completed and the bank billed the customer for the total scrip is issued.

In 1950, Diners Club and American Express launched their charge cards in USA, the first "Plastic Money". In 1951 Diners Club issued the first plastic money to 200 customers who could use it at 27 specified restaurants in New York continued until the establishment of standards for the magnetic strip in 1970. The plastic money became part of the information age.

The proliferation of plastic money soon revealed a big drawback of the payment system. Cardholders could shop only in their geographic area. The merchants only with their bank were able to sign up. Bank of America overcame this difficulty. Bank of America began forming licensing agreement with a handful of bank outside California to issue the Bank Americard, later in 1976 changed its name to Visa. This arrangement worked well for banks that obtained the Bank Americard license. However, many banks were left out. In 1966, 16 banks were together in Buffalo, New York, to form their own network. This association was called as inter bank Card Association, which was the grandfather of Master Card International, as known today.

As the Visa and Master card organizations gained prominence, most banks no longer tried to enter the plastic money field, but joined one of the two (Master and Visa) that were already in existence. The banks agreed to issue card displaying both the individual bank name and symbol signifying that the bank was part of a larger network of banks agreeing to interchange transactions.

In 1951, the Franklin National Bank in New York issued the first modern plastic money. At the earlier stage the plastic money was unsolicited. The cardholders were not subject to credit screening prior to issue of the card. Merchants signed agreements to accept the card. When a purchase was made, the cardholder presented the card to the merchant. The merchant will copy in information the card on the sales slip. The purchase was credited with the amount of purchase (fewer discounts) to the merchants account at Franklin Bank. The merchant will call the bank for approval, when the purchases exceeded the merchant's floor limit. Franklin National Bank's plastic money programme was copied by other banks in the late 1950's and 1960's.

Thirty years ago people paid for their purchases by cheque or cash. They did not have an alternative until payment cards entered the market. Payment cards have passed 3 decades and become an integral part of our life's and economy. The possibilities are amazing, it can be used for travel, food and commodities or simply cash. Today owning a payment card opens up new world of opportunities.

Plastic money accesses a customer's financial resources. Plastic money may also be categorized as general purpose or proprietary. General-purpose plastic money can be used at any merchant. Proprietary or limited purpose, card are tied to the retailer and can be used only in the retailer's stores. Plastic money area form of consumer loan, a revolving credit account that has a credit limit of a specific amount and that can be repaid in full or part of it. The available credit limit is restored and it can be used again, when once the outstanding balance is paid. Initially, the plastic money was created to help the customers for their local small purchases to the merchants. Later on plastic money has become predominant, that means for consumers to obtain goods and services.

Conclusion:

Plastic money, which was considered to be a luxury, has become necessary. Plastic money was considered to be used by higher income group. Among the various financial services rendered by commercial banks and other financial institutions extending their plastic money facility to customers is an important modern day function. This facility is extended not only to customers in urban areas or cities, but also to customers residing in rural area. But today, with the developments on banking and trading activity, the fixed income group or salaried classes are also start using the plastic moneys. There may be the criticism that, it induces far more purchases or make people spendthrift. This may be so in the initial stage, but when once a customer gets used to the plastic money, they will know how to use the same in a discretionary manner.

So it is concluded that the plastic money is considered as opportunity. But at the same time it is essentially required that, the customer must aware the level of usage of the card.

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