



Management

PLASTIC CARDS - 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.

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1. 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 inspite 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).

2. 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) is shown in Figure 1.

- 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.

3. 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 Banknet 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 (See Figure 2). The group wise share in the number of ATMs is depicted in Figure 3, 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 Mitr is having least number of ATMs to be shared with its member banks.

4. 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.

5. 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).

6. 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 (See Figure 8). 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.

7. 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 upgradation 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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