PERCEPTION OF CARD USERS AND MEMBER ESTABLISHMENTS TOWARDS PLASTIC MONEY IN INDIA

Summary
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SUMMARY

One of the key pillars of the modern society has been the civilized and organized exchange of goods and services. In India, as in other countries around the world, an organized method of payment has evolved over time from a barter system to the more complex forms of monetary transactions. The predominant form of payment across India in the 20th century has been coins, cash and cheques.

As we move into the 21st century, payment through cash and cheques itself has undergone a transformation. It has moved from being a physical paper based exchange of value to a virtual electronic one. This is in line with the development of electronic payments world over. Plastic money has an added function of identification along with that it keeps track of transactions as they incurred with all details of purchases such as shop name, date of purchase, amount of purchase, city of purchase etc. Thus, holder has the facility of “refreshing” his memory about his purchases which is denied to the paper money holder. On a macro level, since the data is available electronically, spending patterns, emerging trends, demographic details and such other information can be complied easily which in turn can be used for boosting economic development and for reducing unnecessary and superfluous costs.

The use of plastic money has been expanding quite rapidly, and its development is a prominent trend in the area of retail payments. It is expected to continue to evolve as a retail payment option in response to consumer changing needs. In India, like any other developing economies, a gradual switch over from the use of paper-based payments media to those based on electronics has been witnessed. While the basic characteristics of these new instruments are by and large similar to those of old, paper based instruments. In the Indian market, the development of plastic money is probably the most significant phenomenon of the modern banking era. Plastic money, comes in various forms but the predominant form that it takes is that of credit cards and debit cards. Plastic money and other forms of electronic payments are nothing but newer and more convenient potions of payments.

A major drawback of plastic money as payment mode is heavy dependence on technology (satellite, phone lines, computer links, LANs, WANs etc). A snag in any one
of these can cause a major disruption in acceptance procedures. Another risk attached to the usage of plastic money is that the conservative consumers are not responding to the expensive campaigns launched to introduce cards; the other hazards that remains are those inherent to this type of business, viz legislative controls, frauds and bad debts.

This study is an attempt to unveil the perception held by card users and member establishments towards plastic money in India. The review of literature indicated that most of research work in the field undertaken till now has been done in developed countries like United States and other fast developing countries. But research is still lacking in case of developing countries like India. It was also revealed that, hardly any comprehensive study has been conducted in India to examine the perception of cardholders as well as member establishments towards plastic money. Further, the existing studies have concentrated their attention mainly on the usage of debit cards or credit cards, but mostly neglected the joint effect and new innovative cards. The present study focuses on factor like age, occupation, gender, educational qualification, monthly income, and occupation. It also analysed the current status and trends of plastic money in India.

OBJECTIVES OF THE STUDY

The present study has been carried out with the following objectives:

1. To trace out the origin and development of plastic money.
2. To study the procedural aspect in the operation of plastic money.
3. To analyse the risk factor involved in the usage of plastic money and legal protection available to card holders.
4. To judge the comparative spending pattern of active and inactive card holders.
5. To study the role of member establishments in the progress of plastic money in India.
6. To examine the present position and future prospects of plastic money in India.

DATA BASE AND RESEARCH METHODOLOGY

In the present study, database is both primary and secondary sources have been used. The period of study was 2000 to 2009. The data was collected from secondary sources which included periodicals, published annual reports of central bank and other reports. The data for users and member establishment perception towards plastic money
was collected using well structured and pre tested questionnaires. The sample size for users questionnaire was 292 and 269 respondents for member establishments.

The universe of the study in India, comprises of users (cardholders) and member establishments (shopkeepers) on zonal basis. The questionnaire targeted the users who actually use the plastic money in their daily lives. While distributing survey instrument randomised convenience sampling method was used.

After collection of data, it was processed and analysed in accordance with the outline laid down for the purpose at the time of developing the research plan.

For analysing the data, there may be a large number of variables which may indicate respondents perceptions toward plastic money both in case of users and member establishments. In case of users variables such as age, gender, education, monthly income and occupation were considered. Whereas nature of business and income level seemed to affects the perception of member establishments.

The analysis was done using statistical techniques like frequency distribution tables, percentage, averages and chi-square. Other statistical tools which were used include average annual growth rate (AAGR) and compound growth rate (CGR). Ranking using the calculated means and percentages. Statistical package for social science (SPSS) version 15.0 for window has been used.

FINDINGS OF STUDY

Legal and Regulatory Framework of Plastic Money

In the past few decades, banking institutions and law enforcement the world over have struggled to keep pace with various and innovative facets of plastic money fraud. In spite of the proliferation of plastic money in daily lives and despite of billions of dollars of fraud perpetrated using plastic money, it is one of the least researched issue under law especially in India. This chapter covers the different types of frauds, their prevention ad detection, fraud investigation, legal framework in India and U.S.A. and the cross comparison of two countries.

Plastic money is established as feature of the commercial scenario. But surprisingly, there is very little discussion of their legal aspect. The regulation of plastic money business in India is diffused and need to be streamlined. Whereas in developed
countries like United States, the law on plastic money business is comprehensive and straightforward, its Indian version requires a structural change. Even though the apex bank i.e. RBI has formulated a few guidelines on the international credit cards. Debit cards and Smart cards, an efficient regulation on credit card business is still a long way to go. An attempt has been made to cross compare the regulation mechanism in United States and India from the view point of the consumers.

Credit industry’s legislative premises in India are primarily confined to the “Common Consumer Law i.e. the Consumer Protection Act, 1986 and the General Criminal Law i.e. The Indian Penal code, 1860.” In addition, the related legislations like Banking Regulation Act, 1949; Income Tax Act, 1961; The Information Technology Act, 2000; The Foreign Exchange Management Act, 1991; Payment and Settlement Act, 2007; RBI guidelines partially regulate the card business in India.

The consumer credit business in U.S is heavily regulated, both by agencies of the Federal Government and the individual states themselves. Federal Reserve Board (FRB) is the apex regulator that promulgates most regulations affecting consumer credit. The FRB has issued regulations regarding many statutes affecting the credit cards including Regulation Z, which implements the Truth in Lending Act; Regulation E, which implements the Electronic Fund Transfer Act; and Regulation B, which implements the Equal Credit Opportunity Act Prior to 1968, the respective state laws solely regulated to the consumer credit business. But after promulgation of the Federal statues in 1968, greater protection is available to the customer.

PERCEPTION OF CARDHOLDERS
Empirical Analysis

This chapter analysis the perception of card holders towards plastic money in India. The emphasis has been laid on the adoption, usage, value attributes, bottlenecks and factors influencing plastic money adoption. The analysis has been divided into the seven sections which include perceptional analysis age-wise, occupation-wise, gender-wise, education-wise, income-wise, analysis of antecedents and spending pattern, and lastly analysis of perceived risk and utility.
Age wise analysis indicates young middle aged (31-45) people prefer to use credit cards and advocated the vitality of plastic money by those having 4-5 cards in their possession, followed by the younger people (≤30) who prefer to use debit card advocated the essentiality of plastic money. Frequency of card usage and monthly spending on cards is dominated by the young middle aged people. Those who indicated that their cards have been misused, 61.5% belong to the age more than 46. Young middle aged people are not satisfied and having some doubts about the legal protection the Government of India is providing to card users.

Gender wise analysis indicates male prefer to use credit cards as compared to debit cards. Whereas females prefer debit cards to credit cards. Both males and females are of the opinion of essentiality of plastic money in their daily life. Males having more possession of cards as compared to females. Frequency of card usage and monthly spending on card is again dominated by males as compared to females. Majority (93%) of males and females reported that their card have not been misused. Majority of the respondents unable to say exactly or they are confused about the legal protection available to them.

From income perspective, majority belong to the class of people who earn monthly income of Rs. 20,001–Rs. 60,000. 57.48% of the people in this category prefer to use credit cards instead of debit cards and are of the opinion of essentiality of plastic money. Majority of the respondents using plastic money 3-5 times in a month earn between Rs.20,001-60,000 followed by income group upto Rs. 20,000 and 60,001-10,0,000 respectively. Majority (63.35%) pays the full payment within the grace period. Majority of the respondents indicated that their cards have never been misused. Among them, majority (55.7%) earns between Rs. 20,001-60,000, 25.6% earn less than Rs. 20,000 and 15.8% earn between Rs. 60,001-100,000. Among those who said that their cards have been misused in one way or other, majority belong to class that earn between Rs. 20,001-100,000. Result indicates that higher income group (above Rs.100,000) is less confused about the legal system.

Education of card users is vital parameter. It was evident from the result that majority (50.7%) were post graduates, followed by graduates and others with 3.8% respectively. This indicates that those who have adopted plastic money are well qualified
and the people without good educational qualification seems to be reluctant to use plastic money. Majority of the respondents surveyed use credit cards and those who reported to have debit cards, 55.4% were just graduates and 39.2% were post graduates. Respondents who said that they have more than 5 cards and among them 78.6% were post graduates and 21.4% were graduates. Plastic money is perceived to be essential for educated people as they use their card 6-10 times in a month, by managing their resources efficiently and makes the full payment within grace period. It shows education also matters when it is related to payment pattern of card users. Majority of all the respondents are either unable to say exactly or they are not satisfied with legal protection available to them.

Occupation perspective shows that majority of respondents who use plastic money in their daily lives, are from service class. Business class are least interested in using plastic money. Service class spend more on card followed by professional and business class people. Plastic money perceived to be essential and they are frequent user of plastic money followed by professional and business class. Result shows that servicemen make full payment within the grace period with great caution as they need not to liable to balances later. Results shows misuse of the card is not dependent on the occupation of the person and on the other hand, majority of the respondents from all the occupational groups having some unspeakable doubts about the legal protection provided to them.

Consumers were asked to give their preference against the most important factors influencing their card choices. Convenience, Acceptability, interest rates, Distribution networks and Brands were found to be the most vital factor on considered in plastic money adoption. While advertisement on T.V, convinced by direct selling associates and benefits offered by credit card agency are regarded less important.

From the study, it is revealed that Indian users are one the initial adoption stage and majority of users are young males in age between 31-45, with post-graduate degrees, working and having of Rs. 20,000-60,000 per month.
PERCEPTION OF MEMBER ESTABLISHMENTS

Empirical Analysis

In this chapter an attempt is made to analyse the perception of traders or member establishments towards the use of plastic money in India. The adoption of users has been accelerated by the acceptability of member establishments or point of sale terminals. From nature of business wise, the merchant establishment are classified as:

Category I      Clothing and Jewellery
Category II      Departmental Stores
Category III     Consumer Durables
Category IV     Others

Majority of the respondents were traders engaged in consumer durables, followed by departmental stores, traders in clothing & jewellery and lastly others.

From nature of business, majority (62.1%) of respondents reported that plastic money is essential while 26.02% indicated that it is vital and remaining were of the opinion that it is desirable or unable to say exactly what was in their mind. Majority of the respondents from all the business categories reported that their sales has been increasing and trend of sales in last five years has been improved and they get 20%- 30% of revenue generated from plastic money acceptance. Majority (68.8%) of all categorised business houses do not find any problem in transferring sales proceeds of card transactions in their account.

PERFORMANCE APPRAISAL AND PROSPECTS OF CARD INDUSTRY IN INDIA

This chapter evaluates the performance of card industry in India since 2000 to 2009. An attempt has been made to explore the growth and progress of credit and debit cards sectors growth in India and also acceptance from merchant establishment in India.

Plastic cards industry in India has been experiencing upward trends in the number of cards in circulation which increased from 56.29 lakh in 2001 to 1621.30 lakh cards as at March 2009, which was compounded to be 55.9 percent for the entire period. Debit cards have been increasing and have been compounded to be 86.2% growth for the entire
period. Credit cards in circulation in India have received a good response from customers since they have increased from only 37.34 lakh cards in circulations at 2000 to 275.47 lakh as at March 2008 and 246.99 lakh as at March 2009. This shows a 26.82 compound growth rate.

Sector wise analysis of credit cards in Indian banks indicate that private sector banks lead the credit card market as at March 2009 and credit cards of private banks have been increasing with a compound growth of 77.79% for entire period since 2000 to 2009.

Public and foreign banks trends in credit card market also have been compounded to be 23.92% growth and 15.77% growth respectively for the entire period. ICICI, HDFC and HSBC banks have been leading credit card market in India as they have 145 lakh cards in circulation out of the total of 246.95 lakh cards. The credit card spending at POS touched Rs. 65,356 crore as at March 2009 up from only Rs. 10895.00 crores in 2001. These indicate the growth of transactions through plastic at POS in India.

The Public sector banks are the leading in debit cards in circulation as at March 2009 with 812.92 of the total debit cards in circulation followed by private sector banks with 355.18. The major players of debit card market include, SBI, ICICI, AXIS and HDFC banks with 753 lakh cards out of a total of 1374.31 at March 2009.

Merchant point of sale terminals have been increasing since 2000 when the industry recorded 53,915 to 4,26,717 as at March 2009. The CGR was found to be 28.7 for the entire period. POS terminals of public sector have been decreasing 2007 and the compound growth rate was found to be -1.7% while that of private bank was 72% and 5.5% for foreign banks for the entire period.

**POLICY IMPLICATIONS**

- Card Issuing Institutions, should provide cardholders a secret personal identification number (PIN) that they have to punch in before every transaction. This will help in minimizing the credit card fraud.
- India does not have the specific legislation to address card business. There should be one law that will govern the card business like in other developed countries like USA.
• Traders should be trained by the banks/Financial institutions providing plastic money by arranging seminars.
• Apex institution like Reserve Bank of India should provide guidelines from time to time by considering the economic business environment.
• More financial institutions should be encouraged to provide plastic money to users under the noval legal frame work.
• The cardholders should be educated on the usage of plastic money, so that they may be aware of the latest-technologies and how to use them in their daily business transactions.
• The eligibility condition on issuance of plastic money should be liberalized so that the growth of plastic money can be enhanced.

SCOPE FOR FURTHER STUDY

A doctoral thesis can seldom cover all relevant aspects of a topic. Moreover, new issues may emerge during the course of the research. This thesis is no exception and so several areas remain, that warrant further investigation. Researches and developments at academic and industry level in the area of plastic money are not plenty in many parts of the world, especially in a developing country like India. The area of plastic money and business as a whole, cross-border and risk management issues offer a wide scope of research.

• Comparative study of two countries on plastic money adoption need to be conducted. This study will provide a wide range of awareness to the parties involved from the customer, banker to regulatory and supervisory authorities to be aware of imperative areas of concern.
• The impact of plastic money adoption on profitability on a sector wise basis like public sector, private sector and foreign sector can also be done.
• Further, this study can also be extended to know the profitability aspect of the intra bank product like debit card or credit cards. This thesis did not touch profitability aspects of banks.
A comprehensive study comparing the performance of different cards issued by different banks will be important for card industry as a whole.

A comprehensive study on legal and regulatory framework on cross country analysis to find out the unification and consolidation of different pieces of law to cover cross country transactions.