Chapter II....

Review of Literature....
Chapter - II

REVIEW OF LITERATURE

2.1 Books

2.2 Research Paper/ Articles

2.3 Newspapers

2.4 Reports/ Statistical Performances
Review of literature on the topic chosen for the present study is indispensable. It will help in identifying the gaps in the literature and act as pointers to trends in the field. With this object in view a review of literature has been undertaken. This review covers various aspects of debit cards and credit cards. The main purpose of the review is to draw attention of researchers and bankers in the field to the literature covering various aspects of the subject. The literature available on the topic selected is very recent.

2.1 BOOKS:

Sharma (1993) studies the need of computerization in Indian banking system. The study reveals that computerization has become almost inevitable in the present changing environment to keep pace with the advanced technology, innovations etc. Computerization has made the banking activities easy, saving time, cheap and convenient with use of credit cards and ATMs. At the end, it concludes that computerization has accelerated the productivity and efficiency of banks. Even when there are some problems, we can convert the defects of such systems by expanding banking and computer education, and then modern computerized banking can be introduced to bring better quality of life with minimum possible expenditure.

Uppal R.K. (2006) studies the impact of computerization on the performance of public and private sector banks. The study is based on primary and secondary data. The study concludes that the performance of fully computerized banks (HDFC, PNB, IDBI, ICICI and OBC) is much better than the partially computerized banks. In inter-bank group comparison, all bank groups show significant difference in profitability and productivity. Primary survey concludes that majority of the customers are satisfied with computerization of banking services where urban sector respondents show keen interest in computerization of banking business.

In recent years, debit cards have become a popular payment instrument in the United States (Evans & Schmalensee, (1999), Weiner, (2000)). Since their introduction in 1975, growth of these cards has been slow, particularly throughout the 1980s and mid-1990s. However, in the last decade, the percentage of households that use debit cards has increased dramatically: from 20% in 1995 to 37% in 1998 and to 50% in 2001 (Anguelov, Hilgert & Hogarth, 2004). Debit cards achieved the highest growth rate among forms of retail payment between 1995 and 2000 with an increase of 41.8% (Anguelov et al., 2004).
In 2000, debit cards accounted for 11.6% of all retail transactions (Gerdes & Walton, 2002).

Husain, (1998) also highlighted the importance of IT in various sectors. In the introduction of any new technology or system various organizational, financial and functional problems are faced in the initial stages. People are generally reluctant to accept a new system, howsoever beneficial it may be. Such various issues which are involved in computerization have been critically and vividly discussed.

Financial Services 2nd Edition, Published by Tata McGraw Hill Education Private Limited-2009, by Dr. S. Gurusamy, says that the use of debit cards is fraught with danger especially to the users who fear that their bank balance may be knocked off by card thieves. Any fraud committed with regard to the misuse of debit card entails complete draining of the funds of the customers. Although protection to the users of debit cards in India seems unavailable, there is increasing trend towards attempting measures to protect the debit cards users around the world.

Duffy (1990) identified the marketing strategies of introducing affinity cards and providing value added features like frequent flyer programmes, for credit cards to hold on existing card holders and to attract new ones due to maturing credit card market.

2.2 RESEARCH PAPER/ ARTICLES:

Rao N.V.M., Singh P. and Maheshwari N. (2005) study e-Business models and real-life experiments that have been circling around the e-business models in some selected banks chosen, from public sector and private sector banks. The study concludes that most of the banks offering Internet banking facility in India has high overall scores indicating high quality of their websites at all the functional and interactivity levels. ICICI Bank, State Bank of India and Bank of India now have mobile ATMs or vans that go along a particular route in a city and are stationed at strategic locations for a few hours every day. Almost all the internet banks have privacy statements and about half of these have a security statement. The model suggests that the performance of the banking sector has improved considerably. It is believed that a mathematical approach proposed in this paper will find extensive application in other sectors of the economy also.

Jui-Chu, Jin-Li and Kang-Liang (2005) study the cost efficiency of 35 general commercial banks in Taiwan from 1995-2001 with the use of number of ATMs to evaluate
the degree of electronization of banks and employs Stochastic Frontier Analysis (SFA). The study compares the banks’ operating efficiency before and after 1997 Asian Financial Crisis. The study concludes that simply increasing the number of ATMs as well as branches does not effectively improve the status of banks’ efficiency, a bank must also engage in other electronic business also. The banks’ cost efficiency index before 1997 Asian Financial Crises is lower than that after the crisis. The average operating performance of banks in Taiwan is going down.

Nair K.N.C. (2006) explores the future challenges of technology in banking and reveals that automation of 20 pc branches covering 80 pc business followed by large banks conveniently ignores their rural branches. The study concludes that technology usage has improved the efficiency of operations in banks and reduced the cost as ATM transaction costs 25-30 pc of a counter transaction and electronic system has made the banking easy and more attractive but also risky because of ignorance of human touch. It also points out how IT poses a bright future in rural banking.

Bajaj, (2000) highlighted e-commerce related issues due to the adoption of recent IT. All over the World Bank’s traditional business of taking advances and lending out the proceeds is in terminal decline. The spread of IT and the dramatic advances in financial theory have made it cheaper for big companies to raise money in the capital markets than from banks. It is also helping in cutting costs by providing cheaper ways of delivering products to the customers. ATMs, telephone banking and now the internet banking. He also explained e-commerce, payment systems, smart card and electronic cheques, etc. He concluded that electronic payment systems are emerging and getting accepted in the market place. They need to gain both customer and business acceptance. But the major point emerges from the above discussion is that banking stands to radically change. It remains to be seen whether banks use e-commerce and other IT systems to reinvest themselves, gain access to new markets or become as dinosaurs whether advances in technology create new opportunities for banks or they become extinct.

Kara, Kaynak, and Kucukemiroglu (1994) identified and analysed the various factors, namely brand name, credit line, type of card, annual fee, and interest to develop the marketing strategies for the potential youth market.

To identify an opportunity due to close saturation in USA, Asian and Hispanic consumers were identified with their credit card usage patterns as for rent payments,
clothing and shoe purchases; and as a market for credit cards (Delener and Katzenstein 1994).

Kumar S. and Sujit K.A. (2006) explain the importance, usage and implementation of e-purse in different countries including India. The study highlights some issues related to e-purse as well as its implementation in Indian context as compared to foreign countries. It concludes that e-purse is still at a nascent stage in India as compared to other e-facilities like credit/debit cards, ATMs etc. The study suggests making e-purse more user friendly like credit cards, providing wider base in terms of issuer, location and service providers to facilitate its usage at transportation services, educational institutions, shopping malls etc.

Kukkudi and Deene (2006) study the impact of ATMs on customer satisfaction with special reference to SBH in Gulbarga district with sample size of 100 respondents. It concludes that ATMs are used mostly by the age group of 25 – 35 years comprising more male members. 79 pc uses ATMs weekly where 85 pc are aware about the restrictions concerning ATMs usage and the numbers of ATMs are sufficient to meet current needs. It suggests popularizing ATMs among the maximum customers.

Garg and Jham (2006) investigate factors that influence Indian customers to adopt ATMs by using factor analysis and focused on the influence of demographic and psychological variables of 296 customers of six selected banks such as SBI, PNB, ICICI, HDFC, ABN and IDBI. It is examined that most of the respondents are below the age of 35 years and the users with lesser experience face more problems in comparison to other and they look for reliability of information. There are problems of dim vision of screen and they use ATMs maximum for withdrawals and rarely for deposits.

Consumer Voice (2006) conducted a survey to study the customer satisfaction level of 3100 serving banks, credit and debit card holders, who are covered during the period September 2005 to November 2005. The survey is conducted in eight cities, where the maximum numbers of respondents come from SBI (17.10 pc) followed by ICICI Bank (8.80 pc) and the maximum surveyed customers belong to the age group of 26-34 years. The study reveals that Citibank has the most dissatisfied customers and most of the customers are shifting from public sector banks to private sector banks, mainly due to convenient availability and due to restricted functioning hours of public sector banks. Overall, only 6 pc of the respondents use internet banking and most of them (16.3 pc) are
registered with HSBC followed by ICICI Bank (12.6 pc). Overall, the study concludes that Standard Chartered Bank, Vijaya Bank and Syndicate Bank steal the march, the little known the United Western Bank performs impressively and Citibank is the most over-rated bank.

Banknet India (2006) conducted an online survey on 316 ATM users during the month of August-September, 2006 and survey is limited to India to get insight into users’ perceptions. It is concluded from the survey that the most use (56 pc) of ATM services is for bill payments and pre-paid mobile recharge where 64 pc respondents feel comfortable with depositing cash/cheques through ATM but they have to wait in long queues and find no money left in the machine. Most of the respondents (81 pc) claimed to know about fee charged at other bank ATMs and 20 pc demand more privacy. Overall, ATMs are preferred over branch banking by majority (95 pc) respondents show the increasing popularity of e-banking among the public.

Ahuja G. and Singh (2006) study the perceptions of 160 customers of Indore in respect of credit cards especially their growth in India. The study concludes that ICICI in India is the largest cards issuer with customer base of above 3 millions. But only 14 pc of Indians are using these cards that too, are of 40 -50 years of age. There are about 2/3rd of males as compared to 1/3rd females and 89 pc customers possessing higher education level whereas from occupational point of view, the majority of card holders are businessmen or servicemen and 71 pc are using to make payments like hotels bills, club bills etc. 36 pc use at least twice a month. Overall, study concludes that banks should give equal attention to female customers also with special rebates and other benefits, secondly ensures their safety from malpractices involved in its usage.

Agboola A. A. (2006) examines electronic payment systems and tele-banking services in 36 banks of Nigeria and data is collected through questionnaires from bank workers during 2005. Findings reveal that connectivity via use of Local Area Network (LAN) and wide area network has facilitated electronic transfer of funds. 35 banks have fully networked their system to ease communication of account information. The use of Smart Cards, Point of Sales.

System and Computerized Credit Ratings are not very popular as less than half of the studied banks have fully adopted them. ATM, Electronic Home and Office Banking
and Telephone Banking are the least fully adopted technologies due to low level of economic development, epileptic supply of power, high cost, fear of fraudulent practices and lack of facilities necessary for their operation. The study concludes that tele-banking is capable of broadening the customer relationship, retain customer loyalty and enable banks to gain commanding height of market share if their attendant problems are taken care of.

Ramalingam P. (2008) studies the usage pattern of credit card holders of SBI, ICICI and ABN banks of Kanchipuram town in Tamil Nadu. The study concludes that higher income group and married persons utilizes the cards to the maximum mainly for impulse purchases due to convenience and Citibank cards are more popular because of dominance in advertising. The study also reveals that Master and Visa cards are the leading card brands in India and suggests the banks to improve overall functioning to provide satisfied credit card services.

Hugar S.S. and Vaz N.H. (2008) evaluate the customer orientation in public sector banks for 5 public sector, 3 new private sector and 3 foreign banks are selected. The study concludes that new private sector banks have more ATMs at the end of March 2006 followed by SBI group where 77.5 pc branches are fully computerized and 18.2 pc are partially computerized. Business per employee and profits per employee are higher in foreign banks where SBI has received more number of complaints followed by ICICI.

Uppal R.K. (2010) studies the extent of mobile banking in Indian banking industry during 2000-2007. The study concludes that among all e-channels, ATM is the most effective while mobile banking does not hold a strong position in public and old private sector but in new private sector banks and foreign banks m-banking is good enough with nearly 50 pc average branches providing m-banking services. M-banking customers are also the highest in e-banks which have positive impact on net profits and business per employee of these banks. Among all, foreign banks are on the top position followed by new private sector banks in providing m-banking services and their efficiency is also much higher as compared to other groups. The study also suggests some strategies to improve m-banking services.

The notion that credit card constitutes an alternate transaction medium was first pointed out by Akhand and Milbourne (1986). They find that credit cards enable agents to maintain lesser money balances and more bonds. In a parallel manner, Duca Whitesell
(1995) study the effect of credit cards on money demand for US households to find that credit card ownership entails a negative effect on checking and money balances. In the same vein, Blanchflower et al. (1998) find that credit cards pave the way towards a fall in households' transactions and precautionary demand for money.

Yazgan and Yılmazkuday (2007) focus their analysis on Turkey, a small open economy. They find that both credit and debit cards unleash a negative effect on demand for money. Rinaldi (2001)\cite{31} considers the impact of credit and debit cards, POS and ATMs on currency in circulation in Belgium to end up with a negative effect of POS terminals and ATMs while cards are associated with a weak effect. Focusing on the Austrian cash demand, Stix (2004)\cite{32} find that cash demand is significantly affected by debit card usage.

The empirical literature is also filled with studies conducted not only for specific countries but also for a specific group of countries. For instance, Snellman et al. (2001) find robust evidence of a substitution effect between cash, cards, ATMs and POS terminals in case of European countries. Drifting towards OECD countries, Drehmann et al. (2002) find that the number of POS terminals and ATMs have considerable impacts on cash.

2.3 NEWSPAPERS:

Despite concerns over a slowing economy, Indians are lavishly spending through credit cards. Credit card spending by Indians rose 28\% to Rs. 96,000 crore in 2011-12 from Rs. 75,000 crore in the previous fiscal year, the highest in four years. Matching the trend, spending through debit cards (or ATM cards) also grew by 38\% to Rs. 53,000 crore in the last fiscal, according to the Reserve Bank of India (RBI) data. "The continuous rise in point of sale (PoS) terminals in the country combined with the increased use of online payment is encouraging consumers to go for plastic money," said Shyamal Saxena, general manager, retail banking products, consumer banking, India and South Asia, Standard Chartered Bank. "Increased credit card spending also reflects high level of confidence among consumers."

Banks are also encouraging customers to use credit cards by offering rewards points, which fetch discounts for customers on the next shopping, on every purchase through cards.
However, banks have become more cautious in issuing credit cards to customers. The number of credit cards issued declined to 17.7 million in 2011-12 from 18 million in 2010-11. "Banks are now selective in issuing cards to new customers," said Saxena.

ATM cards have witnessed a healthy increase to 278 million in 2011-12 from 228 million in 2010-11.

2.4 REPORTS/STATISTICAL PERFORMANCES:

As on May 31, 2009, number of POS terminals in India stood at 4,70,237. In July 2009, RBI as a step towards enhancing the customer convenience in using the plastic money, decided to permit cash withdrawals at POS terminals. To start with, this facility will be available for all debit cards issued in India, upto `1,000 per day. Banks offering this facility shall on approval by their respective Boards obtain a onetime permission from RBI. A vital question on the viability of the scheme is the cost aspect for which RBI is silent. Banks are also not sure of its business prospects since technically it would fall under a basic service.

In 2009-10, RBI, in order to enhance the security of online and IVR card transactions, took measures to mitigate risk through a system of providing for additional authentication/validation based on information not visible on the cards for all online and IVR transactions. Furthermore, with a view to reducing the instances of misuse of lost/stolen cards, RBI has recommended to banks that they may consider issuing (i) cards with photographs of the cardholder or/and (ii) cards with PIN.

The credit card is a frilled product in a sense that it provides quick credit (though at high cost) than through a tedious process of getting a personal loan. Many banks upgrade cards for the existing customers to higher category (e.g. to platinum from silver/gold) which attracts higher interchange fee. With part of the interchange accounting for the lending cost of funds the issuer is providing for an average period of about 35 days, this implies that interchange on credit cards should best be left to banks in consonance with RBI's general policy on non-priority sector personal loans where banks are free to determine the rate of interest (in terms of the Master Circular on Interest rates on advances). Thus, such a frilled product need not have any regulatory restrictions on its fees and competition should dictate the market.
Schwartz and Vincent (2006) studied the distributional effects among cash and card users with and without no-surcharge rules. They find that in the absence of differential pricing based on the payment instrument used, the network profit increases while it harms cash users and merchants. The payment network prefers to limit the merchant's ability to separate card and cash users by forcing merchants to charge a uniform price to all of its customers. When feasible, the payment network prefers rebates given to card users. Granting such rebates to card users boosts their demand, while simultaneously forcing merchants to absorb *part of the corresponding rise in the merchant fee*, because any resulting uniform increase in the good's price would apply equally to cash users. In this way, the network uses rebates to indirectly extract surplus from cash-paying customers in the form of partial hike in prices.

Few countries are making efficient use of data generated from the card usage. For example, a unique Danmarks National bank statistics of Denmark is based on the fact that a considerable part of the payments in the Danish retail sector are transacted using the Dankort – the widely used Danish debit card. Since 2005, Danmarks National bank has used Dankort payments as the basis for a quick estimate of retail sales, which constitute a major element of private consumption. Dankort payments are available on a weekly basis – almost a month ahead of retail sales data. Despite considerable variation over the year and week, experience shows that Dankort model provides important and quick input for estimates of retail sales. This is useful in Denmark's ongoing cyclical monitoring.

As per MasterCard, interchange is a component of the MDR, which merchants pay for the extraordinary benefits they receive when they choose to accept payment cards. These include increased sales, fraud protection and faster payment, among other benefits. MDR, which can include costs like processing transactions or terminal rental, are just one of many other costs a merchant incurs for running a business, such as electricity, rent or advertising costs. Consumers understand that merchants factor all of the costs of running their businesses into their prices.

A confidential draft report of the study —Acceptability Standards in Credit Card Industry was sent for comments to RBI. The central bank noted the increased usage of credit cards in India of late and considered the study timely but needed to ensure that the reflections of such a study provide the right perspective to the common man. One of the
concerns raised by RBI was that no input from merchant / POS end has been a part of the study which it felt was necessary for arriving at some crucial conclusions.

For retail transactions, consumers have several choices of payment instruments, including cash, check, credit cards, and debit cards. Each choice provides a host of desired properties that differentiate one instrument from the other. Debit cards, which became feasible and more widely available through the Visa and MasterCard network, provide the point-of-sale convenience of credit cards and yet the direct transaction properties of automatic teller machine (ATM) cards (Weiner, 2000). In addition, consumer protection for this form of payment has been enhanced by the limits now placed on the liability for lost or stolen debit cards. Unlike credit cards, debit cards use funds from the consumer’s funded bank account and do not allow consumers to borrow money, a characteristic that can discourage overspending and, thus, discourage debt accumulation. One could argue then that consumers intentionally choose debit cards instead of credit cards in an effort to avoid debt accumulation.

2.5 CASES:

As a matter of fact, De Grauve et al. (2000) find that the average cost of card payment revolves around 1.3 percent of the transaction value while it hovers around 9 percent of the transaction value when cash is used.

"Now a days as technology has bloomed, correspondents have also developed as the device is too complicated and very expensive and it cannot be inserted into any Automated Teller Machines without a supervision and more over max of ATM’s are monitored, no culprit will dare to enter ATM to insert something into it and ATM’s have Role in method where card will be taken into and ejected out as if anything or any small root changes or delay will alert the watch man or the alarms and record will be logged, i am not denying the facts that their are M.F.R.R(Magnetic Filament Record Reader) readers which can be inserted into ATM’s what i am saying is “Its Patched”.

Do not underestimate the size of this problem. 3 wer caught days ago on this case in Bangalore and 14 in Mumbai and total 300 records all over India. In the India alone an astonishing $100m was spent with cloned credit cards in 2011. That’s over $2,500,000 every single day!
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