# INTRODUCTION

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1.1 Introduction

Financial Services constitute one of the world’s fastest growing industries and the pivot of the modern economy. It largely depends on the quality and variety of services rendered by financial intermediaries such as banking and non-banking institutions. Dynamic explosion of liberalisation, privatisation and globalisation as a part of economic reforms and the growth of information technology has triggered the wind of changes in the nature and mode of banking industry all over the world, which has created major impacts on Indian banking industry too. The conventional branch based banking is rapidly giving way to multi-delivery channels which helps to reach out to customers in any parts of the world. Now, retail banking has become a buzzword in Indian banking sector. The essence of it lies on individual customers. In earlier periods customers had no choice but to be satisfied only with the services provided to them by banks. However, in recent years the emphasis has been changed. Customers are more time conscious, more demanding and are not ready to accept everything that is offered.

With rapid deregulation, technological development and information revolution, customers can enjoy global standards of service at any time by choosing a wide range of banking products of better quality at reduced prices. The success of retail banking largely depends on multi-delivery channels such as Internet banking, Tele-banking, Mobile banking and Card Banking. These self-service channels together constitute the major portion of ‘E-banking (Electronic banking)’, even though EFT (Electronic Fund Transfer), ECS (Electronic Clearing Services), EDI (Electronic Data Interchange) and EBPP (Electronic Bill Presentation and Payment) have played more or less significant roles in the growth of E-banking. E-banking is one of the fast growing segments of modern banking system using plastic money for cash dealings. Important card banking products include Debit Cards and Credit Cards, which are popularly known as ‘Plastic Money’.
1.2 Statement of the problem

Plastic money which is an important component of modern banking industry has become a popular payment and borrowing instrument in developed and developing countries due to its multifarious advantages to customers, merchants and banks. It is used as a convenient mode of carrying money and also to supplement the paper money. Apart from the benefits to individuals, the business as a whole gains advantages from accepting of plastic money as a medium of payment. It has enormous impact on business, changing the buying habits of customers by making it much easier for them to finance purchases of goods and services. Research studies among a broad range of countries show the wide spread adoption of plastic money and its greater impact on consumer spending. Increased consumer spending ultimately leads to business growth. According to Master Card International Life Style Survey conducted in SAMEA Regions in 2004, most consumers pay for at least half of their purchases with plastic money. It serves as an important driving force and facilitator for economic and business growth through capital accumulation, increased consumer spending, enhanced tax revenues, preventing money laundering and black money.

Traditionally, Indian business transactions are mostly carried out by using liquid cash. But, with the emergence of information technology, growth of internet, improved payment structure, e-commerce (electronic commerce) & e-banking development, entry of foreign banks and new generation banks, high level of competition, easy availability of credit, increase in affluence levels and income of middle group, greater amount of consumerism, fast changes with regard to life style etc., the Indian economy witnessed the growth of plastic money - credit cards and debit cards - in terms of usage by customers and acceptance by merchant establishments.

Despite of huge un-banked population, plastic money in India shows an increasing level of growth over the past years. India has over 150 million people having bank accounts, which is very small in number i.e. about 20 per cent of the total
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population for a country with population exceeding 1.1 billion and compared with other countries; it is 98 per cent in Germany, 95 per cent in Singapore and 46 per cent in South Africa. Of the total banked population in India, 30 millions are eligible for credit cards and all are eligible for debit cards. In fact, since each cardholder may also have multiple cards in use, there is plenty of opportunities for expansion of cards and cardholders in India. In India Banks had issued a total of 26.7 million credit cards and 122 million debit cards and the number of merchant establishment accepting cards reached 4,28,479 at the end of October 2008. The average value of transactions at the Point of Sale (POS) using debit card and credit card was Rs. 161 and Rs. 2415 respectively. The convenience and acceptability of plastic money as a mode of payment increase the frequency of its use.

ATM net works paved the way for the rapid growth in the number of debit cards in India. Number of ATMs has been increased from 28,704 in June 2007 to 36,314 in June 2008. Debit cum ATM cards are now used for both cash withdrawals and for payment of purchases at POS terminals and online. The annual spending on cards jumped from Rs. 920 crore in 1983 to Rs. 18,000 crore in 2005. According to a recent report the total spending through POS terminals increased to Rs. 55,000 crore during 2005-2006. Total spending in India on payment cards are still less than one per cent of the country’s PCE (Personal Consumption Expenditure), the comparison of which shows very poor with the global average of 5 per cent PCE on cards and is miniscule when compared to the 15 per cent PCE of developed nations. It indicates that the growth potential for payment card industry in India is enormous.

The vast majority of merchants continue to be cash-based although the number of merchants accepting cards is on the increase – reflecting the Indian consumers’ willingness to use cards for every day to day purchase as well as for big-ticket transactions. The volumes and the number of card transactions will witness an exponential growth aided largely by the factors such as the annual growth in credit and debit cards in India which is approximately 30 per cent to 40 per cent. The other factors that influence this growth include the amount of annual spending on cards,
wider acceptance of plastic money by merchants. Aggressive marketing campaigns by new generation banks and foreign banks, prompt payment by cardholders, growth of co-branded cards, innovative schemes and privileges offered by cards, retail boom, changes in consumer behaviour, increased level of socio-economic environment of people, explosive rise in corporate citizens, and emergence of e-commerce as a main stream business channel. India is going to be one of the premier visitor destinations attracting a large number of foreign tourists and the supportive role of RBI, also increases the growth of card usage. The desire on the part of the middle class and upper middle class to enhance the lifestyles by accessing more products and undertaking too encourages its growth. It is a primary mode of payment promoting e-commerce and m-commerce. They are rapidly gaining a foothold in the financial service industry. The convenience and reliability of plastic money confer to the customers and the merchants have already made the plastic money as an irreplaceable mode of payment instrument in the present cashless society. Plastic money also has become a part of the modern lifestyle of people today. All these highlight the scope and potential for plastic money as a payment instrument in India.

The growing recognition of plastic money increases the usage and acceptance of it in the business deals all over the world. The success of card usage depends upon the cardholders' awareness about the features and benefits of cards, various problems/risks connected with the card their satisfaction level and decision to choose the cards in place of cash, promotional measures adopted by banking authorities and above all the extent to which merchants are ready to accept it as a medium of payment in the business dealings. Investigation revealed that no detailed study on plastic money in Kerala has so far been attempted and it is in this context the present study ‘An Evaluation of Business Deals Using Plastic Money in Kerala’ is undertaken.

1.3 Scope of the study

The role of plastic money and its benefits are well accepted in the Indian economy. Kerala, the southern most state in the country is rapidly becoming the most preferred industrial destinations of the world, featured by high literacy level,
technology oriented and computer savvy people and well developed e-commerce
growth have shown remarkable growth in using plastic money by cardholders and its
acceptance as medium of payment by merchant establishments. The present study
aims at analysing how far plastic money as a medium of payment instrument benefits
the cardholders and the merchant establishments in business dealings in Kerala.

1.4 Objectives of the study

The present study entitled ‘An Evaluation of Business Deals Using Plastic
Money in Kerala’, is undertaken with the following specific objectives:

1. to assess the popularity of plastic money in Kerala;
2. to examine the socio-economic profile of the cardholders so as to
   ascertain the association of such factors with the use of debit cards and
   credit cards;
3. to identify the benefits of plastic money by cardholders and merchants
   in business deals;
4. to investigate into the problems confronted by both cardholders and
   merchants in the plastic money deals; and
5. to examine the precautionary measures involved in maintaining security
   while the cards are used.

1.5 Hypotheses

The following hypotheses are formulated for the study.

H1 There exists significant association between socio-economic factors of
cardholders and their preferences for choosing plastic money.

H2 There exists significant association between usage of plastic money
and the perceived benefits and privileges derived thereon.

H3 There exists significant association between the positive impact on
the impulse for more purchases by the cardholders and the use of
plastic money by them.
H4 There exists significant association between the problems confronted and the use of plastic money by the cardholders.

1.6 Methodology

The present study is descriptive and explanatory in nature. Both primary and secondary data were collected and used.

1.6.1 Primary data source

Primary data required for the study were collected from two categories of respondents namely individuals using credit cards and debit cards in the state and merchant establishments accepting credit cards and debit cards from the customers to make payments.

1.6.2 Secondary data

The secondary data for the study were collected from books, journals, periodicals, RBI publications, publications of various banks, Government publications and web sites of various banks.

1.6.3 Sample frame

The sample size of the study include 900 individual cardholders in Kerala using plastic money for their deals and 150 merchant establishments in Kerala accepting plastic money from their customers for payment.

Multi-stage sampling was adopted for selection of respondents for the study. In the first stage the State of Kerala was divided in to three regions namely southern, central and northern regions. Southern region consists of Thiruvananthapuram, Kollam, Pathanamthitta and Alappuzha revenue districts of the State. The central region includes Kottayam, Idukki, Ernakulam and Thrissur revenue districts of the State. Northern region of the State covers Palakkad, Malppuram, Kozhikode, Wayanad, Kannur and Kasargod revenue districts. In the second stage Thiruvananthapuram district from the southern region, Ernakulam district from the central region and Kozhilode district from the northern region were selected for the study giving due consideration to geographical location. The another feature of these
districts are Thiruvananthapuram district the State Capital, Ernakulam district the Industrial Capital and Kozhikode district the Trade Capital of the State. Another factor considered to select these districts was the large number of merchant establishments located in these three districts compared to other districts in the State. In the third stage, 300 cardholders each from these three districts were selected by judgment sampling method. Thus, the total sample size comes to 900 cardholders. Judgment sampling method adopted to select cardholders for the study facilitated to cover and include various categories of cardholders having varied socio-economic profile such as gender, age, income level, education, occupation and area of residence so as to ensure representativeness of the society. In addition to cardholders, 50 merchant establishments from Thiruvananthapuram, Ernakulam and Kozhikode districts each were selected to make total sample size of 150 establishments. The lists of merchant establishments were taken from the Corporation/Municipal offices concerned and simple random sampling method was adopted for selecting the merchant establishments covered under the study.

1.6.4 Instruments used for collecting primary data

Primary data were collected using two separate sets of interview schedules developed after a pilot study. The interview schedule developed for collecting data from cardholders was finalised after a pilot study among 50 individual cardholders in Ernakulam district. The interview schedule used for collecting data from merchant establishments was also subjected to a pilot study among 20 merchant establishments in Ernakulam district. The reliability of these schedules was assessed by using Cronbach Alpha, the most commonly adopted index of assessing reliability. The Cronbach Alpha Coefficient calculated was 0.834 and 0.796 in the case of schedules used for collecting data from cardholders and merchant establishments respectively which were above the minimum acceptable level, thereby confirmed the reliability of the schedules used for collecting primary data. A group of experts/consultants in the field of banking has been interviewed and their suggestions were made incorporated while finalising the schedule. This was needed to ensure the content validity of the instruments used for collection of primary data.
The interview schedule developed for collecting data from cardholders was administered among 900 cardholders covered in the study. It includes 300 cardholders each of debit cards, credit cards and both. The heads of the merchant establishments covered under the sample were personally interviewed and obtained responses with the help of another set of interview schedule developed for the purpose.

1.6.5 Tools used for analysis of data

The data collected for the study were tabulated and analysed by employing mathematical and statistical tools like percentage, weighted mean, Chi-square test and Friedman ANOVA. Weighted Mean was used to rank the responses of various questions. Chi-square Test and Friedman ANOVA were used to test the significance of results obtained based on analysis.

1.7 Chapter scheme

Thesis is presented in eight chapters, viz;

Chapter 1 - Introduction
Chapter 2 - Review of Literature
Chapter 3 - Plastic Money for Business Deals – An Overview
Chapter 4 - Socio-Economic Profile of Cardholders
Chapter 5 - Business Deals Using Plastic Money by Cardholders - An Assessment
Chapter 6 - Business Deals Using Plastic Money in Merchant Establishments - An Evaluation
Chapter 7 - Transactions Using Plastic Money: Problems and Precautions
Chapter 8 - Summary of Findings, Suggestions and Conclusion

1.8 Limitations of the study

The major limitation of the present study is that it does not cover the entire online business transactions using plastic money even though it is meager in Kerala. Further, the inherent limitations associated with the responses generated
from memory might have affected the present study to a certain extent. It also requires special mention that few merchants were reluctant to show the relevant documents and records to counter verifying the responses during the interview. However, maximum care was exercised to counter check the responses through observation and cross questions to counter verify the validity of the responses.

1.9 Operational Definitions

1.9.1 Plastic money

Plastic money is referred to the mode of payment for goods and services bought; through use of specific cards made of plastic (hence, plastic money) which will substitute the use of currency notes at the time of purchase/payment. As it is made up of plastic and performs the functions of legal tender money, it is called as Plastic Money. Plastic money facilitates buying and selling much easier without carrying and handling cash both for the buyer (cardholder) and the vendor (merchant). Plastic money includes both debit card and credit card.

1.9.2 Debit card

Debit cards give the cardholder the right to purchase goods and services within the value of the card, which should be deducted from his/her bank account i.e., buys now, pay now. Debit cards are also attached with the facility of ATM which is used for withdrawing cash from ATM to meet the cash requirements of cardholders. Now majority of the debit cards are debit cum ATM cards i.e., two in one. Debit card is just like its counter part credit card and processed in the same way as credit card. It provides access to ones own money deposited in bank.

1.9.3 Credit card

Credit card is issued by banks to their selected customers. It is a kind of personal loan, with the help of which cardholders can borrow/withdraw cash from ATMs and purchases goods and services from merchant establishments within the limit (withdrawal/credit) assigned by banks and pay for them later to their bank i.e., buy now and pay later. It provides access to bank's money. It gives the cardholders the right to pay for their cash needs on deferred terms and in return
they will pay interest over the credit after the due date if they cannot afford to pay the credit within the time limit fixed by bank.

1.9.4 Merchant establishment

Merchant establishment means any business establishment including a company, corporation, firm or person, wherever located, with whom arrangements exist for acceptance and honour of plastic money in settlement of sale of goods and services. The acquiring banks enter into a contract with merchant establishments and assigned a floor limit for each merchant for transactions through cards and provide charge slips, EDC/POS terminals etc. Merchants are paid by the acquiring bank for the amount of sale made through accepting plastic money. Wherever in the report, simply the use of merchant indicates the merchant establishment.

1.9.5 Business dealings

The term business dealings used in the study is referred to the purchase and sale of goods and services made by customers using plastic money and it is accepted by merchant establishments as medium of payment instrument.

References


