PLASTIC MONEY FOR BUSINESS
DEALS - AN OVERVIEW

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3.1 Introduction

Financial sector reforms initiated in the country as a part of the economic reforms since 1991 have brought far reaching changes in the operational environment, organisational structure and ownership pattern of the banks. Interest rate deregulation, operational flexibility and functional autonomy rendered greater freedom to banks. Rapid changes in economic sphere and the entry of new generation private sector banks and foreign banks, with innovative financial instruments, products and services, better technology, market orientation and cost effective measures increased the competition among banks. Before the reforms, most of the products offered by banks were mass banking products, which the customer had no other option than to accept or leave them. In the years of reforms, to withstand competition and to maintain the existence of massive expansion in products and services has taken place in Indian banking sector and the focus has shifted from mass banking to class banking with value added and customised products.

Computerisation and other technological developments enable banks not only to reach higher level of operational efficiency through reduction in costs but also to enhance customer satisfaction by providing quality products and services. Due to faster life style customers have become very demanding and banks have to deliver customised products through multiple channels and allowing customers access to the bank round the clock. Thus, with the objective of providing customer services banks started new delivery channels like ATMs, Tele-banking, Internet banking etc. by providing anywhere, any time and any how banking facilities to them round the clock. Use of VSAT, networking and SWIFT changes the complexion of banking operations. All these gave birth to the emergence of a new banking system known as “e-banking (electronic banking)”. It is also known as Multi-Channel banking. In short, ‘Brick and Mortar’ banking is giving way to ‘Mouse and Click’ banking.

E-banking implies provision of banking products and services through electronic delivery channels. It is a means whereby banking business is transacted using automated process and electronic devices such as personal computers,
telephones, fax machines, internet, card payments and other electronic channels. Branch banking is losing much of its significance with the onset of e-banking. It elevated banking beyond the barriers of time and space. E-banking utilises the technology to allow a bank's customers to interact and transact with the bank. It enables the customers to access their accounts directly from terminals placed anywhere in the world. It offers faster access, more convenient, available around the clock irrespective of the customer's location, getting improved and quality services and increased speed of response to customer requirement, which in turn enhances the customer satisfaction. For banks, they are much more efficient, cost saving facility through various delivery channels and generate revenue through increased accounts; access fee and benefits from cross-selling of products. Similarly advantages can also be gained by merchants/business organisations. Guaranteed settlement and payment by avoiding all risks of handling cash and bad debts, increased flexibility in business dealings, better customer service etc. attracted many merchants to adopt e-banking facilities. Besides the above, more transparency in business transactions, which are possible under e-banking, creates good human and trade relations among various nations. At present, about 46 lakh Indians are using e-bank. Higher internet and mobile phone penetration increase in cards usage, higher acceptance of technology by banks and customers, adoption of legal and security measures for protecting customers' interest and privacy etc., highlights that e-banking has bright future and scope in India.

3.2 Plastic money

Banking products are the services, benefits, functions and facilities offered by banks to their customers. E-banking products refer to the delivery/offering of banking products through electronic delivery channels. Important e-banking products are card banking, phone/tele-banking, home banking, intranet banking, internet banking, ECS (Electronic Clearing Services), EDI, EFT, EBPP, collaborative banking, mobile banking and TV banking. Among them, card banking is the most important form of e-banking products. Important card banking products are Debit Cards and Credit Cards, which are popularly known as Plastic Money.
Millions of people all over the world are using plastic money for their immediate gratification. They are used as a convenient instrument for buying and borrowing without much complexity. As it is made up of plastic and also performs the functions of legal tender money, it is called as plastic money. Plastic money plays an important role in the present e-economy by facilitating buying and selling much easier without carrying and handling cash both for the buyer (cardholder) and the vendor (merchant). It also acts as a tool for promoting e-commerce and u-commerce, which in turn leads to the development of whole economy around the world. Major plastic money products are credit card, debit card, prepaid card and other cards.

3.3 Credit card

Credit card is one of the most important financial innovations in 20th century. A credit card is a financial instrument issued by banks, which provides instantaneous credit facilities to its holders to pay for varieties of goods and services at the merchant outlets. It is actually a loan. Credit cardholder is the borrower and the credit card issuer is the lender. Credit card acts as an effective device for payment and for borrowing. As a payment device it is cheaper to process, easier to use and easier to accept than cash. It is more flexible in its operations while dealing with business. Its’ dealings is more secured and safe compared to cash. The convenience in using credit cards makes it very popular through out the world. Credit card is a major financial service used by majority of households across all economic classes. Some consider credit card as safety net to meet the unexpected expenses. It is also providing for traceability of transactions. Credit card offers a number of privileges and facilities, which are rarely associated with other payment and credit instruments. All these make it a popular credit instrument all over the world. It is issued on the basis of the credit status of the cardholders. Its cost of borrowing is very less and involves less procedures and formalities. The banks issuing the cards have prescribed forms in which the person seeking card has to furnish information as to whether the applicant has the paying capacity, willing to pay promptly all charges on the card indulging the cost of goods, services purchased, in case of default by the cardholder, whether it will
be possible to recover the charges from him etc. and also necessary documents. After satisfying these factors, the card is issued by bank to the applicants. Card contains the features such as cardholders name, issuing bank’s name, card number, place of validity of the card, period of validity, photograph of the cardholder, logo, hologram, magnetic stripe, signature panel and customer verification value. It consists of five parties namely the issuer bank, the cardholder, the merchant, the acquirer bank and the card association.

3.3.1 History of credit cards

Credit was first used in Assyria, Babylon and Egypt 3000 years ago. The bill of exchange was founded in the 14th century. Paper money followed only in the 17th century. The first advertisement for credit was placed in 1730 by Christopher Thornton, who offered furniture that could be paid off weekly. From the 18th century until the early part of the 20th, tallyman sold clothes in return for small weekly payments. They were called tallymen because they kept a record or tally of what people had bought on a wooden stick. One side of the stick was marked with notches to represent the amount of debt and the other side was a record of payments. In the 1920s, a shoppers plate - a buy now, pay later system was introduced in the USA. It could only be used in the shops, which used it. In the late 1930s, American Telephone and Telegraph introduced the Bell System Credit Card. Soon, railroads and airlines introduced similar cards. Credit cards grew in popularity until the beginning of world war-II. When restrictions were put on the use of such cards during the war and it was temporarily suppressed the growth of the new payment alternative. After depression and World War-II, the popularity of credit cards again increased. In 1946, a New York banker developed a credit system called charge-it. When customers charged local retail purchases, the merchant deposited the charges at Biggins Bank (Mr. John C. Biggins, a consumer credit specialist) and the bank reimbursed the merchant for the sale. The banker later collected payment from the customer. In 1950, Diners Club and American Express launched their charge cards in the USA, the first plastic money. This card could be used for a number of different locations.
The first credit card in modern line was issued by Franklin National Bank in New York in 1951. The customers of Franklin National Bank submitted an application for a loan and were screened for credit and the approved customers were given a card to make retail purchases. The merchant copied the customer information from the card into a sales slip and called the bank for approval of transactions over a certain amount. The bank would credit the merchant account for the loan minus a fee to cover the cost of providing the loan. Cardholders liked the convenience and the line of credit offered by the new cards. By 1959, many banks were offering the option of revolving credit, which allowed customers to make regular payment on the balance owed rather than having to pay off the entire balance at one time. Bank Card Associations began in 1965, when Bank of America formed licensing agreements with other banks. This enabled them to issue Bank Americard and interchange transactions among participating banks. By 1966, fourteen banks in U.S. formed interlink. bank interested in issuing cards, became members of either Bank Americard or Master Charge. Their members shared card program costs, making the Bankcard program available to even small financial institutions.

As credit card processing became more complicated, outside service companies began to sell processing services to VISA and Master Card association members. This reduced the cost of programs for issuing banks and acquirers and increased the size of the bank and standardised procedures for handling the bankcard paper flow in order to reduce fraud and misuse of cards. The two associations also created international processing systems to handle the exchange of money and information and established an arbitration procedure to settle disputes between members. In 1977, Bank Americard became VISA and in 1979, Master Charge changed its name to Master Card. Both organisations originally set out signing up member banks to issue cards, enroll merchants and / or both. Presently, the major credit card organisations are VISA, Master Card, American Express, Diners Club, Discovery and JCB. In 1991 the Andhra bank introduced first credit card in India.
3.3.2 Classification of credit cards

Depending on the necessity of the customer and trade competition, banks issue different types of cards. Classification of cards is done to differentiate the level of services appended to each card. They are classified on the basis of mode of recovery, status, geographical validity, franchise/tie-up and issuer.

3.3.2.1 Based on the mode of recovery

Based on the mode of recovery credit cards are classified into two types namely revolving credit card and charge card.

Revolving credit card is also called pure credit card or simply credit card. It is the most popular type of credit card, which offers an option for revolving credit to the cardholders. A holder of this type of credit need not settle his account at the end of every month. Instead he is allowed to make partial payment every month subject to a minimum amount that varies from 5 to 10 per cent. Interest charged is also varying from 30 to 36 per cent p.a. on the outstanding amount.

Charge card is also called premium charge card and also travel and entertainment card. The bank fixes the amount of credit by considering the financial details supplied by the customers at the time of application. The cardholder can usually charge as much as he wants but he is required to pay off his entire balance when the bill arrives. This card is highly useful to meet travel, entertainment, official and personal expenses. Usually banks issuing Charge cards make their profit by charging very high annual fee and by charging merchants fairly high fee each time a customer pays using the charge cards.

3.3.2.2 Based on status of credit card

Based on the status credit cards may be standard card, business card, silver card, gold card, platinum card, titanium card, student credit card, affinity group card and kissan credit card.

Credit cards regularly issued by all card-issuing banks are called standard card/classic card. The cardholders can make purchases without
having to pay cash immediately. It, however, offers only limited privileges to cardholders. These cards are generally issued to salaried people. Business cards, also known as executive cards, are issued to small partnership firms, solicitors, firms of chartered accountants, tax-consultant and others, for use by executives on their business trips. These cards enjoy higher credit limits and more privileges than the standard cards. These cards are issued in the name of the executives of the firms. Credit card with a higher credit limit and additional perks other than the classic card is called silver card. Gold card offers high value credit for the elite group of people. It offers many additional benefits and facilities such as higher credit limits, more cash advance limits etc. that are not available with standard or business card. A credit card with a higher limit and additional perks other than gold card is called platinum card. Titanium card is a credit card with a higher credit limit than a platinum card.

Student credit card is a credit card issued to students. It usually offers a lower limit of credit and are available to young people who had never before a credit card in their name. Many banks offer a special student card instead of a regular credit card because it is hard to obtain and unsecured credit line for people who have no credit history. By offering credit cards with attractive interest rates to students, banks hope to gain a lifetime customer just when a young person is getting settled into adulthood and adult ways of spending.

Affinity group cards are VISA or Master Cards issued by banks to groups with some form of common interests or relationship. Cards issued to groups of physicians, lawyers, teachers, members of retired person’s organisations or military personnel are examples of affinity group cards. The graphic design of the card is tailored to suit the specific affinity group to whom the card is issued. For instance, a card issued to a group of physicians contains a Red Cross Mark, which is conventionally used by the physicians. This is a card offered by two organisations, one a lending institution and the other a non-financial group. Usually, use of the card entitles to special discounts or deals from the non-financial group.
Kissan credit card (KCC) emerged as an innovative credit delivery mechanism for meeting the production requirements of the farmers in a timely and adequate manner. It is proposed that smart cards be used as KCC. The card will carry personal details about farmer, his landholding, credit worthiness, loan details, repayment details etc. Total number of KCCs given by National Bank for Agriculture and Rural Development as on March 31st 2007 are 74,70,240 through which amount sanctioned is Rs. 40,29,958. Out of which number of KCCs issued by co-operative banks, RRBs and commercial banks are 2297,640; 14,05,874; 37,66,726 respectively. Farmers can draw loan amount in cash for crop production - agricultural equipments, manures, seeds, fertilisers etc. as well as to use household expenses, medical expenses marriage expenses, education expenses etc. within the sanctioned credit limit.

3.3.2.3 Based on geographical validity

Credit card can be classified based on its geographical validity viz. domestic card and international card.

Credit cards that are valid only in India and Nepal are called domestic cards and all transactions will be in rupee terms. These cards are issued by banks in India. Credit cards that have international validity are called international cards. They are issued to people who travel abroad frequently. These cards are honored in every part of the world except in India and Nepal. The cardholder can make purchases in foreign currencies subject to RBI and FEMA rules and regulations.

3.3.2.4 Based on franchise/tie-up

Franchise/tie-up wise classification of credit card include proprietary card, domestic tie-up card, co-branded card, master card, VISA card, American express card, diners club card, JCB card, discover card and china union card.

Cards that are issued by the banks without any tie-up are called proprietary cards. Bank issues such cards under its own brand. Domestic tie-up cards are issued by a bank having a tie-up with domestic credit card brand. E.g. Indian Overseas bank has a tie-up with Can Card. These banks issue cards to users
through the original banks. However, they can have their bank name engraved on the card. Credit is available on similar lines to the original card. **Co-branded card** is a mix of convenience between two service providers who wants to trade off with others strength. Specific facilities are made to members through tie up. SBI-GE capital has a co-branded card for retail loans. Co-branded cards are particularly popular for the points and benefits they offer. Tie-ups with retail chains provide additional loyalty points whenever the customer uses the card, which is a huge incentive both for the retailer and for the card company.

**Master card** is a type of credit card issued under the umbrella of Master Card International. The issuing bank has to obtain a franchise from the Master Card Corporation of USA. The franchised cards will be honoured in the Master Card Network. 749.3 million cards are issued by more than 25000 financial institutions in 220 countries and territories. Master cardholders can use their cards at more than 24 million acceptance locations around the world. Master card is one of the most widely recognised credit and debit card brands in the world, representing instant buying power, immediate deposit access convenience, security worldwide and flexible payment options. **Visa card** is a product of VISA International USA. The banks issuing cards have a franchise with VISA International. Visa have more than 16.600 financial institutions, followed by 1.6 billion cards, 29 million merchant establishments, 1.2million ATMs, 50 million transactions processed, $ 3.8 trillion volume of transaction and 30 worldwide offices as on 31st December 2007.

**American express cards** are very popular in the USA, Canada, Europe and Asia and are widely used in the retail and every day expenses segment. **Diners club card** is the world's No.1 Charge Card. Diners club cardholders reside all over the world and the Diners card is all time favourite for corporates. There are more than 8 million Diners club cardholders. They are affluent and are frequent travelers in premier businesses and institutions, including Fortune 500 companies and leading global corporations. **JCB card** has a merchant network of 10.93 million in approximately 189 countries. The JCB philosophy of
“identify the customer’s needs and please the customer with Service from the Heart” is paying rich dividends as their customers spend US $ 43 billion annually on their cards. JCB is a major global payment brand and leading credit card issuer and acquirer in Japan. JCB launched its card business in Japan in 1961 and began expanding overseas in 1981. **Discover card** is a major credit card issued primarily in United States. It was originally introduced by Sears in 1985 and was part of Dean Witter Reynolds (a brokerage organisation) and then Morgan Stanley until 2007, when Discover Financial Services became an independent company. Most cards with discover brands are issued by Discover Bank. Discover card transactions are processed through the Discover Network Payment Network. As of February 2006, the company announced that it would begin offering Discover Debit Cards to banks, made possible by the Pulse Payment System, which Discover acquired in 2005. **China union pay** is the only credit card organisation in the Peoples Republic of China. It is an association for China’s banking card industry.

### 3.3.2.5 Based on issuer category

Based on issuer category credit cards can be grouped into two categories viz. individual card and corporate card.

**Individual cards** are the non-corporate credit cards issued to individual customers. **Corporate cards** are exclusively designed to assist in managing business expenses of the company as well as their employees. Logo and name of the company, photo card etc. of the employees is imprinted on the card. Employees enjoy the benefits of the cardholders. Company gets the benefits of better guidelines for management of information system. Corporate card system provides detailed information, which can help in controlling expenses. It gives the management and employees a complete expense tracking mechanism. This will reduce the time and cost associated with expense control. The report package provides both summaries and itemize of charges and payments. The reports help them to streamline expense control, analyse spending patterns and forecast future spending.
3.3.3 Steps involved in credit card transactions

Cardholders present cards at the time of purchases. Merchant runs cards through the POS unit. Merchant transmits the credit card data and sales amount with a request for authorisation of the sale to their acquiring bank. The acquiring bank processes the transactions, routes the authorisation request to the card agencies such as Visa, Master card etc. In the case of card-not-present transactions, the account number and other information may be digitally or key-entered. If the cardholder has enough credit in their account to cover the sale, the card agency passes the request to the issuer bank. The issuer bank approves or declines the transaction. Then the card agency forwards the issuer bank’s authorisation to the acquirer bank. The acquirer bank forwards the authorisation to the merchant. Merchant receives the authorisation response and completes the transaction accordingly. The Electronic Data Capture (EDC) Terminal records the details of the credit card from the magnetic stripe of the card. The details of the transaction are keyed on to the keypad to be printed on the charge slip. Thereafter, the cardholder signs on the charge slip after checking all the details. The merchant establishment collects three copies of the charge slips, one for his own record, one for the cardholder and one for the bank. The merchant sends a copy of the charge slip to the acquiring bank and the acquiring bank credits the merchant’s account the amount of transaction minus its own commission, on the basis of charge slip and electronically submits the transaction to the card agencies – Visa/Master Card for settlement. They pay the merchant bank and debit the card issuer account, then send the transaction to the card issuer/issuing bank. The issuing bank posts the transaction to the cardholder’s account and sends monthly statement to the cardholder. On receipt of the statement the cardholder have two options. The first option is that on receiving the statement or bill, he pays-off the full amount due on his card on or before the due date. The other option is that he pays the minimum amount due before the due date or any percentage greater than the minimum amount due and roll over the balance amount to the next month. The banks charge 1.5 to 3 per cent per month as finance charge for the amount roll over. If the cardholder fails to pay the
minimum amount due, the bank charges a service charge or a fixed finance charge plus the interest.

3.4 Debit card

Debit cards are just like their counterpart credit card and or in the form of ATM card, processed as well as accepted by the merchants in the same way as the credit card. It is generally used for smaller value payment. Merchant is assured of immediate payment. In this, the user has to maintain account with the bank. It allows the customers to spend only what is in their account. It is issued by bank and connected through ATM. It is an immediate pay now deal. It is also used for withdrawing money. It gives a clear idea about the money spent by the cardholder and act as a check on high spending. Like credit card, bank charges the merchants for all transactions made by him and some bank charges the customer an annual fee. The merchants who generally accept the credit cards also accept the debit cards. Debit cards are fuelling India's card market. Debit card transactions are more cost effective compared to credit cards.

3.4.1 Types of debit cards

There are two types of debit cards issued by banks namely direct/on-line debit cards, deferred/off-line debit cards and ATM cards.

Direct/on-line debit card must be swiped through the credit card terminal and a PIN (Personal Identification Number) pad must be installed on the terminal. Instead of signing the receipt for the transaction the customer will be prompted to enter the PIN number in to the PIN pad. The terminal will pass the encrypted number to the bank for verification. The merchant account owner will then be paid for the transaction in the same manner and time frame that they would be paid on a credit card sale. Retailers favour PIN purchases, on which they pay lower fees. Currently most debit cards are on-line. Debit cards have PIN offer greater security, because it is more difficult for unauthorised people to use them. They are fast and convenient. Charge backs are virtually less. It helps the individual to receive cash back facility when making a purchase; it is not possible in the case of signature.
The merchant accepts the *deferred/off-line debit card* in the same way as they would accept a normal credit card. Off-line debit card swiped through the credit card terminal and the customer signs the receipt. Bank collects higher fee from merchants on signature purchases. The cards may be used everywhere credit cards are accepted, including over the internet. A typical off-line debit card transaction follows a similar procedure with three exceptions. First, as with a credit card transaction, the customer generally signs a paper slip to authorise the purchases rather than entering a PIN number. Second, in order to approve the transaction, the network checks whether the customer's total purchases over the previous two or three days are within some preset limit, rather than verifying that there are sufficient funds in the customer's account to cover the payment. Third, the customer's account is debited and the merchant's account credited two to three days after the purchase.

ATM (Automatic Teller Machine) which is popularly known as *Any Time Money* is a menu driven device which displays step-by-step instructions, as how to operate it. All the activities have a time set. Transactions processed through ATM are less costly. Customer access the ATM with the help of a plastic card called *ATM card*. ATM cards are issued to the account holders of the bank in making a written request in a pre-printed application format, which also contains the terms and conditions of the issue, the eligibility criteria, validity period, annual fees etc. The issue procedures and terms of ATM card differ from bank to bank. Each bank issues different types of ATM cards with different daily limit for withdrawal. ATM card contains the information such as the name and logo of the bank printed on its face, name of the customer and the date of the issue embossed on the front and the other side of the card, there is a magnetic strip where other details are encoded and a space for the cardholder signature. Availability of low cost ATMs, convenience and easy acceptability, increased banking transactions through ATMs by customers, SPNS (Shared Payment Network System) and its associated benefits, increased demands from tourists etc. are some of the factors promoting ATM growth. In India, HSBC introduce ATM first in 1987. Use of
ATM, as an electronic machine, has a lot of influence on banking transactions. This service will emerge as an important profit center for banks. The use of ATMs is increasing year after year. In India the total number of ATMs has increased from 28,704 at the end of June 2007 to 36,314 at the end of June 2008.

3.5 Prepaid card

It is one of the fastest growing payment methods. A set amount of money is 'loaded' on to the card prior to use and many prepaid cards can be re-loaded over and over again. Pre paid cards are of two types namely single purpose cards and multi purpose cards. These are designated for a specific merchant/purpose and include store-branded cards, prepared tele-phone cards and benefits cards offered by employers. Multi-purpose/open-loop cards are branded with the logo of a bank card association. Gift, payroll and EBT cards are multi-purpose cards. It can be used like any other plastic money in merchant locations such as restaurants or retail outlets. Prepaid cards are PIN based. Their validity is subjected to the period mentioned in the card or entire realisation of amount whichever is earlier. Banks need not be involved since the cards are prepaid and the card, rather than the customer's bank account, is debited at the point of sale. When the balance on the card is depleted, the consumer may dispose of the card or in some cases, may be able to replenish the balance by paying an additional fee. The greatest advantage of prepaid card is that it does not need an account with the bank or have a credit trade record. Most banks allow a top up on the card at an extra charge and also a free add-on card facility.

3.6 Other cards

Other cards category include smart card, cash card, remittance card, cheque guarantee card, private label card, in-store card, virtual card, secured card, artisan credit card, entrepreneurial credit card, laghu udyami credit card, EMI card and electron card.

*Smart card* is a chip based card, is a kind of an electronic purse. It is a truly powerful financial token, which carries out all the functions of magnetic strip
cards like ATM card, credit card and debit card. It was invented by the Frenchman Ronaldo Moreno, who patented the idea in 1974. It has more storage capacity than magnetic strip cards. Important security features, which help to prevent card-related frauds in smart card, are Chips, PIN/Bio-metric system, dynamic signature verification, encryption techniques etc. Basically, smart card use contact technology-based card which are memory, processor based and web-enabled cards. These cards are used in educational institutions, hospitals, telecommunications, etc. to record personal data and are used as an e-payment mechanism. **Cash card** is an alternative to credit card and is available in various values up to Rs. 10,000. It is mainly used for railway/air ticketing, booking hotels, travel packages, utility payments etc. It is also used for online shopping through selected websites. Important cash cards are I.T.Z cash card, Done cash card and Eye cash card. It is now targeting to extend its services to rural areas. Its main limitation is high transaction cost/expenses.

**Remittance card** is meant for people who receive remittances from abroad. Its aim is to make the procedure of receiving money from relatives abroad easy and hassle free. It is just like a normal debit card. Important features are carrying quarterly interest rate, protection against loss of card, payment of utility bills etc. It is a rupee-denominated card, which can be used at all Visa affiliated ATMs and merchant establishments in India and has a withdrawal limit of Rs. 50,000 per day. This card has 10 year validity. Beneficiaries of non-resident Indians could use this card for a lifetime fee of Rs. 400. **Cheque guarantee card** is a plastic card issued by banks that guarantees payment up to a specified limit through cheques, provided that the merchant follows proper steps in accepting the cheque. It is attached to a line of credit associated with a personal account with cheque facility. Holder presents the card to a merchant to validate a purchase. With the help of this, card cheques can be encashed at a merchant’s store. If credit is used for making purchases, customer pays the normal interest and fee associated with the personal line of credit to the bank. Merchants accepting the cheque on the strength of the card enjoy the benefit of guaranteed payment. In order to avail of
the benefit, the merchant has to follow the terms and conditions printed on the back of the card. These cards are generally used by travellers and business people. It also provides a guarantee against dishonor of cheques.

The concept of private label card in banking started to gain popularity during the 1970’s. Private label cards are just like retail charge cards. These cards are issued by banks in favour of single retail store. The cardholder can use this card only in the store of the retail whose name appears on the card. Thus, there is one-to-one credit relationship between the retailer and the customer. The main difference between private label card and conventional bank card is that the latter can be used at any shop located anywhere in the world. The In-store cards are issued by retailers or companies. These cards can be used only at the issuer’s outlets for purchasing products from them. Payment can be on monthly or extended credit basis. For extended credit facility interest is charged. In India, such cards are normally issued by five star hotels and big resorts.

Virtual cards can be generated by anybody at any time provided the customers have already registered their names in the bank’s website. One can also set monetary limits for each card; usually it is limited to the value of the item the customer intends to purchase. Of course, this value should be limited to the customer’s bank balance or the credit limit. The important features of virtual cards are the card lapses after the use, it cannot be revised, it prevents misuse and it cannot be used beyond 24 to 48 hours after its generation. It is a kind of facility offered to existing card holders at free of cost. The HDFC bank has introduced its ‘Net Safe’ card for its credit/debit card holders at free of cost is an example of virtual card. Secured card is a credit card that secures with a savings deposit of the cardholder to ensure payment of the outstanding balance if the cardholder comits default in payment.

Artisan credit cards are issued to meet the working capital/investment needs of artisans involved in manufacturing activity. Preference will be given to artisans
registered with development commission and who have joined SHGs. Validity of the card is limited for a period of 3 years. The primary security of this card is on stocks/assets of the units. But there is no collateral security up to a limit of Rs. 2 lakh. **Entrepreneurial credit card** helps to meet the credit needs of small artisans, weavers, fishermen, self-employed persons, micro-entrepreneurs etc. The credit limit of this card is Rs. 25,000 per borrower or higher limit is given as composite loans. It is valid for 5 years subject to satisfactory operation of account and review process. Swarozgar credit card scheme is an example of this card. **Laghu udyami credit cards** are given to small businessmen, retail traders, small industrial units, professional and self-employed persons enjoying working capital up to Rs. 10 lakh. Hypothecations of stock in trade, receivables, machines etc are accepted as collateral security. These cards are valid for 3 years subject to reviews and have insurance protection.

**EMI card** is a unique credit facility, where the customers’ monthly EAD (Equated Monthly Instalment Amount Due) is fixed. This EMI (Equated Monthly Instalment) amount due per month is inclusive of all charges. Any incremental purchases will not increase the EMI amount due paid by the customer but only the tenure will increase proportionately. EMIs are fixed in 6 or 12 or 24 month periods. Customer can make any purchases up to the purchase limit and pay a fixed EAD as applicable. Interest free period is nil in these cards. EMI selected as Rs. 1,000 to 4,000 respectively. EMI facility Cards are ICICI Bank EMI Cards, Bank of India Credit Cards, Corp Bank International Credit Card, UBI International Card, UBI Gold Card, ICICI Bank Pride Cards, ICICI Bank True Value Credit Card, ICICI Bank Cash Gold Card, Standard Chartered EMI Card etc. **Electron cards** are used for card present transactions. Electron cards have slightly different security features compared to other Visa cards. The front of the card contains an electron rather than a dove hologram and the 16-digit account number is printed, not embossed. Examples of such cards are Central Card Electronic Card, Federal Bank Visa Electron Debit Card, ICICI Bank-Mega Mart Card, Citi Bank World Money Card, Citi Bank Cash Back Card etc.
3.7 Terms and conditions of issue and use of plastic money

Following paragraphs enumerate the terms and conditions related to ownership and control of cards, issuance and liability, usage of cards at ATMs and merchant establishments, billing and payment of dues, fees and charges, loss/damage of the cards and other regulations of plastic money.

3.7.1 Issue of cards

The bank shall issue cards to the applicants who qualify for the issuance as indicated in the banks card issuance policy, as applicable from time to time. The cards so issued are valid for use in India or abroad and it depends upon the type of card namely domestic or international card. The card issued is the property of the bank and the cardholder shall return the card unconditionally and immediately to the bank upon demand by the bank even without assigning any reasons for that. The bank reserves the right to cancel the card and to stop the operations unilaterally without assigning any reason or on occurrence of any of the events such as failure to comply with terms and conditions, in the event of default under any agreement or commitment entered into with the bank, the cardholder becoming the subject of any bankruptcy, insolvency proceedings or proceedings of similar nature, demise of the cardholder, reported lunacy/insanity/unsound mind of the cardholder, it is deemed by the bank that the facility is being misused. Bank shall be under no liability whatsoever to the cardholder in respect of any loss or damage arising directly or indirectly out of the transaction instruction made other than by a cardholder, any statement made by any person requesting the return of the card or any act performed by any person in conjunction, any injury to the credit character and reputation of the cardholder alleged to have been caused by the repossession of the card and/or, any request for its return or the refusal of any merchant establishments to honour or accept cards etc. The bank shall at its sole discretion add any new or withdraw any existing facility available to cardholder under the terms and conditions and the cardholder shall be bound by the same.

The cardholder shall be deemed to have unconditionally agreed to be bound by the terms and conditions by acknowledging receipt of the card in writing or by
signing on the signature panel on the reverse side of the card. To enable the
cardholder to use the debit card, a PIN will be issued to him. It is the cardholder’s
personal liability to keep the card in safe custody to prevent any loss and misuse.
Cash withdrawals or deposits are not the permitted transactions at POS as per
section 23 of the Banking Regulation Act 1949. If the card is not used for any
transactions by the cardholder within 180 days of the issue of the card, the card will
be deactivated. The cardholders shall only use the cards. Card should not be used on
internet for purchase of prohibited items like lottery tickets, gambling, any unlawful
purpose including the purchase of goods or services prohibited by law etc. At the
time of issue of cards the transactions under the card shall be strictly in conformity
with the RBI guidelines or rules framed under Foreign Exchange Management Act
or any other law being in force in India. For any violations cardholder is directly
and personally liable to the appropriate authorities. The cardholder must also notify
the bank of any changes in the information provided in the application for issuance
of card including change in his employment and/or office or residential address and
telephone numbers.

The bank shall also in its sole and exclusive discretion to decide upon the
credit limit and/or cash withdrawal limit to be granted to any cardholder. Cardholders can increase/alter the limits by writing a request to the bank along
with all necessary documents that may be sought by the bank. Based on such
new documents provided, bank if satisfied may increase/alter the credit limit
and/or cash withdrawal limits of the cardholder. The cardholder shall use the
card strictly within their overall credit card limit determined as per the
sanction conveyed to him. Any use beyond the said limit shall entitle the bank
to recall the card and demand payment of charges due under the card account.
It may lead to terminate the agreement, impose penalties or take any other
action as deemed fit. In the event that an add-on credit card is issued by the
bank, the primary cardholder shall exclusively be responsible towards the total
amount payable to the bank, on account of transactions made by the primary
and the add-on cardholder.
Card is valid up to the last day of the calendar month of the year indicated on the face of the card unless cancelled earlier by the bank. Some cards have no expiry date. If the cardholders use the card beyond the validity period, the bank shall not be liable in any manner whatsoever for any consequences that may arise. Upon expiry or earlier cancellation, card may be renewed or reinstated at the sole discretion of banks. On expiry, the card must be destroyed by cutting it in half over the magnetic strip/chip. Cardholder mustIntimate the bank at least 30 days prior to the expiry of the card currently being used if he/she does not wish to renew the card. In absence of such intimation of cancellation of the card by the cardholder, the renewal fee shall be charged to card account and shall be non-refundable.

3.7.2 Use of plastic money

Cards are accepted at the ATMs of bank, displaying the VISA/Master Card logo/sticker Worldwide. There will be separate service charge as announced by the bank from time to time, for availing services through ATMs, by use of card. The bank will not be liable for any deficiency of service or to perform any obligation thereunder, where such failure is attributable, directly or indirectly to any malfunction of the ATM or the card, temporary insufficiency of funds, any dispute or other circumstances beyond its control. The availability of ATM services in a country other than that in which the card was issued is governed by the local regulations in force in the said country. Bank will not be liable directly/indirectly if these services are withdrawn. The printout or receipt or statements generated at ATMs when acquired through card is a record of the operations of the ATMs and shall not be construed as the bank’s record. The bank’s record of transactions shall be accepted as conclusive and binding for all purposes.

The card is accepted at all merchant establishments using EDC Machines or POS terminals that have displayed VISA/Master Card Logo and PIN is not required for using card at the merchant establishments for making payments. A ceiling limit per transaction per day for different categories of merchants has been fixed for each card, to prevent any misuse of cards. Therefore, even if cardholder’s account has sufficient balance in the card limit, the purchases exceeding these
limits will not be authorised, and in that event no claim would lie against the bank for such non-authorisation. Surcharge may be levied on purchase of certain products and services as notified by the bank from time to time. Payment of surcharge is mandatory and the same may vary from time to time. The bank will not be responsible if any merchant establishment refuses to accept the card or levies a surcharge on the card. However, the cardholder should notify the bank of such refusal to accept the card or levy of surcharge by the merchant establishments. The bank shall not be in any way responsible and/or liable for merchandise, price, rate, quality, quantity, warranty, privileges, benefits, facilities including but not limited to deficiency/ delay in services, delivery or non-delivery etc. purchased or availed of by cardholder from merchant establishments and/or third party suppliers including any mail order placed by cardholder. Any dispute arising thereto should be settled directly by the cardholder with the merchant establishments/third party suppliers and failure to do so will not relieve the cardholder any obligations to the bank. No claim by cardholder against merchant establishments will be a subject of set off or counterclaim against the bank. It is further clarified that the cardholder shall pay for the purchase of any/all goods/services including but not limited to air/rail tickets etc. as it appears on the statement to avoid incurring finance or fee charges even if the purchase has been cancelled subsequently. Credit of refund on account of cancellation will be made to the card account only when received by the bank. No cash refund will be given to cardholder. If a credit is not shown in the statement of account within a reasonable time, cardholder must notify the bank, immediately. Cardholder agree that goods purchased through the use of the card shall remain the property of the bank till such time the charges pertaining there to are fully paid by cardholder to the bank. The cardholder accepts full responsibility for use of the card in contravention of laws, rules, regulations and terms and conditions of the agreement and further undertake to indemnify the bank and to make good any loss, damage, interest, conversion, including but not limited to any other financial charges and outgoings, costs and consequences that the bank may incur or suffer on cardholder account and cardholder acts of omission/commission and/or
negligence. Cardholder agrees and hereby authorise the bank to convert charges incurred by him in foreign currency to Indian rupee equivalent at such rate as the bank may designate in its sole discretion from time to time. Cardholder must sign and/or collect the charge slip; cash advance slip or mail order coupon at the time of deal. Failure to sign a charge slip will not discharge him of the liability for the charges. Cardholder must retain the copy of the charge slips for at least six months. Upon cardholders' request, the bank may, at its sole discretion, provide copies of charge slips, subject to payment of an additional charge at the prevailing rate. Any charge slip or other payment requisition received by the bank for any transaction on the card account for payment shall be conclusive proof that the amount recorded on such charge slip or other requisition was incurred by the use of the card by the cardholder. Where a charge slip or voucher is not available in mail order or telephone order or e-commerce and cardholder dispute that transaction, will first clear the outstanding on the card and shall resolve the dispute directly with the concerned merchant establishments. The bank shall not be liable, in any manner whatsoever for the same.

3.7.3 Fee/charges

The bank reserves the right at any time to charge the debit cardholder for the issue or re-issue of a card and/or any fee/charges for the transactions carried out by the cardholders. Any such fee and charges will be deducted automatically from the cardholders account at the time the fee or charge is incurred. In addition, operators of shared networks may impose an additional charge for each use of their ATM/POS terminal/other device and any such charge along with other applicable fee/charges will be deducted from the cardholders account. In the situation that the account does not have sufficient funds to deduct such fees, the bank reserves the right to deny any further transactions. The decision of the bank is binding on the cardholder. Any government charges, duty or debits or tax payable as a result of the use of the cards shall be the cardholders' responsibility and if imposed upon the bank (either directly or indirectly), the bank shall debit such charges, duty or tax against the cardholders' account. The cardholder also
authorises the bank to deduct from his account and indemnifies the bank against any expenses it may incur in collecting money owed to it by the cardholder in connection with the card.

In the event of an account being overdrawn due to card transactions, the bank reserve the right to setoff this amount against any credit lying from any of the cardholders' other accounts held jointly or singly without giving any notice. Cardholder is required to maintain sufficient balance in the designated account to meet cash withdrawals and service charges. The cardholder gets his passbook updated at least once in a month. The cardholder can check and verify the transaction in the statement/pass book discrepancies/irregularities if any should inform the bank within 7 to 15 days. If the bank does not receive any information to the contrary within 15 days the bank may assume that transactions in the statement of account are correct. If any discrepancies the bank shall make bona fide and reasonable efforts to resolve aggrieved cardholder disagreement with the applicable charge indicated in the account statement within the time mentioned of receipt of notice of disagreement and informs the cardholder about banks agreement/disagreement with regard to such amount. If after such effort the bank determines that the charge indicated is correct then it shall communicate the same to the cardholder along with details including a copy of the sales slip or payment requisition. Any dispute in respect of a shared network ATM transaction will be resolved as per the card agencies regulation.

3.7.4 Billing and Payments

Bank will send to the credit cardholder a monthly statement showing the payments credited and the transactions debited to the cardholder's account since the last statement. The bank will mail a statement of transactions in the card account every month on a pre-determined date, to the cardholders. If the balance outstanding is less than Rs. 200 and there is no further transaction pending billing since the last statement, no statement will be issued. The monthly statement of account shall be prima-facie proof of the charges incurred by cardholder. In the event cardholder disagree with a charge indicated in the statement, the same
should be communicated to the bank in writing within 30 days of the statement date, failing which the charges in the statement of account shall become conclusive proof of cardholders' liability to pay to the bank. In case any discrepancy is found to be legitimate by the bank, the bank may reverse the charge on a temporary basis until the completion of subsequent investigation by the bank to its full and final satisfaction. Notwithstanding the provisions herein, the bank shall not exceed the duration of 60 days in informing the said cardholders, the result of investigation conducted by the bank.

The credit cardholder shall pay to the bank, the amount shown to be due in the bill at the earliest but not later than the due date stipulated in the bill for payment. The said payments shall be made at the designated collection points notified by the bank. Non-receipt or delayed receipt of the bill shall not be cited as a reason for non-payment of the amounts due and as such the cardholder shall not be entitled to any waiver of service/financial charges on this count. Service/finance charges shall be levied to the cardholder's account at the prescribed rates or at such rates as amended from time to time on the balances as remained unpaid on due dates. The applicable service tax or any other tax levied by Government from time to time shall be charged to the card account at the prescribed rates or at such rates as amended from time to time by the Government and the cardholder agrees to pay all such charges. If any cheque, demand draft or electronic clearing service mandate is not honoured for full payment, for each such cheque, demand draft or electronic clearing service mandate, the bank shall charge to the card account appropriate charges to cover the bank's cost. If the minimum amount due payable by the cardholder does not get paid, his/her name may be liable for inclusion in the defaulters databases to be shared with other lenders and credit rating agencies. The right to do so lies with the bank. The bank will have the right of lien/set off in respect of all money and securities, which the bank holds in the name of the cardholder under any of the branches of the bank against the outstanding in the card account without any notice to the cardholder. The legal heirs, assignee, legatees and nominees of the cardholder will remain liable to the bank for the amount due on the cardholder's account in case of death of the cardholder. Bank
credit cards offer the cardholder the facility of revolving credit. The cardholder may choose to pay only the MAD (Minimum Amount Due) printed on the statement. The balance outstanding can be carried forward to subsequent statements. The cardholder can also choose to pay the total amount due or any part of the amount above the MAD. Such payment should be made before the payment due date. Any unpaid MAD of the previous statements will be added to the cardholder’s current MAD in addition to the outstanding exceeding the cardholder’s credit limit. MAD is calculated as 5 per cent of the total payment due subject to a minimum of Rs. 200. Payments made towards the card outstanding are acknowledged in subsequent statements. Payments received against the cardholder’s outstanding bill will be adjusted against all taxes, fees and other charges, interest charges, cash advances and purchases in that order. The bank will debit the card account for all the debits received from merchant establishments charges incurred and credit the card account for all payments made by the cardholder to the bank. Non-payment of the MAD by the payment due date shall render cardholder liable to risk of withdrawal or suspension of the credit card. A fee may be levied for such non-payment as well. The bank may at its sole discretion also instruct the merchant establishments not to honor the credit card and/or to take custody of the card by listing the card number in the Warning Bulletin issued by the bank from time to time or otherwise. In the event the cardholder deposits part of the total payment due from him or the MAD (not less than the MAD under any circumstances) the balance outstanding amount payable shall be carried forward to subsequent statements. This amount will attract finance charges till the date of full and final payment. Duplicate monthly statements of account will be provided by the bank to cardholder only up to a period of twelve months preceding cardholders request subject to payment of service charge specified in the Tariff of Charges and which can be changed at the discretion of the bank.

3.7.5 Loss/Damage of cards

In the event the card is lost/stolen/copied, the cardholder shall inform the bank by any means forthwith, but the same should be confirmed to bank’s customer care center in writing. The cardholder shall also lodge a complaint with
the police. The bank upon adequate verification will temporarily suspend the card and will subsequently hot list/cancel the card during working hours on a working day following the receipt of such intimation. If the cardholder loses his card overseas, he may either follow the above procedure or may report the loss through the Global Emergency Assistance help lines of card agencies. In case the cardholder uses these services, then the charges for the usage of such services shall be borne by the cardholder. The add-on card is rendered invalid when the primary card is reported lost. Similarly, if the add-on card is reported lost, the primary card account and other add-on cards are invalidated. If cardholder recovers the credit card after reporting its loss, cardholder shall not attempt to use it. Instead, should destroy the credit card by cutting it into several pieces. The cardholder shall indemnify the bank fully against any liability, loss, cost, expenses or damages that may arise due to loss/theft or misuse of the card in the event that it is lost and not reported to the bank, or lost/stolen and misused before the same is notified to the bank. The cardholder will be fully liable for all the charges on the lost/stolen card. The bank is not liable or responsible for any transactions incurred on the card account prior to time of reporting of the loss of the card, and the cardholder will be wholly liable for the same. After the receipt of proper notification of the loss by the bank, the cardholder’s subsequent liability is zero. If the cardholder has acted fraudulently/acts without reasonable care, the cardholder will be liable for all losses. If card becomes defective/gets damaged, mutilated, lost or stolen, cardholder may ask for a replacement card at any of the Bank’s Card Division Centers. All such replacement credit cards shall be provided at the discretion of the bank upon such charges prevailing at the time of replacement. The damaged card must not be used and should be cut in half over the magnetic strip/chip and returned immediately to the bank.

3.7.6 Recovery

Credit card accounts are monitored continuously and are identified on the basis of age of overdue amounts and recovery reminders are sent to the cardholders by post, fax, telephone, e-mail, SMS messaging etc. In case the cardholder is an
employee of a reputed organisation a letter is sent to the employer as well. Upon persistent delinquency of the cardholder the card is put in the warning bulletin, thus preventing further use. Details of the card accounts are handed over to the approved recovery agents for further follow-up and recovery. Any third party so appointed, shall adhere to the Indian Bank’s Association (IBA) code of debt collection. The cardholder details will then be posted in the negative lists like Credit Information Bureau India Ltd. or such other agency for which the cardholder has already consented to at the time of signing the application form. If the matter still remains to be settled, legal action is initiated. All revenues for recovery such as compromise settlements will be open to the cardholder for making repayments. Upon death or permanent incapacitance of the cardholder, the bank tries to recover the amount and amicably settle the account with the cardholder’s legal heir. Cardholder accepts that any default in discharging the obligations under the cardholder agreement shall be deemed to be default under the cardholder agreement and the bank reserves the right to exercise any or all rights under the said agreement. Cardholder acknowledges the right of the bank to terminate the credit card facility in the event of default in respect of any other loan/financial credit facility extended to him/her by the bank and vice versa. The events of default are the cardholder consistently fails to pay any amount due to the bank within the stipulated period, the cardholder fails to perform the obligations as per cardholder agreement, any cheques and/or ECS/standing instructions delivered to the bank are not encashed/acted upon for any reason whatsoever on presentation/being made etc. Procedure for withdrawal of default report and the period within which would be withdrawn after settlement of dues.

3.8 Plastic money scenario in India

Plastic money is gradually displacing cash in many areas such as daily consumer payments and even for corporate and government transactions. Cards offer greater convenience, security and flexibility than cash. It is a great payment tool that complements the modern lifestyle of consumers providing them easy and safe payment channel.
Well-managed payment system fundamentally improves public trust. It provides customers financial flexibility and secure lines of credit for venture and working capital can be extended more effectively by development banks and commercial banks with payment card solutions. They are the most popular instruments on the internet with rising interest in e-commerce. Higher compliance helps to bring down the large revenue/fiscal deficits at the centre and state levels. Card payments for activities like tax collections and other administrative purposes may facilitate a more effective use of public funds make government transactions and accounts more transparent and easily traceable. Impacting credit and debit card usage in taxation, which tends to add to the customers’ expenditure. Tax reduction would acts as an incentive with benefits to the economy. Bankers said that a reduction or even a waiver would be revenue positive. This implies that revenue list on the withdrawal of the tax would be more compensated with increased mopping up by other sectors. More merchant establishments in the country would have to be wired into the card network for making any e-payment successful.

Cardholders enjoy the convenience of plastic money as well as the line of credit offered by it. Merchants found that credit card customer usually spent more than what they had to pay with cash. Accepting cards was safer for the merchant than dealing with cash (more secure from internal and external theft and error) and less expensive than creating and maintaining a merchant specific credit program. Wider merchant acceptance of payment cards along with more ATM facilities could increase tourism expenditure and India’s foreign exchange earnings. A currency conversion ranks as a major issue for incoming tourists; greater acceptance of payments cards by merchant establishments could boost tourism. Improvements in India’s card payment infrastructure – better tele-communication, connectivity at lower cost, more advanced technology and equipment as well as wider card usage, the number of merchants accepting cards in India has been growing rapidly. Card offers a number of benefits and privileges. All these benefits increase the purchasing behaviour of cardholders, which in turn increases
spending and consumption pattern in the economy. To meet the high consumption, large scale production will start which in turn will increases the employment opportunities and wage level. High wage level increases the standard of living and social status. The demand for better quality of goods/services automatically rises and increases the sale and profit of business. Increased sales and profit is a sign of business growth, which is an essential component of economic growth and development.

3.8.1 Credit card scenario

Credit card business is a major activity of retail finance for most banks in the developed world since it constitutes more than 50 per cent of the retail banking activity. Credit card arrived in India about two decades ago. In the early stages its growth was very low in terms of number and value. However, in the recent past, the scenario has changed dramatically. The dramatic increase of credit card use in India in recent years by consumers has accelerated transforming India to a mass consumption society. More and more banks are encouraging their customers to go in for credit cards. People perceive the credit card as a status symbol. Apart from being a source of revenue for banks, credit cards play an important role in the country in reducing the cost of currency management, increasing the safety of transactions, providing for traceability of transactions etc. The progress has taken place not only in the number of cardholders but even the type of cards offered. Today, the domestic card industry is flooded with different types of cards ranging from gold, silver, co-branded cards, smart cards etc. The number of nationalised and private banks issuing credit cards has increased significantly. Credit card business in India is regulated according to the guidelines of RBI, IBA and Central Government.

Kisan Credit cards (KCC) introduced by commercial banks provide hassle free and revolving credit to agriculturists is a major step towards the growth of credit cards in rural areas. The convenience and reliability it confers to the consumer and the merchant has already made the credit card as an irreplaceable mode of payment in the cashless society. It has become a part of the norm today. Credit cards growth is due
to wider acceptance of cards by merchants because it requires only low deployment, aggressive marketing by private and foreign banks, prompt payment by cardholders, co-branded cards, innovative schemes and card privileges, changes in consumer behaviours etc.

Spending pattern in India is more or less similar to that of international standards, in travel & entertainment, retail shopping and jewellery being the top categories where the credit cards are used. A recent American Express ‘share of wallet’ study among cardholders across the six cities of Delhi, Mumbai, Kolkata, Chennai, Bangalore and Hyderabad revealed at card usage is the highest for dining and shopping, where it is also popular for travel related expenses such as air tickets hotels and car rentals. Retail spending in India is largely done by credit cards according to recent published reports According to credit card companies; retail has been instruments in boosting average consumers spending per card at stores. According to AT Kearney report, credit card transactions value in organised retail has been is growing at 35 per cent in India. So card issuers have been tying up with retail chains with an eye on large prospects when online shopping opens up in Indians have started using plastic money just like the western countries, although the number of users is too less. The credit card companies say that consumers spend Rs. 50,000 crore annually. At present about 87 per cent of the entire plastic money transactions are done through credit cards. It is mainly used to meet travel expenses, purchase of jewellery, purchase of textile products, purchase of consumer durables etc. On-line shopping and payment through cards are fast catching up in India. Official estimates show that currently 35 per cent of the consumers like to buy books online, 22 per cent for videos and 21 per cent clothes and over 36 per cent consumers prefer online ticketing. According to global market analyst Euromonitor/international, India will be Asia’s fastest growing market for online travel retail by 2010. According to Visa Research, Indians spend 1 per cent of their expenditure through credit cards compared to Koreans who make 20 per cent where the global averages hovers at round 9 per cent of the total expenditure keeping in mind all the above given facts it is a simple guess what potential does Indian market hold for credit card companies.
RBI proposed the need for a national card which combines the benefits of both credit and debit card. But, the banks and service providers may fear about the loss of revenues. According to various, in-depth analysis shows that it would help the banks to improve the quality of their assets by lending to credit worthy customer’s, tracking money-laundering activities and adhering to know-your customer and Basel II – guidelines will be easier. Now, even though both credit and debit cards can be used at ATMs and POS terminals, in nine out of ten cases, customer’s use debit cards only to withdraw cash at ATMs and credit cards to make payments at POS terminals. On the flipside, the usage of debit cards at POS outlets and that of credit cards at ATM is less than one per cent. A single card would not only benefit cardholders but also card issuers. It helps the banks to ensure better control and check usage. It is safer and has the added advantage of less expenditure on plastic money. It helps the banks to maintain credit quality. This would in turn promote better usage of cards and reduce the number of inactive cards in the market. Private and foreign banks card base is in favour of credit card and public sector have more debit card use. IBA official points out that national/domestic card would bring in benefits like lower interchange fees, a legally defined national jurisdiction and better security due to a closed group of users. These types of cards have been in existence in countries like Hong Kong. It makes the customer more specific. Currently it has been observed that there is no uniformity as far as rules and regulations for lending against credit cards is concerned so far customers a single card would prevent overspending, thus, protecting the customers from falling in to debt trap. According to IBA officials in order to put such a system in place. RBI would need to adopt standards and mandates akin to those implemented by China Union Pay and also to undertake mass marketing exercise. It helps to maintain financial discipline among cardholders.

3.8.2 Debit card scenario

Debit card provides access to one’s own money credit card provides access to the bank’s money. Credit cards came in to India in 1979 whereas debit card was
launched almost two decades later in 1998 but now debit cards are more popular than credit cards. The popularity of debit card is due to the fact that unlike in the western world, where the culture is to live on loan, Indians are credit-shy people i.e. Indian being predominantly risk-averse. They are not comfortable with debt. To obtain debit cards, an account in the bank is only what is needed. Debit cards are mostly used for low value transactions. Since, purchases and ATM withdrawal are listed on monthly statement; cardholder can track his/her spending. It is a good financial management tool. Debit cards are typically used as substitutes for cash and cheques to pay for everyday items such as groceries, restaurant meals and department store purchase. Seventy per cent of cards in India today are debit cards, usage are widening that can be a major catalyst in changing consumer behaviour. It is mostly used for payment of low end use. In 1998, Citibank was the first to offer debit cards in India to its customers in a pilot project, through the Suvidha Package, in Banglore.

ATM cards are slowly being transformed into value added debit cards. Consolidation of ATM and debit card networks begin in the mid 1980’s and continues today. Bankers and analysts see tremendous scope for growth in debit cards. The potential is much higher than that of credit card. Both debit cards and credit cards exist as complementary products. Banks are now giving a new thrust to debit card, since it reinforces the habit of using plastic money, which saves the banks substantial transaction costs. In case of debit card, banks need not worry about recovering the money or about risk assessment of the customer as in case of credit card. Most banks that have the debit card facility, offers its account holder an optional, bi-functional ATM/Debit card either at its nominal fee or free of cost. The debit card can be used to withdraw cash from ATMs of other banks depending on whether the debit card maker has a VISA or Maestro tie-up. The future growth of debit card is also likely to depend on promotional efforts, technological changes and changes in the pricing of existing payment services. There will be a time when almost every person, who has an account, will hold a debit card. RBI issues separate guidelines for issuance of debit/smart cards to protect the consumer’s interest and ensure fair dealings. Although banks need not obtain prior approval of the RBI, the
Card issuing banks should review the operations of smart/debit cards on a half-yearly basis. Table 3.1 shows the card based payment in India from 2004-05 to 2007-08 in India.

**Table 3.1 Card-based payments in India (2004-05 to 2007-08)**

<table>
<thead>
<tr>
<th>Types</th>
<th>Volume of Transactions (000s)</th>
<th>Value of Transactions (Rs. in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Cards</td>
<td>129,472</td>
<td>156,086</td>
</tr>
<tr>
<td></td>
<td>(29.2)</td>
<td>(20.6)</td>
</tr>
<tr>
<td>Debit Cards</td>
<td>41,532</td>
<td>45,606</td>
</tr>
<tr>
<td></td>
<td>(10.0)</td>
<td>(10.0)</td>
</tr>
</tbody>
</table>

Figures in brackets denote percentage increase over the previous year.

Source: *RBI Annual Report 2007–08*

Although cash continues to be used heavily in retail transactions in India, the use of plastic money such as credit card and debit card on the whole has been increasing in recent years as seen in the above Table. The use of payment cards, in volume and value showed increasing trends from 2004-05 to 2007-08, indicates the high growth rate, acceptance and usage of it in the business deals by cardholders and merchants which in turn leads to the overall growth of e-commerce and consequently e-economy.

References

