Chapter – V

Debit, Credit Cards and ATM Services in the Selected Banks

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Chapter – V

Debit Cards, Credit Cards and ATM Services in the Selected Banks

5.1 Introduction

Debit Cards, Credit Cards and Smart Cards are collectively referred to as Plastic Money because they are made out of Plastic. The customers enter a personal identification number to authorize the transaction in a typical purchase using a Debit Card. The merchant’s computer then requests authorization from the computer network usually the regional ATM network that links the merchant’s bank with the customer’s bank. The customer’s bank, or sometimes the network, verifies that the customer’s account has sufficient funds to pay. The network then contacts the merchant’s computer and authorizes the purchase. The network also contacts the two banks, which debit the customer’s account and credit the merchant’s account. The bank typically does not credit the merchant’s account with the entire amount of the transaction, a percentage referred to as the discount is charged by the banks and other intermediaries. Later, usually at the end of the day, settlement of all the transfers between them. These steps go unseen and the transaction is completed within minutes. (Subramani M et.al, 2008).

5.2 Debit Cards

A Debit Card (also known as a Bank Card) is a Plastic Money which provides an alternative payment method to cash when making purchases. Functionally, it can be called an Electronic Check, as the funds are withdrawn directly from either the bank account (often referred to as a Check Card), or from the remaining balance on the card. In some cases, the cards are designed exclusively for use on the Internet, and so there is no physical card. The use of debit cards has become widespread in many countries and has overtaken the cheque, and in some instances cash transactions by volume. Like Credit and Debit cards are used widely for telephone and Internet purchases. Debit cards can also allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash and as a cheque guarantee card. Merchants can also offer cash back / cash out facilities to customers, where a customer can withdraw cash along with their purchase.
Debit Cards or Credit Cards are the electronic Plastic Cards that are used as a substitute for cash. Bank Debit Cards help reduce the need for carrying cash and cheques. Debit cards are directly linked to a cardholder’s bank account. Whenever a card holder withdraws money from an ATM or uses the Debit Card for making payments, his/her account balance is automatically reduced. Two decades ago, the number of debit cards in circulation was approximately 19 million. This figure is projected to cross 34.4 million by 2016. The history of debit cards shows that they have largely been used to pay for food and drinks.

5.3 Features of Debit Cards

The following are features of Debit cards:

- It is a combination of a cheque and ATM card. Therefore, there are no fees for using the ATM for cash withdrawal, or as a debit card for purchase;
- The Debit Card services is meant for withdrawals against the balance already available in the designated account;
- It is the card holder’s obligation to maintain sufficient balance in the designated account to meet withdrawals and service charges;
- A Debit card is more affordable than credit card;
- No credit check is required to get a Debit card;
- Use of card is terminated without notice, upon the death, bankruptcy or insolvency of the cardholder or for other valid reasons; and
- Spending is limited to our bank balance.

5.4 Bank Debit Cards: Types

Debit cards are offered by banks in the following forms:

(a) Online Card
(b) Prepaid Card
(c) Offline Card
(d) Electronic Purse Debit Card
(e) Debit Cards for Telephone, Mails and Internet transactions

An example of the front of a typical debit card:

- Issuing bank logo
- EMV chip
- Hologram
- Card number
- Card brand logo
- Expiry date
- Cardholder's name
An example of the reverse side of a typical debit card:

- Magnetic Stripe
- Signature Stripe
- Card Security Code

Although many debit cards are of the Visa or Master Card brand, there are many other types of Debit Card, each accepted only within a particular country or region, for example Switch (now: Maestro) and Solo in the United Kingdom, Carte Bleue in France, Laser in Ireland, Electronic Cash (EC) (formerly Euro cheque) in Germany and EFTPOS cards in Australia and New Zealand. The need for cross-border compatibility and the advent of the euro recently led to many of these card networks (such as Switzerland's EC direkt, Austria's Bankomatkasse and Switch in the United Kingdom) being re-branded with the internationally recognized Maestro logo, which is part of the Master Card brand. Some debit cards are dual branded with the logo of the (former) national card as well as Maestro (example, EC cards in Germany, Laser cards in Ireland, Switch and Solo in the UK, Pinpas cards in the Netherlands, Bank contact cards in Belgium, etc.). The use of a Debit Card system allows operators to package their product more effectively while monitoring customer spending. An example of one of these systems is ECS Embed International. A prepaid debit card looks a lot like a credit card. It even works a lot like a credit card, when you use it in a store to purchase products. However, a prepaid credit card is not a credit card. The two work very differently.

Disadvantages of Debit Cards

Debit cards, however, do entail certain limitations, such as:

- Debit cards come with lesser fraud protection facilities than credit cards;
- Some transactions cannot be carried out with a debit card, such as renting a car in a foreign country and

Debit Cards: Issuers

The banks issuing debit cards include:

(a) Bank of America (c) Capital One
(b) Citibank (f) Standard Chartered
(c) American Express (g) Chase
(d) Deutsche bank (h) HSBC
Types of debit card systems

* Online Debit System

Online debit cards require electronic authorization of every transaction and the debits are reflected in the user’s account immediately. The transaction may be additionally secured with the Personal Identification Number (PIN) authentication system and some online cards require such authentication for every transaction, essentially becoming enhanced automatic teller machine (ATM) cards. One difficulty in using online debit cards is the necessity of an electronic authorization device at the Point – of – Sale (PoS) and sometimes also a separate PIN pad to enter the PIN, although this is becoming commonplace for all card transactions in many countries. Overall, the online debit card is generally viewed as superior to offline debit card because of its more secure authentication system and live status, which alleviates problems with processing lag on transactions that may only issue Online Debit Cards. Some on-line debit systems are using the normal authentication processes of Internet Banking to provide real – time on – line debit transactions. The most notable of these are Ideal and PoL.

* Offline Debit System

Offline Debit Cards have the logos of major Credit Cards (Example - Visa or Master Card) or major debit cards (Example – Maestro in the United Kingdom and other countries, but not the United States) and are used at the Point – of – Sale like a credit card (with payer's signature). This type of Debit Card may be subjected to a daily limit, and / or a maximum limit equal to the current/checking account balance from which it draws funds. Transactions conducted with offline debit cards require 2 – 3 days to be reflected on users’ account balances.

In some countries and with some banks and merchant service organizations, a credit or offline debit transaction is without cost to the purchaser beyond the face value of the transaction, while a small fee may be charged for a debit or online debit transaction. (Although it is often absorbed by the retailer) Other differences are that online debit purchasers may opt to withdraw cash in addition to the amount of the debit purchase (if the merchant supports that functionality), also, from the merchant's standpoint, the merchant pays lower fees on online debit transaction as compared to credit (offline) debit transaction.
* **Prepaid Debit Card**

Prepaid debit cards, also called reloadable debit cards or reloadable prepaid cards, are often used for recurring payments. The payer loads funds to the cardholder’s card account. Prepaid debit cards use either the offline debit system or the online debit system to access these funds. Particularly for companies with a large number of payment recipients abroad, prepaid debit cards allow the delivery of international payments without delays and fees associated with international cheques and bank transfers. Providers include Caxton FX prepaid cards, [Escape prepaid cards and Travelex prepaid cards]. Whereas, web-based services such as stock photography websites (stockpot), outsourced services, and affiliate networks (Media Whiz) have all started offering prepaid debit cards for their contributors/freelancers/vendors.

5.5 **Debit Cards: Benefits**

Debit cards offer the following benefits:

01. Debit Card help people to be disciplined financially, since one cannot splurge with the limited amount of funds deposited for the card;

02. A person with poor credit can obtain a debit card without too much trouble;

03. Debit cards can be used to make online purchases and payments;

04. They provide freedom from carrying cash and checks while travelling, thereby offering more safety; and

05. Debit cards do not charge high interest rates or fees on card transactions;

The following are the benefits of the debit card services

* **Free with our bank account**

Obtaining a Debit Card is easy. The qualify to open a bank account, and usually get a Debit Card, if bank offers the service.

* **No background check**

When we are applying for a debit card, the bank does not need to look into credit history.

* **Cash withdrawals**

The customer can withdraw a minimum of ₹ 100 and a maximum ₹ 10,000 per transaction.

* **Convenience**

A Debit card frees us from carrying a lot of cash or a cheque book. In case, of international traveler, it is needed to stock up on Traveler’s Cheques or cash. Debit Card to withdraw cash from over 500,000 ATMs around the world in
over 100 countries. The withdrawal of the local currency of the country limited only by the money we have back home in our account and Business Travel Quota (BTQ) limit arability.

* Fair exchange
The return merchandise or cancel services paid for with a Debit card, the transaction is treated as if it were made with cash or cheques. Customers usually get cash back for offline purchases; for on-line transactions, the amount is credited to our account.

* Statement of account
A statement of transactions can be obtained from the customer’s branch. For example, a mini statement containing the last four transactions and balance can be obtained at a State Bank Group during the working hours of the customer’s branch.

* Banking cum Shipping card –
Debit card can be used as ATM card at any ATM across the world, as well as for making purchases at merchant locations. Cash can be withdrawn from any of the 12000 plus ATMs in India.

5.6 Drawbacks of Debit Cards
a. No grace period
Unlike a credit card, debit card transactions are on a pay now basis

b. Limited protection
Using a debit card may mean to have less protection than it would have with a credit card for undelivered or defective goods. Like the credit card, a debit card too is a payment mechanism which allows the holder to make purchases without making any immediate cash payment. It appears that Plastic Money seems to be the preferred mode of payment for more and more people. While the use of credit cards and debit cards has increased manifold both in terms of value and volume of transactions yet the growth in use of debit cards has been at a much faster rate than in the case of credit cards.
A debit card is a variant of ATM card. It has the following features -

01. Whereas an ATM card can be used only where the ATMs are provided by the banks, and that too only for cash withdrawals, the debit card can be used in any merchant outlet that is linked with the customer’s bank for making payment;

02. Credit card is issued to clients after a proper assessment of their credit standing. But for a debit card holder there is no need to make such an assessment;

03. At the time of making payment through a debit card, the amount is instantly debited to the customer’s account unlike payment made through the credit card where the account of the customer is debited after a certain period;

04. Debit card freeze the card holder from carrying cash for his/her purchases;

05. Debit card is like a blank cheque, so it must be used carefully otherwise an unscrupulous person can wipe the entire balance in the bank account of the holder;

06. There are no chances of the debit card user to fall into the debt trap, since payment is immediately debited to his account, as he can only use the money which is available in his account;

07. There are no transaction costs and no question of late fee payment in the use of debit card; and

08. Bankers also avoid the risk of bad debts.

5.7 Credit Card

Credit cards are fundamentally different from the other payment methods in that they involve extending credit rather than drawing on an existing store of funds. Banks in conjunction with credit card associations such as Visa and Master Card, issue general – purpose credit cards. Departmental stores also issue credit cards to be used for purchases at that particular store. Like Electronic Fund Transfer, payment by credit card is not anonymous. Since paying with a credit card does not involve a store of funds, deposit insurance and reserve requirements are not directly relevant. The bank that issues the card is liable and thus merchants are paid if the cardholders default. If the issuing bank fails, the credit card association guarantees payment to merchants with outstanding transactions and then has a creditor’s claim on failed banks.
5.8 History of Bank Credit Cards

The origins of the bank credit card have been traced to John C. Biggins, a consumer credit specialist at the Flatbush National Bank of Brooklyn, New York. In 1946, Biggins launched a credit plan called Charge – It. The program featured a form of scrip that was accepted by local merchants for small purchases. After the sale was completed, the merchant deposited the scrip in a bank account, and the bank billed the customer for the total scrip issued.

In 1951, the first modern credit card was issued by the Franklin National Bank in New York. Unsolicited credit cards were sent to prospective card – holders, who were not subject to credit screening prior to being sent a card. Merchants signed agreements to accept the cards. When a purchase was made, the cardholder presented the card to the merchant, who would copy the information on the card onto the sales slip. The purchase was credited to the merchant’s account at Franklin Bank in the amount of the transaction, less the discount rate. If a purchase exceeded the merchant’s floor limit, the merchant was required to call the bank for approval. Franklin National Bank’s Credit Card program was copied by hundreds of other banks in the late 1950s and early 1960s. (Indian Institute of Bankers, 1996). Credit card began to be used in USA as early as 1920’s and their use began to increase after 1950. Diners Club introduced their credit card in 1950 and the American Express Company in 1958 and Bank of America in 1959.

In India, the Central Bank of India was the first bank to introduce the credit card known as Central Card in the middle of 1981. Credit card facility became immensely popular among customers in India by 1990. With the introduction of credit card system, the concept of every – where and any time banking became a reality. Convenience and easy acceptability of credit cards and technological advancement have paved the way for continuous rise in credit card – based of payments and transactions. Credit cards in India, made their debut in 1981, and are on the verge of an unprecedented boom. Between 1987 and 2001, the market has virtually grown to over four million cards with over 25 – 30 per cent of compounded annual growth in new cardholder’s base.
It's not that only the card numbers have increased, but even the types of cards on offer have seen a surge. Today, the domestic card industry is flooded with different types of cards ranging from gold, silver, global, co-branded credit cards, smart to secure, the list is endless. Foreign banks have shouldered the major responsibility of increasing the card base and adding value-added services to the card products in the past. This is also evident from the fact that the market share of these foreign banks is estimated to be well over 70 per cent. But the scenario has changed dramatically in the last couple of years with the entry of State Bank of India, (SBI) a domestic major in the banking sector. More and more nationalized banks and private sector banks like ICICI and HDFC Banks are aggressively launching credit cards with value added features. There is immense growth potential in the domestic card industry. A glance at the Indian population reveals that India's middle/upper middle class (target segment) represents a population of over 10 million.

There are only two to three million cardholders, each possessing an average of two cards. This is a very low figure given India's huge middle to upper class population. There is no doubt that the domestic card industry has yet to mature but offers significant long-term growth potential. The lack of maturity of the domestic card industry, its growth will depend upon building core retail business, with more sophisticated products. In the expansion of domestic credit card market, the existing foreign players, SBI, other nationalised banks and the new domestic private sector banks are expected to play an important role with complementary strategies.

Foreign banks, with the advantage of technology and industry experience are expected to concentrate on increasing card spending and customer loyalty in the major cities. SBI, on the other hand is expected to capitalize its superior distribution network to expand card acceptance in the smaller towns. The new private sector banks would have the opportunity to capture significant market share by combining the strengths of foreign banks and nationalised bank like SBI. Although at present the card market is mainly limited to India's relatively bigger cities and tourist locations only, there is also a potential in smaller cities.
Domestic banks, owing to their vast network and reach to smaller cities, can easily tap this potential. They would be better off, penetrating into smaller cities and bringing credit card to the masses rather than cannibalising other foreign banks' existing cardholder base. The efforts of these banks to increase the card base is going to be wholeheartedly supported by the residents of these smaller cities with their higher disposable income, changing lifestyle, increasing travel and the growth in the entertainment sector.

A credit card is part of a system of payments named after the small plastic card issued to users of the system. The issuer of the card grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user. A credit card is different from a charge card, where a charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers to revolve their balance, at the cost of having interest charged. Most credit cards are issued by local banks or credit unions, and are the same shape and size as specified by the ISO 7810 standard. The length of this article or section may adversely affect readability.

5.9 Clearing / Settlement of Credit Cards

Clearing is the process by which transaction information is passed between issuers and acquirers to effect posting to the cardholders account. There is no transfer of funds. Settlement is the process by which the dollar amounts of cardholders' purchases are passed from the acquirers to the issuers. A sample clearing/settlement flow is illustrated in the exhibit – 5.1 clearing (acquire to cardholders statement) is represented by the top flow. Settlement (issuer to acquirer) is represented by the bottom flow and does not require immediate cardholder’s payment to occur. Exhibit – 5.1 reflects a 1.5 percent interchange rate (₹ 1.50 interchange fee) on a ₹ 100 purchase.
5.10 Guidelines for Issuing of Credit Cards

The Reserve Bank of India has initiated several steps to encourage the use of credit card transaction in an efficient and a safe manner. The Reserve Bank of India took the initiative to ensure that the rules, regulation, standards and practices of the card issuing banks accord with the best international practices. In order to ensure best international practices in credit card operation, the Reserve Bank of India in October 26, 2004, constituted a Working Group under the chairmanship of Shri R. Gandhi to study the Regulatory Mechanism for Cards.

Based on the recommendation of this Working Group and the feedback received from card issuing banks, non-banking finance companies and the public, guidelines on credit card operations of banks were issued by the RBI in November 2005. The important features of the guidelines are given below:

01. Each Bank/NBFC must follow a standard policy for credit card operations incorporating Fair Practices Code for credit card released by the IBA (Indian Bankers Association) in March – 2005;

02. Before issuing a credit card, the issuing institution must independently assess the applicant based on self-declaration or credit information supplied by the customer. Based on the information received the institution must access the credit risk and fix the credit limit for the credit card holder;
03. The card issuing institution would be solely responsible for the fulfillment of the conditions of Know Your Customer (KYC) requirements;

04. Add-on cards (i.e. those that are subsidiary to the principal card) will be issued to the principal cardholder, only on the condition that the liability will be that of the principal cardholder;

05. While applying for the credit card, the terms and conditions such as credit limit, cash withdrawal limit, joining fees for primary card holder and for add – on card holder, annual membership fees for primary and add – on card holders, billing statements – periodicity and mode of sending, cash advance fee, services charges levied for certain transaction interest free (grace) period, prevailing rate of interest should be communicated to the card holder in clear and simple language. They should also furnish to the card holder charges in case of default, methods of computation of overdue, overdue interest charges, finance charges for revolving credit and cash advances, renewal and termination procedures. Contact particulars of 24 hour call centers of card issuer, particulars of officers to be contacted, grievance redressal, procedure to be followed in case of loss, theft and misuse of card – mode of intimation to card issuer and all other valid information which the customer requires to operate the card effectively should be furnished to them;

06. Card issuer should ensure that there is no delay in dispatching monthly bills. Sufficient time for payment of bill, that is, at least 10 days should be given to the customer before the interest starts getting charged. The issuer should charge interest only after the last mentioned for payment.

07. The card issuer should not levy any charge that was not clearly indicated to the credit card holder at the time of issue of the card. They must obtain the prior consent of the cardholder for levying fresh charges. They need not obtain such consent of the cardholder in case of service taxes, which are levied by the government or any other statutory authority from time to time;

08. Changes in charges other than interest rate should be effected in to only with prior notice of at least one month;

09. If a customer has any dispute on any bill, the card issuer should provide explanation and, if necessary, documentary evidence to the customer within a maximum period of sixty days in a spirit of amicable redressal of grievances;

10. To avoid frequent complaints of delayed billing, the credit card issuing institution should consider providing bills and statements of accounts on – line;
11. Credit card issuer should be extremely careful in the appointment of service providers while outsourcing, ensuring that they seldom compromise on quality of customer services;

12. The terms and conditions for payment of credit card dues, including the minimum payment due, should be so stipulated to ensure that there is no negative amortization;

13. Card issuer will be responsible for all acts of omission and commission of their direct sales marketing and recovery agents with regards to customer’s rights like their personal privacy, preservation of customer records, maintaining confidentially of customer information and fair practices in debt collection;

14. In case, an unsolicited card is issued and activated without the consent of the recipient and the latter is billed for the same, the card issuing bank/NBFC shall not only reserve the charges forthwith, but shall also pay a penalty without any murmur to the recipient amounting to twice the value of the charges reversed;

15. Card issuing institution should not reveal the information regarding customers received at the time of opening the account or issuing the credit card to any other person or organization without obtaining their specific consent;

16. Before reporting the default position of a card holder to CIBIL or any other information company authorized by the Reserve Bank, the credit card issuer must serve advance notice to the card holder of its intention of reporting. While reporting they should stick on to a procedure duly approved by their boards;

17. In the matter of recovery of dues, card issuer should ensure that they and their agents adhere to the instruction on Fair Practice Code for lenders as recommended by the Reserve Bank ad also the IBAs Code for collection of dues and repossession of security;

18. Card issuer or their agents should not resort to threats or harassments of any kind, either verbal or physical, against any person in their debt collection efforts;

19. Card issuer should constitute grievance redressal machinery for credit cards and give wide publicity to it through electronic and print media;

20. If the customer does not get a satisfactory reply for their complaints from the cards issuer within a maximum period of thirty days from the date of his lodging the complaint, he will have the option to approach the office of the concerned Banking Ombudsman for redressal of his grievance;
21. The Standing Committee on Customer Service in each credit card issuing institution any review, on a monthly basis, the credit card operations, including reports of defaulters to the CIBIL and credit card related complaints. It may take measures to improve the services and ensures the orderly growth of the credit card operations;

22. Card issuers should quote Annualized Percentages Rates (APR) on card products (separately for retail purchase and cash advance, if they are different). The method of calculation of APR should be given with one or two examples for better comprehension. The APR charged and the annual fee should be shown with equal prominence. The late payment charges including the method of calculation of such charges and the number of days should be prominently indicated. The manner in which the outstanding unpaid amount will be included for calculation of interest should also be specifically shown with prominence in all monthly statements. Even when the minimum amount indicated to keep the card valid has been paid, it should be indicated boldly that the interest will be charged on the amount due after the due date of payment;

23. The card issuing institution should obtain prior consent of the cardholder for upgrading credit cards, enhancing credit limits and for any other changes in the terms and conditions

24. The card issuing institution should maintain a Do Not Call Registry (DNCR) containing the phone numbers (both cell phones and land phones) of customers as well as non-customers (non-constituents), who have informed the institution that they do not wish to receive unsolicited calls/SMS for marketing of its credit card products;

25. The intimation for including an individual’s telephone number in the Do Not Call Registry (DNCR) should be facilitated through a website maintained by the bank/NBFC or on the basis of a letter received from such a person addressed to the bank/NBFC;

26. With a view to ensure the quality of customer service relating to the credit card operations on an on-going basis, each card issuing institution must review on a monthly basis the credit card operations including reports of defaulters to CIBIL, credit card related complaints, measures taken to improve the services, steps taken for the growth in the credit card operations etc. in their Standing Committee on Customer Service; and
27. A prospective or existing credit card holder must observe carefulness while applying or owning a credit card. The terms and conditions of the credit card agreement must be carefully viewed and understood so that a clear insight can be achieved. This will help a credit card holder to make the best use of the plastic money. The credit card repayments must be made before the due date to avoid attraction of late fee, penalty and surcharge. This can also be done to maintain a smooth flow of business transactions and ensuring one's credit stability and visibility in the plastic money market.

### 5.11 Debit Cards v/s Credit Cards: Similarities and Differences

The financial institutions offer both Debit Cards and Credit Cards. Both cards offer special rewards, such as points and cash back on purchases made through the card. Debit Cards and Credit Cards can be used to make online payments with the help of the PIN number assigned to them. They can be used to withdraw money from ATMs, depending on the cash limit available on these cards.

Debit Cards and Credit Cards differ in some significant ways. In the case of a credit card, the issuer offers credit and overdraft facilities. This facility is not available with a debit card, which will only debit payments from existing and available funds within the cardholders account. A credit cardholder therefore has a monthly bill to pay in every month that the card is used. If they don’t pay that bill, high interest charges are applied. A debit card holder is free from the hassle of paying those bills, and from the risk of building up large debts to credit card companies.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Credit Card</th>
<th>Debit Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line of Credit</td>
<td>Carries Line of Credit</td>
<td>No Line of Credit</td>
</tr>
<tr>
<td>PIN Number</td>
<td>No</td>
<td>PIN number provided, but not is not always asked to punch in</td>
</tr>
<tr>
<td>Picture ID asked for</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Interest</td>
<td>Pay additional interest drawn on the amount borrowed</td>
<td>No</td>
</tr>
<tr>
<td>Credit History</td>
<td>Responsible credit card usage and payment can improve one's credit rating. Credit cards typically report account activity to at least</td>
<td>Does not affect credit history</td>
</tr>
<tr>
<td><strong>Legal Liability laws</strong></td>
<td>Strict. Consumer liability limit for credit card fraud is $50 if the credit card company is notified within 60 days in written since the fraudulent charges</td>
<td>Lean. Consumer liability limit for debit card fraud is $50 if the bank is notified within two days of noticing the fraudulent charges</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Risk involved</strong></td>
<td>Low</td>
<td>High, as they are attached to a bank account. A person does not need a pin number to use a debit card and therefore can easily drain a person’s bank account, causing extreme problems</td>
</tr>
<tr>
<td><strong>Fraud</strong></td>
<td>Only problem is proving that someone else has used the card</td>
<td>With a debit card the persons has to figure out how to get their money back and if any checks bounced they are responsible for those as well</td>
</tr>
<tr>
<td><strong>Limit</strong></td>
<td>Credit line, which can be increased/decreased from the time of applying</td>
<td>Equals your account limit</td>
</tr>
<tr>
<td><strong>Overdraw Fees</strong></td>
<td>Low. Some credit card companies allow to overdraw amount over the maximum credit line with a fees</td>
<td>High &quot;overdraft&quot; fees. Possible to overdraw amount over the account limit</td>
</tr>
<tr>
<td><strong>Connected to</strong></td>
<td>Need not be connected to any bank account</td>
<td>Checking Account; Savings Account</td>
</tr>
<tr>
<td><strong>Monthly bills</strong></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Offers Protection</strong></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Alternate to</strong></td>
<td>Cash</td>
<td>Cheque, Cash</td>
</tr>
<tr>
<td><strong>Where money comes from?</strong></td>
<td>Borrowing money from a bank or financial institution. (Spending &quot;other&quot; money)</td>
<td>Funds taken from the money that you have in your bank account. (Spending your &quot;own&quot; money)</td>
</tr>
<tr>
<td><strong>Can be used as</strong></td>
<td>Credit card only</td>
<td>Debit Card and Credit Card</td>
</tr>
</tbody>
</table>

Source: http://www.diffen.com/difference/Credit_Card_vs_Debit_Card
Credit or Debit?

For consumers, the difference between a Debit Card and a Credit Card is that the debit card deducts the balance from a deposit account, like a checking account, whereas the credit card allows the consumer to spend money on credit to the issuing bank. In other words, a debit card uses the money you have and a credit card uses the money.

In some countries, the debit networks typically require that purchases be made in person and that a personal identification number be supplied. The credit networks allow cards to be charged with only a signature and picture ID. In other countries, identification typically requires the entering of a personal identification number or signing a piece of paper. This is regardless of whether the card network in use mostly is used for credit transactions or for debit transactions. In the event of an offline transaction (regardless of whether the offline transaction is a credit transaction or a debit transaction), identification using a PIN is impossible, so only signatures on pieces of paper work.

In some countries, Consumer protections also vary, depending on the network used. Visa and MasterCard, for instance, prohibit minimum and maximum purchase sizes, surcharges, and arbitrary security procedures on the part of merchants. Merchants are usually charged higher transaction fees for credit transactions, since debit network transactions are less likely to be fraudulent. This may lead them to steer customers to debit transactions. Consumers disputing charges may find it easier to do so with a credit card, since the money will not immediately leave their control. Fraudulent charges on a debit card can also cause problems with a checking account because the money is withdrawn immediately and may thus result in an overdraft or bounced checks.

In some cases debit card – issuing banks will promptly refund any disputed charges until the matter can be settled, and in some jurisdictions the consumer liability for unauthorized charges is the same for both debit and credit cards. In India and Sweden, the consumer protection is the same regardless of the network used. Some banks set minimum and maximum purchase sizes, mostly for online – only cards. However, this has nothing to do with the card networks, but rather with the bank's
judgment of the person's age and credit records. Any fees that the customers have to pay to the bank are the same regardless of whether the transaction is conducted as a credit or as a debit transaction, so there is no advantage for the customers to choose one transaction mode over another. Shops may add surcharges to the price of the goods or services in accordance with laws allowing them to do so. Banks consider the purchases as having been made at the moment when the card was swiped, regardless of when the purchase settlement was made. Regardless of which transaction type was used, the purchase may result in an overdraft because the money is considered to have left the account at the moment of the card swiping.

<table>
<thead>
<tr>
<th>Year</th>
<th>Counts (₹ in lakh)</th>
<th>Amount (₹ incrore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003 - 04</td>
<td>1001.79</td>
<td>17662.82</td>
</tr>
<tr>
<td>2004 - 05</td>
<td>1294.72 (29.24 %)</td>
<td>25686.36 (45.42 %)</td>
</tr>
<tr>
<td>2005 - 06</td>
<td>1560.66 (20.55 %)</td>
<td>33886.47 (31.92 %)</td>
</tr>
</tbody>
</table>


India has come out of self–binding shackles to look young again and the enthusiasm shared by the young work force of the country is driving the economy like never–before. In the present day world, no one wants to be bothered by the presence of huge cash in his or her wallet and the Indians are no exceptions. The unprecedented growth in the number of Credit Card users has stimulated the Indian economy by a significant extent. The arrival of malls, multiplexes, online shopping stores and shopping complexes have contributed to the growth of the use of Plastic Cards.

It will not be wrong to say that such a scenario in context of the Indian market is not driven by style statement and is driven more by needs. The benefits of Plastic Money have offered unmatched ways to create equilibrium and offer an amicable solution when it comes to purchases and the inability to possess or carry cash. The modern day Indian customers find it easier to make physical payment (credit card payments) rather than carrying too much cash. The introduction of credit card facilities to pay for mobile, electricity, movie tickets and other related transactions have also contributed to the growth of Plastic Money in the country.
Best Credit Cards in India

In context of the Indian market, the leading credit card service providers are ICICI, HDFC, State Bank of India and Bank of India to name a few. These financial institutions have tried their hands on ensuring value – addition while offering customer – friendly credit card deals. The Best credit cards in India are usually meant for specific user group such as women, students and small business owners. These cards are offered to the prospective customers with appealing deals. Statistics have clearly revealed that the numbers of credit card holders in India are close to 22 million as on January, 2007. It has been also revealed that the increasing consumerism in the country has led to a two-fold increase in the number of credit card transactions from FY 2003 – 04 to 2005 – 06. The trends were as favourable as ever in the financial years, FY 2006 – 07 and 2007 – 08 and the same is likely to continue in the coming financial years.

![Figure - 5.1](attachment:figure51.png)

**Working of the Card system**

The Interchange fee on a purchase transaction flows from the merchant acquiring bank to the card issuing bank. The settlement and credit transactions between the issuer and the acquirer are done using the network of MasterCard/VISA, who gets a share of the fee in exchange. In India, though competition guides acquirer – merchant pricing policies, it is generally understood that Interchange fees is one component of the Merchant Discount Rate (MDR) established by acquirers. The implementation of proper
Interchange rates is necessary and also very crucial for maintaining a strong and vibrant credit card payments network.

The other major component of the MDR is the fee imposed by the acquirer which is retained by the acquirer to meet its own expenses. It is quite common to see a transaction at a merchant establishment involving a bank which is both the acquirer and the issuer. In such a situation it may be possible to reduce the Interchange fee since the payment network is substantially reduced. However, such reduced Interchange fee is not generally passed on to the merchants. The banks and Master Card / VISA generate revenue and make profit in the credit card system by charging Interchange fees. In the western countries big merchants have already realized this and are in union in their demand for reduction in Interchange fees. Master Card USA, moving towards being more transparent, has now explicitly placed on its official website the Interchange Rates.

**Limitations of Credit Cards as a Source of Finance**

- a. Credit cards lead to overspending on the part of the holder and as such may disorganize the organization’s cash budget and cash planning;
- b. Limited as to the activities they can finance as they are ideal for financing working capital items and not fixed assets in which case they are not a profitable source of finance;
- c. They are expensive to obtain and maintain because of associated costs such as ledger fees, registration, insurance, commission expenses, renewal fees etc;
- d. It is a short – term source and is open only to a few establishments in which case a company can obtain goods and services from those establishments that can accept them;
- e. Entail a lot of formalities to obtain example guarantees, presentation of bank statements and even charging assets that are partially pledged to secure expenses that may be incurred using these cards;
- f. They may be misused by dishonest employees who may use them to defraud the organization off goods and services which may not benefit such organizations; and
- g. Credit card organization may suspend the use of such cards without notice and this will cause inconvenience to the holder who may not meet his/her ordinary needs obtained through these cards.

**5.12 Conclusion**

To sum up, this chapter deals with history, meaning of debit and credit cards, similarities and differences between the debit and credit cards, types of Plastic Money, benefits, features of both the debit and credit cards in India. It also focused towards the clearing/settlement of credit cards, guidelines for issuing the credit cards to the customers and future of the Plastic Money in India.