

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	CHALLENGES AND OPPORTUNITIES IN BUILDING THE EMPLOYEES' ORGANISATIONAL COMMITMENT: A STUDY WITH REFERENCE TO THE EDUCATION SECTOR (NCR REGION) <i>SANGEETA RANI & PRABHAT SRIVASTAVA</i>	1
2.	COMMON DENOMINATORS OF WRITING DISABILITY <i>DR. SREEDEVI.V.G.</i>	4
3.	CONSUMERS ATTITUDE AND PREFERENCES TOWARDS DAIRY PRODUCT: A STUDY OF MILMA MILK WITH SPECIAL REFERENCE TO NALLEPILLY PANCHAYATH <i>DR. P. S. CHANDNI & SARANYA .S</i>	10
4.	GOLD JEWELLERY TREND IN INTERNATIONAL GOLD MARKETS <i>GNANADURAI PANDITHURAI & JOJI CHANDRAN</i>	14
5.	IMPACT OF TELEVISION ADVERTISEMENTS OF JUNK FOOD ON CHILDREN WITH SPECIAL REFERENCE TO SALEM CITY <i>DR. S. DHAKSHAYANI & P. V. RAJESWARI</i>	18
6.	FDI IN INDIA: CURRENT TRENDS AND WAY FORWARD <i>BALA DEVI & REKHA RANI</i>	25
7.	WORK STRESS WITH SPECIAL REFERENCE TO EMPLOYEES OF ELANTE MALL (CHANDIGARH) <i>RENU SAINI</i>	28
8.	STOCKHOLM SYNDROME WITHIN THE FRAMEWORK OF GOVERNMENT-VOTER BEHAVIOUR: COALITION YEARS 1991-2002 IN TURKEY <i>CEYHUN HAYDAROĞLU</i>	34
9.	AN INSIGHT INTO THE CONCEPT OF FINANCIAL SOCIALIZATION WITH SPECIAL REFERENCE TO ROLE OF PARENTS <i>SHIKHA SHARMA</i>	41
10.	A STUDY ON ROLE OF MILKFED IN PUNJAB <i>HARPREET KAUR</i>	45
11.	MANUFACTURING SECTOR: AN MISSED OPPORTUNITY & WAY AHEAD <i>BALA DEVI</i>	48
12.	ROLE OF FISCAL POLICY IN ECONOMIC DEVELOPMENT <i>DARSHINI.J.S</i>	52
13.	ANALYSIS OF THE FINANCIAL SUPPORT FOR HOTEL AND LODGING INDUSTRY IN KASHMIR: PERSPECTIVES ON INSTITUTIONAL SUSTAINABILITY INITIATIVES <i>AIJAZ AHMAD DAR & DR. SUSHIL KUMAR MEHTA</i>	60
14.	RESEARCH AND METHODOLOGIES OF RURAL DEVELOPMENT AND EMPLOYEES JOB SATISFACTION <i>G. APARNA & DR. C. SUBRAMANIAN</i>	65
15.	A STUDY ON IDENTIFICATION OF TOP FACTORS IMPACTING EMPLOYER BRANDING IN IT MULTINATIONALS IN INDIA & ITS STRATEGIC IMPLICATIONS <i>DR. SONAL SHREE, APURVA SAXENA, ASTHA AWASTHI & SEEMA KOHAR</i>	68
16.	ANALYSIS OF THE EFFECT OF GOVERNORS' TERM ON MONETARY POLICY: A CROSS-SECTIONAL ANALYSIS OF SELECTED SUB-SAHARAN AFRICAN CENTRAL BANKS <i>DR. IBRAHIM NYABOGA, NYAUNCHO JOSIAH & ELIJAH MAGORI OMOBE</i>	73
17.	VERTICAL INTEGRATION AS GROWTH STRATEGY: AN ANALYSIS IN THE MEXICAN CORN SECTOR <i>JOSÉ G. VARGAS-HERNÁNDEZ, JOSÉ SATSUMI LÓPEZ-MORALES & ROSA PENÉLOPE MARES-GALINDO</i>	78
18.	ANXIETY AND SELF-CONCEPT OF SECONDARY SCHOOL STUDENTS: SPECIAL REFERENCE TO THE STATE OF ASSAM AND SIKKIM <i>RASHMI MILI & NAR MAYA SUBBA</i>	83
19.	MODELING THE CAUSES OF STAGNATION OF A MATURED CAPITALIST ECONOMY <i>SAIKAT BHATTACHARYA</i>	88
20.	RISE OF PLASTIC MONEY IN MODERN ERA AND ITS ECONOMIC DIMENSIONS <i>KIRAN SINGH PARIHAR</i>	92
	REQUEST FOR FEEDBACK & DISCLAIMER	97

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RISE OF PLASTIC MONEY IN MODERN ERA AND ITS ECONOMIC DIMENSIONS

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ABSTRACT

Plastic money is a name given to all types of plastic cards. Holders of a valid card have the authorization to purchase goods and services up to a predetermined amount called a credit limit. As it stands, the debit card industry is a multi-billion-dollar engine that helps drive bank profits and point-of-purchase consumer sales - but is also beginning to redefine traditional payment options in the business and government sectors, such as food stamps, benefits, and payroll. The debit card has arrived and is here to stay. And yet, though it remains poised for growth, the debit card has also reached a crossroads. Provision for easy repayment gives the card the liquidity of cash along with the accountability of credit card. In the past 20 years these cards have proliferated the world market so successfully that they have altered the face of retail banking. With the power of plastic ruling the world, India cannot remain behind. With a slow and steady move towards scrip less trading the country is moving towards cashless transactions. The plastic money market is bubbling with activity with both Indian and foreign banks vying to expand their market presence. While the foreign banks have been hogging the limelight Indian banks are the slumbering giants. The latter have the advantage of a large customer base, branch network along with low service charges. These advantages need to be tapped to realize the full potential of these banks.

KEYWORDS

banks, credit cards, dimension, growth, global impact, gdp, plastic money.

INTRODUCTION

The history of phenomenal growth in the credit cards segment traces way back.

First payment cards were introduced in the USA, in 1920. Dinners Club and American Express launched the world's first plastic cards in the USA, in 1950. First credit card was introduced by Diners club in 1951. Citibank and HSBC were the pioneers in the Indian credit card market in the 1980.

Banking has evolved a long way from the days of the medieval money lenders counting coins on the bench to the present scenario, where it is hard to trace the trail of money from the beginning to the end. The trail starts right from the small saver leaving a few rupees in his local bank to the billions of rupee loans raised by a syndicate banks and financial institutions, capable of financing projects in any country in the world. Still, these banking majors are heavily dependent upon their retail home base of savers and borrowers. Most of the bankers began focusing on this retail market segment as global competition intensified in late seventies and early eighties. The debit card has emerged from the shadow of its older sibling, the credit card.

The Visa association of card took credit card to a new level in 1989 when they introduced debit cards. These card linked consumers to their checking accounts. Money was now drawn from a checking account at the point of sale with these new cards and replaced check writing. This helped the merchants check that money was available and made it easier to track the customer if the funds could not be obtained. Customers liked the convenience of not having to write checks at the point of sale which made debit cards a safe alternative to cash and checks.

RESEARCH DESIGN

The study is based on partially primary and secondary information as well as collective source and research so it is a descriptive research.

The study includes concepts and experiences discussed on the emergence of plastic money; different types of plastic cards its benefits and their growth in India and other related dimensions (issues) like merits demerits and economic impact in india and global scale.

An experience discussed with the banks like Standard Chartered, Citibank, HDFC, Axis bank. The main purpose is to serve on this topic under the study; is to discover the accurate dimensions of plastic money.

OBJECTIVES

1. Find out that how the credit card may help in the development of an economy like ours a developing economy.
2. To understand the toughness of the credit card market due to emerging competition.
3. To know the credit cards procedure, documentation and the growth of credit cards in Indian context.
4. To find out the features, which attract consumers towards credit cards and the parameters, they use to compare the credit cards.
5. To determine whether consumers are aware of credit card and its advantages.

LITERATURE REVIEW

Slocum, J. and Mathews (1970), in their study "social class and income indicators of consumer credit behavior" studied the influence of social and income variables on credit card selection and usage among cardholders in USA. They found that members of the lower socio-economic class tend to use their cards for installment financing much more than higher socio-economic classes. Upper classes tend to use their cards as convenient method of payment. Lower class showed more impulse buying than the middle class, who feels that they should save money and postpone purchases. The upper classes do not need to save and gratification, and since there is no reason for installments they use credit cards for convenience. It also showed that age, sex and marital status are the significant determinants of credit card selection and its usage.

Puri, vishal (1997) in his paper "smart cards – the smart way for the banks to go?" examined the many innovative smart card application covering areas such as telecommunication, transport, banking, health care and employee/membership schemes. It look how the banks, financial firms, information companies and card issuers are gradually re-conceptualizing their delivery strategy as well as their businesses to meet the growing needs for remote delivery, brand equity and differentiation. Smart cards could as payment vehicles, access keys, information managers, marketing tools and customized delivery system. It also explored the possibilities of an electronic purse ranging from a possible stored value and to a re-loadable stored value card, which could literally replace low-value cash transaction. Smart cards would then become integral to the bank's concept of remote delivery system in future, because smart cards are not just a product; they are a new delivery system. Besides the paper focused on some of the issue that might be of deeper concern to banks and suggests collaboration between banks provides in the mass introduction of smart cards.

CONCEPT OF PLASTIC MONEY

PLASTIC MONEY or polymer money made out of plastic is a new and easier way of paying for goods and services. Plastic money are the alternative to the cash or the standard 'Money'. "Plastic" portion of this term refers to the plastic construction of these cards, as opposed to paper and metal currency. The "money" portion is an erroneous reference to credit cards as a form of money, which they are not. Although credit cards do facilitate transactions, because they are a liability rather than an asset they are not money and not part of economy's money supply. Plastic money is the generic term for all types of bank cards, credit cards, debit cards, atms, smart cards, etc.

Credit cards, variants of plastic money, are used as substitutes for currency. We can use plastic money whenever we want and pay later. It makes it too easy for people to buy things they normal could not afford, which makes it easier to get into debt. Nowadays even developing countries like India are encouraging the use of these plastic money more than cash due to these reasons. They can come in many different forms like, Pre-paid Cash Cards, Debit Cards, Credit Cards, Cash Cards as In-store cards. Credit card is either Visa or MasterCard which is the most popular and in some instance American Express. The top ten Credit Card issuers in India are as follows:

TABLE 1

	ISSUERS	(IN RS.)
ICICI	Bank	5.07mn
HDFC	BANK	4.42mn
SBI	Cards	2.65mn
Citibank	-	2.54mn
HSBC	Cards	1.3mn
ABN	Amro	0.78mn
Axis	Bank	0.57mn
Deutsche	Bank	0.495mn
American	Express	0.45mn

Source: The Reserve Bank of India

BENEFITS TO BANK

- A credit card is an integral part of banks major services these days. The credit provides the following advantages to the bank: the system provides an opportunity to the bank to attract new potential customer.
- To get new customers the bank has to employ special trained staff. This gives the bank an opportunity to find the latent from among existing staff that would have been otherwise wasted.
- The more important function of a credit cards, however, is a simply to yield direct profit for the bank. There is a scope and a potential for a better profitability out of income/commission earned from the trader’s turnover.
- This also provides additional customer services to the existing clients. It enhances the customer satisfaction.
- More use by the card holder consequently the growth of banking habits in general.
- Better network of card holder and increased use of cards means higher popularity and image of the bank.
- Savings of expense on cash holdings, i.e. stationary, printing and man power to handle clearing transaction while considerably is reduced. It increases.

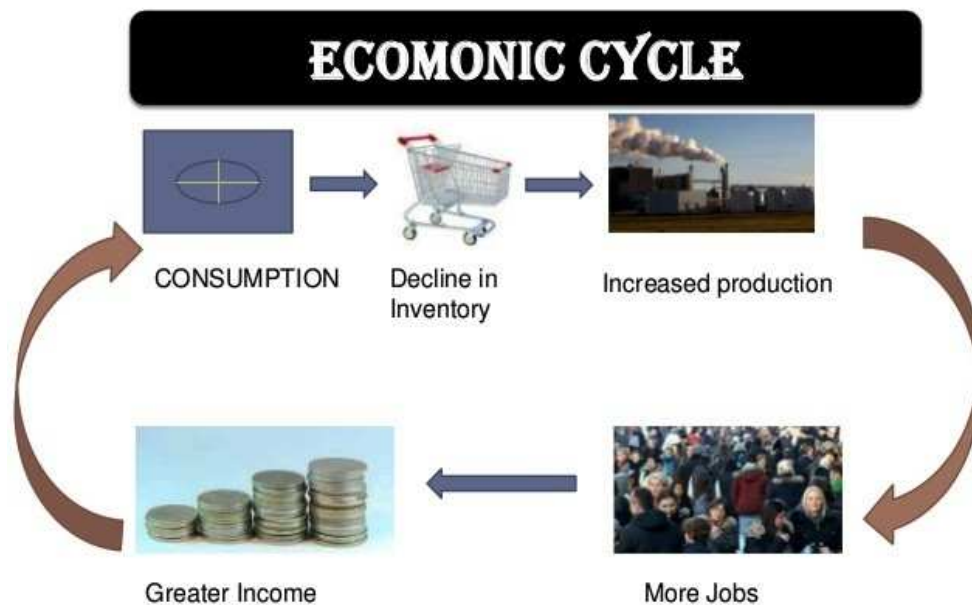
BENEFITS TO CUSTOMER

- He can purchase goods and services at a large number of outlets without cash or cheque. The card is useful in emergency, and can save embarrassment.
- The risk factor of carrying and storing cash is avoided. It is convenient for him to carry credit card and he has trouble free travel and many purchase his without carrying cash.
- Months purchase can be settled with a single remittance, thus, tending to reduce bank and handling charges.
- The card holder has the period of free credit usually between 30-50 days of purchase.

DIMENSIONS OF PLASTIC MONEY ON ECONOMIC GROWTH

THE state of a country or region in terms of the production and consumption of goods and services and the supply of money makes the impact on economic growth. The careful management of available sources is directly plays a vital role to the same. Following are the dimension of plastic money with reference to economic growth.

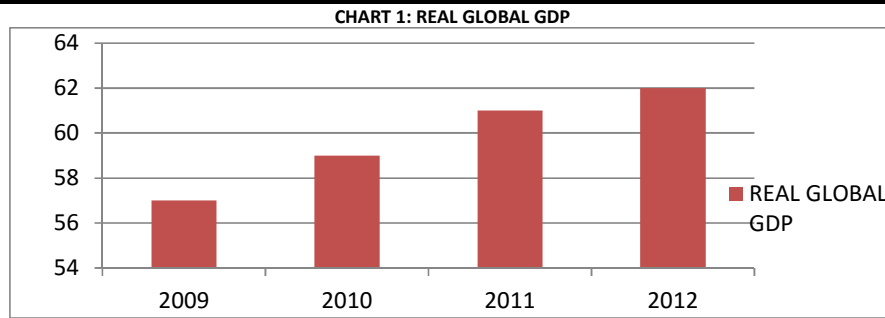
FIG. 1



RIISING CARD PAYMENTS DRIVE ECONOMIC GROWTH

The Global economic growth is \$983 billion (2008-12). Where, Electronic payment contributes to the emerging markets – 0.8 % in GDP and Developed markets 0.3 % increase in GDP.

Global real GDP was only 1.8 % per annum (2008-12); without increased card usage, that growth would have been 1.6%. So the growth of the plastic money boosts recovery.



Source: Moody's Analytics report covering 2008-12

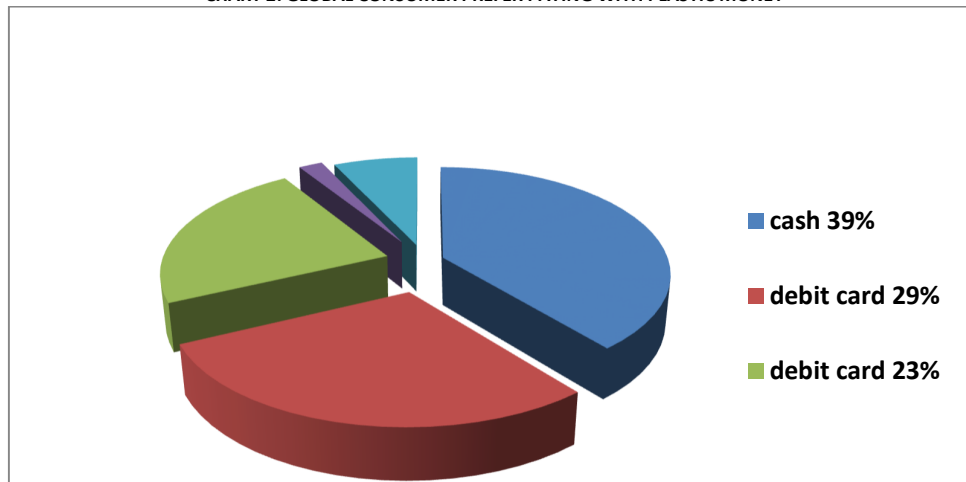
VALUE DERIVED FROM THE MIGRATION TO ELECTRONIC PAYMENT

- Higher potential of tax revenue
- Lower cash handling cost
- Guarantee payment for merchant
- A reduction in the gray economy due to lower unreported cash transaction/
- Greater financial inclusion

CARD PENETRATION

The global consumer's preference to pay through plastic money is 39% of cash and 54 % of plastic out of which credit card, debit card and prepaid card have occupied 29, 23% and 2% respectively. Rest 7 % are others ways. It has been observed that the consumers feel more free while paying in online or through cards than through cash.

CHART 2: GLOBAL CONSUMER PREFER PAYING WITH PLASTIC MONEY



Source: Moody's Analytics report covering 2008-12

THE MACRO-ECONOMIC IMPACT OF CARD USAGE

The card usage in 2008 was 27.4 % which has drastically increases to 32.8% in 2012. It enhances the private consumption. Card penetration as a percent of total PCE. There has been studied a large amount of growth of card usage; as in growth in GDP emerged due to card usage.

TABLE 2: GLOBAL RETAIL PURCHASE PAYMENT BREAKDOWN (in U.S \$)

	2008	2012
CARD	27.4	32.8
CASH	42.2	38.3
CHEQUE	9.5	7.7
OTHER	20.9	21.2
TOTAL	\$26.99 trillion	\$30.32 trillion

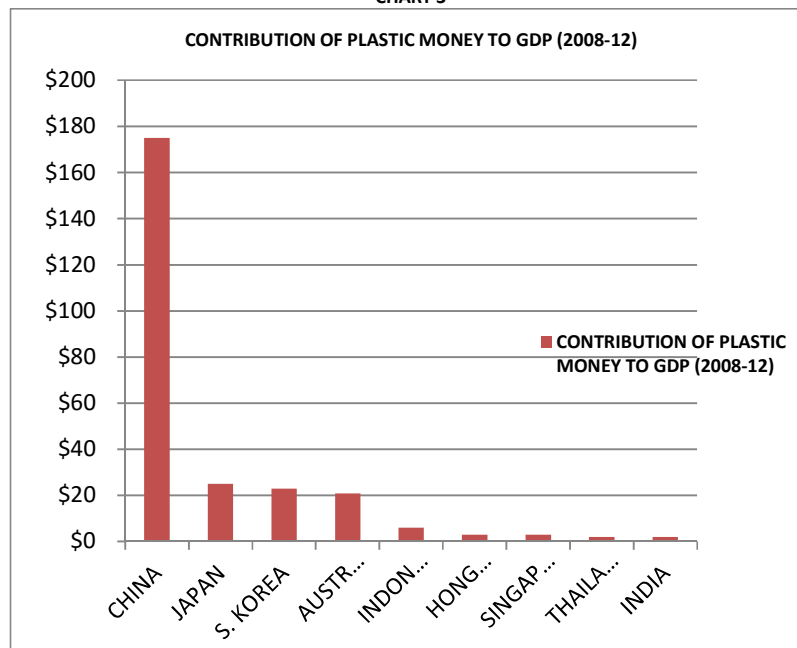
Source: Moody's Analytics report covering 2008-12

The global contribution of increased card usage to GDP in the year 2008 to 2012 is \$ 983.9 billion. Where Asia-pacific continent occupy \$260 billion and India \$2 billion.

THE VALUE OF CARD PAYMENT

There is a less friction and more efficiency through payment via plastic money. It is fruitful as it benefits all the parties included as in consumers, merchant and banks. As it is convenient and transparent it plays a vital role to the contribution in the growth of GDP. the growth seen in the following country China, Japan, South Korea, Australia, Indonesia, Hong Kong, Singapore, Thailand and India is \$175, \$25, \$23, \$21, \$6, \$3, \$2 and \$2 in billion dollars respectively.

CHART 3

**MERITS OF PLASTIC MONEY**

- Customer having poor worthiness can opt for debit card.
- Less identification and scrutiny than personal checks, thereby making transaction quicker and less intrusive.
- A debit card may be used to obtain cash from an ATM or PIN- based transaction at no extra charge.
- Provide a convenient payment method for purchase made on the internet and over the telephone.
- Instant finalization of accounts and later, helps to establish good credit history.
- Gives you incentives, such as reward points, that you can redeem.

DEMERITS OF PLASTIC MONEY

- Limited to the existing funds in the account to which it is linked.
- Banks charging over – limit fees or non – sufficient funds fees based upon pre – authorization, and even attempted but refused transactions by merchant.
- Lower levels of security protection than credit cards.
- Damage your credit rating if your payment is late and allow you to build up more debt than you can handle.
- More prone to frauds. The plastic money leads to plastic fraud. Today it is the big business for criminals.

FINDINGS

There were almost 29 million debit card users as of 2006, with a projected 34.4 million users by 2016. However, online service like PayPal is emerging as a way for people to pay their debts in now, secure and convenient ways. Technology also exists to have device implanted into phones, keys and other everyday devices so that the ability to pay at the point of sale is even more convenient.

A recent settlement has cost VISA and MasterCard approximately \$3 billion, and has dramatically reduced the fees they can charge for signature-based debit purchases. The effects of the settlement reach into every layer of the industry - from rewards incentives, to marketing programs, to future fee arrangements, and future growth. Consumer preferences for PIN or signature based debit will certainly influence how things unfold, and whether either debit card option will suffer or bloom in the short, mid, or long term. Credit cards, one of the banking products that cater products to the needs of retail segment has seen its number grow in geometric progression in recent years. This growth has been strongly supported by the development in the field of technology, without which this could not have been possible.

SOLUTION

21ST Century banking has become wholly customer driven and technology driven challenges of competition, rising customer expectation and shrinking margins, banks have been using technology to reduce cost and enhance efficiency, productivity and customer convenience. Technology intensive delivery channels like net banking, mobile banking etc have created a win-win situation by extending great convenience and multiple options for customer.

From educating customers about credit cards there is need to educate them about the differentiating factors of the cards. Because visa and master card are advertising regularly and thereby increases awareness. The strategy should be emphasizing on its differentiating characteristics.

They also need to identify potential customers and target those using mailers. As internet is growing at a fast rate the net users be targeted by having interactive sites. The prospective company's card personality could also be in the home page to solve customer queries in the best possible manner.

CONCLUSION

- ▶ Card makes economy more efficient.
- ▶ Actual currency in circulation reduces.
- ▶ Penetration increases impact on GDP and consumption increases.
- ▶ Card reduces transactional and opportunity cost.
- ▶ Enhances economic growth and reduces friction.
- ▶ Increasing purchasing power and need not to carry heavy cash and also convenient and saves time.
- ▶ Consumer spends an average of 68.5% more when they pay with a credit card instead of cash. This increases the sale of the retailers.

RECOMMENDATION

The stakeholders need to play a vital role in expending the role of plastic money, thus by giving awareness and literacy to the customers. And, adopt practices which reduce risk and fraudulent experiences.

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