

Analysis of the use of plastic money: A boon or a bane

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Abstract

Keeping in mind the changing technology replacing the traditional concept of paying not through cash but by plastic money (credit and debit cards), this research was undertaken to study the awareness and use of plastic money among the consumers. The topic that was hence chosen for this research is “**Analysis of the use of Plastic Money: A Boon or a Bane**”. The sample was selected by the Stratified Random Sampling Method and consisted of consumers including students, working professionals, government officials, house makers and senior citizens. The sample size selected was 200. It was found that consumers prefer plastic money over paper money and the major benefit that the card provides to the customers is the convenience and accessibility. The major problem according to them is the increased transactional costs and unnecessary formalities to procure the cards from the financial institutions. They felt that the future of plastic money is bright and according to them, the next thing to come via technology would be the use of digital signatures.

Objectives

1. To study the awareness and use of plastic money among the consumers
2. To study consumers’ reasons for preference of plastic money over hard cash

Keywords:

Debit card, credit card, plastic money, paper money, transactions, and financial institutions

Introduction

Plastic money is a very recent context replacing the traditional concept of paying through cash. Plastic money is a term coined keeping in view the increasing number of transactions taking place on the part of consumer for paying for transactions incurred by them to purchase goods and services physically and virtually. It includes credit cards, debit cards, pre paid balance cards, smart cards etc. In our study, we are typically focussing only on credit cards and debit cards in order to find out the effectiveness of such cards in real life and consumers perceive them. Also we would try to find out the specific areas that consumers prefer to spend more through these cards and which out of the two do they prefer for payment.

Review of Literature

Subhani in 2011 conducted a study on 'Plastic Money/Credit Cards Charisma for Now and Then'. The study was based to find out the charisma of plastic money, its usability and affordability and its impact on its preference to use. The research found that the preference to use of plastic money/ credit card has its pros and cons with its usability and affordability. According to the consumer behaviour, plastic money is a form of conditioning and acts as a stimulus which qualifies a consumer to spend. The study shows that the preference to go for plastic money has a positive association with the easy use of plastic money because the precept of credit card usability is linked with a psychological phenomena that people are likely to spend less with credit card and spend more with the same amount of cash on hand in the same budget and this precept also linked with the consumer self convenience, i.e. convenience and easy use which delves into spending.

Loewenstein and Hafalir in 2012 conducted a study on "The Impact of Credit Cards on Spending". The study focused on two types of customers, revolvers (who carry debt) and convenience users (who do not carry debt), and measured the impact of payment with credit card as compared with cash by an insurance company employees spending on lunch in a cafeteria. It was found that there was change in the diner's payment medium from cash to a credit card when an incentive to pay with a credit card was given. It was then found out that credit cards do not increase spending. However, the use of credit cards has a differential impact on spending for revolvers and convenience users. Revolvers spend less when induced to spend with a credit card, whereas convenience users display the opposite pattern.

Methodology

The study sample that was selected consisted of consumers of the local markets and shopping malls of the city of Pune. The sample was selected by the Stratified Random Sampling Method in such a way that it consisted of consumers including students, working professionals, government officials, house makers and senior citizens. The sample size selected was 200. A draft questionnaire was prepared and administered to 20 people as the part of pilot study. However, few changes were made in the questionnaire and final questionnaire was prepared which consisted of 17 questions. Two sets of hypothesis were also made, each consisting of a null hypothesis and an alternate hypothesis. Besides the primary data, secondary data was collected from books, journals and internet to gather work done by other researchers prior to the study. Appropriate statistical tools have then applied to establish correlation among the variables and for hypothesis testing.

Hypothesis

H0: People are not aware of the concept of Plastic money at all

H1: People are aware of Plastic money and possess at least one such card

H0: People prefer to use cash more often for all their daily purchases (apparel, footwear, electronic items etc)

H1: People prefer plastic money over paper money for their daily transactions (apparel, footwear, electronic items etc)

Analysis

Table 1: Type of card possessed by respondents

S No.	Parameters	Percentage
1	Debit Card	59%
2	Credit Card	16%
3	Both	21%
4	None	4%

From table 1, it can be seen that majority of respondents use plastic money in the form of debit card. However, some use both debit and credit cards. The preference of the specified card makes a great amount of impact on the spending patterns of various consumers. The preference of debit cards over credit card marks a strong sense of favouritism among the respondents of India, which is far different as compared to other western countries where Credit card is a primary mode of payment.

Most Beneficial medium of money transaction according to Respondents

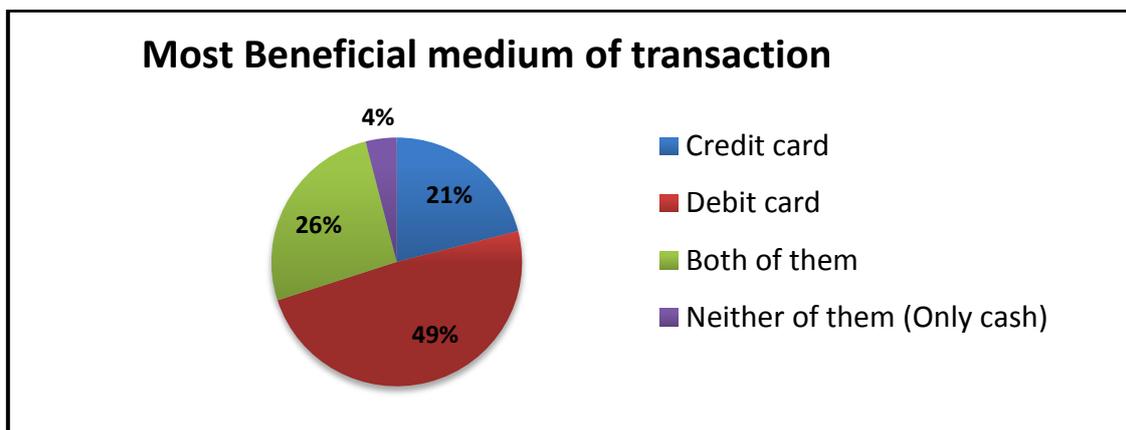


Figure 1: Most beneficial medium of transaction

According to figure 1, majority of respondents prefer using Debit card over Credit card as they feel that the use of Debit card is more beneficial than Credit card in terms of cash back policy, control over spending and security. However some of are the opinion that both Debit and Credit cards have their own benefits. One must see that the parameter of beneficial varies from person to person. However majority find the feature of cash back facility effective, and as the trend continues the financial institutions would get a balanced end of the year balance

sheet as their debtors would be lesser than their creditors. The Debit cards give a feeling of security amongst the users as they don't lead to development of any liability for the users at a later date.

Table 2: Benefits of the Debit/Credit cards according to respondents

(Figures in percentages)

SNo	Parameters	Strongly agree	Agree	Satisfactory	Disagree	Strongly Disagree
1	Convenience	53	12	21	7	7
2	Security	18	2	23	45	12
3	No transaction cost	7	6	12	23	52
4	Accessibility	32	31	20	8	9
5	Portability	47	30	3	16	4

From table 2, it can be seen that majority of respondents strongly agree to the fact that plastic money is convenient, easily accessible and very portable. However around some of the respondents completely disagree to the secure and no transaction cost nature of the Debit/Credit cards. The major preference of debit card is mainly due to the convenience and easy portability. However the high transaction or charges of using the plastic money leads to more of cash payments. Some banks have a cost as high as upto 10%. Such high rates when billed with the transaction amount spend leads to a big hole in the pockets of consumers thus their preference of debit card is justified completely.

Purpose of usage of card according to respondents

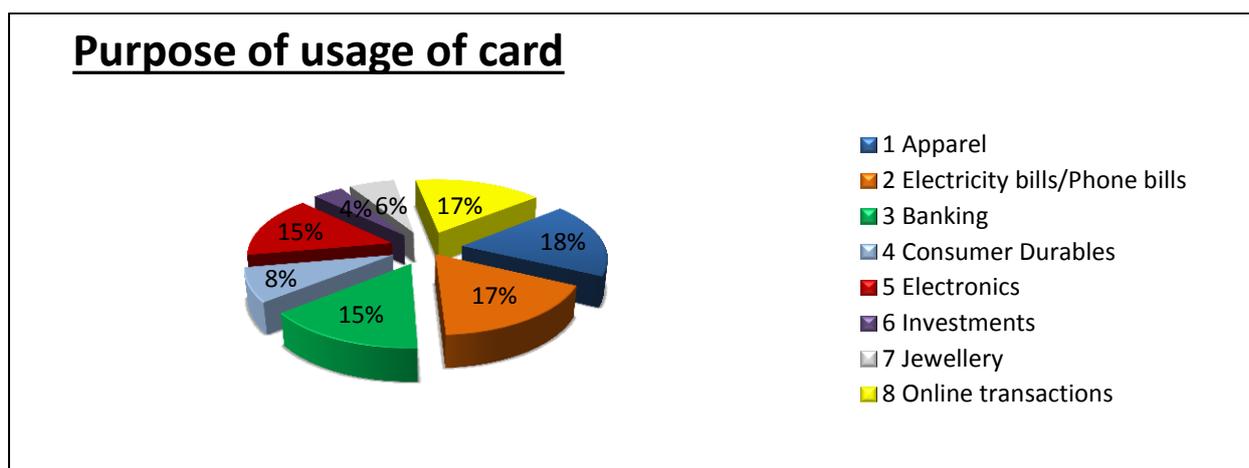


Figure 2: Purpose of usage of card

From figure 2, it can be seen that majority of respondents prefer using plastic money for buying apparels, paying electricity bills/phone bills and for online transactions. These are all day to day transactions that require more than the average cash payments. Use of Debit cards is convenient as they can be swiped anywhere with ease and the deduction from respective

bank account happens immediately unlike the credit cards where a swipe generates a future liability of payment for the customer. The easy access to internet and site like Jabong, Myntra and Amazon has led to the rise in apparel online shopping of the card users. However, they do not use plastic money much for investment purposes which includes trading of securities on stock exchanges, purchase of bonds/ debentures, purchase of jewellery etc. The reasons may be varying but the behaviour is common among maximum respondents.

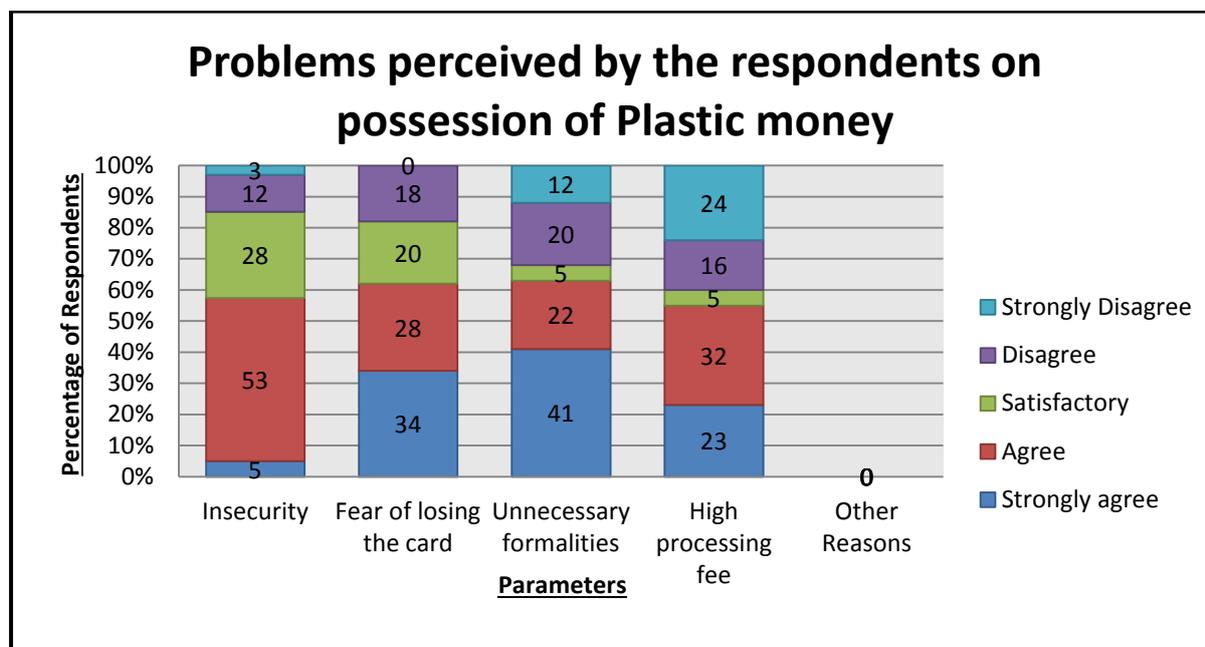


Figure 3: Problems perceived by the respondents on possession of Plastic money

However there are certain problems faced by the respondents while using their respective cards. It can be seen from the figure that majority of respondents strongly agree to the fact that the basic problem involving plastic money is fear among consumers of losing card and High unnecessary formalities. On analysis it was found that the respondents find these unnecessary formalities used by banks in order to issue a card a big demotivating factor. The lack of many security measures to ensure safety of respondent's bank account also acts as a stimulus to the demotivation. Moreover the high processing fee leads to the problem of excess burden for the customers because they have to pay a price to owe a card and pay interest on using it too.

Conclusion

The **1st objective** of the study was to know the awareness of plastic money among the customers. The findings reveal that majority of respondents use plastic money in one form or another and out of them, they have been using it for over 3 years. Therefore, customers are well aware of plastic money and its usage, and have been using plastic money for a long time. The **2nd objective** was to study customer's preference of plastic money over cash. The findings reveal that majority of respondents prefer using plastic money in one form or another, over cash. It was also revealed that majority of the respondents using plastic money

as mode of payment is satisfied with their Debit/Credit cards and the services provided by the company. Therefore, the study shows that customer's mostly prefer to use plastic money over cash for their transactions and is satisfied using it.

The **1st hypothesis** of the study was that people are not aware of the concept of plastic money at all. The findings reveal that people are aware of the concept of plastic money and its usage. Most of the respondents use plastic money for their transactions and possess at least one such card. Thus, the finding of the study rejects the null hypothesis which states that "People are not aware of the concept of Plastic money at all" and accepts the alternate hypothesis i.e. "People are aware of Plastic money and possess at least one such card" is accepted. The **2nd hypothesis** of the study was that people prefer to use cash more often for all their daily purchases. The findings reveal that majority of respondents prefer using plastic money for buying apparels, paying electricity bills/phone bills and for online transactions and all of them feel that it is a safe mode of transaction. Thus, the finding of the study rejects the null hypothesis which states that "people prefer to use cash more often for all their daily purchases" and accepts the alternate hypothesis i.e. "People prefer plastic money over paper money for their daily transactions" is accepted.

The research showed that majority of consumers used and preferred to use plastic money in one form or the other over paper money. Most of the consumers preferred using Debit card over Credit card and they use it for buying apparels, paying electricity bills/phone bills and online transactions. Many of them feel that the use of Debit card is more beneficial than Credit card because of their cash back policy, control over spending and security. Moreover respondents are satisfied with the services provided by the company and hence have been in possession of the card for over 3 years. Majority of them use it for online transactions as they feel secure transacting online but completely avoid it when they have to take part in investment activities. Consumers also strongly agree to the fact that the basic problems involving plastic money is the fear among consumers of losing card and high unnecessary formalities. As a safety measure many consumers recommend the use of Security Pin and digital signatures to reduce the misuse of plastic money. Hence in totality it is found that use of Debit card is the most beneficial to the consumers and the future of plastic money is bright.

The research would benefit financial institutions and MBA aspirants who wish to study the trend of plastic money.

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