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## **A Comparative Analysis of Various Modes of Payment for Consumers**

*Research Paper*

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### ABSTRACT

A payment system is a system used for transferring money. What makes it a "system" is that it employs cash-substitutes: traditional payment systems are negotiable instruments such as drafts (e.g., cheques) and documentary credits such as letter of credits. With the advent of computers and electronic communications a large number of alternative electronic payment systems have emerged. These include debit cards, credit cards, electronic funds transfers, direct credits, direct debits, internet banking and e-commerce payment systems. Some payment systems include credit mechanisms, but that is essentially a different aspect of payment. Payment systems are used in lieu of tendering cash in domestic and international transactions and consist of a major service provided by banks and other financial institutions.

Keywords: Internet Banking, Electronic money, paper money, plastic money, payment mode and multicurrency

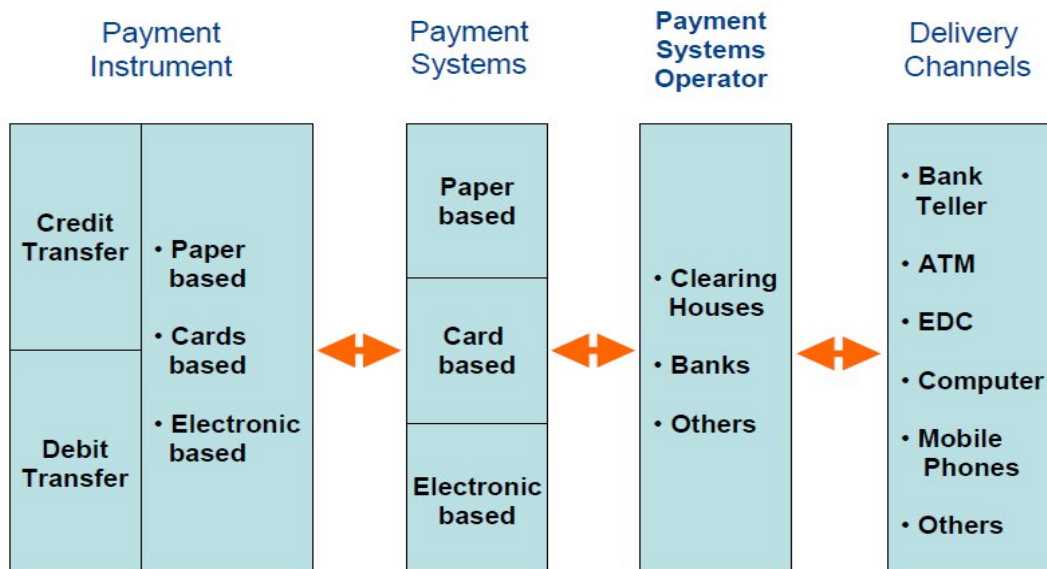
### I. INTRODUCTION

A payment system consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money.

Payment systems may be physical or electronic and each has their own procedures and protocols. Standardization has allowed some of these systems and networks to grow to a global scale, but there are still many country and product specific systems. Examples of payment systems that have become globally available are credit card and automated teller machine networks. Specific forms of payment systems are also used to settle financial transactions for products in the equity markets, bond markets, currency markets, futures markets, derivatives markets, options markets and for transfer between financial institutions both domestically using clearing and Real Time Gross Settlement (RTGS) systems and internationally using the SWIFT network. Due to the backing of modern fiat currencies with government bonds, payment systems are a core part of modern monetary systems.

Electronic money (also known as e-currency, e-money, electronic cash, electronic currency, digital money, digital cash, digital currency, cyber currency) is money or scrip that is only exchanged electronically. Typically, this involves the use of computer networks, the internet and digitally stored value systems. Electronic funds transfer (EFT), direct deposit, digital gold currency and virtual currency - are all examples of electronic money. Also, it is a collective term for financial cryptography and technologies enabling it.

## DEFINITION WHAT



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; some online cards require such authentication for every transaction, essentially becoming enhanced automatic teller machine (ATM) cards.

One difficulty with 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 the offline debit card because of its more secure authentication system and live status, which alleviates problems with processing lag on transactions that may be the only issue with 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 POLI

## II. LITERATURE REVIEW

- Paper Money

A banknote (often known as a bill, paper money or simply a note) is a kind of negotiable instrument, a promissory note made by a bank payable to the bearer on demand, used as money.

The banknote was first developed in China during the Tang and Song dynasties, starting in the 7th century. Its roots were in merchant receipts of deposit during the Tang Dynasty (618–907), as merchants and wholesalers desired to avoid the heavy bulk of copper coinage in large commercial transactions. During the Yuan Dynasty, banknotes were adopted by the Mongol Empire. In Europe, the concept of banknotes was first introduced during the 13th century, with proper banknotes appearing in the 17th century.

Paper currency was first developed in China in the Tang Dynasty during the 7th century, and was later introduced in the Mongol Empire, Europe, and America. Paper money originated in two forms: Drafts, which are receipts for value, held on account, and "bills", which were issued with a promise to convert at a later date.

The perception of banknotes as money has evolved over time. Originally, money was based on precious metals. Banknotes were seen as essentially an I.O.U. or promissory note: a promise to pay someone in precious metal on

presentation (see representative money). With the gradual removal of precious metals from the monetary system, banknotes evolved to represent credit money, or (if backed by the credit of a government) also fiat money.

Notes or bills were often referred to in 18th century novels and were often a key part of the plot such as a "note drawn by Lord X for £100 which becomes due in 3 months' time".

- Debit Card

A debit card (also known as a bank card or check card) is a plastic card that provides the cardholder electronic access to his or her bank account(s) at a financial institution. Some cards have a stored value with which a payment is made, while most relay a message to the cardholder's bank to withdraw funds from a designated account in favor of the payee's designated bank account. The card can be used as an alternative payment method to cash when making purchases. In some cases, the primary account number is assigned exclusively for use on the Internet and there is no physical card.

- Credit Card

A credit card is a small plastic card issued to users as a system of payment. It allows buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card creates a revolving account and 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.

The Charga-Plate, developed in 1928, was an early predecessor to the credit card and used in the U.S. from the 1930s to the late 1950s. It was a 2½ in × 1¼ in rectangle of sheet metal related to Addressograph and military dog tag systems. It was embossed with the customer's name, city and state. It held a small paper card for a signature. In recording a purchase, the plate was laid into a recess in the imprinter, with a paper "charge slip" positioned on top of it. The record of the transaction included an impression of the embossed information, made by the imprinter pressing an inked ribbon against the charge slip. Charga-Plate was a trademark of Farrington Manufacturing Co. Charga-Plates was issued by large-scale merchants to their regular customers, much like department store credit cards of today. In some cases, the plates were kept in the issuing store rather than held by customers. When an authorized user made a purchase, a clerk retrieved the plate from the store's files and then processed the purchase. Charga-Plates speeded back-office bookkeeping that was done manually in paper ledgers in each store, before computers.

- Electronic Money

Electronic money (also known as e-currency, e-money, electronic cash, electronic currency, digital money, digital cash, digital currency, cyber currency) is money or scrip that is only exchanged electronically. Typically, this involves the use of computer networks, the internet and digitally stored value systems. Electronic funds transfer (EFT), direct deposit, digital gold currency and virtual currency - are all examples of electronic money. Also, it is a collective term for financial cryptography and technologies enabling it.

While electronic money has been an interesting problem for cryptography (see for example the work of David Chaum and Markus Jakobsson), to date, the use of e-money has been relatively low-scale. One rare success has been Hong Kong's Octopus card system, which started as a transit payment system and has grown into a widely used electronic money system. London Transport's Oyster card system remains essentially a contactless pre-paid travel card. Two other cities have implemented functioning electronic money systems. Very similar to Hong Kong's Octopus card, Singapore has an electronic money program for its public transportation system (commuter trains, bus, etc.), based on the same type of (FeliCa) system. The Netherlands has also implemented a nationwide electronic money system known as Chipknip for general purpose, as well as OV-Chipkaart for transit fare collection. In Belgium, a payment service company, Proton, owned by 60 Belgian banks issuing stored value cards, was developed in 1995.

A number of electronic money systems use contactless payment transfer in order to facilitate easy payment and give the payee more confidence in not letting go of their electronic wallet during the transaction.

### III. RESEARCH METHODOLOGY

The intention of the study is to assess how people use plastic money in making payments for goods and services.

- **Collection of DATA**

Sample Space: 100

Region: Delhi, NCR & nearby cities.

Target persons for questionnaire: Age: 20-70, Common People (except big business persons)

Collection of Data: Only primary Data (Direct form filling – Hard Copy)

Primary Data: The data is collected through direct investigation. Hard copy of forms (printout) were got filled up.

- OBJECTIVE OF THE STUDY

- The objective of this research is to find the new payment system's impact on people's life and find that how much they are in comfort with the new payment system.
- To find which payment system the individual uses most frequently, which payment system like us of mobile, internet or cash, has an ease in payment.
- The main focus is to find the statistics regarding the new payment system and comprehensiveness of classical style like paper money with other forms of payment system.
- The mobile payment system, which is the new system, is being analysed and its features, usage and number of customers is being analyzed.
- Research also focuses on plastic money and it's percentage in usage. Tried to find out whether the security measures taken by government in e-banking has any impact or not and the difficulties individuals find while using e-payment.
- The target was to cover the opinion of all age groups and all work groups. Findings related to common people regarding their usage in payment system are being laid more stress than on the business people.

- Hypothesis

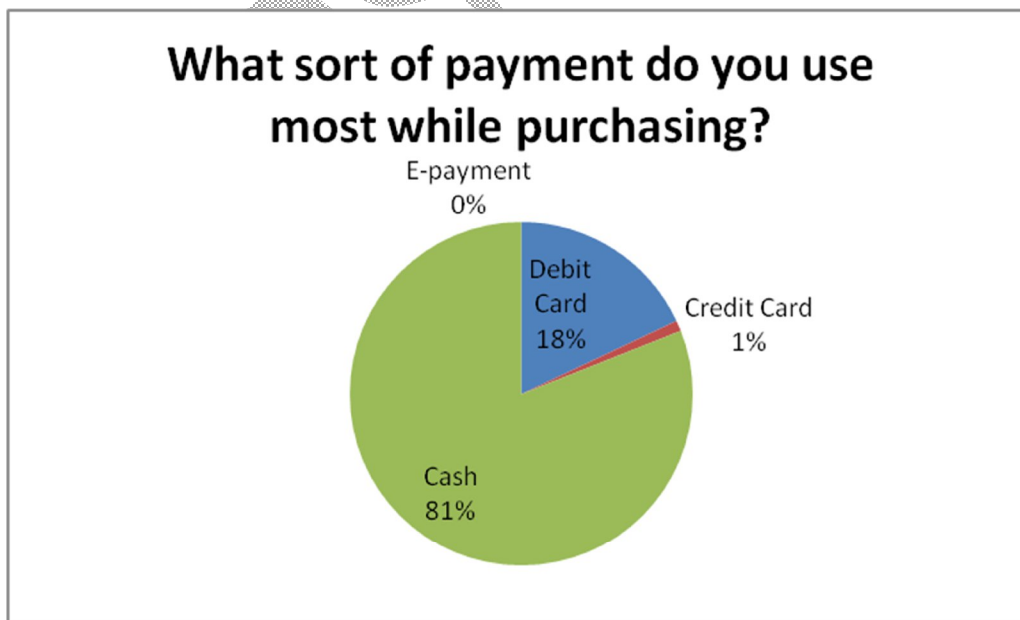
H0: People are not aware of the concept of Plastic money at all

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)

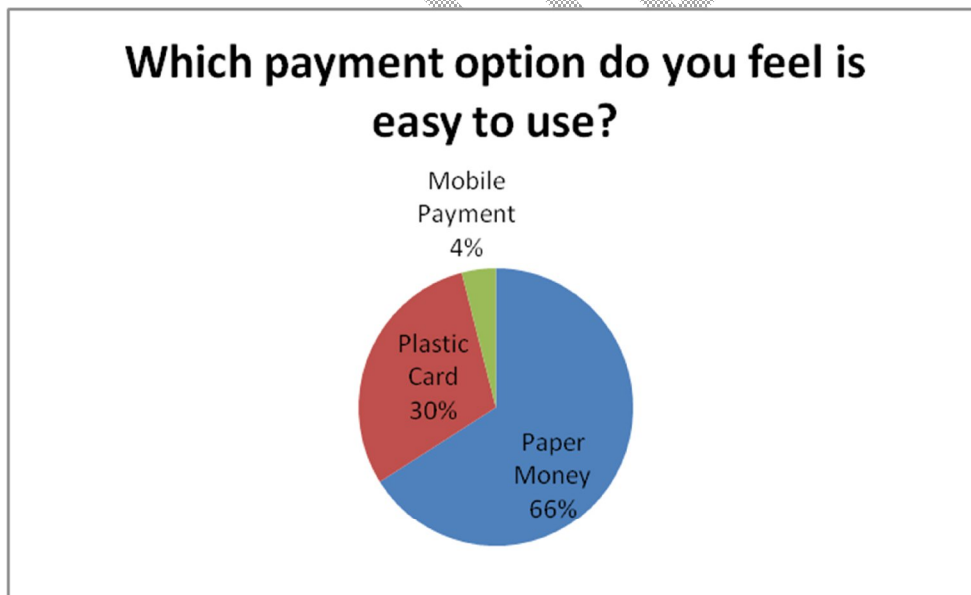
#### IV.RESULT AND DATA ANALYSIS



Findings: The majority of users i.e. 81% do hard cash shopping, 18% use debit cards more than cash payment, 1% users use credit card more than the previous two and E-payment is still not popular 0%.

Critical View: Still in India 81% people rely on hard Cash i.e. Paper Money. While, Debit cards users are increasing, as 18% use debit card more than cash payment, whereas, Credit Card is only restricted to high class people of metro cities. Also, Internet shopping is still not so popular to take over hard cash shopping.

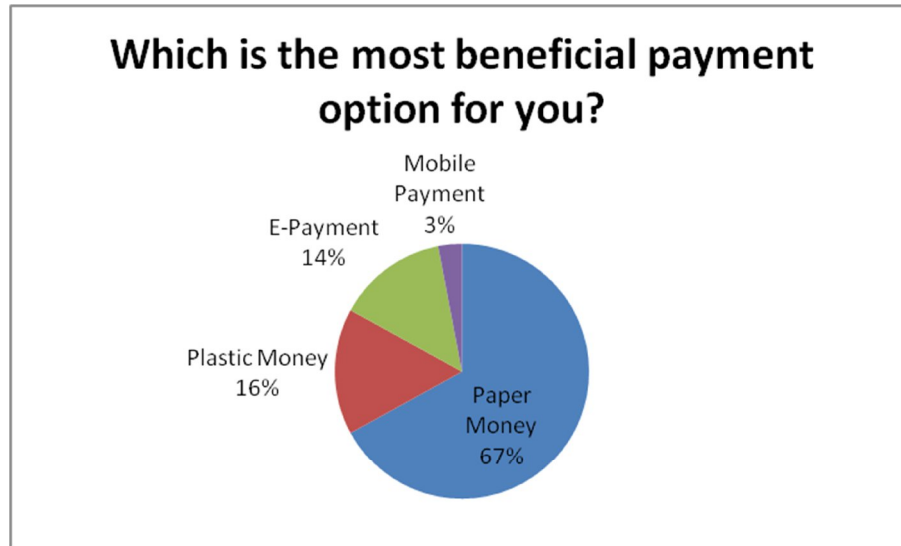
Reasons: Still most of the shop does not have swap card system. They charge extra for that. Internet shopping does not provide variety of choices and reliability and still we are not so sophisticated and educated about internet shopping. Credit card is still unpopular in middle class as they have to pay extra for that.



Findings: 66% Paper Money,30% says Plastic Card,4% says Mobile Payment



Critical View & Reasons: In India people still feel that due to lack of availability of swap machine hard cash is easy to use. The main reason behind is lack of availability of swap machine and unawareness of e-payment and swap system of debit card.



Findings: 67% Paper Money

16% feel Plastic Money

14% feel E-payment

3% feel Mobile Payment

Critical View & Reasons: Paper Money has no interest charged on it and definitely for this reason most of the persons go for Paper Money, ease of use is also the cause for it. While Plastic money due to lack of awareness still unable to keep pace plus the other reason is excess interest and swap charge. Though, E-payment shows a reasonable growth of 14% due to easiness in payment and very easy shopping by just staying @ home.

## V.CONCLUSION

The 1<sup>st</sup> 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 2<sup>nd</sup> 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 preferred to use plastic money over cash for their transactions and is satisfied using it.

The 1<sup>st</sup> 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 2<sup>nd</sup> 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.

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