International Journal of Academic Research
ISSN: 2348-7666; Vol.7, Issue-2(2), February, 2020
Impact Factor: 6.023; Email: drtvramana@yahoo.co.in

Debit Cards and Credit Cards: A Step towards Digitalization

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ABSTRACT:

In our today's day to day life activities one of the most necessary things is money. We might hear many quotes and philosophy stating that money is not important but if you need anything in life major role is played by money. A decade earlier whenever we are in need of money we used approach a bank in which we are having a savings account, fill a form, stand in a queue, take a token and wait for your token number and collect your money. As we all can see from the last decade the role played by money in our lives has increased tremendously and such change demanded a better mannered system where the people's need of money can be addressed more effectively and efficiently. To achieve such success the system of "debit cards and credit card" has been introduced by various banks in India. ATM cards have become more common in these days than they were a decade ago making people's life easier. Though this technology makes our life easier at the same time it gives you certain disadvantages.

Key word: ATM cards, banking system, chip cards, wireless technology, ATM machines

INTRODUCTION:

Today's banking system is more developed when compared with the banking system of last decade. Where in the banking system of last decade everything is done manually today the entire banking business has been digitalized. The major step taken by the bank towards this drastic change is introduction of "debit cards and credit cards". A debit card is also known as a bank card, plastic card or check card it can be defined plastic payment card in simple terms that can be used instead of cash when making purchases. The money is immediately transferred directly from the cardholder's bank account to the vendor account when performing any transaction or purchase. Use of these debit cards relays a message to the cardholder's bank to withdraw funds from a payer's designated bank account. Debit cards usually also allow instant withdrawal of cash, acting as an ATM card for this purpose. Merchants may also offer cash back facilities to customers, so that a customer can withdraw cash along with their purchase. In other words a debit card is a payment card that deducts money directly from a consumer's checking account to pay for a purchase. Debit cards eliminate the need to carry cash or physical checks to make purchases. In addition, debit cards, also called check cards, offer the convenience of credit cards and many of the same consumer protections when issued by major payment processors like Visa or MasterCard.

A credit card is a payment card issued to users to enable the cardholder to pay a merchant for goods and services based on the cardholder's promise to the card issuer to pay them for the amounts plus the other agreed charges. A credit card also differs from a debit card, which can be used to withdraw cash by the owner of the card. A credit card typically involves a third-party entity that pays the seller and is reimbursed by the buyer, whereas a charge card simply defers payment by the buyer until a later date. In simple a way a credit card can be defines as a thin rectangular slab of plastic issued by a financial company, that lets cardholders borrow funds with which to pay for goods and services. Credit cards impose the condition that cardholders pay back the borrowed money, plus interest, as well as any additional agreed-upon charges. The following are the main reasons of why banks issued credit cards to generate customer loyalty, many retail establishments issue branded versions of major credit cards, with the store's name emblazoned on the face of the cards. Although it's typically easier for consumers to qualify for a store credit card than for a major credit card, store cards may only be used to make purchases from the issuing retailers, which may offer cardholders perks such as special discounts, promotional notices, or special sales.

Objectives of study:

To understand the impact of debit cards and credit cards on our economy
To speed up development of banking system
To keep track on the spending pattern of various types consumers which helps in understanding their pattern of spending
To provide more efficient services to customers
To understand the requirements of customers

REASEARCH METHODOLOGY:

The following are the sources of data collection:
Primary data: This has been collected through observing various patterns in the customer behaviour related to use of debit cards and credit cards
Secondary data: This has been collected by referring to various articles published in journals related to banking and various trends in recent years in banking.

DEBIT CARDS:

A debit card is a payment card that lets you make secure and easy purchases online and in person. Unlike a credit card, a debit card draws directly from your checking account. You're not borrowing; the money on your debit card is your own. And you can use it to access your cash at ATMs.
Debit cards look and function just like credit cards, except that credit cards are linked to a line of credit and must be paid off every month, whereas debit cards work the same as cash. Debit cards can be used for both online purchases and at traditional retailers, and money is deducted automatically at the point of sale

TYPES OF DEBIT CARDS:

The following are the different types of debit cards:

PIN ONLY CARDS: A "PIN" is a security code that belongs to you. PIN stands for personal identification number. A bank or credit union gives you a PIN when you get a debit card. You can change your PIN to a number you will remember. When you use your debit card, you need to enter your PIN on a keypad. This is one way the bank tries to stop dishonest people from using your debit card to get your money.

DUAL-USE CARDS: Debit cards serve a dual purpose: They allow the user to withdraw money from his or her checking account through an ATM or through the cash-back function many merchants offer at the point of sale. In addition, they also allow the user to make purchases.

OFFLINE DEBIT CARD: An offline debit card is a type of automated payment card, similar to a traditional (online) card that allows a cardholder to pay for goods and services directly from their bank account. As it is not "online," there is a delay before the incurred cost is debited from the account and it does not require a PIN for use. It is similar to writing a check

ONLINE DEBIT CARD: 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.

PREPAID DEBIT CARDS: Prepaid debit cards are reloadable and can be also called reloadable debit cards. Prepaid cards vary by the issuer company: key and niche financial players, (sometimes it can be collaborations between businesses), purpose of usage (transit card, beauty gift cards, travel card, health savings card, business, insurance, others), and regions.

ADVANTAGES OF DEBIT CARDS:

Avoid fees and service charges
Stay accountable for your spending
Faster payments mean better budgeting
No interest charges
Security
Debit cards are linked to interest-earning accounts
Bank and Merchant Rewards

DISADVANTAGES OF DEBIT CARDS:

No credit allowed
Additional fees on ATM withdrawals
Difficult to dispute fraudulent use
Dealing with Problem Transactions
Recurring Transactions

CREDIT CARDS:

A card that entitles the holder to a revolving line of credit, which is determined by the users income. The days of credit one gets could range from 20 - 50 days calculated from the day of billing and not from date of purchase. You can chose to pay your entire dues at one go, or stagger them after paying the minimum amount due every month. Besides this, it entitles the member to plethora of benefits like travel discounts, discount on retail loans.

TYPES OF CREDIT CARDS:

SECURED CREDIT CARDS: A secured credit card is a type of credit card that is backed by a cash deposit from the cardholder. This deposit acts as collateral on the account, providing the card issuer with security in case the cardholder can't make payments. Secured credit cards are often issued to subprime borrowers or those with limited credit histories.

GENERAL CREDIT CARD: RBI has formulated broad guidelines for banks for issuance of General Credit Cards and within those guidelines, each Bank floats its own scheme of General Credit Card. We give below these guidelines. Readers will need to refer to specific scheme of bank to avail the facility under such schemes.

CHARGE CREDIT CARD:

A charge card is a type of electronic payment card that charges no interest but requires the user to pay his/her balance in full upon receipt of the statement, usually on a monthly basis. Charge cards are offered by a limited number of issuers. They can include an uncapped spending limit with generous reward benefits for the cardholder.

STORAGE CREDIT CARD:

Store cards are essentially credit cards designed for use at a particular chain of retailers. They will offer you various discounts and other perks when you do spend money at the stores in question. Store cards are generally designed to ultimately benefit the store rather than the customer by attempting to guarantee long term loyalty. If used correctly they can offer a wealth of advantages but it is important to go over the details of each card and what benefits it comes with before you settle.

CO-BRANDED CARD:

A co-branded credit card is sponsored by two parties. Typically one is a retailer — such as a department store, gas retailer or airline. The other is a bank or card network such as Visa, MasterCard, Discover or American Express. With co-branded credit cards, cardholders may get merchandise discounts or rewards points when they buy from the sponsoring merchant.

ADVANTAGES OF CREDIT CARDS:

Spreading purchases out
Buying now to pay later
Having purchase protection
Getting an interest free loan
Getting benefits and rewards
Cutting down your debt
Boosting your credit rating

DISADVANTAGES OF CREDIT CARDS:

The possibility of debt
Your credit score
Fees and charges
Limited usage

DEBIT CARD VS CREDIT CARD:

CREDIT CARD	DEBIT CARD
Inculcates a financial discipline to repay the debt within a stipulated time period	It does not prompt the user to deposit the amount back
Offers an interest free credit period of 45 to 60 days depending on the card company	Does not allow to make payments over and above the balance available in the bank account
Allows withdrawal of cash from the ATM in case of emergency	Allows cash withdrawal only if you have that amount in the bank account
Allows greater cash backs and reward points on spending	Lesser cash back offers in comparison to credit cards
Can be used as a tool to improve the credit score	Does not impact the credit score

CONCLUSION:

The introduction of "debit cards and credit cards" has led to a drastic change in the functioning of banking system. These types of cards can also be termed as Smart Cards as they led banking in way of smart functioning. These cards were mainly introduced to reduce the burden of customers and increase the efficiency of day to day bank operations. Though all these technologies are made for human beneficiary they possess certain disadvantages like late detection of fraud, delay in recovery of funds in case of failed payment, higher interest rates in case of credit cards etc. If such limitations are overcome by taking various security measures the banking system can be developed into flawless smart system.

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