

## A Study On Uses Of Debit Card

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### ABSTRACT

*Due to the technological revolution in financial sector, the payments in banking system have undergone a tremendous change. The Number of innovative products for making payment has developed after the privatization and globalization. Customers have showed their preference over the usage of the plastic money generally over a period of time in the banking process. Plastic money is an alternative to the cash or the standard money. Various types of plastic are cards provided by banks in India. Plastic money is referring to the Debit card use at the point of sale has grown dramatically in recent years in India and now exceeds the number of credit card transactions. The debit cards are used to withdraw cash from an ATM, purchase of goods and services at Point of Sale, E-commerce both domestically and internationally. However, it can be used only for domestic fund transfer from one person to another. This paper attempts to study about the customer perception of debit card usages in banking industry and satisfaction of debit card holders.*

**Keywords:** ATM (Automatic Teller Machine), Bank Sector, Credit Card, Debit Card, Electronic Banking.

### INTRODUCTION

The Debit card is a magnetically encoded plastic card issued by banks which has replaced cash and cheques. It allows the customer to pay for goods and services without carrying cash with them. In some cases, a debit card is multipurpose which can also be used as ATM for withdrawing cash and to check account balances. It is issued free of cost with the saving or current account. The Debit card is one of the best online e-payment tool through which the amount of purchase is immediately deducted from customer account and credited to merchant's account provided if that much amount is available in the customer's account. It has overcome the delayed

payment process of cheques, due to which sometimes merchants have to suffer.

There are currently two ways that debit card transactions are processed

1. Online debit (also known as PIN)
2. Offline debit (also known as signature debit)

Debit card transaction involves the purchase of goods or service. In this case, the consumer presents a debit card to a merchant, and the consumer either enters a PIN online debit or signs a receipt offline debit to verify the consumer's identity. The merchant, in turn, sends information about the transaction across one or more debit card networks, and if the transaction is approved,

the consumer receives the goods or service and the checking account is correspondingly debited. The merchant is reimbursed by a credit to its bank account.

In India, four types of Debit Cards are issued by banks – most of the banks, VISA, VISA Electron, SBI and city bank issue Master Card and Maestro. The debit card was mostly used for ATM transactions. RBI has announced such fee is not justified so the transaction has no processing fee. The debit card transactions are routed through visa or master card networks in India and overseas rather than directly via the issuing bank.

## REVIEW OF LITERATURE

Review of literature paves way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. Keeping this view in mind, an attempt has been made to make a brief survey of the work undertaken on the field of Debit Cards. The reviews of some of the important studies are presented below.

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.

Bhargava (2004) title "Debit cards: A new generation plastic money" analyses that debit cards are fast catching up with the customers. A combination of factors like ease of availability, debit-averse profile of customer and zero interest rates are propelling the usage of Debit Cards. The study emphasizes to increase the usage of these cards, bank will need to improve infrastructure and continues to focus an increasing installations of point of sale [POS] in smaller cities and on the locations which are frequently used by cardholders, and to develop new marketing programmers that educate customers on the benefits of replacing cash with plastic.

Al-Laham (2009) in his research "Development of Electronic Money and its Impact on the Central Bank Role and Monetary policy" asserts that, in recent years there has been considerable interest in the development of electronic money schemes. Electronic money has the potential to take over from cash as the primary means of making small-value payments and could make such transactions easier and cheaper for both consumers and merchants. Electronic money is a record of the funds or "value" available to a consumer stored on an electronic device in her possession, either on a prepaid card or on a personal computer for use over a computer network such as the internet. This paper argues that electronic money, as network goods, could become an important form of currency in the future. Such a development would influence the effectiveness and implementation of monetary policy. Author feels that, if an

increased use of e-money substantially limits demand for central bank reserves, it would require changes in the operational target of the central bank and a closer coordination of get of the central bank and a closer coordination of monetary and fiscal policies.

## **OBJECTIVES**

The following are the Objectives of the Study:

1. To Study the History of the debit card
2. To Study the Common Features of Debit Cards
3. To Study the Types of debit card systems
4. To Study the Providers of Debit Cards:
5. To Study the Consumer protection with regard to Debit Cards
6. To Study the Financial access of Debit Cards
7. To Study the Internet purchases of Debit Cards
8. To Study the Debit Cards in India
9. To Study the Advantages of Debit Cards
10. To Study the Disadvantages of Debit Cards

## **RESEARCH METHODOLOGY**

The prepared paper is a descriptive study in nature. The study has been carried out based on the collection of the relevant secondary data. Secondary data collection was based on various sources such as published books, articles published in different journals & newspapers, periodicals, conference paper, working paper and websites, etc.

## **HISTORY OF THE DEBIT CARD**

The debit card has been around since 1966, which means banks have had a lot of time to figure out new ways to charge you for using your own money. Wells Fargo this week

announced a plan to test a \$3 monthly fee for debit card users in five states, and as I reported earlier today, these fees are starting to really add up for consumers. But fees aren't new. So we decided to take a look at the history of debit cards and their fees. The first debit card may have hit the market as early as 1966, according to a report by the Kansas City Federal Reserve. The Bank of Delaware piloted the card. And by the '70s, several other banks were trying out similar ideas. Robert Manning, author of Credit Card Nation, said debit card usage picked up in the '80s and '90s as more and more ATMs started cropping up across the country. In 1990, debit cards were used in about 300 million transactions. In 2009, prepaid and debit cards were used in 37.6 billion transactions. Debit card fees aren't actually new. Wells Fargo has been issuing debit cards since 1990, and spokesperson Lisa Westermann said the company charged \$1 a month to use debit cards in some regions as recently as a few years ago.

"As merchants began paying financial institutions for the convenience of processing debit card transactions (including payment protection), fees slowly went away," Westermann said in an email. Today, merchants typically pay a swipe fee each time a debit card is used. A Federal Reserve survey found the average swipe fee is 44 cents. Those fees added up to \$16.2 billion in 2009 for prepaid and regular debit cards. Consumers are also using debit cards with greater frequency. An IBOPE Zogby International survey this summer found that, when making daily purchases, about 55 percent of consumers say they use their debit card more than half the time. Manning said many borrowers have seen their credit card limits cut. Others voluntarily cut back on credit card use. But banks see that as a problem, because in a few months, regulations -- which don't apply to credit

cards -- will limit the amount they can charge in swipe fees. Recently the Federal Reserve Board -- as directed by financial regulation passed last year -- ruled the average swipe fee should be cut about in half. The new regulations go live in October. Wells Fargo estimated losses could be \$250 million per quarter.

## **COMMON FEATURES OF DEBIT CARDS**

Some of the most common features of debit cards include;

### **• Transaction Options**

Debit cards can be used in a range of different ways and are often described as just like credit cards, but with the advantage of having your own money on the card. Most debit cards will enable you to access your money in the following situations:

- At ATMs
- In stores or restaurants
- Online
- Over the phone; and
- Overseas
- Many banks also offer Visa debit cards and MasterCard debit cards, which can be used anywhere.

### **• Account Management Features**

One of the biggest advantages of debit cards is that they allow you to financial flexibility while also encouraging better financial management. There are a number of debit cards that offer greater access to banking services, like the ANZ Access Advantage debit card which gives cardholders unlimited access to ANZ ATMs, phone and internet banking, branch, cheque and EFTPOS facilities without any extra fees. For people likely to travel overseas, a debit

card like the St George Complete Freedom will give you a Visa debit card for access to your money any time, anywhere in the world. It also offers unlimited branch, cheque and electronic transactions, which could be handy if you need to transfer funds while on the road.

### **• Security Measures**

Like credit cards, debit cards have a range of security features. Physical features include a unique debit card number (which can be used for electronic transactions), a signature panel and a three-digit card security code that ensures no one can simply copy your details off the front of the card then use them to buy things online. Visa debit cards, which you can get through a range of banks including ANZ, Citibank, Westpac and Suncorp, also offer a zero liability policy so if there are unauthorised transactions on the card you will not be held responsible for the charges. While it is easy to take anything convenient for granted, the features of debit cards can make a difference to your financial management and lifestyle. Plus, with so many different debit cards available, the possibilities are endless.

### **• Debit Card Security Code**

There are currently three ways that debit card transactions are processed: EFTPOS (also known as online debit or PIN debit), offline debit (also known as signature debit), and the Electronic Purse Card System. One physical card can include the functions of all three types, so that it can be used in a number of different circumstances. Although the four largest bank card issuers (American Express, Discover Card, MasterCard, and Visa) all offer debit cards, 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, Interac in Canada, Carte Bleue in France, EC electronic cash (formerly Eurocheque) in Germany, UnionPay in China, RuPay in India 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 MasterCard brand. Some debit cards are dual branded with the logo of the (former) national card as well as Maestro (for example, EC cards in Germany, Switch and Solo in the UK, Pinpas cards in the Netherlands, Bancontact cards in Belgium, etc.). The use of a debit card system allows operators to package their product more effectively while monitoring customer spending.

## **TYPES OF DEBIT CARD SYSTEMS**

The following are the 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; 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 PINpad 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 only issue online debit cards. Some on-line debit systems are using the normal authentication processes of Internet banking to provide real-time online debit transactions.

### **• Offline debit system:**

Offline debit cards have the logos of major credit cards (for example, Visa or MasterCard) or major debit cards (for 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 subject 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 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).

### **• Electronic Purse Card System:**

Smart-card-based electronic purse systems (in which value is stored on the card chip,

not in an externally recorded account, so that machines accepting the card (need no network connectivity) are in use throughout Europe since the mid-1990s, most notably in Germany (Geldkarte), Austria (Quick Wertkarte), the Netherlands (Chipknip), Belgium (Proton), Switzerland (CASH) and France (Moneo, which is usually carried by a debit card). In Austria and Germany, almost all current bank cards now include electronic purses, whereas the electronic purse has been recently phased out in the Netherlands.

#### • Prepaid Debit Cards:

Prepaid debit cards that can be reloaded are also called reloadable debit cards. The primary market for prepaid debit cards has traditionally been unbanked people that is, people who do not use banks or credit unions for their financial transactions.

### PROVIDERS OF DEBIT CARDS

Some of the first companies to enter this market were: MiCash, RushCard, Netspend, and Green Dot who gained market share as a result of being first to market. However, since 1999, there have been several new providers, such as TransCash, 247card, iKobo. These prepaid card companies offer a number of benefits, such as money remittance services, card-to-card transfers, and the ability to apply without a social security number.

### CONSUMER PROTECTION

Consumer protections 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 some countries, like 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 judgement 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.

### FINANCIAL ACCESS

Debit cards and secured credit cards are popular among college students who have

not yet established a credit history. Debit cards may also be used by expatriated workers to send money home to their families holding an affiliated debit card.

### **INTERNET PURCHASES**

Debit cards may also be used on the Internet either with or without using a PIN. Internet transactions may be conducted in either online or offline mode, although shops accepting online-only cards are rare in some countries (such as Sweden), while they are common in other countries (such as the Netherlands). For a comparison, PayPal offers the customer to use an online-only Maestro card if the customer enters a Dutch address of residence, but not if the same customer enters a Swedish address of residence. Internet purchases can be authenticated by the consumer entering their PIN if the merchant has enabled a secure online PIN pad, in which case the transaction is conducted in debit mode. Otherwise, transactions may be conducted in either credit or debit mode (which is sometimes, but not always, indicated on the receipt), and this has nothing to do with whether the transaction was conducted in online or offline mode, since both credit and debit transactions may be conducted in both modes.

### **DEBIT CARDS IN INDIA**

The debit card had limited popularity in India as the merchant is charged for each transaction. The debit card was mostly used for ATM transactions. RBI has announced that such fees are not justified so the transaction has no processing fee. Most Indian banks issue Visa debit cards, though some banks (like SBI and Citibank India) also issue Maestro cards. The debit card transactions are routed through Visa or MasterCard networks in India and overseas

rather than directly via the issuing bank. The National Payments Corporation of India (NPCI) has launched a new card called RuPay. It is similar to Singapore's NETS and Mainland China's UnionPay.

### **ADVANTAGES OF A DEBIT CARD**

- Easy to obtain. Once you open an account most institutions will issue you a debit card upon request.
- Convenience. Purchases can be made using a chip-enabled terminal or by swiping the card rather than filling out a paper check.
- Safety. You don't have to carry cash or a checkbook.
- Readily accepted. When out of town (or out of the country), debit cards are usually widely accepted (make sure to tell your financial institution you're leaving your city; to not have an interruption in service).

### **DISADVANTAGES OF A DEBIT CARD**

- No grace period. Unlike a credit card, a debit card uses funds directly from your checking account. A credit card allows you to borrow funds on credit, leaving disposable cash in your account.
- Check book balancing. Balancing your account may be difficult unless you record every debit card transaction.
- Less protection. Most financial institutions will try and protect their customer from debit card fraud. However, a customer could potentially be liable for up to \$500 on fraudulent debit card transactions compared with only \$0 on credit cards. Be sure to check with your

financial institution to learn the details.

- Fees. Using your debit card for ATM transactions may be costly if the ATM is not affiliated with your institution.

## CONCLUSION

Debit cards are one of the most common forms of payment used in the world today. These are cards that look identical to credit cards, which are linked directly to your bank account. Whenever you make a purchase, the funds are taken directly from your account, resulting in a simple and quick transaction. Debit cards are also known as “E-Checks” and didn’t come around until the late 1970’s, but they have changed the way that we purchase things globally. There are some spectacular benefits from using a debit card as your form of payment, but some negative things to consider as well.

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