

ISSUES REGARDING PLASTIC MONEY IN PAKISTAN

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ABSTRACT

Financial restructuring and privatization of banks in Pakistan have increased competition in banking sector. Thus a number of innovative products, for making payment, are offered by Banks. Such products are alternatives to cash or the standard 'money', and known as Plastic Money. Plastic money is considered much more convenient and secure to carry around and use worldwide as compared to cash. However, in Pakistan most of the customers are reluctant to adopt and use Plastic Money Products that is why Plastic Money Industry is still undeveloped in Pakistan. The purpose of this research is to find out the issues faced by Pakistani Customers regarding Plastic Money. This research is based on the qualitative findings of data collected from a sample of customers both users and non-users of Plastic Money. The sample was composed of customers having different demographic characteristics such as Age, Gender, Income level, Occupation, Education level and Area of Residence (rural, urban). Data analysis revealed that a large number of Pakistani customers have certain misperceptions about Plastic Money. Most of the people are not even aware of Plastic Money and the ways of using them. Lack of education, poor banking services, electricity failure, limited options, over spending and insecurity of transactions are the reasons having negative influences on market of Plastic Money in Pakistan. This study provides an understanding and insight of these issues and its impacts on consumer's behavior about Plastic Money. This study provides some recommendations to attract Pakistani customers towards Plastic Money.

Key Words: Plastic Money, Financial Restructuring, Credit Cards, Debit Cards

INTRODUCTION

After the year 2000, financial sector had greatly reformed as a result of privatization of banks and the restructuring of financial institutions in Pakistan. Large number of private investors targeted banking sectors for investment. According to the Economic Survey of Pakistan 2012, the financial and insurance sector has seen a growth of 15% despite the fact that interest rate spread remained highly variable in recent years. Flow of Foreign Direct Investment is also towards banking sectors in Pakistan. As a result large number of new banks have been established in the last three/four years. Thus Pakistan's banking sector has robustly engaged in consumer financing by offering a variety of products, services and packages to the consumers. Now banking sector in Pakistan is facing a close competitive market that's why banks have increased their liquidity, Range of products and services.

Now, all the banks are competing for the same pocket of consumers and are engaged in providing new and convenient products and services. Among those moderate products and services Plastic money is also an important product offered by modern banks in order to attract the customers.

Plastic Money:

The Plastic Money is generally a card with a magnetic strip offered by banks and financial organization for withdrawals, payments and purchases. People carry them in their wallets and purses and can use it where they want. Such cards generally contain name of card holder, card number normally of 16 digits, and validity end date, issuer's name, signature, magnetic strip and a PIN.

Plastic Money is a term used for all types of bank's cards such as Credit cards, Debit cards and all types of Smart cards for E-Payments. These are of alternative to cash or standard 'money'. Plastic Money refers to credit cards or debit cards that can be used to make purchases anywhere and any time. In other words Plastic Money is a term refers to hard plastic cards which can be used as actual bank notes. These are of different types such as credit cards, debit cards, cash cards, pre-paid cash cards, ATM cards and store cards. Electronic facilities and equipments are provided by banks for using such cards.

ATM/Cash Cards:

A card which allows its user to withdraw money from his account through Automated Teller Machine (ATM) anywhere. These are generally known as ATM cards.

Credit Cards:

Through Credit Cards users can make purchases directly anywhere at a restaurant, super store or a petrol pump where the credit card payment facility is available. Payments made by issuer bank and user str required to pay back the amount on a specified date each month along with a pre-determined rate of interest.

Debit Cards:

Through Debit Cards users can use the money in their bank account for purchasing goods and services. User can also withdraw cash up to a specific limit or to the amount of credit in the account.

Store Cards

These are like a Credit Cards, they are specifically used for purchases in specific stores and chains where bills to be paid at the end of each month. A high rate of interest is charged on these cards. Such cards are issued by specific brands and chain stores used.

Origin of Plastic Money:

For the first time Plastic Money was issued by a restaurant in the form of Credit Card known as the Diner's Club Cards in USA in 1950. Then Diners Club in collaboration with American Express launched their own charge cards, a first ever formal Plastic Money.

Thereafter In 1951, Diners Club formally issued credit cards to 200 customers useable at 27 specified restaurants in New York. Subsequently in 1970 proper standards were developed i.e. Magnetic Strips etc. for Plastic Money.

But the practice of using such products resulted in some difficulties of the payment system. Cardholders were unable to shop outside their geographic area. The merchants also were unable to sign up without their banks. Bank of America took a step to overcome this difficulty. Bank of America made licensing agreements with other banks outside California, later in 1976 changed its name to Visa. This arrangement worked well for banks that obtained the Bank America license. However, many banks were left out. In 1966, 16 banks together in Buffalo, New York, formed their own network. This association was called as Inter Bank Card Association, which was the grandfather of Master Card International, as known today.

As the Visa and Master card organizations gained prominence, most banks no longer tried to enter the credit card field, but joined one of the two (Master and Visa) that were already in existence. The banks agreed to issue card displaying both the individual bank name and symbol signifying that the bank was part of a larger network of banks agreeing to interchange transactions. And now trillions of dollars are transacted worldwide through plastic cards

In Pakistan Plastic Money was first introduced by Habib Bank in 1990 which did not go well because of lack of awareness about Plastic Money. Then Allied Bank's Master Card was launched which became popular among people. Then Citibank made a major breakthrough in plastic money in 1994, when they introduced their VISA Card. It was the significant achievement in Plastic Money market in this region. Citibank did a marvelous job to enlighten Pakistani customers, as well as the players of financial industry, Plastic Money and its worth in today's domain. After Citibank, MCB, NBP and Bank of America, launched their own credit cards. Now round about all local and international banks in Pakistan have entered in the plastic Money Business and doing their best.

But, even after more than two decades plastic money industry in Pakistan is one of the under developed industry and not gaining as much feedback as it is expected. According to SBP report the number of Plastic Money is increasing but at low pace and majority of people are attracted towards debit cards only. Currently there are limited number of customers in Pakistan using Plastic Money while large number is not even aware of the services. The large number of Pakistani customers do not consider it useful and are reluctant to use and adopt it.

This research study is undertaken to address those issues which are associated with use of Plastic Money such as Credit Cards, Debit Cards and Smart Cards etc.

REVIEW OF LITERATURE

Literature regarding usage and adoption of Plastic Money is available in rephar

internationally to provide insight of consumer attitude towards Plastic Money. There is a need to explore the reason of consumer attitude about 'Why they are not attracted toward plastic money'.

Researchers worldwide have worked on the various aspects of Plastic Money and have provided a base for further research. Most of previous findings suggest that Demographics highly affect the usage of Plastic Money. Some of the valuable findings about the use of Plastic Money studied from other Research work are presented in following section. Modigliani and Brum berg (1954) investigated that plastic money particularly credit cards are dynamic and simply accessible mean of funds and a useful payment tool for buying. Plastic Money is useful to keep life standard in times when consumers are faced much income scarcity conditions. According to Mandel (1972), & Kinsey (1981), identified that income played a vital role in the acceptance and usage of credit card and families having placed in different income ranking show different attitude for Plastic Money. Same findings can be traced from another research by Peterson (1976). He identified an affirmative connection between credit card usage and earnings, which simply means that people having high income levels have relatively high motivation for using Plastic Money.

Some researcher found age as an active factor which affects the usage of Plastic Money. Delener and Katzenstein (1994) concluded that people of middle age are more likely to use Plastic Money particularly credit cards. Gan, Maysami, and Koh (2008) recognized that age has a vital role in the consumption pattern and the way of spending. Thus, middle age people use credit cards commonly while youth love to have smart cards and ATM cards. Likewise Chirapanda and Yoopetch (2008) have also suggested that with changes in age, attitude towards Plastic Money also altered.

In view of some researchers gender and marital status are also main determinant of adopting and using Plastic Money. In this regard (Kinsey (1981), and Slocum and Matthews (1970), White (1975), and Adcock et al. (1977); Kinsey (1981) and Aurora (1987), Hayhoe et al. (1999); Armstrong and Craven (1993); Chan (1997) concluded that unmarried men uses Plastic Money more commonly. Contradicting this, Gan, Maysami, and Koh (2008) found that ladies keep more credit cards than men and also ladies of lower or middle class perceive them as a sign of prestige.

Occupation is one of the most important variables suggested by a number of researchers affecting the use of Plastic Money. Delener and Katzenstein (1994) Chan (1997) investigated that those people which were busy in their daily routine life highly occupied have high awareness about Plastic Money and more than 66% of respondents of research work admitted the use of various products of Plastic Money. Noor Hassan (2010) concluded that high salaried professionals and key post employees of different organizations are more likely use Plastic Money especially credit cards and ATM cards. In view of some researchers like White (1975), Gan, Maysami, and Koh (2008), Brito & Hartley (1995) have considered cost of using Plastic Money as a variable

which affect the use of Plastic Money. White (1975) has said that Cost of transaction through Plastic Money produce complication and difficulty in choosing and using Plastic Money Products. Most of Customers prefer only those means of payment that reduce the cost of making transactions. Interest rate is a cost of Plastic Money. The effect of interest rates on the adoption and usage of credit cards was identified by Gan, Maysami, and Koh (2008) which concluded that interest rate was an important factor in the credit card usage which negatively influenced. Brito & Hartley (1995) suggested that using credit cards involves borrowings, paying high interest rate but it was attractive instrument in case of lowest transaction cost. Lunt (1992) has said that adoption criteria of credit card depend on high credit limit, quality customer services, fair fees and fair interest rates.

An amount of annual fee is charged on Plastic Money. Annual fee is the amount charged by the issuer Organization. It is usually charged annually at the end of every financial year. Fee amount is deducted directly from bank account of card holder or through direct payment. Chan (1997) investigated in a study conducted in Hong Kong, that Plastic Money users demand low annual fee and long payment periods free of Interest. Chirapanda and Yoopetch (2008) indicated that bank marketers should adopt low annual fee for domestic as well as worldwide credit cards. Shannon and Yoopetch (2002) found that premium cards have more annual fee (almost twice) as compared to regular credit cards and they concluded negative relationship between the annual fee and card usage.

Incorrect Refuming has also been recorded that many consumers spend higher amount than their credit limit which result in higher amount of interest charges and they fail to pay back the amount so issues arise.

Feinberg's (1986) observes that when consumers use plastic money, they spend more frequently and do not consider their budgets. As when a person has cash on hand, he spends more wisely and according to the limit at hand but when the has the plastic money, then customers spend unnecessarily without even estimating the actual budget.

Educational level of customers also affects the usage of Plastic Money. Worthington, Stewart and Lu (2007), quoted that as the education level of consumers of China increases, they are more attracted towards credit cards.

The recent studies have considered the use of plastic money/credit cards most important factor followed by expenditure on fashion goods and routine buying behavior. It has made life easier to a certain extent for compulsive buying but it also gives rise to unnecessary spending (Hogarth, Hilgert, & Kolodinsky, 2004).

OBJECTIVES OF THE STUDY

Plastic Money now a days has got greater importance and value internationally. Customers in stores, restaurants, café outlets, grocery shops, and even in petrol pumps are just taking out their plastic cards and mostly buy those things which they like without caring for its need. Banks and others financial institutions are also offering

Plastic Money offering through improved services and aggressive advertisements. But in Pakistan Plastic Money is not as acceptable as in other countries of the world. Even after 25 to 30 years of emergence of Plastic Money in Pakistan it still failed to attract the attention of Pakistani consumers. Simply Plastic Money industry in Pakistan is still undeveloped one.

There are several Problems and Issues which act as barriers in adopting Plastic Money. The objective of this Research is to address those Issues which are faced by Pakistani consumers from actively using and adopting Plastic Money.

In this research those issues were also investigated and addressed which are just fallacies, having no logical base but are misguiding and threatening consumers about the outcomes of using Plastic Money.

METHODOLOGY

This study is based on primary data which were collected through Direct and Indirect Observations, moreover structured and Unstructured interviews conducted with both users and non-users of Plastic Money. A number of research papers on selected issues were also examined. In the following paragraphs, a brief description of each of these methods is provided.

Different situation where Plastic Money was used for transactions were observed during the study. People were observed using ATM machines thoroughly in different times of day and night located in different areas of Islamabad, Peshawar, Kohat and Karak. Credit cards punching machines operations on point of sale (POS) were observed in different restaurants and super stores located in Islamabad and Peshawar. Banking operations for dealing customer's complaints and issues about Plastic Money were also indirectly observed. The data has been collected through interviews from respondents in Islamabad, Peshawar, Kohat and Karak.

A sample of 70 individuals was selected for interview from above mentioned cities of Pakistan, including both users and non-users of Plastic Money. Sample was selected through simple random sampling method where whole population was categorized as card holders, non-card holders, rural area, urban area, gender, occupation, income and educational level status.

The study examined 70 banking customers in Pakistan in terms of their status, as card holders, non-card holders, rural area, urban area, gender, occupation, income and educational level.

FINDINGS AND DISCUSSION

During the survey from 70 respondents, 35 respondents (50 percent) were Card holders and the rest 35 were bank account holders without Bank Cards. 5 respondents (7%) were female and 65 respondents (93%) were male. 50 (72 %) respondents including female were selected from urban areas and 20 (28%) respondents were selected from rural areas.

According to the research survey, 20 respondents were high salaried professionals i.e. university professors and doctors etc., 30 respondents were average salary employees and 20 respondents were dependent individuals i.e. students and youth having bank accounts. Most of the respondents held Master's degree almost above 50% and only 10% respondents were illiterate. Data collected from respondents was analyzed from different perspectives. Responses recorded from respondents of one stratum were analyzed by tallying them with responses obtained from other strata. Responses of same strata were also tallied with one another in order to find out the validity and intensity of response.

Then data obtained was also compared with internationally perceived issues about Plastic Money to find out that what special issues was faced by Pakistani Consumers. After the data analyzed it was expected that the most of our respondents were showing positive attitude towards Plastic Money but after the analysis of data the result obtained was totally contradictory. Most of our respondents showed intense disagreement for Plastic Money and pointed out those factors, variables and issues which stop them from using Plastic Money. Findings of the study are as follow:

Mis-Perceptions About Plastic Money:

The study suggested that customers have several miss perceptions about Plastic Money which act as fallacy and tends to stop customers from using Plastic Money.

- First misperception in the mind of customers about Plastic Money is that it is the product of elite class only and it require extra ordinary amount of money and maximized bank balances and middle class or below are not in a position to use Plastic Money.
- Similarly it is assumed that the use of Plastic Money is a complex activity which requires high degree of education, care and attention which is beyond the capacity of every customer
- Another misperception about Plastic Money is that most of customers do not consider Plastic Money as a service, They think that it is a burden in the form of extra bank charges.
- Some customers think that after all it is plastic and cannot take the place of money in hand and with Plastic Money options become limited.

Customer's Awareness and Education:

The study also reveals that most of the customers are not aware and educated about how to use Plastic Money, Even well-educated and card holders also sometimes face difficulties in using different types of cards.

- Some customers were observed during study that they feel problems in side ATM booths. They feel difficulties in operating the machine. They even don't know how to insert card in the machine or enter amount.
- People spent a lot of time inside the booths creating hazards for other

customers waiting for their turn.

- Some respondents complained that many times more than two or more customer comes inside the booth which compromises their privacy. That's why they are reluctant to use Plastic Money especially ATM card.
- A large number of customers do not know how to use credit cards for online purchasing thus they are worried to use it.
- Most of respondents commented that Plastic Money products are activated through a complex process mostly requiring telephone calls and they fails to activate due to inappropriate of the direction from the customer relationship officer.

Banking Services:

• Services associated with Plastic Money are also one of the dominant factors affecting the use of Plastic Money. Although commercial banks provide a sound range of services but some customers still are not satisfied from those services. In this regard the study's outcomes are as follow

- Customers' complaints are not properly handled.
- Telephonic service associated with Plastic Money is complex that's why customers are reluctant to use it.
- In most areas ATM machines are without un-interrupted power supply which creates problems in case of electric failure during transaction.
- Mostly on weekends, starts of the months and on any special occasion ATM is out of order.

Cost of Using Plastic Money:

Bank charges, annual fee or interest charged on the use of Plastic Money are its cost. During the study a number of respondents showed negative attitude toward Plastic Money due to its cost. In this regard respondent's comments about cost can be concluded in the following findings.

- On most products of Plastic Money the bank Charges are not transparent. Hidden charges are always included in the cost.
- Sometimes payments due become late which results in further increase in cost and continuous late payments damage credit rating.
- After the card gets lost or stolen it can be missing used by someone else. To prevent such things, customers call the phone banker and file a request of block existing and issue a new card. Thus customers again end up paying for things.
- Interest is one of the key ingredients of cost of Plastic Money and it is against Islamic laws. This is also considered by some respondents as a barrier in using Plastic Money.

Spending Behavior of Customers:

- It was also noted that customers paying through Plastic Money often results in over spending and customers lavishly spend on those products which are not usually purchased. Thus at the end they face financial problems.

- Similarly the limit provided by banks for using Plastic Money was also considered by some respondents against their spending behavior.

TERMS & CONDITIONS

Though Plastic Money has number of benefits, most of them usually come with complicated terms and conditions, which might not understand or comprehend initially. This is considered by some customers a reason for not using Plastic Money.

Geographical Differences:

Customers belonging to Urban areas are more likely to use Plastic Money than Rural Areas because such facilities are available in Urban Areas mostly.

Security Issues:

Although Plastic Money is considered a very secure mode of transaction but in this study some respondents pointed out some issues which varied the security of Plastic Money products.

- Plastic Money is insecure during online payments because data provided by purchaser can be misused.
- Hackers now the days can access the data used in transactions and can use resource illegally.

CONCLUSION AND RECOMMENDATIONS

As discussed that Plastic Money has become the need of the day and contains innumerable benefits for customers but customers are still not enough motivated to use Plastic Money due to above mentioned reasons.

In this study the findings were examined and studied very closely in order to get the insight of the issues. Environment for Plastic Money was compared with the international environment where Plastic Money is considered an important part of life. Issues of Pakistani customers were tallied with the issues of cards users internationally. As a result the following recommendations were made on the basis of findings of this study:

- Banks offering Plastic Money Products will have to extend their efforts in order to change the attitude of their customer towards Plastic Money. In this regard it is recommended that awareness programs should be arranged to educate customer about Plastic Money.
- Seminars, workshops and conferences should be arranged to overcome the misperceptions in the minds of customers. A practical training should be given to customers about the use of Plastic Money.
- Moreover, procedure of using and activating Plastic Money should be simple and user friendly.
- Security of Plastic Money transaction should be ensured.
- Banks should also overcome their service failure and electricity failure through un-intercepted power supply arrangements.

- Plastic Money Products should be promoted through aggressive marketing programs, middle and lower class should be targeted especially. If possible Word of Mouth and Buzz Marketing techniques should be used
- Fee structure of Plastic Money products should be transparent and properly communicated to customers. Banks should avoid hidden charges for Plastic money.
- Before offering Plastic Money to any customer, banks should at least check the credibility of the customer.
- Plastic Money Products and services should be extended to rural areas also.

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