2.1 Milestone Development of Credit Cards

The history of this unique system can be traced back to 1880’s when in England, The Provident Clothing Company, now Provident Financial Group, issued vouchers to customers to be used at the shops on the approved list. Payment for purchases was made on a weekly installment basis to the company’s representatives. The nature of transaction which took place under this system was seen as related to the functions of the present credit cards system which was developed in USA in the early years of 18th century.¹

The word “Credit Card” was coined by Edward Bellamy in his popular Utopian novel “Looking Backward: 2000 to 1887”, published in 1888. By the year 2000, said Bellamy, “money would be abolished, but production would still be valued in dollars. Each citizen would receive each year a credit card valid for the amount

¹ Access Company, the Credit Card in UK Issued by the joint credit Card Company ltd., Southend, and the control service company access: L.Mandell, Credit Card use in USA,ISR, university of Michigan, 1972. pp.68-72
of money which had been decided (in advance) was to be made available to him/her for the purchase of goods and services. All cards would be worth some amount of money. How you spent that money, whether on your home, on clothes, travel would be up to you”\(^2\).

The card would be made of paste board, it would act as identity card, it would be a store of value, it would contain units of value that would be cancelled as goods and services were acquired, it would provide limited extended credit (in the form of an advance against next year’s issue of wealth), and it would not be possible to transfer the cards from one person to another.

Bellamy also did forecast that his credit card rule be used overseas. “An American in Berlin”, he wrote, “takes his credit card to the local office of an international council and receives in exchange whole part of it, a German credit card, the amount being charged in favour Germany on the international account”.

Bellamy in fact, came up with a convenient payment system (the extended credit element, however was one of which he disapproved) in which cards that identified the bearer to be used to pay for goods and services. The fact that in Bellamy’s Utopian world, individuals were not allowed to acquire wealth beyond the amount allotted to them by the State does not invalidate the ingenuity of the basic idea\(^3\).

Credit card in their modern form was developed in United States at the start of 19\(^{th}\) century. The first card was issued in 1914. General Petroleum Corporation of California (now Mobil Oil) supplied cards to employees and selected customers. In 1915, coins or tokens (called ‘shoppers’ plates’) were issued by a number of small hotels and stores, telegraph companies and railroads, and, in effect, provided the customer with a monthly credit account. There was no provision for extended credit. Reciprocal arrangements between establishments followed. The petrol companies attempted to stimulate sales by issuing proprietary cards.

John C. Biggins (1946), a Consumer Credit Specialist at the Flatbush National Bank of Brooklyn, New York, launched a credit plan called ‘charge it’. The programme featured a form of

\(^3\) Bellamy, Card Tricks, US News World Report, Vol. 126 (7), pp.64-67
script that was accepted by local merchants for small purchases. After the sale was completed, the merchant deposited the script in a bank account, and the bank billed the consumer for the total script issued.

In 1950, Dinners Club was incorporated. It was the brain child of two business associates, Frank McNamara and Ralph Schneider, who came to the end of a restaurant meal with friends and discovered they did not have cash to pay the bill. It was therefore arranged for their friends and business colleagues to pay their hotel and restaurant accounts in New York on a monthly account based on production of their Diners Club Card. No limits were placed on the amount of credit except that accounts were settled at the end of the month and there was no extended credit provided. Members also received a directory of establishments where the card would be accepted. This was the start of the development of ‘T’ and ‘E’ cards (Standing for travel and entertainment) and was soon followed by American Express and Carte Blanche.

In August 1951, the Franklin National Bank became the first bank to issue credit cards to customers of other banks and bankers.

---

4 John C. Biggins, Credit Cards and Money Demand, A Cross-Sectional Study, Journal of Money, Credit and Banking, Vol.27 (2).
saw an opportunity to provide consumer credit. By 1957, 26 banks and 754,000 cardholders being accepted by 11,000 merchants; turnover exceeded US $40 million. In reality however, this presented a slow growth as a consequence of the difficulties the banks were facing, probably high setting up and running costs, frauds and reluctance of merchants to pay discount on sales. On the East West, Chase Manhattan sold off its credit card department in 1962 partly as a result of the structure of the Federal Banking System which restricted branch networks to the home territory and made the interstate acceptance of credit cards by merchants difficult to organize. In 1965, Pittsburgh National Bank and Mellon National Bank introduced their own card programmes.

The Bank of America issued ‘Bank Americard’ in 1958 and eight years later, in 1966 the banks comprising the Western State Bank Card Association issued the Master Charge Card. BankAmericard and Master Charge cards became the focal points for the eventual groupings of all bank cards throughout the world. The VISA and the MASTER, the largest credit cards today appeared in the market in 1966. Since 1967, several American banks started issuing their own cards designed mainly to finance local and retail markets across the country.

Although the years that followed the Master Charge launched in the mid 1960’s saw competitive gains and losses for both sides, the combined card programmes carved out pieces of an even larger pie.
2.2 Review of Literature

The Credit Card Service has started gaining momentum due to the wide publicity given to it. The users feel that acquiring a credit card is an easy way of getting unsecured credit. What the consumers must know and bankers are obliged to make the customers of this service know is the utility and various charges imposed upon the credit card usage. This literature survey covers various studies made in credit card services relating to awareness, satisfaction and problems of cardholders in credit card usage.

Two studies by professors Mathews and Slocum⁵ (1970) found a number of interesting and useful relationships between social class, income and the usage of bank credit cards. They found that “members of the lower social classes tend to use their cards for installment purposes, upper classes for convenience”. Further, their results indicated that all users had a favourable general attitude towards credit; however, installment users tended to use their cards more frequently. The study also indicated that “the upper classes are generally favourable towards using credit to purchase ‘luxury’ goods, and the lower class users tended to use their cards for ‘durable’ and ‘necessary goods’.

Joseph H. Plummer (1971) conducted a study on the life-style pattern of male and female credit cardholders using their demographic and purchase data. The basic demographic pattern and card usage data indicate a widespread use of commercial bank charge cards across many demographic segments of populations. From the standpoint of potential market segments, however, the higher income, better educated, middle-aged and professional segment are more prominent on the user index scale. The study depicts certain aspects of credit card users’ lifestyles, particularly their contemporary thinking, risk-orientation, and service organization affiliations that may or may not be characteristic of the major these demographic segments. The lifestyle portrait of the users indicates an active, upper socio economic, urban-suburban lifestyle with many interests outside the home. Both male and female users indicate a convenience-orientation towards credit cards as a satisfactory cash substitute. The study indicates that users of commercial bank charge cards, in contrast to non-users,

---

exhibited a “contemporary state of mind” and a rejection of conservative, traditional concepts, which is a major detriment of card usage beyond demographic variables.

Traditional concepts of money and a conservative orientation towards one’s lifestyle may be major barrier to usage of bank cards which the issuing banks, while marketing and sending communication, should seriously consider. Issue of credit cards by oil companies for customers to use it at respective petrol stations accounts for the majority of all credit card transactions in the USA, which has been explained as a table (given below), comparing credit card usage in USA and Western Europe.

**Comparison of Credit Card Usage in USA and Western Europe**

<table>
<thead>
<tr>
<th>Points</th>
<th>USA</th>
<th>Western Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of adults holding a current bank account</td>
<td>Over 95 percent of all adults have a current account with a bank</td>
<td>Western Europe, including the UK, is still mainly a cash-oriented, although more than 90 percent of adults have a current account with a bank</td>
</tr>
<tr>
<td>Share of adults holding a bank credit card</td>
<td>In 1972, a survey indicated that half of all US families possessed at least one credit card.</td>
<td>In 1975, 80 percent of adults in the UK did not possess any kind of credit card. Over one-half of the UK families with</td>
</tr>
</tbody>
</table>
Currently, it is probably over 80 percent. Income greater than £20,000 (about $30,000) possess one today.

<table>
<thead>
<tr>
<th>In-Store Cards</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 percent</td>
<td>by Credit Card 2 percent</td>
</tr>
<tr>
<td>Gasoline Cards</td>
<td>by Cash 16 percent</td>
</tr>
<tr>
<td>33 percent</td>
<td>by cheque 24 percent</td>
</tr>
<tr>
<td>Bank Credit Cards</td>
<td>by direct debit 11 percent</td>
</tr>
<tr>
<td>16 percent</td>
<td>by other means 2 percent</td>
</tr>
<tr>
<td>T &amp; E</td>
<td>Total 100 percent</td>
</tr>
<tr>
<td>1 percent</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>100 percent</td>
<td></td>
</tr>
</tbody>
</table>

Volume of Credit Card transaction

Credit card transaction accounts for $600 billion, as far greater amount than in Western Europe. Bank credit cards accounted for 31 percent of this transaction volume.

Of the above transactions, credit cards in the UK totaled about £25 billion. Of this 95 percent is accounted by bank credit cards.

The usage of bank credit

It is not known what percentage credit cards make up out of total available consumer credit. However they are so widely accepted that it is

Credit cards make up a small percentage of total available consumer in the UK. Of this small percentage, most is accounted for by bank credit cards. In 1990 approximately
difficult to make transactions without them. By 1977 approximately 52 million US households possessed credit cards. Unlike Western Europe, where bank credit are the majority credit card, in the USA bank credit cards only form a small percentage. Note however, they still account for 6 percent of total consumer credit. Instore credit cards are a most important consumer credit card facility.

12 million were access cardholders and approximately 13 million were Baraday cardholder. In Britain credit cards in general make up only 5 percent of the total consumer credit.

Terry M. Wickre\(^7\) (1980), the marketing manager for Rocky Mountain Bunkcard System and assistant vice president of Colorado National Bank,
Derver, in his study to increase the customers awareness about the Visa and then Master Charge card issued by the bank conducted a pre and post study before their various advertising strategies found that by advertising customers were becoming more aware of their credit card and how it worked. Advertising had increased the consumers ability to discriminate one bank card from another and reduces confusion in the cardholder’s minds. It also provides bankcard customers with convenient and beneficial plastic cards and EFT services.

The market for credit cards has matured and the new battle is to get the consumers to use them. New York’s Citibank in order to promote usage of cards introduced a program called Citi dollars $, according to which when a consumer uses a Citibank Visa or Master Card, he or she receives a certain number of Citi dollar for every $3 spent Citibank then sends its cardholders an annual catalogue as well quarterly fliers, offering mail, order products and services – all available at a discount from retail through use of those Citi dollar. This program introduced by Citibank increased the usage of cards among cardholders greatly and the programme was a success. This is now a way followed by almost all the issuing banks, which is now termed as reward point.

---

Richard A. Feinberg\(^8\) (1986), an Associate Professor of consumer sciences and Retailing, Purdue University, West Lafayette, had conducted four experiments and one study to test the hypothesis that stimuli associated with spending can elicit spending responses. The study results stated that credit card customers to restaurants left more tips than that of cash tips. The first experiment was to assess whether credit card customers to restaurants left more tips than that of cash tips. The first experiment was to assess whether credit card stimuli will facilitate spending – increase individual spending and to assess whether credit card effect was in any way bounded by the sex of subjects, the type of product used as the dependent measure or their interaction, this was done on 60 undergraduates. The results of the study state that credit card stimuli made the subjects spend more and this effect appeared to be independent of the sex of the subject and the type of item under consideration. The second experiment was designed to serve as a replication of the basic phenomenon demonstrated in the first experiment and to further test predictions concerning increased

---

motivation and decreased decision time for spending. The study was conducted on 24 female undergraduates. The study results proved that the credit card stimuli clearly facilitated spending, reduced relative decision time and were motivated to use credit cards for various products, in different locations, in a variety of stores, and at a variety of prices. Thus either the measure of acceptability is insensitive or inappropriate as a dependent measure of motivation or credit card stimuli did not affect motivation to spend. The third experiment was designated to determine if credit card stimuli would facilitate spending (donating for charity) in a controlled spending situation different from that already employed. The study was conducted on 40 subjects. The experiment proved that the presence of credit card stimuli estimated that they would spend more than the individuals in the absence of credit card stimuli, even though the credit cards were not instrumental in the spending response. The fourth experiment was complementary to the third experiment where in the subjects were asked to estimate their contribution to a charity with the presence of credit card stimuli being varied. The results of the study proved credit card stimuli increased the contribution of the subjects towards charity. The experiments and the study proved that credit card stimuli directed spending such that the probability, speed or magnitude of spending was enhanced in the presence of credit cards.
The customer protection bodies feel that the availability of credit cards particularly through credit card has outstripped people’s ability to handle it. The Money Management Council, a charity which aims to help people handle their finance more effectively, states that education is trailing far behind the development of consumer credit and transfer funds via the plastic card whereas there has been an enormous increase in its usage.

Another study aimed at identifying household credit card choice and usage behaviour of cardholders was conducted by Jeo and Jung Sung⁹ (1990). The theoretical model used to analyze the credit card choice behaviour was a discrete choice model under the assumptions that the multiple aspects of credit cards influence the choice of credit cards and the choice decision was made through three sequential steps. The theoretical model to analyze the credit card usage behaviour was developed using a neoclassical intertemporal utility maximization framework under the assumption that a household card bundle and its faces of credit card choice decision for different usages. It was found that several factors were significant in determining the choice between bank and store credit cards. These were the level of family income, the

---

⁹ Jeo and Jung Sung, Household Credit Card Choice and Usage, Cornell Student Consumers, Ph.D., Oregon State University, October 1990, pp.1
household age, the number of bank card holdings, the number of store card holdings, the related interest rate, the relative membership fee and the card preference. By contrast, only one variable was significant in explaining the choice between a store card and T&E card. Test on the analysis of credit card usages showed the choosing T&E rather than bank credit cards is differently determined by usages. Differential variables showed up as significant factors for three usage and the sizes of effects were different also. Through all three usages, the effects of the fact knowing the interest rate were consistently negative.

A study to examine graduate international students’ knowledge, attitudes, experiences, practices and satisfaction relating to credit cards was undertaken by Punjavat and Tapin\(^\text{10}\) (1993). Based on literature, international students attending U.S. colleges and universities were considered an important population to the study because of: (i) internationalization of credit cards and (ii) the lack of credit card research on this group. The sample was selected from graduate international students attending Colorado State University. The study was conducted on 261 students.

\(^{10}\) Punjavat and Tapin, Credit Cards, Understanding International Graduate Student Consumers, Ph.D., Oregon State University, August 1993, pp.441
Findings showed that respondents’ credit card knowledge was low, attitudes were favourable, and pre U.S. experiences limited. Since living in the U.S., respondents had become regular users with a mean of 3.3 cards and a majority charging more than $200 per month. They followed commonly recommended practices, and eight of ten were found among the credit card use. Several statistically significant relationships were found among the credit card variables and between these variable and socio-demographic characteristics such as country of origin and length of U.S. redeveloped and evaluated.

The study done by Teopaco and John\textsuperscript{11}, L. (1993) investigates the organizational design elements, and salient environmental and company factors involved in consumer services firms with a marketing or consumer satisfaction orientation. The study uses four case studies of companies in four consumer service industries: fast foods, credit cards, health care and full-service hotels. The findings support the relevance of the dominant marketing function as an organizational dimension, but do not support the customer

\textsuperscript{11} Teopaco and C. John, Organising for Marketing Orientation in Consumer Services Firms, Harvard University, October 1993, pp. 526.
relationship hypothesis. The research results also show that equally important to organizational design are non-structural elements – such as corporate culture, reward, training and service quality measurement systems, employee empowerment, and recruitment policies – that are all oriented towards customer satisfaction.

The Charities Aid Foundation issued a new plastic card that will make it easier for donors to take advantage of the tax-privileged status of charities. A person who wants to possess this card has to pay a minimum of 120 pounds a year for 4 years. This money and the tax paid on it are credited to the cardholders who can use the amount in the credit card for charity purpose. It was found that charity cardholders were relatively sophisticated handled of money; they were aware that if they contribute to appeals using conventional cards they are not giving in a tax-efficient way. But consumers seem to prefer to make donations through ordinary credit card than through charity cards.
John V. Ducca and William C. Whitesell\textsuperscript{12} (1995) conducted a study on credit card and money demand, which shed light on issues relating to credit card ownership, the effects of credit card ownership on household deposit balances and the determinants of deposit account ownership. Results of the study indicate that both demand and supply factors affect those who have a credit card with household attitudes towards using debt being significant. In addition, evidence also suggests that lenders offer or approve credit card using credit standards based on observable characteristics related to default risk, consistent with screening model of credit rationing. This study makes two more contributions. First, it provides cross-sectional evidence that income and assets are significant variables for transactions deposits, but that income may not be an appropriate scale of variable for small time deposits. Second, it indicates that controlling for selection effects can be empirically important for cross-sectional analysis of money demand.

\textsuperscript{12} John V. Ducca and William C. Whitesell, Credit Cards and Money Demand A Cross-Sectional Study, Journal of Money, Credit and Banking, Vol. 27(2), May 1995.
Two constraints pattern of credit card usage have been identified through multiple consumers by Canner and Cyrnak in the year 1985, namely convenience usage and revolving credit usage. Convenience usage applies to those individuals who use credit cards because, in comparison to writing cheques or carrying cash, it is a simpler means of making transactions. These consumers do not carry a balance on the account but pay the total each month. Revolving credit users, in contrast, finance their transactions through installments on the account, paying a portion of the balance plus a finance charge each month. Convenience users generally charged greater dollar amounts per month than revolving users, and the amount charged per month for both types of credit users rises with family income. Surveys have also indicated that as family income and the age of the head of the household increase, the likelihood that a consumer will be convenience user also increases.

Retail credit card users differ from bank card users in many ways. Consumers who have a store credit card indicate that they spend about twice as much and rate the store higher on customer service than customers who do not have the card. In addition, the shopping frequency of consumers using store credit cards is significantly higher than that of shoppers without store
credit, reflecting the tendency of store credit holders to maintain loyalty to the store.

In addition to these differences in credit usage, there is some indication that niches exist in departmental store credit usage. The characteristics of cardholder of one store appear to differ from those of cardholders of another type of store.

Arthur Median\textsuperscript{13} in his book has mentioned that both in USA and Europe the profile of cardholders has been influenced by the way in which card schemes have been launched and promoted. On both sides, Atlantic credit cards have been marked to high-income groups from the beginning and these groups have always found credit card facilities easier to obtain. It has been found that an average bank cardholder tends to be a middle-class person who already has a bank account. The determining factors affecting the use of credit cards are social and cultural, business and economic, legal and political, and finally, technological factors.

Slocum and Mathews\textsuperscript{14} (1970) as part of their contribution in this area of research have stated, by comparing social class of cardholders


with credit card usage, that the majority of card users favour purchasing
goods such as appliances, furniture, clothing and gift on
credit. However in the UK, access income by trade sector in 1988 was:

- Garages / petrol 23percent
- Travel / Entertainment 21percent
- Consumer durables 13percent
- General stores 11percent
- Miscellaneous 19percent

Thus it can be inferred that social is not the most useful predictor of credit
card usage.

Awh and Waters on their part have stated that a significant proportion
of cardholders in USA never activated their accounts. The major factors
influencing card usage were economic, demographic and attitudinal variables.

The major factors that were found to influence card usage, in the order
of importance, are:

- Attitude towards bank cards was by far the most differentiating factor
distinguishing active from inactive cardholders
- Age: Advancing age reduces the likelihood of an individual being an active cardholder

- Socioeconomic standing also leads to differentiation between active and inactive holders. An individual with a relatively high social standing is more likely to be a user of a bank charge card than is a person of relatively lower social standing – this in connection with the view that lower socioeconomic classes utilize credit cards beyond their means, engaging in ‘free spending’.

- Individuals are likely to use their cards if they also use other types of credit cards. Perhaps this implies that credit card usage is a matter of habit.

- Attitude towards credit
- Education
- Income

The greatest determinant of whether a cardholder is active or inactive is attitude. An unfavourable attitude is due to:

1. The fear that use of a card may make the cardholders to rely heavily on credit, and
2. The belief that cards should only be used to cope with emergency needs

Also it was found that

1. Advancing age reduces the likelihood of a cardholder being active, and
2. Higher social-class cardholders tend to be more active than lower social class cardholders.
At ABA’s Bank Card Conference held in November 1996, Andrew March\textsuperscript{15}, the Group Director of financial services at J.D. Power and Associates, Westport Conn. reviewed his company’s 1996 comprehensive credit cardholders’ satisfaction study, which indicates differentiating factors that have impact over credit cardholders’ satisfaction. The results of the study are based on survey responses of 22 of the major issuers and about 50 individual credit cards in the basic gold and reward categories. The study reveals that consumers regard the following features as key components contributing to their satisfaction with a credit card: a fair APR and interest rate (24\%), speedy and accurate payment processing (21\%), a clear billing document (11\%), solid issuer reputation (9\%), a satisfactory credit line and cash advance limit (7\%), universal and fast point of sale processing (5\%) and finally, a reasonable membership or annual fee (4\%).

In studying the reasons for delinquency among cardholders and to predict the pattern of bankrupt card usage may be identified using Fair Isaacs score. Based on a research conducted making use

\textsuperscript{15} Andrew March, Finance and Economic-Plastic Cards, Economist, Vol.349. pp.72-75
of this tool, it was found that bankrupts exhibit a gradual increase in spending 18 months before billing for bankruptcy. For analyzing this, customers are segmented into eleven types. It has been identified that the greatest predictor of cardholders’ bankruptcy is a change in customer’s spending pattern; the more spending climbs, the greater the risk.

In his study, Mr. Frances B. Smith\textsuperscript{16} (1998) states that cardholders have started using credit cards differently than they did 10 or 20 years ago. Cardholders nowadays use credit cards to get instant loan. Many consumers use credit cards for convenience – as a safe and hassle free alternative to cash cheque. A substantial number of credit card users – about 40 percent - are non-revolvers, that is, they don’t maintain a balance on their accounts and instead pay off in full what they owe each month. The percentage of non-revolvers has increased in the past decades. Also it has been found that consumers currently use a higher proportion of their disposable income to repay their consumer debts. This increased usage of credit cards for convenience and not for credit thus can result in over statement of the credit care levels.

With the introduction of online banking world-wide-web, merchants have noticed a major shift in behaviour over the past years. There has been a dramatic increase in the number of people who are comfortable putting their cards online even though 83 percent of internet users state that their main concern about online shopping is payment security, 59 percent of them have used credit cards online. Even though consumers still feel uneasy about using cards on the internet, fear is holding back a lot fewer surfers that it used to.

Larissa Fernand\textsuperscript{17} (1998) has stated live cases where the cardholders have not been properly served by their issuing banks and the problems that the cardholders have endured because of lack of quickness and alertness on part of the banks in redressing the grievances of cardholders and also rectifying the mistakes committed by it in spite of the cardholders bringing it to bank’s notice. The problems experienced by the cardholders are: less percent of discount than that offered on cash sales, extra amount to be paid on purchase of certain consumer durables with cards, rejection of cards at member establishments due to lack of updating of information and difference in offer than what is advertised.

\textsuperscript{17} Larissa Fernand, Card Games That You Should be Wary of, Business World, August-September 1998, pp.84-85.
A survey was conducted by Credit Card Management Consultancy in India among 10,000 credit card users, to probe the level of awareness among credit card users about plastic money. The results show a surprisingly high degree of ignorance among them about their cards, and most of the information available in brochures. According to the survey, 78 percent of credit cardholders were not aware of the difference between credit card and a charge card. When the respondents were questioned about their need for a card, 22 percent of them cited the fact that a credit card helps them in emergencies, 57 percent stated that they bought the card for travel and entertainment, 35 percent for other reasons. 40 percent of the respondents surveyed were not aware of the interest rates charged on their balance due, and also on what method the interest has been calculated, though 80 percent opined that the interest rate were high. 70 percent of the respondents stated that they did not know what to do if their cards got lost or stolen. 73 percent of the cardholders surveyed were unaware of the reasons why their applications for credit cards were rejected. The survey states that even though awareness levels among the cardholders are less, it had not stopped them from spending but to spend sensibly.

---

According to another survey conducted by Credit Card Management Consultancy, cardholders of India are ignorant about the fundamentals of card usage including interest rates charged. The banks appoint agents for making of their cards; these agents, under pressure of marketing targets, do not inform the buyer about the various intricacies in the usage of cards. The survey states that 70 percent of cardholders are unaware of the facility of waiver of outstanding balance upon death of the cardholder and another 70 percent do not know what should be done in case of loss or theft of the cards.

The Indian Credit Card Market has a growth by 30 percent a year. Even though Indian card market is one of the fastest growing in Asia, when it comes to purchases through cards few Indians are willing to buy prestige products. Most Indians prefer cash, partly because it leaves to trace as the government has added credit cards to the list of assets whose owners should file tax return. Also most Indian card users settle their bills before they start incurring interest charges.

Studies indicate that customers who prefer co-branded and affinity cards tend to have higher spending capacity and are likely to be more loyal to the organization. Trends in the advanced countries indicate that over period, almost 30 percent of the market will consist of co-branded and affinity cards.
Co-branded cards enable cardholders to buy the particular products at a discount like, Time of Citibank enables cardholders to get Times magazine at 10 percent discount. Holders of affinity cards besides experiencing an emotional satisfaction, there are value-added benefits. A classic example is Citibank WWF card, ideal for nature lovers. Besides the facilities and privileges of Citibank, this card provides a chance to contribute efforts at saving endangered species.

A survey made in 1999 reveals a wide discrepancy between what consumers think they knew and what they actually know about the credit cards. The research reveals that most people’s choice of a credit card is determined by word of mouth referral, advertising or the belief that one card is as good as another, when the fact is that a credit card is no longer just a credit card. Consumers’ ignorance prevents individuals from choosing the card most appropriate to their lifestyles and financial status. The survey reveals that nearly 78 percent of those surveyed were unable to distinguish between a charge card and a credit card. Another finding of the survey id that an amazing 65 percent cardholders in India rest complacent in the belief that they are paying around 2 percent as interest when they are actually being charged a whopping 2.95 percent. Around 84 percent of customers also

believe that the interest free period on the card is 30 days or more when in reality the grace period for credit cards, if applicable, relates only to those cases where the outstanding are cleared in full at the end of each installment period. Reward programmes are an added incentive for all cardholders but lack of adequate information resulted in more than 80 percent cardholders opting for cards which do not offer these benefits. Customers are also not sufficiently aware about being wary of card issuers who encourage the user to settle a mere 5 percent of the outstanding every month. A lack of customer education and communication can land the cardholder in a debt trap. The survey revealed that every one was aware of some aspect or the other of credit card usage but they lacked the overall prospective. A customer before choosing a card must take a holistic view and evaluate the complete package rather than get carried away by individual features.

Jonathan Karp and Steve Stecklow\(^{20}\) (1999) mention about the collection practices of issuing banks in India and the resultant inconvenience caused to cardholders. The issuing banks in order to collect outstanding balances from delinquent customers appoint private agencies, whose sole aim is to make collection from such

---

customers to which the issuing banks are ready to pay even 12 percent of the collections as consideration to these agencies. This has brought in criticism from among the customers who are emotionally tortured by the collection agents. Even the police are not able to take action against such banks as the banks state that they have no control over the actions of these agents.

The credit card companies in order to keep the business profitable, because of fall in interest rates, are jacking up various charges which have angered the customers. These charges include late fees, ATM and service fees, shortening grace period, upping foreign-transaction fee, imposing penalty interest rates, inactivity fees, etc. Thus card issuers have made use of these additional charges as another way to squeeze money out of consumers. Some issuers include a mandatory-arbitration clause, so customers can’t take their dispute to courts.

Kahion A.S.21 (1991) in his publication regarding the selection of credit card by an executive, it has stated that such customers must systematically choose the card that best suits them. Senior or middle level executives who have to travel often must,

---

first of all, look at the accessibility factor, access to branch and ATM networks. The greater the access, the better is for the traveling executive. The second aspect to be taken into consideration by the executives is credit limit and they must also look into the fact that whether the card will extend a significant cash advance limit. The potential customer must also make sure that card issuing company gives him a detailed account for his spending, summarizing expenses by category. Add-ons such as tie-ups with travel related company/service for facilities such as ticketing, car rentals, hotel reservations are important too. Also to be considered are discounts on hotel and allied services; emergency card replacement services; insurance amounts; temporary credit limit increase facilities, emergency/medical/legal services, tie-up with airlines (including discount on tickets). Being frequent travelers, executives should be multiple cardholders and should be holders of Indian bank card if he is to travel within India. Executives who are not frequent travelers should give due consideration to interest rate on outstanding and fee structure. Potential customer must also consider the card issuing bank’s turnaround time, that is, the time taken from the point of application being submitted to point of approval and issuance. In addition, he should enquire the existing cardholders before enrolling. It has been found that women are more concise about interest rates, fee structure and deals/discount being offered on
purchases while opting for credit cards. On the other hand, men accord more importance to credit line and capacity. Professionals should always opt for a premium / gold card when required for high-ticket use. Entrepreneurs are more particular about higher credit limits because they like to use card for different purposes. An executive, on the other hand, is more focused on the add-ons and freebies, offered with the card and keeps these in mind while selecting a card.

A growing number of bank cardholders are feeling the sting of penalty, interest rates, and fees adopted by major credit card issuers. The penalties include higher rates for consumers who miss payments or pay late, higher late- and over time-limit fees, even fees for not carrying a balance or using a card often enough. This is due to issuers not giving any warning to customers. Consumers are of opinion that any changes made are not clearly disclosed to cardholders in monthly statements, credit card agreements and bill inserts. Consumers groups say that changes in terms and conditions are often buried in fine print and in statement staffers. Further, critics state that credit card communications are often misleading. Ken McEldooney, Executive Director of San Francisco-based Consumer Action, stated that in a typical solicitation the explanation of a penalty rate appears in microscopic type in a footnote,
while the envelop and offering letter tease the consumer with a rate that is far more attractive.

Poornima Kavelkar\textsuperscript{22} (1999) in his survey mentioned that, on 5000 individuals on the important factors taken into consideration by existing and prospective cardholders in the process of credit card selection, 65\% of the respondents stated that convenience and accessibility as an important factor while choosing a card. Other factors included the credit limit (considered important by 62\% of the respondents), cash advance limit (57\%), fee structure (55\%), interest rates (45\%), medical / hospitals services (37\%), balance transfer facility (28\%), reward points (26\%). The least important feature was ATM, with only 18\% of the respondents citing it as an important factor.

The survey also revealed that most people choose a particular card because of word-of-mouth or because they were aware only of a few cards. As a result, there is frequently a mismatch between the individual’s profile and the issuer’s. When the sample were questioned about the need for advisory services while selecting a card, 57\% of single cardholders have stated the need for assistance while choosing their second credit cards. Even 38\% of multiple cardholders have felt the need for advisory service to make easier for narrowing down their choice of signing up for cards.

\textsuperscript{22} Poornima Kavelkar, Cobranded and Affinity Cards-Increasingly Appealing, Business Line, 14\textsuperscript{th} February 1999.
The credit card industry in India has registered an encouraging growth in recent times, but the usage pattern of credit cards remain a point of concern. It fortifies the view that conservative purchasing ideas are giving way. But there is a doubt regarding its usability in the minds of experts, because the whole idea behind the introduction of credit cards was to increase the purchasing capacity of the cardholders. But the real point of worry is the spending on the credit card where the average card spending in India is ever less that in Indonesia.

Dilip Maitra\textsuperscript{23} points out the areas which the cardholders should be aware of by stating the points which the cardholders should keep in mind while using credit cards. The areas stressed here are introductory offers on cards which are often incomplete and misleading. While mentioning about the utility value of cards the author particularly states about discounts at member establishments, ATMs, credit period, etc.

When stating about revolving credit facility the author states that cardholders should as far as possible avoid using this facility in which they pay five percent of their outstanding and the remaining in installments. The author indicates the drawback of utilizing this

\textsuperscript{23} Dilip Maitra, The Other Side of Credit Card, Business Today, 7\textsuperscript{th} July 2000, pp. 122-123.
facility by stating that when cardholders utilizes this facility, he is to pay interest not only on the balance, but also on any fresh purchase he makes, thus once a cardholder makes use of this facility, he is no longer entitled to 50 days free credit, generally promised on the card. The cardholders are advised to pay off the entire balance if they are using revolving credit facility and then make use of the card for further purchase, thereby they are saved from paying an interest of 24 percent. Regarding the minimum loss liability of Rs. 1000 mentioned in the manual on loss of card, this is the liability to be borne by the cardholder only after a formal complaint is made. The cardholder however has to pay the purchases made by the thief before informing the bank about the loss of card.