CHAPTER-1

INTRODUCTION

1.1 Introduction

Credit card is basically a lending instrument of modern commercial banks. It is actually an unsecured loan with instant approval on high rate of interest. It is a modern product with age-old concept of loan. It is a tool of sanctioning an unsecured loan instantly at the point of sale (POS).

Credit cards have a significant contribution in economy as currency, employment generation, credit creation, increasing
the speed of money, promoting trade and commerce, enhancing purchasing power etc. Over the last two decades the business of credit card has grown at a very fast rate in India, specially in the last decade there has been a boom. The major players which are in this business in India include Citibank, ICICI Bank, Standard Chartered Bank, HSBC Bank, HDFC Bank, SBI, Allahabad Bank, Bank of Baroda, Andhra Bank and Canara Bank.

Credit card is a small plastic card of the size (85mm x 55mm) that helps the owner of the card to settle any payments without paying cash, draft or cheques. It is basically an instrument by which individual settle account in credit. The seller gets the full payment immediately but the purchaser is not parting with immediate cash. The purchaser would settle his account with the banker who has issued him the card, in a future date. Thus the customers enjoy a lots of credit facilities from the bank, which is restricted to a certain limit, prior to the issue of card.
Credit card as a product is beneficial to the issuing bank, customers, vendors, and the government. By and large, it is beneficial to the society as a whole.

From the secondary data it is observed that the number of active credit cards is ever increasing over the last two decades. The huge increase of membership is a clear-cut signal of the popularity of this plastic money. Not only that, in the 1990s there were only half a dozen bankers which were in this business, but in 2008 we find at least twenty commercial banks were issuing credit cards, either as Master card or as Visa card. In some cases the cards are issued under the brand of Intercard, Dinners, Amex etc. The most popular credit providers of the world are Master and Visa, and there is hardly any exception in India in this context. The membership of Master card and Visa card has been neck to neck always, though Master card happens to be the pioneer in this regard in India. Among the bankers Citibank is the leader in India in credit card business. It has been maintaining the lead since inception. Till today, Citibank is the largest issuer of credit cards in our country. Among the nationalized bank it is the SBI
credit card which enjoys the most popularity. In the private sector, ICICI bank happens to be the leader. It is to be noted that the rate of growth of the membership of SBI and ICICI is much faster than that of Citibank over the last six years though Citibank continues to be the market leader. The average growth rate of credit card business in India over last ten years is 53.28%, which is really very much encouraging compared to other developing countries where the average growth rate is about 35%. It is observed that the number of active credit cards is ever increasing over the last two decades. The huge increase of membership is a clear-cut signal of the popularity of this plastic money. Not only that, due to the fact that liberalization, privatization and globalization have taken place in the country during the period when consumerism and buyers' market flourished. As credit card provide instant unsecured loan and enhances the purchasing power, so it flourishes among the large middleclass people of the country. It can be predicted that the growth of credit card will keep going up and up in coming years, since only about 10% of the market is being captured as per CMIE report. Again, it is to be understood that Indians
are by nature credit shy people, unlike the western people who are spendthrift and rely heavily on credit cards and loans. In the comparative study of the credit card and debit card membership over last few years, it is seen that debit card is overtaking the credit card membership mainly because of the fact that Indians are risk averse people.

All these would lead to a holistic approach towards this exploratory study of credit card business of India.

1.2 History of credit card

The origin of the bank credit has been traced to John C. Biggins, a consumer credit specialist, at Flatbush National Bank Brooklyn, New York in 1946. Biggins launched a credit plan called "Charge It". The programme featured a form of script that was accepted by local merchants for small purchase. After the sale was completed the merchant deposited the script in a bank account, and the bank billed the customer for the total script issued. In 1951, the first modern credit card was issued by Franklin National Bank, New York.
This credit card programme was copied by hundreds of other banks by the late 50s to early 60s. Thereafter the concept of branded credit card like Master card, Visa card comes into the picture and credit card picks up as one of the most popular and effective banking product. In India credit card was introduced in the 70s by the foreign bankers, namely Citibank and the ANZ Grindlays Bank.

Credit card, a commercial bank product, is one of the most profit making sectors of all commercial bank in India. Be it an Indian bank or a Foreign bank, credit card is having a key position in the priority list of the bankers. It is also known as Plastic Money or Smart Card in many literature.

Indian consumers are embracing the developed world culture of using plastic money. There has been an exponential growth in credit cards issuance and earning in India during the last decade. The number of credit card users in India has reached 11.8 million as against 0.3 million in 1990, which accounts for a transaction stand of Rs 110,000 million against Rs. 9,200 million in 1990. The credit card industry is growing at average rate of 25-30% per
annum and offers unparallel profit potential and margins. Credit card business is considered to be the most lucrative banking business in India today. According to estimates, the total potential card base stands at 12 million and is likely to touch 20 million by 2010. Most of the banks till now have been focusing on the big cities of India with little or more focus on the small cities and towns, which also offer opportunities for credit card issuance.

The credit card revolution in the country is due to the presence of five multinational banks and they account for nearly 70-75% of the cards market despite having a poor branch network. At present, the public sector banks account for nearly 80% of the banking business in India, but their collective share of credit card market is not more than 25-30%. But new entrances like ICICI Bank and State Bank of India are turning things around with their technological progress and significantly vast network.

Banks at present are seeking to retain and expand their card base by offering balance transfer facilities, reward
programs, innovative offers and products, launching co-branded
cards in association with other banks or companies.

The efforts of credit card companies, specifically the
international banks, have now resulted in the consumer viewing
a card as an, 'one-stop service provider'. The card is now seen
as a convenient payment mechanism that can be used
extensively. The demand of multiple application cards and add-on
cards is growing and cards are now being increasingly used
as enterprise of personal and financial relationships, and to
cross-sell others retail loans at lower interest rates.

The traditional avenues for card spend in India are travel
and entertainment. Banks are now trying to exploit the non-
traditional areas like utility bill payment, medical and insurance
premium payments and online banks income from credit cards
can be divided mainly into four components namely, annual fee,
revolving fee, interchange fee and other fees. Revolving fee is
basically interest charge for revolving credit and currently
constitutes a major portion of income from credit card
operations. For the top five players, around 65 % of credit
cardholders use the revolving facilities as on year ended 2002.
The use of revolving facilities is expected to increase due to decrease in the interest rate charged to cardholders when it drops down from the current 2.95 % to 2 %, making it more lucrative.

With the increase of card acceptance and usage, banks are also getting a large portion of their revenue from consumer transactions rather than through annual fees. Annual fees, as a percentage of total income, from credit cards has declined from a significant 30% a couple of years back to around 10% now. These features are more or less common throughout the globe in credit card industry, be it USA, UK, India or any other country.

1.3 Credit card system in India

The concept of credit card was first introduced in India by the end of 70s through Citibank followed by Bank of Baroda (BOB Card) and Central Bank of India. Now all the foreign banks and some private banks are having credit card in their product chart. Citibank, Standard Chartered Bank and American Express Bank are the leading foreign banks, which are offering
the product. Master card and Visa card are the two international plastic card brand which most of the banks are using throughout the world, India is no exception.

In India the usage of credit card gains its momentum in the early 90s with the liberalisation of the economy. As different range of foreign goods are flourishing the Indian market the need for financing come to fore front. Where credit card plays its role. In the early 90s only few banks were offering credit card but by 2001 all the foreign banks and many private banks are offering credit card along with the leading nationalized banks. It is estimated that the credit card volume is increasing around 45% p.a. on an average for last 15 years and volume of transaction increased by 25% p.a. on an average during last 15 years in India.

Citibank used to have about 1,00,000 credit cards in 1990, which crossed 30,00,000 by the year 2000 and 60,00,000 in 2008. The popularity of credit card in India is not restricted to metropolitan cities only, but it is also attractive in other major cities and towns. Most of the large and medium size shops, petrol stations, hotels, restaurant, hospitals etc. are accepting
credit card from their customer to boost up sales. Credit card in India is extremely useful to the huge middle class people to increase the purchasing power through that plastic card. Different types of credit cards available in India are stated below:

1. Proprietary Card e.g. Dinners, Amex
2. Charge Card e.g. Dinners, Amex
3. Co-Branded Card e.g. Citi India Oil
4. Affinity Card e.g. HSBC Tolly Club
5. Corporate Card e.g. TISCO Credit Card
6. Personal Card e.g. Mr. Amit Chakraborty
7. Mini Card e.g. ICICI Mini Credit Card etc.

The main credit provider in the world are Visa and Master. Various banks tie up either with Visa/Master or both, to provide credit for a particular period to the cardholder. These are the most powerful credit card networks in the world.

To obtain a credit card, one has to apply in a prescribed format of the particular bank. Bank, after scrutinizing the credit worthiness of the applicant, issues a credit card. Incidentally,
the applicant need not be an account holder of the bank to be eligible to get the credit card. The bank issues the card allowing him a credit limit within which the cardholder has to limit his expenses. The credit period varies from 15 days to 48 days depending upon the date of utilizing the card and the date of the bill. The card holder has to pay an annual fees which varies from bank to bank. Most of the banks issuing credit cards also provide minimum balance payment of 5%. This enables the card holder to pay the dues comfortably and for the balance amount of this due interest is charged on a predetermined rate.

At the moment in our country credit cards are provided by Citibank, Standard Chartered Bank (SCB), HSBC Bank, SBI, ICICI, Allababad Bank, Bank of Baroda, Andhra Bank, Canara Bank etc. Credit cards are also issued by American Express Bank, Diners Club by Citibank. In 2002 HDFC Bank and ABN Amro Bank launched the product with a big bang. Apart from that many other nationalized banks, private banks, foreign banks and financial institutions do issue credit cards in India.
1.4 Literature review

The literature survey helps in formulating the objective of the study and it as well shows the path for a proper research work, based on those objectives.

Not much work has been done in the area of credit card business particularly in India. A preliminary search reveals that in the USA some literature in this area is available. In India some write-ups have been published in different dailies, magazines etc. But till date no major text or paper has been published in India in this area except for Indian Bankers’ Association who have done some job in this relation. RBI Act, SEBI Act and Banking Regulation Act are some of the relevant literature in this field. Some research organizations and management consultants have conducted some specialized studies in relation to credit card. These are referred below: -

Khali (1999) made a thorough investigation about the credit card business as one of the most profit generating aspects in the bank.

Das (1993) made a review of different credit cards of that time to make a comparative analysis of the card and ascertained that
most of the cards had some basic features along with a lot of variation among different cards.

**Vetka Kumar (1993)** tried to identify facilities of credit card and concluded that the benefit of holding at least one credit card is as good as having the entire bank folio in the wallet.

**Chakraborty (1994)** made a study about the position of credit cards in India, and he found that the product is penetrating the mass, specially in the urban area.

**Satis (1995)** made a survey to find the power and potential of credit card as electronic smart card and finally he claimed that the Indian market is highly potential for credit card business.

**Mathus (1996)** worked on the processing part of credit card transactions and concluded that the process followed by all the service providers is a standard one and that the process is developed on a common platform.

**Saha (2002)** made an investigation on credit card membership to state that in India still it is in the growth stage in the product life cycle (PLC).

**Gupta (2002)** have done a cost benefit analysis for the credit card industry.
Saha (2003) made a thorough investigation on banking credit card business in India.

Prasad (2004) have done a detail survey about credit card fraud through internet.

McKinley (2004) have identified the real threat of fraud in credit card to provide caution to customers.

Sikhar (2004) have done a thorough survey of credit cards in India.

Saha (2005) make a detail overview of the credit card frauds. 

Kumar (2007) have made a thorough survey about the safety and future of credit card in India.


Gupta and Saha (2006) have developed a conceptual framework of credit card fraud.

Sujata (2007) made a thorough review of the various issues on credit card frauds with reference to credit business in India and various other countries like UK, USA etc.
Dua and Bhatla (2007) have made a thorough report on the systems of credit card fraud in transitions.

Sujata (2007) made a critical analysis on plastic card payment in risk and security measure.

Kumar (2007) advised artificial intelligence to detect credit card fraud.

Gupta (2007) made a detailed exploratory study about smart card the smart way of transaction.

Basu (2007) have done a research work on credit card fraud in USA.

Linnitt (2007) have done a research on credit card fraud in Indonesia.

Recently different Indian journals came out with write-ups in the area of credit card business dealing with several aspects of credit card. Again, in the business experts and practicing bankers have written about their experiences in relation to credit card business, dealing with the aspects like social status, possibility of fraud, prevention of fraud, purchasing power, comparative analysis of different credit cards etc. This literature
encourages us to make a study on the credit card business in India.

1.5 Objective and methodology of study

Objectives of study

In view of the prevailing situation, the growing popularity of the credit card business and its economic significance, this study has been undertaken. The general objective of the study is to examine, in depth, the credit card business in India and to make suggestion for improvement of the system. More specifically, some of the objectives may be enumerated as follows:

i. To find out the different types of credit cards in India and to make a comparative analysis of those cards (Chapter 1, 2).

ii. To study the different aspects about the credit cards in relation to its distribution pattern, demographic aspect, satisfaction of user group, etc. (Chapter 2, 4, 6).

iii. To analyse the pros and cons of the system from the point view of customers, merchants and bankers (Chapter 3).
iv. To analyse the financial aspects of the credit card – the cost benefit analysis (CBA) (Chapter 4).

v. To make a profitability analysis from the bankers, customers and merchants point of view (Chapter 4).

vi. To make a survey of employment generating capacity of the credit card business and its social impact (Chapter 5).

vii. By and large the objective of the study is to make a detailed investigation of the credit card business in India from various angle with an emphasis on the significant banks which are the leader or pioneer in the field in India. The focus of the study is on few reputed banks like Citibank, Standard Chartered Bank, ICICI Bank, State Bank of India as they are market leaders.

Methodology of study

The present study is exploratory and empirical in nature. The study examined different aspects of credit card business through primary as well as secondary data. Primary data are collected from (a) bankers (b) merchants and (c) customers. For the collection of primary data the structured questionnaires
were drafted initially. Several rounds of pilot survey were conducted to finalize the questionnaires.

Both primary and secondary data are collected to achieve the stated objectives. In order to collect primary information from customers and merchants, two questionnaires were developed through repeated pilot survey. 370 customers and 102 merchants were interviewed, by using two-stage sampling technique, in and around Kolkata. In the first stage some market places were selected in and around Kolkata and in the second stage some customers and merchants in each market place were approached randomly for interview to fill up respective questionnaires. Citibank, Standard Chartered Bank, HSBC, ICICI Bank, State Bank of India, were selected where questionnaires were served and study was made with secondary data collected from different sources like different bankers (viz. Citibank, SCB, HSBC, ICICI, SBI etc.) books, reports, journals, magazines and websites. Most of the primary data were collected during 2003-07 and period of entire study is 1994 – 2007.
The statistical analysis of both primary and secondary data is done through SPSS package. Descriptive statistical tools, testing of hypothesis, analysis of variance, forecasting techniques are used for analysis and interpretation of data. For qualitative data analysis, ranking and different scaling techniques (Likert’s Summated Scale, Semantic Differential Scale) have been adopted.

Some accounting tools like cost-benefit analysis, profitability analysis, asset-liability analysis, ratio analysis etc. also have been used during data analysis, in various chapters.

1.6 Plan of work

To achieve the above mentioned objectives the study has been divided into seven chapters as stated below:

Chapter – 1

Introduction: It includes history of credit card – credit card system in India and its usefulness – literature review – objective and methodology – plan of work.
Chapter – 2

Evolution of credit card business: It includes the detail evolution process of credit card business both in the context of the World and in India.

Chapter – 3

Pros and cons of credit card business: It includes analysis of the merits and demerits of credit card in general as well as in Indian context.

Chapter – 4

Financial aspects: This chapter contains cost benefit analysis and profitability analysis from bankers, merchants as well as from the users’ view point.

Chapter – 5

Economic and social impact: It includes social aspects like employment generation capacity, reducing burden on paper currency, and economic consideration like increase in purchasing power of the user along with the scope of boosting up sales from the merchant point of view.
Chapter – 6

Users’ perception a case study: This chapter consists of a detail empirical study from the view point of the users of credit card, by way of interviewing customer through questionnaire. Separate questionnaires drafted for customers, merchants and banker to make detailed study.

Chapter – 7

Conclusions and suggestions: It includes the findings of the research work, conclusions and recommendations, limitations of study, a prospect of further researches in the area of credit card.