CHAPTER-2
EVOLUTION OF CREDIT CARD BUSINESS

2.1 Introduction

Evolution of credit card as it is today is basically an offshoot of the banking system of the world. With the gradual development of the banking system of the world more and more products get added in the system. Loan through credit card is convenient loan provided by bank to its customers.

Credit cards have created a new customer culture. Barbara Ehrenreich would tell, "The paradox, of consumer culture is that people are constantly faced with two sets of contradictory messages. The more powerful is that projected by advertising which urges people to buy and indulge themselves into its usage. The other is do not spend, save and not indulge yourself, credit card hold out the key to how one can, have the
cake and eat it too”. In essence credit cards give an answer to the above paradox. One can indulge and save at the same time. You can buy on your card for which only a delayed payment is required. The delayed payment for a purchase in essence is reinvestment. Sometime cash draw on credit cards are used for making investments which otherwise might have slipped off from pocket. Credit cards thus create both consumption and investment culture at the same time. That is one’s propensity to consume and invest are enhanced by credit cards. Credit cards thus help to create a new special, financial and business culture.

This section introduces to the bank credit cards, as well as the many types of other bank cards, and traces the history of bank credit cards from their rise to national prominence in the early 1960s to the state of the industry today.

2.2 Evolution of credit card business of the world

The origin of the bank credit card have been traced to John C. Biggins, a consumer credit specialist at the Flat-bush National Bank of Brooklyn, New York. In 1946, Biggins
launched a credit plan called Charge-It. The program featured a form of scrip that was accepted by local merchants for small purchases. After the sale was completed, the merchant deposited the scrip in a bank account, and the bank billed the customer for the total scrip issued. In 1951, the first modern credit card was issued by the Franklin National Bank in New York. Unsolicited credit cards were sent to prospective cardholders, who were not subject to credit screening prior to being sent a card. Merchants signed agreements to accept the cards. When a purchase was made, the cardholder presented the card to the merchant, who would copy the information on the card onto the sales slip. The purchase was credited to the merchant’s account at Franklin Bank, in the amount of the transaction, less the discount rate. If a purchase exceeded the merchant’s floor limit, the merchant was required to call the bank for approval. Franklin National Bank’s credit card program was copied by hundreds of other banks in the late 1950s and early 1960s.
2.2.1 Evolution of the Visa and Master card systems

The proliferation of bank credit cards soon revealed a big drawback of the payment system. Cardholders could shop only in their own geographic area and only at merchants that their banks were able to sign up. To overcome this drawback, Bank of America began forming licensing agreements with a handful of banks outside California to issue the Bank Americard, which in 1976 changed its name to Visa.

This arrangement worked well for banks that obtained the Bank Americard license. Many banks, however, were left out. In 1966, consequently, 16 banks got together in Buffalo, New York, to form their own network. The resulting association—called the Inter Bank Card Association became the grandfather of what is now Mastercard International.

As the Visa and Master Card organizations gained prominence, most banks no longer tried to enter the credit card field alone, but rather joined one of the two that were already in existence. The banks agreed to issue cards displaying both the individual bank name and a symbol signifying that the bank was part of a larger network of banks agreeing to interchange
transactions. This interchange feature made the card more attractive to merchants because of the greater pool of current and potential cardholders.

In just a few decades, both Visa and Master card have become an integral part of the U.S. financial system, with most consumers holding one or more cards and using them to conduct tens or even hundreds of transactions each year. Consumers held approximately 60 million Visa and Master Card in 1970. By the end of 1980, this number increased to more than 130 million. Card growth, unabated throughout the 1980s, exceeded 200 million by 1990. By the second quarter of 1995, the total number of Visa and Master Card held by consumers reached 387 million.

The following table shows how the credit card business flourished in USA over the last 14 years. The rate of growth happens to be fantastic, which is really an offshoot of Master card and Visa card system.
Table 2.1
Growth of U.S. credit card industry from 1992 - 2005

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>248,391,000</td>
</tr>
<tr>
<td>1993</td>
<td>287,520,000</td>
</tr>
<tr>
<td>1994</td>
<td>355,731,000</td>
</tr>
<tr>
<td>1995</td>
<td>386,906,000</td>
</tr>
<tr>
<td>2000</td>
<td>694,607,000</td>
</tr>
<tr>
<td>2005</td>
<td>995,992,000</td>
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</tbody>
</table>

Number of Visa and Master Card credit combined


By the early 1980s, the Visa and Master card systems had expanded throughout the world, and today they dominate the bank credit card industry in many foreign countries as well. These associations perform the authorizations, clearing, and settlement that allow a bank credit card to be used at any merchant that is a member of the association. They also provide members with marketing and advertising support, and
assist in security and fraud control. Visa and Master Card are responsible for setting standards for card issuance and acceptance to ensure worldwide compatibility among members, and the associations are solely responsible for brand image awareness and advertising. At present more than 1000 million active credit cards are there through Master and Visa in the world.

2.2.2 Bank credit cards benefit card holders, merchants and banks

Bank credit cards have experienced phenomenal growth in a short period of time because they offer many tangible benefits to card holders, merchants, and banks. Let us consider how it benefits all these three interested parties.

a. Benefit to card holders

In the early days of credit card issuance, the issuers of cards faced a chicken and egg problem. Hankers did not know whether they should try to acquire merchants first (so that patrons would have many places to use the card) or
cardholders first (so that merchants would want to accept the card). Although most banks attacked both fronts, the signing of merchants to accept the card generally received more emphasis. Therefore, as consumers were solicited to carry credit cards, they saw more and more places to use them. This accounts for the early success of the card as it was highly convenient to use.

As more merchants signed on, the numbers of cardholders grew. Banks promoted the convenience factor heavily, no problems with checks, no need to carry large amount of cash, no difficulty of purchasing goods or services, and wide acceptance by many merchants.

From the perspective of cardholders, the convenience and credit availability offered by bank credit cards were major contributors to their proliferation around the country. Credit cards offer customers the freedom to use credit without having to go to the bank to apply for a loan that would then have to be repaid with a monthly payment. With a credit card, the amount of credit used can be paid in full by the payment due date, or the amount borrowed can be repaid in flexible monthly
installments. Unlike a taxed monthly installment, the consumer can repay the minimum due on the amount during certain time or conversely, can repay a large part of it or the entire balance without incurring a prepayment penalty.

Credit cards also make credit readily available for consumers who cannot afford or do not want to make a purchase with their own funds, credit from the issuing bank is available through the card. The card provides credit even when the customer is far from home.

Another feature that makes the credit card attractive to consumers is that payment on purchases can be delayed for approximately one month. Even if the customer has sufficient cash to pay the balance in full, the monthly statement is not received for some time after the purchase is made. Today, approximately 70 percent of all cardholders do not pay the outstanding balance in full. The remainder use the card as a convenient transaction vehicle.

Bank credit cards also offer a comparatively safe means for conducting transactions. If currency is lost or stolen, the potential loss is much greater than a credit card is stolen. It is
more difficult to fraudulently use a credit card, and the cardholder’s liability is limited if a card is misused. Credit cards make consumers free from having to carry large amounts of cash and risking the possibility of having it stolen.

Credit cards have also facilitated another kind of shopping convenience for customers i.e. mail order shopping or online shopping. Customers can now select purchases from a wide variety of catalogs sent directly to their homes and businesses. Without even travelling to a store or having to mail their order form and customers can place their orders directly to the catalog companies via toll free telephone, e-mail and fax numbers and pay for the purchases using their credit cards. This convenient method of shopping has proved very popular, and, as a result, direct mail order businesses have proliferated in recent years. In the 21st century it is the e-commerce, which thrives, and credit card for a live transaction.

Credit cards facilitate record keeping too. At the time of each purchase, the cardholder is given a sales receipt. Initially, when the statement come from the bank, the original draft or sales slip from the merchant is included. The cardholder could
match the receipt with the merchant draft and thereby confirm that he or she made the purchase, helping reconcile the balance moved to the bank. This was called country club billing. This practice eventually gave way to a practice called destructive billing. Now, transactions are printed on the monthly statement and the merchant draft is not returned to the cardholder.

The net result is that consumers have found credit cards convenient, widely accepted, safe, and flexible. Credit is immediately available to fund everyday transactions, including when the cardholder wants to avoid using personal funds. The accumulated transactions are easy to account for each month, and the card has become universally accepted by merchants.

b. Benefit to merchants

From the merchant's point of view, bank credit cards have several attractive features. First, the credit card makes it easier for consumers to purchase goods, thus boosting sales. Further, consumers are more likely to make larger purchasers or impulse purchases when credit is used instead of cash. Merchants also like credit cards because they offer the
opportunity to increase sales. Banks and the national associations (Master Card International and Visa International) spend large sums of money to promote brand identification through advertisements and feature the Master Card or Visa logo on display in the windows of merchants that accept the cards. This brand identification extends to all merchants who are members of either association, thus increasing the likelihood that customers will seek out and patronize merchants that accept the card as evidenced by the display of the Master Card or Visa logo. Small businesses especially enjoy the benefit of being able to make sales to a large population of cardholders. In recent years, direct mail catalog companies have become much more prevalent because they are able to use toll-free telephone lines and fax machines to accept payment for purchases by credit card.

Second, sales transactions are fairly easy to validate by the merchant. While some credit card purchases are processed without electronic validation, for those that are, the procedure is simple. To authorize the sale, the merchant simply calls the bank's authorization center or authorizes the sale electronically via a Point of Sale (POS) swipe card device. When the card is
swiped through the POS device, information on the card is transmitted to the authorization network where the transaction is automatically authorized and deposited in the merchant’s account.

Third, the merchant has none of the risks inherent in extending credit or accepting cheques. There is no need for the merchant to contact a purchaser directly in an attempt to collect money. By following the proper procedure, the sale is validated, and the merchant receives payment from its bank.

c. Benefit to banks

There are some advantages to banks that offer credit card to their customers. Credit cards are an easy way to extend credit and a convenient way for customers to borrow. Due to the credit card's revolving line of credit, the customer can borrow money, repay the amount, and borrow again without having to go into the bank to apply for another loan. As long as the total amount borrowed does not exceed the credit limit, the customer can borrow repeatedly and repay the amount owed in monthly installments.
Credit cards also give banks the opportunity to attract customers who do not live nearby. Traditionally, customers have chosen a bank because it is convenient to their home or job place. With a credit card the bank's location is irrelevant. Banks can use this remote feature to expand their market areas and offer their cards to consumers who live hundreds or thousands of miles away. Unlike conventional lending relationships in which the customer comes into the bank every time if a loan is needed, credit card can be extended via mail and phone. Banks have seen their outstanding loans grow quickly as a result of credit card programs.

New cardholders also have excellent prospects for additional bank products. Because, new customers are attracted from geographic areas not previously within the banks' reach, new opportunities have arisen to establish additional relationships. In fact, many banks heavily engage in attempts to cross-sell additional banking products and services to cardholders.

While consumers offer new sources of income to banks as a result, of the credit card, so do merchants; merchants pay discounts to banks for handling cardholders' purchases. In
addition to discount income, merchants bring additional deposits to the bank. The merchant sales-draft is treated as a deposit item. Therefore, money generated by consumer purchases made with the card generate new deposits for the bank, which in turn become new sources of funds for making loans.

The combined attraction of new income and new sources of deposits has created a high level of competition. As more merchants accept credit cards, the convenience to cardholders is extended. With more cardholders merchants enjoy new sales opportunities. Each reinforces the other and has spurred card acceptance and growth. Meanwhile, banks have enjoyed new benefits from both cardholders and merchants.

2.2.3 Growth pains

The virtual explosion of credit cards in the early years was not without problems. The banking industry had never before experienced the unique growth dynamics of credit cards, and its early experience with credit cards. The problems of non performing assets (NPA), recovery and trends crop up with the exponential growth of credit card business. Credit card fraud
and NPA recovery happens to be the growth pain and drawback of the system.

### 2.2.4 A learning experience revolving versus installment credit

When bank credit card programs were first established, no law prohibited unsolicited cards from being issued. Banks were free to send credit cards to any person, whether or not the recipient had requested it. This caused some banks to engage in the mass issuance of cards to existing and prospective customers. Credit lines were established and cards mailed. The most aggressive banks sent cards to savings deposit customers, loan customers, fixed deposit customers, and any other customers whose addresses they could obtain. Not surprisingly, some of the individuals who were issued cards did not manage the credit well.

Some banks were inexperienced in extending unsecured credit—especially revolving credit associated with a credit card. The credit approval criteria that had served banks well when making installment loans, such as automobile or home loans,
proved to be Inadequate for extending credit through cards. New approval criteria had to be developed.

In virtually all cases, the revolving credit line was unsecured, no assets of the borrower were available to be recovered and sold to offset a portion of the loss. Once known to be a loss, the entire amount had to be charged off. In a significant percentage of cases, the credit line had been exceeded before the card could be recovered or blocked, so the amount charged off was greater than the amount of credit originally extended to the cardholder.

The card loss problems were aggravated in the beginning because authorization procedures were cumbersome and slow. Unlike today, when most transactions are electronically verified via on-site terminals, authorizations involved checking an account number against numbers listed on a merchant warning bulletin. Putting a number on a merchant warning bulletin could take several weeks, and even after the listing, so long as the delinquent customer kept the amount of purchase below the floor limit, the merchant had no way of knowing that the cardholder's charge privileges had been suspended. Delinquent
borrowers could make numerous purchases of this nature before the account appeared on the bulletin.

The following graph shows the system of revolving credit exposure which is self explanatory.

**Figure 2.1**

Revolving credit exposure

In revolving credit system, the customers can pay the minimum amount of the bill and enjoy the balance credit facility in a chain by paying interest on balance amount. It is such a feature which makes credit card unique loan instrument and provide a win – win situation for bankers and customers.
2.2.5 Fraud losses

Large number of credit cards are issued and number of merchants accept them therefore, it is not surprising that criminal activity encroaches. An underground network was established to facilitate the illegal use of cards, for example, a card stolen in California on day one would show up in New York or Florida on day two. As a result, fraudulent transactions began to mount. Over time, criminals began to counterfeit card and alter cards. Even dishonest merchants found ways to defraud banks by creating false drafts on real cardholder account numbers, depositing the drafts in the bank and withdrawing the cash a practice known as white plastic fraud.

Cumbersome authorization systems hampered the ability of banks to stop the counterfeiting, altering, or stealing of cards. Fraud is now considered one of the costs of doing business, accounting for the loss of hundreds of millions of dollars annually. Fraudulent telemarketing schemes, counterfeit cards, and fraudulent applications are among the major contributors to losses today.
2.2.6 Deregulation

During the early days of bank credit cards, strict regulations concerning usage ceilings and the inability to assess annual membership fees conspired to make it very difficult for individual bank credit card programs to operate at a profit. Later on the state have been made easier, so that all the parties get the advantage.

2.2.7 The development of bank credit cards in the USA, Japan and Europe

The credit cards were first developed in the USA. Early this century some US department stores began to issue credit coins or tokens that enabled customers to buy their goods. Oil companies also issued 'courtesy cards' (or 'shoppers' plates), which could be used only at their respective petrol (gasoline) stations. This may explain the reason why today store cards and gasoline cards account for the majority of all credit card transactions in the USA.

In the 1950s travel and entertainment (T & E) cards were introduced in the USA, for example Diners Club, American Express and Carte Blanche. However, as previously indicated, these are a method of payment rather than a real source of
credit. In 1952 the Franklin National Bank issued the world's first bank credit card, although growth in bank credit cards did not really begin until the 1960s. The year 1969 was the main growth year and between September 1967 and January 1972 there was an increase of 680 percent in the number of banks with credit card facilities.

Development of credit cards in Europe began much later than in the USA. The Diners Club card was introduced in the UK in 1951, a year after its introduction in the USA. American Express was introduced into Western Europe in 1963. However, Europe has not a great increase in the use of these cards and instead bank credit cards have been the main growth having come to an arrangement with Bank Aimericard, introduced Barclayeard. In 1972, in response to the success of Barclayeard and wishing to capitalise on the potential market, LJoyds, Midland Bank, National Westminster, Williams & Glyn's and the Royal Bank of Scotland launched the Access credit card.

Unlike the T & E cards in the UK, bank credit card usage expanded rapidly. For instance, within a year of launching to access the group, had 3.3 million cardholders and 65,000 retail or merchant outlets. In comparison, in 1979 the Diners Club and
American Express combined had only 5,50,000 UK cardholders, a significantly lower figure especially considering they were introduced earlier than the bank credit cards.

An important factor that may account for the low usage of bank credit cards in the USA has been put forward by Malechi and Brown. US banks were initially reluctant to adopt even a local credit card, much less a national one. The reason for this was the difficulty of overcoming the conflict in philosophy towards consumer credit. With the credit card system only minimal qualifications are required to a cardholder, and cardholders are given a credit limit within which control the amount, use and timing of loans. This is the opposite to the concepts bankers had been accustomed to for years, they had been used to maintaining complete control over credit, approving it on an item by item basis. There is obviously a greater risk with credit cards, but this risk tends to be compensated for by quite high interest rates. Nevertheless, despite this compensation, it was mainly the competitive atmosphere among banks that finally brought about acceptance of national credit cards.
A comparative study of credit card usage in Europe and USA is shown in Table 2.2.

**Table 2.2**

Comparison of bank credit card usage in the USA and Europe

<table>
<thead>
<tr>
<th>Aspects</th>
<th>USA</th>
<th>Europe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of adults holding a current bank account</td>
<td>Over 95 per cent of all adults have a current account with a bank</td>
<td>All Western Europe, including the UK, is still mainly cash-oriented, although more than 90 per cent 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. At present probably over 80% possess at least one card.</td>
<td>In 1975, 80 per cent of adults in the UK did not possess any kind of credit card. Over one half of UK families with incomes greater than £20000 (about $30000) possess one today.</td>
</tr>
<tr>
<td>Means of consumer transactions</td>
<td>In 1977, 6 per cent of all consumer transactions were by bank credit card only. No information could be found on the percentage of transactions by credit cards in general.</td>
<td>In 1978 AGB Research monitored consumer spending on transactions over £3 (about $6). The findings were transactions by credit card.</td>
</tr>
<tr>
<td>Volume of credit card transactions (1990)</td>
<td>Credit card transactions account for $600 billion, a far greater amount than in Western Europe Bank credit cards accounted for 31% of this transactions volume.</td>
<td>Of the above transactions, credit cards in the UK total about £25 billion of this 95% is accounted for by bank credit cards, e.g. Access, Visa.</td>
</tr>
<tr>
<td>The usage of Bank credit</td>
<td>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 difficult to make transactions without them. By 1977 approximately 52 million US households possessed credit cards. Unlike Western Europe, where bank credit cards are the majority credit card, in the USA bank credit cards only form a small percentage. Note, however, they still account for 6 per cent of total consumer credit. In-store credit cards are a most important consumer credit card facility.</td>
<td>Credit cards make up a small percentage of total available consumer credit in the UK. Of this small percentage, most is accounted for by bank credit cards. In 1990 approximately 12 million were Access cardholders and approximately 13 million were Barclaycard holders. In Britain credit card in general make up only 5% of the total consumer credit.</td>
</tr>
</tbody>
</table>

From the above discussion it is clear that credit cards have come a long long way from 1946 to 2007. In the 60 years of history of credit card, USA is not only the pioneer but also the leader and the business is running and growing very fast over there. Apart from USA, countries like Canada, UK, France, Switzerland, Japan etc. are also very big players in the credit card business.

Third world countries like India, Thailand, Korea, China have emerged in the business in 1970s and 1980s but they have picked up momentum in 1990s and still now these countries are in the growth stage of the business.

2.3 Evolution of credit card business in India

Credit cards in India came in the 1970s even though the concept got popularised since 1990s only. ANZ Grindlays bank, Citibank are pioneer in credit card business in India. Since then it has come up a long way till 2007 and even growing faster day by day.
2.3.1 Creating a new credit culture in India

The maturity of any economy is gauged by the stage of development reached by its payment systems. Traditionally cash has been the predominant payment mechanism since the beginning of human civilization. As country develops, it graduates to cheques and ultimately to cards. Development of electronic payment methods through plastic cards requires a minimum level of sophistication on part of financial institutions, accepting establishments and customers. To a large degree, therefore, the world wide growth of electronic payment systems has followed the path of economic development. Credit cards first saw the light of day in India when ANZ launched its visa card in 1989 (prior to that Citibank N. A. have issued charge card in the nature of credit card in 1970s). Till then all the cards in the market were charge cards. Until recently, Indian banks issued only proprietary cards. These were valid as charge cards in a merchant base which was exclusive to the proprietor, providing the user comparatively limited access to the market. The country now provides all the ingredients of a healthy credit card industry, a rapidly expanding, increasingly acquisitive
middle class and a growing use for travel and entertainment, greater transparency in financial systems is another plus point. Equally important merchant establishments are far more sophisticated and less insular than they have ever been. There is no denying the fact that credit cards are still a strong phenomenon, but the flip side is that the 60 million strong urban population and their spending power, hence industry experts put the current credit card holding potential around 12 million within this segment.

Credit cards are the most versatile form of retail lending. According to Ajay Mehta the credit card management consultant, who launched ANZ's visa in 1989, that has been providing credit visa cards is a less expensive way to sell credit. Martin Cook, the chief of Hong Kong Bank's credit cards division, echoes this with a credit card the customer does not, need to go to a bank. At most he goes to an ATM.

2.3.2 The credit card scenario

In a country where the cash is king, 2 x 3 inch pieces of plastic are slowly but surely making inroads. It has been
predicted that India will be the largest card market apart from the US by 2010 A.D. Currently the number of credit cards in India exceeds 11.6 million in number with a volume of transaction over Rs. 6,000 crores. Industry growth is estimated at 30-40 per cent per year now. As the credit cards market gets ready for a big spending in volumes from the current volume of 6 million card to more than 9 million card in three years, Indian banks as well as international banks are racing for target market share. With banks concentrating more on profitable business, credit cards will become an important factor to boost sagging bottom lines. At the same time, bankers predict that a few years down the line the inefficient and loss making card issuers would be deformed to withdraw from the area. The only way that banks are going to survive in credit cards business is by improving their overall functioning and infrastructure. This is especially true for some nationalized banks who delay billings due to a lack of adequate informational systems and trained personals.

Of the major segments covered by credit cards, travel and entertainment account for 70 percent of total usage within that
dining (restaurants) and retail (shopping) account for 60 percent. The hotel chains rake in the lion's share of the T & E segment and almost 60 percent of hotels' foreign exchange earnings come from credit cards. Of the total hotel business 70 percent is transacted through credit cards in India.

The liberalisation of the economy, boost to exports and the fallout on increased business travelling and spending by India which is well for the credit cards industry. The potential need to be matched by increased awareness about credit cards among retailers and full proof for preventing misuse.

2.3.3 Scope of credit card market

The credit card system started in the west in the 1950s, and came to India two decade later. The late 1980s saw Indian and multinational banks launch about a dozen credit cards, aimed primarily at the travelling public. Credit cards are marketed through advertisement, sales representative and offers of extra benefits like free insurance cover and add on cards.

According to a survey 1993 (A & M) India is projected to become the second largest credit cards market in the world
after the U.S, by the year 2010. Currently there are about 12.9 million credit cards in circulation, a number that will cross 20 million in the next five years. More than 8 million business establishment in the country now accept credit cards. The total credit they provided last year (2007) was around Rs. 6000 crore. For the first time, there is the distinct possibility that credit cards volume will reach the critical mass required to make the business profitable for issuers. It is estimated that by the year 2010 the card holding population in India will take second position in the world.

The credit card business is booming as never before, and the time has perhaps come to call it an industry. According to Standard Chartered Bank (SCB) the Indian market is a full of possibilities. Although there are 10 million credit cards in circulation, the potential level is as low as 20 percent. The potential market meanwhile is growing at 30 percent per annum. This would translate into a potential of more than 20 million consumers by 2010. In most Asian economies credit card penetration in the eligible segment is around 50-55
percent. A penetration of 30 percent in India by century’s turn would translate into 11.6 million credit card holders.

2.3.4 General benefits

Currently there is a credit card boom in India. The card issuers want to rope in many card clients. Many benefits are now being offered to the deserving customers. Free insurance covering the risk of accidental death is a common feature. In case the card is lost or stolen, the liability of the cardholder for any possible fraudulent use of card by others is limited to maximum of Rs. 1000. Card replacement is very fast. Citibank replace the lost or stolen card normally with in 3 days of reporting of the event. Additional cards at a special concessional fee for family members- spouse and one adult child are also issued on request. The emphasis by every card issuer is the value for money. Hence the current trend in the card business in India is understood.

2.3.5 Future of credit card business

Surely credit cards are all set to make a definite impact on the life style of people. A boom in the credit card business is
quite expected. Merchant establishments should be enrolled in large number to offer variety to user in the choice of shops to shop. About 80,000,00 establishments in India, accept credit cards of one bank or the other. Though some merchant establishments do not align with the credit card business, they hopefully feel enough is enough. Even some feel that credit card sales is a nuisance. Credit card benefit attitude not seem to be prudent. Incremental sales definitely result and that merchant establishments stand to gain. Accepting credit cards is a competitive tool Visa cards are accepted the world over by 10 million shops, hotels etc. Regarding the credit card holding population in India their size should be about 10 million persons at present.

2.3.6 Parties to the credit card

There are three parties, the card issuers, the cardholder and the seller of services and products. For the card issuer, credit cards are an innovative means of increasing their business through admission fee, annual fee, services fee and interest charged on cardholders. Commission on card sales
received from business firms who have booked credit card sales is another income.

For the cardholders, credit card is an innovative way to pay for the purchases. They need not carry cash in their purse. They can go for instant purchases without checking their liquidity. Instantly they can add their liquidity, by drawing cash without sufficient balances in their accounts. 24 hours Automatic Machines for cash withdrawal are also available on selected cards at selected places. With credit cards in pocket, emergencies are not felt by card holders. This provides a sense of confidence.

For the business establishments, accepting credit cards is an innovative form of doing business with the upper and upper middle class. Surely these business establishments get the patronage of the burgeoning upper middle class. The commission they pay on card sales is only a fraction of profits made, which otherwise they would not have been made. Actually accepting credit cards adds to the prestige of the firms an indirect publicity they get.
Even the Oberon Bangalore advertises the preferred hotel of the Master Card, Bank of America and Visa. The job of the card-issues is to serve as a conduit between the client cardholders and client merchant establishment in effecting a transaction, payments being made toll received by as the case may be, the card issuer.

2.3.7 Different types of cards in India

The cards are of two types. These are premium charge cards and the credit card. The premium charge cards or simply charge cards require the cardholders to pay every month the whole of sum due. The pure credit-cards give, the cardholders the option to pay a small sum and roll over the unpaid balance carrying an interest charge at 2-3 percent per month. Thus a real credit facility is enjoyed by these cardholders. Now let us have a look at different types of cards in India.

a) Credit card

Although this has become a generic term for any financial transactions, a credit card in its true sense offers an option of revolving credit. This means that the customer does not have to
settle his account at the end of the month, but instead pool to make partial payments every month subject to a minimum amount. For example, Citibank visa and Citibank master card members agree to pay only five per cent of the total amount due every month. This type of card enable the holder to buy goods and services on credit from different merchant outlets. The bill for goods and services are first paid by the bank which in term collects from the card holder along with interest charges, if any.

b) Charge card

This card is essentially different from a credit card in the sense that the customer pays bill in full at the end of each month. This card is mainly used for travel and entertainment needs and for official personal expenses. Charge cards; like Diners Club have no present credit limit. Charges are approved based on initial financial data provided at the time of application and spending and payment pattern over a period of time. Charge cards are traditionally seem as a exclusive option for
card members and offer a range of additional benefits such as higher level of travel accident insurance (up to Rs. 15 lakh for Citibank Dinners Club) complimentary access to airport lounges in India and world wide.

c) Cheque cards

This card enables the holder to withdraw cash by using cheques from any branch of the bank located within the country. It basically enables the identification of the customer and provides a certain degree of guarantee against the cheque being dishonoured.

d) Corporate card

This card is issued to company employees and used to charge company expenses. The company takes responsibility for expenses of this card and hence it is given to selected level of employees in the organization.

e) Debit card

The debit card is different from a charge card or credit card. Every time the card holder makes a payment, the funds
get automatically deducted from their personal bank account. ATM cards like Citicards of Citibank are actually debit cards. The Net system in Singapore is a good example of a debit card where shoppers can access their bank accounts via point-of-sale terminals at a wide variety of establishments. A similar system operates in Australia. Here the cardholder has to maintain a bank account with sufficient credit balance. Generally cash credit is not permitted.

f) Pre-paid card

The most common version of the pre-paid card is the telephone card. Such as Japan's hugely popularly NTT Phone Card. The card is pre-programmed to a set value and the consumer can continue to use it till this stored value is spout.

We observe all these concept is coming to India over a period of time after the credit card concept has become more popular.
2.3.8 System of operation of credit card in India

The following diagram shows the operation of credit cards in India.

**Fig. 2.2**

**CREDIT CARD OPERATION**

The above diagram shows how the credit card operates actually and works in India.

2.3.9 Legal steps in defaulted accounts

Since the advance allowed under credit card is in the nature of a loan, sometime recovery of dues becomes a difficult
task. In cases where legal measures have to be resorted to the question arises as to where the suit has to be launched. If the credit card account is kept in central office (i.e. credit card department) the suits filed at that place even though cardholder may be residing elsewhere. But, if the cardholder's account is with a branch in an area where the card holder resides, then legal action is initiated at that place.

Banks take all precautions in selecting the card holders. They generally do not issue cards to a person unless they are satisfied about the credit worthiness of the applicant. For any bank, the credit card application has columns for applicant's movable/immovable assets, gross annual income, total liabilities, income tax, wealth tax assessment details, etc. All these columns have to be filled in by the applicant and verified by the branch manager or assigned officer.

2.3.10 Training to prevent credit card fraud

The Visa credit card company has set up a University in Singapore to provide training for preventing credit card fraud to police and vigilance officials from member banks. Build as
Asia Pacific's first and only formalized fraud prevention programme, it is designed to attract more people into choosing fraud control as a career option, the company said in a press release issued recently.

Police officials and bankers from Asia Pacific countries, including India, will be attending the course at Visa University. Chandra Agnihotri, Country Manager South Asia Visa International, said in a communication that the curriculum will include in depth training into the many known methods of credit card payment system fraud and ways to detect them. Participants will also be trained in the methods of gathering evidence so that such illegal activities can be prevented. The course consists of both theoretical and practical training and participants will be given scores for their performance. Law enforcement officers who participate in the course will be given an additional week's training in a practical situation in their area of operation. The course is a more formalized process of imparting information and techniques of preventing credit card fraud. The security support centre of Visa International has over the years held seminars and conferences in various aspects for
this purpose. Since the establishment of the Visa University, 50 participants from 40 member banks in 12 countries have attended six courses till date. In addition, a pilot course for law enforcement officers was also conducted.

2.3.11 Issuers of credit card in India

There are many institutions issuing credit cards, like Citibank, HSBC, Standard Chartered Bank and American Express etc. Indian banks like Andhra Bank, Bank of Baroda, Bank of India, Canara Bank, Central Bank, State Bank of India, ICICI Bank issue different types of credit cards. Master Card Limited, a non banking firm, also issues credit card. Many of the foreign banks generally issue Visa or MasterCard and Diners Cards, as well. Recently Dutch’s Bank, Indusind Bank, Barclay Finance etc. have launched credit card in India.

2.3.12 Different brands of credit cards in India

a) Citibank cards

The Citibank is a prominent player in the credit card business. It is the largest issuer of credit cards in the world. It's
cards are used by about 45 million card members and are honored by over 40 million business establishments world over. Citibank is now aggressively promoting its credit card business in India. A lot of advertisement expenses is indulged by it to increase its card clientele. In India different types of cards are presently issued by Citibanks which are Citibank Visa, Citibank Master Card, Citibank International Gold Card, Citibank Preferred and Diners Club.

Citibank Visa and Citibank Master Card are aimed to the middle class people. Those are available for a fee of Rs. 850/- in the 1st year and Rs. 500/- annual fee afterwards. These cards are accepted over 4,00,000 establishments in India. Groceries, hospitals, petrol pumps, hotels, departmental stores, airlines, hospitals and many more are accepting these cards. Besides instant cash withdrawal up to Rs. 10,000 p.m. from 24 hours Automated Teller Machines of Citibank and correspondent banks at Mumbai, Delhi, Kolkata, Chennai and Bangalore is available. Flexible payment option is possible with client card holder with the payment of only as little as 5% of total outstanding. A service charge calculated by the average
daily balance method is applied to balances carried forward. Free insurance for loss of life due to an accident for Rs. 4 lakhs during air travel or Rs. 2 lakhs in any other accident and insurance of outstanding in case of loss due to fire are also available.

Diners Club International has franchised Citibank to issue Diners Club Cards in India. The card is available on a first year fee of Rs. 2,500/- and afterwards at an annual fee of Rs.1,500/-. Among the special privileges, access to 49 exclusive airport lounges and business centres across 19 countries and access to emergency assistance centres all over 50,000 ATM's world over are worth mentioning. The preferred card offers a range of benefits. Currently the annual fee of Rs. 2,000/- is being offered to Diner Club members and selectively to others. These two cards are generally issued to the higher class of people.

The Citibank International Gold Card is meant for the upper class, frequent overseas travellers. The annual fee of US$ 50 for Diners Club members of US$ 75 for others. A package of benefits is offered to the Clients. Accepted over 24 million Visa establishments, 24 hours client service, free and
automatic personal accident insurance cover upto US$ 6 lakhs, free travel accident insurance cover upto US$ 2,50,000 in travel tickets bought on the card, free travel inconvenience insurance cover upto US $ 1000, emergency cash withdrawal of 2 lakh from 24 hours ATMs and world wide emergency medical, legal and travel related assistance. Special services at more than 3000 hotels in more than 30 countries, free membership to International business travellers, Club (IBTC) access to, exclusive business lounges at airports, payment of customs, duty and airport taxes.

Citibank is set to steal the show in the card business. One need not to be an account holder in the Citibank to avail its credit card facility. With a range of customer benefits, it wants to stay ahead by keeping its customers ahead with the International class of services.

b) HSBC cards

HSBC issues four cards, the plastic Visa Card and Master Card HSBC, Gold Visa Card and Master Card. Rs. 200/- is charged as joining fee for the classic and Rs. 400/- for the Gold Card. Besides annual fee is levied of the order of Rs. 1,000/-.
For the former card the income eligibility is a minimum of Rs. 72,000/- per annum and for the later Rs. 1,75,000/- p.a. Under the classic card upto Rs. 6,000/- p.m. instant cash drawals and under the gold card upto 12,000/- drawals are allowed. HSBC is not that vociferous in promoting its card business. But silently it casts its net wide. Inner Circle is a quarterly magazine launched by the bank for keeping its card clients informed well. Tele ticketing facility in collaboration with Thomas Cook is another facility offered. Further an exclusive Hyatt preferred HSBC Gold Card is also offered in collaboration with Hyatt Regency Club members.

c) American Express cards

American Express Card was launched in the U.S. in 1958 and has the patronage of millions of successful individuals all over the world. These are issued to selected persons by invitation not for every one. American Express cards are premium charge cards. American Express Corporate cards have been marketed in India since 1987. It is billed in U.S. dollars and is suited for international business travellers of the
affluent class. Originally the card was issued to firms with a bank permit or composite allocation of foreign permits.

Select corporate employees were given the privilege to use card for meeting travel expenses. Now the card is issued to deserving business travellers without the foreign account facility. The firm need not have a dollar account or exchange earner.

The card directly accesses the firm's rupee account. After a year the card holder can access 40,000 ATMs globally for cash. The fee is US$ 65 or its rupee value at market exchange rate.

The American Express Card is a new card meant for general class of individuals as against the corporate travellers. The annual fee is Rs. 1200/- and it is billed in rupees. A package of travel privileges like main receiving and holding facilities, card replacement services, emergency cheque encasement, facility for separate business and personal expenses, protection package in case of theft or loss of the card. Insurance that grows with spending level and so on is offered to card-holders. It is the only card valid in India, Nepal.
and Bhutan unlike the other cards which are valid in India and or Nepal only.

d) Standard Chartered Bank cards

Standard Chartered Bank recently entered into the credit card business in India. Initially their cards are issued to account holders only who maintain satisfactory balances. It seems these banks are not interested in quantity, but quality card-holders. Since the late 90s they also have started aggressive credit card marketing for its MasterCard and Visa Card.

e) Indian Bank's credit card business

Most of the Indian banks have entered into the credit card business recently. They target on the upper middle class of customers. Among them, Andhra Bank was first bank to introduce credit in Indian soil in 1981. About the same time Central Bank of India also entered credit card business. They are the innovators in the credit card business in India.

Bank of Baroda's Cards, viz. Bobcard and Bobcard Exclusive are claimed to be much popular. The annual fee for
Bobcard is Rs. 100/- and for the Bobcard exclusive is Rs. 500/-
The Bobcard exclusive gives a special privilege of cash
withdrawals up to Rs. 15,000/- for meeting medical
emergencies. At present there are more than 1.6 lakh Bobcard
holders.

Besides this bank, Allahabad Bank, Bank of Maharastra,
Oriental Bank of Commerce, South Indian Bank Limited, Tamil
Nadu Mercantile Bank and United Western Bank also issue
India card tied up with Bank of India. Like the HSBC Bank,
Hyatt Regency preferred Gold Card, Bank of India issue Taj
premium cards with exclusive collaboration with the Taj Group
of hotels. Canara Bank and Bank of Baroda enter late in the
80s, they spread the card culture among the middle class
widely. Canara Bank has three types of cards, Cancard for
individuals, business cards and Corporate Cards for frequent
traveller's for business purposes. Cancard is accepted by over
13,500 business establishment in India and Nepal. Cash
withdrawal facility from more than 9000 branches of Canada
Bank and correspondent banks is also available. Corporation
Bank, Dena Bank, Indian Overseas Bank, Vysya Bank,
Saraswat Co-operative Bank, Syndicate Bank and Union Bank of India serves as correspondent banks and themselves issue Cancards. Cancards are available for a small fee of Rs. 125/- p.a. Free and automatic insurance covering risk of accidental death up to Rs. 1,00,000/- is available to all cardholders with nomination facility. Besides insurance coverage against accident and medical expenses for cardholders, their facilities are available at far cheaper premier rates.

It volunteered to dispatch application forms to subscribers of mutual fund schemes. Besides this, it advertises for US cards. Cancards has now a membership of around 1.6 lakhs.

State Bank of India and its associate banks issue State Bank Cards. State Bank Cards have certain unique features. The cards bear the photo of the holder; card clients are issued some special cheque leaves, which are presented to merchant establishments for card purchases. No commission is charged from the merchant establishment on card sales. There are two cards from State Bank of India, State Bank Card (General) and State Bank Hi-value Card. The former is issued for an annual fee of Rs. 50/- and the latter for Rs. 250/-.
Apart from the banks, Mercard Limited, a Madras based firms owing alliance to Mercantile credit corporation is making strides in the credit card, business. Mercard is valid in India and Nepal. Launched in 1987, over 7000 leading hotels, shops and even hospitals accept Mercards. Like its banking counterparts, Mercard also offers a range of benefits to its customers. Mercard is up to make its credit card a plastic money market. Scaling new horizons, entering new arenas and enhancing the life style of the proud owners of Mercard are the current prusits of Mercard Limited. It has also gone for a media blitzkreig. It has floated on public issue of shares to raise more equity capital.

The potential Indian customer need no longer would be into acquiring a credit card as an alternative to cash, because the concept has already caught on. Instead with the plethora of cards all there for taking, it is the muscle that each of them packs in which could swing a potential buyer.

As credit card companies spruced up their act, an increasing range of travel and leisure convenience are being incorporated into such card. The benefits that a card holders
receives depends on the card while the category of card economy on premium dictates the quantum of benefits the stage is thus set for the credit card-holders to be aware of the hooplas available for the maximising the benefits while travelling on business or leisure.

As the monetary systems and paper currency has gradually evolved, now the plastic money replaces the paper currency. Even before this another benefit has evolved is the smart card. It is in extension of old credit in the plastic from the simple piece of plastic may in future contain the power of a time computer and may even be a trendy fashion.

Apart from all these, many other new players in credit card business like HDFC Bank, Dena Bank, PNB, etc. have emerged in market in the new millennium.

2.3.13 Difficulties of credit card operation in India

The card issuers faces many difficulties and the market of credit card service also suffers from certain bottlenecks which are outlined below.
• In order to achieve success in credit card business the service providers are not always upto the mark.

• The laws in India are not effective enough in dealing with payment defaulters and prevailing communication networks is not efficient enough which is essential for the success of financial service like credit card.

• Fraud like pilfered cards is only just being tackled at a back level and service are also not top-notch either. Errors and commission irregularities in maintaining systematic records, wrongly charged purchases, miscalculated interest, delays in billings etc. are only some of the problems one has to face in this service.

• Some card issuers are facing problems with mounting outstanding from cardholders who are not credit worthy.

These are teething troubles, issuers maintain and will be ironed out as superior technology takes over. But credit card payment system can ever replace cash in India on a widespread basis. Except for corporate expenditure, a lot of the money spent by the highest income group is unaccounted money. Inspite of this, a lot of legitimate money going around to
keep all the card issues in business. At the same time bankers predict that a few years down the line the inefficient and loss making card issues will be forced to withdraw from the arena. The only one is going to survive in the card business who improve their overall performance, infrastructure facility and have better trained personnel.