“Beautiful credit! The foundation of modern society. Who shall say that this is not the golden age of mutual trust, of unlimited reliance upon human promises? That is a peculiar condition of society which enables a whole nation to instantly recognize point and meaning in the familiar newspaper anecdote, which puts into the mouth of a distinguished speculator in lands and mines this remark: ‘I wasn’t worth a cent two years ago, and now I owe two millions of dollars.’

- Mark Twain
CHAPTER - I

INTRODUCTION

Indian Financial system is at crossroads passing through a phase of transformation and consolidation. This needs a strong and effective financial system for growth and economic development. None other than the banks can provide the best support and basic infrastructure for this growth. A strong and effective financial system is now critical for the attainment of the objectives of growth with price stability, creating a market driven, productive and competitive economy and to support higher investment levels. The ultimate source of all economic activity being finance, banks and other financial institutions are playing a major role in providing finance to all sectors of the people, which in turn is helping them to meet their several expenses in the everyday life. Banking sector is one such important sector in the fast growing economy.

A View on Indian Banking System

Banking in India in the modern sense has originated in the 18\textsuperscript{th} century. The largest bank and the oldest still in existence is the State Bank of India. It has been originated as the Bank of Calcutta in June 1806. In 1809, it has been renamed as the Bank of Bengal. This is one of the three banks funded by the Presidency Government, whereas the other two are the Bank of Bombay and the Bank of Madras. The three banks have merged in 1921 to form the Imperial Bank of India, which upon India's Independence have become the State Bank of India in 1955. For many years the presidency banks have acted as quasi-central banks as their successors, until the Reserve Bank of India has been established in 1935. Growth of banks has strengthened our financial system, by making them more reliable and confident among customers. However the current scenario is making them to have more expectations due to advancement in technology. Thus it can be rightly said that modern banking has given birth to productive banking
Banking in Today’s Scenario

Power of technology has empowered banking business in India and actually transformed traditional banking system. Indian banking system has emerged with a new face with its crystal clear vision, redefined focus on assuring fast, accurate and improved quality services to its customers. Now the concept of banking has changed from business dealing with money transactions to business dealing in financial interactions i.e. “informations and transactions”. Technological innovations have become both “challenge and opportunity” for Indian Banks to gain strength in domestic market as well as to increase their presence in global market. Banks are facing fierce competition especially after the banking reforms of 1991, allowing liberal entry of foreign banks. To meet this situation, they are concentrating on the customers who are the crux of their business.

Retention of Bank Customers

New technologies and fear of economic uncertainty have created fierce competition with more demanding customers in the changing climate with unparalleled set of challenges for banks. Customer satisfaction is the key for any banks to survive in this competition. It is very urgent and important that banks are able to retain a loyal base of clients. To attain this and to improve their market and profit positions, banks in India are formulating their strategies and policies towards increasing customer satisfaction levels. Banking institutions across the globe have recognized the importance of customer satisfaction and they are developing and maintaining enduring relationship with their customers. Banks are identifying strategies and ways to retain customers with their own unique relationship.

Customer Relationship Management

Customers are the most important part of any business. Customers are bank’s lifeline to profits, respect and reputation the banks have understood that no business can survive without customer retention. Customer Relationship Management (CRM) plays a major role in retaining their customers. Customer Relationship Management solution with a set of methodologies and tools helps the banks to manage customer
relationships in an organized way for finding, getting and retaining customers. It is also helping to provide better customer service, increase customer revenues, discover new customers and sell products more effectively. Banks are now always in search for new products and services.

**Banks Services to Retain Their Customers**

Banks provide number of services to their customers like, balance enquiry, funds transfer, bills payment, third party transfer, opening accounts, receiving alerts, cash management, on-line, e-statement, credit cards, debit cards, ATM card and many more services. These services help the banker to maintain a strong “banker customer relationship”. Banks pursuit for change and customers retention has created a new way of offering money i.e. credit cards.

**Money in the Modern Era**

After changing its various forms, money in the twenty first century is found in the forms of coins, currency notes and now in the form of plastic money. Gone are the days when the customer have to carry lot of currency notes to the stores or when payments have been made by cheques, wherein the dealer was always apprehensive whether the cheque would be honoured and very often the dealer has made the delivery of the goods after a couple of days once the payment has been made. With the introduction of plastic money all these problems have been taken care of. Today one has a number of cards in his wallet-viz. credit card, debit card, ATM card, smart card etc. These cards take care of all expenses for the day, whether durables are to be bought, restaurant bills are to be cleared or even for the payment for conveyance. A person just has to use the appropriate card and the transaction is complete. Plastic cards are here to replace all other forms of money in the years to come.

**Credit Cards in Banking Sector**

The credit card business is one of the fastest growing segments in the banking arena today. Indian banking institutions which is also playing a vital role in the development of the economy and is providing credit facilities to the customers
by way of credit cards. Many Indian banks including State Bank of India have ventured into this domain of Plastic cards, which is now quite popular in India. However, this has brought drastic change in the issue of credit since the banks of the new generation have started popularizing the credit card.

Credit cards hold a very important function in today’s world. Credit cards make life easier and can be a huge asset when used carefully and responsibly. Beyond the convenience of having a short-term line of credit, reward credit cards, balance transfer credit cards and gas credit cards can help to save money if used in the most responsible way.

There are plenty of people who use credit cards responsibly. Credit cards are now a boon to people who are wisely using and managing them. Experienced and educated customers wisely use the credit cards and reap the benefits and privileges of the cards. So now we find customers of varied income group as the users of credit cards.

**Statement of the Problem**

The outlook of the people towards money has changed after the introduction of credit cards in the banking market. Credit cards have brought a drastic change among the people in looking at money. In those days’ only rich people have been using the credit cards and the usage has been limited at selected cities, today, even middle class people in urban and rural area have got a different way of life with broader perspectives towards the usage of credit cards. However, this has brought certain complications like, credit card fraud including cyber crime, improper payments leading to financial problems, pressure tactics being used by the banks agents (mental agony) etc.

Earlier most of the people have been using only cash transaction, but for the last one decade, the improvement in technology has given a new means to meet our transactions through credit cards. RBI data have showed that in recent times tremendous growth has been seen among the people while using credit cards. With increased usage of credit cards, banks and customers are encountering varied
problems. Lack of awareness regarding the usage pattern and the frequent technological changes in its operation and application have added pressure and created inhibition among them. Awareness and perception among the people in the usage of the cards are no longer a fantasy.

Therefore this study aims to analyse the customers’ usage of credit cards and factors which influence the spending habits of the customers. Level of consumer preference and satisfaction, problems and expectations of the cardholders are also studied.

**Importance of the Study**

The astounding growth of Information Technology (IT) in banking business and high level of business activities of the present day markets have made it inevitable for the banks to analyse the spending habits and patterns of the customers. So banks are looking for new measures to create and sustain customers’ base, by offering varied innovative products and services with safety and quality as the core elements. The key to this is age-old Darwin’s Postulates i.e. “SURVIVAL OF THE FITTEST AND EXTINCTION OF THE WEAK”. This is making the banks to undergo certain changes like cost reduction, technology up-gradation, re-engineering the market forces and players, innovation in services and products, seeking newer markets and above all a reorientation in attitudes towards the constantly changing environment.

Card holders perceive the quality of a bank product based on cues such as card features, banks reputation, allowable credit, reward points, advertisement, etc. Donald F. Cox (1967) stated that the extrinsic cues could be packaging characteristics, advertisement messages, statement of friends and many other sources of information from a wide variety of sources. The cues that are not perceived cannot influence the purchase decisions of the customers. Therefore, it is important to understand the cues they actually perceive and also how customers use such cues. Credit limit is also a relative variable, the value that the customer pays for his purchase. These attributes along with high credit limit are looked upon by the customer in his search for superior quality.
An understanding of what a customer mean by credit value, interest charges, performance and service is of foremost importance for the bankers. In an emerging market like India, decisions like innovation, promotion, collection strategies, safety, discount facility, travel privileges, large network, better service, etc, are based on these preference and decide the fate and future prospects of banking business in this area. Similarly, competition has given a wide variety and choice to the customers to accept cards from different banks in variety of forms and features.

Therefore, honest effort is being made in this study to understand and analyse the various factors that influence the spending habits, factors that a card holder considers when making a purchase, payment, booking and his service expectations, problems and satisfaction on the usage of cards.

**Scope of the Study**

The present study aims at analysing the spending habits of the respondents on Credit Cards based on different periods and expenses. The study has been designed to gain a better understanding of the personal characteristics of respondents towards credit card usage. The study focuses on the length of usage of credit cards by the respondents and its usefulness to the respondents. The study identifies the service expectations of credit cardholders and their satisfaction.

**Study Area**

The study has been conducted in the semi urban district of Thiruvallur in the State of Tamil Nadu in India. Thiruvallur is one of the 30 administrative districts of Tamil Nadu known for its academic institutions, production units, trade centres, business establishments, religious monuments and temples. It is one of the fastest developing districts of Tamil Nadu situated near the Chennai city, by giving a special industrial and commercial importance. Thiruvallur is one of the fastest growing districts in Tamil Nadu.
This newly formed district has been bifurcated from the erstwhile Chengalpattu district on 1st January 1997, and it is located in the North Eastern part of Tamil Nadu. The district is surrounded by Kanchipuram district in the South, Vellore district in the West, Bay of Bengal in the East and Andhra Pradesh State in the North.

The district of Thiruvallur has been taken as the area of study due to the under mentioned reasons:

- The district has many leading industries like Madras Refineries, Madras Fertilizers, Manali Petro Chemicals, Madras Rubber Factory (MRF), Ashok Leyland, TI Cycles, Britannia India Ltd, Parry India Ltd and Hindustan Motors. It also has Ordinance Clothing Factory (O.C.F), Heavy Vehicles Factory (H.V.F) and Combat Vehicles Research and Development Establishment (C.V.R.D.E) at Avadi which manufacture Battle Tanks and they are Defence Research establishments. There are 16 Industrial Estates established in Thiruvallur district.

- The population of the district as per 2011 Census is 37,28,104 of which women constitute 18,52,042 and men constitute 18,76,062.
The district consists of a total of 27,91,721 literates of which women constitute 78.32% (12,96,010) of literacy rate and men 89.69% (14,95,711) of literacy rate. Another important feature of this district is that it has many institutions for higher education with 28 Arts and Science colleges and 22 Engineering colleges.

- The district is located close to the capital city Chennai and some of the major IT and software companies are existing in Ambattur which belongs to this district. Ambattur is also well known for its Industrial Estate.

- Majority of the people of this district have easy access to Credit Cards due to existence of many Banks in the district.

So the study has been based on this area to identify the customers’ awareness about the credit cards in the recent years and also to see if these developments have any impact on their status and usage of cards.

**Objectives of the Study**

The study aims at Analysing the Spending Habits of Credit Card Holders in Thiruvallur District of Tamil Nadu.

- To analyse the usage behaviour of the respondents on different periods and different types of expenses.

- To study the level of consumer preference on credit cards.

- To identify the attributes that satisfy the credit cardholders.

- To identify the problems faced by the credit cardholders.

**Research Hypothesis**

The following research hypothesis are farmed and evolved for this study:

1. Null Hypothesis (Ho): There is no significant association between Profile of the respondents and Credit Card Preference.
Alternate Hypothesis ($H_1$): There is a significant association between Profile of the respondents and Credit Card Preference.

2. Null Hypothesis (Ho): There is no significant association between Demographic Factors and Usage Behaviour of the respondents on different periods of the year and on different type of expenses.

Alternate Hypothesis ($H_1$): There is a significant association between Demographic Factors and Usage Behaviour of the respondents on different periods of the year and on different type of expenses.

3. Null Hypothesis (Ho): There is no significant association between Demographic Factors and Level of Consumer Preference.

Alternate Hypothesis ($H_1$): There is a significant association between Demographic Factors and Level of Consumer Preference.

4. Null Hypothesis (Ho): There is no significant association between Demographic Factors and Satisfaction Level of Respondents.

Alternate Hypothesis ($H_1$): There is a significant association between Demographic Factors and Satisfaction Level of Respondents.

5. Null Hypothesis (Ho): There is no significant difference between Card Usage Level and Gender.

Alternate Hypothesis ($H_1$): There is a significant difference between Card Usage Level and Gender.

6. Null Hypothesis (Ho): There is no significant difference between Usage of Cards by the Respondents and their Income.

Alternate Hypothesis ($H_1$): There is a significant difference between Usage of Cards by the Respondents and their Income.
**Methodology**

The present study is exploratory in nature and has adopted survey method for its findings. The study depends mainly on the primary data collected through a well designed and well structured questionnaire which has been used for collection of data from the Credit Card holders. Secondary data have also been collected from various published data, especially from the internet for presenting a fair case of study. Efforts have also been taken to have intensive interaction with the users of Credit Card for the purpose of the study.

**Sources of Data**

- Primary data have been collected from the credit card holders.
- Secondary data have been collected from various published and unpublished sources including Journals, Magazines, Publications, Reports, Books, Newspapers, Periodicals, Articles, Research Papers, Websites, Bank Publications, Manuals and Booklets.

**Sampling Size and Design**

Convenience sampling procedure has been used in this study for identifying and selecting the sample credit card users in the district of Thiruvallur of Tamil Nadu. 1100 number of questionnaires have been issued to persons using credit cards in various strata of the society like IT and non IT- professionals, businessmen, government employees and pensioners. Efforts have been taken to ensure that the respondents belong to different age groups. People from different economic sections have been covered to the extent possible. Out of the 1100 questionnaires issued, 1085 have been received back from the respondents. The data from the filled in questionnaires were fed into a computer as and when they have been received, after serially numbering them. On scrutiny, 35 of them were rejected for inconsistencies and incompleteness and rest of 1050 questionnaires have been accepted for the study.
**Pilot Study and Pre-testing**

A pilot study has been conducted with a sample of 50 questionnaires. The results have been tested using Cronbach’s Alpha, to measure the internal consistency and reliability of the scale of measurement. The value obtained was 0.712, which showed that the instrument was reliable. However, in the light of the experience gained through pilot study, the questionnaire has been modified to elicit responses from the sample group.

The study has used a well structured questionnaire. The responses from the credit card users have been thoroughly scrutinized to find vagueness and inappropriateness in the original questionnaire. Based on these, modifications and corrections have been carried out and the final version of the questionnaire was prepared. All efforts have been taken to eliminate repetitions and ambiguous terms and instructions. Considering the educational qualification and background of the respondent, the language of the questionnaire has been made simple, lucid, clear and free from any type of technical jargon that are mostly used in describing the configuration details.

**Questionnaire Design**

After pre-test and pilot study, a questionnaire with six sections has been finalized to collect information about the customer’s demographic profiles, information about their usage, credit card preferred over other modes and its impact on the growth of economy, type of card used, usage behaviour, satisfaction, problems and expectations of the customers. The questionnaire comprises both optional type and statements in Five Point Likert’s Scale. Five point scale, which ranges as follows: 5- Most Important, 4- Important, 3- Neutral, 2- Less Important, 1- Least Important.

Part I: Questions to identify the age, gender, education, occupation, monthly income, marital status, type of account, nature of bank, type of card used, number of card used and tenure of usage have been framed and asked.
Part II: Informations on the type of usage, reasons for card preference over the other modes and its impact on growth of economy and the variables which influence card usage have been elicited in this part.

Part III: Types of card used and variables which influence their decision have been identified.

Part IV: It has the information such as usage behaviour of different periods and different types of expenses and also variables which influence usage behaviour.

Part V: Questions on consumer’s level of preference while selecting cards and variables of preference influencers have been asked in this part.

Part VI: It has 36 variables on satisfaction, problems faced by the card holders and expectations of card holders.

Analysis of Data

The primary data collected from the users have been analysed using the following statistical tools through Statistical Package for Social Science (SPSS) version 21.

1. Factor analysis has been used to understand the underlying dimensions of usage influencer variables, card preferred over other modes of payment and its impact on the growth of economy influencer variables, consumer preference and usage behaviour influencer variables and also satisfaction, problems and expectations influencer variables.

2. Cluster analysis has been used to group various respondents.

3. Pearson’s Chi- Square Test is used to test the significance of association between different aspects.

4. T-test has been used to study the significant difference between card usage level and gender.
5. ANOVA has been used to test the significant difference between type of usage of cards and different level of income groups.

Period of the Study

The primary data have been collected from September 2012 to June 2014. The entire study has been conducted for the period of three years from June 2012 to June 2015.

Limitations of the Study

The following are the prominent limitations of the study:

1. The data have been collected only from the Thiruvalur district of Tamil Nadu and therefore a broad generalization of the findings may not be valid for the whole state or country.

2. The consumer market is larger and so are the consumer preferences. The present study covers only an analysis of spending habits of Credit Card holders.

3. Any questionnaire has a limitation of providing restricted options to the respondents. Their options are limited to a particular way to suit the study, whereas, the views may be a bit different than the options available.

4. The study on spending habit analysis cannot give enduring and long lasting findings over a period of time. Usage behavioural pattern is likely to change with socio-economic and cultural changes. Further, a pattern applicable to one person may not be applicable to the other.

5. The life style factors are difficult to measure, since they are mostly subjective and are based on the self report of the consumers. There is a possibility of hiding information due to their fear of exposure or embarrassment or to protect their privacy.
Chapter Arrangement

The research study is presented in six chapters.

Chapter I – Introduction: It deals with the introduction of entire gamut of the study, statement of the problem, importance and scope of the study, objective of the study and methodology, statistical tools used, limitations of the study and chapter arrangement.

Chapter II – Review of Literature: It reviews the previous researchers both from India and foreign countries which studies the various elements of credit card holders and their spending habits.

Chapter III – An Over View of Credit Cards: This chapter brings an idea about the evolution of commercial banks in India, evolution of customer’s experience, retail banking in the emerging decade, credit card in the Indian scenario, importance of the credit card, operating cycle, facilities and services available to the cardholders. Finally the chapter ends with current trends in credit card industry.

Chapter IV – Analysis of Demographic Factors of the Respondents: This chapter studies the personal profile, type of usage, preference of cards over the other modes of payment and Credit Card’s impact on the growth of the economy.

Chapter V – Analysis of Usage Behaviour Pattern and Consumer Preference: This chapter deals with the type of credit card used by the respondents and their usage behaviour, level of consumer preference, satisfaction, problems and expectations.

Chapter VI – Summary, Findings, Suggestions and Conclusion: The concluding chapter summarizes the findings of the study and gives suggestions for the cardholders to use the credit cards in an effective way to get maximum benefits. The Study also provides various suggestions to the banks to improve the credit card business in a very attractive and lucrative manner.

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