CHAPTER - III

AN OVER VIEW OF CREDIT CARDS

I can't change the direction of the wind, but I can adjust my sails to always reach my destination.

- Jimmy Dean
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In the previous chapter the literature review has given a clear idea about the credit card holders spending habits. 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.

Evolution of Commercial Banks in India

The Commercial banking industry in India started in 1786 with the establishment of the Bank of Bengal in Calcutta. The Indian Government at the time of establishment had started three Presidency banks, viz., the Bank of Bengal (established in 1809), the Bank of Bombay (established in 1840) and the Bank of Madras (established in 1843). In 1921, the three Presidency banks were amalgamated to form the Imperial Bank of India, which took up the role of a commercial bank, a bankers’ bank and a banker to the Government.

The needs of planning and economic policy are considered necessary to have social control over banks. In 1969, 14 of the major private sector banks have been nationalized. This is an important “milestone” in the history of Indian banking. This is followed by the nationalization of another six private banks in 1980. With the nationalization of these banks, the major segment of the banking sector has come under the control of the Government.

Evolution of Customers’ Experience

Customer experience of banks’ products and services had undergone a structured change with globalization, competition, technology, changing customer profile and incomes. If we look at the early 1970s scenario, when branch banking and customer mass have been critically evolving, the customer experience is unidimensional. Reach has taken predominance over experience and supply is more
looked into than relationship. “**Seller and buyer relationship**” has existed and experience is taken for granted.

The application of technology to enhance customer experience through technology has enabled products, processes, channels, pricing, service and value propositions have created a new situation in which if the experience is not bank neutral, there is a case for partial migration if not full along with intensity and value of migration. To take this on, banks in the public sector have successfully upgraded their technology platforms “**To fight competition and keep the market share intact**”.

**Retail Banking in the Emerging Decade**

Credit Cards have become important product for retail banking and they generate handsome income for the banks and there has been a high growth in number of credit cards circulation during the last many years. Cards are issued based on individual income level and many other criteria set by the credit card issuer. Credit limit is usually set based on the assessment of the information provided in application forms.

By successfully targeting and promoting the right group of customers with right product, banks are able to promote their credit cards more efficiently and generate a good potential income. Since last few years the demographic changes and cultures changes have also boosted the growth of credit cards. Cultural changes in society, such as “**save first, spend later**” approach to one of “**borrow now and repay later**”, has certainly changed the consumption and saving pattern of consumers in India. Today young borrowers have trust upon them to “**buy now, pay later**” policy. On the other side, credit card market has also become more competitive than before. All banks and each credit card issuer have introduced their own credit card product with value added services and incentives to attract their own customers.
Evolution of Visa and Master Card

In 1960, Bank of America had developed the present credit card operating system. Later, the Bank of America had licensed other banks in the U.S.A. to issue credit cards under its banner. This has lead to the development of international bank card or credit card, called “VISA” International. The success of Visa International has contributed to the launching of another international credit card called Master Card by a group of 16 banks of America. Today Visa and Master card together command the bulk of the credit card business in the world.

Credit card in the Indian Scenario

The first credit card to enter India was the Diners Club Card in the year 1964. The pioneering Indian banks to launch credit cards in the country is Andhra Bank and the Central Bank of India. The first credit card introduced by Andhra Bank is VISA classic in the year 1981 with the collaboration of Visa International and the Central Bank of India has issued Master Card with the collaboration of Master Card Corporation in the same year. Later, the State Bank of India and the nationalized banks like the Canara Bank, the Bank of India, the Bank of Baroda, etc., have introduced credit cards. Apart from the Indian banks, many foreign banks, such as Citi Bank, Standard Chartered Bank, ANZ Grindlays Bank, Bank of America and American Express Bank have also introduced their own credit cards and other franchised credit cards through their branches in India.

Importance of Credit Card

- **Convenient in Use**: Credit card acts as a substitute for cash and cheques. It can be used at home, at automated teller machine or at other places during travel. Hence credit cards are convenient in use.

- **Safety**: The credit card steps in hereby offering not only short term credit facility but also a safe and secure way of travelling without carrying hard currency. Credit card allows for a safe means of conducting transactions. Credit card holders need not carry large amount of cash, thus it is avoiding the risk of theft.
Shopping Convenience: Shopping is made more comfortable and joyous as purchasing possess no difficulty, since cards have wide acceptance.

Facilitates Consumer Spending: The credit card facilitates consumer spending by enabling the card holders to avail soft credit and making him more mobile without risk of carrying cash or cheques with him for shopping with retailers, for settling account with restaurants, for buying air tickets, paying hotel bills etc.,

Credit Facility: Credit cards offer a convenient mode of credit to customers. The customers need not to go the bank to apply for a loan that requires repayment in fixed instalments. The credit card enables the cardholder to avail the credit facility sanctioned by the card issuing company. The customer can either repay the amount of credit in full, or can opt for repaying it in flexible monthly instalments.

Meticulous Record: Credit cards facilitate meticulous and easy record keeping. The transactions are printed on a monthly statement that can be reconciled with the sales receipts issued by merchants. Thus, the accumulated transactions are easily accounted for every month.

Increase in Sales: Credit Card has pushed the retail sales substantially, thereby bringing a lot of profit to the credit card managing financial institutions like banks. The dealers of goods and services are able to increase their sales by sharing the goodwill of card issuing bank and enjoying guarantee of prompt payment.

Increase in Purchasing Power: Credit Cards help certain class of conscious consumers of the largest salaried group in the world to enhance their purchasing power. This is also encouraged by both foreign and Indian banks in a big way.

Consumptions and Investment Culture: Credit cards have created a new consumer culture. “The paradox of consumer culture is that people are constantly facing with two set of contradictory messages. The more powerful
is the dilemma aired by the advertisements, which urges the people to buy, to indulge them on one hand and on the other hand, people do not want to spend; they want to save.” Credit cards 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. You can indulge and save at the same time. You buy on your card for which only a delayed payment is required. The delayed payment of purchase in essence is an investment. Sometimes, cash drawn on credit cards are used for making investments which otherwise might have slipped off your hands. Credit cards thus create both consumption and investment culture at the same time. They thus help to create a new social, financial and business culture.

- **Roll – Over Credit Facility**: Credit card extends roll-over credit facility, whereby the credits roll over for re-use once the previous credit is repaid.

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**Figure 3.1.1 Operating Cycle**

![Operating Cycle Diagram](attachment:Operating_Cycle_Diagram.png)
The credit card operating cycle comprises of the following six steps:

- **Credit Purchase**: Cardholder purchases goods/services and gives the credit card.
- **Credit Card Processing**: Merchant establishment delivers goods after taking an authenticated credit card and noting the number and taking the signature on certain forms.
- **Bill Raising**: Merchant establishment raises the bill for the purchase and sends it to the credit card issuing bank for payment.
- **Payment**: Issuing Bank pays the amount to the Merchant establishment.
- **Bill to Cardholder**: Issuing bank raises bill on the credit cardholder and sends it for payment.
- **Card Payment**: Credit cardholder makes the payment to the issuing bank.

**Facilities and Services**

- **Risk Coverage**: Some credit cards provide the card holders risk coverage free of cost up to a certain sum. For instance, the credit card issued by the City Bank offers complimentary seasonal accident insurance up to Rs.10 lakhs in case of an air accident and up to Rs.2 lakhs in the case of any other accident. The credit card issued by the Bank of Baroda extends the insurance protection to the spouse of the card holder also.

- **Emergency Cash Withdrawal**: Citi bank cardholders can withdraw emergency cash of up to 60 percent of the credit limit from ATMs in all leading metropolitan cities. The Indian Bank, however, does not restrict cash withdrawing power only to a few automated and/or metropolitan locations, but allows cash withdrawals from all notified branches of the Indian Bank across the country.
Twenty-Four Hour Service: The revolutionary phone banking service ensures that the banks extend 24-hour customer service to assist the cardholder, for all the seven days a week. For example, SBI Card Help Line, provided for SBI cardholders is of a great help to the cardholders and provides a variety of information required by customers.

Photo Card Option: For easier recognition and extra security, certain credit cards are issued with the photograph and signature of the card holder digitally imprinted on the face of the credit cards.

Travel Privileges: Bank provides travel assistance to their cardholders by offering a wide range of services linked to airline and hotel bookings, discounted holiday packages, car rentals and more. For example, Bank of Baroda had entered into a tie-up with I.T.C. Similarly, Hong Kong Bank has a tie-up with SITA World Travels to provide a package of exclusive travel services such as tele-ticketing, special holiday and conference packages, international and domestic’s tickets, car rental services, etc.

Credit-Line Increase: Temporary credit line is provided by banks depending on the ability of the cardholder to pay back, cardholder’s financial resources and past spending and payment patterns. This credit line is increased by 25 percent for 3 months. The cardholder can ask for a temporary credit line increase from the banks to buy jewellery, consumer durables or to pay for vehicle repairs. This can also be used for family functions such as weddings, anniversaries and birthdays, or for a business or holiday trip.

Service Over Phone: Credit cardholders of selected banks can use their cards to pay for personal expenses where credit cards are not yet accepted. This is possible by instructing the bank over the phone to make payments for mutual funds, public issues, hire purchase down payments, paying telephone and electricity bills, besides issue of drafts.
Purchase Protection: This facility protects the purchaser against damage or loss caused due to fire and theft at no extra cost. The cardholder can claim the value of the product damaged or lost from the New India Assurance Company. This protection is available for a period of ninety days from the date of purchase of the product using the card.

Supplementary Cards: Supplementary cards are issued to the family members of cardholders. A cardholder of any bank can obtain a maximum of two supplementary cards at the prevailing card fee for the immediate family members.

Hotels Discount Facility: Cardholders can obtain membership to clubs or at leading hotels at a special price. The facility also earns some points on every rupee charged, i.e., every time the cardholder dines or stays at the hotel. Specifically 25 points for every Rs.1000 spent plus extra 10 percent points credited to the cardholder’s account if the card is used along with the hotel club card. These points can be exchanged for a wide range of services such as airline tickets, hotel stays and consumer products ranging from a microwave oven to Ray Ban sunglasses. The cardholder can also earn points by using the services of select airlines that have a tie-up with the respective bank.

News Letters: Bimonthly news letter which offers cardholders an exciting range of prizes, special discounts and privileges is sent free of cost. Today even magazine are sent to all cardholders of SBI. This is accompanied by a compendium of select business articles and opportunities to apply for certain mutual funds using the credit card. Exclusive offers that include dining programs at selected restaurants, a handpicked mail order merchandise catalogue and a collector’ series of books and magazine and many more are sent to cardholders periodically by some banks.

Fuel Facility: Fuel facility at Bharat Petroleum outlet is provided by BOB card. Similarly, at Indian Oil Petrol pumps Citibank and Standard Chartered
Cards are accepted. This arrangement is very convenient for the cardholders at all leading metropolitan cities.

- **Medical Advance Facility**: Cardholders can draw cash up to Rs.15,000 in case of medical emergencies for meeting expenses on treatment at locations other than their home town. This facility is available with all Indian and Foreign banks, depending on the type of card issued by the bank. For instance, Standard Chartered Bank offers 10 to 20 percent discount on services at hospitals in leading cities across the country. This facility covers special rates on medical facilities, diagnostic tests, check-ups, lab tests, nursing charges and professional fees.

- **Ability to Convert High Bill Purchases to EMI Options**: “No matter how big your next credit card purchase, go right ahead” – the statement is given by the banks to all their customers to enhance purchase options through EMI facility, so the customers buy their intended goods and services as they wish. As they have the ability to convert high bill purchases to EMI options.

**Current Trends in Credit Card Industry**

Now, there is a flood of Indian banks offering credit cards to the potential customers. Multinational banks operating in India have also joined the bandwagon with high voltage advertising and seemingly competitive reward programmes for loyal credit card users. Banks’ income from credit cards can be divided mainly into four components namely annual fee, interchange charge, revolving fee (interest charged for revolving credit) and other fee.

RBI (up to September 2013) statistics show that credit card transaction in 2003-04 is 176.63 billion and gradually increased to 1229.5 billion in 2012-2013. There is a tremendous growth of credit card transactions from year 2003 to 2013. The circulation of credit cards in India has reached 396.6 million by September 2013.