CHAPTER 1

AN OVERVIEW

1.1 INTRODUCTION

"I view credit cards, bank originated or other as a temporary but unavoidable retreat in the campaign to develop an efficient domestic payments mechanism."


"Charge It." That phrase is heard millions of times daily, yet until 1946 no credit plan existed in the United States. Consumers have enthusiastically embraced this convenient form of credit from its inception as a payment device in Brooklyn, New York; the credit card has evolved into an extremely profitable, if not the most profitable consumer product offered by banks. After checks, credit cards have become the widely used payment device. From the modest origins in the 1950’s as a convenient way for the relatively well-to-do to settle restaurant and department store purchases without carrying cash, credit cards have become an ubiquitous financial product held by households in almost all economic strata.

The origins 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 card 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, merchant deposited the scrip in a bank account and the bank billed the customer for the total scrip issued.
In 1950, 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 screenings prior to being sent a card. Merchants signed agreements to accept the card. The merchant then further would copy the information on the card onto the sales slip. The purchase was then credited to the merchant’s account at Franklin Bank for the amount of transaction, less discount rate. If purchase exceeded the merchant’s floor limit, the merchant was required to call the bank for approval. Franklin’s National Bank’s credit card program was copied by hundreds of other banks in late 1950’s and early 1960’s.

1.2 EVOLUTION OF THE VISA AND MASTERCARD CARD SYSTEM

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 BankAmerica card, which in 1976 changed its name to “VISA.”

This arrangement worked well for banks that obtained Bank of America Card 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 Interbank Card Association became the grandfather of what is now “MasterCard International”.

By the early 1980’s, the Visa and MasterCard 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 the bank credit card to be used at any merchant that is the member of the association. They also provide members with marketing and advertising support and assist in security and fraud control. Visa and MasterCard are responsible for card issuance and acceptance to ensure worldwide compatibility among members, and the associations are solely responsible for brand image awareness and advertising.

Cardholders, merchants and banks have fueled the rapid growth of bank credit card business. Credit cards are popular with consumers because they make purchases of product and services more convenient and repayment can be made in full each month or extended through monthly installments. Credit cards are also safer than cash, and the customer is provided with a detailed record of transactions. Merchants find credit cards attractive because sales transactions can be validated easily, payment is virtually guaranteed and customer are more likely to make larger purchases when using a credit card instead of cash. Banks have found that credit cards are attractive ways to extend a revolving line of credit to consumers and to attract new customers. With these new customers come additional opportunities to sell other banking products.

1.3 ARCHITECTURE OF THE CREDIT CARD INDUSTRY

The credit card industry was born in the 1960s. Credit card banks (i.e., banks that exist primarily to issue credit cards) and non-bank issuers were an innovation of the ‘80s. The current architecture of the credit card industry evolved when the Bank of America renamed it’s “Bank America” as “Visa” and invented the payment network.
A simplified model of Architecture of Credit Card is shown and discussed below:

![Diagram of Credit Card Architecture](Source: Internet)

The payment network is the glue that binds the system together. The payment network maintains the merchant base, that consists of merchants who accept the card and to whom the network forwards prompts payment when a cardholder makes a purchase. The network charges the merchant a fee of approximately 2% to 3% of the sale for this service. This fee is the primary source of the revenue and the “merchant acquires” who manage the merchant base.

The network also maintains “member financial institutions” that are banks that issue the network’s credit card. The banks in turn solicit and build up a customer base of cardholders who will use their credit cards to make purchases from the merchant base to obtain cash advances. The bank borrows funds from the money market and other sources to pay for the purchase at time t and then collects from the card holder at time t+n days where n is typically between 30 and 120 days. The assets of credit issuer consist of the accumulated debt of the cardholders to the bank. The liability side consists of loans it took from the money market to pay the network for purchases. Its' profits are spread in the effective interest rate between the asset and liability sides and from seasoning its' assets that is, maintaining a high value of n. It may also generate revenue by various types of fees, such as joining fees or late payment fees.
1.4 CREDIT CARD SCENARIO IN INDIA

While the credit card industry has been expanding wildly throughout the world in the past many years, India is also now looming as a market with unrivaled potential. Plastic card really started up in India in 1981, when the state owned Andhra Bank began to issue the cards. Other banks including national and international banks joined the fray in the decade of the nineties. While the value of the consumer finance industry in India was negligible three years ago, it has exploded to a $1 billion a year. Attracting financiers to India isn’t merely a sheer number of people the country offers, but the volume of wealth its population holds. Already, India has the largest middle class of any country in the world-estimated at somewhere around 180 million people of that number, an estimated 40 million earn annual incomes of at least $30,000 U.S.dollars. The Indian card holding base is relatively small, but the potential is huge. It is estimated that the sheer number represents a level of affluence that is far greater than that in many developed nations. In spite of that, India ranks at bottom in terms of usage of credit cards, when compared to China, Taiwan and Malaysia. Adjusting to diverse cultural values is at the heart of every card-issuer's strategy. That is why local banks often play a critical role in establishing plastic card for other than Visa or MasterCard in a particular country.

The slow picking of credit cards in the country can be attributed to variety of reasons. When compared to other Asian countries, the Indian market lags in terms of card spending and outstandings that contribute maximum revenue for the banks from the credit card business. The cards per bankable population in India is 0.03 per person against 3 in Korea, 2.66 in Taiwan, 2 in Hong Kong, 1.1 in Singapore and 0.4 in Malaysia. Also, card spends in India are less than $500 per card annually, compared to around $800 in Sri Lanka and over $3,000 in Hong
Kong and Singapore. Also, outstanding balances per card in India are the lowest in the region. The outstanding balance in India is at $1.5 billion, against Korea at $90 billion, Hong Kong $10 billion and Malaysia $2.5 billion.

The reasons have been unique and diverse. It violates the teachings of the country’s most revered figure, Mahatma Gandhi, who drilled into Indians the importance of self-reliance. Culturally, Indians, view credit cards as a sign of profligacy.

Also, the propensity to save is high among the Indians. Many a number of credit card owners do not use their credit cards and almost 20-30% credit cards are inactive termed as less than one usage per quarter. According to the industry estimates 30-35% of the credit cards issued in the year 2001-2002 have not been activated. These unused credit cards then go onto become a major expense for the banks as the cost of issuing a credit card can run up to (approximately 2500/- INR), taking into account the cost of customer acquisitions, application processing and credit card-issuance.

Credit cards are a low margin, high-volume business. The initial investments required by a bank are very high. The income per card is low, thereby requiring large volumes in terms of cards issued and the transactions. Financed to make the operations possible, the existing players for new banks, breaking into this business, already acquire the bigger businesses and merchants and convincing a merchant to accept their cards is not easy. Credit card use in India is patchy to say the least. Using the card in India is not as easy an experience, as using it in other markets where cashiers, tellers, merchants are more used to it. It is a functional fault of the market which is so young. Indian banks are conservative in issuing credit cards.
and add to that this could be because India is a young market calling for more education of bankers, merchants, consumers and potential customers for credit cards, as a whole.

While the industry has been growing at a very healthy pace, the absolute usage levels compared to the total population is abysmally low. An important reason is the differential high interest rates being charged. A uniform rate does not exist for persons with identical risk profiles and different players charge different rates according to the creditworthiness of the credit cardholder. Also, the standard high interest rates charged to not reflect the creditworthiness of a credit cardholder and with other avenues offering low interest loans, customers accord low importance, to availing credit cards and prefer to borrow from other sources.

Another reason for the low penetration is that many consumers fear of overspending. They also feel that the cost of credit cards is high especially with reference to joining and annual fees and the high cost according to them makes it more of a status symbol rather than meeting their needs. From the banks' point of view, a highly competitive market, higher interest rates and the possibility of creating high non-performing assets can hinder the growth of the market.

Yet, in spite of all these factors, Indian consumers are embracing the developed world culture of using plastic money. Credit card business is considered to be most lucrative banking business in India today according to estimates; the potential credit card base stands at 60 million and is likely to touch 90 million by 2006. A further peep into the reasons for lower
acceptability of the credit cards would reveal a clearer picture of the credit card industry in India.

Some of the reasons because of which credit cards are still not popular are vast amounts of untaxed money in circulation in the parallel economy, which cannot be reflected in credit card applications; the threat of fraudulent use, and inadequate customer and merchant education, that often results in distrust of credit cards. There is also the problem of inadequate technology to service credit card usage in India.

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

The traditional avenues for card spend in India are travel and entertainment and banks are now trying to exploit the non-traditional areas like utility bill payment, medical and insurance premium payments and on-line shopping. Industry sources believe that the key to future growth will be of encouraged increased usage of credit cards through expanding the scope of acceptance of these cards. As for instance they will be used in non-traditional areas such as payment of school fees and hospitalization fees in near future. The efforts by bank majors are still in nascent stage and once these areas would be exploited, these will be a significant rise in credit card spend and credit card usage.
Most of the banks till now have been focusing on the big cites of India with little or zero focus on two tier cites for credit card issuance. The foreign banks have a dominant share due to various reasons like having been in the field for decades, sound operational and financial strength, and strong brand recognition etc, an advantage well reflected in credit cards such Citibank and HSBC. They were catering to the upper segments and charged high annual fees. Later with the aggressive entry of SBI, ICICI bank and HDFC bank, the rules of the game changed. The cards were positioned in the manner, which gave an impression that people not only from the upper class, but also from the middle class categories can acquire credit cards. They positioned themselves in a segment as to be of mass appeal and at the same time reinforced a ‘clean’ and ‘dependable’ image of the bank. The new private banks like ICICI and HDFC are also aggressively increasing their share. They adopted a strategy of reaching lower down the incomes strata by lowering their eligibility norms, however, the credit limits are set at lower levels as compared to foreign banks. As a result of this strategy, the credit card base is widening day by day with the increase of base in two tier cites.

Banks’ income from credit cards can be divided mainly into four components namely, annual fee, revolving fee, interchange fee and other fees. Revolving fee is basically interest charge for revolving credit and currently constitutes a major portion of income from credit card operations. The use of revolving facility is expected to increase because off decrease in the interest rate charged due to cardholders as and when the interest rate drops down from the current 2.95% to 2%, thereby making it more lucrative. To supplement this, a lot of bankers are offering credit cards free to accountholders, entry fee waiver in the year of signing up. Also, credit cards come up with a special tag attacked to it, perhaps a discount on joining...
fees. And, discounts in the annual fees as well. In some instances, credit card issuers offer structures reward programs, promos, affinity and co-branded cards and more. Leading card issuers like Citibank, Standard Chartered, HSBC and American Express, all have some reward or promotional offers. The underlying intention in the promotional activities is just one thing which is to improve card-spends and the contribution to this business to the banks’ bottom lines. In order to improve the volumes, banks are also encouraging the concept of multiple cards among the cardholders.

Increasing use of sophisticated technology has enabled the banks to pack more features in the credit card. A new variety of credit cards called Combi-Cards have been introduced. These are magnetic striped plastic card with a microprocessor chip attached to them. They can work as a normal credit cards and also have an additional function of storing information, which could store loyalty points, information about balance etc. ABN-Amro and ICICI bank have already launched this type of credit card, which can store loyalty points for the customer, and the customers can redeem their points from the card itself.

With the rapid growth of business over the Internet, there now is a greater scope for a credit cardholder to transaction conveniently over the Internet. The growing number of Internet users will provide a lucrative market and incentive for owning and using credit cards.

The credit card evolved from 1960s to the late 1990s and it has fundamentally changed consumers’ shopping and purchasing habits and even their lifestyles. It has also changed the way banks and other financial institutions deliver and control consumer lending. It has
opened additional avenues of earning revenues to the merchant and lowering retail credit risk to credit card issuers.

The total number of credit cards in force in India was between 8.75 and 9 million in December 2002. But that does not mean that there are 9 million credit cardholders, because in urban India, particularly in major cities, multiple card usage is away of life. By a liberal estimate, the actual numbers of credit cardholders could be around 5 million. This is against the 22 million mobile telephone subscribers, 50 million cable connections and 250 million bank account holders, and hence there is still a scope for growth. The aggressive players are adopting a two-pronged approach: increasing customer base and treading new zones by expanding the coverage area beyond metros and big towns. ICICI bank has taken its product to 67 cities, SBI credit card is present in over 40 cities and HDFC bank plans to cover 25 cities soon. Among the foreign banks, Standard Chartered is present in 18 cities and Citibank, in 30 cities

Another strategy is to launch more and more co-branded cards and affinity cards. Similar to other countries in the Asia-Pacific region, it is interesting to note that co-branded credit cards have received a warm welcome in India. Co-branded credit cards are popular as they are perceived to provide greater benefits and more attractive rewards. For instance, ICICI bank has six co-branded credit cards and eight affinity credit cards. HDFC bank and SBI bank credit cards have two co-branded credit cards each and Citibank has 29 co-branded and affinity credit cards. T.R. Ramachandran, head of credit cards division, Citibank said, “the co-branded and affinity cards are growing at 50 percent faster than the plain vanilla card as we have tailor made the offers for the customers.” Public sector oil companies, mobile.
telephone players, retail chains and even airlines are joining hands with banks to float co-branded credit cards. Also, with increasing marketing spends newer segments like BPO picking up steam and more merchant terminals being set up, the credit card industry is hopeful of a sharp growth.

An under-penetrated market, a growing middle class, new channels of credit cards, new segments and new categories are expected to be major drivers of this growth.

Despite this, the total credit card spend is only around 12,000 INR per annum. On an average, a credit card holder spends between 1,500 INR and 2,000 INR on a credit card in one month, though individual banks claim that the spend by their customers is much higher than the industry average. Banks do not earn interest on the total spend. Interest is earned only when a customer rolls over the credit i.e., he chooses to pay only the minimum amount required to carry forward the credit. At best, 25 to 30 percent of the total credit is rolled over.

Overall, about 0.6% of personal consumption expenditure is through credit cards. That means that for every 100 INR spent on consumption; only 60 paisa is routed through credit cards, though the comparable figures in the U.S. are 16 per cent. The Asia-Pacific region also shows higher usage of credit card in terms of personal consumption expenditure.

One way of increasing the credit card use could be by making all utility payments through credit cards. One can use credit cards for paying petrol bills, mobile phone bills, insurance premiums, airlines and railway tickets, besides other consumer goods. But there are many other payments that cannot be made through credit cards even now. For instance, school tuition fees, water tax and other municipal taxes, electricity bill and fees for doctors and
clinics, although some hospitals have now started accepting credit cards. At least two governments in South India have initiated steps to make all utility payments through credit cards. Shri Chandra Babu Naidu the then Chief Minister of Andhra Pradesh had started a concept-e-Seva in Andhra Pradesh that ensured all utility bill payments at one point through cards. Kerala has launched a project called “friends” that works on the same model. Incidentally, the Southern states are far ahead of the rest of the India in the use of credit cards. Bangalore the capital of Karnataka, for instance finds more credit card use than Mumbai.

There is an increasing distribution of terminals. There is less than a lakh Electronic Data Capture (EDC) terminals used by merchant establishments that accept credit cards. The card issuing banks put up these terminals that process credit and debit card payments. HDFC bank has set up about 27,000 EDC terminals, ICICI bank about 25,000 and Citibank about 24,000 EDC terminals. An imported EDC terminal costs between 18,000 INR and 25,000 INR depending on the bulk of the order. The cost has come down from 32,000 INR over the past years because banks are aggressively placing orders for them. The convergence in the telecom sector, with the greater use of mobile telephones and the Internet, will bring down the transaction cost further. Some players have already tied up with CDMA operators and replaced the landlines of EDC terminals to bring down the processing costs.

The government too can do its bit by waiving the tax on credit cards—a big disincentive for credit card users. Currently, an 8 percent service tax is imposed on credit card transactions. Some countries in Asia-Pacific actually offer tax incentives to encourage credit card use. This will help to bring down the cash transactions and bring in at least a part of the parallel
economy into the mainstream economy. Once the volume of business transacted through credit cards grows and consumers start rolling over a higher percentage of credit instead of clearing the bill instantly, banks will be in apposition to cut interest rates on credit cards, provided Non Performing Assets levels are kept low.

To bring down the default rate, banks in India have set up credit bureau. A credit bureau exists, but it can only provide data identifying defaulters so that banks are in a position to stop entertaining customers written off by other players. The default rate in the credit card industry is estimated to be around 8.5 percent to 10 percent. The need of the hour is a positive credit bureau that can store neutral data on customers' spending pattern, total liability and so on. This will enable to detect the first sign of default in advance and sound a red alert so that prospective defaulters can be weeded out.

Successful credit card issuers with long-term sustainability are those who are able to implement strategies beyond simple growth objectives at the early stages by focusing on increasing the low levels of credit card spend and revolving credit.

To achieve this, there has to be a shift in the acquisition strategy from product to customer. Once a critical customer base is reached, efforts should be focused on customer retention via proper customer data analysis and profiling. Second, by developing a strong value of franchise and branding strategy of differentiation. The challenge, however, is to deliver service and benefits, yet maintaining the highest standards of customer service and integrity in the face of massive acquisition.
The fact that banks are still product-centered and focus on simple growth acquisition strategies is reflected by the fact that the Reserve Bank of India and other institutional bodies in the financial service sector, are about to develop a code of conduct. Consumer criticism is increasing in the wake of significant breaches of transparency in the process of customer acquisition such as offers of unsolicited credit cards, failure of informing customers about the terms and conditions of repayment, wrong activation of credit cards amounting to outright harassment.

Successful credit card issuers focus their resources on retention and usage strategies. Sub-segmentation has to go beyond the standard categories, including behavioral, geographic, transactional, lifestyle and lifecycle monitoring. The best credit card issuers in the region have more than 200 sub-segments in its analytical scorecard tailoring cards to programs specifically to certain customer groups, a factor which contributes to high retention levels.

Since the credit card brand is the single most important factor in owning a card for the Indian middle class, developing a strong value of franchise and a branding strategy of differentiation right from the beginning is of paramount importance. In fact, this implies that banks should have a separate marketing strategy based on a repeated integrated multimedia campaign to keep the brand on top of the mind of the consumer who is becoming more sophisticated and demanding in their use of financial payment systems.

Ultimately, issuers which are able to maintain high post acquisition service standards by delivering the convenience of payment and services around the credit card can create a long-
term service franchise and a pool of satisfied customers. As credit card issuers have been experiencing more than 100 percent in growth rates in terms of cards issued in the past many years, the ability to manage volume growth qualitatively at its earliest stage becomes of paramount importance in years to come.

The keys for profitability of bank credit card business are survival and growth. However, there must be commitment to service, value, and flexibility. Bank management must be willing to pass up short-term gains for long-term strategic benefits. The core business strategy in India is to focus on expanding credit cards to the mass banked population, helping the country build its' credit card acceptance infrastructure and accelerate the progress to a cashless society, as well as to increase consumer awareness and encourage greater payment card system.

1.5 THE CHARACTERISTICS OF A CREDIT CARD HOLDER IN INDIA

According to the study commissioned by the Visa International and conducted by National Council of Applied Economic Research (NCAER), the average Indian cardholder uses his credit card 9.3 times, spending about 14,700 INR per annum. A number of the credit card owners do not use their credit cards and almost 20-30% credit cards are inactive (less than one usage every quarter). India is still an orthodox country in terms of its spending. As mentioned earlier it is a land of Shri Mahatma Gandhi, who promoted self-dependence and boycotted anything that would promote consumerism. The phrase 'buy now, pay later,' defied the way an Indian consumer had been thinking all these years.
It is only in the past few years that the Indian consumer is beginning to accept the concept of 'credit.' The Indian culture does not promote credit, and it is this outlook change, which is the most important development for the credit card industry. ABN Amro, for instance backed up their launch of the 'Freedom Card' with research that showed that the Indian middle class views credit card as a potential debt trap. Add to that an Indian consumer is also becoming 'discriminating' in exercising his choice.

The unmet need analysis in the qualitative research conducted by HSBC has brought into light the various benefits that are not being offered by the existing credit card industry and hence present an opportunity for the Indian credit card industry to offer more to its consumers:

- **Wider acceptability:** Though the number of merchant enterprises is on the increase, more number of and more types of the merchant enterprises should be included in the credit card framework so that they can use it anywhere, anytime.

- **Proliferation of ATM’s:** the credit card can be used to withdraw cash from ATM. This revolving facility is also a major revenue earner for the issuing bank (interest charges range from 1.99% to 3% per month). There are a very few ATM’s in the metros, and are not there in most non-metro cities. The lack of the ATM’s does not allow the credit card to be used at its best potential.

- **Need for a card customized for Internet transactions:** With the rapid growth of business over the Internet, there now is a great need for a card suitable for transacting safely and conveniently over the Internet. The growing number of Internet users will provide a very lucrative market for this product.
• *Need for "premium" benefits:* Even though there are credit cards like Diners and American Express in the premium segment, there is a dearth of 'premium' benefits offered by them. Example of such premium benefit is special airport lounges etc. These benefits are available to the Indian consumer once he goes abroad, but within India, he does not get all the extra 'premium benefits' which can be associated with premium credit cards.

### 1.6 TRENDS IN THE CREDIT CARD INDUSTRY

Following are the growing trends in the credit card industry in the developing economies like India:

- Credit card will grow in importance as both credit and payment device.
- Innovations in credit cards will grow and other banks will continue giving consumers more option in paying for services. Smart cards, using the latest in microchip technology, will lead closer to a cashless society where even small routine transactions would be handled via bank cards. The rapid growth of point of sale debit terminals will proceed, giving consumers immediate access to their bank accounts from any where in the world.
- The consolidation of issuers and acquirers will continue, both through bank mergers and acquisitions and through the sale of bank credit card portfolios.
- The polarization of issuers and acquirers will continue to grow.
- More and more non-bank entities will enter the business, either in partnership with existing banks or by forming their own entities. Pressure on credit card profitability will continue.
• Introductory “no-fee-for-life” offers best exemplify the pressure on the annual membership fees.

• The move to a variable interest structure by many a banks will impair profitability.

• The high cost of enhancements designed to distinguish credit card issuers from one another can only compress the profits over a period of time.

• The entrance of non-bank entities, whose main goal is to protect their core business, will tend to lower profitability.

1.7 OTHER CARDS IN EXISTENCE
The bank credit card continues to be the most widely used among the many plastic cards provided by the financial institutions. In addition to the bank credit card, several other types of cards have been developed, and many have grown in popularity with consumers because they offer specific benefit9. A consumer can opt for these cards instead of a credit card. Following is the list and a brief description of the card:

• **ATM Cards** - As supplement tellers, ATM's or Automated Teller Machines provide many of the same routine banking services, such as dispensing cash, handling services, handling deposits and withdrawals. Virtually, all banks maintain ATM's which their customers access by inserting a plastic card and entering a personal identification number.

• **Debit Cards** - The Debit Card is a handy substitute to cash for initiating transactions. It is most often used at the point of sale. Debit cards differ in one important way from credit card-instead of accessing a credit line funds are deducted from the cardholder's deposit account. When using a credit card, consumers are essentially borrowing bank's money; when using a debit card, consumers are drawing on their funds in their
checking account. Consumers have begun to embrace debit cards as a safe alternative to cash and a convenient alternative to credit cards. Consumers’ clearly like to make some of their purchases on credit. However, with a debit card, the purchases are charged directly to the consumers account.

- **Smart Card** - The Smart Card also known as the chip card uses a different technology from that used for conventional bankcards. Pioneered in France, the smart card contains a computer chip embedded with the plastic that provides unique capabilities. Using special terminals designed to interact with the embedded chip, the card can perform special functions. Smart cards have a promising future because they offer several advantages for consumers, merchants and banks. For consumers, smart cards offer an alternative to scrambling for coins or small bills to pay a fare, buy a newspaper, or place a telephone call. But because an economically feasible means for integrating chip and magnetic stripe technologies have yet to be identified and agreed upon, it has yet to gain acceptance in the country.

- **Contact less Card** - A contact less card is a smart card that also includes a miniature radio transmitter that allows the information on the chip to be read remotely, without the need to physically insert the card in a reader. For this reason, they are also referred to as proximity cards. Depending on the application, the card may contain a memory only or an integrated circuit chip. For example, transit applications that merely debit a fare typically use a memory only contact less card. For more than a year, MasterCard and American Express have been testing "contact less" versions of their credit cards. The cards need only be held near a special reader for a sale to go through -- though the consumer can still get a receipt. The card companies say the system is much faster and safer because the card never leaves a
customer's hand. The contact less cards has no battery or power. When they are near a reader, they are jolted to life by the reader's electromagnetic waves. A small radio antenna in the cards instantly transmits account information to the reader. The transaction then proceeds through the credit card network just as if the card had been swiped.

- **Check Guarantee Cards** - The Check Guarantee Card is a plastic card, issued by a bank, and presented to a merchant to validate a purchase. It is another mean of offering credit to consumers and helps consolidate customer relationships with the bank. The check guarantee card also promotes the bank’s identity in the market place because the bank’s name is printed on the card and seen by merchants when it is presented to them.

- **Private Label Cards** - A Private Label Card is uniquely tied to the retailer issuing the card and can be used only in that retailer’s store. This one-to-one credit relationship between retailer and customer underlies the concept of private label card in banking today. The card can be used in the stores designated by the name or label of the retailer appears that on face of the credit card. For banks, private label cards present a fresh avenue for growth of credit card portfolios and a new means to establish banking relationships with more consumers. But these cards also carry risks for banks. Pricing the card to the cardholder and pricing the service to the merchant can be complex and requires careful balancing.

### 1.8 BANK CREDIT CARD FRAUD

Bank credit card fraud has been described as a war between the “good guys,” and the “bad guys.” The good guys are issuing and acquiring institutions, the national credit card
associations, and law enforcement. The bad guys are dishonest individuals who are always looking for ways to beat the system.

The amount of money lost to fraud in the bank credit card industry has grown dramatically since the early 1980’s. Bank credit card fraud losses reported to the MasterCard and Visa associations have increased steadily over the past ten years.

Major Sources of Fraud Losses are:

- Fraudulent applications—which results in accounts being set up and credit cards being issued to criminals who have adopted the identity of a real person or conceived a bogus identity. They account for approximately 10% of fraud losses.
- Account “take-over” schemes—where criminals, posing as true card-holders, fools issuers into misdirecting credit cards; changing personal identification numbers (PINs); providing additional cards; and issuing courtesy checks to themselves—all for fraudulent use.
- Lost, stolen and never received credit cards—used for unauthorized purposes. They account for almost fifty percent of fraud losses.
- Counterfeit and altered cards—where criminals introduce counterfeit credit cards into the market place.
- Collusive merchants—where merchants engage in fraudulent transactions involving stolen or counterfeit credit cards, mail order/telephone order fraud or draft laundering.
- True credit cardholder fraud—where the true cardholder attempts to defraud the issuer by claiming legitimate transactions are fraudulent, or situations where the true credit cardholder conspires with others to perpetrate fraud on account.
• Employee fraud—where credit cards, account numbers, or account information are stolen from a bank credit card center or a third party processor.

As the use of bank credit card and the value of bank credit card transactions has increased, so too have incidences of fraud. Though the efforts are underway, criminals are continually scheming for ways to beat the system. Banks must remain constantly vigilant and combat credit card fraud through a combination of fraud detection, proactive fraud control efforts, liaison and communication with law enforcement, investigations, and prosecution of credit card criminals.

1.9 NEED FOR THE STUDY

A notable change in the consumer financial services over the past few decades has been the growth of use of credit cards, both for payments and as sources of revolving credit. In modern commerce, credit cards (along with debit cards) serve as a payment device in lieu of cash or checks for millions of routine purchases as well as for many transactions that would otherwise be inconvenient or perhaps impossible. And, India is no exception to this phenomenon.

Credit cards form an important component of the service industry. With the growing competition, and many international banks such as the Citibank, Standard Chartered bank, etc., are thronging to the country with their offering of variety of credit cards, the concept of customer satisfaction has grown all the more important. As the credit card market reaches a certain level of maturity and in some time from now when consumers would no more be skeptical to the use of plastic, most credit card companies feel that understanding customer
needs and the ability to offer value added benefits is what will now matter. The payment card is a versatile product and can be tailored to suit the needs of specific customer base. As the industry grows, member banks will come out with innovative products to provide special benefits to their customers and to differentiate themselves in the market. These unique products will meet the special needs and provide a value preposition to certain segments of the customers and will go a long way in the growing industry and hence it becomes all the more important to understand the needs of the credit cardholders and to satisfy them in the service industry because of continuous customer interface. It is vitally important to understand the psychology of customers and why they choose to do what they choose to do. In context of services it refers to what makes credit cardholders them satisfied or dissatisfied.

In the past, satisfaction studies have been conducted on the banking sector as a whole. However, very few satisfaction studies have been conducted on the micro-components of the banking industry such as credit cards, ATM cards etc. With the international banks along with the domestic banks, thronging to the two-tier cities, with their offerings of the credit cards, there has been a brutal fight for customer money, such as struggle for existence and many revolutionary changes. The banks are going out of their ways to pamper the buyers and to cajole them with new features, fresh perks, lower prices and choices wider than ever to choose from. The story does not end there, as the banks are also making an aggressive effort to retain their customers.

In such a scenario, a satisfaction study on the credit cardholders in the city of Baroda, in the state of Gujarat would be a contemporary one and can throw better insights into the nuances of credit cardholder behavior in such smaller cities.
This study is an exhaustive study as it covers various aspects of credit card and its usage. It covers all the three important points in a service encounter i.e. pre-purchase, usage and post-purchase. This study also explores and tries to find out whether credit cardholders have renewed their existing credit card or not. This study also tries to map the profile of two segments of credit cardholders i.e. renewals Vs non-renewals and also private label banks Vs nationalized banks. It has also used various scores on attributes to derive at meaningful scores on various attributes and also to derive at meaningful clusters. Also, in the current scenario, the study tries to find out how banks are trying to woo their customers and this study makes an analysis of the various strategies adopted by the bank to retain existing customer while trying to bring in newer customers.

1.10 OBJECTIVES OF THE STUDY

The following have been the objectives of the study:

- To track satisfaction of credit cardholders in a cycle of three phases followed by examining the status of membership at the end of the third phase.
- To study the perceptions of credit cardholders towards different attributes of credit card and its’ usage.
- To study the association between the credit cardholders’ satisfaction and the membership status of the credit cardholders.
- To study the association between credit cardholders’ satisfaction and the kind of bank credit card possessed.
- To determine meaningful clusters on the basis of perceptions of respondents towards the various attributes of credit card and its’ usage.
• To study the “Customer Satisfaction Scores” on the basis of three summary questions.
   (Overall satisfaction with the credit card, reuse and recommendation of the credit card.)
• To study and evaluate the various customer satisfaction strategies adopted by the various credit cards issuing banks.

1.11 ORGANISATION OF THE STUDY

This study has been divided into eight chapters.

The first chapter that is the present chapter, is introductory in nature, introduces the topic and describes about the growing importance of credit cards industry in India, its’ upsides and the flipsides. It also explains the need and the objectives of the study.

The second chapter reviews the available literature on the various aspects of customer satisfaction with the special relevance to the service industry. It has been divided into four parts. The first part reviews literature related to customer satisfaction, the second part deals with the service quality, third part deals with relationship between customer satisfaction and service quality and the fourth part deals with repurchase intentions and customer loyalty.

The third chapter explains the research methodology employed in the present study. It describes the hypothesis of the study, sampling design, data collection, data analysis and limitations of the study.
Chapters’ four to eight are devoted to data analysis and findings of the study. Description of chapters fourth to eighth is as follows:-

Chapter fourth discusses the profile of credit card users in terms of the number of times they use their credit card, various places and facilities where they use their credit card and when do they use their credit cards.

Chapter five discusses customer satisfaction scores of various banks, perceptions towards various attributes of credit card along with replacement of and renewal of credit cards.

Chapter sixth analyses two segments, loyalty & membership, using discriminant analysis and also analyses credit cardholders on various attributes using cluster analysis.

Chapter seventh discusses the various customer satisfaction strategies followed by the various credit card issuing banks.

Chapter eighth presents a summary of findings and conclusions and winds up with recommendations for the banks.
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