CHAPTER - III

CREDIT CARDS - A THEORITICAL REVIEW

3.1 MEANING OF CREDIT CARD

A Credit Card is a credit-token within the meaning of section 14(1), Consumer Credit Act 1974 of UK which defines a credit-token as a Card, Cheque, Voucher, Coupon, Stamp, form, booklet or other document or thing given to an individual by person carrying on a consumer credit business, who undertakes

(a) that on the production of it (whether or not some other action is also required), he will supply, cash, goods and services (or any of them) on credit, or

(b) that where, on the production of it to third party (whether or not any other action is also required), the third party supplies cash, goods and services (or any of them), he will pay the third party for them (whether or not deducting and discount or commission), in return for payment to him by the individual.

In very simple words credit cards can be termed as an unsecured personal loan offered to consumers by the banks where the cardholder could purchase goods or services from authorised Merchant or Member Establishment (MEs) of the bank upto a fixed limit on credit. Such credit is normally made available for a period of 30 to 45 days. This in turn helps to earn income by way of commission from its merchant.
establishments. For merchant establishments, the scheme provides large scope for sales and increased turnover with an assured and prompt payment.

"Credit Card" means any instrument or device, whether known as a credit card, credit plate, or by any other name, that enables any person to identify the holder of the card through comparison of his signature with the specimen in the card. Once this identification is made by participating establishment either a trading house or a business house, issued with or without fee, by an issue for the use of the cardholder in obtaining money, goods, services or any thing else of value on credit.

A Cardholder can avail all travel and entertainment and banking facilities irrespective of his bank balance. The bank recovers the money from the cardholders in instalments and charges a certain interest on outstanding balance.

A Credit card is a card establishing the privilege of the person to whom it is issued to charge bills. Most retail firms accept credit card. Credit cards allow consumers to make purchases without paying cash immediately or establishing credit with individual stores. Credit cards eliminate the need to check credit ratings and to collect cash from individual customers. The issuing institution establishes the card's terms, including the interest rate, annual fees, penalties, the grace period, and other features. Credit Card debt is typically unsecured debt. Repossession is not easily accomplished by the lender to ensure payment. Banks have often priced the product assuming maximum risk exposure.¹

The Credit card is a device which enables the holder to obtain goods on credit from specified suppliers. The holder of the card in some cases has to pay yearly
subscription and the suppliers also have to pay a commission on sales to the bank or
other body issuing the card. The suppliers are paid promptly and so are protected
against bad debts, while the holder makes a single monthly payment to cover all his
purchases for that period. Credit cards are issued only after the applicant’s
creditworthiness has been accepted as satisfactory. According to his credit rating, the
holder of the credit card may be allowed a specified amount of credit from one month
to another.²

Credit card, as the name indicates, enables the cardholder to enjoy credit from
the issuing bank for a specific period after the purchases. During this intervening
period, the cardholder is allowed to use the card for incurring further expenses³.

3.2 HISTORY AND DEVELOPMENT OF CREDIT CARDS

The history of this unique system can be traced back to 1880’s when in
England, The Provident Clothing Company, now Providential Financial Group, issued
vouchers to customers to be used at the shops on the approved list. Payment for
purchases was made on a weekly instalment basis to Provident Clothing representative.
The nature of transaction which took place under this system was seen as related to
the functions of the present credit cards system which was developed in USA in the
early years of the 18th century.

The word ‘Credit Card’ was coined by Edward Bellamy in his popular Utopian
Bellamy, “money would be abolished, but production would still be valued in dollars.
Each citizen would receive each year a credit card valid for the amount of money
which had been decided (in advance) was to be made available to him/her for the purchase of goods and services. All cards would be worth the same amount of money. How you spent that money, whether on your home, on clothes, travel would be up to you.

The card would be made of paste board, it would act as an identity card, it would be a store of value, it would contain units of value that would be cancelled as goods and services were acquired, it would provide limited extended credit (in the form of an advance against next year's issue of wealth), and it would not be possible to transfer the cards from one person to another.

Bellamy also did forecast that his credit card rule be used overseas. "An American in Berlin", he wrote, "Takes his credit card to the local office of an international council and receives in exchange whole part of it, a German credit card, the amount being charged in favour of Germany on the international account".

Bellamy in fact, came up with a convenient payment system (the extended credit element, however was one of which he disapproved) in which cards that identified the bearer to be used to pay for goods and services. The fact that in Bellamy's Utopian world individuals were not allowed to acquire wealth beyond the amount allotted to them by the State does not invalidate the ingenuity of the basic idea.

Credit cards in their modern form was first developed in United States at the start of 19th century. The first card was issued in 1914. General Petroleum Corporation of California (now Mobil Oil) supplied cards to employees and selected customers. In 1915, coins or tokens (called 'shoppers' plates') were issued by a number of small
hotels and stores, telegraph companies and rail roads, and, in effect, provided the customer with a monthly credit account. There was no provision for extended credit. Reciprocal arrangements between establishment followed. The petrol companies attempted to stimulate sales by the issuing of properitary cards.

In 1946, John C.Biggins, a Consumer Credit Specialist at the Flatbush National Bank of Brooklyn, New York, launched a credit plan called charge-it. The programme featured a form of script that was accepted by local merchants for small purchases. After the sale was completed, the merchant deposited the script in a bank account, and the bank billed the customer for the total script issued.

In 1950, Diners Club was incorporated. It was the brain child of two business associates, Frank McNamara and Ralph Schneider, who came to the end of a restaurant meal with friends and discovered they did not have cash to pay the bill. It was therefore arranged for their friends and business colleagues to pay their hotel and restaurant accounts in New York on a monthly account based on production of their Diners Club Card. No limits were placed on the amount of credit except that accounts were settled at the end of the month and there was no extended credit provided. Members also received a directory of establishments where the card would be accepted. This was the start of the development of ‘T’ and ‘E’ cards (Standing for travel and entertainment) and was soon followed by American Express and Carte Blanche.

In August 1951, the Franklin National Bank became the first bank to issue credit cards to customers of other banks and bankers saw an opportunity to provide consumer credit. By 1957, 26 banks and 7,54,000 cardholders being accepted by
11,000 merchants; turnover exceeded US $ 40 million. In reality however, this presented a slow growth as a consequence of the difficulties the banks were facing, probably high setting up and running costs, frauds and reluctance of merchants to pay discount on sales. On the East west, Chase Manhattan sold off its credit card department in 1962 partly as a result of the structure of the Federal Banking system which restricted branch networks to the home territory and made the interstate acceptance of Credit cards by merchants difficult to organise. In 1965, Pittsburgh National Bank and Mellon National Bank introduced their own card programmes.$^5$

The Bank of America issued 'Bank Americard' in 1958 and eight years later, in 1966 the banks comprising the Western State Bank Card Association issued the Master Charge Card. Bank Americard and Mastercharge became the focal points for the eventual groupings of all bank cards throughout the world. The VISA and the MASTER, the largest credit cards today appeared in the market in 1966. Since 1967, several American banks started issuing their own cards designed mainly to finance local and retail market across the country.

Although the years that followed the Master Charge launched in the mid-1960's saw competitive gains and losses for both sides, the combined card programmes carved out pieces of an even larger pie.

3.3 TYPES OF CREDIT CARDS

The different types of credit cards described below are not necessarily credit cards in the true sense; but in practice most of them are being treated as equivalent to credit cards. They are discussed below:
3.3.1 **Travel and Entertainment Credit Cards**

These cards are not real credit cards since they offer credit for a brief period between purchasing and billing. These cards are issued by organisations not essentially banking institutions and have large acceptability in travel and entertainment related areas like restaurants, airports, hotels, car rental services, etc.

Travel and entertainment companies, issue cards on an application basis, charge an annual fee, and require a minimum annual income level. The bank does not solicit the merchant firms, therefore, no direct merchant relationship is obtained either through personal contact or a deposit account. The solicitation for merchants is handled by the travel and entertainment company which receives its major source of revenue from the merchant discount and membership fees. The bank becomes involved by the line of credit offered to the cardholder and the line is activated upon the customer's indication to the company which receives its major source of revenue from the merchant involved by the line of credit offered to the cardholder and the line is activated to pay the balance due on a revolving credit basis. Generally, the line of credit offered with the company gives the cardholder the privilege of buying traveller's cheques or cashing personal cheques at any of the participating banks or the company's office.

3.3.2 **Smart Cards**

Smart card also known as 'chip cards' or 'stored-value cards' similar to credit and is embedded with a microchip. Financial information can be programmed into this chip, which can then be used to conduct monetary transactions. This chip will store
a monetary value in the card and debit the value as the card is used, i.e. when a transaction is made using the card, the balance comes down automatically. Once the monetary value in the card is brought down to nil, the balance needs to be restored all over again for the card to be become operational.

The smart card can also accept a 'reload' of the value at ATMs and other systems when the original amount is depleted. Smart cards can be used to withdraw cash and to operate one's account. It is ideally suited to Indian environment because it can be used in branches which are not computerised. This means that smart cards can be used even in non-metros and if they become popular, they could replace travellers cheques/cash. It is easy to predict and just as easy to be wrong that the smart card will soon be the backbone of the cashless society.

3.3.3 Bank Credit Cards

The basic plastic instrument in which the issuer establishes a revolving credit line for its cardholders. In effect, the card is a loan that consumers can use to make purchases now and repay later, if they do not wish to repay in full the amount they have borrowed in any given month, they are allowed to revolve some or all of it into the next month - but they must pay interest on the outstanding balance. The leading standard credit cards are Mastercard and Visacard.²

3.3.4 Discount Cards

Discount cards are those cards issued by organisations who have agreements with certain merchant outlets to offer at present discount rates. The cardholder will
have to apply to the organisations and pay them the membership fee to get the card. The main drawback is that the cardholder should ensure that his/her purchases value exceeds the membership fee paid by him. Otherwise, these cards will not be attractive.\textsuperscript{7}

3.3.5 Debit Cards

A card issued by banks that allows cardholders to pay for purchases by taking the money directly from their accounts. Instead of borrowing funds from the card issuer that they will repay later (as with a credit card), consumers transfer their own money to the merchant when they use a debit card. With an online debit card the money transfer is usually settled the same day as the transaction; with an offline debit card, the settlement generally takes a few days.\textsuperscript{8}

3.3.6 Charge Cards

A card that also allows customers to charge purchases now and repay later. A charge card does not have a revolving line of credit; cardholders are obligated to pay the entire amount when the issuer bills them for it, but they are not hit with any interest charges eg. American Express, Diners, etc.\textsuperscript{9}

3.3.7 Cheque Cards

It is not a credit card in the typical sense. It is essentially a tool of increasing the operational area. Cheques are valid only in the branch of issue and not outside. The outside cheques are accepted only for collection. The holder of this card can
present it at any branch of the issuing bank and the branch will pay the amount on the spot. These cards are basically used as identity cards for the bank customers wishing to withdraw money at any branch by encashing their cheque drawn on another branch of the same bank.10

3.3.8 Trade cards or Instore Cards

Trade cards are those cards which are issued by organisations to encourage the utility of their own services at various places. The cards can also be described as Instore cards as they are issued to customers by a retailer or company in general (eg. textile, hotels, etc) and it can only be used in that retailer outlets or for purchasing the company’s products. Income is not the main criteria; they are generally used in stores as marketing tools to solidify customer loyalty and to increase sales. There is no membership or enrolment fees, profits can be made through increased sales volume. They are popular amongst upper class. For instance, Akkbarally’s Autocard Count Down is one such institution in India issuing Instore cards.11

3.3.9 ATM bank cards

A card that gives consumers access to bank’s automated teller machines (ATMs) and related network of other banks’ ATMs. The card allows consumers to conduct a host of standard banking transactions such as transferring funds between accounts, making deposits, withdrawing cash, paying some bills and get information about account balances. Some ATM cards offer additional features, like allowing the holder to make loan payment, make payments to utility companies, print transaction statements and purchase postage stamps. The ATM card extends banking convenience
to bank customers. The ATM cardholder can operate his account round the clock without having to go into a bank. For banks, ATM transactions are less costly than those handled by a teller.12

3.3.10 Memory Cards (Prepaid Cards)

It is a card with some data, usually about a prepayment, stored in it. It is a rudimentary form of smart card. A fixed amount is encoded in the card, or accesses an account with a fixed amount. The prepaid amount is automatically reduced each time the card is used. Examples of prepaid cards currently available include some Telephone Calling Cards, Petrol Card, etc.13

3.3.11 Secured Credit Cards

A basic credit card that is backed by an interest bearing savings deposit held as security for the card's credit line. Secured cards are designed for people who can't qualify for traditional credit cards because they have no previous credit history or have a poor credit rating due to prior financial difficulties. Secured cards look and work just like any other Mastercard or Visa credit card.14

3.3.12 Affinity Cards

A credit card specifically designed to appeal to a particular interest group, usually sponsored by an organisation representing that interest. In return for recruiting members of the group to become cardholders, the sponsoring organisation usually receives a percentage of the income generated by the use of the card.15
3.3.13 Rebate (reward) cards / co-branded cards

A rebate card offers reward to consumers for using the card; a co-branded card is jointly offered by a credit card issuer and a marketing partner (usually a consumer goods manufacturer or a retail business). The issuer gets the advantage of a partner to defray marketing costs and to increase the number of cardholders, while the partner company gets its name on a credit card to help build its own business.\(^{16}\)

3.3.14 E-cards

The card is purely for making purchases on the Internet and comes without any plastic. Since there is no physical card, you cannot use it for off-line purchase. The Citibank e-card is the first web credit card in India. Since it is a Master card, the e-card is acceptable in all outlets that the master card would be acceptable. The maximum credit limit on the e-card is Rs.12000. A cardholder can choose a lower credit limit in multiples of Rs.1000 subject to a minimum of Rs.3000. Since there is no physical card, cardholder will not be able to access cash at ATMs.\(^{17}\)

3.3.15 Agricultural (Kisan) Creditcards

This card is restricted only to farmers with proven creditworthiness and to whom banks have already extended credit. Credit will be restricted to the big and medium farmers. All Indian scheduled commercial banks will be offering this facility at a concessional rate of 12-12.75 per cent. This follows a formal Reserve Bank of India directive, making it mandatory for banks to place the scheme for advancing agricultural credit to farmers.\(^{18}\)
3.3.16 Global Cards

Global Card offers the cardholders the privilege of using the card at any part of the world (subject to certain RBI guidelines). This card can be used both domestically and globally. Wherever be the place of use, the statement is billed in Indian Rupees. This card is particularly useful to executives who are travelling continuously.

3.4 PARTIES IN A CREDIT CARD SERVICE

3.4.1 Acquirer

The institution which holds the sole right for issue of credit card under a particular brand name is called the acquirer. The acquirer does not issue credit cards directly to the public, it franchises the right to various banks and other agencies for a consideration. These banks or agencies become a member of the acquirer or agencies issue credit cards under the brand name of the issuer. Usually such credit cards issued will contain the logo of the acquirer. The acquires of the Indian credit card industry are Master Card International, Visa Card International, American Express, Diners, Canara Bank, Bank of Baroda and the central of the various acquires Mastercard International and Visa Card International dominate the Indian credit card market.

3.4.1.1 Functions of the Acquirer

The acquirer is concerned with all aspects of the banks and other agencies side of the business, which can be divided into six functional areas.
| **Centre Administration** | The acquirer is responsible for the overall administration and control of the bank and agencies relationship. |
| **Proof and capture** | It has to process and reconcile all credit card transactions made at all acquirer's franchisees outlets and deposited to the franchisees account. |
| **Outgoing Interchange** | It also processes outgoing sales drafts and cash disbursements upon completion of proof and capture. Franchisees charge backs and data retrieval requests are also handled in this area. |
| **Risk Management** | It also processes new franchisee applications and assures the credit worthiness of new and existing franchisees. It also monitors franchisees for suspected fraudulent activity. |
| **Franchisee sales** | It solicits and signs up new franchise agreements and provides both in-house and field support to the franchisee base. |
| **Franchisee Authorisation** | It also provides a timely response to electronic and voice authorisation requests from the franchisees. |
3.4.1.2 Master Card (MC)

Master card began in the late 1940s when several US banks started giving their customers specials issued paper that could be used like cash in local stores. In 1951, the Franklin National Bank in New York formalize the practice by introducing the first real credit card in 1951.

Over the next decade, several franchises evolved where a single bank in each major city would accept cards as payment with certain merchants they'd chosen to work with. On Aug.16, 1956, one of these groups formed the Interbank Card Association (ICA) which later became Mastercard International. Unlike other similar organisations, ICA was not dominated by a single bank. Member committees were established to run the association. They established rules for authorization, clearing and settlement. They also handled marketing, security & legal aspects of running the organization. Once the organization was well underway, it was time to expand globally.

In 1968, ICA began what is now a huge global network by forming an association with Banco National in Mexico. Later that year they formed an alliance in Europe with Eurocard. The first Japanese members also joined that year. Many countries followed close behind the early international members and by late 1970s ICA had members from as far as Africa & Australia. To reflect the commitment to international growth, ICA changed its name to Mastercards in the 1980s, there was further expansion into Asia & Latin American. In 1987, Master card became the first payment card to be issued in the peoples republic of Chica. By 1993, China was the second largest country in sales volume for Master card. In 1988, the first MC was
issued in Soviet Union. Today there are more than 30 MC offices around the world including India, Thailand, Chile, South Korea & Taiwan.

In the past 20 years alone, MC has achieved an impressive list of "firsts"

1981 - MC introduced the industry's first gold card programme

1983 - "was the first to use the laser hologram as an antifraud device.

1987 - A MC card became the first payment card issued in the people's Republic China

1989 - MC introduced the first banked with a tamperresistant signature panel.

1990 - MC unveiled a co-branding strategy and became the industry's co-branding leader

1991 - MC in partnership with Europay International, launched Maestro, the world's first truly global online debit programme

1992 - Maestro completed the first-ever consist-to coast national online debit transaction in the US.

1996 - MC Global Service became the first program to provide cardholders with telephone access to core emergency and
special services in 21 languages, from 130 countries (today, in 196 countries and 46 languages).

1996 - MC contracted with AT&T to replace its transactions network infrastructure with the industry’s first virtual private network design, which delivers faster response time & lower costs. (In 1998 alone the VPN reduced mutative payment processing time by needy half a century)

1997 - MC acquired a 51% stake in Modex International, which offers the only electronic cash product that is globally interoperatable with a multicurrency capability.

1997 - MC was the first payment organization to cap uniform liability limits for authorized use at US $50 for all US-issued. MC branded consumer cards - both credit and debit.

1999 - MC & MYCAL card company of Japan implemented the world’s first migration from traditional credit cards to multiplication chip cards using the MULTOS™ operating system.

The first online purchase of a US Treasury Bond was made with a MC a card.

MC became the first in the industry to establish a US rule of no liability for the consumer from the unauthorized use of payment cards.\(^{20}\)

3.4.1.3 Visa Card

It's hard to believe that the payment card industry is less than 30 years old. Just a few decades ago, shoppers could pay for their purchases solely with cash or cheques. Today, payment card have become an integral part of our lives. Whether we use them for credit or debit, for travel or at home, for purchases or at the ATM, owning a payment card opens up a whole new world of possibilities.

Visa International's over 21,000 member financial institutions have helped visa to become the world's leading full-service payment network. In a highly competitive industry, Visa's products & services, including Visa Classic Card, Visa Gold Card, Visa debit Card, Visa commercial cards and the Visa Global ATM Network, have emerged as the payment options of choice for consumers in 300 countries.

Visa cards are the world's most widely used and accepted form of "plastic" payment. In 1998 nearly $1.4 million in products and services were purchased using visa cards & visa's market share at the point of sale, 55% is greater than that of all the other major payment cards combined. There are over 800 million visa, Interlink, PLUS and Visa cash cards in the market today. Visa branded cards are accepted at
more than 16 million locations in 300 countries, making visa the closest to a universal currency.

Visa also operates the world’s largest and most sophisticated consumer payments processing system, with enough communication lines to encircle the globe nearly 400 times. The visa network, known as visa net, processes over 2700 transaction denominated in 160 different countries.

Jointly owned by more than 21,000 member financial institutions around the globe, visa’s mission is to enhance the competitiveness and profitability of its members. While visa itself does not offer cards or financial services directly to consumers and merchants, it plays a pivotal role in advancing new payment products and technologies on behalf of its members. And visa member institutions offer the industry’s widest range of payment products & series, including credit, debit & stored value cards, corporate, purchasing & business cards; travellers cheques & the travel money card; as well as new state of and products such as multi function smart cards.

Visa International is comprised of 6 regional operating organizations; Asia-Pacific; Canada; Central & Eastern Europe; Middle East & Africa (CEMEA); European Union; Latin America & caribbean and the United States.

Visa traces its history back to 1958 when Bank of America launched its blue, white & gold Bank Americard in California. In 1970, an association, National Bank Americard, Inc., was formed of those US banks using Bank Americard. In 1974, Bank of America’s international licenses chartered an international company, IBANCO to
administer Bank Americard, Inc. outside the US. In 1976, BANCO became visa international and National Bank Americard, Inc. became Visa U.S.A.\textsuperscript{21}

3.4.2 Issuer

The issuers are the banks or any other agency, which issues credit cards to customers. The issuers issue the cards based on terms and conditions evolved by them. Canara Bank, Bank of Baroda, American Express Bank, etc. are some of the banks that issue cards on their own brand names.

Currently there are five brands of credit cards in circulation in India. They are Cancard issued by Canara Bank, BOB Card issued by Bank of Baroda, Diner’s Card issued by Citi Bank, and lastly Visa and Master card, issued by several Banks including foreign banks established in India in association with Visa Card International and Master Card International respectively. Citibank is the leading issuer of credit cards in India.

3.4.2.1 Functions of Issuer of Credit cards

The issuer is concerned with all aspects of card issuing and the cardholder relationship. The credit card issuing business can be divided into twelve functions.

- Administration : Responsibility for the overall management of the business is vested in the center administration.
- **Marketing**: The issuing bank or any other agency is responsible for developing and implementing cardholder solicitation and activation programmes.

- **Credit Processing**: The issuer of credit card is responsible for the operational activities connected with the credit decision and setting up of new accounts.

- **Card Insurance**: The issuer has to emboss, encode and issue plastic card to new customers and reissue card to existing customers.

- **Incoming Interchange**: It processes incoming cardholders transactions and cardholder charge backs.

- **Cardholder Billing**: It is the duty of the issuer to prepare and mail cardholders billing statements, as well as other system generated cardholder correspondence like late notices, etc.

- **Payment Processing**: The issuer of credit card also performs activities associated with processing and posting cardholder remittances.
- **Customer Service**: The customer service department of the issuer handles all cardholders inquiries, complaints and requests except those concerned with credit, collections or fraud issues.

- **Over limit**: A collection and credit department in the issuing organisation monitors and resolves situations where cardholder’s balance exceeds the credit limit assigned.

- **Collections**: This unit is responsible for collecting outstanding balances from delinquent and charged-off accounts.

- **Fraud control**: This department is responsible for handling reports of lost and stolen cards and reviewing activity on blocked accounts.

- **Card Authorisation**: This generally highly automated function is responsible for updating the cardholder’s masterfile with authorisation requests, and for liaison with the national associations, which process the majority of authorisation requests.
Table 3.1 Franchise and Year of launch of credit cards by Leading Card Issuing Banks

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<tr>
<th>Sl.No.</th>
<th>CARD ISSUING BANKS</th>
<th>Francise</th>
<th>Year of Launch</th>
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<tr>
<td>1.</td>
<td>Citi Bank</td>
<td>Master Visa Diners</td>
<td>1990</td>
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<td>2.</td>
<td>Standard Chartered bank</td>
<td>Master Visa</td>
<td>1993</td>
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<td>3.</td>
<td>ANZ Grindlays Bank</td>
<td>Visa</td>
<td>1989</td>
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<td>6.</td>
<td>Andhra Bank</td>
<td>Master Visa</td>
<td>1987</td>
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<td>7.</td>
<td>Canara Bank</td>
<td>Proprietary Visa</td>
<td>1985</td>
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<td>8.</td>
<td>Central Bank of India</td>
<td>Proprietary Master</td>
<td>1980</td>
</tr>
<tr>
<td>10.</td>
<td>State Bank of India</td>
<td>Visa</td>
<td>1987</td>
</tr>
</tbody>
</table>

Bank Credit Card Department Organization

Senior Bank Credit Card Officer

Senior Credit Officer

Audit

Compliance

Credit Policy
(for all bank credit cards)

Application Processing

Credit Approval

Credit Review

Corporate Bank Credit Card

Instore Credit card

3.4.3 Outside service Providers

Another option available to bank credit card issuer is to employ an outside service company (third-party processor) to perform one or more of functions involved in operating a credit card programme. Outsourcing certain operations is frequently a cost-effective alternative, particularly for smaller issuers. The kinds of services most generally done by the outside service company’s are

- data processing
- authorization
- card production
- marketing
- merchant sales
- collections
- customer service

Since the late 1980s the trend has been toward increased outsourcing. This trend coincided with the increase in pressure on bank’s overall profit, experienced mainly because of mounting competition.23

3.4.4 Affiliations

A new phenomenon in this business is the affiliation between the banks and five-star hotels. For example, the Taj Hotel has a tie-up with the Bank of India, the Leela Mempinski with Central Bank of India, and the Centaur Hotel with Canara Bank. This arrangement is mutually beneficial and offers all the facilities which an executive class businessman generally craves for.24
Another class of affiliation is the inter-bank tie-up. While there are about twelve major banks, both foreign and Indian, which issue credit cards, many others have taken the less expensive route of becoming affiliates of the principal issuers. Bank of India, Bank of Baroda, Canara Bank, Citi Bank and Stanchart fall in the former category, while the likes of Bank of Maharastra, Allahabad Bank, South Indian Bank form the latter category. Despite the plethora of banks offering cards, consumers get more or less same amount of benefits, since all of them are members of Visa and Mastercard, the international organisations that act as parent bodies.

All the credit cards apart from the BoBcard, Cancard, Diners card and American Express, are issued in association with Master Card International and Visa International, which allows cardholders of one bank to use their cards in merchant establishments of another bank. The bank in whose fold the merchant falls, known as the acquiring bank, pays the merchant, minus the discount, the following day and the transaction is routed through either Master Card or Visa, who act as the clearing agencies.

Visa and Mastercard route the transaction through their network to the issuing banks’ network to the issuing banks’ network which in turn makes the payment to the acquiring bank via either Visa or Master card, which get a small commission. The issuing bank gets a percentage of the merchant discount as stipulated either Visa or Mastercard. So for the acquiring bank it is money as the credit risk is on the issuing bank. Added to this, the international acquirer business also brings in foreign exchange.
3.4.5 Member Affiliates (MAs)

The Issuer may sometimes enter into a tie-up arrangement for the issuing of credit cards. In such cases, the organisations which have tie-up arrangements also issue credit cards of the issuer, to their clients. These organisations are called Member Affiliates. Credit Cards issued by MAs are similar to those issued by the Issuer, except that they contain the name and logo of the MA on the face of the card, besides the issuer’s name and logo. This arrangement enlarges the scope and operations of the credit card. Also the MA can issue card to its clients without actually having to invest on the elaborate infrastructure required for servicing credit cards.25

3.4.6 Cardholders

Important individuals/reputed customers of the issuer and those who are credit worthy and have good dealings are issued credit cards. Well-known non-customers who prefer credit cards to cash are also issued credit cards. NRIs are also issued credit cards subject to certain conditions. Even diplomats and other officials of foreign government establishments in India, U.N. organisations and their affiliates in India are also issued credit cards subject to certain conditions.

Public Sector Undertakings, corporations of good standing are eligible for corporate cards. Non-individual and non-corporate bodies such as partnership firms, firms of Chartered Accountants, Solicitors, Tax consultants, etc. are eligible for Business cards.
3.4.7 Merchant Establishments (MEs)

Merchant establishments are establishments enlisted by credit cards towards payment for the goods sold or services rendered by them in lieu of cash. While enlisting MEs, their reputation, integrity standing and popularity are taken into consideration. The volume of business they are likely to generate and the scope for use of card at that establishment are also considered. ME may be a business enterprise dealing in goods/services such as retail outlets, departmental stores, restaurants, hotels, hospitals, travel agencies, garages, petrol bunks, co-operative societies, etc. Based on the type of business, location, turnover, etc., floor limit for MEs is fixed. Normally the ME's transactions against an individual credit card should not exceed the floor limit.

MEs will have to pay to the issuer the credit card a certain percentage of discount on the credit card transactions. However, certain special types of MEs like Indian Airlines, Indian Railways will not be paying discount to the issuer. Hence, the issuer of creditcard will be charging the cardholder a specified sum as service charge. In case of Indian Railways, presently a service charge of Rs.1/- per ticket is charged in addition to the fare.26

Credit cards enable its holder to make purchase/avail the services at various designated Merchant Establishments (MEs) like Departmental stores, star Hotel, Indian Airlines, Railways, etc., who will accept all valid credit cards in lieu of cash payment. In this way, the cardholder can avoid the risk of carrying cash. When a cardholder purchases anything, he presents his credit card to the merchant establishment instead of paying cash. The retailer checks the number on the card against the hot list or
warning bulletin provided to him by the bank. This is the authenticity test which proves whether the cardholder in the genuine owner of the card or not. The cardholder is also required to sign on the voucher and the signature has to tally with the one on the credit card. The merchant establishment then has to present the necessary sales vouchers to the bank, which in turn reimburses it for the customer's purchases. The bank charges a commission from the merchant establishment, rate of which vary from bank to bank. After the completion of this procedure, it sends the bill to the cardholder.

3.5 MARKETING OF CREDIT CARDS

"A customer is the most important visitor of our premises. He is not dependant on us. We are dependant on him. He is not the interruption to our work. He is the purpose of it. He is not an outsider to our business. He is part of it. We are not doing a favour by serving him. He is doing us a favour by giving an opportunity to do so"

_Mahatma Gandhi_

It is a sad commentary on our banks that they either do not find time to take the customers seriously or lack funds to carry out customer survey. Banks should adopt a _marketing approach_ stating the philosophy. "Customer is the king: let's find about him and serve him. How do we do that? by satisfying his needs."

The days of simply producing or creating the services without looking into the environmental and consumer aspects are gone, because today's consumer is very conscious about his _personal needs_, desires and wants. He would like to purchase or hire these _services according_ to his capabilities, capacities and convenience. The
service are to be matched with consumer needs, convenience and not the consumer with the product or services, because the period of sellers market in case of services is vanishing and the days of buyers markets are in the offering due to excessive competition in the services sector.

The marketing concept with customer orientation and integrated marketing has very well been accepted by the services sector. Whether this concept of customer orientation and integrated marketing has been realised and implemented by the banks? the answer to this question is no. Banks are just keeping on extending the list of services, it has been rendering to people, but it does not see consumer satisfaction as a marketing tool, vital for its development. Marketing is the area where banks are for behind other services sector. But there is an exception in this regard for one particular service rendered by banks to its customers namely credit card services.

Credit card is one of the most profitable products in a bank’s portfolio and most of the battles over credit card turf are being waged in the marketing arena. Banks are not ready to give up that kind of return which they get from rendering credit card services and are fighting to protect their market share.

Marketing of credit cards is for:

1. Identifying the most profitable markets at present and in future.
2. Assessing the present and future needs of customers
3. Setting business development goals and making plans to meet them.
4. Managing the various services and promoting them to achieve the plans.
Thus banks issuing credit cards aim to improve their credit card sales and enhance the usage of cards among existing cardholders by the way of marketing of this service.

To Market it credit cards banks use many modes such as

(a) Direct mailing,
(b) Telemarketing
(c) Internet Marketing
(d) Date base marketing and
(e) Direct Selling agents
(f) Institutional Sales
(g) Member Affiliates.
(h) Cross-selling

3.5.1 Direct Mailing

The banks sends direct mailers to various groups of people (for e.g. account holders, existing credit card holders with good payment profile, other data bases, vehicle owners, etc. which the bank either purchases or acquires through any other means) asking them to apply for the card and offering them incentives in return. These incentives normally are in the form of either free gifts given (briefcases, subscription to magazines, etc.) or the waiver of various fees (joining fee, annual charge, etc.)

Direct mailers are also sent to people holding he bank credit cards informing them of different schemes (for e.g. member get member schemes, etc.) by the bank. In HSBC, the bank marketing department directly send out these direct mailers. Direct Mailing is costlier to an issuing bank when compared to other types of marketing strategies.
In US, in marketing campaigns for a bank card division, there is often friction between the marketing department and the credit department. Many banks have solved this problem by having two departments work together while the mailing is in its planning stages. By prescreening prospects for solicitations, bankers can reduce their mailing costs and the number of low-quality respondents. Bankers are now using more sophisticated technology, such as the prescoring system developed by Fair, Isaac Cos., which uses sophisticated tracking and consulting services that help bankers develop marketing strategies based on past results. By scoring potential cardholder before a mailing, bankers can identify persons who might satisfy minimum credit criteria but are relatively poor risks. Thus, the rates of delinquency are reduced and profitability is increased.30

According to 2nd quarter 1995 statistics published in Mail Monitor by Behavioural Analysis Inc., the volume of credit card offers financial service companies mailed to consumers was 674.2 million with a 1.3% response rate. Bank card issuers mailed 595 million offers with a 1.4% response rate. As the acceptance rate drops, the cost to banks to acquire new cardholder increases.31

3.5.2 Telemarketing

It is yet another mode of selling credit cards used by the issuer of cards. Under this, the issuers contact prospective and existing cardholders through telephone, to make them by the card.
3.5.3 Internet Marketing

Many leading credit card marketers have turned to the Internet as another channel to attract customers. Forester Research estimates that 15 per cent of all credit-card enrollments will be initiated on the Web by 2002 compared with less than 1 per cent today. Internet adds a third channel to the customer acquisition methods apart from direct mailing and telemarketing. Internet allows the banks to target a specific market. The demographics of the web nearly mirror those looking for a credit card. Households with higher income levels are more likely to use the Internet but less likely to apply for credit cards than those with lower incomes, signifying an untapped market in a highly competitive arena. Internet represents the next wave of credit card marketing consumers can choose what they want in terms of rates or balance transfers, and get an answer right away.32

Visa the leading credit card issuer intends to strike more marketing alliances with leading on line merchants. According to a study by Cyber Dialogue, New York, 51 per cent of all web transactions are made with Visa card, this is due to its aggressive online advertising efforts over the past 6.5 years.33 Cardholder have no become more comfortable with internet transactions. They have become more confident in Internet merchants, because publicity over security threats seems to have been waned.34

Eventhough use of online purchases has increased security remains an issue. A study by DCB Research and Consulting found that more than half of those surveyed believe the internet to be somewhat unsafe or very unsafe. Only 20 per cent said that they thought the internet to be very safe or safe.
3.5.4 Database Marketing

Database marketing is based on the customer history and behaviour patterns that most issuers have on file. This way, managers of card issuing banks can see what characteristics good, profitable accounts have in common. Then try to attract more such accounts. Database marketing also can help issuers of credit cards keep existing accounts by providing a pattern to show warning signs when an account is in danger of being closed. According to James N. Lazos of Epsilon Data Management Inc., database marketing eliminates those customers who are not interested in the product and allow marketers of credit cards to spend time and money on very targeted campaigns to reach those who will respond.\textsuperscript{35}

3.5.5 Direct Sales Agencies

One of the most commonly used and successful channels for selling credit card is that of the Direct Sales Agency (DSA). DSA’s are independent marketing companies with their own network of sales executives who have an agreement with the bank to garner applications for their various cards. This is the most effective and widely used system of soliciting potential card users in India today.

Direct selling agents or DSAs as they are popularly known are a key resource for any organization that wants to expand its selling and marketing function indirectly. They are classically defined as an extension of the banks sales and marketing department. The ideology behind hiring a DSA is three folds:
a) Marketing credit card through the bank’s departments directly and severely limits the reach of the bank.

b) It allows the bank to avoid the cost ineffective option of a large sales staff on its role.

c) A DSA operates on an incentive structure that revolves on the "GET MORE MAKE MORE" principle which to say the least is a more effective driver, for business generation than a permanent employee on the roles of the bank. This is especially true in the case of a country like India given its large distances and dispersed prosperity patterns.

The DSAs fill this need gap. They are small business run by professionals in finance and/or direct selling which come with their own office and infrastructure. They employ graduates / undergraduates on a fixed salary plus incentive structure in line with the principle of "GET MORE MAKE MORE". The sales team consists of approximately 30 - 35 people whose job is to go to various offices and establishments and locate potential clients. They are also made aware of various prerequisites in terms of documents, income limit and profile which the applier must satisfy. Apart from the sales executives the DSA’s have a back office of at least 2 people who do the verification. The verified applications are then sent to the bank which process them further before issuing cards. These DSA’s are paid by the bank on the number of approved cards at a fixed amount per card.
Having a DSA network has its obvious advantages in terms of great increase in volume of credit card sales. However, this increase in business comes with a cost attached. The following are the benefits and concerns of any DSA operation for cards:

3.5.6 Institutional Sales

This channel is divided into sales made to corporate accounts and sales made to individual at special concessional prizes. For corporate accounts, the Bank’s institutional card sales officer makes presentations to the various corporate clients and offers them corporate card facilities up to a certain credit limit (decided by the corporate banking division which already has a larger limit set up for these clients). In the case of corporate cards, the company is liable for all the expenses incurred on the card by the employee.

Also presentations are made to the Human Resource Manager of the respective company and other institutions (for eg. clubs, associations, etc.) and cards are offered to them for their employees and members at concessional rates based on the number of cards that are sourced from the institution. In these cases the employees pay for all the expenses incurred on the card himself. HSBC in India has a sales officer incharge of only institutional sales and has a sales officer incharge of only institutional sales and does not source these cards through its Direct Sales Agencies. Banks like Citi Bank follow a policy of allowing Direct Sales Agencies to source corporate cards.
3.5.7 Member Affiliates

Issuing banks to boost up their credit card sales through tie-ups with non-issuing banks. Like Canara Bank issues its credit cards through eight affiliates namely Indian Overseas Bank, Syndicate Bank, Corporation Bank, Dena Bank, Saraswathi Co-operative Bank, Karur Vysya Bank, Union Bank of India and Lakshmi Vilas Bank. The issuing bank is thus relieved of the straining marketing and distribution work in the card business. The member affiliates are benefitted by getting 50% share in the profits on sales made through them.

3.5.8 Cross-Selling

Under the cross-selling category of marketing, the clients of the issuing bank who have taken loans for either cars or homes get a discount on the card fee. This entices the clients to opt for the card. Citibank adopts such a marketing strategy were its car loan clients were 60,000. Citibank offers its members to get a one per cent discount on interest rate for car and home loans. Thus cross-selling and Up-selling are essential for bank to retain the credit card customers.

3.6 CREDIT CARD SERVICES

Issuing banks in order is lure more and more customers render innovative services. Rendering of a variety of services does not only attract new customers, it also benefits the existing cardholders. The services rendered generally by the issuing banks are.
3.6.1 Loan on Phone

If a customer wishes to get credit, he or she can get it by contacting the issuing bank through telephone. The customers can avail this services, which is granted to him based on his past nine months performance. The cardholder is granted the loan within seventy two hours of the request. The cardholder can make a request for loan through phone anytime of the day. The cardholder need not approach the issuing bank after he has been granted the loan, a demand draft in his name or in anybody’s name as requested by him will be sent by the issuer to the cardholder’s address. The cardholder availing such a loan can repay it is 6, 12, 24 and 36 instalment. The loan taken by the cardholder is debited to the card. The issuing bank charges a fee of 1% on the loan amount or Rs.50 which ever is higher.

The following table is for a loan of Rs.1000 which can be repaid in any tenure period like:

<table>
<thead>
<tr>
<th>Tenure Options (in months)</th>
<th>Monthly Instalment per Rs.1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>178.52</td>
</tr>
<tr>
<td>12</td>
<td>94.56</td>
</tr>
<tr>
<td>24</td>
<td>54.38</td>
</tr>
<tr>
<td>36</td>
<td>40.83</td>
</tr>
</tbody>
</table>

Source: Phamplet issued by Citibank, 1999.
3.6.2 Purchase Protection

Anything a cardholder buys with his card is protected against damage or loss due to fire or theft, free of cost. Thus if any purchases made through cards is damaged or lost due to fire or theft, the cardholder can claim an amount (which is upto Rs.15,000-50,000) from the Insurance Company (for Citibank, the New India Assurance Company). This protection is available to the cardholder for a period of ninety to 180 days from the date of purchase of the product on the card.

3.6.3 Acceptance at member establishments

The credit card held by a cardholder is been accepted widely in many member establishments today as a mode of payment. This is due to the reason that people involved in business like hotels, departmental stores, travels, hospitals, etc. have started to realise the utility value of accepting credit cards. Thus if a person holds a master or visa card his card is being accepted at over 1,10,000 establishments in India and Nepal and also accepted by over 16 million Master card/Visa establishments worldwide. The number of establishments accepting credit card have been on a constant increase due to the popularity and recognition it has gained around the globe.

3.6.4 ATM Service

The Automatic teller machine access provided to the cardholder, is enable to have access to cash he requires at the time he needs it. That is why the Automatic teller machines are called "any time money". The cardholder can gain access to cash through ATMs, counters 24 hours a day. It also enables him to get cash in the
denominations he wishes for. Also ATMs enable a cardholder to know his current credit limit also. Leading banks have set up their own ATMs at prominent places, which will be easily accessible to the cardholders. At the ATM centre a cardholder can withdraw at one time a sum of Rs.5000. If he is in need of more cash he can withdraw the cash he needs immediately after the first withdrawal.

This maximum of Rs.5000 in one withdrawal is only within one year of credit card usage. If a cardholder has been using credit card for more than the allotted limit and the issuing bank if it is satisfied with its customer, may permit such customers to withdraw 60% of their credit limit subject to a maximum of Rs.25000 in a single day from any ATM. The cardholder can withdraw money from the ATM centres established by the particular issuing banks or at various Master and Visa ATM centres. If the cardholder is a global cardholder cash at 5.4 lakhs ATMs bearing Visa/Plus logo (in case of Visa cardholders) any of the 4.5 lakhs ATMs bearing Master card/Cirrus logo (in case of Master card cardholders) worldwide. For Citibank has set up four ATM centres in Chennai and 28 ATM centres in India, Standard Chartered Grindlays Bank has 26 ATM Centres, Standard Chartered has set up 18 ATM centres.

3.6.5 Consultancy Service

Issuing banks offers all around the clock consultancy services to its customers through telephone. The specially trained officers of the issuing banks answer or help the cardholders to call the bank with card-related queries. This service offered by the issuing banks enables the customers to communicate to the issuing banks with much of physical work.
3.6.6 Dail-a-Draft

The cardholder can avail this facility where he cannot meet his expense through credit cards. It will be useful to a cardholder for paying for mutual funds or public issues, making down payments for investments, paying for telephone and electricity bill, and much more. The cardholder can avail this facility by just calling the issuing bank through telephone and order a bank draft for the required amount. This service is rendered by the issuing bank for a transaction 2% to from the date of insurance fee of 2.25% of a minimum of Rs.75 to Rs.95. This teledrafting facility is offered by leading issuers like Citibank, SBI and others. Thus a demand draft upto the cardholders available cash limit, favouring any company, any individual, or in the cardholders name, is delivered to the cardholder at his door step. The amount requested is billed in the monthly statement of the cardholder who can repay it using revolving credit facility.

3.6.7 Card for Women

A card exclusively for women has been introduced by Citibank. The card is an international credit card, making use of which the cardholder can gain access to 1,10,000 member establishments in India and Nepal and 160 lakhs establishments worldwide. The cardholder has to use her card as per the RBI guidelines in Nepal and Bhutan for transactions in the local currencies of those countries or in Indian rupees. This card is a Visa card giving the cardholder a wide range of benefits starting in revolving credit facility and other facilities normally available to an ordinary cardholder. The holder of these cards can get commodities at discounted prices at specified member establishments related to health, entertainment and shopping. These
cardholders over and above the normal insurance facilities are additionally offered with jewellery snatching Insurance of Rs.15000, bought with the card for a period of one year after the date of purchase.

3.6.8 Balance Transfer Facility

A cardholder who wishes to windup or close one of his bank card, with an amount due, can do it by transferring, the balance unpaid to another bank card provided, the bank card in which he proposes to transfer such balance, are indeed allowing for it. If so the cardholder can transfer the unpaid balance to the accepting banks card, along with his existing balance and cancel the other card. The accepting bank, does not enhance the credit limit of the cardholder who wishes to avail this facility. Suppose a cardholder is holding a HSBC card with an outstanding balance of Rs.5000, who also holds an American Express card with a credit limit of Rs.50,000 out of which he has used Rs.15,000. When the cardholder wishes to cancel his HSBC card he can transfer the Rs.5000 that he owns to HSBC to American Express, then according to the American Express, the accepting bank, the cardholder has utilised Rs.20,000 out of Rs.50,000 of his credit limit. On such offer by the accepting bank, the bank charges an interest of 1.45% p.m on such transfer.

3.6.9 Add-on Card

A primary cardholder can share the credit that he has received from the issuing bank with his/her family by applying for additional card. A cardholder can apply for an additional card to his spouse, children above 18 years and his/her parents at an annual fee. The additional cardholder or add-on cardholders enjoy the same benefits
as that of the primary cardholder including insurance cover, free credit, shopping at
member establishments, access to cash, etc. All expenses incurred through add-on card
will be included in the primary cardholder's monthly statement; since no separate
monthly statement is sent to the add-on cardholder, as the primary cardholders is
going to meet the expenses on the dependent add-on cardholder. For availing this
facility the issuing banks do not increase the credit limit of the primary cardholder.

3.6.10 Cash Advance Facilities

In advance to ATM facility rendered to the cardholders, issuing bank also offer
withdrawal of cash by cardholders at the branches of issuing banks. For rendering this
service the issuing banks charge a transaction fee plus interest, the fee levied varies
from bank to bank. For eg. a cardholder of Standard Chartered Bank, can avail cash
advance facility at the counter of Standard Chartered Bank or the Bank credit card
customer service centres in places where there is access to ATM network available an
additional transaction fee of Rs.500 will be charged. For manual cash advance where
there is no access to ATM network available an additional transaction fee of Rs.100
will be charged.

All cash transaction are charged with an interest of 2.25%. The interest on cash
advance is levied from the date of cash advance to the date of repayment or statement
whichever is earlier. (The issuing banks keep changing the rate of interest from time
to time). The interest thus charged in included in the cardholders monthly statement
in the month succeeding the month of purchase.
3.6.11 Extension of Credit

The normal credit being extended to cardholders is enhanced by the issuing bank either on the cardholders request or based on his performance. This credit extension on cardholder request is on a temporary basis and the issuing bank grants cardholders the extended credit for the time period that they ask, after satisfying itself about the cardholders credit worthiness and for a financial charge of 2.5 per cent per month. The cardholder availing the facility should repay 5% of the outstanding balance or Rs.100 whichever is higher (according to SBI). The cardholder who is making such a request, may, if necessary be asked to forward his/her latest income documents if the enhancement request is for a significant amount.

Also when a cardholder overspends and his outstanding exceeds his credit limit an overlimit fee is applicable which is 2 per cent of overlimit amount or Rs.200 whichever is greater.

The issuing bank may also increase the credit limit allotted to a cardholder permanently based on the cardholders performance which is not before 3 to 4 years of card usage.

3.6.12 Collection Boxes

In order to facilitate customers to pay their monthly statements easily, the issuing banks have placed collection boxes at prominent places. The cardholder instead of mailing the cheque or demand draft directly to the card issuer may also deposit into
the collection boxes. Now a day the issuing bank have placed collection boxes even
in ATM centres.

3.6.13 Railway and Airway Reservations

The cardholders can make use of their credit cards to book their railway and
airways tickets. This facility is offered by limited issuing banks like Citibank,
American Express, SBI, Standard Chartered Bank, etc. The issuing banks for rendering
such a service charges the cardholder a minimum charge of Rs.30 per ticket for the
reservation every time.

3.6.14 Telebanking

Inorder to gain more customers and compete in the credit card industry, issuers
also try to contact prospective customers through telephones and try to persuade them
to buy credit cards, by offering special discounts and incentives. Also the existing
cardholders who require to know about their present or existing credit limit can also
know about it through calling the issuing bank.

3.6.15 Operation of Savings and Current Account

Cardissuers offer this facility to make credit card payments, who hold saving
and current accounts. If the cardholder wishes to avail this facility he has to give the
declaration to his cardissuer who will charge the credit card bill on his bank account.
Through utilisation of this facility the cardholder even is relived of remembering the
last date of payment of bill, and also using cheque for payment of the bill and mailing it or dropping it in a collection box.

3.6.16 Online Purchasing

A cardholder holding an electronic credit card can avail the facility of making purchases through internet. In India Citi bank is the only bank offering an e-card, which is protected against unauthorised purchases and fraudulent purchases.

3.6.17 E-Marketing

In an attempt to make easy the process of purchasing a credit card and to make use of another marketing source for credit cards, the issuing bank have created their own web pages and displayed it on the Internet. In these sites the banks render the browsers regarding the various services it offers, as for credit cards, the particulars about various types of cards offered, eligibility criteria for these cards, various services offered on cards, documents required to be submitted, a proforma of application form for prospective cardholders who wish to apply to internet, information about credit cards, etc. are available in these sites.

Like the issuing banks, the Direct selling agents also create a website for their companies to cover up the browsing segment, for marketing the services for which they are middleman. These agents together with all the financial services they sell for the banks and other institutions also display the credit cards of various banks for which they are agents. Thus an agent will be an agent for selling many banks credit cards. Thus when prospective cardholder who is in a dilemma in selecting a credit card can
taking use of these sited know about the cards issued by various banks, compare the
harges levied by issued banks on its cards and then decide for a card which they
would like to buy. The prospective cardholder can then making use of the application
roforma in this site can apply for a card through internet itself.

.6.18 Loan Through E-mail

A cardholder if he requires to get a loan on his credit card can now get it
without approaching the issuing bank through the internet. He should just open the
web site of his issuing bank where there will be a format for loan application which
he has to fill up and send it to the bank. The issuing bank also scrutinising the
application will grant the loan after satisfying itself of the cardholders credibility,
performance, etc. and grant the loan and inform the customer. Thus service improves
the usage of cards even more, as the cardholders is saved of calling the bank or going
ton person to the bank. But this loan is granted to the cardholder on a service charge,
which is normally higher than that on loan-on-phone service.

.6.19 Conversion of Ordinary Card into Global Card

A cardholder holding a domestic card can convert his card into a global card
in such an application request to the issuing bank. The issuing bank after scrutinising
the completeness of the application converts the domestic card into global card.
standard Chartered bank was the first issuer to render such service. Of late the
ardholders who are issued with renewed credit cards are issued a global card even
without making such a request.
3.6.20 Renewal of Membership

Previously the cardholders had to send a communication for renewal of the card or not the card in his name get cancelled. Now he need not make such a request, the issuing banks, they themselves send the cardholders their new card which the cardholder can use after the expiry of the period.

3.6.21 Communications

The issuing banks frequently keep sending to the cardholder the particulars about additional services offered to cardholders and also about the discounts that are currently offered at its member establishments. This helps the cardholders to keep themselves updated on the various services available on cards, know about the various changes made in the service charges, fees, etc and also utilised the discount facilities offered to them.

3.6.22 Grievances Handling

The issuing banks in order to satisfy the cardholder with their quick services, try to redress the grievances of cardholder as quickly as possible. The bank encourage customers to inform them about their problems through phone, which they try to solve for the customer in as quickly as possible. Customers can thus communicate about monthly statement problems, member establishment problems, get clarified on the service offered and charges levied on usage of such service loss of card, fraud, etc. This mode of communication, is very useful to the banker, as the banker is relieved
of handling any customer who on entering the bank premises expects the bank officials to solve the problem immediately.

3.6.23 Discounts at Member Establishments

The cardholders are allowed discount at selected member establishments for using their cards. The member establishments are especially restaurants, hotels, car rentals, discotheques, retails across the country, travels. For examples, Citi Bank offers its International Gold cardholders a special discount on travel courtesy ITC member travel house, where in the cardholder is allowed a discount of 3.5% on domestic air fares and 7% on international air fares.

3.6.24 Personal Accident Insurance

The Accident insurance is also offered to the primary cardholder and his dependants. The card issuers offer this service to their cardholders for a service charge. This service is intended to cardholders and their dependents between the age limit of 5 and 70 years. The sum assured under Personal Accident Insurance cover for children upto 21 years was restricted to Rs.2,00,000. This insurance facility was not available to cardholders employed in activities categorized as high-risk like mines, explosive, high-tension electrical installation, racing, hunting, mountaineering, etc. This insurance cover is available to the cardholders over and above anyother Personal Accident cover they may have.

The table stated below explains the various Personal Accident Insurance Plan options offered to Citibank cardholders:
# Table 3.3 Personal Accident Insurance Plan for Cardholders

<table>
<thead>
<tr>
<th>Good Health Plan</th>
<th>Sum Assured (Rs.)</th>
<th>Premium # normally payable by you (Rs.)</th>
<th>Good Health Plan # Annual Premium (Rs.)</th>
<th>Transaction fee per cover (Rs.)</th>
<th>What you will pay now (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2,00,000</td>
<td>20,000</td>
<td>316</td>
<td>141</td>
<td>150</td>
</tr>
<tr>
<td>2.</td>
<td>3,00,000</td>
<td>30,000</td>
<td>473</td>
<td>208</td>
<td>150</td>
</tr>
<tr>
<td>3.</td>
<td>4,00,000</td>
<td>40,000</td>
<td>630</td>
<td>281</td>
<td>150</td>
</tr>
<tr>
<td>4.</td>
<td>5,00,000</td>
<td>50,000</td>
<td>788</td>
<td>349</td>
<td>150</td>
</tr>
</tbody>
</table>

Those who are less than 21 years are eligible to apply only for Plan 1.

**Source:** Phamplet of Citibank, 1999.
3.6.25 Health Insurance

Citibank the leading card issuer in India has apart from providing other insurance facilities offers its cardholders and their families an additional mediclaim Insurance facilities in tie up with New India Assurance which provides for hospitalisation cover upto Rs.5 lakhs. The age limit fixed for this insurance is between 5 and 75 years (children between 3 months and 5 years allowed only if one or both parents are covered concurrently). The bank charges a transaction fee of Rs.150 per individual per cover. The annual premium payable by the cardholder may be paid through credit card, which additionally includes 5 per cent service tax as per notification from finance ministry. A cardholder availing this offer is waived off 50% of premium payable. The cardholder is offered this facility without any medical checkup and documentary evidence on his health. By availing this facility the cardholder can save on income tax upto Rs.10,000. The cardholder taking the policy is delivered the policy at his address.
### Table 3.4 Health Insurance Plan for Cardholders

<table>
<thead>
<tr>
<th>Good Health Plan</th>
<th>Maximum Coverage p.a (Rs.)</th>
<th>Up to 45 years</th>
<th>46-55 years</th>
<th>56-65 years</th>
<th>66-70 years</th>
<th>71-75 years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Premium # normally payable by you p.a. (Rs.)</td>
<td>Good Health Plan Annual Premium # (Rs.)</td>
<td>Premium # normally payable by you p.a. (Rs.)</td>
<td>Good Health Plan Annual Premium # (Rs.)</td>
<td>Premium # normally payable by you p.a. (Rs.)</td>
</tr>
<tr>
<td>5.</td>
<td>55,000</td>
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<td>2218</td>
<td>6542</td>
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A transaction fee of Rs.150/- is applicable per cover per individual.

# Includes 5% service tax as per notification from finance ministry. All premia rate above include domiciliary hospitalization within specified limits.

- Age limit between 5 and 75 years (child between 3 months and five years allowed only if one are both parents or covered concurrently).
3.6.26 **Household Insurance**

This insurance cover protects household articles (excluding jewellary and valuable) of the cardholder for a value of up to Rs.1,00,000 per annum. This insurance is on first loss basis that insures articles for the entire sum insured.

3.6.27 **Baggage Insurance**

This insurance facility protects cardholders baggage against theft or loss. The insurance is for a value of Rs.40,000 (within India) and Rs.60,000 for claim of insurance against baggage theft or loss abroad.

3.6.28 **Delayed Baggage**

If the baggage of the cardholder travelling in is not delivered within twelve hours of the arrival of the flight he/she will be reimbursed for purchase of essential clothing of upto Rs.5,000 in India and upto Rs.10,000 outside India.

3.6.29 **Delayed Flight**

If a cardholder misses an onward flight due to late arrival of an incoming flight, and if there is not alternative flight within six hours (of actual arrival time) or the airline do not provide accommodation, the cardholder who has purchased the airline ticket through credit card is entitled to Rs.15,000 reimbursement for hotel accommodation.
3.6.30 Loss of Passport / Ticket

If a cardholder losses his passport in a foreign country, he can claim upto Rs.25,000 towards the cost of obtaining a fresh passport. If he losses his air ticket purchased through credit card he will be reimbursed for it upto Rs.5,000.

3.6.31 Reward Points

Reward Point is an incentive offered by the card issuing banks to cardholders on their card usage, to promote credit card usage. Reward Points will accrue only for cardholder generated retail transactions. Points will be reversed for disputed transactions or where transactions are reversed. Points will not be awarded to cardholders towards cash advances and fees such as entrance fees, annual fee, supplementary card fee, cash advance fee, multiple card fee, extra fee for picture cards, charges for dishonoured cheques, financial charges, delinquency cheques: late payments and any other charges levied by the bank.

A cardholder cannot accumulate or redeem reward points, if on the relevant date the card has been withdrawn or cancelled or is liable to be cancelled or if the cardholders account is a delinquent account or if there is any breach of any clause of the terms and conditions of the card member agreement.

A card member can combine his reward points that he has earned from more than one card and redeem it, provided that those reward points are earned from card issued by the same bank, irrespective of whether it is a Mastercard or a Visa card. The reward points earned / accumulated by the cardholder is shown in the monthly statement.
3.7 CREDIT CARDS SYSTEM IN INDIA

Even though in India, bank credit cards have made a recent and rather a sluggish entry, there is a tremendous potential for the development of these cards. Assuming that just one out of every hundred current and saving deposit account-holders was a prospective customer for credit cards, there was a readymarket for over 15 lakh cards, though number of cards in circulation on that day was around one lakh.

Nationalised banks in India have a distinct advantage over private credit card organisations because of their intricate network of branches spread all over the country, already established communication facilities, availability of their large pipeline funds and trained staff well versed in accounting procedures and computer applications. Many established, such as hotels and shops which can honour credit cards are already doing business with bank and as such it will not be difficult to enroll them in large members. Further, operational costs and business risks can be brought down sharply if major Indian banks join hands to form an apex body or association and issue a common credit card to their important customers.

Diners club was the first credit card to be introduced in India way back in 1961. The concept of credit card gathered momentum towards the end of eighties when number of banks launched credit cards to attract more number of customers into their fold. The Central Bank of India was the just Indian based Bank to launch credit card in India by name "CENTRAL CARD" in 1980. Some of the other banks that had entered into credit card business in India are Canara Bank (1987), Andhra Bank (1981), Bank of Baroda (1985) Bank of India (1988), State Bank of India (1987),...

Curiously enough the banking giant State Bank of India has been a late comer. Strictly speaking the SBI card is not credit card. it is a cheque card, where in the card is used as a form of identification when an individual produces a "Certified Cheque" of a "Guarantee Cheque of SBI"

The post nationalisation era of Indian Banking has witnessed tremendous growth in deposits, credit, branches and manpower employed among the Indian Banks. In the early eighties, some banks penetrated deeply into banking business. They wanted to start new schemes i.e. innovative schemes, as a part of their service to their customers. Hence, the introduction of credit card schemes in India. Apart from banks, Diner’s club had introduced its credit card and was doing good business.

The first nationalised bank to start credit card business was Central Bank of India. Andhra Bank followed in 1981 and other banks adopted the scheme later on. Agricultural credit card being introduced in the first instance, by Dena Bank would help to solve the problems of the farmers to a large extent.

The credit card industry is in the maturity stage in developed nations and is the fastest growing segment in developing nations. India and China are the fastest growing markets in the Asian sub-continent.

The industry is dominated by two International card associations: Visa and Master International, who are also actively involved in growing Indian Credit card
Industry. American Express is another major player in the global market, and is very popular Travel and Entertainment (T&E) card in India.

Indian Scenario, is one of the fastest growing markets in the world. In 1993, there were 1.6 million cards inforce and 40,000 card acceptance centres (MEs). This increased to 2.6 million and 90,000 in 1996 respectively. The total card spend was around 1500 million US Dollars. The Reserve Bank of India (the Central Bank) is taking special measures to promote the use of alternative payment systems like credit cards, debit cards etc., to case the pressure on currency printing and the use of cheques.

The estimates of the Indian market are specified in the table below.

**Table 3.5 Indian Credit Card Market Estimates**

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<tr>
<td>No.of cards</td>
<td>1.5 Million</td>
<td>5 Million</td>
<td>2000</td>
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<tr>
<td>No.of point of Sale</td>
<td>1000</td>
<td>10,000</td>
<td>10 Million</td>
</tr>
<tr>
<td>Total card spend</td>
<td>US$ 1 Billion</td>
<td>US$ 2.5 Billion</td>
<td>US$ 8 Billion</td>
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<tr>
<td>No.of ATM cards</td>
<td>0.2 Million</td>
<td>2 Million</td>
<td>20 Million</td>
</tr>
<tr>
<td>No.of ATMs</td>
<td>80</td>
<td>1000</td>
<td>5,000</td>
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<tr>
<td>No.of debit cards</td>
<td>-</td>
<td>0.5 Million</td>
<td>10 Million</td>
</tr>
<tr>
<td>No.of debit point of sale</td>
<td>-</td>
<td>10,000</td>
<td>50,000</td>
</tr>
<tr>
<td>No.of computerised bank</td>
<td>100</td>
<td>4,000</td>
<td>20,000</td>
</tr>
<tr>
<td>branches</td>
<td></td>
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</tbody>
</table>

Source: www.creditcards.com
Currently, there are 12 card Issuers, out of which 6 are multinational banks and 6 are Indian Banks. Some of these banks have affiliate banks also and cards are issued on behalf of these associate banks also. The number of merchant locations is also expected to increase substantially in the future as new types of expenditure are brought under the realm of payments made through credit cards.

3.8 MAJOR CREDIT CARD ISSUERS IN INDIA

The major issuers of credit cards in India are listed below.

3.8.1 Citi Bank

Citi Bank card came on the scene in 1991. Today Citi Bank Cards are used by more than 45 million card member and honoured by over 8 million establishment across the world. Citi Bank cards are accepted in over 40,000 establishments across India and Nepal. Four different types of cards are presently issued by Citi Bank in India. These are Classic, Gold, Preferred and Diners.

Classic cards are aimed at the middle class. These are available for a fee of Rs. 950 in the first year and Rs. 750 annual fee afterwards. Citi Bank preferred cards involves an annual fee of Rs. 2000. Afterwards at an annual fee of Rs. 1500 only Citi Bank Preferred and Diners Club cards are generally issued to the higher income station of the people.

Citi Bank International Gold Card has annual fee of US$50 for Diners Club members and US$75 of others. The "Best way to pay is the phrase used by Citi Bank
to promote its cards. There are about 3,00,000 citi Bank member in India and 2,800 service outlets generating an annual turnover of more than Rs. 300 crores.

Some of Citi bank’s new features are mere radiations of or additions to existing products. For instance, under a tie-up with New India Assurance, cardholders already were entitled to an insurance cover of Rs. 10 lakh during air travel and Rs.2 lakh in the event of any other accident. This insurance cover was available at discounts of 25 to 40 percent, as a result of the fact that Citi Bank is able to use the leverage provided by its large customer base to get its customers services at wholesale rates. However the annual premium are lower that the regular premium otherwise payable by as much as 60 percent.

All the card members are entitled to withdraw emergency cash from Citi Banks ATMs upto Rs, 10,000 per month. Recently, for member of larger standing and those with appropriate spending patterns, this limit was increased to Rs.20,000. One particular feature came as great relief to members was the limited liability benefit, with which a cardholder can feel reassured if he were to lose his card and someone else goes on a spending spree with it, his liability is restricted to only Rs, 1000.

Travel is another area where Citi Bank has recently made a foray. The religious minded who now want to go on pilgrimage to Tirupathi can pay for Travel arrangements, reservations, accommodations at Tirupati car hires and Puja and dharsan tickets with the help of their Diners card. Even emergency cash is available at Tirupathi. These facilities have been arranged for card members by Travel express, a travel agency which has an office right on top of the Tirumala hill.
Citi bank and Philips launched a Co-branded credit card in March 1996. It offers revolving credit on card for upto 40 monthly. Besides providing all the advantages of a normal citibank card including money spinner point (reward points), cardholder also gets an extended 6 months guarantee on purchase of any premium Philips product.

Citi Bank projects to increase it citicard population by around 2.5 million by 2000 A.D-a more than five-fold increase in five years. Indeed, Citi’s hell-for-leather marketing signs 25,000 new cardholders each month. As of 1994, in a total credit card population of 10.70 lakh, Citi bank had 4.6 lakh cards a 42 percent market share. Citi Bank has been a pioneer in almost every product in consumer banking. It was the first bank to introduce 24 - hour telephone banking and even though it was not the first credit card issuer it certainly was the player which set trend in the card business. Today Citi Bank has to reckon with growing competition not only from Indian bank but also from foreign banks. Today, that technology can support all of Citibank’s credit card, the Citi hardware has a capacity to process 15 million charge slips, post 8 million credit card payments authorise 5 million card transactions and receive 6 million telephone calls.

Constant innovation is one way in which citi has tried to stay a head with its consumer banking strategies. In 1994, it introduced schemes to buy mutual fund units on credit card. In 1996 the bank tried to get permission from securities and Exchange Board of India and the Reserve Bank of India to do the same with equities and other securities. Citicardholders can now do a number of things with their cards; they can phone Citibank phone centres to get instant overdrafts, they can buy a whole range of
products from refrigerators to mutual funds and they can even get attractive discounts on purchases of products.

Citibank N.A India and Maruti Udyog limited (MUL) have launched the 'Maruti Citibank-Visa card in association with Visa. Designed to offer special benefits to owners and prospective buyers of Maruti cars in India, this is India's first co-branded card between a bank and automobile company. It entitled the cardholder to a host of benefits including one fire health check up of their Maruti car every year, 50 per cent discounts on service charge for car serviced at a Maruti workshop up to a maximum of two services a year, 15 percent discount one accessories purchase at MUL dealerships, and special discounts on purchases like tyres, batteries, car air conditioners and music system, insurance cover for air accident up from Rs.5 lakh to Rs. 6 lakhs. Leveraging Citibank Auto Finance Partnership with Maruti through their NBFC subsidiary Citibank Maruti Finance Ltd (CMFL), cardholder warding to purchase a new car will be eligible for simpler documentation procedures and lower interest rate by one percent. The card has an annual fee of Rs. 750 with benefits of Citibank Silver card.38

In August 1999, Master card and Citibank launched the citibank Mastercard electronic programme in India. This is aimed at accelerating the proliferation of electronic payment mechanism. The aim is to give customers error free, efficient and faster settlement. The new product will reduce the average waiting time of credit card transactions.39

In October 1999 UTI Bank and Citibank launched an international co-branded credit card called the 'UTI Bank Citibank Card'. The card was proposed to be
marketed by UTI Bank and will be available at 28 of its branches and through select UTI agents at 19 centres. The card offers a powerful package of features like 25 percent rebate on standard commission, overdraft facility to the extent of 75 percent of the value of holding of demand shares and units pledged with UTI Bard and a waiver of 0.5 percent on interest rate chargeable under the scheme and free ATN card for cardholders having savings bank/Current account with UTI Bank which can be used at UTI Bank ATM centres all over India.\(^{40}\)

Citibank makes no bones about the fact that it is targeting, not the masses, but the top end of the market, when competitors mailed a direct marketing brochure to potential customers for its credit cards recently in 1995, it benchmark its cards with citicards.\(^{41}\)

### 3.8.2 Standard Chartered Bank

Standard Chartered Bank is one of the late entrants in the card business in India. It introduced it card in September 1993. Its card membership was put at 18,00,000 around 1998. There are three types of cards issued by Standard Chartered Bank. They are Gold Master and Gold Visa Card, Executive Master and Executive Visa card, Classic Master and Classic Visa Card.

In 1995, Standard Chartered Bank has introduced its first Photo credit cards (Photo card) that will ensure both the bank and its cardholders protection against fraud. The rupee Photo card, carrying laser, printing photographs and signatures of the cardholder will be available without additional charges both for new subscribers and renewals of existing subscriptions and with a fee of Rs. 300 for conversion of existing
cards before the date of renewal. Now all the cardholders are issued with photo cards without additional fee. The Bank also arranges travels and tours in association with Raj Travels and Tours limited exclusively for Stanchart Cardholders.

The Card-Mahindra Standard Prestige card is aimed at Mahindra's clients, customers, vendors, dealers, suppliers, investors and even employees and if used, the card offers priority in vehicle booking, additional free services, discounts in the rate of interest for vehicle finance, discounts on spare parts, extended warranty and discounts at its Guestline hotel chain. The bank has already Co-branded cards with Toyata and Shell in Singapore. This is in line with global trend. General Motors and Ford also have co-branded cards.

Stanchart Cardholders have tele-draft facility whereby the cardholders can just call the bank in case he needs to make a bank draft and the draft is charges to the cardholder's account and is delivered to him for a nominal fee. Stanchart has sold around 12 lakh cards until 2001 and India's share of the total global card sales of the bank is 21 per cent.42

Telephone bills are also payable by charging the amount of the card. Railway ticket, discount at hotels are other features available not just one the Standard Chartered card but also on other cards. In 1996 Stanchart tied up with Kothari Pioneer and Alliance Capital Asset Management to provide equity-linked mutual fund savings schemes that facilitate tax planning.

In the credit card business, product innovation is the name of the game. Be it citibank, Standard Chartered Bank, Grindlays or Hongkong Bank card, each is striving
to overtake the others in the race for number one position. Take the example of Standard Chartered Bank, before the cast world cup, with the world cup fever sweeping the sub-continent, Stanchart jumped on to the bandage on and rode the cup wave by a timely launching of its cricket visa card to commemorate the event. The card ceiling India-specific, a brand new design with wickets and bails along with the Visa hologram - created in-house and was backed by an attractive gift offer to 1000 customers. A hybrid between a credit card and a discount card it is basically a credit card with feature identical to those offered on any other card. It can also be availed as an add-on card by existing cardholder at a nominal cost.

The facilities available to the cricket card, like the classic care are cash advance limit upto 40 per cent of the credit limit, free personal accident insurance protection upto Rs. 4 lakh for the classic primary cardholders and upto Rs. 2.5 lakh to the spouse. For executive cardholder, the insurance limit is Rs. 8 lakh, but same for the spouse that is Rs. 2.5 lakh.

Stanchart, in a mega marketing blitz hoping to catch up with Citi Bank, and are improving their products as frequently as possible.

3.8.3 ANZ Grindlays Bank

The facility to buy now and pay later is just one of the main privileges cardholders enjoy with ANZ Grindlays Bank now know as ANZ Grindlays Standard Chartered Bank after acquisition of Grindlays by Standard Chartered Bank. It issues cards only to account holders. Over 75,000 business establishment in India and Nepal
have been accepting ANZ Grindlays cards since 1998 and this is on a constant increase. The Bank is not interested in quantity but quality cardholder.

The bank offers Silver Visa and Master card and the Gold Master card for outside members. The club's membership was only by invitation. The card allows full emergency cash advance facility up to the cardholder's available credit limit among other basic facilities. Grindlays card has tie-ups with Hertz car rentals and hospitals, etc., for the convenience of the customers.

In October, 1999 then ANZ Grindlays Bank and Bank of Madura launched the Bank of Madura ANZ Gold and Classic Credit cards in association with Master card. Initially 30,000 cards were to be launched of which 90 percent were to be Classic cards and the rest Gold cards. ANZ Grindlays provided both technological and service expertise to manage back office operations. This alliance provided the cardholders the enhance convenience of availing of cash advances, making cash repayment, cheque drop facilities and ordering door step delivery of demand draft through 47 Bank of Madura and 38 ANZ branches in eight locations in the countries.

On January, 2000 ANZ Grindlays Bank launched its Visa Global card as a special Olympic games commemorative card. Very recently in the year 2001, Standard Chartered Bank has taken over the ANZ Grindlays bank and both have been merged as a single bank now in the name of Standard Chartered Grindlays Bank.
3.8.4 Hong Kong Shangai Bank (HSBC)

Hong Kong Bank issues two main cards - Classic and Gold cards. The former card is meant for middle class and the latter is for upper class society. Cards are being offered presently to both existing customers and outsiders with Gold cards issued only by invitation. Cardholders receive substantial insurance benefits upto Rs.3 lakhs besides the access to the largest network of ATM. The cardholder can choose to pay a minimum of 5 per cent of the monthly dues or more. The remaining balance is carried forward at a monthly interest rate of 5 per cent. One can also take cash advance with Hong Kong Credit Card. A unique teleticketing service is available to Gold Cardholders from Thomas Cook offices around the country. The special desk reserved for them, and avail a wide range of travel services such as passport / visa formalities.

Customer - made holiday packages, ticketing and accommodation. Travel related services which include tie - ups with travel houses like SITA for Classic cards is of special mention. It had extended its product line by offering Corporate card facilities, available to reputed companies who can use it to settle the restaurant or hotel account. Hong Kong Bank launched a quarterly magazine called "Inner Circle" keeping its cardholders informed well and also opened a card centre to meet the needs of both cardholders and merchants.

Hong Kong Bank Master Card International and Thomas Cook have teamed upto launch a high value International credit card for Indian executives travelling abroad. The card is designated to make payments in foreign currency at overseas destinations. The amount of foreign exchange credit available on the international card
will be subject to FERA stipulations and would vary with the purpose and duration of the travel. Card issuers will have the option to either use their existing authorised agent for foreign currency sanctions or utilise the service of Hong Kong Bank or Thomas Cook.

In addition to benefits like cash withdrawal facility at thousands of Mastercard ATMs around the world, the international card will provide a specially designed high value insurance cover in the event of accident or death and cash compensation for lost baggage to missed flights. In India, cardholders will be entitled to purchase travellers cheque from Thomas Cook offices free of commission charges and can avail themselves of discount on hotel rates if bookings are routed through Thomas Cook offices. The international card is aimed exclusively at the Indian business traveller, estimated to account for more that 30 per cent of all out bound travellers from India. Industry estimates place the number of Indians travelling abroad for business at over three lakh per annum in 1998 and the market is growing at 10 per cent every year.

HSBC which launched its global card in October, 1999, had an aim of selling three lakh candy by 1999 and while it had targeted a card - base of two million in the next succeeding five years the bank has set up an operational system at a cost of $5 million which would allow the bank to service its credit card customers more efficiently while enhancing it capacity to handle greater volume. The HSBC's cardholders can access their personal accounts at the bank with their credit card at the bank's ATMS's.45
3.8.5 American Express Bank (Amex)

Early in 1992, American Express launched a new rupee credit card aimed at the higher end of the market (Amex cards have hitherto not been available in India as they are in dollar terms). Amex has planned for a cardholding membership of 1,50,000 in three years.

The American Express card is a new card meant for Green Personnel. A pack of privileges like mail receiving and holding facilities, emergency cheque encasement facility for separate and personal expenses, protection package in case of theft or loss of the card, and so on is offered to cardholder. American Express cards are not for everyone. These cards are issued to selected persons by invitations i.e., select corporate employees were given the privilege to use the card for meeting travelling expenses. There are more than 10,000 American Express Card members in India. The admission fee is Rs. 3000 and renewal fee is Rs.1800, Add-on fee is Rs.450. Amex cardholders are entitled to an insurance cover of 15 lakhs for loss of life in air travel and Rs.3 lakh in the event of any other accident.

Tata finance has a strong partner in American Express and has reportedly set aside Rs.100 crore for working capital for the card business.46

3.8.6 State Bank of India (SBI)

The State Bank Cheque Card scheme comprises two things. The State Bank Card and a special cheque book of State Bank Cheque. While with most credit cards, there is a restriction on the amount of money one can spend within a given period of
time, there is not such restriction in the case of State Bank card. The State Bank card is flexible to the extent that it can be used for any sort of payment, including the taxi fare.

SBI started it in August 1987 and in a short span it has more that 2,25,000 cardholders and more than 32000 member establishments in addition to SBI branches and those of associate banks numbering 14,000 in India. Each cheque is for Rs.500 only. An overdraft of Rs.10,000 to Rs.50,000 may be given to the cardholder. A unique feature of the cheque cum credit card is that it can be accepted by any body and every tdy and not just member establishments. Credit worthiness is the only criterion for becoming a cardholder. It also helps the bank in knowing how much credit is in market and for monitoring the expenditure of an account holder through cheque. This helps the bank to guard against stagnant overdrafts. The card is valid for 13 months only. Through cheque - cum - credit card hidden credit is also available to the cardholder.

The SBI card has many advantages like easy encashability, can be used at any place and at any time and member establishment are not required to extent any credit. SBI targeted the average middle class house hold. Modalities are now being worked out to facilitate telephone and electricity payment through this cheque - cum - credit card. SBI has launch credit cards in 1999 having a tie - up with GE Capital. It is also ready to popularise debit cards.

The success of the SBI card, has even got the foreign banks majors - traditionally the largest plays in the card business surprised. Upto December 2000 (26 months), the bank has issued 5 lakh cards. SBI has 300 ATM in India and its target
is 1,000 ATMs by 2002. SBI expects to break even in 2001-2002 itself, and wipe out its accumulated losses in the business by 2003. Currently as much as 70 per cent of the total SBI card subscribers are not SBI account holders. Having a strong base and good network among the branches, it is likely to become an eminent player in future.

3.8.7 Canara Bank

Canarcancard launched by Canara bank in October 1987 has got tie - up with Visa international. Canara Bank is issuing Gold card and Silver card for its valued customers and also corporate cards to serve them better. It is one of the dominant players in credit card business in India. Canarcancard has a membership of around 1.8 lakhs members till the year 1995. Canarcancard is also being issued under tie - up arrangements by eight member affiliated banks in the country. They are corporation Bank, Syndicate Bank, Union Bank of India, Karur Vysya Bank, Indian Overseas Bank, Saraswat Cooperative Bank, Dena Bank and Lakshmi Commercial Bank.

They offer three types of cards. Individual Canarcancards which are issued to salaried persons, self - employed professional and business men, etc. corporate cards which are issued to corporate clients and Business cards for partnership firms and proprietary concerns.

Canara Bank has a holiday Inn Crown Plaza Card which entitles the owner to special discount and privileges. It's not so much the discount by the special discount and privileges and the treatment that a cardholder gets at these hotels to which makes him to use these cards.
In April 1995, Canara Bank launched Cancard International (Gold) for the corporate clients travelling abroad. Holders of this card can draw cash at over two lakh Visa ATMs in over 60 countries, utilise services at over 3.6 lakh member offices globally, and have access to over 12 million merchant establishments.

Cardholders are also eligible for propriety services at select hotels with express check-in, late check-out and free room upgrade facilities, at specially negotiated rates in select hotels and car rentals worldwide and exclusive business lounges / facilities at airports.

Emergency services such as lost or stolen card reporting facility, card replacement services, 5000$ medical assistance, ticket replacement, lost luggage assistance at airports, lost document replacement service, interpretation services, pre-trip planning service and free personal accident insurance cover of Rs.10, lakhs are also available. Canara Bank has plans to enlarge the scope of services by coming out with cancard ATM facilities. Canara Bank has started consumer banking subsidiary to handle credit cards, travellers cheques and the like.

3.8.8 Bank of Baroda (BOB)

Bank of Baroda entered into the business in September 1985. It has its linkage with Visa and Master card International and Allahabad bank as its associate member. The bank was the first among the nationalised banks to provide around the clock authorisation service on its own. In the year 1990 - 91 a multimedia campaign was undertaken on BOB card in newspaper banners and magazines. During 1992 - 1993 BOB Card was acknowledged as the market leader as per a survey of Indian credit
card business. The Bank of Baroda’s $ Super Card enables a holder to draw upto Rs.15,000 in case of medical emergencies. This facility is available at almost all branches. It is the only public sector bank to offer the maximum amount of cash drawing at maximum number of branches.

Bank of Baroda's Bobcard - Silver, Exclusive or Premium has much acceptance in the market. Bobcards offers a range of facilities almost identical to foreign bank credit cards. It is accepted in Nepal, as well. It has a cash advance facility not exceeding Rs.10,000 in a month across any branch of Bank of Baroda or Bobcards Ltd. Interestingly, this limit does not get squeezed by the cardholder outstanding in the card account unlike other cards issued by other banks in India. The service charge payable on the cash advance is three per cent per withdrawal on the amount advanced.

Bobcard holders life is insured against death due to personal accidents to the tune of Rs.2 lakhs. In case of air travel, the accident cover automatically stands increased to Rs.4 lakhs. Also, there is no facility of revolving credit and the entire amount per month or fortnight has to be repaid in full unlike the other banks.

The bank had launched new subsidiary, Bobcard Ltd., to handle the credit card portfolio of the bank and to cater exclusively to needs of it credit cardholders spread across the country. The new company issues, renews and maintains the records of Bobcard holders as well as the records of the establishments recognised by its credit card division.
To settle cardholders' bills every fortnights, bank sends a statement showing details of customer utilisation of Bobcard and the total amount due from the cardholders. Bank of Baroda even runs a courier service so as to ensure bills are cleared promptly. A copy of the statement is also sent to the branch of Bank of Baroda where cardholder maintain their accounts. In receipt of the statement branch will debit cardholder account, on the strength of standing instructions given by the cardholders to the bank at the time of applying for Bobcard.

In case cardholder account is overdrawn when the amount of bank statement is debited to the cardholders' account, interest will be charged at a rate applicable from time to time as per Reserve Bank of India directives, from the date the account is overdrawn till the cardholder settles the over draft.

Bank of Baroda are pioneers of the Global card which was launched by the bank in 1995. Bobcards a 100 per cent subsiding of Bank of Baroda is the first bank and company in India issuing credit cards, Bobcards Premium, Bobcard Gold, Bobcard Global with Visa and Bobcard Exclusive with Mastercard. The membership fees for these cards range from Rs.100 to Rs.2000. The service charges are also competitive. Bobcard was the first to introduce personal accident cover to the spouse of the cardholder.

Bobcard has set a target of increasing its customer by almost 100 percent by March 2001. In the year 2000 the Bobcard customer base stood at 1.5 lakhs.
3.8.9 Central Bank of India

Of the country's nationalised Bank, Central Bank of India, was the first to introduce credit cards as far back as 1980. It is virtually a convenience card open to those having account with sufficient balance and satisfactory dealing with the bank. It is the first bank in India to affiliate with the internationally renowned Mastercard in 1982. Later it became member of Visa International in 1991. It is the first bank card to come to the people with low service fees aimed with high standards of service. It had the largest number of member establishments, around 17,000 in India. It allowed cheque encashments facility to the cardholders for drawing cash Rs.2,300/- per month at any of the 3051 branches of central Bank of India. Besides, cash advance facility upto Rs.5000/- per month at selected branches is allowed.

United Bank of India and the Vysya Bank Limited have joined Central card as associated members. By this, these two banks issue their cards as associates of Central card which is honoured by all Central card member establishments.

The bank was charging issuing fee of Rs.50/- and renewal fee of Rs.25 initially. Now the issuing fee is Rs.300 whereas the renewal fee is Rs.250 per annum. The card is renewed at a stretch for 2 years. The service charges charged to member establishments now range from 2% to 3.5% depending upon the volume of business. Central card has been issued to over one lakh customers but now the live cards have been restricted to around 60,000 which may be due to the fact that Central Bank of India is consolidating its position of recovering the dues from the cardholders. On an average about 1000 card are reported lost in a year.
Central Bank of India, issues, proprietary card, corporate card, VIP card, Leela card and International card. Central Bank card are accepted at railways and airway reservation counters. Central Bank also offers its cardholders mail order service, insurance services and ATM services.

3.8.10 Andhra Bank

Andhra Bank was second to introduce credit card in India. It came on the scene in 1981. The card membership of Andhra Bank is put at above 1,70,000. In real sense Andhra Bank card has linkage with Visa and Japan Credit Bureau. These cards are also open to non-account holders with adequate resources and assured income over Rs.5000 per month. It is the only Indian Bank having permanent arrangements with VISA international organisation having more than 12000 financial institutions as its members all over the world in 130 countries. The local Andhra Bancard is unique because it is offered after credit appraisal, without any fee, deposit or accounts. Annual renewal of the card is permitted free of charge if its minimum utilisation is Rs.3000, otherwise Rs.50 is charged. Vijaya Bank is an associate of Andhra Bank card system and the commission earned through Vijaya Bank is shared between them. All merchants accepting Andhara Bank cards also accept Vijaya Bank Card.

3.9 FRAUDS AND BAD DEBTS RELATED TO CREDIT CARDS

Although frauds and bad debts are rather different issues, with various causes and solutions, it is treated under the same broad heading because both have some cost implications.
3.9.1 Frauds

There are several different types of frauds, each of which can be controlled and reduced by a slightly different approach. There are various types of credit card frauds each of which are inventive, issuing banks keep developing new safeguards, so are the cheats who work new ways to get around them. Chief credit card frauds committed are as follows.

3.9.2 Application Frauds

This type of fraud is committed at the time of application by an applicant. Application frauds are of two types.

1. Identity fraud where a fraudster assumes another persons identity for the purpose of his or her application, and
2. Financial fraud, where the applicant applies in his own name, but lies about his personal and financial situation.

3.9.3 Identity Theft

This involves acquiring information about important facets or pieces of a persons identity in order to commit several types of frauds or crimes in his name. The identity thief will try and collate information like name, residence and office address, date of birth, telephone numbers, fax number, e-mail, driving license number, passport number, credit card and/or bank account numbers, etc. as well as bank cards, passports, to name a few. Such information would be very handy in applying for card.
3.9.4 Financial Fraud

This is where an individual applies in his own name, but gives fraudulent information about his personal or financial status. He might overstate his income or understate his borrowing and other commitments.

3.9.5 Intercept Fraud

Intercept fraud is where a card is applied for properly, but is then stolen from the postal system before it reaches the applicant. New or renewed cards issued or card numbers are intercepted in the mail before it reaches the cardholder or are delivered to an unauthorised person and subsequently used without your i.e. card customer’s approval. These cards are bland or unsigned, and thus easier to misuse towards colossal amounts on a card. A card criminal, could also intercept a pre-approved credit card application from your mailbox, would then call the card issuer and request for change in mailing address. Certain card issuers would make the necessary change of address without any further verification, and subsequently a new credit card would be mailed to the card crook. The fraudster could then embark on a spending spree which would later show up on your card billing statement.

3.9.6 Counterfeit / Duplicate Cards

This applies to any piece of plastic card where a card thief creates fabricated or illegitimate cards displaying counterfeit card association logos, issuer designs, holograms, signature panels, with valid names, account numbers, expiration date and enclosed magnetic stripe data in the proper format. Names and account numbers can
be obtained from discarded sales/Charge slips used in retail/merchant outlets, cards, merchant records, direct marketers, computer hackers, etc. Such cards are created to appear legitimate to the system and do not correspond to any real plastic cards.

Duplication of real cards refers to the production/ manufacturing of large number of copies of legitimate cards and their subsequent use. This merely requires the information contained on an authentic card to be copied or embossed onto new cards (like cardholders name, account number, expiration date, holograms, logos of card association, signature panels) and/or a magnetic strip is placed on the back/reverse of the plastic containing the customer information i.e. encoded magnetic stripe data.

Another kind of such card fraud requires knowledge of the cardholders. personal Identification Number (PIN). A magnetic stripe is placed on the back of a plastic and containing valid or authentic cardholder information. Such a card could be used at ATMs to make cash advance withdrawals against a card account. 51

3.9.7 Skimming

Skimming is where the information contained in the magnetic strip on the reverse of the card is copied on to the strip of another card.

Some companies are experimenting with other methods, such as water mark magnetic strips where, unless the information comes over in a set format, the authorisation requests will be turned down by the card issuer.
3.9.8 Multiple Vouchers

Multiple vouchers fraud is conducted by the card acceptor, rather than the card user. In this case, a customer, rightfully, uses his card to pay for goods and services, but, instead of producing just one transaction slip, the merchant runs off several. He then forgets the customer’s signature and banks the vouchers. This type of fraud is usually easy to detect - it is easy to discover who is the merchant. However, if it is a dishonest member of staff who has perpetrated it, he or she may have disappeared by the time it is discovered.

3.9.9 Mail order / Telephone Order (MO/TO)

This pertains to fraudulent transactions in which a cardholder’s credit card number is quoted to make purchases or utilise services by an unauthorised person either through a mail order/telephone order request (MO/TO). Goods ordered are then delivered to a temporary address. Deceptive telemarketing or mail order schemes also fall into this category. Collusive merchants / card criminals usually establish contact with the cardholder by telephone or mail with announcements of prize winnings or other "too-good-to-be true" offers. This results in certain cardholders parting with their card account number which are then used by card thieves to post unauthorised charges on the card account number.52

3.9.10 Account Takeover

A card criminal obtains cardholders personal information details and posing as a true cardholder fools a card issuer into changing the mailing address (on cardholders
card account). After this the card thief reports a true card i.e. cardholders card lost or stolen to the card issuer and requests replacement for a new card. The new card and PIN is then sent unsuspectingly to the new mailing address (Card criminal address) the new card account (a new card in cardholders name). Thus a card saboteur has been able to misdirect card(s) and can use the card and PIN to even access your bank account(s).\textsuperscript{53}

3.9.11 Internet Fraud

Internet card transactions are considered to be in the category of mail order or telephone order transactions, also referred to as ‘Cardholder not Present’ (CNP) transactions. The most common type of fraudulent purchase made on internet is done via stolen credit card information.

In March 2000, a teenager was arrested in Wales, IUK, for hacking into nine e-commerce websites around the world, stealing credit card information related to more than 26,000 accounts from sites in US, Canada, Thailand, Japan and UK. This included the credit card details of Bill Gates as well.

Further stolen credit card details or numbers are routinely posted on news groups or net bulletin boards (cardholder’s stolen card number could be posted on the internet in a matter of minutes) and sometimes even have the billing address.

The danger of fraud for merchants or websites that accept cards over the net is less published. Merchants could lose money owing to high charge backs on bogus or fraudulent orders. Disputes is another problem that stems on the net, owing largely
to problems with the merchant’s own services. Charges for unordered goods, late delivery and additional charges, overfilling, and lack of service quality support are some of the most common areas that lead to a dispute.  

3.9.12 Employee Fraud

A dishonest employee of a card company, cards division or a bank could commit fraud by obtaining or stealing valid card account information or details primarily for ‘CNP’ frauds (Mail order / Telephone order and Internet frauds, counterfeit fraud, fraudulent applications, collusive fraud activity with merchants, backers and specialised card criminals).

3.10 LOSS REDUCTION STEPS TAKEN BY BANKS

Issuers of credit cards taken various steps in order to reduce losses as far as possible, resulting from lost or stolen cards. These loss reduction measures enable the issuers of credit cards to reduce losses to be borne by them to a maximum level. Some of the important loss reduction measures taken by the issuers of credit cards are:

3.10.1 Photo Cards

Photo cards are credit cards with photo of the cardholder or family members as requested by the cardholder affixed on the credit card. Earlier photo cards were issued to the cardholders at his/her request only. Now almost all issuing banks issue credit cards with the photo of the cardholder. This measure is taken by the issuing banks as a measure to reduce loss incurred by it due to usage of lost credit cards by
fraudsters. It can be said that issue of photo cards has proven to be an effective measure to reduce credit card frauds. Once a photo card is issued to a cardholder it is not necessary that he/she has to send their photo's again at the time of renewal of the card. The bank sees to that the renewed cards are issued to the cardholder with his/her photo affixed on it. This innovative method even though is a costly affair helps the issuing bank not only to prevent frauds but serves as a marketing tool to attract prospective cardholders. Issuing banks see issue of credit cards with photo affixed as a short term loss prevention measure rather than a longterm one. Very recently issuing banks have started issuing photo credit cards with the picture of animals, birds, scenery, etc. only on the request of the cardholders, these measures are taken by the issuing bank to deep in pace with the competition.  

3.10.2 Integrated Circuit Cards

Integrated circuit cards (ICC) or "Clip Cards" cost around the same to produce as photo cards. They are considerably more sophisticated, however. The chip can contain a range of personal information about the cardholder's - date of birth, and so on - which has to be verified at the point of sale. Chip cards are being used successfully in France and it is slowly gaining momentum in India.  

3.10.3 Authorisation of Transaction

All payment card transactions of whatever value are authorised automatically. Authorisation is the process whereby the merchant gets the transaction verified as valid by the card issuer, quite simply, the issuer says it is in order for the merchant to go ahead with the transaction. There is a disincentive for all transactions to be
checked; not all card acceptors have non-line, point of sale terminals and telephone charges are higher.

This situation has changed in U.K. In 1992, the card payments group of APACS set up a sub-committee called, The Plastic Card Fraud Prevention Forum (PFPF) to tackle this area. The PFPF brought together people from the UK payment card industry in order to reduce progressively the level below which card transactions are not authorised (their "floor limit"). The floor limit is the amount above which the merchant must obtain authorisations for a transaction. The more transactions which are authorised, the less scope there is for fraud.58

3.10.4 User limits

Card issuers can require that high-value, or other types of transactions (for example, the first one on a new card) must be referred back to them for verification before being authorised. In this instance, the issues would seek to identify the customer who was attempting to use his card.

There are even systems available which can spot transactions which do not confirm to the cardholders usual spending pattern. When one of these is requested to be authorised, the card issues can seek proof of identity before authorising the transaction. In due course, the situation may develop where extra proof is required for all transactions.59
3.10.5 Merchant Education

Security devices like photo cards are only as good as the merchant’s staff are at employing them. Merchant education is an area where there is considerable scope for reducing fraud. Staff need to be trained properly to check photographs, check, signatures and to ask for additional proof identify.60

3.10.6 Credit Industry Fraud Avoidance Scheme (CIFAS)

The Credit Industry Fraud Avoidance Scheme (CIFAS) started in UK is made up of banks, building societies, hire-purchase companies and other organisations which provide credit to the private sector. The organisation exchanges information and records known fraud under the individual’s name and address. This then allows companies to check applications against the information in the CIFAS database. This scheme has not been implemented till now in India, but the credit card issuing banks have an integrated network among themselves whereby an issuing bank can know if an applicant has credit cards in any other issuing bank, whether his credit history is good and all other related particulars of the applicant. This is indeed very helpful to the issuing banks to reject the applicants application. They will usually only be prepared to involve the crime prosecution service if the card issuer has conducted its own thorough investigation and presents the evidence in the correct format.

If however, a card issuer has other links with its local police, the issuer may be able to drum up rather more help. In general, where someone is charged with credit card fraud, this offence will appear way down a long list of other offence. Even if the
police are not usually keen to help credit card companies in their investigation it does sometimes happen the other way round.\textsuperscript{61}

3.10.7 Private Investigation

Private investigators can be used to track down fraudsters but their use can be expensive and often not successful. The quality of investigators varies greatly.\textsuperscript{62}

3.10.8 Other Prevention Measures

3.10.8.1 Personal Identification Numbers (PINs)

It is not possible for the thief to obtain cash from an automated teller machine (ATM) without knowing the cardholder's PIN.

There are currently devices available which as "leaves - drop" on a customer using his PIN at an ATM to find out what is the number. But even here, the PIN is of no value unless the fraudster can get his hands on the card or card details as well.

The real danger is where customers have, say, their wallet stolen which contains both their card and a record of their PIN. To reduce the need for customers to write down their numbers (Something they are expressly instructed never to do), many banks are now allowing them to choose their own number. The idea is simply that if a customer can select a number he finds easy to remember, there is no need for him to keep a written remainder, so that the risk of fraud is reduced. The issuing banks allow multiple cardholders holding multiple card since the same bank to make
use of one pin number for the operation of all credit cards they hold in the bank. This relieves the cardholder the burden of remembering many PIN numbers.63

3.10.8.2 Prevention of Application Fraud

A fraudster will often use an accommodation address then he applied for the card. What then generally happens is that the "Customer" uses the card normally for a period - running up reasonable size debts and paying them off-before he embarks on a high level of spending and disappears. The accommodation address, which has been given as his home, makes him almost impossible trace. However the advent of CIFAS means, that card issuers are sharing fraud information more freely and suspect accommodation addresses are now likely to be identified at the outset.64

3.10.8.3 Prevention of Bad Debt

A bad debt arises when a customer who has obtained his or her card perfectly legitimately, is later unable (because of a charge in circumstances, for example) or unwilling to repay the amount he has borrowed on the credit card.

Each card issuer will take a slightly different policy to its handling of bad debts and in each different policy to its handling of bad debts and, in each individual customer's case, the approach will depend on how long the account has been delinquent and the amount owing. Delinquent is the word used to describe accounts which are either above their credit limit, and/or where the customer has been failing to repay the minimum requirement each month.65
3.10.8.4 Delinquency

If an account becomes delinquent, the issuer will write to the customer telling him he is over his limit and ask him to stop using the card until it has been brought back into line. If the account belongs to a 'good' customer, with a history of prompt repayments, the issuer might automatically increase his credit limit. This would mean the "problem" has disappeared as far as the bank is concerned.

If, however, it is a customer who only ever pays off the minimum or who has been in arrears before, raising the limit is possibly, the very worst thing the issuer could do. In such case, the issuer would require the customer to bring his account back under the credit limit. If he failed to do so, the issuer would put a stop on authorising any further transactions - which would mean he would be unable to use his card. Ultimately, if the debt was not being repaid, the issuer would take steps to recover its money.

When an account goes into arrears - that is, no monthly payment has been made - the first statement after non-payment will include a gentle remainder that it is over due. If two weeks later, no payment is forthcoming, a letter will be sent. This will again remind the customer and ask him not to use the card until he has caught up with his payments. At this stage, however, the issuer would not necessarily put on a formal stop on his card.

By the end of the second month, which would mean around 35 days or arrears, the issuer will step up its pressure. It would stop authorising any further use of the card and write demanding payment of the amount in arrears. After two weeks of non-
payment, the issuer would send a termination notice and demand payment of the debt in full within 14 days. A termination notice is where the issuer exercise its right to cancel the agreement and demand the return of the card and repayment of the debt.\textsuperscript{66}

3.11 PROBLEMS OF CREDIT CARD HOLDERS

There is a growing concern among consumer protection bodies generally that the availability of credit, particularly through credit cards, has outstripped people’s ability to handle it. The Money Management Council, a charity which aims to help people handle their finances more efficiently states that there is evidence of considerable financial ignorance. "Education is trailing far behind the development of consumer credit and transfer of funds via the plastic card, and the enormous increase in their use".

The major credit card companies however are not convinced that any more information is need. Issuers feel that an overwhelming majority of borrowers are quite able to understand the implications of their actions in taking credit. They think that cardholder do not need to be protected from themselves.\textsuperscript{67} This tendency issuing banks tend to create immense problems to the cardholder. The problems that they endure during usage of cards are.

i. The prospective cardholder who wishes to acquire a card, does not get the card in a quick span of time. The approval process takes between two weeks to a month if all the required papers are in order.\textsuperscript{68} If not it could take even longer.
ii. The Credit limits that cards of most nationalised banks have an upper limit of Rs.2500 to Rs.70000 but foreign banks offer limits of more that Rs.2.50 lakhs.\textsuperscript{69} A limit in rupees is not likely to amount to much when converted to dollars. And if the credit limit is way below the cardholder’s official travel quota, it isn’t to much help since he/she need to carry cash or travellers cheque.\textsuperscript{70}

iii. Most banks charge interest at rates ranging between 2.50 and 2.90 per cent per month (30-34.80 per cent per annum) on outstanding credit - steeper than the interest rate on consumer loans (17-19 per cent per annum) and housing loans (13.50-15.50 per cent per annum). Only the American Express (AMEX) card charges a low interest rate of 1.45 per cent per month (17.40 per cent per annum) for transferring all balances from other card. However to avail that facility, the cardholder should not be late overdraw on the card from which they want their outstanding balance transferred.\textsuperscript{71}

iv. Card issues are sneaking more and more charges into monthly bills lately by increasing existing fees or inventing new ones. So the cardholders have to watch out more than ever into their monthly statements. If cardholder uses his card overseas, he is charged with a fee for foreign transactions to 3 per cent from 1 per cent. A cardholder willing to get a cash advance on his card is to pay a fee of 2 per cent to a maximum of $10, which is now 3 per cent and no dollar maximum. Bank rendering more than his credit limit by $1 and Citi Bank, which used to let the card holders exceed the limit by several hundred, charge a $29 fee. Late payment penalties are several hundreds, charge a $29 fee even though he has mailed payment with a late payment earlier.
Increasingly, that due date of the 21st of the month does not mean anytime on 21st. And it's not the postal services fault. Citibank considers a payment late if it isn't received before 10 a.m on the due date. For Direct merchants, the cut-off is 9 a.m. Some issuers of Credit cards are charging an inactivity fee for holders who haven't used their cards for six months.

v. The collection boxes, kept at the member establishment of the issuing banks, for the cardholder to drop their cheque towards credit card payments are actually not so convenient and also the number of boxes is pretty less. In general the visibility of the boxes is poor and in most of the outlets it is kept on the floor.

vi. The rewards programme is another carrot dangled before the customer. The cardholder should checkup what the point for conversion for each card is. Standchart uses a conversion of Rs.125 (spent in India) or Rs.80 (spent abroad) for one point. A minimum of 250 points is needed to get the prizes. HSBC allows points to be used only against annual fees where the conversion is one point for every Rs.100 spent. A minimum of 350 points is needed to get a discount on the annual fee. Every Rs.40 spent abroad and in Oberoi hotels on the AmEx global card equal two points. For the rest of you purchases, its reward programme is linked to the Air India frequent flyer programme and points are redeemable against tickets on the two state-owned airlines. Citibank awards one point on the spending of Rs.100. Thus reward points scheme is just to lure the cardholder to spend more.
vii. Cardholder making their payments through credit cards at member establishments are not granted the same percentage of discounts as that being offered on cash purchases. Incidents of member establishments not accepting credit cards have also been cited by cardholder giving unacceptable reasons.

viii. Yet another hindrance experienced particularly by e-cardholder is the lack of proper security on online transaction. Even though issuing banks have set-up SET system and the advanced system to prevent unauthorised access to cardholder particulars, it is not completely foolproof and secure.

ix. The billing system followed by issuing banks are also not proper, the cardholder have to endure with delay in sending of monthly statements, mistakes in monthly statements, etc. This is a result of lack of proper administration of the billing activity and also lack of technological upgradation.

x. Yet another important problem experienced by the credit cardholder is lack of information or in complete information on part of the issuing banks regarding new services offered, incentives available to cardholder, method of calculation of various interest, etc. This is because banks issuing credit cards do not follow a consistent method of calculation of charges for all cardholder and not all the services rendered by these banks are available to all the cardholder, which calls for proper communication on part of the issuing banks to its cardholders, wherein they should clearly state what are the services available to each type of cardholder, what are the various conditions that he/she has to comply with, what are the various charges levied on services offered, what are the penalties imposed when the cardholder do not comply with the conditions,
how the various charges are calculated. etc. Even though issuing banks frequently keep sending its cardholders communications, cardholders not satisfied with it, due to two reasons. One reason is cardholders constantly keep receiving some communication or the other from the issuing banks regarding various incentives offered seasonally and second being, inspite of receiving regular communication, customers are not given clear and complete details of the various aspects of this service.

In a survey conducted by Financial Express, it was found the 5 per cent of cardholder in India rest complacent in the belief that they are paying around 2 per cent as interest. When they are actually being charged a whopping 2.95 per cent. What seems a harmless decimal point difference adds a few hundreds to each customer bill without they knowing about it. Around 84 per cent of customers also believed that the interest free period on the card is 30 to 50 day or more when in reality the grace period for credit cards, if applicable, relates only to those cases where the outstanding are cleared in full at the end of each settlement period. There are also certain hidden charges around which there is insufficient customer communication. Some card issuers for example levy a holding and processing fee on outstation cheque sent by cardholder in settlement of their outstanding. But this fact is generally slurred over in customer communications implying that there is a lack of integrity in the communication.74

xi. When cardholder lose their credit card they should immediately report it to the issuing bank. Standard Chartered Banks gives cardholder the telephone numbers of Visa and Master card abroad where they can report the loss.
However, if they want to find out if their card has been used in the meantime, if the cardholder is out of luck. No other information is available on these lines. HSBC, Citi Bank and AmEx can be reached from anywhere in the world for information on credit card as well as to report its loss. Even then he is not likely Citi Bank, HSBC, etc loss of card is nil. It is not as simple as it seems. What they mean by nil liability, is the liability after reporting the loss of card, but the liability before reporting of loss should be borne by the cardholder only. However on Stanchart loss of photo card is liability is Rs.1000.75

It is surprising that a majority of cardholders in India are ignorant about the basic informations of card usage including even the interest rates, states Vijay Mehta, Chief consultant of the Credit land and Management consultancy (CCMC), which conducted the survey in this regard.

As many as 65 per cent of credit cardholders are ignorant about the high interest charged on outstanding balance and thus actually pay interest higher than what they believe they are paying, the survey conducted on 10,000 cardholder in 15 cities across the country revealed76 the same.
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