

CHAPTER I

A MULTI-DIMENSIONAL ANALYSIS OF CREDIT CARD SEGMENT IN COIMBATORE CITY

INTRODUCTION

A credit card is a plastic card with a magnetic strip that enables the holder to the cashless purchase of goods and services at selected places.⁽¹⁾ Ever since its inception in US in 1920, it has spread across the globe ushering a great revolution in the financial services sector. Credit cards are replacing currency notes in most of the transactions of the customers. It reduces the risk of the customer carrying cash.⁽²⁾ In the beginning, only the social elite had access to credit cards. Today, almost all classes of people have credit cards in their financial portfolio, more particularly, the middle class people whose purchasing power has increased.

Visa and Master are the two largest general purpose card network associations. They negotiate and set up payment systems at different merchant locations across the globe. The cardholders can transact from the affiliated Merchant Establishments (large or medium size shops) by producing his/her card through signing sales bills/charge-slips. The bank in due course collects the amount from the cardholders, who have the option to settle the monthly settlement in full or take credit on interest and pay a specified minimum amount every month. The banks improve their image by increasing their financial stability through collecting membership fee, establishing banking relationship with new customers and providing opportunity to render additional service to the existing clients. The banking industry has become competitive with the entry of private banks. They compete with each other to create and vie for a better performance in the market. Customer acquisition and retention may hold the key to the growth in these banks.

In India, initially foreign banks witnessed a significant growth by issuing credit cards and later with the aggressive entry of SBI, ICICI, and HDFC banks, the credit card coverage extended from 37.34 lakhs in 1999-2000 to 254.59 lakhs in 2006-07. The new private sector banks like ICICI and HDFC have adopted a strategy for reaching the lower income strata by relaxing their eligibility norms⁽³⁾. Today, more than eighteen banks issue

credit cards to consumers. With the increase in consumer disposable income and consumption expenditure, more banks are widening consumer coverage from big cities to smaller cities.

STATEMENT OF THE PROBLEM

Credit cards emerged in the Indian soil way back in 1960, but gained momentum only in 90s. The Indian market is well focused to support the growing consumer need through efficient payment infrastructure. Banking organizations have also recognized the need to introduce new and innovative ideas at regular intervals to survive in the current market scenario. The consumer has also become aware of market situations. Growth of the travel and tourism industry, both domestic and international, would also contribute to the positive growth of the credit cards. Innovativeness is the success mantra of credit cards for high spending and utilization.⁽⁴⁾ In this competitive world, the banks which would be totally customer centric in its approach with technology advancement to support the 'customer convenience' with 'customer care' and 'competence' will emerge as winner in the long run. Card acceptance infrastructure i.e. Merchant Establishments terminals and ATM too have grown to support the wide usage of credit cards and improve transactional efficiency and consumer convenience.

The Banker and the Merchant Establishments in order to boost their credit card sales provide only some basic information about the cards to the potential cardholders.⁽⁵⁾ Even though they claim that a lot of services are provided to card users, it is not known whether the users of credit cards are fully aware and satisfied of these services. It is unknown whether the customer enquires about the service charges collected by the Merchant Establishments and pay service charge to the banker. It is also pertinent to know the way in which the banker blacklists the cardholders and informs to the Merchant Establishments. The time taken by the banker to settle the claims of the Merchant Establishments and the percentage of commission paid by them is also not known.

Based on the above aspects, a three dimensional approach is focused among the Cardholders, Merchant Establishments and the Bankers. The credit card issue process starts from the banker followed by the usage of the cardholders and ends with the Merchant Establishment's acceptance. Hence, the study highlights the following issues:

- Cardholders' perception and utilization of the credit cards.
- How far the credit card facility has helped the Merchant Establishments to improve their business and the problems faced by them and
- The type of services provided by the banker, the promotional measures taken by them to market their products and the problems faced.

SCOPE OF THE STUDY

The technological advances have increased the integration and efficiency of the financial system. After the basic needs, like food, shelter and clothing were fulfilled, there was a tremendous demand for improved satisfaction which led to a proliferation of variations in the same product. Cash in the form of currency notes and coins makes up just one form of the payment system. The further development of cash brought about a second phase in payment, namely, paper instructions such as cheques and credit transfers. The requirement for greater flexibility and convenience has led to electronic payments, and this is where plastic cards have proved their worth, and the purchasing process has also become convenient and safe.

Coimbatore, the Manchester of South India, is a cosmopolitan city with a large number of educational institutions, industries, banks, hotels and restaurants, shopping malls and departmental stores. It is accommodating different avenues of modern technological developments. It is also a commercial centre of every kind inviting business people, tourists and foreigners for different purposes. Besides, the natural growth of population and migration of people have been increasing with industrial and business activities resulting in the increase in consumer population in the city over the years. Eventually, the usage of credit cards has become essential among the people in Coimbatore. Hence, the study focuses on the use of credit cards in Coimbatore city.

“A Multidimensional Analysis of Credit Card Segment in Coimbatore City” deals with the cardholders method of selecting the card and its usage, the benefits derived, the level of satisfaction and the problems faced by the cardholder. The role of Merchant Establishments in accepting the card and the bankers in issuing the card has been studied. For want of time and resource, the scope of the study is restricted to these aspects.

OBJECTIVES

The objectives of the study are as follows :

1. to identify the profile of the credit cardholders, the factors which influence the customers in selection of credit cards , the purpose and frequency of usage of cards;
2. to assess the awareness of the cardholders about the various facilities offered by the banks;
3. to find out the benefits derived, the level of satisfaction attained with the services of card issuing banks and the problems faced by the card holders on the services rendered by the banks and
4. to study the nature of the services provided by the Merchant Establishments and the banks.

METHODOLOGY

To achieve the above objectives, primary and secondary data were required. Primary data was collected through questionnaires and the secondary data was collected through official publication of RBI, banks and other sources.

(i) Period of Study

The study was conducted during 2006-2007 in Coimbatore city.

(ii) Sampling

Three types of questionnaires were prepared. One to the credit card holders owning Public, Private and the foreign banks cards, another one to the Merchant Establishments and the third to the banks issuing the credit cards.

- i. The number of credit cardholders was identified from the branches of various banks.

Each of the identified banks was selected randomly and from each bank the cardholders were drawn using simple random sampling method. The number of credit cardholders was obtained from all the branches of various banks.

There were nearly 3,80,000 cardholders of different banks in Coimbatore city during the study period, out of which 400 cardholders were selected as sample size using Taro Yamane formula

$$n = \frac{N}{1 + N(e)^2}$$

n = required sample size

N = size of the population

e = error allowed during sampling usually 0.05 i.e. 5%

3.80.000

So, the estimated sample size is ----- x 0.05

1+3800000.05

= 400 cardholders (rounded off)

- ii. 100 merchant establishments from 10 business categories were selected using judgement sampling technique. The business categories such as textile showrooms, jewelery shop, hotels and restaurants, hospitals, travel agencies, petrol stations, departmental stores, medical stores, consumer durable shops and book shops were selected for the study.
- iii. The third type of questionnaire was issued to 20 bank branches which were considered to be the main branch or the circle office of the banks.

A pilot study was conducted on 25 credit cardholders and 10 Merchant Establishments, based on which the questionnaire was restructured to meet the accuracy and reliability of data.

(iii) Statistical tools used in the study

Tools such as Percentage Analysis, Mean and Standard Deviation, Chi-square Analysis, ANOVA Test, T-test, Regression Analysis, Kendal's Co-efficient of Concordance, Factor Analysis and Co-chrans Q test were used.

The statistical tests were conducted at 0.05 and 0.01 levels of significance. Non significance was reported at 0.05 level.

HYPOTHESIS

Suitable null hypothesis was framed and applied wherever necessary.

LIMITATIONS OF THE STUDY

The following are the limitations of the study

1. The number of cardholders is maintained only by the head offices of each bank activated at Bangalore or Chennai and the figures keep varying day by day. Thus, the cardholders figures given by the banks were only a representative one. The banks issuing credit cards and the Merchant Establishments accepting the cards keep varying from time to time.
2. The results and findings are based on the opinion of the respondents and it cannot be generalized.

CHAPTER SCHEME

Chapter I: Introduction

Chapter I briefly presents the statement of the problem, need and scope of the study, objectives of the study, methodology used, limitations of the study and the chapter scheme.

Chapter II: Review of Literature

A review of the summary of literature available in the area relevant to the study is provided.

Chapter III: A Profile of the credit card industry

The evolution and the services of the credit card industry are discussed in this chapter.

Chapter IV: Cardholders' Profile, Selection and Usage of Credit Cards

The profile of the respondents, important factors considered for the purchase of the card, the frequency and the purpose of usage of the card are analysed in this chapter.

Chapter V: Awareness about the facilities offered by the banks

The level of awareness among cardholders about the facilities offered by the banks is analysed.

Chapter VI: Cardholders' Benefits, Satisfaction and Problems

This chapter throws light on the benefits enjoyed by the cardholders, the level of satisfaction after using the card and the problems faced by the cardholders.

Chapter VII: Role of Merchant Establishments in Credit card acceptance and Bankers' Approach in Issuance of Credit cards

The mode of operation and the role of the Merchant Establishments and banker in the issue of the cards are presented.

Chapter VIII: Summary of findings, Suggestions and Conclusion

The concluding chapter recapitulates the findings of the earlier chapters. Further, it presents the suggestions and recommendations.

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