

## **CHAPTER II**

### **REVIEW OF LITERATURE**

#### **INTRODUCTION**

The review of the past research studies helped the researcher to have a comprehensive knowledge of the genesis, growth of credit cards, the services derived by the consumers and the associated issues in its operation in various countries . It also helps to formulate conceptual framework and draw meaningful conclusion. The reviews are presented in chronological order and grouped under three periods such as studies during & prior to 1990s and studies in the 21<sup>st</sup> century.

#### **STUDIES PRIOR TO 1990**

H. Lee Mathews and John W. Slocur Jr (1969)<sup>1</sup> had conducted two studies about the relationship between the consumer's usage of bank credit cards, and his or her income and social class. The findings of the study had revealed that the members of the lower social class had tended to use their cards for installment purpose. It concluded that all users had a favourable general attitude towards credit card but the installment users were motivated to use their card more frequently.

Terry.M Wickre (1980)<sup>2</sup> in his study had analyzed the Customer awareness about the Visa and the Master charge card issued by the bank. The author had conducted a pre and post study with the advertising strategies and found out that by advertising, customers had become more aware of their credit card and its operations. Advertising had increased the consumer ability to choose the best card.

Charles. A. Ingene and Michael Leny (1982)<sup>3</sup> had conducted a study on "Cash Discounts to Retail Customers: An Alternative to Credit Card Sales". The study examined the marketing and financial implications of granting discount amount to customers who pay cash or cheque rather than paying by credit card. The model was applied using two surveys of credit card users in a Major South Western City. The relationship between price and credit card acceptance had been explained with three reasons in the usage of credit cards: the consumer's requirement to make purchases,

advantage of the convenience of not carrying cash and the price sensitiveness and recognition of the implicit dollar savings involved in "Buying now and paying later". It was concluded that the retailers encouraged cash purchases rather than credit cards.

Steve Worthington (1988)<sup>4</sup> in his article discussed the development of the types of credit card systems in UK. Barclaycard was first launched in UK in 1966 followed by Access in 1972. Credit card borrowing has proved very profitable for the sponsoring banks that had been willing to issue cards on extremely favorable terms. Retail outlets accepted payment by plastic for its growth and better usage. Retailer credit cards were the most active representation in the credit card market sector. It was concluded that there is only little difference between the traditional and new banks that issue credit cards.

Biswa.N. Bhattacharaya (1989)<sup>5</sup> explained the credit card system in India and the different types of credit cards as practiced by Indian Banking Industry. He had analysed the profile of the credit card holders into four classes namely - economic, social, geographical and behavioural profile. Percentages and statistical averages were used. Extensive credit card usage may prove to be inflationary owing to the fee that merchants pay to card companies. It has also been found out that the use of credit cards has changed the pattern of consumer debt.

### **STUDIES DURING 1990s**

T. Barker, Ahmed Sekerkaya (1992)<sup>6</sup> had conducted a study to find out the attitude of two hundred card holders and non-card holders. The better-educated, middle aged members of the upper-middle class seem to be the prime target. According to him, the most important reasons for using credit cards were ease of payment and the risk involved in carrying cash. He also proposed that the usage and the administration of credit cards were influenced very much by the infrastructure of the country and hence, credit card companies have to modify their marketing procedure rather than following a standardised approach.

Yeo Jung Sang (1992)<sup>7</sup> in his thesis had focused on the attitude and behaviour of credit card holders. The researcher had used dichotomous multi nominal logic to analyse the demographic factors like age, education level, size of the house hold, income level,

number of bank card holdings, store card holdings, relative interest rate, and relative membership fee. The results of the study revealed that the effects of the explanatory variables were significant except the number of store card holdings.

Lalitha Anantha Krishnan (1993)<sup>8</sup> in her study focused on the credit cards that are accepted by a number of merchant establishments. The study highlights the advantages and disadvantages of using credit cards. Statistical tools were used to analyse the collected data. It was found that the system could force the credit card holders to make unnecessary purchases which would encourage consumption and acquisition of durables.

Anil Mathur and George.P. Moschis (1994)<sup>9</sup> made an effort to find out the influence of several consumer characteristics on credit card usage by older consumers. The study was conducted by Market Facts National Telephone Centre in Evanston's, Illinois through a weekly omnibus telephone survey. One thousand households were surveyed on non-holiday weekends using random digit dialing. The sample was divided into 5 age groups and further subdivided into males and females proportionate to their distribution in the population. It was concluded that the use of credit card was expected to be more frequent among those who carry a large number of cards than among those who carry a fewer cards. Therefore, credit cards should be positioned as convenience enhancing instruments for the upper - income segments.

Arthur Meidan, Dimitris Davo (1994)<sup>10</sup> investigated the main dimensions and attributes that Greek card holders considered important while selecting a card. Characteristics of the Greek credit and charge card market, their competitive environment and card holder's profiles were all reviewed. A representative quota sample of Greek card holders was taken. Factor Analysis was used for the demographic factors such as age, sex and income by assigning weights of relative importance. The results revealed that - Convenience in usage, Security, Economy, Prestige and shopping abroad were the five main factors which influenced the card selection. Appropriate advertising, promotions, product development and distribution allocations should be stressed by banks and credit card issuers.

Nejdet Delener and Herbert Katzenstein (1994)<sup>11</sup> in their study examined the extent of Asian and Hispanic consumers' use of credit cards and their attitudes towards ownership and use. Further, it explored the differences that exist between Asian and

Hispanic consumers. It examined Asian and Hispanic consumers' decisions to use credit cards and other payment methods. The data was collected from ninety five Asians and one hundred and six Hispanics in the north - east region of the United States. Bivariate, Multivariate and Chi-square analysis were performed on each question using SAS programme. It was concluded that the marketers should emphasise the usefulness of credit cards and encourage Asian and Hispanic consumers to use them more often. Further, the consumers should be motivated to carry multiple cards as the financial institutions could achieve maximum penetration of their consumer market to promote various services.

Steve Worthington (1994)<sup>12</sup> had explored that Japan had a large number of credit cards issued by the Japan retailers. It explained the way in which the major retail groups were now seeking to redefine the payment system supply chain to their own advantage. The author also referred to the competition between Visa and Master Card. He further highlighted the value of information that flowed from the cardholder to the retailer. It drew attention to the potential of the retailer credit card in customer retention, recruitment and relationship building.

Erdener Kaynak, Orsay Kucukemiroglu and Ahmet Ozmen (1995)<sup>13</sup> made an attempt to examine the relationship of age and head of the family stage with the credit card usage in urban Turkey. Four hundred and fifty card holders from private and State Banks were surveyed. Survey questionnaires along with self – addressed prepaid return envelopes were mailed. It focused on the substantial increase in the credit card usage and its wide use by urban dwellers, professionals and high income earners. Lower and middle income respondents with school level education valued the credit feature of the card to be important more than the service feature.

Roger Pierce (1995)<sup>14</sup> in his article had explained the technological advancement in the physical form and services attached to the transaction card. For this research, the financial services, mutual funds, equity lines, funds on deposits and credits of all types were considered. The research concluded that the payment from a paper based system to an electronic mode paved way for huge market opportunities for banks.

Thomas.F. Cargill and Jeanne Wendel (1996)<sup>15</sup> identified five factors that influenced interest rate constraints on bank credit cards. They were financial deregulation, structural characteristics of the industry, economic theory on the characteristics of the industry, the descriptive effects of credit limits, Regulation Q and the decline in the credit card. The higher the interest rates the more competitive is the industry. It was suggested that consumer irrationality in bank card use would be a major factor underlying the observed interest rate stickiness.

Francis B. Smith (1998)<sup>16</sup> stated that card holders have started using credit cards differently compared to their use ten or twenty years ago. Nowadays, they use credit cards to get instant loan. Many consumers use credit cards for convenience – as a safe and hassle free alternative to cash or cheque. About forty percent of credit card users were “non – revolvers”. It was found that consumers currently use a higher proportion of their disposable income to repay their debts. This increase in the usage of credit card for convenience may result in over statement of the credit card levels.

In the opinion of Machlis and Sharan (1998)<sup>17</sup> the introduction of online banking and World Wide Web merchants had a major shift in behaviour over the past years. There had been a dramatic increase in the number of people comfortably using their cards online. Eighty three percent of internet users stated that their main concern about online shopping is payment security. Fifty nine percent of them used their credit cards online. However, consumers still feel using credit cards on the internet uncomfortable.

According to the survey conducted by Credit Card and Management Consultancy, (1998)<sup>18</sup> card holders of India were ignorant about the fundamentals of card usage including interest rates charged. The banks appointing agents for marketing of their cards were under pressure of marketing targets and they did not inform the buyer about the usage of the credit cards. The survey stated that seventy percent of the card holders were unaware of the facility of waiver of outstanding balance upon death of the card holder and another seventy percent did not know what should be done in the case of loss or theft of the card.

Arun Vaidyanathan (1998)<sup>19</sup> commented on the survey conducted by Credit Card Management Consultancy in India among ten thousand credit card users to probe the level of awareness among credit card users about plastic money. The results showed a

high degree of ignorance among the cardholders about their cards. According to the survey, seventy eight percent of the credit card holders were not aware of the difference between credit card and charge card. When the respondents were questioned about their need for a card, twenty two percent of them cited the fact that credit card helped them in emergencies, fifty seven percent stated that they used the card for travel and entertainment, thirty seven percent to buy consumer durables, thirty two percent for clothes and allied shopping and eighteen percent for other reasons. Forty percent of the respondents surveyed were not aware of the interest rates charged on their balance due and also on what method the interest has been calculated. Seventy percent of the respondents stated that they did not know what to do if their card got lost or stolen. Seventy three percent of the card holders surveyed were unaware of the reason for more rejection of credit cards. The survey stated that even though awareness level among the card holders was less, it had not stopped their spending but enabled them to spend sensibly.

Poornima Kavelkar (1999)<sup>20</sup> indicated that customers who preferred co-branded and affinity cards tended to have higher spending capacity and were likely to be more loyal to the organization. Trends in the advanced countries indicate that almost thirty percent of the market would consist of co-branded and affinity cards. Co-branded cards enabled cardholders to buy the particular product at a discount. Times card of Citi bank enabled card holders to get times magazines at ten percent discount. Holders of Affinity cards experienced an emotional satisfaction. A classic example is the Citi bank WWF card, an ideal one for nature lover. The facilities and privileges of Citi bank card provide a chance to contribute efforts at saving endangered species.

Janathan, Karp and Steve Stecklow (1999)<sup>21</sup> mentioned about the issue of credit cards in India and the results of inconvenience caused to card holders. The issuing banks in order to collect outstanding balances from delinquent customers appoint private agencies. Their sole aim is to make collection from such customers to which issuing banks were ready to pay even twelve percent of the collection as consideration to those agencies. This brought in criticism among the customers who were emotionally tortured by the collecting agents. Even the police were not able to take action against such banks as the banks state that they have no control over the action of these agents.

Eisenberg and Danier (1999)<sup>22</sup> highlighted the aim of the credit card companies to make a profitable business despite the fall in the interest rates. The customers expressed their resentment towards the various charges collected by the bank. These charges included late fee, ATM and service fee, shortening grace period, increasing foreign transaction fee and imposing penalty. Thus, card issuers have made use of these additional charges as another way to squeeze money out of the customers.

## **STUDIES IN THE 21<sup>st</sup> CENTURY**

Jacquelyn Warwick Physis Masfield (2000)<sup>23</sup> conducted a study to find out if the students are knowledgeable about credit cards and their attitudes. Three hundred and eighty one graduates and undergraduates from a small private university in the mid west were surveyed. T-test, descriptive frequencies, percentage and chi - square were used to analyse the data. The study revealed that majority of the college students who owned credit cards did not actively seek them out, but were aggressively pursued through the mail. It suggested that the Universities in general and business schools specifically should prepare their students to be knowledgeable consumers in the market place. Therefore, students' education may be an alternative to prohibiting on - campus credit card solicitation.

The CCMC (India's first card consultancy service for both card issuers, banks and card customers) conducted a survey of five thousand individuals and card holders in fifteen cities across India (2000)<sup>24</sup>. The survey was conducted to find out if the prospective and existing credit card holders in the country required any advice regarding the selection of the appropriate card. The survey revealed that seven percent of the "First time credit card applicants" required advice on selection of appropriate credit card. Fifty seven percent of the single credit card holders, needed assistance in choosing suitable credit card for themselves. Mr. Vijay Mehta, Chief Consultant CCMC commented on the findings and stated that a large section of individuals opted for a particular card. There was often a mismatch between the individuals profile and particular card offerings. It was concluded that there was a need to choose a card which will fulfill an individual's expectations, ability to repay and requirements.

Christopher. R. Plouffe, Mark Vandenbosch and John Hulland (2000)<sup>25</sup> conducted a survey to find out the usage and acceptance of smart card by the consumers and merchants respectively at the retail point of sale system. Data was collected from two

groups of respondents in a test market who were actively considering whether or not to adopt an electronic smart card - based retail payment system. One group was the respondents who were in a dilemma whether or not to use smart card; the other group was the merchants who had to accept the use of smart card at the point of sale. It was found that the merchant acceptance of smart card - based retail payment systems was done on a business - by - business basis.

Steve Worthington, Vic Edwardo (2000)<sup>26</sup> discussed the payment markets of both Australia and UK. It compared the evolution of the various types of payment. They are cash, paper, cheques, debit and credit cards. They examined the relationship of marketing from a market-based approach. They also investigated whether data derived from consumer payments can form the basis of a relationship, and form a net work-based approach to consider how new entrants to the payments market can establish relationships between organizations. It was concluded that the usage of credit cards need to be increased in future.

M.Jill Austin and Melodie R. Philips (2001)<sup>27</sup> conducted a study to find out how students handle credit purchases. Two hundred and twenty five undergraduate students from a large university in the South Eastern USA were surveyed using a self administered questionnaire. Chi-square tests were conducted to assess whether significant differences existed between pairs of variables. According to the researchers, the senior students have more financial responsibilities and a greater need for loans. Students with a number of credit accounts will have more difficulty in paying off their debt. It was concluded that by providing information they could assist students to use credit card responsibly. Further, credit companies can improve their image and ensure successful relationships with students after they graduate.

Kaynak.E.Harcart. (2001)<sup>28</sup> investigated consumer attitudes towards credit card ownership and usage in an advanced developing country. Data was collected from 673 credit card holders and non holders in the largest Turkish city of Istanbul. The knowledge structure, beliefs, likes and dislikes as well as attitudes of credit card owners in possession and use of credit cards were investigated. The study concluded by offering public policy implication to the banks.



Ryan Rodrigue (2002)<sup>29</sup> discussed the major companies to boost up sales of a British firm i.e. “The Loyalty Group” launched a ‘Coalition Credit Card’ called ‘Nectar’ in UK. A similar card was also introduced by the Tatas in Mumbai along with the SBI and the Master card called as the ‘credit cum Coalition Loyalty Card’. The card offers varied benefits to customers and offers them choice, convenience and value. The total number of credit cards issued in the country had increased from 3.73 million in 2000 to 18 million in 2006. The total number of credit cards in the company is more than 1.5 crores. The credit card segments grew around 37% in 2005 against 25% in 2004. While growth is boosted through users opting for more than one card, the real growth in new users is around 15%. Among the market share held by various banks in the country, Citi Bank and ICICI hold the majority share of 21% followed by all other banks.

Tapash Rajan Saha (2002)<sup>30</sup> studied about “Credit Card in India at the growth stage in Product Life Cycle”. The objective of the study was to make a thorough analysis, through preparing questionnaires about the credit card business in India both from the bankers’ point of view and from the users’ point of view. The findings were that the credit cards in India were only in the infant stage of the Product Life Cycle but yielded more profit to the Indian and Foreign Banks.

R. Prasad (2002)<sup>31</sup> in his article "Credit Cards: Customer Education, Merchant Compliance Imperative to Contain Fraud", had stressed the need to educate the customer and the merchant compliance regarding the latest technologies. Frauds due to card loss and counterfeit were around 13.4 percent in India against a global value of 7.5 percent. To overcome this problem, holograms were introduced but that had not eliminated the fraud. The author concluded that technology cannot eliminate frauds but it can only minimise by educating the customer, merchant and the bank.

Jinkook Lee and Kyoung-Nan Kwon (2002)<sup>32</sup> in their study had attempted to identify the consumers who use store cards as a payment and financing medium and to investigate the potential factors that influence consumers use of store cards. The data was taken from the survey conducted by the Survey of Consumer Finances in 1998 consisting of four thousand three hundred and nine households who were interviewed between July and December. A dual frame sample design including a standard geographically

based random sample and a special sample of relatively wealthy families were considered for the survey. F-test, Descriptive Analysis and Chi-square Analysis were applied to test the differences across the groups. It was suggested that credit availability was closely related to the use of store cards on a revolving basis. Consumer education should focus more on the risks involved in using store cards as a financing medium. Consumer's decision to pay off or continue revolving balances may vary over time, as their financial position changes and there may also be differences among the various kinds of store cards.

Dr. S.D. Mishra (2002)<sup>33</sup> in his article "Kisan Credit Cards Among Weaker Sections" presented the details of a comparative study of a nationalised commercial bank branch in Barabanki district of Uttar Pradesh that issued the largest number of Kisan Credit Cards. The branch had issued eighty one kisan credit cards in 1998 - 99 giving a credit limit of Rs. 2.07 lakhs. Regression Analysis and Bulk line cost were performed to test the validity of the Kisan Credit Cards. It was concluded that the commercial banks should fix the scale of finance taking into consideration the Bulk line cost and repaying capacity to check the mis - utilization of loan. The government corporation and other agencies were asked to pass on the amount payable to financing banks to avoid the problem of recovery. Banks were empowered not only to deny fresh credits but also proceed for recovery of loan.

Vinay Bansal (2003)<sup>34</sup> in his article "Payment Cards", had discussed the consumption and investment culture. The types of credit cards and the difference between a debit card and a credit card were stated. The card holder was allowed to delegate spending power to add-on-members and became very handy in case of emergencies. The Merchant Establishments needed to provide customers with extended credit facility which was likely to be a costly burden to them. The commercial banks had a better potential of increased profitability out of the share earned from the trader's turn over. The flow of foreign currency and national income increased when the international card holders spent more in home country. It was concluded that if the government ensured adequate infrastructure and attract investments, the foreign exchange contribution was expected to increase.

Manuel Orozco (2003)<sup>35</sup> in his article stated that the SBI with branches in United States issued SBI credit cards to the Indian diasporas. The non-resident Pakistani's were also offered the gold card and the silver card. They had specific benefits such as special

lounges at airports, free issuance and renewal of passports on an urgent basis, exemption from import duties, special quotas to be reserved in public colleges and universities for relatives of remitters and public housing at attractive prices.

Tapas Ranjan Saha (2003)<sup>36</sup> in his study, made a thorough analysis of the credit cards in India both from the bankers' and the users' point of view. The objective of the study was to identify the bank that provided the maximum benefits and yielded maximum profit through utilization of credit cards. It also aimed to compare all the credit card services among public, private and foreign banks. The study concluded that among the banks, Citi Bank was the best credit card provider in India with two major positive points: increase in the buying power and a clean credit for a period of eighteen to forty eight days subject to the date of purchase and the date of billing.

U.Pradeep (2003)<sup>37</sup> in his article "Plastic Money - Drifting to Rural Sector", discussed the model formulated by the NABARD in consultation with major banks for the issue of Kisan Credit Card Scheme. Credit flow to agriculture was channelised by the commercial banks through the Kisan Credit Card Scheme. These cards were issued to the farmers on the basis of land holdings to purchase agricultural inputs like seeds and fertilizers. There was a greater flexibility to draw cash and buy the necessary inputs at correct time. In addition to all these, flexibility in drawing from other than issuing branch was availed at the discretion of the bank. Therefore, the scheme developed a "Better Banker - Client Relationship". The Co-operative Banks had issued more number of cards when compared to the commercial banks and the Regional Rural Bank's from 1998-2002.

Jaskaran Singh Dhillon, Dr.G.S.Batra and Dr.Atul Dhyani (2003)<sup>38</sup> in their paper highlighted the changing dimensions of marketing of banking services in public sector banks and private sectors banks in India after liberalization in 1990s. The technological development in collecting and using marketing information had led to a change in the marketing paradigm away from Transactional Marketing towards Relationship Marketing which is divided into four sections. Section I focuses on the emerging banking scenario and liberalization era in Indian Banking. Section II studies the changing dimensions of marketing of banking services. Section III Studies the comparison of customer satisfaction between private sector banks and public sector banks. Section IV deals with

suggestions and recommendations. Two hundred respondents from public and private sector banks were chosen. The study covered Savings Bank account holders, fixed depositors, credit card and ATM card holders and locker holders. The basis of survey was SERVQUAL model. It was concluded that the reliability and responsiveness for credit cards among private sector banks were greater than those of the public sector banks. It was suggested that the public sector banks have to start looking for relationship marketing as the only strategy for survival.

Steve Worthington (2003)<sup>39</sup> in his study examined and reviewed the options provided to the non-Chinese card issuers and the uniqueness of the Chinese market reflecting the distinctiveness of the Chinese culture and the legacy of about half a century. Primary and Secondary data were collected. Primary data was collected by a full time master's degree student at Stafford Shire University guided by the Bank of China. Questionnaires were collected from three thousand one hundred and twenty two Great Wall credit card holders along with their monthly statements. It was suggested that China had more potential than any other country in Asia-Pacific. More knowledge is required covering from evolution to the date of payment cards in China and the problems that foreign entrants will face. The secondary data analysis provided an understanding of the history and the current situation of payment cards in China.

Sujit Chakravorti and Ted To (2003)<sup>40</sup> had examined the interactions among consumers, merchants and a card issuer. They had analysed a) the reasons for the merchants to accept credit cards eventhough they are the most expensive payment instrument b) the conditions necessary for credit card market equilibrium to exist c) if the credit card market exhibit net work and d) if the decision of the merchant to accept credit cards affect profits of other merchants. A two period three agent model was constructed to investigate the above mentioned points. The result of the model was that the issuer found it profitable to provide credit card service. The presence of the network in the credit card market was proved by the increase in the number of credit card holders due to the discount fee paid by the merchants. Lastly, there exist an inter temporal business dealing among merchants across different industries.

Sujit Chakravorti (2003)<sup>41</sup> had examined in his article the costs and benefits of using credit cards for consumers and merchants along with the profit opportunities for issuers and acquirers and the role of credit card network. The economic models that study the inter-related bilateral relationships underlying credit card transactions were reviewed in the context of recent public policy concerns. The equilibrium fees for the credit card services were dependent on consumers' and merchants' demands for card services.

Arti Sharma and George Smith Alexander (2003)<sup>42</sup> discussed the efforts taken by the banks across the country to increase the volume of plastic payment cards issued to customers. There was a low penetration of Electronic Data Capture (EDC) terminals which enabled customers to use these cards. The HDFC bank launched its credit card in December 2001 when it issued more than one hundred and eighty thousand cards, whereas State Bank of India had over a million credit card holders and was expected to increase the number by at least twenty five percent next year. The credit card segment had grown by thirty percent and was expected to cross nine millions. Banks expected card usage to grow cent percent, its usage and growth which depended on outlets that accept cards. Banks were offering incentives for usage. It was concluded that there was a need to expand the EDC terminals.

Hui-Mei Chen, Chian-Hau Tsang (2003)<sup>43</sup> had conducted a study to assess the performance of marketing alliances between the tourism industry and credit card issuing banks, and to identify the factors affecting the performance of such alliances. Data was collected from the managers of four different business sections within the tourism industry: hotels, restaurants, travel agencies and entertainment establishments. It was found out that 'partners having excellent resources' and 'the potential for a mutually beneficial relationship' are the two major criteria used in selecting the co-operative partners. These two criteria were also significant predictors of alliance performance. 'Diversifying promotion channels and reducing cost', intensifying position and enhancing image and increasing business achievement are the major alliance motives of companies within the tourism industry. They also have positive effects on alliances performance. The type of business and the number of allied banks also affect the performance of the alliance.

Pradeep Kumar Sharma (2003)<sup>44</sup> in his study “Retail Credit” had focused on the retail lending activities in order to measure the growth achieved by the Indian Banks. The data was collected through administering a questionnaire in areas relating to metro, urban, semi-urban, and rural areas. The retail lending activities were extended to the credit card services also. The main reasons for the bank to focus on the retail financing was that there was lack of demand for credit from industrial sector and less purchasing power among middle class people. The findings of the study were that the retail financing activities were highly co-related to the growth in the consumption of consumer durables. The share of retail financing had increased around twelve to fourteen percent and was expected to reach a level around thirty to forty percent leading to the importance of retail banking in the future financing.

Arkadev Chatterjea, Robert Jarrow, Robert Neal and Yildiray Yildirim (2003)<sup>45</sup> had developed and estimated an arbitrage free model for valuing portfolios of credit card loans. The model used Federal Reserve Quarterly call report data for the credit card portfolio balances, rates earned, losses and recoveries. Interest rates were fitted using a one-factor model with deterministic volatilities. The valuation estimate show that \$1.00 in a credit card loan is worth about \$1.25 to the issuing bank. These estimates were consistent with the percentage premiums obtained in recorded sales of credit card portfolios. The Card loan premiums were around twenty five percent. The estimates were consistent with the premiums obtained in record sales of credit card portfolios. It was observed that the methods developed will prove to be useful for measuring and managing the risk exposure of credit card loans. This approach should be extended to other areas of consumer credit, such as auto loans, home equity loans and personal lines of credit.

C.Prakash (2003)<sup>46</sup> in his study had focused on the impact of credit cards on spending pattern to study the conceptual aspects and the evolution of credit cards in India. Interview schedule was given to three hundred credit card holders. Simple Percentage, F- test, ANOVA and Chi-square test were used to analyse the collected data. It was found out that almost all the respondents irrespective of their income levels had agreed that their purchasing power had increased after they had begun to use their credit cards. The accessibility of the credit cards is limited to very small institutions like airlines, jewelleryshop and restaurants.

V.K.Anitha (2003)<sup>47</sup> in her study had focused on the purchase behaviour of customers, their satisfaction with regard to the services offered by Citi Bank through its agencies and their functioning. The Merchant Establishments should be encouraged to accept more cards. It was concluded that the service centers must maintain good relationship with their customers and they should solve their problems and clarify doubts regarding settlements.

Dr. M. Venkateshwarlu (2004)<sup>48</sup> in his study examined the need and importance of the financial instrument as a support to the claims of the Kisan Credit Card Systems. The adequacy of credit given to the farmers was examined. Eighty farmers from Khammam district of Andhra Pradesh were selected as sample and classified into three broad categories which were small, medium and large farmers. It was found that marginal farmers borrowed sixty percent of their agricultural finance from other than Kisan Credit Card Systems, whereas fifty two percent, forty five percent and thirty three percent of small, medium and large farmers respectively borrowed through the cards. The study recommended that the Kisan Credit Card Systems should be re-designed and re-oriented to suit the financial requirements of the farmers especially in the event of crop failure and to save them from the exploitation by the unorganised sector that includes money lenders.

Dr. R. Azhagaiah and L. Egilarasi (2004)<sup>49</sup> conducted a study to find out the impact of credit card on the spending pattern of the card holders. One hundred and fifty card holders of Andhra Bank and Bank of Baroda were selected by Random Sampling Technique. The collected data were analysed and found out that the card holders below the age group of thirty spend more through the cards. Post graduate holders were of the view that the expenses were more due to credit card. The size of the family had much influence on the spending pattern. It was found out that the credit card business depended upon how the companies, both banking and non banking, were successful in controlling operational costs. It was concluded that the India's spending pattern and payment card industry were at a critical stage and initiatives were warranted to strengthen a responsible credit card culture among the customers.

P. Siva Rama Prasad (2004)<sup>50</sup> in his article "ATM Vs Kisan Credit Card (Product Development) (KCC)" had made a thorough analysis of the Kisan Credit Cards issued by the Commercial Banks to provide hassle free and "Revolving Credit" to agriculturists.

It was designed by the Government of India in consultation with RBI and NABARD and improved from time to time based on the feedback received from the farmers. The KCC had empowered the farmers to instill a sense of self-confidence and self-esteem. The utility of the KCC had been examined from the view points of the KCC holders. The commercial bank through interaction with the farmers, managers of agriculture oriented branches finally concluded that the product needed further improvement by making it technology driven particularly in the states of the Punjab and Andhra Pradesh, the places which were leading in agricultural production. The author had also compared the advantages of ATM with KCC and concluded that the existing KCC may be upgraded to "ATM Kisan Card" and to be introduced in phased manner in all agriculture intensive branches of commercial bank so that more farmers could be attracted and it will result in a "Good Business Strategy".

Anita Goyal (2004)<sup>51</sup> conducted a study to find out the role of supplementary services in pre-purchase evaluation of credit cards and to understand the attitude of consumers towards supplementary services in post-purchase phase. A sample of six banks was identified and seven hundred and twenty respondents of the bank were personally interviewed. A significant number of respondents had taken into consideration the supplementary services prior to making a credit card purchase decision. Consumer awareness about the supplementary service features was found to be low but they had expressed a favorable attitude towards the services. It was concluded that a prior knowledge about the supplementary services would help develop a positive response towards service.

Satish Mehta (2004)<sup>52</sup> in his article "Role of Credit Information Bureau in Retail Banking" had characterised the volume and quality of credit due to the liberalization coupled with a young population which resulted in an increased income and purchasing power. The retail asset market had grown by thirty percent in the last three years. Mortgages, two wheeler loan and credit cards had seen the fastest growth. The share of the organized finance had increased around forty percent of the financing market. The markets for consumer credit was expanding and getting riskier, and therefore, the defaults on loans and credit card payments were also increasing. There were one hundred and three major credit guarantors that include the credit card companies also. They constitute more than eighty five percent of the total credit outstanding in the country.



Matthew.J. Bernthan, David Crockett, Randall. L.Rose (2005)<sup>53</sup> made an attempt to examine the consumer life styles as one of the primary technologies employed. Qualitative data collection and techniques were applied. Twenty-eight plastic credit card holders whose credit card debt ranged from 0 to 395 percent of gross income yearly were selected for the study. Their income levels ranged from low to moderate. Out of which twenty interviews were conducted face to face and over the telephone. Ten credit counselors were also interviewed who were recruited from consumer credit counseling series. Each participant was given ten dollars cash and two hundred and fifty dollars lottery drawing as an incentive. It was concluded that credit cards are an important facilitator of consumer emancipation life styles.

Dr.S. Ramalinga Choodambigai (2005)<sup>54</sup> in her study had attempted to find out the extent of usage of credit cards, to bring out the socio - economic profile of the cardholders and its impact on holding a credit card. Hundred and fifty respondents were selected and multiple regression technique was adopted to predict the level of dependency. It was concluded that non requirement of deposits on the part of the banks influenced heavily the decision to possess a credit card. Mostly, the salaried group owned credit cards.

P.S.Eswaran (2005)<sup>55</sup> in his article had examined the future growth of credit cards. The inherent strength of the Indian Economy had reflected the persistent foreign capital inflow through Foreign Direct Investment. The Reserve Bank of India had announced several operational measures that would improve the efficiency of Banking Operations and money markets in the country. It had also stressed on the need to bring discipline into the working of credit card issuers. A Working Group of Reserve Bank of India had suggested that the Banking Ombudsman could be made the appropriate authority to arbitrate into the dispute between the customers and the issuing banks. This would increase customer satisfaction.

Dr. R. Vijayakumar and Vijakumar.P. (2005)<sup>56</sup> conducted a study to assess the level of satisfaction gained by the users of Petrocard in Coimbatore City and to find out the factors that influence the same. Primary data was collected from two hundred users of petro card in Coimbatore city. Chi-square test was used for analyzing the data.

The respondents were divided into three groups according to the satisfaction scores. It was found out that the male undergraduate respondents above forty five years and those engaged in business had the higher level of satisfaction while using the petro cards.

Dr. Sanjay. J. Bhayani (2005)<sup>57</sup> had conducted a survey to know about the customers awareness about the services provided and how often they utilize these services. An attempt was also made to know the post purchase behaviour of the customers and customer awareness. Structured questionnaires were used to collect the data from two hundred respondents having their current account with private banks, nationalised and cooperative banks in Rajkot City. The study revealed that people opted for private banks due to the services and interconnectivity between the branches. Awareness about e-banking services should be created among the credit card customers. Finally, the credit card customers gave priority to convenience and status respectively and they felt that the card was safe.

Monoj Kumar Joshi (2005)<sup>58</sup> in his article had discussed the attractive increasing rate of retail banking in India. The author stated that the annual growth in credit / debit cards was more than twenty five percent and the total number of credit cards in the Indian banking system was about eleven million. The Global Card Companies were very keen to increase the awareness levels about the card usage through customer education and promotional schemes. The author had also indicated about the study conducted by the VISA and National Council for Applied Economic Research (NACER). It was found out that the total expenditure through cards was only one percent of the total personal expenditure. This was due to the lack of awareness about the usage of cards. It was further felt that many merchant outlets insisted on minimum amount of buying and using the card. The usage of cards was also related to the growth of economy as had been observed in developed countries.

Karin Braunsberger, Laurie.A. Lucas and Dave Roach (2005)<sup>59</sup> in their study focused on the elaboration likelihood model to explore how consumers, specifically the college students, might respond to the revised credit card disclosure requirements. Two hundred and sixteen undergraduate students were considered for the study. The data was analysed using discriminate analysis. College students possessed a fairly low level of

knowledge of credit cards and thus were not very well equipped to make educated choices concerning such cards. Efforts are needed to continue to educate all consumers about credit cards.

R. Srinivasan (2005)<sup>60</sup> in his case study had detailed about the emergence and history of credit cards in India, the major players being Master card and Visa international. In India, a number of agent banks had preferred to offer bank cards. He had stressed on the latest entrants into the card market, the Standard Chartered Bank in 1992. Other Indian banks had been compelled to follow suit with credit cards licensed from one or the other international branches. To face the challenges and as a prerequisite for a new entrant, a market research was conducted to know the size of the card market, market growth rate and expected market size, strengths and weaknesses of the competitors. It was found out that Citi Bank and Can card were well established competitors. Two major factors that affected the purchase of credit cards were hygiene level factors and the differentiators. Hygiene level factors were the benefits, namely- credits, convenience and confidence. The differentiators were the categories to which the card was positioned. It was concluded that with the entry of private and public sector banks in the market, customer acquisition and retention may hold the key to growth. Since Standard Chartered operated in the service industry, top priority was accorded to customer service to secure future growth.

Mark Furletti (2005)<sup>61</sup> in her article discussed the history and dynamics of credit card industry pricing over the past ten years. It also examined how pricing methods were disclosed to consumers. Consumer awareness of annual percentage rate as a key cost measure, combined with the ability to find easily the new card offers and switch issuers, affected price competition and rate stickiness. A review was collected from one hundred and fifty lender- borrower contracts from fifteen of the largest issuers in the US over a five - year period. Price and fee were grouped under three categories – nominal APR changes, fee structure changes and computational technique changes. The author analysed the complex pricing strategies. Educated consumers could change the terms on which issuers competed and force transparency in price structures. Understanding the new developments in credit card pricing was important to ensure the availability of the information for consumers to make a decision about credit.

Kanhaiya Ahiya, Anam Gwal Manminder Singh (2006)<sup>62</sup> in their study focused on the nature of purchases made by the card holder, monthly purchases, frequency of usage of credit cards and examined the reason for the preference of card over cash. One hundred and sixty respondents were selected from the Indore City and their opinion was collected through a structured questionnaire. The study revealed that the companies could benefit by paying equal attention to female customers either by offering special rebates or by offering free credit to them for three years or more. According to them the companies should plan the marketing strategies to influence the merchant establishments to agree to deal in their credit cards. The credit card industry should protect the consumers in the card usage.

Smitha Ramachandran (2006)<sup>63</sup> discussed in her article that the shift in transactions from paper money to plastic money had revolutionised the banking and payment sector in recent times. The future of banking technology lay with the refinement of RFID (Radio Frequency Identification) technology and the conversion of normal plastic cards into smart cards embedded with RFID tags. Credit card companies like Visa and Master card were trying to move towards Contactless Payment Systems, which had already been tested. The compactness of the card and its easy - to carry mode make it more convenient for the card holders and fear of theft can also be eliminated. The long waiting queue and the problems of payment with regular credit cards could be eliminated drastically with the help of this technology.

Anita Goyal (2006)<sup>64</sup> had attempted to identify the influence of service product features on pre-purchase evaluation of credit cards and to determine the perception of consumers regarding role of supplementary service elements at product levels. Structured questionnaires were administered to seven hundred and twenty respondents in National Capital Region in India. The sample design was carried out in two stages. First, a sample of six banks consisting of Indian and foreign banks which provided credit cards and supplementary services were identified and secondly, within these six selected banks, a quota sample of credit card holders was taken. Respondents considered basic benefits facilitating services and additional supplementary benefits prior to purchase of credit cards. Supplementary services were considered more of expected product features than augmented product features.

Rengasamy Elango and Vijayakumar Gudep (2006)<sup>65</sup> compared the customer satisfaction with the service quality provided by the public, private and foreign banks and also analysed the dimensions of the awareness and satisfaction level of customers with regard to the services provided by the selected branches. To identify and differentiate the best banking sector and to test whether there is a significant difference in terms of awareness and satisfaction level, two hundred questionnaires were distributed to public, private and foreign banks. Factor Analysis was used to analyse the data. The study revealed that the customers in all the three sectors of the banks were, by and large, satisfied with the various services like the personnel, the internal environment, interest rates and the cordial relationship.

Montogomerie, Johnnal (2006)<sup>66</sup> had discussed the rapid expansion and growing profitability of the US credit card industry since the mid nineteen eighty. It was stated that the advent of asset backed securities, a financial innovation known as securitisation, was the key to the enormous expansion of credit card profits. The continued proliferation resulted in the growth of the credit card market in the US. This was because securitization moved credit card receivables - off - balance sheet, allowing loan pools to be re - capitalized, lowering the cost of borrowing and increasing revenues from payments on securities issued. This financial innovation attracted non banks, mostly large Multi National Companies, into the credit card market, facilitating, greater integration between finance and the real economy. The deep integration facilitated mounting competition and lower cost of borrowing and was the catalyst for the rapid expansion of the credit card market.

Pinto, Mary Beth (2006)<sup>67</sup> had investigated how credit card companies used direct mail to solicit college students. One hundred and twelve college students agreed to complete a credit card solicitation log sheet of all offers they received in the mail over a six week period. Information was collected on five hundred and fifty direct mail offers. Data was collected on the average percentage rates offered to college students, how many credit card applications were completed and the credit usage habits of the respondents. The study revealed that the students were satisfied about the benefits offered by the credit cards.

Rick Ferguson (2006)<sup>68</sup> examined the effectiveness of retail private-label credit cards in a crowded market place. It offered ideas from successful retailers, for improving the effectiveness of credit cards as a loyalty tool. The study examined the strategy

adopted by Gap Inc's private label credit card which allowed customers to earn rewards for shopping at Gap, Banana Republic and Old Navy Stores. Other retail card programs including quotes from program leaders who share their ideas were also discussed. The importance of competitive differentiation in the market was revealed through the examination of the credit card programmes and by interviewing industry leaders. The importance of competitive differentiation in this market place was proved. It suggested some strategies to incorporate some major retailers into the existing programs.

Alhassan G Abdul-Muhmin and Yakubu A Umar (2007)<sup>69</sup> examined the nature and extent of credit card ownership in Saudi Arabia where religion prohibits owning and using of credit cards and collection of interest. The authors examined the impact of consumer demographics and attitudes towards debt on the nature and extent of credit card ownership and usage. The survey conducted by them revealed that credit card penetration in the country is relatively low and women own more cards than men. Further, card usage was selective and evaluation of card attributes was fairly positive among cardholders.

Research Sponsored by the Federal Reserve System (2007)<sup>70</sup> The 2007 Federal Reserve Payments Study is part of an ongoing effort by the Federal Reserve System to measure trends in non-cash payments in the United States. The study estimated the number and value of payments by cheques, debit card (both signature and PIN), credit card, automated clearing house (ACH), and electronic benefits transfer (EBT). The study also estimated the number and value of ATM withdrawals. The number of non-cash payments was 93.3 billion in 2006, with a value of \$75.8 trillion. The number of non-cash payments in the United States increased at an annual rate of 4.6 percent. Electronic payments now exceed two-thirds of all non-cash payments. Some of the increase in the use of electronic payments was due to changes in financial behavior of consumers and businesses, particularly payment instrument choice. Compared to 2003, in 2007 the number of non-cash payments in the United States increased 4 percent per year. By comparison, constant dollar gross domestic product and personal consumption expenditure increased by 3.2 and 3.3 percent, respectively, during the 2003-2006 period. Dollar value of non-cash payments increased 3.9 percent per year.

Dr.Ritu Narang (2008)<sup>71</sup> analysed the awareness level of the features and satisfaction level of the credit cards among the users. The study also aimed to know about the importance of different elements of credit card facility among the users. Two hundred samples were collected and analysed using chi-square and ANOVA. It was concluded that majority of the respondents were only partially aware of the features of the credit card and they had complained that they did not receive the monthly statement on time.

Loke, Yiing Jia (2008)<sup>72</sup> discussed the merchant's personal and business characteristics and the perceptions of merchants towards the credit card payment system which contribute significantly to merchant's acceptance of credit card payments. Accepting credit card payments were an important business decision that involved cost benefits and risk considerations.

Yilamazkunday, Hakan and Yazgan, M.Ege (2009)<sup>73</sup> in their article analysed the effects of credit and debit cards on the currency in circulation. The monthly data was obtained by an interbank institution which recorded the statistics of all credit and debit cards. It was found that an increase in the usage of credit and debit cards leads to a decrease in the currency demand. Moreover, the usage of the debit cards had a bigger effect on the money demand than the usage of the credit cards. Further, it was found out that the effect on money demand through credit cards was due to cash.

Wickramasinghe, Vathsala (2009)<sup>74</sup> in her article studied the ownership and usage behaviour of credit card holders in Srilanka. She explored the relationship between credit card ownership and usage practices, and demographic and socio-economic characteristics of credit card users. The findings offered implications for researchers and practioners.

Liu, Mathew Tingchi (2009)<sup>75</sup> conducted a telephonic survey for four hundred and one respondents in the five major cities in China in 2007 to identify the factors affecting the redemption of reward points which is a customer loyalty program, used by Chinese credit card issuers. It also assessed the Chinese credit card issuers level of awareness about the reward point programs. Regression Analysis was conducted to analyse the data. Results revealed a low customer awareness and low redemption rates. Lack of awareness about the reward point programs and the redemption procedure was shown. The redemption rates were found to be higher for the recently issued cards.

The author had suggested the credit card marketers to communicate with their customers more effectively in order to spread and reinforce awareness about point- based reward programs and encourage them to experience their benefits.

Vijay D' Silva, Jack Stephenson Smith and Robert.M. Wait man(2009)<sup>76</sup> in their book had discussed the internet revolution which influenced and shaped the many business that did not affect the credit card industry. Sweeping changes were being made in plastic money industry. The competition was heating up between the on - line and traditional credit card issuers. But the conventional issues had their brand names, good customer relationships and large scales to their advantage. For the first mover advantages to accrue, the issuers had to make a head start to make their presence felt in the virtual world. They suggest either cut cost or add value to their services to survive in the industry.

Thomas Foscht, Cesar Maloles III and Bernhard Swoboda, Swee-Lim Chia (2010)<sup>77</sup> examined the link between the choices of payment mode and compared the usage of debit cards with credit cards and its impact on customer satisfaction and loyalty in the Austrian market. The customers of a particular Austrian province were selected and categorized based on Austrian census. A structured questionnaire was administered in person among 360 Austrian bank customers. For the analysis, five hypotheses were proposed. Four of the five hypotheses were supported, while one had partial support. The results indicated that a person's preference for a particular payment method is dependent on his/her personal characteristics. Additionally, the payment method's features and characteristics influenced its desirability and acceptance. Furthermore, a person's expectations had an impact on his/her attitude towards the payment method. The study also found that positive expectations, performance, and desires led to customer satisfaction which in turn leads to a higher degree of intent to use the payment method.

Zafar U. Ahmed, Ishak Ismail, M. Sadiq Sohail and Ibrahim Tabsh, Hasbalaila Alias (2010)<sup>78</sup> conducted a study to understand consumers' attitude and spending behavior using credit cards. This study was based on a questionnaire survey conducted in Malaysia. Based on an extensive review of literature, a model was developed to identify the psychographic factors that influence the consumer attitudes towards using credit cards.



The study found support for some of the theoretical expectations and supported some of the earlier deviations reported in the literature. The findings were likely to be important to banks and financial institutions issuing credit cards, as they help managers to have a better understanding of cardholders in Malaysia and their attitude and behavior toward usage of credit cards.

Abdul-Muhmin and Alhassan G(2010)<sup>79</sup> conducted a study to examine how the monetary value of a retail transaction impacts consumer's preferences for cash, debit and credit card payment mode. It was tested with the hypothesis that at retail point of purchase, cash, debit and credit cards will be preferred payment modes for low, medium- and high-value transactions respectively. The hypothesis was tested in an experimental survey in which a sample of 477 respondents indicate which payment mode they would most likely use for each of the ten products that vary systematically in list prices. The results offered broader support for the hypothesis. Preferences were low for debit and credit card payment at low transaction values, while those for debit and cash payment were similar at larger transaction values. This suggested that electronic payment modes were collectively a substitute for cash for low transaction values, whilst credit cards were a substitute for cash and debit cards for high transaction values. A key implication of the results was that it may be possible to persuade consumers in the study context to use electronic payments for small-value transactions by invoking and making salient, convenience considerations that were purported to drive preferences for cash payment for such purchases. The results also offered an alternative explanation for the continuing dominance of cash transactions in modern economies, and outlined implications for promoting consumer use of electronic payment modes at retail point of purchase.

An Opinion Survey (2010)<sup>80</sup> on Bank Lending Practices to businesses and households were carried out among European firms in 2010. Responses were gathered from 57 domestic banks and 23 U.S. branches and agencies of foreign banks. The results revealed that changes in standards and terms for approving applications for credit card loans were mixed. A fraction of the respondents indicated that the terms and conditions on credit card accounts had tightened. A minimum number of banks have reduced the size of credit card lines for existing customers.

Sunayna Khurana and S P Singh (2011)<sup>81</sup> conducted a study to identify the factors that influence the choice of credit cards and customer preferences and expectations from credit/debit card services. A special focus was given on in Tier-III cities. From 200 respondents, the data was collected through questionnaires. Analysis of data revealed that the choice of credit card depends upon income, gender and profession of the respondents. It also revealed that income, frequency and the amount of usage in a month.

Joshua Fogel and Mayer Schneider (2011)<sup>82</sup> in their study focused on the irresponsible potential risk of incurring debt. College students were surveyed and reported their disposable income and employment status. Outcome variables were attitudes towards irresponsible credit card use, compulsive buying, money anxiety and money price sensitivity. It is found that an increased pattern of greater levels of disposable income and employment was associated with greater credit card use irresponsibility. Part time employment was associated with the greatest level of money price sensitivity. It was concluded that the college students should seek information about or counseling for the responsibilities associated with the credit card use and proper handling of personal finances.

## **CONCLUSION**

The review of the earlier studies carried out in the above paragraphs enabled the researcher to formulate the framework of the present research study. Further, it has provided insight into the objectives of the study and guidance for analyzing the empirical data. It also facilitated to draw meaningful conclusions.

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