

CHAPTER III

PROFILE OF THE CREDIT CARD INDUSTRY

INTRODUCTION

Chapter III deals with the profile of the credit card industry; including the evolution, growth and the issuance of cards by various agencies. It details about card mechanism, the benefits derived from credit cards, features, its facilities and services. Further, it gives an insight into the international scenario of credit cards, with a detailed study of the Indian scenario.

EVOLUTION AND GROWTH OF CREDIT CARDS

The word *credit* comes from Latin, meaning "trust".⁽¹⁾ Credit was first used in Assyria, Babylon and Egypt 3000 years ago. The bill of exchange - the forerunner of banknotes - was established in the 14th century. Debts were settled by one-third cash and two-thirds bill of exchange. Subsequently, paper money came into existence only in the 17th century. The first advertisement for credit card was placed in 1730 by Christopher Thornton who offered furniture that could be paid off weekly.

Tallymen sold clothes in return for small weekly payments from the 18th till the early 20th century in which a record on a wooden stick with notches of what people had bought was maintained to represent the amount of debt and payments. A shopper's plate - a "buy now, pay later" system was introduced in 1920's in USA to be used only in shops. According to Encyclopedia Britannica "The use of credit cards originated in the United States during the 1920s when individual firms, such as oil companies and hotel chains began issuing cards to customers for purchases made at company outlets and their use increased greatly after world war II."⁽²⁾

1. Genesis of Credit Cards

John Biggins of the Flatbush National Bank of Brooklyn in New York was the inventor of the first bank issued credit card and the "Charge-it" program in 1946. This program created a link between the local merchants and bank customers to deposit sales slips into the bank for which the bank issued bills. In 1951, the first bank credit card appeared in New York's Franklin National Bank for loan customers. It could also be used only by the bank's account holders.⁽³⁾

2. Diners Club Credit Card

Diners club introduced the first universal credit card that could be used at a variety of stores and business. In USA, Diners Club and American Express launched their charge cards in 1950s. The first credit card was issued by Diners club to 200 customers to be used at 27 restaurants in New York. American Express issued their first credit card in 1958; Bank of America issued the Bank Americard (now VISA) bank credit card later in 1958. In 1959, American Express introduced a first card made of plastic which was previously made of cardboard or celluloid.

The first use of magnetic stripes on cards was in the early 1960s, when the London Transit Authority installed a magnetic stripe system. Credit Cards were not always made of plastic. There have been credit tokens made from metal coins, metal plates, and celluloid, metal fiber, paper and now mostly plastic cards. Once Banks started issuing cards, it became Plastic card.⁽⁴⁾

3. VISA Card Systems

The proliferation of bank credits revealed a big drawback in the payment system. Cardholders could shop in their own geographic area and only at merchants that their banks were able to sign up. To overcome this drawback, Bank of America began forming licensing agreements with a handful of banks outside California to issue the Bank Americard, which in 1976 changed its name to VISA⁽⁵⁾.

‘VISA’ is accepted in 150 countries all over the world. VISA stands for ‘Visa International Service Association’. The Visa networks enable Visa International Payments (VIP). Through this system, one can withdraw cash from 8,40,000 ATMs in the Visa Global Network. It is accredited as a very secure and reliable way to make payment for anything one need anywhere in the world. Most of the banks have tie up with VISA International and thus, they can issue Visa Cards from any part of the globe.

The country has witnessed unparalleled growth in payment card usage. VISA enjoys a membership of 42 principal and associate banks in India. By increasing the membership, they plan to extend the benefits of electronic payments to all sections of the population and geographical regions.⁽⁶⁾

4. Master Cards

In 1966, 16 banks which did not obtain the bank Americards licenses formed an inter bank card association which was later known as “Master Card International”. These members or associates of MasterCard International networks are authorized as MasterCard International Payments (MIP). MasterCard is owned by over 20,000 member organizations. They serve customers in over 210 countries and process over 15 million transactions a day in over 180 countries. Like VISA, most of the banks have tie-ups and issue their branded Cards through the MasterCard networking worldwide. It manages the well-known payment card brands such as MasterCard, Maestro or Debit Card and the ATM Card. It serves various financial institutions, consumers and business-houses world over while offering its services in 48 languages.⁽⁷⁾

Master and VISA are institutions operating at the global level facilitating the smooth operation of credit card payments in the world. They offer membership to agencies such as banks. The member banks affiliated to Master or Visa or both issue the credit cards with the logo of Master or Visa along with their own logo. Now VISA and Master cards are the leaders in the market of credit cards.

VISA and Master card are institutions facilitating the smooth operations of credit card payments in the world. MasterCard is a product of MasterCard International and Visa Card is a product of Visa USA. Master card or VISA card or both is distributed by financial institutions around the world.⁽⁸⁾

CARD MECHANISM

1. The Participants

The Cardholder, Merchant Establishment, Acquiring Bank and the Issuing bank are the principal participants of credit card. Role of participants involved in the credit card operations is discussed in the following paragraphs.

a. Cardholder

The cardholder is the person in whose name the card is obtained. The person is in possession of the card and legally entitled to buy goods and services from Merchant establishments. He/she is under an obligation to pay for the goods and services.

The cardholder enters into an agreement with the issuer to pay for the goods and services bought on the credit card along with the various applicable charges and interest due on the card.

b. Merchant Establishment

Merchant Establishment refers to the shop or a place of business, a restaurant, or an airport booking counter, which accepts the card offered by the cardholder as a means of payment for the goods or services provided. It enters into an agreement with a bank, known as the acquiring bank since it acquires the business from the Merchant Establishment. Under this agreement, it provides goods and services to the cardholder on credit and receives money from the acquirer or the acquiring bank within a few days, generally 1-4 days. The Merchant Establishment has to pay a commission to the acquirer for the services provided. The commission generally ranges between 2% and 5% of the total sale value. The acquirer provides the merchant with charge slips, Electronic data Capture machines (EDCs) or Brahmans, which are hand-operated machines.⁽⁹⁾

c. Acquirer/Acquiring bank

The bank which acquires the business of the merchant and licenses the merchant to accept credit cards of one or more of the world wide issuing bodies such as Visa, Master, Discovery is the Acquiring Bank. The acquirer need not always be a bank but can be a financial institution too. The merchant provides his acquirer with the charge slips for the day's transactions, irrespective of whether the acquirer was the issuer of the cards accepted by the merchant. The acquirer need not necessarily be an issuer of the cards which will be accepted at the Merchant Establishment.

d. Issuer/Issuing Bank

The issuing bank or institution issues the credit card to the card-holder. The acquiring bank now presents the charge slip to the issuer. The issuer pays to the acquirer the transaction amount minus its commission and consolidates all transactions for each card issued, then presents the charges to the cardholder in the form of the monthly bill or "Statement."⁽¹⁰⁾

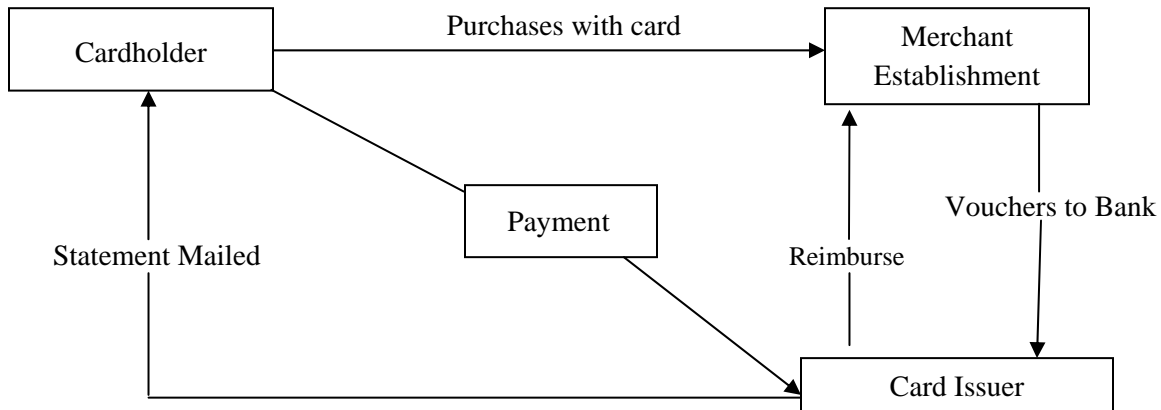
2. Working of Credit Card System

The customers can use the credit card for purchasing goods and availing services from the various shopkeepers. When the customer makes a purchase in a shop, instead of making payment, the card is produced at the cash counter. The seller examines validity of the card through a machine, which ratifies the sales. The bill is made in three copies. The customer is given the bill on which his signature will be affixed. The sale is complete. A copy of the bill is given to the customer. Another is sent to the bank which has issued the credit card and the third copy is retained by the seller. The bank on receiving various such bills of the customer will prepare a consolidated bill and send it to the customer at the end of the month. The customer will make a single payment to the bank or allow the bank to debit from his account. In every bill, the due date of payment will be given. If a customer fails to pay within the due date, interest will be added on the purchase. It is also not necessary that the customer should pay full payment of the bill as he can make part payment and settle the bill in due course. However, the customer will have to pay interest for the outstanding balance amount. If payment is made for all the purchases, the customer is allowed to avail fresh credit.

A credit limit is fixed based upon the income of the customer. The customer can make purchases only up to this credit limit. Once payment is made by the customer, the credit limit will once again revolve to the original amount.⁽¹¹⁾

The sellers can avail the facility of sale through credit card by paying to the credit card establishment, a fixed amount. The sellers agree to this as it enhances their sale. On receipt of payment from customers, the seller's account will be credited.⁽¹²⁾ This process is explained in Exhibit 3.1

Exhibit 3.1 - Credit Card Transaction



3. Benefits Derived from Credit Card

The benefits obtained from the use of credit cards are discussed from the point of view of (a) Customer (b) Seller (c) Commercial banks (d) Central bank (e) Government (f) Economy

(a) Customer

Benefits a customer avails through a credit card

1. He/she can use it at any time on credit.
2. He/she need not carry cash for making purchases.
3. Any ticket reservation can be done by using credit card even during night when banking facility is not available.
4. Credit card can be used through computers and to purchase mail order business.
5. At any point of time, the customer will be able to know the available credit even after purchases.
6. Credit card can be used even for withdrawing cash through Automatic Teller Machine up to a certain limit.
7. The holders of credit card are given insurance cover by the banks.
8. It can be used for tax payment and electricity bills.

(b) Seller

The benefits of use of credit cards by buyers to sellers

- (i) Sales can be effected throughout the year.
- (ii) With increasing sales, the turnover of the seller increases.
- (iii) The seller can go for competitive price as he can get credit from the bank.
- (iv) Due to credit card facility, he can attract customers from far off places also.

(v) Durable goods can be sold easily through credit card. (vi) Bad debts can be avoided as the bank arranges for payment under credit card. (vii) Sellers extending sales through credit card can also extend additional credit to customers as they can receive payment in installment through the credit card.

(c) Commercial banks with the availability of credit card facility

(i) More customers may avail the banking facility. (ii) There may be less cash withdrawals from the bank corresponding to the extent the customers use credit card for their purchase. (iii) The bank, by extending credit to customer, retailer, wholesaler and manufacturer is able to earn interest on the credit. (iv) The credit facility is extended only in the books of accounts and there will be no cash withdrawals. The account of the customer is debited for the purchases, while the account of the seller is credited. Both the parties are given credit and the bank enjoys interest on the loan. (v) All the transactions in the country are done through the banking system, as a result of which, the role of money lenders and other financiers are reduced. (vi) The profit of the bank will also increase due to the extension of credit to different parties.

(d) Central bank

As the Banks issue the credit cards, consumers use the same and merchant establishments accept the card and the following benefits flow:

(i) A better control on the banking system is evolved by the Central bank. (ii) During inflation, the Central bank can control the price level by instructing the head office of commercial banks to reduce the quantum of credit extended to customers under credit card. This will reduce the demand and thereby prices will come down. (iii) Central bank is able to take instantaneous action on the economy, as credit card provides information regarding purchases and sales in the country. (iv) The activity of Non Banking Financial Companies will also be reduced as the credit card facility is extended to commercial banks. So, the Central bank need not control NBFCs. (v) By extending credit card facility to agriculturists, agricultural finance is improved and this relieves the farmers from the clutches of money lenders.

(e) Government

From the point of view of a Government, use of credit cards by consumers will help in the following ways:

(i) Whenever any sale is made, it is properly billed. That means sales tax and commercial tax due to the government will not be evaded. (ii) It prevents the growth of unaccounted money as all transactions are recorded. (iii) It improves the revenue of the government due to increase in production by the manufacturers. (iv) Government employees can also avail credit card facility against their salaries.

(f) Economy

From the national economy point of view one can view the flow of the following merits due to use of credit cards by consumers:

The economy is benefited when sales increase due to the improved activity in primary, secondary and tertiary sectors. Transport system will improve with movement of goods to different places. Exports will improve, which will increase the earnings in foreign exchange. Employment opportunities may increase not only in production centers but also in the service sector.

4. Features of credit card

Salient features of the modern credit cards

- i. **Owner Identification:** A credit card identifies its owner as the one who is entitled to purchase goods and services without physical money and is eligible for credit from establishments. For this purpose, the card issuer enters into a tie up with various Member Establishments.
- ii. **Credit Limit:** The issuer for the purpose of convenience and scrutiny sets up a credit limit for its card holders, and a floor limit for its Member Establishments. The convenience and safety factors add value to these cards.
- iii. **Wide usage:** Bank credit is the most widely used payment device issued by banks. It is based on the system of revolving credit whereby a credit limit is sanctioned to the customer and can be availed in part or in full. Once the outstanding balance is paid, the maximum credit limit is restored for further use. Special credit cards can also be used to obtain cash.

- iv. **Technology dependent:** The credit card business is typically a high volume low valued business, with the potential to break-even only beyond a certain volume of cards issued. The dependence on technology is inevitable to keep the operating cost to the minimum.
- v. **Annual percentage rate (APR) :** It is the interest rate applied to a remaining balance carried beyond the grace period. APR's vary depending on the different types of balances e.g. balance transfers or purchases. A higher APR is charged on balance transfers and cash advances than for purchases. APRs can be fixed or variable.
- vi. **Grace Period:** The grace period is the amount of time a card holder is given to clear his/her bills to pay for the balance and when it is not due within the grace period, a finance charge is applied for purchase. If the card holder carried a balance from the previous month, he/she may not have a grace period for his/her new purchases. In addition, balance transfers and cash advances typically do not have a grace period. When balances don't have an applicable grace period, interest is applied right away.
- vii. **Incentives and Rewards:** Some credit cards offer rewards and incentives for using their credit card. Some of them are cash back, points to redeem, and discounts.
- viii. **Annual fee:** Some credit card companies charge an annual fee for using the card. Because of stiff competition, some are waiving it for new buyers.
- ix. **Cash Advance Fee:** Majority of the credit card companies charge a one time fee for cash advances in addition to the interest rate which will accrue from the day in which cash advance is drawn. Most of the card companies offer an introductory cash advance and balance transfer rates for a specific amount of time.

5. Facilities and Services

Besides providing credit, the credit card organization extends some additional facilities to attract customers. Some of the facilities offered by banks are given below:

- a. **Risk coverage:** Depending on the type of card issued, some banks ensure the card holders a fixed percentage on the value of a particular sum for covering the risk.

- b. **Emergency cash withdrawal:** Banks allow card holders to cash upto a limit of ATM's in all leading metropolitan cities.
- c. **24 hour service:** The revolutionary phone banking service ensures that the banks extend 24 hour customer service to assist the card holder, all 7 days a week.
- d. **Travel privileges:** Banks provide travel assistance to their card holders by offering a wide range of services linked to airline and hotel bookings, discounted holiday packages, car rentals and more.
- e. **Credit line increase:** Temporary credit line is provided by banks depending on the ability of the cardholder to pay the bank based on the card holder's financial resources and past spending and payment patterns. This credit line is increased by 25% for 3 months.
- f. **Service over phone:** Credit card holders of selected banks can use their cards to pay for personal expenses where credit cards are not yet accepted.
- g. **Purchase protection:** This facility protects the purchases against damage or loss caused due to fire and theft at no extra cost. The card holder can claim the value of the product damaged or lost from the Insurance Company. This protection is available for a period of 90 days from the date of purchase of the product using the card.
- h. **Supplementary cards:** These cards are issued to the family members of cardholders. A cardholder of any bank can obtain maximum of two supplementary cards at the prevailing card fee for the immediate family members.
- i. **Hotels discount facility:** Card holders can obtain membership in clubs at leading hotels at a special privilege. The facility also earns score points on every rupee charged i.e. every time the cardholders dine or stay at the hotel. Specifically, 25 points for every 1000 spent plus an extra 10% points credited to the card holders account if the card is used along with the hotel club card. These points can be exchanged for a wide range of services such as airline tickets, hotel stays and consumer products ranging from a microwave oven to Rayban sunglasses. The cardholder can also earn points by using the services of select airlines that have a tie-up with the respective bank.
- j. **News letters:** Bimonthly newsletters offering the cardholders an exciting range of prizes, special discounts, privileges are spent free of cost. For example, complimentary

subscription to business world / business today magazine is sent to all card holders of SBI card. This is accompanied by a compodium of select business articles and opportunities to apply for certain mutual funds using the credit card. Exclusive offers that include dining programs at selected restaurants, a hand picked Mail order merchandise catalogue, a collector's series of books and magazines and many more are sent to cardholders periodically by some banks.

- k. **Joint credit card and ATM facility:** Foreign and Indian banks alike have introduced a joint credit card so that the card holder can access personal (savings / current) accounts with the bank through the ATM's.
- l. **Personal Accident Insurance:** Credit card issuers have introduced a free insurance cover to the cardholder against loss of life due to accidents.
- m. **Leveraged investment facility:** This facility enables the cardholders to subscribe to designated equity or debenture issues in the primary market and schemes floated by mutual funds.
- n. **Photo card option:** Credit cards are now being issued with the photographs and signature of the card holders digitally imprinted on the front of the card. These cards offer easier recognition and extra security.
- o. **Online payment:** Credit card facilitates online payment of bills, dues, and to make purchases such as books, rail and flight tickets.

6. Criteria for the issue

Some of the criteria used by banks to issue a card for the potential client apart from Income are (a) Place of Residence, (b) access with Telephone, (c) Profession, (d) Place of Work and (e) Age. Besides, they will assess the capacity of the prospective card holder by considering the number of dependents as well as credit worthiness.

While issuing credit cards, banks/NBFC's should ensure that the credit risk is independently assessed especially for persons with no independent financial means, the maximum credit limit to be fixed based on the credit information and the terms and conditions for issue and usage of the credit card should be mentioned in clear and simple language⁽¹³⁾.

7. Costs of Credit Card Payment

Costs are involved in holding and using credit card. First one is renewal charges as the card has to be renewed every year for which the cardholder has to pay renewal charges. The second one is the interest payment when the payment for purchase is made beyond the due date. Interest is not charged for a fixed grace period of 30 to 45 days on every bill. In practice, part payments in a month by a cardholder are adjusted in such a way that the second bill will not be free from interest for the period assured. Third one, in some shops or retail outlets, card payments means an extra payment added to the bill by an establishment that does not want to encourage plastic money. And the last one is related to cash advance. Once the cash leaves the teller machine, two sets of interest are applied. First, there is a flat transaction fee. Second, there is a rate of interest applied on a daily basis. Thus, in the bill, one ends up with a dual interest.

8. New Types of Credit Cards

For the sake of promoting business and popularizing the use of credit cards among the customers, the card issuing banks issue different types of cards with small differences in the facilities provided to the required cardholders in terms of limits of credit⁽¹⁴⁾ Some such cards are Affinity Cards, Standard card, *Classic* card, Gold card, *Platinum* card, Titanium card, Secured card, *Charge* card, Rebate Card, Co-branded Card, Cash Card, Travel Card, and Laghu Udyami Credit Card (LUCC) Scheme. Some cards are used domestically and others are used both domestically and internationally⁽¹⁵⁾. Entrance fee, annual fee, eligibility, service charges and the list of establishments which accept these cards vary from Bank to Bank⁽¹⁶⁾

Banks and other financial institutions have started issuing new types of credit cards. These include: 1. Corporate Credit Cards, 2. Smart cards, and 3. Global Credit Cards. Corporate Credit Cards are cards issued by both public and private companies. The companies also issue other add-on cards to directors, secretaries and other people depending upon their requirements. The name of the company is embedded on the add-on cards issued to the cardholder. Generally, the main card has a dummy card, which is used for the purpose of billing all the charges of the add-on cards. All transactions made through add-on cardholders are billed to the main card, which are debited from the company's account.

Smart card is the outcome of the revolution in Information Technology. It is an embedded micro-chip card and it can store 1280 times more data than the magnetic strip card. Sim card in the mobile phone is an example for the use of Smart cards in the telecom sector. Global Card is one which can be used anywhere across the globe and to make foreign payments through the net.⁽¹⁷⁾ It is chip based technology card to prevent fraud while cards are swipped at the merchant establishments ⁽¹⁸⁾.

INTERNATIONAL SCENARIO

The credit card features are discussed in the previous paragraphs, and the credit card scenario in different continents is presented in the following paragraphs:

1. Credit Cards in Asia

The credit card business has been one of the fastest-growing areas of unsecured retail finance in many Asian markets. Asia has witnessed cycles of marked credit card lending booms and busts in a number of its markets. The credit card segment of consumer lending is rapidly gaining ground in Asia. Total credit card usage volume, including the use of cards both to make purchases of goods and services and to withdraw cash, increased by 200 to 500% in many Asian markets between 1998 and 2006. Of the total credit card billing, 80 to 90% are for goods and services purchases and the remaining 10 to 20% for cash lending for most Asian markets. Also, as a share of private consumption expenditure, card purchases have been on an upward trend for most Asian economies, reaching 10 to 20%. In Korea, where cash advance represented 65% of the total credit card billing at one point and its purchases of goods and services on cards stand out as high as 60% of the private consumption expenditure.

Credit card receivables have exhibited a broad upward-trend across Asia over the past ten years. Per capita credit card balances outstanding grew by two to six times in these regional markets during the period of 1998-2006. By the end of 2005, credit card receivables in these markets generally ranged between 2 and 7% of their respective total bank loans outstanding and between 3 and 15% of total household lending. The two main exceptions to this picture are China and India, two large emerging Asian markets with local credit card sectors still in their infancy. They have lately been experiencing

explosive growth during 2004-07, the annual compound growth of total credit card receivables has averaged 47% for India and 76% for China.⁽¹⁹⁾

In 1985, Bank of China was China's first bank to introduce their country's first credit card, the Great Wall Card. During the 1990s, even though credit cards existed, credit cards were virtually unheard of in China, very few people had them. In 2004, one million credit cards had been issued, only 1 percent of Chinese citizens possessed Western-style credit cards, and 2 percent of merchants could handle them. Then credit card payments account for about 1% of total consumer spending in China; compared to 19.6% in the U.S. Over the years, banks started realizing the potential market that exists in China. Within 5 years, in 2008, more than 100 million credit cards had been issued to China's 1.3 billion populations, and 30% of merchants were able to process credit card transactions. It is anticipated that within the next 10 years, analysts say, China could issue 1 billion new cards. This would mean credit card spending would increase to US \$ 363 billion in 2020, which is more than 13 times the US \$ 27 billion spent in 2000.⁽²⁰⁾

Until 2003, there were only five mainland commercial banks that were permitted by the People's Bank of China (China's Central Bank) to issue credit cards in China, which include The Industrial and Commercial Bank of China (Peony, Mudan Card) (ICBC), Bank of China (Great Wall Card) (BOC), China Construction Bank (Long Card) (CCB), The Agricultural Bank of China (Jinsui Card) (ABC), and China Merchants Bank (CMB).

Since then, 15 other banks were granted permission to issue their credit cards in China, including CitiBank, HSBC, and American Express. The largest being China Merchants Bank, who has issued over 20 million credit cards to date.

There are three types of Credit Brands issued in China: Visa, MasterCard and JCB (Japanese Commercial Bank). More than 50% of credit cards issued in China are rarely used, if at all, and retail purchases using credit cards are a tiny fraction of all credit card use.⁽²¹⁾ In 1961, JCB was dominant over the Japanese credit card market when it purchased Osaka Credit Bureau in 1968. These cards are now issued in 20 different countries. It has card member base and services in 190 countries worldwide. JCB has a special focus on Japanese, Chinese, and Korean travelers in Europe, Asia, and North America.⁽²²⁾

United States accepts JCB primarily at businesses concerns with travel and hospitality⁽²³⁾. It is reported that 48.4 million JCB cardholders are accepted at nearly 11 million merchants in 189 countries.⁽²⁴⁾

In Malaysia, Credit Cards are issued by over 15 banks. Some of the popular issuers of credit cards of Malaysia include Affine Bank, AEON, Alliance Bank, Bank Islam, HSBC, Maybank, Standard Chartered and Bank Simpanan National. These cards are offered in association with American Express, Visa or MasterCard.

2. Credit Cards in Europe

The successful operations of the bank cards system in the US saw a bounding growth in other parts of the world too. In the year 1966, the Barclays bank, UK, launched Barclay card with a Visa tie-up. The Access Card was launched in the year 1962 in the UK by a consortium of British and Scottish banks with a Master Card tie-up. With the astounding success of credit card system in UK, the Euro card was introduced in most of the West European countries with a tie up with Access.

Development of credit cards in Western Europe began much later than in the USA. The Diners Club card was introduced in the UK in 1951, a year after its launch in the USA. America Express was introduced into Western Europe in 1963. However, Europe has not seen a great increase in the use of these cards and instead bank credit cards have been the main growth areas. These first appeared in England in 1966, when Barclays Banks having come to an arrangement with Bank Americard introduced Barclay card. In 1972, in response to the success of Barclay card and wishing to capitalize on the potential market, Lloyds, Midland Bank, National West Minster, Williams and Glyn's and the Royal Bank of Scotland launched the Access Credit Card.⁽²⁵⁾

The bank credit card usage expanded rapidly. Within a year of launching, Access group had 3.3 million cardholders and 65000 retail or merchant outlets. In comparison to 1979, the Diners club and American Express combined had only 550000 UK cardholders a significantly lower figure, especially, considering they were introduced earlier than the bank credit cards. In 1985, 70% of adults in the UK possessed no kind of credit card and only half of those with income over pound sterling 15000 owned one, whereas in the USA research in the early 1970's showed that half of the families use at least one credit

card. In 1976, the Inter Bank Research Organization estimated that in the UK, 94% of total consumer transactions by value were in cash, 4% by cheque and only 0.35% by credit card. US was much ahead of Europe in the use of credit card. In 1977, 6% of all consumer transactions were by bank credit card only. Credit card transactions account for \$600 billion, a far greater amount than in Western Europe. Bank credit cards accounted for 31% of this transactions volume. About 2% of the transactions in Western Europe is through credit cards in 1978. Of this 95% is accounted for by bank credit cards. In Britain credit cards in general make up only 5% of the total consumer credit.⁽²⁶⁾

3. Credit Cards in Africa

In South Africa, eighty percent of the retailers and restaurants accept Visa and Master Cards. This is facilitated by developed electronic banking infrastructure available in the country. Some of the credit cards offered by the banks in South Africa are Affinity Cards, Student Credit Cards, Reward Credit Cards, Business Credit Cards, Garage Credit Cards, and Co-branded Credit Cards

Ned bank, the smallest of the four largest banking groups in South Africa, listed on JSE Limited since 1969 offered and included the Greenback, Classic and Gold cards. The First National Bank (FNB) was founded in 1987, a wholly owned South African company offering Smart, Silver, Gold and Platinum credit cards ABSA was established in 1991, a wholly owned subsidiary of ABSA Group offering the Silver, Gold, Platinum, Gold Graduate and Aviation Credit Cards⁽²⁷⁾

4. Credit Cards in USA

The American Express Card and the Bank Americard were the first bank issued cards, and their success was apparent almost overnight. As one of the world's largest financial institutions, Bank of America serves over 59 million consumer and small business relationships. Bank of America's brands manage more than 6,100 bank lobbies and 18,700 ATMs, and their award-winning online banking has almost 29 million active users.⁽²⁸⁾

In 1966, information on credit card transactions was exchanged between fourteen US banks with the help of Interlink an alliance. Master Charge, known as MasterCard, was created in 1967 as a collaboration in response to the success of the Bank Americard.

Four California banks jointly enabled the Master Charge. Visa and MasterCard were started as non-profit organizations to issue credit cards through participating banks. Visa and MasterCard board members were the governing bodies over the issuing of cards to their respective customers. Bank Americard was changed to Visa in 1976, and Master Charge was changed to MasterCard in 1979. ⁽²⁹⁾

The 1980s saw issue of host of special purpose cards by departmental stores, airlines and oil companies which boosted the membership. ⁽³⁰⁾. One such special purpose cards led to the launch of the 'Lady Card' in Malaysia' and in 1990, the Green card was launched in the UK and Europe to promote contributions towards the protection of the environment. By 1977, consumer credit cards were serving 52 million US household and over two million merchants, and over 1, 00,000 jobs were provided related to card in the services sector. ⁽³¹⁾

5. Credit Cards in Russia

Russians were the initiators of replacing paper money payments with electronic transactions. Surprisingly, the domestic plastic card market, marked only its tenth anniversary in 1999. In 1989, Sberbank and Kredobank of Russia became **VISA** members. Kredobank also started earlier issuing its VISA cards already in the autumn of 1991. In 1992, MENATEP bank, and in 1993 Mostbank and Inkombank, became members of VISA International. Notably, Mezhkombank began to issue its first American Express cards only in January 1995. Later, Optimum bank and Unikombank, and also Credit Swiss bank accredited in Russia began to offer them to clients.

In 1993, Mostbank offered the first MostCard Russian Bankcard. Along with the individual banks, Mytishchi commercial bank, Optimum bank, Elexbank, Elbimbank, Hermes-Center bank and others, domestic card associations appeared. Most domestic banks were oriented to the issue of largely Russian cards, which were cheaper and adapted to the solution of such a pressing problem at that time as the shortage of cash resources in the process of settlements. Over years of operation, the number of STB members reached 70 and the card acceptance network included 1,600 outlets while the respective figures for Union Card were 200 and 2,500. At the same time, the Universal system included 17 regional banks and Tveruniversal bank's 14 branches and units. In the hunt for clients, banks were busy offering new types of cards and democratizing the

terms of their servicing. In this process, the issuers of domestic cards took effort to create a network of their acceptance outside Russia.⁽³²⁾

Some of the most popular categories of UK credit cards are Personal credit cards, Standard credit card, Gold credit card, Platinum credit card, Business credit cards, Zero-interest credit cards and Rewards credit cards.⁽³³⁾

6. Credit cards in Australia

Bankcards were launched in 1974 in Australia. Eighteen months after the launch of Bank cards, 1,054,000 cardholders and 49000 merchants accepted the card. Three of the Australian member banks had operations in NewZealand. A Newzealand bank card was also introduced five years after the Australian launch. Fourteen years after the launch of the bank cards, the exceptional growth of credit card operations and the improvements in technology allowed the member banks perform their own data capture and processing in-house.

CREDIT CARDS IN INDIAN SCENARIO

1. Card Acceptance by Indian Economy

Indian Economy has geared up well for a bright future aiming at a pivotal leadership position on the global economic front. Banking, insurance and other financial sectors opened up for global participation in nation- building. Traditional Indian banking and conservative practices underwent many acid-tests in the face of international competition and product competence.

In the midst of economic changes taking place, today, the Indian population feels that a wallet without a card is empty. During the last one decade, there has been an exponential growth in the credit cards issuance and usage in the back drop of increasing appetite for cards among the people. As development in banking and trading activities grew, fixed income group started using cards for the transactions.

One factor that is driving the growth of plastic money in India is that the people are adopting the cash-free culture. Technology has brought modern innovative concepts in the form of Plastic Cards. It has enabled instant liquidity and inflow of funds out of nowhere. Plastic cards churned out designer money and we now have a wide array of

them such as Credit cards, Debit cards, ATM cards, and Smart Cards. This also enabled the sight of a new direction to retail banking not only the credit cards but also the new innovative products like charge cards, and debit cards are becoming popular.

Basically, three good reasons support the growth of credit culture. First and foremost is the use of card in driving cash out of circulation and bringing in more income and spending into the open with positive results for taxation. Secondly, it facilitates commerce, particularly cyber commerce. Finally, it reduces the cost of printing money. The government has realized the importance of these aspects and has removed all quantitative restriction on plastic money, which has enhanced the growth and prospects in the recent past. Additionally, with the Information Technology revolution and young generation entering employment, the credit averse attitude has changed and a majority of the young generation prefers plastic money over conventional money. These factors together with constant innovation and expanding network of banks have enabled the growth of this industry in a big way.⁽³⁴⁾

2. Launching of Credit cards by Banks

Central Bank of India and Andhra Bank introduced credit cards in the country in 1981. It was followed by other Banks such as Bank of Baroda, Citi Bank, Canara Bank, Bank of India, SBI, ANZ Grindlays, Diner's Club, Bank of Maharashtra, Hong Kong Bank, ICICI Bank, ABN Amro Bank, Syndicate Bank, HDFC bank, HSBC Bank and Standard Chartered Bank.

There are different types of credit cards with different features. Gold card, Master Card, Mercard, Citicard, Smart card, Switch card, Cash card, and Co-branded card. Introduction of credit cards in the Indian banking scenario opened up a glorious new chapter in igniting and augmenting consumer demand for bank credit. Today, the credit card segment is highly competitive with almost all the banks offering credit cards or debit cards in association with VISA international or Master Card. As a result of the entry of domestic banks into the segment, the credit card issuance and usage have been rising steadily and are likely to increase further. There is a huge untapped potential as the Indian market is yet to catch up with the international markets. Efforts of the banks to spread the concept of plastic money among the semi-urban and rural areas will further add to the growth.

Initially, it was the Andhra Bank and Central Bank who have issued their first credit cards in the early 1980s in the country. Then in 1990s, one bank after the other issued their own Credit cards with more and more specifications, features and modifications. They presented it with not only new and innovative features but also offered a number of facilities, concessions, perks, incentives and valuable insurance protection to the card-users. Master and VISA have established various collaboration and marketing arrangements with multinational banks and financial institutions as well as other establishments. Apart from these, there are many other financial institutions or non-banking finance companies (NBFC), which issue and circulate their own Credit Cards and charge cards with specific features and add-on benefits. Diners Club had circulated their plastic cards or Member cards even before the advent of foreign banks in the Indian territory in 1961.⁽³⁵⁾ American Express Cards are also one of the leading brand names today who have their own card processing and networking systems worldwide.

The credit card market in India, started in 1981. It grew almost 25-30 per cent annually to over 3.8 million cards. About 30 banks are chasing customers with their cards. Only 20 per cent of the card base is generating revenue. Inactive cards constitute nearly 45-50 per cent of the card-holders, while another 30 per cent use the card as a charge card. Without using the revolving facility, cards are expected to account for 33 per cent of all purchases by 2000 and 43 per cent by 2005.⁽³⁶⁾

3. Credit card Usage

The two essential aspects of the basic banking function – the transmission of payments and the granting of credit is embodied by credit cards. So credit cards must offer revolving credit, which is very essential, to the overdraft facility offered by banks. A credit card holder has the option to make partial payment in subsequent months without settling his entire account at the end of the month. Credit card is used as a ‘charge card’ if the payment is made at the end of the month and the interest paid by the card-holder on the ‘credit’ utilised is the profit of the banks issuing the card

In India, for every Rs 100 spent, a payment of 60 paise was made through the Credit Cards. Compared to this, settlements in the US is Rs 16 through Credit Cards for a total of Rs 100 spent. It means that the usage and utility of Credit Cards in an advanced country like the US, is 26 times higher than that in India. After introduction in the

country in the early 1980s, the Credit Card market zoomed up and spread to far- flung urban and semi-urban centers.

The Indian payment card industry is displaying tremendous potential both in terms of issuance and usage of cards. Higher disposable issues, exposure to new products and services, increased travel and growth and the entertainment sector have all affected the payment card industry. In India, VISA consumer card spends as a percentage of personal consumption expenditure of 0.4% which is comparatively lower than countries like the US (9%), Hong Kong (15%) and Korea (19%). Visa together with 33 member financial institutions issues approximately 23 million payment cards in the country with both debit and credit cards growing at an average rate of 50%.

Master Card International says 70% own just one credit card, 20% own 2 credit cards and the remaining 10% own three or more credit cards. Ten million local card base includes all kinds of add-on-cards. Nearly 25-30% of the cards across VISA and Master Card are not activated. In India, 44% of the cardholders use their credit cards most often for purchase of clothing, 14% for super markets or grocery shopping, 9% at hotels and 6% at restaurants. 27% of cardholders use their credit cards most often for other purposes such as household bills / utilities, business expenses, luxuries and petrol.

4. Current Trends in Credit Card

The credit card revolution in the country is due to the presence of five multinational banks and they account for nearly 70-75% of the cards market despite having miniscule branch network. At present, the public sector banks account for nearly 80% of the banking business in India. But their collective share of credit card market is not more than 25 - 30%. Currently, there are more than 20 banks offering credit cards, but the market share of the top five exceeds 75%. According to the Venture Infotek survey report 2008, the top five players in the market according to their rank are 1) ICICI bank (Private Bank) 2) SBI bank (Public sector bank) 3) HDFC bank (Foreign bank) 4) Citi bank and 5) HSBC bank. (Foreign bank).The Indian banks have a dominant share due to sound operational and financial strength, and strong brand recognition. They were catering to the upper segments and charging high annual fees. The private banks like ICICI and HDFC are also aggressively increasing their share.

5. A Competitive Market in Plastic Money

Banks are aggressively promoting their cards with the growing consumer awareness and interest in plastic money. Though highly competitive, the market is offering an opportunity to banks for strengthening their presence in the entire chain of personal finance.⁽³⁷⁾

Indian consumers are embracing the developed world culture of using plastic money. There has been an exponential growth in credit cards issuance and usage in India during the last decade. The credit card industry is growing at a rate of 25-30% p.a and offers unpadding comparable profit potential and margins. Most of the banks in the beginning focused on the big cities of India with little or zero focus on tier two cities and towns. But now they have widened their coverage to tier two cities and towns. But still villages are not covered which also offers opportunities for credit card issuance⁽³⁸⁾

Credit card industry grew by 37% in the year 2005 compared to earlier years. The estimated cards in circulation are about 10 million. The interest rates on credit cards still range from 18-36%. The industry is moving towards variable interest rates based on risk and repayment patterns.⁽³⁹⁾

The perception of owning credit cards has changed and they are being viewed as a convenient substitute to carrying cash and also availing credit for short periods. India ranks at the bottom in terms of usage of credit cards, when compared to China, Taiwan and Malaysia. Only in the last decade has the usage of credit cards been picking up pace. Culturally, middleclass Indians viewed using credit cards as a sign of profligacy that used to weigh down against owning credit cards. Therefore, it was not viewed as a revenue source by Indian banks for a long time.

Over the last 10 years, the industry has grown at the rate of 30% and is on the way to gain a critical mass in the coming years. According to VISA international, an average Indian cardholder uses his card 9.3 times, spending about Rs.23000 per year. A number of card users do not use their cards which amounts to 20-30%. In India, except a few, all the Banks are members of the Visa and Master Card Associates.

The foreign banks have dominant share due to sound operational and financial strength and strong brand recognition. They were catering to the upper segments and charged high annual fees. The cards were positioned in a manner which gave an impression

that the cards can be acquired by people not only from the upper class, but also from the middle income categories. This was the strategy followed by SBI – GE as a result of which it is the 3rd largest issuer of credit cards today.

The new private banks like ICICI and HDFC are also aggressively increasing their share. They adopted a strategy of reaching lower down the income strata by lowering down their eligibility norms. The credit limits are set at lower levels as compared to the Foreign Banks. As a result of this strategy, the credit cards base is widening day by day with the increase of base in B grade cities. With increasing card acceptance and usage, banks are also getting a large portion of their revenue from consumer transactions rather than through annual fees. Annual fees as a percentage of total income from credit cards has declined from a significant 30% a couple of years back to around 10% now.

A uniform rate does not exist for persons with identical risk of profiles and credit worthiness and different rates are charged by different players. Also, the standard of high interest rates charged do not reflect the credit worthiness of a cardholder and with other avenues offering low interest loans, customers' accord low importance to availing credit for longer periods through credit cards and prefer to borrow from other sources.

HSBC, the foreign bank in the country, has launched a co-branded credit card with the retail chain shops. ICICI bank has launched a co-branded credit card. State Bank of India introduced State Bank Card during the late 1980s.⁽⁴⁰⁾

SBI's launching of its Visa Card in partnership with GE capital marks the entry of another player into the credit card market in August 1987. With optimistic projections on hand, SBI increased its market share rapidly. Citibank's frequent flyer credit cards are quite popular. There are offers like round trip domestic tickets with 24000 miles on one of their flyer credit cards, no black out dates, travel awards and discounts and stay at category one hotels. The bank provides attractive offers. Reward points accumulated can be redeemed for gift certificates, travel rewards and interest free grace period. For some of their cards they offer cash back bonus or cash rewards and rebate on all gas station purchases. They offer special cards for students. Business persons get a generous credit line and 10,000 bonus miles on first purchases.

Standard Chartered offers health check-ups at the best hospitals for its Gold card holders. HDFC bank health plus International Credit card, in association with National Insurance Company, and in affiliation with Master Card, offers a free in built cashless medi-claim facility that will fetch the holder discounts at leading hospitals, discounts on health and fitness related brands and add-on cover facility. HDFC offers its customers the ease of paying their insurance premium, electricity, telephone and mobile bills through their customers call centers.

AN OVERVIEW OF PAYMENT CARD INDUSTRY BASED ON VENTURE INFOTEK SURVEY

It is appropriate to look into a national level survey carried out by an independent or government agency. It is found that in India, Venture Infotek research has been carrying out periodical survey on industry which covers payment card industry otherwise called as credit card industry. Venture Infotek (<http://www.ventureinfotek.com/>) is India's only consumer payment processing company, providing integrated end to end card payment processing solutions for both issuing and acquiring banks. Venture Infotek has set up a countrywide infrastructure for electronic payment processing to over 500 cities and towns. It built this massive and largely scalable infrastructure for enabling electronic payments in the country. Hence, discussing such a report of their survey is relevant to this study. The 2009 report reveals that the payment card industry has registered an impressive growth rate of 25% for the financial year 2008-09. This is mainly attributed to the phenomenal growth in both credit cards and debit cards. The total number of credit cards as on March 2008 was over 275 lakhs. The card acceptance infrastructure also has been growing at brisk pace. The country now boasts of over 4 lakh merchant establishments. The industry has seen the dominant role of Foreign Banks early and number of credit cards in India during the year ended march 2010 declined to 185.46 lakh from the previous year card base of 246.99 lakh registering a negative growth. It is predicted that the year 2010-11 may reinstate consumer confidence in the usage of credit cards which may result in the increase of card base to about 210 lakh by March 2011.

a. Growth of Credit Cards Issued

The table presents the growth of credit cards issued by the various players during the year 1999-2000 upto 2008 to 2010.

Table 3.1 Growth of Credit Cards in India

Financial Year 31st March	No. of cards (in lakhs)
1999-2000	37.34
2000-2001	48.65
2001-2002	60.68
2002-2003	76.08
2003-2004	100.65
2004-2005	141.05
2005-2006	173.27
2006-2007	231.23
2007-2008	275.47
2008-2009	246.99
2009-2010	185.46
2010-2011	210.58*

* Estimate Source: (www.ventureinfotek.com) Credit card industry survey report 2000-2010

The total number of cards issued during the year 1999-2000 was 37.34 lakhs which rose to a tremendous growth of 275.47 lakhs cards in 2007-08 and 246.99 lakhs in the year 2008-09. But the number of credit card base in India during the year ended March 2010 declined to 185.46 lakh from the previous years card base of 246.99 lakh, registering a negative growth rate of 25%.

Exhibit 3.2. Credit Cards Issued

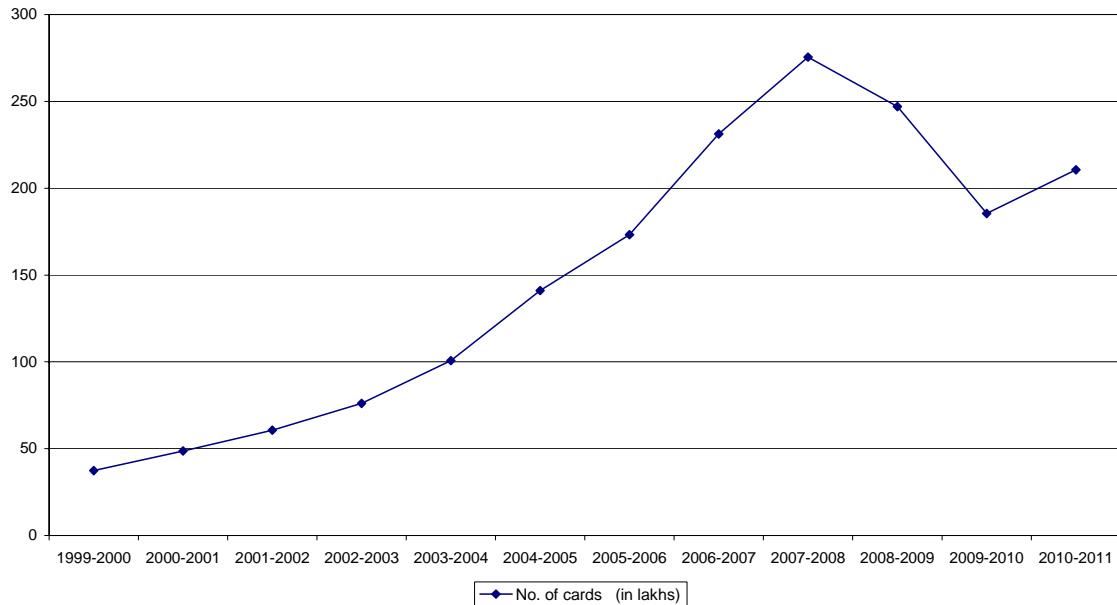


Exhibit 3.2 describes the number of credit cards issued by various banks between the financial year 1999 and 2010. The growth trend line clearly shows that in every financial year there was a steady growth from 2001 to 2008. Thereon in the subsequent year (2009), there was a decline in the number of cards issued. The fall in the number of cards during that year is attributed to the economic slow down in the country and the cautious approach of issuing banks followed by complaints against banks for the method they adopted through third party for collecting the dues from the cardholders. There is a negative growth during the year 2010 due to the uncertain economic conditions at the global level which also has some impact on domestic conditions within the country. In addition to the above, fall in the number of cards in circulation was due to the steps taken by the banks like closing inactive and unproductive accounts from their credit card portfolio to avoid maintenance cost. Further, the increasing delinquency rate led to hesitation on the part of the banks in issuing new credit cards. Hence, there is a negative growth rate in credit card segment. Banks are shifting their focus off from mass marketing and catering to premium segment.

b. Market Share of Individual Players

The Indian Payment card market structure seems to be unaffected much from the global financial crisis. There have been a number of individual players issuing various types of cards. The Indian credit card scenario from the financial year 2000 up to the year 2010 along with the 14 major players and others and the number of cards issued are presented in Table 3.2.

Table 3.2 Market Shares of Individual players (Number of cards in lakhs)

Bank	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Citi	10.00	14.00	16.00	17.00	22.00	27.00	28.18	33.23	34.00	38.00	19.50
Stan.chart	7.20	12.50	12.70	13.70	14.50	19.00	21.70	21.25	14.00	13.00	11.00
SBI GE	4.00	6.00	9.03	12.50	13.00	19.75	26.56	33.57	36.00	27.00	26.62
HSBC	2.90	5.00	5.88	6.50	7.50	9.00	11.35	21.10	27.00	15.00	10.00
ICICI	0.60	2.50	5.00	11.00	22.00	36.71	51.39	80.00	90.00	72.80	45.00
BOB	1.60	1.60	1.50	1.80	2.00	3.50	4.63	5.10	2.50	0.60	0.71
Canara	1.60	1.60	0.88	1.01	1.05	1.07	2.26	2.36	0.76	0.80	0.90
Bank of India	1.20	1.30	1.69	1.38	2.00	0.89	1.67	1.42	1.55	1.55	1.15
Andra	0.80	0.80	1.03	0.64	0.85	1.55	1.66	1.70	1.49	1.63	1.25
Vijay Bank	0.60	0.70	0.74	0.93	0.95	1.27	0.82	1.39	0.82	0.83	1.48
Central Bank of India	0.30	0.40	NA	0.74	1.15	1.05	0.41	0.45	0.50	0.50	0.69
HDFC	---	----	----	1.80	5.30	12.62	16.40	29.10	35.00	44.00	43.00
ABN	-----	----	----	1.25	4.00	7.00	10.10	16.50	15.00	13.05	NA
Syndicate	----	----	----	----	0.40	0.47	0.26	0.54	0.58	0.64	0.68
Others	6.54	3.16	4.93	2.74	7.17	0.17	2.69	6.88	16.27	18.69	14.48

Source: Venture infotek survey reports (1999-2010) NA – Not Available

The above table 3.2 explains that the ICICI bank, HDFC Bank, SBI and Citibank top the list with a combined market share of 72 percent in the Indian credit card industry. HDFC bank comes close to ICICI Bank as the latter reduced its card base drastically from 72 lakh in 2009 to 45 lakh in 2010. Following the list is SBI, Citibank and standard Chartered with market share of 14, 11 and 6 percent respectively.

c. A Review of Card Growth in the new millennium (2000-2010)

In the year **2000**, the total currency in circulation was around 17 percent of the total money supply when compared with other developing economies like Philippines, Thailand etc that had around 8-9 percent as their money supply.

In the year **2001**, 54 lakh payment cards were in force in the market. Only 1.5 percent of the total personal consumption expenditure was spent electronically using payment cards and the remaining was by cash and cheque.

There were 12 major banks in the credit card industry in India who had chosen to issue cards either VISA or MasterCard. These were known as the Principal Issuers. Citibank was the market leader with a consistent market share of around 29 percent closely followed by Standard Chartered. The other major players were SBI and HSBC. Standard Chartered Bank acquired the portfolio of ANZ Grind lays; this was the most significant portfolio acquisition in the history of Indian Card industry.

The credit card industry in the year **2002** grew at a rate of nearly 30 percent pa with 61 lakh cards. Citibank was the market leader with a share close to 26 percent followed by Standard Chartered bank. Among the public sector banks, SBI was the largest issuer of credit cards with 9 lakh cards. The total card spend in the payment industry was Rs 13,500 crores. The combined market share in terms of card spend, of Multi National Corporation bank was about 80 percent and they had a market share of around 66 percent in terms of cards issued. Ninety percent of Merchant Establishments were in four metros and remaining 10 percent in other cities. The percentage of banks interest income had increased from 40 percent to 50 percent.

The segment had registered an impressive growth rate of 28 percent during **2003**. India was the only country in the Asia- Pacific region that had registered a double-digit growth in the credit cards segment. ABN AMRO had launched India's first credit card with a smart chip on it. Citi Bank had been the leader showing 23 percent growth followed by the other players like ICICI and SBI. The private sector had shown an increase of 160 percent in its cards base from 5.67 lakhs to 13.57 lakhs, while the public sector at around 30 percent increase in its cards base from 15.6 lakhs to 20.16 lakhs. Private sector banks had shown an 18 percent increase. VISA had taken a step forward to

establish the Merchant Establishment base in tier II towns and cities through its Area Development Programme 2003. They had identified 7 towns and cities for the programme and had increased issuance through special rewards and usage promotions.

The industry continued its spectacular growth by 37 percent during **2004**. The total number of credit cards in the country was approximately 104 lacs. Both Citi and ICICI held a market share of 21 percent followed by Standard Chart holding a market share of 14 percent. SBI-GE followed a market share of 13 percent. The private banks had shown an increase of 117 percent in the card base, rising from 12.6 lacs to 27.3 lacs. MNC banks had followed with a 25 percent increase in the base, rising from 43.25 lacs to 54 lakhs. The public sector banks had shown the least growth of 10 percent, rising from 20.23 lacs to 22.17 lakhs cards. The MNC banks account for around 53 percent of the credit cards in India. In the private sector, ICICI and HDFC are the two prominent players holding a 26 percent share of the market. SBI was a major player among the public banks. The total spend in the payment industry for the year 2003-04 was Rs 20,555 crores at the POS. The Indian market had about 1 lakh decriminalized merchants who can accept payment by card. Citibank had acquired the largest number of merchant establishments, closely followed by HDFC Bank. The new bank to enter the market was UTI Bank that had acquired 1700 merchants. India was the only market in Asia Pacific where Visa has promoted the low cost initiative. ICICI Bank had issued its credit cards to 67 cities and SBI Cards to about 41 cities, followed by HDFC Bank.

The card industry had been clocking an impressive growth rate of 40 percent during **2005**. The total number of credit cards as on March 05, 2005 was 141 lakh. There were 5 banks with a portfolio of over 10 lakh credit cards each. ICICI Bank had emerged as the leader in the credit card issuance category for the year, with its continued aggressive strategy, registering a 62 percent growth rate. It holds 27 percent market share followed by Citibank with 19 percent market share. SBI-GE occupies the third slot with 14 percent market share. The Private Sector Banks exhibited a phenomenal growth in the credit card market by 77 percent and the card base rose from 27.94 lakh to 49.33 lakh. Public Sector Banks had followed with a 47 percent increase in the base, rising from 20.21 lakh to 29.72 lakh. ICICI Bank and HDFC Bank were the two prominent players, who together held 28 percent of the market. SBI is the major player amongst the Public

Sector Banks. With over 141 lakh credit cards in use in India, the total spends in the payment industry for the year 2004-05 crossed Rs. 33,000 crores at the POS. This reflects a growth of 53 percent over the previous year. (<http://www.ventureinfotek.com/>)

The total number of credit cards grew as on March **2006** over 180 lakh with 7 players in the industry crossing the 10 lakh credit cards level. The credit card segment had registered an impressive growth rate of around 30 per cent this year. There are 7 banks with a portfolio of over 10 lakh credit cards each.

ICICI had an aggressive strategy, registering a 40 percent growth rate. The Bank crossed the 50 lakh mark in terms of credit cards, a head Citibank over 27 lakh cards, the global leader in credit cards. ICICI Bank holds 29 percent market share followed by Citibank with 16 percent market share. SBI occupies the third slot with 15 percent market share. The Private Sector Banks exhibited a phenomenal growth in the credit card market with card issuance vaulting by 37 percent and the card base rose from 49.33 lakh to 67.79 lakh. Public Sector Banks had shown a 37 percent increase in the base, rising from 29.91 lakh to 40.96 lakh. The MNC banks had shown the least growth of 15 percent, rising from 62.00 lakh to 71.33 lakh cards. ICICI Bank is the leader in capturing maximum spends with 37 percent market share, followed by Citibank at 15 percent market share. India had over 180 lakh credit cardholders, who made purchases totaling Rs. 55,000 crores pa. ICICI Bank had acquired the largest number of merchant establishments closely followed by HDFC Bank.

The total number of credit cards as on March **2007** was over 254 lakh. The country had over 3 lakh Merchant Establishments. The total number of credit cards as on March 2007 was over 254 lakh. The country now boasts of over 3 lakh merchant establishments. There are 7 banks each having a portfolio of over 15 lakh credit cards. ICICI Bank holds 32 percent market share followed by SBI cards and Citibank, both at around 14 percent and 13 percent market share. The Private Sector Banks exhibited a phenomenal growth in the credit card market with card issuance vaulting by 62 percent and the card base rising from 68.39 lakh to 110.90 lakh. Public Sector Banks have shown a 22 percent increase in the base, rising from 38.95 lakh to 47.45 lakh. The MNC banks have shown the growth of 38 percent, rising from 66.63 lakh to 92.08 lakh cards.

With over 254 lakh credit cards in use in India, the pattern of usage is also undergoing a sea change. The total spends in the payment industry for the year 2007-08 is around Rs. 63,669 crore at the POS with both domestic and international cards.

The total number of credit cards as on March **2008** was over 275 lakh. ICICI Bank tops the chart when it comes to the highest credit card issuing bank, with 90 lakh credit cards in the market during the year 2008. It covers 33 percent of the market share. Both SBI and HDFC are having a market share of about 13 percent with a card base of 36 lakh and 35 lakh respectively. The market share of private sector banks has increased to 48 percent in 2008 from 44 percent in 2007. The private sector banks have shown an increase in their credit card base by 19 percent from 109.90 lakh credit cards in the previous year to 130.77 lakh cards by March 2009. The market share of foreign sector banks has fallen from 37 percent in 2007 to 34 percent in 2008 with 95 lakh credit cards in the market as on March 2008. Public sector banks constitute 16 percent market share, with 45.34 lakh credit cards. Other banks totaling to 4.36 lakh credit cards cover the balance 2 percent of market share. ICICI Bank occupies 34 percent market share, followed by SBI and HDFC bank with 13 percent market share each. The Merchant Point of Sale (POS) Terminals in India has increased by 28 percent during the year 2008 as compared to the previous year.

The year **2008-09** had been an exceptionally challenging year for the global economy and financial sector. The number of credit cards in India during the year ended March 2009 declined to 246.99 lakh from the previous year card base of 275.47 lakh. The card acceptance infrastructure has been growing at a positive pace, registering a merchant terminal base of about 4.27 lakh. However, in **2009-10** as per the RBI data release for the month of May 2010, the credit card companies have witnessed 20.9 million point of sale transactions through credit cards as compared to 19.8 million in April 2010. The value of these transactions stood at Rs 59,355 million. It is estimated that the year **2010-11** will reinstate consumer confidence in the usage of credit cards which has resulted in the increase of card base to about 210 lakh in March 2011.

7. Sector Wise Market Share of the Banks

The Indian banking sector constitutes the Public sector, Private sector and the foreign banks. A close observation of the number of cards issued by them highlights the particular sector's contribution towards the credit card industry. The market share of private sector banks has increased to 51.21 percent in 2010 from 49.99 percent in 2009, with a fall in their credit card base. The private sector banks have shown an increase in their credit card base by 19 percent from 109.90 lakh credit cards in the previous year to 130.77 lakh cards by March 2009. The market share of foreign sector banks has fallen from 37 percent in 2007 to 34 percent in 2008 with 95 lakh credit cards in the market as on March 2008. Public sector banks constitute 16 percent market share, with 45.34 lakh credit cards. Other banks totaling to 4.36 lakh credit cards cover the balance 2 percent of market share. (<http://www.ventureinfotek.com/>)

The following table will explain the Sector Wise Distribution of Credit Cards

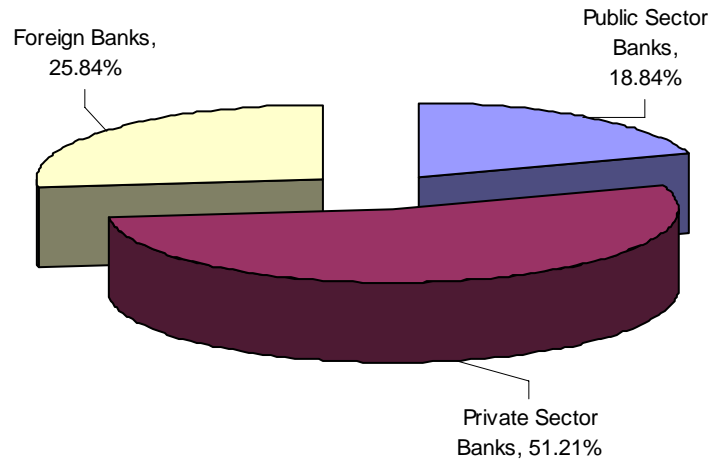
Table 3.3 Sector Wise Distribution of Credit Cards

Sector	Year Wise Distribution of Cards in Lakhs – 2000 to 2010										
	31.3.00	31.3.01	31.3.02	31.3.03	31.3.04	31.3.05	31.3.06	31.3.07	31.3.08	31.3.09	31.3.10
Public sector banks	9.89	12.46	15.60	20.16	22.17	29.72	40.96	47.45	45.58	34.80	34.93
Private sector banks	0.33	2.66	5.67	13.57	27.30	49.33	67.79	110.90	130.77	123.47	94.98
Foreign banks	26.63	33.40	38.11	43.25	54.00	62.00	71.33	92.08	95.00	88.55	55.35

Source: Venture infotek survey reports

The market share of private banks has increased to 51.21% in 2010, from 49.99 percent in 2009, with a fall in their credit card base. In 2009, the total number of credit cards issued by private banks in India stood at 123.47 lakh, while in 2010 it fell to 94.98 lakh. The market share of foreign banks decreased from 35.85 percent in 2009 with a card base of 88.55 lakh to 29.84 percent in 2010 with 55.35 lakh cards. While the card base for public sector banks marginally increased to 34.93 lakh in 2010 from 34.80 lakh in 2009, their market share increased from 14.09 percent in 2009 to 18.84 percent in 2010.

Exhibit 3.3. Market Share as on 31st March 2010



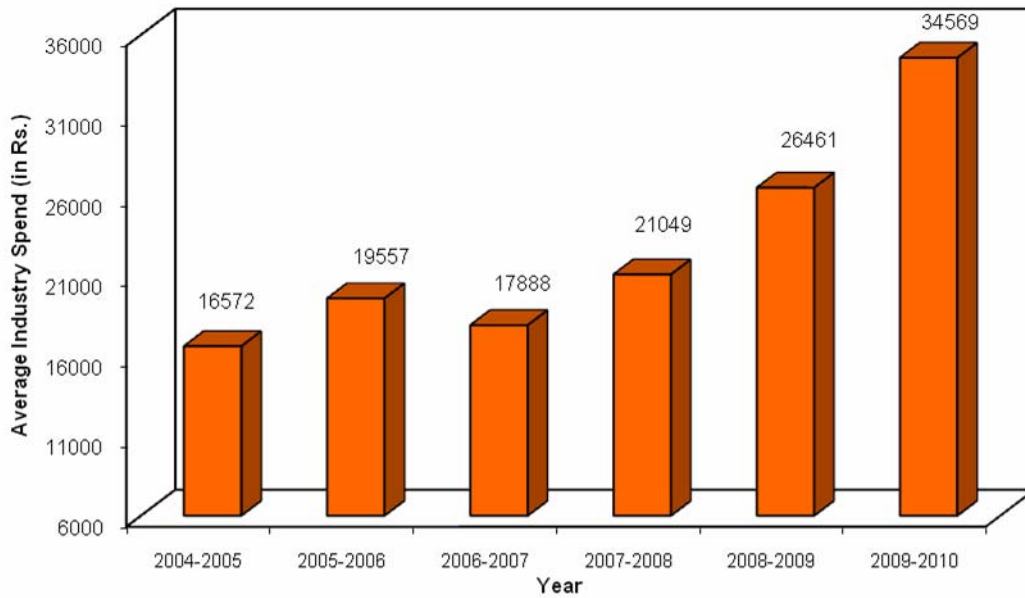
8. Credit Card Spending Pattern from 2004 to 2010

A majority of credit card purchases were from shopping, jewellery, dining and traveling, which contribute nearly 70 percent of credit card payments. The credit card spends at merchant POS terminals increased by 13 percent to Rs. 65,356 crore during the year 2008-09. However, the growth was lower than the 40 percent recorded in 2007-08. ICICI Bank having the highest credit card base with 70 lakh credit cards also tops the list when it comes to credit card spends but it has reduced from Rs 19944 crores to Rs 18523 crores in the year 2009. Almost all other banks have reported positive growth in the credit card spends. The growth in the number of cards decelerated in 2008-09; the growth spends continued to be positive by 13 percent.

The total number of credit card base and credit spends have declined, the average annual credit card spends per card has increased significantly to Rs 34,569 in 2010 from Rs 26,461 in 2009, reporting a growth rate of 31 percent being 5 percent higher than that of 2009 (26 percent).

The spending pattern of the industry from the year 2004 upto 2010 is presented in the following chart.

Exhibit 3.4. Growth in average credit card spend (in Rs.)



The above diagram depicts that in the year 2004-05, the average industry spend was Rs 16,572 which grew to Rs 34,569 in the year 2009-10. The Indian Credit Card Industry was still at a nascent stage, when compared to economies in West Asia. Only 14 percent of Indians owned a credit card. Seventy three percent of Indians spend less than \$ 35/- on an average each month, while 25 percent spend between \$ 35/- and \$ 300/-. Only 2 percent of Indians spend over \$ 300/- on the credit card during a month. Seventy two percent of Indians used their credit cards 1-2 times a month, while 23 percent of Indians used their cards between 3-5 times and remaining 5 percent used their cards 6 times or more every month. Forty four percent of Indians used their credit card most often for purchases of clothing, 14 percent for supermarket/grocery shopping, 9 percent at hotels and 6 percent at restaurants. The usage of credit cards at retail outlets had nearly doubled from 30-35 percent two years ago to 50-60 percent currently.

9. Merchant Establishments

Merchant establishments are the business firms which act as the link between credit cardholders and credit card issuing banks. Banks issuing credit cards claim wide acceptance of their cards from many merchant establishments, shops and restaurants displaying the Master Card logo or Visa Card logo. The Merchant Point of sale (POS)

terminals in India have increased by 12 percent during the year 2009-10 as recorded against 9 percent last year. There are over 4,76,000 POS Terminals in the country as on March 2010. Despite the fall in number of POS Terminals, ICICI bank had the largest network with 1.80 lakh POS Terminals with a market share of 42 percent in 2009 followed by Axis bank with 1.60 lakh POS in the year 2010.

As per the RBI release, the amount spent with credit cards at merchant POS terminals increased from Rs 70,506 crore in the year 2007-08 to Rs 83,903 crore in the year 2008-09 reporting a growth rate of 19 percent which was much lower than the 42 percent recorded in the year 2007-08. The slow growth in the year 2009-10 is attributed to the strategic decision taken by some of the major banks in weeding out inactive and unproductive merchant terminals from the market.

10. Reserve Bank of India's (RBI) Guidelines

The RBI had announced in June 1998 that banks are allowed to undertake credit card business either independently or in tie-up arrangements with other card issuing banks without prior approval of the RBI. However, banks desirous of setting up a separate subsidiary for credit card business will require prior approval of the RBI⁽⁴¹⁾

The RBI is concerned over the interest rates charged by the credit card companies and regulates the role and functions of the banks. The card companies may have to clarify the interest rate structuring to RBI since the Central Bank believes that the hidden cost component is considerably high. Though the interest rate charged by the credit card on outsourcing are around 1.75 – 2.25 percent per month, the actual calculations are based on a compounded method. As a result, the interest rates on a yearly basis can go up to 36-40 percent.

RBI expects the card issuers to be transparent about their rules on interest rates, the percentage being charged on the basis of calculations. Around 25-30 percent of the credit cards issued in the country are never activated. It is estimated that credit card companies incur a cost of around Rs.1500 to issue a card, after taking into consideration the cost of customer acquisition and application processing.

An electronic Money service requires the approval from RBI. Commercial banks have to send an application to RBI with complete information of its infrastructure and security system. In the larger interest of card holders and banks, a proper regulatory mechanism, with adequate framework of guidelines or monitoring and control, is necessary. Such regulatory mechanism is done by the Reserve Bank of India which constituted a Working Group on Regulatory Mechanism for Cards in 2004. The Group has suggested various regulatory measures aimed at encouraging the growth of credit cards in a safe, secure and efficient manner as well as to ensure that the rules, regulations, standards and practices of the card issuing banks are in alignment with the best customer practices. Each bank and the Non Banking Financial Institutions must have a well documented policy and a Fair Practices Code for credit card operations and they must incorporate the relevant guidelines contained in the circular. The guidelines relate to the issue of cards, interest rates and other charges, wrongful billing, protection of customer rights- right to privacy, customer confidentiality, fair practices in debt collection, Redressal of grievances, internal control and monitoring systems and right to impose penalty⁽⁴²⁾

The RBI has now brought the credit card disputes within the ambit of the Banking Ombudsman Scheme. The Reserve Bank of India has recently set up an independent Banking Code and Standards Board of India so as to ensure a comprehensive code of conduct for fair treatment to the customers. It is formulated by banks and adhered to.

RBI has issued fresh directives in view of numerous complaints from credit cardholders, especially with regard to excessive finance charges and issuance of unsolicited cards. It stated that the card companies should prescribe a ceiling rate of interest including processing and other charges in case of small value personal loans and loans similar in nature. There should be transparency in levying differential interest rates. The banks should publicise through their website and other means, the interest rates charged to various categories of customers. The banks should indicate the methodology of calculation of finance charges. It further directed that the banks should not ensure wrong bills, in case any customer protests any bill, the bank should provide explanation and if necessary documentary evidence to the customer within a maximum period of sixty days. The RBI has issued fresh directives in view of the numerous complaints from credit cardholders, especially with regard to excessive finance charges and issuance of

unsolicited cards. RBI called the banks to look into the complaints like charging annual fee on cards offered as free, issuance of loans over phone, disputes over wrong billing, difficulty in accessing the credit card issuer.

11. Problems in Credit Card Segment

As the use of credit card among the consumers increased and card issuing Agencies or Banks also compete with each other in marketing their own cards among the customer's complaints and grievances among the card holders also increased. To respond to the problems of card holders, Reserve Bank of India took steps to solve the issues between the concerned parties.

A system of redressal of grievances against banks was provided by RBI in 1995 by bringing The Banking Ombudsman Scheme. The aim of the Scheme was to resolve expeditiously and inexpensively all customer complaints. A public official is appointed to investigate complaints against the administration. The scheme, modified in 2006, covers the credit card sector complaints such as credit card issues, failure in providing the promised facilities, non-adherence to fair practices code and levying of excessive charges without prior notice. After the above modification, the banks received a large number of complaints related to credit cards.

12. Category-wise of complaints received

Out of the total complaints, about 20 percent during the year 2006-07, related to credit cards. The next three places in the number of complaints received were complaints pertaining to deposit accounts, loans and advances (general) and remittances occupied.⁽⁴³⁾

13. Credit card complaints

The credit card complaints received by the Ombudsman can be classified as follows: Issue of unsolicited cards, Non-dispatch of account statements in time, Levy of excessive service charges, Unauthorized debits, Late appropriation of payments made through cheques even though deposited in time/at drop boxes outside bank premises and levy of late fee in such cases, Excessive late fee and penal charges, Sanction of loan against credit cards on the basis of offers over telephone without written consent of customer, Refusal to cancel credit card, Refusal to settle insurance claims, Not adhering

to settlement terms for settling credit card dues, Wrong reporting of status of cardholder's dues to credit information companies, Failure to note caution / instructions in lost cards, Freezing of cards without informing the cardholder and Harassment by recovery officer.

Based on the analysis of complaints, the Department of Banking Operations and Development of RBI evolved appropriate policy interventions and issued necessary guide lines to the card issuing Banks. **The gist of guidelines issued by RBI are presented in Appendix 4.**

Massive and voluminous data transfer needs continued technological innovation to cope with the growing needs of expansion in the banking industry. The number of tie-ups with merchant establishments, networking and enhanced operation levels has grown tremendously. To keep pace with such demands of modernization and expansion, infrastructure management is very critical. Leakage of data and infringement into the software cordons are continuing menaces to modern system networking. Theft of Credit card and stealing personal information, Credit Card Skimming, Phishing/Bogus Internet website, cloning of credit cards, fraudulent pilferage of data and duplication of card instruments call for strategic measures and security coding to counter the threats.⁽⁴⁴⁾ It seeks considerable preventive research and development as a parallel mechanism with a view to disabling and negating internet-poaching by hackers or fraudsters. Incorporating security environment to the card operations is an impending need of the hour.

14. Credit Card Frauds

Indians have the fear of Lack of “signature” to use credit cards for online purchases and the fear of stealing credit card information. This contributed to the slow growth of e-commerce and the dotcom failures.⁽⁴⁵⁾ Credit card users face many problems like harassment from the clutches of bankers when some banks issued credit cards without verifying the applicants credit worthiness, which led to card-holders debt⁽⁴⁶⁾.

CONCLUSION

The Credit Card Segment is highly competitive with almost all the banks offering credit cards or debit cards in association with Visa International or Master card. The industry is becoming a clustered market place with many players entering into the field. Every bank is trying to gain a market share with aggressive promotional activities and additional value-added services. Banks are also trying to lure the customers with a number of innovative schemes. In spite of the aggressive efforts of the banks, a vast majority of the Indian population is yet to come to grips with credit cards. The bank should make the effort to spread the concept of plastic money among the semi-urban and rural areas to promote the growth. In our country, credit cards have played a major role in the metamorphosis of the middle and low-income groups, relieving them from the constraints of monetary exigencies. It has opened the flood gates of getting fringe benefits such as discounted travel, holiday and stay and dining facilities in star hotels. The credit card market in India is still developing and there is a large untapped market which allows for ample growth opportunities for all card users.⁽⁴⁷⁾

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