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NAIRJC JOURNAL PUBLICATION

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Research Journal Consortium



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ISSN NO: 2454 - 2326

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## CREDIT CARD BUSINESS IN INDIA

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### ABSTRACT

*Credit Card as a product is beneficial to the Issuing Bank, Customers, vendors and the Governments. By and large it is beneficial to the society as a whole. In this paper a modest attempt has been made to present status of the Credit Card Business in India both from the Bankers point of view and from the user's point of view.*

**Key Words:** Credit Card, Indian Banker, Insurance Facilities, Kisan Credit Card, VISA.

### CHANGING PROFILE OF INDIAN BANKING

Banking had traditionally remained a protected industry in many economies, especially emerging economies. Regulated deposit and lending rates and restrictions of competition enabled comfortable spreads. There existed only very limited pressure on banking institutions to come out of this quiescent and protected world. A variety of developments have compelled banks to change the old ways of doing business. These include, among other, advancements in information technology, increased emphasis on shareholder value, the problems of South east Asian economies, the recessionary trends in the Japanese economy, the financial sector problems encountered in Latin American economies and more recently, in some Central European economies, disintermediation pressures arising from a liberalized marketplace, and macroeconomic pressures and banking crises in the 1990s. All these have provided graphic evidence of how a weak banking sector can undermine confidence in macroeconomic policies. It is, therefore, no longer possible for developing economic to delay the introduction of structural reforms, stricter prudential and supervisory norms, greater transparency and increased accountability not only to ensure the stability of the financial system, but also to enhance competitiveness. After a long period of strong State influences and a heavy degree of financial repression, enormous economic changes have taken place since the initiation of the reform process in India in direct response to the recommendations of the **First Narasimham Committee (1991) and the Second Narasimham Committee (1998)**, and greater attention has been devoted to improve the efficiency and health of the banking sector. And the process of this change has a strong momentum. The recent policy measure has continued to focus on structural measures to strengthen the financial system and to improve the functioning of the various segments of the financial markets. The significant transformation of the banking industry in India is clearly evident from the changes that have occurred in the financial markets, institutions and products. While deregulation has opened up new vistas for banks to augment revenues, it has also entailed greater competition and consequently, greater risks. The traditional face of banks as mere financial intermediaries has since altered, and risk management has emerged as their defining attribute. In keeping with the changing profile of the banking industry, measures initiated in our country have focused on building safety norms. Anticipating problems and effecting changes to tackle

disturbances, if any, in a robust manner towards developing a stable, efficient, resilient and vibrant banking system.

The Indian financial system is currently undergoing a process of diversification leading to inter-penetration of markets and blurring of the traditional distinction between banks and non-banks. Non banking financial companies are growing both in magnitude and depth. The economy is in a process of rapid churning, and the country would require judicious integration of the reach of the banking system and the zeal of the non-banking financial companies. It would be no exaggeration to state that the biggest beneficiary of the recently initiated economic reforms is the Indian banking sector. There has been an all round recognition of the fact that the reforms initiated in the banking sector are both a challenge and an opportunity.

### **CONCEPTUALISATION AND DEVELOPMENT OF CREDIT CARDS**

The Concepts of Credit Card first introduced by the end of 1970s through Citi Bank followed by Bank of Baroda and Central Bank in India. Now the entire foreign Bank and some Pvt. Banks are having credit card in their product chart. Citi Bank, Standard chartered Bank, American Express are the leading foreign banks who are offering Credit Card. Among the Indian Bank SBI, BOB and few other are also offering the product. Master Card and Visa Card are the two International plastic Card brand which most of the Banks are using throughout the world. India is no exception. In India the using of credit card gains its momentum in the early 90s, with the liberalisation of the economy. As different range of foreign goods is flourishing in the Indian Market the need for financing come to fore front. There credit card play its role. In the early 1990s there were only a few banks offering credit card but by 2001 all the foreign banks and many private banks also started offering credit card.

It is estimated that credit card volume is increasing around 15 percent per annum in average for last 10 years and value of transaction increased by 20 percent in an average in last 10 years in India. Popularity of credit card in India now not only restricted to metropolitan cities but it is also attractive in major cities and towns. Most of the large and medium size shops, petrol Station, Hotels, Restaurants, Malls etc. are accepting credit card from their customer to boost up their sales volume. Credit Card in India is extremely useful to the huge middle class people who use to increase the purchasing power through that plastic card.

Credit card, a commercial bank product is one of the most profits giving sector of all commercial Banks. Be it an Indian Bank or a foreign Bank, it is having a key position in the priority list of the entire banker. It is also known as plastic money or smart card. Credit card is a small plastic card of the size 85×155 cm which helps the owner of the card to settle any payments without paying cash, Draft or cheques. It is basically an instrument by which Individual settle account in credit. The seller gets the full payment immediately but the purchasers are not parting with immediate cash. The purchaser would settle his account with the banker who has issued him the card, in a future date. Thus the customers enjoy a lot of credit facilities from the bank which is restricted to a certain limit prior to the issue of card.



## **CREDIT CARDS ARE OF DIFFERENT TYPES:-**

1. Proprietary Card (Example Diners/Amex)
2. Charge Card. (Example Diners/Amex)
3. Co-Branded Card (Example Citi/ Indian Oil)
4. Affinity Card (Example HSBC Tolly Club)
5. Corporate Card (Example TISCO)
6. Personal Card (Example Satarupa Pathak)

The two main credit provides in the world are - VISA & MASTER. Various banks tie up either with VISA or MASTER or both, to provide credit for a particular period to the cardholder.

To obtain credit card, one has to apply in a prescribed format of the particular bank. Bank after scrutinising the credit worthiness of the applicant, issue him a credit card.

Incidentally, the applicant need not be an account holder of the bank to be eligible to get the credit card. The bank issues the card allowing him a credit limit within which the cardholder has to limit his expenses. The credit period varies minimum from 18 day to maximum 48 days depending upon the data of utilising the card and the date of the bill.

The cardholder has to pay the amount within the stipulated time. Once the credit card is issued the cardholder has to pay an annual fee which varies from Bank to Bank. Most of the Banks issuing credit cards also provide minimum balance payment of 5%. To enable the cardholder to pay the dues comfortably and for the balance amount this due interest is charged on a predetermined rate.

At the moment in out country credit cards are provided by Citi Bank, Chartered Bank, SC Grindlays Bank, HSBC, ICICI, Allahabad Bank, Bank of Baroda, Andhra Bank & Canara Bank. Credit cards are also issue by American Express Bank, Dinners Club by Citi Bank.

## **THE DYNAMICS OF CREDIT CARD**

A credit card is basically a payment mechanism which allows the holder of the card to make purchases without any immediate cash payment. Credit limit is fixed by the issuing bank and the limit is determined by the financial history as well as the type of card. Users are issued with a card on production of which their signatures are accepted on invoice in merchant establishments participating in the scheme. The issuing bank makes the payment to the merchant establishment selling the relevant goods or services. The holder, to whom the card is issued, in turn, reimburses the bank on receipt of the billing statement. Generally it is not necessary to reimburse the bank with the entire amount on the billing statement. After making payment of the minimum amount due every month, the balance could be staggered over a period. Of course, outstanding balance plus any overdue will attract service charge at a certain rate. Also, users are generally required to pay a regular subscription for the use

of the service. Different types of cards are available. The benefits attached to the card vary according to the type of the card.

Often, the bank which issues the card will be a member of a payments brand. For instance, VISA is a payments brand with global payments system. Its cards are accepted at numerous locations (about 23 million merchant establishments) all over the world. All establishments displaying VISA Logo accept VISA cards for all transaction. Of course, VISA itself does not offer cards or financial services; it only advances new payment products and technologies on behalf of its members.

On every card transaction conducted, the merchant establishment will given a commission which will be shared by the issuing bank and the acquirer bank (i.e., the bank which approaches the merchant establishment for its acceptance of the card). If it is a branded card, a part of the commission will go to the payment brand. For instance, if it is a VISA card, a part of the commission will go to VISA. Suppose Bank 'A' has convinced merchant establishment 'X' to accept VISA cards. This means that all VISA cards will be accepted by establishment 'X' in case establishment 'X' accepts the VISA card issued by Bank 'B', then the commission will be shared by Bank. 'A' Bank 'B' and VISA. Establishment 'X' will collect the amount due to it from Bank 'A' and Bank 'A' will collect the amount from Bank 'B' (the bank which has issued the card). Bank 'B' will collect the amount from the card holder. The entire transaction is routed via VISA.

### **KISAN CREDIT CARDS AND LAGHU UDYAMI CREDIT CARDS**

A Kisan Credit Card (Used to be designed as 'green card' by some banks) issued by Indian banks, aimed at providing adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner. More specifically, kisan credit card will facilitate farmers in the purchase of agricultural inputs such as seeds, fertilizers and pesticides and to draw cash for other production and ancillary needs as many times as they wish. Unlike the usual credit cards, kisan credit cards are issued based on the landholding of agriculturalist. As such, the provision of one-day six scheme (i.e, the provision requiring the holder of a credit card to furnish income tax return) is not applicable to holders of kisan credit cards. The credit extended in the case of a kisan credit card would be revolving cash credit and provides for any numbers of drawals and repayments within the limit. The quantum of limit is based on operational landholding, the cropping pattern and scales of finance approved for the area. The cards are valid for three years and subject to an annual review.

The Kisan Credit Card (KCC) scheme introduced in August 1998 aims at providing adequate, timely and cost effective and hassle-free credit support to the farmers and is being implemented across India by all public sector commercial banks, RRBs and cooperative banks. The scheme is popular among both farmers and issuing bankers. Farmers have the flexibility to avail of production credit and also avoid procedural delays in getting credit sanctioned. For bankers, the need for repeated processing of credit applications is avoided. To cater to the comprehensive credit requirements of farmers under a single window, the scope of KCC is broadened by NABARD from time to time. In addition to short term credit needs and term loans for agriculture and allied activities, a certain component of loans through KCC also covers consumption needs of the farmers, including defaulters, oral lessees, tenant farmers and share croppers, among others, who might have left out of the KCC

scheme as also to identify new farmers. Banks were also advised to issue KCCs in a hassle-free manner and extend crop loans only through KCCs. To further expand the coverage of borrowers under KCC, the scheme was extended to borrowers of long term cooperative credit structure, viz., PCARDBs and SCARDBs. As at the end of March 2011, the total number of KCCs issued stood at 104 million all over the country.

Encouraged by the kisan credit card scheme, Laghu Udyami Credit Cards have been introduced in India for providing simplified and borrower friendly credit facilities to retail traders, artisans, professionals and self-employed person, small industrial units and small businessmen including those in the tiny sector.

### **GENERAL PURPOSE CREDIT CARDS**

In December 2005, all scheduled commercial banks, including RRBs, were advised to introduce a 'general purpose credit card' (GCC) scheme for their constituents in rural and semi-urban areas with a view to provide them with credit card like facilities with limited point of sale (PoS) and automated teller machine (ATM) facilities. The GCCs would be issued based on the assessment of income and cash flow of the households as it done for normal credit cards. In May 2008, banks were advised to classify 100 percent of the credit outstanding under the GCCs as indirect finance to agriculture under the priority sector as against the earlier limit of 50 percent of the credit outstanding.

### **CREDIT FACILITY AS WELL AS INSURANCE FACILITIES**

#### ***Revolving Credit Facility***

Credit Card's Revolving Credit Facility offers cardholders the power and flexibility to plan payments against their dues. The Cardholders need to pay only their "Minimum Amount Due" every month. And the balance in easy installments.

They have the choice to pay any part of the balance over the Minimum Amount Due that they consider convenient. The minimum Amount Due is calculated as a certain percentage of their total outstanding and can be as low as 5% of their purchases/cash advance. The balances carried forward attract a nominal finance charge.

#### ***Insurance Facilities***

Different banks offer different insurance facilities to the cardholder, which the cardholders enjoy without paying anything extra. This facility comes automatically with the card.

### **FOREIGN BANKS MAY ISSUE CREDIT CARDS**

Foreign bank are allowed to operate in India through branches only. A foreign bank desirous of opening its maiden branch in India may apply to RBI giving relevant information about the bank, its major shareholders, financial position, etc. Request from banks will be examined, keeping in view:

- (i) The financial soundness of the bank
- (ii) International and home country ranking



(iii) Rating

(iv) International presence

(v) Economic and political relation between the two countries (in particular the home country of the banks should not discriminate against Indian banks).

The bank should be under consolidated supervision of the home country regulator.

A new foreign banks is required to bring in assigned minimum capital of US \$ 25 million, of which US \$ 10 million shall be brought in at the time of opening each of the first two branches and the balance of US \$ 5 million at the time of opening the third or more branches. Permission to open the second and subsequent branch will be granted taking into account, inter alia, the policy prevailing at the relevant time and the performance of the first branch.

The assigned capital has to be maintained unimpaired, on an ongoing basis and in case of any loss, which results in erosion/impairment thereof, the difference should be brought in immediately as capital funds from the Head Office. Further, the Indian entity is required to maintain the required percentage of capital to risk weighted asset of its Indian operations.

Existing foreign banks, desirous of opening branches may approach the International Banking Section in the DBOD with their specific requests.

Foreign Banks may freely set up centers to support the following activities relating to credit cards:

- Attending to the request for an issue of credit cards
- Processing of credit cards
- Acceptance of credit card payment by cheques
- Marketing credit cards to prospective customers
- Utilisation of services of agent at centres (where the bank has no presence) to carry out credit card related activities
- Maintenance of cash balances for meeting expenses of the centre and not for payment to credit card holders.

However, before the centres commence operations, a licence under Section 23 of **the Banking Regulation Act, 1949** should be obtained from the concerned regional office of the RBI.

## **THE FUTURE OF CREDIT CARD IN INDIA**

The concept of credit card once made popular to masses there will be a huge market for credit cards. In this age of electronics carrying cash of a considerable amount is ruled out. People would prefer to buy the merchandise, pay food bills, pay Air Fare/ Rail Fare and even hospital charges through Plastic i.e. Credit Card which is convenient, safe, and hassle free. Moreover, when you pay through your credit card you do not pay anything extra but on the other hand, you enjoy a free credit period which is between 18 to 48 days depending upon the Date of Billing. Over and above the benefits mentioned above, the credit card also enables the



cardholder to draw cash from ATM to meet the emergency cash expenses. It has been observed that now more and more merchant establishments are interested in accepting credit cards and thus opening to allow its credit cards. Infact banks have started allowing its credit card holders, to market through internet. Now-a-days sitting at home with your computer and putting your credit card Personal Identification Number (PIN) you are able to buy any items of your choice, book Air/rail tickets, etc. And pay comfortable enjoying a minimal formality by filling an application form along with your proof of income and proof of identify and there is no need of any guarantee or mortgage of movable and immovable properties; credit card is getting its immense popularity.

***Credit cards are having two major positive points***

1. It increase the buying power and
2. It provides clean credit of 18 to 48 days subject to the date of purchase and date of Billing.

**CONCLUSION**

Credit card is convenient, safe and hassle free. It increases the buying power. It is getting immense popularity. Farmers are being benefitted through kisan credit card. Encouraged by the kisan credit card scheme, Layhu Udyog credit cards have been introduced in India for providing simplified and borrower friendly credit facilities to retail traders, artisans, professionals and self employed persons, small industrial units and small businessmen including those in the tiny sector. Credit Card business is beneficial not only for bankers but also for common man. The IT revolution has made our life much easier than before.

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