

A Study on Benefits of Credit Cards for Customers

Cyriac Philip Alexander

Date of Submission: 2810-2020

Date of Acceptance: 09-11-2020

I. Introduction

Innovation in fact has become a continuous process in banking. With dramatic changes in policies, the banks apart from meeting the demands of the economy are optimizing their efforts to fulfil their requirements, ambitions, aspirations and expectations of the community. Quite clearly, the aim is to make it an exclusive piece of possession and a symbol of status. The imperatives of the new business and industry culture also demands that it dispenses with the need of hard currency into many areas of its transactions making it cashless society. Nothing has revolutionized monetary transactions in the present day more than credit cards. The launching of credit card is indeed one step further in meeting the social objectives expected of today's banking. It is treated as a status symbol and as a vehicle of consumerism A world where dreams are turned into reality with the flash of a credit card.

CREDIT CARDS IN INDIA

India is one of the fastest growing countries in the plastic money segment. Already there are 300 million cards in circulation, which is likely to increase at a very fast pace due to rampant consumerism. India's card market has been recording a growth rate of around 20 per cent in the last 5 years, especially in the debit card segment. Card payments form an integral part of electronic payments in India, because customers make many payments on their card - paying their bills, transferring funds and shopping. Credit cards have shown a relatively slower growth compared to that of debit cards, even though they entered the market one decade before debit cards. Only in the last 5 years has there been an impressive growth in the number of credit cards- by 30 per cent between 2004 and 2008. It is expected to grow at a rate of about 60 per cent considering levels of employment and disposable income. Majority of credit card purchases come from expenses on jewellery, dining and shopping.

Another recent innovation in the field of plastic money is co-branded credit cards, which combine many services into one card-where banks and other retail stores, airlines, telecom companies enter into business partnerships. This increases the utility of these cards and hence they are used not only in automated teller machines, but also at POS terminals and while making payments on the net (Reserve Bank of India, 2012).

MECHANISM OF CREDIT CARD

Credit cards are issued by a credit card issuer, such as a bank or credit union, after an account has been approved by the credit provider, after which cardholders can use it to make purchases at merchants accepting that card. When a purchase is made, the credit card user agrees to pay the card issuer. The cardholder indicates consent to pay by signing a receipt with a record of the card details and indicating the amount to be paid or by entering a personal identification number.

Electronic verification systems allow merchants to verify in a few seconds that the card is valid and the credit card customer has sufficient credit to cover the purchase, allowing the verification to happen at time of purchase. The verification is performed using a credit card payment terminal or point-of-sale (POS) system with a communications link to the merchant's acquiring bank. Data from the card is obtained from a magnetic stripe or chip on the card.

Each month, the credit card user is sent a statement indicating the purchases undertaken with the card, any outstanding fees, and the total amount owed. After receiving the statement, the cardholder may dispute any charges that he or she thinks are incorrect. The cardholder must pay a defined minimum portion of the amount owed by a due date, or may choose to pay the entire amount billed. The credit issuer charges interest on the unpaid balance, if the billed amount is not paid in full (typically at a much higher rate than most other forms of debt). In addition, if the credit card user fails to make at least the minimum payment by the due date, the issuer may impose a "late fee" and/or other penalties on the user. To help mitigate this, some financial institutions can arrange for automatic payments to be deducted from the user's bank accounts, thus avoiding such penalties altogether as long as the cardholder has sufficient funds.

TRANSACTION STEPS

- **Authorization:** The cardholder presents the card as payment to the merchant and the merchant submits the transaction to the acquirer (acquiring bank). The acquirer verifies the credit card number, the transaction type and the amount with the issuer (card-issuing bank) and reserves that amount of the cardholder's credit limit for the merchant. An authorization will generate an approval code, which the merchant stores with the transaction.
- **Batching:** Authorized transactions are stored in "batches", which are sent to the acquirer. Batches are typically submitted once per day at the end of the business day. If a transaction is not submitted in the batch, the authorization will stay valid for a period determined by the issuer, after which the held amount will be returned to the cardholder's available credit. Some transactions may be submitted in the batch without prior authorizations; these are either transactions falling under the merchant's floor limit or ones where the authorization was unsuccessful but the merchant still attempts to force the transaction through. (Such may be the case when the cardholder is not present but owes the merchant additional money, such as extending a hotel stay or car rental.)
- **Clearing and Settlement:** The acquirer sends the batch transactions through the credit card association, which debits the issuers for payment and credits the acquirer. Essentially, the issuer pays the acquirer for the transaction.
- **Funding:** Once the acquirer has been paid, the acquirer pays the merchant. The merchant receives the amount totalling the funds in the batch minus either the "discount rate", or "non-qualified rate" which are tiers of fees the merchant pays the acquirer for processing the transactions.
- **Chargebacks:** A chargeback is an event in which money in a merchant account is held due to a dispute relating to the transaction. Chargebacks are typically initiated by the cardholder. In the event of a chargeback, the issuer returns the transaction to the acquirer for resolution. The acquirer then forwards the chargeback to the merchant, who must either accept the chargeback or contest it.



BENEFITS OF CREDIT CARDS TO CUSTOMERS

The main benefit to the cardholder is convenience. Compared to debit cards and checks, a credit card allows small short-term loans to be quickly made to a cardholder who need not calculate a balance remaining before every transaction, provided the total charges do not exceed the maximum credit line for the card. Credit cards increase purchasing power.

Credit Cards enable users to make big ticket purchases they might not otherwise be able to afford.

Different countries offer different levels of protection. In the UK, for example, the bank is jointly liable with the merchant for purchases of defective products over £100.

Many credit cards offer rewards and benefits packages, such as enhanced product warranties at no cost, free loss/damage coverage on new purchases, various insurance protections, for example, rental car insurance, common carrier accident protection, and travel medical insurance.

Credit cards can also offer a loyalty program, where each purchase is rewarded with points, which may be redeemed for cash or products. Research has examined whether competition among card networks may

potentially make payment rewards too generous, causing higher prices among merchants, thus actually impacting social welfare and its distribution, a situation potentially warranting public policy interventions.

OBJECTIVES

- To analyse the factors influencing the usage of credit cards by holders.
- To analyse the benefits available to the cardholders.

II. Literature Review

Sudhakara, A. M. (2012), the objective of this thesis is to review the technological progress made by the banking industry in India in provision of security to its customers in the light of continuous cyber race between devisers of security standards and the fraudsters hacking such security standards.

Dr. S. Sudhagar (2012), says that the issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Mann Ronald (2006) found in his research work “Contracting for credit, the problems of credit card contracts”. According to the study, standardized terms in consumer transactions, description of contracting practices that dominate the credit card industry were the factors to consider in responding to problems with credit card agreements.

K. Sharma and G. L. Nanda (2005) in their study „Frauds in credit card business“ identified the commonly adopted fraud generally termed as an “Identify Theft”, where a person may use the identity of the another person in a manner that amounts to fraud.

N. K. Bansal (2004) in a study on „plastic card currency“, observed that there has been a positive impact of the plastic currency on the lives of people of all walks of life and it emerged and is being accepted as a convenient mode of payment.

References

- [1]. Sudhakara, A. M.(2012), An evaluation of security standards for online banking adopted by Indian
- [2]. Banks offering credit debit card facility, Department of Commerce, University of Mysore
- [3]. Dr. S. Sudhagar (2012), A Study on Perception and Awareness on Credit Cards among Bank
- [4]. Customers in Krishnagiri District, ISOR Journal of Business and Management (IOSRJBM), pp 14-23.
- [5]. Mann, Ronald J. (2006). “Contracting” for credit. Michigan Law Review, Vol. 104 Issue 5, p899-932, 34p.
- [6]. Sharma. A.K & Nandha. G.L (2005). Frauds in Credit card Business. A Leading monthly Journal of Banking & Finance Vol 21 (7) P 15.
- [7]. N.K Bansal (2004) ‘Plastic Card Currency’ The Indian Banker, A Monthly Journal Published by Indian
- [8]. Banks Association Volume 1 (3)P 76-84

HYPOTHESIS

H1: There is significant difference between gender and factors influencing usage of credit card by holders

H0: There is no significant difference between gender and factors influencing usage of credit card by holders.

Independent Sample T test

Factors	Gender	Mean	SD	F value	P value
Buy now and pay later	Male	1.45	.577	1.013	.317
	Female	1.45	.679		
Increases purchasing power	Male	1.73	.750	.843	.361
	Female	1.61	.812		
Bulk purchase	Male	1.51	.674	.282	.597
	Female	1.45	.647		
For availing discounts and offers	Male	2.67	1.211	.003	.959
	Female	2.67	1.214		

Interpretation

From the above table, it is inferred from the mean values male and female respondents agree equally for factors like Buy now and pay later and availing discounts and offers. Male respondents agree more to increasing purchase power and Bulk purchase. Since the p value is greater than 0.05, the null hypothesis is accepted at 5% level of significance, hence there is no significant difference between gender and factors influencing usage of credit card by holders.

H1: There is significant difference between annual income and benefits availed by the card holders.

H0: There is no significant difference between annual income and benefits availed by the card holders.

ANOVA

Benefits	Income	Mean	SD	F value	P value
Buying now to pay later	100000 -	1.17	.388	4.287	.003
	200000				
	200000 -	1.42	.502		
	300000				
	300000 -	1.00	.000		
	400000				
	400000 -	1.11	.323		
500000					
Above	1.08	.277			
500000					
Online shopping	100000 -	1.39	.656	1.638	.171
	200000				
	200000 -	1.71	.693		
	300000				
	300000 -	1.40	.632		
	400000				
400000 -	1.89	.832			
500000					

	Above 500000	1.62	.870		
Fraud protection	100000 – 200000	1.87	1.254	2.640	.038
	200000 – 300000	3.03	1.449		
	300000 – 400000	3.07	1.387		
	400000 – 500000	2.72	1.274		
	Above 500000	2.69	1.797		
	100000 – 200000	1.22	.422		
200000 – 300000	1.52	.570			
300000 – 400000	1.33	.617			
400000 – 500000	1.39	.608			
Above 500000	1.23	.439			
Convenience					

Interpretation

Since the p value is greater than 0.05, the null hypothesis is accepted at 5% level of significance in respect to all except Buying now to pay later and Fraud protection.

Hence it is concluded that there is no significant difference between annual income and benefits availed by the card holders.

FINDINGS, SUGGESTIONS AND CONCLUSION

Findings on the basis of objectives

- Credit cardholders consider the factors like credit limit, interest rate, spending habits, fees and penalties, rewards and offers and reputation of the bank. Among this credit limit is the most considered factor while choosing a credit card because this factor affects consumer's credit scores and can impact their ability to obtain credit in the future.
- Convenience and buy now pay later are the most preferred benefits by the customers.

Other finding

Among the various purposes of credit cards like bulk purchase, small purchase, purchasing of groceries, clothing, electronic goods etc. Purchase of clothing and electronic goods were the main customer centered purposes.

Suggestions

Extended insurance protection: - Goods which purchased with valid credit cards should be eligible for extended one-year warranty after respective manufacturer warranty.

Banks can rise credit period and reduce interest rates charged to credit cards to enhance better usage of credit cards.

Banks has to educate credit card users to remain as vigilant buyers, so as to avoid fraudulent usage.

Banks has to create awareness on established networks and secured payment gateways so as to build favourable attitude in the minds of credit card users towards online purchases.

Conclusion

Credit card is commonly known as plastic money. It has become a necessity, where it enables currency conversion and tracking of money spent. It is an alternative for cash with safety and convenience. Credit cards enable purchasing power of an individual which in return has an impact on the growth of the economy. Credit cards are playing a major role in the busy life style of the people, but they are mostly seen among urban population. Hence steps should be taken to promote credit cards in the rural area as well, which will lead to increase in personal income, business development of banks as well as economic development of a country.

Bibliography

Website

- www.wikipedia.com
- www.slideshare.net
- www.scribd.com
- www.britannica.com
- www.creditcards.com
- www.investipedia.com

Journals

Barker T. S. A., (1992), Globalization of credit card usage: The case of a Developing Economy. *International Journal of Bank Marketing* 10(6): 115-124.

Gnanapushpam, J.S. (2007), A short history of CCs, available at: <http://archives.chennaionline.com/columns/variety/2007/07article26.asp> (accessed 30 October 2010).

Unpublished Thesis

Gini Babu (2020), A Study on credit card holders in Tambaram City, University of Madras, PP. 45-46, 91,93-95

Cyriac Philip Alexander. "A Study on Benefits of Credit Cards for Customers." *IOSR Journal of Business and Management (IOSR-JBM)*, 22(11), 2020, pp. 08-13.