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Department of Commerce
Osmania University
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CREDIT CARD BUSINESS IN INDIA

M.J.ELIAT
Lecturer in Commerce and Head of the Department
Wesley Degree College, Secunderabad –Andhra Pradesh

DR.D.CHENNAPPA
Associate Professor, Department of Commerce
Osmania University, Hyderabad - A.P.

ABSTRACT

Payment system has undergone drastic change world wide, starting from barter system of payment to metal coins, from metal coins to paper currency and from paper currency to the present plastic money. Plastic money is considered as a preferred way of payment by the people in the developed countries and also in the developing countries. Credit cards had a slow start in India in the early Eighties and predominately in the hands of a few foreign sector banks. Following the economic boom in the Nineties, there is more disposable income in the hands of people in India, and that has changed their spending, consumption and payment habits. The conservative Indian consumer started to prefer payment though credit cards than cash and debit cards. As credit card use started to pick up, some of the private sector banks and public sector banks also showed interest in investing in the credit card business. The present study tries to evaluate the growth of credit card business in India, its penetration levels, proportion of credit card transactions to macro-economic indicators and electronic payments and transactional analysis.

INTRODUCTION

The current boom in plastic money is one of those rare moments in history when that agreement shifts and one payment form overtakes another as the preferred way to pay. The first such change came sometime between the 10th and 6th centuries B.C., when Greece and India introduced metal coins, which surpassed barter or the shell currencies of earlier times. Coins dominated trade upto 2000 years, until the introduction of cheque, by Italian merchants in the Middle Ages. In 1690, Massachusetts became the first of the colonies to introduce paper money. Cash took decades to gain broad acceptance, but eventually became the standard of payment for the next three centuries. [1]

Although plastic money is in vogue the world over, it still has to catch up on India. For the year 2006, the total Personal Final Consumption Expenditure (PFCE) stood at Rs.20,72,079 crores, out of which only 7 percent of the payment was done electronically, which includes 1.6 percent of payments happened through credit cards.[2] The personal consumption expenditure through credit cards is one of the lowest at 1.6 percent in India compared to World average of 8.6 percent, Asia Pacific's 6 percent and even China's 3 percent.[3] Thus, people in India rely on cash particularly for all their transactional needs. This increases the amount of currency in circulation, which is around 16 percent of the total money supply - M_3.[4]

Compare this with other developed economies like USA which stood at 7 percent, Australia's at 5 percent, and even for developing countries like China, Thailand, Philippines, etc., it is around 8-9 percent.

In advanced economies, 10-25 per cent of the money supply is currency in circulation, and 75-90 per cent is in the banks. Whereas, in developing countries, the proportions are reversed, 10-15 per cent of the money supply is in banks; the rest is in wallets, under mattresses or in cash boxes. As a result, according to IMF estimates, the shadow economy accounts for 35-40 per cent of the GDP in developing economies, compared to just 14-16 per cent in developed economies.[5] All these factors point to the immediate need of promoting credit cards and other electronic payments

At the end of 2006, there are more than 1.5 billion credit cards in the world. The total number of credit card users in India was 16 million, which were issued by more than 29 banks having transactional value of Rs.33,886.47 crores.[6]

The credit cards being one of the modes of electronic payment will help the economy, because, the total annual cost to an economy of maintaining a cash-payment system was at 5 per cent of GDP. Electronic payment systems cost 4 per cent.[7]

Apart from the huge savings to the economy, the banks are also likely to gain from credit card business. Banks can make a good earning on their credit cards issued, which will fetch a high rate of interest compared to the normal rate of lending by the banks.

For merchants, accepting credit cards facilitates, access to large number of consumers, ability to sell consumer-needing credit without carrying credit risk and guarantee payment. The individuals will also find credit card transactions fast, easy and convenient. In addition to this credit cardholders can match time payments cash flows, they will have access to credit and to float, and use the bonus features. Thus the credit cards have benefits for the economy, the banks, the merchants as well as the consumers.

In the scenario of gradual decreasing in currency in circulation, due to people preferring for electronic payments and merchants' acceptance of credit cards as a mode of payment, banks have shown their willingness to invest in credit card business and the Reserve Bank of India's (R.B.I) initiating steps to foster electronic payments - the credit card business looks for a bright future.

The payment business in India is still at a nascent stage. For the year ended March 2006, the total Personal Final Consumption Expenditure (PFCE) in India was Rs.20,72,079 crore, out of which only Rs.33,886.47 crore happened only through credit cards.[8] Thus, people in India rely on cash particularly for all their transactional needs. This increases the amount of currency in circulation, which is around 16 percent of the total money supply – M_3.

This high cost of cash in circulation leads to the following disadvantages:

(a) The cost of printing & maintaining the currency is very expensive especially in low denomination notes.

(b) A high demand for currency results in shortage of currency.

(c) The high incidence of cash transaction has an undesirable effect of:

  (i) Inability to tracking transactions.

  (ii) Leading to loss of revenue in form of taxes like sales tax etc.

All these factors point to the immediate need of promoting electronic payments.

The personal consumption through credit cards is one of the lowest at 1 percent in India compared to the World average of 8.6 percent, Asia Pacific's 6 percent and even China's 3 percent.[9] Compare this with other developing countries like Philippines, Thailand, China, etc., where these countries have around 8-9 percent of their money supply (M_3) as currency in circulation.

OBJECTIVES OF THE PAPER

1. To study the Year on Year (YoY) growth rate for number of credit cards issued.
2. To evaluate the penetration of credit cards in India.
3. To present the transactional analysis.
4. To analyse the composition of credit card transactions (value) to major macro-economic indicators of India.
5. To analyse the percentage of credit card payments to total electronic payments.

METHODOLOGY

This study is based on secondary data, is collected from Reserve Bank of India (RBI) publications and other reliable sources. The period or study is from March 31, 2001 to March 31, 2006.

INDIAN CREDIT CARD SCENARIO

Starting from the 'Diners Club', some 50 years ago, the card business has been growing at a rapid pace at the world level as well as national level. The first card was issued in India by VISA in 1981 and the first Gold card was also issued by Visa in 1986. Andhra Bank was the first bank to issue an international credit card to restricted number of customers in 1987, through VISA after getting special permission from the RBI.[10] As on March 31st 2006, the numbers of players has gone up to 29 banks and 2 Non-Banking Financial Companies (NBFC).[11]

In the early stages its growth was very slow in terms of number and value with limited number of players, mainly foreign banks like HSBC, Citibank and Standard Chartered Bank dominated the market. Indian banks did not show much interest in the product in the initial stages. This is evident from the fact that it took State Bank of India (SBI), India's largest bank, almost a decade to begin dealing in credit cards.[12]

The credit card business is a volume game and initially capital intensive. The initial set-up cost for running credit card business in India, is estimated at about Rs. 200 crores and to attain the Break-Even Point (B.E.P) banks have maintain a minimum customer base of 10 Lakh.[13]

Another point to note here is that, banks have to issue 200 credit cards to maintain 100 active credit cards because, around 50 percent of the credit cards issued are inactive as many of them posses multiple cards.[14]

Metro has become the market for credit cards, as 80 percent of the credit card spends come from top 10 cities.[15] In fact, Neha Kaushik, had shown that the major non-metro cities such as Hyderabad and Chandigarh are growing almost as fast as metro cities in terms of spends by credit cards.[16] Due to credit cards business has become brutally competitive in metros and Tier-I cities, the Indian banks in their bid to build volumes rapidly are taking the credit card culture to the Tier-II and Tier-III cities.

A look at the pattern of credit card spends in India, shows a rise between 35 percent and 40 percent in October-November, as against September. Another interesting observation is that, North India sees higher credit card spends in October-November, whereas the South it is typically higher in December.

The credit card spends shows an increase up to 30 percent during the festive season, when compared to the rest of the year.[17]

There is tremendous growth potential for credit card market due to prevailing macro socio-economic situation in the country. In this context it becomes necessary to analysis the growth of credit card business in India in light of currency in circulation, broad money - M_3, Number of individual account holders with the Scheduled Commercial Banks, Personal Final Consumer Expenditure (PFCE), Personal Disposable Income (PDI) and the Gross Domestic Product (GDP) at market prices and Transaction value of credit cards in relation to other electronic payments. The Number of credit cards in India from March 2001 to March 2006 is presented in Table-1.

NUMBER OF CREDIT CARDS IN INDIA:

The following table presents the Number of credit cards in India from March 31st 2001 to March 31st 2006

Table–1: Number of credit cards in India from March 31, 2001 to March 31, 2006

Position as on	No. of Credit cards issued.	Growth (YoY)
March 31, 2001	43,59,547	-
March 31, 2002	55,70,375	27.72 per cent
March 31, 2003	68,08,409	22.22 per cent
March 31, 2004	94,14,300	38.27 per cent
March 31, 2005	1,22,52,820	30.15 per cent
March 31, 2006	1,64,82,615	34.52 per cent

Source: RBI Letter, DAPM.CO.RIA, and 911/07.50.01/2005-06, Dated 13, June 2006 and RBI Letter, DAPM.CO.RIA, 8572/07.50.01/2006-07, Dated 21, June 2007.

Note:- YoY = Year on Year.

Table-1 shows that the number of credit cards grew from 4.3 million in March 2001 to 16 million in March 2006.And the year on year growth rate is about 30 per cent. But, the YoY growth rate was declined in March 2003, and then the credit card growth rate has gone up to 38.27 per cent. The Compounded Annual Growth Rate (CAGR) for number of credit cards in India from March 31st 2001 to March 31st 2006 was found to be at 24.81 per cent.

The penetration of credit card business in India has been presented below.

PENETRATION OF CREDIT CARDS IN INDIA

The penetration of credit cards in the Indian market is studied in relation to number of individual account holders in the Scheduled Banks of India.

It is calculated, at the end of each financial year as follows:

$$\text{Penetration of credit cards (\%)} = \frac{\text{No. of credit card holders (as on the given date)}}{\text{Number of individual account holders in the Scheduled Commercial Banks (As on the given date}} \times 100$$

Table-2: Penetration of credit cards in India from March 2001 to March 2006

Year Ended	Number of Credit card holders	Number of individual account holders in the Scheduled Commercial Banks	Penetration (Percent)
March 2001	43,59,547	41,16,42,000	1.05
March 2002	55,70,375	42,25,27,000	1.32
March 2003	68,08,409	42,72,89,000	1.59
March 2004	94,14,300	43,97,10,000	2.14
March 2005	1,22,52,820	44,32,03,000	2.76
March 2006	1,64,82,615	48,50,97,771	3.40

Source: RBI publications.

From the Table-2 it can be seen that, the penetration level of credit cards in India stood at dismal figure of 1.05 per cent in March 2001 and reached 3.4 per cent by March 2006. It is showing continuous progressive growth. Based on the above information it can be inferred that there are around 3 credit cards for every 100 individual bank accounts in the country as on 31st March 2006. So, it can be concluded that there is an immense potential for expanding credit card base in India.

An attempt is also made to present the Transactional Analysis, Composition credit card transactions (value) in relation to macro-economic indicators, Credit Card Payments in relation to Total Electronic Payments. Due to constraint of information from RBI for the period March 2001 to March 2003, the data had been analyzed for the period March 2004 to March 2006, a period of three (3) years.

TRANSACTIONAL ANALYSIS:

The following table presents the transactions analysis for credit cards for the period March 2004 to March 2006.

Table-3: Transactional Analysis

Position as on	Number of Credit card holders (In Crore)	Number of credit card Transactions (In Crore)	Credit card Transaction (Rs. Crore)	Total amount outstanding on credit cards (Rs. Crore)	Revolving Credit (Percent)	Amount per Transaction per annum (Rs)	Transaction Amount per card per annum (Rs)	Number of Transactions per Card per annum(Times)
	(a)	(b)	(c)	(d)	(e) =d / c X 100	(f) =c / b	(g) =c / a	(h)=b / a
March 31, 2004	0.94	10.01	17662.72	6989	39.57	1764	18790	10.64
March 31, 2005	1.23	12.94	25686.36	9520	37.06	1985	20965	10.57
March 31, 2006	1.65	15.61	33886.47	14316	42.25	2171	20537	9.46

***Source*: RBI various publications.**

From the Table-3 the following conclusions are made:

i. Revolving credit: The 'revolving credit' is around 39.57 percent in March 2004 and but it had fallen to 37.06 percent in March 2005 and reached 42.25 percent in March 2006, showing a CAGR at 2.21 percent.

ii. Amount per transaction per annum: The 'amount per transaction per annum' is Rs.1,764 in March 2004 and reached Rs.2,171 in March 2006, showing a CAGR at 7.19 percent.

iii. Transactional amount per card per annum: The transactional amount per card per annum in March 2004 is Rs.18,790 and reached Rs.20, 965 in March 2005, but fell slightly to Rs.20,537 in March 2006 registered a CAGR at 3 percent. It indicates that credit cardholders are using credit cards very cautiously, because of hidden charges.

iv. Number of Transaction per card per annum: The Number of transactions per card per annum in March 2004 is at 10.64 times and fallen to 10.57 in March 2005 and further slipped to 9.46 in March 2006, showing negative growth rate.

From the above analysis, it can be inferred that, though the number of transactions per card was low, but amount per transaction has been increased. And the revolving credit remained constantly low for this study period, indicating majority of the credit cardholders are paying off their dues before the due dates.

It is suggested that, to earn good profits, the banks should focus on their strategies to make the credit cardholder to use their credit cards more frequently rather than pumping more cards in the market.

Table-4 presents an overview of major economic indicators of India in relation to credit card transactional values.

COMPOSITION OF CREDIT CARD TRANSACTIONAL (VALUES) TO MAJOR MACRO-ECONOMIC INDICATORS OF INDIA:

The following table presents the credit cards transactions (value) in relation to major macro-economic indicators of India.

Table-4: Composition of Credit card transactions (value) in relation to major macro-economic indicators of India

Position as on	Credit Card Transactional Value. (Rs)	Gross Domestic Product (GDP) @	Currency in Circulation	Currency With Public	Broad Money M_3	Personal Final Consumption Expenditure (PFCE) @	Personal Disposable Income (PDI) @
March 31, 2004	17662.72	2543396 (0.69)	327028 (5.4)	314971 (5.61)	2005676 (0.88)	1718227 (1.03)	2311558 (0.76)
March 31, 2005	25686.36	2843897 (0.90)	368661 (6.97)	355863 (7.22)	2251449 (1.14)	1891087 (1.36)	2533148 (1.01)
March 31, 2006	33886.47	3209397 (1.06)	430676 (7.87)	413143 (8.20)	2729535 (1.24)	2072079 (1.63)	2775980(p) (1.22)

Source: RBI, CSO.
@ At Current Prices, Base: 1999-2000.
(p) Provisional figure.
Note: - Figures given in the brackets ( ) are the percentages of credit card transactions (value) in relation to major macro-economic indicators of India.

From Table-4 the following inferences can be drawn, namely,

i. Gross Domestic Product (GDP): The percentage of credit card transactions (Value) to GDP has gone up from 0.69 percent in March 2004 to 1.06 percent in March 2006.

ii. Currency in Circulation: The percentage of credit card transactions (Value) to currency in circulation has gone up from 5.4 percent in March 2004 to 7.87 percent in March 2006.

iii. Currency with Public: The percentage of credit card transactions (Value) to currency with public has gone up from 5.61 percent in March 2004 to 8.2 percent in March 2006.

iv. Broad Money (M_3): The percentage of credit card transactions (Value) to Broad Money (M_3) has gone up from 0.88 percent in March 2004 to 1.24 percent in March 2006.

v. Personal Final Consumption Expenditure (PFCE): The percentage of credit card transactions (Value) for Personal Final Consumption Expenditure (PFCE) has gone up from 1.03 percent in March 2004 to 1.63 percent in March 2006.

vi. Personal Disposable Income (PDI): The percentage of credit card transactions (Value) to Personal Disposable Income (PDI) has gone up from 0.76 percent in March 2004 to 1.22 percent in March 2006.

Thus it can be concluded that there is a marginal increase of credit card transactions (Value) in relation to Marco-economic indicators over the years.

It can be observed that in March 2006, there was a decrease in the amount of cash with public and cash in circulation and but the credit card transactions have gradually increas in relation to M_3. The cash conservative Indian economy is slowly, yet surely substituting cash transaction with credit card transactions.

Having analyzed the relationship of credit cards transaction to various macro-economic indicators, Table-5 presents the information about credit card transactions to various electronic payments.

CREDIT CARD TRANSACTIONS AS A PERCENTAGE TO VARIOUS ELECTRONIC PAYMENTS:

The following table presents the relation of various electronic payments to credit card transactions

Table-5: Percentage of Credit Card Payments in relation to Total Electronic Payments (Number in Lakh and Amount in Rs. Crore)

Position as on	Total Electronic Payments		Card Payments				Other Electronic Payments #	
			Credit Cards		Debit Cards			
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
March 31, 2004	1669.55 (100)	52142.78 (100)	1001.79 (60.00)	17662.72 (33.87)	377.57 (22.61)	4876.67 (9.34)	290.19 (17.38)	29606.39 (56.78)
March 31, 2005	2289.04 (100)	108749.83 (100)	1294.72 (56.56)	25686.36 (23.87)	415.32 (18.14)	5361.04 (4.93)	579.00 (25.29)	77702.43 (71.45)
March 31, 2006	2850.13 (100)	146382.68 (100)	2560.86 (54.76)	33886.47 (23.15)	456.86 (16.03)	5897.14 (4.03)	832.41 (29.20)	106599.07 (72.82)

Source: RBI Bulletin.

Total Electronic Payments includes Electronic Clearing Services (ECS){Credit and Debit}, Electronic Funds Transfer (EFT), Credit Card Payments and Debit Card Payments.

From the Table-5 it can be observed that, the number of credit card transactions as a percentage of total electronic payments decreased from 60 percent in March 2004 to 54.76 percent in March 2006. Where as, the amount of credit card transaction also fell from 33.87 to 23.15 for the same period. Whereas, number of transactions happened through debit cards and other credit cards less when compared to credit card transactions. So, it can be concluded that majority of the electronic payments happened through credit cards. However, with regard to the transactional values it is 'other' electronic payment that holds the bulk of payments, followed by credit cards and debit cards.

It is can be observed that, for card-based payments, the debit cards (issued to majority of the account holders by the banks) are more in number than credit cards but from usage point of view it is the credit cards that are used more than debit cards, in relation to number of transaction or for that matter transactional amount also. So, it is observed that, people prefer to use the credit extended on credit cards rather than paying from their accounts though debit cards.

CONCLUSION

Credit cards have become an indispensable part of our lives, enabling currency conversion and tracking of money spent. The demographic transition has created a lot of demand in the recent years. Therefore, there is a lot of scope for credit cards business in India. The economic growth and purchasing power of the average Indian population is expected to rise, which will induce the consumption of spending on the credit cards, which in turn will boost the manufacturing and service industry.

As on March 2006, there were around 16 million credit cards issued by more than 29 banks in 150 cities in India with transactional value recorded at Rs.33886 crores. The CAGR for the period March 2001 to March 2006 is 24.81 percent, out of the 16 million credit cards issued in India, 14 millions has been issued under the banner of VISA, which amounts to whopping 87 percent of the market share.

Only 3 percent of the bankable population held credit cards. An increasing trend was observed in case of number of credit card transactions and credit card transactions value. The revolving credit stood at 42.25 percent as on March 2006.

A comparison of credit cards transaction value to macro-economic indicators as on March 2006, was calculated at 1 percent of GDP, 1.67 percent of Personal Final Consumption Expenditure (PFCE), 1.24 percent of Broad Money and 8.20 percent of Cash with public. All the values calculated showed an increasing trend.

A comparison of credit card payments to total electronic payments as at March 2006, shows that 55 percent of electronic transactions happened though credit cards and with 23 percent in terms of its value.

As a result of the thriving economy, increase in disposable income and consequently a rise in consumer expenditure. In line with growing affluence levels and consumer sophistication, which are the usual developments accompanying a booming economy, credit cards will witness a robust growth. The credit card culture is influencing into the daily purchasing habits of Indian consumers and especially in smaller cites, and credit cards are gaining increasing relevance to facilitate industrial, commercial and agricultural transactions also, the participants in the credit card industry will be going to have a very bright future ahead of them.

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