
UNIT 17 CREDIT CARDS

Objectives

After going through this unit, you will be able to:

- 1 explain the Concept of Credit Cards;
- 1 describe the Benefits of Credit Cards;
- 1 analyse the Types of credit Cards; and
- 1 identify the new Trends in Payment Business.

Structure

- 17.1 Introduction
- 17.2 History of Credit Cards
- 17.3 Types of Credit Cards
- 17.4 Additional Facilities and Services
- 17.5 Credit Card Business Cycle
- 17.6 Benefits of Credit Cards
- 17.7 Indian Scenario
- 17.8 Regulation of Card Business
- 17.9 Other Modes of modern Payment Business
- 17.10 Summary
- 17.11 Key Words
- 17.12 Self Assessment Questions

17.1 INTRODUCTION

Industries in the manufacturing sector grew because they produced tangible goods which satisfied physiological needs of human beings like food, shelter and clothing. As these basic needs were fulfilled there was a demand for improved satisfaction, and this led to a proliferation of variations in the same product and number of companies involved in their manufacture. The economic development of society and the socio-cultural changes accompanying these changes, has led to the growth of service industry. Increasing affluence combined with increasing complexity of life and increasing insecurity has led to the phenomenon of CREDIT CARDS. The credit cards provide convenience and safety in the purchasing process.

The Credit card is generally known as “plastic money”, as these cards are made of plastic, is widely used by the consumers all around the world. The convenience and safety factors add value to these cards. The changes in the consumer behaviour led to the growth of credit cards.

Credit card is a document that can be used for purchase of all kinds of goods and services in the world. It is a card that identifies its owner as one who is entitled to purchase things without cash, purchase services without money and be eligible to get credit from a number of establishments. The cards issuer issues credit cards depending on the credibility of the customers and also enters into a tie-up with merchant establishments which are engaged in various fields of business activities.

The issuer, for its convenience and for proper scrutiny sets up a credit limit on its card holders and a floor limit for its merchant establishments. The credit card offers the individual an opportunity to buy rail/air tickets, make purchases from shops, and stay at hotels when they need.

A credit card also enables an individual to purchase certain products/services without paying for them immediately. He needs only to present the credit card at the cash counter and has to sign some forms. In short, he can make purchase against credit card without making immediate cash payment. Therefore, credit cards can be considered as a good substitute for the cash and cheques. However, these cards will be accepted only by those establishments which have consented to entertain, them. These establishments are known as Merchant Establishments.

17.2 HISTORY OF CREDIT CARDS

Even in the earlier days some companies and shops used to sell goods on credit depending upon the credibility of the consumers. This system helped both consumer and the creditor. If we analyse the past we can see that some form of local credit invariably exists.

World's first credit card was issued by MOBIL OIL in the year 1940. This was initially issued by the company to give specialised services to its regular customers. This helped them to boost sales and increase customer base. Following the success of MOBIL CARD, various organisations began to think about the use of cards in different areas like travel, leisure, etc. this resulted in the introduction of DINERS CLUB, AMERICAN EXPRESS and CARTE BLANCHE cards. The period following World War II saw USA becoming the world's first "service economy". It is quite obvious can be see that the main growth and development in the credit card business took place in USA during this period.

First bank credit card was issued by RANKLIN NATIONAL BANK, USA, in the year 1952. During this period, credit cards were issued and operated without any specific system. For the successful operation of credit cards, the banks found a need for a particular acceptable system. Thus, in 1960 present credit card operating system was developed by BANK OF AMERICA, USA. It was subsequently licenced to some other USA Banks and eventually to an international bank card system called VISA INTERNATIONAL. Other competing USA banks followed and another international bank card system called MASTER CARD was established. Today VISA and MASTER CARD together command the bulk of credit card business.

Banks in the USA wanted to introduce the credit card system in other parts of the world. As a part of it, in the year 1966 the same successful system was licensed to BARCLAYS BANK, UK and BARCLAY CARD was launched with VISA tie-up. ACCESS CARD was launched in the 1962 in UK by a consortium of British and Scottish banks with MASTER CARD tie-up. With the astounding success of credit card system in UK, EURO-CARD was introduced in most of the West European countries with ACCESS tie-up.

The eighties saw the development of special purpose cards. There was a host of special purpose cards issued by departmental stores, airlines, oil companies, etc.

First women only card-MY CARD was launched by INTERNATIONAL BANK OF ASIA in Hongkong in the year 1988. The membership was highly encouraging. Seeing the potential LADYS CARD was introduced in Malaysia. In 1990 GREEN CARD was launched in U.K. and Europe to promote contribution to the protection of the environment.

Activity 1

1) What do you mean by Credit Card?

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2) Name two examples of each of the following:

a) Credit card operating systems in U.S.A.

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b) Credit card operating system in U.K.

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c) Women only cards.

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17.3 TYPES OF CREDIT CARDS

The credit card system can give a wide range of products and services. The varied uses of credit cards can be obtained from a spectrum of acceptance venues. Today's payment business is growing dramatically while consumer demand is driving the industry's growth, technology is making it possible to address that demand with a broader range of products and with the ability to support these products, at an expanded spectrum of points of interaction. The growth of service industry mainly depends on knowing the needs of the customer. These needs are taken care off by different card issuers which target different segments of customers. Thus there are generally **four basic** types of cards based on the issuers:

- 1 TRAVEL AND ENTERTAINMENT CARD, for example: DINERS CLUB CARD
- 1 BANK CARD, for example: CITI BANK CARD, BOB CARD, ICICI CARD, SBI CARD, etc.
- 1 STORE OR RETAIL CARD for example: SEARS REOBUCK CARD, SPENCER'S CARD
- 1 FUEL CARD, for example: MOBIL CARD, BHARAT BOB CARD, CITI BANK- INDIAN OIL CARD

There are many types of credit cards which are being used in India and in the World. These cards can be classified as follows depending on the geographical reach, usage pattern and the class of membership, etc.

Category I: Based on mode of credit recovery

- a) Credit card (Revolving credit type)
- b) Charge card

Category II: Based on status of credit card

- a) Standard card
- b) Business card
- c) Gold card

Category III: Based on geographical validity

- a) Domestic usage card
- b) International usage card

Category IV: Based on Franchise/tie-up

- a) Proprietary card
- b) Master card
- c) VISA
- d) Domestic Tie-up card

Category V: Based on the category of the user

- a) Cards issued to Individuals
- b) Corporate cards

Now let us know more about each of these categories of cards.

Category I: Based on Mode of Credit Recovery

- a) **Revolving credit type of credit card:** This credit card is generally built around the revolving credit principle. Generally a limit is set to the amount of money one can spend in a month using the card. At the end of every month, the card holder has to pay a percentage of the outstanding credit (this may be from 5% to 10%). Interest is charged on the outstanding amount. The interest rate charged by the issuer may vary from bank to bank.
- b) **Charge Card:** A charge card is a convenient instrument not a credit instrument. Instead of paying cash or cheque every time you make a purchase, this facility gives a consolidated bill for a specific period (usually a month). Bills are payable in full on presentation, so there are no interest charges and no pre-set spending limits either.

Category II: Based on Status of Credit Card

- a) **Standard Cards:** It is a normal credit card generally issued by all card issuing banks, by which a card holder is able to purchase without having to pay cash immediately. It offers limited privileges to card holders when compared to the holders of other cards in this category. Some banks issue standard cards in the brand name as “CLASSIC” cards, etc.
- b) **Business Card:** Business cards are generally issued to small partnership firms, solicitors, firms of CA's, tax - consultants, etc. These cards are given to the executives of a firm to make their business trips more and more convenient. It enjoys more credit limits and privileges than the STANDARD cards. These cards are issued in the name of “EXECUTIVE” card by some banks. These cards mainly serve the credit needs of business persons particularly when they are traveling.

- c) **Gold Card:** The Gold card is one which has got a high value for the elite. It offers the card holder some additional benefits and facilities which he can't enjoy with Standard or Executive cards. These cards will have more credit limits, more cash advance limits than the other cards.

Category III: Based on Geographical Validity

- a) **Domestic Card:** These are generally available credit cards from most of the banks, and will be valid in India and Nepal only. They can't be used in rest of the countries. All the transactions will be in rupees only.
- b) **International Cards:** This type of credit cards will be issued to persons who travel abroad frequently. These cards will be honoured in every part of the world except in India and Nepal. The card holder can make purchases in currencies such as Dollars etc., subject to RESERVE BANK OF INDIA AND FEMA rules and regulations.

Category IV: Based on Franchise/tie-up

- a) **Proprietary Card:** Generally credit card issuers will have their own brand of credit card reflecting the name of the bank (example CANCARD of Canara Bank). These cards will be issued by the banks in addition to their other tie-up cards.
- b) **VISA:** This is a type of credit card which can be issued by any bank, that is having tie-up with VISA International Corp., USA (The original Visa Card issuers). The banks which are issuing Visa Cards on franchise basis can avail the facilities of Visa network for their transactions.
- c) **Master Card:** This is also a type of credit card having brand name as Master Card. The issuing bank has to obtain permission or franchise from the Master Card Corporation of USA. The franchised cards will be honoured by the establishments which are in the Master card network.
- d) **Domestic tie-up Cards:** These are the cards issued by a bank having a tie-up with domestic credit card brands such a Can card and In card etc. (Example: Indian Overseas Bank has tie-up with Can card). These banks issue cards to users through the original banks.

However, they can have the bank name on the card. They give credit to customers on similar lines as the original card issuers.

Though there inspite of the existence exists all these types of cards in India, most of the issuing Banks have either tied up with Visa or Master or both the networks in order to have wider acceptability.

Category V: Based on the Category of the User

- a) **Individual Cards:** This category of cards are issued to individual persons. Generally all the brands of cards will be given to individuals except Corporate cards.
- b) **Corporate Cards:** This type of credit cards are issued to corporate companies and business firms only. These credit cards will be used by the executives and top officials of the firms. The cards bear the name of the firm. Bills will be paid by the firm to the banks.

Now-a-days two more new types of cards came into market. They are: 1) mini credit cards, and 2) pre-paid credit cards. Mini Credit Card resembles a normal credit card in most ways except in size. It is about 40% smaller in size and provides the convenience of carrying. Sometimes, there may be some additional freebies attached to these cards. Standard chartered visa mini cards and ICICI Bank visa mini cards are examples of this type of cards. In case of pre paid card, a customer has to make

the payments in advance and get the card charged. This means the customer is not getting credit facility from credit card and on the contrary he is paying his expenses before he actually spends. Presently oriental bank of commerce and IDBI Ltd. are offering these cards.

17.4 ADDITIONAL FACILITIES AND SERVICES

Besides providing credit facility, credit card organisations extend some additional facilities to attract more customers. Some of these facilities offered by Indian and foreign banks are: revolving credit facility, free insurance, emergency cash, tele-draft facility, flexi-limit, 24 hour helpline, lost card liability, and mutual funds. In addition to this, these banks have used their strong clientele of card holders with strong purchasing power as a leverage to extract certain facilities/concessions for their customers from the merchant establishments. There are some facilities which are exclusive. These are: 'Great Life' offers, airport lounges, special hotel privileges, special hospital facilities, special travel services. Some of these facilities and services are explained in detail hereunder.

a) Free Insurance Protection

Some of the Indian and Foreign Banks depending on the type of card issued, insures the life of the cardholder free of cost for a particular sum. Citibank offers a complimentary personal accident insurance upto Rs. 20 lakhs in case of an air accident and upto Rs. 5 lakhs in case of any other accident to its international gold master card holders. BOB card issued by the Bank of Baroda extends insurance protection to add-on cardholders also. Its not only insures the cardholder against personal accident to the tune of Rs.10 lakhs in case of air travel or Rs. 5 lakhs in case of any other accident but also gives the benefit of personal accident cover to the add-on cardholder to the tune of Rs. 2 lakhs.

b) Emergency Cash Withdrawal

All the credit card issuing banks provide emergency cash withdraw facility to its card holders Cardholder can withdraw emergency cash from 24 hour ATMs in all leading cities. The Indian Banks believe in not restricting cash withdrawing power only at a few automated and/or metropolitan locations, therefore, they allow the cardholders to draw cash from all notified branches of Indian Banks spread across the country.

c) Twenty-four hour Customer Service

The revolutionary phone banking service ensures that the Indian and Foreign Banks are just a phone call away and courteous banking officers are standing by to assist the cardholder twenty four hours a day, seven days a week. Foreign Banks provide a world class service to card holders. One can call phone banking and ask for temporary credit line increase any, time in the day or night.

d) Photocard Option

A cardholder may choose to have his photograph and signature digitally imprinted on the front of his card in colour. So that he gets the extra recognition and security if he/she losses the card. This facility is also provided by all foreign banks and most of the Indian banks.

e) Travel Privileges

The banks provide travel assistance to their cardholders by offering a wide range of services like Airline and hotel bookings, discounted holiday packages, car rentals and

more. For example, Bank of Baroda has entered into a tie-up with I.B.T.C. to provide these services and Hongkong Bank has a tie-up with SITA World Travels to provide the same services. Through SITA World Travel's vast network of offices, a package of exclusive travel services: Teleticketing, Special Holiday and Conference packages, International and Domestic tickets and Car rental services etc. are provided to the cardholders who are travelers at SITA.

f) Temporary Credit Line Increase

Indian and foreign banks provide a temporary credit line increase based upon the ability to pay back, as demonstrated by cardholder's financial resources and his past spending and payment patterns. This credit line can be increased by 25% for 3 months. The cardholder can ask for a temporary credit line increase from the Banks when he wants to buy jewellery, or consumer durables like a TV or a Refrigerator or to pay for vehicle repairs. He/she can also use this unique feature when there is a function in the family like weddings, anniversaries, birthdays or when a business or holiday trip goes beyond the budget.

g) Draft on Phone

Credit cardholders of selected Indian banks and foreign banks can use their cards to pay for personal expenses where credit cards are not accepted yet. All that the cardholders have to do is to call the bank and instruct it to make payment for mutual funds, public issues, making down-payments, and paying telephone and electricity bills.

h) Choose when and how to Pay

It is possible to purchase high-value items with the flexibility to plan your payments. All the Indian and foreign banks offer a revolving credit facility that allows the cardholder to get the things that he/she wants, when he/she needs them the most and pay as little as 5% of his total outstandings every month.

i) Buy anything on your Card

The cards issued by Indian and foreign banks are welcomed at member establishments which are franchisees of Master Card and Visa Card across India and Nepal. The credit card can be used both for major occasions and also for everyday purchases like groceries, cosmetics, petrol and auto accessories. To buy high-value items also the card can be used. And even paying customs duties and hospital bills becomes so convenient with card.

j) Purchase Protection

This facility protects the purchase against damage or loss due to fire and theft at no extra cost. The cardholder can claim the value of the product damaged or lost from the Insurance Company. This protection may be available for a specific period from the date of purchase of the product on the card.

k) Fuel Facility at Petrol Pumps

Fuel facility at Bharat Petroleum outlets is provided by BOB card and likewise at Indian Oil petrol pumps, Citibank and Standard Chartered Cards are accepted. This is very convenient for cardholders at many major cities.

l) Emergency Medical Advance Facility

Cardholders can draw cash in case of medical emergencies for meeting expenses on treatment at location other than their home town. This facility is available with all

Indian and foreign banks depending on the type of cards issued by the bank. 10% to 20% discount on services at hospitals in leading cities across the country is offered to cardholders by Standard Chartered Bank. This facility covers special rates on medical facilities, diagnostic tests, check-ups, lab tests, nursing charges and professional fees.

m) Supplementary Cards

As a cardholder of any Indian or foreign bank one can obtain a maximum of two supplementary cards for his immediate family members at the prevailing card fee.

n) Hotels Discount Facility

Cardholders can receive membership to clubs at a special price. The programme also earns some points on every rupee charged, every time the cardholder dine or stay at the hotel. Specifically, 25 points for every Rs.1,000 spend plus an extra 10% points credited to the cardholder's account if he uses his card alongwith his hotel club card. These points can also be exchanged for Airline tickets, hotel stays and consumer products ranging from Microwave oven to Ray-ban sun glasses. Cardholder can also earn points by using the services of select airlines who have a tie-up with the respective bank.

o) Joint Credit card and ATM Facility

Foreign and Indian banks alike have introduced a joint credit card so that the cardholder can also access his personal accounts with the Bank (Savings/Current) through the ATMs.

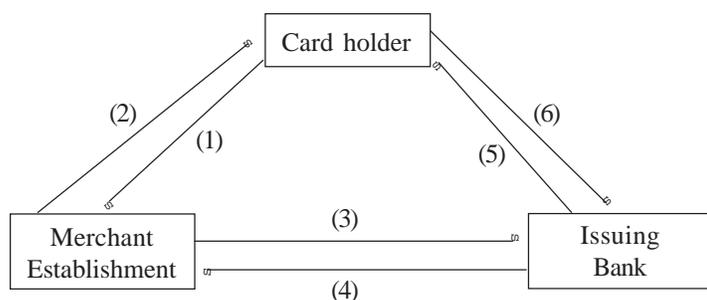
p) Validity and Renewal of the Card

The cardholder can use the card within the validity period only. A new card is sent by Indian and foreign banks once in every 2-3 years before the expiry of the old card. The fees and the eligibility criteria from credit cards varies from one bank to another. It is cheaper to get a card made from Indian banks compared to foreign banks.

All the above facilities/services are not necessarily offered by each and every credit card organisation in toto. Different organisations may be offering different services to different types of cardholders. Similarly, the degree and amount of facilities may also be different in the case of different organisations and may keep changing from time to time.

17.5 CREDIT CARD BUSINESS CYCLE

Credit cards enable the holder to make purchases, avail the services at various designated Merchant Establishments (MEs) like Departmental Stores, Star Hotels, Indian Airlines, Railways, etc., who will accept all valid credit cards in lieu of cash payment. In this way, the cardholder can avoid the risk of carrying cash. When a cardholder purchases anything, he presents his credit card to the Merchant establishment instead of paying cash. The retailer checks the number on the card against the hot list or warning bulletin provided to him by the bank. This is the authenticity test which proves whether the cardholder is the genuine owner of the card or not. The cardholder is also required to sign on the voucher, and the signature has to tally with the one on the credit card. The merchant establishment has to then present the necessary sales vouchers to the bank which in turn reimburses it for the customer's purchases. The bank charges a commission from the merchant establishment, rates of which vary from bank to bank. After the completion of this procedure, it sends the bill to the cardholder and receives the money. This process is illustrated in Figure 17.1.

Figure 17.1: Credit Card Operating Cycle


The credit card operating cycle comprises of the following six steps:

- 1) Cardholder purchases goods/services and gives credit card;
- 2) Merchant Establishment delivers goods after taking credit card and noting the number and taking signatures on some forms.
- 3) Merchant Establishment raises the bill for the purchase and sends it to the credit card issuing Bank for payment.
- 4) Issuing Bank pays the amount to the Merchant Establishment.
- 5) Issuing Bank raises the bill on the credit cardholder and sends it for payment.
- 6) Credit cardholder makes the payment to the Issuing Bank.

17.6 BENEFITS OF CREDIT CARDS

The benefits of credit cards can broadly be classified into two categories, benefits to the cardholders and benefits to the issuers.

Benefits to the Cardholders: the following are the benefits the user will get by using a credit card:

- 1) The first and most useful benefit is that the cardholder need not carry cash and he needs to just take credit card with him during his travel or during shopping.
- 2) It will benefit the user as a convenient instrument for paying any type of bills and for buying any thing just by paying hardly 5 to 10 per cent of outstanding credit per month.
- 3) The cardholder will be covered by free life insurance.
- 4) It can be used for identification purposes in some situations, since some credit cards will contain photo of the cardholder.
- 5) Rewards and free gifts to cardholders by the use of the credit card being offered by some banks.
- 6) Special counters and online booking of Air and Rail tickets to these card holders.
- 7) Entry to special lounges in airports for certain classes of credit cards.
- 8) 24 hour help-line to cardholders of certain credit cards.
- 9) Cardholders of certain cards get complimentary magazines.
- 10) Add-on card facility for the holder's spouse, parents and major children.
- 11) If the credit card is stolen/lost the liability will be limited to a maximum of one thousand rupees or zero liability in case of some cards.
- 12) Upto 30 to 45 days free credit to users.

- 13) Some credit card holders will get free services such as confirmed ticked bookings, hotel reservations from certain travel agencies.
- 14) Cardholders can get benefit from the world-wide network of certain cards like Amex, Master card and Visa.

Advantages of Credit cards Business to Issuers

Apart from the advantages to users of credit cards, there are also advantages to credit card issuers. Some of the advantages to issuers are:

- 1) The reasons for more and more banks jumping into this credit card business is the high profitability that this business offers. For instance, banks charge a 2.5% commission from establishments selling goods and services through credit cards. There are instances of banks charging as much as 7% to high margin merchant establishments like Antique shops.
- 2) For the customers, banks offer a credit period of 30 to 45 days, but charge 2.5% per month on all outstandings. Thus, a single purchase transaction through credit card, assuming the customer does not pay within the stipulated credit period, will fetch a commission much more than the lending rate of many banks.
- 3) Apart from the above financial yields, the issuers can also improve their name and image by serving huge number of credit cardholders. This may also promote the regular banking of the issuers. So the issuers can very well improve their turnover, and thereby profitability, image and regular banking by improving the credit card business.

After listing the uses/benefits of the credit cards, let us see, whether the credit card has any drawbacks to the user or not. There are some drawbacks, though these are very few when compared to the advantages. Some of the drawbacks are:

- 1) It is a waste of money to subscribe to credit card if the utility of the card is less.
- 2) It may lead to some unnecessary purchases. Since the user need not pay instantly, it may tempt them to purchase some products/services which are not required/needed at the time of their shopping.
- 3) If the repayment of the credit used is not done properly it may lead to more overdraft, finally it may drag the user into financial problems.
- 4) Some times the recovery agents appointed by some issuers, may pressurise the users to pay the outstanding dues. This may lead to loss of mental peace to the user.
- 5) Since most of the honouring merchant establishments offer only the products/ services at a higher cost than outside the user may pay more of his precious money unnecessarily.

17.7 INDIAN SCENARIO

The first credit card that entered in India was Diners Club Card in the year 1964. The First-Indian Banks to launch credit cards were ANDHRA BANK and CENTRAL BANK. The first credit card introduced by Andhra Bank was VISA Classic in the year 1981, followed by Central Bank of India's credit card in collaboration with Master Card Corporation in 1981.

The other nationalized banks-Canara Bank, Bank of India and Bank of Baroda etc., gradually introduced their credit cards in India. Though ICICI Bank and SBI, entered late, have emerged as major players among the Indian Banks. Apart from these Indian banks, many foreign banks such as CITI Bank, Standard Chartered Bank,

ANZ Grindlays Bank, Bank of America and American Express Bank have also introduced their proprietary cards and other franchised cards in India through their branches in India.

Initially, Indian Banks issued only proprietary cards. These were valid as Charge cards in a merchant base which was exclusive to the market. Early tie-ups like those of Central Bank of India with Master card and Andhra Bank with VISA in 1981, were solely for acquiring business.

There are many major banks both foreign and Indian banks which are giving cards in India at present. Many other banks such as Indian Overseas Bank; Dena Bank; Corporation Bank; Vysya Bank are having affiliations to the principle issuers like Canara Bank, Citi Bank, Bank of India for issuing credit cards to users using the brand name of original issuers.

Now, in India the credit card business is a multi crore business. In 2004, the cardholders of international visa card alone have spent Rs. 4,100 crore in India. This is an increase of more than 40% from the last year. This is primarily because of India becoming a popular tourist destination with more and more tourist visiting India.

According to current growth estimates, the spends on the credit and debit cards are likely to see a three fold increase i.e. to Rs. 62,000 crore. In the next five years the total number of credit cards are likely to increase to 35 million. An under – tappet market, growing middle class and consumerism, new segments and new categories of cards and cardholder are expected to be major contributors for this growth..

In India, at present there are many credit cards being sold by both foreign and Indian banks. These include nationalized banks, private sector banks and some cooperative banks. Almost all the credit cards issued by these banks are the Franchisees of original Master Card or VISA Corporation. A list of some of these banks offering credit cards and a comparison of their features made in relation to admission fee, interest charged, eligibility criteria, credit limit, cash advance, etc. in order to provide global view of various issuers and various features associated with these cards in Table 17.1.

17.8 REGULATION OF CARD BUSINESS

From the above discussion it is clearly evident that the card business is going to grow at a rapid speed. Already we find multiple cards not only in a single family but also multiple cards with a single individual. This is because of the growing consumerism, changing life styles, increased use of IT in India, etc. it is also natural, with the growth of business the related problems also increase some of the these problems are:

Charging of hidden costs, making of false promises with regard to waiver of charges and providing additional facilities, disturbing people with unsolicited offer of cards by direct selling agents, etc. In addition to these problems, the problem of misuse of cards by the unauthorized persons is also likely to increase. In order to deal with these problems is a need to work out a code of conduct and some regulation by the regulator who can attend to the genuine grievance of the card holders. The Indian banks' Association and the reserve Bank of India are in the process of working out some regulation in relation to the credit card industry. The Reserve Bank of India may soon empower its 15 ombudsmen to redress complaints of aggrieved credit card holders against banks indulging in unfair practices. With this card holders shall have some grievance redressal mechanism and there will be some regulation in the credit card industry.

Table-17.1

Details		Eligibility		Fee Details		Credit Details			Cash n Advance Detail				
Name	Card Type	Salaried (Rs.000)	Self Employed (Rs. '1000)	Joining	Add On Cards	Annual	Credit Limit	Interest Rate	Credit Period	Revolving Credit (%)	ATM	Max Cash Withdraw at (Rs. '000)	Int. On Cash Withdrawal
ABN Amro-Freedom	Master Credit	84	84	NIL	NA	595	NS	2.89	50	5.00	Yes	NA	250
ABN Amro-Gold	Master Credit	150	150	500	NA	2,000	NS	2.49	50	5.00	Yes	NA	250
Allahabad Bank	Master Credit	60	60	100	NIL	250	NS	3.00	40	10.00	Yes	10	250
American Express-Gold	Amex Credit	150	150	NIL	1,250	2,495	NS	2.79	51	5.00	Yes	8	2.39
American Express-Green	Amex Credit	72	72	NIL	495	995	NS	2.79	51	5.00	Yes	8	2.39
Andhra Bank-Gold	Visa Credit	150	150	NIL	400	1,000	50	1.75	51	5.00	Yes	25	3.00
Andhra Bank- Classic	Master & Visa Credit	90	90	NIL	200	200	20	1.75	51	5.00	Yes	10	3.00
Bank of India	Master Charge	100	100	250	200	400	NA	NA	NA	NA	Yes	5	3.00
Bank of India -Taj	Master Charge	200	200	400	450	900	NA	NA	NA	NA	Yes	10	3.00
Bank of India-visa Gold	Master Charge	200	200	400	450	900	NA	NA	NA	NA	Yes	10	3.00
Bank of Maharashtra-India	Visa Charge	10	10	400	100	200	30	FD. Rate	30	NA	NO	3	3.00
BOB Paras	Master Credit	60	60	NIL	200	300	21	3.00	45	10.00	NO	5	2.50
BOB Exclusive	Domestic Master	100	100	NIL	500	1,000	40	2.25	45	10.00	Yes	10	2.50
BOB Global	Visa	100	100	NIL	NIL	1,500	300	2.25	45	10.00	Yes	15	3.00
BOB Gold	Visa Photo Credit	150	150	NIL	750	1,250	75	2.25	45	10.00	Yes	15	3.00
Bob Silver	Visa Credit	75	75	NIL	250	400	25	2.25	45	10.00	Yes	10	3.00
Can	Charge	60	60	250	300	400	50	2.50	45	10.00	Yes	25	2.50
Can-Proprietary	Charge	60	60	250	300	400	50	2.50	45	10.00	Yes	25	2.50
Can Master	Master Credit	60	60	250	300	400	100	2.50	45	10.00	Yes	25	2.50
Can Visa	Visa Credit	60	60	250	300	400	100	2.50	45	10.00	Yes	25	2.50

CBI Intl.	Visa Credit	75	75	350	250	500	30	2.50	45	NA	Yes	5	2.50
Central	Visa Credit	75	75	350	250	500	30	2.50	45	NA	Yes	5	2.50
Citibank-Classic	Master & Visa Credit	72	96	NIL	350	750	75	2.95	45	5.00	Yes	5	2.95
Citibank-Gold	Master & Visa Credit	156	156	NIL	1,000	2,000	250	2.95	50	5.00	Yes	10	2.50
Citibank-MTV	Master Credit	72	96	NIL	350	750	NS	2.95	50	5.00	Yes	5	2.95
Citibank-Times	Master Credit	72	96	NIL	350	750	NA	2.95	50	5.00	Yes	5	2.95
Citibank-Silver	Master & Visa Credit	96	96	NIL	350	750	75	2.95	48	5.00	Yes	5	2.50
Dena	Visa Credit	60	60	250	300	400	25%	2.50	50	NA	Yes	10	2.50
HDFC-Silver	Visa Credit	72	72	300	250	750	NS	2.65	55	5.00	Yes	130%	2.95
HSBC-Classic	Master Credit	72	72	NIL	350	350	49	2.95	48	2.95	Yes	25	2.95
HSBC-Gold	Master Credit	175	175	NIL	1,000	1,000	300	2.95	48	2.95	Yes	50	NA
ICICI Bank-Solid Gold	Visa Credit	120	120	300	600	1,200	300	2.50	52	5.00	Yes	40%	2.50
ICICI Bank-Sterling Silver	Visa Credit	60	60	150	300	600	100	2.50	50	5.00	Yes	30%	2.50
ICICI Bank-True Blue	Visa Credit	75	100	100	150	300	50	2.95	50	5.00	Yes	30%	2.95
Indusind Bank-Classic	Master Credit	73	73	300	350	700	15	2.95	45	5.00	Yes	25	2.50
Indusind Bank-Gold	Master Credit	175	175	500	1,000	2,000	50	NA	45	5.00	Yes	50	2.50
PNB-Classic	Master & Visa Credit	72	72	NIL	NIL	350	49	2.95	50	5.00	Yes	40%	2.95
PNB-Gold	Master & Visa Credit	175	175	NIL	NIL	1,000	300	2.95	51	5.00	NO	40%	2.95
Stanchart-Executive	Master Credit	100	100	300	500	1,200	NS	2.95	52	5.00	Yes	10	2.95
Stanchart-Classic Credit	Visa Credit	60	72	100	350	700	NS	2.95	52	5.00	Yes	10	2.95
Stanchart-Gold Standard	Master Credit	150	150	1,000	1,000	2,000	NS	2.95	52	5.00	Yes	10	2.95
SBI-Classic	Visa Credit	75	60	250	250	500	70	2.75	50	5.00	Yes	10	2.25
SBI-Gold	Visa Credit	225	150	300	500	1,500	300	2.50	50	5.00	Yes	40%	2.25
SBI-Intl.	Visa Credit	75	75	250	250	750	75	2.75	50	5.00	Yes	40%	2.25
Tata Finance-Gold	Amex Credit	150	150	NIL	750	1,500	NA	2.50	45	5.00	NO	15	2.50
Tata Finance-Green	Amex Credit	60	60	NIL	250	500	NA	2.75	45	5.00	NO	10	2.75
UTI Bank-Gold	Master Credit	156	156	NA	1,000	2,000	250	2.95	45	5.00	Yes	10	2.95
UTI Bank-Silver	Master Credit	96	96	NA	350	750	50	2.95	50	5.00	Yes	50	2.95

Source : Economic Times dated 28, January 2005

Activity 2

- 1) Collect more information on any four cards and which one you prefer to have and why?

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17.9 OTHER MODES OF MODERN PAYMENT BUSINESS

The Convergence of changing consumer behaviour and new technologies in the payment business resulted in shaping future of money by redefining the way people around the world pay for goods and services. As a result of this, new type of cards and payment systems came into existence. Some of these are: debit card, smart card, chip card, electronic commerce Internet Banking, Tele Banking Mobile Banking etc. Let us know about these briefly.

Debit Card

On production of a debit card the card details are fed through a terminal at the merchant establishment and the card holder is asked to key in his personal identification number which is allotted by the card issuer. On completion of the transaction the amount is immediately debited from the card holder's account and transferred to the account of merchant establishment. In the case of the debit card no over drawing is allowed. The debit card system is growing very fast in India due to massive computerization of banking business. Many banks are issuing Debit-cum-ATM cards and are also sharing their networks.

Chip Card

A chip card is a plastic card with an embedded integrated circuit or a micro chip as opposed to the conventional card with magnetic strips. The chip can be used on existing products like debit and credit card or on emerging products like stored value cards. The transaction is effected by inserting the card in what is called a pin pad and the value on it reduces accordingly. These cards are reloadable and disposable. The idea is to do away with the trouble of carrying cash. The chip card also scores over the magnetic card, in that it can retain 50-60 of the latest transactions which can be produced on demand. It is also considered more durable and secure as the cardholder alone can access it through a Personal Identification Number (PIN).

Smart Card

Smart Card is a tiny integrated-circuit chip embedded in a credit card sized piece of plastic. The chip allows the card to carry a much greater amount of information than magnetic strip card. Telecom industry, perhaps was the pioneer in using smart cards, most prominent being Subscriber Identity Module (SIM) cards in the GSM digital cellular network.

One of the major uses of this card is electronic purse application, where reloadable, high secure smart cards function as digital cash for in-store and even in home or on the road transactions. Electronic purse applications offer convenience, cost and security oriented benefits for consumers, merchants, banks and card processors alike. Smart cards cost more, but they can not only reduce fraud, they allow some transactions to be completed without incurring on the transmission and processing costs, and they can provide a range of other benefits such as cash handling cost.

Electronic Commerce

Electronic commerce is simply a term of buying, selling ordering and delivering goods electronically – usually over the internet. E-commerce consists of such technologies as electronic mail, electronic fund transfer, electronic bulletin boards and Electronic Data Interchange (EDI).

E-commerce will provide better communication between suppliers, brokers, sub-contractors, end users, customers, information suppliers and manufacturers. E-commerce on the net is an inexpensive medium that reaches an attractive audience of young, affluent, educated consumers.

An user on the internet searches the web for a particular product of interest. The search engine returns a list with a number of vendors who will deal with that product. The user selects a vendor who deals with that product. The user selects a vendor by browsing through their “home page” which contains details about the product. Once the user decides to buy the product he/she fills in the order form and submits it to the vendor. The data is then transmitted to the vendor after encryption for security. The order is then processed by the vendor. The vendor adds his authentication and sends the data to an independent authentication center where the identities of buyer and vendor are checked. Once this check is through, the data is then transmitted back to the vendor who will complete the sale by shipping the goods to the buyer and settling the bill either with the bank or a credit card company.

Activity 3

1) Differentiate between:

a) Credit Card and Smart Card.

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b) Credit Card and Co-branded Card.

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c) Credit Card and E-Commerce.

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d). Regulation of Card Business.

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17.10 SUMMARY

Credit card business is fast catching up in the country. The potential available for the business in a country like India is really vast. Credit card business is going to be a major segment of banking business in our country also. It is going to be a major profit center for every bank.

The credit card is now an opportunity of our everyday life. The choices available in the market are many and most cards offer different features. In addition to credit, credit cards provide various other facilities and services like free insurance protection, emergency cash withdrawal, draft on phone, temporary credit-line increase, choose when and how to pay, buy anything on your card, purchase protection, fuel facility at petrol pumps, emergency medical advance facility, hotel discount facility, ATM facility, etc. Various benefits are available through credit cards to the cardholders as well as to the operating agencies. In India, many Indian and foreign banks are offering credit cards. There are many innovations that are gaining more and more popularity in the payment business like- Smart Card, Debit Card and E-Commerce, etc.

17.11 KEY WORDS

Franchisee: The organization which takes franchise to operate the credit cards business from the franchisers like VISA and Master Card.

Franchiser: The organisation which allows the franchiser to use their credit card operating system for a payment.

Issuer Bank: The bank which issues credit cards to the users and pays the bills when they are presented for a commission, and recovers the amount with interest.

Merchant Establishment: A business establishment which has agreed to accept the payment through credit cards.

Plastic Money: Another name for credit cards. As these cards are made of plastic, these are known as plastic cards or plastic money.

17.12 SELF ASSESSMENT QUESTIONS

- 1) Write a brief note on the history of Credit Cards.
- 2) Explain the concept of credit card and the process involved in it.
- 3) What are the various benefits that are available to Credit Cardholders and to the Issuing Banks?
- 4) Write a brief note on new trends in the payment business.
- 5) What are the additional facilities besides providing credit that the credit cards offer to their customers?