

# Strategic Role of CMAs in Credit Card with Reference to Banking Industry

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## INTRODUCTION

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Welcome to the age of plastic money. Once upon a time our society was functioning without money; it is again likely to become moneyless with the blessings of plastic money. The use of plastic money in form of credit card, Debit card, ATM card, Charge card, Amex card, Master card, Visa card, Diner's club card, Smart card, Photo card, Global card, Add-on-card, Affinity card, Co-branded card, Petro card, Prepaid card, Promotional card, Kissan card and Cheque Guarantee card etc. bring a sea change in the field of consumer credit services globally. There are three leaders in the credit card industry today. They are VISA International, Master Card and American Express. Now the whole world became an abundant industry for credit cards due to the high credibility of acceptance by large number of banks as well as full technological support by the network of payment services like Visa, Master Card and American Express etc. Today, the Indian mode of payment has shifted from money to electronic mode.

## CONCEPTUAL FRAMEWORK AND MECHANISM

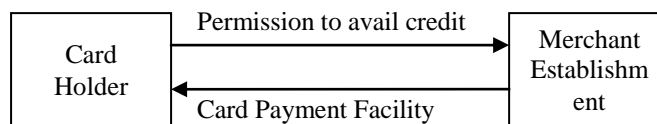
Credit card is a mechanism of credit service. It allows the holder to buy goods and services without making immediate payment. The issuer bank extends credit when the holder uses it at anytime anywhere. A credit card serves two purposes i.e. as an instrument of payment and a source of credit. The process of credit card mechanism involves the following sequential steps

**Step I:** The Issuing bank issues a credit card to the card holder after observing certain formalities. Generally Direct Sales Agents (DSAs), Direct Marketing Agents are assigned in this step.

A credit card is a plastic card having the photo identity and the signature embossed on the card. It contains issuing bank's name and validity period of the card. The design of the card itself has become a major selling point in present scenario of customer credit. In recent design the front side of a credit card incorporates issuing banks logo, EMV (Europay, Master Card, Visa) chip, Hologram, Card number, card brand logo, expiry date and card holders name. Similarly in the reverse side magnetic stripe, signature strip and card Security etc are embossed.

**Step II:** The card holder uses the card as a means of payment against the purchase of goods and services from the Merchant Establishments.

The Merchant Establishment (Seller of goods and Services) swipes the card and gives a credit slip on which the card holder (being the buyer) has to sign. In this process the bill is charged (debited) to the buyer's credit card.



**Step III:** The Merchant Establishments operate these transactions with credit cards through their Acquiring Banks. The moment the customer's bill is charged by swiping the credit card the Account of the Merchant will be automatically credited with less commission.

**Step IV:** The Acquiring Bank of the Merchant Establishment submits the charges to Issuing Bank of the card holder through the clearing mechanism maintained by the network sponsors like VISA International or Master Card.

**Step V:** The Issuing bank sends a statement to the card holder containing the details of amount charged through credit card. Normally, this statements is sent periodically i.e., once in a month. The moment the card holder pays the due amount to the card issuing bank the whole transaction cycle is completed.

## CREDIT CARDS IN INDIA

With the beginning of financial sector liberalization (1991 onwards), the Indian financial market saw a sudden forward movement in credit cards. According to survey report of MasterCard international in December 2004, only 14% of Indians were having credit cards. This was in shape contrast to countries such as the United Arab Emirates and Kuwait where 63% and 50% of respondents respectively owned a credit card. Thus, the survey found that there would be high growth potential for credit card industry in India. Till the end of 2004, the usage of credit cards by Indians was also much lower than their Asian counterparts. But credit card would be one of the fastest growing businesses in financial services in India.

## RBI GUIDELINES ON CREDIT CARD OPERATIONS OF BANKS

To encourage growth of credit cards in a safe, secure and efficient manner as well as to ensure that the rules, regulations, standards and practices of the card issuing banks are in alignment with the best customer practices, RBI has issued the guidelines vide its circular no.- RBI/205-06/211 dated November 21, 2005 on the following 8 (Eight) aspects

1. Issue of credit cards.
2. Interest rates and other charges.
3. Wrongful billings.
4. Use of DSAs/DMA's and other agents.
5. Protection of customer rights
  - ✓ Right to privacy
  - ✓ Customer confident ability
  - ✓ Fair practice in debt collection

- 6. Redressal of grievances
- 7. Internal control and monitoring system.
- 8. Right to impose penalty.

2008-09	258.5 million
2009-10	234.0 million

Source: Business line, September 12, 2010

**CREDIT CARD BUSINESS DURING 2013-2017**

During 2013-14, it was observed that utility payments were made through plastic money. The number of customers paying their electricity and water bills though credit cards has risen significantly through the customer base was very small. There were 25 million credit card holders in India and ICICI was the largest player with 8.5 million cards issued. Citibank, SBI-GE card and HDFC are the other prominent players in India.

The growth potentiality in Indian plastic money business can be observed as follows:

Financial Year	Number of credit cards issued in India
2012-13	17.3 million
2013-14	23.1 million
2014-15	27.5 million
2015-16	38.8 million
2016-17	58.3 million

Source: Business line 12 September, 2017

**CREDIT CARDS BUSINESS DURING 2013-2017**

Use of plastic money instead of cash is seen by economists as a sign of confidence of the ordinary consumer in the Indian economy. Many of the public sector and private sector banks ventured into credit card industry in India. Some of the important banks in the Indian credit card industry as on the end of the year 2017 are:

Andhra bank	Vijaya Bank
Bank of India	Union bank of India
Standard Chartered Bank	SBI
Central bank of India	ICICI BANK
HSBC	Citi bank
Corporation bank	Canara bank
HDFC	Bank of Baroda
IDBI	American express bank

During the financial years 2013-14 and 2014-15, not only the plastic money is circulation in India was falling, it was also underutilized. On an average the annual number of transactions per credit cards stands at only 11. But it is only one in case of debit cards. Credit cards grew faster since inception, with the growth turning negative in the latest years. Backed by strong marketing, the number of credit card, issued by various banks showed as upward trend from 2014-15. In fact their number grew by more than a crore in the three financial years from 2015 to 2017. However, there after figures began to dip due to global economic slowdown and the Indian consumer's conservative nature.

It is observed that, for the first time in many years the number of transactions when credit cards were used also fell in the financial year 2009-10. This negative happening can be observed from the following Statistics

Financial Year	Number of transactions through use of credit cards
2005-06	156.1 million
2006-07	159.5 million
2007-08	228.2 million

It is observed that, 26 crore purchases were made by use of plastic money in 2008-09; this figure fell by two crore transactions in the financial year ending March, 2010. During this period several customers surrendered their credit cards. Increasingly, debit cards are gaining popularity. However, in recent past credit cards have found acceptance with the Indian consumers after banks introduced several security features and even simple purchases could be made using plastic money. However, the falling numbers in both the years (2008 -09 and 2009 -10) due manifold economic and non economic factors.

In the words of Dk. Joshi, Chief Economist, Crisil. "Due to the Sharper —than —expected global Slowdown and the impact of high interest rates on the domestic company, the overall growth is slowing down at a faster clip than anticipated earlier. Services Sector will slow down due to slowing industry but overall growth (in services) is till expected to remain healthy".

**PROBLEMS OBSERVED IN CREDIT CARD SERVICES**

CMAs should aware the following problems in the credit card services

1. Indian banks lax on credit card security.
2. There is no proper transparency in terms and conditions like interest rate on late payment, annual fees, fees for going over the credit limit, closing fees, balance transfer fees, billing cycle and optimum payment cycle etc.
3. Emotional attitude to spend by using credit cards. The card holder forgets the ethics i.e. "cash discourages spending and credit card encourages it".
4. The product design and promotions are such that the pricing is kept hidden and the users are oblivious of the fact that the cost is ultimately borne by them. The DSAs/DMA's persuade the card holders by false reward system.
5. Disputes between merchant Establishments and card holders on charge backs (or disputes from the customers) issues
6. Banks are violating the basic guidelines of RBI on credit card operations
7. Acquiring Banks hike merchant's fees (MDR) on card swipes
8. Credit card grievances topped customer complaints list
9. No adequate technology to fight credit card frauds.
10. Fraudsters use fake identities to trick banks and the banks became victims to identity theft.

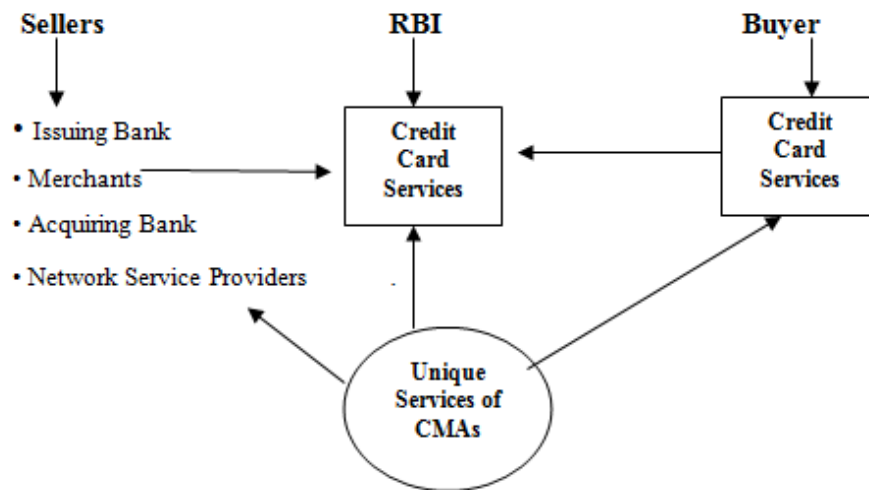
**STRATEGIC ROLE OF CMAS IN CREDIT CARD MANAGEMENT**

The dramatic expansion in consumer credit, particular through the ready availability of credit cards raises significant questions about checks on potentially unscrupulous behaviors. In credit card services, the Issuing banks, the Acquiring Banks, The Merchants, The Network Service Providers, DSAs/MSAs, The Regulatory Authority i.e. The RBI and the Card holders (consumers) are involved. In a democratized markets characterized by large sellers and small transaction consumers, There is a risk that marginal charges may impose costs not

worth the consumer's brother, but amounting in the aggregate to significant gains to for the sellers. In this scenario, the cost and Management Accountants with the expertise in cost

reduction and improvement in quality service may innovate new tools for efficient credit card management.

**A Model of Unique Services for CMAs**



**CONCLUSION**

In India, the credit card industry is facing numerous problems Banks issue credit cards freely without appraisal of the credit standing of the prospective card holder. Banks are not following the guidelines of the Reserve Bank of India on credit card operations. Acquiring Banks are charging 1% to 2% of the amounts (billed through credit cards) on the merchants which is

a burden to the card holders. Issuing banks are charging various fees and charges on card holders. Huge Indian money is going to the Purse of VISA, MasterCard and American Express, as networking service charges. Indian Consumers are not smart enough to use credit card wisely. Thus, CMAs should come forward to play innovative role in solving these problems for a better future of credit card industry in India.

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