

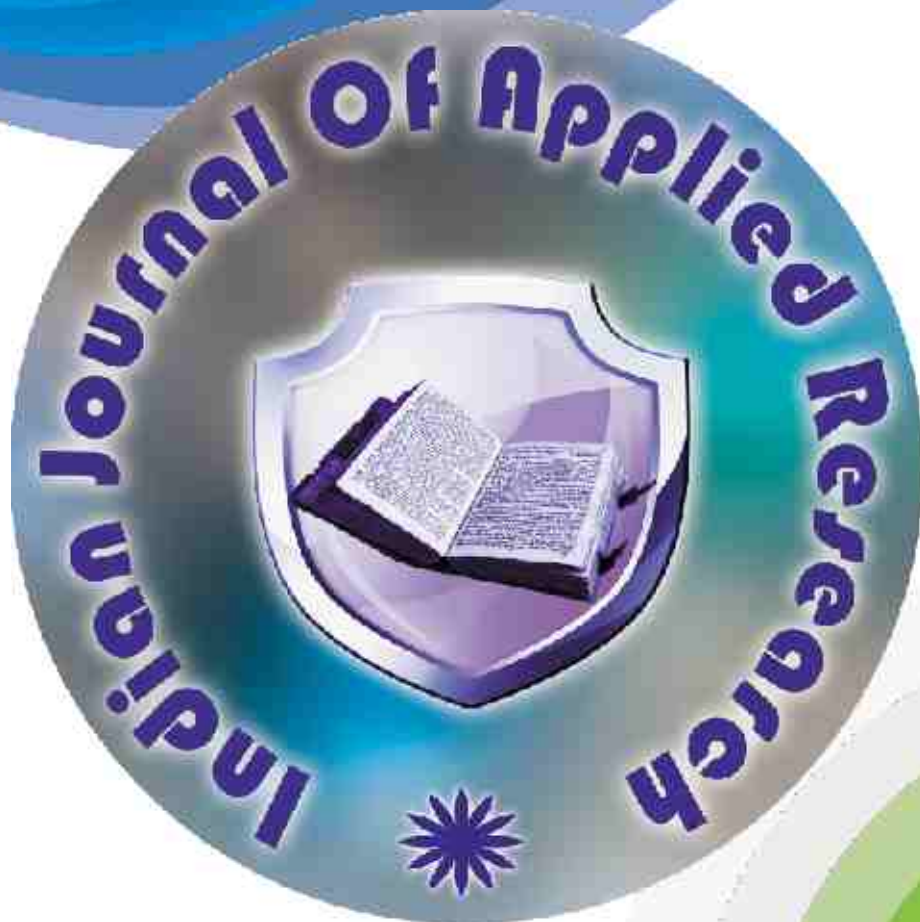
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An Analysis Of Growth Of Credit Card Industry

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ABSTRACT

An innovation in consumer banking is the introduction of 'Plastic Money' to facilitate electronic payment. One of the forms of plastic money is credit cards. A credit card is a plastic card with a magnetic strip on which the required vital information of identity like the name of the card holder, account number, credit limit, date of validity, issuing organization, specimen signature of the card holder etc are enclosed. A credit card enables the holder the cashless purchase of goods and services at selected places. Credit card can be called as an equivalent of a loan sanctioned by the bank to the customer. Credit card facilitates and makes it possible to 'use first and pay later'. On February 28, 1950 A Diners club card, the first multiuse credit card was issued. This marked the beginning of the era of plastic money. Diner's card was launched in the Indian market in 1960. The Central Bank of India was the first bank in our country to introduce credit card system in August 1980, followed by several other banks. In India, both foreign and Indian banks are doing credit card business. In this paper highlights growth of credit cards industry in India.

Keywords : Credit Card, Commerce

Introduction

The credit card system started in the west in the 50s came to India a decade later. Credit cards have created a new consumer culture. Credit cards create both consumption and investment culture at the same time. The maturity of any economy is gauged by the stage of development reached by its payment systems. Development of electronic payment methods through plastic cards requires a minimum level of sophistication on the part financial institutions, accepting establishments and customers. With banks concentrating more on profitable business, credit cards have become an important factor to boost sagging bottom lines.

The liberalization of the economy, boost to exports and fallout on increased business travelling and spending in India augurs well for the credit card industry. Of the major segments covered by the credit cards, travel and entertainment account for 70 percent of total usage, dining (restaurants) and retail (shopping) 30 percent. The hotel chain rake in the lion's share of the travel and entertainment segment and almost 60 percent of hotels' foreign exchange earnings come from credit cards. Of the total hotel business, 70 percent is transacted through credit cards. The credit card business is growing faster than expected, that time has come to call it an 'Industry'.

Origin Of Credit Cards

On February 28, 1950 A Diners club card, the first multiuse credit card was issued. This marked the beginning of the era of plastic money. Diner's card was launched in the Indian market in 1960. The Central Bank of India was the first bank in the country to introduce credit card system in August 1980, followed by several other banks. In India, both foreign and Indian banks are doing credit card business.

The foreign banks have a dominant share due to various

reasons like having been in the field for decades, sound operational and financial strength, strong brand reorganization etc. Later, with the aggressive entry of SBI, ICICI, and HDFC Bank, the rules of the game changed. Among the banks issuing credit cards, the esteemed and well published cards are Citibank Diner's Club Card, Citibank Visa Card and Credit Cards, Bank of Baroda's Master Cards, the SBI Credit Cards, Bank of India's India Card, Canara Bank's Can Card and ICICI Bank's ICICI Card. These cards are positioned in a manner which gives an impression that the cards can be acquired by people from not only the upper class but also the middle income categories. The new private sector banks like ICICI and HDFC have adopted a strategy of reaching lower down the income strata by lowering down their eligibility norms. Today credit card industry is highly competitive and almost all the banks are offering credit cards in association with Visa International or Master Card.

Credit Card System

Under the credit card scheme, an individual can get a credit card from a bank with a specified credit limit as determined by the bank based on one's income. The bank in turn will enter into a contract with different shopping establishments all over the country, covering almost every aspect of human necessity, right from hotels, and restaurants to departmental stores, petrol retail outlets, cloth shops, rail and air travel agencies and jewellery shops to sell goods on the basis of the credit card. The card holders can buy goods from the affiliated member merchant establishments by producing his/her card and signing sales bills/charge slips produced before him/her. The charge bills/sales bills, evidencing purchases made by the card holders are transmitted by the shopping establishments to the banks which pay it, and the bank in due course, collects the amount from the card holders after deducting the commission. The card holders have the option to settle the monthly statement in full or take credit and pay a specified minimum every month.

PARTIES TO CREDIT CARD

There are three parties to a credit card the card holder, the issuer and the member establishments.

1. Cardholders: Individuals, corporate bodies and non-individual and non- corporate bodies such as firms.
2. Issuer: The banks or other card issuing organizations.
3. Member Establishments: Shops and service organisations enlisted by credit card issuer who accept credit cards.

Benefits Of Credit Cards

To the Cardholders

- It is convenient for him as it enables cash-less transaction. Thus the risk of carrying cash is avoided.
- He gets credit from the banks without going through the time consuming formalities.
- It inculcates a sense of financial discipline.
- The cardholder has the convenience of making a single payment for the purchases made during the month.
- It can become very handy in case of emergencies.
- It also facilitates insurance cover/discount.

To the Member Establishments

- Increase in sales because of increased purchasing power of the cardholders due to credit available to the cardholders
- Systematic accounting, since sales receipts are routed through banking channels.
- Advertising and promotional support on a national level.
- Development of a prestigious clientele base
- Assured and immediate payment by the banks.
- Avoids all the cost and security problems involved in handling cash.

To Banks

- Higher popularity and image for the banks.
- Substantial income through membership fees and by way of interest.
- Helps in establishing banking relationship with new customers.
- Provides opportunity to render additional services to the existing clients.

Factors Of Success In Credit Card Business

The competition is growing higher to capture the existing and potential cardholders. The following factors help to excel in the personal financing services.

- **TECHNOLOGY FACTOR**

The best communication and computer networks are essential for success in card business. Delays in the chain mean larger carrying cost. Visa and Master card have a short settlement time of 48 hours.

- **BRANCH NETWORK**

A massive branch network is needed to cover larger geographical area.

- **MERCHANT ESTABLISHMENT**

The affinity of merchant establishments would enhance the usefulness and status of the card. The affiliations of a number of banks also decide the desire of acceptability of cards.

Growth Of Credit Cards Issued

Table 1 presents the growth of credit cards issued by the various players during the period 1999-2000 to 2008-09.

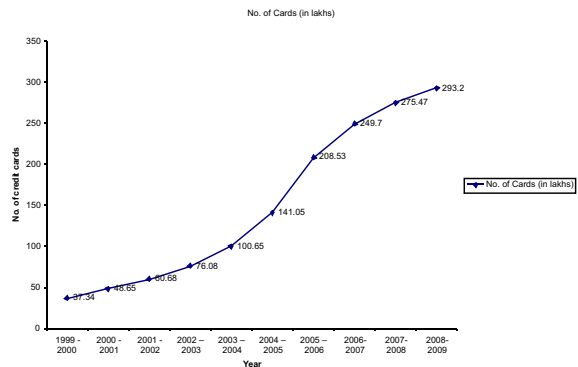
The total number of credit cards issued during the year 1999-2000 was 37.34 lakhs which rose higher year after year and crossed 100 lakhs during 2003-04. The year 2008-09 witnessed a whopping growth to 293.20 lakhs of credit cards.

Table 1 : Growth Of Credit Cards

Year	No. of Cards (in lakhs)
1999-2000	37.34
2000-2001	48.65
2001-2002	60.68
2002-2003	76.08
2003-2004	100.65
2004-2005	141.05
2005-2006	208.53
2006-2007	249.70
2007-2008	275.47
2008-2009	293.20

Source: Industry survey Credit card industry 2000-2009.

Chart 1 : Growth Of Credit Cards



The scenario in terms of key players in Credit Card shows that ICICI Bank has been able to maintain its leadership status in 2005 (26%). The gap is closing and players like Citi Bank, SBI and Stan Chart were catching fast. The clear winner is ICICI Bank, 36.71lakh credit cards have been issued in 2005 which has continued with aggressive market strategy. During 2006 also the clear winner was ICICI which has continued with the aggressive market strategy and has notched the land mark figure of more than 80 lakh cards in 2007 and 92 lakh cards in 2009 taking into number one player in the segment. ICICI Bank holds 31% market share followed by SBI-GE with 14% market share. HDFC occupies the third slot with 14% market share.

Sector-Wise Break Up

Sector-wise break up in the card business is shown in Table 2.

Table 2 : Analysis In Terms Of Foreign, Private And Public Sector Players (Number Of Cards In Lakh)

Banks	31.03.05	31.03.06	31.03.07	31.03.08	31.03.09
Foreign Sector Banks	62.00	75.55	92.08	95.00	99.50
Private Sector Banks	49.33	86.00	109.90	130.77	138.50
Public Sector Banks	29.72	46.98	43.56	45.34	51.43
Total	141.05	208.53	249.70	275.47	293.20

Source: Industry Survey Credit Card Industry 2005-2009.

Table 2 indicates that the overall number of cards in the entire sector has increased. The main focus is now on the private and public sectors banks. The private sector has shown a whopping 123% increase in its cards base from 49.33 lakh on 31.03.2005 to 109.90 lakh on 31.03.2007 followed by foreign sector at around 52% increase in it cards base from 34.58 lakh to 52.50 lakh. Public sector banks indicated the least growth of about 47% from a base of 29.72 lakh to 43.56 lakh during the above stated period.

The private sector banks exhibited a phenomenal growth in the credit card market with card issuance vaulting by 64% and the card base rising from 49.33 lakhs on 31.3.2005 to 138.50 lakhs on 31.3.09. The foreign sector banks have shown the least growth of 38% the number cards issued rising from the 62.00 lakhs on 31.03.05 to 99.5 lakhs cards by 31.3.2009.

Foreign sector banks were the overall leaders in the credit card industry with a 44% share during 2004-05 which declined to 36% in 2005-06, 38% in 2006-07 and 35% in 2007-2008. Speeding up the growth rate private sector banks have grown from 35% in 2004-05 to 48% in 2007-08 and public sector banks share declined from 21% to 17% during the above stated period. Private sector banks have recorded a phenomenal growth with the highest share of 48% in the industry followed by foreign sector banks with 34% and public sector banks with 18% by March 2009.

Industry Spend

With over 293 lakh credit cards in use in India, the pattern of usage is also undergoing a sea change. The total spends in the payment industry for the periods 2007 to 2009 are given below.

The total spends in payment industry increased from Rs. 43,169.39 crores in 2006-07 and crossed Rs. 67,383.38 crores at the Pos in 2008-09. This reflects a growth of 16% over the previous year. ICICI bank is the leader in capturing maximum spends with 33% market share, followed by SBI and HDFC at 14% market share. ICICI bank saw its spend shoot up since 2008 end, pointing out that a combination of factors were responsible for the jump-high spending festival season and three simultaneous promotional programmes.

ATMS

The explosive pace of new technology enabled customers to use services like Automated Teller Machines. By using the card the customer will have 24 hour access to cash without having to go to a bank.

Table 3 : Growth In The Number Of Atm Outlets

Period	No. of ATM outlets
31.03.05	16750
31.03.06	21509
31.03.07	27088
31.03.08	34789
31.03.09	42626

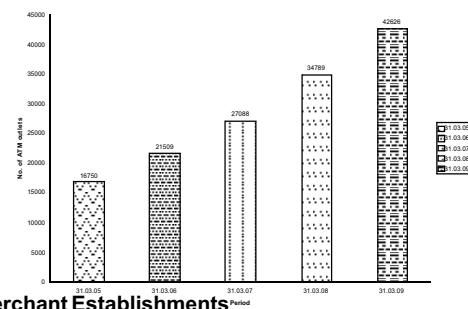
Segment Performance Atm Outlets

Owing to the entry aggressive Private sector banks, ATMs have mushroomed all over the urban Indian landscape. Subsequently, even Public sector banks have followed suit with increasing number of ATMs. ATMs have grown in the last five years from 16750 ATMs, concentrated mainly in the metros to an about 34,000 across the country in March 2008. They crossed the mark of 42,000 by March 2009.

Taking the banking industry, at presently there are about 70,000 bank branches dotting the country. By contrast, there are only about 24,000 ATMs. Five years from 2005, bankers reckon that there will be roughly three ATMs for every one branch, which may result into around 70,000 bank branches and over 1,00,000 ATMs by 2010.

The top three ATM deployers comprising of SBI, ICICI bank and Axis bank account for more that 45% of country's total ATM pool. SBI has the largest network of ATM outlets with approximately 11,000 outlets followed by ICICI bank with 4500 outlets and Axis bank with 3300 outlets during 2008-09. To increase ATM usage among the Indian population, banks are getting into mutual agreements for sharing ATM network amongst them.

Chart 2 : Growth In The Number Of Atm Outlets

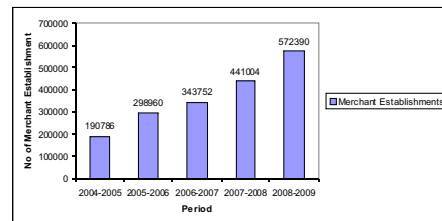


Merchant Establishments

Member establishments are the business firms which act as the link between credit cardholders' and banks operating credit cards. More the number of credit cardholders' who transact business with the member establishments, more is the volume of their business.

There were more than 5.72 lakh terminalised merchants, in 150 cities and towns across India that accept payment cards in 2008-09 as compared to 1.9 lakh terminalised merchants in 2004-05. ICICI bank has acquired the largest number of merchant establishments, but is closely followed by Axis bank and HDFC bank. Although a vast majority of merchants around the country remain cash based, there is a clear trend that more and more merchants are accepting cards for payment not only in main metros, but in Tier I and II towns and cities. The 2008-09 data show 150 towns and cities accepting payment cards, compared to acceptance only in the major towns and cities 5 years ago.

Chart 3 : Merchant Establishments 2005 2009



Conclusion

Credit card segment has registered an impressive growth rate of around 30 percent during 2007-08. The credit card issue in terms of number of credit cards witnessed a whopping growth to 275 lakhs by the year 2008. The credit card subscriber base has grown at a phenomenal rate of 30-40 percent a year. The Industry has seen the private player ICICI bank surge aggressively ahead, surpassing the established foreign sector banks. Sector wise break-up show that private sector banks have recorded a phenomenal growth with the highest share of 48% in the industry followed by foreign sector banks with 34% and public sector banks with 18% by March 2009. The total industry spends of the credit cards at pos revealed a rising trend with the increase in the number of merchant establishments. The entry of new private sector banks in the urban landscape had made even the public sector banks to follow suit with increasing number of ATMs. The pattern of usage is also undergoing a sea change.

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