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INNOVATION IN BANKING SECTOR WITH REFERENCE TO CREDIT CARDS

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KEYWORDS

Introduction

Innovation has always been an important area of focus for all industries, not just for Banks. However, in view of the economic slowdown, it is common knowledge that banks have been taking a very conservative approach over the last two years as many have been consolidating their portfolio and innovating products had lost its importance and has taken a back seat. We have not seen many innovative products designed for customers during the consolidation phase, and rightly so, as the primary focus of Banks has been in cleansing their portfolio and tightening credit extension apart from being extremely guarded in getting only credit worthy customers in their books.

The scene in the Indian Banking industry is changing; the various global economies have started showing signs of revival leaving behind them the worst recessionary phase and moving towards growth.

Key drivers for Innovation in Banking

With intense competition between banks which is going to be more severe in the coming years and with more private players waiting to step in, adopting new technology has assumed added importance, especially for public sector banks. The key to success is adopting state-of-the-art technology and continuously accelerating business processes.

Investment and innovation in technology will result in further advancement in credit analytics systems that will help them assess customer behavior and enhance portfolio profitability. Experience in matured markets has proven the value of credit bureaus in the development of consumer credit. With the possibility of more credit bureau's competing with CIBIL looming large, further advancement and innovation to quickly assess customer credit history will be a critical factor to provide convenience banking to customers. The day is not far away where you call up your Bank for a loan, provide your UID/PAN Number, your credit score verified, eligibility calculated and the processing is completed almost instantaneously and the loan amount gets credited to your account within 24 hours.

Smart Cards

Smart Cards embedded with microprocessors or memory chips will become tamper proof and replace the existing plastic cards, offering customers a secure digital identity. This will also provide convenience to customers; provide access to bank's website and individual accounts, accurate tracking of usage, spend analysis and manage long term customer relationships through efficient, timely and valuable services to them.

ATM

Biometric ATM's will replace the conventional ATM's across the country, apart from all banks investing in additional ATM's. Banks can authenticate the identity of the customer in three ways; most common being something the user knows (passwords or personal identification numbers), something the user has (a security token etc) or something the user is (a physical characteristic like fingerprint, palm geometry etc., called as biometric). With increasing threats on compromise of passwords and account take over's and misuse of cards, biometric form of authentication (which have withstood the test of scrutiny coming out as the most secure form) for ATM and POS transactions would be the way ahead. Statistics show that India's ATM density is around 35 ATM's per million people which is abysmally low compared to the US's ATM density of 1300. This is an area of focus for many banks clearly, offering a branding and marketing proposition for their investments apart from interchange revenues on usage.

Cheques will gradually be phased out and replaced by RTGS and NEFT and other electronic forms of money transfers and payment mechanisms offering superior turnaround times. Operational efficiency in processing electronic payment mechanisms will undergo a radical change, with the beneficiary receiving the credit real time online.

Credit Cards In India

Usage of credit cards by bank customers in India started since 1980s, but only in early 1990s, the market has witnessed a quantum jump. The total number of cards issued by banks and outstanding has increased from 2.69 crores in Dec., 2003 to 4.33 crores by the end of Dec., 2004. Likewise, the actual usage has registered increased both in terms of volume and value, i.e. from 14.57 crore transactions amounting to Rs.26, 951 crores during 2002-03 to 18.55 crore transactions aggregating Rs. 35,870 crores during 200304. In the year 2004, up to December alone card customers undertook about 21.19 crore transactions amounting to Rs.44, 737.73 crores1. The credit card companies are referred to as "Networks". The banks that issue these cards are referred to as "Issuers". Participants in credit card networks are primarily comprised of consumers, issuers, merchants, acquirers, and network operators. These participants are involved in a series of interrelated bilateral transactions.

Consumer credit card search behaviour

Several researchers argued that borrowers do not search for low credit card interest rates. Some of these non-shoppers are convenient users. They consider interest rates irrelevant because they the pay balance in full every month. Others perceive a low expected value of savings. If credit cards are used as a financing mechanism instead of a medium of convenience, the interest rate should be an important determinant of consumers' choice of which credit card to hold.

In this credit card market with wider price dispersion, greater anticipated savings, and lowered search cost, consumers' search activities are expected to payoff in terms of finding a card with a lower APR.

FINDINGS AND CONCLUSIONS

Various credit terms, such as percentage rates and finance charges were considered to be main focus of respondents for the required disclosures. It also indicated these terms as important for opening new credit card accounts. Cost terms such as annual fee and annual percentage rates were among the most important terms judged by the respondents.

Degree of difficulty in obtaining useful information about credit terms, differ on the basis of their personal experiences vis-a-vis the other card users. Responses regarding the information provided by credit card companies towards wise use of credit cards were favourable. Across checking question elicited similar responses from them.

Credit card holders consider managing their finances easier or no different, because of flexibility, smoothing of expenditures and repayments. But their personal experiences differ sharply on account of their perceptions about the experiences of other card users. The study further indicated that spending, heavy debt and a continuous cycle of debt are the most common reasons for card users' contentions about other consumers of credit cards.

The stipulated period for sending the statement is generally within 20 days of making a purchase. Instead, it takes more than 30 days to reach the credit card holder, resulting into attracting penal charges. This has deterred many credit card holders from effectively using their credit cards.

CONCLUSIONS

Consumers appeared to be generally satisfied with the use of their credit cards even though they have different views regarding other users. Certain practices by the credit card issuer companies are negatively viewed by the consumers such as too much availability of credit (70 percent), smaller period for repayment (78 percent) and no check on overspending (81 percent) though they agreed that it is the fault of consumers and not of card issuers.