

## GROWTH OF CREDIT CARD SYSTEM IN INDIA UNDER THE IMPACT OF GLOBALISATION

Madhu Verma\*

[madhuvermabuit@gmail.com](mailto:madhuvermabuit@gmail.com)

Asstt Prof. UIT, BU

Sulakshna Tiwari\*\*

[sulakshnatiwari@rediffmail.com](mailto:sulakshnatiwari@rediffmail.com)

Director-Academics VNSBS

**Abstract:** The financial services industry's role is that of a middleman between the ultimate saver and the ultimate investor today. There is however a second sphere of financial intermediation which can be described as payment intermediation between the payee and the payer. Payment intermediation bears critical economic and strategic aspects in the framework of BFSI. It is the aim of this paper to make a contribution to understanding payment intermediation in the context of globalisation, to illustrate the opportunities and threats facing the banks in their role as payment intermediaries in our present economy.

Key words: payment intermediation, financial intermediation, globalisation

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*“A man's feet must be planted in his country, but his eyes should survey the world.”  
– George Santayana, philosopher and writer.*

**INTRODUCTION:** Contemporary society in India is marked by the increasing importance of consumer culture, fuelled by the growth in disposable incomes in the hands of a swelling middle class and rising availability of a large assortment of commodities in the open market, including a growing number of shopping malls. The article examines India's 'new middle class' as an agency of utilization, engaged in a process which seems to be make vulnerable long held ideals of self-sufficiency, self-reliance and anti-materialism. After the economic liberalization of the 1990s, consumer goods materialize to have become a critical basis for redefining status distinctions in

Indian society and for negotiating interpersonal and inter-communal relationships within the seemingly opposing categories of tradition and modernity.

**CREDIT CARD:** A credit card is a card issued by a financial company which enables the cardholder to borrow funds. The funds may be used as payment for goods and services, with a condition that the cardholder will pay back the original, borrowed amount plus any additional agreed-upon charges. The issuer pre-sets borrowing limits which have a basis on the individual's credit rating. These cards can be used domestically and internationally and can also be used to withdraw cash from an ATM and for transferring funds to bank accounts, debit cards and prepaid cards within the country.

### **CREDIT CARDS IN INDIAN SCENARIO:**

Indian Economy has geared up well for a bright future aiming at a pivotal leadership position on the global economic front. Banking, insurance and other financial sectors opened up for global participation in nation- building. Traditional Indian banking and conservative practices underwent many acid-tests in the face of international competition and product competence. In the midst of economic changes taking place, today, the Indian population feels that a wallet without a card is empty. During the last one decade, there has been an exponential growth in the credit cards issuance and usage in the backdrop of increasing appetite for cards among the people. As development in banking and trading activities grew, fixed income group started using cards for the transactions. One factor that is driving the growth of plastic money in India is that the people are adopting the cash-free culture. Technology has brought modern innovative concepts in the form of Plastic Cards. It has enabled instant liquidity and inflow of funds out of nowhere. Plastic cards churned out designer money and we now have a wide array of them such as Credit cards, Debit cards, ATM cards, and Smart Cards. This also enabled the sight of a new direction to retail banking not only the credit cards but also the new innovative products like charge cards, and debit cards are becoming popular. Basically, three good reasons support the growth of credit culture. First and foremost is the use of card in driving cash out of circulation and bringing in more income and spending into the open with positive results for taxation. Secondly, it facilitates commerce, particularly cyber commerce. Finally, it reduces the cost of printing money. The government has realized the importance of these aspects and has removed all quantitative restriction on plastic

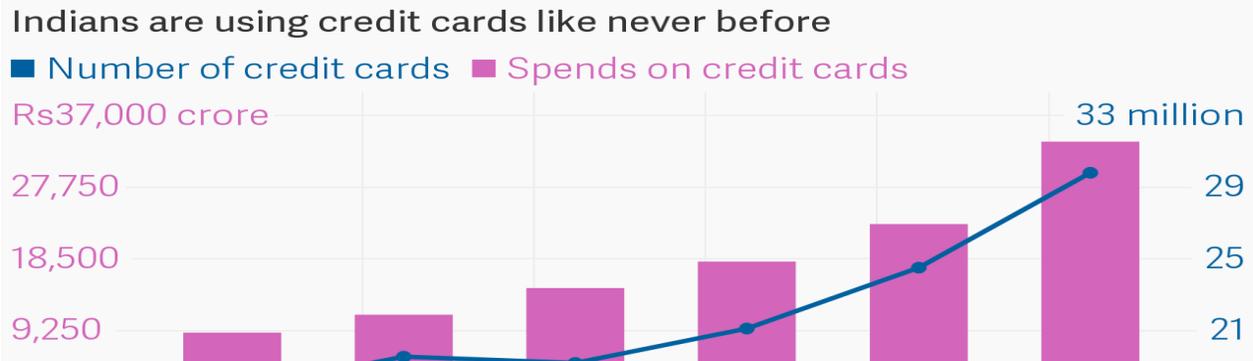
money, which has enhanced the growth and prospects in the recent past. Additionally, with the Information Technology revolution and young generation entering employment, the credit averse attitude has changed and a majority of the young generation prefers plastic money over conventional money. These factors together with constant innovation and expanding network of banks have enabled the growth of this industry in a big way.

Central Bank of India and Andhra Bank introduced credit cards in the country in 1981. It was followed by other Banks such as Bank of Baroda, Citi Bank, Canara Bank, Bank of India, SBI, ANZ Grindlays, Diner's Club, Bank of Maharashtra, Hong Kong Bank, ICICI Bank, ABN Amro Bank, Syndicate Bank, HDFC bank, HSBC Bank and Standard Chartered Bank.

#### **SCOPE OF CREDIT CARD MARKET IN INDIA:**

The credit card system started in the west in the 1950s, and came to India two decade later. The late 1980s saw Indian and multinational banks launch about a dozen credit cards, aimed primarily at the travelling public. Credit cards are marketed through advertisement, sales representative and offer of extra benefits like free insurance cover and add on cards.

According to a survey 1993 (A & M) India was projected to become the second largest credit cards market in the world after the U.S, by the year 2010. For the first time, there was the distinct possibility that credit cards volume will reach the critical mass required to make the business profitable for issuers. It was estimated that by the year 2010 the card holding population in India would take second position in the world. And it was not just the volumes. Transaction value, too, has shot up. At the end of March 31, 2017, credit card spending in India stood at Rs33,619.6 crore, a 275% jump over Rs8,958 crore in March 2012. India had 46.1M credit cards, 944.5M debit cards in February 2019



### EMERGING GLOBAL TRENDS:

As per the report of Capgemini on Trends in Payments 2018, the Top 5 trends in Digital Payments across the world are as follows:

- Alternate payment channels such as contactless and wearable gain acceptance Alternate payment channels fulfill customer demands for convenience and speed and could soon become mainstream.
- With the widespread use of smartphones, mobile banking and payments applications have gone mainstream, and wearables provide convenient access to such applications.
- Contactless payments enable consumers to make everyday purchases quickly and safely especially for low-value transactions
- Mobility, Internet of things (IOT), connected homes, entertainment, and media are expected to augment the volumes of non-cash transaction volumes significantly:
  - By 2021, more than 15 billion machine-to-machine (M2M) and consumer electronic devices are likely to be connected
- As merchants start providing Augmented Reality(AR) assisted shopping experiences, they will likely look for an AR-integrated payment gateway that delivers a superior customer experience Banks and FinTech's explore distributed ledger technology to transform cross-

border payments Banks and FinTech's are exploring blockchain technology for cross-border payments to provide faster, inexpensive, and efficient services

- The current cross-border payments model lacks an international clearinghouse and relies on correspondent banks, which causes inefficiency, slow speed, and high cost as a result, corporate customers are demanding transformation
- Distributed ledger technology (DLT) such as block chain eliminates intermediaries by using algorithms to verify and authorize payment transactions securely
- A distributed ledger-based cross-border payments model is expected to result in improved efficiency, enhanced security, and lower costs Instant payments processing likely to become the 'new normal' for corporate treasurers, industry at large With wider adoption, instant payments have the potential to emerge as an alternative to checks and cash for retail and corporate customers.
- Across the globe, there are major initiatives by central banks and industry associations to implement instant payments infrastructure with an aim to modernize the existing payments processing systems and compete with the non- banks to maintain the existing market share respectively
- The approach for implementation of instant payments is varied as in some countries such as the U.K.; the instant payments system has been developed in parallel to their existing clearing and settlement systems while in countries such as Sweden and Spain instant payments infrastructure is developed by leveraging the countries' existing standards
- Banks are leveraging instant payments platform to connect with third parties to deliver better digital customer experience and provide innovative products and services to both retail and corporate customers
- As global cyber attacks rise, regulators focus on data-privacy law compliance As cyber-attacks and data breaches around the world are rising in terms of both, frequency and intensity, regulators are focusing on compliance with current cyber security and data privacy laws

- Cyberattacks can cause personal and commercial data to be lost or compromised causing financial institutions financial and reputational loss: ○ Based on estimates, cyberattacks cost the global economy 1% of annual GDP
- Regulators across the world are bringing in new cyber security regulations and standards which could impose heavy fines, injunctions, audits, even criminal liability on firms for a data breach

The cyber insurance industry grew 35% in 2016 to \$1.35 billion in terms of direct written premium, which shows that corporates are looking to protect themselves from liabilities related to cyber security laws. The U.K. announced a data-protection bill that gives more control to consumers on their data

However, lack of harmonization in cybersecurity laws in different countries is posing 33 7 This section is based on inputs from Credit Suisse a challenge for multinational companies operating across the globe Infrastructure rationalization is likely as payments intermediaries come together or evolve Globally, payments infrastructure is being transformed to become faster and more inclusive to new players that will launch valuable offerings for retail and businesses

Payments infrastructure is expected to converge through mergers and acquisitions to expand the reach of the payments firms, increase their value proposition to meet changing customer expectations, and create customized solutions: ○ Vocal ink acquisition enables MasterCard to expand its services in areas of payments initiation, fraud management, and analytics

Payment schemes and intermediaries are also looking for infrastructure rationalization to be able to provide services in niche and high demand areas of data analytics, cloud, and Digital Customer Experience (DCX)

### **TRENDS DURING 2016-17 AND 2017-18:**

The demonetization of specified bank notes effected in early November 2016 as also the series of measures announced by the Government and the RBI to promote the movement from cash to non-cash modes of transactions, impacted the volume and value of payments systems. The

following analysis is based on RBI data which is available in public domain. Volume The year-on-year (y-o-y) growth of digital payments in 2017-18 was of the order of 44.6% which was nearly double the CAGR growth in volume for the period 2011-2016.

### **OPPORTUNITIES:**

The total digital payment market in India will grow to US\$1 trillion by FY23E led by the growth in mobile payments. Mobile payments are expected to grow from US\$10 billion in FY18E to US\$190 billion by FY23E.

These estimates however include only 5 instruments which are: IMPS, Prepaid Instruments, UPI, ECS / NACH and Online spends. The following developments are expected to contribute to the growth of Digital Payments in the country.

The Digital Payments ecosystem in India is undergoing a transformation with the entry of global tech giants that are acting as aggregators for retail transactions. Within just four months of launch, Google's payments app is now already processing a large number of digital transactions.

With Paytm—which has 7 million merchants (>2x the banking system)—now becoming a bank and post the launch of Google Tez and PhonePe, which are also focusing on merchant payments, a steep rise in digital payments could be expected.

While the number of PoS terminals has doubled since demonetization, the merchant acquisition infrastructure in India remains weak, as banks have not been able to drive adoption. This sector presents immense opportunities for digital players.

Credit cards being used in India have grown by 54 percent, compared with two years ago while debit card volumes have surged 14-fold in the period. The latter is largely on account of the new RuPay cards (similar to the international Visa and Mastercards) that have been issued as part of the Pradhan Mantri Jan-Dhan Yojana scheme, which aims to increase access to financial services.

As of June 2018, there were 3.93 crore credit cards and 94.4 crore debit cards being used in India, which includes individual and corporate cards. The value of credit card transactions in the month of June 2018 touched ₹46,629 crore, almost doubling from a year ago. Debit card transactions in the period went up by 33 percent to ₹3,15,627 crore.

Post demonetisation, the use of debit cards picked up, not just for online transactions but also at PoS (point-of-sale) machines. ICICI Bank has seen a 35 percent year-on-year jump in its credit card business and an 18 percent jump in its debit cards business in June 2018. In volume terms, credit cards showed an 18 percent jump and debit cards a 16 percent jump.

There is no doubt that digital transactions will continue to rise. After all, it costs banks and agencies money to employ people to handle cash. “[Digitally] India will catch up... the train has left the station, so digital is the way forward,” says Raja Rajamannar, global chief marketing officer of Mastercard, which powers the near-field-communication (NFC) payments made using the K Ring.

In November 2017, Niti Aayog CEO Amitabh Kant had said that physical cards and ATMs will be redundant in the next four years, but bankers and card issuers do not believe this will happen soon. “Card usage will last at least till our generation,” says HDFC Bank’s payments business and marketing country head Parag Rao. His bank is the highest issuer of credit cards in the country (1.12 crore as of June 2018) ahead of the state-run State Bank of India, which has issued the highest number of debit cards (28.9 crore).

“In India, less than 10 percent of all transactions are digital. So the headroom is huge for all payment channels to grow,”. The government’s drive towards making India a digital economy and Mastercard’s aim for a less-cash economy and boost for financial inclusion are in synergy. “Also, because the offers on credit cards are more lucrative in terms of cash-backs and reward programs, increasingly, it is emerging as a preferred medium for making payments online,” said Vijay Jasuja, CEO, SBI Cards, one of India’s largest credit card issuers and a part of the country’s biggest lender, the State Bank of India (SBI).

With more people becoming comfortable with spending online, e-payments is expected to grow 10 times to \$500 billion by 2020, according to a Google-BCG report. “The overall card industry is growing at 25-30 percent for all banks. The existing payment methods will not go away. Given the penetration of electronic services and digital payments—which is still very small—the physical mode of payments will stay for some time”.

The next phase of growth for cards will come from the tap-and-pay feature, through NFC-enabled contactless technology, like in the K Ring. Here, there is no need to swipe or dip a card; a payment can be made when it is brought close to either a PoS machine or card reader. These cards have become popular in Australia, Canada, UK and France, for metro travel or toll-and-transit facilities.

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