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USAGE OF CREDIT CARD AND THE MONEY MANAGEMENT PRACTICES OF THE CARDHOLDERS

ABSTRACT

The Notion of "Credit Cards" have changes in the course of businesses as well as for an individuals. It is mandatory to comprehend how credit cards influence the cardholders in day to day life. To this regard, this study aims to examine the impact of the usage of credit card with money management practices of the cardholders. The use of Credit cards by families, their money management practices, was analysed. A sample of 30 cardholder in the families was drawn from Chennai city. These families are of a married people with children, who use Credit cards monthly. 65 percent of the families earned a total yearly income between 1,00,000 & 1,50,000 pm. The number of Credit cards used by the families in a month 2. Credit cards were used 1 to 7 times in an average month, 90% of the percent of the families reported that credit cards caused them to buy no more or just slightly more than if cash were required. 60% of the families reported that Credit cards caused them to buy no more than if another type of credit were required to make a purchase. The card holders in the families in the study demonstrated control of their Credit card use, and used them for convenience rather than for instalment debt rather than for instalment debt instruments. Credit card were regarded by a large number of families as a temptation to overspend. The findings revealed that usage of credit card can influence money management practices of the cardholders as well as its impact on attitude toward debt.

Keywords: Credit card, Cardholders, Money management, Usages.

I. INTRODUCTION

"India 2020 A Vision for the New Millennium" written by the former President of India A P J Abudul Kalam, strongly advocates an action plan to develop India into a strong nation. This was laid down two decades ago as a pathway to an economically developed India with societal inclusion. Technology plays a vital role and provides developing economies, the ability to make certain stages of development. All mobile phone revolution, for instance, leapfrogged the landline stage, growing from a million mobile connections in 1999 to over 760 million smarphones by 2022.

India with its market can also build collaborations across nations based on technological abilities. Today, India has the world- class ability in IT,communication, pharmaceuticals and more. Especially, after demonetization initiatives, most of the people in India started electronic payments for their transactions. Everyone from the small merchant to neighboring vegetable vendor is embracing digital payment solutions. Slowly India is moving from cash to cashless economy. A cashless economy is one in which all the transactions are done using cards or digital means. The circulation of physical currency leading to minimal in cashless economy has mor benifits in the economy. The increased use of credit cards will definitely reduce the amount of cash that people have to carry which reduces the risk and the cost associated with that.

The main history of credit cards, started a way back in the 18th century in Europe. Following, credit cards have been around in the United States since the 1920's when individual firms such as hotels, oil companies and department stores began issuing them to customers. This introduced the idea that people who could not afford to buy really expensive items could make regular payments or installments until the full cost of the items were paid **Marples (2008)**.

A bank offers credit to a customer by issuing a new credit card, to make purchases in what is also known as consumer credit **Mandell (1990)**. There are many advantages of using credit card as a payment instrument. The very most apparent one is that the user can defer payment made. Moreover the usage of credit card can increase the purchasing power of the cardholders. And also they can gain in terms of convenience where they can access funds at anytime and almost anywhere in the world in order to purchase goods and services.

The other side of the credit card is that the credit card users are actually spending more than the actual cost of goods and services. One of the serious problems is consumers owing excessive credit card debts with the hidden fees and cost, which arises when one carries a balance on the credit card while paying the absolute minimum each month. The factors may also lead to the reduction of future income as users need to pay back the loan with interest charged. Items purchased using credit card is more expensive with the fee or interest charged. This could cause financial burden such as overdue payments if consumers are not able to pay back the loan.

In today's environment of vehement competitive pressures, fickle economic conditions, rising default rates and increasing levels of consumer and commercial debt, an organizations ability to effectively monitor and manage its credit risk could mean the difference between success and survival **Altman (2002)**. Commercial banks expose themselves to the risks of default from borrowers. Prudent credit risk assessment and creation of adequate provisions for bad and doubtful debts can cushion the banks risk. This study aims to examine the impact of the usage of credit card with money management practices of the cardholders.

II. LITERATURE REVIEW

In the trade industry, the usage of "non-store" credit cards, such as American Express, MasterCard and Visa had also developed rapidly. Cheque and cash were replaced by credit cards in many types of transactions. In today's market the usage of credit card is affected on purchasing behaviour by customer in all over the world. At the first, the credit card was used as a widespread payment method for luxuries, such as accommodation and travel. However, nowadays more used for buying small items of expendiency in the daily life sorting from the impenetrable to the ordinary **Lee and Hogarth, (2000).** The usage of credit card facilitated customers to extended their expenses besides their daily spending. Subject to bank, amusement and travel cards, traders obtained expense from card issuer for instance hotels and banks who performed as third party in invoicing client at the end of the month. **Samad Ali Qureshi et al., (2015)** influences, inspecting the dynamics leading towards credi tcard usage.

Common Wealth Bank Report (2013) studied about the various types of cards condition of use apply, card account details, additional cardholder, how to protect our access method transactions regular payment arrangements, unauthorized use, loss or theft of our card, PIN or password variation, default, suspension, cancellation and termination and other details discussed. **Phylis et al., (2010)** investigated relationsip between credit cards and psychological constructs and the need for consumer policy.

Most of the banks who issued the card, started to offer some percentage as monthly interest to their cardholder for more convenience of their customer. Nevertheless, cardholders were also legally and officially recognized to pay their invoice before the owed date to evade needless interest charges. Increasing the velocity of money, it causes inflation, in the absence of monetary intervention, **John and Pradeep (2008)**. And in another study **Neera Kataria (2005)** pointed out the tremendous growth of credit cards in India.

On the other hand, the majority of the studies done by behavioural researchers have concenrated on analyzing credit card usage and possession **Hirschman and Goldstucker (1978)**. According to the **Chien and Devaney (2001)** founding, the exact approach key is linked to the outstanding credit balances, the general attitude towards using credit, and the instalment debt. **Hayhoe et al., (2000)** showed that credit card purchasing behaviour could be influenced by affective credit attitude among college students. **Sharaf (1998)** had done a study on credit card usage among consumers in Penang, found that in Malaysia there were considerable dissimilarities in the behaviour of credit card usage in relation to numerous demographic variables such as race, marital status, sector of employment and educational level. The point of the current study is to examine the relationship between credit card usage and money management practice of cardholders.

III. CREDIT

"Don't put anything on the card, that you can't pay off almost immediately."

CREDIT RISK

Credit is derived from a Latin word "credere" meaning trust. When a seller transfers his wealth to a buyer who has agreed to pay later, there is a clear implication of trust that payment will be made at agreed date. Major causes of serious banking problems are directly related to lax credit standards for borrowers. A credit policy helps to define the frame worked within which credit will be extended and managed. There are two credit evaluation systems in relation to banks assessment of loan applications. Judgmental credit analysis which relies on the consumer loan officer's experience in assessing the loan and empirical credit analysis also referred to as credit scoring which assesses applicants based on scores applied to various applicant characteristics. Examples of applicant characterizes assessed include age, employment history, performance on loans currently held and types of accounts held **Shubhasis (2005).**

'The buy now, pay later' philosophy has infiltrated the American way of life. Credit risk has always been a vicinity of concern not only to bankers but also to all the credit card holders. The risk of an individual not fulfilling the obligations in full on due date can seriously jeopardize the banker customer relationship. In the beginning Credit cards simply facilitated Commerce; today they are a key competent of business, banking & personal money management. The credit cards are used because they are Convenientor. The loan through credit card taken from banks, is commonly referred to the borrower who got an amount of money from the lender, and need to pay back, known as the principal. In addition, the banks normally charge a fee from the borrower, which is the interest on the debt. The risk associated with loan is credit risk. The source of income to banks, bank loans and credit also constitute one of the way of increasing money supply in the economy **Waymond (2007).**

CREDIT RISK MANAGEMENT

The dictum in finance says that "The greater the risk, the higher the return". Therefore risk can be seen both as an opportunity and as a threat; opportunity, because the most risky businesses are also highly profitable.

Risk management means, increasing the likelihood of success, reducing the possibility of failure and limiting the uncertainty of all the overall financial performance. **Greuning and Bratanovic (2003)** defined credit risk as the chance that a debtor of a financial instrument issuer will not be able to pay interest or repay the principal according to the terms specified in a credit agreement. All over the world exposure to credit risk has led to many banks failure. Credit risk exposure particularly to real estate led to widespread banking problems in Switzerland, Spain, The United Kingdom, Sweden, Japan and others.

THE BASIC CREDIT UTILIZATION

What is Credit Utlization?

Credit utilization has a big influence on the credit scores. Credit Utlization is the ratio of outstanding credit card balances to the credit card limits. It measures the amount of available credit used. If the balance is Rs.200 and the Credit limit is Rs.1000, then the credit utilization for that card is 20%. If adding Rs.500 per month of new charges on card and the limit is Rs.1000, then the utilization rate is 50%. Calculation of credit card utlization ratio is simply divide the credit card balance by credit limit, then multiply by 100. The lower the credit utilization percentage, the better. Mainly credit utilization ratio shows that usage is only in a small amount of the credit that has been loaned.

Five major factors have an influence on credit score, the most commonly used credit scoring model.

Payment history	35%
Level of debt/credit utilization	30%
The age of credit	15%
Mix of Credit	10%
Credit inquiries	10%

CREDIT SCORE

(a) Credit record and the credit score

Credit cards gives a credit record and receive a credit score. A high credit utilization on cards, will lead to lower credit score, a more difficult time making larger monthly payments and a higher interest rate on the cards if payments are made late.

(b) Credit habits factor into Credit score

The scoring model looks at your credit utilization in two parts. First, it scores the credit utilzation, that is the total of all your credit card balances compared to total credit limit. The purpose of a credit score is to guage the likelihood that you will repay the money we borrow. Certain factors that make people more likely to difficult on credit obligations. One of those factors is high credit card of loan balances.

(c) Set up balance alerts

To manage the credit utilization, especially if the credit cards get a good workout each month, one of the easiest things to do is set up balance alerts that notify you if your balance exceeds a certain preset limit.

(d) Stretch out the charges

This will lower balances on several cards instead of a balances that user more than 30 % on limit on one card.

(e) On time payment

If the balance is high when the issuer sends the account information to the credit bureaus, such as a few days before the end of the billing cycle, then the credit utlization used in your credit score will also be high.

(f) Twice payment in a month

The most low-maintenance way to keep your utilization low. This way, even if using the cards throughout the month, a mid month payment can pay the card back down to a level that stays below the 30% threshold.

Fortunately, a high credit utilization won't hurt your credit score forever. As soon as you reduce your credit card balances or increase your credit limits, your credit utilization will decrease and your credit score will go up.

IV. CONTEMPORARY CREDIT CARDS

There are many kinds of expenditure that need to be spend on a regular basis, but miss out on getting rewarded because they do not accept credit card payments. This is the problem that Cardup aims to taken up to solve. CardUp's value proposition is simple but compelling; what if you could enjoy the same credit card rewards for spending on things like paying rent to your landlord, tertiary school fees, insurance premiums and other categories of expenditure that you previously weren't able to use the credit cards.

Working

Cardup allows all business payments with the credit cards regardless of whether receipents accept card payments or not and this includes payroll. Scheduling payroll payments on cardup needs the bank details and payroll, where emoployees name and salaries are visible. Unless other payments types for compliance reasons the payroll amount with be credited to the company's bank account once the payment is approved. The payroll amount payment to employees will be as per usual process. But 55 days more until the payroll charges on the credit card bill is due.

There are many companies that offer the ability to pay rent and other expenses with the cards. Here are some of the ones

1. RedGiraffe RentPay
2. NoBroker
3. CRED RentPay
4. Housing com Pay Rent
5. Comparison
6. Bottomline.

V.MONEY MANAGEMENT

Indians got used to pay rent via cash or through NEFT/MPS as a default payment mode. In fact most landlords still insist on cash over NEFT as they are not comfortable with sharing their bank accounts. That's still happening in 2020. With Covid -19 pandemic outbreak and social distancing becoming new normal it is time for a change.

Managing the money and credit cards responsibly can increase the credit score and set you up for a healthy financial future. Mismanaging the money and credit cards can set you back financially and create a poor credit score.

Estimation of revenue and expenses

Managing the money properly involves writing out a budget and following it.
If the spending is more than bringing in each month, some serious trimming is in oreder. Tracking the expenses, saving the cash receipt for a month or two and go over them with a fine-tooth comb. Following over the bank statements and credit card statement as well, gets a clear idea of how much spend help to make adjustments to the budget. The most important part is to eliminate the unnecessary expenses to live within the means.

Regime for Credit Cards

Charge an automatic payments to the credit cards, then paying them off in full each month. This will keep the debt-to-credit ratio low, which automatically increases the credit score. Using the credit cards for emergencies and ease is a good practice. Carrying large balances can cost hundreds or even thousands of rupees can lower the credit score.

Managing Cash

Develop a system that allows you to keep more of cash. Cash can be met when it is necessary to spend less when dealing with actual money. In case of purchase made in the debit or credit card, then pay it off at the end of the month. Aggressively cut back on everything that can and attack the debt if their is a high balances on credit cards. Eliminating credit card debt will give more cash to hold on to each month.

VI.DATA AND METHODOLOGY

Research Design, Sample Selection, Data Sources and Description Variables

The Paper used descriptive research design. This is deemed appropriate because the study involved an in depth study of the credit card risk and money management. According to **O.M. Mugenda and A. G. Mugenda (1999)**, a descriptive study is undertaken in order to certain and be able to describe the characteristics of the variables of interest in a situation.

A random sample of 30 family members data was taken from the population. 28 translate to 93% were returned. This sample fairly represented the whole population and was considered large enough to provide a general view of the entire population and serve as a good basis for valid and reliable conclusion.

The study applied data from both primary and secondary sources. Primary data was collected by use of a questionnaire. **Kothari (2009)** argued that questionnaires generate data in a systematic and ordered fashion. The questionnaire comprised both of structured and unstructured questions to avoid being too rigid and to quantify the data especially where structured items were used. The questionnaire was administered through the “drop and pick later” method. The follow-up was done by emails, and phone calls, on arrangements some questionnaires were personally administered to the respondents. Information on credit card usage was measured that was made by **Gan et al., (2005).**

VII.RESULT AND DISCUSSIONS

As per the response rate analysis, out of the 30 questionnaires that were issued to te respondents, 28 which translate to 93% were returned, 2 which translate to 7% were not returned. 93% represent a high response rate. The questionnaires were given to the family using credit cards. Gender analysis indicates that 61% of the respondents were male, while 39% were female. This shows that most of the respondents who participated in the study were male.

An analysis of the highest education levels attained by the respondents shows that 21% had acquired diploma, 43% bachelor's degree while 36% had masters. This shows that majority ad at least bachelors degree thus had an understanding of their work and related issues. Regarding work experience 22% of the respondents had worked with their institutions for less than five years, 39% had worked for 5 - 10 years, 32% for 10-15 years and 7 % for 15 years and above. Majority therefore had been in their respective institutions for 5-10 years which is a period enough to understand their credit card usage and money management for the study.

Although the findings of the present study suggest that management of using a credit card and money management plays a vital role in balancing the financial position and to have a good reputation in the society. Managing the money and credit cards responsibly can increase the credit score and set you up for a healthy financial future. Mismanaging the money and credit cards can set you back financially and create a poor credit score. In general problems involved with payment of credit card debt, lifestyle and customer purchasing behaviour are numerous, and only by this study cannot expect to cover all of them. More future research is needed to complement the findings.

VIII. CONCLUSION

The era has been a paradigm shift in the way banking services have been offered to customers through extensive adoption of information technology. Specifically, there has been a major shift in the mode of transaction and a great leap towards cashless economy after demonetization. The cashless economy will greatly solve the problem of corruption and black money. On the whole, credit card users appeared to believe that credit cards are useful, and that customers are better off with credit cards than without them. Hence the credit cards influenced the cardholders in day to day life. Hence, it is necessary to have money management, by develop a system that allows to keep more of cash. Cash can be met when it is necessary to spend less when dealing with actual money. In case of purchase made in the debit or credit card, then pay it off at the end of the month. Aggressively cut back on everything that can and attack the debt if their is a high balances on credit cards. Eliminating credit card debt will give more cash to hold on to each month.

In some cases in the context of India, predicting electronic banking adoption is fraught with several challenges where the majority of the populations is unaware of technological changes in the banking sector. Since many customers may still prefer traditional mortar banking without making an attempt to try out the technology. And also the usage of credit card were regarded by a large number of families as a temptation to overspend.

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