



THE IMPACT OF CREDIT CARD USAGE ON ECONOMIC GROWTH: IN DEPTH EVALUATION

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Abstract

The purpose of this study is to investigate the impact of credit card usage on the economic growth of India, aiming to contribute to its development. A survey was conducted involving 50 credit card users in India, supplemented by market research. The questionnaire focused on demographics and credit card usage behavior. The findings reveal gaps in understanding and utilization of credit card facilities, with defaults largely attributed to multiple cards and fraudulent transactions. Despite limited awareness of default consequences, most users pay their balances in full. Reasons for cancellation include non-payment or inactivity, indicating insufficient comprehension of credit card agreements. Addressing these gaps in credit card usage could potentially stimulate economic growth in India.

Keyword- Credit card, Economy Growth, Perception

INTRODUCTION

The exponential rise of credit card usage since the 1980s, propelled by factors such as convenience, security, and non-monetary benefits, has reshaped global economies, with India mirroring this trend. The allure of cashless transactions, coupled with perks like instalment payments and rewards, underscores the growing importance of customer service in the credit card sector. This evolution signifies a fundamental shift in consumer behavior, where credit cards offer a gateway to immediate purchases without upfront payment, transforming the purchasing landscape and accelerating transactions globally.

Understanding the intricate system of credit cards is vital for both consumers and stakeholders. Interest charges, a cornerstone of credit card operations, often hinge on whether the entire balance is paid off monthly. Grace periods, typically ranging from 20 to 50 days, offer consumers an opportunity to settle balances without incurring interest charges. However, missed payments nullify these benefits, leading to compounded finance charges. The competitive credit card market extends benefits to consumers in the form of rewards and low-interest rates, fostering customer loyalty and retention.

For merchants, credit card transactions provide enhanced security compared to traditional payment methods like checks, mitigating the risk of fraud and theft. The burden of assessing individual creditworthiness now rests with banks, relieving merchants of this responsibility. The operational cycle of credit cards involves multiple stakeholders, including cardholders, issuing banks, merchant establishments, acquiring banks, and independent sales organizations. This intricate network ensures seamless transactions, underpinned by credit card associations and transaction networks.

Despite its advantages, credit card default remains a prevalent concern, influenced by factors such as income ratio and credit limits. The repercussions of default, including extra fees and increased interest rates, underscore the importance of responsible credit card usage. College students, in particular, are targeted by credit card companies due to their potential for future earnings, contributing to the normalization of credit card usage among younger demographics.

While credit cards offer numerous advantages, they also present inherent risks. The misinterpretation of minimum payments often leads to underestimated balances and accumulating interest charges. Concealed expenses like late payment fees and processing charges further exacerbate financial burdens, potentially impacting credit scores and borrowing capabilities. The revolving credit nature of credit cards tempts users to overspend, fostering a cycle of debt exacerbated by high-interest rates.

Credit card fraud remains a persistent threat, facilitated by technological advancements and unauthorized access to sensitive information. Despite vigilant monitoring, fraud incidents highlight the importance of robust security measures and consumer awareness.

In response to these challenges, governments and regulatory bodies have implemented laws and regulations to safeguard consumers and promote responsible credit card usage. However, concerns persist regarding consumer comprehension of credit card costs and implications, necessitating ongoing education and awareness initiatives.

As credit cards continue to permeate emerging markets, understanding consumer behavior becomes paramount for developing effective marketing strategies and ensuring financial inclusion. Adapting to evolving consumer needs while balancing convenience with financial prudence is imperative in navigating the complex credit card landscape.

In conclusion, while credit cards offer unparalleled convenience and benefits, they also pose significant risks if not managed responsibly. A nuanced understanding of the credit card system, coupled with robust regulatory measures and consumer education initiatives, is essential for fostering financial literacy and mitigating potential pitfalls. As the credit card market evolves, stakeholders must remain vigilant in addressing emerging challenges and ensuring sustainable growth.

LITERATURE VIEW

The evolution of credit cards in India began with their introduction in the late 1980s by foreign banks, utilizing magnetic strip technology. However, these cards had drawbacks such as susceptibility to wear and tear and fraudulent activities. To address these limitations, smart chip-enabled credit cards were developed in the late 1990s, significantly enhancing security by generating dynamic codes for each transaction. In 2012, the National Payment Corporation of India (NPCI) introduced Ru Pay, a domestic card payment network, incorporating smart chip technology and introducing features such as contactless payments and mobile wallets. The Reserve Bank of India (RBI) mandated all newly issued credit and debit cards to be EMV chip enabled in 2015, further enhancing security and functionality.

The history of credit cards globally traces back to 1914 when Western Union introduced a card offering deferred payment privileges. Diners Club revolutionized the concept in 1950 by launching the first multipurpose charge card, followed by American Express pioneering plastic credit cards in 1958. Bank of America's introduction of the "BankAmericard" in the 1960s propelled credit cards into the mainstream, leading to the emergence of Visa and Mastercard. Legal frameworks for consumer credit evolved over time, with various acts enacted to safeguard consumer interests.

The 1980s saw the rise of rewards programs as a strategy to attract and retain customers, while the 1990s witnessed the popularity of corporate cards. The transition to the digital era in the 2000s introduced smart card technology like EMV chips, enhancing security. The proliferation of smartphones led to the digitization of credit cards and the emergence of touchless payment methods.

Studies on credit card usage have explored factors influencing consumer behavior, including knowledge, attitudes, and socioeconomic factors. Research has also focused on the impact of credit card debt on consumption patterns, delinquencies, and profitability for credit card companies. Despite advancements, challenges such as adverse selection effects and inflationary pressures persist in the credit card market, highlighting the need for ongoing innovation and regulation to ensure financial stability and consumer protection.

RESEARCH OBJECTIVE

- To study the concept of credit market
- To study what is the cycle of credit in the Indian economy
- To study the different areas where financial transactions can be improved

MATERIALS AND METHODS

Sample Frame and Sampling Procedures

Data were collected using a sample of credit card users from various socio-economic backgrounds in Meerut. The total numbers of respondents were 50.

Primary data assortment:

This data is obtained through different sources such as Interviews of respondents which are directly related to the financial aspect, face to face conversation. This is a major tool to analyse the data, here we can obtain ground reports and it is the base of any research.

Secondary Data Assortment:

Secondary Data are those which are previously taken by someone and provide a base for primary data. Here we obtain the data from the banks credit card records, research papers. Different magazines, articles, and internet sources are coming under here.

DATA ANALYSIS

- Which age group gets the credit card easily?

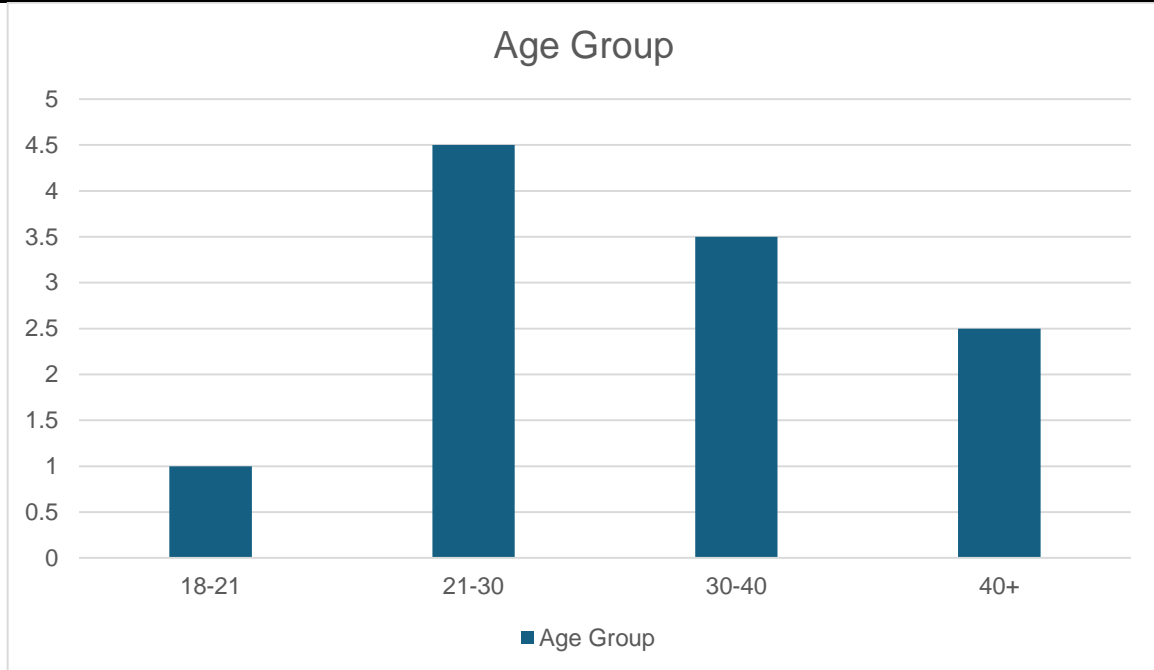
Out of 50 respondents –

10 % Respondent thinks – 18-21 years old.

45% Respondent thinks- 21-30 years old.

35% Respondent thinks- 30-40 years old.

25% Respondent thinks- 40+ years old.



- Which age group mostly uses the credit?

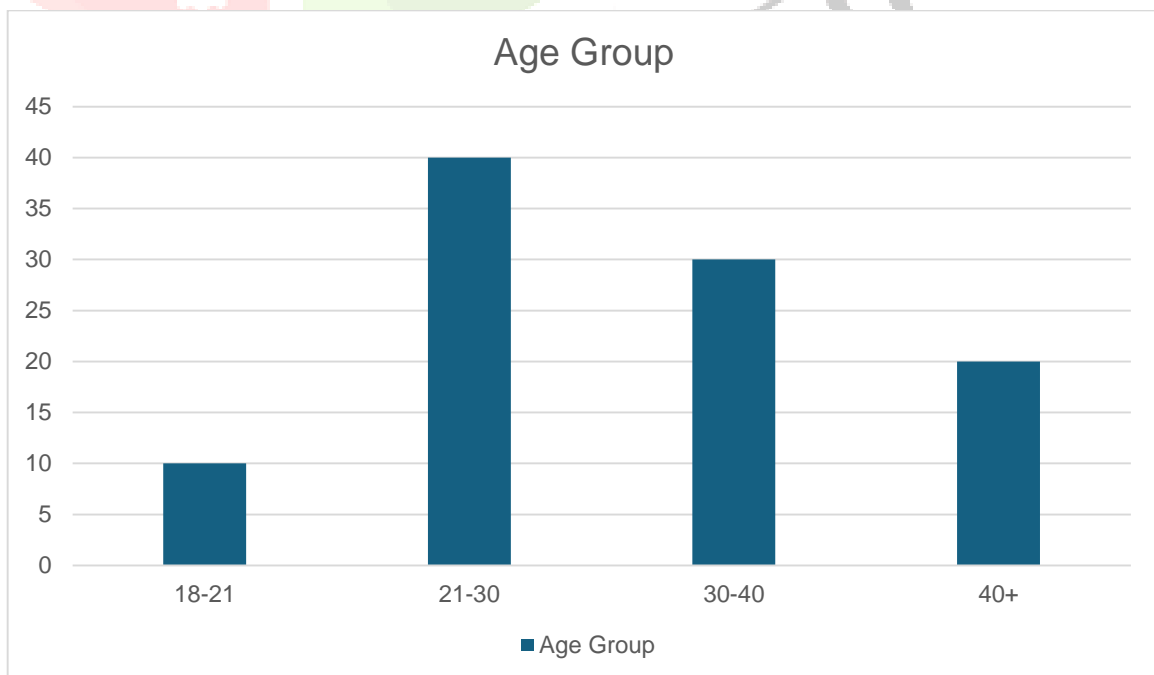
Out of 50 respondents –

10 % Respondent thinks – 18-21 years old.

40% Respondent thinks- 21-30 years old.

30% Respondent thinks- 30-40 years old.

20% Respondent thinks- 40+ years old.



- For which reason the public uses the credit card?

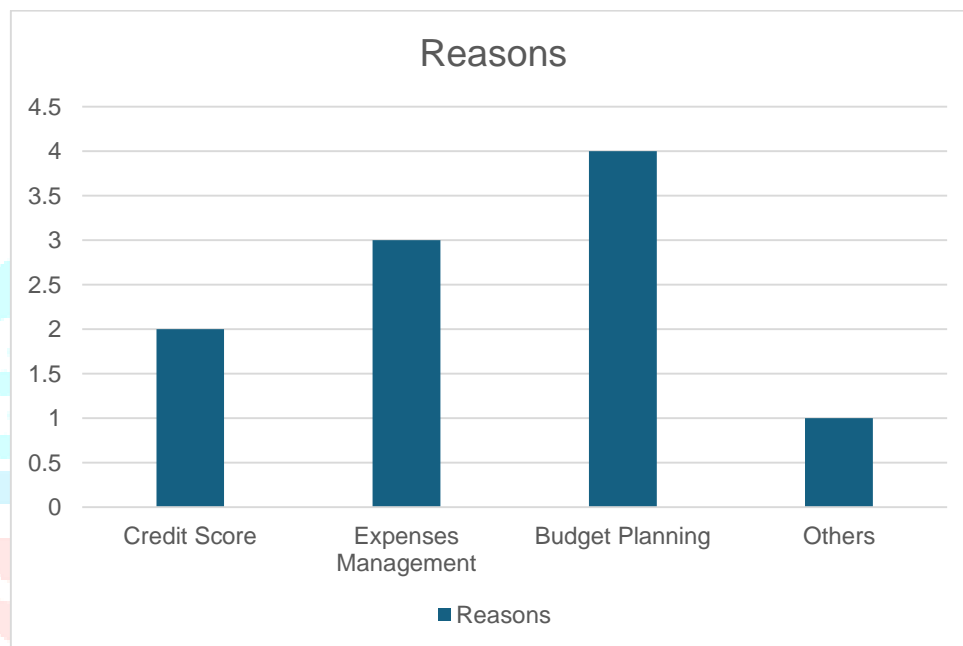
Out of 50 respondents –

20 % Respondent thinks – Credit Scores

30% Respondent thinks- Expense Management

40% Respondent thinks- Budget Management

10% Respondent thinks- Others.



- How much time usually credit card takes to issue?

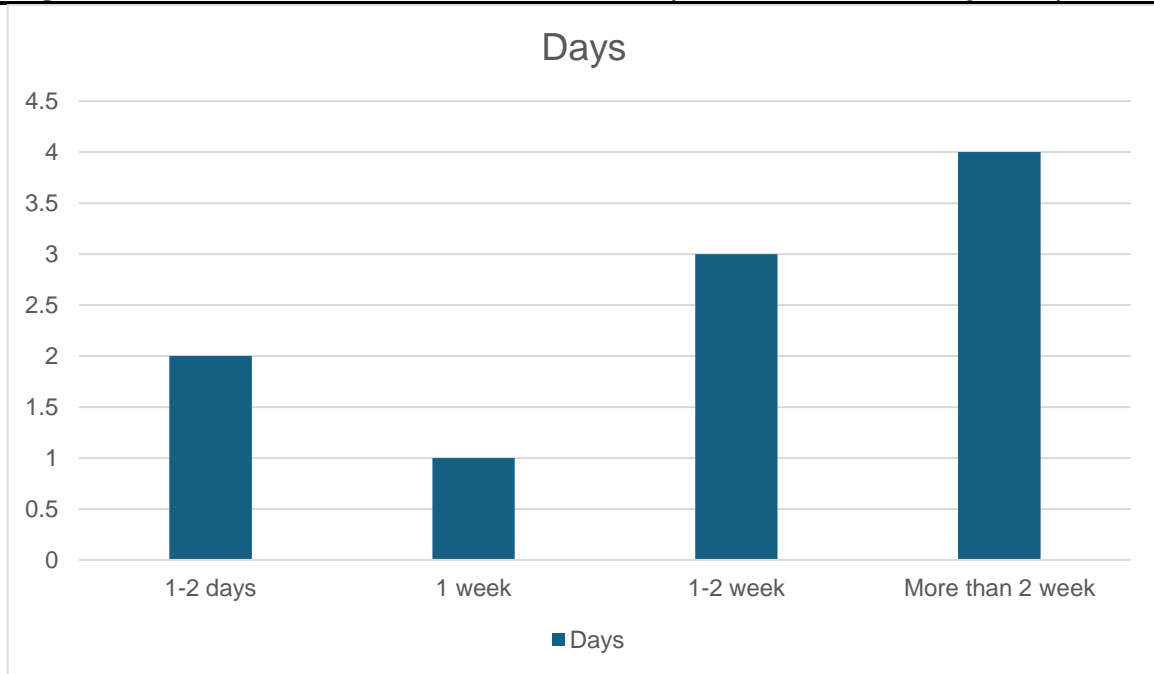
Out of 50 respondents –

20 % Respondent thinks – 1-2 Days.

10% Respondent thinks- 1 week.

30% Respondent thinks- 1-2 weeks.

40% Respondent thinks- more than 2 weeks.



- How much time the bank stops services of credit card if you want?

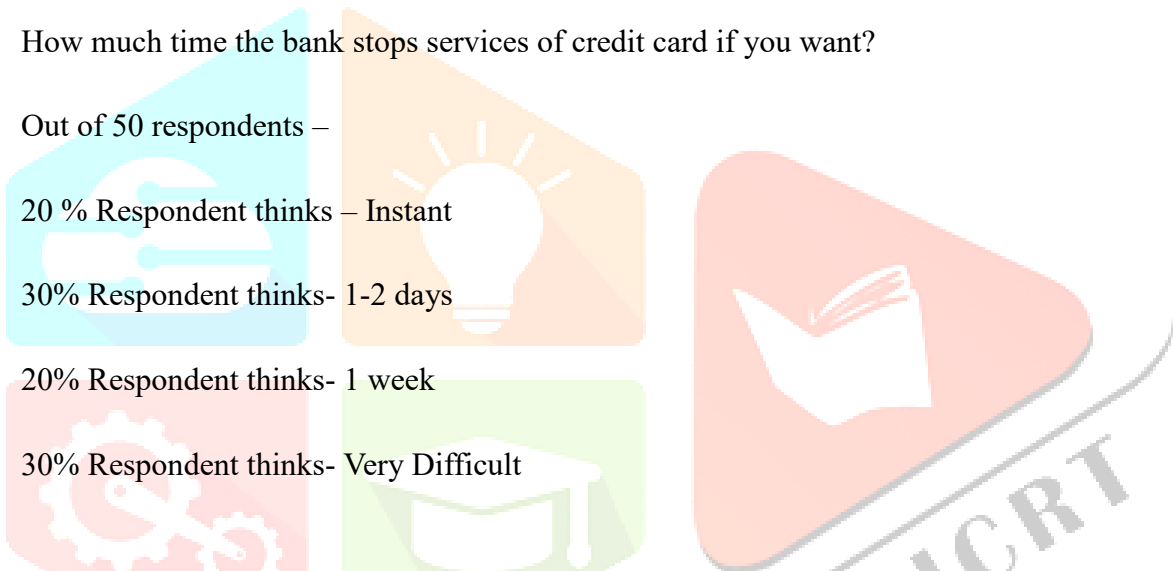
Out of 50 respondents –

20 % Respondent thinks – Instant

30% Respondent thinks- 1-2 days

20% Respondent thinks- 1 week

30% Respondent thinks- Very Difficult



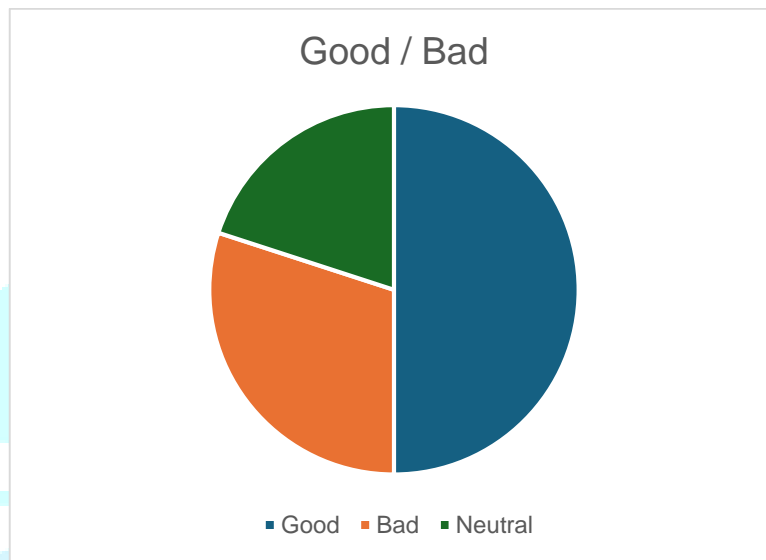
- How much people think credit card is good for living?

Out of 50 respondents –

20 % Respondent thinks – Neutral

30% Respondent thinks- Bad

50% Respondent thinks- Good



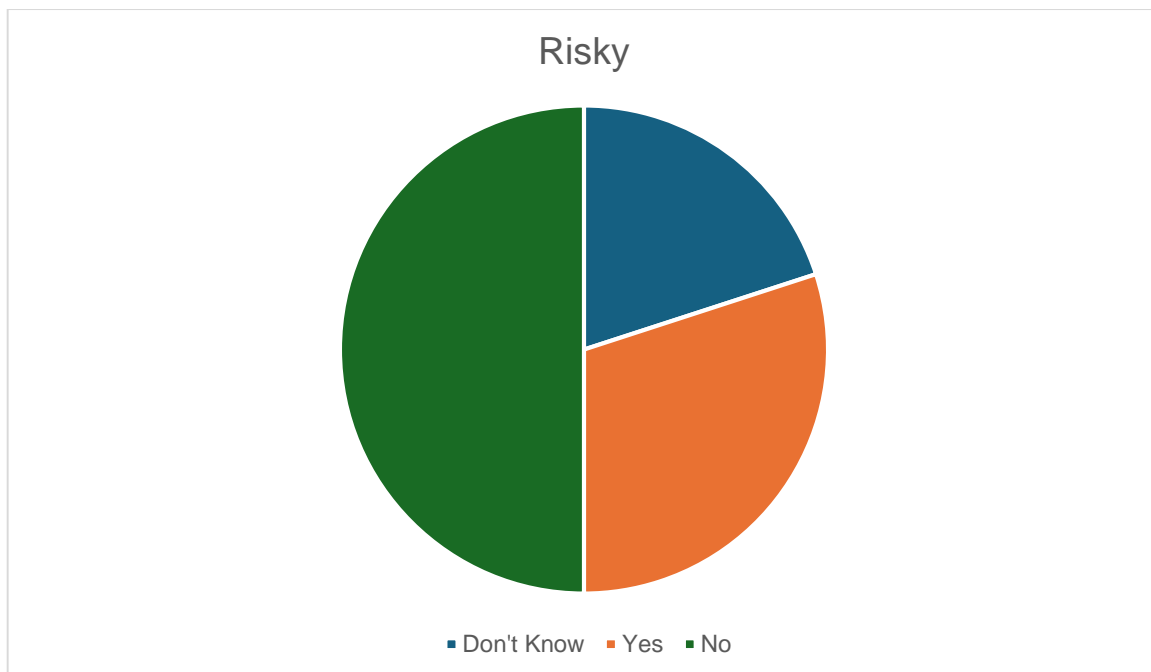
- How much people think credit card is too risky?

Out of 50 respondents –

20 % Respondent thinks – Don't know.

30% Respondent thinks- Yes.

50% Respondent thinks- No



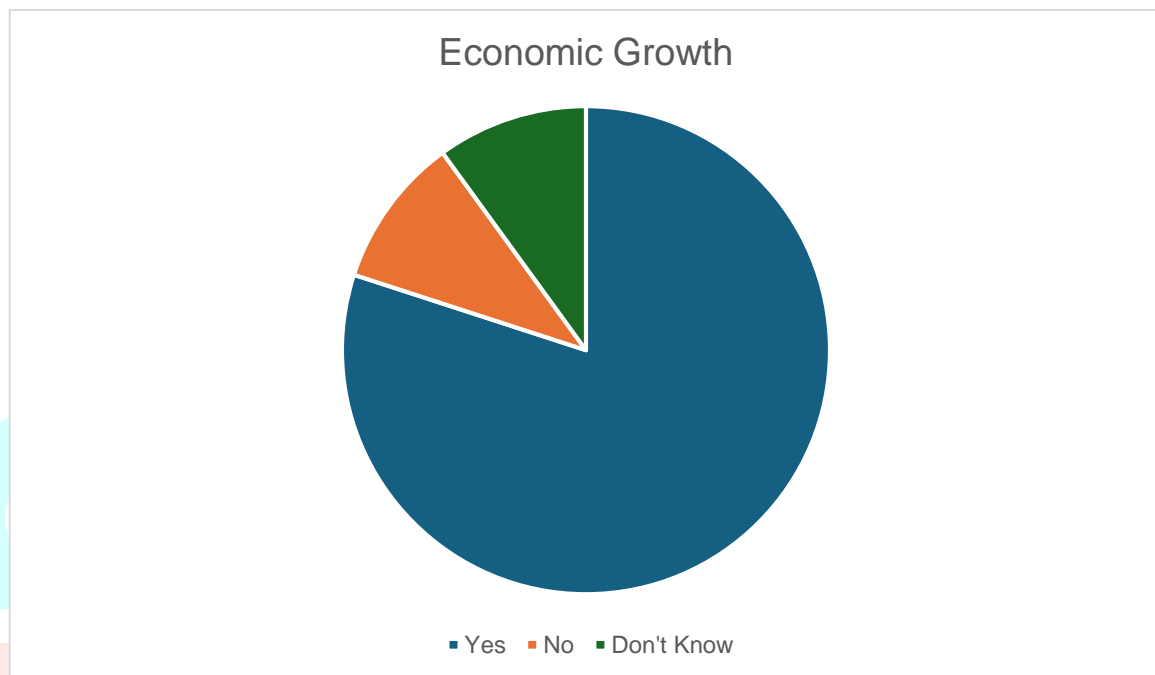
- Are credit cycle helps in economic growth?

Out of 50 respondents –

10 % Respondent thinks – Don't know.

80% Respondent thinks- Yes.

10% Respondent thinks- No



The above questions help in identifying various problems in the financial transactions which creates hindrances in using credit cards and which effects the economy. As lot of people thinks it is very difficult to stop the credit card services if don't want and usually it happens as well like when it comes to issue the credit card they are super active but when it comes to stop it then they creates issues as it becomes targeted jobs for the salesman who sells the credit card facility so banks should see about this issues it plays a very major role in creating myths about the credit card.

Secondly, there is huge gap in private and public banks credit card services as there are lot of third party credit cards agencies are present which issue the card in few hours active service but the public sector banks provide this facility after checking lot of things which are correct also but if they simplify the process of issuing the card then people will not go towards the third party and other countries will not take any share in their economy growth.

RESULTS AND DISCUSSION

The credit market functions as a pivotal platform where entities like governments and corporations issue debt securities to investors. These securities range from investment-grade bonds to securitized obligations like CDOs and credit default swaps. With a significantly higher value compared to the equity market, it serves as an essential indicator of economic health. Participants include governments, corporations, and municipalities. In developed nations, formal credit markets operate under government regulation, while informal markets lack such oversight. Factors influencing the market encompass internal elements like interest rates and inflation, alongside external factors such as global economic conditions and commodity prices.

The credit cycle delineates phases of borrower access to credit within economic expansions and contractions, typically lasting longer than business cycles. It begins with easy borrowing conditions, marked by lower interest rates and relaxed lending criteria, fostering economic growth. This phase transitions into a contraction as lending standards tighten and interest rates rise. Credit availability hinges on risk and profitability for lenders, influenced by economic conditions. Assessing the credit-to-GDP ratio's deviation from its long-term trend helps determine the credit cycle's stage, guiding regulatory policies like countercyclical capital buffers. However, methodologies like the one-sided HP filter may have limitations, especially in emerging economies like the Caribbean and Pacific Developing Member Countries (CAPDR). Alternative indicators like excessive credit growth and high leverage complement the credit gap measure. In regions with less financial deepening, a normalized credit gap provides a better reflection of the credit cycle's dynamics, ensuring effective regulatory responses.

FINDINGS AND CONCLUSION

This study delves into the role of credit usage in economic growth, shedding light on the significance of the credit cycle and consumer behavior in credit card usage and default. Findings reveal gaps in credit card facilities and consumer education, with multiple cards and fraudulent payments identified as key default reasons. Moreover, limited customer knowledge about credit defaults and agreements with banks is evident. The research underscores the importance of understanding the credit market dynamics for comprehending financial systems, economic cycles, and financial stability. It advocates for enhancing financial transactions to promote efficiency, transparency, and inclusivity in the financial system, thereby fostering sustainable economic development and prosperity.

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