EXTEND OF USAGE OF CREDIT CARDS IN ERODE

S.VAIDHEESWARAN

Ph.D Research Scholar, Bharathiar University
Associate Professor, Department of Management Studies
ManakulaVinayagar Institute of Technology, Puducherry

Dr.K.SELVAVINAYAGAM

Principal, Periyar University College of Arts &Science,Pennagaram

Abstract

Money lending is probably one of the oldest professions in the world. In India money lending has its origin in the Vedic period and there are evidences of activities such as acceptance of deposits and lending of money stated Manikandan (1997). According to Suneja (1998), the origin of money is rooted deeply in antiquity. In early primitive society, money (commodity money) tool the form of cattle or a commodity depending upon various factors like the cultural and economic developments of a community, climate and location. This was the time when barter system was in prevalence. Them metals such as gold and silver were adopted as gold and silver were adopted as money for the purpose of exchange. Owing to the inconvenience, the metallic money was substituted with paper money (bank notes). Now in the present scenario paper money is being replaced by plastic money (credit cards) the world over.

Keywords: Banking sector, Credit cards, Card usage.

Introduction

Money lending is probably one of the oldest professions in the world. In India money lending has its origin in the Vedic period and there are evidences of activities such as acceptance of deposits and lending of money stated Manikandan (1997). According to Suneja (1998), the origin of money is rooted deeply in antiquity. In early primitive society, money (commodity money) tool the form of cattle or a commodity depending upon various factors like the cultural and economic developments of a community, climate and location. This was the time when barter system was in prevalence. Them metals such as gold and silver were adopted as gold and silver were adopted as money for the purpose of exchange. Owing to the inconvenience, the metallic money was substituted with paper money (bank notes). Now in the present scenario paper money is being replaced by plastic money (credit cards) the world over.

Taking cue from global economies, India too has been rapidly venturing into the plastic money business, i.e., credit card business. In today's modern economies (Khubchandani, 2000) the credit cards (Plastic money) are being widely used. During the past decades, plastic cards have become more and more popular in India. The reason for their popularity has now shifted from being recognized as a status symbol to convenience.

Security and worldwide acceptance (Kalavathy, 2000).

The credit cards are largely preferred because they are simple to operate and easy to carry. The holders are relieved from the risk of carrying cash or cheque book with them; owing to revolving nature of credit, the customers can take advantage of it, and when he pleases, within the overall limit; the purchasing power of the cars holder increased to the extent of credit limit given in the card, it wisely used, credit cards can provide them extra money, interest free. All that one has to do is to settle the bills on time oplinesGorden and Natarajan (1999).

The credit card business has been growing at a rapid pace. The world over the present total volume at over one billion cards and a turnover of around US$ 1,500 billion. India is witnessing a quantum jump with the growth rate at around 21 per cent per annum. The present (2004) number of cards issued by banks in India would be a little over 31 lakhs. The Citibank amongst the foreign banks is the largest credit card issuer in India, with close to 1 million – card covering Citibank Master card, Diner's Club and Citibank Visa.

Surely credit cards are all set to make a definite impact on the life styles of the people, since credit cards is the trend in the country today. With this backdrop a study on "Extent of Usage of Credit Cards in Erode", during 2002-2003 was undertaken with the following objectives.

a). to study the extend of usage of credit cards in Erode; b). To bring out, the relationship between the value of credit cards and the income, expenditure, nature of job, family size and educational qualification of the holder, c). To find the extend to which income of the card holder capacity of the card and the attitude of the card holders towards the possession of the card establishes differences in the expenditure pattern; d). To study the socio-economic profile of cardholders and its impact on the holding of a credit card.The reliability of the current study depends upon the reliability of the information provided by the respondents.

METHODOLOGY

The urban area R.S. Puram in Erode was chosen for the current study considering the fact that among the residents of R.S. Puramthere were as many job going people as business men who were expected to hold customers owing to their convenience. The current study carried out during 2002 – 2003 was based on the primary data, adopting the random sampling technique. 150 respondents who posses credit cards were interviewed, relevant information such as the general background of the respondents, and the details of the credit pertaining to the study was obtained using the interview schedule.

In the current study the investigator has adopted multiple regression technique in order to predict the level of dependency of the given dependent variable on the independent variables.

Framework of the Model Explaining the Interrelationship among the Variables Pertaining to the Capacity of the Credit Card

Since possessing a credit card is only a qualitative aspect. Which cannot be quantified, the capacity or value of the credit card was taken as the dependent variables and the capacity of the card depends upon several socio- economic and demographic factors.

The Model

$$CC = b_0 + b_1(Cy) + b_2(FS) + b_3(TFE) + b_4(Oc) + b_5(Eq)$$

Where,

CC   =Capacity of the card
Cy   =Cardholders income
FS   =Family size
TFS   =Total family expenditure
OC   =Occupation of the card holder (Dummy variable)
OC = 1 =Job going
OC = 0 =Business
En   =Educational Qualification
En = 1 =Higher Secondary
En = 2 =Under graduate
En = 3 =Post graduate
En = 4 =M. Phil
En = 5 =Ph. D
En = 6 =Professional

In order to understand the effect of the identified variables on the expenditure of the cardholder, discriminate analysis was adopted and the function used is given below.

$$Z = f(X_1, X_2, X_3)$$

Z   =   Total family expenditure
X1   =   Capacity of the card
X2   =   Income of the card holder
X3   =   Attitude of the card holders towards the possession of the card
X3=1   =   Positive attitude
X3=0   =   Negative attitude

LOGIT MODEL

The investigator has used the Logit model to analyse the influences of the independent variables on the attitude of the cardholder. The binary Logit function was fitted as follows.

Y = f (X1, X2, X3, X4, X5, X6, X7, X8)
Y = Attitude of the card holders
Y = 1 = Positive attitude
Y = 0 = Negative attitude
X1 = Cardholder's income
X2 = Capacity of the card
X3 = Interest rate
X4 = Age of the card holder
X5 = Sex of the card holder
X5 = 1 = Male
X5 = 0 = Female
X6 = Income of the other family members
X7 = Size of the family
X8 = Total family expenditure
X9 = Occupation of the card holder
X9=1 = Job going
X9=0 = Business

Chi-square test was used in the current study to find if there was any difference so far as cards held by men and women in jobs and business owing to the general perspective of the people that the job holders are preferred by the banks, when cards are issued.

Findings

a. Details about the card

☞ From the information obtained, it was found that 42 per cent of the card holders possessed the card in the past four years. The reasons for the increase in the number of cardholders in the recent past could be attributed to the increasing awareness of the usage of cards ad the wide acceptance of the credit by merchant stores.

☞ The study exhibited that 27 per cent of the cardholder possessed ICICI cards followed by SBI cards (24 per cent). The reason for holding ICICI cards was that, ICICI requires no deposits for possession of a credit card.

☞ To analyse the extent to usage of the credit cards, the number of times the card holder borrows on a card was found out which revealed that 49 per cent of them use the card less than 3 times in a month and the average amount spent on card in a amount was Rs.10,800.

☞ Information on the capacity of the card makes it clear that a majority of (38 percent) the cardholder's had the total capacity ranging from Rs.20,000 – 40,000. Majority of 45 percent of the cardholders has their job certificate as their basis of security.

☞ The current study has revealed that the majority of the people (34 percent) use the credit cards for the purpose of paying local bills and only a minimum of 8 percent use the credit cards for the purpose of withdrawing cash.

☞ From the opinion of the cardholders, its was confirmed that majority of the cardholders felt it was all right to borrow when the living expenses were cut.

☞ The analysis on benefits of the credit cards revealed that 50 per cent of the family members of the respondents held a card and majority of 22 percent possessed ICICI cards.

b.Determinants of the possession of the credit card

The estimated equation of the regression model is given below:

CC = 8630.4348 + 0.6918*Cy + 2672.4283 FS + 1.4100*TFE + (2.975)

(1.175) (2.172) 4983.3469 DC – 687.8615 En

(1.012) (-0.503)

$$R2 = 0.5992$$

(Figures in the brackets indicating the "Z" value of the estimated parameters.)

* Significant at 5 per cent level

The analyse of the section indicated that the cardholder's income and the total family expenditure were the significant variables influencing the card capacity.

c. Measuring the Relative Contribution of Chosen Factors towards the Expenditure of the Card Holder

The result of the discriminate analysis revealed that the means of the two variables. i.e., cardholder's income and the attitude of the cardholders towards the possession of the card of Group I and II were equal. The relative share of the variables namely the capacity of the card (X1) was 9.74 and the income of the card holders (X2) was 1.41.

d. Factors Influencing the Attitude of the Cardholders Towards the Possession of the Credit Card

Y = -1.928 + 0.00004712*X1 + 0.00000986 X2 + 0.050X3 (-0.59) (2.25) (0.86)

+0.01789X4 – 1.0916*X5- 0.0001198X6 + 0.2304X7 (0.86)

(2.00) (0.99) (1.08)

-0.00008877X8 – 0.8988*X9   (1.29) (2.04)
The value given in the brackets are the 'z' values.

*significant at 5 per cent level.

The results of the function showed that among the chosen explanatory variables the card holder's income (X1), the sex of the card holder (X5) and the occupation of the card holders (X9) contribute significantly to the attitude of the card holder towards the possession of the card.

The chi- square test was used to test the significance of association between the working and businessman revealed that there was no significant differences so far as the cards held by men and women in jobs and business.

Conclusion

Non – requirement of deposits on the part of the banks influences heavily the decision to possess a credit card working people especially the salaried income group occupy the first position in owning a credit card. Moderate income and excessive expenditure complesthem to become aware of the existence of the cards for it could be useful during the period of emergency.

Future research could be done on (I) performance of credit card industry. (II) The monetary role of credit cards and its impact on the present monetary system etc.

References

1. Awh, R.Y. and D. Waters (1974), "A Discriminate analysis of Economics, Demographic and Attitudinal characteristics of Band Chares card holders–A case Study", The journal of finance, Kune 1974, No.3 Vol.XXIX, Pp.973-980.

2. Deekshitulu M.Y. (2001) "Small Money Role of Smart Cards in the Economy)" Central bank of India Bulletin, Feb. Vol.21, No.2, Pp.8-10.

3. Desai, H.H., (2001), "Automated Teller Machines (ATMs)", Central Bank of India Bulletin, January, Vol.21. No.1, Pp.10-11.

4. Gordon, E and K. Natarajan (1999). "Financial markets and services", Published by Himalaya publishing house. Mumbai, 1999. p. 389.

5. Kalavathy, (2000), "Credit cards", Punjab national bank Monthly review, June, Vol.22. No.6, Pp.13 – 31 (New Delhi).

6. Suneja, H.R. (1988), "Monetary theory and practice", Himalaya publishing house, Bombay, Pp.3 – 5.

7. Thirpurasundari, K. (1999), "Parallel lines of credit and debit cards", Kissan world, July, Vol.26, No.7. p.73.