Chapter 65

An Empirical Investigation on Credit Card Adoption in India

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ABSTRACT

In India, the credit card usage as well as the penetration has been found to be very low compared to that of debit cards. Though banks offer the best of the services, still there are apprehensions about the risks involved in using a credit card in India. Hence, this study investigates the customer’s adoption behavior of credit cards and determines the factors which influence the acceptance among Indian customers. Many studies have been reported in the literature to analyze the customer’s adoption behavior of online banking, Automated Teller Machines, e-shopping etc. But, there are not many studies that analyze the adoption behavior of credit cards. In this study, an empirical model that includes ten behavioral factors has been proposed. Along with the main determinants identified from the literature, two new parameters such as perceived benefits and self-esteem have been included in the model. The analysis of the model reveals that factors such as perceived usefulness, perceived ease of use, perceived risk, relative advantage, perceived trust, social influence and perceived benefits have been found to be the main determinants of credit cards adoption in India. The findings are of great use primarily for the banks which are planning to offer credit cards, and for already existing banks to focus on the gaps.

INTRODUCTION

Services are central parts of developed economies which are growing in numbers, varieties and complexities (Geczy et al., 2010). Banking sector is the potential sector which has a vibrant growth. The revolutionary advancements in the banking sector brought a dramatic change in the banking operations over the past two decades. With an increasingly competitive global market, cost, quality, and technology leadership are no longer sufficient for businesses to secure competitive advantage (Ryan, 2012). With the advancement in technologies, banks started offering innovative...
products and services to secure the competitive advantage. Credit cards have emerged as the most widely used means of financial transactions. These plastic cards have become the best solution for those who do not have money at present, but want to fulfill their needs. Debit cards, credit cards, Automated Teller Machine (ATM) cards, shopping cards etc. are examples of plastic cards. Depending on the type of application, their utility also varies. Credit card is a vital payment tool for bank customers globally. The working mechanism of a credit card has been illustrated in Figure 1.

It is evident from the mechanism that customer, merchant, network and bank are all equally responsible for a smooth and hassle free credit card transaction. In India, Visa and MasterCard are the main players in credit cards who provide the network. According to the latest bulletin of Reserve Bank of India (Feb 2012), there are over 180 lakhs of valid credit cards in circulation.

Figures 2 and Figure 3 give an overview of the status of credit card usage in India.

The Banks in India that offer credit card facility to its customers are Axis Bank, Bank of Baroda, Canara Bank, Corporation Bank, HDFC, ICICI Bank, Indian Overseas Bank, Kotak Mahindra, Punjab National Bank, State Bank of India, Syndicate Bank, Union Bank of India, Vijaya Bank. The major foreign banks offering credit card services in India are ABN Amro, American Express, ANZ, Barclays Bank, Citibank, Diners Club, HSBC, Royal Bank of Scotland, Standard Chartered. Despite these many banks offering credit cards in India, still the credit card penetration is less than 10% of the total bank customers of India. Hence, this encourages the researchers to explore the possible impediments to the credit card adoption in India. Therefore, the main objective of this behavioral study is to explore the major determinants which influence the adoption of credit cards among Indian customers. Based on a review of the relevant literature, an empirical model has been proposed with two new factors; perceived benefits and self esteem. This empirical model has been analyzed using various statistical methods. Different hypotheses were tested to find the behavioral factors which affect the adoption and acceptance of credit cards among Indian customers.

Figure 1. Working mechanism of credit cards
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