

A Study of Credit Card Holders' Repayment Pattern with Reference to Chennai City

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A Study of Credit Card Holders' Repayment Pattern with Reference to Chennai City

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Abstract:

In today's world, everyone would have limited access to credit. But this access is available to all through one of the most valuable financial instruments i.e., Credit Cards. Credit Card is a boon as well as a bane. It can make or destroy the person who is using it. The Important factor of a Credit Card is the repayment of dues on a stipulated period. The study focuses on various aspects of repayment - how much amount will they pay towards credit card dues, how will they arrange funds to repay the debt, etc. The period of study is 2 months with a sample size of 100 through a questionnaire. The study uses ANOVA and Chi-Square Tests to analyze the factors that influence repayment patterns. The study reveals that there is no significant relationship between spending money and repayment of dues on time.

Key Words: Credit Cards, Credit, Repayment Pattern, Delinquency

INTRODUCTION:

Plastic money simply means using plastic cards to make transactions electronically instead of keeping actual paper money with them. The purpose of plastic money is to make large transactions easier and make payments irrespective of geographical barriers. Plastic Cards include Credit Cards, Debit Cards, Prepaid Cards, etc. A credit card is more than just a metal and plastic rectangle. Everything follows a strict code of conduct. Indeed, even the design and composition of the card itself.

The credit cards' working mechanism is that consumers swipe their cards and purchase the products/services they desire. A statement will be generated at the end of 1 month period regarding the transactions made, the amount of funds to be paid, the due date, etc. The consumer will be given a 15 – 20 days' period to pay their dues.

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A credit card is an effective tool that enables one to borrow money and is issued by a financial institution, like a bank or credit union. The communication between the payment terminal and the issuing bank is facilitated by a third-party business called a credit card network, which is used by financial institutions. Therefore, electronic transfers are quicker. Visa, Mastercard, and RuPay are the three main credit card networks that predominate the Indian market.

A travel and entertainment card was introduced by American Express Company in 1958. The account number and card member's name were initially typed on paper and attached to cards. The embossed plastic cards were introduced by American Express in 1959 as a first for the sector. Electronic credit card processing was introduced in the USA in 1973 as a result of ongoing technological advancements

In 1969, Citi Bank introduced the Diners' Club Card in India. The Credit Card industry significantly expanded when Andhra Bank introduced its Credit Card. In 1985, the Central Bank of India, with Vysya Bank and United Bank of India, introduced the Central Card. Bank of Baroda and Allahabad Bank launched BOB cards together in the same year. In 1989, ANZ Grindlays' Bank introduced Visa Classic Card.

The Credit Cards in India gradually increased, with a CAGR of 25-30% annually. About 80 Public, Private, Foreign Banks, and smaller Co-operative Banks issued such Credit cards in India in 2020. India ranked 11th in the countries with the most credit card in use. As per Reserve Bank of India (RBI) data, the Total Credit Cards Outstanding i.e., after adjusting the number of cards withdrawn/cancelled as of 30th November 2022 is 80664688. The RBI data for September 2022 listed credit cards as one of the fastest-growing categories in the personal loan category, touching the Rs 1.70 lakh crore threshold from Rs 1.31 lakh crore in September 2021. In contrast, when it reached Rs 1.68 lakh crore in August compared to Rs 1.62 lakh crore in July and Rs 1.61 lakh crore in June, there was a slight upward trend.

OBJECTIVES:

1. To Understand the Repayment Pattern of Credit Card Holders.
2. To Analyze whether Credit Cardholders pay their dues on time.
3. To Study whether the Credit Period offered on Credit Cards by Banks is Satisfactory.
4. To Identify the Sources of Arrangement of Funds to pay Credit Card Dues.
5. To Examine the Platforms which the Credit Card Holder uses to make Payments.

SCOPE:

The study gathers data from Credit Card Holders from Chennai City. The scope of the study is limited to repayment patterns It examines the credit card users how will repay their debt, considering their credit limit, and credit utilization. The study wants to explore whether Credit Card Holders are using Credit cards efficiently. The Study probes whether spending influences repayment patterns. The study also analyzes the variables like gender, age, education, and occupation that affect credit card repayment patterns.

REVIEW OF LITERATURE:

1. **Katarzyna Bijak, Christophe Mues, Mee-Chi So, Lyn Thomas (Oct 2015)** Study states that Responsible Lending must be practiced by the lenders in granting loans to the Cardholders as they must ensure that the bills are affordable to pay for them and

know the consequences. It enlightens that firms must take necessary steps to assess customers' capacity to make repayments. It has also highlighted that spending more than 25% of gross income on repayment of unsecured loans (Credit Cards) leads to more indebtedness and observed that repayments are a big burden for them.

2. **Barry Scholnick, Nadia Massoud, Anthony Saunders (July 2008)** study states that Inattention as Individuals is having dues on Credit Cards despite having sufficient balance in deposits to avoid non-payment of dues. It also states that Lower Wealth and Lower Income Individuals are more negligent towards Credit Card Repayments. It also states that it is because they are either facing budget constraints in present or fearing that it would occur in the future.
3. **Sandie McHugh and Rob Ranyard. (Oct 2018)** analyses that Credit Users are concerned with the Loan Duration. It states that if information about the long-term consequences of different levels of repayment were provided, it may be predicted that the anchoring effect of minimum repayment information would no longer exist. It states that disposable income, affordability, and repayment decisions impact perceptions of future repayment difficulties. It highlights that information on the long-term consequences of repayment decisions leads to remarkable levels of repayment.
4. **Gustavo Barboza (Mar 2018)** states that individuals (College Students) with present-biased preferences use strategic procrastination to repay Credit Card dues. Those individuals who have self-control issues use a credit card to meet their purchases when their income faces a deficit and unable to pay the bill within the due date, therefore carrying the balance from month-to-month balance. Sophisticated Individuals with present-bias preferences consume beyond their income capabilities and carry credit card debt.

RESEARCH METHODOLOGY:

The Study uses both Primary Data and Secondary data. 100 Respondents participated in this survey. The Questionnaire was designed in such a way as to examine the repayment pattern of Credit Card Holders. Conclusions were made by examining the repayment pattern of Credit Card Holders.

- a. **Primary Data:** The Study was conducted by framing the questionnaire and distributing it to selected Credit Card Holders through Google Forms. A sample size of 100 respondents was used with a convenient sampling technique. For data analysis, ANOVA, Chi-Square, and Correlation tests were used to bring out the results.
- b. **Secondary Data:** The Secondary data was collected from the Internet from RBI Bulletin, News Articles for the data regarding Credit Card Usage, Growth Rate of this industry etc.

HYPOTHESES:

1. H0: There is no significant relationship between annual spending and repayment behaviour, as they pay their dues on time.
H1: There is a significant relationship between annual spending and repayment behaviour, as they don't pay their dues on time.

2. H0: There is no significant difference between the perception of credit card holders and satisfaction with the credit period offered on Credit Cards.
H1: There is a significant difference between the perception of credit card holders and their satisfaction with the credit period offered on Credit Cards.

3. H0: Credit cardholders primarily use traditional payment methods such as cheque payments or cash payments to make credit card payments.
H1: Credit cardholders use alternative payment platforms in place of traditional payment methods to make credit card payments.

DATA ANALYSIS AND INTERPRETATION:

Annual Spending and Repayment Date

Table 1: Results of chi-square test

Chi-Square Test			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	8.257	8	.409
Likelihood Ratio	10.700	8	.219
Linear-by-Linear Association	.662	1	.416
N of Valid Cases	100		

Inference:

Table 1 shows the Pearson Chi-Square test has a significant value of 0.409. The significant value is higher than 0.05. Hence, the Null Hypothesis is Accepted. This implies that there is no relationship between annual spending and the date of repayment.

Perception of Credit Cards and Satisfaction of Credit Period

Table 2: Results of correlation coefficient

Correlations			
		Are you satisfied with the credit period offered to your credit cards?	What is your perception towards Credit Cards?
Are you satisfied with the credit period offered to your credit cards?	Pearson Correlation	1	.163
	Sig. (2-tailed)		.105
	N	100	100
What is your perception towards Credit Cards?	Pearson Correlation	.163	1
	Sig. (2-tailed)	.105	
	N	100	100

Inference:

Table 2 brings out the Pearson Correlation test has a significant value of 0.163. The significant value is higher than 0.05 and hence, the Null Hypothesis is Accepted. This implies that there is no significant relationship between the perception of credit card holders and their satisfaction with the credit period offered on credit cards and there is a positive correlation between them

Platforms for Credit Card Payment

Table 3: Analysis of credit card payment

Percentage Analysis						
		Frequency	Per cent	Valid Percent	Cumulative Percent	
Valid	Online Bill Payment Services (CRED, Paytm)	28	28.0	28.0	28.0	
	NEFT, RTGS Payments	36	36.0	36.0	64.0	
	ECS Mandate / Standing Instructions	10	10.0	10.0	74.0	
	Cheque Payments	18	18.0	18.0	92.0	
	Cash Payments	8	8.0	8.0	100.0	
	Total	100	100.0	100.0		

Inference:

From Table 3, the percentage of

- Cheque Payments made by respondents is 18%. To accept the Null Hypothesis, the percentage must be more than 51%. Hence, the Null Hypothesis is Rejected.

- b. Cash Payments made by respondents is 8%. To accept the Null Hypothesis, the percentage must be more than 51%. Hence, the Null Hypothesis is Rejected.

This implies that Credit Card Holders use alternative payment platforms like Online Bill Payment Services in place of traditional payment methods like Cheque Payments and Cash Payments to make credit card payments.

LIMITATIONS OF THE STUDY:

The data was collected from residents of Chennai and the conclusions may not apply to other regions or populations. The generalizability of the results may also be constrained by the sample size of 100 respondents. The results are generated based on the inputs provided by the respondents, so therefore it might have incorrect information. The payment of dues by the credit card holder is analyzed for a shorter period, therefore results will be confined to this period and it might change in the future.

FINDINGS OF THE STUDY:

- There is no significant relationship between annual spending and the repayment date of the credit card dues.
- The credit period offered by banks on credit cards is not satisfactory for the majority of credit card holders.
- Credit card holders rely on their income/savings to arrange funds to pay their credit card bills.
- Credit card holders have moved on to electronic payments of credit card dues rather than the traditional way of making payments.
- There is no significant difference between genders in the repayment pattern of credit card dues.
- There is no significant difference in the repayment amount of credit card holders based on their occupation.

SUGGESTIONS OF THE STUDY:

- According to RBI Master Direction, the Banks are responsible for providing a warning to the credit card holders about payment of minimum dues, which most of the banks have not implemented yet. So, they must implement these promptly.
- Banks can help distressed Credit Card Users who are struggling to make payments by offering flexible repayment options like settlement, rescheduling the dues, etc.
- Banks can extend the credit period to roughly around 50 days, so that Credit Card users enjoy the credit for some more days and make payment
- The Credit Card Holders might set 30-40% of the Credit Limit as their Transaction Limit to avoid overspending and thereby make repayment of dues easier.
- Credit Card users must not spend more than 30% of their income in paying the dues as it will lead to more and more indebtedness.
- Credit Card users might use Balance Transfer Options to effectively manage their debt.

CONCLUSION:

Credit Card is a boon or a bane on the basis of how the credit card is used. Spending using a Credit Card and Repayment of the Credit Card Dues are dual sides of the same coin. The Study reveals that the higher the spending, the later the repayment will be made. The study

reveals that most of credit card users strive to make the full payment but some make it after the due date which leads to unnecessary penalties and affects the credit score. Paying before the due date is as important as making full payment. Credit card users are totally not satisfied with the credit period offered to them which implies that there is a scope for improvement in the credit period.

The study also reveals that there is no significant difference in the repayment pattern of credit card dues with respect to Gender, Occupation. This implies that repayment lies on the duty of the credit card holder. The Income of an Individual also influences the payment of Credit Card dues. The study enlighten that education must be given by banks to credit card users regarding the usage of the card and also help them to get recover from the debt trap if any instead of harassing them for the dues they owed.

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