Project Report on

A Study on Perception on Credit Cards among Bank Customers

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DECLARATION

I, **Dravya Chawla**, student of MBA Batch 2017-19 of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-110042 declares that Project Report on **A Study on Perception on Credit Cards among Bank Customers** submitted in partial fulfilment of Degree of Masters of Business Administration is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge. This report has not been submitted to any other university for the award of any other degree, diploma and fellowship.

Dravya Chawla
Place: New Delhi
Date of submission:

CERTIFICATE FROM INSTITUTE

This is to certify that the Project Report titled "**A Study on Perception on Credit Cards among Bank Customers**" is an original and bonafide work carried out by **Mr. Dravya Chawla** of MBA 2017-19 batch and was submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-110042 in partial fulfilment of the requirement for the award of the degree of **Masters of Business Administration**.

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Signature of Mentor

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Sincerely,

Dravya Chawla

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Chapter – I
INTRODUCTION

Since the 1980s, credit card usage has soared all around the world. The convenience and safety of not carrying cash, the possibility of paying in installments, non price benefits like bonuses, rewards, and shopping miles, and quick and easy access to credit are among the factors that contributed to the widespread adoption of credit cards by consumers. There has been a significant increase of credit card usage in India. As the credit card network spreads and more persons get into its ambit, customer service in its business gains further importance.

The present trend indicates that the coming years will witness a burgeoning growth of credit cards which will lead to a cashless society. Credit has become an important vehicle of trade promotion. Credit cards provide convenience and safety to the buying process.

One of the important reasons for the popularity of credit cards is the sea change witnessed in consumer behaviour. Credit cards enable an individual to purchase products or services without paying immediately. The buyer only needs to present the credit cards at the cash counter and sign the bill. Credit card can, therefore, be considered as a good substitute for cash or cheques.

A credit card is a card establishing the privilege of the person to whom it is issued to charge bills. Most retail firms accept credit cards. Credit cards allow consumers to make purchases without paying cash immediately or establishing credit with individual stores. They eliminate the need to check credit ratings and to collect cash from individual customers. The issuing institution establishes the card’s terms, including the interest rate, annual fees, penalties, the grace period, and other features.

Credit card debt is typically an unsecured debt. Repossession is not easily accomplished by the lender to ensure payment. Banks have often priced the product assuming maximum risk exposure. This chapter contains information on credit card system, credit card operating cycle, credit card defaults, consequences of credit card default and need for the study.

1.1 Credit card system

1.2 Credit card operation cycle

1.3 Credit card defaults

1.4 Consequences of credit card defaults

1.5 Need for the study

1.1 CREDIT CARD SYSTEM

1.1.1 Interest charges

Credit card issuers usually waive interest charges if the balance is paid in full each month, but typically will charge full interest on the entire outstanding balance from the date of each purchase if the total balance is not paid. The credit card may simply serve as a form of revolving credit, or it may become a complicated financial instrument with multiple balance segments each at a different interest rate, possibly with a single umbrella credit limit, or with separate credit limits applicable to thevarious balance segments. Interest rates can vary considerably from card to card, and the interest rate on a particular card may jump dramatically if the card user is late with a payment on that card or any other credit instrument, or even if the issuing bank decides to raise its revenue.

1.1.2 Grace period

A credit card's grace period is the time the customer has to pay the balance before interest is charged to the balance. Grace periods vary, but usually range from 20 to 50 days depending on the type of credit card and the issuing bank. Some policies allow for reinstatement after certain conditions are met. Usually, if a customer is late paying the balance, finance charges will be calculated and the grace period does not apply. Finance charges incurred depend on the grace period and balance, with most credit cards there is no grace period if there is any outstanding balance from the previous billing cycle or statement (i.e. interest is applied on both the previous balance and new transactions). However, there are some credit cards that will apply finance charge only on the previous or old balance, excluding new transactions.

1.1.3 Benefits to customers

Because of intense competition in the credit card industry, credit card providers often offer incentives such as frequent flyer points, gift certificates, or cash back (typically up to 1 to 5 percent based on total purchases) offers try to attract customers to their programs. Low interest credit cards or even 0 per cent interest credit cards are available.

1.1.4 Benefits to merchants

For merchants, a credit card transaction is often more secure than other forms of payment, such as cheques because the issuing bank commits to pay the merchant the moment the transaction is authorized, regardless of whether the consumer defaults on the credit card payment. In most cases, cards are even more secure than cash, because they discourage theft by the merchant's employees and reduce the amount of cash on the premises. Prior to credit cards, each merchant had to evaluate each customer's credit history before extending credit. That task is now performed by the banks which assume the credit risk.

1.2 CREDIT CARD OPERATION CYCLE

The credit card operation comprises the following steps as follows:

i. Credit purchases: A Cardholder purchases goods/services and gives the credit card.

ii. Processing of credit card: A Merchant establishment delivers goods after taking an authenticated credit card and noting the number and taking signatures on certain forms.

iii. Raising of bill: The Merchant establishment raises the bill for the purchase and sends it to the credit card issuing bank for payment.

iv. Marking payment: The issuing bank pays the amount to the merchant establishment.

v. Bill to cardholder: The issuing bank raises bill on the credit cardholder and sends it for payment.

vi. Card Payment: The credit cardholder makes the payment to the issuing bank.

The following important parties involved in the operation of credit cards are:

Credit cardholders: The person named on the card. This may be customer of a bank to whom the card has been issued or any such person to whom the bank has issued a card authorized by the customer of the bank to hold and use the card. This individual is also responsible for payment of all charges made to that card. The holder of the credit card who uses to make a purchase is called the consumer.

Card-issuing bank: The financial institution or other organization that issued the credit card and also responsible for billing the cardholders for charges. The bank bills the consumer for repayment and bears the risk that the card is used fraudulently. The issuing bank extends a line of credit to the consumer. Liability for non-payment is then shared by the issuing bank and acquiring bank.

Merchant Establishments: The individual or business accepting credit cards or sold products or services to the cardholders.

Acquiring bank: The financial institution accepts payment for the products or services on behalf of the merchant establishments.

Independent sales organization: Resellers (to merchants) of the services of the acquiring bank. i.e. outside services providers for marketing of cards.

Merchant account: This could refer to the acquiring bank or the independent sales organization, but in general is the organization that the merchant deals with.
Credit card association: An association of card-issuing banks such as Visa, MasterCard, Discover, American Express that set transaction terms for merchants, card-issuing banks, and acquiring banks.

Transaction network: The system that implements the mechanics of the electronic transactions. May be operated by an independent company, and one company may operate multiple networks. Transaction processing networks include Cardnet, Nabanco, Omaha, Paymentech, NDC Atlanta, Nova, Vital, Concord EFSnet, and Visa Net.

Affinity partner: Some institutions lend their names to an issuer to attract customers that have a strong relationship with that institution, and get paid a fee or a percentage of the balance for each card issued using their name. Examples of typical affinity partners are sports teams, universities, charities, professional organizations, and major retailers.

1.3 Credit card defaults

Credit card default happens when you break the terms and conditions of your credit card. When you accept your credit card, you agree to certain terms. For example, you agree to make your minimum payment by the due date on your credit card statement. If you pay less than the minimum or you don’t make your payment by the due date, you are in credit card default. Going over your credit limit and having your payment returned by your bank are also types of credit card default.

The three new financial variables which we find to have the most significant impact on default are (1) the ratio of total minimum required payment from all credit cards to household income; (2) the percentage of total credit line which has been used by the consumer; (3) the number of credit cards on which the consumer has reached the borrowing limit

Credit card default results in additional fees and sometimes an interest rate increase. You may be able to have some credit card default fees reversed if you ask your credit card issuer. You’re more likely to have these fees waived for first time offenses. When your interest rate increases to the default interest rate, it can only remain there for six months. After six months, your credit card issuer is required to review your account and lower your rate as long as you haven’t re-defaulted within the past six months.

The proliferation of credit cards and their ease of access have given consumers increased opportunities for making credit purchases. However, while many consumers are able to use credit cards wisely, others seem to be unable to control their spending habits.

Credit card companies find college students attractive because, although their current income is low, they have potential to earn much higher incomes in the near future. Also, the college student lifestyle offers many opportunities to use credit cards – both as a convenience and as a short term loan
– for things such as emergency car repair, a weekend trip, and internet purchases. Expansion of the credit card market to college students has led to credit cards becoming a way of life for today's college student.

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While the research to date on credit card default has provided valuable information about
trends in this market, lack of detailed data has limited the understanding of consumer behavior and motivation in the use of cards and subsequently in a more complete understanding of default.

Credit cards have become a ubiquitous financial product held by households in all economic strata in most countries. Governments and credit card issuing agencies have put in place laws and regulations to ensure that consumers have the protections and information they need to use this widely available form of open-end credit wisely. Nevertheless, concerns persist about whether consumers fully understand the costs and implications of using credit cards and whether credit cards have encouraged widespread over indebtedness.

The credit card companies have also expanded quickly into the emerging markets in order to exploit the opportunities that are provided by the emerging markets. Credit card usage pattern of emerging markets also differs from those of well-developed markets in important ways. The factors that affect credit card usage pattern of consumers in emerging markets and the implications of these factors for developing marketing strategies may not be the same as those for well-developed markets. Understanding the factors that explain consumer behavior of credit card users in emerging markets could provide an essential insights to marketing strategists of financial services, retailers, and businesses in promoting use of credit cards. The consumer credit card market is reaching the saturation point, so the industry needs to develop marketing strategies that appeal to changing customer needs in order to encourage credit card usage, especially for the BEMs

Credit cards have become welcomed by the public because many people consider “buying today” with an option of “paying later” as a convenient way of obtaining instant gratification. In addition, a large number of credit card users believe there are certain advantages of paying by credit cards. For example, credit cards can “eliminate security problems in carrying cash,” they provide “convenience … as opposed to a personal check, ease of borrowing money," and they "serve as a record of purchase, and meeting emergency needs"

However, credit cards can also disadvantage consumers in many ways. For example, sometimes cardholders are charged high annual fees and high APRs when they borrow money from credit card companies. Consequently, these extra costs may jeopardize consumers' economic situations. The increasing profitability of credit cards has encouraged card issuers to issue cards to consumers who do not have stable incomes and to people who were once believed not to be credit worthy or had bad credit histories. Consequently, more people will have a chance to get involved in credit card debts.

It is now reasonably well understood that unsecured credit such as credit card debt poses a common-pool problem. Since it is not secured by any collateral and since recoveries will be allocated pro rata under bankruptcy, each credit card issuer is motivated to try to collect from the "common pool" — and the attempt to collect by one issuer may pose a negative externality to other issuers. When a consumer becomes financially distressed, each credit card lender has an incentive to try to become the first to collect. For example, a lender may engage in aggressive collection efforts even if they may result in the consumer seeking protection under bankruptcy law: the benefits of collection accrue to this lender alone, while the consequences of a bankruptcy filing are distributed over all credit card lenders and other creditors.

1.4 consequences of credit card default

1. Your account will be 30, 60, and 90 days late

After you don't pay your first credit card bill it will be 30 days late, 60 days for the next billing cycle, and 90 days for the cycle after that.

Many wrongly conclude that "30 days late" means you are paying 30 days after the due date… that's not correct. Days 1 through 30 after your due date are all classified as 30 days late (but most banks won't report a late payment if it's received during the first week or two after the due date). As you can guess, the credit score consequences become exponentially worse with each tier. Having a 30 or 60 day payment will definitely wreck havoc on your credit, but once you get to 90 days the consequences are really going to hurt.

2. Your account will be late 120 days, 150 days, or charged off

Eventually your account will be charged-off; the bank will write it off as bad debt. Now when that happens may vary depending on the credit card company – not every bank will wait 'til after 120 or 150 days. Until the debt has been charged off, you should have the ability to still make things right and pay off the full amount and avoid the credit card default consequences. The late payments will still be on your credit record (unless you negotiated otherwise) but those will be a lot better than having a credit card debt default.

Regardless of your bank, in all 50 states the debt collection statue of limitations starts at 180 days, so it's likely they will wait longer than 180 days to charge-off the account.

3. Your account will head to collections

After the account has been charged off it will head off to collections – usually sold to a third-party collection agency. Aside from the credit score damage, this is one of the most frustrating credit card default consequences for many. Why? Because it usually involves a barrage of harassing phone calls and letters in the mail.

The Federal Fair Debt Collections Act dictates what a collections agency can and cannot do to you. Unfortunately, you hear stories all the time about the rules not being followed. Here are some things the collections agency is *supposed* to abide be:

- You must be given 30 days to dispute the credit card default (they can't just automatically assume it's valid). If you are disputing it, that must be done in writing.
- If you have asked them not to, you can't be called at inappropriate times (like 3 am) or at places you prefer not to be called (like at work).
- The debt collector is strictly limited in what they can say to family members, co-workers, etc. in the event they encounter them on the phone.
- If you ask them to stop communicating with you or to only communicate through your attorney, they must follow through with your wishes.

4. There might be the possibility of a lawsuit

This isn't a common practice but it still is a possibility. If the collections process is unsuccessful a lawsuit may be filed.

So what are the default consequences if a lawsuit is filed by the creditor? Well assuming the debt is valid (it's really your debt) then odds are a judgment will be issued against you. If you were properly served the court papers and choose not to show up, the judgment can still be issued against you.

5. The effect of a credit card default on your credit

While wage garnishment, seizure of bank funds, and jail are things that only affect a very tiny sliver of those who default on credit card debt, there is one consequence you are 100% guaranteed to experience… the impact of the credit card debt default on your credit score.

The exact consequences a debt default will have on your credit depend on a few things:

- **What was your credit like before defaulting?** If you already had bad credit beforehand (perhaps you already had a bad debt) then the impact will be less noticeable. After all, "bad credit" and "really bad credit" are more or less looked upon in the same way by banks these days.

- **One or multiple credit cards defaulted?** Did you default on one of your credit cards or all of them? Having one credit card default will probably have less of an impact than having charge- offs on multiple credit cards.
- **What was the amount of the default?** Whether your default was $10 or $10,000 it is going to hurt your credit significantly. However, the higher the amount is in relation to your other accounts, the more of an impact it might have.

1.5 Need for the study

The study is basically conducted to evaluate the perception of the credit card customers and issuing banks. This study has its own advantages and disadvantages; it is worthwhile therefore, to consider all the aspects. In the backdrop of this the present study was undertaken with the following objectives;

1) To study the perception of credit card customers regarding credit card defaults
2) To study the perception of issuing banks regarding credit card defaults

Chapter - II
Review of Literature

Danes and Hira (1990) investigated the relationships arnong knowledge, beliefs, and practices in the use of credit cards. Data were collected from 198 household money managers in a midwestem town during 1982. Those respondents with high levels of credit card knowledge believe credit cards should be used more for installment reasons than convenience reasons. Those respondents who believe credit cards should be used for installment reasons are inclined to use more credit cards and to accumulate finance charges more often. Those with more education and income have a higher level of knowledge than those with less education and income. The older respondents and those with low incomes believe that credit cards should be used for convenience reasons. Those with high education levels and large household sizes use more credit cards and accumulate finance charges more often.

Brito and Hartley (1995) studied that Borrowing on credit cards at high interest rates might appear irrational but however, even low transaction costs can make credit cards attractive relative to bank loans. Credit cards also provide liquidity services by allowing consumers to avoid some of the opportunity costs of holding money. The effect of alternative interest rates on the demand for card debits can explain why credit card interest rates only partially reflect changes in the cost of funds. Credit card interest rates that are inflexible relative to the cost of funds are not inconsistent with a competitive equilibrium that yields zero profits for the marginal entrant.

Nash and Sinkey (1997) explained that the market for credit cards has been the subject of recent attention and controversy because of ‘high’ profits earned on credit cards and substantial premiums on the resale of credit-card receivables. This paper estimates risk—return profiles for credit-card banks and explores the role of intangible assets in determining resale premiums on credit- card receivables. In addition, the effects on the resale market of securitization and the opportunity cost of acquiring new accounts are analyzed. Using alternative measures of risk and alternative control groups, we find, for the years 1989 to 1995, that credit-card banks earned significantly higher returns on assets but that these returns were associated with greater risk-taking. Analysis of premia for the years 1993 to 1995 suggest that acquiring banks pay higher premia for mid-sized regional accounts than for larger, national portfolios, perhaps because of richer cross-selling opportunities

Hamilton and Khan (2001) studied that all major credit card issuers, to a greater or lesser extent, are holding a portfolio consisting of three types of credit card holder: (i) non-active card holders; (ii) non-interest paying active card holders; and (iii) interest paying active card holders. This article, using two quantitative techniques more commonly associated with credit risk management or credit scoring, is concerned with identifying the characteristics of active card holders with the greatest propensity to revolve (i.e. pay interest). The sample consists of 27,681 bank credit card holders who had held and used their card in the 14 month sample period. Data was available on 313 socio- demographic and behavioural variables for which, a priori, there was good reason to include so as to discriminate between users who paid interest on their outstanding balances (i.e. revolvers) and those who did not. The main result of this research is that the most important discriminating variables are derived from the card holder's behaviour (i.e. cash advances, minimum payment due, interest paid in previous periods). This result is derived from and supported by the two competing techniques used for the analysis: Linear Discriminant Analysis and Logistic Regression

Hoover (2001) explained thatL credit card companies are eagerly tempting college students and willingly handing out credit applications. As a result, they leave students struggling to pay back debt. Young adults under the age of 25 are filing bankruptcy more now than at any other time in history). Filing bankruptcy is often the last hope for many college students. With the inability to pay the minimum amount on their credit cards as interest amounts increase, bankruptcy may seem to be the only life-preserver to keep them a float.

Kulasekaran and Shaffer (2002) explained that Credit card banks produce a single, relatively homogeneous output, permitting exceptionally clean empirical tests of cost efficiency. The high net interest margins and fees on credit card loans also suggests a large potential for managerial slack or expense preference behavior, possibly fostering a wider range of cost efficiency than observed for general-purpose banks.

Chien and Devaney (2005) examined the effect of socioeconomic and attitude variables considering the possible correlation among these factors.. This study addres includes installment debt as well as credit card debt in the analysis. The study used data from the 1998 Survey of Consumer Finances. The findings show the higher the specific attitude index, the higher the outstanding credit card balances, and the more favorable the general attitude toward using credit, the higher the installment debt. The results suggest the need for greater awareness on the part of consumers and consumer educators on the influence of attitude in the use of credit.

Kerr and Dunn(2008) investigated whether search costs inhibit consumers from searching for lower credit card interest rates. The results provide evidence that the credit card search environment has changed since the mid-1990s. Using the *2001 Survey of Consumer Finances*, we model consumers' propensity to search and their probability of being denied credit simultaneously and find that larger credit card balances induce cardholders to search more even though they face a higher probability of rejection. This result may be related to the high volume of direct solicitation, combined with disclosure requirements, which has lowered the cost of search to find lower interest rates.

Lopes (2008) solved an empirically parameterized model of life cycle consumption, which allows for uncollaterised borrowing and the possibility of default. The simulation results show that:
(i) "social stigma" and credit limit have a very large impact on default rates; (ii) education level also has a significant effect on the probability of default, namely, through differences in the shape of lifetime labor income profiles; and (iii) the response of simulated default rates to labor income shocks is determined by the nature of labor income uncertainty (temporary versus permanent). Additionally, the model generates simultaneous consumer holdings of credit card debt and liquid assets.

Chung and Suh (2009) were of the view that Excessive issue of credit cards has contributed to increased credit card delinquencies, which have become a burden for credit card companies. In such a negative situation, companies should build and use models to estimate maximum profits from credit card delinquents. However, traditional classification models used to classify customers into good or bad groups are not useful in estimating profits from credit card delinquents.

Ekici and Dunn (2009) investigated the relationship between credit card debt and consumption using household level data. This is a departure from the previous studies which have used aggregate measures of consumption and general debt such as the Debt Service Ratio or total revolving credit . We use a detailed monthly survey of credit card use to impute credit card debt to respondents from the Consumer Expenditure Survey sample. Investigations are also made into effects of debt within different age categories and into the impact of expected income growth on the debt– consumption relationship.

Agarwal et al. (2010) Analysed unique data from multiple large-scale randomized marketing trials of preapproved credit card solicitations by a large financial institution, and found out that consumers responding to the lender's inferior solicitation offers have poorer credit quality attributes. This finding supports the argument that riskier type borrowers are liquidity or credit constrained and, thus, have higher reservation loan interest rates. We also find a more severe deterioration ex post in the credit quality of the booked accounts of inferior offer types relative to superior offers. After controlling for a cardholder's observable risk attributes, demographic characteristics, and adverse economic shocks, we find that cardholders who responded to the inferior credit card offers are significantly more likely to default ex post. Our results provide evidence on the importance of adverse selection effects in the credit card market.

Geanakoplos and Dubey (2010) propounded widespread use of credit cards increases trading efficiency but, by also increasing the velocity of money, it causes inflation, in the absence of monetary intervention. If the monetary authority attempts to restore pre-credit card price levels by reducing the money supply, it might have to sacrifice the efficiency gains.When there is default on credit cards, there is even more inflation, and less efficiency gains. The monetary authority might then have to accept *less* than pre-credit card efficiency in order to restore pre-credit card price levels, or else it will have to accept inflation if it is unwilling to cut efficiency below pre-credit card levels. This could be a source of stagflation.

Chapter - III
Research Methodology

To achieve the proposed objectives of the study, Primary data regarding credit card defaults will be collected from issuing banks and credit card customers.

For this purpose 15 branches of public/private/foreign banks handling credit card operations will be selected using convenience sampling method. The selection will be based on availability of required information and willingness of the branches to provide the required information. Managers handling credit card operations in these branches will be contacted to get the required information. Information regarding credit card defaulters will be collected from these selected branches and subsequently 100 such defaulters will be contacted to collect their views regarding credit card defaults.

The selection of these defaulters in the sample will be based on their willingness to co-operate and provide the required information. The required information will be collected with the help of a pre-designed, structured questionnaire. The questionnaire will be administered personally. Appropriate, descriptive and inferential statistics will be applied to analyze the data.

The chapter has been divided under the following heads;

- Research design
- Population
- Sample design
- Method of data collection
- Statistical tools used
- Limitations of the study

Research Design

For the purpose of this research, exploratory research design is used. Two questionnaires were used to achieve the objectives of the research. For the achievement of the first objective, a questionnaire was designed for the customers, which would help in finding out the general perception of the customers regarding credit card defaults.

To achieve the second objective, another questionnaire was devised, and this one was for the bank managers.

Population

The population includes all the people using credit cards and all the bank branches issuing credit cards in Ludhiana district.

Sample design

A sample size of 100 customers was selected on convenience basis and their willingness to participate in the survey. This will help in achieving the first objective of the research.

For the fulfillment of the second objective, a sample of 15 bank managers was selected from the population on convenience basis.

Methods of data collection

- This research was based totally upon primary data.
- The data was collected with the help of two different questionnaires, which helped in achieving both the objectives of the research.
- The respondents were selected on convenience basis and their willingness to participate in the survey.

Statistical tools used

Different statistical tools were used in the analysis of the information to get the satisfactory results for the research.

- **Mean**

To analyze the data, mean score method was used. Mean score was calculated on the basis of the questions asked on a 10-point scale. The respondents were asked to indicate their perception regarding various attributes and aspects relating to credit card defaults.

Mean scores was calculated for the analysis with the help of the following formula;

Mean score = $\sum Xi/n$
Where,
Xi= each individual variable n= number of variables

- **Standard deviation**

Standard deviation is the measure of the variability or dispersion of population, a data set, or a probability distribution. A low standard deviation indicates that there is low level of variability in the data, while a high standard deviation indicates a high level of variability in the data.

Standard deviation is calculated using the following formula;

$$S = \sqrt{\sum(Xi - \mu)^2 / (n - 1)}$$

where, S= standard deviation

Xi = particular observation μ = mean of the sample

n= number of variables

Limitation of the study

- lack of time and sources
- biasness of the respondents
- sample size is of the study is very small, so the results cannot be applied to whole population
- lack of financial resources

Chapter - IV
RESULTS AND DISCUSSIONS

This chapter contains the analysis of primary data collected for the present study.The results obtained from the analysis of data are discussed under various sub-heads as under;

4.1 Demographic profile of the respondents.

4.2 Economic profile of the respondents.

4.3 Activities on which the credit card is spent the most on.

4.4 General reasons for credit card default according to respondents.

4.5 Study of respondents' knowledge regarding credit card defaults.

4.6 Study of respondent's knowledge regarding credit card agreement with their bank.

4.7 Study of the perception of respondents regarding their banks default settlement procedure.

4.8 Study of bank managers' perception.

4.1 Demographic profile of the respondent.

For satisfying this objective, a sample size of 100 customers was selected. In the first part of the questionnaire the respondents were asked various questions regarding their demographic profile including gender and age. Table 1 shows the results of demographic profile of the sample.

Table 1: Demographic profile (n=100)

Category	Percentage
Gender	
Male	68
Female	32
Age	
15-30	32
30-50	43
50-60	19
Above 60	6

It can be observed from Table 1 that majority of the respondents fall in the age group of 30-50 i.e 32% followed by 15-30 age group which constitutes 32% of the total sample and majority of the respondents are male.

4.2 Economic profile of the respondents.

Demographic profile of the respondents includes Occupation, Annual income, number of credit cards, and frequency of use.

Table 2: Economic profile (N=100)

Category	Percentage
Occupation	
Business	55
Service	32
Students	6
Agriculture	7
Annual income	
Less than 2 lakhs	6
2-4 lakhs	18
4-6 lakhs	24
Above 6 lakhs	52
Number of credit cards	
1	54
2	30
3	11
4	3
5	2
Frequency of use (in a month)	
Upto 4 times	54
4-6 times	27
6-10 times	14
More than 10 times	5

4.3 Activities on which the credit card is spent the most on.

This part deals with the activities on which the respondents spend their credit cards on.

Table 3: Activities on which credit cards are spent the most on

Activities	Percentage
Shopping	60
Online payments	60
Hotel/Travel	26
Restaurants	29
Leisure/entertainment	16
Health services	6

Table 3 reveals that the most popular activities on which credit cards are spent on are shopping and online payments followed by restaurants and hotels/travels.

4.4 Attitude of respondents' regarding repayment of outstanding debt and general reasons due to which defaults occur.

Table 4: depicts the number of respondents who have actually defaulted

	Percentage
yes	37
no	63

Table 5: Repayment of outstanding debt in full

Freq of repayment	Percentage
Always	45
Never	19
Sometimes	36

Table 5 depicts that only 45% people always pay the balance in full which means that majority of the sample repays in full, 36% of them repay in full sometimes whereas 19% never repay in full.

Table 6: General reasons due to which defaults occur

Reasons	Percentage
Delay in statement	20
Wrong statement	14
inaccurate guidance by the bank	3
excess interest charged	1
because of any dispute with the bank	5
because of multiple cards	32
Fraudulent payments	25

Table 6 indicates that the most common reason according to respondents perception is that defaults occur because customers have more than one card. Other common reasons are fraudulent payments and delay in statements by the bank.

Table 7: Situation in which credit card is used

Situation	Percentage
Even when surplus cash is available	51
Only in case of emergency	49

Table 7 shows that 51% of the respondents don't mind using their credit cards even when they have surplus cash with them whereas 49% of the respondents use credit cards only in case of emergency.

4.5 Study of respondents knowledge regarding credit card defaults.

To study the knowledge of the respondents regarding credit card defaults, 10-point scale is used. Scores are given from 1-10 where 1 means that the respondent has no knowledge and 10 means that the respondent has complete knowledge. The mean of the data is 6.27 and the standard deviation is

1.47 which means that the respondents have fair knowledge regarding credit card defaults. The variability in the data is also low.

4.6 Study of respondent's knowledge regarding credit card agreement with their bank.

To study the respondents knowledge regarding credit card agreement with their banm, 10 point scale is used where 1 means that the respondent has no knowledge and 10 means that the respondent has complete knowledge. The mean of the data is 5.74 and standard deviation is 1.612 which means that level of knowledge amongst respondents regarding credit card agreement is not too high.

4.7 Study of the perception of respondents regarding their banks default settlement procedure Respondents were asked to assign a score to the default settlement procedure of their bank on a scale of 1-10 where 1 being highly dissatisfied and 10 being highly satisfied. The mean score allotted by the respondents is 4.94 and the standard deviation is 1.371. this means that the respondents don't have a good perception regarding their bank's settlement procedure and the standard deviation reveals that most of the respondents think alike.

4.8 Study of bank managers' perception.

A sample 15 bank managers was selected to study their general perceptions regarding topics like general reasons of credit card default, reasons for denial of credit cards, most common time period of default, reasons for cancellation of credit cards, customer's attitude towards repayment, factors on which consequences of defaults are based, etc.

4.8.1 Perception of respondents regarding general reasons due to which defaults occur; Table 8: General reasons due to which defaults occur

Reasons	Percentage
Delay in statement	-
Wrong statement	13
inaccurate guidance by the bank	-

excess interest charged	-
because of any dispute with the bank	13
because of multiple cards	53
Fraudulent payments	20

According to the bank managers perception, as revealed by Table 8, the most common reason is that the customers have multiple credit cards so they find it difficult to honor their commitments towards the bank. The second ranked reason is fraudulent payments.

4.8.2 Study of perception regarding reasons for denial of credit cards Table 9: Reasons for denial

Reasons	Percentage
Low income	25
Customer has too many credit cards	10
Last delinquency was too recent	20
Because of any dispute with the bank	-
No credit history	-
Age	15
credit card limit reached	10
missed credit card payments	25
credit card expired	-
unstable employment history	5

As per the results of Table 9, major reasons for denial of credit cards is low income and missed payments.

4.8.3 Study of the most common time period of default. Table 10: default time period

Time period	Percentage
30 days default	27
30-60 days default	46
60-90 days default	27
above 90 days default	-

According to Table 10, the most common time period of default is 30-60 days.

4.8.4 Study of reasons for cancellation of credit cards.

Under this part, the generally perceived reasons for cancellation are mentioned. Table 11: Reasons for cancellations

Reasons for cancellation	Percentage
Customer stopped making payments	40
Customer's credit card history worsened	27
Customer objected a interest rate increase	13
Because of any dispute with the bank	-
credit card became inactive	20

Table 11 reveals that the main reason for cancellation of credit cards is that the customer stopped making payments. Another important reason is that the customer's credit history worsened.

4.8.5 Study of bank managers' perception regarding the repayment attitude of the customers. On a scale of 1-10, where 1 means that the customer makes maximum delays and 10 means prompt payments by the customers, bank managers were asked to rate the customers' attitude towards repayment of debt. The mean score given by bank managers to customers' attitude towards repayment is 5.867 and standard deviation for the same is 1.505. SD reveals that most of the managers think alike when it comes to customers' perception regarding repayment attitude of customers.

4.8.6 Study of frequency a customer obtains credit card statements.

Table 12: frequency of obtaining statement

Frequency	Percentage
Less than 1 month	3

1-2 months	7
more than 2 months	5

Table 12 shows that the most frequent time period for obtaining credit card statements is 1-2 months followed by time period of more than 2 months.

4.8.7 Study of factors on which the defaults are based.

Table 13: Factors affecting defaults

Factors	Percentage
Number of defaults	27
Amount of default	40
Credit before defaulting	33
Period of default	-

Table 13 shows that the factor which affects defaults the most is the amount of default, followed by credit before default and finally number of defaults.

Chapter - V
SUMMARY

In this chapter, a brief summary and conclusion of the study have been presented, so as to fully understand the implications of the findings.

The purpose of this study was to develop a better understanding of perception of the customers and issuing banks regarding various attributes and aspects relating to credit card defaults such as general reasons for credit card, repayment attitude of the customers, knowledge of the customers regarding credit card defaults and agreement with their banks, general reasons for denial of credit cards, time period of default While the research to date on credit card default has provided valuable information about trends in this market, lack of detailed data has limited the understanding of consumer behavior and motivation in the use of cards and subsequently in a more complete understanding of default.

This study aims at achieving the following objectives;

- To study the perception of credit card customers regarding credit card defaults
- To study the perception of issuing banks regarding credit card defaults

To achieve the proposed objectives of the study, Primary data regarding credit card defaults was collected from issuing banks and credit card customers using exploratory research design. Two questionnaires were prepared to achieve the objectives of the research; one for the customers and the other for the bank managers. Various attributes and aspects regarding credit card defaults such as general reasons for default, study of respondents' knowledge regarding consequences of default and agreement with their banks, general reasons for denial of credit card, etc.

Following were some of the findings of the study:

- The top 2 reasons for credit card defaults as per the customers and the bank managers are multiple cards with the customers and fraudulent payments.

- Customers have limited knowledge about credit card defaults.
- Majority of the respondents always pay the outstanding balance in full.

- Customers are not fully aware about the credit card agreement with their banks.

- Service class respondents have 1 card at an average and businessmen usually have multiple cards.

- Main reasons for the cancellation of credit cards by the banks are that the customers stopped making payments or the credit card became inactive.

- 51% of the respondents use credit cards even when they have surplus cash with them.

Conclusion

While the research to date on credit card default has provided valuable information about trends in this market, lack of detailed data has limited the understanding of consumer behavior and motivation in the use of cards and subsequently in a more complete understanding of default. Results among the general population suggest that increased financial knowledge is associated with improved credit use behavior. This study is very crucial in knowing the mindset of the credit card users in respect to how they perceive different attributes and aspects relating to credit card defaults. Banks should clearly explain the credit card agreement to the customers before issuing them the cards. Similiarly the customers should also be fully aware about the consequences of defaulting on their card.

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Annexure-I
Questionnaire

Gender: ( ) Male
( ) Female

Age group:
( ) 15-30 ( ) 30-50 ( ) 50-60 ( ) above 60

Occupation___

Annual income: ( ) less than 2 lakhs ( ) 2-4 lakhs
( ) 4-6 lakhs
( ) above 6 lakhs

How long have you been using credit card? ( ) less than 1 year
( ) 1-2 years ( ) 2-4 years
( ) more than 4 years

How many times do you use your credit card in a month? ( ) upto 4 times
( ) 4-6 times ( ) 6-10 times
( ) more than10 times

How many credit cards do you own? ______

On which activity do you spend your credit card the most on? ( ) shopping ( ) online payments ( ) hotels/travel ( ) restaurants
( ) leisure/entertainment ( ) health services ( ) others ______

Have you ever defaulted on your credit card? ( ) yes ( ) no

What according to you are the general reasons for credit card default? (can tick more than one) ( ) delay in statement
( ) wrong statement
( ) inaccurate guidance by the bank ( ) excess interest charged
( ) because of any dispute with the bank ( ) because of multiple cards
( ) fraudulent payments
( ) others ____

Do you use credit card even when you have surplus cash with you or only in case of emergency*:*
( ) even when I have surplus cash
( ) only in case of emergency

On a scale of 1-10, rate your knowledge regarding credit card defaults.

Least knowledge 1 2 3 4 5 6 7 8 9 10 Full knowledge

On a scale of 1-10, rate your knowledge regarding the credit card agreement with your bank.

Least knowledge 1 2 3 4 5 6 7 8 9 10 Full knowledge

On a scale of 1-10, rate the overall default settlement procedure of banks'.

Highly Highly Dissatisfied 1 2 3 4 5 6 7 8 9 10 Satisfied

Do you always repay the balance in full? ( ) always
( ) never
( ) sometimes

Annexure-II
Questionnaire

What according to you are the general reasons for credit card default? (can tick more than one) (
) delay in statement
( ) wrong statement
( ) inaccurate guidance by the bank ( ) excess interest charged
( ) because of any dispute with the bank ( ) because of multiple cards
( ) customers use credit card as a source of revolving credit ( ) wrong statement
( ) inaccurate guidance by the bank ( ) excess interest charged
( ) fraudulent payments
( ) others ____

What are the reasons for denial of credit cards? (can tick more than one) ( ) low income
( ) customer has too many credit cards ( ) last delinquency was too recent
( ) because of any dispute with the bank ( ) no credit card history
( ) age
( ) credit card limit reached
( ) missed credit card payments ( ) credit card expired
( ) unstable employment history ( ) others __

What is the most common time period of default? ( ) 30 days default
( ) 30-60 days default ( ) 60-90 days default ( ) above 90 days

What are the reasons for cancellation of credit cards? (can tick more than one) ( ) customer stopped making payments
( ) customer's credit card history worsened ( ) customer objected a interest rate increase ( ) because of any dispute with the bank
( ) credit card becomes inactive ( ) others __

On a scale of 1-10, rate customer's attitude towards repayment.

Make Make maximum delay in payments	1	2	3	4	5	6	7	8	9	10	prompt payments

How often does customers obtain credit card statements ?

____

What are the factors on which consequences of credit card defaults are based? (can tick more than one)
( ) customer stopped making payments
( ) customer,s credit card history worsened ( ) customer objected a interest rate increase ( ) because of any dispute with the bank
( ) credit card becomes inactive ( ) others __