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Consumer Behavior Towards the Use of Credit Cards: The Empirical Evidence from Himachal Pradesh

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Abstract
The introduction of credit cards in India was the beginning of a new era which changed the face of the Indian economy completely. Kali Mody was the first businessman from India to introduce the Diners Club credit card in India in 1961, a year after it was initially made available globally. Later, the Central Bank of India issued the first bank credit card in 1980. But Andhra Bank was the one which aroused the public interest in credit cards with its Visa cards. To compete with the growing popularity of Visa cards, Vijaya Bank introduced MasterCard and became the first bank in India to do so. Even back then, it was not easy to qualify for a credit card in India unless your income lies within the annual minimum capacity. But, between 1988 and 1993, against the constraints, multiple PSU banks took the bold step of giving credit cards to many of their selected clients. As per the latest data released by Reserve Bank of India (RBI) the credit card spending has hit a fresh record of INR 1.4 trillion in May 2023, which has increased 5%, month on month this year, as of december 2024, India has more than 100 million active credit cards.

As credit card usage grows in states like HP, understanding the complexities of consumer behaviour becomes critical for financial institutions and governments. The purpose of this study is to conduct an empirical investigation of the factors that influence customers' attitudes and actions around credit card usage in HP. The study aims to identify patterns, preferences distinct socioeconomic and cultural dynamics. The findings will not only add to academic literature, but will also help financial institutions, regulators, and companies modify their strategies and services to better match the changing requirements and expectations of credit card users in HP.

Keywords: Diners, Constraints, Empirical, Literature

Introduction

The credit card segment is growing rapidly in India. A credit card is referred to as physical or virtual payment instrument issued with a pre-approved credit limit which can be used to buy goods and services draw cash advances subject to terms and condition. With the advancement in digital space adoption of contactless payment, a lot of new changes and development have also been brought to the credit card industry. Credit cards have become an integral part of the modern financial landscape, providing consumers with a convenient and flexible means of payment. In the context of Himachal Pradesh, the use of credit cards has witnessed significant growth, influencing consumer spending patterns both online and offline due to Rising disposable incomes, increased financial literacy, adoption of digital payments, Growth of the millennial and Gen Z population and Expansion of online shopping complexes.

Overview of Emerging Technologies The world of credit cards is undergoing a fascinating transformation, fuelled by cutting-edge technologies that are revolutionizing the way, we pay and manage our finances. Here's a glimpse into some of the most exciting trends:

1. **Contactless Payments:** Near Field Communication (NFC): No more swiping or inserting! Tap-and-pay contactless transactions, QR Code Payments offering even greater convenience and speed for in-person transactions.
2. **Virtual and Tokenization:** Virtual Cards: Temporary, randomly generated card numbers for online purchases provide enhanced security and prevent exposure of your actual card details. Tokenization: Replacing sensitive card data with unique tokens eliminates the need for merchants to store sensitive information, minimizing the risk of data breaches.

3. **AI and Personalization:** Machine learning algorithms analyze real-time spending patterns to detect and prevent fraudulent transactions before they occur.
4. **Crypto Integration:** Crypto-backed Cards: Some cards allow users to directly spend their crypto currency holdings, blurring the lines between traditional finance and digital currencies.
5. **The Future of the Physical Card:** Credit card functionalities are being integrated into everyday objects like smart watches and rings allowing for seamless payments on the go. Cards with dynamic CVVs or self-destructing numbers could further enhance security and combat card cloning.

Significance of Credit Cards

The significance of credit cards in India has grown considerably in recent years, fuelled by several factors and impacting various aspects of the economy and individual lives. For Consumers, Credit cards provide easier access to credit, particularly for individuals with limited banking history, potentially fostering financial inclusion and participation in the formal economy. Moreover credit Cards offer flexibility to make larger purchases or manage unexpected expenses which is Increasing the Purchasing Power of customers and also provide protection against theft compared to carrying cash. Responsible credit card usage and timely repayments contribute to building a positive credit history, Boosting Consumer Spending which fuels economic growth and job creation. Cashless transactions through cards align with the government's digital India initiative, leading to greater transparency and reduced tax evasion. Growth in credit card usage benefits the banking and financial services sector, leading to increased revenue and innovation. Transaction data generated from card usage can provide valuable insights into consumer behaviour, aiding in developing targeted financial products and services for improved financial inclusion.

Future of credit cards in India

Credit card acceptance in India was initially in the dark shadow, which slowly started to soar over time. People have started showing interest in credit cards as they were offered more benefits than debit cards. The growing financial literacy among the youth is driving this change Approximately Rs 6 lakh crore was spent in 2018-19 using credit cards in India, which was 30% more than in 2017. However, due to the COVID-19 pandemic, credit card transactions fell drastically from March to May 2020. But, as the economy got back on track, credit card usage increased. According to the stats, the use of credit cards in India has been estimated for more than 6.78 lakh ATM transactions and approx. 12.1 crore POS transactions in June 2022. The popularity of credit cards in the mainstream Indian population is gradually increasing. It is predicted that there will be approx. 45.3 million cards in use in 2028. Another reason why the use of credit cards is increasing is the sheer number of issuers in the country. Today, one is not restricted to only banks to get a credit card. Currently, NBFCs are gaining popularity by providing credit on e-commerce and other platforms to customers with perfectly tailored no-cost or low-cost EMI options. Besides, there is a wave of fin-tech start-ups on boarding younger clients into the credit card ecosystem.

Review of Literature

V. K. Anitha (2003) [3] 17, in her study analysed the purchasing standards of customers and them satisfaction level towards credit cards with regard to the services offered by City Bank through its agencies and their functioning. The Merchant Establishments should be encouraged to accept more cards as a part of sales promotion. It was concluded that the service centres must maintain good and healthy relationship with their customers so that they could sort out their problems if any and could clarify their doubts.

Mandeep Kaur (2011), the study examines the point of view of credit card users as well as member establishments towards the usage of plastic money. It focuses on some important aspects in usage such as challenges experienced by customers and bankers, value attribution to plastic money adaptation and some factors influencing them to use plastic money. It also analyses the current position and trends of plastic money in India.

Sudhakara, A. M. (2020), this thesis aims to review the technological progress made by the banking industry in India in ensuring the security to its customers in the light of continuous cyber.

Akela's (2020) [2] the study shows that credit cards are examined with an explanation that these cards are issued by banks or businesses, enabling users to make purchases on credit. The revolving account created by credit card issuers and the line of credit granted to the user are further explained, detailing how users can borrow money to make payments. The article also provides historical insights into banking and the evolution of bank services, including the development of credit cards. In this study methodology used to explore credit card usage is identified as exploratory and descriptive, with the results indicating that credit card users are mainly males aged between 26- 45 years, employed in the business sector. The author concludes by emphasizing the necessity of using credit cards judiciously and the need for credit card issuers to approach their target customers carefully.

Zahrani (2021) [6] conducted a study to develop a hypothetical model for consumer behavioural intention for credit card usage, by combining the Technology Acceptance Model (TAM) with the theory of perceived risk (Zahrani, 2021) [6]. The model was validated with data from 217 bank customers in Saudi Arabia. The study found that social influence, perceived usefulness, perceived ease of use, and perceived trust were all significant predictors of perceived risk and perceived security, which, in turn, affected consumer intention to use a credit card. The study adds to the knowledge on consumer behaviour by verifying the effects of perceived risk and perceived security on credit card usage intentions in Saudi Arabia, which most prior studies had ignored.

Research Design

Objectives of the Study

1. To know how use of credit card help in consumer spending pattern.
2. To study about online and offline shopping behaviour of credit card holder in H.P
3. To offer the constructive suggestion to enhance consumer satisfaction.

Sampling size: The sources of data collected in this study are Primary data analysis and Secondary data analysis. Primary Data: - The data are collected from credit card users and professionals in the banking and finance industry of Himachal Pradesh, India through Questionnaire and Interview. Secondary Data: The data are collected from Online Platforms, previous Research papers, Journals etc., Internet Browsers and Search Engines.

This study utilizes a random sample of Credit card holders in the state of H.P. 150 responses have been collected from the respondents of whole state. The primary data are those which are collected as fresh for the first and they happen to be original in chapter to analyze the study, the research has adopted structured questionnaire, which contained multiple choices to be answered. Percentage is used as a tool for analyzing the data.

Findings of the study

- Majority (60%) of the respondents are male under the study. Majority (43.34%) of the respondents belong to age group of (41-50) under this study. Majority (54.66%) of the respondents has an average annual income of ₹30000 - ₹40000 under because they were working professionals. Majority (45.33%) of the respondents use Credit card in online mode and (41.33%) of the respondents use Credit card in both online and offline mode. Majority (62%) of the respondents use single credit card under this study. Majority (51.33%) of the respondents are the customers of private sector Bank and Majority (64.67%) of the respondents use Visa type of credit card. Majority (61.33%) of the respondents use credit card for shopping purpose only and (19.33%) of the respondents use credit card for other purpose under this study. Majority (51.33%) of the respondents use credit card for their convenience. Majority (46.67%) of the respondents says that interest rate influences the Credit Card choice because they says that interest rate of credit cards is higher as well as that the annual charges of credit cards are also high under this study.

Finding regarding Consumer Behaviour Towards the Use of Credit Cards

The Empirical Evidence from Himachal Pradesh depicts that the Majority (38.67%) of the respondents agrees that credit card saves their time and (48.67%) of the respondents agrees that credit card provide up to date information. Majority (42%) of the respondents agrees that credit card minimizes the risk of carrying cash While Majority (48.66%) of the respondents endorse that the credit card neither minimizes nor maximizes the cost of transaction under this study. Majority (51.33%) of the respondents agrees that credit card improve the service quality and they feel comfortable and secure making online transaction while using credit card under this study. Majority (73.33%) of the respondents agrees that their bank give grace period for their credit cards. Majority (52%) of the respondent strongly agrees that credit card companies make it hard for people to get out of debt under this study. Majority (60%) of the respondent strongly agrees that overspending is the fault of consumers not of the credit card companies under this study. Majority (36%) of the respondent agrees that credit card company keep our personal spending information confidential and they also strongly agrees that credit card billing statements are accurate under this study. Majority (60%) of the respondent strongly agrees that sending solicitations that offer lower rates but only for short time probably mislead people under this study.

Suggestion to increase the user of credit cards

Target specific age groups: Develop products and marketing campaigns tailored to the preferences and needs of age groups of 41 – 50 because young professionals focused on everyday spending or student-friendly cards with lower fees and easier access.

Address Security Concerns: Implement robust security measures and transparent communication strategies to address data privacy and potential fraud concerns building trust with consumers.

personalize rewards and benefits: Analyse spending patterns and preferences across age groups to offer more relevant and targeted rewards programmes that incentivize card usage and customer loyalty.

Decrease Interest Rate: Interest rate can be decreased for persons having good credit score and younger professionals like students for having lower credit score, this will increase customer loyalty and market share for credit card companies and will improve financial management and debt reduction for cardholders.

Partner with Local Businesses: According to this study it has been seen that credit cards are mostly used in online mode only. Partnering with the local businesses to offer exclusive discounts, cash back or rewards points for offline credit card transactions. Highlight the convenience of using credit card for recurring offline payments like utilities, subscriptions or insurance premiums. Encourage offline credit card usage by promoting the ease and security of contactless payment through NFC technology.

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