

CHAPTER I

INTRODUCTION

1.1 BACKGROUND

1.1.1 INTRODUCTION

A Credit Card is a payment card, which enables with the option of making purchases on credit. Spend now and pay later! It is a convenient financial management tool. It offers many benefits, however at the same time it also carries many responsibilities to the holder thereof. It is used to make payment for goods and services enjoyed by the person in lieu of cash. Even card can withdraw cash advances from the credit card. It allows cardholder can withdraw from the cash in the spot. It is such a service where cardholder can enjoy credit facility even through he doesn't have sufficient balance in his account. Credit cards have very wide applications, wider than the currency notes and safer than them too! It is the concept of "Buy Now Pay Later". Many risks are involved in carrying bundles of cash for purchase of goods and services. Credit card helps to overcome such difficulties as it is simply a card with high security features and easy to handle from place to place.

A credit card, basically, is thin plastic card, usually 3-1/8 inches by 2-1/8 inches in size that contains identification information such as a signature or picture and authorizes the person named on it to charge purchases or services to his account – charges for which he will be billed periodically. It is issued by financial institution, which is the member of Master Card international/ Visa International. Most of the banks offer two kinds of Credit Cards, the Classic Card and the Gold Card. These have difficult requirements and accordingly different credit limits are assigned. Also, gold card usually have other benefits like discount vouchers for hostels and restaurant, or special promotions. It is based on the revolving line of

credit, i.e. cardholders can maintain a minimum balance on account credit card users are provided with a monthly statement of transaction and amount that has been spent for each transaction. This helps the cardholder for proper planning of his budget in hierarchy on importance basis. The main feature of this service is that cardholder can easily facility and clear his bill in regular installation.

A credit card is a card that gives credit for a charge days ranging from 20-30 days depending on the date when one made a purchase. Beside this, it also its member the benefits like travel discounts on retail loans. It is different from charge card in the sense that a charge card entire due is to be paid within the card period balances cannot forward as in card. The level of services differentiated inn terms of Gold and Classic/Executive by the issuing the banks. Among all these types, the gold card level of services is higher which gives higher insurance covers, more privileges and discounts. Here an element of prestige does form an important factor for subscribing to such cards. But it does come sat a cost as these cards have the highest fees and services charges associated with them (Internal Manual Credit Cards, 2005)

From the customer side he is given a loan for that amount. Generally the bank gives monthly statement of cardholder's expenses but date of statement issued may be different from one bank to another bank. The cardholder will have to repay that amount within the time period given by the bank. If the cardholder does not want to pay the full amount he can pays the minimum (printed on the monthly statement) or 5% of total expenses whichever is more should be paid within 15 days of statement issued and the rest of the unpaid balance gets deferred in the form of a loan with compound interest.2.5%interest per month calculated on daily basis in that outstanding amount would charge. So the card is also known as loan machine.

Credit card is a convenient way of payment. The cardholder can use it for various expenses like to give donation, extend warranty etc. But all that depend on the specific card is use. The largest issuer of credit card worldwide is **visa** and **master** card. Another specific feature of credit card is that is that the cardholder can get cash advance using it at bank outlets and Automatic Teller Machine (ATM). Withdrawn amount is treated as loan and interest is to be paid on it. 2.5% interest is charged on the amount withdrawn from ATM.

There are various advantages of using credit card:

- It allows the benefits like discount at shops, restaurants and airlines tickets
- It offers (mostly) personal accident cover; lost baggage cover, etc.
- It provides interest free money for 45 to 50days.
- It gives assurance to spend in any currency and it settles the dues in home currency.
- It provides facility to purchase the goods of big value and pay for it in installment starting from the next month of purchase.

A useful feature, set for credit cards is an insurance cover, which is for both personal and on the article purchased on the credit card. The amount insurance covers provided are largely determined by the type of credit card owned (whether gold, silver or executive). Gold card typically carry the highest insurance cover for its members.

Among the type of insurance are:

(Source: www.visa.com)

- 1) Personal accident insurance: this covers air accidents, road accidents etc.
The amount insured differs across the categories and again varies from player to player. Some card cover insurance for spouse/supplementary cardholder s well.
- 2) Baggage cover: This provides cover against the loss of one's baggage while traveling.

- 3) Purchase protection: The purchase feature automatically insures all items bought on credit card from damage or loss due to fire or theft, up to a certain sum of money.

1.1.2 A Brief Introduction to Banks Involved in Credit Cards Business

In the context of Nepal, credit card business is still in initial phase. Only four banks HBL, Nabil bank, NIBL and SCBNL are involved in these business more than two dozen commercial banks that operate in the country. The detail information about these banks is mentioned as below:

Himalayan Bank Ltd.

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

HBL introduced the first Nepal credit card for the domestic market HBL card which was the most popular card in the country. Now HBL is offering visa and master card, welcoming you to a world of exclusive privileges and conveniences to match your discerning taste. This is a further expression of our commitment to provide you with products tailored to match your requirements. HBL has always endeavored to provide valued customers like you with products and services having the leading edge in term of quality and efficiency supported by state-of-the-art technology.

The presented shareholding pattern of HBL is as follows:

(Source: www.himalayanbank.com)

Habib Bank of Pakistan	20%
Nepalese Founders	51%
Employees Provident Fund	14%
General Public	15%

Nabil Bank Ltd.

Nabil Bank Limited, the first foreign joint venture bank of Nepal, started operations in July 1984. Nabil was incorporated with the objective of extending international standard modern banking services to various sectors of the society. Pursuing its objective, Nabil provides a full range of commercial banking services through its 19 points of representation across the kingdom and over 170 reputed correspondent banks across the globe. The bank introduced an Automatic teller machine (ATM) first time in Nepal, in three places in the valley at Kantipath, New-Road and Lalitpur.

Nabil is the pioneer in introducing credit cards in Nepal. The bank is a principal member of Visa and Master Card International since early 1990. It has widest range of services in credit cards which include acquiring of all kinds of cards under Visa and Master Card brands. It also acquires Diners Cards being a sole agent for the country and has arrangement of POS sharing with American Express Cards. The bank issues widest range of credit and debit cards under the brands of visa and master card to accountholders as well as non-accountholders. The bank is largest institution in the country with a wide spread merchants and ATM network throughout the country.

Operations of the bank including day-to-day operations and risk management are managed by highly qualified and experienced management team. Bank is fully equipped with modern technology which includes ATMs, credit cards, state-of-art, world-renowned software from Infosys Technologies System, Bangalore, India, Internet banking system and Telebanking system.

Its present shareholding pattern is as follows:

(Source: www.nabilbank.com)

N.B. International Limited, Ireland	50%
Nepal Industrial Development Corporation	10%
Rastriya Beema Sansthan	5%
Security Purchase and Sales Corporation	5%
General Public	30%

Nepal Investment Bank Ltd.

Nepal investment bank ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrials and businessmen, has acquired on April 2002 the 50% shareholding of credit Agricole Indosuez in Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and company registrar's office with the following shareholding structure.

(Source: www.nibl.com.np)

A group of companies	50%
Rashtriya Baniya Bank	15%
Rashtriya Beema Sasthan	15%
General Public	20%

Standard Chartered Bank Ltd.

Under the company act of 1964, Nepal Grindlays Bank Limited, renamed as Standard Chartered Bank Nepal Limited (SCBNL) in 16th July 2001, was established as a third commercial joint venture bank of Nepal in 1985. The bank originally started its operation in 1986. The bank originally started its operation in 1986. The 50% of the equity share capital was originally owned by ANZ Grindlays Bank, which managed and controlled the overall activities of the bank. Later on, the ownership of 50% share ANZ Grindlays Bank was transferred to Standard Chartered Group. Standard Chartered Group employs almost 60,000 people, representing over 100 nationalities in over 50 countries in the Asia Pacific Region, South Asia, the Middle East, Africa, the United Kingdom and the Americas. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal. An integral part of the only international banking Group

currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. In addition to which the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal.

Its present shareholding pattern is as follows:

(Source: www.standardcharteredbank.com)

Standard Chartered Grindlays Ltd Australia	50%
Standard Chartered Bank, UK	25%
General Public	25%

1.1.3 Kinds of credit cards

During my interaction with the customers at different banks it found that they are very confused between types of card issued from different banks. Hence it has given brief details about various cards in the market before going further to the details of credit card.

Charge card:-

The only difference between charge card and the credit card is that in case of charge cards 100% of the outstanding amount in the card has to be settled in the due date, whereas in credit cards one can get the chance to settle his dues in installments.

Prepaid card:-

HBL is the first bank to bring the concept of the prepaid cards in our market. As its name says the customers get this card by depositing the desired amount in his card account which he can use later either in some outlets or to withdraw cash. No limit is assigned to prepaid cardholders which means they can use the amount that they had deposited and not more than that.

Debit card:-

Debit cards are linked with the account of the cardholders. The debit cardholders can use the cards for making purchases and for withdrawing cash via ATMs. The debit cardholder doesn't get any credit from the bank hence the use of the card depends upon the balance in the customer's account at his bank. The account is debited simultaneously the cardholder uses his card.

ATM card:-

ATM cards can only be used to withdraw cash from ATM machines. These cards are alternatives to cheques i.e. they are used to withdraw the balance from the accounts.

Purchase card:-

These cards can be used to purchase only.

Gift card:-

The gift cards are usually purchase cards. The amount to be gifted is loaded in pre-printed card in the banks which can be later used. These cards can be reloaded and used further till their expiry date after the initial deposit is finished.

1.1.4 History and Development of Credit Card

Credit card is a most popular form of payment of among types of payment due to its special features This payment system traces its root back to 1914, when western Union issued a metal plate to preferred customers allowing them to defer payment of purchases goods and services, in this of system; card can used to

purchase goods and services from the company that issued the card. These cards came to be called “metal money” and became widespread in 1950’s. In 1950, Diner club and American express launched their charge cards in USA, the first “plastic money”.

These early cards required payment in full within a short period of time, usually less than 90 days. In 1951, Diners club issued the first credit card to 200 customers who could use it at 27 restaurants in New York’s Franklin National Bank submitted an application for a loan and were screened for credit. Approved customers were given a card they could use to make retail purchases. The merchant copied the customer information from the card onto a sales slip and called the bank for approval of transactions over a certain amount. The bank would credit the merchant account for the loan minus a fee to cover the costs of providing the loan. Another, major universal card “Don’t leave home without it” was established in 1985 by the American Express.

By 1959, many banks were offering the option of revolving credit, which allowed customers to make regular payments on the balance owed rather than having to pay off the entire balance at one time grew, banks interested in issuing cards became members of either bank Americard or Master Charge. Their members shared card program costs, making the bankcard program available to even small financial institutions. In 1965, Bank of America formed licensing agreements with other banks and established Bankcard associations. This facilitated them to issue Bank Americard and interchange transactions among participating banks. In a very short period of time this business got popularity and in the 60’s large number of banks entered into this field on huge scale. In 1966, a number of banks got together and founded a card association. Later, it was name as visa international. In the same way, some of other banks got together and founded Master Card International. Nowadays, both of companies are very

popular and most accepted card companies in the world. They not only placed the banks all over the world in a competitive position but also let to the latest innovation in credit card business. In the early days, there was a charge card concept where the cardholders had to pay money within certain days (Usually in 45 days) after using the credit card. Later, charges developed into credit cards and now, they have been modifies into Debit Card and Smart Cards. (Singh, 2000; 4)

By 1967, western states Bankcard Association were formed by four California banks and Master charge program was introduced to complete with Bank Americard program. In 1977, the visa membership corporation was formed and VISA, USA was started. Competition was fierce. Banks that offered one card could not handle the other, thus losing money. More importantly, the merchant themselves were being forced to turn down sales form customers who did not carry the same card the merchant accepted. In 1978 the Maser card and visa organization agreed to concept of duality, in other words, banks could honor and issue both credit cards. Today the use of credit cards is astounding as America Credit Card debt exceeds \$550 billion (according to Federal Reserve Board Statistics).

1.1.5 Types of Credit Card

There are two types Credit cards: - secured and unsecured. The card that is secured with a saving deposit of cardholders to ensure payment of the outstanding balance if he/she were to default on payment is called secured cards. It is generally used by people who are new to the bank and also who are trying to rebuild their poor credit ratings. Where as the card which is not secured by any collateral is called unsecured credit card. Most credit cards are unsecured so there is higher interest rate than other forms of lending, such as mortgages, which utilize property as collateral. All credit cards fit into one of the following three categories:

1) Bank Cards

They are the cards issued by banks. For example: Visa and Master card

2) Travel and Entertainment (T&E) Cards

Examples of these types of cards are American express, Diners club and Carte Blanche. Travel, entertainment and national house cards have same terms and conditions wherever you apply.

3) House Cards

House cards are good only in a chain of stores. It is generally a local and national retail card.

(Shrestha 2006)

1.1.6 History and Development of Credit Card in Nepal

Credit Card Business in Nepal, as Alpine Travels Service (ATS) first obtained the license from VISA/Master Card International. It introduced VISA and Master Card services in Nepal back in 1985 as the representative of Chase Manhattan bank, NA Singapore, and thereafter of the oversea union Bank, Singapore.

After that, acquiring business started in Nepal, by NABIL and SCBNP from 1989 AD, but NABIL acquired Master Card and SCBNL acquire VISA only. In 1990, SCBNL also acquired Master card. Similarly, NABIL started acquiring business of Diners card in 1992 and VISA in 1993. In 1993, SCBN started acquiring business of Japan commercial Bank card (JCB) also. The issuing business was first started in Nepal by HBL and NABIL also started the business was first started the business since November 1993. NABIL issued Master card and HBL regular card, which was Nepal's first Nepali credit card. In December, 1997 it started issuing VISA also. Then in April, 1997, SCBNL started issuing VISA and Master card in July, 1998. Finally NIBL started issuing VISA in 2003. At

present, there are four banks involved in credit card business, HBL, NABIL, SCBNL and NIBL.

1.1.7 Players in Nepal

HBL, NABIL, SCBNL and NIBL banks are carrying the credit card business in Nepal. All of these banks are both issuer and acquirer. Types of credit cards they are acquiring and issuing are shown in the following table:

Table 1
Players of Credit Card in Nepal

BANK	ISSUANCE	ACQUIRING
NABIL	Master Card	MasterCard/Visa card/Diner's Card
SCBNL	Master card/Visa card	Master card/Visa card/JCB
HBL	Visa Card	Visa Card /Master card
NIBL	Visa Card	Visa Card

1.2 Statement of the problem

Credit card business started in world in 1951. Franklin National bank in London Island, New York issued a card that was accepted by local merchants. Within the several years nearly 100 other banks across the country were also issuing card. But in case of Nepal only from 1986 that is after 35 years of inception of card business, credit card was started and from November 1996 issuing business was started by issuing credit card. HBL and NABIL bank both started card business at once by issuing different cards domestic credit card and Master card respectively.

Upon taking personal interview with the credit card department authorities, it has been learnt that card business in Nepal has slacked down considerably.

Again the entire card department of all the joint venture banks is facing the problem of overcapitalization, which means the comparative efficiency is lacking in relation to other products of this industry.

The authorities also state that the problem of over capitalization is caused due to intricacies involved in the segregation of fixed, variable and semi-variable costs and hence the cost benefit analysis is also not easy.

Today credit card has become a synonym for currency notes in foreign countries. In other countries there are cash free zones with all the financial needs being handled by bank cards. But in the context of Nepal it is quite difficult to do so. Card business is fluctuating till now from beginning. Acquiring volume mostly depends upon arrival of tourists but the present situation of the country is not sound for the tourism though there is growth this year. So the concerned banks are forced to find domestic internal user. So the problems which in the sector are proposed to be enquired in this study are as follows:

- What are the positions of different banks involved in card business?
- What is the growth situation of the banks in the card business?
- What are the trends of credit card users in Nepalese market?
- What is the trend of the aggregate market? Is it increasing or decreasing over the period?
- What are the strong and weak points of different banks in relation to credit card operation in Nepal?
- Are there any opportunities that can be utilized for making credit card business operation more effective and efficient?
- Are there any market schemes and packages that can be introduced for luring more and more customers?

1.3 Objectives of the Study

The main objective of this study is to explore the current situation of credit card market in Nepal. The specific objectives of the study are mentioned below:

- 1) To study the current position of card business.
- 2) To evaluate growth rate of card business.
- 3) To examine the trend of credit card and card market in Nepal.
- 4) To assess the strong and weak points of credit card operation in Nepal.

1.4 Importance of the Study

Economic condition of the nation depends upon the development of financial sector of nation. Banking sector is one of the essential elements of nation. Financial and banking sector's growth depends upon reliable services provided by them. So, all financial institutions and banks have to provide special service to make transaction easy and fast. Previously bank provides only banking service but nowadays it provides non-banking services due to the need and demand of the market. Due to this reason credit card system was introduced. But in Nepal, credit card concept has recently entered in the banking sector and general public. Card business is still in the growing stage. Hence the in-depth research on the potentiality of card business is the subject matter of thorough study and research in the present context. Therefore credit card is chosen as the subject matter for this research which helps different parties like other student who want to know about credit card, the bank who involved in card business to modify their card services and formulation of strategy for smooth operation of card and government who has to make different policies for the regulation the business.

1.5 Limitation of the Study

A lot effort has put to make the study a success. Since credit card is anew concept for Nepalese business and d personal life and the in-depth study and research has yet to be done. Probably such studies have not been made previously. Hence it is difficult to find the references to find the references and required information. However, the attempt will be made to be limited within the boundary of available information. Also effort has been to present the possibly collects data information.

1. The study covered only a period of 5 years since 2007-2008 to 2011-2012.
2. Since most of the information was gathered from secondary sources, because of the competition and privacy of the Bank's policy, financial and statistical data are not provided, which do not provide the sufficient information that was needed for conducting the study. Thus, it does not reflect the exact position of bank related with the credit card business, as the bank could not, understandably, disclose financial information regarding set up costs, operating costs etc.
3. The project includes study conducted within Katmandu valley only.
4. Though we can see various target customer of credit card along with huge coverage, this project focus only on two different segments that is credit cardholder and one related staff of card department of each bank, which may not sufficient for generating significant result.

1.6 Organization of the study

The research study comprises following chapters:

- 1) Introduction: This chapter includes the background. A grief introduction to banks involved in credit cards business, history of credit cards in the world. Historical background of credit card in Nepal, Focus of the study,

- Statement of problems, Objective of the study, Importance of the study and limitation of the study.
- 2) **Review of literature:** This chapter includes conceptual/theoretical review, review of related of related study.
 - 3) **Research Methodology:** This chapter includes population and sample unit, sources of data, data collection technique, data presentation and analysis and statistical tools.
 - 4) **Data Presentation and Analysis:** In this chapter tools of statistical analysis are included. Such as Growth rate, Average, Standard Deviation and Coefficient of Variation.
 - 5) **Summary, Conclusion and Recommendation:** This chapter includes summary, conclusion and recommendation.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual/Theoretical Review

2.1.1 What Payment Card Is?

A payment card is a small plastic card, which allows its holder to pay for goods purchased or services availed at different outlets or on-line through site. It also allows the holder to withdraw money from the ATM (Automatic Teller Machine) or from the bank. Before we proceed further deeper in the intricacies of credit card, it will be nothing that credit is just a line of product of the card payment business. Now, the bigger competitor of card payment business is cash and travelers cheques. There are many organizations in this business under whose membership different banks and companies' issues different brands of payment such as:

- Members of Visa International, headquarter at Yokohama, Japan issue visa branded payment cards. Till date it is non-profitable organization run solely by its thousand of members located globally.
- Members of Master Card International, headquartered at St. Louis, USA issues Master Card branded payment cards. It is also a non-profitable organization till date run by the members.
- American Express Corporation Ltd. Being a big banking giant itself and head-quarter at New York, USA issues American Express (hereinafter referred as AMEX cards) branded cards. It is a profitable organization. (Source:www.visa.com)

Now all these globally operating institution, member banks and credit card companies' issues different types of payment cards, which are distinguished from each other by the different features it carries, such as:

Credit Card:

The most common type of payment card which occupies 70% of its line of business is credit card. A credit card is a plastic card, which allows the holder to make purchase or take cash advance on credit basis. Simply speaking it is the concept of “BUY NOW PAYS LATER”. Another feature of credit card is that payment can be made on revolving credit basis i.e. the total outstanding amount can be paid on installment basis.

AMEX member banks of Master card International, Visa International, etc issues credit cards.

Debit Cards:

A debit card is also a plastic card, which allows direct access to the account holder for making purchases or withdrawing cash. It exactly looks like a credit card but the features are completely different. A debit card holder must have an account with the bank and the moment he makes any purchase, his account gets immediately debited, i.e. he goes not get any credit facilities. Since the account gets immediately debited at the point of purchase, it is called as debit card. Hence, we see a debit card holder has access to his funds maintained in the account with the help of small plastic card.

Member banks and card companies of Visa and member card International issues debit card.

Charge Cards:

Charge card is also a plastic card with a pre-set limit and payment against its limit usage requires to be settled in full at the end of given period.

Chip/Smart Card:

A chip/smart card is a payment card with a preloaded value into the card. The card contains embedded electronic chips. Usage is restricted up to the value loaded into the card. The value decreases as the cardholder uses the card. Value may or may not be reloaded as per the capacities of the issuing bank. These types of cards are also known as pre-paid cards. In these types of cards other information like details of driver license, passport, medical history etc can be stored. (Fundamental of Visa Business, Manual, 2004)

Now to be more specific, let's confine our study on Visa (including all the operational and financial aspects), which is one of the most popular brands of payment cards. Comprehensive details relating to its business is as follows:

What is Visa?

Visa is an association that links cardholders, merchants and its competing member financial institution through the world's largest electronic payment network, linking billion cardholders and more than 27 million acceptance locations around the world. The world trusts Visa to provide the most secure and reliable ways to pay and to be paid, stimulating growth and generating opportunities.

Visa is not a traditional multinational corporation. Owned by more than 200,000 financial institutions around the world. Visa members typically compete in their local markets for their business of cardholders and merchants. The Visa

system also helps smaller member institution access the economies of scale of the world's largest payments system.

Visa's strategy relies on a strong central core of operating standards and principles coupled with well-resourced national and regional terms supporting the needs of members locally. The activities of all Visa members are governed by a set of global operating regulations and a central team that develops products, manages the brands, monitors global risks and ensures implementation of technical standards (www.visa.com).

2.1.2 A History of Bank Card Industry

I. Introduction

The bank card industry is a part today's worldwide financial structure. It goes beyond simple consumer credit cards to include debit products, business cards, traveler's cheques, stored value cards and electronic payments services such as home banking and electronic bill payment services.

This card is a wide range of financial institution, including commercial banks, credit unions, saving and issues related products and companies such as American Express. Even non-financial services companies such as General Motor and AT&T are now involved in the payment system industry with very successful co-brand cards issued in partnership with Visa and Master card Member financial institutions.

I. A Global currency

Visa cards can be used to make purchases at more than 27 million retails and service establishments worldwide. By the mid of 1990's cardholders used their all purpose cards to purchase goods and services and to get cash advance in more than 200 countries and territories around the globe. That makes bank card products the closest thing there to a global currency. This is remarkable

achievement considering bankcards in their present form have been in existence for only a few decades.

II. Proprietary cards provide customer convenience

The payment system industry traces its root back in 1914, when western union issued a metal plate to preferred customers allowing them to defer payments on purchases.

During the first half of this century, a variety of other enterprises, such as hotels, departmental stores and oil companies also began to issue charge cards to their customers. In this type of closed system, cards can be used to purchase goods and services from the companied that issued the cards.

III. Travel and entertainment cards set a new product

In 1985, Diner's club introduced the first travel and entertainment (T&E) card, to serve the needs of the business travelers by enabling them to charge meals and travel expenses at a variety of merchants, such as restaurants, hotels, airlines and car rental agencies.

Diner's club paid the merchants for the transactions made with the cards, deducting a small 'discount' as compensation for the cards role in a sale. Cardholders were billed monthly by Diner's club for their charges, and were required to pay the balance in full upon receipt. In 1958, American Express introduced its own T&E card.

This new type of system, in which the car issuer licenses independent merchants to accept its cards, is also a closed system, because both cardholders and merchants deal with the same organization.

IV. Banks offer cards to local customers

In 1951, Franklin National Banks on London Island, New York, issued a card that was accepted by the local merchants. Within the next several years nearly 100 other banks across the county were also issuing the cards. As these early issued bankcards system applied only to their local areas, some banks found it difficult to make a profit.

Bank of America, unlike other banks, had the entire state of California as its market. The bank Americard, first issued in 1958, was an early success. Like a number of other bankcards available at that time, it offered cardholders a new feature: revolving credit. Cardholder now had an option of paying their balance in installments with a monthly finance charge applied to unpaid balance.

With the increasing acceptance and growing number of closed card programs in place, the stage was set for the development of national bank card association.

V. Banks brand together

By 1966, Bank of America had expanded its bankcards programs by forming the Bank Americard Service Corporation, which licensed other banks outside California to issue Bank Americard's to their customers.

That same year seventeen Master card bank representatives met in Buffalo, New York, to arrange for the reciprocal acceptance of their local credit cards at their merchant outlets. This group formed the Interbank Card Association (ICA), which has since evolved into MasterCard International. In 1969, ICA acquired exclusive rights to the Master Card name and the interlocking circle logo for its members.

Because the members of the Association share the cost of bankcard program, the formulation of Bank AmeriCard Service corp. and the ICA enabled even small institutions of the bank cards to their customers. With increasing success of the association most regional banks soon converted their independent programs to either Bank AmeriCard or Master Card.

VI. A new kind of system

Unlike a close system, bankcards association does not directly issue cards or sign merchants on. Instead, the association licenses member financial institutions to issue cards and/or acquire merchant's transaction receipts under the association's brand name. This type of system is called an interchange system, because the association manages the transfer of the transaction data and funds between the issuing and acquiring members. The process is known as "interchange". Originally association members are issuers only, some are acquirers, while some members still maintain both cardholder and merchant relationships.

VII. Duality

In 1970, Bank of America transferred control ownership of the Bank AmeriCard program to the banks that issued the cards, forming National Bank AmeriCard (NBA). This membership corporation further developed the Bank AmeriCard system within the USA.

Master Cards too, were growing and by the time, more than 1400 banks offered Visa and Master Card credit cards, with more than US\$3.8 billion in outstanding balances. But merchants still had to deal with separate banks for their Master Cards and Bank AmeriCard programs.

This soon changed, in mid of 1970, the Worthen Banks and Trust Company, and NBI Member in Little Rocks, Arkansas claimed that Nib's Exclusive membership conditions placed it at a competitive disadvantage for signing merchants. Worthen threatened to take the case to the supreme Court, NBI- in response to a Justice Department opinion changed the regulation to allow dual membership for USA Members. In 1976, for the first time, a USA bank become a Member of both ICA and NBI, "Duality" as this development is called, enabled merchants to deal with one bank for both their Bank Americard and Master programs. And issue could offer both brands to their customers.

VIII. International expansion spurs names changes

Outsides the USA Bank of America continued to license banks to issue the familiar blue, while and gold cards until International Bankcard Company (BANKCO) was formed in 1974 to administer the international BankAmeriCards program, sharing management with NBI.

Internationally, both Bank Ameri Card and Master Card programs had different looks and names in different countries. Banks Americard, in particular, encountered resistance to its name, because the name wad identified with USA and with the best banks of banks of America-even though the connection was in name only. Within USA well, member did not like having what seemed to be a competitor's name on their cards. In 1976, the Bank Americard name changed to Visa, a simple memorable name with international flavor that was pronounced the same in every language. At, the same time, NBI was renamed Visa USA, and IBANCO was renamed Visa International. In 1979, the Master product was renamed as MasterCard and its logo was updated. While some differences in international programs still exist, these name changes created more consistent and recognizable global presence for both associations. By the end of the decade of 1970's visa had a new electronic processing system, which virtually handled

unlimited transaction volume, and helped make the explosive growth of the industry in 1980's possible.

IX. Following landmarks were then followed

Online- authorization system also known as Base I was developed in 1973. Electronic clearing and settlement system known as Base II was formulated in 1974.

X. Growth of the industry

Today, consumers receive numerous competing offers and becoming increasingly sensitive to differences in service and financing. Issuers are using database information technologies to “micro-market” tailored pricing and services offers at the cardholder level to maximize response rate and profitability and minimize attribution.

The bankcard associations have now evolved from credit card companies to full service payment systems. They handle and process virtually every type of transaction, providing cardholders with the conveniences, utility and security so important to today's lifestyles.

In spite of the immense size of the industry, general purpose cards are still used for only 17% of the more than US\$4069 trillion consumer payment transactions. The rest are paid by cash and cheques. Huge potential for future growth exists in market segments such as fast food restaurants, supermarkets, healthcare provider and long distance calling services. As you will see Visa has the products, systems and cardholder bases to take advantage of these and other opportunities.

2.1.3 Advantage of Payment Cards

Credit cards have numerous advantages. Some of them are mentioned below:

- Safe and secure in comparison to traditional mode of payment like cash, cheques etc.
- Very convenient to carry it instead of bulky cash.
- Wide acceptance.
- Unlike cash it is easy to get replacement.
- Not only for purchases, a credit card is used to make cash advances. Hence, it is helpful during shortage of cash and in emergencies.
- Inbuilt card instrument with the privilege of interest free credit period of 45 days maximum to 15 days minimum.
- Facility of revolving credit i.e. option of minimum stated payment on regular installment rather than settling it all at once (Nabil Bank Ltd, 2000).

2.1.4 Parties Involved in Credit Card Business

There are various parties involved in Credit Card Business which are as follows:

A. Issuer

Any financial or non-financial institution, which is authorized to issue cards under the granted license of Visa and Master Card International are called issuer. Examples of such issuer in Nepal are Nabil Bank Ltd. Standard Chartered Bank Nepal Ltd. and Himalayan Banks Ltd.

B. Cardholder

Prospective persons or organization, to which cards are issued by the issuers, are called cardholders.

C. Merchant

All those outlets which accept these cards as a mode of payment are called merchants. Examples of such merchant are departmental stores, travel agencies, grocery stores, shopping centers, restaurants, hotels, car rental agencies etc. Now days there are many online merchants who have allowed doing transaction on line without the cardholder being present.

D. Acquirer

Whenever a card holder makes a transaction the only thing he / she does is sign a sales slip. This sales voucher is then presented to the financial institution, usually a bank which makes the payment to the merchant normally on the same day or the next working day. It further processes it to get the payment from the issuer. Such institution that accept these transacted sales slips from the merchants are called acquirer. A bank can be both acquirer as well as issuer. For example Nabil Bank issues credit card as well as processes the transactions for its various merchants.

E. Clearing and Settlement

Since a credit card is not a cash purchase and the merchant is paid by its acquirer, it involves a fifth and the most important party called the clearing and settlement bank. Once the acquirer makes the payment to the merchant, it itself needs to get the payment from the bank which has issued the card and it is not possible and feasible to make direct claim as there are hundred or even thousands of such transactions taking places everyday. Hence these claims from all these member institutions are forwarded to the

clearing and settlement banks for payment and in the settlement process the actual payments are made. In case of master card this process is conducted by master card international and in case of visa card by visa international.

2.1.5 Components of Credit Card

The components of credit card are as follows:

1. Unique Card Number

It is the credit card number embossed on the credit card by embossing machine. Card number will be different for different card account. The beginning card number differs depending upon the settlement banks. For example Master Card begins with the number 5 and Visa with the number 4.

2. Name of Cardholder

Name of cardholder is also embossed on the credit card with the help of embossing machine. Cardholder may be the account holder as well as any third party.

3. Validity Date

Validity date is also embossed on credit card by embossing machine. It is the date after which the card expires. The expiry month associated with specific year is mentioned on the credit card.

4. Issuing Bank

The name of the credit card bank is printed on the card such as Nabil Bank Ltd, Himalayan Bank Ltd etc.

5. Brand Name

The brand name of the credit card associated with the certain settlement bank is also printed on the credit card. For example, Master Card, Visa Card HCB card etc.

6. Magnetic Strips

Magnetic stripes will be on the backside of credit card. It is the main part of the credit card. All the data associated with the credit card is mentioned on it. The data can be read with help of specific machine.

7. Photo of the Holder

A photo of credit card is attested on the backside of credit card to make the credit card transaction simple and convenient. Photo of the credit card holder is not attested in credit card. It depends upon the credit card issuing bank. For example, in Nepal a photo is attested in the Visa card issued by Himalayan Bank Limited but it is not attested in the Maser Card issued by Nabil Bank Ltd.

2.1.6 Basic Eligibility Criteria for being a Cardholder

The following criteria must be fulfilled to be a card holder in context of Nepal.

- Age 18 Years above
- Have a regular income sources with annual income more than Rs.120000/-
- Maintain accounts with any branch of concern bank.
- As prescribed under Nepal Rastra Bank regulation (For International Dollar card)

2.1.7 Documents Required

When once applying for a credit card following documents must be submitted with credit card application form.

Required Documents for applying personal card

- Salary certificate/ documentation to prove income source.
- Identification paper (copy of citizenship certificate / passport)
- Two passport size color photograph.

Required Documents for applying a corporate card

- Company/Firm registration certificate
- Income tax registration and tax clearance certificate
- Board resolution authorizing availing of credit card and debiting company account for all charge.
- Letter by authorized management personnel for issuing individual credit card.
- A copy of latest audited balance sheet and statement of profit & loss of the firm along with proof of any other income sources.
- Identification paper (copy of citizenship certificate /passport)
- Two passport size color photograph

2.1.8 Application Processing

Before issue the card and assigned the merchant no. the concern bank analysis the data an information provided by applicant to minimize the risk in this business. It is called application processing.

Merchant Application

When potential merchant submit the merchant application from the bank the bank ask for all incorporation documents s mandatory during account opening. An analysis is executed by the representative officer who

has made the actual visit at the merchant's location and made study of the merchant. On the basis of the analysis and history of the merchant membership number is assigned called merchant number. The merchant is then either given an imprinter machine or an electronic terminal depending upon the volume and frequency of transactions.

Card Application

Similarly when a potential card holder submits the card application form first a careful study of the form is made in order to have all the relevant and required information. There after documents are seek out to justify the applicant's request for a card. After analyzing the concerned documents by related officer and card is issued to those who prove to have genuine intention to pay back and can afford to avail the card.

2.1.9 How does a Credit Card work in Practices?

Credit Card operation starts when cardholder makes purchase by using credit card at the authorized shop or store. When merchant accepts the card during transaction, merchant make sales draft using imprinter, electronic machine and gives to the cardholder to sign on the sales draft. After that such sales draft. After that such sales draft submit to the acquirer for reimbursing the amount. The acquirer reimburses the amount and deducts certain charges. Such charge is known as merchant service fee. Then the acquirer claims the amount from the settlement bank that may be Visa International or Master Card International who further charges to the issuing banks. (Personal interview with related authorities.)

2.1.10 Risk Involved in Credit Card Business

There are various risk associated with credit card operation of credit card. They are mention below:

Loss of Card

The main risk associated with operation of credit card is loosing and stealing of credit card. If the card holder fails to inform about the loss or stealing of the card to the bank in tome, the transaction made by unauthorized third per son will be on account of the card holder. Though the bank fights for their clients, in case of losing the card the total burden of liability has to be borne by the card holder or the account holder.

Copy of signature

Copy of signature occurs in case of lost or stolen cards. The unauthorized third party copies the signature at the back of the signature panel and renders goods and services. Charge slip of such types of transaction will be denied by the actual cardholder. As a result dispute arises. If case is filed in this situation, any party, either the card holder of the merchant, may win depending upon the situation.

Change of amount

Sometimes, merchants change the actual amount and currency on sales draft with bad motive and present them to the acquiring bank. As, a result the card holder who deny charge and present hide original copy of the true transaction. As a result dispute arises.

Transaction of expired card

Sometimes, merchant commit negligence in checking the expiry date of the card. In such case, if transaction is made through the expired card, acquiring bank denies to make further procedure of the transaction. In this

case the merchant will be in loss. Sometimes, the acquirer may send draft to the issuing bank on the basis of good faith but the decision entirely depends upon the card holder.

Duplication of card

There are lots of syndicates around the world engaged in fraud transaction of credit card. They make exact duplicate of the card. If the bank identification number is not used in making the duplicate, it is not used in making the duplicate. It can be caught with the help of sorting machine. But sometimes, the bank identification number is also copied and cash are circulated in the market. In such a situation, no party is willing to take the responsibility.

Identification counterfeit transaction

This is similar to the aforesaid that the syndicate does not use any BIN to manufacture the counterfeit cards. The BIN used is not a valid one and cannot be traced in the interchange directory.

Unidentified counterfeit transaction

There are several criminal syndicates all around the globe engaged in the fraudulent transaction of credit cards. In the identified counterfeit transaction these syndicates use the (Bank Identification Number) and manufacture fabricated cards and circulate them in the markets which resemble the original cards in every aspect.

Magnetic stripe fraud (Skimming)

It is recent and sophisticated fraud technology where the information the magnetic stripe is re-coded to counterfeit or altered cards. The card

looks genuine when used in magnetic stripe reading terminal (Singh, 2000:11-14)

Procedure followed during dispute

The following procedure will be followed while dispute arise.

- Chargeback
- Arbitration
- Compliance
- T & E Resolution

1. Charge back cycle

A charge is an electronic message that the issuer sends the Acquirers through the Basic II system. The Chargeback shifts the financial responsibility from an issuer to the acquirer. They should only charge back a transaction to the acquirer if it is not possible to obtain payment from the cardholder. All the reasons for initiating a charge back are mentioned in the VIOR-II, Basically there are four areas under which a charge back is initiated. They are:

- Merchant Error
- Acquirer processing error
- Suspect fraud
- Acquirer did not respond to a retrieval request. The entire process begins with retrieval request and proceeds as follows:

A. Retrieval Request

The issuer in request of their cardholder may seek copies of transaction slips from the acquirer via MasterCard/Visa International. The purpose is to verify the transaction which is either being confused by the cardholder.

B. Fulfillment

The acquirer needs to send the copy of the charge slips to the issuer after receiving retrieval request. The function of sending such slips is called fulfillment. Such fulfillments is made through Master (Master Card hub site to receive from acquirer and forward to issuer) via fax transfer in case of Master Card and in case if Via the image of sales slip is captured through scanners and sent to Visa system through Visa Online (Internet web site of Visa International), then Visa International forwards it to concerned issuers. The acquirer receives fees ranging from USD1-8 depending on the date of submission.

C. First Charge Back

When the cardholder or the issuer feels that the transaction is not up to their satisfaction, they have right to get back the transaction amount from the acquirer with valid reason and the process of the same is called Chargeback. While initiating chargeback, the issuer must mention the reason for such chargeback within the parameter set by Visa/Master card international along with reason code. Possible chargeback reasons could be: Late presentment Unauthorized transaction, expired card, credit not processed, listed in warning bulletin etc.

D. Representative

If the acquirer feels that the transaction was correct and as per the rules of Visa and Master Card international, it can represent the case with supporting logic and documents and back the transaction amount.

E. Second Chargeback

If the issuer is still not convinced with logic and supporting documents forwarded by the acquirer, they can initiate 2nd chargeback and again the money. After 2nd chargeback the acquirer will have no right to represent the case.

2. Pre-arbitration and Arbitration

If the acquirer still feels the transaction was valid. It can file the case with Master/ Visa international for their ruling. Before filing arbitration case, acquirer needs to send pre-arbitration to issuer for their final consideration. If issuer declines to the pre-arbitration request or fails to respond to the acquirer the allowed period it submits the arbitration.

3. Compliance

If merchant (issuer or acquirer) may file a dispute resolution procedure known s compliance when all of the following:

- A Visa operating regulation has been broken.
- The filing member has suffered a financial loss because the rule has been broken.
- No chargeback right exists.

The filing member must be able to quote the exact rule from the operating regulation, which may believe has been holder or clearly shows the financial lass they have or will incur. Because of this the arbitration and compliance committee will then decide which party in the dispute should be held liable for the transaction, s well as the compliance filing and revise fess. Note that a compliance case will be rejected if a chargeback right or any other dispute resolution right back.

4. T & E Resolution

This dispute resolution procedure can only be filed when the transaction no dispute occurred at a Hotel, or involve a US-based car rental merchant with “Specialized Vehicle Reservation Service” agreement. The dispute concern “No-show” transaction.

“No-show transaction occurs when a cardholder makes a guaranteed reservation for hotel and then falls to arrive for the booking. Under Visa’s guaranteed reservation Service, cardholder must cancel their booking within merchant’s specified time, failing which they will be charged for one night’s stay at the hotel.

When cardholder must cancel within the special time, the merchant must give the cardholder a cancellation code with instruction to retain this code in case of dispute. Dispute can arise between merchants and cardholders over cancellations and cancellation codes. A cardholder may claim that the cancelled his reservation within specified time frames but it was not given a cancellation code. The merchant, on the other hand, my insist that the cardholder did not cancel in time and must therefore pay quoted by cardholder.

In such cases, the issuer or Acquirer may life for T & E Resolution Visa will then beside who is at fault the cardholder or the merchant. However, due to the difficulty of determine which member should be liable for such transaction, Visa Asia Pacific often funds such disputed transaction on the condition that the issuer educates the cardholder and the Acquirer educates the merchant on the correct procedures for canceling Guaranteed Reservation. There is no filing fee and no review fee for T & E resolution. Member should not that T & E Resolution case be rejected if a chargeback or compliance right is or was available (Thapa 2002:20-30)

2.2 Review of Related studies

Hughes (2002) stated that Egg, the for year old internet bank in Europe, celebrated profit as customer growth in its booming credit business acceleration during the first quarter of 2001. Its share closed at an all time high. Quarter pre-tax profits were 4.1 million, against a loss of 37.2 million in the same period last year. Egg began trading profitability in during the last three months of 2001 in line with its business plan.

Paul Gratton, the chief executive, stated that the issuance of 1, 57,000 new credit cards, which was 1, 54,000 the previous quarter had exceeded the bank's the bank's expectation. While credit card balances raised 1.9 billion, shares in Eggs rallied in line sector, gaining 15p to value it at pound 1.5 bn.

Although this new states the growth in profit but these profits been stated in terms of time value of money or what is the return on assets in card business? Keepley (2002) state regional head of real Visa, in that developing East Asia is and will be in years to come Visa's faster growth m\market. In the same work it is also stated that credit card usually generates return on assets above 5%.

Visa International (2002) state in 1998 over 185 million bankcards were issued in Asia Pacific region alone, which accounted for transaction worth over US\$ 330billion. When compared to other regions such as European Union, North America, etc the volume is quite low but a consistent growth of 30% has been maintained by the payment cards sector in the payment industry .Merchant locations outlets that accepts these cards as a means of payment is over 5.4million. The growth of electronic terminals (device which executes transaction electronically) is growing at an annual rate of 40% whereas the numbers of ATMs (Automatic Teller Machines) has grown at the rate of 25%.

With demographics of about two third of the worlds populations and 25% of the worlds gross domestic products- Asia pacific Region has more than 500 million bank customers. With the above stated growth rate and the emergence of middle class consumers, this fertile market displays tremendous potential to become a cash free zone with all the financial needs being handled by bankcards.

Kinley (2002), credit card spending in Korea is increasing at a rate of 90% per year. According to Visa, the volume for Visa brand only in the Asia Pacific region during 12 months ending December 31, 2000 reached US\$ 332 billion .For the same period card sales volume growth in constant dollar terms was headed by Korea-up to 102.5% at US \$ 128.4 billion .Australia -29.1% at US \$45.6 billion .and Japan –up 14% at US\$81.0 billion .These figures only account for one single brand and when combined with the others players such Master Cards, Dinner Club. Americans express card, Japanese Bureau Card (JCB), Discovery Card etc may result in huge digits.

The most advanced and latest development in the payment in the payment card sector is the issuance of Smart Card. A Smart card is a plastic card, which has an embedded computer chip in it fostering and processing sensitive data. The application landscape includes public telephone, e-commerce, Electronic Wallets; Cable TV refreshes details, Health /Medical applications and other authentications such as Net stock brokerage, petroleum retail, and car parking. Although payment card sector is credited for the genesis of such highly sophisticated product, today many other organizations such as telecommunication companies, mass transit companies, government departments are issuing such cards. For example, Gujarat Government, a state of India, issues driving licenses based on smart cards.

Let's analyze the facts and figure in regard to our two neighbors, i.e. china and India.

China

Visa international 2000 state china's economy has maintained real average growth of around 8.0% since 1978, making it one of the latest growing economics in the world. This growth primarily backs up from the government initiated foreign investment and exports. The growth slowed down to 7.0% in 1998 largely due to a less competitive export sector as neighboring countries depreciated their currencies while china maintained its pledge not to devalue the Yuan large government infrastructure continues to fuel domestic consumptions and is expected to sustain growth of at least 7.0% until 2003. Increasingly, the government is turning to domestic consumption to sustain growth.

The regional downturn has triggered the rapid development of the card industry in china. In March 1999 the central bank (people of china PBOC) announced policy revision designed to encourage revolving credit by

-) Cutting annual interest rates by 165 to 18.5%.
-) Introducing interest free grace period.
-) Abolishing the requirement for a security deposit.

As a result of while the nation has 30,000 international cards with the increasing numbers of foreign travel by Chinese citizen. In terms of local consumption about 70% holds for online debit purpose and the rest 30% holds deferred debit cards. Despite a central bank cap on card transaction, commercial usage still accounts for over 80% of the total card business.

As per visa int'l there is enormous growth potential in china. The PBOC has projected the figure of 200 million of the end of 2003. china is enthusiastic about e-commerce and chip card technology, but significant infrastructure development is till to occur.

India

Visa int'l state India has sustained average annual growth of around 6.0% since 1990. An economic liberalization program commenced in 1990 has continued, albeit slowly, to reform the economy and the market. The vision is to focus on liberalization, increasing the role of private sector and opening India up to the global economy. Despite India's problem such political infrastructure, security etc, foreign institution investor have exhibited strong confidence.

In case of payments cards, the foreign banks share is estimated at 70-75%. Citibank is the largest credit card issuer with close to 52% of the market. While standard chartered bank is second with about 13% of the market. In 2000 only there were about 2.5 million local visa card issued. After the government made the Indian rupee convertible the usage of int'l cards has increased manifolds.

The prediction for the number of payment card on issue by mid 2000 was around 10million, which have exceeded way ahead .India has some promising long-term prospects due to the rise of middle-class consumers and changing lifestyles. (Thapa2002:30-33)

But in case of Nepalese card business, the number of cards and the outlets are very low in comparison to other countries. Last year, there were 12,100 credit card users is estimated to increase by 18000 to 20000 this year. According to Industry sources Nepal at present have 4,000 establishment that range from hotels, travels agencies, trekking and mountaineering agencies, supermarkets, retail outlets etc which accepts Mater Card, Visa Card, American Express and Diners Club cards. Nepal Investment Bank alone has issued around 4,000 debit cards to this date. The debit card was launched last September and the bank soon plans to

launch their credit card soon. Nepal Investment bank has facilitated first Visa electron Debit card in Nepal. (Shrestha 2008:4)

Credit is kind of facility provided by financial or commercial bank. it is very popular in international business and their personal life but in our country it is new concept. Due to lack of necessary infrastructure for using credit card its business position is still in unsatisfactory level. However, only few researchers have done research o this card market.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research is systematic and in-depth study or search of any particular topic by formulating hypothesis, collecting information, analyzing and interpreting them through the valid results. It is also called a creative inquiry to search new insight to phenomena. Research methodology is a technique used for conducting research. It provides various methods for the collection, presentation, interpretation and analysis of data. For this, various financial and statistical tools are used to analyze the data and conclude to the finding.

3.2 Population and sample

Population refers to the target groups on whom we have conducted our research. There are more than thirty commercial banks operating in Nepal. Out of them NABIL, HBL, SCBNL and NIBL banks have taken as sample of the study and provided credit card facility.

3.3 Sources of Data

Each fieldwork has its own data needs and data source. Data for this study has been collected from basic two sources namely, primary data and secondary data.

Primary Data

They are first hand data. They are obtained directly from the sources. For primary data collection interview was taken with different staffs with the concerned department. Meeting with workers, customers and management groups were few effective tools to get the correct information and to statistics and know the existing problems. A direct interview with

the officer of the credit card center was also made. The officer clarified all the data and gave all the required information in relation to the report. Regular unstructured and structured interviews were conducted with the said groups during the research period.

For this purpose, two different groups were targeted and administered separate structured questionnaire. Credit card holders and authorized staff of different banks were two different targets groups, for whom we developed and distributed separate questionnaire. The sample size was 40 for customers and one each per bank with the authorized staff of different banks. Questionnaire prepared for this different groups were distributed at various locations (bank counters, departmental stores, restaurant, hotel, travel agency, business houses, schools, colleges, residential areas, retail outlets and various locations) within Katmandu valley.

Besides the above said questionnaires and target groups, we even conducted unstructured interviews with various restaurant, hotel, departmental stores, travel agency, business houses, students, general public and authorized staffs of different banks.

Secondary data

Secondary data are those data that has already been generated by others. Sources of secondary data for this study include sales information, accounting data, internally generated reports which are found within the company and website of the company. And sources refers to books, websites, publications periodicals, data services and computer data banks, reports and statistics gathered and compiled by others prior to study. Sources for this study have been listed below:

- Data and information relating to credit card collected from four banks.
- Consolidated report of Nepal card member forum.
- Publications of all of banks.
- Annual reports of different years.

3.4 Data collection procedure

Both primary and secondary data were used in preparing this report. And the data was obtained directly from Credit Card of different banks. The officer of the card department provided all the consolidated data records of Nepal Card Member Forum.

Structured questionnaire

Structured questionnaire were prepared for four different sample groups Customer, Merchants, Departmental stores and staffs of banks were the four different target groups.

Customers:

This questionnaire was targeted to people regardless of sex, age, education or any other such demographic criteria, the only requirement was that the respondent had to have a credit card of any bank of Kathmandu. This questionnaire was designed so as to focus on specific reason for acquiring credit card and choosing particular banks for doing so. For the credit card holders, the question mainly focused on the types of credit card acquired, means of gathering information about credit card, reasons for acquirement and problems encountered with usage of card, frequency of usage, places of usage, reasons for usage, future plans of termination and reasons for doing so.

Authorized staff of different banks

Here questionnaire was asked to one authorized staff of different banks. It was mainly designed so as to get an understanding about the major problems been faced by different banks in relation to credit cards. In this vein, authorized staff were asked about growth trend of credit card, types of services they provide, types of credit card mostly issued, terms & conditions of credit cards, types of customers using credit card, problem mostly faced in credit cards, type of promotional tools that they have adopted and their other problems that have encountered in credit cards.

Structured and unstructured interview

Credit cardholders, non-cardholder, and educational institutes, business enterprises as well as experts in the credit card operation were interviewed. In this regard, several structured as well as unstructured interviews were conducted. Structured and unstructured interviews were mostly conducted with the personnel of card center of different banks, educational institutes heads, people included in the structured questionnaire survey etc.

3.5 Analytical tools

All collected raw data (Primary and Secondary) have been/are converted into a number of comparative tables. In this study, collected data are presented mainly by using Tables, Graphs and Charts. So, they can be easily understood. Hence we have used graphical and figurative presentation in order to clarify and analyze our findings. Several statistical tools such as pie charts, bar diagrams on the computer have been used to provide details about the results, recommendations and conclusion of our research.

3.5.1 Mean or Average

The mean or average value is a single value within the range of the data that is used to represent all the value in the series. Since an average is somewhere within the range of the data, it is also called a measure of central value. Average value is obtained by adding together all the terms and dividing this total by the number of items. The formula is given below:

$$\bar{X} = \frac{X}{N}$$

Where,

$$\begin{aligned}\bar{X} &= \text{Arithmetic average,} \\ X &= \text{Sum of value of all term and} \\ N &= \text{Number of terms}\end{aligned}$$

3.5.2 Growth rate

$$D_1 = D_0 (1+g)$$

Where,

$$\begin{aligned}D_1 &= \text{expected cash dividend or next year} \\ D_0 &= \text{current annul cash dividend} \\ G &= \text{growth rate}\end{aligned}$$

3.5.3 Standard deviation

The standard deviation is the measure that is most often used to describe variability in data distributions. It can be thought of as a rough measure of the average amount by which observations deviate on either side of the mean. Denoted by Greek letter σ (read as sigma), standard deviation is extremely useful for judging the representatives of the mean. Standard deviation is represented as:

$$\exists = \sqrt{\frac{(X Z \bar{X})^2}{N Z 1}}$$

Where,

\exists = Standard deviation,

$\phi(\varepsilon - \bar{X})$ = Sum of the squares of the deviations measured from the arithmetic average, and,

N = Numbers of items

3.5.4 Coefficient of Variation

The coefficient of variation is the ratio of standard deviation to the mean for a given sample used to measure spread. It can also be thought of as the measure of relative risk. The larger the coefficient of variation the greater is the risk relative to the average. Mathematically,

$$C.V = \frac{\dagger}{\bar{X}}$$

Where,

C.V = Coefficient of variation,

\exists = Standard deviation, and,

\bar{X} = Arithmetic average

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Data presentation and analysis is the crucial part of any research. The main purpose of data presentation is to organize the collected data so that it can be used for interpretation whereas analysis of the data so to change it from an unprocessed form to an understandable presentation. The presentation of the data and its analysis helps to draw valid conclusion. The presentation and analysis of the data are of both primary and secondary nature. The presentation and analysis of secondary data became mandatory owing to the fact that the trend of growth in terms issuance, acquiring, merchant's growth and usage is deemed necessary as all these factors have direct association with the objectives of the concerned study. Thus, growth pattern of different banks of the entire industry and comparative analysis of them is presented and analyzed in order to have deeper understanding of the card business and to meet the objectives of the study. Hence, this part of the thesis mainly focuses on the presentation of the data and its analysis.

4.2 Feature of Credit Cards

Before the data presentation and analysis, as different bank own different credit cards, the features the features they carry are as follows:

1. Feature of Nabil Bank's Cards:

A. Nabil MasterCard Local Credit Card-

- Valid in Nepal and India.
- Can be used for purchase of merchandise/ services or cash withdrawal.

- Accepted in over 500,000 POS terminals and 100,000 ATMs.
- Competitive interest, late fee and services charges.
- No auto debit reversal fee.
- Flexible monthly repayment option of 10% to 100%.
- NO compulsion of maintaining an account with Nabil Bank.
- Flexibility of choosing a convenient payment option.
- Cash Withdrawal up to 90% of credit limit.
- Simplified assessment process.
- Delivery of card within 5 working days (same days, if urgent).
- Interest free credit period of 15 to 45 days
- Validity of the card-1 year.

B. Nabil MasterCard International Credit/Pre-paid Card-

- Valid worldwide except in India & Nepal
- Can be used for purchase of merchandise/services or cash withdrawal.
- Accepted in over 150,000 goods and service sales outlets.
- Issued to USD accountholders of Nabil Bank or issued against passport facility.
- Prepaid card against payment of NPR.
- Payment of 100% of billed amount by due date.
- Competitive interest, late fee and services charges.
- Monthly Interest of 2.25%
- Simplified assessment process.
- Delivery of card within 5 working days (if urgent, same day).
- No auto debit reversal fee.
- Validity of the card 1 year.

C. Nabil visa local credit card-

- Valid in Nepal and India.
- Can be used for purchase of merchandise/services or cash withdrawal.
- Accepted in over 500,000 POS terminals and 100,000 ATMs.
- No auto debit reversal fee.
- Accepted in over 10,000 ATMs.
- Competitive interest, late fee and services charges.
- No compulsion of maintaining an account with Nabil bank.
- Simplified assessment process.
- Flexibility of choosing a convenient payment option.
- Delivery of card within 5 working days (if urgent, same day).
- Validity of the card 2 years.
- Attractive scheme for reversal of card issuance fee.

(Source: www.nibl.com.np)

2. Features of Himalayan Bank's credit card:

Himalayan Bank visa/MasterCard credit cards.

“Credit card reward program” scheme applicable for all Himalayan bank visa/MasterCard domestic credit cardholders.

- The point is earned only for purchase transactions.
- Any interested individual can purchase credit card which can be used at any Visa ATM or merchant outlet within India & Nepal.
- The specialty of this product is that the Customer do not need to maintain an account with HBL
- The point earned by the cardholder will be reflected in the monthly card statement which is delivered to the cardholder.

- HBL will provide the eligible cardholders free Visa Pre-paid Gift Card worth NPR 1,000/-(with two years validity and net of taxes) after cardholder accumulates 1,000 points in their account within 6 months from the implementation of this program.
- This pre-paid gift card can be used by the cardholder himself/herself or gift to someone else.
- In case the cardholder is not able to accumulate 100 points within 6 months the points earned by him\her will expired after the end of 6 months. Then after, the cardholder will have to earn points in next cycle.
- The reward program is not valid for complementary cardholder and staff.

J) Upcoming Products

- a. Visa Debit Card (Valid in Nepal & India) to all our account holders
- b. Visa International Translucent Card-First of its kind in Nepal
- c. Free Travel Medical Insurance to all our International Card holders
- d. Loyalty (Reward) program for all our domestic credit card holders

(Source: www.hbl.com.np)

(Note: For cardholders, every 100 rupees worth of purchase made through the card, the cardholder gains one point. These points could be redeemed for gifts, select product purchase and even for paying the annual fees. So, every point would be equivalent to one rupee.)

3. **Features of Standard Chartered Bank's credit cards:**

Standard Chartered Bank Nepal Limited (SCBNL) – Visa Classic Card

Features:

Key Features

- Easy to apply
- No need to have account in SCBNL

- Wide acceptance in Nepal and India
- Valid for 2 years
- Additional card for Spouse, Children and Parents with a spending limit per month
- Flexible payment option 5% to 100%
- 100% cash advance facility both in India & Nepal
- Special offers and discounts on usage at various shopping outlets, hotels, restaurants etc.
- Discount of 1% on purchase of fuel worth NPR 500/- & above from select Merchant outlets.
- Reward points on retail purchases (except quasi cash transaction)
- E-Statement service, I-Banking service.
- 24 hours service at ATMs
- Payment facility through ATM: Account transfer and Cash deposit
- SMS Balance, Due Account, Due date, etc inquiry service
- Special offers and discounts on usage at various shopping outlets, hotels, restaurants etc.

Income Criteria

For Salaried Applicants:

- NPR 8,000 per month

For self employed and other (rental income etc) applicant

- NPR 10,000 per month

Blue Book Scheme

- Private Vehicle registered in the name of applicant

Land Ownership Certificate

- Land with house not financed by any financial institution

For Account holder of SCBNL

- Against lien in saving or current or fixed Account
- Average balance in Saving and Current Account
- Documents Required
- Identification
- Copy of Citizenship
- One latest passport size photo

For Salaried

- Salary certificates in the Company's letterhead addressed to Standard Chartered Bank Nepal Limited (At Least 2 Years of Service)
- Copy Of Citizenship & Latest Photograph

For self employed

- Copy of registration document/s
- Copy of PAN\Vat
- Financial Statement
- Business in operation for 3 years
- Latest income Tax Return and management prepared and/or audited accounts
- Memorandum and Articles of association (for PVT co.)
- Copy of Citizenship & Latest Photograph

Others:

- Copy of Blue Book
- Copy of Land ownership certificate
- Lease agreement valid for at least 1 year (against rental income)

Discount at Merchant Outlets

- 5% discount on purchase of air tickets from Buddha Air outlets
- Discount offered at Various Merchant outlets as per discount booklet published by the bank

(Source: www.scbnl.com.np)

4. Features of Nepal Investment Bank's credit cards:

- Simple to pay for goods & services purchased
- Convenience
- Replacement
- Used incase of emergency
- Useful for travelers
- Real credit
- To use Nepal & India
- Valid for 2 years
- Additional card for spouse, parent and child

Documents required

- Salary certificate (if salaried)
- Financial statements (if self employed)
- Copy of citizenship/passport
- Recent photo
- Duly signed debit authority
- Corporate guarantee(if required)

(Source: www.nibl.com.np)

4.3 Presentation and Analysis of Secondary Data

4.3.1 User Trend of Credit Card Business

The credit card business is used in Nepalese market for several years. Hence the user of credit card is substantially low. The following table the number of credit user of sample banks for the past 5 years.

Table 2
User Trend of Credit Card Business

Year	NABIL	HBL	SCBNL	NIBL
2007-2008	7785	8200	6958	2314
2008-2009	8485	9000	7654	2545
2009-2010	9250	9900	8419	3080
2010-2011	10100	10900	8030	3388
2011-2012	11000	12000	8280	4325
Growth Rate	9%	10.09%	3.11%	27.66%
Average	9324	10000	7868.20	3130.40
Standard Deviation	1273.68	1504.99	585.98	791.39
Coefficient of variation	13.66%	15.05%	7.48%	25.28%

(Source: Consolidated minute of Nepal Card Forum, 2007/08-2011/12)

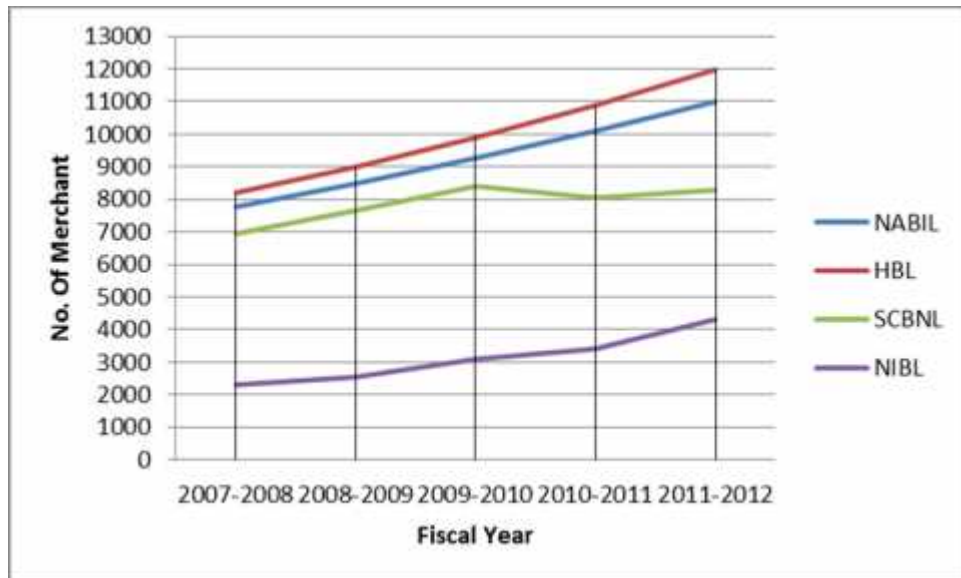
The above table and figures show the trend of Card user of different banks in different years from 2007-2008 to 2011-2012 Among the sampled banks NABIL, HBL, SCBNL and NIBL have 9%, 10.09%, 3.11% and 27.66% respectively. Analyzing these figures, NIBL has the highest and SCBNL has the lowest growth rate.

The average number of users of NIBL, HBL, SCBNL and NIBL are 9324, 10000, 7868.20 and 3130.40 respectively. HBL has the highest and NIBL has the lowest average number of user among sampled banks.

Standard deviations of NABIL, HBL, SCBNL and NIBL are 1273.68, 1504.99, 585.98 and 791.39 respectively. It shows that the volatility of card user trend of HBL has the highest and SCBNL has the lower volatility among four sample banks.

The coefficient of variation of sampled banks NABIL, HBL, SCBNL and NIBL are 13.66%, 15.05%, 7.48% and 25.28% respectively. While analyzing those figures, SCBNL have the lowest and NIBL has the highest risk.

Figure 1
Users Trend of Credit Card Business of Banks



Based on the figure -1, it shows the NIBL has the highest growth rate in term of the user trend of card business. HBL has the highest number of user trend of credit card business among four banks and remaining other banks have not the bad result too.

4.3.2 Merchant Trend of Credit Card Business

The acceptance infrastructure plays a vital role in the boosting Card business. In fact, it is the engine encouraging people to avail the cards as there will be more and more place to use them. In other words, it encourages people to use the card and facilities in payment. The following table shows the merchant trend of Credit Card Business.

Table 3
Merchant trend of Credit Card Business

Year	NABIL	HBL	SCBNL	NIBL
2007-2008	1520	977	3858	
2008-2009	1654	456	4494	382
2009-2010	1512	715	4532	631
2010-2011	1593	830	4596	750
2011-2012	1635	1021	4678	903
Growth Rate	2.64%	23.01%	1.78%	20.40%
Average	1582.80	799.80	4431.60	666.50
Standard Deviation	64.91	227.28	328.15	219.93
Coefficient of variation	4.10%	28.42%	7.40%	33.01%

(Source: Consolidated minute of Nepal Card Forum, 2008/09-2010/11)

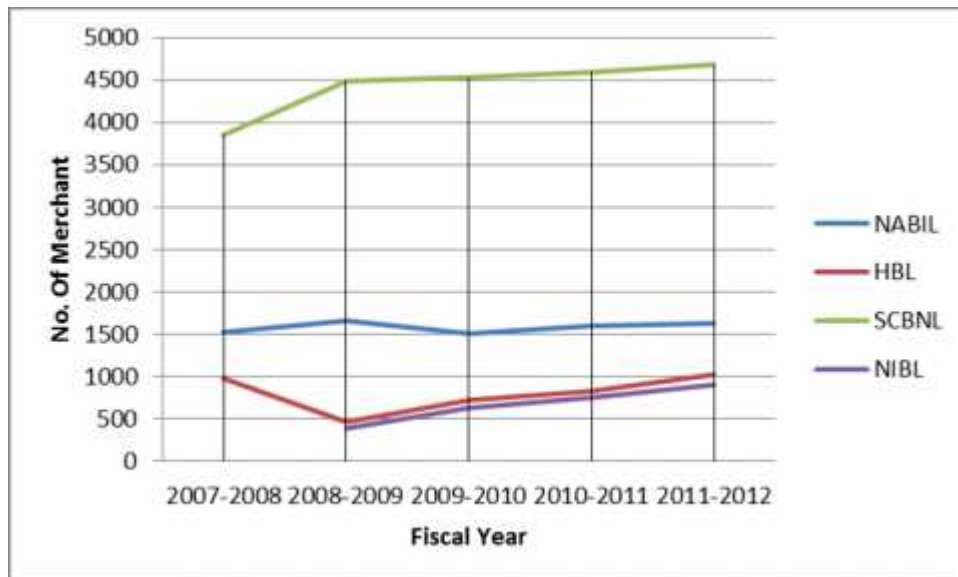
The above the table and under the figures show the trend of Card user of the merchant in the different banks in different years from 2002-2003 to 2006-2007. Among the sampled banks, NABIL, HBL, SCBNL and NIBL have 2.64%, 23.01%, 1.78% and 20.40% respectively. Analyzing these figures, NIBL has the highest SCBNL has the lowest growth rate.

The average number of merchant of NABIL, HBL, SCBNL and NIBL are 1582.80, 799.80, 4431.60 and 666.50 respectively. SCBNL has the highest and NIBL has the lowest average number of merchant among sampled banks.

Standard Deviation of sampled banks NABIL, HBL, SCBNL and NIBL are 64.91, 227.28, 328.15 and 219.93 respectively. It shows that the volatility of merchant of SCBNL has the highest and NABIL has the lower volatility as compared to other banks.

The coefficient of variation of NABIL, HBL, SCBNL and NIBL are 4.10%, 28.42%, 7.40% and 33.01% respectively. Analyzing those figures NABIL has the lowest risk and NIBL has the highest risk factor.

Figure 2
Merchant Trend of Credit Card Business of Bank



Considering figures 2, SCBNL has the highest number of merchant among four sampled banks. Similarly SCBNL and NIBL have positive increase in merchant trend of Credit Card Business. The positive of NABIL and HBL is satisfactory.

4.3.3 Acquiring Trend of Credit Card

Acquiring volume refers to the usage rate of Credit Card. In Nepalese market the number of merchant is few but usage of card is increasing. The following tables show the acquiring volume of different banks.

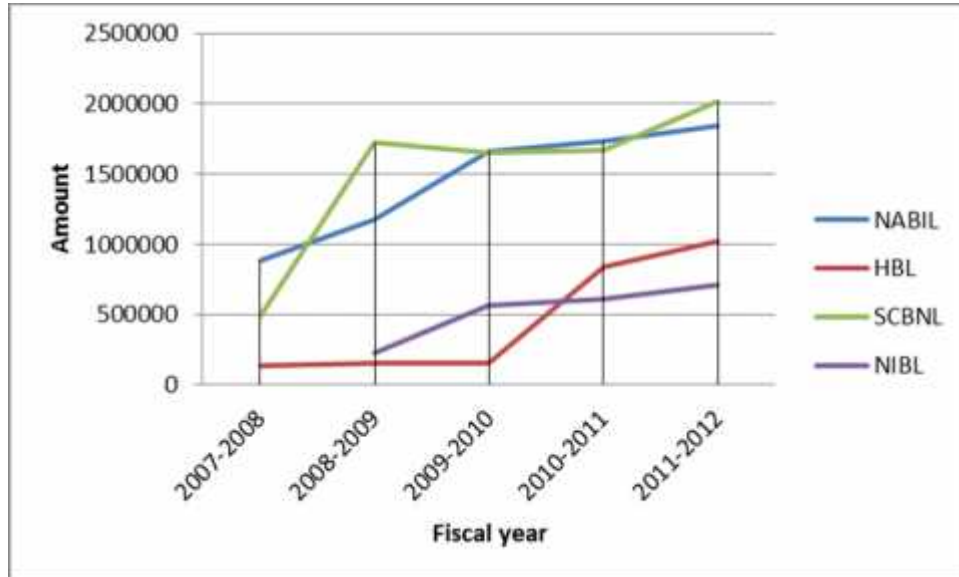
Table 4
Acquired Volumes of Different Banks

Year	NABIL	HBL	SCBNL	NIBL
2007-2008	881798	137780	494123	
2008-2009	1177565	156696	1724723	226057
2009-2010	1661864	149690	1653158	566568
2010-2011	1732936	836718	1667031	609854
2011-2012	1841235	1025521	2013492	712946
Growth Rate	6.25%	22.56%	20.78%	16.90%
Average	1459080	461081	1510505.4	528856.25

(Source: Consolidated minute of Nepal Card Forum, 2007/08-2011/1)

Figure 3

Acquired Volumes OF Different Banks in Different Year



The above table and figure shows the acquiring volumes of different banks. The growth rate of NABIL, HBL, SCBNL and NIBL are 6.25%, 22.56%, 20.78% and 16.90 respectively. HBL has the highest and NABIL has the lowest growth rate among the sampled banks.

The average acquired volume of NABIL, HBL, SCBNL and NIBL are 1459080, 461081, 1510505.40 and 528856.25 respectively. SCBNL has the highest and HBL has the lowest acquired volumes among four banks.

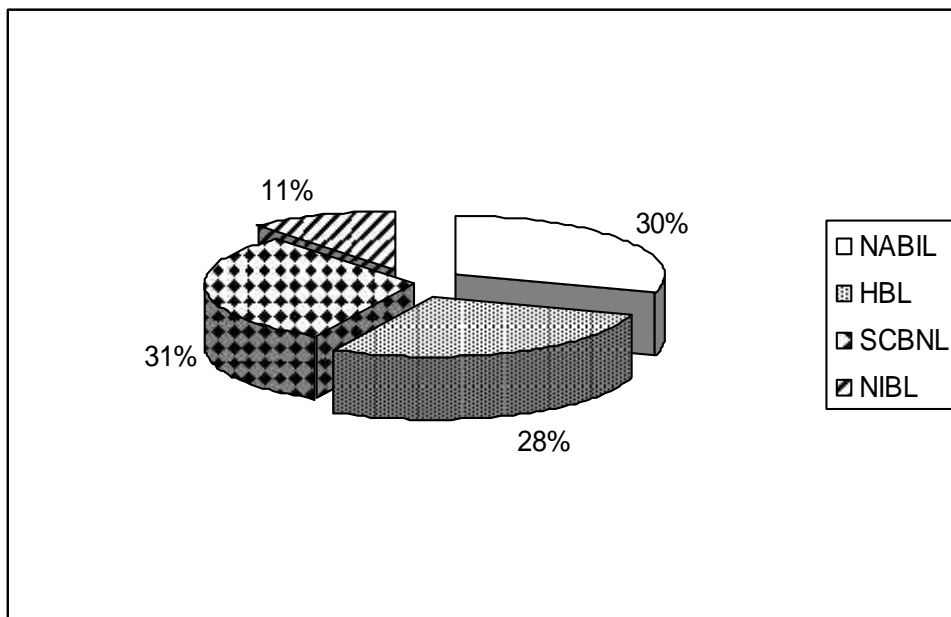
The above figure 5 shows the SCBNL has the highest acquired volumes among four banks. On the hands, HBL has the highest growth rate in card business. NABIL and NIBL are doing their business in slow motion.

4.3.4 Present Market Share Hold by Different Banks

In the context of Nepalese credit card business four banks NABIL, HBL, NIBL and SCBNL are involved. In the following chart, market share of sampled banks are presented in case of card holder and merchant.

Figure 4

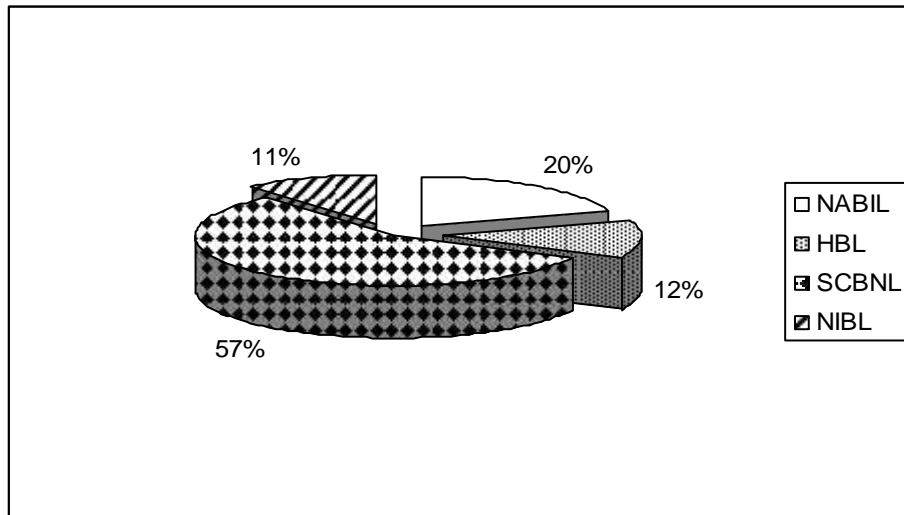
**Market Share of No. of Cardholders hold by Different bank
For year 2011-2012**



The above chart shows the market share of different banks involved in card business. In case of number of card holder or issuance market (figure-4) NABIL, HBL, SCBNL and NIBL HOLD 30%, 28%, 31% and 11% market share respectively. SCBNL has the highest percentage and NIBL has the lowest percentage share among four banks.

Figure 5

**Market Share of No. of Merchant hold by Different bank
For year 2011-2012**



In case of merchant (figure-5) NABIL, HBL, SCBNL and NIBL hold 20%, 12%, 57% and 11% market share respectively. SCBNL has the highest percentage and NIBL has the lowest percentage share among four banks.

In the both conditions issuance and merchant, SCBNL has the highest and NIBL has the lowest market share. Hence all three banks are lagging behind in card business in comparison to SCBNL.

4.4 Presentation and Analysis of Primary Data

4.4.1 Response from Authorized Staff of Credit Centre of Different Banks

Though the Credit Card business of different banks regarding growth risk market share etc has clear with the help of Secondary Data. The knowledge about Credit Card business is still for that particular reason. The primary data has been collected from the authorized staff of Credit Center of different banks which assist in understanding the Credit Card business. Therefore it is imperative to assess the

banks perspective in order to enrich our knowledge pertaining to the present status of credit card in Nepal Table below depicts the Analysis of the responses received:

Table 5
Growth Trend of Credit Card

Growth	Response			
	NABIL	HBL	SCBNL	NIBL
Very High				✓
High		✓	✓	
Average	✓			
Low				

According to above table-5, NIBL has very high growth trend of credit card. Similarly HBL and SCBNL have high growth trend and NABIL has average growth trend of credit card. In this respect, it can be said that NIBL has good growth trend of credit card in comparison to other banks.

Table 6
Types of Credit Cards Issued

Types	Response			
	NABIL	HBL	SCBNL	NIBL
Visa Card			✓	
Master Card				
Own Bank Card				

As per above table 6 as SCBNL has issued large volume of credit cards, among those “visa card” is the credit card mostly issued by it.

Table 7
Mostly Issued Cards

Types	Response			
	NABIL	HBL	SCBNL	NIBL
Credit Card			✓	
Debit Card	✓	✓	✓	✓
Smart Card				

Based on above table 7, the type of card mostly issued by banks is debit card but the SCBNL has also issued large volume of credit cards.

Table 8
Services to Card Holders

Services	Response			
	NABIL	HBL	SCBNL	NIBL
Credit Availability				
Low Interest Rate				
Cash Advance Service				
All of them	✓	✓	✓	✓

It is said that “If the bank keeps his customers happy, the customers keep the bank in business.” Hence services been offered to customers play an important role in enhancing the business. Happy customers mean more business. As per above table 8, all above mentioned banks offer all mentioned services to their customers. Beside these services SCBNL also offers other services such as reward points, installment loan and special discount.

Table 9
Rate of Cost Charged by Banks

Cost Charge	Response			
	NABIL	HBL	SCBNL	NIBL
Very High				
High				
Average	✓		✓	✓
Below Average		✓		

According to above table 9, the rate of cost charged by NABIL, SCBNL and NIBL is average but HBL is below average rate of cost charged.

If the bank charge high cost along with necessary cost or additional cost, the number of cardholders using the credit card will be automatically less which can affect the profitability of the banks.

Table 10
Terms and Conditions Rating

Terms and Conditions	Response			
	NABIL	HBL	SCBNL	NIBL
Very Complex				
Complex				
Simple	✓		✓	✓
Very Simple		✓		

As per above table 10, the terms and conditions of all above banks are simple.

Simple and understandable terms and conditions along with benefit scheme can attract lots of customers in using a credit card. Lengthy process and strict policies for credit card issuance can discourage the people in using the credit card.

Table 11
Users of Credit Cards

Users	Response			
	NABIL	HBL	SCBNL	NIBL
Doctor		✓		
Engineer		✓		
Teacher	✓	✓		
Businessman		✓		✓
All of above	✓		✓	
Others				

There are different banks in the market offering various services. It has different strategies and different target group.

As per above table 11, NABIL and SCBNL have all types of customer using credit card. HBL's credit cards are mostly used by Teacher, engineer, businessmen and doctors and NABIL's credit cards are mostly used by businessmen and teacher.

Table 12

Bank's satisfaction level in use rate of Credit Cards

Bank's Satisfaction Level	Response			
	NABIL	HBL	SCBNL	NIBL
Highly Satisfaction		✓		
Satisfied	✓		✓	✓
Dissatisfied				
Completely Dissatisfied				

Use rate of credit card will not increase and unless and until public are informed by the banks in order to capture a wider market share. To be satisfied with the use rate of credit card by the cardholders, various forms of media can be used to inform the type's credit card and their respective benefits.

As per above table-12, the level of satisfaction of NABIL, SCBNL & NIBL is regard of user of credit cards by customer is satisfying, where as level of satisfaction of HBL is high.

Table 13

Mostly Faced Problems

Problem	Response			
	NABIL	HBL	SCBNL	NIBL
Loss of Card				
High Cost			✓	
Non -repayment		✓		✓
Others			Statement related issues	

According to above table-13 HBL & NIBL faces non-payment problem the most. NABIL don't face any problem, where as SCBNL faces High cost and problems related statement.

Table 14
Non-repayment Problems

Problem	Response			
	NABIL	HBL	SCBNL	NIBL
Very High				
High		✓		
Average				✓
Low			✓	

As per above table-14, non- repayment problem of HBL, NIBL and SCBNL are high, average and low respectively.

Table 15
Adoption of Promotional Tools

Promotional Tools	Response			
	NABIL	HBL	SCBNL	NIBL
Advertising				
Quality Services				✓
Attractive Schemes				
All of Above	✓	✓	✓	
Others				

According to above table-15 NABIL, HBL and SCBNL are adopting all the mentioned tools for promotion of credit cards. NIBL is adopting quality service for the promotion of credit cards.

Despite of being small in market, the card industry of Nepal is very competitive. So in order to gain competitive advantages, different promotional tools are being provided on the card by different banks so that the customers have power over.

4.4.2 Response from Questionnaires

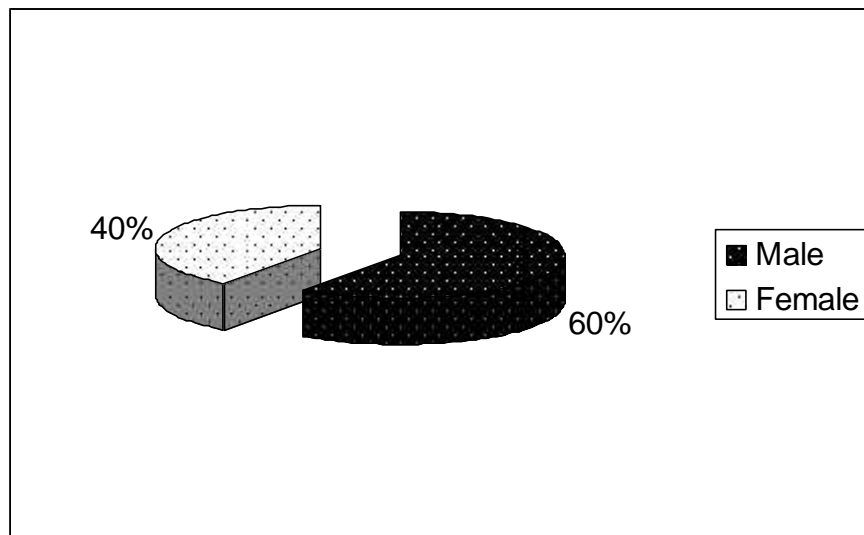
In this section, the primary data is analyzed. The primary data has been collected through the questionnaire to the customers. As this research is related to credit cards about their view regarding the following questions. (In annex I&II)

Q.N.1 Personal Information

The same size was 40 customers and one each per bank with the authorized staff of different banks.

Q.N.2 Gender

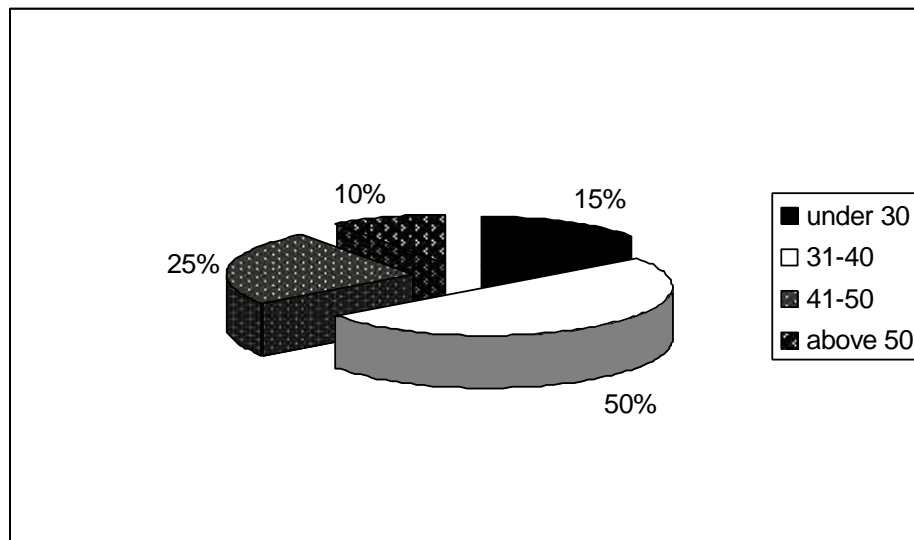
Figure-6
Gender Distribution of Customers



Above figure 6 shows that among the 40 respondents, 60% is male and 40% is female.

Q.N.3 Age

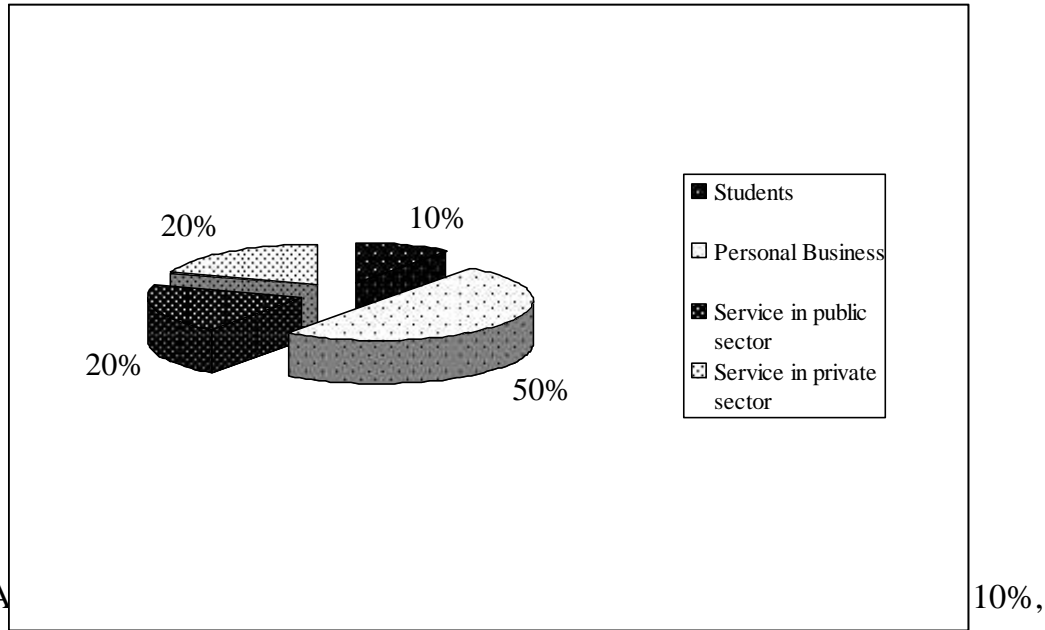
Figure-7
Age of customers



As per above figure-7 shows that among the 40 respondents, age of above 50 is 10%, age between 41-50 is 25%, age 31-40 is 50% and whereas under 30 age the percentage of user is of 15%.

Q.N.4 Occupation

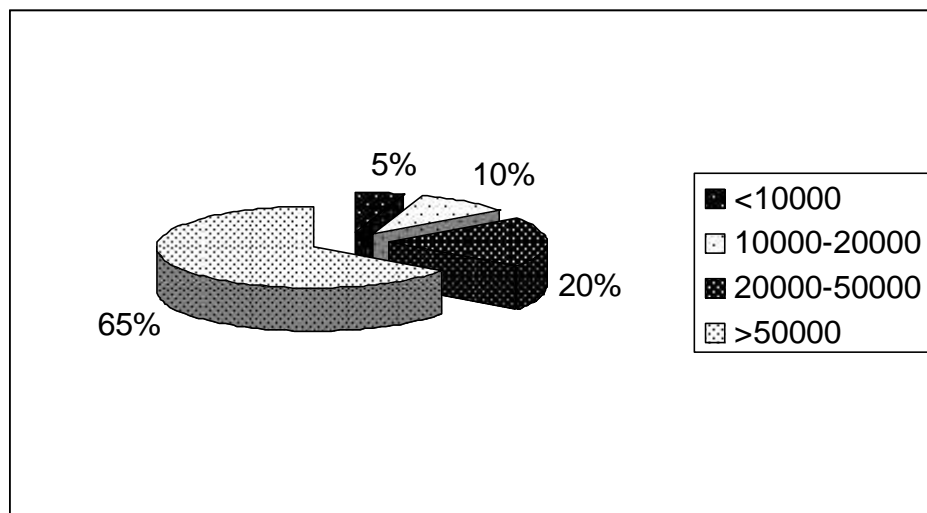
Figure-8
Occupation Distribution of Customers



personal business hold 50%, service in public sector hold 20%, and service in private sector hold 20%.

Q.N.5 Personal Monthly Income

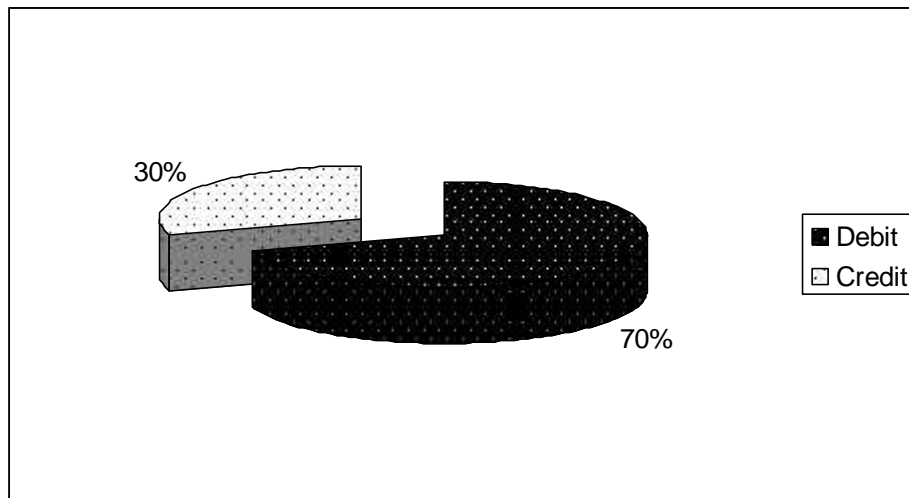
Figure-9
Income Distribution of Customers



According to the Figure 9 shows that among the 40 respondents, less than 10000 income holding customers, the percentage is only of 5, 10000-20000 the percentage is 10, 20000-50000 the percentage is of 20 and more than 50000 the percentage of cardholders are of 65.

Q.N.6 Kinds of Credit Card

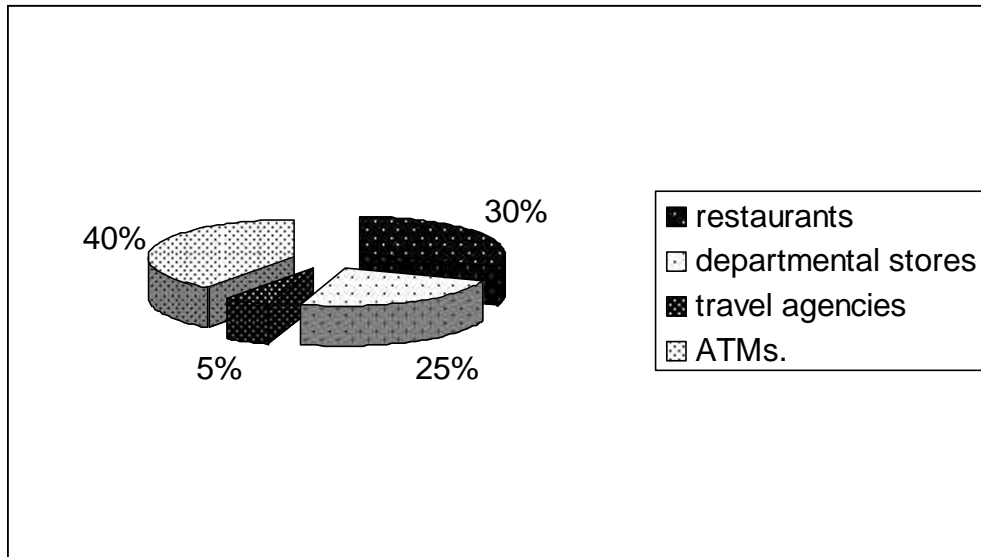
Figure-10
Kinds of Credit Card



As per above figure-10 shows that among the 40 respondents, most of people use debit card in present condition so 70% use debit card and 30% use credit card.

Q.N.7 Usually Use of Credit Card

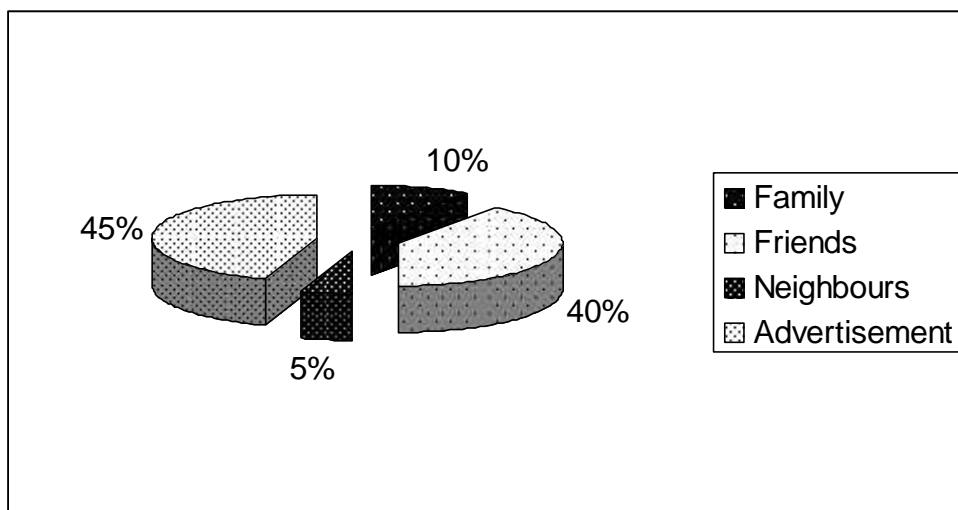
Figure-11
Use of Credit Card



Among 40 respondents, in the Figure 11 shows that people usually use credit card 30% of restaurants, 25% of departmental stores, 5% of travel agencies and 40% of ATMs.

Q.N. 8 influence of credit card

Figure-12
Influence to Use of Card

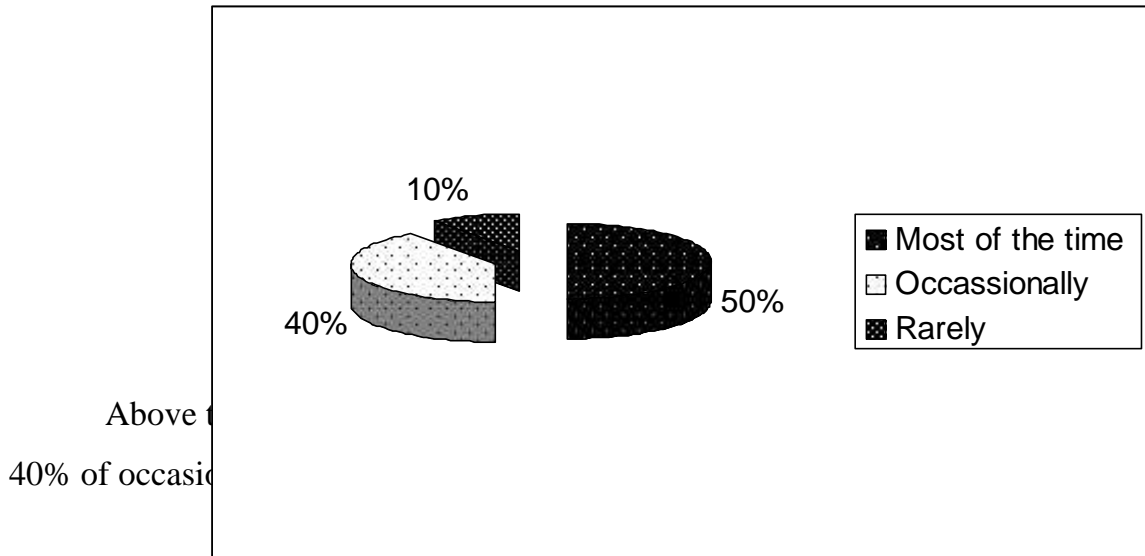


From the above pie-chart, most of people influence from advertisement which is 45% in this way 5% of neighbours, 40% of friends and 10% of family.

Q.N. 9 Frequency of Usage of Credit Card

Figure-13

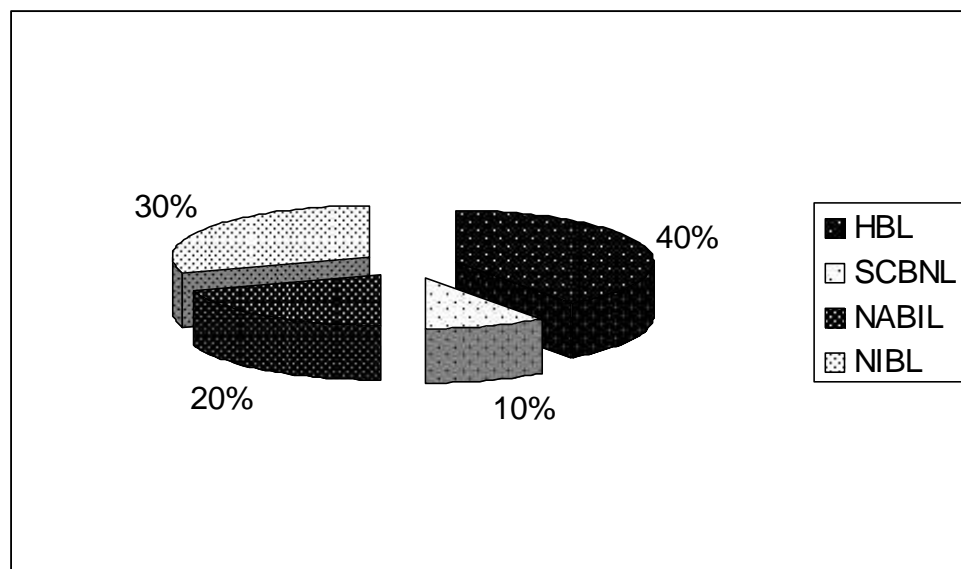
Frequency of Usage of Credit Card



Q.N.10 Preference of Usage of CC

Figure-14

Preference of Usage of CC

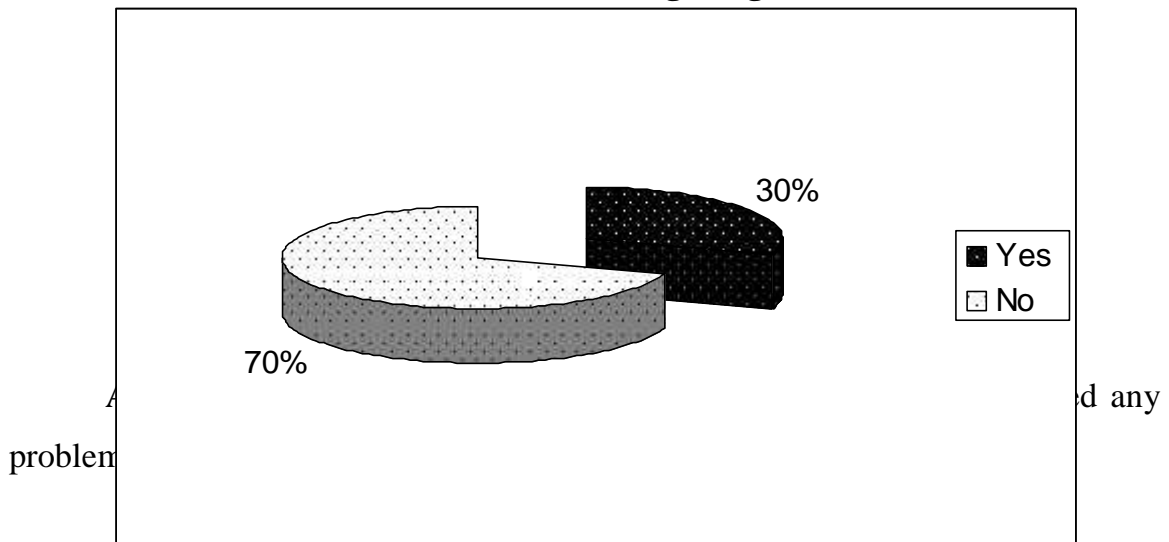


As per figure 14, most of customers have NIBL's card which is 30%, 20% of NABIL, 40% of HBL and 10% of SCBNL. We can easily say that NIBL has highest percentage and SCBNL has lowest percentage of card.

Q.N.11 Problems Faced During Usage CC

Figure-15

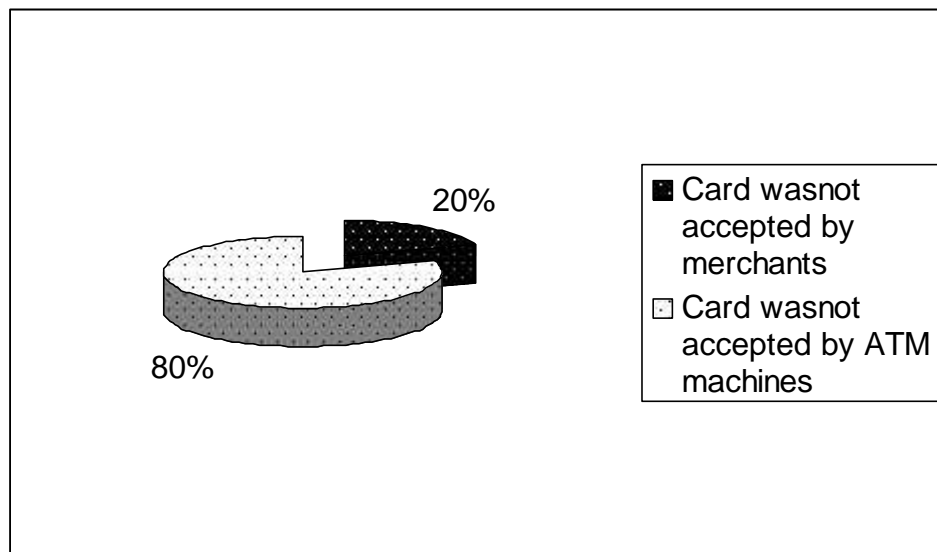
Problems Faced During Usage CC



Q.N. 12 Most of People Faced the Problems

Figure-16

Most of People Faced the Problems



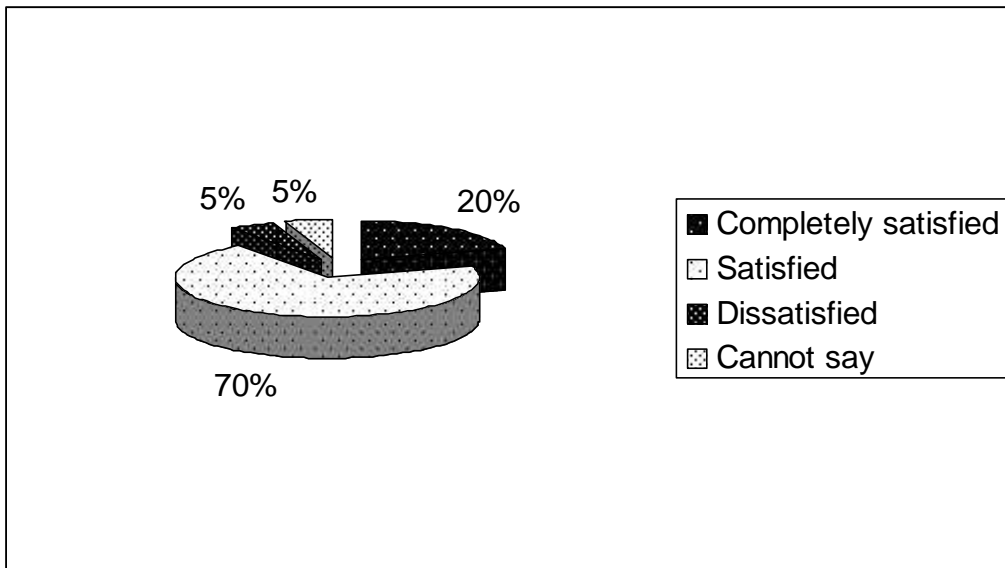
An efficient way of using a credit card fully depends upon the understanding all the terms and conditions of the credit card. If the customers are not aware of the terms and conditions of the card they may face problems with their card during usage. In such condition they either have to go to card centre or have to call at the card centre to seek the help in order to solve the problems.

Based on above figure-16, card wasn't accepted by merchants of 20% and card wasn't accepted by ATM machines of 80% most of the times customers faced the ATM machines.

Q.N. 13 Customer Service of the Card Division

Figure-17

Customer Service of the Card Division

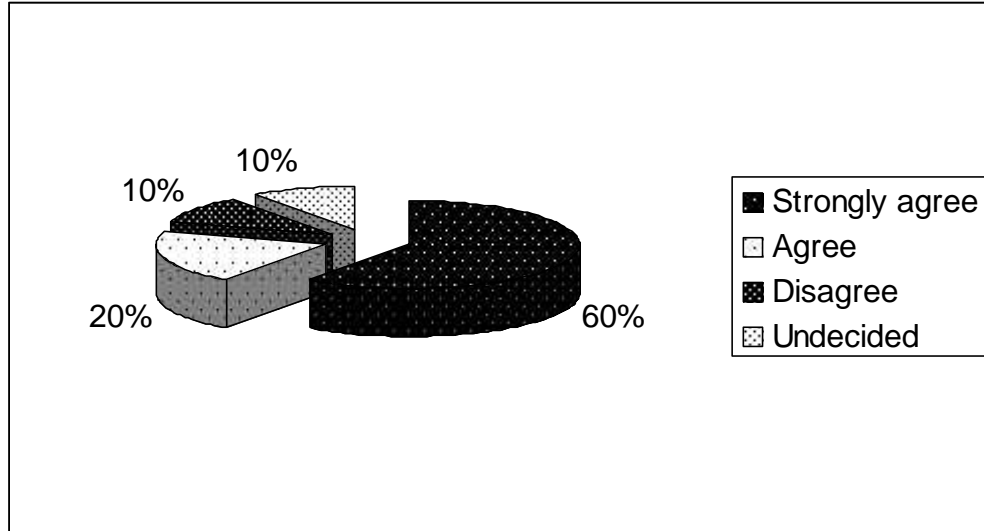


Above the figure depicts, 70% of satisfied, 210% completely satisfied, 5% of dissatisfied and 5% of cannot say.

Q.N. 14 CC Adds Value in Social Status

Figure-18

CC Adds Value in Social Status

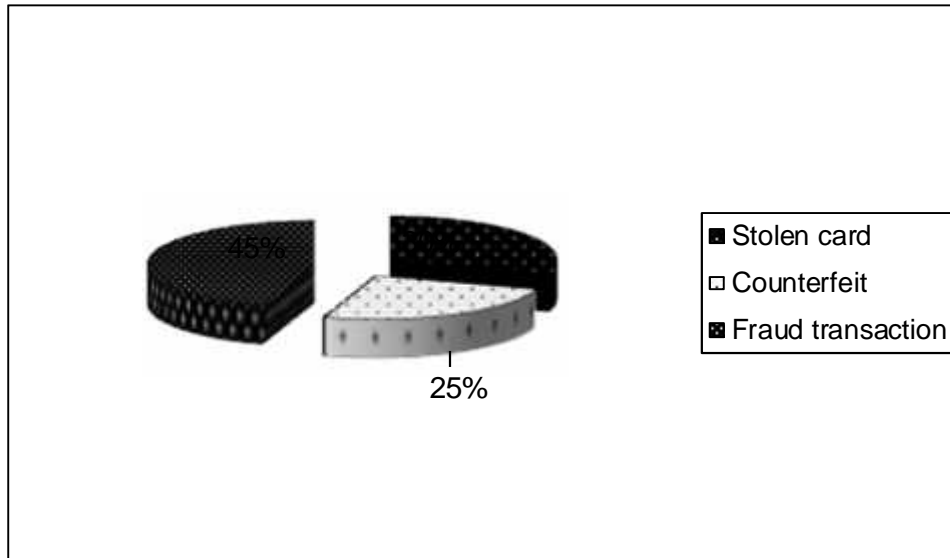


According to the above figure-17, out of 40 respondents, 60% of customers are strongly agree, 20% of customers are agree, 10% of customers are disagree and 10% of customer are undecided decision about carrying credit card which adds value in our society.

Q.N.15 Fraud Case in Credit Card

Figure-19

Fraud Case in Credit Card

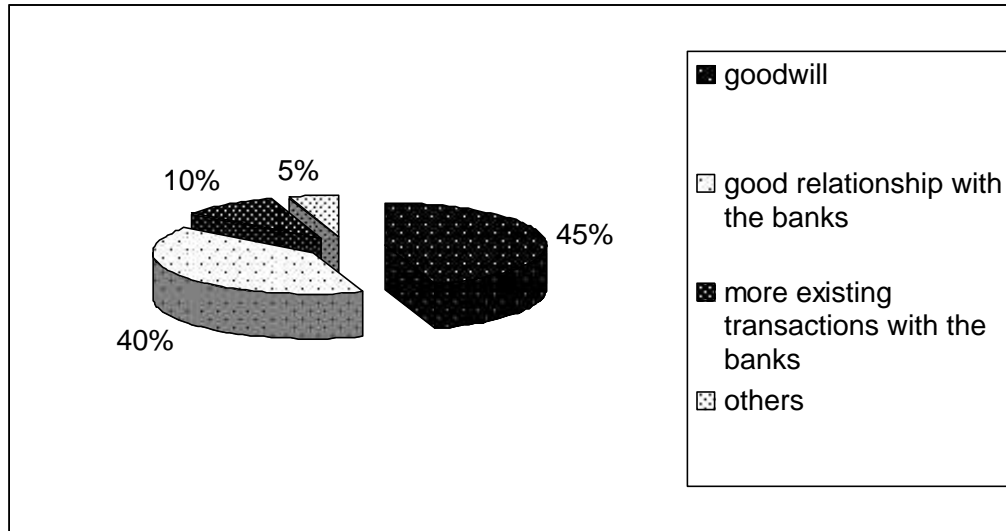


In Nepalese people don't know about fraud case in credit card but outside Nepal it appends so many cases. In our condition 45% of fraud transaction, 30% of stolen card and 25% of counterfeit.

Q.N. 16 Selecting Different Banks

Figure-20

Selecting Different Banks



Based on the above figure-19, out of 40 respondents, 45% of goodwill, 40% of good relationship with the banks, 10% of more existing transactions with the banks and 5% of others.

Not all credit cards are equal so when compare credit card offers it can be challenging. Additionally, what is the best for one person may not be best for another? When considering which credit card is best, one consider and look at several factors, such as: the membership fees, interest rate, annual fees, rewards programs, member benefits and other card member services.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Most of the frequent travelers who visit abroad have encountered much bitter experience in nation like United Kingdom, United States of America and Singapore etc. with out a card. In most of the big hotels and restaurants of the developed nations, credit card holders are materialistically valued more than those who produce hard cash. In many cases hotels even hesitate to check-in those without payment cards and a non-card checking is a sort of favor to the great after intense negotiation in regard to the creditworthiness of the people checking in without card. And in same situations, a huge deposit is needed which sometimes invite unfavorable circumstances during the whole trip. Credit cards are not only used to make purchase but a gamut of other services is also available to name a few are cash advances, making a utility payments, securing all the security data, privilege award etc. and most importantly, above all, it is very helpful to manage with emergency situation.

There are lots of advantages associations with different parties of credit card. The main advantage is for the cardholders who can buy goods and services without paying cash and it also minimizes the risk associated with carrying money like loss of money, pick pocketing etc and also offers many discount and award schemes. From a merchant's point of view, it will increase the sales of the merchant, as credit card holders cannot buy from the stores who have not been approved by the acquiring bank. Though, sales through credit card being a kind of credit sales, it guarantees for prompt payment in comparison to general credit sales.

Even though credit card has many advantages, the card business in Nepal has not gained its momentum as it has in other nations. Credit card business prospers in a volume driven nation where consumer financing plays a vital role to boost the economy of the nation. As stated earlier Nepalese population have not yet developed their banking habit, they are mostly happy with hard cash and in most of cases, even our highly educated ones, do not at all have the sagacity regarding credit cards. Another important factor, which has constrained card business in Nepal, is the acceptance infrastructure. Most of the merchants are departmental stores, travel agencies, big hotels, etc: most of which caters the needs of tourist and higher\higher middle class people. Nepalese people are still scared of marketing in the sophisticated departmental stores, travel agencies and big restaurants. Cards are not accepted at those places where most of the fixed income earner goes for shopping such as Arson, fancy stores, our local grocery store (Kirana Pasal) etc. Again unlike other nations, cards in Nepal cannot be used for making payments for regular expenses such as utility fees, school fees, membership fees etc though bank has started online banking and acting as agents for utility payment collections in money. Hence, acceptance structure is an important factor and in Nepal's case, lack of adequate acceptance is one of key factor which has hindered the growth of card business.

Another key factor in Nepal is that the acquiring business is very much dependent on the quality and quantity of tourist arrival in Nepal in the absence of adequate local market, which for the past few years have significantly slumped owing to happenings of many detrimental events such as the Royal massacre, the Hrithik Roshan riot, the ever prolonged Maoist insurgency, madhesi strikes, dwindling law and other situation, regular band has, manpower riot and most importantly political instability and economic insecurity. Our economy is not being to able generated enough business due to these. Banking and financial sector

seems saturated at the moment; insurance sector is also struggling though the future looks promising. Hotels are on slump due to low tourist arrivals and no new and sustainable projects seem to appear at this point of time. And to add to all these, people are keeping their money idle at banks and investing on real estates, shares and conspicuous consumption and not spending much at the outset of such doldrums and hence, the card industry is not being able to generate enough income for themselves to boost their bottom line figure.

5.2 Conclusion

In the context of globalization and modernization each country has enough opportunities to develop its economy and citizen of the nation. But due to different direct and indirect factors, Nepalese economy is lagging behind. In the present world, there are various new advancement is applied like credit card but in context begin in the world. In Nepal more than 15 years ago credit card business started. Since that period, it has faced various circumstances even though it is moving ahead. In card business, just four commercial banks NABIL, HBL, SCBNL and NIBL are involved. User trend of credit card growth rate of sampled banks found positive with HBL as 1st position, NABIL as 2nd position, SCBNL as 3rd position and NIBL as 4th position. Likewise merchant trend of the credit card business growth rate of all four banks are positive where SCBNL is 1st, NABIL is 2nd, HBL is 3rd and is NIBL 4th position.

Acquired volumes of different banks growth are also positive where SCBNL occupies 1st position, NABIL 2nd position, HBL 3rd position and NIBL 4th position. Among the sampled banks, NABIL, HBL, SCBNL and NIBL are 2nd, 3rd, 1st and 4th position respectively on the basis of market share hold by them in the year 2011\2012. Being a new means of payment, it is going popular because the user's trend is in increasing trend. All the banks have increasing number of

cardholder and merchant that shows in the future, card business may play vital role in financial sector. In Nepal card industry is in increasing trend, it is moving ahead; in aggregate card business is in increasing trend, so all above factor shows the optimistic condition of card business in future.

As per the analysis, of the authorized staff of different banks, growth trend of credit card is high and they are satisfied with the use rate of credit cards by the cardholders. Likewise, as per the analysis out of 40 cardholders 30% cardholders rate the cost charged by their banks is high. Since most of the people in Nepal belong to middle and lower class family, they hesitate the annual fee for the card; moreover they make purchase in small grocery shops where credit cards are not accepted.

Various studies reveal that the Credit card business is very profitable and is scarred out in a very monitored and controlled manner. In spite of its high profitability, only four banks are involved in this business among lots if commercial banks running in the country. There us high prospective and growing market for credit card business especially acquiring business. Nowadays, people are being aware of credit card facility and advantages of holding credit card, which is gradually progressing in the industrialization process and increasing income level among the higher and middle class society. So the possibility of other banks and/or financial institutions entering this field should not be ignored.

As far as the performance of different banks in card business is concerned it is under performing owing to many factors-declining tourism and its effect on the acquiring business, emerging aggressive competitors, lack of penetration and habituation in the market, absence of adequate supporting technology etc. our research aimed mainly to assess some of the banks, hence cannot afford to rest on its laurels and should aggressively segment the market and approach each segment

with tailored program, while doing so, certain aspects of its policy might need to be revised or completely eliminated. Action plan based on our recommendations might be considers them to be useful in the long run. Hence all the banks should be clear that card business is profitable if it is carried in a very monitored and controlled manner.

5.3 Recommendation

Nepal too needs to develop the banking habit of its people. We just cannot make any more unsubstantial and detrimentally indigenous excuses. We do not want to be humiliated in the global arena and put ourselves in a very awkward plight by saying “NO” when asked, “Sir, Do you have a Credit Card?” Nepal just cannot isolate itself with the fast moving world, where everything is changing day by day. Payments through cash need to be suppresses. The world is heading towards e-business and in Nepal too, the global forces will shepherd our technology in the same direction. Without payment cards e-commerce is almost handicapped.

Although the business is totally depended on the external factors, which are not under the control of the players itself, every step should be taken to boost the immature local market. It has been seen that issuance business is more profitable than the acquiring business and since acquiring business is mostly depended on the performance of the tourism industry, which itself facing the toughest time, possible effort should be initiated to get our local consumer in the card business by luring them by the associated core benefits of credit cards and introducing more and more attractive schemes and packages.

In present context of modernization and technology age credit card also play vital role in financial as well as personal life. Even though credit card business growing slowly. To move and walk together international or concerned

authorities should think on this topic because there are lots of limitations regarding credit card business. On the basis of the overall study following suggestions and recommendation are provide to the banks and card holders.

5.3.1 Recommendation to the Banks

From the research, it is found that the following strategies and changes should be adopted by the concerned banks to boss the credit card business.

1. It was observed that there is awareness gap in market about the credit card business and its facilities. Few of the consumers were still not aware of the fact that different banks were providing the credit card services. Thus to exploit the awareness gap, all the concerned banks should develop promotional strategies to create awareness in the markets regarding the feature and benefits of credit card as well as other cards offered by the different banks.
2. In our questionnaires distribution to the credit card customers, out of 40 respondents, 70% respondents like the Visa card most. Only 30% respondents preferred Master card. Hence, all the concerned banks should also operate in Master card business by highlighting its banks over travel's cheques in order to capture larger portion of market share because Master card business has a good transaction on Nepalese credit card market.
3. Customer appreciates different schemes, while making payment with the credit cards. According to our research, we found that instant discounts at sales and outlets and bonus point's schemes in credit card can attract customers and can induce them to move through credit cards substituting cash payment.
4. The concerned bank should come up with attractive schemes like low balance, low service charge, addition card, student card etc.

5. They need to promote the credit card, providing more information, highlighting the benefits and uses of the credit card especially to the working class people. For this it can distribute pamphlets and brochures at offices and colleges.
6. Banks should organize the interaction to understand the current problem and prospect which helps interaction between cardholders, merchant and issuers. It helps to know about new scheme, problems and services to all the parties.
7. All the concerned banks should take an initiative to provide some benefits scheme without delay. As the market for cash benefit scheme as well as gift package on credit cards seem to be in high demand, being a pioneer in the introduction of these scheme can provide a bank good chance to increase its market share.
8. As far as cash advance business is concerned, each bank need to install the global ATMs and connect their existing ATMs making them compatible as well as accept the globally branded cards. Cash advance is the most lucrative of the card acquiring business and hence, every effort should be made to boost this market.
9. To increase the card business, merchant play a vital role. It has been observed that the acquiring business of the credit card is fully depended upon the issuance business of the credit card. The credit card business only depends upon the merchant who accept the cards, as people will not invest in the credit card until and unless the merchant accept the cards. So the merchant base needs to be strengthened.
10. Banks should be flexible in relation to credit card's term and conditions, processes and procedures. Since most of the banks adopt strict policies for credit cards issuance, the process is lengthy. It

should be flexible in term types of credit needed for approval, as different customer requires different amount of credit for different purposes. Online accounts access and bill payment service could be another area to look for. However it should make strict polices related to unauthorized spending protection, as customer requires security as well as convenience.

11. According to the research, it was found that about entertainment as well as medical use but like as petrol pumps generally do not accept the credit card. Therefore the concerned bank should be little liberal and associate with new merchants in the respective area to fulfill the demand without any delay and get the market's attention. If this happens, card business takes high speed towards top.
12. Similarly it is also recommended to all the banks that their card business could be one sector, which could help them in increasing their market reputation, as it is able to generate new clients just to acquire card and being satisfied with the services of the card center it could have these customers for deposits and lending in the future.
13. Higher consideration should be given to addressing the complaints of the customers quicker and effectively. This would help in reducing the customer dissatisfaction in the market.
14. The banks should create an effective operating system and interdepartmental networking alone with adequate number of customer service staffs who can provide customers with quality services and product satisfaction. To gain competitive advantage in the market, banks should provide quality, consistent and timely service then that of competitors.

5.3.2 Recommendations to the cardholders

To use a credit card in a better way cardholder should considered these factors:

1. The cardholders should utilize the credit card properly through renew and should take precautions regarding card fraud.
2. According to survey, all the banks provide different types of services such as credit availability, low interest rate and cash advance services. Hence cardholder should be able to grab such opportunities offered by the banks for their own betterment and development.
3. The cardholder should provide correct information about self-financial condition and others.
4. According to the questionnaire distributed among the authorized staff of the card center at different banks revealed that HBL and NIBL face non- repayment problems which is most. Hence cardholder should avoid such problems be regular and timely payment of balance.

The cardholders should utilize the card as a service provided by the banks as other services. So, the cardholder also should cooperate with banks.

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Annex-I

Questionnaire

1. Name:-
2. Gender:- (a) Male (b) Female
3. Age:- (a)Under 30 (b)31-40 (c)41-50 (d)Above 50
4. Occupation:- (a)Students (b)Personal business (c)Service in public sector (d)Service in private sector
5. Personal monthly income:-(a)<10000 (b)10000-20000 (c)20000-50000 (d)>50000
6. What kind of credit card do you have? (a)Debit (b) Credit
7. Where do you usually use your credit card? (a)Restaurant (b)Departmental stores (c) Travel agencies (d) ATMs
8. Who influenced you to use credit card? (a) Family (b) Friends (c) Neighbors (d)Advertisement
9. How often you use credit card to purchase? (a)Most of the time (b)Occasionally (c)Rarely
10. Which bank of credit card do you have? (a)HBL (b)SCBNL (c)NABIL (d)NIBL
11. Have you ever encountered problems during the usage of your credit card? (a) Yes (b)No
12. If yes which type of problems you faced? (a)Card wasn't accepted by merchants (b) Card wasn't accepted by ATM machines
13. How satisfied are you with the customer service of the card division? (a) Completely satisfied (b)Satisfied (c)Dissatisfied (d)Cannot say
14. Do you agree that carrying credit card adds value to your social status? (a)Strongly agree (b)Agree (c) Disagree (d)Undecided
15. Do you have any idea about the fraud case in credit card? If yes which types of fraud case known to you. (a)Stolen card (b)Counterfeit (c) Fraud transactions

16. What were the reasons for selecting a particular bank? (a) Goodwill (b) Good relationship with banks (c) More existing transactions with the bank (d) Others

Annex-II

Your suggestions:

questions	options	respondents	Total respondents	percentage
1	Name:-			
2	a)Male b)Female	30 10	40	75% 25%
3	a)Under30 b)31-40 c)41-50 d)Above51	6 20 10 4	40	15% 50% 25% 10%
4	a)Students b)Personal business c)Service in public sector d)Service in private sector	2 22 8 8	40	5% 55% 20% 20%
5	a)<10,000 b)10,000-20,000 c)20,000-50,000 d)>50,000	2 4 6 28	40	5% 10% 15% 70%
6	a)Debit b)Credit	30 10	40	75% 25%
7	a)Restaurant b)Departmental stores c)Travel agencies d)ATMs	14 8 2 16	40	35% 20% 5% 40%
8	a)Family b)Friends c)Neighbors d)Advertisement	2 14 4 20	40	5% 35% 10% 50%

9	a)Most of the time	20	40	50%
	b)Occasionally	16		40%
	c)Rarely	4		10%
10	a)HBL	8	40	20%
	b)SCBNL	4		10%
	c)NABIL	12		30%
	d)NIBL	16		40%
11	a)Yes	10	40	25%
	b)No	30		75%
12	a)Card wasn't accepted by merchants	8	40	20%
	b)Card wasn't accepted by ATM machines	32		80%
13	a)Completely satisfied	4	40	10%
	b)Satisfied	32		80%
	c)Dissatisfied	2		5%
	d)Cannot say	2		5%
14	a)Strongly agree	24	40	65%
	b)Agree	10		25%
	c)Disagree	2		5%
	d)Undecided	2		5%
15	a)Stolen card	12	40	30%
	b)Counterfeit	10		25%
	c)Fraud transactions	18		45%
16	a)Goodwill	18	40	45%
	b)Good relationship with banks	14		35%
	c)More existing	6		15%
		2		5%

	transactions with bank d)Others			
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Annex-III

User Trend of Credit Card Business

Year	NABIL	HBL	SCBNL	NIBL
2007-2008	7785	8200	6958	2314
2008-2009	8485	9000	7654	2545
2009-2010	9250	9900	8419	3080
2010-2011	10100	10900	8030	3388
2011-2012	11000	12000	8280	4325
Growth Rate	9%	10.09%	3.11%	27.66%
Average	9324	10000	7868.20	3130.40
Standard Deviation	1273.68	1504.99	585.98	791.39
Coefficient of variation	13.66%	15.05%	7.48%	25.28%

Sample Calculation of Growth rate, Mean, S.D & C.V of User Trend of CC Business:

Growth rate:-

$$D_1 = D_0 (1+g)$$

Where,

D_1 = expected cash dividend or next year

D_0 = current annual cash dividend

G = growth rate

For NABIL,

$$11000 = 10100(1+g)$$

$$1+g = \frac{11000}{10100}$$

$$G = 1.09 - 1$$

$$G = 0.09 \times 100$$

$$= 9\%$$

Mean or Average (\bar{X}):-

$$\bar{X} = \frac{X}{N}$$

Where,

\bar{X} = Arithmetic average,

X = Sum of value of all term and

N = Number of terms

For NABIL,

$$\begin{aligned} \bar{X} &= \frac{7785 + 8485 + 9250 + 10100 + 11000}{5} \\ &= \frac{46620}{5} \\ &= 9324 \end{aligned}$$

Standard deviation (σ):-

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

σ = Standard deviation,

$\sum (X - \bar{X})^2$ = Sum of the squares of the deviations measured from the arithmetic average, and,

N = Numbers of items

S.D. =

$$\sqrt{\frac{7785^2 + 8485^2 + 9250^2 + 10100^2 + 11000^2}{5} - 5 \times 9324^2}$$

$$= 1273.68$$

Coefficient of Variation (C.V.):-

$$C.V = \frac{\dagger}{\bar{X}}$$

Where,

C.V. = Coefficient of variation,

\dagger = Standard deviation, and,

\bar{X} = Arithmetic average

For NABIL,

$$\begin{aligned} C.V. &= \frac{1273.68}{9324} \\ &= 0.1366 \times 100 \\ &= 13.66\% \end{aligned}$$

Annex-IV

Merchant Trend of Credit Card Business

Year	NABIL	HBL	SCBNL	NIBL
2007-2008	1520	977	3858	
2008-2009	1654	456	4494	382
2009-2010	1512	715	4532	631
2010-2011	1593	830	4596	750
2011-2012	1635	1021	4678	903
Growth Rate	2.64%	23.01%	1.78%	20.40%
Average	1582.80	799.80	4431.60	666.50
Standard Deviation	64.91	227.28	328.15	219.93
Coefficient of variation	4.10%	28.42%	7.40%	33.01%

Calculation of Growth rate, Mean, S.D & C.V of Merchant Trend of CC Business:

Growth rate:-

$$D_1 = D_0 (1+g)$$

Where,

D_1 = expected cash dividend or next year

D_0 = current annual cash dividend

G = growth rate

For HBL,

$$1635 = 1593(1+g)$$

$$\begin{aligned}
 1+g &= \frac{1635}{1593} \\
 G &= 1.0264-1 \\
 G &= 0.0264 \times 100 \\
 &= 2.64\%
 \end{aligned}$$

Mean or Average (qT):-

$$\bar{X} = \frac{X}{N}$$

Where,

\bar{X} = Arithmetic average,

X = Sum of value of all term and

N = Number of terms

For HBL,

$$\begin{aligned}
 \bar{X} &= \frac{(977+456+715+830+1021)}{5} \\
 &= \frac{3999}{5} \\
 &= 799.80
 \end{aligned}$$

Standard deviation (†):-

$$\exists = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

\exists = Standard deviation,

$\sum (X - \bar{X})^2$ = Sum of the squares of the deviations measured from the arithmetic average, and,

N = Numbers of items

S.D. =

$$\begin{aligned} & \sqrt{\frac{(977-799.80)^2+(456-799.80)^2+(715-799.80)^2+(830-799.80)^2+(1021-799.80)^2}{5}} \\ & = \sqrt{\frac{206630.80}{4}} \\ & = 227.28 \end{aligned}$$

Coefficient of Variation (C.V.):-

$$\text{C.V} = \frac{\sigma}{\bar{X}}$$

Where

C.V. = Coefficient of variation,

σ = Standard deviation, and,

\bar{X} = Arithmetic average

For HBL,

$$\begin{aligned} \text{C.V.} &= \frac{227.28}{799.80} \\ &= 0.2842 \times 100 \\ &= 28.42\% \end{aligned}$$

Annex-V

Acquiring Volumes of Credit Card Business

Year	NABIL	HBL	SCBNL	NIBL
2007-2008	881798	137780	494123	
2008-2009	1177565	156696	1724723	226057
2009-2010	1661864	149690	1653158	566568
2010-2011	1732936	836718	1667031	609854
2011-2012	1841235	1025521	2013492	712946
Growth Rate	6.25%	22.56%	20.78%	16.90%
Average	1459080	461081	1510505.4	528856.25

Calculation of Growth rate, Mean, S.D & C.V of Acquiring Volumes of CC Business:

Growth rate:-

$$D_1 = D_0 (1+g)$$

Where,

D_1 = expected cash dividend or next year

D_0 = current annual cash dividend

G = growth rate

For SCBNL,

$$2013492 = 1667031(1+g)$$

$$1+g = \frac{1635}{1593}$$

$$G = 1.2078 - 1$$

$$G = 0.2078 \times 100$$

$$= 20.78\%$$