

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 General Background**

Bank is an organization, the major function of which is to deal in money and credit. The main business of a bank is to pool the scattered idle deposits in the public and channel it for productive use. It collects deposits and invests or lends to those who stand in need of money. Bank, in other words, is a custodian of money received from the depositors. Hence, its responsibility towards the general public is pretty different than those who are involved in other types of trades and services. Modern day banks exhibit the trait more of a department store with a wide range of financial products to offer.

Banks can be a person, a company or a firm, with a place of business, and must be involved in deposit collection. The business of a modern day bank however is not only confined in borrowing deposits and lending advances only, it performs modern banking with different type of products and activities which has immensely contributed to achieve industrial and commercial progress of every country.

Concise Oxford dictionary defines bank as “A bank is an establishment of the custody of money which it pays out on customer orders”. Banks are the backbone of any economy and possess a significant importance in the development process of any country. It is difficult to give concise and accurate definition of bank. It is so because a modern bank renders various functions. It is difficult to include all those functions in a single and concise definition. Even though, it can be said that a bank is an institution whose business is to trade in money.

Trading in money relates to activities such as taking deposit, granting loans, discounting bills, issuing cheque to be drawn upon and other various functions on behalf of customer. Any institution will be known as bank if it renders all or some of these functions. It is quite impossible to discharge all these functions by a single bank. So they specialize in certain set of functions. Banks are classified on the basis of their functions, which are as follows:

1. Central Bank
2. Commercial Bank
3. Agriculture Bank
4. Industrial Bank
5. Development Bank
6. Finance Company etc.

Commercial Bank Act, 2031 B.S. of Nepal has defined Commercial bank as an institution which exchanges money, accepts deposits, grants loans and performs commercial banking function and which is not a bank meant for co-operative agriculture, industries, hydro power or for such specific purpose. Commercial banks have become heart of financial system as they hold the deposits of millions of people, government and business firms and government. The importance of bank in economic life is greater.

### **1.1.1 Evolution of Credit Cards in Nepal**

Nepal is one of the least developing countries in the world. The economic growth rate of Nepal is very low and the economic development seems to be much sluggish in comparison to other developing countries. The development of economy basically depends upon the development of financial sectors. Banking sector is the main element of financial sectors. So banking sector as earlier is also known as backbone of economy, because it helps to formulate capital by collecting scattered amount among people and invest in different

infrastructure like transportation, health and other basic needs of development in which private sector do not want to invest. Banking business transaction and personal life have become advanced in Nepal too, so nowadays to make easy business transaction, various types of equipments and new techniques are introduced. As a result of this banking sectors and financial institution provide non banking service beside instructed banking service to move towards modernization.

Credit card is one of them. It is one of the highly used and convenient forms of electromagnetic and chief cards that are nowadays available. It has helped to reduce drawbacks of cash payment system and made life easy, tension free, and same as increased the level of standard. In modern day commerce, credit cards have acquired a fairly prominent and pervasive role. With the increasing use of the credit cards, the society is moving towards cashless transactions. It is a plastic card having a magnetic strip or chief, issued by a bank and financial institution which allows the holder to buy goods or services on credit. It is very convenient way of making purchase on credit without carrying cash. The way a normal credit card works is that the cardholder purchase goods by using his /her credit card and the concerned bank pays bill on behalf of card user to the merchant, which provides the product and services. The bank charges certain percentage from the merchant in return for processing the transaction paying the purchased amount less bank's commission to the merchant's account.

Credit card is generally associated with a financial institution or bank. However, the history of credit card business Nepal is associated with a travel agency named Alpine Travel Services private limited which in agreement with Chase Manhattan Bank of Singapore introduced credit card in Nepal. Though it enjoyed monopoly for some time, it was soon broken after Nepal Grindlays Bank (later named Standard Chartered) entered credit card acquiring market. After two years, 1991, Nepal Arab Bank Ltd (Nabil bank) also started the

credit card acquiring business. In the year 1993 November, Nepal Arab Bank issued Master Card and become the first Nepalese commercial bank to issue credit card. After that in the year 1993 November, Himalayan bank limited entered the credit card issuing business with its typical local proprietary card branding "HBL Regular" and "HBL Gold". This brought about competition in small credit card market of Nepal and of course for the better as it reduced the high commission charges that were enjoyed by the pioneers of credit card introducers and improved the quality of service. In Nepal, however, the use of the credit cards is restricted to small value and mostly personal transactions. Today Credit card business in Nepal is provided mainly by five banks; Himalayan Bank, Nabil Bank, NIBL, SCBNL BOK and GBL. All of these banks are both issuer and acquirer.

From the customer's side s/he is given a loan for that amount, generally the banks 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 pay that amount within the time period given by the bank. If the cardholder does not want to pay the full amount, s/he can pay minimum (printed on the monthly statement) or 5 percent of the total expenses, whichever is high, should be paid within 15 days of statement issued date.

All credit cards fit into one of the following three categories.

#### 1) Banks 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 Americans express, Dinners 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.

## **1.2 Statement of the Problems**

The first bank card, named "Charg-It," was introduced in 1946 by John Biggins, a banker in Brooklyn, according to Master Card Charge-It cardholders had to have an account at Biggins' bank .In 1951, the first bank credit card appeared in New York's Franklin National Bank for loan customers. It also could be used only by the bank's account holders. 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, November 1996, issuing business was started by issuing credit card. Himalayan Bank Limited and NABIL bank Ltd both started card business at once by issuing different cards; domestic credit card and master card respectively.

Today credit card has become a synonym of currency notes in other foreign countries. In other countries there are cash free zones with all the financials needs being handled by bank cards? But in 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 tourism sector in Nepal is very sensitive to the quickly changing political situations of the country to fully rely upon it. So the concerned banks are forced to find domestic internal user. So the study will focus on the following problems related to the subject chosen:

- What are the positions of different bank involved in card business?
- What are the growth situations of the banks to expand the business?
- What are the trends (cash or swap) of credit card users in Nepalese market?
- What kind of people is using credit cards?
- Whether the aggregate market is increasing or decreasing over the period?
- What are the problems related of credit card transactions?
- Which type of brand are using for credit card in Nepal?

### **1.3 Focus of the Study**

In the context of Nepal, credit card is newly entered concept in financial and banking sector. That is why credit card concept is quite new for both business and general public. Hence, its business is growing slowly. So the general information and current scenario of card business are the subject matter of this study.

### **1.4 Importance of the Study**

Economic condition of a nation depends upon the development of financial sector. Banking sector is one of the essential components of any nation. The growth of financial and banking sector depends upon reliable services provided by them. Previously banks provided only banking service but nowadays it provides non-banking services also due to the need and demand of customers. Due to this reason credit card system was introduced. But in Nepal, credit card concept has recently entered in banking sector and general public. Card business is still in the growing stage. The usage of credit and debit cards among the bank account holders of Nepal does not portray an encouraging figure. The development of the debit card and credit card are still in the emerging phase. Still most of the people are not familiar with the terms.

But a paradigm shift in the banks' strategy to issue credit cards to non-account holders without requirement of any cash deposits is expected to attract more people, especially the middle class families. With the increase of awareness and understanding of the advantages of having a credit card coupled with issuance of proprietary debit card by most of the banks, the prospect of plastic money is growing in Nepal and is very good for future too. Hence, the in-depth research on the potentiality of card business is the subject matter of thorough research in the present context. Therefore credit card is chosen as the subject matter for this research which is very likely to help different parties like business students who want to know about credit card, lecturer, the bank

involved in card business to modify their card service and in formulating strategy for smooth operation of card and the government who has to make different policies for regulating the business

### **1.5 Objectives of the Study**

The primary objective of the undertaken research is to fulfill of a course of requirement of the M.B.S programme at Tribhuvan University during the thesis year. As known to us Credit card business is quite new in Nepalese business market. And our objective is to help increase awareness on credit card to general public through the medium of business students and also present the banks with a picture of current market scenario of card business in Nepal, the underlying issues in it and the challenges, and subsequently offer them with some suggestions that will help their business and help them come up with appropriate plans and actions. Though the essence of card is being familiar to people, the credit card business has not been as satisfactory as it should be due to unfavorable situation of Nepal.

This analysis has been done in order to understand the various aspects of credit card. The study first aims to trace how the credit card operation evolved over the years and tries to examine the existing structure and operation of credit card systems. It also tries to analyze the major problems related to credit card and tries to find some measures to improve it. Taking into consideration all these aspects, the specific objectives of the study are as follows;

- To study the existing situation of card business in Nepalese banking industry.
- To evaluate the growth rate of card business in Nepal.
- To examine the trend of credit card users in Nepal.
- To assess the problems related to various transactions of credit cards, and analyze it.
- To recommend and suggest same industry in the same matter of study.

## **1.6 Limitations of the Study**

The study will be limited to the study of performance of Nabil Bank Limited and Himalayan Bank Limited towards credit card business in Nepal. The study is confined only to analysis of credit card business. Since, credit card is new to Nepalese business and personal life 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 and required information. However, the attempt will be made to be limited within the boundary of available information. Also efforts will be made to present the possibly collected data and information.

- The study is confined to only two commercial banks Nabil Bank Ltd. And Himalayan Bank Ltd.
- The study covered only a period of 8 years since 2003/04 – 2010/11.
- Lack of sufficient data disclosure of financial data due to privacy so financial analysis cannot be conducted.
- Research is confined only to analysis of credit card business of Nepal.

## **1.7 Organization of the Study**

Whole study is mainly divided into five different chapters. The title of each of these chapters is as follows:

Chapter I: Introduction

Chapter II: Review of literature

Chapter III: Research methodology

Chapter IV: Presentation and analysis of data

Chapter V: Summary, conclusion and recommendations

Chapter - I: Introduction

It is the introduction chapter. It includes background of the study, focus of the study, statement of problem, objectives of the study, significance of the study and limitation of study.

## Chapter - II: Review of Literature

It deals with review of literatures which includes conceptual, theoretical review and review of related studies or this chapter explains the review of the related literature done in national and international levels.

## Chapter - III: Research Methodology

It is the research methodology which includes research design, population and sample, sources of data, data collection techniques and data analysis tools.

## Chapter - IV: Data Presentation and Analysis

Data collected would be carefully examined and conclusion would be drawn. So that it could be presented. It deals with the presentation of data collection in table and analysis using rank correlation and necessary tools and interpretation of the result. And include general findings of the study and major findings of the study.

## Chapter - V: Summary, Conclusion and Recommendations

It includes summary and conclusion of the study. It also deals with recommendations suggested.

And, at last of the study the related bibliography and annexes have been presented with the supported data that have been used during the research.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

Review of literature means reviewing research studies or other relevant proposition in related area of the study so that all past studies, their conclusions and deficiencies may be known and further research can be conducted. A full review of research is to know the outcomes of those investigations in areas where similar concept and methodologies has been used successfully. Further, an extensive or even exhaustive process such review may offer vital link with the various trends and phases in the researches in one's area of specialization, with the characteristic percepts, concepts and interpretation, with the special terminology, with the rationale for understanding one's proposed investigation.

This chapter includes the literature of previous studies and conceptual framework for the related studies related to the credit card. Many researchers have conducted their research in the field of card operation. Besides this, some books, articles, dissertation and other relevant study concerned with credit card operation. Some of relevant studies, there objective findings and conclusions and other literature relating to the topics have been reviewed in this chapter. The topic credit card in fact is quite a new topic for researcher due to this few reviews are found. This chapter in mainly divided into under mentioned parts: Conceptual reviews, Reviews of related studies, and Research gap.

#### **2.1 Conceptual Reviews**

As per the objectives of the study, emphasis is given to the review of major related literatures and research conducted in credit card business. This part of literature review focuses on the conceptual review of credit card.

##### **➤ Evolution of credit card**

Credit cards, as we know them today, have been around for just half of a century.

One of the first credit cards appeared in 1951 when loan customer of Franklin National Bank of New York were screened for credit and those approved were given a card they could use to make retail purchases. Participating merchants copied the customer information from the card onto a sales slip and the bank would credit the merchant account for the loan sales a flat fee to cover costs of providing the loan. In 1958, The American Express Company ( a company built on the traveler's cheque business) began issuing a charge card for travel and entertainment charges, which was accepted at participating restaurant, hotel and airline merchants. (Creditcard.com)

### ➤ **Payment Card**

A payment card is small plastic card, which allows its holder to pay for goods purchased or services available at different outlets or on-line through site. It also allows the holder to withdraw money from the automatic teller machine (A.T.M.) or purchase goods by swiping card on point of sale (P.O.S.) machine from vender. Before proceeding further deep into the intricacies of credit card business, it will be worth nothing that credit card is just a line of product of the card payment business. Different banks and credit card companies issue different brands of payment card by forming membership such as:- Members of Visa International headquartered at Yokohama, Japan issue Visa Branded payment cards. Till date it is a non-profitable organization run solely by its thousands of members located globally.

Members of Master card international, head quartered at St. Louis, USA issue 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 quartered at New York, USA issues American Express(here in after referred as AMEX cards) branded cards. It is a profitable organization. Now all these globally operating institutions, member banks and

credit card companies' issues are distinguished from each other by the different features they carry.

➤ **Credit Card**

Credit card is an invention of modern commerce. It is a plastic card that allows the card holder to purchase goods and services by paying with the card. Usually a user purchase firstly and pays back later with interest. The credit card is issued by financial institution like commercial bank with whom the issuer has an agreement to repays the outstanding debt on the card. It is the most popular and convenient tools in the world. It is a part of payment and clearing system. From appearance, credit card is plastic card having a magnetic strip, issued by a bank that authorizes the card holder to buy goods or services with in credit limit. Banks issue credit cards carrying the brand of any international payment association such as Visa Card or Master Card.

The bank issuing card pays on behalf of card user to the merchant (store) from where the card is used for purchase. A certain percentage is charged from the merchant in return for processing the transaction, crediting the purchased amount less bank's commission to the merchant's account. The amount that the cardholder uses is treated as a loan, if cardholder doesn't pay the amount within the period given by the bank (grace period), usually within 45 days of statement issued, interest is charged.

A credit card's grace period is the time the customer has to pay the balance before interest is charged to the balance. Grace periods vary, but usually range from 20 to 30 days depending on the type of credit card and the issuing bank. Some policies allow for reinstatement after certain conditions are met. Usually, if a customer is late paying the balance, finance charges will be calculated and the grace period does not apply. Finance charge(s) incurred depends on the grace period and balance, with most credit cards there is no grace period if

there's any outstanding balance from the previous billing cycle or statement (i.e. interest is applied on both the previous balance and new transactions). However, there are some credit cards that will only apply finance charge on the previous or old balance, excluding new transactions.

Foreign currency credit card can be availed against the passport facility for travelling abroad. Foreign currency account holders also can obtain credit card for hotel and travel expenses. All Credit card or Charge card users have a credit limit up to which one can use the fund to purchase goods or services. Visa or Master card (depending upon the type of card) is responsible for processing and settling the transactions and the card issuing bank is responsible to collect fund from its customers.

#### ➤ **Debit Card**

A Debit Card is a payment card, which enables to cardholder with the option of making purchases at merchant locations as well as cash withdraw from ATMs with access to cardholder's bank account. Debit card is also a plastic card, an instrument used to pay the price of services and goods in lieu of cash or cash items, where payment is made only against the deposits available in the customer's depository account and payment is effected immediately.

A debit cardholder must have an account with the bank and the moment he makes any purchase, his account gets immediately debited at the point of purchase and hence is called a debit card. The ATM cards that banks issue are the example of debit cards. It can be used in POS (point of sale) machines to make payment on purchase or services. Debit card users can have direct access to their account but the debit cards issued for a rupee account cannot be used worldwide because of the non-convertibility of Nepalese currency. Member banks and companies of Visa and Master card international issue debit cards.

#### **2.1.4 Charge Cards**

Charge card is also a payment card with a pre-set limit. The cardholder does not have the option of revolving credit. The cardholder must pay the entire dues at the end of each month or the billing period.

##### **➤ Chip /Smart cards**

A Chip/Smart card is also a payment card and looks like any other plastic card or an ATM with an integrated circuit(IC Chip) installed. The IC contains memory, may contain a processor, and communicates with the external world through contacts on the surface of the card. The size, position and utility of the contacts are specified by an international standard (ISO7816), so that cards can interact with a variety of equipment. There are two main types of smart cards: Intelligent Memory Chip and Microprocessor cards. Payments are made either on-line by connecting to the customers account or off-line through credit card concept and through funds (limit) loaded in the chip. A memory chip has a data storage capability that enables the card to collect every time it is used .The microprocessor chip has additional features such as it can add, delete and manipulate information in its memory. Memory smart cards have been around for several years, being used in pay phones, identification, access control, voting and other applications. Processor smart cards are the most advanced, and are ideally suited for banking and financial applications where use of the card is allowed.

##### **➤ Premium Cards**

These cards possess added features such as travel insurance, cardholder assistance and emergency cash advances along with the normal features of conventional credit cards and charge cards.

##### **➤ What is VISA?**

Visa international is a membership corporation that is owned by its members. Visa operates the world's largest retail electronic payments network and is one

of the most recognized global financial services brands. Visa facilitates global commerce through the transfer of value and information among financial institutions, merchants, consumers, businesses and government entities.

Visa offers a range of branded payment product platforms, which its financial institution clients use to develop and offer credit, charge, deferred debit, prepaid and cash access programs to cardholders.

Visa's card platforms provide consumers, businesses, merchants and government entities with a secure, convenient and reliable way to pay and be paid in 170 countries and territories.

Visa's global transaction and information processing network, Visa Net, supports these payment platforms and delivers value-added services, including fraud and risk management, dispute resolution, rewards and other business-enhancing applications. Visa's family of global payment brands, including Visa, Visa Electron, Plus and Interlink, enjoy unsurpassed acceptance at 27 million merchant outlets and 1 million ATMs across the world. It is the world's largest payment system owned by more than 22000 financial institutions worldwide. Visa provides its member with:

- ✓ Payment products
- ✓ A global communication network
- ✓ Risk control and authorization services
- ✓ Clearing and settlement facilities

Visa is also a registered trademark .The blue white and gold band form one of the world's largest recognized brands. Visa assures a high profile for the brand through a number of activities, such as advertising, sponsorship of the Olympics and other promotional events. The trade mark is licensed to members

for their use to ensure increasing acceptance of Visa payment cards and services worldwide.

Visa international's mission is to enhance member's profitability and pre-eminence by:

- Enhancing current product (especially deposit access) expanding product offering (commercial & chip cards).
- Strengthening geographic coverage.
- Improving acceptance of the card.
- Increasing brand preference.
- Supporting and enhancing Visa Net systems.
- Continuous improvement of the supporting infrastructure. (For example, in the areas of risk management, standards, corporate governance.) ([www.visa.com](http://www.visa.com))

➤ **What is Master Card?**

The MasterCard story begins in 1966 when a group of banks created a member-owned association that later became MasterCard. In 1968 the company extended its presence to Mexico, Japan and Europe, marking the start of its commitment to becoming the leading global payments network.

Through the 1980s, MasterCard continued to build on this promise, bringing the advantages of electronic payments to new regions and markets around the globe. MasterCard became the first payment card issued in the People's Republic of China, and the company also launched Maestro®, the world's first truly global online debit program, in partnership with Europay International.

The next decade saw electronic payments become even more closely integrated into peoples' lives, a behavioral shift MasterCard capitalized on by developing new technologies that improved convenience, speed and efficiency.

MasterCard also launched the “Priceless” ad campaign, elevating its consumer brand and differentiating the company’s connection to consumers.

Uncovering new ways to provide value to its customers, MasterCard launched MasterCard Advisors in 2001, bringing innovative consulting services to customers and others within the industry. That same year, MasterCard completed a major upgrade of its state-of-the-art network, enhancing its ability to process transactions safely, securely and instantly the world over. MasterCard also implemented structural changes that reflected a new outlook for the company. MasterCard integrated with Europay International in 2002, establishing a unified global corporate structure and also becoming a private share corporation.

By 2005, MasterCard had committed itself to a new, customer-focused strategy that aligned its advisory and processing capabilities with its long-standing role as a franchisor. This three-tiered business model crystallized the company’s positioning as a franchisor, processor and advisor, laid the groundwork for its transition to a more transparent governance model and initial public offering in 2006.

Today and beyond, MasterCard Worldwide continues to provide a unique combination of expertise, industry-leading insight, and globally-integrated resources that the company leverages to deliver value to constituents. MasterCard is committed to innovating and growing the range of products and services the company brings to market through its strong partnerships with its customers. MasterCard Worldwide is a driving force at the heart of commerce, enabling global transactions and bringing insight into the payments process to make commerce faster, more secure, and more valuable to everyone involved.

As a critical link among financial institutions and millions of businesses, cardholders and merchants worldwide, MasterCard provides services in more than 210 countries and territories. MasterCard advances commerce worldwide by developing more secure, convenient and rewarding payment solutions, processing billions of payments seamlessly across the globe, and building economic connections that accelerate business.

([www.mastercard.com](http://www.mastercard.com))

### ➤ **Merits and Demerits of Credit Cards**

Here into this section of study the researcher has been tried to focus out some prime advantages and demerits of using credit cards. Those identified merits and demerits of credit cards and presented below into point basis. They are:

#### **Major Merits of Credit Cards**

- Easy and safe in comparison to cash and cheques.
- Very convenient to carry it instead of bulky cash.
- Wide acceptance.
- A credit card can be used not only for purchases, but also to make cash advances. Hence, it is helpful during shortage of cash and in emergencies.
- Facility of revolving credit i.e. option of minimum stated payment on regular.
- Merchants need not worry about the payment as the bank is liable for payment and not the cardholder.
- Volume of sales increases as the card encourages consumers for purchases, as they do not have to pay in cash immediately.
- Payment received through credit card is more safe and secure than any other forms o payment.

## **Demerits of Credit Cards**

In spite of being a most extensively used financial tool, credit card has some inconvenience too. They are:

- Sometimes create dispute between customer and bank for services and bank's commission and charges.
- Sometimes card holders complain their goods are not delivered due to amount altered and transactions not authorized. There exist system errors.
- Sometime merchant can make multiple imprints of the card and sometimes transaction may happen on lost card or counterfeit card etc.
- Processing errors or violation of the rules set out in the Visa / Master card rules like late submission, transaction on expired card, transaction without code, wrong transaction etc.

### ➤ **Parties Involved in Credit Card Business**

There are five parties involved in credit card business that is mentioned below.

#### **I. Issuer**

Any authorize member of Visa and Master card international are issue card for their respective customer is called issuer. Examples of such issuers in Nepal are Nabil Bank Ltd., Himalayan Bank Ltd, Standard Chartered Bank, and Nepal Investment Bank Limited. The issuing bank bills the consumer for repayment and bears the risk that the card is used fraudulently.

#### **II. Cardholder**

Issuer issued of card for their respective customer (personal or organizational), whom use cards are called cardholder.

#### **III. 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 like muncha house, thamel.com.

#### **IV. Acquirer**

While a card holder makes a transaction the only thing s/he 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 Himalayan Bank issues credit card as well as processes the transactions for its various merchants.

#### **V. 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 every day. 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.

#### **VI. Independent sales organization**

Resellers (to merchants) of the services of the acquiring bank.

#### **VII. Merchant account**

This could refer to the acquiring bank or the independent sales organization, but in general is the organization that the merchant deals with.

### **VIII. Credit card association**

An association of card-issuing banks such as Visa, MasterCard, Discover, American Express, etc. that set transaction terms for merchants, card-issuing banks, and acquiring banks.

### **IX. Transaction network**

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

### **X. Affinity partner**

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

#### **➤ Components of Credit Card**

The component of credit card is 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 numbers found on credit cards have a certain amount of internal structure, and share a common numbering scheme. The card number's prefix, called the Bank Identification Number, is the sequence of digits at the beginning of the number that determine the bank to which a credit card number belongs. This is the first six digits for MasterCard and Visa cards. The next nine digits are the individual account number, and the final digit is a validity check code. The beginning card number differs depending upon the settlement banks. For example Master card number 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 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. Besides, the card may also carry extra codes such as issue numbers and security codes. Not all credit cards have the same sets of extra codes nor do they use the same number of digits.

## **4) Issuing Bank**

The name of credit issuing 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 certain settlement bank is also printed on the credit card. For example Master card, JCB card etc.

## **6) Magnetic Stripes**

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 holder may be attested on the backside of credit card. It depends upon the credit card issuing bank. For example a photo is attested in the Visa card issued by Himalayan Bank Limited but it is not attested in the master card issued by Nabil bank ltd.

### ❖ **Basic Eligibility Criteria for Being a Card Holder**

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)

### ❖ **Documents Required**

When once applying for a credit card following documents must be submitted with credit card application form. Those required documents for applying personal card are:

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

On the other hand, required documents for applying a corporate card are:

- ✓ 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

(Source: Brochure Himalayan bank ltd.)

### ❖ **Application Processing**

Before issuing the card and assigning a number to merchant, the issuing bank analyzes the data and information provided by applicant to minimize the risk in the business. It is called application processing.

### **Merchant Application**

When a potential merchant submits the merchant application form, the bank asks for all the incorporation documents as mandatory during account opening. An analysis is executed by the representative officer who makes the actual visit at the merchant's location and makes a study on the merchant. On the basis of analysis conducted and history of the merchant, a 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 transaction.

### **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. Thereafter, documents to justify the application request are sought after. After analyzing the concerned documents by related officer, card is issued to those who prove to have genuine intention to pay back and have the affordability to avail the card. As every new cardholder account brings new levels of risk to the organization along with benefit, the application provides the issuer with financial profile of the potential cardholder including income level, length of time at present job or business, guarantee letter from employer, home ownership, financial institutions accounts information and credit history.

Besides a person or an institution willing to have credit card need to open an account in the bank. After all the necessary analysis, card is issued but it is the

right of issuer to issue the card or not and creditworthiness of applicant is the basic requirement for the issuer to decide upon it.

#### ❖ **Transaction Process of Credit Cards**

First of all customer apply for credit card and customer will be given a credit card if the issuer found that a customer is a match for card member. The transaction process starts when the cardholder uses the card to buy goods/ services or cash advance from merchant. The merchant prepares a sales draft using an imprinted/ electronic which contains card number, cardholders name, and expiration date of the card, the amount of the card, the amount and the full signature of the holder.

The merchant submits the draft to the acquiring bank and gets reimbursed with the amount on the sales draft deducting agreed discount rate. The discount rate is called Merchant Service Fee (MSF). Then the acquirer sends the data to the settlement bank by technical line or by processing it through floppy and the settlement bank, Master card and Visa card international reimburse the acquirer who sends the data. The settlement bank charges the issuer and issuer bills to its cardholders who ultimately repays the issuer.

Normally in credit card business there are four parties involved (cardholders, merchant, issuer & acquirer) but some cases only three parties involved when acquirer and issuer are same.

In case of cash advance (withdraw) for foreigner, the transaction process starts when card holder goes to the merchant or acquirer or issuer (bank) for cash advance. They act as money provider for the cardholder. In this case first of all money providers have to know that whether the card is genuine or not. For this, money provider takes an authorization number.

In this process firstly money provider has to call to the credit card center, and give details (i.e. card no., expiry date, amount to be advanced etc) and the concerned officer will send telex to the Visa International. He then instantly gets a six- digit authorization no. and that will be provided to the money provider. Then money provider fills up the charge slip along with authorization no. and gets the card holder's signature along with one photocopy of passport. The provider calls his bank of the authorization and imprints the card in the imprinter to print the embossed details of the card on the charge slip and writes down the authorization number given by bank along with sales detail and amount. The provider has to submit the charge slip to the bank within three days of the sales. Then he fills the summary sheet (2copies, one for the bank and one for the merchant), attach the respective charge slip to them and submit it to the bank. The bank charges certain percentage to the merchant (provider) depending upon their nature of business and the charge rate vary among the banks.

#### ❖ **Risk and Fraud in Card Business**

Besides high profitability in credit card business, there occur risks as well in the business such as fraud. Besides high profitability in the card business, there occur risks such as fraud as well. Profitability of card business may seriously undermine if losses occur due to fraud. Therefore, minimizing losses due to fraud forms an important responsibility of issuer and acquirer. The largest fraud losses may result from unauthorized use of lost and stolen cards. So, when a card is discovered to be lost or stolen, the cardholder should lodge an FIR with nearest police station as soon as he finds out the card is lost or stolen and immediately inform the concerned bank and send it a copy of the FIR. The issuer should act and quickly and record the lost or stolen card in the authorization file. Any authorization shall be declined and the card will be listed "Pick Up".

The cardholder a/c should be closed and open new a/c in order to segregate genuine transaction and unauthorized transaction. The cardholder a/c should be monitored carefully and the merchant should carefully check warning bulletins before processing a transaction under the merchant floor limit.

#### **a) Magnetic Stripe Fraud**

Magnetic stripe fraud (skimming) is recent and sophisticated fraud technology where the information in the magnetic stripe is re-encoded to the counterfeit or altered cards. The cards look genuine when used in magnetic stripe reading terminals. It is typically an "inside job" by a dishonest employee of a legitimate merchant, and can be as simple as photocopying of receipts. Many instances of skimming have been reported where the perpetrator has put a device over the card slot of a public cash machine (Automated teller machine), which reads the magnetic strip as the user unknowingly passes their card through it. These devices are often used in conjunction with a pinhole camera to read the user's PIN at the same time. Nepali card business also witnessed such fraud very recently particularly with the ATM/Debit cards where few foreign gangs were found involved.

#### **b) Card holder's fraud**

Card holder's fraud is very difficult to uncover for the issuer. Sometimes, the cardholder may claim about losing his card and meanwhile uses them for services after reporting lost. There is also a Soft fraud which is fraud committed by the customer himself, getting a card and using it with no intention ever to repay the balance. Such customers are called "diabolicals" by the credit card companies; they try to avoid them at all cost.

#### **c) Lost/Stolen cards**

The major and the foremost risk associated with card business are with stolen/lost card. If a card is stolen and the cardholder fails to inform the bank

on time, then the transactions made before the information is passed to the bank is liable to the cardholder. The bank does fight for their client but if the case is not won, then the liability has to be burdened by the cardholder himself. Carding is a term used for a process to verify the validity of stolen card data. The thief presents the card information on a website that has real-time transaction processing. If the card is processed successfully, the thief knows that the card is still good. The specific item purchased is immaterial, and the thief does not need to purchase an actual product; a Web site subscription or charitable donation would be sufficient. The purchase is usually for a small monetary amount, both to avoid using the card's credit limit, and also to avoid attracting the bank's attention. A website known to be susceptible to carding is known as a cardable website. Nowadays, carding is more typically used to verify credit card data obtained directly from the victims by Skimming or Phishing. A set of credit card details that has been verified in this way is known in fraud circles as a phish.

**d) Splitting of charge by merchant**

Sometimes the merchants split one single transaction into number of small transaction and present them without taking the authorization code from the acquirer. In such case also there is immense risk associated in case the cardholder denies the merchant's transactions or the transaction gets declined.

**e) Alteration of Amount**

In many cases, the merchants with fraudulent intention alter the actual amount of the sales draft and present them to the acquirer. In such cases the cardholder denies the charges and presents his copy of the true amount which makes the merchant at fault and hence, is penalized.

**f) Signature forgery**

Such type of fraud transaction usually happens in case of lost or stolen cards where the culprit forges the signature at back of the card on the signature panel

and presents to the acquirer. Such cases can be won by cardholder or by the merchants also depending upon the availability of the supporting from both ends.

**g) Identified counterfeit Transaction**

There are several criminal syndicates all around the globe who are engaged in the fraudulent transactions of credit cards. In the identified Counterfeit transaction these syndicates uses the BIN (Bank Identification Number) and manufacture fabricated counterfeit cards and circulates them in the market, which resemble the original cards in every aspects.

**h) Unidentified counterfeit transaction**

This is similar to the aforesaid in that the syndicates do 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.

**i) Transaction of expired card**

Suppose if a merchant is making transaction, which is within his floor limit and does negligence on his part to verify the expiry date on the card and makes the transaction. In such case the acquirer denies to process the transaction and the merchant is at loss. In some cases the draft is sent to the issuer for collection on good faith basis which is fully depended upon the description of the cardholder. Nepal is just a toddler in the field of card business. The credit card business arena has seen numerous kinds of forgeries and frauds in card businesses which perhaps do not seem to happen in Nepal at the moment. Theft through compromised accounts, mail/internet order fraud, account take over, skimming, phishing and many other frauds are prevalent in the card market worldwide. Several strategies and solutions have been devised by card related people and organization to overcome and prevent such frauds. The description of all those frauds and measures to overcome them seems to be beyond the scope of this

study, hence are not included in this thesis but the common frauds and preventive measures we can take while transacting with cards are here dealt in.

#### ❖ **Risk Minimize Mechanism**

In order to minimize the risk and losses in fraud cards transaction, the parties involved should keep proper monitoring of sudden high charge transaction. In case of potentially loss cards immediate use of warning bulletins and electronic negative file can be crucial for early detection and to the minimize fraud losses. The card holder should immediately notify the issuer if cards are lost or stolen. Most credit card companies have toll-free numbers and 24-hour service to deal with these emergencies -- they are eager to avoid credit card fraud. The banks in credit card business should adopt following risk management steps.

- a. Cardholder application must be carefully screened
- b. Proper monitoring of card use.
- c. Judicious collection practices.
- d. Educating the cardholder
- e. Responsiveness to risk situation in order to minimize fraud losses.
- f. The bank should keep proper monitoring for high charge transaction.
- g. Cardholder in case of lost or stolen should immediately inform the bank

Credit card customers may find following tips from internet put forth by Audri and Jim Lanford (Issue #79 June 9,2004) useful in combating credit card frauds. Internet Scam Busters' 21 Credit Card Fraud Prevention Tips:

1. Keep an eye on your credit card every time you use it, and make sure you get it back as quickly as possible. Try not to let your credit card out of your sight whenever possible.
2. Be very careful to whom you give your credit card. Don't give out your account number over the phone unless you initiate the call and you know the company is reputable. Never give your credit card info out

when you receive a phone call. (For example, if you're told there has been a 'computer problem' and the caller needs you to verify information.) Legitimate companies don't call you to ask for a credit card number over the phone.

3. Never respond to emails that request you provide your credit card info via email -- and don't ever respond to emails that ask you to go to a website to verify personal (and credit card) information. These are called 'phishing' scams.
4. Never provide your credit card information on a website that is not a secure site.
5. Sign your credit cards as soon as you receive them.
6. Shred all credit card applications you receive.
7. Don't write your PIN number on your credit card -- or have it anywhere near your credit card (in the event that your wallet gets stolen).
8. Never leave your credit cards or receipts lying around.
9. Shield your credit card number so that others around you can't copy it or capture it on a cell phone or other camera.
10. Keep a list in a secure place with all of your account numbers and expiration dates, as well as the phone number and address of each bank that has issued you a credit card. Keep this list updated each time you get a new credit card.
11. Only carry around credit cards that you absolutely need. Don't carry around extra credit cards that you rarely use.
12. Open credit card bills promptly and make sure there are no bogus charges. Treat your credit card bill like your checking account -- reconcile it monthly. Save your receipts so you can compare them with your monthly bills.
13. If you find any charges that you don't have a receipt for -- or that you don't recognize -- report these charges promptly (and in writing) to the credit card issuer.

14. Always void and destroy incorrect receipts.
15. Shred anything with your credit card number written on it.
16. Never sign a blank credit card receipt. Carefully draw a line through blank portions of the receipt where additional charges could be fraudulently added.
17. Carbon paper is rarely used these days, but if there is a carbon that is used in a credit card transaction, destroy it immediately.
18. Never write your credit card account number in a public place (such as on a postcard or so that it shows through the envelope payment window).
19. Ideally, it's a good idea to carry your credit cards separately from your wallet -- perhaps in a zippered compartment or a small pouch.
20. Never lend a credit card to anyone else.
21. If you move, notify your credit card issuers in advance of your change of address

#### ❖ **Procedures of Handling Disputes**

The following procedure will be followed if dispute arises:

##### **(A). Chargeback cycle**

In the event of a chargeback (when there's an error in processing the transaction or the cardholder disputes the transaction), the issuer returns the transaction to the acquirer for resolution. The acquirer then forwards the chargeback to the merchant, who must either accept the chargeback or contest it. A charge back is an electronic message that the issuer sends the acquirer through the system which shifts the financial responsibility of transaction from an issuer to the acquirer. 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 of chargeback cycle begins with retrieval request and proceeds as follows:

➤ **Retrieval Request**

The issuer on request of their cardholder may seek copies of transactions slips from the acquirer via Master card/Visa International .The purpose is to verify the transaction which is either being confused or disputed by the cardholder.

➤ **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 fulfillment is made through Master Card (Master Card hub site to receive from acquirer and forward to issuer )via fax transfer in case of Master Card and in case of Visa, 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 USD 1-8 depending on the submission.

➤ **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 reason could be; late presentation, unauthorized transaction, expire card, credit not processed, listed in warning bulletin etc.

➤ **Representation**

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 document and get back the transaction amount.

### ➤ **Second Chargeback**

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

### **(B). Pre-arbitration and Arbitration**

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

Upon receiving the arbitration case, Visa/Master Card makes the final verdict based on the documents submitted by both the parties concerned. The party, which loses the case, needs to pay filing and application fee of USD 500 along with the chargeback amount.

### **(C). Compliance**

A merchant (issuer or acquirer) may file a dispute resolution procedure known as compliance when following conditions occur:

- ✓ A Visa operating regulation has been broken.
- ✓ The filing member has suffered or will suffer 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 they believe has been broken or clearly show the financial loss they have or will incur. The arbitration and compliance committee will then decide which party in the dispute should be held liable for the transaction, as well as bear the compliance filling and review fees. Note that a compliance

case will be rejected if a chargeback right or any other dispute resolution right exists.

**(D). T & E Resolution**

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

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

When a cardholder cancels booking within the specified time frame, the merchant must give the cardholder a cancellation code, with instruction to retain this code in case of dispute.

Dispute may arise between merchants and cardholders over cancellations and cancellation codes. Cardholders may claim that he cancelled their reservation within time frame but was not given a cancellation code. The merchant on the other hand, may insist that the cardholder did not cancel in time and must therefore pay the quoted sum.

In such cases, the issuer or acquirer may file for T&E Resolution. Visa will then decide who is at fault –the cardholder or the merchant, however, due to the difficulty of determining 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 reservations. There is no filing

fee and no review fee for T& E resolutions .Member should note that T&E Resolution case would be rejected if a chargeback or compliance right is or was available (Thapa 2002:20-30).

## **2.2 Review of Related Studies**

Visa International (2000), states in 1998 over 185 million bankcards were issued in Asia Pacific region alone which accounted for transaction worth over US \$330 billion. 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 demo Figures 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), states Visa's regional head stating that East Asia is and will be in years to come Visa's fastest growing market. In the same work it is also stated that credit card usually generates returns on assets above 5%.

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\$ 81.0billion .These figures only account for one single brand and when combined with the other 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.

Sujit Chakravorti (2003), Credit cards provide benefits to consumers and merchants not provided by other payment instruments as evidenced by their explosive growth in the number and value of transactions over the last 20 years. Recently, credit card networks have come under scrutiny from regulators and antitrust authorities around the world. The costs and benefits of credit cards to network participants are discussed. Focusing on interrelated bilateral transactions, several theoretical models have been constructed to study the implications of several business practices of credit card networks. The results and implications of these economic models along with future research topics are discussed.

In the international market credit card has become synonyms for cash .They are going to declare some places as cash free zone. Talking about our two giant neighbors, China and India, they are also rapidly moving in the credit card business fueled by their fast growing economy and increasing GDP. China is one of the fastest growing economies in the world. As per Visa International there is enormous growth potential in China. The nation has more than 30,000 international cards with the increasing numbers of foreign travel by Chinese citizens. In terms of local consumption about 70% hold debit cards for online debit purposes and the rest 30% holds deferred debit cards. China is enthusiastic about e-commerce and chip card technology, but significant infrastructure development is still to occur.

On the other hand, Visa international state India has sustained average annual growth of around 6.0% since 1990 which only seems to rise following economic liberalization after 1990. In case of payment 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 2.5million local Visa and Master Card issued. After the government made the Indian rupee convertible the usage of international cards has increased manifolds.

“If the statistics provided by four leading banks is any indication, the microchip embedded 'plastic money' is gradually increasing its hold among the urban Nepali populace. Although it is deemed take it will several more years for Nepal to reach anywhere near India and other Asian countries where credit card and debit card spending is increasing rapidly, the indications show that Nepal is moving upwards in a positive direction.

Information provided by four major contenders of the credit and debit card sector, namely Standard Chartered Bank Nepal, Himalayan Bank, NABIL Bank and Nepal Investment Bank reveal that increasing number of urban

Nepali middle class families have started resorting to the plastic cards instead of cash.

The first use of credit card in Nepal dates back to early 90s. However, even after all these years the number of credit and debit cardholders does not even account to one percent of the total population .....” (Source: Kathmandu Post - 'Plastic Money' increasing its foothold).

The usage of credit and debit cards among the bank account holders of Nepal also does not portray an encouraging figure. According to estimates, of the total account holders’ population of around six million, only about 1.4 percent holds such cards.

But a paradigm shift in the banks’ strategy to issue credit cards to non-accountholders without requirement of any cash deposits is expected to attract more people, especially the middle class families.

The scheme, which is applicable to anyone whose minimum constant monthly income is Rs 10,000, allows the cardholder to acquire credit of up to 1.5 times of monthly salary depending on one’s profession, dependents, experience, among others.

“We introduced the scheme and we have already issued around 60 cards within this period,” say Bijaya Nakarmi, Card Center Manager of Himalayan Bank Limited which has already issued more than 4,000 credit cards and 15,000 debit cards.

The figures provided by NABIL Bank also reveal that consumers’ response towards the credit and debit cards has been overwhelming in the recent years.

According to Prabin Raj Pokharel, Cards Marketing Section Manager of NABIL Bank, of the total 5,000 credit cards issued till date since 1993, around 52 percent were issued between the last 16 months, while the bank has already issued more than 10,000 debit cards.

At present, almost all of the four banks issue credit cards, charge cards, debit cards and ATM cards with card types varying from VISA Classic and Gold to VISA Electron, Master Card and Master Card Gold. Experts think that the convenience and security of card transactions have driven the shift towards plastic money.

“Moreover, a customer can have every record of expenses made and the ‘buy now pay later’ policy of the credit cards allows the cardholder to make any transaction without having cash in hand,” says Nakarmi of Himalayan Bank.

Experts, however, warn that people who have a history of getting into debt and buying beyond their limits should stick to using cash. “Using plastic cards is convenient and secure as one does not need to carry the cash. But this does not apply to the less disciplined ones” they say.

Bankers agree that despite the expensive interest rates, which hover between 27 to 30 percent per annum, the prospect of ‘plastic money’ in Nepal is bright.

“ With the increase of awareness and understanding of the advantages of having a credit card coupled with issuance of proprietary debit card by most of the banks, the prospect of plastic money is growing in Nepal and is very good for future too” says Bina Rana of Standard Chartered Bank Nepal (Source: Kathmandu Post - January 22, 2005).

“... Going through the figures for the past three years number of card users has grown exponentially and today it is estimated at around 3,20,000 (debit and credit cards). There are about 120 ATMs and 2,000 plus point of sales (POS) terminals across the country..... “The growth in card business has been found to be over 100 percent in the last three years,” says Rabindra B Malla, managing director of Smart Choice Technology (SCT), adding that its growth prospects are still very high. According to him there are more than 1.25 million account holders in the financial system, whereas the card users are still below 25 percent of the total account holders. “More than 75 percent market is still untapped,” he adds..... The beauty of plastic money is its wider acceptance, security, easy to carry and anytime usage for the customers, while it has helped the banks to reduce their cost of operation, feels Malla.” It has also helped the central bank (issuer of currency note) with less use of cash, as the transactions are carried out electronically,” he adds.

Malla suggests the government to take initiative for making cash-free transactions and should encourage public to use plastic money, especially for utility payments. Although at present card market is mainly limited to Kathmandu valley and other relatively bigger cities and tourist locations only, there is also a vast potential in smaller cities. Domestic banks, owing to their vast network and reach to smaller cities, can easily tap this potential. They would be better off ,penetrating into smaller cities and bringing cards to the masses rather than sharing a small urban pie that is day to day shrinking (Source: The Himalayan Times, Thursday, September 27,2007).

Credit card is a 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 on this credit card market. So only few working paper and previous thesis were reviewed in this thesis.

Thapa, (2002), had conducted research on “Prospect and Challenge of credit card Business in the banking sector of Nepal” .The main objective of the research was to find out the prospects and challenges of credit card business in the banking sector of Nepal. Researcher has taken Nabil bank Ltd and Standard Chartered Bank as a sample bank.

The researcher found that the main problem of credit card business is acceptance infrastructure which takes huge amount of investment to commence. The credit card business in Nepal depends mainly upon the arrival of tourist and high fixed cost associated with card operation was portrayed as a barrier.

But the study does not give the complete answer to the research problem. The study mainly focuses on Nabil Bank Ld and only Nabil Bank does not represent the total card market .From researcher study, it can be concluded that the Thapa’s study is descriptive rather than analytical. Nevertheless, in the absence of any work paper on credit cards, his initiation to present the card market scenario of Nepal is highly commendable and is worth noting for further more studies on it. Hence, the necessity of research does not finish.

Hada, (2004), had conducted “Credit card Practices in Nepal”. In this research, researcher had tried to find out the situation of credit card in Nepal at that period considering three banks and the leader bank that led the card business and viability of card business in Nepal. In this research too the researcher had failed to present the exact business of credit card and the research is only based on secondary data. Hence the necessity of research is still not finished.

Shrestha, (2007), had conducted research on “Credit card business in Nepal with reference to Himalayan Bank Limited”. Her work is highly commendable and she had drawn significant conclusions and remarkable recommendations for Himalayan Bank. The study is more analytical and also attempts to give a slight picture of credit card market in Nepal. But the study only deals with one bank and is only directed to identify problems of that particular bank only.

Rana (2009) had conducted research on “Credit Card Practices in NEPAL”. The main objective of the study is to find out the new prospects and challenges for the credit card business in Nepal. Researcher has taken Nabil, SCBNL and HBL as sample banks. The study has failed to show the exact present condition of Credit card business in Nepal but has shown the brief business pattern of the sample banks.

### **2.3. Research Gap**

Credit card business is most popular form of payment among the types of payment due to its special features. But in Nepal the popularity of credit card is quite low due to ignorance about this card business. There are not many researches that have been conducted on this topic and the study which is related to this topic is also unable to brief on the detail meaning and importance of credit card in modern life. The above two research is only based on the secondary data. Hence this research is distinct in the sense of presenting secondary data as well as primary data which shows the concise figure of credit card business in Nepalese market and how it affects modern life. An approach toward finding market scenario, card players, customer behavior, attitude toward card services, attracting future customers and retaining present customers, marketing need for credit cards, possible improvements and role to be played by different parties involved in the business has been taken in this thesis.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

This chapter of the study contains the procedure and techniques adopted during the study. Research Methodology is the systematic method of finding solution to a problem i.e. systematic collection, recording, analysis, interpretation and reporting of information about various facts of a phenomenon under study. It includes the research design, population and sample, nature and sources of data, methods of data collection, data processing, data analysis tools and limitation of the methodology. This chapter describes research design, population & sampling, sources of data and analysis of the data. The systematic and well organized way of solving the research problem can be referred to as research methodology. The research methodology methods and techniques are convenient and appropriate for analyzing the data and information collected.

#### **3.1 Research Design**

The descriptive analytic is essentially a fact finding approach relative largely to present and abstracting generalizations by cross sectional study of the current situation and diagnostic research design relates to problem and to find out that solution. The research can also be taken as a development approach as it takes the developmental approach in finding out the solution. The research can also be taken as a development trend of credit card business in Nepal. This research shows trend of credit card business in Nepal.

#### **3.2 Population and Sample**

All the banking and financial institutions that are established and guided under the Banking and Financial Institutions Act, 2063 and operating within the span of Nepal country and using Debit as well as Credit Cards or only one of them are population of this research work. Till the research period of conduction there are 32 commercial banks, 87 financial institutions and other many more

institutions like this. So, these institutions are laid under the population of this study. In Nepal only 6 banks issue credit card. On the other hand, the sample of this study is only Himalayan Bank Limited and NABIL Bank Limited, are selected by using random sampling method with the consideration of convenience of the researcher. Both banks are A level financial institutions and operating as the Nepalese commercial banks and providing debit card and credit card services to their customers.

### **3.3 Sources of Data**

Each field work has its own data needs and data sources. 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 source. For primary data collection interview was taken with staffs in the concerned department. Interaction and interviews with card users and merchants were also carried out. Direct interview with the staffs, officers and departmental heads involved in the credit card center was also made. The officer clarified all the data and gave all the required information in relation to the study. Regular unstructured and structured interviews were conducted with the said groups during the research period.

#### **Secondary Data**

Secondary data are those data that has already been generated by others. Sources of secondary data for this study includes sales information, accounting data, internally generated reports which are found within the company and web site of the company and sources refers to books, websites, publication periodicals, data service and computer data banks, reports and statistics gathered and compiled by other prior to study.

### **3.4 Data Collection Procedure**

Both primary and secondary data were used in preparing these reports. And data was obtained directly from concerned staffs in the credit card centre of the concerned banks. Previous theses were also consulted for the consolidated data record from Nepal card member forum. As mentioned above few data were also taken from the card department head of NABIL Bank Limited.

### **Structured Questionnaire**

Structured questionnaires were prepared for three different sample groups; Customers (card users), Merchants and Departmental stores. Few banking staffs and friends working at Alpine Travel Service and various banks with acquaintance of credit card were also consulted.

### **3.5 Methods of Data Presentation and Analysis**

As stated earlier, the basic structure of this study is descriptive and analytical as well. In order to make the study more precise, the data are presented in tabular form. Figures and diagrams are used to clarify and verify the data presented. Various statistical tools are used to evaluate the performance of credit card business. Card business comparison among NABIL BankLtd and Himalyan Bank Ltd is also made.

### **Statistical Tools Used**

The following statistical tools are used to evaluate the working performance of credit card business in credit card market in Nepal.

### **Standard deviation**

The standard deviation measures the absolute dispersion. The chief characteristics of standard deviation are that it is based on mean, which gives uniform and dependable results. A standard deviation is the positive square root of average sum of squares of deviations of observations from the arithmetic

mean of the distribution. Karl Pearson introduced the concept of standard deviation in 1823 and denoted it by small Greek letter 'σ' called sigma. The value of standard deviation has been derived by using the following formula:

$$\sigma_J = \left[ \frac{\sum (R_J - \bar{R}_J)^2}{N - 1} \right]^{1/2}$$

Where,

$\sigma_J$  = standard deviation of return on stock J during the time period N

$R_J$  = expected rate of return

$(\bar{R}_J)$  = the average rate of return

N = number of observation

### **Co-efficient of Variation (C.V.)**

The standard deviation in the formula gives an absolute measure of dispersion. The C.V. is used for comparing the homogeneity, uniformity, and variability of two or more distributions. Coefficient of variation can be expressed mathematically as,

$$\text{Coefficient of variation (C.V.)} = \frac{\sigma}{\bar{x}}$$

### **Correlation of Coefficient**

Correlation coefficient may be defined as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. It is denoted by r and is expressed as,

$$\text{Correlation coefficient (r)} = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}}$$

### **Trend Analysis/Time Series**

Economists and business experts have often to deal with variables (quantities) which change in value with time. Variation of such quantities with time can be systematically studied and analyzed by presenting on the Figures. For obtaining knowledge about the nature of variation of a quantity along with time, time series can be used. Hence the time series is used to measure the change of the economical and commercial data like population, sales, productions, exports, and imports over a period of time.

When a series of data pertaining to a series of continuing periods should be studied, its characteristics and its future direction is best estimated by the time series. This analysis is a series of data keeping in mind the various short term and long term fluctuations.

The data of last seven years from 2003 to 2009 has been used in measuring the trend analysis. The least square method to trend analysis has been adopted to measure the trend behavior of sampled bank. The straight line trend of series of data is represented by the following formula:

$$Y = a + b X$$

Here 'Y' is used to designate the trend values to distinguish them from the actual 'y' value; 'a' is the 'y' intercept of the computed trend figure of the y variables. It is the value of Y when X=0, and b represents the slope of the trend line. It is the regression coefficient of Y on X or rate of change in Y for the unit change in X.

## **CHAPTER - IV**

### **PRESENTATION AND ANALYSIS OF DATA**

For any kind of research study the main or core part is presentation and analysis of data. It is the heart of any research. It provides the clear vision about what the researcher wants to conclude with the help of related and relevant figures in quantitative and qualitative presentation and analysis of data. In this chapter, the concern is given into presentation and analysis of data in detail. As data presentation and analysis is the crucial part of any research. The purpose is to organize the collected data for making analysis of those data into an easy and understandable presentation way so that it can be easily understood and can draw conclusion from their interpretation. So, presentation of the data and its analysis help us to draw valid conclusion.

This chapter focuses on the data analysis and data presentation of the selected banks into the related matter of the study which has been conducted by the researcher. Categorically this chapter has been divided into three main sections. First section deals with the analysis of trend of uses of debit and credit cards by the selected banks based on fundamental analysis with the help of secondary data. Those data have been obtained and collected from the various secondary sources. Those related data are mainly collected from websites and annual reports of related banks. Similarly, second section deals with the analysis of future trends and challenges as well as further perspective of using credit and debit cards by the selected banks with the help of primary research tools. Those are collected from the primary sources with help of questionnaires, personal visits as well as inquiry on face to face meeting of respondents.

#### **4.1 Analysis of Secondary Data**

In this section of the study those data are analyzed which are obtained from the secondary sources with the help of different tables, graphs, lines, and pie-

diagrams as per the need of research. Here into this section the researcher has conducted his efforts to find out the trend of uses of debit and credit cards, number of customers served by the selected banks with this service, volume of transactions into year wise for the research period from the fiscal year 2002/03 to the fiscal year 2010/11 hence for eight years. As well as the researcher has been forecasted the trend volume of credit cards users of these selected banks for four financial years till the fiscal year 2014-2015. On the basis of obtained data of both banks NABIL Bank and Himalayan Bank the scenario of Nepalese banking industry is also tried to represent into average. Besides this average, standard deviation, coefficients of variation, correlation are also computed to conclude research conclusions.

**Table 4.1**  
**Trend of Credit Cards Users**

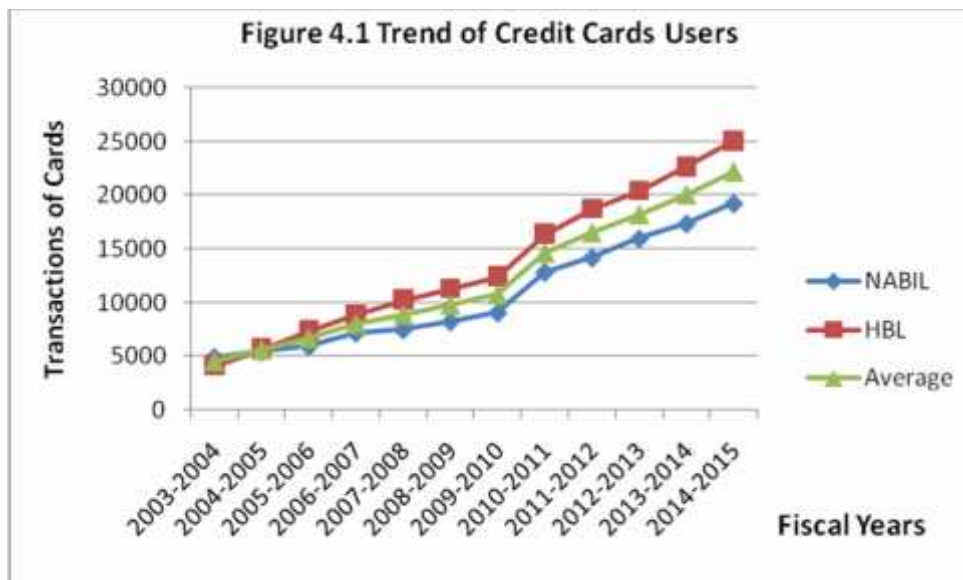
<b>Year</b>	<b>NABIL</b>	<b>HBL</b>	<b>Average</b>	<b>Remarks</b>
2003-2004	4910	4088	4499	Actual Data
2004-2005	5450	5683	5567	
2005-2006	5940	7388	6664	
2006-2007	7200	8852	8026	
2007-2008	7500	10249	8875	
2008-2009	8250	11273	9762	
2009-2010	9078	12401	10740	
2010-2011	12864	16392	14628	
2011-2012	14210	18732	16471	Forecasted Data
2012-2013	15986	20421	18204	
2013-2014	17384	22693	20039	
2014-2015	19265	25104	22185	
Average	10670	13606	12138	
S.D.	5026	6928	5967	
C.V.	47.10	50.92	49.16	

Source: Annual reports- Himalayan Bank and Nabil Bank (Actual Data)

According to the above table 4.1 in the average Nepalese commercial banking industry has been provided credit cards facility to the customers of the volume 12,138 per year whereas the selected Nepalese commercial banks: NABIL Bank Limited and Himalayan Bank Limited have been provided this facility to

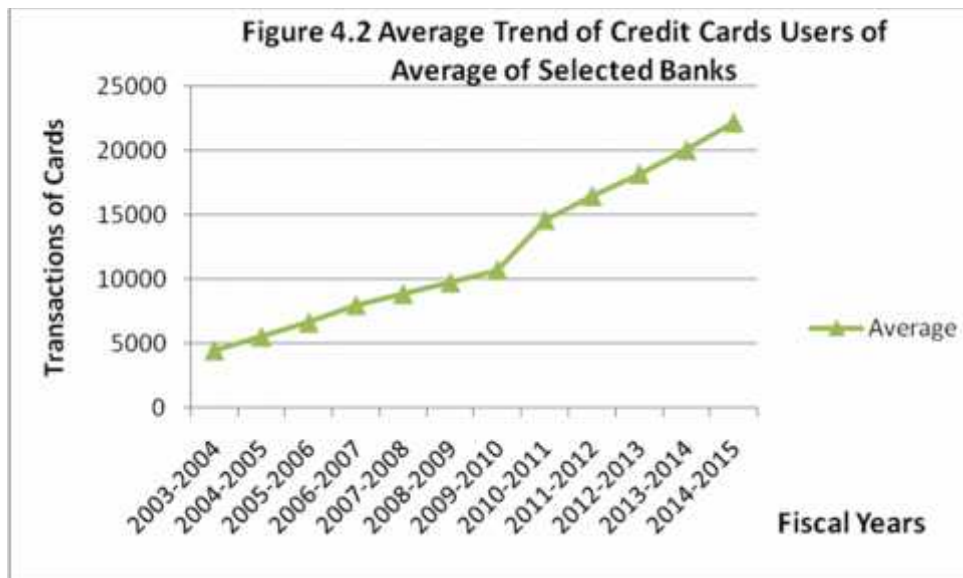
their customers in the volume of 10,670 and 13,606 persons on the average for the research duration of eight years from the fiscal year 2003/04 to the fiscal year 2010/11 and the forecasted period of four fiscal years from the fiscal year 2011/12 to 2014/15. For the same research duration these selected banks are having standard deviation of 5026 and 6928 respectively for each bank with the co-efficient of variation of 47.10% and 50.92% respectively for those both banks. On the other hand, Nepalese commercial banking industry has these values of 4208 and 48.96% for the same research duration of eight years.

As the figure of Nepalese customers of credit card facility provided by the Nepalese commercial banking industry as well as selected Nepalese commercial banks the trend of this has been increasing as the every fiscal year passed. In the starting year of research duration average Nepalese credit cardholders of Nepalese commercial banking industry with respect of these two banks are 4,499 in volume where as this volume has been reached into the last fiscal year 2010/11 at 22,185. All these information about the credit card users have been shown into the following figure 4.1



As the above figure 4.1 indicated that there is increasing trend of Nepalese customers of credit cards facility provided by the selected Nepalese

commercial banks: NABIL Bank Limited and Himalayan Bank Limited. On the other hand in case of total Nepalese commercial banking industry also this trend is in increasing as the every fiscal year of research has been passed from the fiscal year 2003/04 to the fiscal year 2014/15. In case of analyzing this trend of credit card users the contribution of Himalayan Bank has been seen higher because the trend line of this bank is higher than the trend line of average of Nepalese commercial banking industry for the same research period. The trend line of credit card facility users of Nepalese commercial banking industry have been presented below into the figure 4.2.



As the both trend lines of selected Nepalese commercial banks NABIL Bank and Himalayan Bank Nepalese commercial banking industry is also having the increasing trend of provided credit card facility to their customers for the research period of eight years from the fiscal year 2003/04 to the fiscal year 2010/11 as well to forecasted period too which is based on the average value of both selected banks. Hence both figures 4.1 and 4.2 have indicated same trend of direction and positive correlation among them. Besides this the users of credit card facility provided by Nepalese commercial banking industry and the

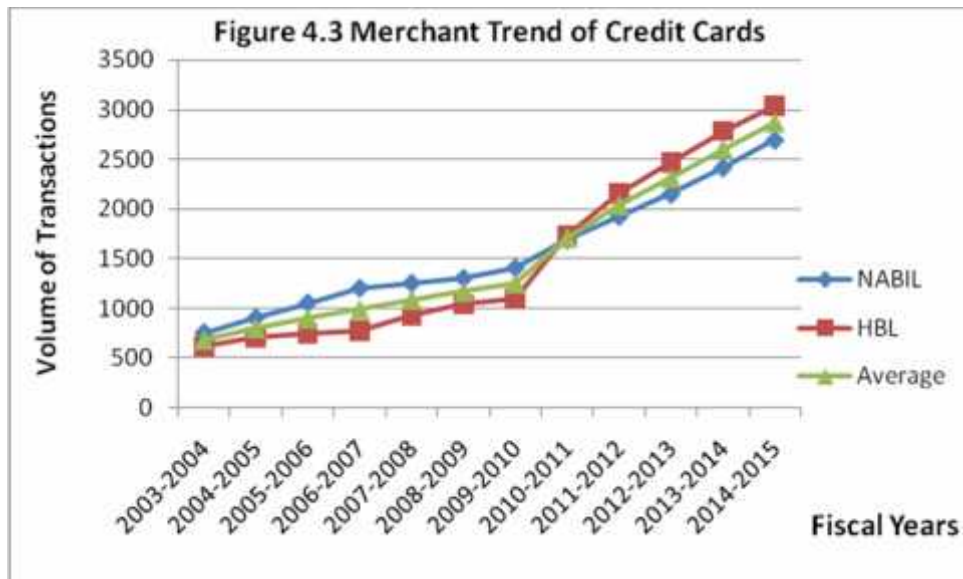
selected two Nepalese commercial banking to merchant persons have been shown into the following table 4.2.

**Table 4.2**  
**Merchant Trend of Credit Cards**

<b>Year</b>	<b>NABIL</b>	<b>HBL</b>	<b>Average</b>	<b>Remarks</b>
2003-2004	750	619	685	Actual Data
2004-2005	900	708	804	
2005-2006	1050	750	900	
2006-2007	1200	777	989	
2007-2008	1250	926	1088	
2008-2009	1300	1040	1170	
2009-2010	1404	1102	1253	
2010-2011	1684	1735	1709	
2011-2012	1923	2157	2040	Forecasted Data
2012-2013	2148	2463	2306	
2013-2014	2416	2784	2600	
2014-2015	2694	3037	2866	
Average	1560	1508	1534	
S.D.	617	885	748	
C.V.	39.55%	58.69%	48.76%	

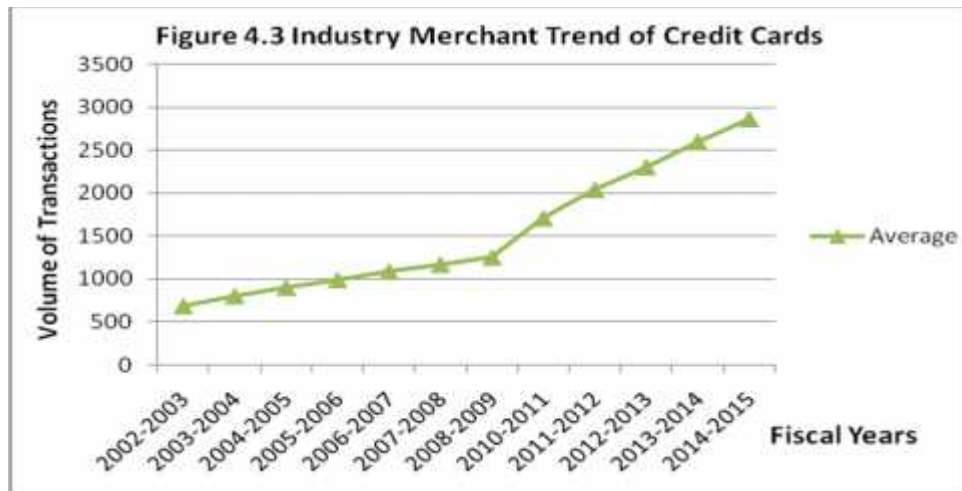
Source: Annual reports- Himalayan Bank and Nabil Bank (Actual Data)

According to the above table 4.2 the merchant trend of credit card facility provided by the one of the selected Nepalese commercial bank, NABIL Bank Limited is 1560 on the average for the eight years of research duration from the fiscal year 2003/04 to the fiscal 2010/11 with the standard deviation and more four fiscal years forecasted and co-efficient of variation of 39.55% for the total research duration. On the other hand, this trend value of Himalayan Bank Limited for the same research period is 1508 with deviation value of 885 and co-efficient of variation of 58.69%. This trend of Nepalese commercial banking industry is 1534 with co-efficient of variation and deviation value of 748. All these information has been presented into the following figure 4.3.



As the above figure 4.3 indicated that there is increasing trend of Nepalese customers of credit cards facility provided by the selected Nepalese commercial banks: NABIL Bank Limited and Himalayan Bank Limited in case of merchant people too. On the other hand in case of total Nepalese commercial banking industry also this trend is in increasing as the every fiscal year of research has been passed from the fiscal year 2003/04 to the fiscal year 2010/11 and next four years forecasted.

In case of analyzing this trend of credit card users the contribution of NABIL Bank has been seen higher because the trend line of this bank is higher than the trend line of average of Nepalese commercial banking industry for the same research period. The trend line of credit card facility merchant users of Nepalese commercial banking industry have been presented below into the figure 4.2.



As the both trend lines of selected Nepalese commercial banks NABIL Bank and Himalayan Bank Nepalese commercial banking industry is also having the increasing trend of provided credit card facility to their merchant customers as general customers for the research period of eight years from the fiscal year 2003/04 to the fiscal year 2010/11.

Hence both figures 4.3 and 4.4 have indicated same trend of direction and positive correlation among them. Besides this the users of credit card facility provided by Nepalese commercial banking industry and the selected two Nepalese commercial banking to merchant persons.

### **Measurement of Growth Rate**

Here, the researcher has been tried to find out the growth rate of uses of credit cards in Nepalese financial market with the respect of selected commercial banks i.e. NABIL Bank Limited and Himalayan Bank Limited. The growth rate has been obtained for the eight financial years from the fiscal year 2003-2004 to the fiscal year 2010-2011. And also this rate has been forecasted for next four financial years till the financial year 2014-2015. Below those rates have been presented into the table 4.3.

**Table 4.3**  
**Growth Rates of Uses of Credit Cards (%)**

<b>Year</b>	<b>NABIL</b>	<b>HBL</b>	<b>Average</b>
2003-2004	-	-	-
2004-2005	11.00	39.02	23.74
2005-2006	8.991	30.00	19.71
2006-2007	21.21	19.82	20.44
2007-2008	4.167	15.78	10.58
2008-2009	10.00	9.991	9.989
2009-2010	10.04	10.01	10.02
2010-2011	41.71	32.18	36.20
2011-2012	10.46	14.28	12.60
2012-2013	12.50	9.017	10.52
2013-2014	08.75	11.13	10.08
2014-2015	10.82	10.62	10.71
Average	12.47	16.82	14.55

Source: Table 4.1

According to above table 4.3 the growth rate of using trend of credit cards into Nepalese financial market with the respect of selected two banks has been calculated by assuming the base year to the fiscal year 2003/04.

Hence the average growth rate of credit cards users of NABIL Bank Limited has been found 12.47% and in case of Himalayan Bank Limited is 16.82%. Whereas, on the aggregate average of both banks during total research period with forecasted period too this rate is 14.55%.

### **Measuring Correlation (r)**

Correlation coefficient helps to find the relationship between variables and how they move together. In this study relationship between different banks in case of cardholder and merchant is calculated and found as follows.

**Table 4.4**

**Correlation Analysis of Individual Credit Cardholders**

<b>Variables</b>	<b>NABIL</b>	<b>HBL</b>	<b>Industry</b>
<b>NABIL</b>	<b>1.00</b>	<b>-</b>	<b>-</b>
<b>HBL</b>	<b>0.987</b>	<b>1.00</b>	<b>-</b>
<b>Industry</b>	<b>0.998</b>	<b>0.976</b>	<b>1.00</b>

According to the above table the correlation between the number of cardholders of NABIL Bank with HBL and Industry are 0.987, 0.998 respectively that has been shown into the above table 4.4. On the other hand the correlation of Himalayan Bank with the Nepalese commercial banking industry is 0.976 for the research duration.

Hence all these obtained values of correlation have been found that there is high degree of positive correlation among these variable. This means NABIL and HBL move in the same direction as well as Nepalese commercial banking industry is also moving towards the same direction. This relationship about the merchant credit cardholders have been seen into the below table 4.5.

**Table 4.5**

**Correlation Analysis of Merchants Credit Cardholders**

<b>Variables</b>	<b>NABIL</b>	<b>HBL</b>	<b>Industry</b>
<b>NABIL</b>	<b>1.00</b>	<b>-</b>	<b>-</b>
<b>HBL</b>	<b>0.974</b>	<b>1.00</b>	<b>-</b>
<b>Industry</b>	<b>0.983</b>	<b>0.972</b>	<b>1.00</b>

According to the above table the correlation between the number of merchant cardholders of NABIL Bank with HBL and Industry are 0.974, 0.983 respectively that has been shown into the above table 4.5. On the other hand the

correlation of Himalayan Bank with the Nepalese commercial banking industry is 0.972 for the research duration.

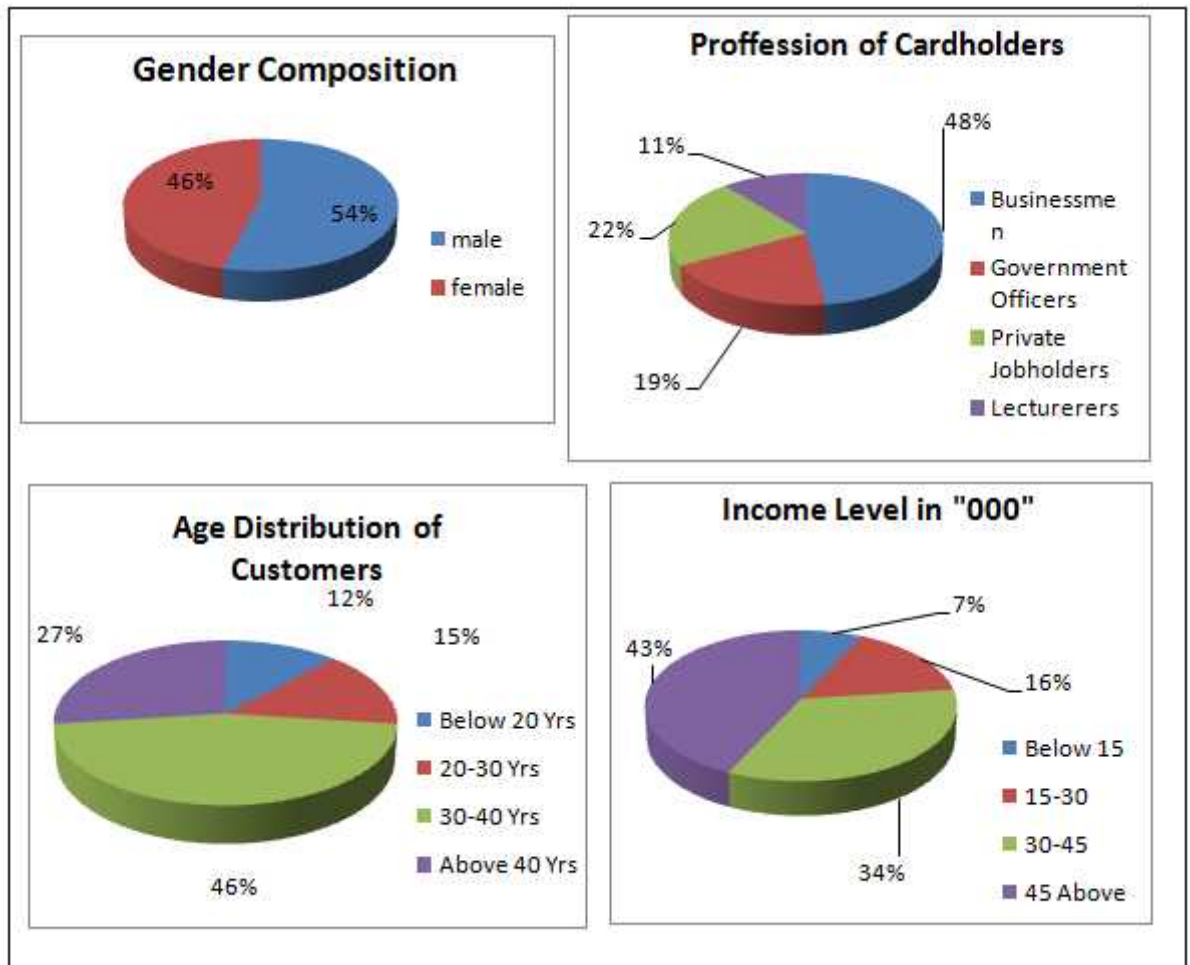
Hence, all these obtained values of correlation have been found that there is high degree of positive correlation among these variable. This means NABIL and HBL move in the same direction as well as Nepalese commercial banking industry is also moving towards the same direction.

#### **4.2 Analysis of Primary Data**

Into this section of this research work the researcher has been analyzed those primary data which are collected from the distributed questionnaires among the selected 100 respondents. Among total number of selected 100 respondents fifty percent respondents are the users of credit cards issued different Nepalese commercial banks.

The remaining fifty percent of respondents are staffs and employees at these Nepalese commercial banks into different level of post. Other relevant information of the selected respondents for conducting this research work has been presented into the following figure.

**Figure 4.5**  
**Information about the Credit Cardholders**



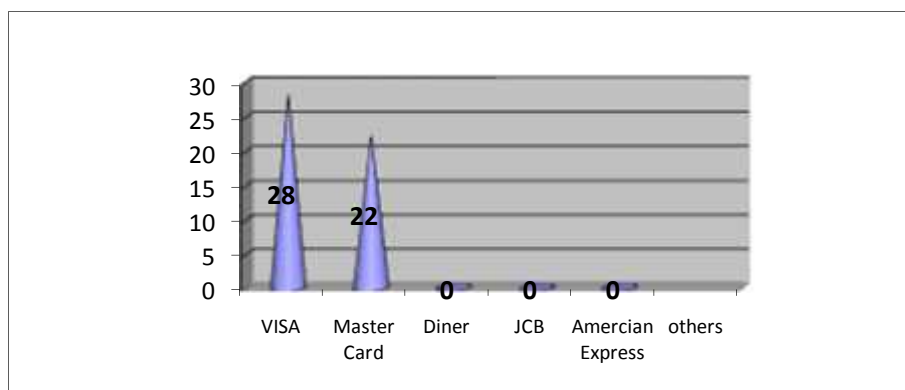
As the above figure 4.5, among selected respondents of 50 card holders 54% were male and 46% were female which show that among total number of credit cardholders most people are male. On the other hand, majority of the respondents surveyed own their own personal business. So, this figure indicated that most of the credit card users are businessmen. Almost half of the credit card users of Nepalese commercial banks are entrepreneurs who are involving their own business. In fact 48% of the selected respondents are operating business of their own. Secondly, 22 % of the total selected respondents among credit cardholders are jobholders into different institutions

private sector and 19% of total selected respondents of credit cardholders are government officers and rest 11% are lecturers at different university.

As the above table indicated that out of 50 customers of Nepalese commercial banks for on the basis of age group, 46% are between 30 to 40 years, 27% were above age of 40 years 15% of them are in between the age of 20 to 30 years and the rest 12% were below the age of 20 years. Similarly, out of the 50 respondents possessing credit card, 43 % cardholders had monthly income above Rs.45, 000, 34 % earned between 30,000-45,000, 16% earned monthly income between 15,000-30,000 and 7% people are having revenue below 15,000.

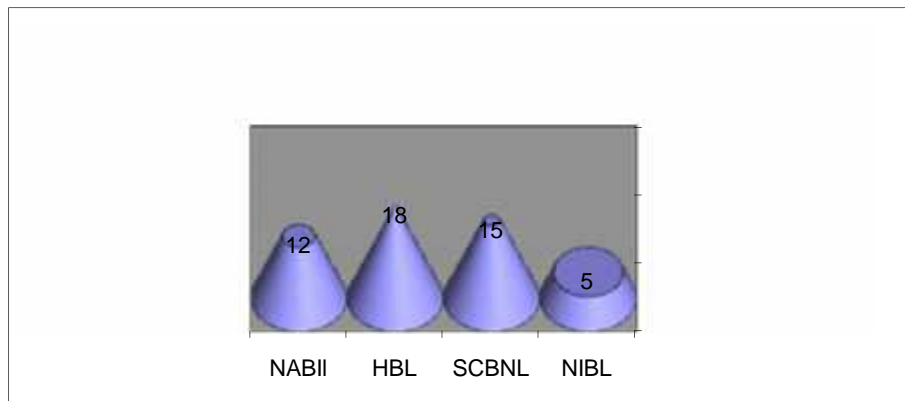
In case of types of credit cards that have been used by Nepalese credit cardholders which cards are issued by Nepalese commercial banks, Out of 50 respondents, 56% respondents have had VISA card and 44% had master card. Hence we have found that customers are simultaneously using VISA card and Master Card. None of my respondents possessed JCB, Diners, American Express and other cards. These cards are mostly held by tourists and foreigners and the acceptance infrastructure for these cards is slowly growing. These cards are accepted in few departmental stores, merchants (travel agency and hotels only).All these information have been presented into following figure 4.6.

**Figure 4.6 Types of Cards**



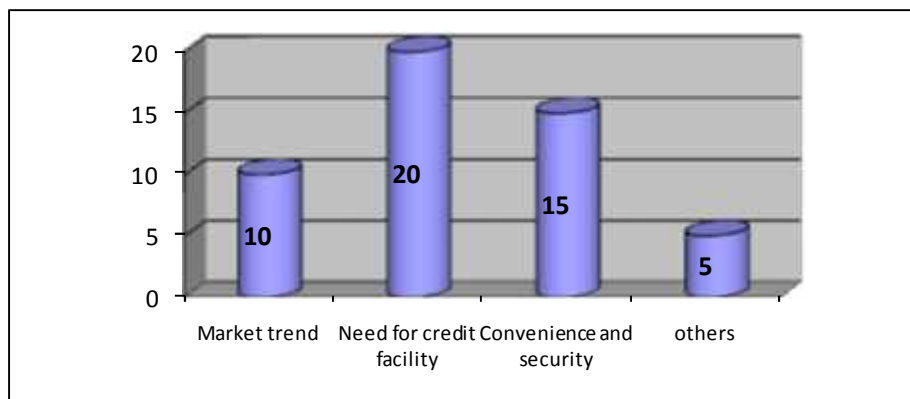
As per figure 4.7, among the sample banks, it is seen that most of the customers have acquired credit card of Himalayan Bank Limited. 36% cardholders acquired card of Himalayan bank, 30% acquired card of SCBNL, 24% acquired card of NABIL Bank Limited and 10 % acquired card of NIBL.

**Figure 4.7 Cards Acquired of Different Banks**



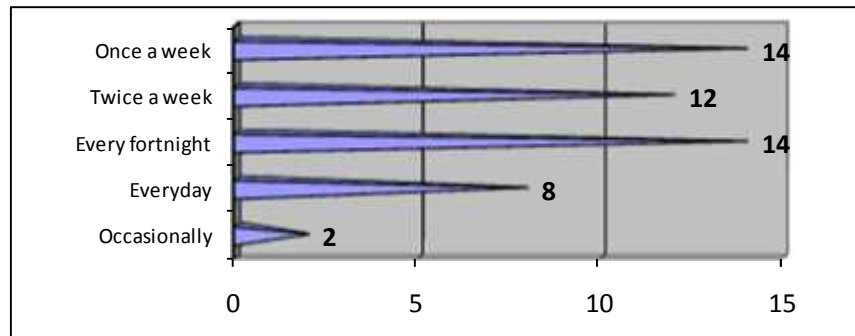
As per figure 4.8, out of 50 respondents, 20% decided to acquire credit card because of increasing market trend, 40% decided to acquire card because they needed credit facilities, 30% decided to acquire card because of convenience and security and 10% acquired card for various other reasons. Hence we can see that majority of customers acquired card for credit facility as well as to keep up with market trend, convenience and security.

**Figure 4.8 Reasons for Acquiring Credit Card**



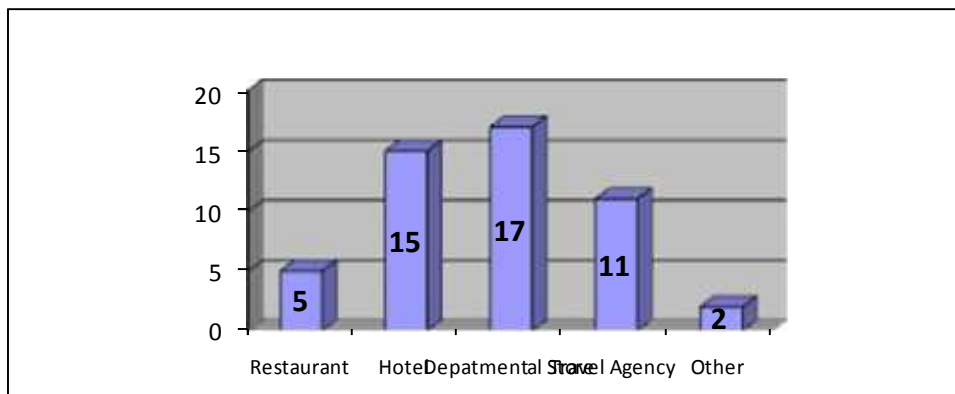
As per figure 4.9, of the 50 respondents, it was found that 28 % of them purchase through credit card once a week, 24% of them use it twice a week, 28 % of them use it every fortnight, 16 % of them use it every day and 4% of them use it only occasionally.

**Figure 4.9 Purchases through Credit Card**



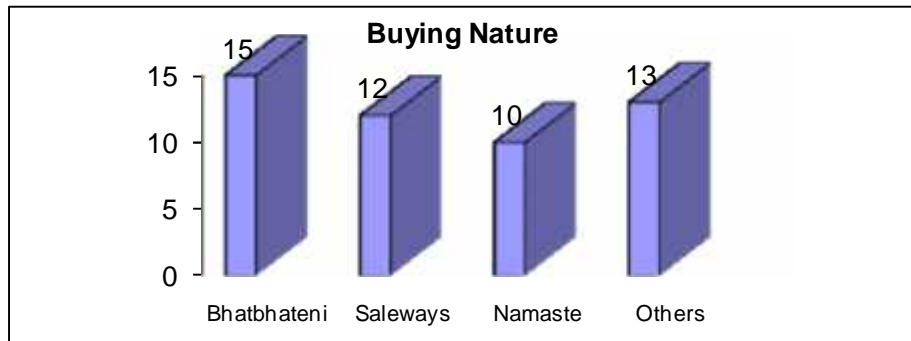
As per figure 4.10, out of 50 customers, 10 % use credit card in restaurant, 30 % of them use at the hotel and 34 % of them use at departmental stores. Likewise, 22 % of them use credit card at travel agency.

**Figure 4.10 Places of Usage of Credit Card**



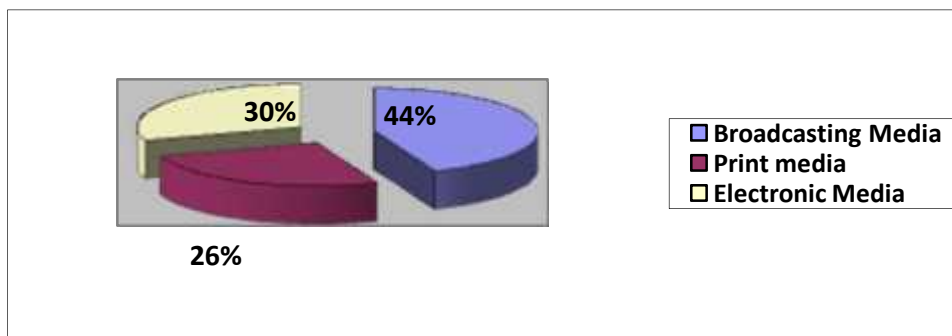
As per figure 4.11, out of 50 customers having credit card, 30 % of them use their card at Bhatbhateni Supermarket, 24% of them use card in Saleways Supermarket, 20 % at Namaste Supermarket, 26 % of them use their credit card at other supermarkets and stores.

**Figure 4.11 Buying Nature of Customers**



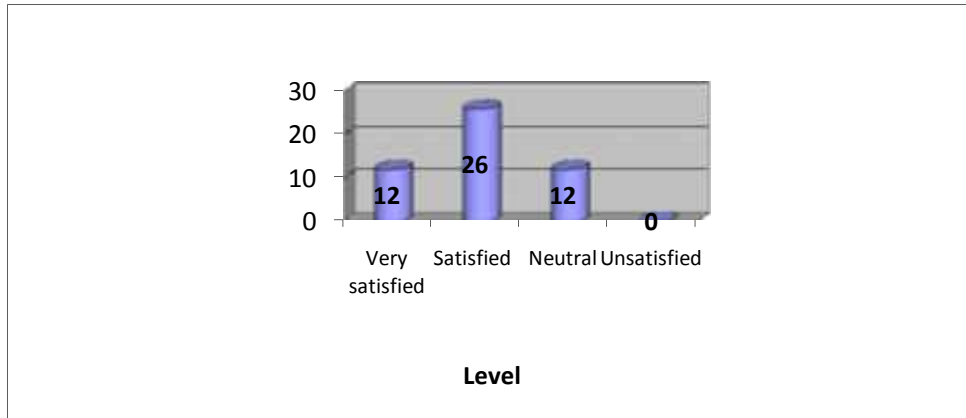
As per figure 4.12, from the sample size of 50, it was seen that most of the customers, 44%, were acquainted with credit card through broadcasting media like, TV, radio and the next effective media from which they came to know about the credit card were electronic media and print media, which comprised of 30% and 26% respectively.

**Figure 4.12 Appropriate Media**



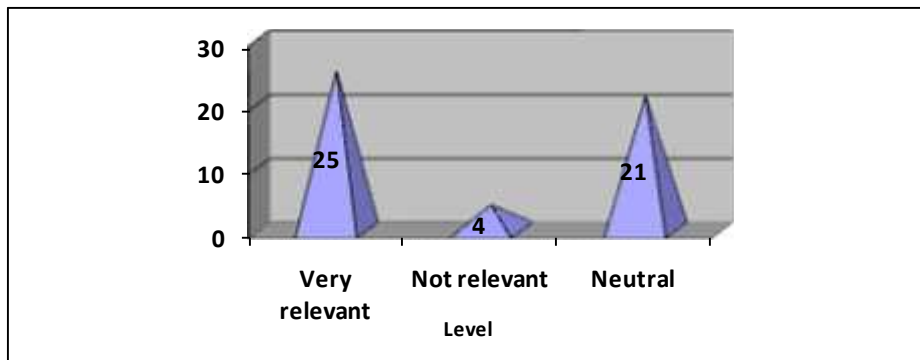
As per figure 4.13, out of 50 customers, 24% of them possessing card were very satisfied, whereas 52% of them said they were satisfied and 24% of them were neutral while no one felt they were unsatisfied by the credit card they availed.

**Figure 4.13 Level of Satisfaction**



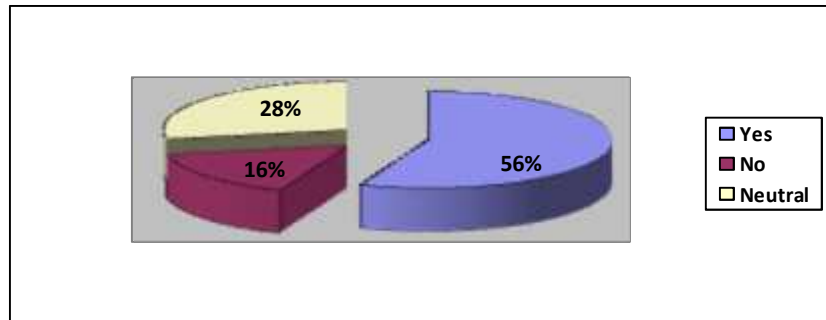
As per figure 4.14, out of 50 customers, 50 % felt that the facility of credit card being adopted by the bank is very relevant in commercial banking, 8% felt it was not so relevant and 42% of them had no opinion and were neutral about the facility of credit card being adopted by the different bank.

**Figure 4.14 Relevancy of Credit Card Facility by Bank**



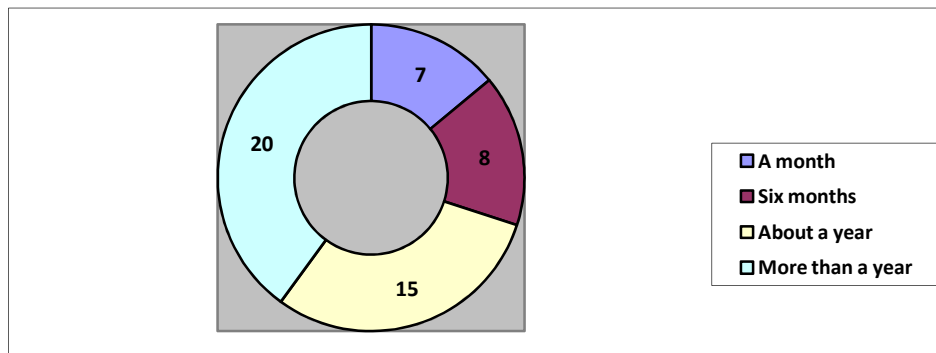
As per figure 4.15, out of 50 customers, 56% (28) were satisfied with the limit made by the bank where as 16 % ( 8) were not satisfied with the limit and similarly 28% (14) of them were neutral about the limit made by the bank.

**Figure 4.15 Satisfaction in Limit Made by Bank**



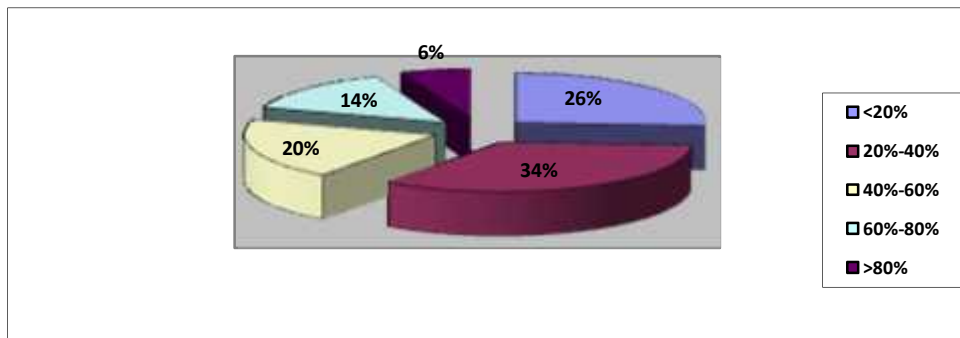
As per figure 4.16, out of 50 respondents, 40% (20) were found using their credit card for more than a year, 30% (15) of them had almost used their credit card for a year and 16% (8) were using for about six months. Likewise, only 14% (7) had recently acquired their credit card, about a month.

**Figure 4.16 Time Elapsed since Card Acquired**



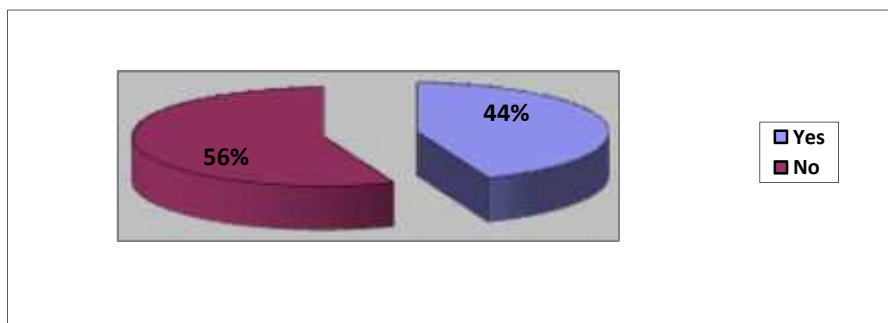
As per figure 4.17, out of the 50 card holders, it was found that 26% of the card holders make less than 20% of their purchases through credit card, 34% of them make 20% - 40% of their purchases through credit card. Similarly, another 20% make 40% - 60% of their purchases through credit card and likewise 14% of the card holders make 60%-80% of their purchase with it and the customers who make more than 80% of their purchase only comprised 6% which is pretty low.

**Figure 4.17 Expenses through Credit Card**



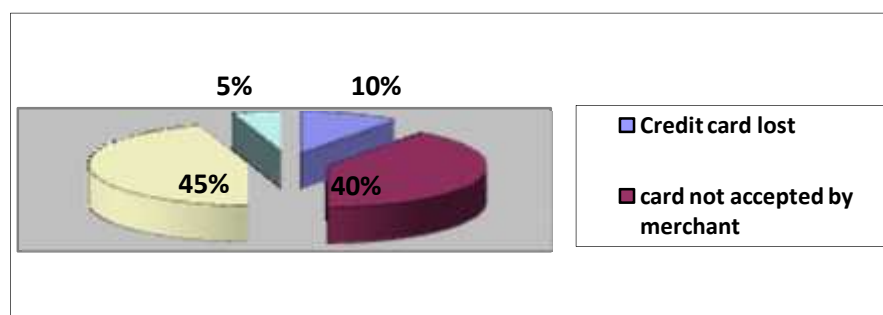
As per figure 4.18, out of 50 card holders, 44 % had encountered different types of problems and rest of 56 % of card holder had not yet faced any sort problem.

**Figure 4.18 Problems Encountered**



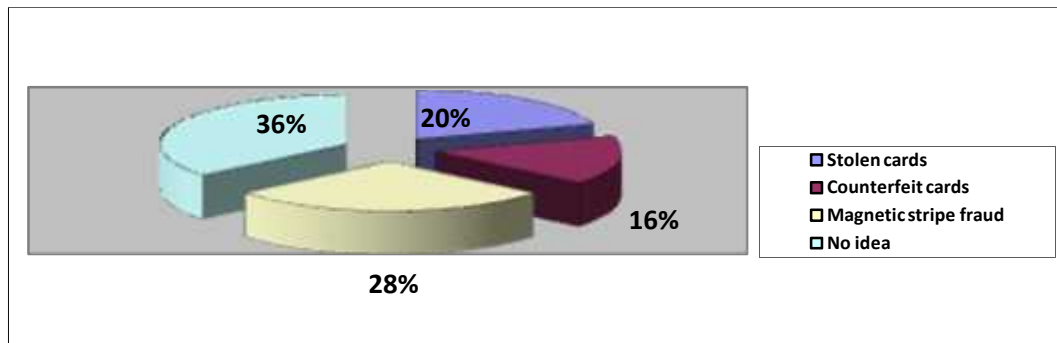
As per figure 4.23, among those who encountered problems with their credit card, 45% faced problem of non acceptance of card by machine and 40% faced problem of non acceptance by merchant.

**Figure 4.19 Types of Problems Encountered**



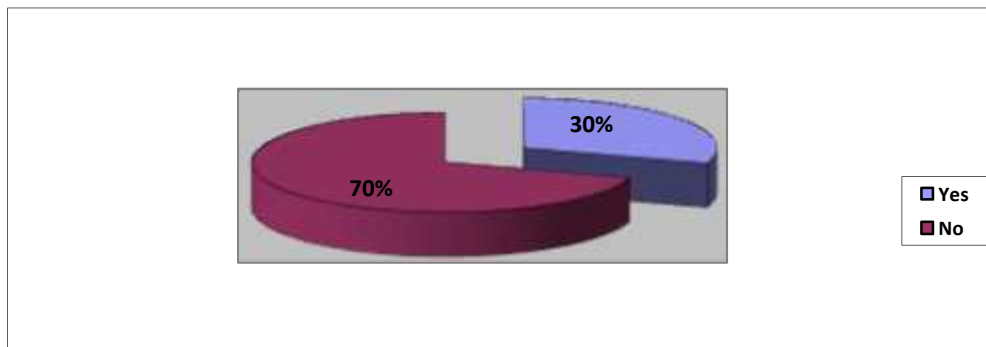
As per figure 4.20, out of 50 respondents, almost 36% had no idea on credit card frauds, 20% were aware on risk of cards stolen, 16 % knew about counterfeit card frauds and 28% knew about magnetic stripe fraud due to recent happening of such frauds in ATMs and POS machines.

**Figure 4.20 Knowledge on Card Frauds**



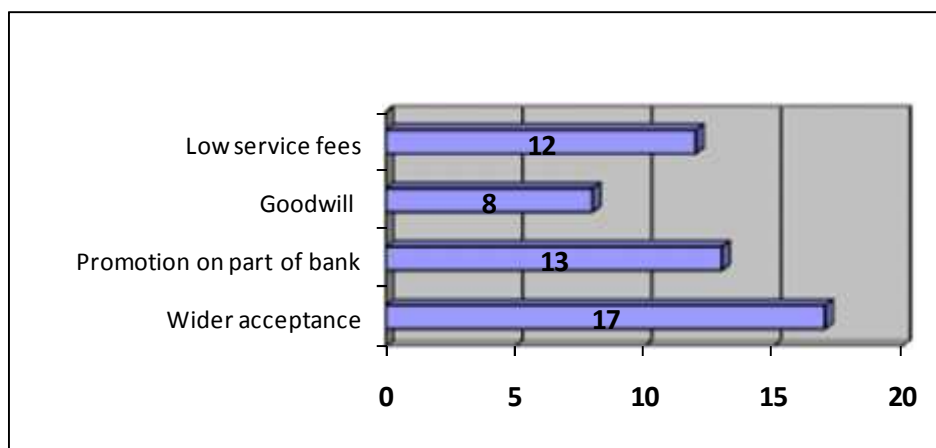
As per figure 4.21, out of 50 respondents, only 30% turned out to know about disputes in credit card and the settlement process due to their experience with it and by learning from internet. However 70% showed no familiarity with the process.

**Figure 4.21 Knowledge on Credit Card Disputes**



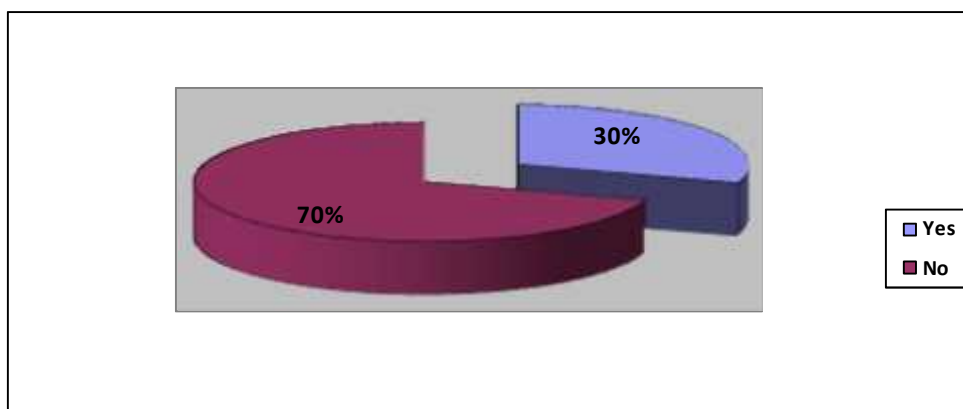
As per figure 4.22, out of 50 respondents, 34% would give up their current card for a new card if the card has wider acceptance while 26% were also ready to change cards or acquire a new one if they receive tangible promotions from banks. Also 24% would change cards if the service fees are low and 16 % cited goodwill as an incentive for change.

**Figure 4.22 Incentives to Change Cards**



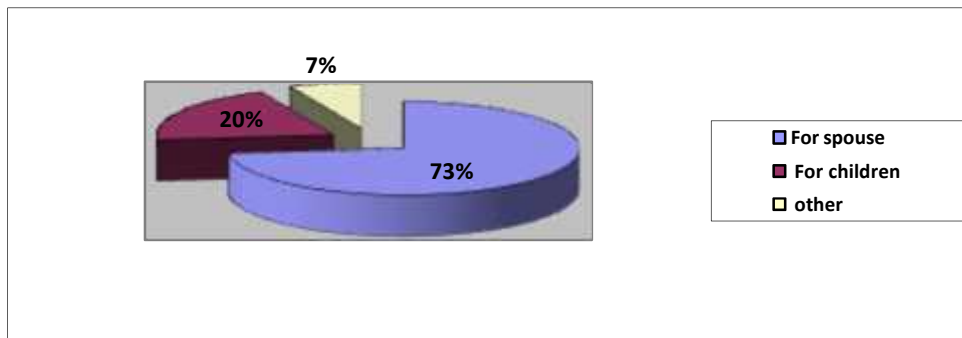
As per figure 4.23, out of the 50 respondents asked, 30% have acquired supplementary cards with the main card for their spouse or children while 70% have not acquired supplementary cards.

**Figure 4.23 Supplementary Cards Possessed**



As per figure 4.24, out of the 30% who also acquired supplementary cards with the main card, 73% acquired it for their spouse and 20% acquired them for their children of eligible age.

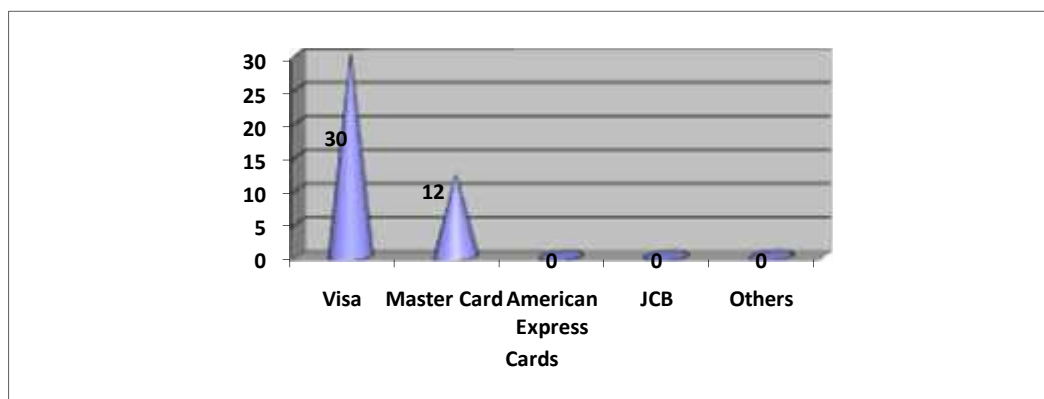
**Figure 4.24 Supplementary Card Users**



### **Departmental Stores**

As per figure 4.25, out of the 30 departmental stores visited for questionnaire, their entire (100%) customer had credit card of VISA, while 40% customer had both VISA and Master card. Many times customers with other cards also drop in and enquire whether their cards are accepted by the stores on purchasing.

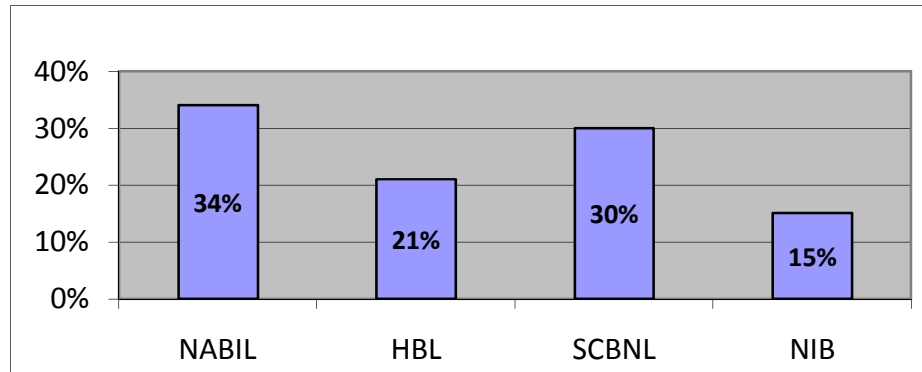
**Figure 4.25 Types of Cards Used by Customers**



As per figure 4.26, from the questionnaires collected, 34% replies were in favor of POS machine of NABIL bank, 30% possessed POS of SCBNL and 21% possessed POS of HBL. The remaining 15% had chosen NIBL for their POS machine. However, big departmental stores like Bhatbhateni were found with POS machines of more than one bank. Few departmental stores were also found accepting cards like American Express and JCB. The POS of NIBL is also gaining fast popularity because of the large number of debit cards they

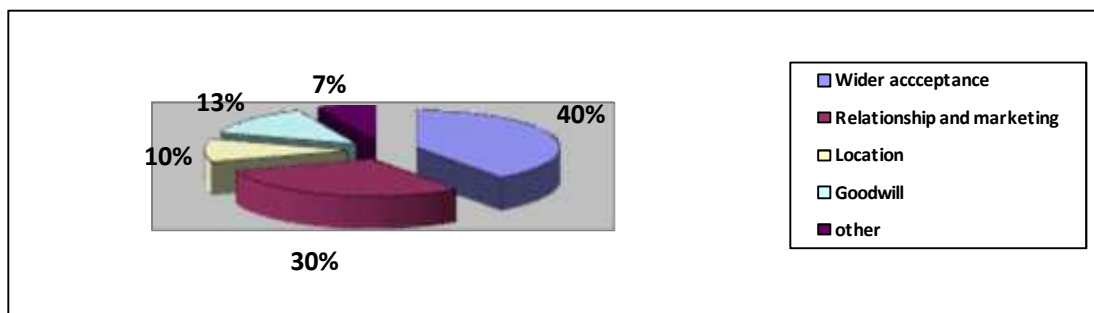
have managed to float in the market. Although NIBL entered only about two years before in the credit card market, it has already installed more than 500 POS network with over 300 terminals between Kathmandu and Pokhara.

**Figure 4.26 POS Machines**



As per figure 4.27, among various reasons for choosing particular issuing bank, wider acceptance of card and relationship with bank seemed to be the most dominating. 40 % acquired a card from a particular bank due to the wider acceptance of the type of credit card issued, 30% did so because of their relationship and existing transaction, 13% percent did so because of good will of bank, 10 % did so due to appropriate location of the bank, and 7% chose a particular issuer for other reasons such as low charges or commission.

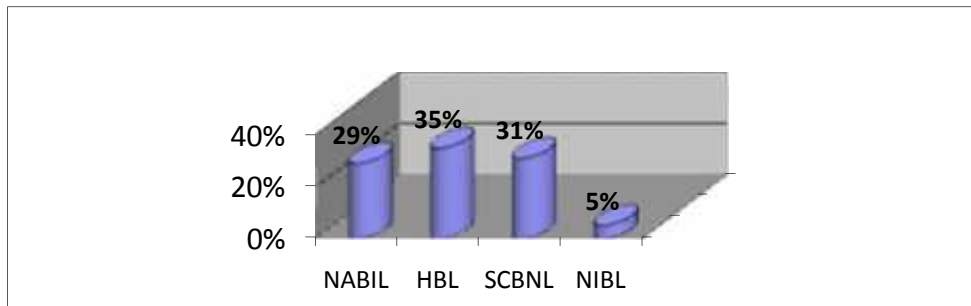
**Figure 4.27 Reasons for Selecting Banks**



As per figure 4.28, 35% had possessed card of HBL, 31% of their customers had selected Standard Chartered Bank for their credit card, 29% of the customers had chosen NABIL and remaining 5% possessed cards of NIBL.

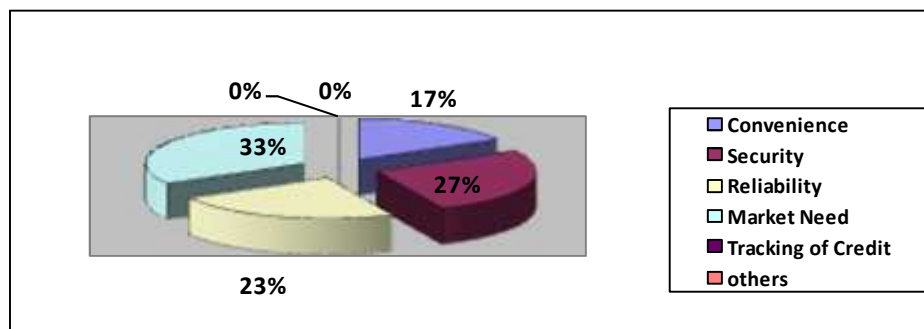
However when it comes to debit card many were found with debit cards of NIBL and NABIL.

**Figure 4.28 Banks of Cardholders**



]As per figure 4.29, majority of departmental stores, i.e. 33% have acquired credit card machine due to market need and to cater to the needs of their customers, 27% said they acquired credit card facility for security, 23% cited for reliability, 17% for convenience. However several stores gave mixed answers and several reasons for which they chose to provide the facility. Most of the answers were for current trend, security, convenience and round the clock service from their acquiring banks.

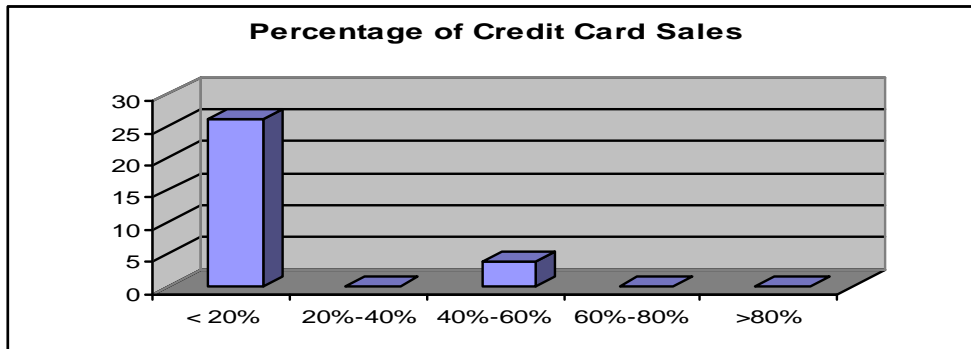
**Figure 4.29 Benefits Received**



As per figure 4.30, the percentage of sales through credit card was not much varied from the previous answers received from card holders. Out of 30 respondents, below 20 percent of sales were made through credit card in 80

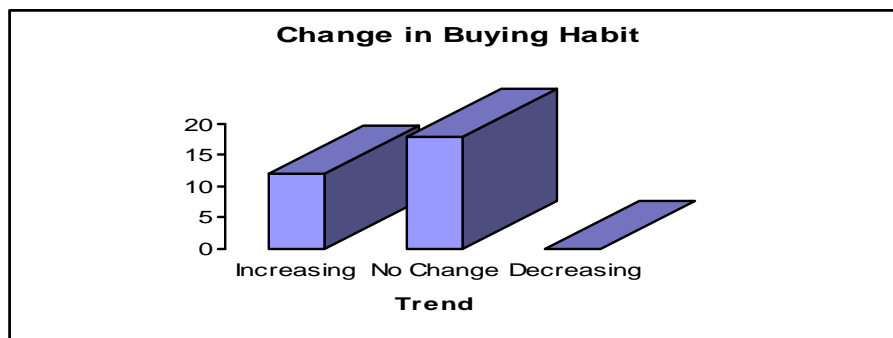
percent departmental stores. And the remaining 20 percent departmental stores had sales in between 40 percent – 60 percent.

**Figure 4.30 Percentages of Credit Card Sales**



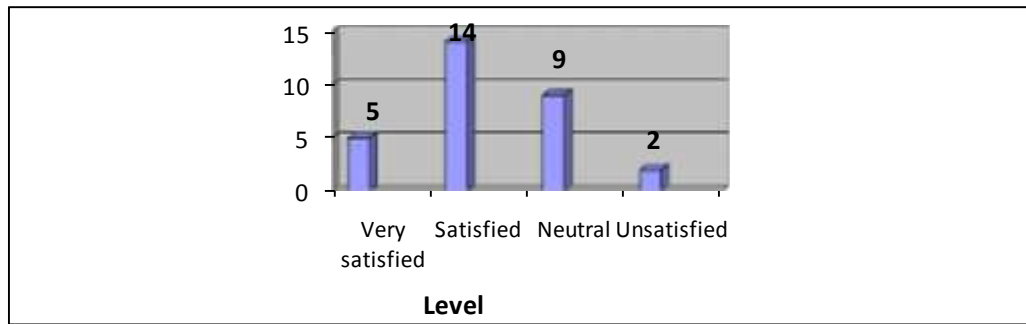
As per figure 4.31, 40 percent agreed that consumers started to buy more after accepting credit cards, while other 60 percent said that there was no change in buying habit of consumers after they started accepting credit cards. We can see that no one was in favor of decreasing trend of buying habit of customer after accepting credit cards.

**Figure 4.31 Change in Buying Habit**



As per figure 4.32, 17% of the departmental stores received high level of satisfaction with the services of their respective banks, 47% reported a moderate level of satisfaction, 30 % were neutral, and 7% experienced a moderate level of dissatisfaction.

**Figure 4.32 Level of Satisfaction**

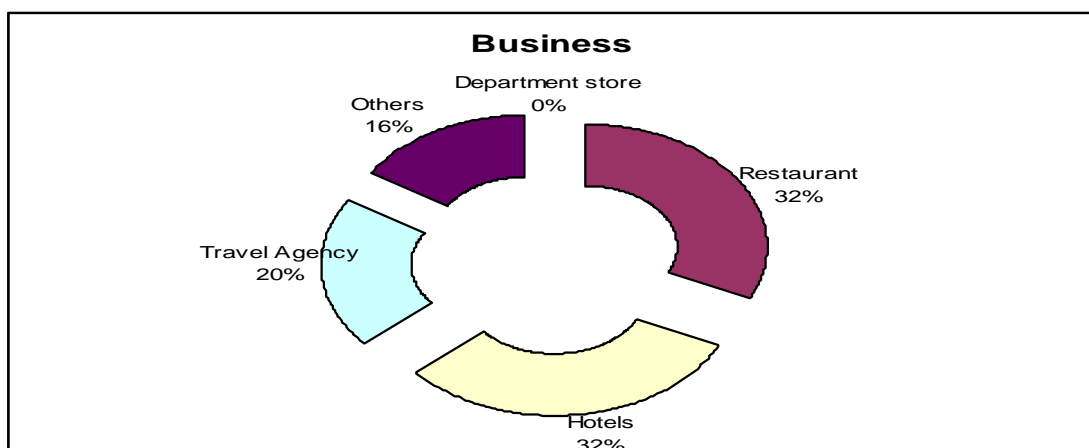


Of the credit card frauds known to stores, most of them were acquainted with the general credit card frauds from banks while taking the service and from internet. Besides they were also aware of the magnetic stripe fraud that recently occurred in the country. Of the problems faced by stores, no serious problems except few cases were found.

**Merchant**

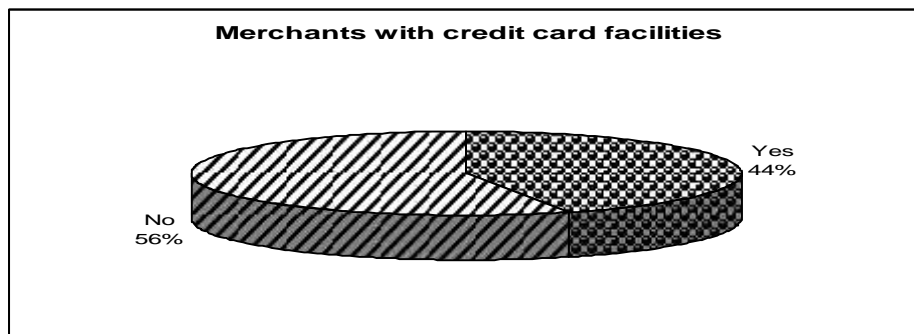
Out of 25 respondents, 0% were departmental stores, restaurant and hotels both constituted 32% (8), the remaining 20% (5) were travel agents 16% (4) were retail outlets and other business that has been shown into the below figure 4.33.

**Figure 4.33 Sample Size Composition**



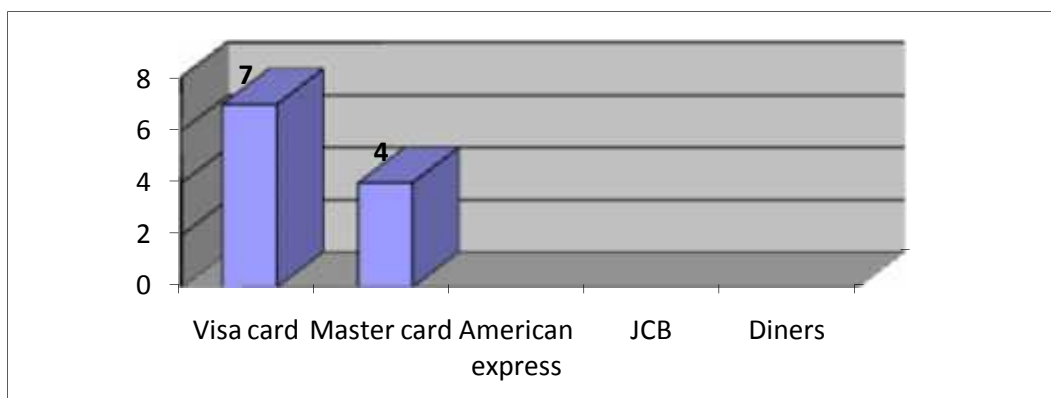
As per figure 4.34, out of the sample size of 25 respondents, 44% (11) had installed credit card facility, while 56% (14) had rather decided not having it.

**Figure 4.34 Merchants using Credit Cards**



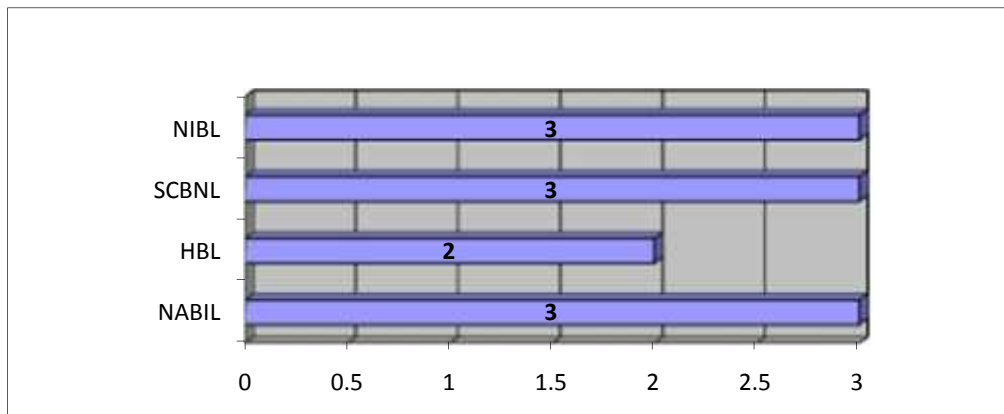
As per figure 4.35, out of 11 respondents obtained from 25 merchants (who installed credit card facility) 64% accept Visa card, while 36% accept master card. Among them were also those who accept both card types (Visa and Master card) and few merchants, particularly the travel agents accept other cards as well like American express and JCB cards.

**Figure 4.35 Types of Card Accepted**



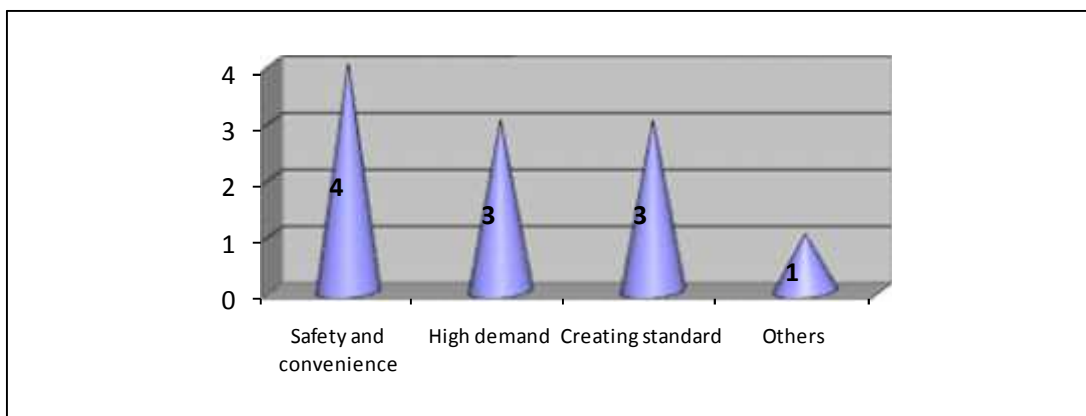
As per figure 4.36, out of 11 respondents, who had installed credit card facility 27.27% had acquired the service from SCBNL and the same percentage acquired it from NIBL and NABIL banks while 18.18% also acquired it from HBL.

**Figure 4.36 Acquiring Bank**



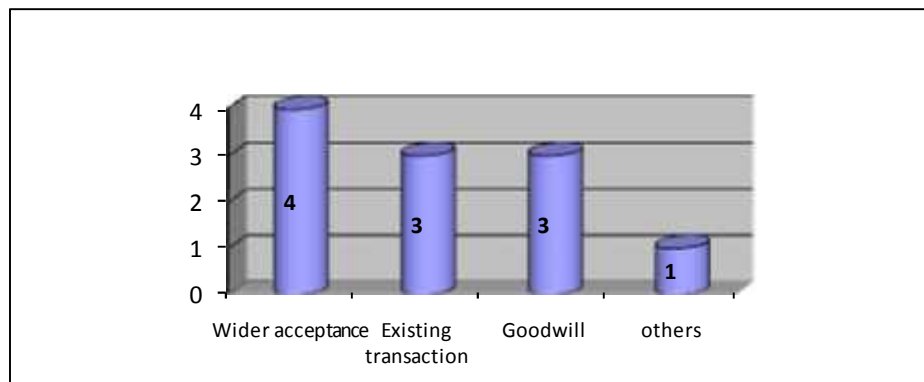
As per figure 4.37, out of 11 respondents having credit card facility, a majority 36.36% cited safety (from bad debts as well as social evils) and convenience as a crucial reason for installing it, while 27.27% to high demand for credit and the same percentage also for creating standards. Similarly 9.09% had other reasons for the same, for example, competition, customer satisfaction, prestige and status issue etc.

**Figure 4.37 Reasons for Acquiring**



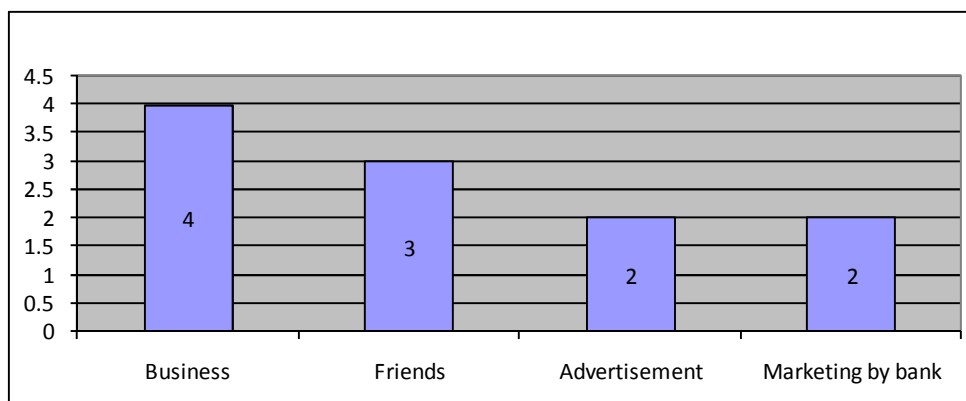
As per figure 4.38, out of 11 respondents having credit card facility 36.36% had selected particular bank for wider acceptance of the bank's service, 27.27% for their existing transaction and relationship with banks, the same percentage of the merchants for goodwill of banks and 9.09% for other reasons.

**Figure 4.38 Reasons for Selection**



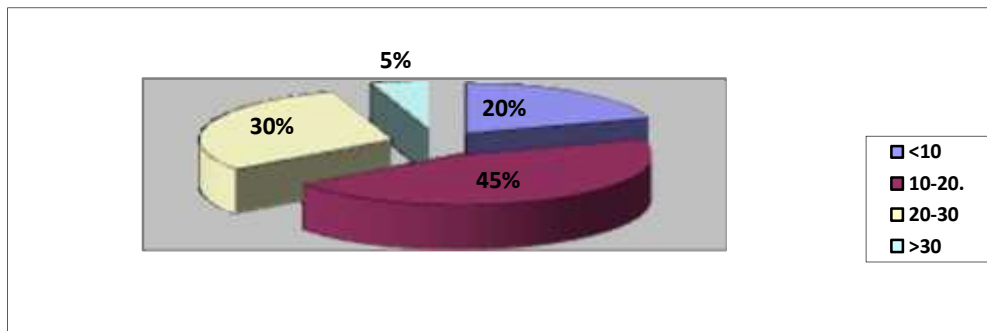
As per figure 4.39, out of 11 respondents having credit card facility, 36.36% were influenced by other business providing credit card facility, while 27.27% had installed it through friends, relatives and neighbors. Similarly 18.18% were influenced from advertisement and the same percentages also were influenced by the marketing effort from bank staffs.

**Figure 4.39 Influences to Use Card**



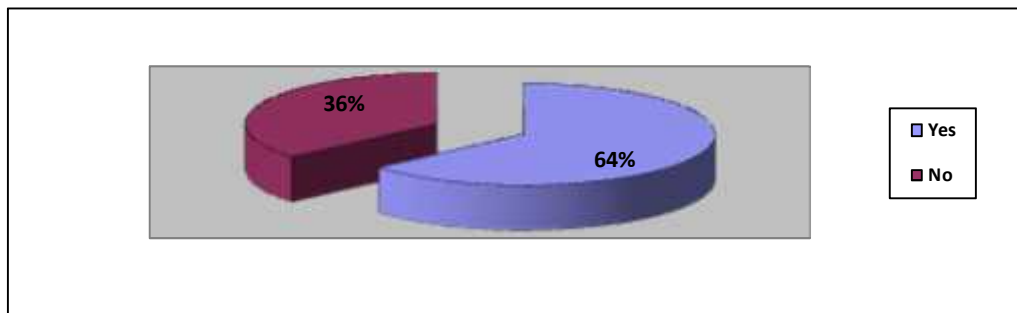
As per figure 4.40, regarding the frequency of credit card users, 20% replies were for less than 10 customers, 45% for between 10-20 customers, 30% for between 20-30 customers and only 5% for above 30 customers.

**Figure 4.40 Frequencies of Credit Card Users**



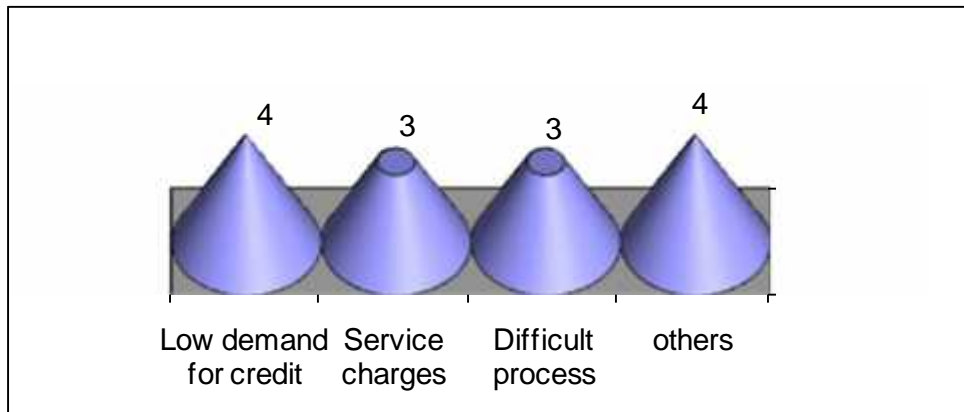
As per figure 4.41, out of 11 respondents having credit card facility, 64% reported significant growth in their business volume while 36% did not notice any remarkable changes.

**Figure 4.41 Growth of Business after Using Card**



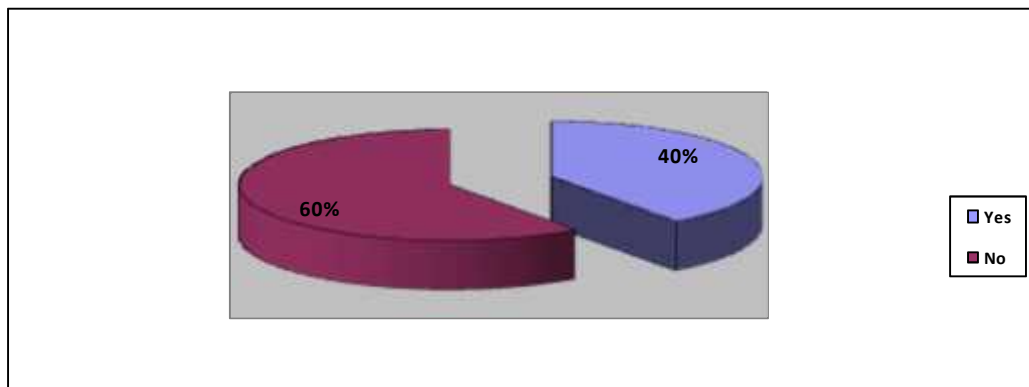
As per figure 4.42, out of 14 respondents not having credit card facility, 28.57% cited low demand for credit as reason for not installing credit facility, 21.42% cited the higher service costs (including higher limit, fees and commissions) as a crucial reason for not installing credit card, the same percentage claimed tedious process as reason for not installing and again 28.57% cited other reasons like lack of information, very few credit card users coming in their shops, their nature of business, difficulty in bargaining and no fixed price etc for not installing credit card facility.

**Figure 4.42 Reasons for Not Providing Card Facility**



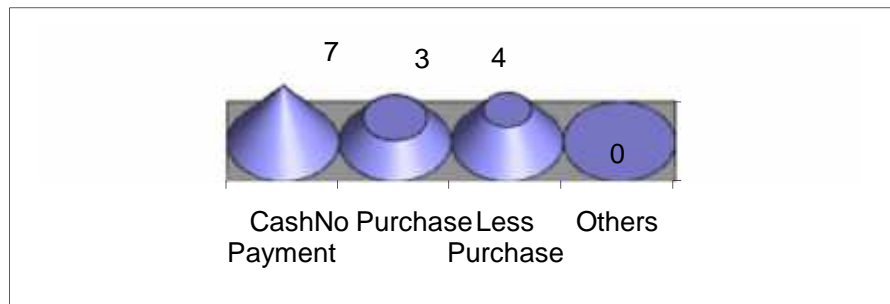
As per figure 4.43, out of 25 respondents only 40% merchants provided credit facilities to their customer while 60% merchants didn't give those facilities to their customers.

**Figure 4.43 Credit Facilities**



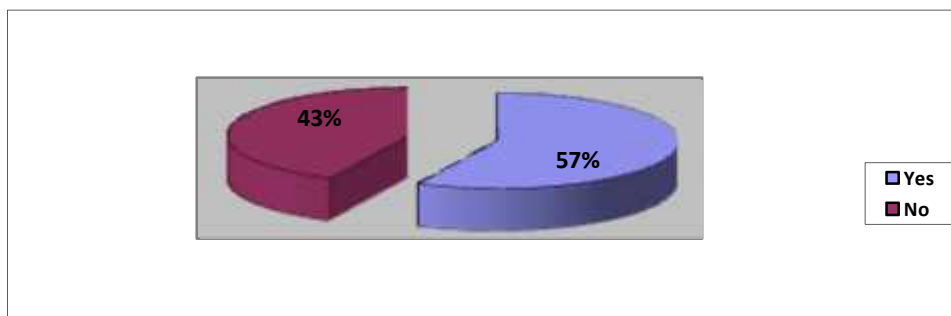
As per figure 4.44, out of 14 respondents not having credit card facility, 50% would make cash payment even if they did not receive credit facility, while 21.43% customers would also react negatively by going to other merchants and 28.57% customers would make less amount of purchase than that of required.

**Figure 4.44 Response of Customer**



As per figure 4.45, out of 14 merchants not having credit card facilities, 57% still have no plans of installing credit card while 43% were interested in installing credit card facility in their shops in near future.

**Figure 4.45 Plan to Acquire Credit Card Facility**



Of those planning to extend credit card facility, several factors were motivating them like increasing card users and enquiry from customers, increasing trend, expansion plans, creating standards ,marketing effort from banks and other factors.

### **4.3 Major Findings**

Into this section of the study the researcher has been summarized the major findings of the present research work which are presented below.

- ❖ In the average each bank of Nepalese commercial banking industry has been provided credit cards facility to the customers of the volume 12,138 per year with respect of two selected banks.

- ❖ The selected Nepalese commercial banks: NABIL Bank Limited and Himalayan Bank Limited have been provided this facility to their customers in the volume of 10,670 and 13,606 persons on the average for the research duration of eight years from the fiscal year 2003/04 to the fiscal year 2010/11 with next for forecasted years.
- ❖ Nepalese customers of credit card facility provided by the Nepalese commercial banking industry as well as selected Nepalese commercial banks the trend of this has been increasing as the every fiscal year passed.
- ❖ The contribution of Himalayan Bank has been seen higher because the trend line of this bank is higher than the trend line of average of Nepalese commercial banking industry for the same research period.
- ❖ The merchant trend of credit card facility provided by the one of the selected Nepalese commercial bank, NABIL Bank Limited is 1560 on the average for the twelve years of research duration from the fiscal year 2003/04 to the fiscal 2014/15 with the standard deviation of 617 and coefficient of variation of 39.55% for the total research duration.
- ❖ Most of the customers have acquired credit card of Himalayan Bank Limited. 36% cardholders acquired card of Himalayan bank, 30% acquired card of SCBNL, 24% acquired card of NABIL Bank Limited and 10 % acquired card of NIBL.
- ❖ Few departmental stores were also found accepting cards like American Express and JCB. The POS of NIBL is also gaining fast popularity because of the large number of debit cards they have managed to float in the market. Although NIBL entered only about two years before in the credit card market, it has already installed more than 500 POS network with over 300 terminals between Kathmandu and Pokhara.
- ❖ Nepalese commercial banks NABIL Bank and Himalayan Bank Nepalese commercial banking industry is also having the increasing trend of provided credit card facility to their merchant customers as

general customers for the research period of eight years from the fiscal year 2003/04 to the fiscal year 2010/11.

- ❖ Customers are simultaneously using VISA card and Master Card. None of my respondents possessed JCB, Diners, American Express and other cards. These cards are mostly held by tourists and foreigners and the acceptance infrastructure for these cards is slowly growing. These cards are accepted in few departmental stores, merchants (travel agency and hotels only).
- ❖ To extend credit card facility, several factors were motivating them like increasing card users and enquiry from customers, increasing trend, expansion plans, creating standards, marketing efforts from banks and other factors.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **Summary**

Banks can be a person, a company or a firm, with a place of business, and must be involved in deposit collection. The business of a modern day bank however is not only confined in borrowing deposits and lending advances only, it performs modern banking with different type of products and activities which has immensely contributed to achieve industrial and commercial progress of every country. Credit cards have almost become a synonym for cash. As well as convenient, accessible credit, credit cards offer consumers an easy way to track expenses, which is necessary for both monitoring personal expenditures and the tracking of work-related expenses for taxation and reimbursement purposes. Credit cards are accepted worldwide, and are available with a large variety of credit limits, repayment arrangement, and other perks (such as rewards schemes in which points earned by purchasing goods with the card can be redeemed for further goods and services or credit card cash back).

Hence most of the frequent travelers who visit abroad must have encountered much bitter experience without 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. Renting a car in North America without a card is almost impossible. Credit cards are not only used to make purchase but a gamut of other services are also available, to a 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 cope with emergency situations. Credit card is one of most vigorously sought after and growing business in the world. Credit card is a plastic card which allows the holder to purchase goods and services on credit and is mostly issued by banks or

financial institutions. It is such a service where cardholder can enjoy credit facility even though he doesn't have sufficient balance in his account. It is the concept of buy now and pay later. Each month, the credit card user is sent a statement indicating the purchases undertaken with the card, any outstanding fees, and the total amount owed. After receiving the statement, the cardholder may dispute any charges that he or she thinks are incorrect otherwise, the cardholder must pay a defined minimum proportion of the bill by a due date, or may choose to pay a higher amount up to the entire amount owed. The credit provider charges interest on the amount owed (typically at a much higher rate than most other forms of debt).

Credit cards also minimize 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 points of view, it will increase the sales of the merchant as the trend today is of plastic money and also he gets rid from taking collected money to banks for deposits. Everything happens electronically and the merchants account gets credited very shortly after every purchases. Also it provides him safety from thefts by its own employee as well as looters.

Even though Credit card has so 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 populace have not yet developed their banking habit, they are mostly happy with hard cash and in most of the 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 which cater the needs of tourist and higher /upper middle class people. Nepalese people are still not used to visiting sophisticated departmental stores, travel agencies, and big

restaurants though the trend is slowly increasing. Cards are not accepted at those places where most of the fixed income earners go for shopping such as Ason, 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 generate 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.

Since the usage of credit card is still considered as a novel concept in Nepal its usage is primarily limited to a selected people, so an in-depth study and research has to be made on this sector. This research has been undertaken in

that sense and it attempts to determine ways of retaining present customers while attracting future customers as well. The banks which are involved in credit card business, NABIL, HBL, their present condition in terms of card issuance and merchant hold are analyzed in this research. Nepal Investment Bank has not been included in the analysis which is new in the credit card market though it is the market leader in the debit card market. For the analysis of data standard deviation, correlation, and trend analysis are used as statistical tools but due to unavailability of financial and other data due to confidentiality maintained by banks, a complete picture could not be drawn. However, direct interviews and questionnaires were also held and the outcomes are displayed which reveals the current situation and future prospects of card business in Nepal as well as the problems facing credit card market are also analyzed.

Risk is the major element of any kind of business. Card business is also a risky business. Though profitability is very high, the default chances from cardholder is also very high because cards are issued merely on the basis of salary sheet and few identification documents unlike in foreign countries where people can be easily traced by their Identification Number or Tax Code. Among the three banks, HBL has the highest risk in case of issuance but in case of merchant NABIL has highest risk in comparison to other banks.

Credit card is generally associated with a financial institution or bank. However, the history of credit card business Nepal is associated with a travel agency named Alpine Travel Services private limited which in agreement with Chase Manhattan Bank of Singapore introduced credit card in Nepal. Though it enjoyed monopoly for some time, it was soon broken after Nepal Grindlays Bank (later named Standard Chartered) entered credit card acquiring market. After two years, 1991, Nepal Arab Bank Ltd (Nabil bank) also started the credit card acquiring business. In the year 1993 November, Nepal Arab Bank issued Master Card and become the first Nepalese commercial bank to issue

credit card. After that in the year 1993 November, Himalayan bank limited entered the credit card issuing business with its typical local proprietary card branding "HBL Regular" and "HBL Gold". This brought about competition in small credit card market of Nepal and of course for the better as it reduced the high commission charges that were enjoyed by the pioneers of credit card introducers and improved the quality of service. In Nepal, however, the use of the credit cards is restricted to small value and mostly personal transactions. Today Credit card business in Nepal is provided mainly by five banks; Himalayan Bank, Nabil Bank, NIBL, SCBNL BOK and GBL. All of these banks are both issuer and acquirer.

Growth rate or movement of card business is different from each other and from previous year as well. HBL has highest growth but in case of merchant NABIL has the highest growth rate and HBL has the low growth rate. The position of HBL looks quite satisfactory. It has been able to maintain its high growth rate in card issuance. It may be attributed to issuance of Master card as well as the cheapest domestic credit card it offers in the market in terms of annual and subscription fees, the various upcoming products and the offers and various marketing strategies the bank has adopted. Similarly on merchant side as well, it has managed to increase its hold compared to previous year. HBL has signed special tie-up agreements with various dealers in Nepal to make the recently introduced scheme of consumer financing through credit card successful for the ease and comfort of the Customers. Under this scheme, HBL credit card holders can avail financing for various products from the Bank's merchants. So no significant change in the card issue and merchant hold, just a steady growth rate similar to previous year seem to apply with the bank. Besides, the bank has good reputation being a multinational bank of global standard. But in totality all three banks seem to have a fair share in the credit card market. Competition is not that fierce but still competition exists in terms of low fees and penal, cash advance fees, wider acceptance and different prize

offers and schemes like travel and medical insurance, loyalty programs, discounts etc.

Although the credit card business started in Nepal more than a decade now, the industry has not been able to fully penetrate the market. Credit card still remains the niche area in banking which only few banks have managed to take up. The acquiring side has been badly hurt by the ongoing slump in the tourism sector and particularly the instable political front. Besides these obvious reasons, one critical factor which negatively governs the credit card business is the societal factors. But the recent market growth of banks in terms of VISA debit cards and increased banking practice, we can only look for the brighter side in the credit card market to come in the future. The recent influx of commercial banks in the country and increased competition to provide excellence in banking and extra banking facilities only point out toward higher prospect of this credit card business in the days to come.

## **Conclusions**

By and large, proper marketing plan, a better strategy and a smooth implementation are the basic ingredients of any successful business. So to operate any profitable business, lots of homework should be done. Various studies revealed that credit card business is very profitable and is carried out in very monitored and controllable manner. Though it has been many years since credit card business started in Nepal, it has not been able to take much pace but nevertheless the growth rate has been satisfactory considering the various situations in the country. The profitability of card business in Nepal can not be undermined. Banking habit among people is increasing and debit card market is also expanding. This may be due to banks and organizations focusing on cultivating the banking habits for their employees by making salary payments through bank account opening which is a rather win-win situation for all. With it the infrastructure is also building and POS machines are also increasing.

From the statistical analysis and outcomes of questionnaire also, it is obvious that credit card business is in optimistic track. This research work has been concluded that:

- ❖ Nepalese commercial banking industry has been provided credit cards facility to the customers of the volume 15,361 per year whereas the selected Nepalese commercial banks: NABIL Bank Limited and Himalayan Bank Limited have been provided this facility to their customers in the volume of 7649 and 9541 persons on the average for the research duration of eight years from the fiscal year 2003/04 to the fiscal year 2010/11.
- ❖ For the same research duration these selected banks are having standard deviation of 2538 and 3934 respectively for each bank with the coefficient of variation of 33.18% and 41.24% respectively for those both banks. On the other hand, Nepalese commercial banking industry has these values of 4208 and 48.96% for the same research duration of eight years.
- ❖ There is increasing trend of Nepalese customers of credit cards facility provided by the selected Nepalese commercial banks: NABIL Bank Limited and Himalayan Bank Limited. On the other hand in case of total Nepalese commercial banking industry also this trend is in increasing as the every fiscal year of research has been passed from the fiscal year 2003/04 to the fiscal year 2010/11. In case of analyzing this trend of credit card users the contribution of Himalayan Bank has been seen higher because the trend line of this bank is higher than the trend line of average of Nepalese commercial banking industry for the same research period.
- ❖ The merchant trend of credit card facility provided by the one of the selected Nepalese commercial bank, NABIL Bank Limited is 1192 on the average for the eight years of research duration from the fiscal year 2003/04 to the fiscal 2010/11 with the standard deviation and co-

efficient of variation of 23.03% for the total research duration. On the other hand, this trend value of Himalayan Bank Limited for the same research period is 957 with deviation value of 333 and co-efficient of variation of 34.76%. This trend of Nepalese commercial banking industry is 1075 with co-efficient of variation and deviation value of 297.

- ❖ There is increasing trend of Nepalese customers of credit cards facility provided by the selected Nepalese commercial banks: NABIL Bank Limited and Himalayan Bank Limited in case of merchant people too. On the other hand in case of total Nepalese commercial banking industry also this trend is in increasing as the every fiscal year of research has been passed from the fiscal year 2003/04 to the fiscal year 2010/11. In case of analyzing this trend of credit card users the contribution of NABIL Bank has been seen higher because the trend line of this bank is higher than the trend line of average of Nepalese commercial banking industry for the same research period.
- ❖ Both trend lines of selected Nepalese commercial banks NABIL Bank and Himalayan Bank Nepalese commercial banking industry is also having the increasing trend of provided credit card facility to their merchant customers as general customers for the research period of eight years from the fiscal year 2003/04 to the fiscal year 2010/11. Hence both figures 4.3 and 4.4 have indicated same trend of direction and positive correlation among them. Besides this the users of credit card facility provided by Nepalese commercial banking industry and the selected two Nepalese commercial banking to merchant persons.
- ❖ The correlation between the number of cardholders of NABIL Bank with HBL and Industry are 0.987, 0.998 respectively that has been shown into the above table 4.3. On the other hand the correlation of Himalayan Bank with the Nepalese commercial banking industry is 0.976 for the research duration. Hence all these obtained values of

correlation have been found that there is high degree of positive correlation among these variable. This means NABIL and HBL move in the same direction as well as Nepalese commercial banking industry is also moving towards the same direction.

In spite of the high profitability in credit card business; only four banks are involved in this business among lots of commercial banks running in the country. The trend of credit card is increasing which becomes evident with the steady and positive growth rate that the banks involved in card business have been able to maintain amidst all the happenings in the country. All banks are increasing the number of their cardholders and merchants so there is high prospect and growing market for credit card business especially acquiring business nowadays. People are being aware on the advantages of holding a credit card which is gradually progressing in industrialization process and increasing income level among the higher and middle class society. So the possibilities of other banks or financial institutions entering in this field can not be underlined. So, in conclusion, Nepalese credit card industry is moving ahead and in increasing trend. We can only hope for the situation of country to improve to fuel this business of credit card in Nepal.

### **Recommendations**

Nepal too needs to develop the banking habits 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. The world is hitting towards e-business and Nepal too is moving in the same direction. Without payment cards e-commerce is almost handicapped.

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

In the present context of globalization and technological age, credit card plays a vital role in financial sectors as well as in personal life. On the basis of study following recommendations are suggested.

- ❖ Our questionnaire to card users revealed that 44% of them were acquainted with credit card through broadcasting media like, TV, radio and the next effective media from which they came to know about the credit card were electronic media and print media, which comprised of 30 % and 26% respectively. However those media were mainly the international broadcasting channels. On the domestic side, banks have not really made any effort on advertisement. The credit card business seems to have prospered only through bank marketing and through mouth to mouth which of course are the right way to market technical products but the effect of advertisement in this modern era can not be understated. So it is high time that bank take up to aggressive advertising as the awareness level on credit card is very low. People still do not have confidence in cashless transactions.
  
- ❖ The trend of going to supermarkets and departmental stores for family shopping is increasing in the country. The study revealed that though the frequency of credit card usage is increasing majority of customers make

less than 20% payment through credit cards. People are still neutral about the relevance of credit card business taken up by the bank and feel credit card as luxury. There was a general acceptance that through the acceptance of credit card the business of merchants and stores has only increased so bank can also emphasize on this in their marketing with merchants.

- ❖ From the study 10 % cardholders enquired use credit card in restaurant, 30 % of them use at the hotel and 34 % of them use at departmental stores. Likewise, 22 % of them use credit card at travel agency. This shows that acceptance infrastructure is growing and banks can come up with attractive schemes and offers in these places to increase the frequency of card payment as well as to take that only 20% payment through card figure up and cultivate credit card payment habit. For this bank can go for credit card financing scheme like the one launched by HBL.
- ❖ Frequent flier points, gift certificates, or cash back as an incentive can be launched for using the card. Rewards are generally tied to purchasing an item or service on the card, which may or may not include balance transfers, cash advances, or other special uses. Depending on the type of card, rewards will generally cost the issuer between 0.25% and 2.0% of the spend. Networks like Visa or MasterCard have increased their fees to allow issuers to fund their rewards system. However, most rewards points are accrued as a liability on a company's balance sheet and expensed at the time of reward redemption. Discounts for using cards at merchant will also help merchants with their bargaining.
- ❖ From the study carried out many of the credit card holders have decided to hold a credit card due to increasing trend, convenience and security be it customer or merchant. But credit card is not a safe business. Many frauds

have taken place in the foreign country and we can not say it is safe in Nepal. Cyber crimes are taking place in Nepal also and the recent fraud of magnetic stripe at ATMs and POS by international group at least do not suggest that the credit card business in Nepal is very safe. Banks have a number of countermeasures at the network level, including sophisticated real-time analysis that can estimate the probability of fraud based on a number of factors. For example, a large transaction occurring a great distance from the card holder's home might be flagged as suspicious. The merchant may be instructed to call the bank for verification, to decline the transaction, or even to hold the card and refuse to return it to the customer. But cardholders and merchants look quite susceptible to card frauds. Many of them have no idea on card frauds or have a general idea of few types of card frauds and merchants are always the big loser on card frauds. From the study carried out, 39% of the respondent card holders had no idea on credit card frauds and only 30% turned out to know about the dispute settlement process. So all these forgeries should be understood and bank should educate cardholders and merchant about the card frauds and the preventive measures that can be taken. Similarly the banks also must keep abreast of all sorts of forgeries happening in credit cards around the world and their remedies and solutions. Regular trainings for the staff is a must which is often given by the card associations like Visa and Master cards. Besides everyone should know the rules and regulations laid out by the card associations.

- ❖ Convenience was also cited as a major reason for holding credit card. But from the study it was seen that 44% respondents (card holder) encountered several problems with credit card. Among those who encountered problems with their credit card 45% faced problem of non acceptance of card by machine and 40% faced problem of non acceptance by merchant. Many times, cards are not accepted by machine

due to technical problems. Similarly the merchants also do not accept more than one card. Though Visa and Master cards are accepted by many merchants these days, JCB, Diners are accepted by few merchants only. So banks need to focus on improving their acceptance infrastructure and provide immediate support in case of problems. After all, these things add to the goodwill of bank which was also the major reason for cardholders and merchants to acquire credit cards of particular banks.

- ❖ Banks should also focus on expanding their merchant network as wider acceptance of card was cited as a major reason for acquiring the credit card of particular bank. From the study 34% respondents holding credit card were ready to give up their current card for a new card if the card has wider acceptance while 26% were also ready to change cards or acquire a new one if they receive tangible promotions from banks. Also 24% would change cards if the service fees are low and 16 % cited goodwill as an incentive for change. Banks need to seriously plan to install POS machine to be widely accepted, though POS system requires heavy investment. Although NIBL entered only about two years before in the credit card market, it has already installed more than 500 POS network with over 300 terminals between Kathmandu and Pokhara. Hotels restaurants and travel agencies are also growing business in Nepal, so it is advisable to do immense promotion for the acceptance of credit card and put machine there. As far as cash advance is concerned, each bank needs to install ATM machines that are compatible to accept the globally branded cards. Cash advance facility is a plus to the credit card users and banks are able to take fees for this as well.
- ❖ From the study it was found that almost 56% respondents were satisfied with the limit made by the bank on their credit card where as 16 % were

not satisfied. Banks have to introduce more flexible limit cards to reach to larger populace. Banks need to maintain a healthy competition regarding service fees, commissions etc. In credit card business fees can be levied for almost anything but in doing this the incentive to change cards from the cardholder should not be ignored. Card holders are very sensitive to the various fees, interest rates and promotions from the findings of this study.

- ❖ Out of the 50 respondents asked 30% have acquired supplementary cards. 73% of them acquired it for their spouse and 20% acquired them for their children of eligible age. So banks should also emphasize on supplementary cards by offering them at flexible limit and low interest rate. Now a day the trend of studying in India and foreign country is increasing after SLC so parents would be interested in acquiring supplementary cards for their children so this segment should be considered by banks. If the bank wants to cater to younger generation (those in the lower education and income stratum), it can offer discounts and surprise gifts at pubs, discos, hotels, restaurants, travel agency and departmental stores.
  
- ❖ Banks should study the feasibility of credit card usage in new areas and segments. Innovations and researches needs to be carried out. The strategy and planning department should be the one working more on credit card promotions and business development in Nepal. Banks should take a step ahead in promoting card business in Nepal. For instance, national delegates on official tours, say for instance on regional or international sports events, conferences etc. can be provided with credit cards for the length of stay abroad. Such arrangements will have to be made on an official basis and the same needs to be communicated

to the general public thus aiding in gaining goodwill and publicity for the bank.

- ❖ Out of 14 respondents (merchants) not having credit card facility, 28.57% cited low demand for credit as reason for not installing credit facility, 21.42% cited the higher service costs (including higher limit, fees and commissions) as a crucial reason for not installing credit card, the same percentage claimed tedious process as reason for not installing and again 28.57% cited other reasons like lack of information, very few credit card users coming in their shops, their nature of business, difficulty in bargaining and no fixed price etc for not installing credit card facility. So what can be done to tap these merchants is a question to banks. Banks can emphasize on increasing trend of credit card usage and the increase in volume of sales of merchants after credit card acceptance as a motivating theme to convince these group. Merchants still do believe that the credit card process is tedious which in fact is not. Rather it helps merchants save their time, effort and gives them peace of mind as well because credit card processing is safe and their security concerns are also protected. They don't need to hold cash in their locker (tijori) and be worried about it. Lack of information should not be the factor for not having credit card facility. Banks can expand their marketing effort on the side of merchant to acquaint them on credit card uses, its benefits and the disbeliefs hold by merchant and offer them customized services and tailored solutions. Few merchants in our study were dissatisfied with the credit card facility they acquired. Banks should immediately focus attention to them and identify the problems with them. Since merchants have to pay commissions ranging from 1.5 to 3.5% commissions to banks on their transaction amount, merchants often have to compromise their profit margin or else loose their customer and goodwill. This is often the case in merchants where there is no fixed

price system and customers have no idea on the cost to merchants so the bargaining becomes little difficult.

- ❖ Small business owners particularly the kirana pasales need small credit for short time to acquire goods etc. So they can also afford credit card. Banks can issue them a low interest card with flexible limits also. Recently in India Bank of Rajasthan has launched Kisan Credit Cards for farmers (Kisan) which is a form of micro credit programme. Hence Nepalese card business has a plenty to learn from Indian credit card market. The feasibility and viability of such projects should be studied by banks.
  
- ❖ Majority of the respondent surveyed, own their own personal business. In fact 48% had business of their own, 28 % worked in private sector and this was followed by student at 8% and public sector employee at 16%. Since the percentage of credit card acquired by the professionals seem to be low, banks should focus on this group which is increasing in numbers and their income level is also increasing. Banks need to apply direct and cross marketing to capture this segment. Nowadays most organizations open a bank account for their staff to facilitate salary payments. From the study, the existing relationship with the bank and marketing effort from bank staffs were also seen as strong reason for acquiring credit card of particular bank.

Thus, it can be concluded that the future of credit card in Nepal is promising and in future many other bank might take up this business. However, very much depends upon the effort from banks and the way they promote this business to the general mass.

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# APPENDIX

## Questionnaire No.1

### For the Card Members

Please tick mark on the following question answers

Q.1 Gender:

Male  Female

Q.2 Age:

below 18  18-25  26-30  above 30

Q.3 Level of Education:

SLC  10+2  Bachelor  Master  Doctorate

Q.4 Personal Monthly Income:

< 10,000  10,000-20,000

20,000-40,000  >40,000

Q.5 Occupation:

Students  Personal Business  Service in Public Sector

Service in \_\_\_\_\_  
private sector  Any other (*Please Specify*)

Q.6 What kind of credit card do you possess?

VISA  Master Card  Dinners

JCB  Others (*Please specify*) \_\_\_\_\_

Q.7 Of which Banks do you possess credit card?

Standard Chartered Bank     Himalayan Bank Limited

Nabil Bank Limited             Nepal Investment Banks

Q.8 Why did you choose to acquire a credit Card?

Market trend                       Need for credit facility

Convenience and safety     Others (*Please Specify*) \_\_\_\_\_

Q.9 How often do use credit card to purchase?

Once a week     Twice a week     Every Fortnight

Every day     occasionally

Q.10 Where do you usually use your Credit Card?

Restaurant     Hotel                       Departmental Store

Travel Agency     Others

Q.11 Which of the following Departmental stores do you usually transact at?

(With your credit card)

Bhatbhateni                                       Saleways

Namaste Supermarket                       Others

Q.12 How do you come to know about credit card?

Print Media     Electronic Media     Broad casting Media

Q.13 How much satisfied are you with the credit card you possess?

Very satisfied                                       Satisfied

Neutral     Unsatisfied

Q.14 How did you find the facility of credit card adopted by banks?

Very relevant    Not so relevant    Neutral

Q.15 Are you satisfied with the limit provided by bank on your credit card?

Yes                       No                       Neutral

Q.16 How long have you been using your credit card?

from about a month       less than six month

for about a year               more than a year

Q.17 Of your expenses what percentage is done through credit card?

< 20%                       20%-40%       40%-60%

60%-80%                       > 80%

Q18 Have you ever encountered problems during the usage of your credit card?

Yes                               No

Q.19 If 'yes' Please check the type of problems encountered. (You can check more than one option).

credit card was lost                       card was not accepted by

Merchants

card was not accepted by machine

Others (*Please specify*) \_\_\_\_\_

Q.20 Do you have any idea about fraud in credit card? If yes please tick mark on the types of fraud known to you?

- Stolen cards                       Counterfeit cards  
 Magnetic Stripe fraud               others

Q.21 Do you know about the dispute settlement process in credit cards and the process following disputes?

- Yes                                       No

Q.22 What would prompt you to change your credit card and acquire a new card?

- Wider Acceptance                       Promotion on part of the banks  
 Goodwill of the banks                       Low service fees

**Thank You**

## Questionnaire No. 2

### For The Merchants

Please tick mark on the following question answers:

Q.1. Type of business:

Department store       Restaurant       Hotel

Travel Agents       Others (Please Specify) \_\_\_\_\_

Q.2. Do you have credit card facility?

Yes       No

(If yes go to question no. 3 to 9 and if no please go to question no. 10 to 14)

Q.3. What kind of credit card do you possess?

VISA       Master card

Diners       JCB

Q.4. What is the acquiring bank?

Standard Chartered Bank       Himalayan Bank Limited

Nabil Bank       Nepal Investment Bank

Q.5. Why have you chosen to acquire credit card facilities? (You can check more than one option)

Wider usage of credit cards       Increasing demands for credit

Protection from bad credit       Others (specify) \_\_\_\_\_

Q.6. What were the reasons for selecting the particular bank? (You can check more than one option)

- Goodwill or the good market position of the bank
- Broad acceptance of card associated acquiring bank
- More existing transactions with the bank
- Others (Please Specify) \_\_\_\_\_

Q.7 Who influenced you to provide credit card facility?

- Family
- Friends/Neighbors
- Other Business
- Celebrity
- Advertisement

Q.8 What is the daily frequency of usage of credit cards?

- < 10 Customers       10-12 Customers
- 20-30 Customers       > 30 Customers

Q.9 Has the business grown after installing credit card facilities?

- Yes       No

Q.10 If you do not provide credit card facility, what are the reasons for not choosing? (You can check more than one option)

- No or low demand for credit
- High service charge (fees, limit and commissions)

Long and difficult process of settlement

Others (Please Specify) \_\_\_\_\_

Q.11 Does your business provide credit facility?

Yes

No

Q.12 What is the usual response of the customer?

Cash payment                       No purchase and go to another merchant

Purchase in less amount    Others (Please Specify) \_\_\_\_\_

Q.13. Do you have plans of providing credit card facilities?

Yes

No

Q.14. If "Yes" what are the factors that motivate you to plan on doing so? (You can check more than one option)

Increasing demand for credit

Broad usage of credit cards

Protection from bad debts

Security

Others (please specify) \_\_\_\_\_

**Thank You**

### Questionnaire No. 3

#### For Departmental Stores

**Please tick mark on the following question answers:**

Q.1. Which of the following credit cards do you accept? Please tick mark on the ones you accept.

VISA       Master Card       Dinners       JCB

Q.2. Which of the following Credit Cards do your customers generally possess? Please tick mark on the ones you accept.

VISA       Master Card       Dinners       JCB

Q.3 You possess POS machine of...

Standard Chartered Bank       Himalayan Bank Limited

NABIL Bank       Nepal Investment Bank

Q.4 What were the reasons for selecting the particular bank? (You can check more than one option)

Goodwill of bank.

Broad acceptance of card associated with acquiring bank.

More existing transactions with the bank

Location of the bank

Good personal relationship with the bank

Others (Please Specify) \_\_\_\_\_

Q.5 Credit Cards of which bank do your customer generally possess?

Standard Chartered Bank       Himalayan Bank Limited

Nabil Bank       Nepal Investment bank

Q.6 Please put a tick mark on the benefits that you have been receiving by using the credit.

Convenience       Security       Reliability

Market need       Tracking of Credit       others

Q.7. Of your sales what percentage is done through credit card?

< 20%       20%-40%       40%-60%

60%-80%       >80%

Q.8. How long have you been using Credit Cards?

From about a month       Less than six months

From about a year       More than a year

Q.9. How has the buying habit of consumers changed after you started accepting credit card?

Increase       Decreased       No change

Q.10. How satisfied are you with the credit card facility?

Very satisfied       Satisfied       Neutral       Unsatisfied

Q.11. Do you have any idea about the fraud in credit card? If yes then please tick mark the types of fraud known to you

( ) Stolen Cards

( ) Counterfeit Cards

( ) Magnetic stripe fraud ( ) others (*Please Specify*) \_\_\_\_\_

Q.12. What are the problems generally being encountered by you regarding operations related to credit card?

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**Thank You**