

CREDIT CARDS BUSINESS IN NEPAL

(With reference to HBL, SCBNL and NABIL Bank)

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

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Entitled:
"Credit Cards Business In Nepal"

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements of the degree of Master of Business Studies (MBS)

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DECLARATION

I hereby declare that the work reported in this thesis entitled analyzes "**Credit Cards Business In Nepal**" submitted to Office of Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies (MBS) under the supervision of Bishnu Prasad Kishi of Khwopa College.

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CHAPTER 1

INTRODUCTION

1.1 Meaning and Origin of Bank

A 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 credit creation. The business of a modern day bank however is not only confined in borrowing deposits and lending advances only, it performs a host of other financial 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”.

defined the bank as “Ordinary banking business consists of changing cash for deposits and bank deposit for cash, transferring bank deposits from one person or corporation to another, giving bank deposits in exchange of bills of exchange, government bonds, the secured or unsecured promises of business to repay etc.”

According to U.S Law, “any institution offering deposits subjects withdrawal on demand and making loans of a commercial or business nature is a bank. So, banks are those institutions that offer the widest range of financial services especially credit, saving and payment services and perform the widest range of financial functions of any business firm in the economy.

There are various concepts among the economists about the origin of banking practices and the word “Bank” itself. The Lombards, who were originally from the plains of Lombardy of Northern Italy, introduced banking practice to England. These Lombards brought this business to the city of London and their home, the Lombard street, is still the center of British banking. The Lombards, after a century or so of business in London, were eventually bankrupted because they lent money to kings who did not repay them.

After the Lombards, the goldsmith practiced banking sideline with their normal operation in the bullion and jewelry fields. The early goldsmiths used to have large vaults, which were soundly built and heavily guarded. The person who deposited his surplus funds with the goldsmith became as a ‘Depositor’ and naturally paid for the privilege of having his money defended this way. These payments were called ‘Bank Charges’. The depositors who needed funds to pay wages or debts, could call at the bank and collect such sums as required.

In the east, it is believed that banking was practiced at the time of “manu” as it is referred in “Manusmriti”. There is an opinion that it was practiced during Chanakya’s too, as banking has been mentioned in Kautilya’s “Arthashastra”, which is the first book on economics. In the west, the history of banking begins in ancient Greece, Rome and Mesopotamia. The history of modern banks begins from Bank of Venice established in 1157 A.D., Bank of Barcelona established in 1401, Bank of Genoa established in 1407, Bank of Amsterdam established in 1609 and Bank of England, which was established in 1694. The ancestors of modern day banks have been attributed to the merchants, the goldsmiths and the money-lenders.

Though there is much controversy as to the origin of the word “Bank”, some believe that it originated from the Latin word “Bancus” meaning a bench. Similarly, some believe that it originated from the French word “Banque” and some to Italian word “Banca” all meaning a bench. Some have stronger belief that it originated from the German word “Bank” meaning collective fund. Ancient money dealers used to deal on a bench. Sometimes when the money dealers failed to meet the depositor’s claim,

the depositors used to break the dealer's bench from which the word "Bankruptcy" seems to be derived.

1.1.1 Origin of Banks in Nepal

It is assumed that the regular history of coinage in Nepal began from the 5th century A.D. The advent of 12th century marked a new period in economic history of Nepal. Silver coinage was introduced in this period, which widened the scope for trade. The second major logical order of development was found in the innovation of interest bearing private debt such as bonds, mortgages and loans. In the year 879/80 A.D. a low cast merchant named "Shankhadhar Shankhwa" introduced a new era after paying all the debts that existed in the country. The term "Tanka Dhari" meaning 'Money Dealer' was used at the end of the 14th century. 'Tanka Dhari' was one of the 64 castes classified on the basis of occupation, indicating money changing was adopted as a profession by a section of people in Nepal at that time. For many years, the indigenous individuals, wealthy agriculturalists, landlords, merchants and traders conducted some banking activities as a side business to their normal business activities.

In 1877 A.D. Prime Minister Ranoddip Singh introduced many financial and economic reforms. The 'Tejarath Adda' was established at that time. It provided credit facilities to the general public at a very concessional interest rate. The Tejarath Adda disbursed credit to the people on the basis of collateral of gold and silver. All employees of government were also eligible for this type of loan, which was settled by deducting from their salary. Under the Prime Minister ship of Chandra shamsher, Tejarath Adda extended its services outside the Kathmandu Valley. Hence, the establishment of Tejarath Adda is regarded as the foundation of modern banking in Nepal. However 'Kaushi Tosh Khana' established during the regime of King Prithvi Narayan Shah is also considered as the first step towards initiating banking development in Nepal.

Tejarath Adda extended credit only; it did not accept deposits from the public. Hence, the Adda finally faced financial crisis making it impossible to meet the credit need of

the general population of the country. Prior to the establishment of Nepal Bank Limited, people relied on borrowings from the corrupt moneylenders, who charged very high interest rates and added other dues. These money lenders extended loans on the collateral of land, house and precious metals like gold and silver.

With the cooperation of Imperial Bank of India, Nepal Bank Ltd. came into existence under the Nepal Bank Act 1937. The preamble of the Nepal Bank Act 1937 states the objectives of setting up the Nepal Bank Ltd. as follows:

“In the absence of any bank in Nepal, the economic progress of the country was being hampered and causing inconvenience to the people, and therefore, with the objective of fulfilling that need by providing services for the people and for the betterment of the country, this law is hereby promulgated for the establishment of the bank and its operation.”

Nepal Bank Ltd played a dual role of a commercial bank and the central bank. Until the establishment of Nepal Rastra Bank on 26th April 1956, it carried out all the functions of a central bank. Nepal Bank was a semi government bank so it was unwilling to go to many sectors where the government felt the need of providing banking services. Hence, Rastriya Banijya Bank, a fully government owned bank was established on 23rd January 1966.

Until 1984, the Nepalese financial sectors were dominated by the above two commercial banks. Commercial Banking Act 1974 was amended in 1984 to increase competition among commercial banks. Hence, provision was made to allow private sectors including foreign investments to open commercial banks. As a result, Nepal Arab Bank Ltd (NABIL Bank) was established on July 12, 1984, with the partnership of Dubai bank Ltd., Dubai. The numbers of commercial banks operating in the country are increasing everyday and together they are 21 in numbers today.

Before 1985, only public enterprises such as two Development Banks: NIDC and ADB, and in the form of non-bank financial institutions: Employees Provident Fund and National Insurance Corporation were established. So, to increase the financial

activities of the country, Finance Company Act 1985 was introduced which prompted people to establish many Financial institutions in the country.

1.1.2 Meaning of Commercial Banks

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. Banks are those financial institutions that offer the widest range of financial services-especially credit, savings, and payments services- and perform the widest range of financial functions of any business firm in the economy. 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. Exchange Bank
5. Industrial Bank
6. Saving Bank etc.

Banks undertaking business with the objective of earning profits are commercial banks. Commercial banks are the heart of a financial system. Commercial banks work as the intermediary between depositors and lenders and facilitate in overall development of the economy with major thrust in industrial development (Vaidya, 2001:29).

American Institute of Banking defines commercial bank as “Commercial Bank is a corporation which accepts demand deposits subject to cheques and makes short-term loans to business enterprises, regardless of the scope of its other services.” The institution also aid down the four functions of commercial bank as receiving and

handling deposits (Deposit Function), handling payment of money (Payment Function), making loans and investment (Loan Function) and creating money by extension of credit (Money Function).

Commercial Bank Act, 2031 B.S. of Nepal has defined commercial bank as one which exchanges money, deposits money, accepts deposits, grants loan and performs commercial banking function and which is not a bank meant for co-operative, agriculture, industries or for such specific purpose. The Commercial Bank Act 2031 also pointed out the functions of commercial banks as:

- To provide short-term debts necessary for trade and commerce.
- Accept deposits from the public and grant loans in different forms.
- To purchase and discount bills of exchange, promissory note, and exchange foreign currency.
- Credit creation, agency services, security brokerage services, assist foreign trades and providing financial advices and consultancy service.
- To discharge various other functions on behalf of their customers provided that they are paid for their services.

1.1.3 Role of Commercial Banks in Nepal

The main objectives of commercial banks are to mobilize ideal resources for productive use after collecting them from scattered resources. They pool scattered fund and channel them into productive use. Commercial banks can be of various forms such as Deposit Banks, Savings Bank, Industrial Banks, mixed Banks, Exim Banks etc. Commercial banks render a variety of services. In the absence of commercial banks, it will be impossible to meet the financial needs of the country. Its role in economic development is so immense; it brings about greater mobility of resources to meet the emerging necessity of the economy. The essence of commercial bank is the financial intermediation between the ultimate savers and borrowers. In other word, a bank's main function is to act as middleman between the surplus and deficit units in the economy and like any other firm in business to make profit for its shareholders. Commercial banks have become heart of modern day financial system as they hold deposits of millions of people, government and business firms. In doing

so, they facilitate both the flow of goods and services from producer to consumer and to the financial activities of government. So the commercial banks are the most important institutions for capital formulations.

The major problem in almost all underdeveloped countries like Nepal is lack of capital formation and their proper mobilization. In such countries, the commercial banks have to take more responsibilities and should act as development bank due to the lack of other specialized institutions. The importance of bank in economic life is greater. Nepal is a small and one of the poorest countries in the world. Development is still lagging behind due to political unrest. However, private sectors are striving to make their mark in the development process by investing in various lucrative and productive sectors. The recent influx of commercial banks in the country can be rightly attributed to the economic pace Nepal is trying to take and the demand for capital as well as commercial banking services that the people are becoming aware of. Besides these banks have a direct role in the development of the country and are also offering employment to many people. Nepal as we know is gifted with natural beauties and resources like water, forests, herbs etc but it has not been able to harness all these resources due to insufficient capital and investment. So commercial banks can help investment in these sectors which will consequently help in the development of the country. Commercial banks accumulate scattered savings in the form of deposits, grant long term as well as short term loan in several sectors. Because of this many industries get encouraged within the country which will help national production grow thereby reducing imports of foreign goods/products and increasing exports of domestic goods. This also helps increase the foreign currency reserve. Hence there are several positive impacts that commercial banks can make in the economy of the country. Banks act as a catalyst to foster industrial and trading activity within the country. Due to the development of industrial activity on the one hand people can enjoy employment opportunity and on other hand natural resources of the country can be well exploited for the benefit of all. Industrialization creates demand for agricultural goods as well and helps the upliftment of agricultural sector. Thus, 'Bank' can be rightly interpreted as the promoter of economic development and catalytic agent for business and trading activities.

1.1.4 Meaning of Joint Venture Banks

A Joint Venture is forming of two forces between two or more enterprises for the purpose of carrying out of specific operation (industrial or commercial investment, production trade). Joint Venture Banks are the Commercial banks formed by joining a two or more enterprises, for the purpose of carrying out of specific operation such as investment in trade, business and industry as well as in the form of negotiation between various group of industries or traders to achieve mutual exchange of goods and services.

Nepalese Joint Venture Banks should take initiation in search of new opportunities to survive in the competitive market and earn profit. There is high liquidity in the market but there seems no profitable place to invest. In this situation Nepalese Joint Venture Banks are required to explore new opportunities to make investment if they want to survive in the competitive market. Nepalese joint venture commercial banks can play a change agent role by helping government in the development of industry, trade and business and at the same time fulfill their more important goal of profit making for their shareholders and stakeholders.

1.1.5 Role of Joint Venture Banks in Nepal

Economic development is the urge of the present day world. The major concern of many countries of the world has been to accelerate their development process and thereby increase the welfare of their people. It is more important in a developing country like Nepal. Nepal is one of the least developed countries of the world. Majority of her population remains much below the poverty line. Various factors like rugged terrain, landlocked position, poor resource endowment, and poor stock market and moreover inappropriate economic policies have been responsible for the slow pace of development.

With the worldwide move towards open and market oriented economic system in the world economy, it has led to the expansion of banking and financial system too. Open market policy has been taken by the government to make competitive industrial

environment by giving ample opportunities to the domestic as well as foreign investors to invest their savings in productive areas to support the capital formation.

Nepal's first attempt toward planned economic development started in 1956 A.D. since then she has completed nine plans with mixed achievements and tenth plan is in progress, which has given priority to poverty alleviation for which the plan has targeted to improve the economic, human and social indicators. An integrated effort of all the sectors has been conceived to reduce poverty.

In 1980, the government introduced Financial Sector Reforms. Nepal allowed the entry of foreign banks as joint venture with up to maximum of 50% equity participation. Since 1985 government emphasis was on economic policy reforms, foreign investment and technology transfer. Since then several financial and commercial joint venture banks have been established in the process of development and liberalization of the economy. More importantly commercial banks are the popular financial institution which pool together the saving of the community arranges for their productive use. Commercial banks are the heart of a financial system.

A meaningful step towards financial liberalization was undertaken in the FY 1987/1988, with the objective of expediting the process of economic development under structural adjustment program & major reforms including liberalization of interest rate, strengthening of banking operation & a shift from direct to indirect monetary control instruments.

The various roles of the joint venture banks in Nepal can be classified as follows:

- **Healthy Competition:** The introduction of joint venture banks also brings the benefit of healthy competition. The competition would force the domestic banks, Nepal Banks Ltd. & Rastriya Banijya Bank to improve their services & efficiency.
- **Foreign Investment:** Foreign investment is one of the important aspects for the economic development of the country. When looking at the possibility of investing in Nepal, multinational companies are unfamiliar with the local

rules, regulations & practices. The joint venture bank helps the multinational companies to build up their confidence for investment by providing necessary information & financial support.

- New Banking Techniques: Modern banking services are being provided to Nepalese financial system by new joint venture bank. New banking techniques such as tele-banking, internet banking, mobile banking, fee based activities, hypothecation etc. are the important contribution of joint venture to the gradually changing Commercial Banking scenario.

1.2 Background

Nepal is one of the 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. In spite of being rich in natural resources, due to lack of proper management and inadequate capital, such resources have not been utilized properly. Hence the development of Nepalese economy is lagging behind. The economic standard of nation determines the life style of the people. Hence the developing countries like Nepal must pay due attention and make greater effort to uplift economic state of affairs. It is most necessary to carry out the various development steps in various sectors by developing countries.

The development of economy basically depends upon the development of financial sectors. Banking sector is the main element of any financial sectors. So banking sector 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 does not want to invest. That is why banking sector is a platform through which scattered saving and scares resources can be transferred from the idle sector into productive sectors. This ultimately helps to uplift the economic development of the country. So Nepal needs to emphasize banking among its people in this modern era. Further in this modern century, 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

Previously, people used goods for goods to exchange necessary things that they need to survive but it is very difficult to measure and pay through barter system. That is why money was introduced. Money makes exchange system easy. But at the same time even money is inconvenient because it is uncomfortable to carry huge amount to pay large bills, difficult to protect from theft and pick picketer and some other drawbacks. So that nowadays, different payments systems have evolved, especially after the revolution in information technology. The growth of technology has changed the payment systems world over during the past two decades. More and more innovations are being introduced in both cash payment systems and non-cash payment systems. Cash in the form of notes and coin was the principal method of payment system before the introduction of 'Banking'. Paper instruments such as 'Cheques' and 'Credit Transfer' now have become a part of the payment system with the popularity of banking. With the introduction and implementation of recent technology in banking, electronic devices are making the job of cash payment as well as non-cash payments easy and efficient. The introduction of Automatic Teller Machine (ATMs) and the Plastic Cards have given the banking customers the facility of round the clock (24 hours) banking.

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 one of the highly used and convenient forms of electromagnetic cards that are nowadays available. It has helped to eliminate drawbacks of cash payment system and made life easy and tension free. Credit card is one of the most popular forms of payment of consumer goods services. Generally a bank enters into an agreement with its customer and issues the customer a credit card. Credit card is a small plastic card around 8.5cm by 5.5 cm having a magnetic stripe, issued by a bank and financial institution which allows the holder to buy goods or services on credit. It has the name and the account number of the holder embossed on it. In addition, the date up to which the card is valid will also be embossed and a specimen signature panel on the reverse. The card issuer should normally get the card

holder to sign in the specimen signature panel in his presence before parting with the credit card. The limit up to which the card holder can make purchases in a month is also informed to the card holder; this limit is called the card-limit. Credit card is a 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 in the 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 by paying the purchased amount less banks commission to the merchant's account.

From the customers side he is given a loan for that amount, generally the bank gives monthly statement of cardholder's expenses, but the date of statement issue 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 he can pay minimum (printed on the monthly statement) or 5 percent of total expense whichever is high within 15 days of statement issued. Many card issuers being banks also allow withdrawals of cash for emergency purposes and levy a service fee for such withdrawals. Many banks also have credit cards which double up as ATM cards.

1.2.1 History and Development of Credit Cards in the World

Credit card is a new business evolved 25-30 years ago. As far back as the late 1800s, consumers and merchants exchanged goods through the concept of credit, using credit coins and charge plates as currency. It wasn't until about half a century ago that plastic payments as we know them today became a way of life. In the early 1900s, oil companies and department stores issued their own proprietary cards, according to Stan Sienkiewicz, in a paper for the Philadelphia Federal Reserve entitled "Credit Cards and Payment Efficiency." Such cards were accepted only at the business that issued the card and in limited locations. While modern credit cards are mainly used for convenience, these predecessor cards were developed as a means of creating customer loyalty and improving customer service, Sienkiewicz says.

The first bank card, named "Charg-It," was introduced in 1946 by John Big gins, a banker in Brooklyn, according to MasterCard. When a customer used it for a purchase, the bill was forwarded to Big gins' bank. The bank reimbursed the merchant and obtained payment from the customer. Purchases could only be made locally, and Charg-It cardholders had to have an account at Big gins' 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.

The Diners Club Card was the next step in credit cards. According to a representative from Diners Club, the story began in 1949 when a man named Frank McNamara had a business dinner in New York's Major's Cabin Grill. When the bill arrived, Frank realized he'd forgotten his wallet. He managed to find his way out of the pickle, but he decided there should be an alternative to cash. McNamara and his partner, Ralph Schneider, returned to Major's Cabin Grill in February of 1950 and paid the bill with a small, cardboard card. Coined the Diners Club Card and used mainly for travel and entertainment purposes, it claims the title of the first credit card in widespread use.

By 1951, there were 20,000 Diners Club cardholders. A decade later, the card was replaced with plastic. Diners Club Card purchases were made on credit, but it was technically a charge card, meaning the bill had to be paid in full at the end of each month. The customers of New York in Franklin National Bank submitted an application for a loan and were screened for credit. Approved customers were given a card they could use to make retail purchases. The merchant cupud the customer information from the card into sales slips and called the bank for approval of transactions over a certain amount. Then bank would credit the merchant account for loan minus a fee to cover the costs providing the loan. In 1959, American Express introduced the first card made of plastic (previous cards were made of cardboard or celluloid). American Express soon introduced local currency credit cards in other countries. One million cards were being used at about 85,000 establishments within the first five years, both in and out of the U.S. In the 1990s, the company expanded into an all-purpose card. American Express, or Amex as it often is called, is about to celebrate its 50th credit card anniversary. The Diners Club and American Express cards functioned in what is known as a 'closed-loop' system, made up of the

consumer, the merchant and the issuer of the card. In this structure, the issuer both authorizes and handles all aspects of the transaction and settles directly with both the consumer and the merchant.

In 1959, the option of maintaining a revolving balance was introduced, according to MasterCard. This meant cardholders no longer had to pay off their full bills at the end of each cycle. While this carried the risk of accumulating finance charges, it gave customers greater flexibility in managing their money. The general-purpose credit card was born in 1966, when the Bank of America established the BankAmerica Service Corporation that franchised the BankAmericard brand (later to be known as Visa) to banks nationwide.

In 1966, a national credit card system was formed when a group of credit-issuing banks joined together and created the Inter Bank Card Association, according to MasterCard. The ICA is now known as MasterCard Worldwide, though it was temporarily known as Master Charge. This organization competes directly with a similar Visa program.

The new bank card associations were different from their predecessors in that an 'open-loop' system was now created, requiring interbank cooperation and funds transfers. Visa and MasterCard still maintain "open-loop" systems, whereas American Express, Diners Club and Discover Card remain "closed-loop."

Visa and MasterCard's organizations both issue credit cards through member banks and set and maintain the rules for processing. They are both run by board members who are mostly high-level executives from their member banking organizations. As the bank card industry grew, banks interested in issuing cards became members of either the Visa association or MasterCard association. Their members shared card program costs, making the bank card program available to even small financial institutions. Later, changes to the association bylaws allowed banks to belong to both associations and issue both types of cards to their customers.

As credit card processing became more complicated, outside service companies began to sell processing services to Visa and MasterCard association members. This reduced the cost of programs for banks to issue cards, pay merchants and settle accounts with cardholders, thus allowing greater expansion of the payments industry. Visa and MasterCard developed rules and standardized procedures for handling the bank card paper flow in order to reduce fraud and misuse of cards. The two associations also created international processing systems to handle the exchange of money and information and established an arbitration procedure to settle disputes between members. Although American Express was among the first companies to issue a charge card, it wasn't until 1987 that it issued a credit card allowing customers to pay over time rather than at the end of every month. Its original business model focused on the travel and entertainment charges made by business people, which involved significant revenue from merchants and annual membership fees from customers. While these products are still in its tool chest, the company has developed numerous no-annual fee credit cards offering low introductory rates and reward programs, similar to as traditional bank cards.

Another relatively recent entry into the card business is Discover Card, originally part of the Sears Corporation. According to Discover, its first card was unveiled at the 1986 Super Bowl. Discover Card Services sought to create a new brand with its own merchant network, and the company has been successful at developing merchant acceptance. A 2004 antitrust court ruling against Visa and MasterCard -- initiated by the U.S. government and the Department of Justice -- changed the exclusive relationship that Visa and MasterCard enjoyed with banks. It allows banks and other card issuers to provide customers with American Express or Discover cards, in addition to a Visa or MasterCard.

While the plastic card has been the standard for a half century, recent developments show alternative forms of payment rising to prominence, from online services such as PayPal to credit card key fobs to chips that can be implanted into cell phones or other devices. But with the sheer volume of devices in use around America whose sole purpose is to read a flat piece of plastic with a magnetic stripe, the "card" in "credit card" is unlikely to pass from the scene any time soon.

1.2.2 Types of Credit Card

There are two types Credit cards: - secured and unsecured. The card that is secured with a saving deposit of cardholders to ensure payment of the outstanding balance if he/she were to default on payment is called secured cards. It is generally used by people who are new to the bank and also who are trying to rebuild their poor credit ratings. The cardholder of a secured credit card is still expected to make regular payments, as he or she would with a regular credit card, but should he or she default on a payment, the card issuer has the option of recovering the cost of the purchases paid to the merchants out of the deposit. The advantage of the secured card for an individual with negative or no credit history is that most companies report regularly to the major credit bureaus. This allows for building of positive credit history. Secured credit cards are an option to allow a person with a poor credit history or no credit history to have a credit card which might not otherwise be available. They are often offered as a means of rebuilding one's credit. Secured credit cards are available with both Visa and Master Card logos on them. Fees and service charges for secured credit cards often exceed those charged for ordinary non-secured credit cards, however, for people in certain situations, (for example, after charging off on other credit cards, or people with a long history of delinquency on various forms of debt), secured cards can often be less expensive in total cost than unsecured credit cards, even including the security deposit.

Where as the card which is not secured by any collateral is called unsecured credit card. Most credit cards are unsecured so there is higher interest rate than other forms of lending, such as mortgages, which utilize property as collateral. All credit cards fit into one of the following three categories:

a. Bank Cards

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

b. Travel and entertainment (T&E) cards

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

c. House Cards

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

1.2.3 Transaction Process

The transaction begins when the cardholder purchases any goods and services from a merchant. The merchant prepares a sales draft using an imprinted /electronic, which contains cards number, cardholder's name, and expiration date of the card, the amount and the full signature of the holder .The merchant, then sends the sales draft to the acquirer and gets the amount on the sales draft reimbursed at less and agreed discount rate by the acquirer. It is called as "Merchant service fee"(MSF). The settlement bank, Master and Visa International then reimburse the acquirer who sends the data either through line or by processing in through floppy and submitting same. The settlement bank charges the issuer and issuer then bills it to its cardholder who ultimately repays the issue.

1.3 Historical Background of Credit Cards in Nepal

Credit card is generally associated with a financial institution or bank. However, the history of credit card business in Nepal is associated with a travel agency named Alpine Travel Services private limited (ATS). ATS first obtained the license from VISA and MasterCard International in 1985 A.D. as the representative of the chase Manhattan Bank, NA Singapore. It was horsed to sign up merchant establishment to the various outlets. Now, Alpine accepts credit card service from more than 2000 merchants all over the country. From its association with the chase Manhattan Bank, Singapore and then in 1993 with the Overseas Union Bank Ltd, Credit Card in Nepal has come a long way. After ATS, Nepal Grindlays Bank Limited, NGBL, (later named Standard Chartered Bank Limited, SCBL) also entered credit card acquiring market in 1989 with Visa and NABIL acquired Master Card. Later, NGBL acquired Master Card in 1990A.D. and JCB in 1992 A.D. It was the Himalayan Bank Limited and NABIL to start the issue of cards in Nepal for the first time in November 1993 A.D. NABIL issued Master Card whereas HBL entered the credit card issuing business with its typical local proprietary card branding "HBL Regular" which is the Nepal's first ever (domestic) Credit Card. In December 1997, HBL improved its technology to issue HBL Gold Card which was more reliable and safe. These cards

become very popular in Nepalese general public, especially in the Katmandu valley. But now HBL Gold is not issuing because of manipulation problem. Himalayan Bank Ltd started to acquire international credit card (Visa) only since 1996. Likewise NGBL started issuing Visa and Master Card in April 1997 A.D. and July 1998 A.D.

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 and in tourism sector. Today Credit card business in Nepal is provided mainly by four banks; Himalayan Bank, Nabil Bank, SCBNL and very recently NIBL. All of these banks are both issuer and acquirer. Credit card is still in initial stage in Nepalese market. So it is facing some problems. The major problem with the card business is that most of the people are not aware of its benefit. They are only familiar with the general services provided by the Bank. They don't know what the credit card is, how its operation is carried out, how the entire system works and what are the advantages if one becomes the card holder. The primary reason behind this may be huge investment to start card business and comparatively very low return due to small market size. Hence this has been one of the problems to tap the foreside business. The main purpose of this study is to analyze, evaluate the card business of Nepal particularly with reference to HBL, NABIL and SCBNL.

Players of Credit Cards in Nepal

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

Table 1.1
Players of Credit Card in Nepal

Bank	Cards Issued	Cards Acquired
NABIL	Master Cards	Master Cards/ Visa card/Diner's Card
SCBNL	Master card/Visa card	Master card/Visa card/JCB/
HBL	Visa Card	Visa Card
NIBL	Visa Card	Visa Card

Sources: Annual Report

1.3.1 A Brief Introduction to Banks Involved in Credit Cards Business

In the context of Nepal, credit card business is still in initial phase. Only four banks Nabil bank, SCBNL, HBL & NIBL are involved in this business among the two dozen commercial banks that operate in the country. NIBL has recently entered in this field .So in this research only three banks NABIL, SCBNL and HBL are considered as sample bank but NIBL also will be included wherever appropriate. The detail information about these banks is mentioned as below:

Nabil Bank Limited (NABIL)

The first commercial joint venture bank of Nepal, Nepal Arab Bank Limited, was established on July 12th 1984 under a technical service agreement with Dubai Bank Limited and was renamed as Nabil Bank Limited (NABIL) on 1st January 2002. In the beginning the authorized capital of this bank was Rs.100million and paid up capital was Rs.28 million 400 thousand. The 50% share of NABIL owned by Dubai Bank Limited was transferred to Emirates Bank International Limited, Dubai by virtue of its annexation with the later. Later on, Emirates Bank International Limited sold its entire 50% share to National Bank Ltd, Bangladesh. Now National Bank Limited is managing the bank in accordance with the Technical Services Agreement signed between it and the bank on June 1995. The bank introduced an Automatic teller machine (ATM) first time in Nepal, in three places in the valley at Kantipath, New road and Lalitpur. The bank has its corporate head office at Kamladi, Kathmandu. Its branches are located at Kantipath, Tripureshwor, Newroad, Jorpati, Lalitpur,

Maharajgunj, Birgunj, Alau, Biratnagar, Itahari, Butwal, Pokhara, Bhairahawa, Nepalgunj, Lakeside Pokhara, Dharan, Bhalwadi, Birtamode, Damak, Hetauda, Narayangadh, Baglung, Tulsipur, Ghorahi, Dhangadi and Mahendranagar. It operates exchange counter at Tribhuvan international airport. Now this counter is restricted in departure lounge and domestic terminal only. Nabil is the pioneer in introducing credit cards in Nepal. The bank is a principal member of Visa and Master Card International since early 1990. It has widest range of services in credit cards which include acquiring of all kinds of cards under Visa and Master Card brands. It also acquires Diners Cards being a sole agent for the country and has arrangement of POS sharing with American Express Cards. The bank issues widest range of credit and debit cards under the brands of visa and master card to accountholders as well as non-accountholders. The bank is largest institution in the country with a wide spread merchants and ATM network throughout the country. By now the number of its outlets and branches has reached 28 and 31 respectively. Its present shareholding pattern is as follows:

N.B. International Limited, Ireland	50%
Nepal Industrial Development Corporation	10%
Rastriya Beema Sansthan	5%
Security Purchase and Sales Corporation	5%
General Public	30%
Authorized Capital	Rs.500, 000,000.00
Issued Capital	Rs.491, 654,400.00
Paid-Up Capital	Rs.491, 654,400.00

Standard Chartered Bank Limited (SCBNL)

Under the company act of 1964, Nepal Grindlays Bank Limited, renamed as Standard Chartered Bank Nepal Limited (SCBNL) in 16th July 2001, was established as a third commercial joint venture bank of Nepal in 1985. The bank originally started its operation in 1986. The 50% of the equity share capital was originally owned by ANZ Grindlays Bank, which managed and controlled the overall activities of the bank. Later on, the ownership of 50% share ANZ Grindlays Bank was transferred to Standard Chartered Group. Standard Chartered Group employs almost 60,000 people, representing over 100 nationalities in over 50 countries in the Asia Pacific Region,

South Asia, the Middle East, Africa, the United Kingdom and the Americas. Today the Bank is an integral part of Standard Chartered Group who has 75% ownership in the company with 25% shares owned by the Nepalese public. The Bank enjoys the status of the largest international bank currently operating in Nepal. An integral part of the only international banking Group currently operating in Nepal, the Bank enjoys an impeccable reputation of a leading financial institution in the country. With 15 points of representation and 16 ATMs across the Kingdom and with around 350 local staff, Standard Chartered Bank Nepal Ltd. is in a position to serve its customers through a large domestic network. In addition to which the global network of Standard Chartered Group gives the Bank a unique opportunity to provide truly international banking in Nepal. The bank recently has three branches in valley at Naya Baneshwar, Lazimpat and Lalitpur. Besides, the bank has outside valley branches in Biratnagar, Pokhara, Dharan, Bhairawa, Hetauda, Butwal, & Nepalgunj and at Newroad (Pokhara). The bank also has extension counters at UN (Lalitpur), BP Koirala Medical College (Dharan), British Gurkhas PPO and Manipal (Pokhara). The bank in total has 16 ATMs (12 in Kathmandu & Lalitpur, 3 in Pokhara and 1 in Dharan).

Share Capital as at 16 July 2007 (32 Ashad 2064)

Authorized Capital	Rs. 1,000,000,000.00
Issued Capital	Rs. 500,000,000.00
Paid-Up Capital	Rs. 374,640,400.00

Share ownership

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

Himalayan Bank Limited

Himalayan Bank Limited was established on 6th of February 1992 by the distinguished business personalities of Nepal in partnership with Employees Fund and Habib Bank Limited, one of the largest commercial banks of Pakistan. But it actually started its business operation from 18th January. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services

such as ATMs and Tele-banking were first introduced by HBL. HBL started its services with 77 employees. Now its employees are over 300. Like any other commercial bank in Nepal, HBL is also engaged in some industrial banking.

The bank has experienced dynamic growth over the last seven years. It has expanded its services by establishing branches at New Road, Thamel, Maharajgunj, Patan(Pulchowk), Nagarkot, Bhaktapur, Banepa, Birgunj, Bharatpur, Tandi, Hetauda, Narayangarh, Siddharthanagar, Biratnagar, Pokhara, Dharan. The bank is also operating counter in the premises of the Royal Palace in addition. The bank currently has 13 ATM locations and plans to add further 8 locations.

The presented shareholding structure of HBL is as follows:

Habib Bank of Pakistan	20%
Nepalese Founders	51%
Employees Provident Fund	14%
General Public	15%
Authorized Capital	Rs. 1,000,000,000.00
Issued Capital	Rs. 810,810,000.00
Paid-Up-Capital	Rs. 810,810,000.00

1.4 Focus of the Study

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

1.5 Statement of the Problem

Today credit card has become a synonym for currency notes in foreign countries. In other countries there are cash free zones with all the financial needs being handled by bank cards. But in the context of Nepal it is quite difficult to do so. Card business is fluctuating till now from beginning. Acquiring volume mostly depends upon arrival of tourists but 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:

- a. What are the positions of different banks involved in card business?
- b. What is the growth situation of the banks in the card business?
- c. Whether the aggregate market is increasing or decreasing over the period?
- d. What are the problems related to various transaction of credit cards?

1.6 Objectives of Study

The primary objective of the undertaken research is fulfillment 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;

- a. To study the overview of the credit card business in Nepal.
- b. To analyze the transaction problems of credit card.
- c. To examine the aggregate market trend for credit cards.
- d. To provide suggestions to improve card business in Nepal based on the basis of findings.

1.7 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. One of the main reasons in such a slow growth was the huge deposit – of up to Rs 50,000 – the bank used to demand to issue such cards.

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

1.8 Limitation of the Study

The study will be limited to the study of performance of Nabil Bank Limited, Himalayan Bank Limited, and Standard Chartered Bank Nepal Limited towards credit card business in Nepal. Since, credit card is new concept for Nepalese business and personal life, an 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.

- a. The study is confined to only three commercial banks Nabil Bank Limited, Himalayan Bank Limited and Standard Chartered Bank Nepal Limited.
- b. The study covered only a period of 5 years since 2005/06 – 2009/10.
- c. Data for 2005/06 – 2009/10 were not available from card forum so the data on card user trend and merchant trend were gathered from concerned staffs of the bank.
- d. Non availability of financial and other data due to privacy so a thorough analysis cannot be conducted.
- e. No account has been taken for inactive card users or lapse cards.
- f. Research is confined only to analysis of credit card business.

1.9 Organization of the Study

The whole study is divided into five different chapters. Each chapter includes following subject.

Chapter – I: Introduction

The introduction chapter will include background, a brief introduction to banks involved in credit card business, history of credit card in the world, historical background of credit card in Nepal, focus of the study, statement of problem, objective of the study, importance of the study, and limitation of the study and organization of the study.

Chapter- II: Review of Literature

The review of literature chapter will include conceptual reviews, review of related study and previous thesis.

Chapter – III: Research Methodology

The research methodology chapter will include research design, population and sample, sampling procedure, sources of data, data collection techniques, data presentation and analysis and statistical tools.

Chapter – IV: Data Presentation and Analysis

In data presentation and analysis chapter statistical analysis will be included.

Chapter- V: Summary, Conclusion and Recommendations

Summary, conclusion and recommendation will be presented in the last chapter after data presentation and analysis.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature refers to the reviewing of the past studies in the concerned field. Many researchers have conducted their research in the field of card operation. Besides this, there are some books, articles, dissertation and other relevant study concerned with credit card operation. Some of relevant studies, their objective findings and conclusions and other literature relating to the topics have been reviewed in this chapter. In other words review of literature helps to find what already has been discovered by previous researchers, their findings, research gaps that this study will try to find and foretells the very worthiness of the study being undertaken. The topic credit card in fact is quite a new topic for researcher due to this reason very few reviews are found.

This part of study is divided into following sections:

- Conceptual Reviews
- Review of related studies
- Research Gap

2.1 Conceptual Reviews

This part of literature review focuses on the conceptual review of credit card.

2.1.1 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 from the bank. 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 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.

2.1.2 Credit Card

It is an instrument of payment used for making payment of services and goods in place of cash or cash items, while repayment can be made after fixed time or over a period of time. It has the option of revolving credit. The cardholders can have the option of partial payment, and on the remaining dues, one has to pay interest. Banks and finance companies 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 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.

2.1.3 Debit Card

An instrument of payment 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. The ATM Cards that banks issue are the example of debit cards. It can be use din POS 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 world wide because of the non convertibility of Nepalese currency.

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. It exactly looks like a credit card but the features are completely different .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.

2.1.5 Chip /Smart Cards

This card contains a memory chip or microprocessor chips with personal data, financial data and payments are made either on line by connecting to the customers account or off line through credit card concept and through funds loaded in the chip. A memory chip has a data storage capability that enables than 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

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. Processors smart cards are the most advanced, and are ideally suited for banking and financial applications where use of the card is allowed.

2.1.6. 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.

2.1.7 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).

2.1.8 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 Europe 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. *Source: (www.mastercard.com)*

2.1.9 Advantages and Disadvantages of Credit Cards

Advantages of Credit Card to the Cardholders

Credit Cards have numerous advantages, some of them are mentioned below:

- Safe and secure in comparison to traditional modes of payment like cash, cheques etc.
- Very convenient to carry it instead of bulky cash.
- Wide acceptance.
- Unlike cash it is easy to get replacement.
- 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.
- In built credit instruments with the privilege of interest free credit period of 45 days maximum to 15 days minimum.
- Facility of revolving credit i.e. option of minimum stated payment on regular.

Advantages to the Merchants

- 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.

Disadvantages of Credit Card

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

- 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.

2.1.10 Parties Involved in Credit Card Business

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

a. Issuer

Any financial or non financial institution, which is authorized to issue cards under the granted license of Visa and Master card international, are called issuer. Examples of such 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. American Express and Discover were previously the only card-issuing banks for their respective brands, but as of 2007, this is no longer the case.

b. Cardholder

Prospective person or organization (card users), whose cards are issued by the issuer are called cardholder.

c. Merchant

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

d. Acquirer

Whenever a card holder makes a transaction the only thing he / she does is sign a sales slip. This sales voucher is then presented to the financial institution, usually a bank which makes the payment to the merchant normally on the same day or the next working day. It further processes it to get the payment from the issuer.

Such institution that accept these transacted sales slips from the merchants are called acquirer. A bank can be both acquirer as well as issuer. For example Nabil Bank issues credit card as well as processes the transactions for its various merchants.

e. Clearing and Settlement

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

f. Independent Sales Organization

Resellers of the services of the acquiring bank.

g. 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.

h. 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.

i. 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.

j. 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.

2.1.11 Components of Credit Card

The component of credit card is as follows:

a. 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.

b. 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.

c. 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.

d. Issuing Bank

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

e. 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.

f. 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.

g. 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 Limited.

2.1.12 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)

2.1.13 Documents Required

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

The necessary documents required for applying credit card by and individual are:

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

Whereas in the case of owners of organization, the documents required for applying 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 Standard Chartered Bank Ltd*)

To provide an overview on credit card fees and charges, the fee structure of Himalayan Bank Limited has been included below:

1. Credit Card:

a. For Premium Savings Account (PSA):

Description	Membership Fee	Annual/Renewal Fee	Total
Visa/MasterCard Gold Domestic			
Main Card	500/-	1,000/-	1,500/-
Supplementary Card	500/-	500/-	1,000/-
Visa/MasterCard Classic Domestic			
Main Card	250/-	750/-	1,000/-
Supplementary Card	150/-	500/-	650/-

b. For Normal Savings Account:

Description	Membership Fee	Annual/Renewal Fee	Total
Visa/MasterCard Gold Domestic			
Main Card	500/-	1,500/-	2,000/-
Supplementary Card	500/-	1,000/-	1,500/-
Visa/MasterCard Classic Domestic			
Main Card	500/-	750/-	1,250/-
Supplementary Card	500/-	500/-	1,000/-

c. Credit Card (International)

Description	Membership Fee	Annual/Renewal Fee	Total
Visa/MasterCard Gold International			
Main Card	USD 25/-	USD 25/-	USD 50/-
Supplementary Card	USD 10/-	USD 25/-	USD 35/-
Visa/MasterCard Classic International			
Main Card	USD 20/-	USD 20/-	USD 40/-
Supplementary Card	USD 10/-	USD 15/-	USD 25/-

2. Pre-Paid Card

1. International Card

Subscription Fee	NPR 2,500/-
Validity	One Year
Limit	Up to USD 2,000/- or as per the NRB approval
Re-Loading Charge	Minimum NPR 1,000/- or 0.75% whichever is higher

2. Domestic Card

i. **Visa Gold Domestic (Limit more than NPR 50,000/-)**

Subscription Fee	NPR. 250/-
Re-Loading Fee	NPR 50/-

II. **Visa Classic Domestic (Limit up to NPR 49,000/-)**

Subscription Fee	NPR. 150/-
Re-Loading Fee	NPR 50/-

c. Other Related Fees & Charges:

a. Re-Issue/Damage Fee

Visa Gold Domestic	NPR 1,000/-
Visa Classic Domestic	NPR 500/-

Visa Gold International	USD 25/-
Visa Classic International	USD 20/-

b. Lost/Replacement Fee

Visa Gold Domestic	NPR 1,500/-
Visa Classic Domestic	NPR 1,000/-
Visa Gold International	USD 40/-
Visa Classic International	USD 25/-

c. Others

Interest (Domestic Card)	2% per month
Interest (International Card)	1.5% per month
Cash Advance Fee (HBL Branches/ATM)	NPR 150/- or 1.5% whichever is higher
Cash Advance Fee (Others)	NPR 200/- or 2% whichever is higher
Cash Advance Fee (International)	USD 5/- or 2% whichever is higher
Cash Advance Fee (Pre-Paid Dom. Card)	On-Us: Nil & Off-Us: NPR 150 Flat
Cash Advance Fee (Pre-Paid Int'l Card)	On-Us: N/A & Off-Us: USD 2/- Flat
Over Limit Fee (Domestic)	NPR 500/- flat
Over Limit Fee (International)	USD 10/- flat
Late Payment Fee (Domestic)	NPR 150/- or 0.5 % whichever is higher
Late Payment Fee (International)	USD 5/- or 0.5 % whichever is higher
Permanent Limit	Nil

Enhancement	
Temporary Limit Enhancement	NPR 500/- or USD 10/-
VIP Listing	NPR 500/- or USD 10/-
Statement Copy	NPR 200 or USD 3/- after 3 months
Document Retrieval Charge [Sales slip copy (on-us)]	NPR 500/- or USD 10/- (Refundable up to 100% if no mistake of customer)
Document Retrieval Charge [Sales slip copy (off-us)]	NPR 500/- or USD 10/- (Refundable up to 75% if no mistake of customer)
Travelers Cheque against Credit Card	NPR 150/- or 2% whichever is higher
ATM Card (Re-Issue)	NPR 100/- per card
ATM Card (Lost)	NPR 200/- per card
PIN (Re-Issue)	NPR 100/-

2.1.14 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.

2.1.15 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.

2.1.16 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) Cardholder'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 "diabolical" 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 card able 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 use the BIN (Bank Identification Number) and manufacture fabricated counterfeit cards and circulate them in the market, which resemble the original cards in every aspect.

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.

Transaction of Expired Card

Suppose if a merchant is making a transaction, which is within his floor limit and does not exercise negligence on his part to verify the expiry date on the card and makes the transaction. In such a case the acquirer denies to process the transaction and the merchant is at a loss. In some cases the draft is sent to the issuer for collection on a good faith basis which is fully dependent 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 organizations 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.

2.1.17 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
- h. Credit card customers may find following tips from internet put forth by Audri and Jim Lanford (Issue #79 June9, 2004) useful in combating credit card frauds.

Internet Scam Busters' 21 Credit Card Fraud Prevention Tips:

- i. 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.
- ii. 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.

- iii. 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.
- iv. Never provide your credit card information on a website that is not a secure site.
 - v. Sign your credit cards as soon as you receive them.
 - vi. Shred all credit card applications you receive.
- vii. 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).
- viii. Never leave your credit cards or receipts lying around.
- ix. Shield your credit card number so that others around you can't copy it or capture it on a cell phone or other camera.
- x. 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.
- xi. Only carry around credit cards that you absolutely need. Don't carry around extra credit cards that you rarely use.
- xii. 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.
- xiii. 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.
- xiv. Always void and destroy incorrect receipts.
 - xv. Shred anything with your credit card number written on it.
- xvi. Never sign a blank credit card receipt. Carefully draw a line through blank portions of the receipt where additional charges could be fraudulently added.
- xvii. Carbon paper is rarely used these days, but if there is a carbon that is used in a credit card transaction, destroy it immediately.
- xviii. 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).

- xix. Ideally, it's a good idea to carry your credit cards separately from your wallet -
- perhaps in a zippered compartment or a small pouch.
- xx. Never lend a credit card to anyone else.
- xxi. If you move, notify your credit card issuers in advance of your change of
address

2.1.18 Procedures Following Disputes

The following procedure will be followed if dispute arises:

- Chargeback cycle
- Arbitration
- Compliance
- T & E Resolution

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

The following work papers and abstracts about credit cards are drawn from websites:

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 percent 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 percent whereas the numbers of ATMs (Automatic Teller Machines) has grown at the rate of 25 percent.

With demo Figures of about two third of the worlds populations and 25 percent 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.

Thapa, Chandra Bahadur (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 & Standard Chartered Bank which may not represent the total card market .From researcher study, it can be concluded that the Thapa’s study is descriptive rather that 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.

Sujit Chakravorti (2003) had conducted that the 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 percent hold debit cards for online debit purposes and the rest 30 percent 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 percent 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 percent .Citibank is the largest credit card issuer with close to 52 percent of the market while Standard Chartered Bank is second with about 13 percent 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.

The prediction for the number of payment card on issue by mid 2000 was around 10million, which have exceeded way ahead .India has some promising long-term prospects due to the rise of middle –class consumers and changing lifestyles. But in case of Nepalese card business, the number of cards and the outlets are very low in comparison to other countries.

Last year, there were 12,100 credit card users in Nepal out of which 90 percent were Kathmandu based. The number of credit card users is estimated to increase by 30,000-35,000 this year. According to industry sources Nepal at present has 4,000 establishments that range from hotels, travel agencies, trekking and mountaineering agencies, supermarkets, retail outlets etc which accept MasterCard, Visa Card, American Express and Diners Club cards. Nepal Investment Bank alone has issued around 4,000 debit cards to this date. The debit card was launched last September and the bank soon plans to launch their credit card soon. Nepal Investment Bank has facilitated the first Visa Electron Debit card in Nepal.

“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 to take 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 an increasing number of urban Nepali middle class families have started resorting to plastic cards instead of cash.

The first use of credit card in Nepal dates back to the 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.

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. One of the main reasons for such a slow growth was the huge deposit – of up to Rs 50,000 – the bank used to demand to issue 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 two months ago 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).

Hada, Sunila (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.

Kinley (2005), 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 percent.

Credit card spending in Korea is increasing at a rate of 90 percent 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 percent at US \$ 128.4 billion .Australia -29.1 percent at US \$45.6 billion .and Japan –up 14 percent 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.

Pradhan, Preety (2005), had conducted project report on “Card Business in Nepal with Special Reference to HIMALAYAN BANK LIMITED”. Her work is highly commendable and she had drawn significant conclusions and remarkable recommendations for HIMALAYAN BANK LIMITED. Her 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.

Shrestha Rajina (2007) has conducted projected report on "Analysis of credit card Business in Nepal With Special Reference to Himalayan Bank " has had cited that, All these banks mainly concentrated themselves on financing foreign trade, commercial industry and other sector . After accepting economic freedom and privatization policy in Nepal , HBL was established under the foundation of Nepali capitalist and HBL has been providing credit card facility since 1993, HBL issues Visa Card only and acquire visa card

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 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

3.1 Introduction

Stated simply, research means to search again. We study the social problems again and again to find out something more about the phenomena. The first look may not always be adequate. It may be prone to error. Therefore, we look into the phenomenon again and again and study the problem differently and thoroughly each time. This process of searching again and again is known as research. Research is a knowledge building process. It generates new knowledge, which can be used for different purpose. Research is undertaken not only to solve a problem existing in the work setting, but also to add or contribute to the general body of knowledge in a particular area of interest to the researcher. Thus research is an organized, systematic, data based, critical, scientific inquiry or investigation into a specific problem, undertaken with the objective of finding answers or solutions to it (*Wolff and pant 2005:5*).

Methodology is the research method used for investigation. Research Methodology is the way of doing and completing research work. It is the way to solve the research problem systematically. 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. This includes personal observation, questionnaire distribution, secondary data collection, annual report, previous study, websites of commercials banks etc. Research methodology depends on the various aspects of research projects. The size of project, the objective of project, impact of project in various aspects of human life etc are the variables that determine the research methodology of the particular projects.

Preparation of the Report

The topic of the problem has been selected as credit card operation. A study on credit card operation of Nabil bank, Standard Chartered Bank and Himalayan bank with tentative objectives of pointing out the problem, as well as to determine ways of retaining present customers while attracting future customers has been conducted.

3.2 Research Design

A research design is a plan or blue print of investigation for the collection and analysis of data .It helps the researcher in the right direction in order to achieve the goal. This is a descriptive, diagnostic and development research. Descriptive research 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.

3.3 Population of the Study

There are twenty-five commercial banks operating in Nepal at present. Population refers to the target group on whom we have conducted our research. Currently there are four banks providing credit card facility and they are HBL, SCBNL, NIBL and NABIL banks. On this research total credit card issuing commercial banks are population size.

3.4 Sample of the Study

Sampling is the process of selecting the sample from the given population. The method of selecting a sample usually depends upon the nature of the investigation. Under different techniques of sampling, judgmental sampling technique has been used in this study. The sample banks for this study are HBL, SCBNL and NABIL bank.

3.5 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.

3.5.1 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.

3.5.2 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. Sources for this study have been listed below:

- Data and information relating to Credit card collected from HBL, NABIL, and SCBNL and provided by department head at Standard Chartered Bank Nepal Limited.
- Consolidated report of Nepal card Member forum.
- Publication of HBL, NABIL, SCBNL.
- Annual reports of different years.
- By monthly newsletter of HBL, NABIL, SCBNL.
- Internet articles and previous thesis and project works.

3.6 Data Collection Procedure

Both primary and secondary data were used in preparing these reports. 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. Mostly data have been taken from the department head of Standard Chartered Bank Nepal Limited.

3.6.1 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.

Customers

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

Merchants

The merchant's questionnaire was targeted to merchants of different establishment such as departmental stores, restaurants, hotels, travel agents and others such as retail outlets concentrated in Lalitpur, Bhaktapur and Kathmandu. The questionnaire was divided into two portions; one focused on Merchants having credit cards facilities and the other merchants not having the facilities. The first section consists of questions focused on the acquiring bank, reasons for selection of bank, reasons for acquirement of facilities, frequency of usage of credit card and problems encountered with usage of card. The second section comprises of questions regarding reasons for not acquiring credit card facilities, reaction of customers to absence of credit card facility and whether there is planning for installing credit card facility and reasons for doing so or if not then why.

Departmental Stores

Departmental stores questionnaire was targeted to departmental stores providing credit cards facilities to their customers. This questionnaire was designed so as to find out the reasons for selection of different banks cards. The questionnaire included most

of the questions in 'Merchant' questionnaire. Furthermore, apart from general information, acquiring bank, reasons for selection of bank, reason for acquirement of facilities, frequency of usage of credit cards and problems encountered with usages of cards were asked.

3.7 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 Bank Ltd, Himalyan Bank Ltd, Standard Chartered Bank Ltd and Nepal investment Bank Ltd is also made.

3.8 Statistical Tools Used

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

3.8.1 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.

3.8.2 Coefficient 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. Here, where the mean value of the variable is not equal, it is not appropriate to compare two pairs of variables based on standard deviation only. The coefficient of variation measures the relative measures of dispersion, hence capable to

compare two variables independently in terms of their variability. Coefficient of variation can be expressed mathematically as,

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

3.8.3 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 small r and is expressed as,

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the analysis and interpretation of the data collected from various sources and research methodology. In the course of analysis, data gathered from the various sources have been presented in tabular form. Various tables prepared for the analysis purpose have been shown in the appendix. Data has been analyzed by using financial and statistical tools.

4.2 User Trend of Credit Card Business

The credit card business is in an initial phase in Nepalese market. Hence the users credit card are subsequently low. The following table shows the user trend of credit card business.

Table 4.1
User Trend of Credit Card Business

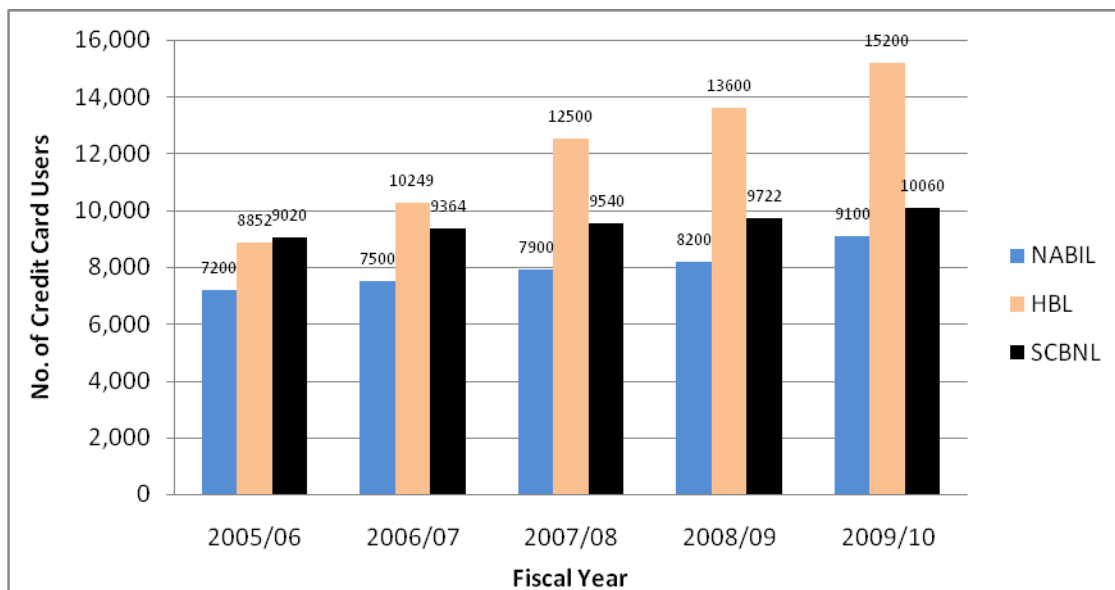
Year	NABIL	HBL	SCBNL	Industry
2005/06	7200	8852	9020	8357
2006/07	7500	10249	9364	9038
2007/08	7900	12500	9540	9980
2008/09	8200	13600	9722	10507
2009/10	9100	15200	10060	11453
Average	7980	12080	9541	9867
Standard Deviation	655	2280	348	1087
Coefficient of variance	8.21%	18.87%	3.65%	11.01%

Sources: Appendix No: I

Above table shows the number of credit card users of the sample banks: NABIL, HBL and SCBNL for the past 5 years.

Figure 4.1

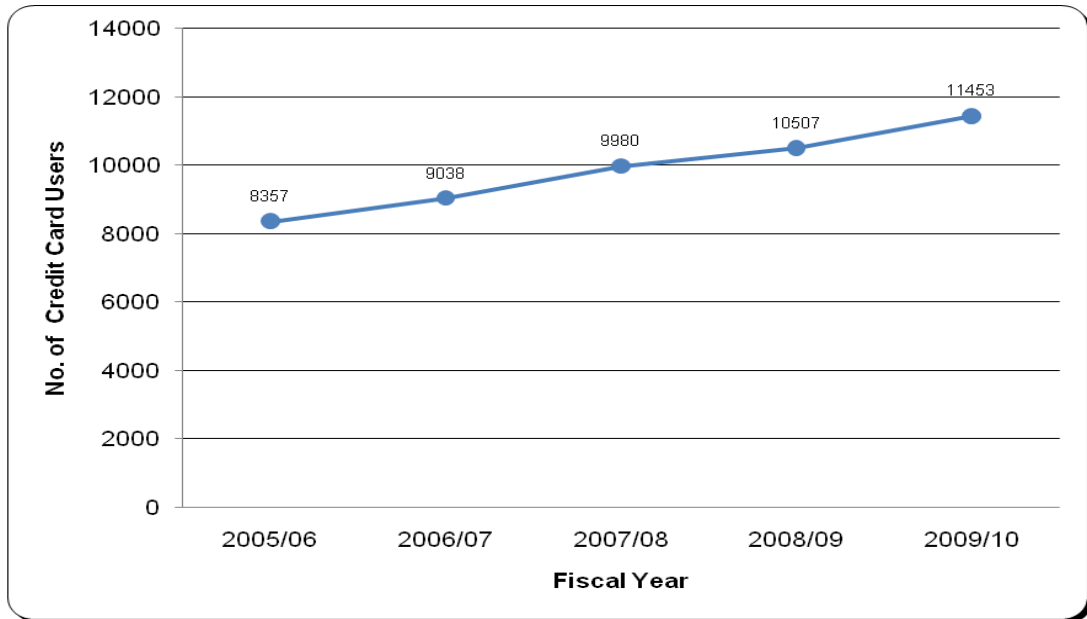
User Trend of Credit Card Business of Nepal



Source: Table 4.1

The trend of cards users of NABIL, HBL, SCBNL and Industry are shown in figure. The average users of different banks: - NABIL, HBL, SCBNL and Industry are 7980, 12080, 9541, and 9867 respectively. In comparison among the three banks HBL has the highest number of card users while it was SCBNL previous year. HBL has the highest growth rate among the three sample banks and SCBNL has the lowest growth rate which is not different from the previous year.

Figure 4.2
User Trend of Industry



Source: Table 4.2

Standard deviation shows the volatility of the user trend. From above data, the standard deviation of NABIL, HBL, SCBNL and Industry are 655.44, 2280, 347.82, and 3260.53 respectively. While analyzing the volatility of user trend, HBL has the highest volatility among three sample banks but all banks have less volatility than the industry.

The coefficient of variance measures the risk of business, higher the C.V. higher the risk, lower the C.V. lower the risk of business. Form above data, the coefficient of variance of sample banks NABIL, HBL, SCBNL and Industry are 8.21% percent, 18.87% percent, 3.65% percent and 11.01% percent respectively. HBL has the highest C.V. It shows that HBL has higher risk than other banks. Similarly SCBNL has lowest C.V. and it shows that it has lower risk.

In spite of having the highest number of cardholders and growth rate, HBL has the greatest volatility and risk. SCBNL has lowest growth rate but relatively lower risk.

4.3 Merchant Trend of Credit Cards Business

The acceptance infrastructure plays vital role in boosting the card business. It encourages people to use the card and facilitates payments without immediate cash. The following table shows the merchant trend of credit card business

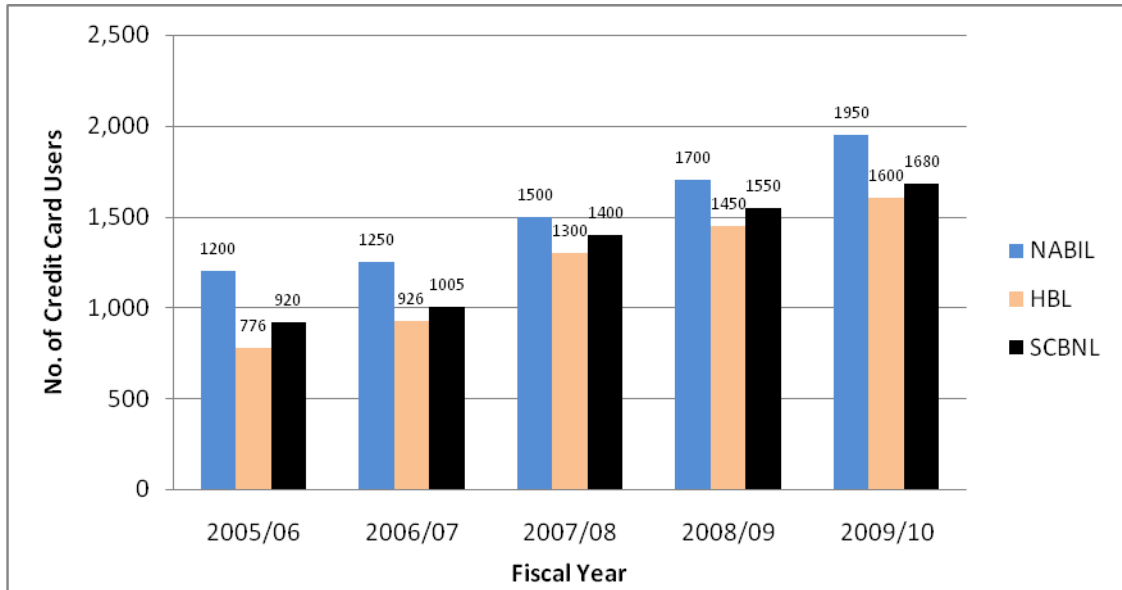
Table 4.2
Merchant Trend of Credit Card Business

Year	NABIL	HBL	SCBNL	Industry
2005/06	1200	776	920	965
2006/07	1250	926	1005	1060
2007/08	1500	1300	1400	1400
2008/09	1700	1450	1550	1567
2009/10	1950	1600	1680	1743
Average	1520	1210	1311	1347
Standard Deviation	280	312	299	295
Coefficient of variance	18.44%	25.78%	22.83%	21.92%

Sources: Appendix No: I

Above table shows the merchant trend in card business. Among the sampled banks NABIL, HBL, SCBNL and Industry have average number of merchant 1520, 1210, 1311 and 1347 respectively. NABIL has the highest and HBL has lowest average number of merchant among the sample banks.

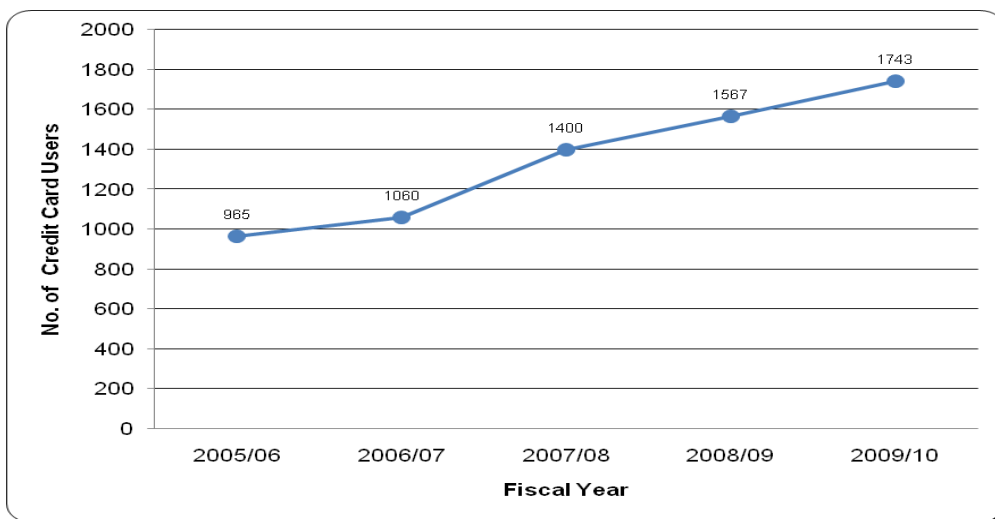
Figure 4.3
Merchant Trend of Credit Card Business



Source: Table 4.2

Above figure shows that annual growth rate of sample banks NABIL, HBL, SCBNL and Industry are 13.78 percent, 17.28 percent, 17.07 percent, and 15.74 percent respectively. HBL bank has the higher growth rate than NABIL and SCBNL. NABIL has the lowest growth rate.

Figure 4.4
Merchant Trend of Industry



Source: Table 4.2

Standard deviation of NABIL, HBL, SCBNL and Industry are 280.36, 312.03, 299.24 and 885.88 respectively. It shows that volatility of merchant of SCBNL is highest. All banks have less volatility compared to Industry.

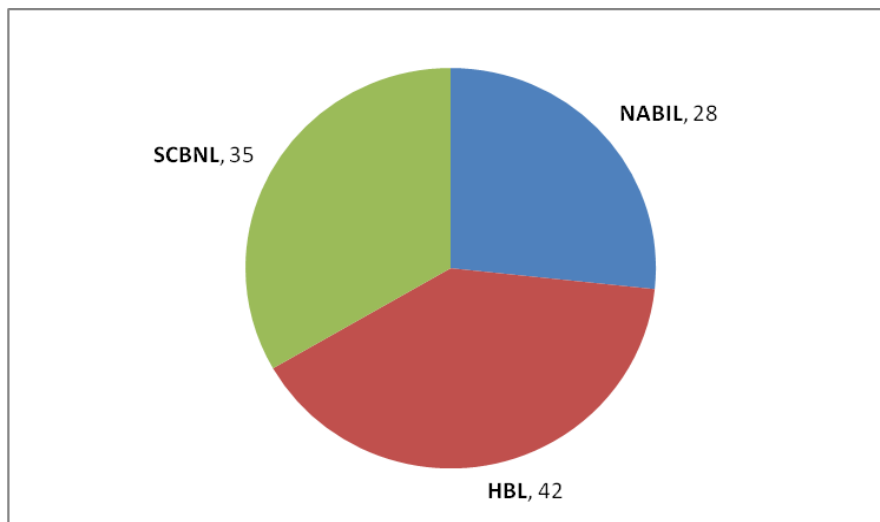
The coefficient of variance of sampled bank NABIL, HBL, SCBNL and Industry are 18.44 percent, 25.78 percent, 22.83 percent, and 21.92 percent respectively. Analyzing these figures, HBL has the highest risk and NABIL has lowest risk.

4.4 Present Market Share Hold by Different Banks

In context of Nepalese credit cards business NABIL, HBL, SCBNL, and NIBL as well are involved. Since, we are considering only three banks NABIL, HBL, and SCBNL, in the following Figure, market share of sampled banks are presented in case of number of cardholders and merchant.

Figure 4.5

Market share of banks in terms of number of cardholders for the Year 2009/10

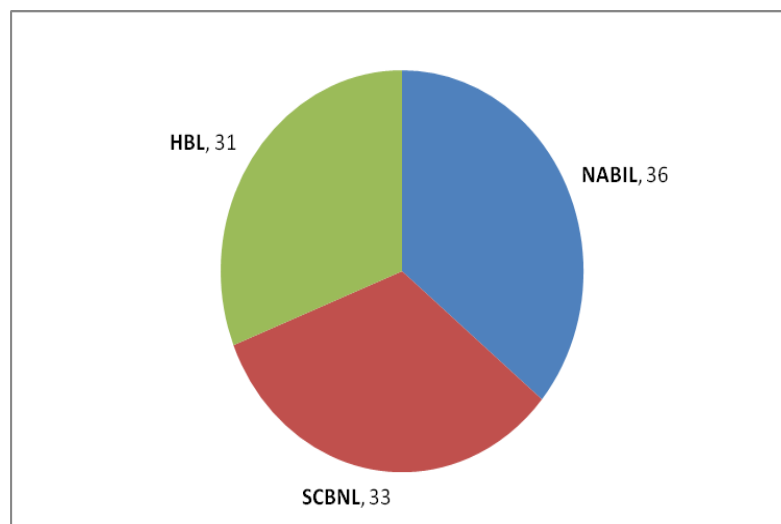


Source: Table 4.1

Above Figure shows the market share of different banks involved in credit cards business. In case of number of card holders or issuance market HBL, SCBNL and NABIL hold 42 percent, 35 percent and 28 percent respectively. HBL has the highest percentage and NABIL has the lowest percentage among three banks regarding card issues.

Figure 4.6

Market share of banks in terms of merchant hold for the Year 2009/10



Source: Table 4.1

Above figure shows the market share of number of merchant hold by banks in credit card business. NABIL, SCBNL and HBL hold 36 percent, 33 percent and 31 percent respectively. The figure indicates the highest and lowest share of NABIL and HBL respectively.

Though in terms of issuance HBL has the highest market share, in case of merchant it occupies the lowest market share. Similarly in terms of issuance NABIL has the lowest market share but with merchant hold it almost has the largest market share.

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 4.3
Correlation Analysis of NABIL Bank

Tools	NABIL with HBL	NABIL with SCBNL	NABIL with Industry
Correlation (No. of cardholders)	0.9625	0.9760	0.7715
Correlation (No. of merchants)	0.91	0.98	0.99

Sources: Appendix No: II

According to above the table 4.3 the correlation between the number of cardholders of NABIL Bank with HBL, SCBNL and Industry are 0.96, 0.97 and 0.77 respectively and number of merchant are 0.91, 0.98 and 0.99 respectively, which indicate NABIL has positive correlation with HBL and higher and positive degree of correlation with SCBNL and Industry. This means NABIL, SCBNL and HBL move in the same direction. In case of number of merchants also NABIL has positive and high degree of correlation with other sampled banks and industry.

Table 4.4
Correlation Analysis of HBL

Tools	HBL with NABIL	HBL with SCBNL	HBL with Industry
Correlation (No. of Cardholders)	0.96	0.98	0.97
Correlation (No. of Merchant)	0.91	0.96	0.96

Sources: Appendix No: II

Table 4.4 presents the relationship of cardholders of HBL with NABIL, HBL with SCBNL and HBL with Industry. HBL has positive correlation with NABIL and a high degree of positive correlation with SCBNL and Industry. In case of number of merchant also HBL has positive and high degree of correlation with NABIL, SCBNL and Industry.

Table 4.5
Correlation Analysis of SCBNL

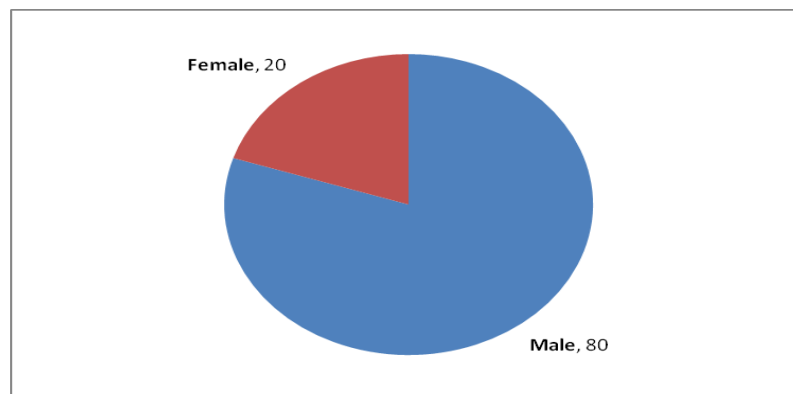
Tools	SCBNL with NABIL	SCBNL with HBL	SCBNL with Industry
Correlation (No. of Cardholders)	0.97	0.98	0.98
Correlation (No. of Merchant)	0.98	0.96	0.99

Sources: Appendix No: II

According to above table, the correlation between the numbers of cardholders of SCBNL with NABIL, SCBNL with HBL and with Industry are 0.97, 0.98 and 0.98 respectively and numbers of merchants are 0.98, 0.96 and 0.99 respectively. SCBNL has positive and high degree of correlation with all other banks and industry in terms of both card issuance and merchant hold which indicates that SCBNL is moving in positive direction with other banks and industry.

4.5 Result Section of Questionnaire

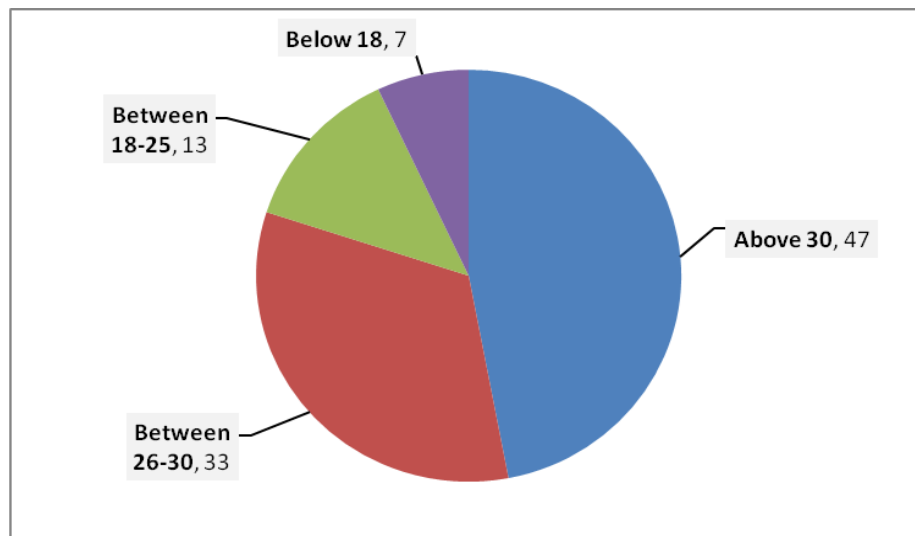
Figure 4.7
Gender Distribution of Customers



Sources: Appendix No: IV

In above figure 4.7, out of 15 respondents (cardholding customers), 80% were male and 20% female.

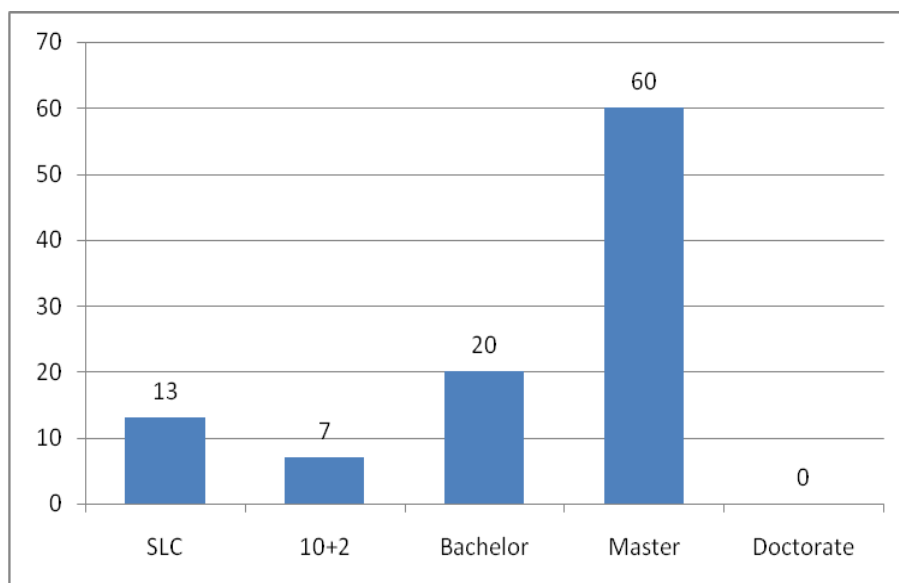
Figure 4.8
Age Distribution of Customers



Sources: Appendix No: IV

In above figure 4.8, out of 20 customers on the basis of age group, 47 percent were above 30, 13 percent were between age 18-25 and 33 percent were between 26-30 years.

Figure 4.9
Education Level of Customers

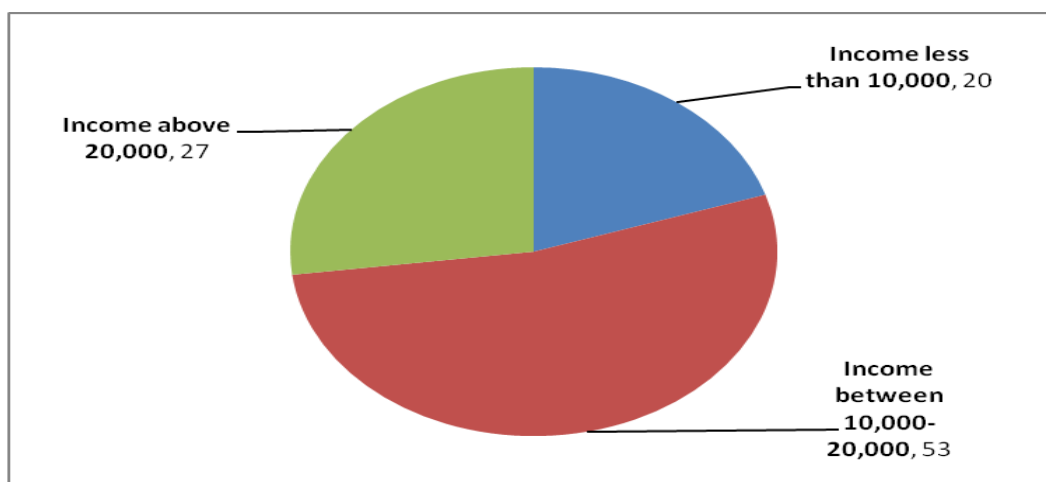


Sources: Appendix No: IV

In above figure 4.9, out of 50 respondents on the basis of educational background, 7 percent were of 10 + 2 level, 20 percent had Bachelor degree, 60 percent had master degree and the remaining 13 percent had SLC level.

Figure 4.10

Income Level of Cardholders

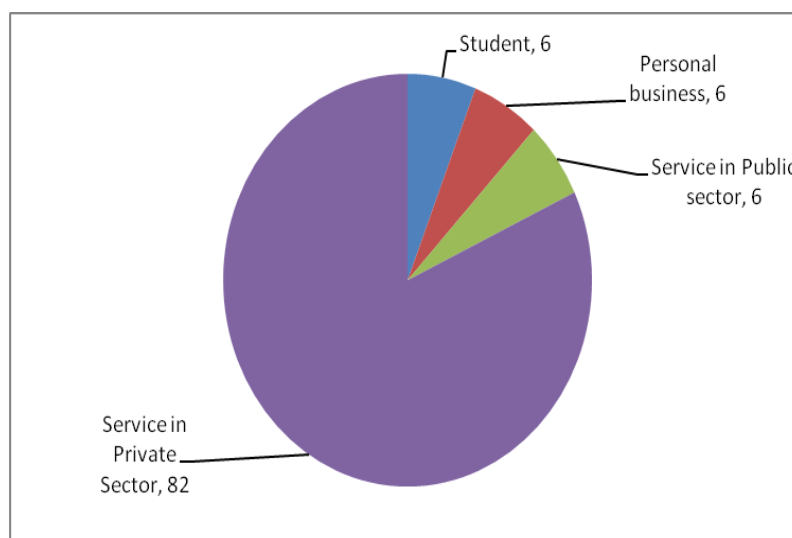


Sources: Appendix No: IV

In above figure 4.10, of the 15 respondents possessing credit card, 20 percent cardholders had monthly income less than 10,000, 27 percent earned between 20,000 - 40,000 and 53 percent earned monthly income between 10,000-20,000.

Figure 4.11

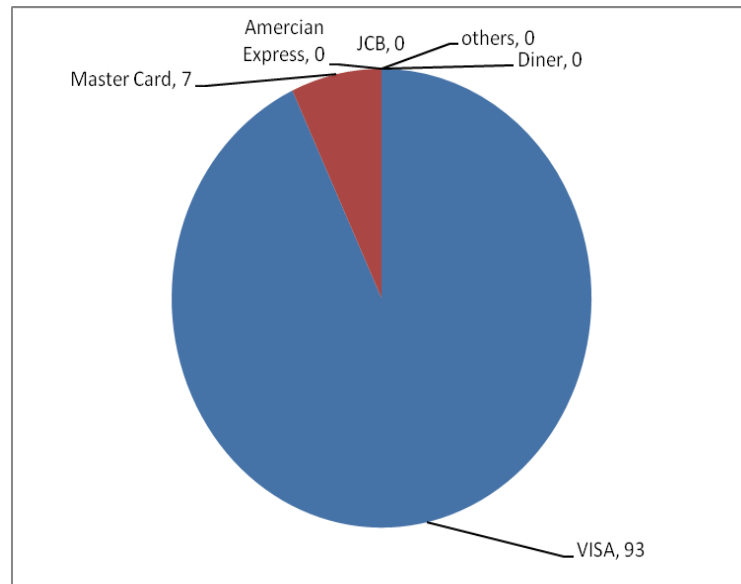
Profession of Cardholders



Sources: Appendix No: IV

In above figure 4.11, majority of 6 percent respondents surveyed own their own personal business. In fact 82 percent worked in private sector and this was followed by student at 6 percent and public sector employee 6 percent.

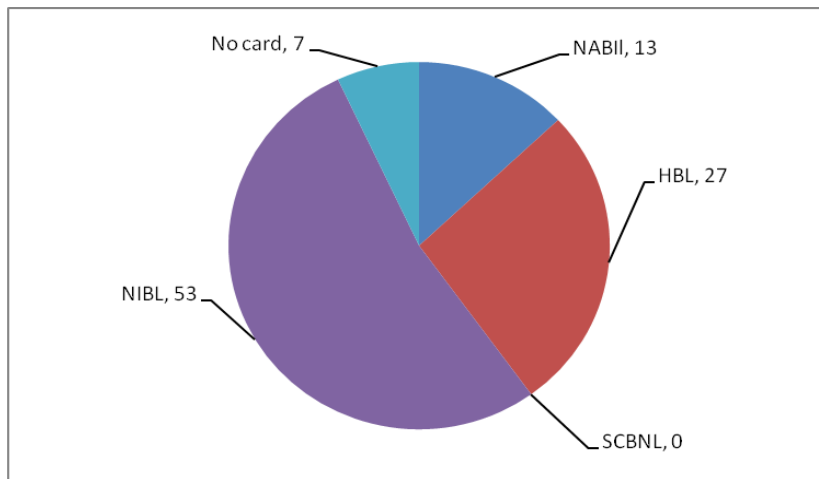
Figure 4.12
Types of Cards



Sources: Appendix No: IV

In above Figure 4.12, out of 15 respondents, 93 percent respondents have had VISA card and 7 percent 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.

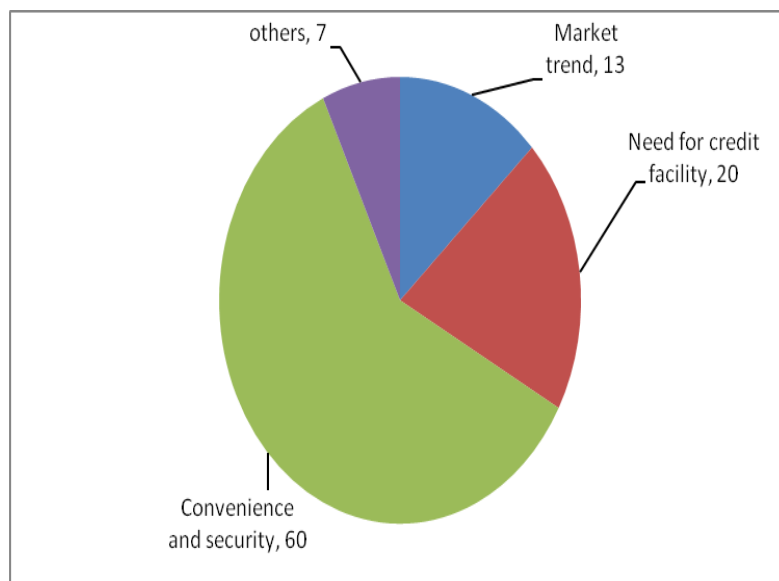
Figure 4.13
Cards Acquired of Different Banks



Sources: Appendix No: IV

In above Figure 4.13, among the sample banks, it is seen that most of the customers have acquired credit card of Himalayan Bank Limited. 27 percent cardholders acquired card of Himalayan bank, 13 percent acquired card of NABIL Bank Limited and 53 percent acquired card of NIBL.

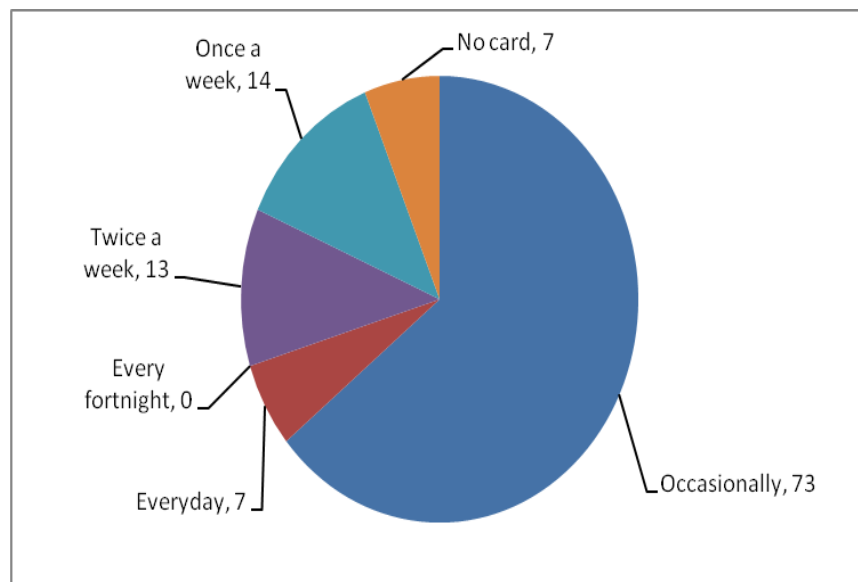
Figure 4.14
Reasons for Acquiring Credit Card



Sources: Appendix No: IV

In above figure 4.14, out of 15 respondents, 13 percent decided to acquire credit card because of increasing market trend, 20 percent decided to acquire card because they needed credit facilities, 60 percent decided to acquire card because of convenience and security and 7 percent 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.

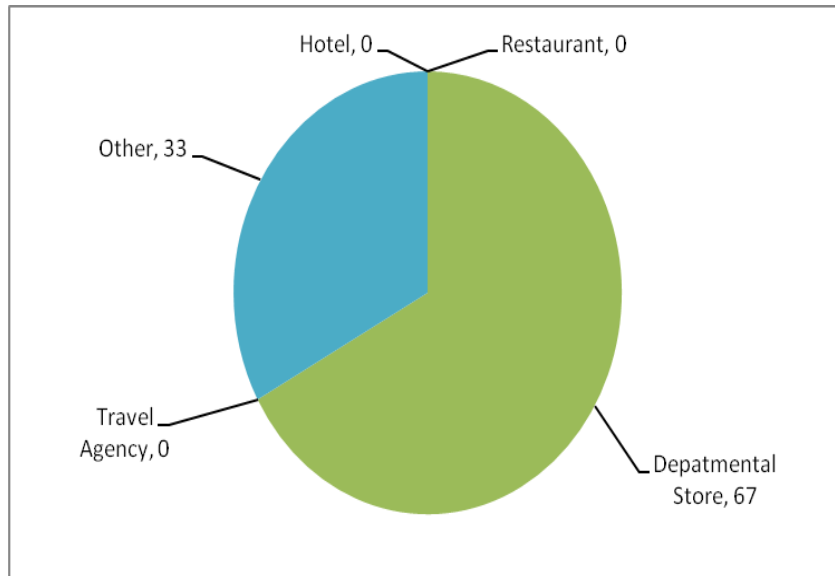
Figure 4.15
Purchase through Credit Card



Sources: Appendix No: IV

In above Figure 4.15, 15 respondents, it was found that 13 percent of them use it twice a week, 7 percent of them use it every day and 73 percent of them use it only occasionally.

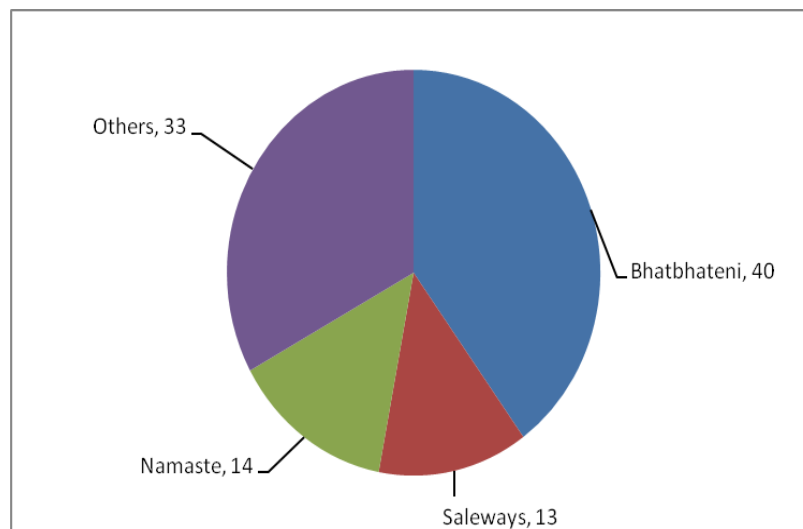
Figure 4.16
Places of Usage of Credit Card



Sources: Appendix No: IV

In above Figure 4.16, out of 15 customers, 10 percent use credit card in restaurant, 30 percent of them use at the hotel and 34 percent of them use at departmental stores. Likewise, 22 percent of them use credit card at travel agency.

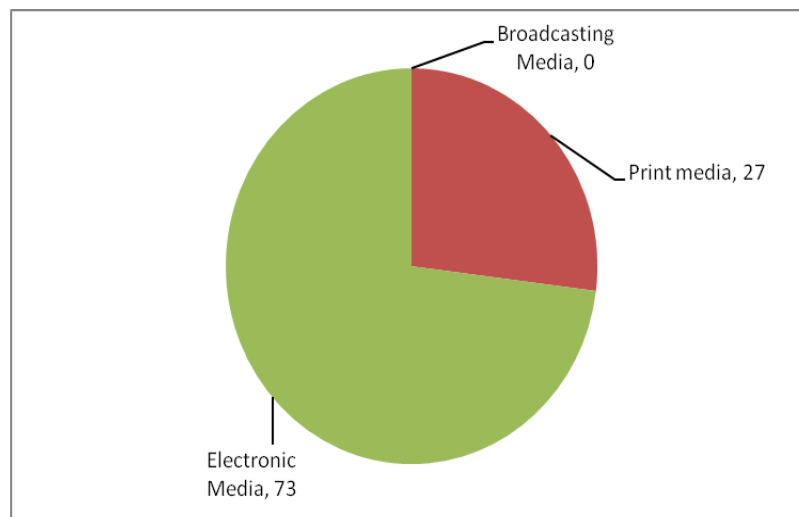
Figure 4.17
Buying Nature of Customers



Sources: Appendix No: IV

In above figure 4.17, out of 15 customers having credit card, 40 percent of them use their card at Bhatbhateni Supermarket, 13 percent of them use card in Saleways Supermarket, and 14 percent at Namaste Supermarket, 33 percent of them use their credit card at other supermarkets and stores.

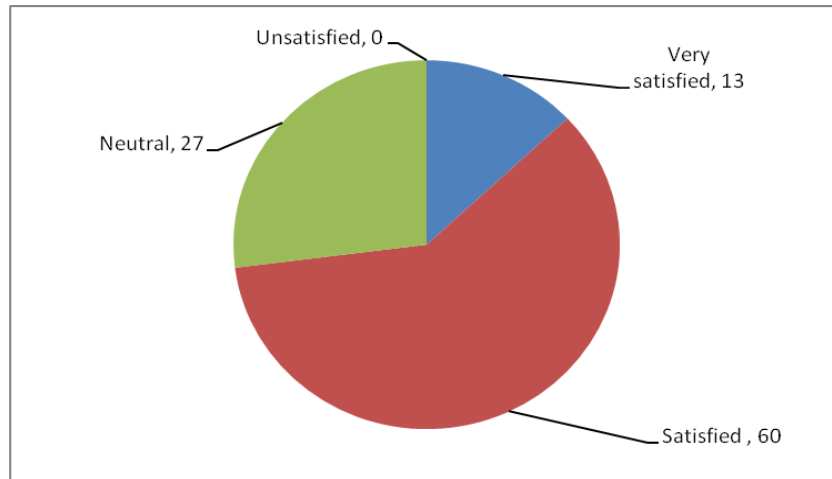
Figure 4.18
Appropriate Media



Sources: Appendix No: IV

In above figure 4.18, from the sample size of 20, it was seen that most of the customers, 27 percent, 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 73 percent.

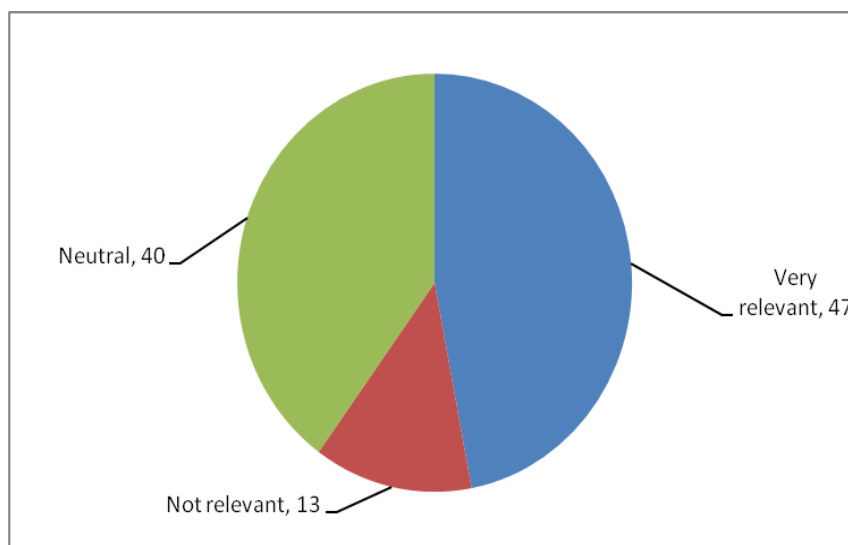
Figure 4.19
Level of Satisfaction



Sources: Appendix No: IV

In above Figure 4.19, out of 15 customers, 13 percent of them possessing card were very satisfied, where as 60 percent of them said they were satisfied and 27 percent of them were neutral while no felt they were unsatisfied by the credit card they availed.

Figure 4.20
Relevancy of Credit Card Facility by Bank

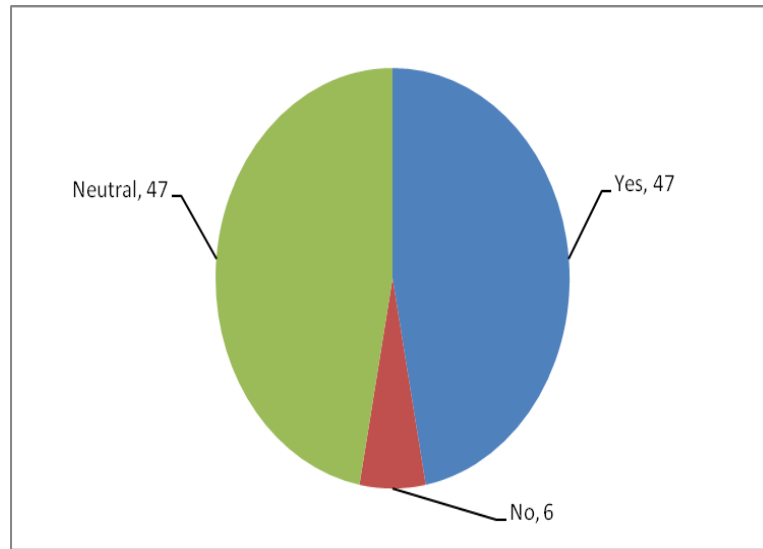


Sources: Appendix No: IV

In above Figure 4.20, out of 15 customers, 47 percent felt that the facility of credit card being adopted by the bank is very relevant in commercial banking, 13 percent felt it was not so relevant and 40 percent of them had no opinion and were neutral about the facility of credit card being adopted by the different bank.

Figure 4.21

Satisfaction in Limit made by Bank

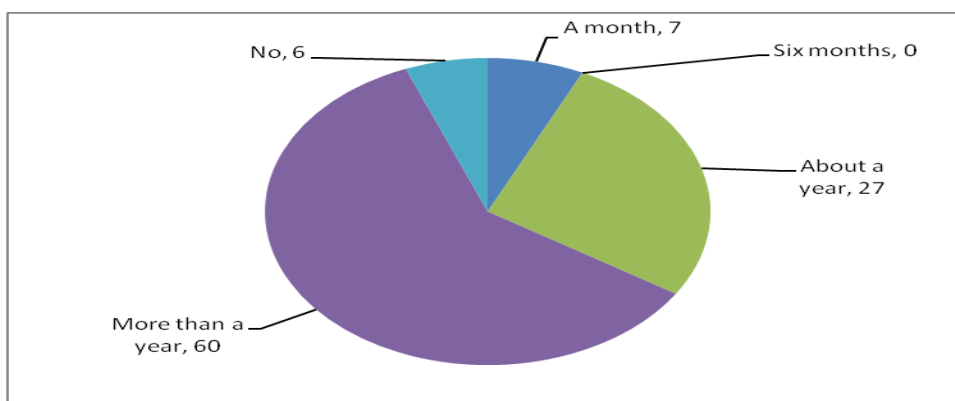


Sources: Appendix No: IV

In above figure 4.21, out of 15 customers, 47 percent (7) were satisfied with the limit made by the bank where as 6 percent was not satisfied with the limit and similarly 47 percent (7) of them were neutral about the limit made by the bank.

Figure 4.22

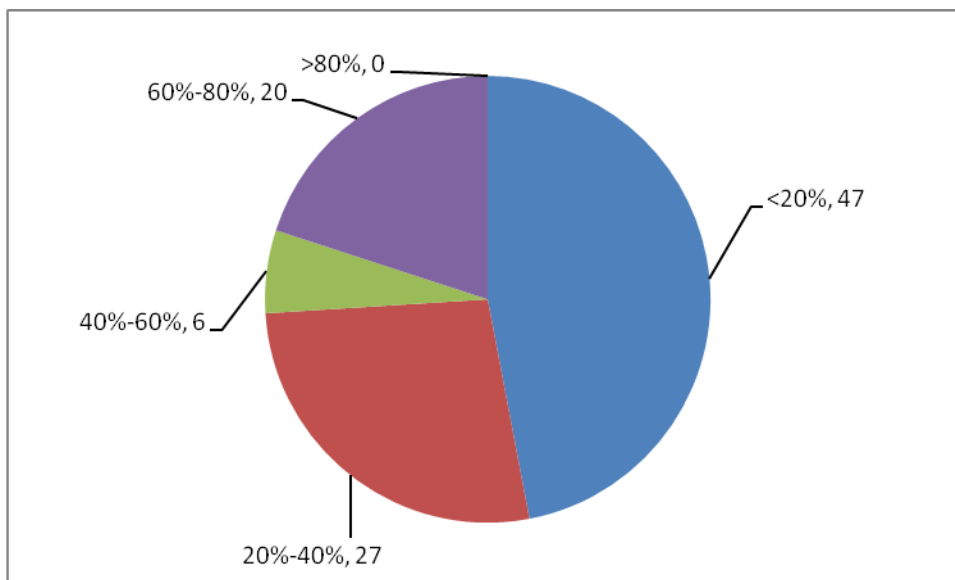
Time elapsed since Card Acquired



Sources: Appendix No: IV

In above figure 4.22, out of 15 respondents, 60 percent (9) were found using their credit card for more than a year, 27 percent (4) of them had almost used their credit card for a year and nobody were using for about six months. Likewise, only 7 percent had recently acquired their credit card, about a month.

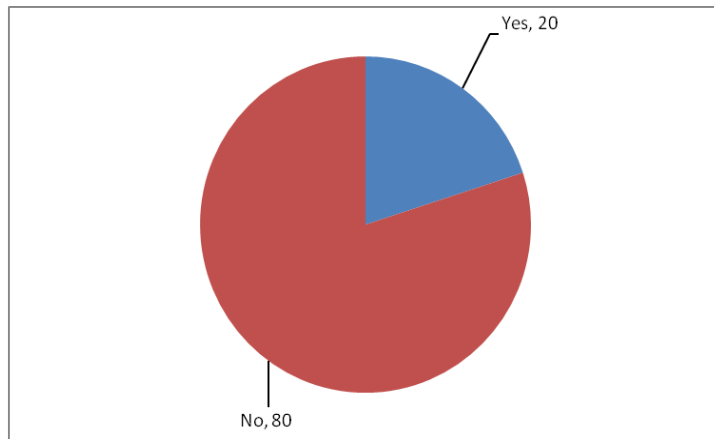
Figure 4.23
Expenses through Credit Card



Sources: Appendix No: IV

In above figure 4.23, out of the 15 card holders, it was found that 47 percent of the card holders make less than 20 percent of their purchases through credit card, 27 percent of them make (20 - 40) percent of their purchases through credit card. Similarly, another 6 percent make (40 - 60) percent of their purchases through credit card and likewise 20 percent of the card holders make (60-80) percent of their purchase.

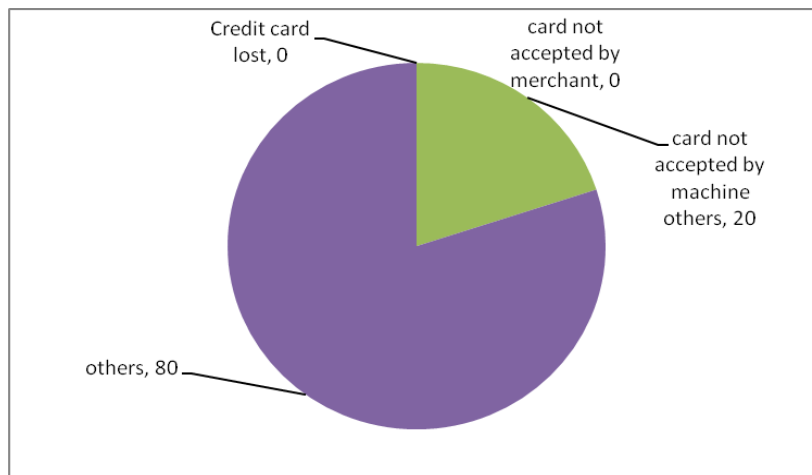
Figure 4.24
Problems Encountered



Sources: Appendix No: IV

In above figure 4.24, out of 15 card holders, 80 percent had encountered different types of problems and rest of 20 percent of card holder had not yet faced any sort problem.

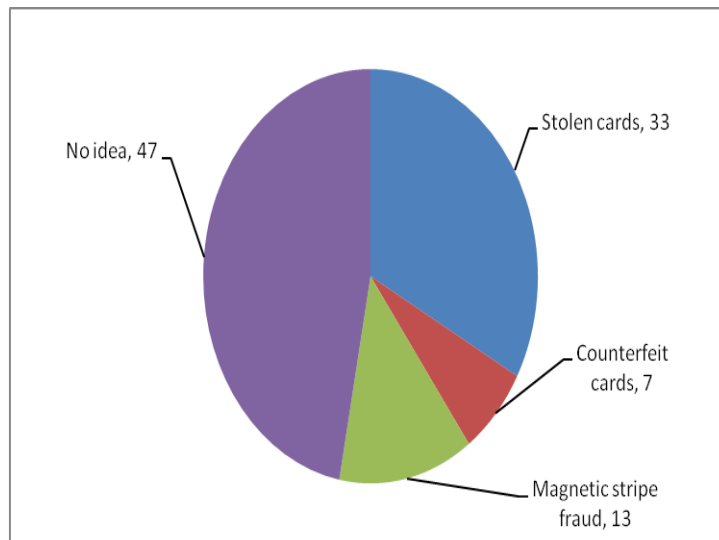
Figure 4.25
Types of Problems Encountered



Sources: Appendix No: IV

Figure 4.25, among those who encountered problems with their credit card, 20 percent faced problem of non acceptance of card by machine and 80 percent faced problem of non acceptance by merchant.

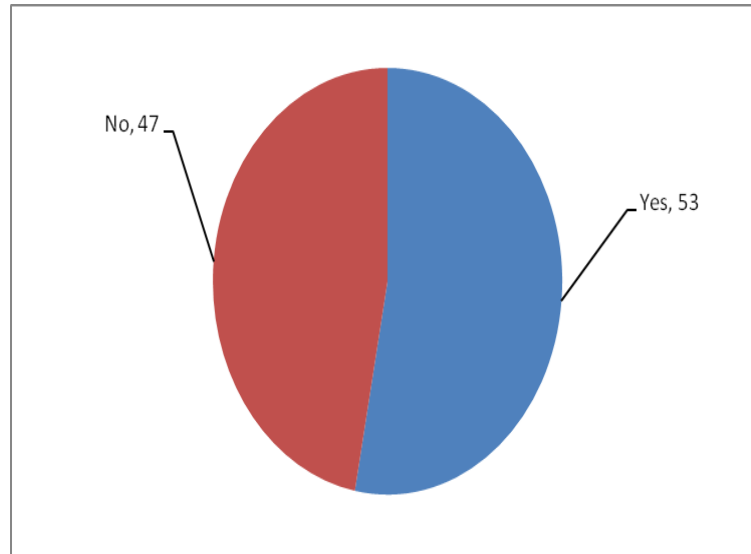
Figure 4.26
Knowledge on Card Frauds



Sources: Appendix No: IV

Figure 4.26, out of 15 respondents, almost 47 percent had no idea on credit card frauds, 33 percent were aware on risk of cards stolen, 13 percent knew about counterfeit card frauds and 27 percent knew about magnetic stripe fraud due to recent happening of such frauds in ATMs and POS machines.

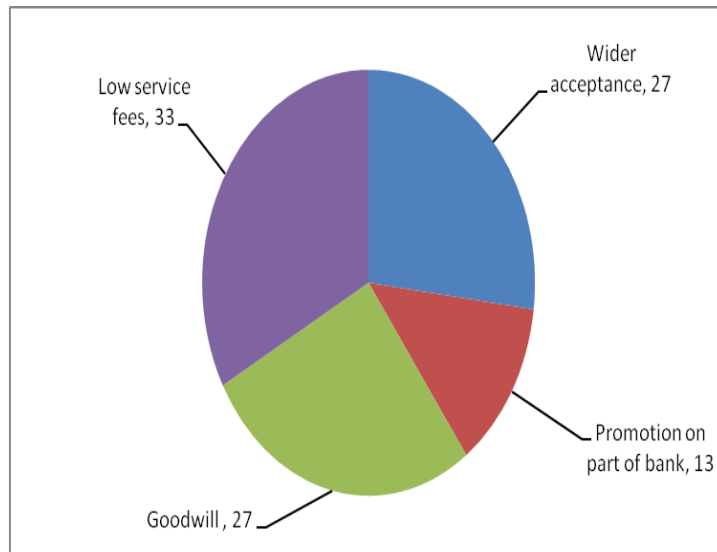
Figure 4.27
Knowledge on Credit Card Disputes



Sources: Appendix No: IV

In above figure 4.27, out of 15 respondents, only 53 percent 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 47 percent showed no familiarity with the process.

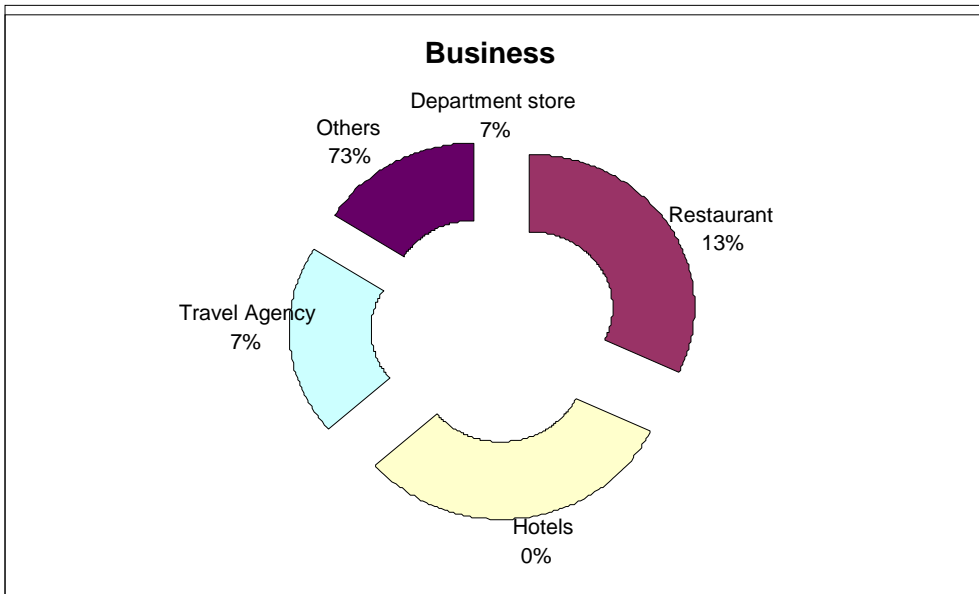
Figure 4.28
Incentive to Change Cards



Sources: Appendix No: IV

In above figure 4.28, out of 15 respondents, 27 percent would give up their current card for a new card if the card has wider acceptance while 13 percent were also ready to change cards or acquire a new one if they receive tangible promotions from banks. Also 33 percent would change cards if the service fees are low and 27 percent cited goodwill as an incentive for change.

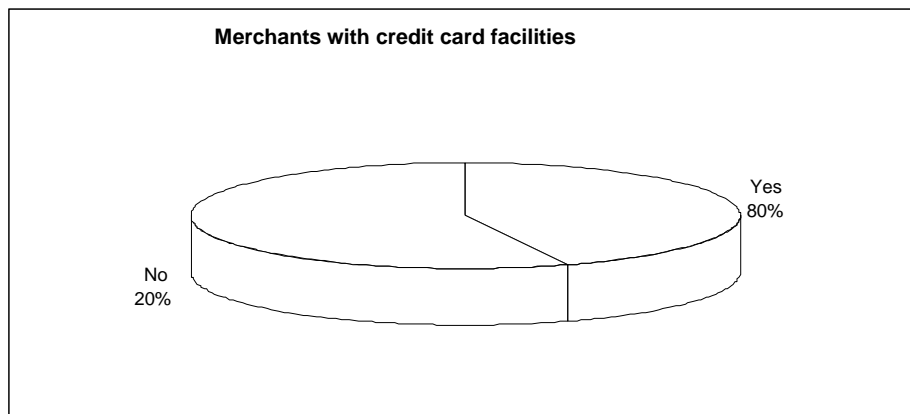
Figure 4.29
Sample Size Composition



Sources: Appendix No: III

In above figure 4.29, Out of 15 respondents, 7 percent were departmental stores, restaurant and hotels both constituted 13 percent (2), the remaining 7 percent (1) were travel agents 73 percent (11) were retail outlets and other business.

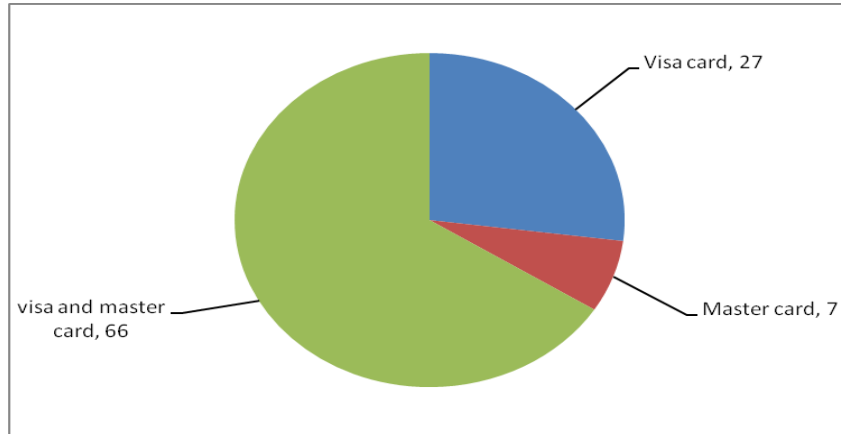
Figure 4.30
Merchants using Credit Cards



Sources: Appendix No: III

In above figure 4.30, out of the sample size of 15 respondents, 80 percent (12) had installed credit card facility, while 20 percent (3) had rather decided not having it.

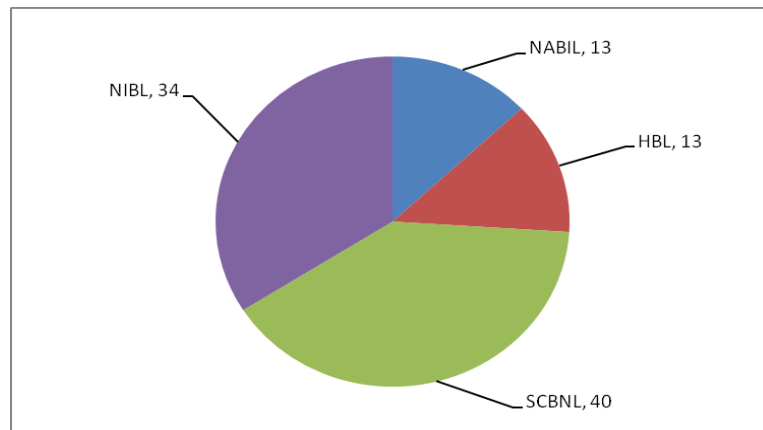
Figure 4.31
Types of Card Accepted



Sources: Appendix No: III

In above figure 4.31, out of 11 respondents obtained from 15 merchants (who installed credit card facility) 27 percent accept Visa card, while 7 percent accept master card. 66 percent (10) were also those who accept both card types Visa and Master card.

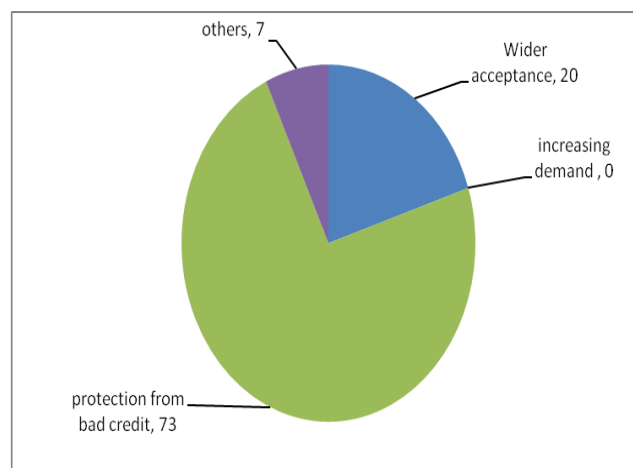
Figure 4.32
Acquiring Bank



Sources: Appendix No: III

In above figure 4.32, out of 15 respondents, who had installed credit card facility 40 percent had acquired the service from SCBNL, 34 and 13 percentage acquired it from NIBL and NABIL respectively. While 13 percent is acquired from HBL bank.

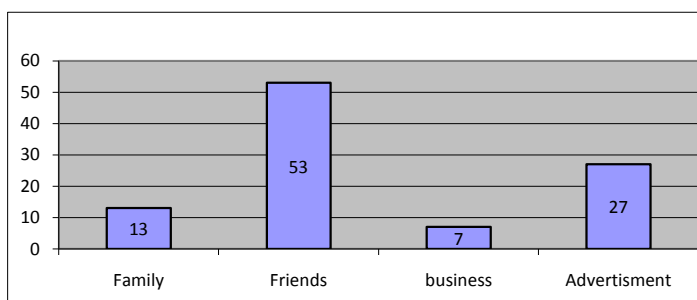
Figure 4.33
Reasons for Selection



Sources: Appendix No: III

In above figure 4.33, out of 15 respondents having credit card facility 20 percent had selected particular bank for wider acceptance of the bank's service, 73 percent for their protection from bad credit with banks, 7 percentages of the merchants for goodwill of banks.

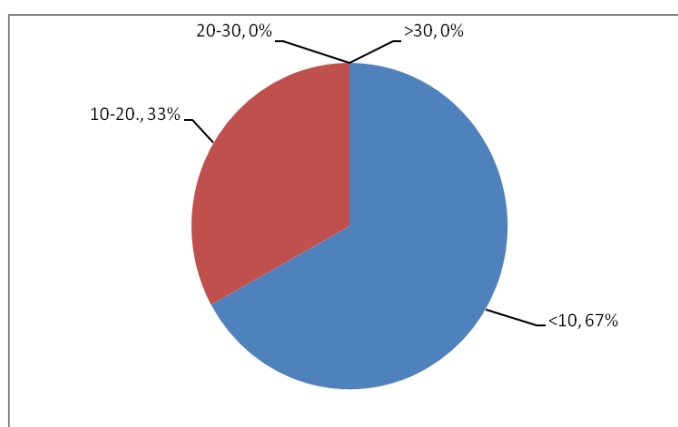
Figure 4.34
Influence to Use Card



Sources: Appendix No: III

In above figure 4.34, out of 15 respondents having credit card facility, 13 percent were influenced by other family providing credit card facility, while 53 percent had installed it through friends, relatives and neighbors. Similarly 27 percent were influenced from advertisement and the same percentages also were influenced by the marketing effort from bank staffs.

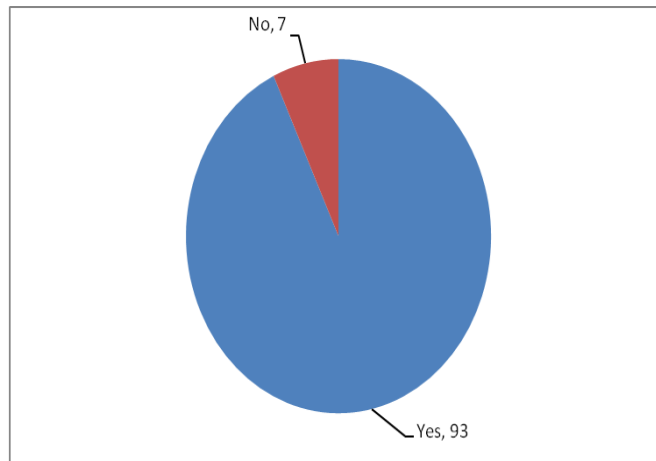
Figure 4.35
Frequency of Credit Card Users



Sources: Appendix No: III

In above figure 4.35, regarding the frequency of credit card users, 67 percent replies were for less than 10 customers, 33 percent for between 10-20 customers.

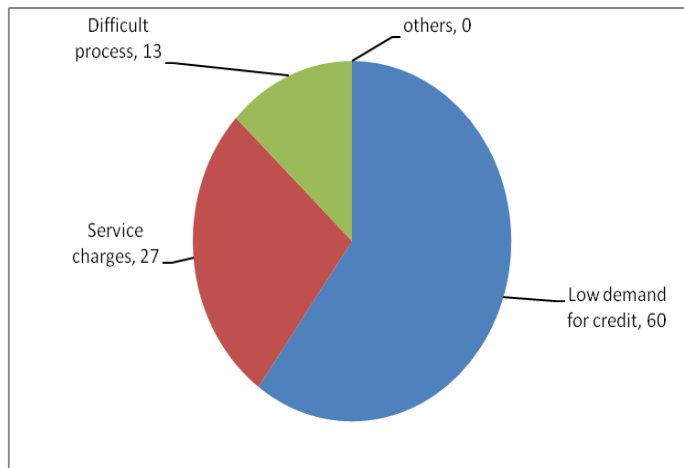
Figure 4.36
Growth of Business after Using Card



Sources: Appendix No: III

In above figure 4.36, out of 15 respondents having credit card facility, 93 percent reported significant growth in their business volume while 7 percent did not notice any remarkable changes.

Figure 4.37
Reasons for Not Providing Card Facility

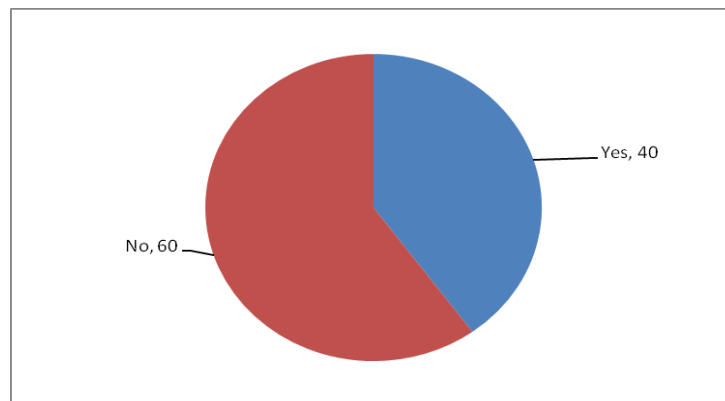


Sources: Appendix No: III

In above figure 4.36, out of 15 respondents not having credit card facility, 60 percent cited low demand for credit as reason for not installing credit facility, 27 percent

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 13 percent 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.

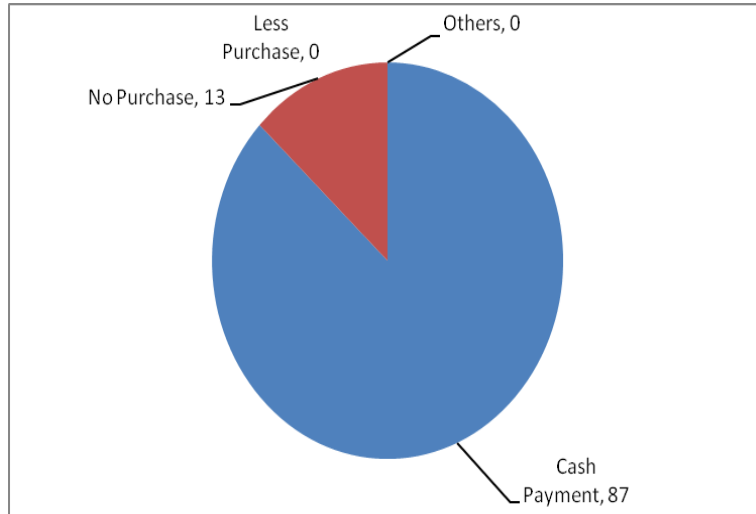
Figure 4.38
Credit Facilities



Sources: Appendix No: III

In above figure 4.38, out of 15 respondents only 40 percent merchants provided credit facilities to their customer while 60 percent merchants didn't give those facilities to their customers.

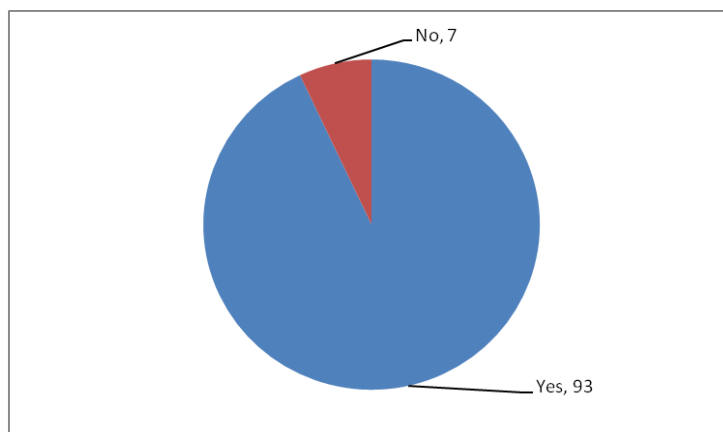
Figure 4.39
Response of Customer



Sources: Appendix No: III

In above figure 4.39, out of 15 respondents not having credit card facility, 87 percent would make cash payment even if they did not receive credit facility, while 13 percent customers would also react negatively by going to other merchants.

Figure 4.40
Plan to Acquire Credit Card Facility



Sources: Appendix No: III

In above figure 4.40, out of 14 merchants not having credit card facilities, 93 percent still have no plans of installing credit card while 7 percent were interested in installing credit card facility in their shops in near future. 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.

4.6 Major Findings of the Study

The main findings of the study have been derived on the basis of questionnaire and financial data:

- The average users of different banks: - NABIL, HBL, SCBNL and Industry are 7980, 12080, 9541, and 9867 respectively. In comparison among the three banks HBL has the highest number of card users while it was SCBNL various year. HBL has the highest growth rate among the three sample banks and SCBNL has the lowest growth rate.
- While analyzing the volatility of user trend, HBL has the highest volatility among three sample banks but all banks have less volatility than the industry.
- The coefficient of variance of sampled bank NABIL, HBL, SCBNL and Industry are 18.44 percent, 25.78 percent, 22.83 percent, and 21.92 percent respectively. Analyzing these figures, HBL has the highest risk and NABIL has lowest risk.
- The correlation between the number of cardholders of NABIL Bank with HBL, SCBNL and Industry are 0.96, 0.97 and 0.77 respectively and number of merchant are 0.91, 0.98 and 0.99 respectively, which indicate NABIL has positive correlation with HBL and higher and positive degree of correlation with SCBNL and Industry.

Major Findings on Credit Card Customers

- Out of 15 respondents (cardholding customers), 80 percent were male and 20 percent female and on the basis of age group, 47 percent were above 30, 13

percent were between age 18-25 and 33 percent were between 26-30 years as well on the basis of educational background 7 percent were of 10+2 level, 20 percent had bachelor degree, 60 percent had master degree the remaining and as well 27 percent (4) earned between 20,000-40,000 and 53 percent earned monthly income between 10,000-20,000 and 8 percent had business of their own 80 percent (12) worked in private sector and this was followed by student at 8 percent .

- Out of 15 respondents, 93 percent respondents have had VISA card and 7 percent 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).
- Among the sample banks, it is seen that most of the customers have acquired credit card of Himalayan Bank Limited. Out of 20 respondents, 27 percent cardholders acquired card of Himalayan bank, No percent acquired card of SCBNL, 13 percent acquired card of NABIL Bank Limited and 53 percent acquired card of NIBL, 13 percent decided to acquire credit card because of increasing market trend, 20 percent decided to acquire card because they needed credit facilities, 60 percent decided to acquire card because of convenience and security 7 percent 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.
- It was found that 13 percent of them use it twice a week, 7 percent of them use it every day and 73 percent of them use it only occasionally and 30 percent of them use at the hotel and 67 percent of them use at departmental stores. Likewise, 33 percent travel agency. Out of 20 customers having credit card, 40 percent of them use their card at Bhatbhateni Supermarket, 13 percent of them

use card in Sale ways Supermarket, and 13 percent at Namaste Supermarket, 33 percent of them use their credit card at other supermarkets and stores.

- It was seen that most of the customers 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 73 percent and 27 percent respectively and 47 percent felt that the facility of credit card being adopted by the bank is very relevant in commercial banking, 13 percent felt it was not so relevant and 47 percent of them had no opinion and were neutral about the facility of credit card being adopted by the different bank and 60 percent were found using their credit card for more than a year, 27 percent of them had almost used their credit card for a year. Likewise, only 7 percent had recently acquired their credit card, about a month. It was also found that 47 percent of the card holders make less than 20 percent of their purchases through credit card, 6 percent of them make 20 percent - 40 percent of their purchases through credit card. Similarly, another 20 percent make 40 percent - 60 percent of their purchases through credit card and likewise 20 percent of the card holders make 60 percent -80 percent of their purchase with it and the customers who make more than 80 percent of their purchase only comprised 6 percent which is pretty low. And almost 20 percent had no idea on credit card frauds, 33 percent were aware on risk of cards stolen, 7 percent knew about counterfeit card frauds and 13 percent knew about magnetic stripe fraud due to recent happening of such frauds in ATMs and POS machines. And as well only 30 percent turned out to know about disputes in credit card and the settlement process due to their experience with it and by learning from internet.
- Departmental stores visited for questionnaire, their entire customer had credit card of VISA, while 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 and as well from the questionnaires collected, 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.

- The percentage of sales through credit card was not much varied from the previous answers received from card holders. We can see that no one was in favor of decreasing trend of buying habit of customer after accepting credit cards; the departmental stores received high level of satisfaction with the services of their respective banks.

Major Findings on Merchants

- Out of 15 respondents, 7 percent were departmental stores, restaurant and hotels both constituted 13 percent in restaurant, the remaining 73 percent in various other businesses?
- Out of 11 respondents obtained from 15 merchants (who installed credit card facility) 27 percent accept Visa card, while 7 percent 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. Out of 11 respondents, who had installed credit card facility? 40 percent had acquired the service from SCBNL and the same percentage acquired it from NIBL and NABIL banks while 34, 13 respectively, 13 percent also acquired it from HBL.
- Out of 53 percent respondents having credit card facility, a majority, 63 percent cited safety and convenience as a crucial reason for installing it, similarly respondents had other reasons for the same, for example, competition, customer satisfaction, prestige and status issue etc.

- On basis of credit card facility, most of respondents were influenced by other business providing credit card facility, while respondent had installed it through friends, relatives and neighbors. Similarly some of them percent were influenced from advertisement and the percentages also were influenced by the marketing effort from bank staffs.
- Regarding the frequency of credit card users, 67 percent replies were for less than 10 customers, 33 percent for between 10-20 customers.
- Out of 15 respondents not having credit card facility, 93 percent cited low demand for credit as reason for not installing credit facility, 7 percent 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 some of them 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 and Out of 15 respondents only merchants provided credit facilities to their customer while merchants didn't give those facilities to their customers.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Credit cards are not only used to make purchase but a range 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.

We have great example Nepal Bank Ltd. In front of, that how he has changed his services form written cheque to ATM that is demand of people and demand of time. 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.

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 order situation, regular band has, manpower riot and most importantly political instability and economic insecurity. Our economy is not being able to 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. 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, SCBNL, 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.

Correlation shows the relationship between two or more variables. In this study, whether the card users, merchant and the industry are correlated or not is studied. Analyzing the result it shows the all concerned banks are positively and in fact highly correlated in case of both card users and merchants. These shows all the card issuing banks are moving in similar direction and competition is high.

Growth rate or movement of card business is different from each other and from previous year as well. HBL has highest growth and SCBNL has the lowest growth in case of issuance or users but in case of merchant NABIL has the highest growth rate and SCBNL has the lowest 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. SCBNL seems to issue credit cards on a much secured basis to selected individuals particularly by eyeing on big corporate houses. 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.

Will the card market keep up to current growth rate in terms of card users and merchant or not is predicted through time series analysis by using least square method and the result shows optimistic results. All the banks show increased number of card users and merchants than previous year and the conditions could be better provided the country takes economic pace with the aftermath of currently held Constituent Assembly polls.

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 on going 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.

5.2 Conclusion

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. 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.

5.3 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 heading 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.

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APPENDIX-I

Calculation of Standard Deviation and C.V. of NABIL Bank

Year	No. of Cardholder (X)	$X - \bar{X}$	$(X - \bar{X})^2$
2005/06	7200	-780	1664100
2006/07	7500	-480	562500
2007/08	7900	-80	67600
2008/09	8200	220	1000000
2009/10	9100	1120	1690000
	$\sum X = 39900$		$\sum (X - \bar{X})^2 = 2148000$

$$\bar{X} = \frac{\sum X}{n} = \frac{39900}{5} = 7980$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{2148000}{5}} = 655.44$$

$$\sigma = 998.42$$

$$\text{Coefficient variance (CV)} = \frac{\sigma}{\bar{X}} = \frac{655.44}{7980} = 0.0821 = 8.21\%$$

Calculation of Standard Deviation and C.V. of HBL Bank

Year	No. of Cardholder (X)	$X - \bar{X}$	$(X - \bar{X})^2$
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2005/06	8852	-3228	10419984
2006/07	10249	-1831	3352561
2007/08	12500	420	176400
2008/09	13600	1520	2310400
2009/10	15200	3120	9734400
	$\Sigma X=60401$		$\Sigma (X - \bar{X})^2 = 25993745$

$$\bar{X} = \frac{\sum X}{n} = \frac{60401}{5} = 12080$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{25993745}{5}} = 2280$$

$$\text{Coefficient variance (CV)} = \frac{\sigma}{\bar{X}} = \frac{2280}{12080} = 0.1887 = 18.87\%$$

Calculation of Standard Deviation and C.V. of SCBNL Bank

Year	No. of Cardholder (X)	x- \bar{X}	$(X - \bar{X})^2$
2005/06	9020	-521	271441
2006/07	9364	-177	31329
2007/08	9540	-1	1
2008/09	9722	181	32761
2009/10	10060	519	269361
	$\Sigma X=47706$		$\Sigma (X - \bar{X})^2=604893$

$$\bar{X} = \frac{\sum X}{n} = \frac{47706}{5} = 9541$$

$$\text{Standard Déviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{604893}{5}} = 347.82$$

$$\text{Coefficient variance (CV)} = \frac{\sigma}{\bar{X}} = \frac{347.82}{9541} = 0.036455 = 3.65 \%$$

Calculation of Standard Deviation and C.V. of Industry (Card Users)

Year	No. of Cardholder (X)	x- \bar{X}	$(X - \bar{X})^2$
2005/06	25072	-4529	20511841
2006/07	27113	-2488	6190144

2007/08	29940	339	114921
2008/09	31522	1921	3690241
2009/10	34360	4759	22648081
	$\Sigma X=148007$		$\Sigma (X - \bar{X})^2= 53155228$

$$\bar{X} = \frac{\sum X}{n} = \frac{148007}{5} = 29601$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{53155228}{5}} = 3260.53$$

$$\text{Coefficient variance (CV)} = \frac{\sigma}{\bar{X}} = \frac{3260.53}{29601} = 0.11014 = 11.01 \%$$

Calculation of Standard Deviation and C.V. of Merchant of NABIL Bank

Year	No. of Merchant(X)	x- \bar{X}	$(X - \bar{X})^2$
2005/06	1200	-320	102400
2006/07	1250	-270	72900
2007/08	1500	-20	400
2008/09	1700	180	32400
2009/10	1950	430	184900
	$\Sigma X=7600$		$\Sigma (X - \bar{X})^2= 393000$

$$\bar{X} = \frac{\sum X}{n} = \frac{7600}{5} = 1520$$

$$\text{Standard Déviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{393000}{5}} = 280.36$$

$$\text{Coefficient variance(CV)} = \frac{\sigma}{\bar{X}} = \frac{280.36}{1520} = 0.01844 = 18.44\%$$

Calculation of Standard Deviation and C.V. of Merchant of HBL Bank

Year	No. of Merchant(X)	x- \bar{X}	$(X - \bar{X})^2$
2005/06	776	-434	188356
2006/07	926	-284	80656

2007/08	1300	90	8100
2008/09	1450	240	57600
2009/10	1600	390	152100
	$\Sigma X=6052$		$\Sigma (X - \bar{X})^2=486812$

$$\bar{X} = \frac{\sum X}{n} = \frac{6052}{5} = 1210$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{486812}{5}} = 312.03$$

$$\text{Coefficient variance (CV)} = \frac{\sigma}{\bar{X}} = \frac{312.03}{1210} = 0.2578 = 25.78\%$$

Calculation of Standard Deviation and C.V. of Merchant of SCNBL Bank

$x - \bar{X}$	Year	No. of Merchant(X)	$(X - \bar{X})^2$
-391	2005/06	920	152881
-306	2006/07	1005	93636
89	2007/08	1400	7921
239	2008/09	1550	57121
369	2009/10	1680	136161
		$\Sigma X= 6555$	$\Sigma (X - \bar{X})^2=447720$

$$\bar{X} = \frac{\sum X}{n} = \frac{6555}{5} = 1311$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{447720}{5}} = 299.24$$

$$\text{Coefficient variance(CV)} = \frac{\sigma}{\bar{X}} = \frac{299.24}{1311} = 0.2283 = 22.83 \%$$

Calculation of Standard Deviation and C.V. of Industry (Merchant)

Year	No. of Merchant(X)	x- \bar{X}	$(X - \bar{X})^2$
2005/06	2896	-1145	1311025
2006/07	3181	-860	739600
2007/08	4200	159	25281
2008/09	4700	659	434281
2009/10	5230	1189	1413721
	$\Sigma X=20207$		$\Sigma (X - \bar{X})^2 = 3923908$

$$\bar{X} = \frac{\sum X}{n} = \frac{20207}{5} = 4041$$

$$\text{Standard Deviation } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}} = \sqrt{\frac{3923908}{5}} = 885.88$$

$$\text{Coefficient variance(CV)} = \frac{\sigma}{\bar{X}} = \frac{885.88}{4041} = 0.2192 = 21.92\%$$

APPENDIX-II

Calculation of correlation between NABIL and HBL (Cardholder)

Year	NABIL (x)	HBL (y)	$(x - \bar{x})$	$(y - \bar{y})$	$(x - \bar{x})^2$	$(y - \bar{y})^2$	$(x - \bar{x})$ $(y - \bar{y})$
2005/06	7200	8852	-780	-3228	1664100	10419984	2517840
2006/07	7500	10249	-480	-1831	562500	3352561	878880
2007/08	7900	12500	-80	420	67600	176400	-33600
2008/09	8200	13600	220	1520	1000000	2310400	334400
2009/10	9100	15200	1120	3120	1690000	9734400	3494400
					2148000	25993745	$\sum(x - \bar{x})(y - \bar{y})$ = 7191920

$$\text{Correlation coefficient}(r) = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2 \sum(y - \bar{y})^2}} = \frac{7191920}{\sqrt{2148000 \times 25993745}} = \frac{7191920}{7472252.96} =$$

0.9625

Calculation of correlation between NABIL and SCBNL (Cardholder)

Year	NABIL (x)	SCBNL (y)	$(x - \bar{x})$	$(y - \bar{y})$	$(x - \bar{x})^2$	$(y - \bar{y})^2$	$(x - \bar{x})$ $(y - \bar{y})$
2005/06	7200	9020	-780	-521	1664100	271441	406380
2006/07	7500	9364	-480	-177	562500	31329	84960

2007/08	7900	9540	-80	-1	67600	1	80
2008/09	8200	9722	220	181	1000000	32761	39820
2009/10	9100	10060	1120	519	1690000	269361	581280
					2148000	604893	$\sum(x-\bar{x})(y-\bar{y})$ = 1112520

$$\text{Correlation coefficient}(r) = \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \sum(y-\bar{y})^2}} = \frac{1112520}{\sqrt{2148000 \times 604893}} = \frac{1112520}{1139872.87} =$$

0.9760

Calculation of correlation between HBL and SCBNL (Cardholder)

Year	HBL (x)	SCBNL (y)	$(x-\bar{x})$	$(y-\bar{y})$	$(x-\bar{x})^2$	$(y-\bar{y})^2$	$(x-\bar{x})(y-\bar{y})$
2005/06	8852	9020	-3228	-521	10419984	271441	1681788
2006/07	10249	9364	-1831	-177	3352561	31329	324087
2007/08	12500	9540	420	-1	176400	1	-420
2008/09	13600	9722	1520	181	2310400	32761	275120
2009/10	15200	10060	3120	519	9734400	269361	1619280
					25993745	604893	$\sum(x-\bar{x})(y-\bar{y})$ = 3899855

$$\text{Correlation coefficient}(r) = \frac{\sum(x-\bar{x})(y-\bar{y})}{\sqrt{\sum(x-\bar{x})^2 \sum(y-\bar{y})^2}} = \frac{3899855}{\sqrt{25993745 \times 604893}} = \frac{3899855}{3965278.6}$$

0.9835

Calculation of correlation coefficient of NABIL with Industry (Cardholder)

Year	No. of cardholder NABIL (x)	No. of cardholder Industry (A)	$(x - \bar{x})$	$(A - \bar{A})$	$(x - \bar{x})^2$	$(A - \bar{A})^2$	$(x - \bar{x})(A - \bar{A})$
2005/06	7200	25072	-780	-4529	1664100	34105600	3532620
2006/07	7500	27113	-480	-2488	562500	9168784	1194240
2007/08	7900	29940	-80	339	67600	7569	-27120
2008/09	8200	31522	220	1921	1000000	11950849	422620
2009/10	9100	34360	1120	4759	1690000	30228004	5330080
					$\sum (X - \bar{X})^2 = 2148000$	$\sum (A - \bar{A})^2 = 85460806$	$\sum (x - \bar{x})(A - \bar{A}) = 10452440$

$$\text{Correlation coefficient}(r) = \frac{\sum (x - \bar{x})(A - \bar{A})}{\sqrt{\sum (x - \bar{x})^2 \sum (A - \bar{A})^2}} = \frac{10452440}{\sqrt{2148000 \times 85460806}} =$$

$$\frac{10452440}{13548793.72} = 0.7715$$

Calculation of correlation coefficient of HBL with Industry (Cardholder)

Year	No. of cardholder HBL (x)	No. of cardholder Industry (A)	$(x - \bar{x})$	$(A - \bar{A})$	$(x - \bar{x})^2$	$(A - \bar{A})^2$	$(x - \bar{x})(A - \bar{A})$
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2005/06	8852	25072	-3228	-4529	10419984	20511841	14619612
2006/07	10249	27113	-1831	-2488	3352561	6190144	4555528
2007/08	12500	29940	420	339	176400	114921	142380
2008/09	13600	31522	1520	1921	2310400	3690241	2919920
2009/10	15200	34360	3120	4759	9734400	22648081	14848080
					25993745	53155228	$\sum (x - \bar{x})(A - \bar{A})$ = 37085520

$$\text{Correlation coefficient}(r) = \frac{\sum (x - \bar{x})(A - \bar{A})}{\sqrt{\sum (x - \bar{x})^2 \sum (A - \bar{A})^2}} = \frac{37085520}{\sqrt{25993745 \times 53155228}} = \frac{37085520}{11054262.26}$$

= 0.9760

Calculation of correlation coefficient of SCBNL with Industry (Cardholder)

Year	No. of cardholder SCBNL (x)	No. of cardholder Industry (A)	$(x - \bar{x})$	$(A - \bar{A})$	$(x - \bar{x})^2$	$(A - \bar{A})^2$	$(x - \bar{x})(A - \bar{A})$
2005/06	9020	25072	-521	-4529	271441	20511841	2359609
2006/07	9364	27113	-177	-2488	31329	6190144	440376
2007/08	9540	29940	-1	339	1	114921	-339
2008/09	9722	31522	181	1921	32761	3690241	347701
2009/10	10060	34360	519	4759	269361	22648081	2469921
					604893	53155228	$\sum (x - \bar{x})(A - \bar{A})$ = 5617268

$$\text{Correlation coefficient}(r) = \frac{\sum(x - \bar{x})(A - \bar{A})}{\sqrt{\sum(x - \bar{x})^2(A - \bar{A})^2}} = \frac{5617268}{\sqrt{604893 \times 53155228}} = 0.98$$

Calculation of correlation coefficient of NABIL with HBL (Merchant)

Year	NABIL (x)	HBL (y)	$(x - \bar{x})$	$(y - \bar{y})$	$(x - \bar{x})^2$	$(y - \bar{y})^2$	$(x - \bar{x})$ $(y - \bar{y})$
2005/06	1200	776	-320	-434	102400	188356	138880
2006/07	1250	926	-270	-284	72900	80656	76680
2007/08	1500	1300	-20	90	400	8100	-1800
2008/09	1700	1450	180	240	32400	57600	43200
2009/10	1950	1600	430	390	184900	152100	167700
					393000	486812	$\sum(x - \bar{x})(y - \bar{y})$ = 424660

$$\text{Correlation coefficient}(r) = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2(y - \bar{y})^2}} = \frac{424660}{\sqrt{393000 \times 486812}} = 0.91$$

Calculation of correlation of NABIL with SCBNL (Merchant)

Year	NABIL	SCBNL	$(x - \bar{x})$	$(y - \bar{y})$	$(x - \bar{x})^2$	$(y - \bar{y})^2$	$(x - \bar{x})$
------	-------	-------	-----------------	-----------------	-------------------	-------------------	-----------------

	(x)	(y)					$(y - \bar{y})$
2005/06	1200	920	-320	-391	102400	152881	125120
2006/07	1250	1005	-270	-306	72900	93636	82620
2007/08	1500	1400	-20	89	400	7921	-1780
2008/09	1700	1550	180	239	32400	57121	43020
2009/10	1950	1680	430	369	184900	136161	158670
					393000	447720	$\sum (x - \bar{x})(y - \bar{y})$ = 407650

$$\text{Correlation coefficient}(r) = \frac{\sum (x - \bar{x})(y - \bar{y})}{\sqrt{\sum (x - \bar{x})^2 \sum (y - \bar{y})^2}} = \frac{407650}{\sqrt{393000 \times 447720}} = 0.98$$

Calculation of correlation of HBL with SCBNL (Merchant)

Year	HBL (x)	SCBNL (y)	$(x - \bar{x})$	$(y - \bar{y})$	$(x - \bar{x})^2$	$(y - \bar{y})^2$	$(x - \bar{x})$ $(y - \bar{y})$
2005/06	776	920	-434	-391	188356	152881	169694
2006/07	926	1005	-284	-306	80656	93636	86904
2007/08	1300	1400	90	89	8100	7921	8010
2008/09	1450	1550	240	239	57600	57121	57360
2009/10	1600	1680	390	369	152100	136161	143910
					486812	447720	$\sum(x - \bar{x})(y - \bar{y})$ = 465878

$$\text{Correlation coefficient}(r) = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2 \sum(y - \bar{y})^2}} = \frac{465878}{\sqrt{486812 \times 447720}} = 0.96$$

Calculation of correlation coefficient of NABIL with Industry (Merchant)

Year	No. of merchant NABIL (x)	No. of merchant Industry (A)	$(x - \bar{x})$	$(A - \bar{A})$	$(x - \bar{x})^2$	$(A - \bar{A})^2$	$(x - \bar{x})$ $(A - \bar{A})$
2005/06	1200	2896	-320	-1145	102400	1311025	366400
2006/07	1250	3181	-270	-860	72900	739600	232200
2007/08	1500	4200	-20	159	400	25281	-3180

2008/09	1700	4700	180	659	32400	434281	118620
2009/10	1950	5230	430	1189	184900	1413721	511270
					393000	3923908	$\sum(x-\bar{x})(A-\bar{A})$ = 1225310

$$\text{Correlation coefficient}(r) = \frac{\sum(x-\bar{x})(A-\bar{A})}{\sqrt{\sum(x-\bar{x})^2(A-\bar{A})^2}} = \frac{1225310}{\sqrt{393000 \times 3923908}} = 0.99$$

Calculation of correlation coefficient of HBL with Industry (Merchant)

Year	No. of merchant HBL (x)	No. of merchant Industry (A)	$(x-\bar{x})$	$(A-\bar{A})$	$(x-\bar{x})^2$	$(A-\bar{A})^2$	$(x-\bar{x})(A-\bar{A})$
2005/06	776	2896	-434	-1145	188356	1311025	496930
2006/07	926	3181	-284	-860	80656	739600	244240
2007/08	1300	4200	90	159	8100	25281	14310
2008/09	1450	4700	240	659	57600	434281	158160
2009/10	1600	5230	390	1189	152100	1413721	463710
					486812	3923908	$\sum(x-\bar{x})(A-\bar{A})$ = 1377350

$$\text{Correlation coefficient}(r) = \frac{\sum(x - \bar{x})(A - \bar{A})}{\sqrt{\sum(x - \bar{x})^2(A - \bar{A})^2}} = \frac{189567}{\sqrt{50450 \times 766250}} = 0.96$$

Calculation of correlation coefficient of SCBNL with Industry (Merchant)

Year	No. of merchant SCBNL (x)	No. of merchant Industry (y)	$(x - \bar{x})$	$(A - \bar{A})$	$(x - \bar{x})^2$	$(A - \bar{A})^2$	$(x - \bar{x})(A - \bar{A})$
2005/06	920	2896	-391	-1145	152881	1311025	447695
2006/07	1005	3181	-306	-860	93636	739600	263160
2007/08	1400	4200	89	159	7921	25281	14151
2008/09	1550	4700	239	659	57121	434281	157501
2009/10	1680	5230	369	1189	136161	1413721	438741
					447720	3923908	$\sum(x - \bar{x})(A - \bar{A})$ = 1321248

$$\text{Correlation coefficient}(r) = \frac{\sum(x - \bar{x})(A - \bar{A})}{\sqrt{\sum(x - \bar{x})^2(A - \bar{A})^2}} = \frac{216733}{\sqrt{61566 \times 766250}} = 0.99$$

APPENDIX -III

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 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%

Q.18 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

APPENDIX -IV

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

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