

# Role of Credit Cards in Enhancing the Purchasing Power of Indian Consumers and associated Risk and Challenges

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**Abstract:** *This paper explores the pivotal role credit cards play in boosting the purchasing power of Indian consumers. Through an analysis of consumer trends, financial data, and policy frameworks, the paper examines how credit cards have shaped consumption patterns and contributed to economic growth. The study integrates data from reputable financial institutions, government reports, and economic research studies. This paper also reveals the risk and challenges associated with credit cards.*

**Keywords:** Credit Card, Indian Consumers, Digital Payments, Economic Growth, Consumer Behavior

## 1. Introduction

India has seen a remarkable rise in the adoption of credit cards over the last decade, driven by financial inclusion efforts, rapid urbanisation, and increasing disposable income. Credit cards offer consumers a means to manage liquidity while enhancing their purchasing power by providing short-term credit facilities. This research seeks to analyse the extent to which credit cards have empowered Indian consumers, the socio-economic impacts, and challenges such as debt accumulation.

## 2. Growth of Credit Card Usage in India

To understand the growing role of credit cards in enhancing consumer purchasing power, we can look at the data published by the Reserve Bank of India (RBI) and other financial organisations. Over the past decade, credit card adoption has steadily increased. According to the RBI's 2022 report, the number of credit card transactions increased by 38% between 2019 and 2022.

**Table 1:** Credit Card Growth in India (2018 - 2022)

Year	Number of Credit Cards (in millions)	Total Transactions (in INR billions)	Average Transaction Value (in INR)
2018	44.2	5824	4200
2019	51.6	7002	4500
2020	59.2	6789	4300
2021	68.7	8150	4600
2022	77.1	9879	5000

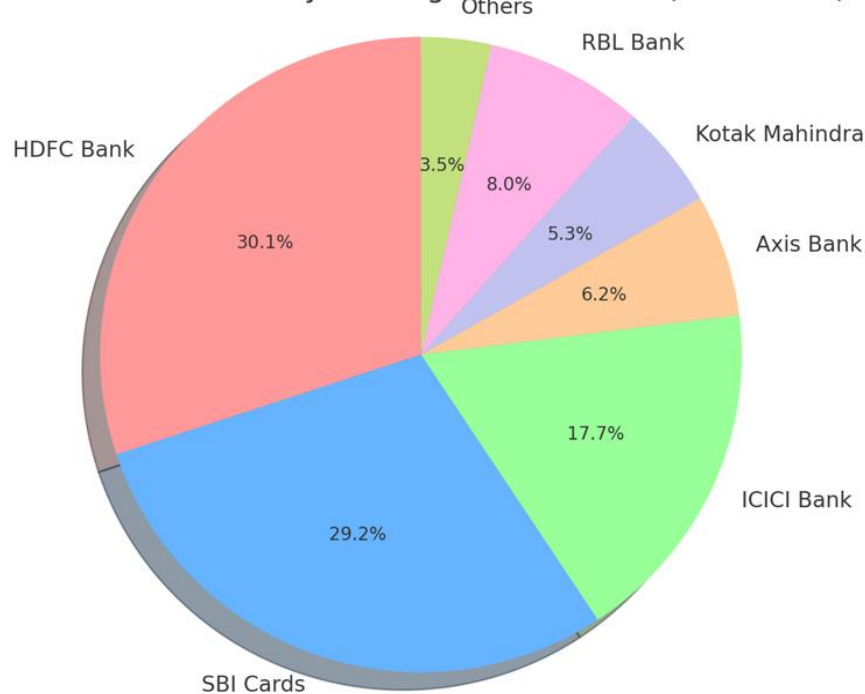
Source: Reserve Bank of India, 2022

The table above shows that both the number of credit cards and total transaction values have risen significantly in the last five years, illustrating the growing reliance on credit cards for consumer transactions.

Based on data from 2018 - 2022, several leading banks dominate India's credit card issuance market:

- 1) HDFC Bank leads the market with over 1.9 crore active credit cards.
- 2) SBI Cards, the second-largest issuer, holds around 1.87 crore active cards.
- 3) ICICI Bank follows with a significant share, boasting over 1.2 crore credit cards.
- 4) Axis Bank and Kotak Mahindra Bank also have large portfolios, with Kotak Mahindra holding around 60 lakh cards.
- 5) RBL Bank has a strong presence with over 52 lakh active credit cards

Credit Cards Issued by Leading Banks in India (2018-2022)



Here is a pie chart representing the estimated market share of credit cards issued by leading banks in India from 2018 - 2022. The data highlights HDFC Bank, SBI Cards, and ICICI Bank as the top players, holding a major portion of the market, followed by Axis Bank, Kotak Mahindra, and RBL Bank.

### Types of Credit Cards

Indian banks offer a range of credit cards tailored to different customer needs, each type accompanied by unique features and benefits. Here's an overview of the main types and facilities provided by banks in India:

- 1) **Standard/Classic Credit Cards:** These are basic cards with standard features, suitable for regular cardholders. They often have lower fees and limited rewards programs.
- 2) **Premium Credit Cards:** Targeted at high - income customers, premium cards include enhanced benefits like concierge services, access to airport lounges, and higher credit limits.
- 3) **Super Premium Credit Cards:** These cards offer exclusive perks, such as unlimited access to premium airport lounges, global concierge services, and high reward rates. They are typically available to high - net - worth individuals.
- 4) **Secured Credit Cards:** Issued against a fixed deposit, secured credit cards are a good option for individuals with no credit history or low credit scores.
- 5) **Cashback Credit Cards:** These cards provide cashback on various categories of spending, such as fuel, groceries, or online shopping, making them popular for everyday expenses.
- 6) **Travel Credit Cards:** Tailored for frequent travelers, these cards offer benefits like airline miles, travel insurance, and access to global airport lounges. Examples include HDFC Bank Regalia and SBI Card Elite.
- 7) **Co - branded Credit Cards:** Offered in collaboration with other brands, these cards provide special perks with specific companies, such as discounts or loyalty points

redeemable within the partner's network (e. g., fuel, retail, or e - commerce).

- 8) **Business or Corporate Credit Cards:** Designed for business expenditures, these cards allow businesses to track expenses and manage cash flow effectively. Examples include SBI Signature Corporate and HDFC Corporate Platinum.

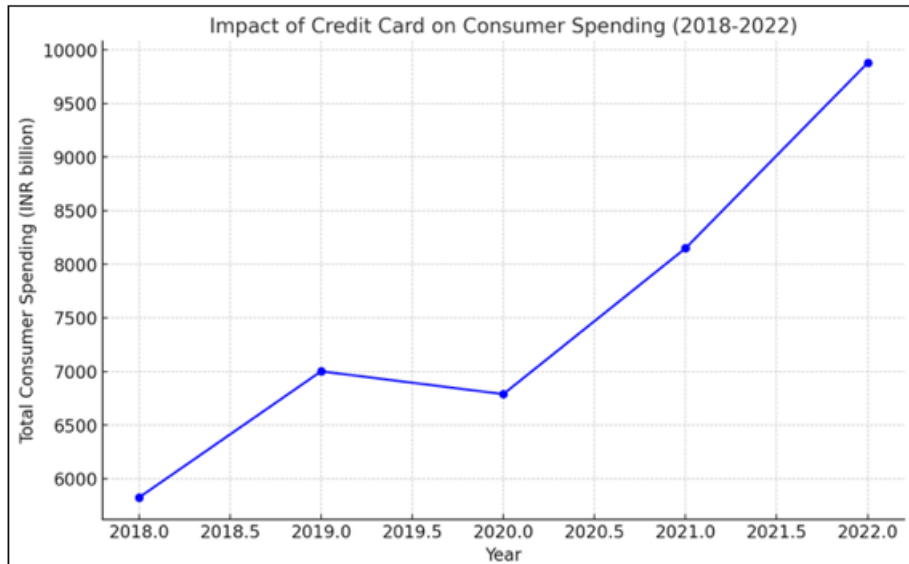
Indian banks like HDFC Bank, SBI, and Bank of Baroda have extensive offerings in each category, with facilities such as contactless payment, online account management, and reward redemption across multiple categories, including travel, shopping, and dining.

### 3. The Role of Credit Cards in Enhancing Purchasing Power

Credit cards have proven to be an effective financial tool that increases consumer liquidity and spending potential. With deferred payments and flexible credit limits, consumers can afford high - value goods and services, thus enhancing their purchasing capacity.

Key mechanisms through which credit cards increase purchasing power include:

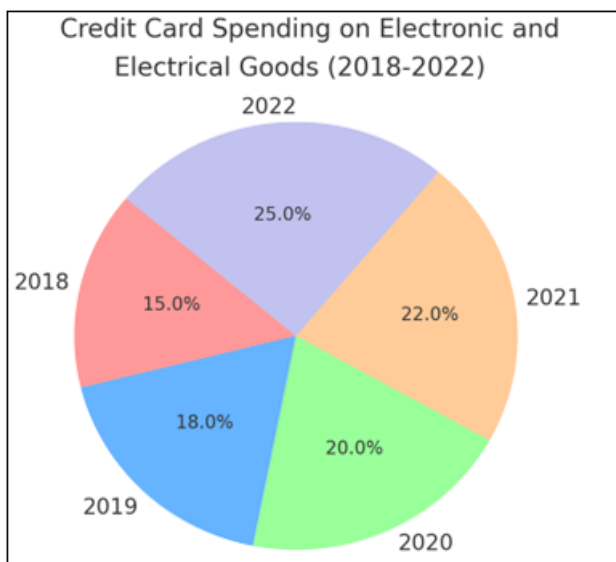
- **Instant Credit Access:** Credit cards allow consumers to purchase goods and services even when they lack immediate funds.
- **Reward Programs:** Cashback offers, reward points, and discounts incentivize consumers to spend more using their cards.
- **EMI Facilities:** Many consumers opt for equated monthly instalment (EMI) plans, which break down large purchases into smaller, manageable payments.
- **Interest - Free Periods:** Credit card companies often offer interest - free periods, which help users manage cash flows without incurring additional costs.



**Graph 1:** Impact of Credit Card on Consumer Spending (2018 - 2022)

The graph above illustrates the impact of credit cards on consumer spending in India from 2018 to 2022. It shows a steady increase in total consumer spending facilitated by credit card usage over these years, highlighting the growing reliance on credit cards to enhance purchasing power.

- **Shift to Digital Payments:** Digital payments have surged post - 2016 (demonetization) and the COVID - 19 pandemic, further driving credit card adoption.
- **Financial Inclusion:** Credit cards have played a role in promoting financial inclusion, allowing urban and rural consumers to access credit facilities.



The pie chart illustrates the distribution of credit card spending on electronic and electrical goods in India from 2018 to 2022. The data shows a rising trend in the proportion of credit card transactions dedicated to these categories, reflecting increased consumer demand for such goods over time.

#### 4. Socio - Economic Impacts:

Credit card usage has had profound implications for consumer behaviour in India:

- **Rise in Discretionary Spending:** Consumers are more willing to spend on non - essential goods such as electronics, vacations, and luxury items, especially during sale seasons (e. g., Diwali, New Year).

#### 5. Risks and Challenges

Using credit cards in India comes with several risks and challenges that individuals need to be aware of in order to manage their finances effectively. Here are some key risks and challenges associated with credit card usage:

- 1) **High Interest Rates**  
Credit cards typically come with high - interest rates on outstanding balances. If users do not pay their dues in full, the interest can accumulate rapidly, leading to significant financial strain.
- 2) **Overspending**  
Credit cards offer the convenience of making purchases without immediate cash outflow, which can encourage overspending. Many users tend to spend beyond their means, which can lead to debt accumulation.
- 3) **Debt Trap**  
Inability to pay off the full balance leads to interest charges and can quickly turn into a debt trap. Minimum payments may seem like a relief, but they often extend the repayment period and inflate the overall amount due.
- 4) **Hidden Fees**  
There are various hidden charges associated with credit cards, such as late payment fees, annual fees, foreign transaction fees, cash withdrawal charges, etc. Users may not always be aware of these fees, leading to unexpected financial burdens.
- 5) **Impact on Credit Score**  
Failing to pay credit card bills on time negatively affects a person's credit score. A low credit score can limit future access to loans and credit products, affecting financial flexibility.
- 6) **Fraud and Theft**  
Credit card fraud is a significant risk, with cases of cloning, phishing, and identity theft. Unauthorised

transactions, if not addressed quickly, can lead to significant financial losses. Although many Indian banks offer fraud protection, it's important to be vigilant.

7) Complex Reward Systems

Many credit card companies lure customers with attractive rewards and cashback offers. However, the terms and conditions tied to these rewards (e. g., minimum spend limits, specific categories) can be complex, often leading users to spend more to qualify for benefits.

8) Dependency on Credit

Frequent credit card usage can lead to a dependency on credit for everyday expenses. This can reduce the incentive to save money, leading to long - term financial instability.

9) Limited Consumer Protection

Although India has consumer protection laws, recovering losses from credit card fraud or disputes can be a lengthy and complicated process. It's often time - consuming to get issues resolved, particularly if there is no insurance or fraud protection plan.

10) Cash Advance Risks

Withdrawing cash from a credit card is subject to high fees and interest charges. There is no interest - free period, and users immediately start accruing interest, which can lead to higher - than - expected costs.

11) Currency Exchange Fees

When using a credit card for international purchases, users can be subject to high currency conversion fees. These fees are often not clearly communicated, which can lead to surprise charges on foreign transactions.

12) Misleading Promotional Offers

Credit card companies in India often provide promotional offers like zero - interest EMIs or discounts. However, the terms might include hidden fees or charges after the promotional period, and users may not fully understand the implications.

By being aware of these risks, individuals can take steps to use credit cards responsibly, such as paying off balances in full each month, monitoring their credit score, and being vigilant about fraud.

## 6. Conclusion

Credit cards have substantially enhanced the purchasing power of Indian consumers by offering financial flexibility, increased liquidity, and access to higher - value purchases. However, managing credit responsibly is crucial to avoid debt accumulation and associated risks. As credit card usage continues to grow, financial literacy and security measures must be strengthened to safeguard consumers' interests.

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