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A comparison between US and India in overspending and accumulation of interest on credit card balance which in turn increases the indebtedness and personal bankruptcy

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Abstract

Consistently, consumers utilize a huge number of credit cards to burn through their huge amount of daily needs and also revolve billions of amount in debt. Credit card and Easy money market players spend billions every year to advance their brands and pull in new customers. Some buyers utilize these carefully as installment gadgets, covering their parities every month, while others use them as a wellspring of credit and convey a parity from month to month. The credit market is among the biggest, generally differing, and most complex markets of any user financial products. In the recent two years, the market has developed in size, in the quantity of its contributions and members, and in the features and discounts of its products. Economic situations stay stable in many countries sue to the result of low joblessness, modest pay development, and high shoppers in the previous two years. Credit cardholders keep on utilizing their cards to encourage transactions, utilization, and procure rewards, all with the additional security of stringent constraints on debt. Customer fulfillment with credit cards stays high, while late installment and default rates have increased unobtrusively over periods. It indicates that people are availing loans without the required financial stability or they are hit by an unexpected life event like illness or unemployment. Recurrent over usage of credit card and availing easy credit facilities makes the consumers personally bankrupted. Developed countries like USA face the problem of personal bankruptcies to a large extend compared to the developing countries like India. This paper intends to compare the overspending and accumulation of interest on credit card balance which also increases the indebtedness and personal bankruptcy of the individual.

Keywords: Easy money, Personal bankruptcy, Indebtedness

1. INTRODUCTION

Credit cards are helping buyers by giving numerous preferences and advantages. Since they're such an incredible alternative to money, they're extraordinary on the off chance that you have to make buys when you end up after all other options have been exhausted. In general, credit card issuers continue to generate profitable returns consistent with historical levels. Innovation has continued to reshape the market, for both users and providers. New providers, including large and small financial institutions as well as start-up and mainstream technology companies have entered—or are in the process of entering—the market with competing products, features, and new ways of issuing credit cards. A few cards offer advantages like prizes, money back or travel miles, while others give you some additional insurance for your buys. In the event that you do your best and pay your balances off every month, you'll never need to pay a large amount in interest. In addition, being a loyal credit card consumer can help improve your credit score. In some cases, these little portion of plastic can likewise be a curse, particularly in case you're as of now swimming in the debt or don't know how to handle finances.

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2. CREDIT CARD AND EASY MONEY EFFECTS

Since 1920s credit cards are easily used by loyal customers. The first Diner's Club cards arrived in 1950 - the original "universal" credit cards.Since then we've seen the creation of corporate credit cards, debit and deferred debit cards, magnetic strips, security strips, and even virtual credit cards. Credit, and the absence of cash, have become essential to the modern economy. In business credit cards are used everywhere for all receipts and payments.

Credit cards offering points, miles, cash back, or other rewards remain popular, with the share of credit card spending accounted for by rewards cards continuing to increase over the last few years .There is enormous growth in the segment of the consumers with lower credit scores either in overall or in the main credit tiers. While rewards cards continue to account for a larger share of total credit card spending, the share of originations that are rewards cards declined in all credit score tiers except super prime. Meanwhile, the cost of offering rewards has risen over the past several years as issuers continue to compete using richer rewards offers—and as cardholders take greater advantage of the rewards that are offered. Since the first quarter of 2015, data available to the Bureau show a roughly 84 percent increase in overall rewards expense incurred by issuers to support rewards programs.

Easy money frequently relates to easy loan with low interest rates by means of mobile applications and other formats. In the context of the Federal Reserve, easy money is a method of helping the economy expand by increasing the money supply. Without any doubt, the progression in flow of money over the globe in the current era is also relied upon easy money. It has also in turn helped the domestic stock market stretch valuations. Current stability in Indian currency and strong economic growth has made it a bright spot.

Digital technology is being leveraged to offer consumers more tools to control how they shop for credit cards, how they qualify for different products, how they transact with physical cards or mobile phones, and how they pay for the associated debts. Some of these tools implicate a broad array of regulatory provisions that card issuers working in this space must navigate carefully. Technological advancements like machine learning and artificial intelligence incorporating new data sources are increasingly enabling the responsible expansion of credit availability to populations that lack a traditional credit score while also lowering the cost of credit to those with poor credit history. However, these same advancements may also bring new risks, such as unintended side effects and greater potential for discrimination, which companies must monitor closely.

3. USA Vs INDIA

The credit card industry in U.S has a huge impact on its day-to-day life. On an average multiple credit cards are owned by the American with balances reaching thousands of dollars in each card. Credit cards continue to be strongly favored by consumers who make purchases online. In fact, 48% and 47% of survey respondents indicated that they prefer to use credit cards for online shopping and online travel, over debit cards and PayPal

In fact, 48% and 47% of survey respondents indicated they prefer to use credit cards, over debit cards and PayPal, for online shopping and online travel purchases, respectively. An April 2018 report by the American Bankers Association reveals that 44% of credit card users are revolvers, meaning they carry a balance to the next month at least once every quarter. The average American has 3.1 credit cards with an overall outstanding balance of $6,354 and a credit score of 675.

Bankruptcy petitions for consumers and businesses are on the rise in developed countries like USA. There was a 5% increase in total bankruptcy filings in July 2019 from the previous month, the American Bankruptcy Institute said this week. There were 64,283 bankruptcy filings, up from 62,241 for the same period last year.

Reserve bank of India revealed that credit cards in circulation touched 48.9 million in May 2019 from 38.6 million in May 2018. The payment industry executives say 27% growth has thrown up new business opportunities. In 2018-19, consumers spent around Rs 6 lakh crore using their credit cards, 30% higher from the Rs 4.6 lakh crore in 2017-18.

India has primarily been a debit card market, with more than 824 million such cards in the system, as per RBI figures. Unified Payments Interface (UPI) and mobile wallets have grabbed the attention of policymakers, but the increase in the number of credit cards is not only an indication of growing digital payments but also the expansion of retail borrowers in the ecosystem.

In general 90% of Indian Credit card users are conservative and credit aware. 93% of Indians use credit cards for shopping online/ offline. Cities like Delhi, Ahmedabad, Mumbai and Pune show high usage of credit cards. Kolkata, Chennai, Hyderabad and Bangalore show comparatively lower usage. 92% Indians pay greater amount than the minimum amount due on their monthly credit card bills. Out of it 33% are uncertain of the benefits of paying more than the minimum amount due on credit card bills. 78% people usually pay off the full balance. 90% respondents are aware that non- payment of credit card bills and EMI impacts credit score negatively. 3 out of 4 people are aware that settlements are views negatively by lenders.

4. PERSONAL BANKRUPTCY

The Indian payments market, historically dominated by cash, is evolving to meet the demands of its increasingly smartphone-led online shopping culture, with cards and digital wallets rising in prominence. The Insolvency and Bankruptcy Board of India was established on 1st October, 2016 under the Insolvency and Bankruptcy Code, 2016 (Code). It is a key pillar of the ecosystem responsible for implementation of the Code that consolidates and amends the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of the value of assets of such persons, to promote entrepreneurship, availability of credit and balance the interests of all the stakeholders .Imagine falling into a debt trap, exhausting all your sources of funding, and finding yourself at a dead end. In such situations, your only recourse may be filing for bankruptcy. Though Indian laws have the provision wherein individuals can file for bankruptcy, the process is not as streamlined as it is for corporate entities under the Insolvency and Bankruptcy Code (IBC). Though the IBC has rules for individual bankruptcy too, they have not been notified yet.

Americans are spending more. Consumers had $14 trillion in household debt in the first quarter of 2019, according to Federal Reserve Bank of New York data, up from approximately $13 trillion in debt consumers held back in 2008. Two-thirds of people who file for bankruptcy cite medical issues as a key contributor to their financial downfall. While the high cost of health care has historically been a trigger for bankruptcy filings, the research shows that the implementation of the Affordable Care Act has not improved things. What most people do not realize, according to one researcher, is that their health insurance may not be enough to protect them. And for many Americans who do pursue that last-ditch effort to rescue their finances, it is because of one reason: health-care costs.

The main reasons for personal bankruptcies among consumers are people carry a balance which cost money, paying the minimum balance, using credit card for everyday items, chasing credit card rewards, taking cash advances from ATM using credit card, using the card to pay medical bills, ignoring the debt.

5. METHODOLOGY

About 220 self-reporting questionnaires were randomly distributed to young credit card holders in India between the age of 21 to 45 using the area sampling and convenience snowball sampling methods. A set of structured questionnaire is used for primary data collection. The constructs and number of questions are based upon the research questions and the formulated hypotheses. The questionnaire consists of four sections. Section 1 consists of four questions on the demographic profile of the respondents such as age, income, occupation, and marital status. Section 2 captures information related to credit card details. There are seven questions in this section which encompass the number of credit cards owned, years of using credit card, age of getting the first credit card, frequency of credit card usage on a monthly basis, amount spent every month by using credit card, whether the respondents pay their monthly credit card bills on time, and whether the respondents pay excess amount rather than the required amount. Section 3 contains four questions on bank policies which were partly developed by the authors. Section 4 has 19 questions measuring the respondents' perception on their attitudes toward payment of credit card bills and their indebtedness.

Maximum of the Sections 4 are scored using a five-point Likert-scale. Prior to the dissemination of the questionnaires, it was piloted on 30 respondents. The majority of respondents reported that the questionnaire was easily understandable and required only 10-15 minutes to be completed. Only minor changes were proposed and they were incorporated in the final design of the questionnaire. The data were coded and run using the Statistical Package for Social Sciences version 17.0. Frequency tests were conducted on items in Sections 1 and 2.

6. RESULTS AND DISCUSSIONS

It was inferred that only 12.5% of the credit card holders are female. It is identified that half of the people who earn even above Rs.75,000 do not possess a credit card. In India people who use their card for 6 to 10 years agree that their spending behaviour has changed a lot after the usage of credit card. Indians are aware about the loan facility but they do not avail loans in credit card. 38% Indians have only one credit card.

CONCLUSION

Thousands of consumers have trouble getting their credit card balances under control. If you're among these consumers, don't despair. You'll make your debt more manageable once you choose to change your spending habits. Take a giant step in this direction by avoiding—or stop doing—these six major credit card mistakes.There are a series of common mistakes people make when they use their credit cards which can cause huge problems with their finances.Making minimum payments only and using cards for everyday purchases are two of the most common mistakes.The benefits rewards balances can be small, while cash advances can be costly.Never pay your medical bills with your credit card and be sure you never ignore your debt. These can be overcome by limiting the amount of credit cards in your wallet,reading introductory rates terms carefullyon availing credit cards, reading the fine print, some terms can prove to be too good to be true, choosing a card that is best for you and your lifestyle, searching around for the best APR to avoid paying high interest rates, paying off the balance in full each month,avoiding paying your bill late,not ignoring your monthly statement,not charging more than your credit limit and stoping buying things you don't need.

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