Chapter 6

Impact of Credit Card Incentives on Usage Pattern:

An Application of Structural Equation Modeling

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ABSTRACT

This study examines the influence of credit card incentives on usage patterns, specifically credit card transactions and transaction purposes, utilizing Structural Equation Modeling (SEM). It explores the historical evolution of credit cards, operational procedures, and security measures like the Card Verification Method (CVM). With a focus on India's burgeoning credit card industry, the research aims to comprehend consumer behavior and associated challenges. Employing a mixed-methods

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approach and Smart PLS software, the study seeks to provide detailed insights into credit card dynamics, offering practical recommendations for policymakers, financial institutions, and consumers. Through meticulous analysis, the research confirms the reliability of the measurement model, emphasizing the importance of discriminant validity and balancing rigor with practicality in model establishment.

INTRODUCTION

A credit card is a payment card, usually issued by a bank, allowing its users to purchase goods or services or withdraw cash on credit. A credit card is a financial tool that allows the cardholder to borrow funds from a financial institution (usually a bank) up to a predetermined credit limit. A credit card generally operates as a substitute for cash or a check and most often provides an unsecured revolving line of credit. The borrower is required to pay at least part of the card's outstanding balance each billing cycle, depending on the terms as set forth in the cardholder agreement (Gupta, 2018). The Card Verification Method (CVM) is a security feature comprising a 3- or 4-digit numeric code printed on the card but not embossed or encoded in the magnetic stripe. The primary aim of CVM is to verify that the 13 individuals making the transaction possesses the physical card, as the code cannot be obtained from receipts or magnetic stripe skimming (Hafalir & Loewenstein, 2011). Credit card transactions are not just simple exchanges of funds; they involve a complex process of clearing, settlement, and reward distribution. As transactions are approved, they are logged on both the cardholder's and merchant's statements, eventually leading to the transfer of funds between banks and the issuance of rewards. These rewards, offered by credit card issuers in various forms such as cash back, points, or miles, play a crucial role in shaping consumer behavior and usage patterns. Understanding the intricate relationship between credit card incentives, usage patterns (transaction merchants and transaction purpose) and its challenge while using credit card is essential for stakeholders in the credit card industry. This study aims to explore how credit card incentives influence usage patterns and the challenges associated with credit card usage using an application of Structural Equation Modeling (SEM). Credit card incentives, such as rewards programs and cashback offer, often play a significant role in shaping consumer behavior. Understanding how these incentives impact usage patterns such as the frequency and types of transactions individuals make-is crucial for both financial institutions and consumers. Moreover, this study attempt to shed light on the challenges that individuals face when using credit cards, including debt accumulation, late payments, and other financial struggles. This study delves into understanding the intricate relationship between credit card incentives, usage patterns, and the challenges associated with credit card usage. The findings of