

Investigation on Problems Encountered, Pros and Cons In Credit Card Transaction

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Abstract- In the fast moving pace, technology has widened its place. Credit card has become an essential technology tool. Credit card security is a major concern for any business establishment. It has evidenced explosive growth in the number and value of transaction in recent years. THE development of plastic money is one of the recent Phenomenon's in the banking sector. Plastic money is a charge card. It is a direct charge against the limit sectioned. IT is a debt instrument issued by some specialized companies. It is one step forward towards cashless and chequeless society. This paper studies the problems encountered, advantages and disadvantages of using credit card. Recommendations are also given on safety use of credit card.

Keywords- Credit Card, payment, acquiring bank, approval, transaction

I. INTRODUCTION

A **credit card** is a plastic card issued by a financial institution that allows its user to borrow pre-approved funds at the point of sale in order to complete a purchase.

A few people are involved in each credit card transaction:

- The customer (you) who presents the credit card for payment.
- The merchant sells you goods or services.
- The merchant's bank sends credit card transactions for approval.
- The credit card payment network is a liaison between the merchant bank and the credit card issuer.
- The credit card issuer approves and pays transactions.

II. OBJECTIVES

- To study about the process of credit transaction
- To study about the problems encountered in the transaction
- To study the Pros and cons in credit transaction

III. SCOPE OF THE STUDY

- The present study focuses on the utilization of card holders towards credit cards.
- The study was designed to gain a better understanding of the problems in credit card transactions
- The study also details about the advantages and disadvantages of using credit card

IV. LIMITATIONS

- Only secondary data has been used to discuss the problems, pros and cons of credit card usage

Credit Card Transaction Process

1. Approval

First stage where the merchant must obtain approval for payment from the issuing bank.

- The customer presents their credit card for payment to the merchant at the point of sale.
- The card is swiped, the customer card are sent to the acquiring bank (or its acquiring processor) via an Internet connection or a phone line.
- The acquiring bank or processor forwards the credit card details to the credit card network.
- The credit card network clears the payment and requests payment authorization from the issuing bank. The approval request includes the following:
 - a) Credit card number
 - b) Card expiration date
 - c) Billing address — for Address Verification System (AVS) validation
 - d) Card security code — CVV, for instance
 - e) Payment amount

2. Validation

The issuing bank confirms the validity of the customer card using fraud protection tools and card security codes.

- a) The issuing bank receives the payment request from the credit card network.
- b) The issuing bank validates the credit card number, checks the amount of available funds, matches the billing address to the one on file and validates the CVV number.
- c) The issuing bank approves, or declines, the transaction and sends back the appropriate response to the merchant through the same channels: credit card network and acquiring bank or processor.
- d) Once the merchant receives the approval, the issuing bank will place a hold in the amount of the purchase on the cardholder's account. The merchant's POS terminal will collect all approved authorizations to be processed in a "batch" at the end of the business day.
- e) The merchant provides the customer a receipt to complete the sale.

3. Clearing & Settlement

In the clearing stage, the transaction is posted to both the cardholder's monthly credit card billing statement and the merchant's statement. It occurs simultaneously with the settlement stage.

- a) At the end of each business day, the merchant sends the approved validations in a batch to the acquiring bank.
- b) The acquiring bank routes the batched information to the credit card network for settlement.
- c) The credit card network forwards each approved transaction to the appropriate issuing bank.
- d) Usually within 24 to 48 hours of the transaction, the issuing bank will transfer the funds less an "interchange fee," which it shares with the credit card network.
 - i. The credit card network pays the acquiring bank and the acquiring processor their respective percentages from the remaining funds.
 - ii. The acquiring bank credits the merchant's account for cardholder purchases, less a "merchant discount rate."
 - iii. The issuing bank posts the transaction information to the cardholder's account. The cardholder receives the statement and pays the bill.

V. PROBLEMS ENCOUNTERED IN CREDIT CARD TRANSACTIONS

1. Payment Gateway

This is the common problem that happens. Payment gateway is the electronic portal that receives card data from your payment. It encodes the data before sending it to the credit card network and issuing bank for approval. The simplest problem at this stage is that the gateway is down, in which case it can't handle the data.

2. Problem with the bank

There may be some technical problem. The data may not be able to receive the data. It may not encode the data. This has to be taken care by the bank's technical support team.

3. Declined Transactions

The most common cause faced by every person. This may be due to

- Address verification service
- Incorrect CVV
- Credit card limit
- Daily limit of the cash drawn
- Some cards have a ceiling on the amount which can be spent in a single transaction
- If the account has been closed, suspended, or not yet activated, then the credit card cannot be used to make a purchase

4. Credit card does not work in Foreign Countries

- First, many foreign countries now use credit card readers that require an EMV smart chip.
- Card issuer might flag your foreign transactions as potentially fraudulent

VI. PROS AND CONS OF CREDIT CARD

a. Pros

1. **Hands Free:** There is no need to carry cash in Hand.
2. **Safety:** If the card is lost or stolen you can immediately stop the payment or transaction. But if the cash is lost or stolen we cannot get it back.
3. **Ease of Pay:** When we buy expensive materials we cannot take cash to all place, so it's better to swipe the card at ease.

4. **Interest Free Days:** If the amount is paid before the stipulated period, you need not pay interest for a period of time.
5. **Credit Rating:** The Credit card keeps in record of all transactions and payment history. If your account is standing good, it builds a good credit score
6. **Reward Points:** It allows you to earn reward points. You can redeem with the bank's rewards programs for perks including flights with partner airlines, products from the rewards store or cash back. Frequent flyer credit cards, on the other hand, let you earn flights with specific airline loyalty programs.
7. **Chargeback:** If the customer is not happy with the service, he or she can request a chargeback
8. **No currency issue:** Credit card works in any currency. You can also waive international purchases.
9. **Emergency:** It is an emergency line of credit if you don't have enough cash to pay and unexpected costs arise.
10. **Compliment:** Acts as a compliment factor features such as travel insurance, purchase protection and extended warranty insurance can save you money and give you peace of mind. Other value-adding features include complimentary flight offers, airline lounge passes and even free wine when you dine
11. **Consolidation:** Balance transfer credit cards allow you to move existing high-interest debts to a new account with a low or 0% promotional interest rate. This can save you money on interest charges and help you pay down debt faster.

b. Cons

1. **Blowing:** The biggest disadvantage is that they encourage to spend the money if they don't have.
2. **High Rate of Interest:** if the balances are carried to next month, interest is charged. It may be as high as 22% p.a.
3. **Fraud:** Like cash, sometimes credit cards can be stolen. They may be physically stolen (if you lose your wallet) or someone may steal your credit card number (from a receipt, over the phone, or from a Web site) and use your card to rack up debts. The good news is that, unlike cash, if you realize your credit card or number has been stolen and you report it to your credit card company immediately, you will not be charged for any purchases that someone else has made.
4. **Access of Cash:** Financial institutions make it very expensive to use your credit card to get cash out or make other "cash equivalent" transactions (such as

buying foreign currency or gambling). Using a credit card for a cash withdrawal will attract a cash advance fee worth around 3% of the total transaction amount. It also typically attracts an interest rate of 19-22% right away.

5. **Annual Fee:** Any type of credit card, you are supposed to pay annual fees, depending on the card chosen. More the perks, more the annual fees.
6. **Surcharges:** Businesses often apply surcharges, when paid with credit card. For master card the fee is usually 0.5% to 2% of the total transaction cost, for amex card it may be closer to 3%.
7. **Add-ons:** When a particular payment is missed, spending over your limit, overseas transactions, etc. all these balances will be charged interest it will be added where extra amount is to be paid depending on the card.
8. **Credit damage.** Missed credit card repayments and ongoing debts are recorded on your credit file and can impact your chances of getting a loan down the track. See our guide on how to improve your credit file for some tips.

VII. RECOMMENDATIONS & CONCLUSIONS

1. Track all the purchases
2. Spend within your budget
3. Pay all balance at the end of each month
4. Don't share any information about your credit card other than reliable companies.
5. Keep your passwords secret.
6. Check your account often.
7. Report immediately to the issuer if the card is stolen or lost.
8. Never write the pin number on your credit card
9. Stay under 30% of your credit limit

To conclude, though credit card may be a financial plastic tool, when used lavishly they become a huge financial burden.

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