

## Benchmarking Credit Card Interest Rates Across Public and Private Banks

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### Abstract

*Credit card interest rate policy started by the Reserve Bank of India to given short time credit to the customer to ensure their short time financial needs. There are approximately 5-6% of the population are using the credit card in India. While penetration is low compared to countries like US, the numbers of active credit cards have surpassed 100 million, with significant growth rate in recent years. India's credit card penetration is estimated to be between 5% & 6% of the population. However, public sector banks have the same interest rate over a decade. Private banks demonstrate higher lending variability, whereas public banks show relative stability. Significant positive correlation was identified between the credit card interest rate of both types of banks. This study highlights the increasing involvement of private sector banks in credit card allotment, although public sector banks maintain a predominant role. These findings suggests that future policies should leverage the strengths of both types to build a more inclusive and efficient credit card system in India.*

**Keywords:** Reserve Bank of India (RBI), Inclusive Growth, Financial Inclusion, Credit Flow, Annual Percentage Rate (APR), EMI Conversion Interest Rate Etc.

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## Introduction

Credit card is a thin rectangular piece of plastic or metal issued by a bank or financial institution that allows the holder to borrow funds to pay for goods and services with trader that accept cards for payment. It functions as a type of loan where the money spent is borrowed from the card provider rather than taken from bank account. Credit cards are the best examples of plastic money, which allows people to make electronic transactions with the availability of their financial condition.

### Types of Credit Cards

TYPE	CHARACTERISTIC
Cash back credit card	Earn money on Purchase
Travel reward credit card	Save on trips and flights
Points credit card	Flexible reward option
Store credit card	Exclusive discount and benefits
Business credit card	Manage and grow your business
Secured credit card	Build and repair your credit
Student credit card	Start your credit journey

### Differences in interest rates of credit card

The interest rate applicable differs from one issuer to other and typically ranges between 1.5% to 3.5% per month (or 18% to 42% annually). Some credit card loans are secured by real estate, and can be about 12% to 18% APR, influenced by borrower creditworthiness, collateral value, and market condition. Typical credit cards have interest rates between 7 and 36% in the U.S., depending largely upon the bank's risk evaluation methods and the borrower's credit history. In India credit card interest rate is differ from private and public bank. The RBI has kept the policy rate unchanged at 6.50%, while the inflation rate in September,2024 peaked at 5.49% from 3.65% in the previous month. Here are the interest rates or finance charges levied by major public and private banks on credit cards.

The table showcases the monthly and annual percentage rates (MPR% and APR%) of credit card offered by top banks like HDFC, SBI, Axis, HSBC, IndusInd, Kotak Mahindra, RBL, and Yes Bank, providing an overview of their varying interest rate ranges.

Bank Name	Monthly Percentage Rate (MPR)%	Annual Percentage Rate (APR)%
HDFC Bank	3.40%	40.80%
SBI Bank	Up to 3.50%	Up to 42%
Axis Bank	Up to 3.60%	Up to 52.86%
HSBC Bank	At the discretion of the bank	At the discretion of the bank
IndusInd Bank	Up to 3.83%	Up to 46%
Kotak Mahindra Bank	Up to 2.49%	Up to 29.88%
RBL Bank	At the discretion of the bank	At the discretion of the bank
Yes Bank	Up to 2.4%	Up to 28.8%

Source: Finance Ministry

## Review of literature

**Sumit Agarwal (2015):** Examining consumers' behaviors in choosing and using credits cards, this report was commissioned to present an empirical review of the credit card market, with the intention of providing insight into policy implementers in consumer protection within the UK market. The credit card consumption from the perspectives of economics, finance, marketing and psychology, and discuss (1) how consumers source for and switch between credit card contracts, along with the mistakes they commonly make; (2) the determinants of borrowing behavior using credit cards; (3) how consumers repay credit card debts and the impact of minimum repayment requirement presentation; (4) borrowing costs including interests and fees that consumers pay on credit cards; (5) the extent to which behavioral biases drive consumers' behaviors. Although majority of the literature focuses on the U.S. market, we believe that these findings are highly applicable to the UK owing to the similarities between both countries' credit card markets.

**SL Gupta and Arun Mittal** published “Comparative research of promotional studies adopted by public and private sector banks in India” in *Asia-Pacific Business Review*, July September 2008. According to the survey, the public sector is more dependable, but not as good as the private sector. A private sector bank is not as reliable as a public sector bank in terms of quality and innovation, but they are superior in terms of services both in terms of quality and creativity.

**Ballabh (2002)** examines the issues that have arisen as a result of the banking sector reforms. Financial markets around the world have become increasingly intertwined as a result of globalization and technological advancements. Banks must adopt new policies/strategies in response to changing market conditions if they are to survive in the environment.

**Kumar (2006)** found that bank nationalization in India marked a paradigm shift in banking, with the goal of shifting the focus from class to popular banking. Internationally, efforts are also being made to investigate the causes of low-income people’s financial inclusion, recognizing it as both a problem and an opportunity. This is both an economic opportunity and a corporate social duty. Financial inclusion is a possibility as a commercially viable enterprise.

The Banking Industry is undergoing a paradigm transition in scope, content, structure, functions, and governance, according to **Laxman, Deen, and Badiger (2008)**. The information and communication technology revolution is having a significant impact on the banking industry’s operational environment.

The future problems of technology in banking were explored by **Nair (2006)**. The author also mentions how IT has a bright future in rural banking, but it is overlooked because it is generally thought to be unviable in this segment. A successful bank must be nimble and agile enough to respond to changing market conditions, the new market paradigm and poor risk management. The key to extending the life of a product will be innovation of the provision of banking services to the underserved masses at the bottom of the pyramid.

## Objective of the study

- Identifying patterns and variations in finance charges, penalty interest, and related fees across the banking sectors.
- Assessing the customer experience and value through associated facilities such as interest-free periods, EMI conversions, and fee waivers.
- Understanding the influence of regulatory frameworks and RBI policies on the pricing strategies of credit card products in public vs. private bank.

## Significance of the study

### 1. Consumer Awareness and Financial Literacy:

This comparison helps consumers make informed financial decisions by understanding which bank offers more affordable or flexible credit card options, potentially avoiding debt traps caused by high or hidden interest charges.

### 2. Transparency in Banking Practices:

By analyzing interest rates and terms across public and private banks, the study promotes transparency and accountability, pushing banks toward fairer pricing strategies and improved disclosure norms.

### 3. Policy Implications and Regulation:

The findings can be valuable to regulators like the RBI to review existing guidelines on credit card lending, interest capping, risk-based pricing, and consumer protection measures.

## Research Methodology

### Title of study:

Comparison of the credit card interest rate between private and public bank.

### 1. Research Design:

This study adopts a comparative, descriptive, and analytical research design, aimed at analyzing patterns, trends, and disparities in credit card interest rates charged by public and private banks.

The study is quantitative in nature, involving the statistical analysis of numerical data (interest rates, fees, charges) as well as qualitative insights through policy review.

## 2. Time frame of the Study:

The period of the analysis is from financial year 2014-15 to 2024-25 (10 years).

## 3. Scope of the Study:

1. Public sector banks
  - a. SBI Bank
2. Private sector banks
  - a. HDFC Bank

## 4. Data collection Method:

- a. Secondary Data Sources:
  - Annual reports of banks (2014 to 2024)
  - RBI Publications: Financial stability Reports (FSRs), RBI Bulletins, Consumer Protection Framework
- b. Quantitative Data Collected:
  - Annual Percentage Rate (APR)
  - EMI Conversion interest rate

## 5. Data Analysis Techniques:

Comparative line diagram with Trend analysis for ten yearly analyses, mean, standard deviation, coefficient of variation & correlation coefficient is used for the study.

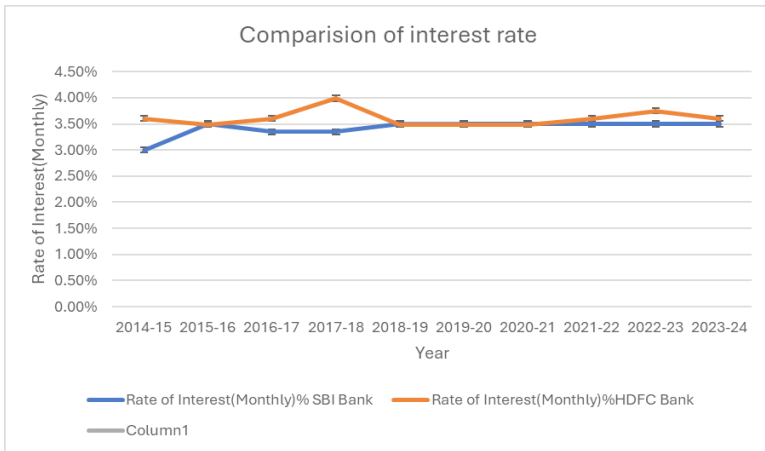
## Data Analysis

**Table 1: Interest Rate of Credit Card of SBI Bank & HDFC Bank (Period 1)**

Year	Rate of Interest (Monthly) (%) SBI Bank	Rate of Interest (Monthly) (%) HDFC Bank
2014-15	3.0%	3.6%
2015-16	3.5%	3.49%
2016-17	3.35%	3.6%
2017-18	3.35%	3.99%

2018-19	3.5%	3.49%
2019-20	3.5%	3.49%
2020-21	3.5%	3.49%
2021-22	3.5%	3.6%
2022-23	3.5%	3.75%
2023-24	3.5%	3.6%

Source: RBI Report



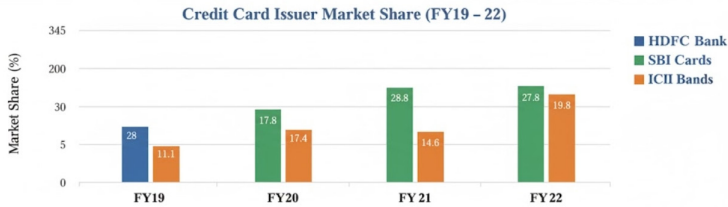
The trend analysis of credit card interest rates between public & private banks in India shows a competitive environment where both types of banks are adjusting their rates in response to the RBI's monetary policy. Private banks tend to be quicker in passing on these rate changes, compared to public banks. This difference in responsiveness highlights the increasing competitiveness within the Indian banking sector and the effectiveness of monetary policy transmission through the private banking channel.

Average monthly for private bank is 3.5% and public bank is 3.4%. In simple APR terms, that's about 42% p.a. vs 40% p.a. which shows that compounded APR are higher. Public banks show substantially higher variability because one public bank charges around 3.75% while others are lower. Many banks publish different charges for different types-premium cards sometimes have different formulas or special rates.

**Table 2: Market share of large credit cards issues in spends (%)**

Credit card issuers	FY19	FY 20	FY 21	FY 22
HDFC bank	28	28.8	30.9	27.8
SBI Cards	17.1	17.8	19.4	18.8
ICICI Bank	11.1	12.2	14.6	19.5

Source: RBI, Report [26]



According to the most recent RBI data, ICICI Bank increased its market share primarily between December 2020 and June 2021 by adding more than 1.32 million cards, increasing its total number of active cards to 11.03 million from 9.71 million in November 2020. However, SBI cards climbed to 12.04 million during this time, while HDFC Banks credit cards reached 14.82 million. Even though HDFC Bank's market share in terms of outstanding cards and card spending decreased from what it was in November 2020, it still held the top spot in both categories. Notably, HDFC Banks had a market share of 27.8% in terms of spending as of June 2021, while its market share in terms of outstanding cards was 23.6%.

**Table 3: Growth in the number of Credit Cards – industry grew by ~12% YoY**

Growth – YoY (%)	FY18	FY21	FY19	FY20	FY21
HDFCB	25.1		16.8	16.1	3.4
SBICARD	37		32.2	27.5	12.1
ICICI	17.5		33.0	37.1	16.2

The credit card of the countries like India's credit card market is growing rapid growth, with card numbers doubling from ~54 million in 2019 to over 100 million by late 2024, driven by deeper metro penetration, digital adoption, attractive rewards/EMI options and integration with UPI for RuPays cards, projecting

strong future expansion despite relatively low overall adult penetration compared to Western countries. In the year 2019 and 2020 the financial growth of the country is surpassing the GDP due to increase in consumption but in the year 2021 the growth is very stagnant in nature due to corona virus overwhelming door. People have no money, consumption of any items. It decelerated my broke backbone and exhausted someone's strength. ICICI bank gives its highest percentage of growth strategy and 16.2 percent rather than SBIcard and HDFC bank.



## Conclusion

The credit card market is expanding steadily, and this trend is predicted to continue due to rising urbanization, stable disposable incomes, lifestyle changes, change in consumer attitudes toward personal debt and an increasing proportion of young people who are working in the nation. Due to the emerging trends in E commerce, credit card usage has received a significant boost. It is anticipated that by 2024 India's E-commerce market will overtake that of the US to become the second largest market worldwide. Over the next 15-20 years, the sector has room to develop by 12% CAGR, or 7X, with a potential base of 35 crore new credit card customers that may be accessed. It is also observed that fees and high maintenance charges are levied on the customers. According to RBI data, as of March 2019, E-commerce transactions accounted for 45% of credit card spending and 39% of credit card usage. The payment infrastructure that supports digital payments is expanding rapidly. The number of POS terminals increased at a CAGR of 29% during the 2019 fiscal year, reaching 3.7 million terminals. According to the National Payments Corporation of India, at least 641 clients lost 1.3 crores in fraudulent transactions at 90 ATMs. Therefore, it is crucial that banks and NBFCs implement internal control mechanisms to combat fraud and create

regulations to thwart fraud control and enforcement procedures. To regain and maintain customers' trust in the banking system, banks urgently need to review network security. It is clear from the portfolio's ongoing expansion, the number of active cards in use, and customer transactional activity that the credit card business has steadily expanded. By 2024, experts predict that credit card spending would expand rapidly to reach 15 lakh crore, or 2.5 times what it was in 2019. When compared globally, India is still a relatively untapped Market for credit cards. The co-branding concept is increasing quickly, e-commerce is advancing, and different payment methods are interconnected, which is why the credit card business is continually growing. The sector has a tremendous opportunity to grow across lenders and penetrate farther to tap into the untapped market across the nation because credit cards are here to stay.

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