

A Case Study on Factors Influencing Credit Card Usage

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ABSTRACT

Credit cards have become a necessity to the public and the number of credit cards approved has increased recently. Due to that factor, it had led to the increment of credit card debts. While some of the credit card holders used it wisely, most of them struggled to pay the minimum balance every month. Therefore, it is time to look into this matter. Thus, the objective of this study is to find the correlation between influencing factors and the credit card debts among KLM private hospital staff. The study used convenience sampling and the survey was conducted among 120 credit card holders in the KLM private hospital staff. It is found that only credit related knowledge is significant and has positive influence to the credit card debts. In conclusion, Malaysian government should tighten the guideline of approving credit card by a commercial bank. The aggressive promotion by commercial banks should be controlled and the continuous education on the impact of credit card debt to Malaysian should be done regularly. Commercial banks must play their role in advising the credit card holders on the advantages and the disadvantages of using the credit cards.

KEYWORDS: Credit Card, Usage, Easy Access, Minimum Payment, Private Hospital.

INTRODUCTION

A credit card is a popular payment medium used by many people in this modern day. Credit card generally issued by a financial institution to give its holder a soft loan without collateral to be pledged. Credit cards normally charge interest and are one type of popular short-term debt financing among the public. The interest charged commences from 20 to 30 days after any purchases and its limits are pre-set depending on the individual's credit rating. The credit card was first introduced to Malaysians in the mid-70s [4]. As stated by [11], credit card spending by foreign tourists which increased from RM4.3 billion in 2006 to RM7.9 billion in 2013, an increase of 83% over 7 years. In 2013, fraud losses had remained low at less than 0.03% of the total value of debit and credit card transactions. It shows that credit card is the popular payment medium for people to use.

Credit cards have been portrayed as a modern customer lifestyle and show an increase in the standards of living. According to [7], India is the fastest growing economies in Asia. However, the credit cards used remains limited. In the modern business, credit cards serve as a payment device for millions of regulation purchases as well as for many transactions that would be otherwise inconvenient.

Credit cards are the popular medium of payment for consumers today. In the USA, it has been identified as the second most popular non-cash instrument [3]. Credit card has also become the primary sources of unsecured open-end revolving credit, they have replaced the instalment purchase plans that were important to the sales volumes at many retail stores in earlier decades. The use of credit cards has already become a convenient way to expand purchasing power [9, 19].

This is a research paper whereby a study on the relationship between influencing factors on credit card usage has been conducted. This study has been widely discussed among scholars. Based on the past researches done, the researchers have concluded that there are 5 essential factors that lead to credit card usage. The problem among card holders was many were struggling many years to pay back their debts. This is the main motivation factor for many researchers to investigate the dynamic relationship between credit card usage and factors influenced the usage.

The objective of this study is to investigate the relationship between the five independent variables namely easy access to credit card, aggressive promotion by the credit card provider, low minimum payment requirements, attitude towards credit card and credit card related knowledge of credit card usage among KLM Specialist Hospital staff.

LITERATURE REVIEW

According to [18], Americans have created billions of dollars' worth of debt over the past 45 years and credit card debt has contributed the bigger portion of that amount. In a modern business, credit cards serve as a payment device instead of cash or cheques for millions of repetitive purchases along with many other transactions that would be inconvenient or impossible [6]. A credit card is a flexible and convenient way to borrow money and pay it back over time. It provides benefits to consumers and merchants which are not provided by other payment instruments [2]. As what [15] stated, the steady rise in household debt in Canada could also be a generational shift in attitudes as credit becomes easier to access. Debt also is used for many productive purposes such as education, starting a business or buying a house.

Theoretical Framework

The theoretical framework for this study can be seen in Figure 1. This study tried to look at the possibility of the significant correlation between dependent and independent variables.

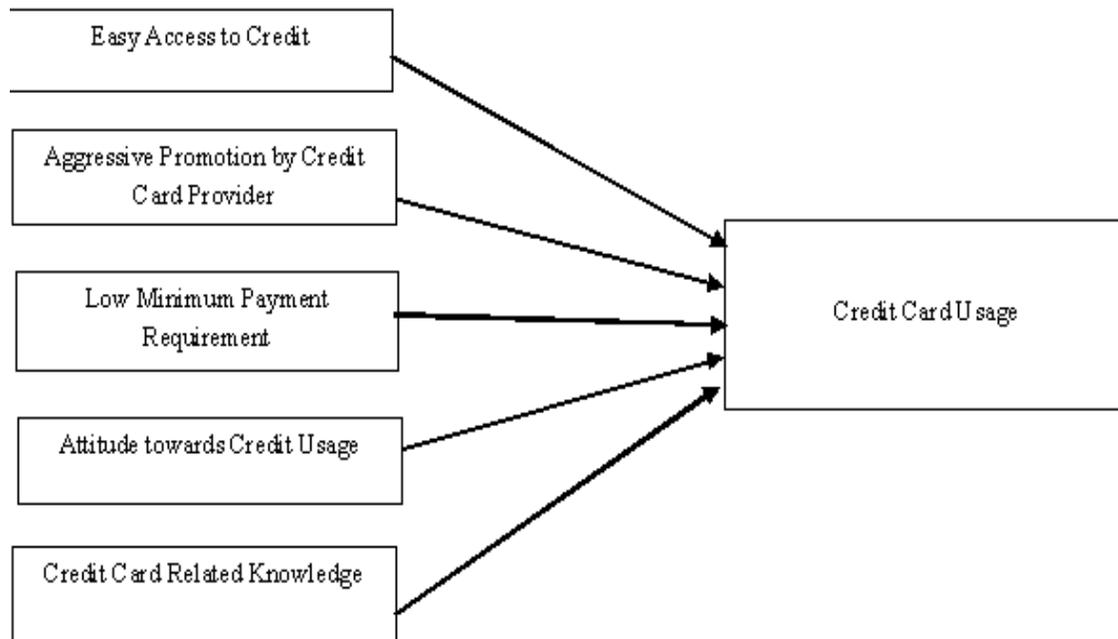


Figure 1: A schematic diagram of the research model

Easy Access to Credit Card and Credit Card Usage

In view of its increasing importance as a mode of payment in the modern society, the usage of a credit card has an influential impact on consumers' well-being. Several empirical studies have been conducted on various aspects of credit card usage. The study by [16] supports that easy access to credit, particularly through credit card, results in consumers to be over-spending and being in debts that they could not handle. By letting consumers buy things with unparalleled convenience and speed, they tend to spend more; often more than their income and what they have in the bank. This condition related well with that credit card directly fueled an explosion in consumer debt [17]. The geographical location between the north and south is one of the important factors for having and used the credit card in Italy, whereby the easier location for the card to be used is the more preferable compared to the uneasy location [1].

Aggressive Promotions by Credit Card Provider and Credit Card Usage

Many of the financial institutions and companies are targeting the young and career people as a customer. Mass promotions conducted to draw the attention of young people to use a credit card as a shopping means. Various strategies used by salespeople to promote credit cards to the targeted group. The mismanagement and usage of credit cards have become one of the reasons for the increased of credit card debt coupled with the rapid expansion in the bank card industry [8]. Consumers across Malaysia are becoming more brand-conscious and are seeking these products that give them products suiting their lifestyle and thereby satisfaction [21]. The latest study done by [10] showed an interesting finding, whereby the discount offers or other card facilities in the result of aggressive promotions also drive and encourage credit card holders to use their credit cards frequently [10].

Low Minimum Payment Requirement and Credit Card Usage

Since there much competition in the credit card industry, the industry began its promotion by lowering payments to attract customers. Since 1990s credit card companies are competing with each other to have more customer [18]. By lower the requirements payment which will attract regardless age groups, especially young or college students. Studies show that the main competitive strategy is the reduction in the minimum payment requirement from 5% to between 2 to 3% of the balance.

Attitude towards Credit and Credit Card Usage

The widespread use of credit cards reflects consumer preference regarding prearranged lines of credit, and technological developments have made it much easier for creditors to offer revolving credit [6]. Furthermore, studies show that belief is more influential than the knowledge about credit card practices. They are positive that attributes flow from beliefs. One study found that younger consumers have more positive attitudes towards credit card use than the older consumers, because younger consumers believe that the potential to earn more money in the near future, thus they are willing to adjourn their payment [5]. The younger generation has more lenient attitude towards debts whereby their behavior was not significantly associated with attitude. There was no significant impact of attitude on credit card debts[14]. A possible explanation for this is that consistent with other findings, credit cards across Malaysia as a convenience product has led to compulsive shopping behavior causing addiction to shopping and heavy debt[21]. One of the studies done by [12] found that although the credit card holder selected credit card based on cost and benefits, but behave differently in their payment behavior.

Credit Card Related Knowledge and Credit Card Usage

According to [20] focuses on the knowledge and awareness and behavior relating to credit card usage among consumers. To improve consumers' attitudes about credit card usage, it is necessary to understand how the gap can be narrowed between consumers' attitudes and the factors that are influencing it. However, awareness and understanding are two different things. Companies' listings credit card interest rate increase attentiveness of the price of credit, but this does not guarantee improvement in consumer understanding. Moreover, personal financial knowledge is an important component in consumer decision making. The knowledge relating to credit card use, for example, might be useful when promoting personal finance education among high school and college students [13]. The education, religious education level, gender and religious level also influence the selection and the usage of the credit cards [12].

METHODOLOGY

In this study, the primary data were collected through consumer surveys administered among credit card holders in KLM Specialist Hospital. A pilot study was conducted with 20 KLM Specialist Hospital staffs before the actual survey took place. A total of 150 questionnaires were distributed to the selected staff, but only 120 questionnaires were able to be analyzed for this study. Only credit card holders with the usage of debts were chosen as the respondents to meet the objective of this study. A pilot test was done earlier in the beginning of October 2015. The survey was conducted from 15th to 31st October 2015.

The questionnaire has two different sections including the demographic section which focuses on items such as gender, marital status, age, race, educational level, occupation, monthly gross income, the number of credit cards, the number of supplementary cards, the number of years using the cards and type of credit cards. Section B was focused on the five variables namely easy access to credit card, aggressive promotion by the credit card provider, low minimum payment requirements, attitude towards credit card and related knowledge and the credit card usage. The questionnaire in section B was instructed in five point Likert-scale format, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree.

Five hypotheses were developed:

- H1: There is a significant relationship easy access to credit and credit card usage.
- H2: There is a significant relationship between aggressive promotion by credit card provider and credit card usage.
- H3: There is a significant relationship between low minimum payment requirement and credit card usage.
- H4: There is a significant relationship between attitude towards credit card and credit card usage.
- H5: There is a significant relationship between credit card related knowledge and credit card usage.

The data collected were analyzed using the Statistical Packages for Social Science (SPSS) version 17.0. The study used both descriptive and inferential statistics. The descriptive statistics include the mean and frequency. The inferential statistics include Pearson Product-Moment Correlation Coefficient analysis. Various secondary references also have been used to gather the data and information relating to this study.

FINDINGS AND DISCUSSION

The study intended to investigate the relationship between the five independent variables namely easy access to credit card, aggressive promotion by the credit card provider, low minimum payment requirements, attitude towards credit card and credit card related knowledge of credit card usage among KLM Specialist Hospital staffs.

Pearson Product-Moment Correlation Coefficient was used to assess the relationship among variables (independent and dependent variables). Table 1 shows the result indicating that the independent variables are statistically significant with the p-value of 0.000 at 0.01 significant levels.

Table 1: Correlation analysis (n = 120)

Variables	Mean	Standard Deviation	Pearson Correlation
Easy Access To Credit Card	4.3594	0.3837	x
Aggressive Promotion By The Credit Card Provider	3.3595	0.3234	x
Low Minimum Payment Requirements	3.8875	0.4684	x
Attitude Towards Credit Card	4.5975	0.1163	x
Credit Card Related Knowledge	3.9361	0.3758	0.694**

** Correlation is significant at the 0.01 level (2-tailed)

Referring to Table 1, it found that only credit card related knowledge shows the highest Pearson Correlation with $r = 0.694$. Based on Guilford's Rule of Thumb, it indicates that credit card related knowledge has high correlation and established as significant relationship with credit card usage among credit card holders in KLM Specialist Hospital. Therefore, only the fifth hypotheses formulated for this study; there is a significant relationship between credit card related knowledge and credit card usage accepted for this study.

Based on the findings, it can be concluded that credit card related knowledge is the only variable found to be the significant and the main predictor for credit card usage. Hence, the credit card provider should provide more information and educate their credit card holders as much as possible.

CONCLUSION AND RECOMMENDATIONS

This study examined the factors that influence the credit card usage among KLM Specialist Hospital staff using the five independent variables namely easy access to credit card, aggressive promotion by the credit card provider, low minimum payment requirements, attitude towards credit card and credit card related knowledge of credit card usage using the variables adapted and adopted by various related studies. The only findings supported the hypothesis derived from the model is the fifth hypothesis. Based on the findings, the only independent variable (credit card related knowledge) has a positive relationship with the dependent variable (credit card usage) among KLM Specialist Hospital staff. The findings of this study have discovered that four variables; easy access to credit card, aggressive promotion by the credit card provider, low minimum payment requirements and attitude towards credit card have no significant relationship with the credit card usage.

As a concluding remark, the analytical results of this case study may differ from the previous study made by other researchers except the fifth variables which were credit card knowledge. The findings from the data analysis showed a different result due to the fact that this study is done as a case study and using a convenience sampling.

Several suggestions may be taken into considerations if the same study will be carried out in the future. The contingency factors such as economic conditions, competitions and rises of prices of consumer goods or fuel hike might have the incoherent effect on credit card usage and can be explored in the future research.

Malaysia government should tighten the rules of approving credit card. Bank Negara should ask the commercial bank to take concern about the consumer's income and commitment in order to approve credit limit. The credit limit shall set which do not exceed 2 months of the salary of the credit card applicant.

Last but not least, the government should control the promotion by commercial banks should be controlled and the continuous education on the impact of credit card debt to Malaysian should be done regularly.

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