



Preference & Usage of Credit Cards: A Study of Ahmedabad City

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ABSTRACT

Credit Card industry has been growing steadily over the past few years. Card transactions are on an upward trajectory with credit card payments growing at a CAGR of 21.3 per cent (The Hindu, 29th October 2015). A Credit card today not only provides shopping convenience and safety, but also offers privileges like discount coupons, invitations to events, bonus points, cash-back and even a free insurance. To understand the preference & extent of usage of credit cards by card holders, the researcher carried out a study of 150 respondents of Ahmedabad city. The study also attempts to find out the most preferred card issuing bank & the purpose for which credit cards are used. The paper then examines the factors in favour of using credit cards & reasons for not using the same. To sum up, the researcher observed that the industry has been growing steadily over the past few years. With payments going digital and the focus on financial inclusion, one can expect much in the coming years.

KEYWORDS

Credit Cards, Preference, Usage

Introduction

The idea of lending money through a card goes as far back as the 1800s. According to the 2005 FDIC Banking Review's paper called "Overview of Recent Developments in the Credit Card Industry", merchants and financial intermediaries provided credit for agricultural and durable goods. The cards soon began to spread to other industries.

It wasn't until the late 1950s that Bank of America (NYSE:BAC) introduced the BankAmerica Card, the first general purpose credit card. The bank created a separate credit card operation entity that in the mid-1970s became known as VISA (NYSE:V). In 1966, competing banks spawned rival cards as a result of Bank of America's success. This network of bank owners later created an association that came to be known as MasterCard (NYSE:MA).

The Credit cards have definitely come a long way since. A credit card is basically a small plastic card issued to users as a system of payment. It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

For many the Credit card has become a necessity - Be it paying for lunch in a restaurant or buying clothes at a designer outlet or getting hands on the latest gadgets, nothing compares to credit card when it comes to convenience.

A Credit card today not only provides shopping convenience and safety, but also offers privileges like discount coupons, invitations to events, bonus points, cash-back and even a free insurance.

According to India, Card Payments Report 2014-15 by Worldline India Pvt Ltd, the credit card base in India stood at 21.1 million in 2014-15 against 19.2 million a year ago.

"The credit card industry sees greater acceptance among customers. This is seen from the fact that in spite of inactive credit cards being weeded out of the system, credit card numbers have grown," the report said.

Among the banks issuing credit cards, the esteemed and well published cards are Citibank Diners Club Card, Citibank Visa Card and Credit Cards, Bank of Baroda's Master Cards, the SBI

Credit Cards, Bank of India's India Card, Canara Bank's Can Card and ICICI Bank's ICICI Card. Today credit card industry is highly competitive and almost all the banks are offering credit cards in association with Visa International or Master Card.

Literature Review

A review of theoretical and empirical literature pertaining to the topic of the study is an integral part of any research work. Hence, an attempt has been made in this section to present a review of various studies relating to the topic at national and international level.

A study carried out by Kaynak and Harcar (2001) to examine consumer attitudes and intentions toward credit card ownership and usage across Turkey found that knowledge structures, beliefs, likes and dislikes as well as attitudes of owners influence its usage. There was a close relationship between the spread of credit card usage in a given country and its stage of socio-economic development. With increased levels of socio-economic and technological development, credit card usage particularly increases in developing countries. Kaynak et al. (1995) similarly found that there appear to be certain relationships between socio-economic and demographic characteristics of Turkish consumers and their credit card holding and usage behaviours' and these relationships should be investigated by credit card banks.

Soman & Cheema (2002) found that the issue of irresponsible use of credit cards lies in the irrationality of consumers as they expect their future incomes to be higher than their present income.

King and King (2005) showed that consumers are always better off using credit cards over debit cards. The authors suggest that such is true only if the card holder does not carry a balance or has not reached the credit limit for the card. King and King (2005) attribute the rapid increase of debit card usage to two reasons. Firstly, the fact that even for individuals who do not carry a balance and therefore, do not pay interest, credit cards are not seen as a substitute for a debit card; and secondly, consumers' fear of credit because of how credit could affect their wallets and spending habits. The latter conclusion is consistent with the findings of Drentea (2000) that higher ratio of credit card debt to income increases anxiety. In addition to payment mode choice, marketing managers are also interested in continuous usage. However, repeated choice and usage of a particular payment mode is contingent upon the user's satisfaction with that payment mode.

Park and Burns (2005) examined the interface between fashion orientation, credit card usage and compulsive buying across Korea. As an effort to identify the underlying determinants of compulsive buying, their study sought to examine fashion orientation, a fashion-related variable, as a direct antecedent of compulsive buying and as an indirect antecedent of compulsive buying through credit card usage. Fashion interest significantly influenced compulsive buying directly and indirectly by influencing credit card usage across Korea.

Wiggins (2008) stated that the introduction of credit cards into the market, enables consumers to spend beyond their income further fosters consumer spending.

Objectives of the Study

- To study the preference of customers for credit cards.
- To examine the extent of usage of credit cards by card holders.
- To know the most preferred bank for credit card.
- To determine the purpose for which credit cards are used.
- To analyse the factors in favour of adoption of credit cards.
- To identify the reasons for not using credit cards.

Research Methodology

Population and Sample

The study population comprised respondents from Ahmedabad City. A convenience sampling method was used to select the respondents. This method was chosen because it provides easy access to the respondents, practical, and quick (Nachmias and Nachmias, 2008). The survey was carried during October 2015. The questionnaires were distributed to a sample of 150 respondents at several locations in Ahmedabad.

Analysis & Findings of the Study

Profile of Respondents: Among the 150 respondents males comprise 70%. Most respondents (54%) are in the age group of 25-35 years. The survey shows that 68% of the respondents are students, 28% are employees, 21% are involved in business, and 15% are self-employed.

Preference & Usage of Credit Cards: 120 (80%) respondents carry credit cards whereas only 30 (20%) do not carry them. This shows a high preference for credit cards, mainly to avail different offers followed by convenience (Table 4). Moreover, out of them, 105 (70%) respondents prefer to use credit card instead of cash.

Table 1 below shows the extent of usage among the respondents in various income categories. Respondents having annual income between 1-5 lacs are the major (66.67%) users of credit cards. Moreover, it has been found that majority (67%) of respondents with 1-5 lacs of annual income use credit card for Rs. 1,000-10,000 (monthly or yearly?) worth of purchase. As far as high income customers (5-10 & >10 lac category) are concerned, 10 (9%) & 5 (4%) respondents buy in the range of Rs. 20,001-30,000.

Table 1: Extent of Usage (Amount*Annual Income)

Monthly Credit Purchase Amount/ Annual Income	1,000-10,000	10,001-20,000	20,001-30,000	>30,000
<1 lac				
1-5 lac	70	6		
5-10 lac		14	10	
>10 lac			5	
Total	70	20	15	0

From table 2, it is observed that majority of cardholders have Citibank credit cards (20%) followed by ICICI Bank (14%), SBI Bank (12%), HDFC & Axis Bank (9%) and the least, Standard Chartered Bank (7%). 29% respondents have other cards is-

sued by other banks like Kotak Bank, HSBC Bank, Indus Ind Bank, IDBI Bank, etc.

Table 2: Preference for Banks

Banks	No. of respondents	%
ICICI	17	14
SBI	14	12
Citibank	24	20
HDFC	11	9
Axis	11	9
Standard Chartered	8	7
Others (Kotak, HSBC, Indusind, IDBI)	35	29
Total	120	100

Table 3 shows the purpose for which credit cards are used. The mean score is obtained based on their preferences & thereafter they are ranked on that basis. Online Shopping is ranked 1st followed by phone/electricity bills, food & accommodation. The last rank is for buying consumer durables & jewellery.

Table 3: Purpose of Usage

Purpose for which credit cards are used	Mean Score	Rank
Food & Accommodation	8.06	3
Electricity/Phone Bill	8.42	2
Groceries	4.66	6
Consumer Durables	2.27	9
Jewellery	1.02	10
Travel & Entertainment	6.76	4
Education	3.37	8
Online Shopping	9.59	1
Health & Medical	6.25	5
Beauty Products	4.66	7

Table 4 highlights preferences given by respondents on a scale of 1 to 5 for the factors considered while adopting credit cards against cash. It is found that main reason to use credit cards is to avail different offers like cash back, additional discounts, various deals etc. It is followed by convenience. The credit facility available is one of the last preferred reason to use credit card. So, it can be inferred that banks should focus on these offers to increase penetration of their cards.

Table 4: Factors for adoption of Credit Cards

Factors for adoption of credit cards	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Weighted Average	Rank
Credit Facility	8	7	13	24	53	1.98	5
Security	19	3	24	46	13	2.70	3
Convenient	54	13	22	8	8	3.92	2
Status	33	32	21	9	10	2.44	4
Avail different offers	48	31	4	17	5	3.95	1

Table 5 depicts the reasons for not using credit cards. The main reason why respondents do not buy credit cards is fear of losing it, followed by unnecessary formalities. High processing fees is ranked last.

Table 5: Reasons for not using Credit Cards

Reasons for not using	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	Weighted Average	Rank
Insecurity	3	23	12	5	2	3.44	3
Fear of Losing Card	15	12	9	8	1	3.71	1

Unnecessary Formalities	18	9	3	9	6	3.53	2
High Processing Fees	10	14	3	7	11	3.11	4

Conclusion

It has been seen that majority of the respondents use credit cards. This reiterates the fact that overall, the usage of credit cards is growing steadily over the past few years. Card transactions are on an upward trajectory. Credit card payments have grown at a CAGR of 21.3 per cent (The Hindu, 29th October 2015).

There are interesting dynamics at play in the Indian payments industry. With payments going digital and the focus on financial inclusion, one can expect much in the coming years. Intense competition and strategic collaboration among existing and new market participants like the payments and small banks and wallets will help scale up acceptance and foster more creativity, innovation and consumer choice.

“One big leap for the industry will be to incentivise card/electronic payments,” said Deepak Chandnani, CEO, Worldline South Asia and Middle East.

“Should these moves translate into action on the ground?” We are bound to see much higher use of cards and electronic payments by consumers.

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