Consumer Perception and Attitude towards Credit Card Usage: A Study of Pakistani Consumers

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Consumer financing have become increasingly important in the private sector of Pakistan for the last two decades. With the new reforms in the banking sector, the marketing of financial products has become very competitive, creating a need for strategizing the marketing efforts. This study investigates the shift of Pakistani consumers towards the use of plastic money, with emphasis on credit cards. A survey of consumers holding (at least) one or no credit card were used for data collection. Variables related to demographics such as age, income level and gender have also been taken into consideration. This study makes (the) use of descriptive variables in terms of analyzing the general attitude about the use of credit cards and the factors contributing towards the selection of (a) one particular credit card over the other. A positive relationship has been found between the income level of a person and his/her possession of the credit card. While making the choice of a credit card the trust in a particular brand name seems to hold a very significant importance in the selection of a credit card, instead of the logo of Visa or Master card. The profession of the person seems to play a very interesting role with their behavior towards credit cards. Our study shows that the bankers hold negative attitude towards the use of a credit card. The moderating variables include the marketing campaign of a particular bank, sales teams support, openness from retailers for accepting credit card instead of cash, knowledge about the true interest rate imposed by the banks and the concept of Islamic mode of financing, etc. Based on our observations, suggestions have also been made for managers to refine the target market.

1. Introduction

The credit card penetration rate in Pakistan has been slow considering that it is in the market for over 20 years. One of the reasons for the initial slow growth rate was that the product was targeted to the elite class which comprised of less than 10% of the population. But today the market presents a different picture. With increased liquidity of banks, there has been an overall push towards the supply of consumer finance that includes personal loan, house mortgage, credit cards and auto loans. Today, consumer financing forms more than 25% of the total private

sector credit (Economic survey, 2006-2007) in Pakistan.

In Pakistan since the year 2000, there has been a massive reform in the financial sectors by privatization and the restructuring of banks and financial institutions. According to the Economic Survey of Pakistan 2007, the financial and insurance sector has seen a startling growth of 18.2% despite the fact that government raised the interest rates over the last two to three years to control the rising inflation in the country. In addition, State Bank of Pakistan (SBP) has laid out stringent requirements for banks to get formal approval of those given credit and from the Credit Information Bureau to keep a check on non performing loans.

However, SBP holds no strict regulation for the issuance of credit cards in the prudential regulations as compared to the disbursement of personal loans, auto loans and house mortgages. The limit of credit cards can be extended to two million rupees in case of a privileged customer.

The importance of credit cards, both as a payment and short-term financing medium to today's consumers, is no longer debatable (Chakravorti and Emmons 2001; Hayhoe et al. 2000).

The unsecured loans, in the form of credit cards, are increasing at a high rate. According to the Economic Survey of Pakistan 2006-2007 the credit card holders are increasing at the rate of 50% annually. In December 2006, the total credit card amount outstanding was Rs. 39198 Million (a substantial increase from Rs. 19340 Million in June 2005. Yet the market remains unsaturated and a low number of cardholders exist as compared to other developing countries.

Competition in the financial industry has forced many players in the market to offer similar prices on deposits and loans. The financial institutions seek new, non-price factors to market their products. These can then be used as a means of differentiation to achieve higher revenues and improve market share (Worington 2005).

On the consumer's side, consumers generally have different motives for holding cards. They also have different incentives to incur the time and psychological costs of searching for lower interest rate terms (Kim,F. Dunn,and E.Mumy 2005). But for a Pakistani consumer, who is slowly and gradually accepting the use of plastic money, there is a need for proper segmentation, as there are different explanations for the use of credit card. On the other side the gap between the consumption and saving is widening up at the expense of financially insecure customers, who are unable to make the payments and have to pay more penalties in return. The highest default within the consumer portfolio has been increased from 1.4 percent in December, 2006 to 3.7 percent in March, 2007.(Ghani 2007).

Since credit card debt is clean and non-secured loans, where no collateral is required, Banks are exposing themselves to higher risks and covering the cost from the end consumers in return.   In terms of growth, the mortgage loans and credit

card debts have the highest growth during the last couple of years (H.Kazmi 2007).

Now, all the banks are competing for the same pocket of consumers in terms of credit cards, and the majority carry multiple credit cards. We have seen new trends in the credit cards market in terms of customization of credit cards (introduced by UBL to allow a customized picture on the credit card), Awami card (introduced by Askari Commercial Bank) and Co branding of cards (e.g Abn amro Bank and U-fone), and so on. Yet there is a need to refine the credit card strategies by understanding the perception and attitude of potential and existing customers. This study attempts to observe the general behavior and attitude of the Pakistani consumers in the credit card market.

2. Literature Review

Credit cards, including store cards and bankcards, serve two distinct functions for consumers: a means of payment and a source of credit (Ausubel 1991; Chakravorti 1997, 2000; Chakravorti and Emmons 2001; Slocum and Matthews 1970; Stavins 2000). Based on the main use of credit cards and the benefits sought, credit card users can be segmented into two groups: convenience users and revolvers (Lee and Hogarth 1999). Convenience users tend to employ credit cards as an easy mode of payment; typically pay their balance in full upon receiving the statement. Revolvers, on the other hand, use the card principally as a mode of financing and chose to pay interest charges on the unpaid balance. According to the consumer behavior literature, consumer usage behavior and the benefits sought from a product or a service are one of the best predictors to explain consumer purchase behavior (Peter and Olson 1999).

Credit cards also serve as an open-ended, easily available credit source (Lee and Kwon 2002). When consumers use credit cards as a mode of financing, credit cards compete with bank loans and other forms of financing (Brito and Hartley 1995). Credit cards allow consumers to borrow within their credit limit without transaction costs, which includes all the time and effort involved with obtaining a loan from a financial institution. This convenience attracts many consumers to pay high interest on outstanding credit card balances, rather than taking the time to apply for a loan with a lower interest rate. As a result, credit cards account for a substantial and growing share of consumers' debt (Canner and Luckett 1992).

The popularity of credit cards as a payment medium has been attributed to the convenience of not carrying cash and checks, the limited liability of lost/ stolen cards, and additional enhancements, such as dispute resolution services and perks (i.e., frequent-use awards programs) (Chakravorti 1997, 2000; Chakravorti and Emmons 2001; Whitesell 1992). They are frequently used for convenience, telephone and Internet transactions.

The behavior and the attitude of the consumer towards the use and acceptability of credit cards differ for psychographic reasons (Yang, James and Lester 2005). Xiao, Noring and Anderson (1995) devised a 38-item scale to

measure affectiveness, cognitive and behavioral attitudes towards credit cards. Affective attitudes involve emotional feelings (e.g. My credit card makes me feel happy); cognitive attitudes involve thoughts (e.g. Heavy use of credit cards results in heavy debt); while behavioral attitudes involve actions (e.g. I use my credit card frequently).

Many consumers value uncollateralized credit lines for making purchases when they are illiquid (i.e. before their incomes arrive), even at relatively high interest rates. Because of limited alternatives to short-term uncollateralized credit, the demand for such credit may be fairly in-elastic with respect to price (Brito and Hartley1995).

Ausubel (1991) suggests that consumers may not even consider the interest rate when making purchases because they do not intend to borrow for an extended period when they make purchases. However, they may change their minds when the bill arrives.

Stavins (1996) argues that consumers are somewhat sensitive not only to changes in the interest rate but also to the value of other credit-card enhancements such as frequent-use awards, expedited dispute resolution, extended warranties, and automobile rental insurance. However, she agrees with Ausubel (1991), Calem and Mester (1995) that lowering interest rates may attract less creditworthy consumers, therefore dissuading some credit-card issuers from lowering their interest rates.

According to Jeans S. Bowers (1979) longitudinal study, low income users of credit cards tend to use the cards for the installment feature rather than for service features such as convenience, safety, or identification. It has been suggested that the installment feature of credit is needed by the low income consumer to permit purchases such as automobiles, furnishings, and other consumer durables.

Demographics also seem to play a vital role in making a choice and the use of credit cards as a convenience user or revolver. Age, income level has been studied previously and suggest some indication for correlation between demographic and use of credit card. According to the study conducted by Jean Kinsey (1981) the probability of having credit cards and the number held was correlated highly with age and occupation. However these two characteristics were less important than the place of residence, use of checking and savings accounts, and attitude towards credit.

3. Conceptual framework

In Pakistan, the banking reforms have made the market more competitive and attractive. There is a need to study the customer and how do they behave towards use of plastic money, specially through the use of credit cards. As compared to the rest of the economies, credit card has not been a driving source for the Pakistani economy. The development of financial services marketing has been slow and for a long time the industry was primarily product led. According to Raj Singh and

Evertt (1996), banks focus on geographical, socio-economical and psychological characters to segment the market for financial services, although this is not the right predictor of the buying behavior. For this purpose, a better approach is to focus on the customer's attitudes and behaviors and segment them by benefit segmentation. Knowing consumers' level of interest in alternative benefits is important in shaping, and perhaps changing a company's product portfolio.

This study takes into consideration those individuals who do not carry credit cards currently to cater for potential customers need as well as those who are currently using credit cards as medium of transaction. The research questions that this paper attempts to inquire are:

RQ1: What is the general perception about credit card usage among the non-card holder?

RQ2: What factors contribute towards the choice of a credit card out of a pool of factors?

RQ3: What are the different motives behind carrying multiple or single credit cards?

RQ4: Does the level of income and the average amount of transaction per month exhibit a relationship?

RQ5: What is the general perception about the usage of credit cards among non-users?

There are estimated 2,000,000 credit cardholders in Pakistan (Figures taken from an overview of industry done by Standard Chartered for the first Quarter of 2007). This study attempts to drive results based on the data collected from the existing users of credit cards as well as the potential customers (those who do not use credit cards). Non-probability sampling was adopted for the study.

4. Instrument and Data Collection

The approach used for the data collection is survey questionnaire. The questionnaire is tested through a pilot study on 25 consumers that help in the refinement of final questionnaire. Three hundred questionnaires were floated for data gathering; out of which 150 were returned. One hundred and thirty one of them were usable for analysis and overall response rate was 43 %.

The analysis has been divided into two parts and examines two groups of individuals. Table 1 represents analysis of those respondents who do not carry credit card. Table 2 represents inputs of those customers who possess at least one credit card.

Table 1: Sample characteristics

Part A: Individuals who do not carry credit card			
		No. of respondents	
Male		47	
Female		21	
Total		68	

Age:	Concentration of sample	Intend to buy credit card	
		Yes	No
15-25 Years	58.82%	21	19
26-35	29.41%	7	13
36-45	1.47%	1	0
46 and above	10.29%	1	6
Total	**100 %**	**30**	**38**

Profession:	Concentration of sample	Intend to buy credit card	
		Yes	No
Banker	16.18%	1	10
Engineers	19.12 %	7	6
Doctor	4.41%	2	1
Lawyer	1.47%	1	0
Educationist	17.65%	4	8
Management	14.71%	4	6
Artists	1.47%	1	0
Others*	25 %	10	7
Total		**30**	**38**

Income:

		Income & intend to buy credit card:	
Rs.5000-20000	66.18%		
Rs.21000-35000	17.65%	Sig (2-tailed)	0 .931
Rs.36000-50000	8.82 %	N	68
Rs.51000-65000	5.88 %	Pearson correlation	-.011
Rs.65000 & above	1.47%		

Potential perceived problems in the use of card:

Lack of trust while making transaction	22.06%
Unacceptability at retail outlet	20.59%
High interest rate	26.47%
Terms and condition of banks	14.70%
Technology linkage issues	16.18 %

Perceived uses of carrying credit card:

Additional credit line	12 %
Fashion statement	09%
Secure as compare to other payments mode	26%
Ease while shopping	29%
Convenience	24%

	Yes	No
Importance of Advertisement in compelling the decision to open credit card account	57.3%	42.7%
Importance of bank name and standing of bank in the market for credit card	70 %	30%
Use of plastic money in the future as very promising	65%	35%

*Others include government employees, students, insurer and homemakers

Table 2: Sample characteristics

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Part B: Individuals who carry credit card						
				No. of respondents		
Male				47		
Female				16		

Age:	Concentration	Main card	Supplement card		Avail reward points of sample	
Yes	No	Yes			No	
15-25 Years	30.16%	14	5		9	10
26-35	42.86%	27	0		13	14
36-45	15.87%	10	0		6	4
46 and above	11.11%	6	1		2	5
Total	**100 %**	**57**	**6**		**30**	**33**

Age:				
Hold more than	Convenience user		Revolver	one credit card
15-25 Years	19		11	8
26-35	27		17	7
36-45	10		04	9
46 and above	7		03	4
Total	**63**		**35**	**28**

Profession:	Concentration of sample
Banker	26.98%
Engineers	19.05 %
Doctor	3.71%
Educationist	14.29%
Management	26.98%
Artists	9.52%
Others*	25 %
Total	100

Income:			
Rs.5000-20000	30.16%	Income & avg. transaction amount per month:	
Rs.21000-35000	23.81%	Sig (2-tailed)	0 .001
Rs.36000-50000	11.11 %	N	68
Rs.51000-65000	20.63 %	Pearson correlation	0.397**
Rs.65000 & above	14.29%	**Correlation is significant at the 0.01 level (2-tailed).	

Motivation behind carrying multiple cards:	
Better acceptability	17%
To avail different offer	21%
More credit line options	58%
Fashion statement	04%

Factors determine choice of credit cards:	
Looks of the card	12 %
Co branding offer	3.17%
Power by (Visa/Amex/Master)	22%
Credit limit	32%
Marketing campaign	7%
Image of issuer Bank	24%
N	63

5. Data Analysis

Descriptive statistics has been used for analysis. The data collected is tested mainly through the use of frequency, cross tabulation and Pearson correlation. The study attempts to explore the responsiveness of potential and existing customers towards the use of credit cards.

Table 1 represent the sample size for the individuals do not carry credit card is 68. Almost 56 % of this sample does not intend to buy credit cards in the future. The occupation of respondents has wide spread over the data collected ranging from banking to government officials. Bankers that do not have credit cards carry negative attitude about the use of credit cards. The reason is the realization about the hidden charges and interest rates on the credit cards in case of outstanding balances. The correlation between the income level and the intention to buy a credit card is not of signifcant level. A non-linear relation exists between the two variables. High intrest rate and a lack of trust while making transactions are the two main reasons respondents do not wish to carry a credit card. Precived uses of credit card highlitghts that ease of carrying card instead of hard cash is one of the prime motives to use a credit card. While making the choice of a credit card, bank image and name plays a vital role compared to the promotion of credit cards.

Table 2 represents the data gathered from the sample who carry credit cards. Most people who are in the age bracket of 15-35 years carry muliple credit cards. The major reason to carry multiple credit cards icludes: more credit line options and different schemes offered by banks to buy products through special installment arrangements like cell phones, TV's, Air conditioner's etc. Credit limit offered by different issuers play a very important role while having multiple credit cards along with the power logo (visa,master,amex) on the card. However, with the increase of age, consumers discard multiple cards and just hold one or two cards. The tendency of making payments in installements is high in the age group of 36 and 45 among revelovers. Most of the people do not avail rewards and discounts offered as either they do not have knowledge or are unable to seek any bebenfits out of those. With the increase in the income level, the customers average transaction per month increases. The two varaibles are positively coorelated at a signifantly high level. Factors that dertermine choice for a credit card mainly rely on credit card limit followed by the power of logo on the card (visa/Master) and image of issuer bank.

6. Conclusion and Policy

RecommendationsFrom the analysis, it is evident how the customer preferences vary from one age group to another. Therefore, it is recommended that product development should be based on the information taken from the market, which otherwise leads to issues like product evolution in a wayward direction such as the intricate concept of co-branding that is being introduced by a majority of banks. Similarly reward schemes that do not result in an increased usage of the product are futile. Redemption of reward points is also a complex process. It seems that the customers hardly benefit from them. Furthermore, issues like religious

reservations, cultural inhibitions towards being in debt, and the unfamiliarity with using plastic money need to be seriously addressed.

Segmentation strategies should be re-evaluated. The current strategies cluster the salaried class together, without giving consideration to their age. However, within the salaried class, individuals have different demographics, attitudes and opinions. Credit cards can be best targeted to people the age of 18-24, which forms almost 50% of the population. This age group treasures convenience the most. They are technology savvy and do anything for the sake of the perceived status.

The study shows that the convenience and security element that credit cards offer is most important for women. Considering the increasing number of independent working women, a specialized product that gives extra benefits for shopping household items can be launched focusing to these women.

A proper attention should be given to market supplementary cards. Encouraging the current credit cardholders to purchase supplementary cards for their spouses can help increase the profitability of this already established product. Affinity cards are meant for a group of individuals belonging to a particular organization or an association. Considering the collective culture in Pakistan, a customized credit card can be offered for individuals belonging to a particular association. For example, cards can be designed for the Steel mill association of Pakistan the textile association of Pakistan, the donor community of the Shaukat Khanum Cancer hospital and other NGOs like Edhi Foundation, etc.

Like all other financial services where customer relationship plays a defining role in building loyalties, same is the case for credit cards also. Customers can be delighted by giving them instant rewards at the point of purchase. Unfortunately, for this particular product the emphasis has been on selling the product to the customers and not building a relationship with the customers. For card business, a very important role is played by the customer support service. Developing a competent and helpful customer support department can create a positive image of the issuing bank. As opposed to the marketing campaigns in the world where the message is mostly based on dream and fantasy, a marketing strategy which entices general population to use credit cards to get what they always wished for will be a smart tactic.

As far as religious inhibitions to incurring interest are concerned, card issuers can work on establishing a new credit card model, which originates from the principles of Islamic Banking. This will help companies in gaining higher penetration amongst the masses, which are concerned about these issues. Banks need to address the technological issues faced by cardholders. Acceptability level of cards at retail level is still low. Collectively, the issuers need to devise strategies to solve these technological issues by increasing the number of machines in the market. In addition, an efficient technical service team can be formed for every city, which solves any technical problem as soon as it occurs.

Several research papers can be developed from this study. For example, this study can be replicated to gauge customer preferences among the youth in Pakistan. Researchers can also look at the importance and feasibility of the credit cards in Pakistan and develop effective supplementary credit card services there.

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