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CUSTOMER'S INTENTIONS TO ADOPT CREDIT CARDS IN COIMBATORE CITY- A FACTOR ANALYSIS

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Abstract

In a constantly changing world of today, where past is replaced by dynamic present and dynamic present is being replaced by more challenging future, the old ways of doing things is no longer valid. Science and technology is changing the way financial institutions perform their transactions. Today's banks are shaken by these technological changes. In this context, a micro level study assumes immense significance to assess the consumer's reactions towards credit cards services with the following objectives; to study the Socio-Economic profile of Credit card Users in Coimbatore city, to analyze Customer Satisfaction about Various in Credit card Services and to identify the Problems faced by the Customers in using in Credit card Services. The primary data was collected from 50 samples through adoptive purposive sampling technique by administering a pre tested interview schedule during the period from January to February 2012. The data collected was tabulated and analyzed by using Garrett ranking technique, Likerts' Summated Scale and Factor Analysis. The findings of the study revealed that convenient to use, customer care, emergencies were the major satisfying factors which were attracting adopters to adopt credit cards services.

Keywords: Adoption, Technology, Satisfaction, Problems, Customers

Introduction

In a constantly changing world of today, where past is replaced by dynamic present and the dynamic present is being replaced by more challenging future, the old ways of doing things is no longer valid. Science and technology is changing the way financial institutions perform their transactions. Today's banks are shaken by these technological changes. But a new technology brings with it not only the potential for success but also a never-ending series of questions regarding its design, its value to its users, ultimate use and acceptability. Nowadays, banks are seeking alternative ways to provide and differentiate amongst their varied services. Customers, both corporate as well as

retail, are no longer willing to queue in banks, or wait on the phone, for the most basic of services. They demand and expect to be able to transact their financial dealings where and when they wish to. With the number of computers increasing every year, the electronic delivery of banking services is becoming the ideal way for the banks to meet their client's expectations.

Credit card is a laminated plastic card issued by a bank or non-banking financial company giving the credit card holder a preference to borrow funds on a short term basis. The bank or NBFC issuing credit card impose an interest for lending short term finance to the credit

card holder. Credit card holders can buy goods and services from merchants, traders and other parties based on the credit sanctioned to them. Credit card shall be used with a prescribed credit limit. This limit is based on the earning capacity and credit worthiness of a credit card holder as communicated by entity issuing to its customer. By using credit card, customer promise for the repayment of credit card transactions executed by them.

Credit Card Scenario in India

The financial sector reforms of the early 1990s brought about a complete overhaul of the Indian banking sector, which was hitherto a highly regulated and administered sector. These reforms encouraged new market entrants, being private players and foreign banks, making the banking sector a more market driven one with increased efficiency and productivity. This sector now broadly comprises three types of commercial banking entities, based on the nature of their ownership. These are public sector banks, private sector banks and foreign banks. However, public sector banks still continue to dominate the banking space with a deposit market share of more than 75 percent. Despite all efforts undertaken post-1990's to boost banking in India, the banking sector penetration remains low. PSBs, which are the foundation of the Indian banking system, account for more than 78 per cent of the assets of total banking industry. They are leaders in Internet banking, mobile banking, phone banking, ATMs. Given this background, it is interesting to analyze the e-banking scenario in India.

Credit Cards are accepted for payments widely in all the cities located in

all four directions of India. It facilitates the payment system that makes the entire buying and selling process very convenient. Buyers need not carry bulging wallets with cash while shopping and also sellers get their payments directly credited to their accounts. No matter whether the business is small or big, if they accept the credit card payments then often many new opportunities knock their door. In today's fast moving era, it cannot be expected from the buyer to carry cash every time they go out of their house. Business people have to offer the credit card services to their customers where the payments are accepted through credit cards. Few companies that do not give this service to its clients or customers are marked as non-serious businesses.

These days it is very crucial to give the credit card service because through this service individuals can not only increase the sales but also offer more payment flexibility to their customers. In this internet savvy world, online shopping is at its full boom. The virtual shops are great success. Through the credit card payment service, Indian companies are able sell their exclusive products not only in Indian market but also in the international market. Across the globe people can buy the products through these virtual shops and make the payments online with credit card. The payments automatically get credited to the seller's bank account through this service. Therefore, this service is imperative to reach the Indian customer as well as make the well identified presence among the international customers too. In order to put the online credit card service in action, Indian businessman only needs good credit card processing service and then

... can easily incorporate this amazing
... in their business functioning.

In India, the number of valid credit cards in circulation is more than 275 lakhs. The number of transactions is of the order of 2282 lakhs and the amount of transactions Rs. 57,958 Crores in the year 2007-08. Over the past 5 years, there has been a substantial increase in credit card transactions. The debit cards have had a slow start and their growth only took off in the last one year. On the other hand, the credit cards grew faster since inception with the growth turning even sharper in the latest year. As per current trends, the annual rate of increase in the number of credit cards and its number of transactions is 16 percent and 25 percent respectively. Even the amount of transactions increased at a nominal rate of 28 percent per annum. The banks and MasterCard/VISA generate revenue and make profit in the credit card system by charging Interchange fees.

In the western countries big merchants have already realized this and are in union in their demand for reduction in Interchange fees. MasterCard USA, moving towards being more transparent, has now explicitly placed on its official web site the Interchange Rates. Credit cards are an extremely useful way of paying for products and services. They are often more convenient than cash or cheques, and they are almost universally accepted (including over the phone). Additionally, they are a great way for you to establish your creditworthiness. And some cards offer additional benefits, such as rebates, frequent flier miles, and insurance. But credit cards are a mixed blessing. They can encourage excessive spending (which often results in serious

financial pain for those who carry balances). Also, the interest starts accumulating immediately for new purchases on credit cards with balances. Additionally, unlike most loans, credit card debt doesn't have a required repayment schedule, which can be a temptation to pay only the minimum amount required and never pay off the full amount owed.

The system is designed this way; credit card companies make most of their profits from cardholders who pay just the minimum amount required, since they charge exorbitantly high interest rates on the money owed. Although debt is sometimes useful, there is a difference between good debt (a home, car, education, etc.) and bad debt (money borrowed with no specific plan of repayment, such as with credit cards, debt consolidation or overspending in all areas of a budget). Even though debt is a part of life, the key to preventing it from becoming destructive knows the benefits and hazards of using credit. In the United States, Visa and MasterCard are the two most common brands of credit cards. However, neither Visa nor MasterCard actually issues their cards. Instead, they provide advertising, credit authorization and record keeping services for their partners, who are authorized to issue the cards and specify the terms of their programs. In this context, a micro level study assumes immense significance to assess the consumer's reactions towards credit cards services with the following objectives;

- ❖ To study the Socio-Economic profile of Credit card Users in Coimbatore city.

- ❖ To analyze Customer Satisfaction about Various in Credit card Services.
- ❖ To identify the Problems faced by the Customers in using in Credit card Services.

Earlier Studies

An Empirical Study of Credit Scoring Model for Credit Card by Hui-Chung Yeh, Min-Li Yang, Li-Chuen Lee (2007) the purpose of the study is to propose an optimal credit scoring model to reassess the default risk of credit card holders for credit card issuing banks in Taiwan. This study adopted four credit scoring models which are the linear discriminant analysis, decision tree, back-propagation neural network, and a hybrid method to evaluate the default risk. By comparing the evaluation results of these models, it shows that the decision tree method has the best classification performance in terms of accuracy and sensitivity.

Jill M. Norvilitis et al. (2006) studied the "Personality Factors, Money Attitudes, Financial Knowledge, and Credit-Card Debt among College Students". The study explored that factors hypothesized to be causes and effects of credit card debt in 448 students on five college campuses. Students reported an average of \$1,035 (SD=\$1,849) in debt, including students without credit cards or credit-card debt. Lack of financial knowledge, age, number of credit cards, delay of gratification, and attitudes toward credit-card use were related to debt. Sensation seeking, materialism, the student attitude toward debt scale, gender and grade point average were not unique predictors of debt. The study explored that the relative weight of personality factors, attitudes toward

money and possessions, and financial knowledge as predictors of credit-card debt.

Sineenad Paisittanand and David L. Olson (2006) conducted "A simulation study of IT outsourcing in the credit card business". A major Thai bank considered the opportunity to expand credit card operations through information technology (IT). A Monte Carlo simulation spreadsheet model was used to model risk parameters, and to analyze key performance variables of financial performance. Key output variables were the number of cardholders expected, project net present value, net profit, and expected return on investment. The spreadsheet model made entry of model elements transparent, and Monte Carlo simulation provided clear visual display of the financial output variables. The bank used this information in its decision to outsource its credit card operations.

Hernan E. Riquelme, et al., (2009) the purpose of the study was to (a) identify which customer service and online attributes predict overall satisfaction, (b) to determine if satisfied customers use more online banking features than less satisfied customers and (c) to identify characteristics of less satisfied customers. The sample was drawn from one of the main banks in Kuwait, the Middle East. Multiple regression and discriminant analyses were used to analyze the data. The findings suggest that satisfaction can be generated through improving customer content, timeliness and product and services offered. The latter being the most important factor in driving internet banking satisfaction. The findings suggest that the majority of the customers in the

sample are satisfied or very satisfied with the service and online systems attributes. The investigation does not support previous findings that more satisfied customers tend to use more product and services or that using internet banking for a longer period is associated with higher levels of satisfaction. It appears that companies that offer a wide product portfolio and relevant website content accompanied by prompt and courteous response create satisfaction online.

Celia Ray Hayhoe et al. (2000) studied the "Differences in Spending Habits and Credit Use of College Students". The study explored the attitudes of affective credit attitude (feeling about using credit cards) and gender influenced college students' credit purchase. Affective credit attitude predicted the purchase of clothing, electronics, entertainment, travel, gasoline, and food away from home. Females purchased clothing; males purchased electronics, entertainment, and food away from home. Gender was more influential in predicting financial management practices than was affective credit attitude, with female students employing a greater number of financial practices. A path analysis model showed gender differences in the relationship between financial practices, financial stress, affective credit attitude, and the number of credit cards with a balance.

Hui-Mei Chen and Chian-Hau Tseng (2005) examined "The performance of marketing alliances between the tourism industry and credit card issuing banks in Taiwan". The study assessed the performance of marketing alliances between the tourism industry and credit card issuing banks, and to identify the

factors affecting the performance of such alliances. The questionnaires, which addressed the attributes of the company, alliance partner selection and motivational factors and the performance of the alliances, were designed to collect data from the managers of four different business sections within the tourism industry: hotels, restaurants, travel agencies, and entertainment establishments. The findings showed that 'partners having excellent resources' and 'the potential for a mutually beneficial relationship' are the two major criteria used in selecting the cooperative partners. These two criteria are also significant predictors of alliance performance. 'Diversifying promotion channels and reducing cost', 'intensifying position and enhancing image', and 'increasing business achievement' are the major alliance motives of companies within the tourism industry. They also have positive effects on alliance performance. The type of business and the number of allied banks also affect the performance of the alliance.

Ravichandran Subramaniam and Maran Marimuthu (2010) investigated the selection criteria of bank credit cards that contribute towards credit card selection among credit card holders. There was a total of 17 providers' of bank credit cards both from local and foreign banks. The selection of bank credit cards is empirically examined using five series of selection criteria and demographic factors. It is evident that the main crystallized factor in bank selection is the convenience and assurance to cardholder's factor which is also consistent with prior results. The results found no significant difference on the demographic groups although respondents show concern on the

availability of more ATMs and internet to provide more flexible and quality services and also show significant /difference on the perception towards cash advance, credit limit, annual fee and annual payment rate among different ages and annual income groups. Further it is evident that the perception towards special discounts, road show, reward's program and gender reputation differ among marital status, age and annual income of the respondents.

Methodology

Banking sector plays an important role in Coimbatore. The locale of the study was confined to Coimbatore city limits on the grounds of easy to data and time constraints. Coimbatore has been among the front runners in attracting a large amount of domestic and foreign industrial investments. In terms of banking development, Coimbatore ranks second in the state in per capita deposits and per capita credit after Chennai. The primary data was collected from 50 samples through adoptive purposive sampling technique by administering a pre tested interview schedule during the period from January to February 2012. The data collected was tabulated and analyzed by using Garrett ranking technique, Likerts' Summated Scale and Factor Analysis.

Findings of the Study

The findings of the study are presented and discussed under the following heads:

1. Socio-Economic and Banking Profile of the Respondents
2. Satisfaction and Reasons for Preferring Credit cards.
3. Problems faced by the respondents

I. Socio Economic Profile

This study is specifically aimed at analyzing the credit card usage and its benefits derived by the card holders. This study considered 50 samples. It included both men and women who were employed in different sectors. The socio-economic background of the respondents is given in the following Table -1

Table- 1
Socio-Economic Profile of the Respondents

Socio-Economic Factors	Characteristics	No.	%
Gender	Male	34	68
	Female	16	32
Age	15-30	17	34
	31-45	22	44
	Above-45	11	22
Marital Status	Unmarried	17	34
	Married	33	66
Educational Status	Higher secondary	12	24
	Degree	21	42
	Professional	17	34
Occupational status	Traders/ business	16	32
	Professional	9	18
	Service	14	28
	Self employed	11	22
Monthly Income	Less than Rs. 10,000	8	16
	Rs. 10,000- Rs. 20,000	17	34
	Above – Rs. 20,000	25	50
Total		50	100

Source: Field Survey

Sex: Among the 50 respondents 34 (68 per cent) were male members and the remaining 16 were females (32 per cent).

...third of women seem to be using credit cards.

With regard to the age the sample was classified into three years, namely 31 to 45 years, 31 to 45 years, above 45 years. There was a whopping proportion of 66 percent in the age 31 to 45 years; only 11 percent in first age group followed by 11 percent in the age group of above 45 years. The age classification i.e. 31 to 45 years, use credit card to very great level as most of them are either business people or those employed in service sector. The business needs huge finance to run their business. Many times they face financial crisis, during which they approach banks for credit. It is at such times the credit card helps this business man to get the required amount to reinvest in business to overcome the crisis. It also helps in the expansion of their business and people in the middle age are ready to take the risk anticipating higher returns in future.

Marital Status: Sixty six percent of the respondents were married and 34.0 percent were unmarried. The marital status of the surveyed sample revealed that married customers were using credit card more than unmarried customers.

Education: Education plays a very significant role in determining the career. Education coupled with skill helps a person to reach greater heights in life. It is on this basis all the parents try to give maximum education to their wards. Even for education many parents use credit cards. The study revealed that the majority of the respondents were quite educated and only educated people resort to modern electronic media of dealing with expenses. The study brings out the fact that

12 . of them had completed higher secondary, twenty one had acquired degree and 17 of them are professionals. All the respondents were educated and hence the credit card usage is high among the educated group.

Occupation: The respondents were involved in various activities or profession like trade, business, service sector and some are self employed. Sixteen people were involved in business. The major business they do this power loom activity. Most of them have this as the traditional family activity and they make clothes in the power loom units and they are supplied to the textiles shops in Coimbatore and Tirupur. The power loom business is growing and in requires finance to run the firm. Therefore all of them make use of the credit card for their business activity. People involved in profession are to the tune of 9(18 percent), they are doctors, engineers and teachers. Fourteen respondents are in the service sector and 11 are self employed these people have their own set up many of them have hotels, provision stores and some work as technicians, electricians etc.

Monthly Income: Income is an important indicator of the economic and social status of an individual. Half of the total respondents (50 per cent) get an income above Rs.20,000/- per month this is followed by 17 respondents (34 per cent) getting a monthly in the range of Rs.10,000/- to Rs.20,000/- and people get less than Rs.10,000/-. Majority of the respondent's family members use credit cards (54 percent) for their day to day expenses. Majority of them (34 percent)

use their cards to purchase durable goods like jewelry, electronic item, and other household requirements. Nearly 22 per cent of them use cards for booking the train ticket, 18 per cent of them by grocery item, 14 per cent use these cards to put petrol and diesel for their vehicles and rest of them use their cards for booking Air tickets. The study reveals that majority of them use their credit card, to buy consumable goods.

Banking Profile of the Respondents

Type of account is divided into three viz., current account, savings account and fixed account. Twelve respondents (24%) had current account; thirty two of them had saving accounts and only five of them had fixed account as given in the following table-2.

Table- 2
Type of Account

Type of account	Frequency	Percentage
Current account	12	24.0
Saving account	32	64.0
Fixed account	5	10.0
Others specify	1	2.0
Total	50	100.0

Source: Field Survey

Thus the study reveals that majority of them are having saving account followed by current account to utilize the facilities of credit cards services provided by the banks.

II. Satisfaction Level of Credit Card Holders

In this section an attempt was made to examine the satisfaction level of the credit cards holders. The respondents were asked questions, relating to their satisfaction level using credit cards services on a five point scale ranging from 5 (strongly agree) to 1 (strongly disagree). Having established the consistency of the items, factor analysis was used to identify the underlying pattern of relationship between the various dimensions of satisfaction level in using credit cards and whether this satisfaction level can be grouped in terms of a composite variable. The findings are discussed below.

To determine the appropriateness of applying factor analysis, the KMO and Bartlett's test measures were computed and the results are presented in the table -3.

Table- 3
KMO and Bartlett's Test Measures

Test Measure	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.764
Bartlett's Test of Sphericity Approx. Chi-Square	326.083
Degrees of freedom	91
Significance	.000

Source: Estimation based on Field Survey

KMO statistics for customers for using credit cards was .764 signifying higher than acceptable adequacy of sampling. The Bartlett's test of Sphericity was also found to be significant at one percent level providing evidence of the presence of relationship between variables to apply factor analysis.

**Table -4
Communalities**

	Initial	Extraction
Terms and conditions	1.000	.739
Rights and obligations	1.000	.675
Annual fees	1.000	.727
Service tax	1.000	.709
Cash to Carry	1.000	.674
Advance	1.000	.679
Balance transfer	1.000	.786
Customer care	1.000	.823
Emergencies	1.000	.741
Easy purchases	1.000	.775
Risk coverage	1.000	.728
Withdrawing cash	1.000	.811
Convenient	1.000	.860
Reliability	1.000	.868

Source: Estimation based on Field Survey

Extraction method: Principal Component Analysis

The communalities for each variable were assessed to determine the amount of variance accounted by the variable to be included in the factor rotations and the results are shown in table- 4. All the variables had value greater than 0.50 signifying substantial portions of the variance accounted by the factors.

Table- 5 enlists the Eigen values, their relative explanatory powers and factor loadings for 13 linear components identified within the data set.

**Table -5
Rotated Components Matrix**

Reasons	Components			
	1	2	3	4
Terms and conditions		.787		
Rights and obligations		.777		
Annual fees				.828
Service tax				.784
Cash			.869	
Advance				
Balance transfer charges				
Customer care	.901			
Emergencies	.844			
Easy to purchases			.829	
Risk coverage	.807			
Withdrawing cash		.745		
Convenient	.830			
Eigen Value	4.997	2.553	1.038	1.007
Percentage of variance	35.691	18.238	7.414	7.195
Cumulative percentage	35.691	53.929	61.343	68.538

Source: Estimation based on Field Survey, Extraction method: principal component analysis

Rotation method: Varimax with Kaiser Normalization, rotation converged in 23 iterations

The Eigen value of the first 4 factors alone was greater than one indicating that these factors alone were appropriate for inclusion in the analysis for adopters of credit cards services. These factors accounted for nearly 69 percent of the variations for the adopters. The Kaiser rotated component matrix are presented in table -5.

For the adopters of credit cards services, factor 1 had significant loadings for four dimensions namely 'customer care', 'emergencies', 'risk coverage' and 'convenient'. These dimensions explained nearly 36 percent of the variance. Factor 2 had significant loadings for three dimensions namely 'terms and conditions', 'rights and obligations' and 'easy operation'. These dimensions explained 18 percent of the variance. Factor 3 had significant loadings for two dimensions namely 'no need to carry cash' and 'easy to purchase'. These dimensions explained 7 percent of the variance. Factor 4 had significant loadings for two dimensions namely 'annual fees' and 'service tax'. These dimensions explained 7 percent of the variance. To sum up, convenient to use, customer care, emergencies were the major satisfying factors which were attracting adopters to adopt credit cards services. Hence if the banks were able to develop more services it may in a position to satisfy more adopters to credit cards services.

III. Problems Faced By the Credit Card Adopters

Customers were asked to rank the problems faced while using the credit cards. The problems were listed and the customers were asked to rank their problems in their order of priority. The

ranks were then converted into percent position and from the percent position the individual scores were determined on a scale of 100 points by using Garrett's Rating Scale. The average scores and the ranks corresponding to each problem are presented in table -6.

Table -6
Problems of Faced by the Card Adopters

Problems	Scores	Rank
Membership fees	78.88	3
Service charges	81.08	1
Rate of interest is high	80.44	2
Delay in the issue of card	75.64	7
Problems of renewal of cards on time	73.44	10
No Cash discounts	76.22	4
Short period of re-payment	74.36	9
Leads to big debts	75.90	6
Only a few outlets have accepted the card	75.64	8
Negative attitudes of banks towards card holders	76.16	5

The major problems faced by the card holders were 'higher service charges' (1st), 'higher interest rate' (2nd), 'higher membership fees' (3rd), followed by there is 'no cash discounts' (4th), 'negative attitudes of banks towards cardholders' (5th), followed by usage of credit cards 'leads to higher debts'(6th), followed by 'delaying the issue of card' (7th), followed by 'acceptance of card in a few outlets' (8th), followed by 'repayment is short' (9th), and 'renewal of cards on time' (10th). In short, the customers do face the above

problems. However there is a wide recognition given to credit card and people do make use of it in their day to day life on a regular basis.

SUGGESTIONS

- Bank to popularize the use of Credit card services through wide publicity of local media, T.V. News papers, etc.
- Banks should give an awareness programme to uneducated and illiterate customers to use Credit card services.
- Facilities for Credit card services should be offered to public free of charge as possible.
- Banks provide handouts to their customers explaining the advantages of Credit card services offered.

CONCLUSION

To conclude that banking historically has been a sector based on individual or institutional customer services. In the last two decades, the delivery of banking services has undergone enormous changes. In today's browser-based competitive finance world, banks need to flourish this customer service viewpoint with web-empowered features for keeping customers and attracting prospective ones. In short, credit cards system has emerged as a key competitive field for the future of financial services. Hence if the banks were able to develop more services it may in a position to satisfy more adopters to credit cards services.

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