

# A Study on Customers Perception and Risk Factors towards Credit Cards

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## ABSTRACT

Now, the economic conditions in the country are far superior to any other developing country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. The plastic money or the cards payments are generally used in big metros will be part of life at small towns even. The present paper is an exploratory cum descriptive study in which insights about the perception towards credit cards and usage risks felt on the part of respondents have been tried to extract. The Convenience Sampling method was adopted to seek information through a structured questionnaire. It was found that the maximum card users are using credit cards because of convenience factor. Lack of trust and knowledge are the major factors of concern among the users. Though, majority of the card users possess a good perception about the credit cards.

**Key Words :** Perception, Risk factors, Credit cards, Payment, Plastic money

## INTRODUCTION

In today's digital age, virtually everything is a Google search away. This makes your goods and services easier to find, but the trade-off is that your competition is easier to find as well. That means it's easier for unhappy or unsatisfied customers to leave. Consumers want good quality along with getting good value. This value is judged by the availability and usability of the customer service that supports it. Generally, customer perception can be affected by various factors. Some of the major factors are; Consistency of performance, emotional connect, marketing communication, holistic marketing etc. There are number of other factors like; psychological and sociological factors, buying motive, personality, learning, attitude, communication, social and cultural dimensions, reference groups consist of all groups like friendship groups, shopping groups, work groups, virtual group's celebrities, political figures etc.

Now, the economic conditions in the country are far

superior to any other developing country in the world. The studies suggest that Indian banking sector is generally resilient and it was witnessed during the global downturn well. Enhanced expenditure on basic infrastructure, promptness in implementation of projects and reforms are expected to give further push to growth. All these factors suggest that India's banking sector will also have a robust growth. The advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technological infrastructure, in order to enhance the customer's overall experience. This banking infrastructural improvement will lead towards more digitization of banking operations. The plastic money or the cards payments are generally used in big metros but soon this will be part of life at small towns even. It is interesting to note that between June 2018 and June 2019, there was an addition of about 10 million credit cards. The rise in credit cards may be attributed to growing

digital payments and the expansion of retail borrowers in the market.

It becomes imperative to study the perception of credit card holders in small cities and their perceived risks to use the credit cards. It is pertinent here to draw attention towards rising banking needs in these cities. More banks are focusing on reaching towards small cities and towns. Therefore, this study proposes to examine the perception and experience of credit card users, the reasons that encourage or discourage them to use credit cards, and their overall perception towards credit cards, especially in the current Indian scenario when most of the things are purchased online.

### **Review of literature:**

According to Jeans S. Bowers (1979) 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. 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.

Many people have knowledge about credit cards, but do not possess credit cards because of the fear of falling into debt trap. High income earners and highly educated class use credit cards more by availing high credit limits. Credit cards, including store cards and bankcards, serve two distinct functions for consumers: a means of payment and a source of credit (Ausubel, 1991). 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 Kwon, 2002). 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. The 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 (Stavins, 1996 as cited in Jain, 2016). 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). Hogarth and English (2002) explain consumer complaint resolution and the elasticity of the credit card market. Many people have knowledge about credit cards, but do not possess credit cards because of the fear of falling into debt trap. High income earners and highly educated class use credit cards more by availing high credit limits

Due to excessive use, often the credit cards become a matter of concern for causing huge debt. The perception of owning credit card has been changed and these are viewed as being convenient substitute to carrying cash. According to Govindarajan *et al.* (2012) a clear shift in the use of plastic money among Indians with more preference given to credit card than debit card.

### **Objectives of the study:**

1. To study the reasons those are encouraging the Credit Card usage.
2. To study the risks perceived by the customers using Credit Cards.
3. To study the perception towards the Credit Cards.

## **METHODOLOGY**

The present study is an exploratory cum descriptive study in which insights about the perception towards credit cards and usage risks felt on the part of respondents have been tried to extract. The Convenience Sampling method was adopted here to collect the primary data taking 100 respondents using credit cards of different banks in Charkhi Dadri and Bhiwani cities of Haryana state. A structured questionnaire was circulated. The secondary information was collected from magazines, manuals and internet.

## **RESULTS AND DISCUSSION**

### **Demographic representation:**

The demographic variables taken about the respondents were like their age, gender, occupation, etc. Out of sample size of 100 respondents, 15% were in the

category of 20-30 years, 47% of 30-40 years, 23% were in the 40-50 years and 15% were of more than 50 years age. 62% were males and rests were females. Among all the respondents 88% were working employees or engaged in the businesses. Around 12% among them were having less than 3 lakhs of annual income and rests were of above of that.

It shows that around 17% respondents use the credit card for Consumer Durables and Non-Durables, 62% use for Hotel Accommodation and Travel (Ticket Booking), 18% for Petrol/Diesel and rest 3% use for some other goods or services (Table 1).

| Good or Service                                 | No. of respondents | Percentage |
|---|--------------------|------------|
| Consumer Durables and Non-Durables              | 17                 | 17%        |
| Hotel Accommodation and Travel (Ticket Booking) | 62                 | 62%        |
| Petrol/Diesel                                   | 18                 | 18%        |
| Other   | 3                  | 3%         |
| Total   | 100                | 100%       |

Source: Primary Data

The Table 2 shows that around 52% respondents use the credit card because of convenience factor, 20% use due to risk avoidance, 15% use credit card mainly for status purpose, 3% use for cash withdrawal, 7% use for Immediate Payment and rest 3% use card for the benefits that they get from it.

| Reasons           | No. of Respondents | Percentage |
|-------------------|--------------------|------------|
| Risk Avoidance    | 20                 | 20%        |
| Convenience       | 52                 | 52%        |
| Status            | 15                 | 15%        |
| Cash Withdrawal   | 3                  | 3%         |
| Immediate Payment | 7                  | 7%         |
| Benefits          | 3                  | 3%         |
| Total             | 100                | 100%       |

Source: Primary Data

It shows that less trust and risk of misuse respectively top the risk factors around 36% and 22%. 18% respondents feel lack of knowledge and 12 fears about unstable income (Table 3).

| Reasons                  | No. of Respondents | Percentage |
|--------------------------|--------------------|------------|
| Risk of Misuse           | 22                 | 22%        |
| Lack of Knowledge        | 18                 | 18%        |
| Lack of Trust            | 36                 | 36%        |
| Unstable Income          | 12                 | 12%        |
| Malpractice by Bank User | 8                  | 8%         |
| Any Other                | 4                  | 4%         |
| Total                    | 100                | 100%       |

Source : Primary Data

It is clear that 55% respondents are in favour of the statements and the most favoured factor is reducing risk of carrying cash and less favoured is revolving credit facility by 12% respondents.

The Table 4 clearly shows that 46% respondents are in favour of the statements Facilitating Services of credit card.

From the Table 4, 49% respondents favoured the statements asked about Supporting Services of credit card.

| Sr. No.   | Statement  | Good      | Can't say | Poor      |
|---|--|-----------|-----------|-----------|
| <b>Perception regarding Core Services</b>         |  |           |           |           |
| 1.  | Credit card is a convenient mode of payment  | 21        | 9         | 6         |
| 2.  | It reduces the risk of carrying cash   | 24        | 4         | 9         |
| 3.  | It provides revolving credit facility  | 10        | 5         | 12        |
|   | Total (100)  | <b>55</b> | <b>18</b> | <b>27</b> |
| <b>Perception regarding facilitating services</b> |  |           |           |           |
| 4.  | There is regular delivery of Bill Statements   | 14        | 29        | 12        |
| 5.  | Acceptability Procedure at retail outlets is easy  | 32        | 5         | 8         |
|   | Total  | <b>46</b> | <b>34</b> | <b>20</b> |
| <b>Perception regarding supporting services</b>   |  |           |           |           |
| 6.  | Free insurance coverage makes the card attractive  | 14        | 12        | 16        |
| 7.  | Added benefits in the form of discounts makes the purchase decision on credit cards easy | 35        | 14        | 9         |
|   |  | <b>49</b> | <b>26</b> | <b>25</b> |

Source: Primary Data

| Perception      | No. of Respondents | Percentage |
|-----------------|--------------------|------------|
| Highly Positive | 22                 | 22%        |
| Positive        | 45                 | 45%        |
| Neutral         | 13                 | 13%        |
| Negative        | 9                  | 9%         |
| Highly Negative | 11                 | 11%        |
| Total           | 100                | 100%       |

Source: Primary Data

The Table 5 shows the rating of overall perception of the respondents towards the credit cards they use along with their frequency, whether they have a positive opinion or negative one. Around 67% respondents possess a Positive perception and only 20% possesses negative.

### Findings and Conclusion:

According to the data analysis more than half of the card users use their credit cards for the purpose of Hotel Accommodation and Travel (Ticket Booking). Maximum card users are encouraged to use the credit cards because of the Convenience factor. Majority of the current credit card users who are getting discouraged in using cards is due to Lack of Trust factor and lack of knowledge. More than half of the card users are having a good perception about the core services of the credit card and majority of the card users also possess a good opinion about the facilitating services of the credit card. Nearly half of the card users are having a good perception towards the supporting services of the credit card. Majority of the respondents have an overall positive perception about the credit cards.

Card usage spiked during the months after the announcement of demonetization in India for daily needs payment transactions. This study found various aspects regarding the credit card like which goods or services are generally bought by using credit cards, reasons of using or not using cards etc. From the entire research, it has been inferred that the number of credit cards users are increasing because of any reason either safely carrying cash, convenience, risk avoidance, benefits or for status enhancement. But some people find credit cards riskier to use due to violence of their private data which they feed while payment transactions and may be because of lack of knowledge. Therefore, it is concluded here that there are both kind of respondents who find credit

cards both as a good and a riskier instrument to use. But evidently, overall use of Credit Cards has increased in millions in India.

This new payment solution would help customers to buy a wide range of goods and services, pay insurance premium, recharge or pay bills or buy movies, theatre and events ticket at their convenience. Therefore, these cards would be playing a vital role in improving the life styles of customers.

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