CHAPTER – II

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INTRODUCTION

The development of credit card is one of the most significant phenomena of the modern financial services scene. Basically, the use of credit cards enables one to take advantage of the two essential aspects of the financial services function; the transmission of payments and the granting of credit. The development of credit card allowed, for the first time, the use of these two functions together. The changes in consumer behaviour and tastes led to the tremendous growth of credit cards. There has been continuous research in the field of credit card usage, cardholders’ perception, and satisfaction. Hence empirical studies conducted in India and other countries relating to credit card usage, cardholders’ perception and satisfaction towards credit cards are reviewed which proved to be very useful to the researcher in getting an insight into the main objectives of the study and finalizing the methodology. A brief account of review of previous studies conducted by researchers in India and abroad is presented in this chapter.

These studies are presented under three heads such as studies related to credit card usage, cardholders’ perception and satisfaction.
Review of studies related to credit card usage are presented here.

Adcock Jr., William C (1975) in their study (1977) “Bank credit card users: An updated Profile” had developed the Demographic and qualitative profile of current bank credit card users. These results were compared to earlier profile developed during the introductory stage of bank credit cards and the implications were considered for the life cycles of marketing strategies as a financial service innovation from the introductory to the mature stages of the adoption cycle.

Dunkelberg, William C (1975) in their study “Subsidies in the Use of Revolving Credit” focused on the measurement of subsidies in the use of consumer retail revolving credit. Based upon the data from several surveys, estimates of credit costs and revenues based on twelve-month account histories of credit use were calculated for each member of a sample of credit users. These estimates were then employed in a multivariate model to determine the nature and extent of subsidies present. The type of credit dealt with in this paper was normally associated with the credit card. All users are charged the same nominal rate for use of the revolving option on their credit cards. They also indicated in the study about the subsidy of those who use credit cards and those who do not. They concluded that credit card operations of retailers barely break even in terms of revenues generated from finance charges and the costs of providing credit.
White & Kenneth J (1976) in their study "The Effect of Bank Credit Cards On the Household Transactions Demand for Money" discussed a model that was developed to measure the effect of credit card usage on household demand for demand deposits. According to them Credit card usage varied widely across households; a considerable number of individuals had credit cards but are not active users. A cross-section study of households was used to identify the relation between different levels of credit card usage and household demand for demand deposits. The results of the cross-section study were extrapolated to describe potential money demand by households in a world where credit cards were widely used by everyone for transactions purposes. The results supported the hypothesis that credit card usage affects average demand deposit holdings. However this study did not promote some understanding on the influence of socio-economic variables on card usage.

Deshpande (1980) in his study entitled "Consumer impulse purchase and credit card usage: an empirical examination using the log linear model" investigated the association of socio-economic variables and unplanned purchases with equivocal results. This study examined the interrelationship between impulse purchases, credit card usage, cost of items bought, and purchasers' income. A log linear approach was used to test goodness-of-fit of several hierarchical models, and rather surprising results were found. These included the lack of interaction between impulse purchase and credit card
possession and usage even when consumers' income and cost of items purchased were controlled for 4.

Assar (1991) in his research work "Financial Decision Making of Baby-boomer Couples" examined the financial management practices of baby-boomer couples based on a mail survey, with wives and husbands responding separately. The prevalence of budgeting, individual ownership of checking accounts, savings accounts, and credit cards and joint ownership of investments were found to be related to family income, individual income, presence of children, sex role attitudes, and locus of control. The patterns of relative influence for those types of financial services were also related to many of these factors as well as to ages of children and perceived role overload 5.

Ali Kara and Erdener Kaynak (1994) in their research work 'Credit Card Development Strategies for the youth market: the use of conjoint analysis', examined the relative importance of the factors that affect college students' credit card choice decision. A full profile conjoint analysis was used in the study. The study results indicate that the interest and the type of the payment are the two most important factors for the college students in their credit card choice decision 6.

"Correlates of credit card acceptance and usage in an advanced developing Middle Easter country" a study by Erdener Kaynak and Orsay (1995) examined the determinants of credit card usage and analysed male and
female perceptions of credit card attributes. The study found that there were statistically no significant differences between males and females in the use of credit cards and perception towards credit cards. However, this study could not identify the usage tactic associated with credit card

In a research work “Credit cards and Money Demand: A cross-sectional study”, conducted by Duca John. V (1995), the effect of credit card use on money demand in the United States was analysed. To avoid selectivity and simultaneity biases, a multistage estimation procedure was used. In the first step, profit models of deposit account and credit card ownership were estimated. In the second stage, constructed variables from the account profits were used to correct money demand regressions for selectivity bias and the estimated probability of card ownership was used to instrument card ownership. The study concluded that costs and benefits of account or credit card ownership and optimal balances depended on transaction costs, interest rates and institutional restrictions.

Guru (1995) in his study entitled, Credit cards yet to take off, observed that the average utilization of credit cards is around 20 to 30 percent. He further stated that since a very high percentage of the cardholders come from income groups with limited buying power, the volume of transactions done by cardholders’ were low.

Jinkook Lee and Kyoung-Nan Kwon (2002) in their study “Consumers' Use of Credit Cards: Store Credit Card Usage as an Alternative Payment and
Financing Medium” conducted using 1998 Survey of Consumer Finances data, found that credit availability through bankcards was negatively correlated with consumers' use of store cards as a financing medium, and suggested the role of store cards as a supplementary credit line. A negative relationship was also found to exist between consumers' bankcard usage and their use of store cards for a transaction purpose, indicating that store cards function as a substitute payment medium.\textsuperscript{10}

Wright & David (2002) conducted a research study entitled “Comparative evaluation of Electronic Payment Systems” This study evaluated 3 types of credit card payment systems, an e-check system and 2 digital cash systems, from the viewpoints of: privacy, traceability, transaction cost, and the ability to build up the customers’ purchasing pattern. It also evaluated their advantages and disadvantages to the customer, the merchant, the e-payment service provider and the financial institution. According to the researcher, these systems employed cryptography to provide security. However many consumers were still reluctant to purchase over the Internet because they were concerned about hackers accessing their financial information. The paper concluded with a description of a new system, which was designed to relieve that concern by allowing payments over the telephone network for purchases made over the Internet.\textsuperscript{11}

Stauffer Robert F (2003) explained in his study “Credit cards and interest rates: theory and institutional factors” that money demand would fall as
credit card users economize on transactions balances. This perspective overlooked the fact that credit card use was on the increase 12.

Trench and Margaret S (2003) have explained about characteristics of bank cardholders in their study, “Managing Credit Lines and Prices for Bank One Credit Cards” and developed a method for managing the characteristics of a bank’s cardholder portfolio in an optimal manner. According to the study, consumers found low APRs and high credit lines attractive. They designed the PORTICO (portfolio control and optimization) system using Markov decision processes (MDP) to select price points and credit lines for each card holder that maximize net present value (NPV) for the portfolio 13.

Gans (2003) in his research work “A Theoretical Analysis of Credit Card Reform in Australia” stated that the Reserve Bank of Australia (RBA) moved to reform credit card associations by increasing entry, allowing merchants to surcharge for card payments and regulating the interchange fee. He developed a simple model of payment systems designed to analyse the impact of these reforms. He built on the RBA’s main assumptions and provided a justification for some of their concerns about excessive card use. According to the study allowing merchants to surcharge may eliminate much of the concern over the interchange fee, whereas the RBA’s proposed interchange fee, based entirely on issuer costs, was unlikely to be socially optima 14.
Till, Robert J (2003) in his study “Behavioural models of credit card usage” presented Behavioural models characterising the way customers behaved in their use of a credit product. In this study the researchers examined repayment and transaction behaviour with credit cards. In particular, they described the development of Markov chain models for late repayment, investigated the extent to which there were different classes of behaviour pattern, and explored the extent to which distinct behaviours could be predicted.

Yu Hsing (2003) in his study “Determinants of Credit Card Rates and Policy Implications” evaluated whether credit card rate was influenced by federal funds rate. Elasticities of the demand for all the credit card loans and the delinquent credit card loans were analysed by the use of autocorrelation analysis and Coefficient for prime rate.

Rob (2003) in a study entitled “Online credit card processing models: Critical issues to consider by small merchants”, made an attempt to address the current state of the online credit card processing system; the available models of online real time credit card processing systems and considered several factors such as cost, complexity and security issues related to implementing such a system. The results could be extremely valuable to small businesses that are venturing into Internet commerce.

King & Amanda Swift (2004) in their research paper “Untangling the Effects of Credit Cards on Money Demand: Convenience Usage vs.
Borrowing," examined whether households were using credit cards for the convenience of not paying all cash at once and enjoying the float that is created in the meantime or merely using credit cards as an easy form of borrowing. Previous studies of credit cards on money demand were extended by adding borrowing into the empirical framework. By looking at the impact that the volume of a credit card revolving balance has on transactions account as well as whether a household owns a credit card, the effects of convenience usage versus borrowing on the card were found to be untangled. The results suggested indicated that the part of the negative effect of being a credit card-holder on money demand was due to borrowing 18.

Mc Phail (2004) in his study "Nature Australian Consumers’ Adoption and Consumption of self-service Banking Technologies" analysed the 50+ market through the segmentation approach based on the level of use of SSBTs. Three segments were identified: non-users, low users and medium-to-high users of SSBTs; these were profiled by frequency of use and demographic variables. The medium-to-high user segment embraces a range of SSBTs and users credit cards to facilitate their financial activities. Non-users and some low users prefer the customary way of conducting transactions and enjoy the personal interaction with the bank employee. These two segments do, however, have a moderate level of credit card use. Finally, small percentage of diffusion discontinuance was identified in this study of the mature consumer market19.
In a research work entitled “A profile of financially at-risk college students” using a random sample of college students, Lyons (2004) identified the probability of a college student at financial risk for mismanaging credit acquired through credit cards.

In his paper ‘Credit card segment – Poised for Growth’, Y. Chandra Sekar (2004) identified the factors promoting the growth of plastic money. He concluded that the Indian market has to catch up with the international markets for which the concept of plastic money has to be spread among the semi-urban and rural customers.

Bernthal and Matthew J Crockett (2005) in their research work “Credit Cards as Lifestyle Facilitators” analysed the accounts provided by consumers, credit counselors, and participants in a credit counselling seminar in order to develop a differentiated theory of lifestyle facilitation through credit card practice. The skills and tastes expressed by credit card practice helped distinguish between the lifestyles of those with higher cultural capital relative to those with lower cultural capital.

The study on “Extent of Usage of Credit cards in Coimbatore” conducted by Dr. S. Ramalinga Choodambigai (2005) focused on the influence of demographic variables over the usage of credit cards. The results of the study showed that among the chosen variables cardholders’ income and occupation contribute significantly towards the extent of usage of credit cards.
cards. However this study could not throw light on the factors influencing possession of credit cards.

N. K. Bansal (2004) in a study on ‘plastic card currency’, observed that there has been a positive impact of the plastic currency on the lives of people of all walks of life and it emerged and is being accepted as a convenient mode of payment.

K. Sharma and G. L. Nanda (2005) in their study ‘Frauds in credit card business’ identified the commonly adopted fraud generally termed as an “Identify Theft”, where a person may use the identify of the another person in a manner that amounts to fraud.

Lachance (2006) in his research work “Quebec young adults’ use of and knowledge of credit”. Aimed to study young adults use of and knowledge of credit. A large representative sample of Quebec young adults aged 18–29 years participated in a telephone survey. Results revealed that their use of credit has increased remarkably over the last decade. The mean score on the credit knowledge scale used in this study was 49.4% for the entire group. Ordinary least squares (OLS) regression analysis indicated that credit knowledge was positively related to personal income, number of debts, amount of total debt, number of credit cards and favourable attitude towards credit and debts. Young adults reporting either personal experience or family and relatives as their main source of learning about personal finances were found to have a lower level of knowledge about credit in general than those
reporting having learned of this subject from courses, the media or financial counselors. He suggested that the learning of basic knowledge about credit and personal finances, with stress on the sensible use of credit, should be part of the educational agenda for young consumers 26.

“A new binary support vector system for increasing detection rate of credit card fraud” a study by Chen, Rong-chang (2006) found, a new personalized model to prevent credit card fraud. This model is promising; however, there remain some problems. This study addressed the problem using a binary support vector system (BSVS). The BSVS was based on the support vectors in the support vector machines (SVM) and the genetic algorithm (GA) was employed to select support vectors. To obtain a high true negative rate, self-organizing mapping (SOM) was first employed to estimate the distribution model of the input data. Then BSVS was used to best train the data according to the input data distribution to obtain a high detection rate. Experimental results indicated that the BSVS was effective especially for predicting a high true negative rate. The study failed to indicate the validity of the model 27.

Mann Ronald (2006) found in his research work “Contacting for credit, the problems of credit card contracts”. According to the study, standardized terms in consumer transactions, description of contracting practices that dominate the credit card industry were the factors to consider in responding to problems with credit card agreements 28.
A. Wang, Jeff. (2006) in his report “A Sociocultural Investigation of Consumer Credit and Consumer Debt” summarised three papers which offer a sociocultural investigation into consumer debt and credit. The first paper, by David Crockett and Randall L. Rose, examined the role credit cards played in consumer lifestyle projects, particularly projects occurring in the early stages of a family's development. The second paper, from Jeff Wang and Melanie Wallendorf, sought to integrate several aspects of a consumer's social life in order to understand consumer debt better. The third paper, by Nina Diamond and Suzanne O'Curry, examined credit card "revolvers," i.e., consumers who carry a month-to-month credit card balance, and how they appropriate credit card marketing.

“Credit Card use and abuse”, a study conducted by Scott III and Robert H (2007) revealed an overwhelming amount of consumer credit card debt in the United States. They concluded that consumers use credit cards inappropriately and spend beyond their means accumulating inessentials which they could not reasonably afford.

Stephen F (2007) in his research work, “Personality and credit card misuse among college students: The mediating role of impulsiveness” stated that Credit card misuse had negative long-term consequences for marketers. The study investigated the role that personality played in students' credit card misuse. Mowen's 3M hierarchical model of personality was applied to survey data from 254 college students; and four elemental personality traits-
emotional instability, introversion, materialism, and the need for arousal—were found to be positively associated with credit card misuse. Impulsiveness emerged as a significant central trait that mediates these effects. Insights generated from the study have important managerial implications for the development of programs that better serve the needs of college student credit card users but did not provide realistic solutions.\textsuperscript{31}

Studies related to credit card holders' Perception are reviewed here. In a research study entitled "Consumer Payment Systems: Hirschman (1982) examined the Relationship of Attribute Structure to Preference and Usage". Two hypotheses were examined in this research. According to the first, a differential pattern of attributes would be perceived by consumers to compose five alternate payment systems: cash, personal checks, bank cards, retail store cards, and travel and entertainment cards. This expectation was confirmed. The second hypothesis put forward the expectation that consumers' perceptions would be substantially linked to their preference for and usage of alternative payment systems. This expectation was confirmed by findings that the proportion of explained variance in preference and usage patterns attributable to consumers' perceptions exhibited consistently high statistical significance and appeared to have pragmatic substance.\textsuperscript{32} Bult (1993) in his study "Semi parametric versus parametric classification models: An application to direct marketing" concerned with estimation of a
classification model using semi parametric and parametric methods used a
so-called threshold-crossing model to discriminate between credit card
holders and non holders. The estimated parameters of the logit model
differed significantly from the estimates of maximum score. Given an
asymmetric loss function, maximum score performed better than the logit
model according to the study 33.

Calem (1995) have examined the effect of “Consumer Behavior and the
Stickiness of Credit-Card Interest Rates” with empirical evidence in support
of the argument that the credit-card industry deviates from the perfectly
competitive model because cardholders do not confirm to the behavioral
assumptions of perfect competition 34.

In their research study entitled “Closing the deal : How consumers finance,
Account for and complete market place Transactions” Soman and Dilip
(2000) analysed the issues of how consumers financed their purchases, how
they accounted and evaluated the transactions. In an experimental procedure
in which they randomly assigned subjects to conditions in which they were
required to pay for transactions either by cash or by credit cards, they found
that average willingness to pay was significantly greater in credit card
conditions than in the cash conditions 35.

Ramanuj Manjundar (2001) in his study on ‘credit cards’ identified the
needs of the card holder as convenient means of payment and a source of
meeting future consumption aspiration. This study failed to indicate customer satisfaction on credit cards 36.

Agarwal (2003) in a research work entitled “Determinants of Credit Card Delinquency and Bankruptcy: Macroeconomic Factor, examined how county unemployment rates affected consumers' delinquency and bankruptcy behavior by focusing on the credit card market considering changes in consumer propensity for delinquency and bankruptcy with respect to the macroeconomic fluctuations 37.

In a study, “Underlying incentives in credit card networks” Chakravorti Sujit (2003) discussed two antitrust cases involving MasterCard Inc. and Visa Inc. for the issuance of credit card networks in the U.S. and investigated on the bilateral relationship between MasterCard and Visa; Emphasing on the incentives in credit card networks 38.

Yang and Bijou (2005) in their research article “Reliability and validity of a short credit card attitude scale in British and American subjects” used Short scales to measure affective, cognitive and behavioural attitudes toward credit cards developed from a longer scale which were administered to respondents in Great Britain and the United States and found to be highly reliable and valid 39.

In his study ‘consumer perception towards the purchase of credit cards’, Anita Goyal (2006) observed that consumers perceive supplementary
services more on the expected product level and that respondents did not consider the facilitating services for purchase evaluation\textsuperscript{40}.

Studies related to cardholders' satisfaction towards credit card are reviewed here.

Hill (1963) operationally measured satisfaction by asking consumers to evaluate their satisfaction with the purchase decisions they made rather than with the products themselves\textsuperscript{41}.

John and Sheth (1969) laid important foundations for the process model of satisfaction and developed buyer behavioural model. According to them customers' satisfaction is the point at which expectation and reality coincide. They defined customer satisfaction, “as the buyer’s cognitive stage of being adequately or inadequately rewarded for the sacrifice he / she has undergone”\textsuperscript{42}.

Vishwas Nivritti Wadekar (2005) in his study ‘Customer Disillusionment and Philosophy of Customer complaints’ identified the areas of credit card users dissatisfaction and concluded that majority of the sampled card holders (83\%) were dissatisfied with the operation of credit cards\textsuperscript{43}. 

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CONCLUSION

Review of related literature in the areas of credit card holders’ usage of credit cards cardholders’ satisfaction and perception towards credit cards has been made by the researcher to establish the validity of the research topic “Credit Cards : Cardholders’ Perception, Extent of usage and Awareness of Bank Customers”. Various research studies conducted by eminent researchers for a span of the two decades in the areas of usage of credit cards and perception towards credit cards have been reviewed and the researcher has understood the gaps in the earlier studies and hence the present study has been carried out.
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