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### THE FACTORS AFFECTING THE CONSUMER'S USAGE OF CREDIT CARDS IN THE KINGDOM OF SAUDI ARABIA

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#### **ABSTRACT**

With the increase of the credit card usage in Saudi Arabia through the past years, the credit card has become an essential in the modern life. This thesis aims to investigate what factors influence the credit card holder usage of the credit card, the demographic factors, credit card knowledge and debt perception has been taken to consideration, the data collected through survey and analyzed through cross tabulation and regression analysis indicated that there are many factors that influence the credit card holder to use the credit card including the knowledge of the credit card and the debt perception, a positive relationship was found between the credit card knowledge and debt perception, on the other hand the demographic factors didn't influence the credit card usage by a significant effect.

#### **INTRODUCTION**

Nowdays money is represented in many ways, not only as coins or paper, today we have debit card and credit card in modern life [1]. Credit card is one of the payment methods used at the present time around the wide world by individual, it has become an essential instrument of payment, it features an easy way to spend money, move it and promise it, it gives the credit card holder the option of making the purchase and paying the bank after, and gives the card holder extra benefit such as safety to carry cash and use it around the world regardless of the currency [2]. The credit card also gives the credit card holder extra benefit such as lounge access, loyalty program, rewards, discounts and the ability to convert their purchases into an installment option.

The popularity of choosing the credit card of a payment tool in the modern life comes from 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 [3].

There are two types of credit card holders convenience users and revolver users [4], convenience users are typically pay the full amount when receiving the statement, each bank has a different time limit to give to the card holder to pay the bank, most banks in Saudi Arabia give about 20 days from the day the statement is given to the card holder to pay the amount to the bank without profit margin, who exceed the statement date and pay it with an profit margin are revolvers users a fear of debt can hold back the credit card holder from using the credit card, it can lead to using the card only for emergencies, while travelling and high purchases [5].

One of the factors that can influence the purchase power, Heyhoe et al. [6] indicate that credit card holder is influenced by his emotion in other words having positive emotional feelings about credit usage was more likely to spur credit card purchases and increase credit card balances. The debt can also be related to demographic factors such as age, income and gender.

Wang, Lu and Malhotra [7] did a study on the Chinese credit card holder, regarding gender male credit card holder attempt to use credit cards more often than female credit card holder, the income level is a credit card holder with lower income and higher income use credit cards more than average income level, the best way to descry the finding is a "U" shaped relationship.

According to Amin, [8] younger generation are more attracted to use the Islamic credit card among the Malaysian citizen, and the same result showed also regarding the education level.

The relationship between income and credit card usage as Ramayah, Noor, Nasurdin and Hee Choo [9] States is very significant, the higher the income the more active the credit card holder in using the credit card. Some credit card holder tends to own and use more than one credit card, it gives them the option of having a larger credit line and a wider discount offer and reward program, most of credit card holder who don't avail their reward program or use discount offers are not aware of them [10].

Mansor and Che-Mat [11] investigated the impact of demographic factors on Islamic credit card user, income is a significant indicator for the usage of the credit card, credit card holder usage of card increases when the income is higher, and no indicator that the gender effect on the increase of usage in the credit card.

A study done by Mohd Dali and Abdul Hamid [12] finds that one of main factors that can influence the card holder to use the Islamic credit card for transaction, is the knowledge of credit card, how the credit card is interest free and sharia compliance.

Amin, [8] also agrees with Mohd Dali and Abdul Hamid [12] that the perception of how the Islamic credit card does affect the credit card usage, according to his study on Malaysian credit card holder, credit card holder

tends to use the Islamic credit card more than a conventional credit card when they are aware of the features and process of the credit card.

The credit card market has shown a rapid increase all over the world throughout the years. With the expansion of Islamic banking and finance they developed an Islamic credit card that do not involve usury, it started to spread around the world and become accepted as a regular credit card, Saudi Arabia started issuing credit card by the national commercial bank, according to Saudi central bank data between 2003 and 2008 the number of issues card increased 104%, and in 2012 the credit card loans has increased by 2.6% according to SAMA report, the new millennium had a significant influence on the grow, the data shows how much the credit card has become an essential in Saudi Arabia.

Despite the importance of the credit card influence on the economy, this work has conducted a study to evaluate the importance of the use of credit cards in Saudi Arabia, and what are the factors that led to the increase of the usage of credit card, previous researches mainly focused on developed countries,

## **METHODOLOGY**

This work is investigating whether the factors (demography, credit card knowledge and debt perception) have an impact on the consumer's usage of credit card. Thus the following methodology was followed.

### ***Hypothesis***

The following hypotheses were set for the investigation in this work.

H1: the demographic factor age does not have an effect on the credit card usage

H2: the demographic factors: income level, education and gender have an effect on the credit card usage.

H3: the knowledge of credit card concepts and features affect the credit card usage.

H4: the debt, fear and perception do have an effect on the credit card usage.

### ***Population And Sample***

The sample population for this study consists of male/ female citizen in Saudi Arabia who is eligible to use a credit card, the sample consists of citizen from different age, and background information to help in identifying which of the factors affect the consumer usage of the credit card. The sample size for this study was 174 individual who is eligible to use a credit card.

### ***Questionnaire Construction***

The survey was prepared to collect primary data, it started with demography questions, then a question regarding owning a credit card (Yes/No) if the respondent selected yes, they will continue to the main questionnaire, if the answer was no they will add the reason why they don't own a credit card and the survey will end. A *Google form* was selected to create the online survey, it is one of the features provided by Google drive it is an easy way to form online survey, helps in forming different types of questions from multiple

choice till linear scale, and the result of the respondents answer is automatically shown in chart and can be exported to excel sheet. The link of the survey was shared through E-mail and what's app to families and family friends. The respondents were divided into two groups of individuals

### ***Data Analysis***

The dependent variable for this study was the usage of the credit card, the independent variable included the

1. Demography factors: gender, age, income and education.
2. Knowledge variables were understanding the concept of credit card, safety of usage of credit card, the convenience of using a credit card, sharia compliance, reward program and the benefit and facilities that credit card offers variables.
3. The debt factors increase in shopping, credit card led to over spend, settle the full payment each statement, face difficulty paying back the amount and receive calls from collection center variables.

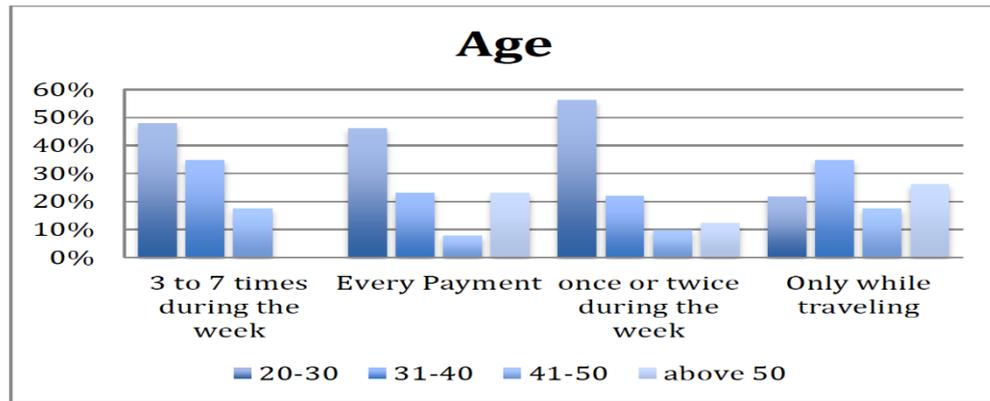
## **RESULT AND DISCUSSION**

### ***The Relationship Between The Usage Of Credit Card And Demographic Factors***

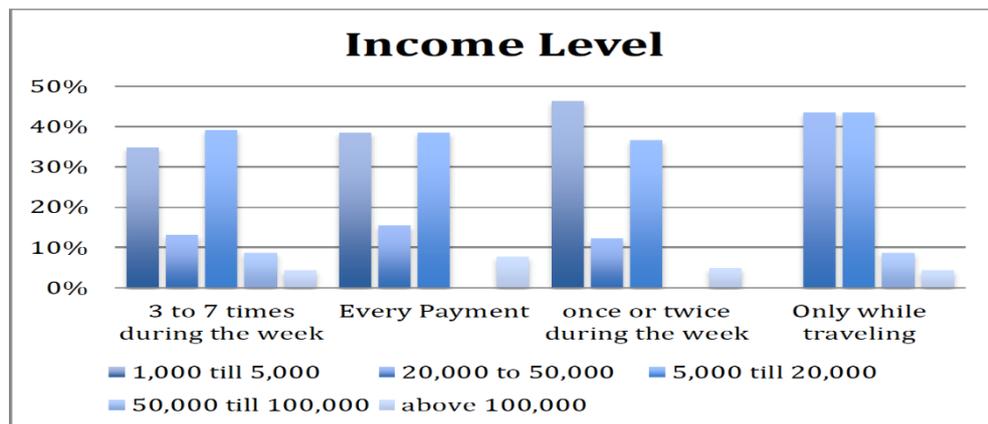
H1: the demographic factor age does not have an effect on the credit card usage

H2: the demographic factors: income level, education, and gender have an effect on the credit card usage.

According to the cross-tabulation analysis based on Figure 1, respondent between 20-30 most of them prefer to use a credit card once or twice during the week and the least of them use it while traveling only, when the consumers between 31-40 the number of respondents who chose to use it while travelling or 3 to 7 times in the week, both of them have the same percent of usage, and the least use it once or twice in the month. The maximum usage for consumers between the age 41-50 is the same, but the minimum number of them use it for every payment, respondent above 50 use the credit card mostly while travelling and then for every payment and the least use it 3 to 7 times in the week, this finding agrees with Hypothesis 1 that age does not affect the credit card usage as shown in Figure 1.

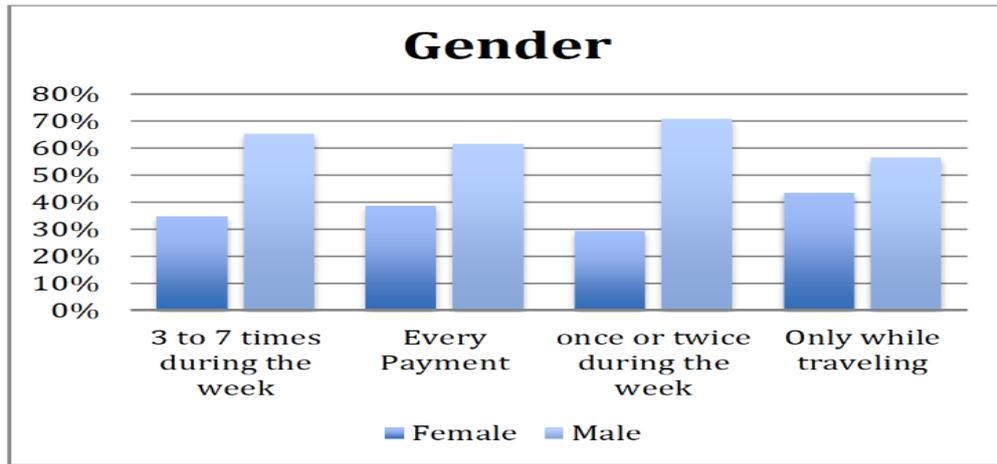


**Figure 1.** The Relationship Between Usage Of Credit Card And Age  
 According to the cross-tabulation respondent based on Figure 2 with income between 1000 till 2000 use it mostly once or twice during the week and respondent with income above 100 use it for every payment, and between 5,000 till 50,000 use it prefers to mostly use it while travelling which is the opposite of the Hypothesis 2.



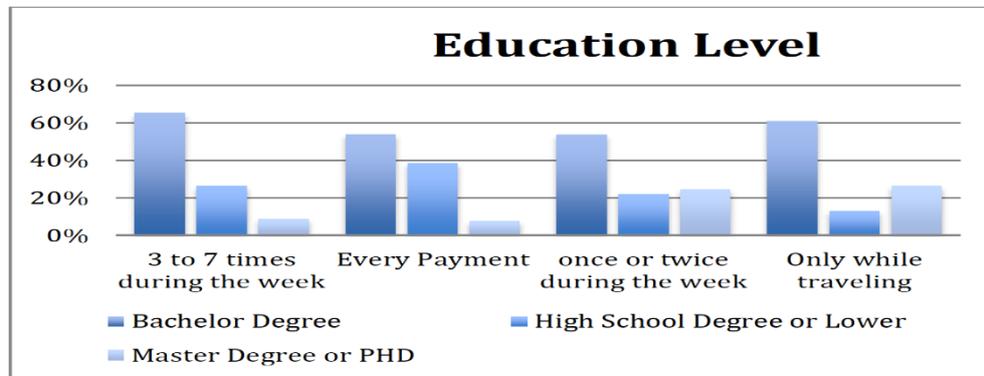
**Figure 2.** The Relationship Between Usage Of Credit Card And Income Level

Regarding the relationship between usage and gender according to the cross-tabulation table the male consumer's tend to use credit cards more than female in all usage types, which is expected in the Saudi society, it is a cultural thing in the society that the male gender is responsible for the family, the result agrees with Hypothesis 2 as shown in Figure 3.



**Figure 3.** The Relationship Between Usage Of Credit Card And Gender

According to the cross-tabulation consumers who use it for every payment most of them have bachelor degree and who has a PhD or Masters prefer to use it mostly while travelling only, the result agrees with the hypothesis, while bachelor degree students use credit card more thsn highschool educated card holder, master and PhD card holders as shown in Figure 4. Over all the resu;lt of this study does not completely agree with hypothesis 2, gender and education level influence the credit card usage while the income level does not influence the usage of credit card.



**Figure 4.** The Relationship Between Usage Of Credit Card And Education Level

***The Relationship Between Usage Of Credit Card And The Knowledge Of Credit Card Factors***

H3: the knowledge of credit card concept and features effect the credit card usage

The regression analysis was done to find the relationship between each usage variable and the knowledge of credit card variables, to check if the result is reliable the significant f should be less than 0.05 which it is in all the 3-regression analysis that were done.

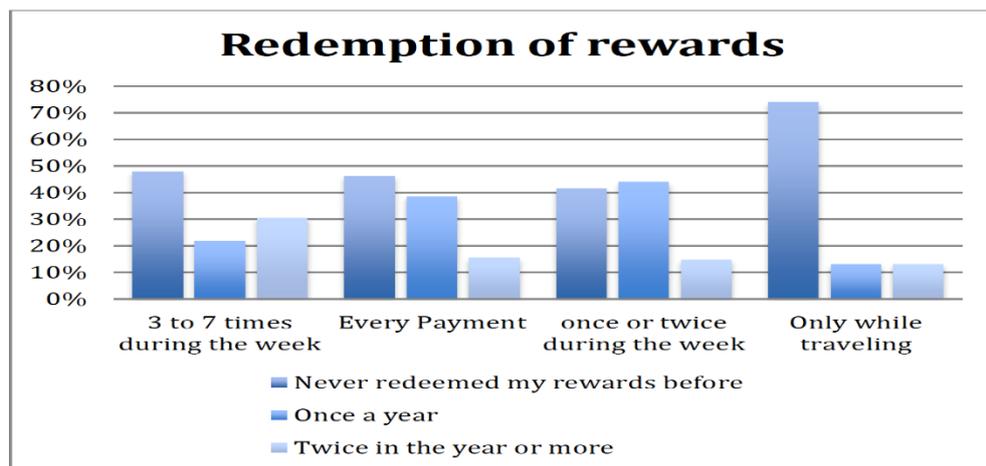
That means that the relationship between the understanding the concept applied to the credit card and the usage of the credit card, the respondent who use the credit card for every payment don't always understand the concept of the credit card according to the regression analysis, the same type of relationship between the concept understanding the consumers who use credit card only while travelling and 3-7 times a week, but for the consumer who use it once or twice during the week there is a positive relationship with understanding the concept.

According to the regression analysis the consumer usage of the credit card is not affected by the sharia compliance of the credit card, the credit card is Islamic in Saudi Arabia, but that did not have an effect on their decision of choosing a credit card as a payment method.

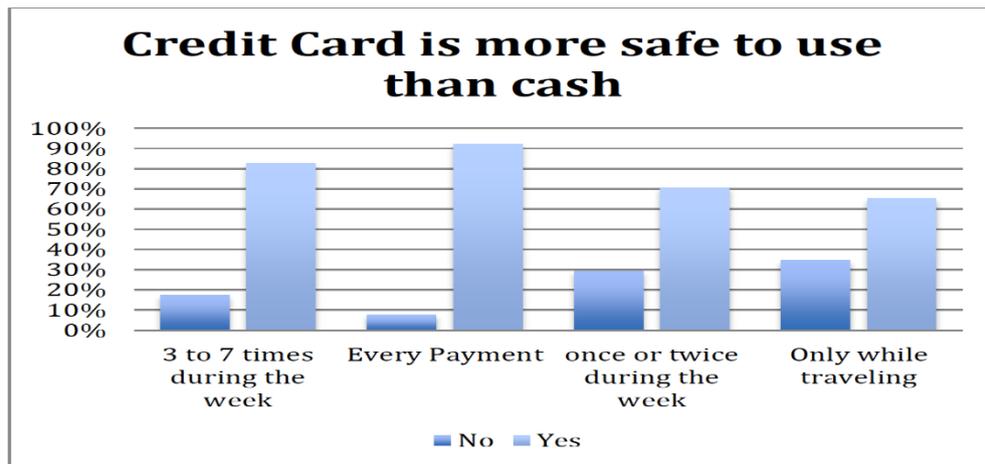
Credit card offers many benefits such as access to lounges in airports around the world and discount offers, the relationship between knowing about these benefits and the usage of the credit card is positive, according to the regression analysis the consumer who knows and use these benefit attempt to use credit cards more than who don't, according to the cross tabulation there is a positive relationship between redemption of the reward and usage consumers who use more in the week tend to redeem their rewards more than who only use it while travelling as shown in Figure 5.

Also, there is positive relationship between the usage of the credit card and the knowing that the credit card is more safety and convenient to use than other payment methods, consumers who feel that credit card are not safe to use or not convenient using it less who do as show in Figure 6 and Figure 7.

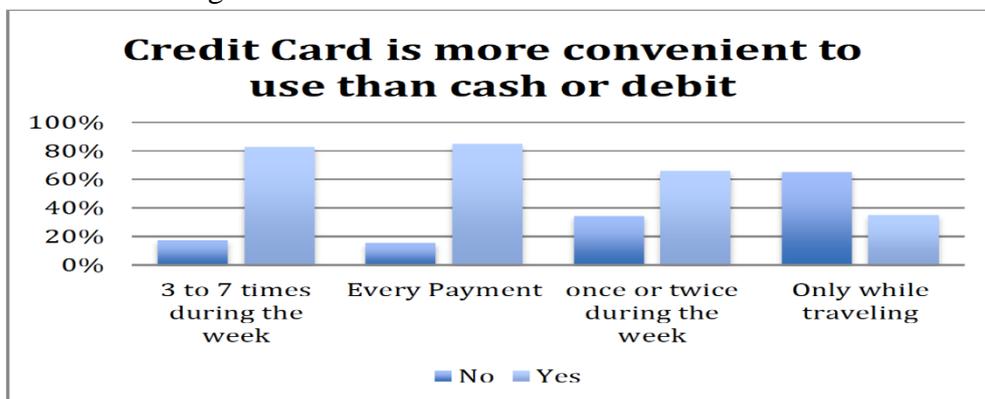
Over the result agrees with the hypothesis that the knowledge of the credit card concept and features affect the usage of the credit card.



**Figure 5.** The Relationship Between Usage Of Credit Card And Redemption Of The Rewards



**Figure 6.** The Relationship Between Usage Of Credit Card And Safety Of The Credit Card Usage

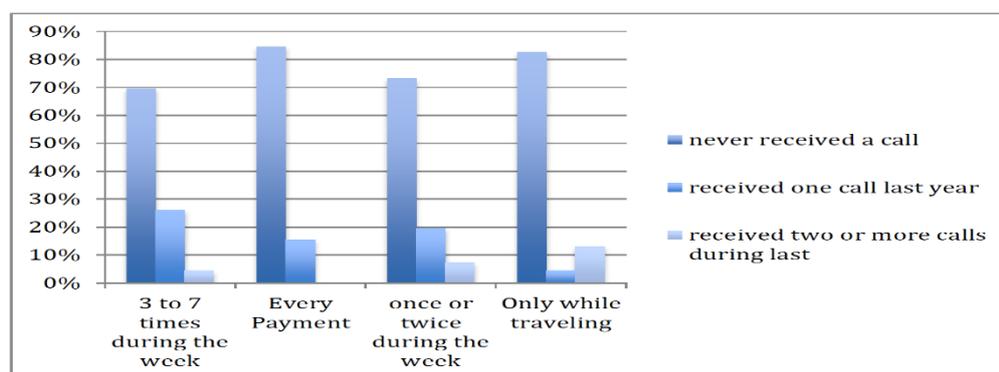


**Figure 7.** The Relationship Between Usage Of Credit Card And Convenience Of Credit Card

***The Relationship Between the Usage of Credit Card and The Debt Factors***

H4: The debt fear and perception does have an effect on the credit card usage. The debt variable might have the biggest influence on the credit card used, according to the regression analysis, consumers who only use credit card while travelling have a positive relationship with the increase in impulsive shopping and overspending and negative relationship with settling the payment by the end of each statement. Unlike consumers who use credit cards once to twice or 3 to 7 times during the week who control their shopping behavior and settle the full payment by the end of each statement, consumers who use a credit card for every payment face difficult to pay back the due amount, due to their overspending but they try to make the full payment by the end of each month. According to the cross tabulation most of the respondents did not receive calls from the collection center, but who receive mostly more than two calls are consumers who use it while travelling which understandable for consumers who use while travelling tent to increase their shopping behavior as shown in Figure 8 the more people don't receive a call the more that they use their credit card as a payment method.

Over all the result indicates that the hypothesis was right, debt does influence the credit card usage.



**Figure 8.** The Relationship Between Usage and Receiving Calls From Collection Center

## CONCLUSION

This paper examines the factors that influence the increase of credit card usage in Saudi Arabia, Islamic credit card is offered by every bank in Saudi Arabia, according to SAMA the usage of credit card had a significant increase in Saudi Arabia in the past years. Based on the finding not all demographic factors have an effect on the credit card, age and education level don't influence the usage of credit card, but gender and income level does have an effect, knowledge of credit card and the debt control do have a significant effect on the usage of credit card, the more the consumers is controlling of his payment using a credit card and have the information of the credit card the more safe he will feel when using the card, but in the same time the sharia compliance card factor does not affect their decision of using the credit card.

According to the finding future research can focus more on the factor that influences the non-credit card holder to use the credit card and a study on the credit card holder what are other factor that influence their usage of the credit card. Owing to the limited time, a small survey respondent was collected and the appropriate software to test and analyze the data collected was not available (SSPS), the software would help in getting a more significant analysis of the data collected.

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