A SURVEY OF THE FACTORS AFFECTING THE USE OF CREDIT CARDS: A CASE STUDY OF POSTBANK

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DECLARATION

This is my original work and has not been presented for a degree in any other university.

Mwakidedi Julie Makio

Signature i b r ^ ....Date

This project has been submitted for examination with my approval as University supervisor.

Josiah Aduda

Signature.......Date .

DEDICATION

To my husband Tole Mwakidedi, and children, Nicholas and Joseph.

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LIST OF ABBREVIATIONS

ATM-	Automated teller machines
POS-	Point of sale service
PBC -	People's Bank of China
SPSS-	Statistical Package for Social Science
UNCTAD	United Nations Conference on Trade and Development

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ABSTRACT

This study sought to assess factors affecting the use of credit cards by Postbank employees. The study looks at the gaps that limit the understanding of employee's behaviour and motivation in the use of cards which creates a knowledge gap with a view to suggesting ways to fill them.

A case study was conducted where data was obtained from 23 staff from other departments and from Postbank Card Centre. Data collection was facilitated through a questionnaire and the respondents were made up of 52% male and 48% female.

The study found out that the top management have credit cards while majority of middle management and lower management/supervisory cadre do not have credit cards. It was also found out that factors affecting the use of credit cards were credit frauds, awareness creation, complaints on the predetermined issues like merchant service commissions fees, and the credit card system in the bank among many other factors. The study identified staff responsiveness to card acceptance as a very effective method of creating awareness as well as staffs product knowledge and effectiveness of card marketing

The challenges that exist in the use of credit card systems in the sales of credit card were lack of legal legislation in the Kenyan, card fraud, competition from instant phone services, rampant use of cash by cardholders, lack of local technical support, rampant fraud at merchant establishments, high technological costs and cost of imported technical support.

CHAPTER ONE

INTRODUCTION

1.1: Background to the study

A credit card is part of a system of payments named after the small plastic card issued to users of the system. It allows the cardholder to obtain funds at an interest from a credit institution, at her/his own discretion, up to some limit. The funds usually can be used only to make purchases, but sometimes they can be obtained as cash. If repaid within a certain period, usually about a month, the loan is interest-free. If not, the loan may be carried for an indefinite period, always accruing new interest charges, by paying a minimum amount each month. In essence, a credit card is a preapproved loan with flexible repayment options; it is distinguished from other 'financial instruments by the freedom it gives borrowers to determine the size of the loan and the pace at which it is repaid. As a flexible and readily available source of funds for consumption, individuals may use credit cards as a shield against the hardships of income loss, much as they might use precautionary savings or the welfare system. The issuer of the card grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as cash advance to the user. Credit cards allow the consumers to 'revolve' their balance, at the cost of having interest charged. Most credit cards are issued by local banks (Sheffrin, 2003).

The roles and importance of credit cards nowadays are clearly significant. The credit card users can spend future's money today. It allows the users to be flexible and increases ability to spend for shoppers. In addition, instalment plan gives more times for paying back the amounts used in later periods. There are no barriers for the users to spend in any currency since shops and stores only concern whether the cards are visa or master cards, usable worldwide. The liquidity service of credit cards saves consumers the opportunity cost of holding money for payment and therefore it is rational for consumers to hold positive credit card balances even in the face of the high interest rates, (Brito and Hartley, 1995).

Credit cards have been around since the year 1951 and today it is more useful than ever before. It all started with the customers of Franklin National Bank in New York City. During these times, the loan customers of the bank were given a card to determine that their loan application has already been approved. There was not even a single credit card association but merchants were already optimistic with the potential of the card. After the customers were given cards, they used it to buy goods in retail shops. Seven years later, American Express created a similar system but this time, the company gave plastic cards to business travellers. The card was immediately recognized by many major airline companies, hotels and restaurants. One year later, the Bank of America issued its own credit card called BankAmericard. But this was only serviced within the State of California. In Kenya the first card was a credit card issued in 1989 by Dinners, followed by Barclays Bank in 1991.The first debit card was issued in 1998 by Standard Chartered Bank. It took 10 years to reach one million cards in 2006 in the market. To date we have only 120,000 credit cards and 3 million debit cards. The growth of credit cards in Kenya has been hindered partly by lack of a well developed Credit Reference Bureau. Central Bank of Kenya intends to make it mandatory to share information. Banks are too risk averse and consumers fear to get into debts. Credit cards offer consumers more protection by withholding payment if unsatisfied with the quality of purchase. (Park, 1997).

Although the first credit card (Diners Club) was issued in 1950 in the United States (US), consumers in Kenya largely continue to use cash as a mode of payment for their day to day transactions as well as financial obligations. Other than cash, the other modes of payment that have been used are cheques to a lesser extent. This has largely been attributed to the Kenyan culture as well as our negative perception towards paperless transactions. However, with globalization, liberalization and innovations in the information technology world, more people are embracing electronic modes of payment albeit with caution. This has been attributed to perceptions of electronic modes of payment including the risks of fraudsters and many people are not willing to take the risk ro; —in/i*r\ V-Diggulls, *iy-\|j).*

Much of the early work on consumer debt focused on traditional loans, which are unlike credit card loans in several key respects. Whereas traditional loans involve predetermined loan amounts and fixed payment schedules, with credit card loans, the actual borrowing decision is at the consumer's discretion after receiving a fixed line of credit. Debt repayment on credit cards is flexible, with the minimum monthly repayment being a fixed percentage of the total balance. Finally, unlike many traditional loans, credit card borrowing does not require consumers to post collateral which may place a greater risk on the lender. While the research to date on credit card default has provided valuable information about trends in this market, lack of detailed data has limited the understanding of consumer behaviour and motivation in the use of cards and subsequently in a more complete understanding of default (Park, 1997)..

The potentially serious impact of credit card default on the general state of the economy has prompted a number of researchers to explore the default issue. Calem and Mester (1995) test the argument of Ausubel's (1991) paper that irrational consumer behavior and adverse election problems account for the failure of competition in the credit card market. They also examine default in this market and find that cardholders with higher balances have a higher probability of default. Laderman (1996) concludes that although cyclical factors in the economy affect charge-offs by banks, the aggressive marketing of card issuers since the mid-1980's has deteriorated the quality of the cardholders' pool and contributed to the high rate of charge-offs seen in the 1990's. Morgan and Toll (1997), using a permanent income/life-cycle approach, and Black and Morgan (1998) also attribute rising default to socioeconomic and demographic characteristics of cardholders

The Kenya post Office Savings Bank (POSTBANK) was established by an Act of Parliament-(Cap 493B) in 1978, with a mandate to mobilize savings for national development. This was following the collapse of the East African Community in 1977, and the need by the three respective member countries to set up internal institutions to coordinate services previously handled under the E^.st African Community corporate body. It is against this arrangement, that Postbank was established and mandated to serve as a savings bank in Kenya, with the responsibility of mobilizing savings and encouraging thrift among Kenyans. The current mission of the bank is: "To provide accessible and sustainable banking and other related financial services, through innovative delivery systems for wealth creation to the benefit of customers and other stake holders"-(Postbank corporate development plan, 2007). The corporate head is the Managing Director, who is also the accounting officer.

In its financial services, the bank offers both local and international credit cards. Postbank Visa is a credit card/ Visa International Card gives the flexibility to transact in all Visa outlets in Kenya and through out the world. Benefits users enjoy from the cards include; availability worldwide over 12 million merchants wherever the Visa signs is displayed, allow our customers 80%of credit on their monthly bills, access to over 600 petrol stations, supermarkets, hospitals among others countrywide and access to cash at 200,000 VISA outlets plus automatic Teller Machines Worldwide

1.2: Statement of the problem

Bank credit card is one of today's most ubiquitous financial instruments (Wolters, 2002). For bank management perspectives, identifying the appropriate market for the credit card, interpreting consumers' needs for the product and developing business strategies are crucial to cope with fierce competition in the credit card market. In addition, Bernthal, Crockett, and Rose (2005) indicated that credit cards came with important technology to help facilitate several financial transactions for consumers, but the cards have capacity to support consumers in their everyday life activities without much concerning about cash in hands. Brito and Hartley (1995) observed that another important service on credit card was about borrowing on credit cards. However, such borrowing came with high interest rates which might appear irrational, but low transactions costs can make credit cards attractive relative to bank loans. In addition, credit cards offer liquidity services by helping consumers to avoid some of the opportunity costs of holding money. Goyal (2004) stated that service products, such as credit cards, being intangible and experiential in nature are different to evaluate prior to purchase and consumption. Information regarding supplementary sendees can help consumers make pre-purchase evaluation of credit cards.

Among many factors affecting the use of card includes; high credit limit, quality customer service, fair fees, and a fair interest rate are the factors that count at the point of sale. In addition, lower interest rates, cash advance checks with low rates, and sweepstakes are some of the marketing promotions used by banks. Lee and Kwon (2002) found that consumers' usage of store credit cards is related to a number of variables, including the use of bank cards, credit history, and attitude toward credit, income, education, and ethnicity. It is important for banks to develop marketing strategies to attract and win competition in the industry. It is against the foregoing background of many factors affecting card usage the study seeks to establish the factors affecting the use of credit card in Kenya. This guiding research question is: what are factors affecting the use of credit cards?

1.3 Research Objectives

The objective of the study is to determine the factors affecting the use of credit cards by employees of Postbank.

1.4 Importance of the Study

The study would be important to:

Financial Institutions: The number of financial institutions getting into this industry is growing year by year. The benefits that financial institutions will reap from this study are two fold. First, there will be knowledge and technology transfer between local institutions and those from the developed world on the best practice, and how common challenges have been addressed. Secondly, the new entrants will be at an advantage since they will have known the challenges before hand and will be more prepared to deal with the challenges.

Government of Kenya: the government will be able to use the findings from this study to come up with fiscal and monetary policies that will enable the industry deal with the challenges and hence lead to growth. The government can also use the findings to improve the infrastructure in the economy.

Cardholders: Cardholders will benefit since they will learn the challenges that come from their side and rectify by making good use of their cards and taking necessary precautions for security purposes.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction to Literature Review

This chapter outlines the literature that informs the conceptual framework that underpins the study. First, it provides a review of finance theory, transaction cost theory decision theory and attitude theory. It also covers empirical studies on factors affecting the use of credit cards. The literature is critically reviewed', to reveal the major issues and gap for the study.

2.2: Finance Theory

According to Merton (2000), finance has two views, the traditional view and the functional view. The traditional view of finance is based on the assumption that a firm is an on-going concern, with existing institutional structure of financial service providers, whether they are governmental or private sector, and examines what can be done to make those institutions perform their particular financial service more efficiently and profitably (Merton, 2000).

The functional approach considers the economic functions served by the financial system and examines what is the best institutional structure to perform those functions. This view is preferred due to the following aspects; it assumes that the basic functions of a financial system are essentially the same in all economies, making them far more stable across time and across geopolitical borders, than the identity and structure of the institutions performing them. Therefore this view offers a more robust frame of reference than an institutional one, especially in a rapidly changing financial environment (Merton, 2000). Though the two views are different, both try to analyze and understand innovations in the financial system by examining what can be done to make those institutions perform their particular financial service more efficiently and profitably (Merton, 2000).

It is needful to mention that risk is a critical element that influences financial behaviour. Measuring that influence, and analyzing ways of controlling, and allocating risk, requires sophisticated mathematical and computational tools. Indeed, mathematical models of modem finance practice contain some of the most complex applications of probability and optimization theory. Those applications challenge the most powerful computational technologies.

Finance theory is a good predictor of future changes in financial practice which are usually reflected in financial reports. The theory suggests that an institution, instrument, or a service should be there, or provision be made for its existence. According to this theory, Credit cards are in existence as a service sector to provide services such as timely processing of payments. In this normative context, current theory has been a fruitful source of ideas as reflected in financial reports for subsequent innovations in finance practice. The theory is also a normative model for identifying new product and service opportunities.

2.3; Transaction Cost Theory

Transaction cost theory has been the dominant theoretical lens used in the study of business ventures. It helps to explain the formation of business ventures from the resource-based perspective and to compare this perspective with transaction cost theory (Coase, 1937). By focusing on the cost aspect of a transaction, the transaction cost logic explains ventures in terms of market failure for intermediate inputs, asset specificity, and high uncertainty over specifying and monitoring performance. The transaction cost and resource-based explanations are, to a certain extent, complementary. Taking the stance of theoretical pluralism, an attempt is made to synthesize the two theories into a more comprehensive perspective which takes both costs and benefits into account.

During the past decade or so, there has been a proliferation of ventures formed domestically as well as internationally. At the same time, the study of ventures has attracted increasing interest from students of organization. The transaction cost and strategic behaviour perspectives explain the motivation to venture. This theory serves as an instrument of organizational learning. Transaction cost theory addresses the aspect of costs which every organization should be interested in knowing so as to establish how much of its resources are consumed either in its productive or unproductive transactions

(Merrill, Li and Jones, 1990). The relevance of this theory to this study is that it will provide information for decision making to the banks involved in card business.

2.4: Decision Theory

Decision theory is an interdisciplinary area of study, related to and of interest to practitioners in all branches of science, engineering and in all human social activities. It is concerned with how real or ideal decision-makers make or should make decisions, and how optimal decisions 'can be reached. Most of decision theory is normative or prescriptive, i.e. it is concerned with identifying the best decision to take, assuming an ideal decision maker who is fully informed, able to compute with perfect accuracy, and fully rational (Gagne and Merton. 1990). The practical application of this prescriptive approach i.e. how people should make decisions is called decision analysis, and is aimed qj finding tools, methodologies and software to help people make better decisions. The most systematic and comprehensive software tools developed in this way are called decision support systems.

Types of decisions that have attracted particular attention include: risk, uncertainty, certainty, and competition. Decision under certainty means that the outcomes or probabilities are known and the decision will be made based on the known facts. Decisions under uncertainty means that probabilities are unknown and therefore one alternative leads to one and only one consequence, and a choice among alternatives is equivalent to a choice among consequences. Decision under risk means that each alternative will have one of several possible consequences, and the probability of occurrence for each consequence is known. Decision under competition means that probabilities are unknown and each player will choose different options unknown to the competitor (Dutta and Prajit, 1999). Other areas of decision theory are concerned with decisions of their complexity, or the complexity of the organization that has to make them. In such cases the issue is not the deviation between real and optimal behaviour, but the difficulty of determining the optimal behaviour in the first place.

Decision theory recognizes that the ranking produced by using a criterion has to be consistent with the decision maker's objectives and preferences. The theory offers a rich collection of techniques and procedures to reveal preferences and to introduce them into models of decision. It is not concerned with defining objectives, designing the alternatives or assessing the consequences; it usually considers them as given from outside, or previously determined. Given a set of alternatives, a set of consequences and a correspondence between those sets, decision theory offers conceptually simple procedures for choice (Miller and James, 2003). The reports generated from the processes of issuance and acceptance of credit cards are intended to provide information that will enable the management of the banks to make decisions. Some of the decisions that are made from the reports or information generated include investment decisions, profitability decisions, liquidity decisions, etc. Decision theory becomes a pertinent theory for this research proposal

2.5: Attitude theory

Attitude theory has generally tended to focus on the components of attitudes, the formation of attitudes, and the formation of quasi-consistent construct systems comprised of different attitudes, values, and beliefs. Central to this body of knowledge is work concerned with attitudes that manifest themselves in and/or that are relevant to the workplace. An attitude is a relatively enduring feeling, belief, and behavioral tendency directed toward specific individuals, groups of individuals, ideas, philosophies, issues, or objects (Ajzen and Fishbein, 1980). Thus, in an organization, a person may (and likely will) have attitudes about various co-workers and colleagues, supervisors, subordinates, various organizational policies and practices, physical working conditions, rewards and other compensation, opportunities for advancement, the organization's culture and climate, and a wide variety of other organizational characteristics. The dominant approach to characterizing the structure of an attitude is in terms of three components. The affective component of an attitude is the emotion, feeling, or sentiment the person has toward something.

2.6 Empirical studies

Credit card fraud is a growing menace worldwide, it is therefore wise to make a credit card more secure in order to gain widespread acceptance. Although no data exists on the menace, with banks keeping cases involving their customers a guarded secret for various reasons, counterfeit cards and manipulation of lost cards remain the two most common ways in which credit and debit card fraud is perpetrated. Even on the Internet, Visa technologists say, transactions are quite secure. "Research has shown that 90 percent of the disputed transactions via the web are genuine, (Bayliss and Parsons, 2004).

Much of the early work on consumer debt focused on traditional loans, which are unlike credit card loans in several key respects. Whereas traditional loans involve predetermined loan amounts and fixed payment schedules, with credit card loans, the actual borrowing decision is at the consumer's discretion after receiving a fixed line of credit. Debt repayment on credit cards is flexible, with the minimum monthly repayment being a fixed percentage of the total balance. Finally, unlike many traditional loans, credit card borrowing does not require consumers to post collateral which may place a greater risk on the lender.

This response is sharpest for people starting near their limit, providing evidence that liquidity constraints are binding. However, even people starting well below their limit significantly respond. This result is consistent with conventional models of precautionary savings. Nonetheless there are other results that conventional models cannot easily explain, such as the fact that many credit card borrowers simultaneously hold other low yielding assets. Unlike most other studies, we also find strong effects from changes in account-specific interest rates. Debt is particularly sensitive to large declines in interest rates, which can explain the widespread use of teaser rates, (Gross and Souleles, 1999)

The phenomenon of high and downwardly sticky interest rates in the credit card industry is because of consumers underestimating their borrowing potential. A large portion of consumers in this market are not sensitive to interest rates because as a priority they underestimate their borrowing potential. On the other hand, those consumers who intend to accumulate more debt (i.e., the high-risk borrowers) are interest-sensitive. Since banks do not want to attract the high-risk borrowers, this fear of adverse selection prevents them from competing on interest rates. This behavior was compounded by the presence of high search and switch costs. As a result, rates remained high and stable in this market, (Ausubel, 1991).

Credit information is a set of data used by creditors to verify the financial status and payments record of borrowers. Limited research on this subject suggests that there is a strong positive correlation between the availability and cost of credit and the level of development of credit information (Miller and James, 2003). Thus, according to Japelli and Pagano (2006), the exchange of information on borrowers between financial service providers decreases default rates and average interest rates.

As suggested by recent research by the World Bank (Majnoni et al., 2004), combining negative and positive information on borrowers gives creditors more predictive power and permits more borrowers to have access to credit than would be the case if only negative information had been shared. Weak and fragmented public record systems, laxity in disclosure of companies' fmancials and the nascent state of both public and private credit information entities are among the reasons for deficient credit risk management in many developing and transition economies (UNCTAD, 2002). As a result, credit bureaus started to spread in the late 1990s and the banking communities in the region started to accept the idea of pooling information on their debtors. Gathering information on SMEs and other companies is also emerging (Bartels 2003).

High levels of street crime in the major urban areas are another major issuer. (Willis and Worthington, 2006) have researched on the degree to which credit cards should be adapted or standardized to meet the security needs of consumers. This was based on the conceptual idea that products and services of high status and value need to be delivered in an un-adapted manner, so as to preserve their international status and image. The conclusion drawn by the researchers was that foreign credit cards are kept as original and authentic as possible, in order to sustain their sense of status, value, international brand equity and security. The reduction in cash usage makes it more secure for the Banks as well as savings costs incurred in insuring the cash as well as the costs incurred when providing security during cash transportation.

A wider view of customers' adoption of banking channels, including the use of ATM's, is given by Wan et al. (2005). Here, following some initial interviews with Hong Kong bank managers about which channels customers might or might not adopt in their day to day banking, customers were questioned as to whether or not they acted rationally. Obviously predicting customer preferences for channels and for products is vital for bank marketers and what the Wan et al. (2005) study showed is that while the adoption of ATM's and internet banking can be associated with a rational pattern of beliefs among customers, the choice behind the usage of credit cards and telephone banking are much more complex. Even earlier research by Lowe and Corkindale (1998) focused on a cross cultural study between Australian and mainland Chinese to examine their differences in cultural values and the effect of these on response to marketing stimuli

Chakravorti and Lubasi (2006) concluded that based on underlying security versus other payment instruments, consumers should always use their credit cards to make payment and payoff their balances in full by the due date. However, some consumers are reluctant to make most of their purchases with credit cards because they fear that they may not be able to make full payment when their credit card bills are due. Furthermore, there are certain purchases that cannot be made with credit cards although this set continues to decrease. Unlike other payment instruments, credit cards allow consumers access to long-term credit, mostly uncollateralized, at the point of sale. Consumers that use this option are known as revolvers. Those cardholders who do not avail the credit feature are commonly referred to as convenience users. Industry estimates of U.S. convenience users range from 30 percent to 40 percent of all cardholders. Some observers have suggested that the financing of credit card debt also supports the payment infrastructure and subsidizes convenience use (Chakravorti and Emmons, 2003).

Electronic payments offer the same freedom as bank notes, but without the associated risks of holding cash for transacting. For those people who fear being robbed of their cash while walking to the supermarket, cards offer a risk-free solution. Moreover, they provide you with a means to track the money you spend. Unlike cash, which just slips through your fingers, a debit or credit card statement provides a clear record of expenditure, which can be particularly useful for accounting purposes (Katz, 2005).

Inaccessibility of rural areas with POS terminals is a hindrance in usage and adoption of credit cards. Many rural areas lack electricity leave alone POS terminals. This condition is slightly improving hence many card firms have focused on Kenya longer than on other countries due to the country's stable and developed bank infrastructure and expected reforms in the information and communications sector to unlock more opportunities. Indeed, it was reported in April 2006, that the Chinese central bank, the People's Bank of China (PBC), is considering preferential tax plans to encourage merchants to buy POS machines and install them in the rural areas, as a means of trying to achieve the target of 30 percent of retail sales being paid for by payment cards, by the year 2008. (Daily, 2006).

The recent history and current structure of the third world banking system is well described by DaCosta and Foo (2002), who suggest that despite two decades of gradual reforms, third world's financial system is still inadequate to sustain a growing economy. Park et al. (2003) describe these as financially repressed systems and report on their research into what would be the effect of the introduction of competition into rural financial institutions. Lwiza and Nwankwo (2002), for example, report on the successful market-driven transformation of the banking sector in Tanzania, which was based on the belief that the goal of economic development couldn't be achieved without a fundamental reform of the financial sector. Further evidence of the power of banking reforms in transitional economies to drive cultural change is provided by Sureshchandar et al. (2003) who researched customer perceptions of service quality in different types of banks in India. Sureshchandar et al. (2003) suggest that the advent of private sector and foreign banks has been instrumental in providing greater benefits and new service options to customers, but that the public sector banks still lag behind with respect to the quality of services delivered by them.

Credit information systems can develop only if an adequate regulatory and institutional framework encouraging financial reporting and data disclosure is in place. That should give rise to well-developed public records, including public and court registers, availability of data from independent sources, and a readiness on the part of enterprises and financial service providers to share and pool credit information.' Maintaining and even refining these conditions are equally important for launching and developing their modern variant e-credit information. With time, successful ratings are becoming powerful tools to help the credit bureaus attract more enterprises seeking access to trade finance and e-finance (Muhlbracher et al, 1999). Consumers tend to have strong uncertainty avoidance and hence the lack of regulation is inhibiting the adoption of online banking. Also as consumers tend to be culturally more resistant to change, they might prefer and keep on using the familiar branch banking services.

To be sure, credit cards can be abused, and their proliferation may lead some people getting buried in debt. To solve this problem, banks have typically given credit cards only to a select few. Many cardholders treat cards as a source of income and aren't disciplined about paying off their balance (Ernest and Young 2006). Credit cards got a reputation for bringing financial ruin to their owners. One local Kenyan bank now acknowledges Kenyans' "card-o-phobia" in its ads - and aims to help them get over it through awareness drives (Munaita, 2003).

2.7: Conclusion from Literature review

From the literature it is evident that a need exists for a study that is focused on the factors affecting the use of credit cards. In particular, the previous studies have focus on the western nations. This study will provide an analysis of the factors affecting the use of credit cards, a case study of Postbank Kenya. The study will no doubt assist Postbank management appreciate main factors affecting the use of its local and international credit cards by its employees. It will also provide regulators with insight into the regulatory aspects that ought to be included in a framework to facilitate the use of credit cards in the country.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1: Introduction

This chapter provides the methodology of the study and covers the research design, sampling design, data collection methods, data analysis and validity and reliability of data

3.2 Research Design

The proposed research design for the study was primarily a case study method. A case study research design is where data is collected from one or a few study units only. It refers to the collection and presentation of detailed information about a particular participant or small group, frequently including the accounts of subjects themselves. A form t)f qualitative descriptive research, the case study looks intensely at an individual or small participant pool, drawing conclusions only about that participant or group and only in that specific context. Case study is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, and Sjoberg, 1991). The primary advantage of a case study is that it focuses the attention of the participant on a real situation. It allows for in-depth exploration of issues in a phenomenon. The study is a non-experimental, which has various advantages as it involves the observation of the subjects in their natural set up. To obtain primary data a structured questionnaire was administered to staff of Postbank. This design was appropriate because the study was descriptive and required opinions of key informants, namely staff from other departments and staff from Postbank card centre, who provided insight into the factors affecting the use of credit cards in Postbank.

The researcher used Postbank in the study because the bank offers both local and international credit cards and also because the researcher works with the bank, it was going to be easier to collect the data.

3.3 Data Collection

Primary data was collected. The respondents were made up of 23 non-card holders' employees of Postbank from the middle and low level management. Employees from high level management were all card holders. The main instrument for data collection were semi-structured questionnaires which were administered to respondents through drop and pick approach. The questionnaire was made up of two sections: Section one was used to obtain general information on demographic and respondents profile. Section two was used to collect information on factors affecting the adoptation of credit card in Postbank.

3.4 Data Analysis

The collected data was organized, coded and analyzed using descriptive statistics. Descriptive statistics enabled meaningful description of the distribution of scores and data reduction with the use of means and standard deviation. Excel was used in analyzing the data.

3.5: Validity and Reliability of Data

The data collection instruments (questionnaires) were designed so as to collect data that addressed the problem of the study and achieved the research objectives. Pilot testing of the questionnaire was done by issuing of five questionnaires to the respondents based at card centre department. The questionnaire were analysed and corrections made to ensure validity was achieved. Also, randomization was used during the administration of the 23 questionnaires to ascertain consistency of responses in order to achieve reliability of data.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1: Introduction

This chapter covers the analysis of the data and interpretation. The data was collected from 23 staff from other departments and staff from Postbank card centre who were non-card holders. The findings are presented in percentages and frequency distributions, pie charts, bar graph, mean and standard deviations.

4.2: Profiles of the respondents

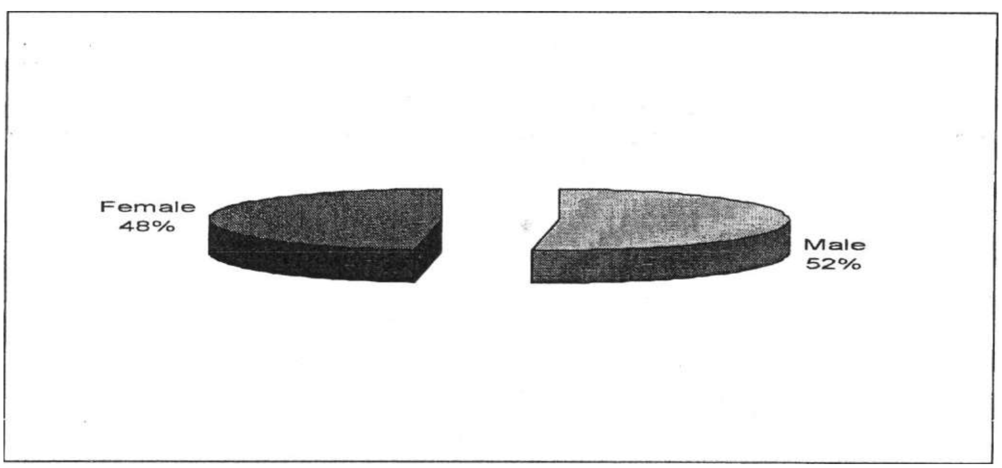
4.2.1: Distribution of respondents on gender

As can be observed, in Figure 1, the respondents were made up of 52 % male and 48% female.

Table 4.2.1: Level of education qualification

	Frequency	Percentage	Cumulative percentage
Male	12	52	52
Female	11	48	100
Total	23	100	

Figure 1: Gender Composition



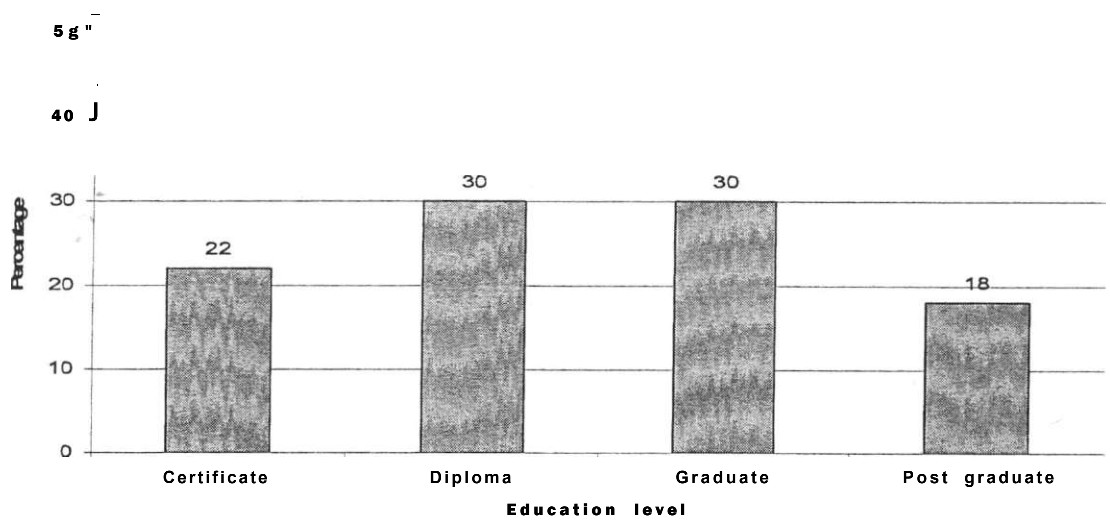
4.2.2: Level of education qualification

The respondents were to indicate their level of education. The findings show that majority of the respondents (30%) had diploma and first degrees, 22% had certificates while the remaining 18% had post graduate level of education.

Table 4.2.2: Level of education qualification

	Frequency	Percentage	Cumulative percentage
Certificate	5	22	22
Diploma	7	30	52
Graduate	7	30	82
Post graduate	**4**	18	100
Total	23	100	

Figure 2: Level of education qualification



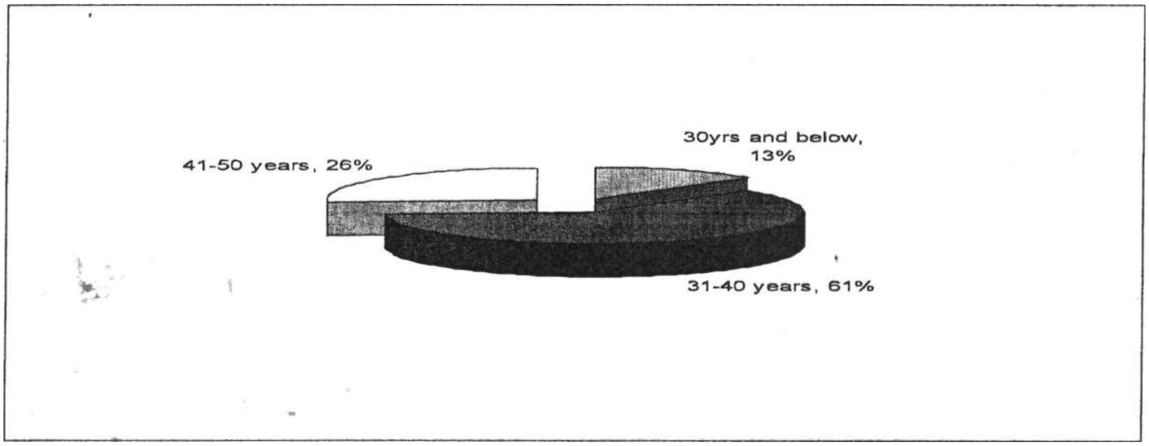
4.2.3: Age Bracket

The findings presented in table 4.2.2 show that, 13% of the respondents were of age 30 years and below, 61% were between 31-40 years of age, 26% were between 41-50 years. On average the majority of the employees are between the age brackets of 31-40 years.

Table 4.2.3: Distribution of Respondents by Age

	Frequency	Percentage	Cumulative percentage
30yrs and below	3	13	13
31 -40 years	14	61	74
41-50 years	6	26	100
Total	23	100	

Figure 3: Distribution of respondents by age



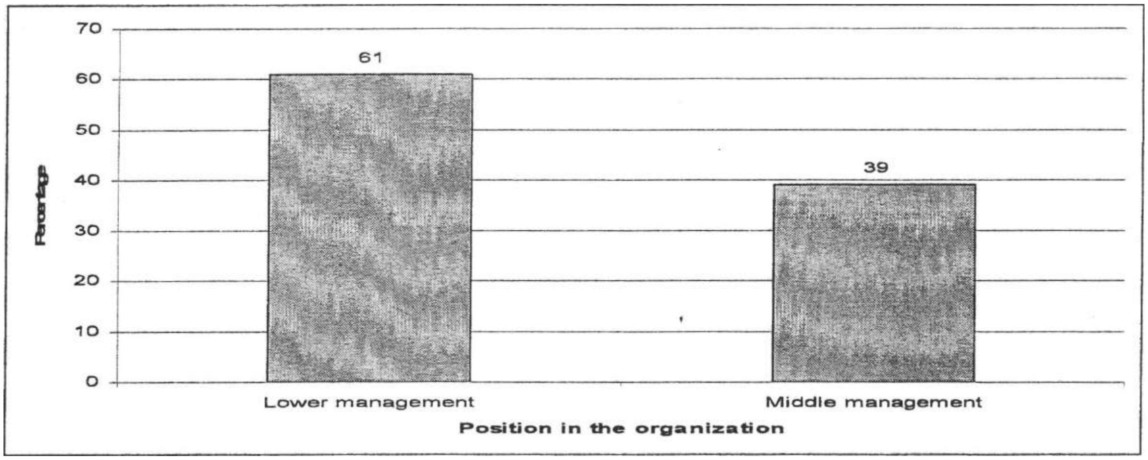
4.2.4: Position in the organization

As shown in table 4.2.1, most of the respondents (61%) were of lower management/supervisory cadre, while 39% were in middle management. It is evident that most of the employees who are non-cardholders were from the lower management/supervisory cadre due to low salary.

Table 4.2.4: Position in the organization

	Frequency	Percentage	Cumulative percentage
Lower management	14	61	61
Middle management	9	39	100
Total	23	100	

Figure 4: Position in the organization



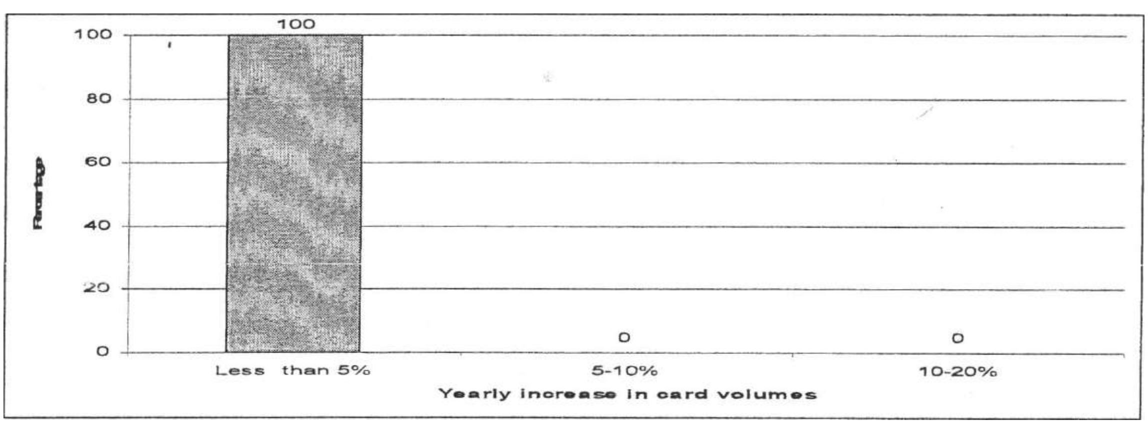
4.2.5: Yearly increase of card volumes

The respondents were asked to state the yearly increase in card volumes, this could assist the management in coming up with growth strategies. The analysis in table 4.2.5 shows that all (100%) of the respondents were of the opinion that the yearly increase in the volume of cards was less than 5%, an indication of a very low grow rate.

Table 4.2.5: Yearly increase of card volumes

	Frequency	Percentage	Cumulative percentage
Less than 5%	23	100	100
5-10%	0	0	100
10-20%	0	0	100
Total	23	100	

Figure 5: Yearly increase of card volumes



4.3: Factors affecting the use of credit cards

This section covers findings from the specific questions posed to the respondents to determine the extent to which some predetermined factors affect the use of credit cards, rating of the credit card systems in the bank, challenges experienced by the bank in using credit card systems in sales of credit card, extent of frauds experienced by the bank, awareness creation methods used by the bank and rating of complaints on issues. Measures of central tendency (mean) and measures of variation (standard deviation) were used to analyze the data

Table 4.3.1 Extent to which the following factors affect the use of credit cards

	Mean	Std. Deviation
Issuing of credit cards (tum around time)	3.7391	1.28691
Credit limits	2.2609	1.38883
Quality customer service	2.2609	1.28691
Joining fees	2.0435	1.22394
Annual subscription	2.0000	1.16775
Interest rates	1.3913	.83878
Attitude toward credit cards	1.9130	1.12464
Income	1.3913	.83878
Ethnicity	2.6957	1.63581

The findings in table 4.3.1 above show that only three factors had a mean ranking of below 2 (large extent). These three factors show that Interest rates (mean of 1.3913), Income (mean of 1.3913) and Attitude toward credit cards (mean of 1.9130) were the main factors contributing towards the low use of credit cards.

Annual subscription (mean of 2.000), joining fees (mean of 2.0435), credit limits (mean of 2.2609) and quality customer service (mean of 2.2609) were identified as having contributed to a certain extent towards the use of credit cards. On the other hand, the results indicate that issuing of credit cards (mean of 3.7391) was identified as the having limited extent towards the use of credit cards.

Table 4.3.2: Rating the current credit card system in the bank

	Mean	Std. Deviation
Efficiency	2.4348	.84348
Customer service	2.5652	.66237
Accessibility to clients	2.8696	.86887
Allowing of deposits	2.6522	.88465
Staff Training	4.1304	1.05763

From the findings the respondent rated the current credit card system as average on the following parameters; efficiency (mean of 2.4348), customer service (mean of 2.5652), accessibility to clients (mean of 2.8696) and allowing of deposits (mean of 2.6522).

On the other current credit card system is not able to handle staff training (mean of 4.1304). The respondent's opinions were generally the same as indicated by the low values of the standard deviations.

Table 4.3.3: Challenges experienced by the bank in using credit card systems in the sales of credit card

-	Mean	Std. Deviation
Rampant fraud at merchant establishments	2.3043	1.10514
Lack of reliable systems connectivity	2.6957	1.25896
High technological costs	2.3478	1.30065
Systems incompatibility	2.5652	1.03687
Competition from instant phone services	2.1304	2.13849
Rampant use of cash by cardholders	2.2174	1.08530
Lack of local technical support	2.2609	1.05388
Cost of imported technical support	2.3913	1.26990
Card fraud	2.0000	.95346
Lack of Legal Legislation in the Kenyan	1.9130	.94931

To a large extent (mean less than 2.4) the bank experiences the following challenges by using credit card systems in the sales of credit card; Lack of legal legislation in the Kenyan (mean of 1.9130), card fraud (mean of 2.0000), competition from instant phone services (mean of 2.1304), rampant use of cash by cardholders (mean of 2.2174), lack of local technical support (mean of 2.2609), rampant fraud at merchant establishments (mean of 2.3043), high technological costs (mean of 2.3478) and cost of imported technical support (mean of 2.3913).

To a moderate extent (2.5<mean <3.4), Systems incompatibility (mean of 2.5652) and Lack of reliable systems connectivity (mean of 2.6957) were identified.

Table 4.3.4: Frauds experienced by banks during the last 5 years

	Mean	Std. Deviation
Accounts take over	2.8696	1.14035
Lost and stolen fraud	2.5217	1.12288
Staff compromise	3.4348	1.30823
Mail non-receipt card fraud	3.2609	1.13688

Amongst the predetermined frauds, the most common experienced frauds were lost and stolen cards and accounts take over. On the other hand mail non receipt card fraud and staff compromise were the least frauds experienced during the last five years.

Table^.3.5: Awareness creation methoc s used by the bank

	Mean	Std. Deviation
Staff responsiveness to card acceptance	2.3478	.93462
Staff's product knowledge	2.7391	1.09617
Effectiveness of card marketing	3.0000	1.04447

As indicated in table 4.35, the respondents rated staff responsiveness to card acceptance (mean of 2.3478) as very effective method of creating awareness. Staffs product knowledge (mean of 2.7391) and effectiveness of card marketing (mean of 3.0000) were rated as effective means of creating awareness about the credit card usage.

Table 4.3.6: Complaints on the predetermined issues

	Mean	Std. Dev
Lack of innovative Rewards on credit card usage	2.0435	1.18622
Merchant service commissions fees	2.1304	1.01374
Promotion Campaigns Awareness on use of credit cards	2.3043	1.32921
Fraud	2.3478	1.02730
Speed Authorization of cards	2.8696	1.25424
Late monthly statements	3.0870	1.47442
Use of the cards internationally	3.0870	.94931

To a large extent (mean less than 2.4) the respondents rated the following complaints on the predetermined issues; Lack of innovative Rewards on credit card usage (mean of 2.0435), Merchant service commissions fees (mean of 2.1304), Promotion Campaigns Awareness on use of credit cards (mean of 2.3043) and Fraud (mean of 2.3478).

To a moderate extent (2.5<mean <3.4), Late monthly statements (mean of 3.0870) and Use of the cards internationally (mean of 3.0870) were identified.

4.4: Summary of findings

The objective of this study was to determine the factors affecting the use of credit cards by Postbank employees who were non-cardholders. It was apparent that in all employees of the bank, the top management had credit cards hence the sample was made up of 39% middle management and 61% lower management/supervisory cadre.

The study indicated a low yearly increase in the volume of cards (less than 5%). It was noted that the main factors contributing towards the low use of credit cards were interest rates, income and attitude toward credit cards. The performance of the current credit card system was rated as an average with respect to efficiency, customer service, accessibility to clients and allowing of deposits

From the findings, to a large extent the bank experience the following challenges by using credit card systems in the sales of credit card; Lack of legal legislation in the Kenyan courts, card fraud, competition from instant phone services, rampant use of cash by cardholders, lack of local technical support, rampant fraud at merchant establishments, high technological costs and cost of imported technical support.

The study identified staff responsiveness to card acceptance as a very effective method of creating awareness. Staffs product knowledge and effectiveness of card marketing were rated as effective means of creating awareness about the credit card usage. To a large extent lack of innovative rewards on credit card usage, merchant service commission's fees, promotion campaigns awareness on use of credit cards and fraud were identified as main complaints.

4.5: Implications of findings

Postbank have not exhausted the credit card market amongst the middle and low management staff levels. Signing up of these categories of staff will increase the yearly growth of volume of credit cards. The challenges faced by the credit card can be handled by creating awareness amongst staff, that is, to sensitize staff on the benefits of the credit cards (50 days interest free period) verses the use of cash for purchase.

CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMEDATIONS

5.1 Introduction

This chapter concludes the study and gives recommendations that maybe adopted by various policy makers and institutions for the well being of all stakeholders in the banking industry. It also discusses limitations that maybe in this study and suggest areas that need further research.

5.2 Conclusion

It is evident from the findings that the main factors affecting the use of credit cards by Postbank employees are interest rates, income and attitude towards the credit cards usage. Charges on credit cards include, late payment fees, over limit charge and cash handling charge. Employees felt that these charges on credit cards were exorbitant and as a result hinders them from applying for the same. Income levels of the employees, especially those in the lower level management who comprised of the 61% of the study earn salaries below kshs 15,000.00. The minimum salary requirement for one to be issued with a credit card is kshs 15,000.00. The policy on minimum salary locks out this group of employees from applying for the credit card.

The legal challenges facing the current credit card system in the bank is mainly on defaults amongst card users. At the same time most of the court cases involving defaulters take a long time to be resolved. This results in huge losses of funds by the bank.

Staffs product knowledge is also a factor affecting the rate of card acceptance and usage amongst non-card holders m the bank. It is therefore necessary for the management to identify and put in place training programs which will enhance product awareness and benefits derived from using credit cards.

The value of cash payment done by non-card holders is significant. In relationship to the low yearly increase of card volumes (below 5% growth), the bank should tap into the non- cardholders group in reversing the trend.

Non- credit cardholders unanimously stated that lack of innovative rewards on credit card usage and promotion campaigns awareness on use of credit cards were other non-financial reasons affecting their application and use of credit cards.

5.3: Recommendations for Policy Makers

There is a need for the Postbank to come up with policy on innovative rewards to encourage staff on credit card usage. This will boost the low yearly growth rate the credit card is currently experiencing. Once the policy is in place, the same should be communicated to all staff.

In view of the results findings, it is recommended that all employees in the middle and low management levels be trained on credit card usage since they form the bulk of those who have not signed up for the credit card usage.

5.4 Limitations of the Study

This study was based on a sample limited to Postbank employees who were non-card holders. The scope and depth of study was also limited by the time factor and financial resource constraints. This put the researcher under immense time pressure.

The researcher also encountered immense problems with the respondents' unwillingness to complete the questionnaires promptly. Some of them kept the questionnaires for too long, thus delaying data analysis.

Descriptive statistics, which have been applied in this research, also have their problems since they cannot demonstrate casual links and so provide weak evidence as to the best explanation on factors affecting the use of credit cards.

5.5 Suggestions for further research

This study was based on a sample limited to Postbank employees' non-credit card holders; it did not cover other banks employees who are also non-credit 6ard holders. This research therefore should be replicated in other banks and the results compared so as to establish whether there is consistency among the banks.

The sttjdy identified challenges (lack of legal support, frauds) faced by using credit card systems in the sales of credit card in Postbank. Therefore there is need for a study to analyse and make recommendations on the current credit card systems in place at the Postbank as well as the entire banking industry.

A similar study should be carried out on the factors affecting the use of Postbank credit cards by external customers and the results be compared with the internal customers findings.

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Appendices

Appendix I: Letter of Introduction

October 2009

Dear Respondent,

<u>REF: REQUEST FOR RESEARCH DATA</u>

I am a Master of Business Administration student at University of Nairobi. I am required to submit as part of my course work assessment a research project report on **THE FACTORS AFFECTING THE USE OF CREDIT CARDS, THE CASE OF KENYA POST OFFICE SAVINGS BANK (POSTBANK)** and would appreciate if you assist me in answering in full the herewith attached questionnaire. Please be assured that all your responses shall be kept strictly, anonymous and confidential and shall only be used for academic purposes.

Thank you in advance.

Julie M. Mwakidedi - Researcher

Appendix II: Questionnaire

SECTION A: PERSONAL INFORMATION

Please tick ( ) in the box to the right response.

1 Gender

Male [ ]

Female [ ]

2 Level of education

Certificate [ ]

Diploma Level [ ]

Graduate f 1

Post Graduate

3 Age bracket

30 yrs and Below [ ]

31 - 40 yrs [ ]

41-50 yrs [ ]

51-60 yrs [ ]

Above 60 years

4 Position held in the bank

Top management [ ]

Middle management [ ]

Lower management

Others, please indicate

5. What has been your yearly % increase of card volumes in the last 5 'years?

a) Less than 5% [ ]

b) 5%-10% [ ]

c) 10%-20% [ ]

d) Above 20% [ ]

Others, please indicate

SECTION B: FACTORS AFFECTING THE USE OF CREDIT CARD

6. To what extent do the following variables affect the use of credit card

	Large Extent	Certain Extent	Not Sure	Limited Extend	Not at All
Issuing of credit cards					
Credit limits					
Quality customer service					
Joining fees					
Annual subscription					
Interest rates Attitude toward credit cards Income Ethnicity					

7. How would you rate the current credit card system in the bank?

	Excellent	Very Good	Average	Below average	Poor
Efficiency					
Customer service					
Accessibility to clients					
Allowing of deposits					
Staff Training					

8. What are the challenges experienced by the bank in using credit card systems in the sale of the credit card?

	Large Extent	Certain Extent	Not Sure	Limited Extend	Not at All
Rampant fraud at merchant establishments					
Lack of reliable systems connectivity					
High technological costs					
Systems incompatibility					
Competition from instant phone services					
Rampant use of cash by cardholders					
Lack of local technical support					
Cost of imported technical support					
Card fraud					
Lack of Legal Legislation in Kenya					

9. To what extent are the following frauds experiences by the bank during the last 5 years?

	Large Extent	Certain Extent	Not Sure	Limited Extend	Not at All
Accounts take over					
Lost and stolen fraud					
Staff compromise					
Mail non-receipt card fraud					

10. How has the bank dealt with the fraud challenges in 9 above?

11. To what extent would you rate the following awareness creation methods used by the bank?

	Most Effective	Very Effective	Effective	Ineffective
Staff responsiveness to card acceptance				
Staff's product knowledge				
Effectiveness of card marketing				

12. How would you rate the following complaints on the issues below?

	Large Extent	Certain Extent	Not Sure	Limited Extend	Not at All
Late monthly statements					
Merchant service commissions fees					
Promotion Campaigns Awareness on use of credit cards					
Lack of innovative Rewards on credit card usage					
Fraud					
Speed Authorization of cards					
Use of the cards internationally					