

Motivations behind usage of Multiple Credit Cards by Banking Customers: An Empirical Study

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Abstract

Rapidly growing advancement of technology has brought lot of transformation in our everyday lives as well as it has also brought competition in banking industry. It is deceptive that banking institutes who are unable to match with these technological advancement and improvements of digital banking are facing the problem of not being able to compete the competitive market. An integral component of electronic banking is the credit card, which serves as a modern means of conducting financial transactions, replacing traditional paper currency. Given the current emphasis on customer-centric credit card services, it is imperative to identify the key factors influencing credit card ownership and usage for effective marketing strategies. Unlike in the past, when credit cards were considered a privilege of the elite or high-income individuals, they have now become accessible to a broader demographic. A sample of 330 respondents was collected from respondents who are using multiple credit cards. The factors that determine the motivation of using multiple credit cards by customers are Rewards and Benefits, Utilization, Building and Repairing of Credit, Diversification, and Interest Rate Optimization.

Keywords: Credit cards, shopping motives, motivating factors, plastic money, risk, attribute of customers

Introduction

Banks and financial institutes are promoting credit cards actively among potential customers and providing attractive schemes and incentives like opening of free accounts, low rates of interest, and global usage etc. It is observed that most of the users are feeling satisfied with the usage of credit card stressing on the substantial influence of functionality of credit card on the motivation and attitude of customers. Some financial institutions fail to provide essential information to their users, suggesting that not all financial organizations promote the use of credit cards due to a lack of financial knowledge, credit card usage behavior, and a tendency to delay gratification. Customers are actively utilizing credit cards for both online and offline shopping. This has streamlined processes such as purchasing, selling, electronic repayments,

and bill payments, marking a new trend in user behavior. Over the past half-decade, there has been a significant surge in credit card usage, with individuals now recognizing the value and advantages of credit cards for various purposes. Therefore, cognitive factors, consumer attitudes, behavioral patterns, and emotional aspects collectively influence how customers employ credit cards (**Ahamed, 2023**). Credit card is a plastic card that has magnetic strips, it is issued by a bank or financial institute to the holder to purchase goods or services on credit. Credit card debt often arises due to imprudent spending and inadequate financial management on the part of cardholders, impacting their ability to save effectively. Banks frequently entice credit card users with promotional deals and discounts on vacations, tours, and holiday destinations through advertising, allowing family and friends of cardholders to exert an influence on their spending behaviour (**Akela, 2020**). Some card users deal with the issues of improper client care services as well as difficult language that is used in legal terminologies. Hence, customers are prepared for using this plastic money at higher level because of its ease and convenience. The usage of credit cards is becoming highly attached to peoples' daily lifestyles and credit cards have a greater impact on busy peoples' rapidly changing lifestyles. There is still capacity to increase the usage of credit cards and there must be factors which influence the usage of credit cards, thus, identifying factors which influence the credit card usage among customers (**Velananda, 2020**). Credit cards are used by the holder for payment of goods and services on credit, allowing them to payment at later sometime. Spreading purchases across multiple credit cards can help customers manage their finances more effectively and take advantage of different credit limits and interest rates. Having multiple credit cards assists in optimization of interest rates. Having and using multiple credit cards responsibly can help individuals build or repair their credit. By making on-time payments and keeping balances low, customers can demonstrate creditworthiness to lenders. This can also provide a buffer in case one card is compromised or has issues. The credit card enables holder of card with a rotating account that assists them in borrowing money from the bank while making a purchase (**Reena et al. 2021**). It is found in the study that financial knowledge and understanding of customers makes positive impact on owning of credit card and its usage, and it has a negative association with behavior of credit card usage. Good financial knowledge of customer possibly holds more credit cards. Moreover, customers who have higher level of financial understanding are those who have higher number of credit cards (**Chen, Yu & Sun, 2023**). Holding a credit card can make positive as well as negative effect on the holder of the card. Looking at the positive sides, credit card is highly convenient and flexible to make purchases, it built credit history and can be beneficial in the long run. Creditworthiness of a customer is increased by making timely payments and maintaining low balance. Credit cards come with a range of enticing perks and advantages for cardholders. However, if not managed prudently, they can result in substantial debt. Elevated interest rates and associated fees can pose challenges in settling the outstanding balance, potentially leading to financial turmoil (**Bhargav, 2023**).

Literature Review

Credit cards have evolved into an essential financial tool for the public, with a recent surge in the approval of credit card applications. However, this upsurge has contributed to a rise in credit card debt. While some credit card holders utilize their cards responsibly, a substantial portion of them encounter difficulties in meeting the minimum monthly payment. The results of this study reveal that four factors - easy access to credit cards, aggressive promotional efforts by credit card providers, low minimum payment thresholds, and individuals' attitudes toward credit cards - do not exhibit a significant association with credit card utilization. The promotion of multiple credit cards by banks must be controlled by government and there is a need to educate people about its advantages and disadvantages (**Mohamed et al. 2016**). Technology has brought about a profound transformation in various sectors, particularly in the financial industry. Transactions within the banking system have experienced a remarkable evolution, moving away from the conventional use of cash in favour of credit and debit cards, often referred to as 'plastic money.' An overwhelming majority of individuals now prefer using plastic money for shopping, international transactions, and the acquisition of high-value items (**Sultana & Hasan, 2016**). Young customers often overspend while using credit cards and later find themselves in a situation of debt. While existing research has often attributed overspending to the availability of advance credit, there remains a dark spot in understanding why consumers are overspending, particularly through the use of credit cards. Attractive incentives and poor restrictions of spending afforded by credit card are the major reasons that impact young users of card to overspend which they cannot afford, leading to debt situation (**Lim et al. 2014**). The banking sector is currently witnessing intense competition, both among public sector banks and private sector banks. Consequently, financial institutions are striving to retain their current customer base while also attracting new clients. To achieve these

objectives, banks are constantly introducing innovative financial services to cater to their customers' needs, with credit cards being a prominent example. The advent of credit cards has had a profound impact on people's lifestyles across all socioeconomic levels. While credit cards were once primarily associated with affluent individuals, the landscape has evolved significantly. Today, a wide range of conveniences and services has made it possible for middle and lower-income individuals to embrace the advantages offered by the credit card revolution (**Kunjithapatham, 2019**). The purchase behavior of Indian customers is usually dependent on their economic structure. Majority of Indian populations falls under the category of low to middle income group. They usually do not have the ability to increase their habit of spending, but they usually do the same. Due to which banks experience new way of purchase attitude of customer who hold credit cards and using it and overspending. This research primarily aims to examine the purchasing patterns of credit card users within dynamic economic contexts. It seeks to uncover the motivations that drive credit card holders to incorporate these cards into their daily lives and, in particular, what factors tempt them to overspend. While credit card companies offer enticing incentives, such as rewards and benefits, as a powerful lure for credit card usage, safety and flexibility appear to be less influential in driving this trend. Interestingly, individuals with lower incomes express a notable interest in using credit cards due to the appeal of "buy now, pay later" without incurring interest charges. The reason of cashback offers and other external elements of beneficiary are some of the common reasons for increased usage of credit card and reason of overspending behavior among customers of middle-income group (**Keerthi & Selvakumar, 2019**).

The introduction of credit cards represents a significant step towards achieving the social objectives expected in modern banking. It not only serves as a status symbol but also facilitates consumerism. As economic and financial liberalization continues to expand, and the urban middle class experiences increasing prosperity, banks find it advantageous to venture into this line of business. The impact of credit cards on consumer purchasing behavior has been a critical area of study. A credit card offers a revolving account, providing consumers with a line of credit from which they can borrow funds for various payments, similar to a cash advance. The study of consumer behavior is instrumental in comprehending the tendencies and spending habits of consumers. In the context of consumer behavior analysis, the focus is on investigating the attitudes of buyers towards all relevant attributes of products or services, as well as the marketers and markets. It is important to note that attitude plays a significant role in shaping behavior, as beliefs influence attitudes, which, in turn, affect consumer actions. The behavior of customers makes considerable impact in behavior and personality of an individual with certain characteristics. Attitude of customer is formed based on their knowledge, understanding, learning, education, information, lifestyle, faith, communication, and observation (**Kumudhini, 2018**). In modern time, customers prefer making payment by using credit or debit cards instead of carrying so much of cash, which ultimately increases the use of plastic money. The study findings indicate that a significant proportion of consumers prefer using debit cards over credit cards. This trend underscores the significance of income level as a primary influencing factor in the adoption of electronic payment methods, surpassing other demographic factors. The majority of participants in the study have possessed these cards for over four years, indicating a well-established familiarity with plastic money and its utility. Moreover, these long-term users expressed satisfaction with the services offered by plastic money. Furthermore, the study results emphasize the convenience and user-friendliness associated with making payments and shopping using plastic money (**Jayaraj, 2019**). The main participants of Indian financial system are the banks. Banks provides many services and opportunities to their customers. Debit Cards, Credit Cards, Charge Cards, and Petro Cards are among the most widely recognized forms, collectively referred to as "Plastic Money." This term, "Plastic Money," has emerged as a contemporary alternative to the traditional practice of using cash for transactions. It encapsulates the surge in consumer transactions for purchasing both physical and virtual goods and services. Plastic money encompasses various types, including credit cards, debit cards, prepaid balance cards, and smart cards (**Prasanth, Kumar, Sowmiya, Keethana, & Priyanka, 2019**). Credit and debit cards have become the most popular mode of payment for goods and services that provides many different features, and benefits to its users like convenience and security of payment, etc. Debit/credit and prepaid banking cards offer a significant advantage due to their versatility in facilitating various digital payment methods. These cards allow customers to seamlessly integrate their card information into digital payment applications or mobile wallets, enabling them to conduct cashless transactions. The adoption and comfort with digital payments are steadily increasing with each passing day, thanks to the government's support for the growth of e-payment systems. This transformation has made life more convenient, as individuals can conveniently settle their bills and expenses online (**Prakash, 2022**).

Objective

To identify the factors that determine the motivations behind usage of multiple credit cards by banking customers.

Methodology

This study considered a sample of 330 people was collected from people who are holding multiple credit cards. Random sampling method was used for collection of data, and scrutinized by “Explanatory Factor Analysis” for outcome.

Study’s findings

Below table is about general details of respondents which shows that 59.70%, and 40.30% are female. Looking at the age group, 25 to 30 are 38.18%, 30 to 35 are 32.42%, and above 35 are 29.40%. Regarding Type of Users, Students are 22.12%, Salaried are 24.54%. Businessmen are 30.00%, and others are 23.34%.

Details of Participants

Variable	Participants	% age
Gender		
Male	197	59.70
Female	133	40.30
Total	330	100
Age in years		
25 to 30	126	38.18

30 to 35	107	32.42
Above 35	97	29.40
Total	330	100
Types of Users		
Students	73	22.12
Salaried	81	24.54
Businessmen	99	30.00
Others	77	23.34
Total	330	100

“KMO and Bartlett's Test”

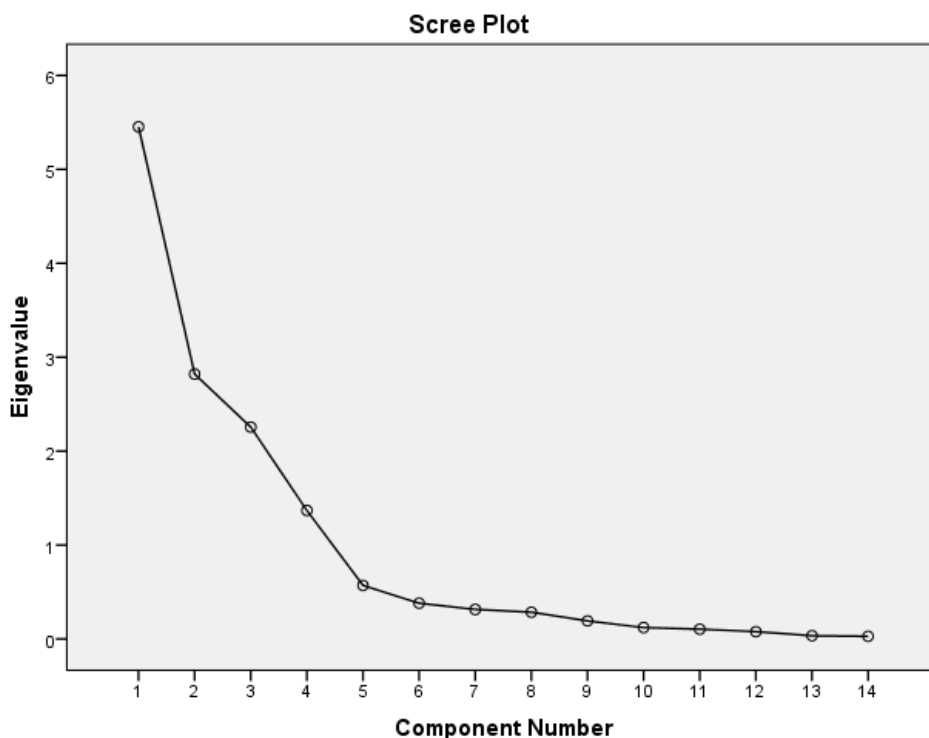
“Kaiser-Meyer-Olkin Measure of Sampling Adequacy”		.785
“Bartlett's Test of Sphericity”	“Approx. Chi-Square”	5061.414
	df	91
	Significance	.000

In above table “KMO and Bartlett's Test”, KMO value found is .785

“Total Variance Explained”

“Component”	“Initial Eigenvalues”			“Rotation Sums of Squared Loadings”		
	“Total”	“% Of Variance”	Cumulative %	“Total”	“% Of Variance”	Cumulative %
1	5.453	38.950	38.950	3.731	26.651	26.651
2	2.820	20.143	59.093	3.580	25.569	52.219
3	2.255	16.109	75.202	2.419	17.279	69.498
4	1.368	9.772	84.974	2.167	15.476	84.974
5	.570	4.069	89.043			
6	.380	2.713	91.757			
7	.314	2.243	93.999			
8	.285	2.033	96.032			
9	.192	1.372	97.404			
10	.121	.863	98.266			
11	.104	.743	99.009			
12	.077	.550	99.559			
13	.034	.244	99.803			
14	.028	.197	100.000			

All four factors making contribution in explaining total 84.974% of variance. The variance explained by Rewards and Benefits is 26.651%, Utilization, Building and Repairing of Credit is 25.569%, Diversification is 17.729%, and Interest Rate Optimization is 15.476%.



ScreePlot

“Rotated Component Matrix”

S. No.	Statements	Factor Loading	Factor Reliability
	Rewards and Benefits		.976
1.	Benefits like cashback, travel, extra points motivate customers	.961	
2.	Customers can use multiple credit cards for maximization of their rewards	.950	
3.	Attractive rewards and benefits motivate customers while making purchases	.945	
4.	All such rewards can be redeemed during buying of goods and services	.937	
	Utilization, Building and Repairing of Credit		.958
1.	Using multiple credit cards help in keeping credit utilization ration low	.974	

2.	It positively impacts credit limit of customer	.944	
3.	Holding multiple credit cards helps in building or repairing credit	.923	
4.	Creditworthiness of customer is demonstrated by making payments on time	.875	
	Diversification		.884
1.	Diversifying purchases through multiple credit cards help in managing finance	.896	
2.	It can help in taking the advantage of different credit limits and interest rates	.847	
3.	It would also provide a buffer time in case of any issue with any one card	.846	
	Interest Rate Optimization		.795
1.	Different credit cards offer different interest rates	.879	
2.	Customers can avail the benefit of lower interest rate on balance transfer	.796	
3.	They can carry a balance on cards with favorable terms while paying off the cards with high interest rate	.788	

Factors and associated variables

The first factor of the study is Rewards and Benefits, the variables included under this factor are Benefits like cashback, travel, extra points motivate customers, customers can use multiple credit cards for maximization of their rewards, attractive rewards and benefits motivate customers while making purchases, and all such rewards can be redeemed during buying of goods and services. Second factor is Utilization, Building and Repairing of Credit it has variables like using multiple credit cards help in keeping credit utilization ration low, it positively impacts credit limit of customer, holding multiple credit cards helps in building or repairing credit, and creditworthiness of customer is demonstrated by making payments on time. Third factor of the study is Diversification the variables included in this factor are as follows, diversifying purchases through multiple credit cards help in managing finance, it can help in taking the advantage of different credit limits and interest rates, and it would also provide a buffer time in case of any issue with any one card. The last and fourth factor is Interest Rate Optimization it has variables like different credit cards offer different interest rates, customers can avail the benefit of lower interest rate on balance transfer, and they can carry a balance on cards with favorable terms while paying off the cards with high interest rate.

“Cronbach's Alpha”	“Number of Items”
.873	14

Total reliability of 14 items including variables in motivations behind usage of multiple credit cards by banking customers is 0.873

Conclusion

Credit cards have become a pivotal tool for facilitating transactions involving banks or issuing companies, credit card holders, and sellers. The future of the banking industry holds a positive outlook, particularly concerning the significant benefits associated with the credit card business. These plastic cards, endowed with enticing features such as deferred payment options and cashless transactions, have garnered the attention of both lower and middle-class individuals. Credit cards offer a variety of advantages. They allow travellers to carry minimal cash, serve as a financial cushion when one's salary is delayed, and are widely accepted at most merchant outlets. Furthermore, credit cards often come with attractive perks like insurance coverage, flexible repayment plans, bonus points, and rewards, making them a valuable possession. The rapid growth of credit cards has led to increased transaction efficiency, but the utility of these cards varies depending on an individual's profile. Initially, consumers view owning a credit card as a privilege, but there is a growing sentiment among cardholders that banks charge high-interest rates and fees. The credit card has brought about a revolution in the payment industry, with smaller towns in India also experiencing growth in the credit card sector. The factors that determine the motivation of using multiple credit cards by customers are Rewards and Benefits, Utilization, Building and Repairing of Credit, Diversification, and Interest Rate Optimization.

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