

# Overview of credit cards in malaysia marketing essay



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The Bank Negara Malaysia (BNM, n. d ) defined credit card as " a card issued by a financial company giving the holder an option to borrow funds, usually at point of sale. Credit cards charge interest and are primarily used for short-term financing. Interest usually begins one month after a purchase is made and borrowing limits are pre-set according to the individual's credit rating". For many reasons, credit cards were chosen by many people to make the purchases in their daily life. Hence, credit cards issuers, especially banks, have entered into fierce competition in the credit card market that is rapidly growing.

Back to the history, credit cards were first issued at the beginning of the 20th century, by hotels in the United States. By 1914, the credit cards trends also influence the departmental stores and gas station that make them also issuing credit cards. The third party cards which act as entertainment and travel cards appeared in the 1950's and eventually the bankcard appeared. In the 1960's, BankAmericard issued the first bankcard or now known as Visa card. Master Charge systems and Visa in the United States had established themselves as the bank's credit card industry in order to avoid the competition during that time (Garcia, 1980).

Credit card, which was also known as plastic money, their usage has gone up dramatically around the globe since they have been introduced. In the early of twentieth century, credit cards were first issued in the USA. Since then, they have become very popular in many countries in the world that the credit cards are the major system for exchange of transactions or payments that stimulates household and personal spending (Watkins, 2000).

According to Lee (2000), the usage of credit cards has actually leaved the impact on the purchasing habits throughout the world. This was because initially, the credit card was used to pay for luxuries, such as travel and accommodation. However, in nowadays, many people tend to use the credit cards for purchasing small items of convenience in our daily lives.

On the others hand, in other developed countries such as the United States and Europe, credit cards and plastic money were viewed as an indication of cashless society (Ingene and Levy, 1982). For instance, in an automated petrol station, it is a common phenomenon to purchase groceries and gasoline with no presence of the attendant. In Malaysia, there also having this kind of facility, when purchasing the gasoline, cardholders could charge their credit cards without the aid of attendant.

## **1. 2 Credit Card in Malaysia**

In Malaysia, credit cards were first introduced in the mid-1970s in Malaysia (Loke, 2007). At the early stage, credit cards were not issued to everyone and it was only issued to those professionals and successful businesspersons by card issuing companies. There were approximately 20, 000 cards were issued by the end of 1970s. During that time, owning a credit card was considered a symbol of prestige as only the affluent have the chances to own the credit card.

According to Mohammed (2008), the development of e-payment in Malaysia started off in the end of 1970s when the credit cards is introduced, and this followed by automated teller machines (ATM) cards in the beginning of 1980s. In the early days, there were many fraudulent cases happen as the

cards did not contain a chip that can ensures the security in the retail transactions during that time. Finally, in year 2004 and 2005, chip-based technology was introduced for ATM cards and credit cards respectively to solve the problems.

Basically, credit cards in Malaysia can be divided into three categories. Each type of cards having their own functions and offer to different users, they are classic card, gold card, and the platinum card. People that have regular income or low credit ratings will use the Classic card. Meanwhile, Gold card are offer to people with good income level or strong credit ratings and the gold card also provide a wide range of reward programs. Lastly, only the affluent people or by special invitation only can own the platinum card. It comes with convenience services and having some exclusive offers with airlines, premiere hotels and restaurants.

Credit card can be said as the most common financial transaction intermediaries around the world, and this same goes to Malaysia too. This statement can be proved by referring to table 1 and 2, volume of credit card transaction and value of credit card transactions in Malaysia keep increasing from year 2005 till year 2010. In my research, my focus is study about the credit card usage among Malaysians. Nowadays, it is a common phenomenon that everyone carry a credit card with them wherever they go, but, the problems is, most of the credit cards user did not know how to use the credit cards wisely. Hence, there been lots of issue with the credit cards users that dealing with the debt problems or if more serious they will face the bankruptcy at the end.

According to a study conducted by Ahmad, Ismail, Soheil, Tabsh and Alias (2010), many Malaysian consumers seem to display excessive buying behaviour or commonly known as " compulsive buying." When comes to spending, the typical Malaysian consumer most likely are very brand conscious and the purpose of them to own the credit cards is merely to keep up with the standards and for convenience. To own a credit card in Malaysia, it is relatively easy and this has contributed to the compulsive spending by the Gen Y in order to keep up with the lifestyle. Besides, Ahmad et. al (2010) also found that the attribute of card users in Malaysia is that they tend to use the card to grant loans for themselves. In Malaysia, it is known that it is easy for people to apply the credit cards rather than applying for personal loans, which requires the applicant to gone through more complex procedures like providing guarantors or collaterals. Hence, most of the credit cards users most likely having debt burden.

According to The Star (2009), starting from January 1 2010, a service tax of RM50 will be imposed on each principal credit card yearly and for every supplementary card, a RM25 service tax will be charged yearly too. The move of governments to impose this tax is to promote wise spending since the use of credit cards in our country is very extensive. Thus, refer to table 3, it is logic to say that the users of credit cards in 2010 had slightly decreased compared to year 2009 is because the users had been influence by the service tax.

In a more recent news, The Star (2011) reported that Bank Negara Malaysia deputy governor Nor Shamsiah Mohd Yunus said at a briefing on the new ruling that the minimum annual income requirement for credit card eligibility <https://assignbuster.com/overview-of-credit-cards-in-malaysia-marketing-essay/>

has been raised to RM24, 000 from RM18, 000 previously, which was effective immediately from march 18th 2011. This also means that the first-time applicants for a credit card now must at least have a minimum monthly salary of RM2, 000 compared with RM1, 500 previously. In addition, for those who earn RM36, 000 or less per year, they can only hold credit cards from a maximum of two issuers by December 31, 2011. The purpose of Bank Negara Malaysia to set this new rule is because they hope to keep the household debt at manageable levels. As in the end of year 2010, it was reported that the outstanding credit card debt was RM30. 8 billion or five per cent of total household debt.

There was also an article which discussed the issue of credit card debt in New Straits Time Online. According to writer, Ramachandran (2011), most of the Malaysian declared bankrupt because of credit card debts, and half of them are below the age of 30. Many Malaysians also having debts twice than the amount they earn and there were more than 80, 000 Malaysians were declared bankrupt between 2005 and 2010. In addition, the article also included the statement of the president of Federation of Malaysian Consumers Associations (Fomca), Datuk N. Marimuthu. He said that Malaysians did not manage their personal finances well. Marimuthu added that 2010 data from the Credit Counselling and Debt Management Agency states that 26 per cent of those who asked for advice were due to high medical expenses, followed by 25 percent which was poor financial planning and lastly 15 percent was loss of control in using credit cards. On the other hand, the data which was obtained from Insolvency Department showed that bankruptcy brought by credit cards was 5. 5 per cent. Lastly, Marimuthu

stated that the action should be taken so there would be greater emphasis on financial education, and it should start from the school and then to the workplace.

In conclusions, credit card debt issues are becoming more serious in Malaysia. Thus, a proper action should be taken in order to solve the problems. By studying factors that affect the credit card usage in Malaysia, I believe I can understand more background and behavior of the credit cards user in Malaysia.

Table 1: Volume (in million) of credit card transaction

(Source: Payment statistic Bank Negara Malaysia, 2011)

Table 2: Value (in RM Bil) of credit card transactions

(Source: Payment statistic Bank Negara Malaysia, 2011)

### **Table 1: Number of cards and users of payment instrument (' 000)**

(Source: Payment statistic Bank Negara Malaysia, 2011)

## **1. 4 Research Objectives**

The objectives of this research are:

Determine the factors that influence the use of credit cards in Malaysia.

Determine the correlation between each factor and the use of credit card in Malaysia

Determine the relationship between the factors and the use of credit card in Malaysia.

## **1. 5 Significance of study**

This study is important to explore more knowledge about usage of credit cards among Malaysians. Firstly, the study can help Malaysian to generate extra information and knowledge on the usage of credit card. It is important that consumers understand the credit cards and use the credit cards wisely so that they won't having any burden in paying the debts later in their life that might lead to the bankruptcy in the end. Besides, this study can also be used as a guideline for other researchers who are interested to do study on credit card. Finally, the outcomes of this study will be useful for the credit card issuer or bank. The information gathered is crucial to bank in designing and marketing their credit cards. By this way, the bank will have more understanding in term of the consumers' background and help them to come out with new ideas to attract more customers to use their credit cards. Proper customer segmentation can ensure the products or services being delivered to the market more effectively.

## **1. 6 Scope of study**

This study is conducted with the purpose of examining the factors affect the usage of credit cards among Malaysians. Basically, the study will only conducted in Malacca areas due to time constraint and lack of financial resources. Since having the limited time, Malaccans will be the respondents since they are more reachable. Besides that, this study will only be done on the seven factors that were determined by the researches based on past studies on use of credit card.

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## **1. 7 Definition of key terms**

### **Terms**

#### **Definition**

#### **Sources**

#### **Credit card**

Standard-size plastic token, with a magnetic stripe that holds a machine readable code. Credit cards are a convenient substitute for cash or check, and an essential component of electronic commerce and internet commerce. Credit card holders (who may pay annual service charges) draw on a credit limit approved by the card-issuer such as a bank, store, or service provider (an airline, for example). Cardholders normally must pay for credit card purchases within 30 days of purchase to avoid interest and/or penalties.

BusinessDictionary. com. Retrieved 03 April 2011 from <http://www.businessdictionary.com/definition/credit-card.html>

#### **Age**

The period of time someone has been alive or something has existed.

Cambridge Dictionaries Online Retrieved 03 April 2011 from [http://dictionary.cambridge.org/dictionary/british/age\\_1](http://dictionary.cambridge.org/dictionary/british/age_1)

#### **Gender**

The physical and/or social condition of being male or female.

Cambridge Dictionaries Online Retrieved 03 April 2011 from [http://dictionary.cambridge.org/dictionary/british/gender\\_1](http://dictionary.cambridge.org/dictionary/british/gender_1)

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## **Education Level**

The number of years a person has completed their studies.

King, A. S., King, J. T. (2005). The decision between debit and credit: finance charges, float, and fear. *Financial Services Review* 14, 21-36.

## **Income Level**

Amount of cash or cash equivalents earned each month.

BusinessDictionary. com. Retrieved 03 April 2011 from <http://www.businessdictionary.com/definition/income.html>

## **Financial Knowledge**

A person that having the knowledge about finance.

## **Convenience**

Anything that saves or simplifies work, adds to one's ease or comfort, etc., as an appliance, utensil, or the like.

Dictionary. com. Retrieved 03 April 2011 from <http://dictionary.reference.com/browse/convenience>

## **Risk**

General: Probability or threat of a damage, injury, liability, loss, or other negative occurrence, caused by external or internal vulnerabilities, and which may be neutralized through pre-mediated action.

BusinessDictionary. com. Retrieved 03 April 2011 from <http://www.businessdictionary.com/definition/risk.html>

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## **1. 8 Organisation of study**

This research is organised into 5 chapters.

Chapter 1 introduces the emerging issues about usage of credit cards in Malaysia. It consists of introduction, background of research and research questions, research objectives, significant and justifications of study, research scope and limitation, definition of key terms, and organizational of research.

Chapter 2 reviews related literatures from previous studies in factors affect the usage of credit cards. Literature review is review of facts from past researchers who conducted theirs studies on the same field (usage of credit card) in order to support this research study. Most of the information gathering are from the internet, journals article, newspapers and other sources that is vital to form the literature review

Chapter 3 discusses the research methodology used in this study where the research framework, hypothesis, source of data, questionnaires design, sampling design and method to analyse data.

Chapter 4 presents the analysis and results of the data collected from questionnaires and discussions on the findings.

Chapter 5 is the conclusion of this study which include the recommendation, contribution of study and limitation of future study.