

Research proposal on credit card



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In today's busy world, nobody has the time to withdraw money from the bank account for shopping. Everybody is interested in carrying the plastic money (credit card) in their wallet for shopping as it gives convenience, safety, easiness and even style. In this cutthroat competition, banks have to work hard to gain market share and to meet the expectations of customers so that they can delight their customers.

Success of any organization largely depends on how well and effectively the organization can serve its customer. Always perception can't help a company to ensure satisfaction among its consumer. Monitoring consumers and fulfilling their expectations can ensure satisfaction. The current paper attempts to critically examine the customer satisfaction of the credit card users to guide the MCB to find out its lacking and ensure satisfaction among its consumers.. The study gives the detail about the difficulties faced by the credit card users. Findings will be based on the formal interview and data collected through questionnaire. The paper aims to give valuable information to make the current system of service more effective.

This study is carried out to identify customer preferences and expectations from credit card services. The main objective is to identify the factors that influence the choice of credit cards, customer satisfaction, and consumer behavior regarding the credit card at The Mauritius Commercial Bank (MCB). Primary data was collected from 200 respondents by the questionnaire method.

This exploratory study seeks to explore the link between the choices of payment mode to customer satisfaction. It examines the MCB cardholder's

market in relation to its choice and usage of credit cards and its impact on customer satisfaction and loyalty. Furthermore, the study aims to identify the key drivers of customer satisfaction for this mode of electronic payment.

The researcher wants to show whether the choice of credit card depends upon income, gender and profession of the respondent and whether customer satisfaction depends upon income, frequency of usage in a month and amount of usage per month.

Introduction

The banking sector of Mauritius, comprising 19 banks, recorded a constant growth in the recent period along with high and well sustained profits.

Mauritius is an economy which is highly monetised.

Nowadays, banks are in the process of moving towards a more sophisticated and highly competitive financial atmosphere, with a greater variety of products and services (Mosad Zineldin, 1996). A very notable change in the consumer financial services over the past few has been the significant growth in the use of credit cards since the introduction of cards in the 1950 (Thomas A. Durkin, 2000). Credit cards were first issued in the United States in the 1946. As a matter of fact, credit card is one of the biggest inventions in the financial service sector. For many consumers the credit card has become a practical as well as a natural way of purchasing goods and services (Nejdet Delener and Herbert Katzenstein, 1994).

The history of credit cards in Mauritius can be traced back around the year 1983 and 1984 when the Mauritius Commercial Bank started some

discussions with the MasterCard to become a principal member. In 1985, the MCB Ltd began acquiring merchants (shops accepting credit cards as a mode of payment). This process began with a network of 400 merchants mainly in the touristic area. The first credit card which was the MasterCard was issued in 1988. Therefore, Mauritius has embarked on the global cards scheme with some delay. Nowadays, there is a population of around 1.2 million in Mauritius and there are at present more than 178,947 credit card holders. Thus, the use of credit cards as a means of payment has a relatively long history.

One of the most popular and well established payment methods in Mauritius is the credit cards. The latter are now an integral part of the Mauritian retail payment system. Credit card can be viewed as a convenient payment mechanism as a substitute to cash and cheques. Competition is fierce in the Mauritian banking sector as a wide range of local and international cards are present on the market, issued by a large number of different financial institutions. The most utilised credit cards in Mauritius are MasterCard and VISA. It is necessary to define and differentiate the characteristics of credit cards from a consumer's perspective in order to understand the consumer's behavior. Credit cards are plastic cards issued under an umbrella brand by individual financial institutions that are members of a bankcard association (i. e. Visa, MasterCard) or by individual institutions. The features (including credit limit) of a particular credit card issued through a bankcard association, however, are determined by the individual firm and not by the bankcard association.

Credit cards are a mode of payment that allows a buyer to purchase a product or service immediately even if the buyer does not have the money at hand. The buyer is able to do this because a financial institution has extended credit to him/her. Upon use of the credit card, the buyer is obliged to pay back the amount used in full by a certain time (i. e. grace period) without interest or in smaller payment amounts over time with interest. The chief attraction for a credit card user is the ability to engage in immediate gratification without immediately shelling out money. For some, not having to pay cash immediately upon purchase also provides a way to earn additional monies (assuming excess funds are fully invested) which is known in the card industry jargon as the “ float.”

Over the past few years, the mode of payment for purchases has changed dramatically as an increasing number of customers are migrating to cards to effect payment for a sizeable proportion of their expenses. This increasing propensity of customers who give their cards to pay for their purchases is substantiated by:

- A systematic increase in the number of cards (debit and credit) in circulation;
- An increase in the amount of credit granted to the personal and professional sectors through credit cards;
- A drop in the ratio of cash withdrawals to local issuing sales (indicative of a switch away from cash to cards to effect payments).

The credit card market has grown significantly over the past years with the number of credit cards in circulation and outstanding advances on credit cards growing by approximately 26% and 34% respectively from June 2007 to June 2010.

In this age of globalization, financial institutions and private banks are trying their best to keep their customers satisfied. Credit card is a great financial tool, a source of plastic money, which is used every day for making life easier by giving access to cash while transacting. As a part of 'electronic banking', the importance of credit card has been increased day by day. In this paper, the level of satisfaction of credit card users will be examined. This paper aims at help the MCB to find out their customer's satisfaction level as well as motivational factors and ways to provide modern credit card services.

Brief introduction of The Mauritius Commercial Bank Ltd.

The Mauritius Commercial Bank was established by Royal charter in 1838 and is thus one of the oldest commercial bank in the region. It has been continuously expanding and today comprises 42 branches in Mauritius, 200 Automatic Teller Machines, and is present also in Reunion, Seychelles, Maldives, Madagascar, Mozambique and Paris. It has proved itself over the years to be a major partner of our economy by helping to launch the textile and tourism sector. It enjoys presently 50% market share and is the leading bank in Mauritius. Although it has diversifies its activities by being involved in non-banking business like factoring, leasing or fund management, it has remained essentially a traditional retail bank. Credit Card is a Strategic Business Unit within the MCB structure.

Objectives of the study

The objectives of this study are as follows: 1. To measure the satisfaction level of credit card users of the MCB. 2. To find out major problems faced by the credit card users. 3. To recommend some policy measures for better service delivery and customer retention.

Rationale of the study

Customer satisfaction gives an indication of how successful the organization is for its products or services in the market. Because it is said that customer is the King, all activities of the bank are directed towards customer satisfaction which leads to customer retention—a key factor for achieving the goal of banking business. From this study the Mauritius Commercial Bank (MCB) will know their customers' satisfaction level from using credit card. It will also help MCB to understand whether the policy is right or not to retain the customers. Some recommendations will be made on the basis of the measurement of satisfaction for better card services in future.

The study measures customer satisfaction of credit cards by examining six key factors: cardholder's interaction, fees and rates, billing and payment process, rewards, benefits and services, and problem resolution.

Commercial banks are always questioning what makes bank customers who have more than one credit card use one rather than another when making a purchase. According to a study by Lunt (1992), a generous credit limit, quality customer service, fair credit card fees, and a reasonable interest rate

are the factors that count at the point of sale. A reminder at the point of sale that a card is acceptable is a significant marketing aid, as well.

The main objective of the research is to provide MCB Cards SBU with insight on the credit card market in Mauritius and its performance in that market from the cardholders' perspective.

Key data to be gathered and analyzed in this report includes:

Reliance of the local population on cash as a mode of payment as opposed to cards. Level of card holding in Mauritius. Usage of credit cards. Factors driving choice of credit cards. Customer satisfaction of MCB cards compared to other banks. Customer loyalty to credit card brands and providers. Cardholders' interest and willingness to pay for value-added services on credit cards. Areas that require corrective action and improvement.

A Review of the Literature

Studying payment methods is important because different modes have different effects on a consumer's willingness to spend. For example, Hirschman (1979) found differences in consumer purchase behavior based on credit card characteristics. Feinberg (1986) demonstrated that credit cards can serve as a facilitating stimuli that encourages spending. He suggested that consumers become "conditioned" to spend. Consumer research on credit cards focus on the descriptive nature of who uses credit cards (e. g. Mantel, 2000), how they differ from non-users (Martell and Fitts, 1981), identification of good versus bad credit risks (Grablowsky, 1975), and credit card usage by product type (Matthews and Slocum, 1969). King and

King (2005) showed that consumers are always better off using credit cards over debit cards.

The authors suggest that such is true only if the card holder does not carry a balance or has not reached the credit limit for the card. However, King and King (2005) attribute the rapid increase of debit card usage to two reasons:

(1) The fact that even for individuals who do not carry a balance and therefore, do not pay interest, credit cards are not seen as a substitute for a debit card; and (2) Consumers' fear of credit because of how credit could affect their wallets and spending habits. The latter conclusion is consistent with the findings of Drentea (2000) that higher ratio of credit card debt to income increases anxiety. In addition to payment mode choice, marketing managers are also interested in continuous usage. However, repeated choice and usage of a particular payment mode is contingent upon the user's satisfaction with that payment mode.

Churchill and Suprenant (1982) defined customer satisfaction as a comparison of the rewards and costs associated with the use or purchase of a good or service in relation to the anticipated consequences of the use or purchase. They likened customer satisfaction to an attitude. In addition, they suggested that satisfaction is related to the size and direction of the disconfirmation of expectations experience. Thus, in addition to the leading role of expectations (Prakash and Lounsbury, 1984), performance (Churchill and Suprenant, 1982) and desires (Spreng et al., 1996) are also determinants of customer satisfaction.

Bitner and Hubert (1994) suggested that customer satisfaction of services consists of two elements: service encounter satisfaction and overall service satisfaction. They suggested that a cumulative positively satisfying service encounter creates a more global feeling of satisfaction. High levels of customer satisfaction have been linked to behavioral intentions including attitude change (Bolton and Drew, 1991), repeat purchase intentions, and customer loyalty (Boulding et al., 1993; Ryan and Ployhart, 2003).

A metric to gauge satisfaction would be the rate of acceptance of the payment mode. The customer satisfaction literature indicates that one of the effects of satisfaction is positive word-of-mouth (e. g. File and Prince, 1992). Consequently, the positive word-of-mouth will lead to a higher acceptance rate. Conversely, dissatisfaction will lead to negative word-of-mouth and eventually, a slower acceptance rate. This conclusion is also borne out by research on diffusion. For example, Gatignon et al.(2001) found that as social interaction increased, the propensity to imitate also increased. In addition to payment mode choice, marketing managers are also interested in continuous usage. However, repeated choice and usage of a particular payment mode is contingent upon the user's satisfaction with that payment mode.

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The rate of adoption of innovations for different countries varies according to the characteristics of these countries (Takada and Jain, 1991). Absent regulatory conditions, rapid acceptance of the innovation may be seen as increasing satisfaction with the product (Rust and Zahorik, 1993).

Conversely, a slow rate of adoption may be a signal that the product has not

been effectively communicated to the target population. Worse still, it may be a sign that the product does not meet the needs of the target market.

Some researchers have conducted some studies on the credit card ownership and usage. Two studies have been carried out in USA by Slocum and Mathews to find out how the use of credit cards is affected by social class (1969) and by income level (1970). As per their first research, they found that members of the higher socio-economic class tend to use their credit cards for installment financing less than the lower socio-economic classes. The upper classes tend to use their credit cards as a convenient mode of payment.

The difference in deferred gratification patterns between social classes in the USA is the reason for this tendency. They also highlighted that the lower classes show more impulse buying than the middle class. The latter feel that they should rather save money and postpone purchases. Since there is no reason for installment, the upper classes use credit cards for convenience and therefore, they do not need to save and defer gratification.

According to Mandel (1972), the primary determinants of credit card usage were family income and education. He noted that higher income and better educated families were more likely to use credit cards than lower income families. As a matter of fact, credit cards were initially marketed to higher income people. In another finding of his research, he found that people living around the largest cities are more likely to use credit cards. This finding matches the Greek cardholders' demographic profile. Furthermore, Mandel observed that based on different incomes, families perceived differently the

advantages and disadvantages of credit cards. High income families considered safety and convenience to be definite advantages while the lower and middle income families found the credit facility as a definite advantage.

Consumer ownership and usage of bank credit cards was examined by Ingram and Pugh (1981). Their results revealed that young married couples, retired heads of households, sole survivors, and single member households tend to own fewer bank credit cards.

Hawes (1988) conducted a study on the changes in holding and use patterns of consumers possessing either a VISA card, a Master Card, or both. In the findings, it was indicated that possession of at least one credit card was reported by some of the female (85 per cent) and male (52 per cent) respondents.

Lindley et al. (1989) carried out a study on the changes over time in consumers' decisions to possess and use credit cards. According to their findings, the probability of an individual possessing a credit card was fewer in 1983 than in 1971. In the results, it was indicated that people are using credit cards often to buy furniture, clothing, and household goods, but not petrol. They noted that this could be due to the fact that many petrol companies charge five cents per gallon more for credit card purchases

Awh and Waters (1974) conducted a study relating card use to economic, demographic and attitudinal variables in order to find any differences between active and inactive cardholders. As per their research, it was found that attitudes towards bank credit cards is the most differentiating factor which distinguishes active from inactive cardholders. Other factors to be

considered were age, socio-economic standing, types and number of other cards held by an individual, attitude towards credit generally, education and income.

Furthermore, a research on the influence of payment method on purchasing behaviour was carried out by Hirschman (1979). A finding of her research was that people possessing credit cards were more likely to make bigger purchases than the non-cardholders. Thus, according to this finding it can be suggested that credit cards facilitate and induce purchases, as compared to cash.

Another researcher named Kinsey (1981) focused his research on the determinants influencing the credit card accounts. According to him, although income is a crucial factor determining the number of credit card accounts held, low income does not decrease the number of card accounts held as much as living in a small town or rural area. He highlighted that the most important factor determining an increase in the number of credit card accounts is high income.

A cross-cultural study of credit card usage behaviour of Canadian and American cardholders was conducted by Kaynak and Ugur (1984).

Cardholders' attitudes towards credit cards were evaluated in the first stage of their research. Their finding shows that both populations of cardholders agreed that credit cards help making impulse buying and are useful in the sense that cards are safer and more convenient than cash. They noted that both Americans and Canadians show similar patterns in attitudes toward ownership of credit cards. However, their behavioural characteristics are

different. As per Chebat et al. (1986), many credit card holders develop an attitude of using credit cards for emergency situations.

Assessment of the Literature Review

Each of the above articles identifies areas whereby customer service can be improved. If the clients are satisfied, banks will at the same time achieve their sales, growth and profit objectives. A first suggestion to achieve customer satisfaction is to lay emphasis on the service so that sales will follow. Secondly, improved service will contribute to retention of customer base. Thirdly, managing effectively complaints bring business opportunities. Fourthly, providing positive customer experience is strategic. Finally banks must identify customer needs and propose appropriate products. The literature review allows us to narrow down our hypothesis of how to assess customer service and satisfaction.