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A Study of the Factors that Influence the Usage of Credit Cards in Sri Lankan Banks

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Abstract

A revolutionary change has taken place in the global financial service landscape due to the digitalisation of payment systems. This shift has been accelerated by the outbreak of the COVID-19 pandemic, leading to the widespread adoption of cashless transactions, as the safest form of transaction method. Out of the cashless transactions in the Banking Industry, the credit card market is a particularly active segment with a high degree of competitiveness. Therefore, understanding the precise variables influencing credit card usage behaviour would provide the issuer with a strategic advantage. Hence, this study used the UTAUT2 model to examine factors influencing Sri Lankan customers' use of credit cards. This study used a quantitative method to conduct primary research, gathering data from 200 credit card users in Sri Lanka using a convenience sampling technique. Data was analysed using descriptive statistics and inferential statistical analysis. The results of the study show that social influence, habitat have the most impact on the intention to use credit cards. Performance expectations, effort expectations, and perceived financial cost also have a significant impact on intention to use credit cards. Moreover, due to the pandemic and the rapid development of the required infrastructure for cashless transactions in Sri Lanka, non-cash transactions are expected to take the lead, including the use of credit cards.

Keywords: Credit Cards, Banking Industry, Usage Behaviour

1. Introduction

1.1 Background of the study

The Central Bank of Sri Lanka (CBSL) holds the exclusive authority to issue currency, with a total value of 901bn LKR in circulation as of Q1 2021 (Payment Bulletin, 2021). Cash remains the predominant form of currency in Sri Lanka (Piyananda, Dhanushka, Aluthge & Chandana, 2020). The physical currency has been a significant drag on the economy, with an estimated 1.5% of the GDP allocated for maintaining physical currency circulation, and this has prompted CBSL to initiate a number of efforts over the years to move towards a cashless system (Lugoda, 2020).

In Sri Lanka, both high-value and retail payment systems offer non-cash payment options, encompassing various methods such as Cheques, SLIP System, Credit and Debit cards, Mobile and Internet Payments, Tele Banking, Postal Instruments, and LANKAQR (Payment Bulletin, 2021). While cheques and SLIP payments dominate the retail payment system, constituting 50% and 15% of the transaction value as a percentage of GDP (Payment Bulletin, 2021), the credit card market is gaining popularity due to its ability to provide benefits not offered by cash or cheques. Furthermore, with technological advancements and its transformative characteristics, the credit card market has evolved into a symbol of lifestyle (Dianto et al., 2020).

As of Q1 2021, there were 1,996,279 cards in use, with a total transaction value of 221.8bn LKR, averaging 10,121 LKR per capita transaction value. Fourteen authorised Commercial Banks and three licensed finance companies were offering credit card services at the completion of Q1 of 2021 (Payment Bulletin, 2021). Table 1 and Table 2 show the usage of currency and credit

cards over time, reflecting widespread adoption in Sri Lanka. A World Bank survey in 2018 revealed that more than 75% of credit card users in Sri Lanka prefer cards over cash (Daily FT, 2019). In Q1 2021, credit card transactions increased in value by 27% compared to Q1 of 2020 (Payment Bulletin, 2021).

Table 1. Currency Circulation from 2018-2020

Indicator	2018	2019	2020
Currency in circulation as a % of GDP	4.5%	4.5%	5.6%
Per capita currency in circulation value (LKR)	29,577	31,095	38,086
Currency held by the public as a %of GDP	3.3%	3.3%	4.3%

Source: Payments Bulletin (2021)

Table 2. Credit Card use from 2018-2020

Indicator	2018	2019	2020
Per capita CC transaction value (LKR)	11,158	12,714	10,121
No of credit cards in use	1,710,671	1,854,103	1,984,525
Value of transactions (LKR. Bn)	241.8	277.2	221.8

Source: Payments Bulletin (2021)

Based on Table 2, the usage of credit cards indicates a positive growth.

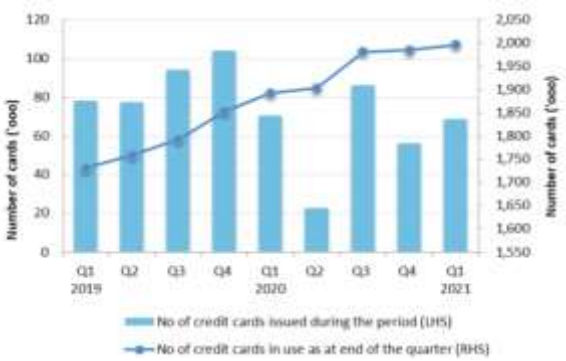

Figure 1. Number of credit cards in use and cards issued.

Source: Payments Bulletin (2021)

As shown in Figure 1, there is an increase in card ownership. Furthermore, recent findings indicate that more than three-fourths of credit card users prefer to use cashless payment methods (Abdeljawad, Hashem & Rashid,2022). However, despite Sri Lanka's substantial progress in digital financial infrastructure, overall adoption remains low. Issuers are vying for the same tiny group of customers, providing the same person a fourth or fifth credit card (Daily FT, 2019) and just about 2m people use them which is only 10% of the population. This is in sharp contrast to developed countries, where credit cards account for virtually all consumer expenditure (Ketepearchchi, 2021). Additionally, credit card usage for retail transactions remains limited, with fewer than 10% of Sri Lankans utilising them (Jayasinghe, 2020).

1.2 Rationale

The COVID-19 pandemic accelerated the adoption of digital payment methods in Sri Lanka, encouraged by financial institutions. This led to increased awareness and usage among consumers who had not previously used digital financing. According to CBSL, QR payments, particularly, saw a remarkable 400% growth since January 2020, starting from nearly zero usage. However, during the pandemic, the use of credit cards experienced a decline despite the online and digital payment methods being widely used. This was primarily due to reduced household expenditure, resulting in decreased value and volume of credit card spending in the

second quarter of 2020 (Jayasooriya, 2021). The decrease in total volume and value of credit card transactions is shown in Figure 2.

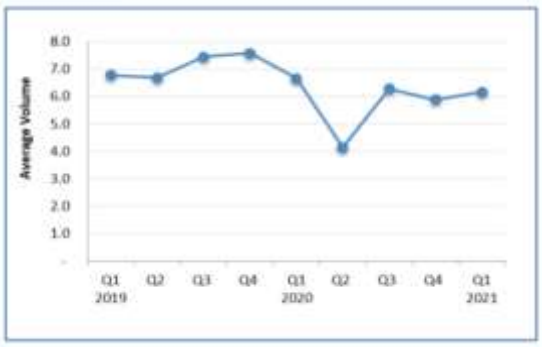

Figure 2. Average Volume of transactions per credit card

Source: Payments Bulletin (2021)

Credit card holders benefit from cashless transactions and settling debts immediately, leading to a shift in societal attitudes towards debt where debt is no longer considered taboo. Using credit cards as a payment method offers practicality and security benefits, particularly when cash is scarce. However, improper credit card use can drive excessive consumption and lead to users becoming trapped in risky debt habits, particularly when their income is unstable. Therefore, in addition to economic factors, various studies have indicated the role of behavioural issues in driving excessive credit card usage (Trinh, Tran, & Vuong, 2021; Anastasia & Santoso, 2020; Wickramasinghe & Gurugamage, 2009).

Hence, this study aims to understand the factors influencing credit card usage. Knowing the precise factors that influence credit card usage behaviour, would offer a significant advantage in understanding consumers' purchase intentions towards credit card usage. Furthermore, as customers tend to switch card issuers due to intense rivalry, recognising consumer purchase intention is critical for increasing market share and card utilisation. Hence, this study will focus on discovering the factors influencing credit card usage using the UTAUT2 model.

1.3 Research Aim

The aim of this study is to examine the factors that impact consumer usage of Credit Cards in Sri Lanka.

1.4 Scope

This study surveyed 200 credit card holders who own a credit card issued by a licensed Commercial Bank in Sri Lanka, and the study considered only the present cardholders and individuals who have done a transaction within the past 12 months. The study was conducted to understand consumer perceptions of credit card usage.

2. Research Design

2.1 Research Method

The quantitative research method was used for this study. An online structured questionnaire was distributed to the participants. The questionnaire was discributed to 200 credit card holders using the convenience sampling method.

2.2 Conceptual Framework

The UTAUT2 model, shown in Figure 3, was used to provide the theoretical foundation for presenting the conceptual model.

Performance expectation (PE), effort expectancy (EE), social influence (SI), habitat (HT), and perceived financial cost (PFC) were presented as the main drivers of consumers' intention, as illustrated in Figure 3.

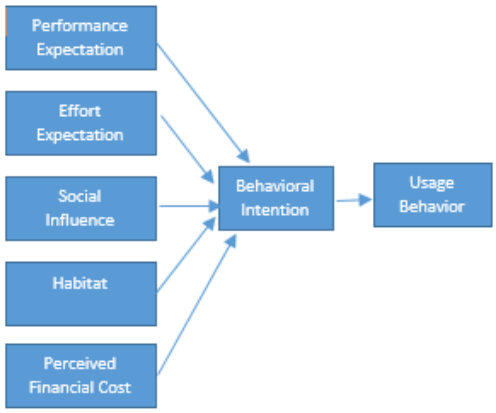

Figure 3. Conceptual Framework

2.3 Hypotheses

The following hypotheses were formulated based on the conceptual framework.

H1: Performance Expectation has an effect on behavioural intention to use credit cards.

H2: Effort Expectation has an effect on behavioural intention to use credit card services.

H3: Social Influence has an effect on behavioural intention to use credit cards.

H4: Perceived Financial Cost has an effect on behavioural intention to use credit cards.

H5: Habitat has an effect on customers' behavioural intention to use credit cards.

H6: Behavioral intention has an effect on the usage behaviour of credit cards.

3. Analysis and Findings

3.1 Demographic Data

Table 3. The demographic data of the respondents

	Description	Percentage (%)
Gender	Male	58
	Female	42
Age	20-30 years	27
	30-40 years	36
	40-50 years	23
	50 years +	14
Experience	Less than 1 year	5
	1-2 years	20
	3-5 years	17
	6-10 years	58
Number of Cards	1	62
	2	23
	3	8
	4	3
	5	3
	More than 5	1
Length of Ownership of Cards	1 -2 years	14
	2-5 Years	30
	5-10 Years	22
	> 10 Years	34
Highest Education Level	O/L	0
	A/L	17
	Graduate	36
	Postgraduate	39
	Other	8
Monthly Income (Rs.)	Less than 45,000	9
	45,000 – 70,000	23
	75,000 – 150,000	38
	150,000 – 250,000	16
	Above 250,000	14

As shown in Table 3, 62% of those surveyed have one card, 23% have two cards, and 15% have three or more cards. Furthermore, 34% of the respondents has used credit cards for over ten years. The majority of the respondetns have an monthly income of between 75,000 LKR-150,000 LKR.

3.2 Reliability Analysis

Table 4. Reliability Statistics

Variables	Cronbach's Alpha
Effort _Expectancy	0.6
Performance_Expectancy	0.6
Usage_Behaviour	0.7
Behavioural_Intention	0.6
Perceived_Financial_Cost	0.6
Habitat	0.5
Social_Influence	0.6

As shown in Table 4, the reliability of the variables was computed using Cronbach's Alpha. Cronbach alpha values of 0.6 and above are considered to be reliable.

3.3 Correlation Analysis

Table 5. Pearson Correlation Analysis

Variable	Correlation Coefficient with Behavioural Intention
Performance Expectancy	.589**
Effort Expectancy	.487**
Social Influence	.304**
Habitat	.651**

Perceived Financial Cost	.244**
Variable	**Correlation Coefficient with Usage Behaviour**
Behaviorial Intention	0.072**

** Correlation is significant at the 0.01 level.

As shown in Table 5, the Correlation Analysis results reveal that Performance Expectancy, Effort Expectancy, Social Influence, Habitat and Percieved Financial Cost have a positive correlation with Behaviorial Intention (to use Credit Cards) at 1% significance level. Behaviorial intention has a positive correlation with Usage Behavior (at 1% significance level).

3.4 Hypothesis Validation

Based on the correlation analysis results, all the hypotheses formulated in this study are valid, as shown in Table 8.

Table 6. Hypothesis Test

Hypotheses	Result
H1: PE has an effect on behavioural intention to use credit cards	Valid
H2: EE has an effect on behavioural intention to use credit cards	Valid
H3: SI has an effect on behavioural intention to use credit cards	Valid
H4: PFC has an effect on behavioural intention to use credit cards	Valid
H5: HT has an effect on behavioural intention to use credit cards	Valid
H6: Behavioral intention has an effect on the usage behaviour of credit cards.	Valid

Perofrmance Expectancy has a significant relationship with behavioural intention, which supports the findings of Makanyeza and Mutambayashata (2018). Moreover, the findings reveal a significant impact of Effort Expectancy on Behavioural Intention, supporting the findings of Trinh and Vuong, (2019); Alwahaishi and Snášel (2013).

It was found that Social Influence has a significant impact on Behaviorial Intention, as supported by Venkatesh et al., (2003); Hancock, Jorgensen, & Swanson (2012) and Anastasia, Santoso (2020).

Further, Perieved Finacial Control has a significant effect on Behavioural Intention, which supports the findings of Lydia and Gan (2005).

Moreover, there is a significant relationship between Habitat and Behavioural Intention, supporting the findings of Makanyeza and Mutambayashata (2018) and Harsono and Suryana (2014).

3.5 Multiple Linear Regression Analysis

According to Table 7, Social Influence is the most significant variable that impacts Behavioural Intention (at 5% significance level).

Table 7. Regression Analysis

Model	Unstandardised Coefficients B	Sig.
Social_Influence	.137	**.002**
Habitat	-.090	.058
Perceived Financial Cost	-.049	.387
Performance_Expectancy	.027	.659
Effort_Expectancy	-.040	.568

Dependent Variable: Behaviorial Intention

The model has an R square value of 0.108.

4. Results and Discussion

In conclusion, this study found that Performance Expectancy has a significant impact on behavioural intention and intention mediates between Performance Expectancy and Usage Behaviour. Past research found that Performance Expectancy has an influence on the usage of credit cards due to its ability to be used for various purposes (Alwahaishi & Snáel, 2013; Makanyeza & Mutambayashata, 2018; Venkatesh et al., 2003). Alwahaishi and Snáel, (2013); Trinh and Vuong (2019) found that convenience of use has an impact on the usage of credit cards. Customer satisfaction is influenced by quality and expectation, which leads to greater retention (Foscht et al., 2010). Thus, credit card

businesses must meet or exceed expectations in order to acquire a competitive advantage.

This study found that Effort Expectancy has a significant impact on behavioural intention and Intention mediates between Performance Expectancy and Usage Behaviour. Credit cards are used as a convenient tool to pay without carrying cash. Hence, convenience of use has an impact on the intention to use credit cards.

Further, research findings show that Social Influence is the strongest motivator, having a significant positive impact on credit card usage, supporting the findings of Hancock et al. (2012). Consumers view credit cards as a tool that may lead to a better financial situation leading to a better lifestyle, as evidenced by findings from Khare (2012).

Furthermore, this study discovered that Perceived Financial Cost has a significant impact on Behvaiorial Intention, and Behviorial Intention mediates between Perceived Financial Cost and Usage Behviour, supporting the results of Khalid et al. (2013). Mallat (2006) found that Perceived Financial Cost had a deleterious impact on behavioural intention. Thus, the cost involved in using a credit card plays a significant role in behaviorial intention.

In addition, it was found that there is a significant impact on Behvaiorial Intention by Habitat, as identified by Makanyeza and Mutambayashata (2018) and Harsono and Suryana (2014), who found that Habitat positively impacts behavioural intention. As argued by Wickramasinghe and Gurugamage (2009), if customers form a practice of using credit cards, it can result in greater purchasing.

Most Sri Lankan consumers do not settle their credit card debt on time (Wickramasinghe and Gurugamage, 2009). The overall demand for loans and non-performing loans increased in Q1 2021 (Credit Supply Survey, 2021). Hence, it can be argued that in a country where debt has become more socially acceptable, customers perceive credit cards as a convenient method to spend now and pay later.

Dewri et al. (2016) identified that the majority of credit card users are from the age group of 20- 40 years. This is in line with past research, which found that usage diminishes with age, since the more senior consumers are more comfortable with cash payment (Khare,2012).

Manning (2000) found that consumers with high earning capacity are more likely to use credit cards.

Furthermore, this study revealed that most of the Sri Lankan consumers are using only one credit card. This supports the findings of Gan et al. (2008), where the majority of respondents in developing countries used just one credit card. This is in contrast to a developed economy where the average number of cards exceeds four (Robb & Sharpe, 2009).

5. Conclusion

Although Sri Lanka has made significant progress in developing innovative digital financial infrastructure, adoption of credit cards remains low. Further, despite the gradual increase in card ownership, Sri Lanka remains essentially a cash economy, with only 38% of the population using even a debit card (Jayasinghe, 2020). It was also evident that although the number of cards has gradually risen, an outbreak of COVID-19 has caused a downward trend in Sri Lankan card spending due to the slowdown in household expenditure (Jayasooriya, 2021).

In order to popularise the use of credit cards, social media platforms can be used to promote their usage. Moreover, it is recommended that credit card issuers focus on promoting their credit cards using social media influencers. Credit card issuers can also introduce a referral system, with suitable rewards.

The Banks can also conduct more awareness programmes educating the citizens about the benefits of using credit cards.

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