FACTORS INFLUENCING THE GROWTH OF CREDIT CARDS BUSINESS IN THE FINANCIAL INSTITUTIONS IN KENYA: A CASE OF IMPERIAL BANK LTD

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ABSTRACT
The credit card has evolved into one of the most accepted, convenient and profitable financial products around the world. It is accepted by millions of consumers and merchants around the world as a routine means of payment for all variety of products and services. The main objective of the study was to establish factors that influenced the growth of credit cards in the financial institutions in Kenya. The target population was the financial institutions in Kenya while the study population was the customer of Imperial Bank Ltd. The study identified a population size of 100 customers who frequent Nairobi City centre branch per day. A sample of 55 respondents was picked using a systematic random sampling method. Data was collected using a questionnaires and a give and wait strategy was used to ensure a high turnout of the questionnaires are filled and returned. The results of the study indicated that lack of credit card awareness was the biggest deterrent in the growth of credit card business; hence banks and credit card companies should conduct card awareness campaigns to enlighten on the uses and benefits of credit cards. Data was processed using the Statistical Package for Social Science (SPSS) program and analysis was done using percentages, fraction and charts.

Keywords: credit cards, market awareness, level of income, marketing awareness

INTRODUCTION
A credit card is a plastic card issued by a commercial bank or any other institution that allows the holder to purchase goods and services on credit up to an agreed limit set at specific place where these cards are accepted. (Edward Paul and Robert, 1997)
Credit cards can be categorized into two broad categories; general purpose or bank cards and proprietary or private label cards. General purpose cards are sponsored by member associations such as VISA and Master Card who have a worldwide payment networks among the respective banks. Banks purchase membership in the association in return for the ability to offer bank credit product and services. Private label cards are issued under a contractual agreement between a bank and a retailer. They have a limit where the card is accepted, have lower credit limits and cardholders often exhibit a higher risk profile (comptroller’s handbook, October, 1996).
The growth of credit cards has benefited consumers widely for several reasons, for consumers, credit cards provide a convenient method of completing transactions, enable consumers coordinate the timing of consumption and the flow of income, credit cards are a convenient source of credit for both consumers and merchants. It had become a common practice for most of the card issuers to provide revolving credit facilities for their cardholders by imposing up to 1.5% of interest charges per month. However cardholders were also allowed to pay their bill before the due date to avoid unnecessary interest charges. The current practice of all financial institutions is to impose twenty days grace period between the statement date and payment due date (Lee and Toh, 1995).
The challenges attributed to credit card usage include; deepening your debt since consumers’ purchase goods on credit with the intention of paying in the future, Overuse since revolving credit makes it easy
to spend beyond your means, credit card fraud, unexpected fees which ranges between 5 – 10% of the transaction amount when drawing cash from an merchant or ATM and increased paper work since you have to save the receipts and check them against the statement every month. (Evans, 2002)

Growth in credit card purchase volume for U.S credit card networks remains strong in the United States. Consumer credit in the form of a credit card has grown rapidly to become one of the most frequently held financial instruments by households in the United States. Credit cards offer the convenience of cashless transactions and also allow for purchases over the telephone and, increasingly, via the internet. (Schmit, 2008)

Bank Negara Malaysia’s latest statistics showed that credit cards circulation has enjoyed a favorable growth in Malaysia; the current number of cards in circulation is 8.2 million cards. While the total value of card transactions was 94,098.00. (Bank Negara Malaysia's 2012)

According to Visa international, Malaysia is an ideal market for credit cards in the region due to its large and growing educated population. As compared to other Southeast Asian countries, Malaysia still remains an attractive market for Visa International to expand their business (Bank Negara Malaysia, 2012)

**Plastic Cards in the Kenyan Market**

Plastic cards were introduced in the 1960s but it took major advancement in the technology for them to be used in large numbers. The first plastic card in Kenya was launched in 1967 by Diners club Africa Limited (Mahinda, 1991). However, the peak in usage of plastic cards in Kenya was not realized until 1980's. The development of the Kenya domestic plastic credit card market is mainly due to aggressive marketing of Diners Club Card. The first plastic credit card was issue by Diners Club and it was a charge card.

Amid significant strides in the development of cash-less societies, people started to favor debit cards over credit cards since it allowed them to pay from the money they actually have in their accounts rather than living on credit. Also customers preferred to use debit cards as opposed to credit cards despite credit cards being more convenient and faster in authorization as compared with the debit cards that requires 100% authorization online.

The Kenyan payment system is still dominated by paper based instruments such as cash, checks and in some parts commodity money. These have remained the key yardsticks of settling indebtedness in Kenya.

**Statement of the Problem**

The usage of credit card in the Kenyan financial system has not grown despite the cards being in the market for over two decades. Their uptake has been slow compared to the mobile money that had been introduced over 6 years ago. The low usage is evident by the congestions of the banking halls in most financial institutions especially during payday, important holiday events like Christmas, school opening days where most customer queue in the banking halls seeking for services easily obtained by use of credit card.

The Kenya Financial Stability Report, 2011 indicated that the total number of deposit accounts as at December 2011 was 15,655,800. Despite many individuals having bank accounts the number of credit cards in the Kenyan market is 140,850 (1.28%) compared to the total cards in the market at 10,939,655.00. The total value of transactions attributed to cards was Kshs 132.628, 000 million. Debit card transactions accounted for Kshs118, 359,000, other cards accounted for 1, 3725,600 while credit card accounted for only Kshs 363,000.00 (0.2%).

The number of credit card issued in Kenya is only 1% of the bankable population while due to the aggressive strategies adopted in the USA the number of credit cards issued is 78% of total population (Financial Journal, 2012). This clearly shows that the revenue generated by card business in Kenya is not consistent to the expectation of the financial institutions.

Financial institutions in Kenya have developed and marketed credit card products as a revenue stream, however due to low uptake of the credit card, financial institutions offer the cards as a value added service. In addition, Commercial banks are going to incur additional costs attributed from the deadline issued by Visa International where all plastic cards technology must move from Magnetic strip to chip technology. (Visa International, 2012)
It is due to the afore said that this study sought to establish the factors influencing the growth of credit card business in financial systems in Kenya with a focus on Imperial Bank Ltd.

**Main Objective**
To determine the factors influencing the growth of credit card business in the financial system in Kenya

**Specific Objective**
1. To find out how the level of income influence the growth of credit cards business in Imperial Bank Ltd
2. To determine how level of education influence the growth of credit cards business in Imperial Bank Ltd
3. To establish the effect of unexpected fees and commissions on growth of credit card business in Imperial Bank Ltd.
4. To determine how marketing awareness influence the growth of credit cards business in Imperial Bank Ltd

**THEORETICAL REVIEW**

**Keynesian Theory of income**
Keynes’ General theory in1936, Keynes asserted that as income rises, consumption will also rise but not necessarily at the same rate. The amount people spend increases as the amount they make increases, but not as quickly and this is especially true in the short term. According to the theory people’s habits take time to catch up with their incomes. However, this means that as national income increases, a smaller proportion of it will get spent, so more of it will have to be invested. The theory further states that when national income falls, a larger proportion gets spent as people dip into savings and governments go into deficit. (Keynes, 1936).

**Theory of Education**
Education refers to an enlightened person. It is the attempt to give an individual some desirable knowledge, understanding, skills, interests, attitudes and critical thinking. He develops some understanding about the deeper things in life, the complex human relations, and the cause and effect relationship and so on. He gets some skills in writing, speaking, calculating, drawing, operating some equipment etc. He develops some interests in and attitudes towards social work, democratic living and cooperative management. (Dewey’s, 2005).

**Stakeholder Cost Theory**
Stakeholder theory, developed originally by Freeman (1984) as a managerial instrument, has since evolved into a theory of the firm with high explanatory potential. Stakeholder theory focuses explicitly on equilibrium of stakeholder interests as the main determinant of corporate policy. The most promising contribution to risk management is the extension of implicit contracts theory from employment to other contracts, including sales and financing (Cornell and Shapiro, 1987). To certain industries, particularly high-tech and services, consumer trust in the company being able to continue offering its services in the future can substantially contribute to company value. However, the value of these implicit claims is highly sensitive to expected costs of financial distress and bankruptcy. Since corporate risk management practices lead to a decrease in these expected costs, company value rises (Kleczka, 2005).

**Alderson’s ‘Theory of Transactions and Transvections’**
The theory of transactions and transvections refers to the potential for market interaction is created when producers become separated from consumers by the division of labor. As specialization increases, the division of labor becomes greater, the gaps created become wider, and the network of potential trading relationships becomes more complex. The potential for exchange, however, is not the same as an actual market transaction.
CONCEPTUAL FRAMEWORK

The conceptual framework is used to portray a diagrammatic presentation of the dependent and independent variables in this study. This study seeks to establish the relationship between the level of income, Level of education, interest and charges and marketing awareness on the growth of credit cards. These variables have been carefully considered based on the prevailing social and financial conditions in the Kenyan economy vis a vis USA and Malaysia economies which have been used as a bench mark in this study.

Conceptual Framework

![Diagram showing the relationship between Level of income, Level of Education, Interest and Charges, and Marketing Awareness towards the Growth of credit cards.]

RESEARCH METHODOLOGY

Research Design

This study adopted a descriptive research design. Kotler and Armstrong (2000) observes that this method is best suited for gathering descriptive information where the researcher wants to describe the state of affairs as they exist. The design often results in the formulation of knowledge and solutions to problems. Descriptive survey is a method of collecting information by interviewing or administering questionnaires and it is used when collecting information about people’s attitudes, opinions, feelings or preferences concerning one or more variables through direct query. Since this study had the prime goal of identifying the key factors influencing the growth of credit card business in the financial system in Kenya, involving how the independent variables act on the dependent variable, it was felt that the descriptive survey design would best help the researcher in achieving this.

Target Population

The target population was the financial institutions in Kenya while the study population was the customers of Imperial Bank. The bank was chosen for this study because according to the Kenya Bankers Association Journal (2011), it was listed as among the highest banks with customers having credit cards. The study identified a population size of 100 customers who frequent Nairobi City centre branch per day. According to Mugenda&Mugenda (1999), a good sample size ranges between 10% -30% of the total population. However for this study 55 questionnaires were given to the customers on the day with the highest turn out which is the 1st Friday of the month.

Sample and sampling technique

The sampling technique used was the systematic random sampling; the questionnaires were given at an interval of every one customer.

Data collection instrument

Primary data was collected through structured questionnaire, which contained closed ended questions. The aim of the questionnaire was to collect information relating to the credit card usage.
Data collection Procedure
A give and wait strategy was used whereby; the questionnaires were distributed to the customers on the same day and request the customer to fill while in the banking hall. This was to ensure that no customer is given the questionnaire more than once.

Data processing and analysis
The structured questionnaire was coded in respect of questions for ease of electronic data processing. The data was then decoded to facilitate statistical analysis. The SPSS (Statistical Package for Social Sciences) package was be used to analyze the data. Spearman correlation coefficient was used to determine the relationship between variables. The correlation coefficient is a measure of linear association between two variables. Values of the correlation coefficient are always between -1 and +1. A correlation coefficient of +1 indicates that two variables are perfectly related in a positive linear sense; a correlation coefficient of -1 indicates that two variables are perfectly related in a negative linear sense, and a correlation coefficient of 0 indicates that there is no linear relationship between the two variables. The dependent variable would be, to find out whether the respondents have credit cards. The chi square was used to test the hypothesis. Analyzed data was presented in form of figures and tables.

RESULTS
Correlation Analysis
Table 1. Level of income

<table>
<thead>
<tr>
<th>Do you have a credit card</th>
<th>Level of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spearman's Correlation Coefficient</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.</td>
</tr>
<tr>
<td>N</td>
<td>50</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.01 level (2-tailed).

There is a positive relationship between level of income and number of credit cards. That is when the level of income increases the number of credit cards issued also increases. There is a strong relationship between the two variables as portrayed by the correlation coefficient of 0.808 which is closer to 1 which in correlation implies a strong relationship (Table 1). The probability value is 0 while the level of significance is 0.01. When the probability value is less than the level of significance, we reject the null hypothesis. We therefore conclude that the relationship between income and number of credit cards is statistically significant.
Table 2. Level of Education

<table>
<thead>
<tr>
<th>Do you have a credit card</th>
<th>Spearman’s Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of Education</td>
<td>0.389</td>
<td>0.005</td>
<td>50</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.01 level (2-tailed).

There is a positive relationship between level of education and number of credit cards. However, there is a weak relationship between the two variables as portrayed by the correlation coefficient of 0.389, which is closer to 0 which in correlation implies a weak relationship (Table 2). The probability value is 0.005 while the level of significance is 0.01. When the probability value is less than the level of significance, we reject the null hypothesis. In this regards, 0.005 < 0.01 hence we reject the null hypothesis and accept the alternate hypothesis. We therefore conclude that there is a weak relationship between level of education and credit card.

Table 3. Interest rates and maintenance charges

<table>
<thead>
<tr>
<th>Do you have a credit card</th>
<th>Spearman’s Correlation Coefficient</th>
<th>Interest and Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and Charges</td>
<td>1.000</td>
<td>1</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.01 level (2-tailed).

Table 3 gives a p value of zero (p = 0) and a significance level of 0.01. This finding indicated that there is a relationship, however it does indicate the nature of the relation whether high or low. Findings indicate that when the probability value is less than the level of significance therefore, reject the null hypothesis accept the alternate hypothesis.
Table 4. Marketing Awareness

<table>
<thead>
<tr>
<th>Do you have a credit card</th>
<th>Spearman's Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>Promotion by IBL</th>
<th>Spearman's Correlation Coefficient</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you have a credit card</td>
<td>1</td>
<td>0.307</td>
<td>0.03</td>
<td>0.307</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Promotion by IBL</td>
<td>0.307</td>
<td>1</td>
<td>0.03</td>
<td>0.307</td>
<td>1</td>
<td>50</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.05 level (2-tailed).

There is a positive relationship between promotion by Imperial bank and number of credit cards. There is a strong relationship between the two variables as portrayed by the correlation coefficient of 0.307 (Table 4). The probability value is 0.03 while the level of significance is 0.05. When the probability value is less than the level of significance, we reject the null hypothesis. In this regards, 0.03 < 0.05 hence we reject the null hypothesis and accept the alternate hypothesis. We therefore conclude that the relationship between promotion of credit cards by Imperial Bank Ltd and number of credit cards is statistically significant.

**Hypothesis Testing**

**Ho1:** The level of income has no influence on the growth of credit cards in Imperial Bank Ltd

**Table 5: Influence of level of income on growth of credit card**

<table>
<thead>
<tr>
<th>What is your level of income</th>
<th>Chi-Square @ 95% confidence interval</th>
<th>df</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>52.080</td>
</tr>
</tbody>
</table>

The level of significance is 0.05 while the chi square result is 0.52 (Table 5). The null hypothesis should be rejected since the Chi square result is greater than the level of significance. In conclusion the level of income has an influence on the growth of credit cards in Imperial Bank Ltd. Therefore the banking institutions should target customers whose income is high for the growth of credit card business.

**Ho2:** The level of education has no influence on the growth of credit cards in IBL

**Table 6: Influence of level of education on growth of credit card**

<table>
<thead>
<tr>
<th>What is your level of education</th>
<th>Chi-Square @ 95% confidence interval</th>
<th>Degree of Freedom</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>27.160</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>

The level of significant is 0.05 while the chi square result is 0.271 (Table 6). The null hypothesis should be rejected since the Chi square result is greater than the level of significance. In conclusion the level of education has an influence on the growth of credit cards in Imperial Bank Ltd. Therefore, financial institutions should target customers who are more educated and understand the relevance of credit cards.
Ho3: Fees and commissions have no influence on the growth of credit cards in IBL

**Table 7: Influence fees and commission on growth of credit card**

<table>
<thead>
<tr>
<th>Interest rates and maintenance charges</th>
<th>18.000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square @ 95% confidence interval</td>
<td></td>
</tr>
<tr>
<td>Degree of Freedom</td>
<td>1</td>
</tr>
</tbody>
</table>

The level of significant is 0.05 while the chi square result is 0.18 (Table 7). The null hypothesis should be rejected since the Chi square result is more than the level of significance. In conclusion interest rates and maintenance charges have an influence on the growth of credit cards in Imperial Bank Ltd. In this regard, financial institutions should be cautious when coming up with interest rates and charges. The charges should be reasonable to meet the cards operational costs since these rates have a direct impact on the acceptance and usage of credit cards in the financial system.

Ho4: Marketing awareness has no influence on the growth of credit cards in IBL

**Table 8: Influence of marketing awareness on growth of credit card**

<table>
<thead>
<tr>
<th>Marketing Awareness by Imperial Bank Ltd</th>
<th>56.400</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square @ 95% confidence interval</td>
<td></td>
</tr>
<tr>
<td>Degree of Freedom</td>
<td>4</td>
</tr>
</tbody>
</table>

The level of significant is 0.05 while the chi square result is 0.56 (Table 8). The null hypothesis should be rejected since the Chi square result is greater than the level of significance. Therefore, marketing awareness has an influence on the growth of credit cards in IBL. Hence, Imperial bank should carry out marketing campaigns geared towards creating the knowledge on the availability and benefits of the credit cards in order to boost revenue stream from credit card portfolio.

**Table 9: Ranking of Hypothesis results**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Objective</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Marketing Awareness</td>
<td>56.40%</td>
</tr>
<tr>
<td>2</td>
<td>Level of Income</td>
<td>52.08%</td>
</tr>
<tr>
<td>3</td>
<td>Level of Education</td>
<td>27.16%</td>
</tr>
<tr>
<td>4</td>
<td>Interest and Charges</td>
<td>18%</td>
</tr>
</tbody>
</table>

Based on the above findings the study has confidently established that market awareness has the highest (56.40%) correlation with the usage of credit cards in Imperial Bank Ltd. Level of income was the second at 52.08% on relationship while the level of education was ranked third with 27.16%. The least significant was interest and charges with 18%. In this regard, Imperial bank should put a lot on emphasis in creating awareness on credit cards in order to grow the credit card portfolio.

**Summary of Findings**

On level of income, findings from this study established that the majority of respondents feared taking up credit card because they did not want indebtedness. From the findings we can safely conclude that the majority of respondents did not have adequate income to support this facility.

A key finding from the study shows that although majority of the respondents had attained university level as the highest level of education and are also aware of the benefits of the credit cards, this did not influence the uptake of credit card in the banking industry.

Another finding from the study revealed that interest rates charged on credit cards has been a major impediment in the uptake of credit card as indicated by the highest response rate of eighty percent whom did not take up credit card.
A major finding in this study indicates that Imperial Bank Ltd has not been keen in embracing promotional activities on her credit card business. This is illustrated by the highest response rate of those who disagreed that IBL conducts promotional campaigns on this product.

CONCLUSIONS
Based on the study findings it is clear that income is an integral component as far as subscribing to credit card business is concerned. This is illustrated by the fact that respondents feared indebtedness an indication that there level of was inadequate.

On level of education, this study concludes that the success of credit card business was not hinged on the level of education a respondent held. This is because despite the majority of respondents having a reasonable level of education, it did not influence the success of the business. It can be deduced from this study that interest rates chargeable is a major determinant on the decision to or not to acquire a credit card as illustrated by the majority of respondents who were aware of the interest rate charged yet they did not take up the credit card facility. The awareness of credit card is an integral component in the growth of credit card business, therefore, the institutions should come up with a more vibrant marketing campaign to sensitize the awareness and benefits of credit cards.

RECOMMENDATIONS
The banking institutions should target high income individuals for the growth of the credit card business. In addition the industry should work in hand with the government to implement the wage policy that addresses the minimum wage payable. This will in effect ensure more a disposable income that would eventually influence the uptake of credit card.

Imperial Bank needs to carry out market intelligence on what can influence people to take up credit card. They should benchmark themselves with other industry players whose credit card portfolio is doing better. Banks should also come up with training strategies on card education to existing and potential customers in Kenya.

On interest rates the financial institutions should put more competitive rates to encourage more customers to take up credit cards. Imperial bank should employ more resources towards the promotion of credit card product. A joint awareness campaign by financial institutions and card issuers should be done on how plastic cards operate.

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