The impact of credit card incentive packages on consumer borrowing among bank customers in Pretoria North, South Africa

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It all starts here ™

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DECLARATION

I solemnly declare that '**The impact of credit card incentive packages on consumer borrowing among bank customers in Pretoria North, South Africa,**' is my own work and that all the sources used have been acknowledged accordingly. I certify that this dissertation has not been submitted before for any other degree.

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GLADYS K THIPE   **DATE**

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ABSTRACT

The main purpose of this study was to investigate the impact of credit card incentives on consumer borrowing. The use of credit cards has been on the increase for the past few years. To date many people, do not clearly understand how credit cards operate. With credit cards people are able to buy certain goods and services without having money in their accounts, and in the process indulge in impulse buying which results in serious debt. This problem is further compounded by credit card incentives offered by banks to lure more customers who will end up overspending. However, if managed properly credit cards can be very beneficial as they offer safety and convenience to the purchasing process. Most consumers now prefer using credit card instead of cash and cheques as it is considered a better substitute.

A quantitative research design has been followed in order to obtain conclusive results. It has been useful in generating new ideas about the research problem. Primary data was obtained by use of questionnaires. This enabled the researcher to get relevant and conclusive results. A convenience sampling technique was used. From a sample of 100 questionnaires sent out, only 94 were completed and returned back, thus the researcher was able to do an analysis.

It was deduced that the greater number of respondents were knowledgeable about credit cards but did not have a full understanding as noted by how easily they got attracted to credit card incentives offered by banks. The research findings reveal that the majority of respondents are experiencing financial difficulties as they fail to keep up with repayments on their credit card debt.

It has also been noted that a direct relationship exists between credit card incentives and consumer borrowing. For instance, if credit card incentives increase consumer spending rises, thereby increasing consumer debt. The research concluded with recommendations highlighting the need for efficient regulatory systems, the need for responsible lending and borrowing and the availability of a conducive and appropriate enabling monitoring and evaluation system that fosters the development of a vibrant credit market.

DEDICATION

I dedicate this dissertation to God Almighty who has been my source of knowledge, understanding and strength throughout the project. I also dedicate the research to the following people:

- My husband, Abby for his unshakable love and support at all times. He encouraged me all the way ensuring that I give it all it takes to finish my studies.
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1.1   INTRODUCTION

The purpose of this study has been to investigate the impact of credit card incentive packages on consumer borrowing among bank customers in Pretoria North. This is because it is believed that many people get into debt due to overspending on credit cards. According to Agarwal (2011) many customers are lured by banks and other credit providers into accepting credit cards by use of credit card incentives which are routinely issued to boost uptake of their products. Incentives have proved to be an effective marketing tool in attracting cardholders and convincing existing ones to use a particular card for their buying and borrowing needs. Examples of incentives offered by banks and other credit providers include lower interest rates, cash backs, rebates and airline miles (Chatterjee & Rose, 2012). If consumers are not careful enough such incentives lead to an increase in credit card spending that will eventually result in more cardholders' debt in future.

Therefore, it is important for consumers to properly manage their credit card debt. If managed properly credit cards can offer bank customers more convenience than cash payments and enables them to access their money anywhere, at any time. They usually have low fixed interest rates (Stauffer, 2003). It should be noted that without discipline and adequate knowledge, credit cards can lead to serious financial hardships because consumers do not feel the pain associated with spending cash when using credit cards and as a result fail to notice and monitor their spending behaviour (Soman, 2001). In addition to that, increased credit limits by banks give consumers a psychological effect of feeling wealthier than they really are and thus end up spending more than their income can afford (Soman & Cheema, 2002). Inadequate financial knowledge has been viewed as another cause of credit card debt. Lusardi and Tufano (2009) have noted that many consumers are financially illiterate; therefore managing credit card debt is very important if consumers are to reap the benefits of this plastic money technology.

This type of debt is referred to as revolving debt and offers credit providers a high potential for profiteering. It is basically an open-ended loan up to a certain limit. Therefore, credit card holders are allowed to borrow in varying amounts without any

form of collateral and the approval process is very simple. In most cases interest rates on these loans fluctuate thus becoming substantially higher under certain conditions. Consumers who fail to clear their balance at the end of the month incur high interest charges (Credit Card Monitor, 2007). Credit card debt has steadily increased over the past few years and this has been a major cause for concern among researchers and policy-makers.

This study starts with a brief background on the use of credit cards in South Africa. This is followed by another brief discussion of the research problem, research questions, research objectives as well as the significance of the study in Sections 1.3, 1.4, 1.5 and 1.6 respectively. The research methodology, design, population target, data collection and analysis are discussed in the subsequent sections.

1.2 BACKGROUND TO THE STUDY

The South African banking sector has gone through many changes over the past few years. It is well-developed and comparable to developed countries providing full different services which include retail and merchant banking, commercial, mortgage lending, insurance and investments. This sector comprises the South African Reserve Bank and a few large banks and a number of small banks governed by the Bank Act (No.90 of 1990). All large banks in South Africa have extensive electronic banking facilities with networks of automatic teller machines (ATMs) and internet facilities to ensure good customer services. The major banks apart from the Reserve bank (SARB) which dominates the banking sector are ABSA Bank Limited, The Standard Bank of South Africa Ltd., First Rand Bank Limited (FNB) and Nedbank, representing 84% of the market share in this sector. Standard Bank (STD) has a larger share of the cake in terms of assets with 31% market share, ABSA 25% and First National Bank (FNB) and Nedbank (NB) with a market share of 24% and 20% respectively.

The WEF competitive survey ranked the South African banking sector 3rd out of 148 countries. Therefore, it is generally classified as world-class with adequate financial resources, a strong regulatory and supervisory environment as well as advanced technology and infrastructure. However, close to 16% of SA adults (5,7 million adults) are still financially excluded but the sector has made a commitment of its

financial services to untapped markets. It should be noted that the challenge still remains because of the 5.7 million excluded in 2013 close to 2, 9 million people were not reachable as they had no money or cell phones (Finscope, 2013). In 2013 about 10 million people were over-indebted and this has been a major cause for concern.

This study focuses on FNB, ABSA, Standard bank, Capitec, African bank and Ned bank. But just to give a brief background of FNB the following information is provided. In 1998 Rand Merchant Bank Holdings and the financial services interest (First National Bank of Southern Africa Limited), FNB, of Anglo American merged to form First Rand Limited. Therefore FNB became a wholly-owned subsidiary of FirstRand. FNB provides personal, commercial and corporate banking services to more than six million customers all over South Africa. First National Bank (FNB) is the third largest bank in South Africa with a share of physical infrastructure of around 19% and it lags behind ABSA and Standard Bank. FNB is slowly increasing the size of its traditional branch footprint. But it has taken major strides providing significant growth in easy plan branches. Easy plan was rolled out in 2005 to sell smart solution services to hundreds of thousands of customers per month. FNB overtime introduced products and facilities with attractive incentives and this includes: Home loans, structured loans and single credit facilities, and the bank also offers financial assistance for bonds, holiday homes and investment property, small-holdings of up to 8,5 hectares as well as vacant stands in residential areas.

It is not only about money but also about providing a transactional banking tool that offers customers flexibility in terms of pricing, offering customers exclusive benefits that are suited to their lifestyles, thus attracting more clients. Credit-card facilities offer FNB customers incentives such as 55 days interest free, five free link petrol cards, eBucks Rewards subscription, free email statements, free AA emergency road-side assistance linked to the petrol card, free comprehensive global travel insurance as well as free take me home designated driver services linked to the petrol card.

The bank offers smart silver, gold and platinum credit cards. The Pretoria North branch has a staff complement of twenty-one including the branch manager and the three team leaders. On a daily basis there are over one thousand work-ins, with people coming to deposit, enquire about the different products and open new

accounts including applicatiosn for credit cards. The branch services people of surrounding townships such Ga-rankuwa, Mabopane, Mamelodi, Soshanguve as well as Atteridgeville, among others.

Deregulation and liberalization of financial services and the need of credit providers for more profitable financial instruments have resulted in increased availability of consumer credit in the form of credit cards (Prinsloo, 2002). Many credit constraints were eradicated and there was an improved supply of financial services. It is believed that debt helps to sustain consumption levels and facilitate economic growth (King & Levine, 1993). However; a problem arises if debt continues to accumulate without proper repayment plans. The global financial crises of 2008 resulted in many job losses and a squeeze on credit. This was a clear signal that a growing number of households were likely going to experience financial hardships. Research shows that the rate of indebtedness has risen significantly in the past few years. According to South African Reserve Bank (2015) 77.8 per cent of South African households spend a major portion of their income on debt servicing. In 2012, it was reported that the Marikana protracted strike that led to death in the platinum belt were caused by, amongst other things, household indebtedness. The credit Bureau Monitor notes that more than 50 per cent of active credit users exceed their credit terms (National Credit Regulator, 2015).

The opening up of the economy brought with it advancement in technology and the necessity for better service provision. The use of plastic money in the form of credit cards or debit cards became a reality. Today nearly everyone in South Africa has access to these tools of purchase management. Therefore, a large chunk of payments is made with credit cards. Examples of these cards include international brands like Visa and MasterCard with universal merchant acceptance. Electronic banking makes use of credit cards as a form of non-cash payments.

A study by Moody's Analytic (2012) Visa on the impact of payment cards in 56 countries showed that in South Africa, the total contribution to GDP was USD7.8 billion. It was also noted that South Africa has an average of 1.25 payment cards per person compared to Egypt, Nigeria, Morocco and Kenya. It should be noted that as the market expands and reaches risky segments of society, problems associated with credit cards emerge. The target population for the study was drawn from FNB,

ABSA, Standard bank, Capitec, African bank and Nedbank customers in the Pretoria North area in the Gauteng Province.

Credit cardholders, especially those in the low income segment default on their debts. This could be the case as a result of over-borrowing or impulse buying caused by credit card incentives, instalments, easy access to credit and promotions. Over-indebtedness has become a major concern for both banks and the state. In South Africa a series of credit regulations, including a control on interest rates, were enacted in 2005. This has not helped in any way since the problem of over-indebtedness seems not to have diminished (Prinsloo, 2002). However, some consumers are well-informed and use their credit cards wisely (Mansfield & Robb, 2013). The problems of managing credit card debt have been attributed to lack of financial literacy (Lusardi & Tufano, 2009). The main challenge emanates from the many credit terms and conditions which banks and other credit providers do not fully explain to their customers.

1.3   PROBLEM STATEMENT

Household debt in South Africa has reached alarming levels ranging into trillions of rands. This debt can be attributed to credit cards as a large and growing number of payments are made with credit cards as a form of unsecured credit (SARB, 2014). Banks and other credit providers have managed to attract customers into accepting credit cards by use of credit card incentives. The incentives are offered to boost uptake of their products (Agarwal, 2011). Research has shown that incentives are an effective promotional tool in attracting new cardholders and convincing existing ones to use their credit cards for their buying and borrowing needs. Therefore, it should be noted that if consumers spend on credit cards they will end up committing the greater part of their income towards repayment of debt.

However, it is has been noted that some credit cardholders fall into debt due to reckless or irresponsible lending by credit providers. This concept of reckless lending was introduced in the South African legal system in 2007. It requires a check on customer affordability by credit providers before granting credit to ensure that consumers are not over-indebted (NCR Final Report, 2012). The National Credit Act 34 of 2005 was introduced to protect consumers from falling into the debt trap. The

law has failed to meet the government's expectations as many borrowers are still getting into precarious debt situations. It seems the enacted laws are not effectively enforced.

It is also important to note that many consumers are financially illiterate and are at the mercy of credit providers. As already alluded to the regulations in operation in the credit market are not fully enforceable leaving consumers vulnerable to reckless lending (Mansfield, & Robb).

1.4 RESEARCH QUESTIONS

Basically, the following research questions when properly analysed and solutions attained will reflect the effect of incentives on consumer spending and debt.

1.4.1 PRIMARY RESEARCH QUESTION

- What is the effect of credit card incentives on consumer borrowing?

1.4.2 SECONDARY RESEARCH QUESTION

- Are incentives offered by credit providers the main reason for customer overspending or increase in debt?
- Do borrowers have adequate financial knowledge?
- What difficulties do consumers encounter on repayment of credit card debt?
- What should be done in the credit market to address the problem of irresponsible lending and borrowing?

1.5 OBJECTIVES OF THE STUDY

1.5.1 PRIMARY OBJECTIVE

- To investigate the impact of credit card incentives on consumer borrowing.

1.5.2 SECONDARY OBJECTIVES

- To establish whether incentives offered by credit providers are the main reason for customer overspending or increasing their debt levels.
- To establish and examine credit cardholders' level of financial knowledge.

- To determine the difficulties consumers encounter on repayment of credit card debt.
- To establish whether there are any guidelines and legislation on credit cards and compliance with such.

1.5.3 SIGNIFICANCE OF THE STUDY

This study is relevant as it adds more information to the body of literature on credit cards. The study delves onto the South African market which has little information on credit cards. However, there is substantial and considerable literature about credit cards in the developed world especially in the western countries such as the United States (USA) and Britain. Therefore, there is a need for more research in the developing markets.

This research will enhance and improve the regulation and management of the credit market. The recommendations will help bridge the divide or gap between access and knowledge on the use or management thereof. The unique characteristics of this market especially its adherence to fast changes in technology provides an interesting setting for such investigation.

Banks and other credit providers entice consumers by the many perceived benefits they offer. As noted by Mansfield and Robb (2013) credit cards are widely accepted for purchase transactions as they eliminate the need to carry cash, build a history of creditworthiness, facilitate reimbursement for returned merchandise, provide an accurate record of purchases, and offer desirable rewards through affinity programmes.

However, the problem is the abuse of credit cards. The greatest challenge is impulse buying. With the use of credit cards consumers unnecessarily buy items that are not essential and end up spending more than budgeted leading them into a debt trap that spells years of financial hardships for families and individuals (Mansfield & Robb, 2013).

In the light of the above it is necessary to conduct the study as efficiency and transparency of the credit market are important ingredients for economic growth and

development. The results of the study will offer useful insights that can help in managing debt.

1.5.4 CHAPTER OUTLINE

The research paper consists of five chapters.

Chapter 1 details the problem and its setting. It mainly focuses on the introduction, background, research problem, research questions and objectives and significance of the research.

Chapter 2 deals with a literature review focusing on the theoretical aspects of the research problem and findings from other researchers and authors.

Chapter 3 is on data collection. It looks at the research design and methodology.

Chapter 4 focuses on data presentation and analysis. This is where graphs are used to analyse data and its meaning.

Chapter 5 is basically a summary of the research findings where conclusions are drawn from the findings and recommendations proposed.

2 CHAPTER 2 LITERATURE REVIEW

2.1 INTRODUCTION

The chapter defines, analyses and highlights the advantages and disadvantages of credit cards. This is followed by an analysis of the rising trend in unsecured credit and the general regulations in Banking sector. The researcher further checks for the availability of guidelines and legislation on the credit card market. There has been tremendous growth in the usage of credit cards in South Africa and globally over the past few years (Tajul, Mohd. Redwanul & Nurul, 2015). This has resulted in credit regulators raising concerns that there might be widespread financial hardships and default among consumers who might struggle to maintain their repayments. The use of credit cards has undoubtedly become popular among consumers. People now feel comfortable and safer transacting with a credit card rather than moving around with cash.

It should be noted that the increasing use of such unsecured lending and the attractive incentives offered result in many consumers opting for credit cards usage for convenience. However, the National Credit Act does not completely protect consumers as its regulations are not watertight thus giving banks leeway to lend irresponsibly without being punished. The greater availability of credit cards is sometimes viewed as a cause of indebtedness that later result in financial distress. However, as noted by Zywicki (2008), increased indebtedness cannot be attributed to easier access to credit cards as there is no evidence to that effect.

The South African Reserve Bank (2011) noted that credit growth affects savings behaviour by households and has a positive effect on consumption growth. This is consistent with other researches that find a direct relationship between credit growth and consumption behaviour (Maki, 2000).

It has been argued by Golmant and Ulrich (2007) that customer over-indebtedness is primarily a result of rapid interest accumulation during periods of repayment of the balance on the credit card. In addition, the researcher noted that increased over-indebtedness is caused by the inflexibility of credit card interest rates. The interest

rates do not quickly respond to market changes unlike other bank products thus earning very high returns which are a disadvantage to credit card users.

2.2 DEFINITION OF CREDIT CARDS

A credit card is an important method of convinient payments of household accounts. According to Wilson (1996) a credit card is an unsecured short-term loan that does not need any security or collateral. The cost or price of a credit card is basically the interest rate charged on outstanding balances. However, there are other costs such as non-payment penalties, incentive programmes and annual fees that are important (Furletti, 2003). Credit card pricing is affected by the consumers' levels of current and previous outstanding debt, consumers' credit ratings, and market position of the credit card lender and other features of the credit card (Scholnick, Saunders, Carbo-Valverde & Rodriguez-Fernandez, 2008). For consumers to qualify for credit card facilities they must be creditworthy. Creditworthiness refers to the ability and willingness of the credit card holder to repay a debt or other credit obligation in accordance with all the terms agreed upon (Anderson, 2007:626).

Therefore, the availability of credit plays an important role in the lives of poor households in that credit cards allow them to buy on credit without having to pay upfront. Rogaly(1997) states that credit cards give consumers comfort to buy clothes, groceries, petrol, car rentals and air tickets for travelling globally. However, Whiteford and McCarth (2000) noted that the main credit card users are convenient users who service their debts each month.

Armstrong (2006) noted that the increased use of credit cards over time positively correlated with household income and therefore there are more people in the economy using the credit card facilities. Thus according to MacCarthy (2002) consumers regard the advantages of using credit cards as being convenient to use by not having to carry cash, possibilities of cashbacks and travel rewards as a loyal customer. Credit cards are widely used in South Africa among households as a payment method and a substitute for cash and debit cards. With credit cards consumers are able to finance their purchases without providing collateral such as real estate (Moller, 2007). Other benefits of credit cards are reductions in cash-based crime and incentives for their use. Credit cards have become a significant

source of finance and an important mode of payment. According to Moller (2007) consumers' attitudes and experience with credit cards may be affected by the conditions of the economy.

There are many alternatives to a credit card facility. These include personal loans, payday loans, overdrafts and store cards. For payment purposes the credit card can be substituted by the use of cash, cheques, debit cards and other electronic methods. Research has shown that consumers switch to payday loans and store cards when they fail to get a credit card. This can be viewed as a way of getting extra credit. However, it should be noted that the swap between the different forms of payment is influenced by the value of the transaction, the consumer's age as well as the cost and ease of use of the payment method.

Credit cards are classified into different categories. According to Cards Association one of the possible classifications for credit cards is to divide them into four main groups, i.e. basic credit cards, standard credit cards, charity/affinity credit cards and premium credit cards (see table below).

Table 1: Types of credit cards:

Type of credit card	Main characteristics
Basic	Interest incurred immediately after each transaction Lower annual percentage rate (APR)
Standard	Provides an interest-free period Most common type
Charity/affinity	Card issuer would donate a fraction of the credit card holder's transaction amount to a charity/affinity group Similar to standard credit cards
Premium	Annual fee required Have additional benefits (e.g. product guarantees, product insurance, etc.) Higher APR and credit limits

2.3 CREDIT CARDS VS STORE CARDS

Credit cards and store cards have common features. They both offer easy payment terms and are a source of revolving credit. The main difference is that store cards are used in limited locations whereas credit cards are used anywhere (Stavins, 2000). Stores such as Pick n Pay, Clicks and many others have introduced their own credit cards. Such credit cards are used both as a method of financing purchases and as a payment mechanism (Lee & Kwon, 2002). According to Ramona & Heck (1987) when customers have high instalment debt they normally tend to use store cards to supplement the credit they can get from their credit cards. Both credit and store cards have got specific advantages:

- Credit card users can save money by taking advantage of promotions and sales which they could not be able to buy if they solely relied on cash.
- Credit cards can be used throughout the day for 24 hours to purchase goods and services by mail, phone and over the internet. Therefore, consumers are not inconvenienced by the closing of shops at night.
- According to Manning (2000) consumers are now able to travel across borders without worrying about carrying foreign currency as credit cards are accepted virtually anywhere in the world.
- Consumers are able to smoothen out their consumption patterns even when their incomes get lower.
- Credit cards enable consumers to make critical purchases such as for medicaments when they do not have cash.
- With the use of credit cards consumers are able to organize their expenditure as they receive statements every month.
- Consumers have an option of making minimum payment at the end of every month and spread over a length of time or pay the outstanding amount at once.
- According to Feinberg (1996) the use of credit cards has helped reduce cash-based crime. Consumers no longer carry a lot of cash on them.
- The use of credit cards boosts the economy by allowing consumers to spend more money than they have. This enables the economy to expand at a faster level than it could if transactions are cash based. However, it is also important

to take note of the disadvantages of credit cards, as elaborated by Block (2004):

➢ Many consumers do not understand the credit card agreement terms which they sign for. Banks use difficult wordings which they do not explain to customers and the information is in small print.

➢ Most customers are not aware of their rights and obligations concerning the use of credit cards.

2.4 CREDIT CARD INCENTIVES

Banks and other lenders use many strategies to lure new customers and promote the use of credit cards by existing customers. Such strategies are normally referred to as credit card incentives. For instance, existing customers might receive an interest-free period for balance transfers between credit cards or an incentive package may be used to promote transactions. Previous studies are not clear as to whether credit card incentive packages lead to increased use of credit cards by consumers or not. One marketing strategy uniquely suited for current customers is increasing the credit limit.

Research has shown that increasing credit limit promotes spending by credit card holders. Some people may view their credit limit as income thus prompting them to spend more. Therefore, if lenders manage credit card limits properly there is a potential for them to make huge profits. According to Gross and Souleles (2002) an increase in credit limits results in an immediate rise in debt. However, these results suggest that any policy of increasing credit limits should also consider the risks to the lender.

2.5 CREDIT CARDHOLDERS' PAYMENT BEHAVIOUR

Many approaches are used by researchers to model credit card holders' payment behaviour. Researchers have come up with different classifications of customer behaviour based on payment patterns (i.e. revolvers vs. transactors). Such classification applies to existing cardholders only because lenders do not yet have repayment records for new credit card applicants. That means all active credit card

holders are categorized as being either "transactors" or "revolvers". Revolvers carry some balances on their credit cards and transactors are those paying back their full balance every month. Credit card lenders prefer revolvers because they pay interest on the balances carried forward (Field & Walker, 2004). Credit bureaus in America now make use of time series payment data in consumers' credit reports, which show a consumer's monthly credit balance, amount paid, amount due and amount overdue (Ulzheimer, 2014). With these information lenders are able to determine whether the credit applicant has been a revolver or transactor elsewhere.

Herbst-Murphy (2010) researched the characteristics of revolvers and transactors and found transactors to be older and richer on average than revolvers. Kim and DeVaney (2001) found that income, education level, real assets, positive attitude toward credit and number of credit cards all tend to increase the amount of the outstanding balance.

Zinman (2009) added to the body of knowledge by building a neoclassical choice model to investigate on why some consumers decide to be credit card transactors while others use debit cards, i.e. checking on the rationality for a consumer to prefer the former to the latter. On the work done by Sprenger and Stavins (2008) it is revealed that revolvers prefer debit cards. The same results were echoed by Simon, Smith and West (2010) using an Australian survey dataset with 662 respondents.

The "Debit Card Use" model showed that revolvers prefer debit cards whereas the "Credit Card Use" model indicated the opposite. Therefore, there is no clear explanation on what constitutes a revolver or transactor. So, Thomas, Seow and Mues (2014) used a card dataset to classify new card applicants into transactors or revolvers. The input variables chosen were education level, occupation, citizenship, employment, residential type, annual income, age and duration with bank. The study defined revolvers as consumers who did not pay back their full balance for at least one month within a period of one year.

2.6 EMPIRICAL STUDIES AND MODELS ON CREDIT CARD PAYMENT PATTERNS

One of the approaches researchers follow to model repayment behaviour is to use behavioural scorecards. The scorecards are used to classify credit cardholders into two categories, i.e. those likely to default and those who will not. Usually, such classification involves logistic regression which produces estimates of the likelihood or probability of default. Kou, Peng, Shi, Wise and Xu (2005) came up with a four-class model built from multiple criteria linear programming. Instead of just estimating the propensity of default vs. non-default, the four-class model takes into account non-bankrupt charge-off, bankrupt charge-off, delinquent or standard account.

It should be noted that the actual characteristics in a bank's behavioural scorecard are official secrets therefore the information cannot be easily obtained. Recent developments show that new scorecard techniques concentrate much on socio-economic variables such as marital status, age, number of dependants, etc. However, the most powerful characteristics in a behavioural scorecard are a credit bureau's information about the current credit position of the borrower on other accounts and the credit provider's information of the borrower's performance on the account.

The problems with the aforementioned techniques are that they are static. Predictions about the risk of defaulting are done in fixed subsequent time-frames. In other words, the dynamics of a credit cardholder's repayment behaviour should be modelled over a period of time. The Markov chain model proposed by Cyert, Davidson and Thompson (1962) is so far the best-known approach to capture the movements between repayment states over a period of time. Other researchers use longitudinal data to model the payment behaviour of credit cardholders. A study by Jiang and Dunn (2013 revealed that younger people tend to spend more on their credit cards than older people and repay at a lower rate. Another important finding in their study was that any additional increase in the minimum payoff rate on credit cards will result in an increase in the average payoff rate.

It is important to note that loan repayment behaviour patterns have been used as a measure of a borrower's likelihood to default on personal loans, but this has not

been the case with credit cards. Schwarz (2011) observed and evaluated payment patterns for instalment loans to introduce new variables. That is, the ratio of actual payments done over those payable or required. Considerable attention has been focused on models that base their argument on the idea that previous payment affects the probability of the next payment (Bierman & Hauseman, 1970). This applies mostly to fixed term loans and not on credit cards. Subsequently there had been a number of developments but it was only recently that Thomas, Edelman and Crook (2001) introduced the model into the credit card context.

2.7 AFFORDABILITY AND CONSUMER OVER INDEBTEDNESS

According to Anderson (2007:664) affordability is ''the ability to do something without causing financial distress, or other undesirable consequences''. Experian (2014) defines affordability as "the measure of a customer's financial capacity to fund new and outstanding debts, now and in the future". It is important to note that customer affordability should be assessed by the credit provider before granting any credit. The customer's other credit commitments should be verified so that the lender can be assured that the credit commitment can be met in a sustainable manner. Such assessment can be done by means of credit scoring which looks at the customer's creditworthiness i.e. their propensity to repay a loan. This assessment is based on the analysis and comparison with similar credit card users who were granted credit cards in the past. Nevertheless, there is a difference between propensity to repay and the ability to repay (Curtis, 2013). For instance, some borrowers may be rated as low risk on their credit scores, although they may be unable to repay their debts. Therefore, it is very important to assess affordability. The existing literature recommends that assessing affordability for credit cards should not be done in isolation but should take into account all the borrower's existing debts (Lucas, 2005).

2.7.1 UNSECURED LENDING

In South Africa unsecured lending has been increasing rapidly at an average annual rate of 25% since 2005. In 2005 it was R34 billion but by the end of 2011 it was R126 billion (Bank SETA, 2012). This constitutes 8% of total retail credit in 2011 as compared to 4% in 2005. Regulators have expressed concern about the rapid growth of this portfolio over the last few years. Increasing unsecured lending is often

assumed to cause financial difficulties, but as noted by Del-Rio and Young (2005) this depends on the type of customers. In actual fact, increasing unsecured lending may not be a problem if it results in positive changes in customers' financial situations. For instance, the changes should make them more confident and optimistic about their future income and their ability to repay. It should be noted that the effects of ever-increasing interest rates on consumers and their inability to repay loans impacts on the economic outlook negatively and this drives consumers to usecured lending. According to Rootman and Bosch (2011) the sharp rise in unsecured loans may be as a result of the following:

- Creditors who are willing to take high risks in anticipation of greater returns.
- Lenders get attracted by the more appealing nature of unsecured loans compared to other credit facilities.
- Lack of awareness among consumers of the cost and risk involved which links to household indebtedness.

Most consumers are blinded by the fact that they will have immediate credit to buy things they could not afford when buying cash. In contrast Harris (2003) maintained that the increase in unsecured lending is the second vital development in the banking industry in South Africa.

Harris (2004) mentioned that consumers with impaired credit records have increased from 46% in 2011 to 46,8% in 2012 and this shows that consumers are under financial strain, therefore consumers are sometimes unable to make rational choices due to a lack of information, the complexicity of the product, charges and an inabilty to notice the quality at the point of purchase.

2.8 THE INCONSISTENCIES OF BANKING SECTORS

Table 2 below shows the discrepancies between the published and the actual rates, while the regulatory maximum may be mentioned, the actual financial implications are not spelt out to the clients. The National Credit Act has replaced the Usury Act (1968) which regulates the manner in which the banks restructure their lending products, in terms of pricing of fees and interest rates which are based on credit history and risk profile of a consumer.

Table 2: Variances between published and actual rates:

Product Type	Advertised Annual interest rates	Regulatory maximum	Hidden on addition for over charges	Average percentage rate paid by the client
Home loans	16,50% p.a	Usury cap = 26% p.a	Transfer duties legal fees = R20	17,10%
Credit card	23% p.a	Usury cap = for amounts above R10000 and 29% from amount less than R10000	Tranaction fees concern rolling over credit from one month to the next	51.8% p.a if only minimum balance is paid.
Credit card	23% p.a	Usury cap = for amounts above R10000 and 29% from amount less than R10000	Transaction fees concern rolling over credit from one month to the next	51.8% p.a if only minimum balance is paid.
Personal loans R5000	Rate not specified but monthly instalment is specified p.a	No cap	Transaction fees, initiation fees charges, credit or instalment	83% p.a

Interms of the Act, banks are allowed to charge initiation fees on a credit card with a maximum not exceeding one hundred and fifty rands plus ten per cent of the agreement exceeding one thousand rands (Banks Act, 1990). A further fifty-seven rand per month may be charged as administration fees on credit cards. The maximum rate that the banks may charge consumers is thirty-one per cent based on the repo rate of 9,5%.

According to table 2 above, there are discrepancies of what is advertised and the average percentage rate paid by the consumers. The advertised rates on credit cards per annum are twenty-three per cent but the average percentage rate paid by the consumer is about fifty per cent. This means that consumers are paying twenty-nine per cent more than what is stipulated on the contract (Hawkins, 2004). There are hidden over-charges creditors do not mention to consumers upfront such as transaction fees, concernment of carrying over credit from one month to the next. Consumers overlook such charges when signing new contracts and only realise later when their pockets are impacted. For the reason that credits cards have more incentives, consumers are not aware of the financial trap they find themselves in after commitment. According to Moller (2007) to the unsuspecting consumers, credit facility accessibility restores their financial well-being, and enables them to achieve what they could not have achieved. Hence the banks are implementing a holistic approach towards increasing customer relationships by identifying their needs and informing them accordingly.

This means one can repeatedly use a credit card to buy goods and services up to the stipulated credit limit. The National Credit Act (No 34 of 2005) stipulates that over 17,2 million accounts have impaired records and noted that it is either consumers whose accounts are three months in arrears or accounts with judgements and administration orders or accounts with adverse listings.

2.9   AN OVERVIEW OF THE BANKING SECTOR IN SOUTH AFRICA

The South African banking sector, with a sound regulatory and legal framework is competitive in the global markets, and also providing full different services which include retail and merchant banking, commercial, mortgage lending, insurance and investments. This sector comprises the South African Reserve Bank and a few large banks and a number of small banks governed by the Banks Act (No.90 of 1990).

All large banks in the South Africa have extensive electronic banking facilities with networks of automatic teller machines (ATMs) and internet facilities to ensure that good customer service is provided.The major banks apart from the Reserve bank (SARB) which dominates the banking sector are ABSA Bank Limited, The Standard Bank of South African Limited, First Rand Bank Limited (FNB) and Nedbank,

representing 84% of the market share in this sector. Standard Bank (STD) has a larger share of the cake in terms of assets with 31% market share, ABSA 25% and First National Bank (FNB) and Nedbank (NB) with a market share of 24% and 20% respectively.
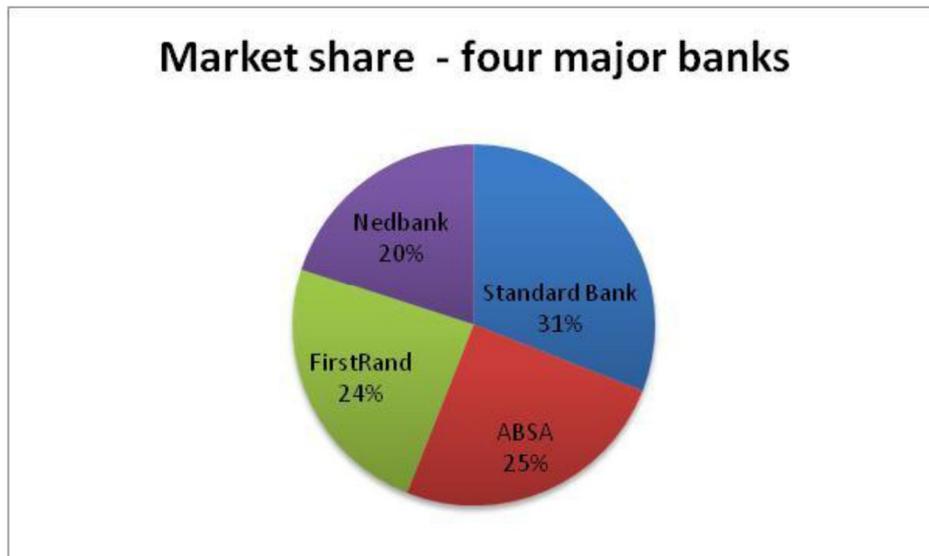
These banks' innovation strategies translate into the best value propostions offered to clients, lower interests charged, savings, incentives and accessbility (Read, 2006:37). States that the common strategies applied by the larger banks include:

- Introduction of cash-less banking that eliminates the risk and cost of handling cash.
- Reduction of staff cost by lowering basic salaries and a better commission remuneration structure.
- Improved operating hours to serve consumers efficiently.
- Increasing the range of products covering all the financial services such as transactional, credit cards, savings in order to service clients better.
- Since 1994, there has been a shift in the financial sector for the provision of financial services to the lower income market who were previously discriminated against.

2.9.1 THE CASE OF FIRST NATIONAL BANK (FNB)

In 1998 Rand Merchant Bank Holdings and the financial services interest (First National Bank of Southern Africa Limited) FNB, of Anglo American merged to form First Rand Limited. Therefore FNB became a wholly owned subsidiary of FirstRand. FNB provides personal, commercial and corporate banking services to more than six million customers all over South Africa. First National Bank (FNB) is the third largest bank in South Africa with a share of physical infrastructure of around 19% and it lags behind ABSA and Standard Bank . FNB is slowly increasing the size of its traditional branch footprint, but it has taken major strides providing significant growth in easy plan branches. Easy plan was rolled out in 2005 to sell smart solution services to over hundred thousand customers per month. FNB overtime introduced products and facilities with attractive incentives and these include: Home loans, structured loans and single credit facilities, financial assistance for bonds, holiday homes and investment property, small-holdings of up to 8,5 hectares as well as vacant stands in residential areas.

2.9.2 FNB PRIVATE WEALTH ACCOUNTS AND CREDIT CARDS

It is not only about money but also gives a transactional banking tool that offers customers flexibility in terms of pricing, offering customers exclusive benefits that are suited to their lifestyle, thus attracting more clients. Credit card facilities offer FNB customers incentives such as 55 days interest free, five free-link petrol cards, eBucks Rewards subscription, free email statements, free AA emergency roadside assistance linked to a petrol card, free comprehensive global travel insurance as well as free take-me-home designated driver service linked to a petrol card .

FNB offers smart silver, gold and platinum credit cards. The Pretoria North branch has a staff complement of twenty-one including the branch manager and the three team leaders. On a daily basis there are over one thousand work-ins, with people coming to deposit, enquire about the different products and opening new accounts including applications for credit cards. The branch services people of the surrounding townships such Ga-rankuwa, Mabopane, Mamelodi, Soshanguve as well as Atteridgeville among others.

2.10 GENERAL REGULATIONS FOR THE BANKING SECTOR

The South African banking sector is competitive globally.This sector comprises the South African Reserve Bank and a few large banks and a number of small banks governed by the Banks Act (No. 90 of 1990) (SA, 1990). Section (8) 3 of the National Credit Act 34 of 2005 defines how credit facilities should operate within credit limits. This was as the result of reviewing the Usury Act (Act 73 of 1968) after complaints from the credit market that this act was:

- Meant to exploit consumers;
- Not protecting consumers, especially from low income groups;
- Lack of credit accessibility; and
- High and rapidly increasing levels of over-indebtedness.

The NCA, although intended to regulate the market with improved terms, allows longer loan terms from thirty-six months to eighty-four months which increased unsecured credit and this benefited the banks somehow. The loans were increased from the maximum of ten thousand rands to consumers' affordability.

On the other hand, the Financial Advisory and Intermediatory Services Act 37 of 2005 stipulates that a credit card account is a financial service product whereby terms and conditions apply. These regulations are important to protect consumers against abuse by creditors; however, government interventions in terms of monitoring must be consistent and penalties for defaulters need to be enforced regularly.

2.10.1 THE NEED FOR RESPONSIBLE LENDING

Responsible lending entails what responsibility means at every stage of the lending cycle, for instance, when explaining credit agreements, managing repayments, assessing affordability, credit limits and interest rates, handling arrears and defaults and when advertising credit. Therefore, responsible lending continues throughout the entire period the customer has a credit card. According to Anderson (2007:627) responsible lending entails embracing good practices that ensure that borrowers can be able to manage repayments and know what it means to be in debt. Thus, it is

crucial for credit card lenders to do proper affordability assessments. In other words poor affordability assessments lead to reckless lending. Examples of reckless lending practices include: granting credit without having checked affordability, granting credit when the affordability assessment shows that it is likely to be unsustainable, lack of affordability assessment in individual cases, lack of policies and procedures for reasonable affordability assessment and failure to assess whether a borrower is likely to be able to repay in a sustainable manner (OFT, 2011). For lenders to have proper affordability checks they should use many sources of information such as credit reports from credit bureaus and income and expenditure statements. Analysis of income and expenditure statements should not only consider the current position of the borrower but take into account future expected changes in income and expenditure over a period of time.

Reckless lending is considered responsible for excessive indebtedness (Kempton, 2002). For instance, if credit card lenders increase credit limits or grant credit without proper affordability checks this may result in customer over-indebtedness, which in turn may result in default in payments. Over-indebtedness is referred to as a situation in which a household's income fails to meet all payment obligations despite a reduction in the living standards (Haas, 2006). Disney, Bridges and Gathergood (2008) defined over-indebtedness as a situation in which a household's credit-financed expenditure plans do not match its expected income flows. Fondeville, Őzdemir and Ward (2010) also defined an over-indebted household as "one whose current and expected future income is insufficient to meet its financial obligations without lowering its living standards".

Betti, Dourmashkin, Rossi, Verma and Yin (2001) categorized over-indebtedness into three types, i.e. subjective, administrative and objective. The subjective model considers it enough to self-define oneself as over-indebted whereas with the administrative model indebtedness must be declared before the court and registered by the court official. In the objective model, over-indebtedness is measured using debt to income ratio.

Betti et al. (2001) also criticized the idea of applying the same over-indebtedness thresholds to all customers because such an approach does not consider the customer's stage of life. For instance, young people's income is expected to increase

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over time and as a result they may be capable of managing higher debt to income ratios. The author further proposed that analysis of both current and permanent income should be done. Permanent income is income expected over a long period of time (Friedman, 1957). According to the Permanent Income Hypothesis, current consumption depends on permanent rather than current income and is responsive to permanent but not transitory income shocks (Snowdon & Vane, 2005). In addition, Betti et al. (2001) proposed the Life-Cycle Theory (Modigliani & Brumberg, 1954), which postulates that consumers smoothen their consumption over time. It assumes that young people borrow against their expected future incomes.

Irresponsible lending has been treated differently in different countries. In South Africa, credit providers are required to take reasonable steps to make the assessment of "the prospective borrower's current financial resources, obligations and prospects" (National Credit Act 2005, section 81(2) (a) (iii)). Before increasing a credit limit, credit providers must complete a new assessment of the borrower's ability to meet the obligations that come with that credit facility. Lenders are not supposed to enter into a reckless credit agreement with a prospective consumer (National Credit Act, 2005). A reckless credit agreement is one that renders the borrower over-indebted, i.e. being unable to meet all the credit obligations of agreements to which the borrower is a party.

In America, lenders are required to carry out a reasonable verification process to confirm and ensure that the prospective borrower has the ability to repay the loan according to all the terms and agreements (Consumer Protection Act, 2010). The verification process must cover the prospective borrower's current income, expected income, credit history, current obligations, employment status, the residual income the consumer will have after paying mortgage and non-mortgage-related commitments and other financial means. In Australia, credit providers are required to assess whether the credit agreement will be unsuitable for the borrower if it is entered into or the credit limit is increased during the same period. (National Consumer Credit Protection Act, 2009). The credit contract will not be suitable if there is a high likelihood that the consumer will not be able to comply with all the financial commitments under the agreement, or that obligations are met but with considerable hardship.

2.11 SUMMARY

The academic literature dwelt extensively on consumer repayment behaviour and affordability as it relates to credit cards. It highlighted the features affecting credit card debt. The literature review has identified the various ways in which the concepts of over-indebtedness, affordability, creditworthiness and responsible lending are defined in the literature and provided an overview of how they are assessed and measured. It has been noted in the literature review that different aspects of consumers' credit card usage and lenders' policy has a bearing on the probability of a credit card holder defaulting . This includes the consumers' repayment behaviour and the credit provider's marketing strategies.

A number of definitions of affordability have been proposed for consumer credit, but most of these definitions focus on the ability to repay the loan without financial difficulties. They only differ on whether one takes into consideration only the current situation of the borrower without forecasting any future changes in the borrower's finances or not. However, there has been no proper definition of credit card affordability but since there is unlimited horizon on a credit card's borrowing, the issue of having a specific time horizon to use is of paramount importance. There is scarcity of literature on affordability assessment. The little information available in the public domain suggests that affordability is assessed using application data (including income), estimated expenditure and credit bureau reports. The application process may not contain the correct information because borrowers may exaggerate their income in order to secure credit.

3 CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The chapter focuses on the steps the researcher undertook to do the research. This involves procedures, processes and the various techniques employed to collect relevant data required for the research. The sample size and composition of the target population were identified. Leedy and Ormrod (2010) interpret methodology as a framework that lays facts clearly such that clear meaning can be derived from what they present. In other words, research methodology is the manner in which data is collected and analysed (Jankowicz, 2005). It refers to the processes, procedures and techniques employed to obtain the much needed data.

The data-collection method in this research was quantitative in nature. It used questionnaires as the instrument for gathering data to establish the effect of credit card incentives on consumer borrowing. According to Leedy and Ormrod (2010), quantitative research methods involve a large number of respondents and are predetermined. The use of numbers allows for greater accuracy and precision in reporting research results (Fox & Bagat, 2007). It is actually based on objective measurements, using validated and structured data collection instruments. Therefore, the initial stage was to come up with questionnaires that would deal with the research questions and objectives. Chapter four provides an analysis and interpretation of the results obtained to help fulfil the research objectives.

3.2 RESEARCH DESIGN

The framework for data collection and analysis is clearly laid out in the research design (Bryman& Bell, 2007:40). According to Saunders, Lewis and Thornhill (2009) a research design is a plan of action that deals with the research questions. All the strategies employed by the researcher are found in the research design. Hence it is referred to as the master plan. It actually gives direction as to how questions in the research will be addressed.

The research design is used to structure the research and shows all the major aspects of the research such as samples, programmes and measurements used to address the central research questions (Research Website, 2014).It plays a critical

role in clearing any ambiguity on how the research question is addressed. Therefore, the research method used in the study is compliant with the requirements for a quantitative study.

3.2.1 QUANTITATIVE RESEARCH

As noted earlier, quantitative research options are predetermined and a large number of respondents are involved. It is systematic in nature with all the major aspects like design, objectives, sample and questions clearly spelt out. By contrast, a qualitative research design is unstructured and not tightly prescriptive. According to Creswell (2009) the initial plan of the researcher may be changed and new processes embraced as the researcher gets into the field to collect data. This gives the researcher an advantage of being able to make practical adjustments to accommodate unforeseen circumstances. But in this study, the researcher opts to stick to the quantitative method.

The quantitative approach is based on the principle of rationalism which is guided by a systematic, strict and predetermined set of procedures (Kumar, 2014).It addresses the 'what' of the problem, and follows a standardised approach to secure responses to that question. The quantitative approach has the following attributes:

- Places emphasis on the aims of the process and accuracy of the variables measured.
- It involves a large sample size.
- Quantifies the range or scope of variation in a phenomenon.
- It places considerable value on reliability and validity of findings.
- Conclusions and inferences made can be generalised, and
- Research findings are communicated in an analytical and aggregate manner.

The quantitative approach was chosen because its findings on the selected sample reflects a more accurate picture of the overall population (Johnston & Vanderstoep,2009). The other advantages of this approach as noted by Du Plessis (2015) are:

- Relationships can be determined because it is well structured and

standardised.

- It is easy and cheap to manage or administer, and
- Impact size can be measured.

However, the quantitative approach does not provide detailed results based on the responses given by the respondents (Johnston & Vanderstoep, 2009). This might be due to the fact that the questions are structured and too standardised. That means there is no flexibility on the part of the respondents when answering questions thus resulting in superficial results.

3.3 POPULATION

3.3.1 DEFINING A POPULATION

A population is defined as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications (Krefting, 1991). According to Leedy and Ormrod (2010) a population is a complete set of cases or group of members upon which the research study is based. It should be noted that it is practically impossible to study the whole population. Therefore, sampling is necessary to circumvent this problem. With sampling it is possible to generate outcomes that are representative of the whole population but what is critical is for the researcher to be able to select the most relevant population in order to achieve the intended research objectives. The six banks have approximately 42.9 million customers in South Africa. In this study, the banks' credit cardholders make up the target population. According to the population census of 2011 Pretoria North has got a population of 12972 people. The sample size of 100 respondents will suffice considering time and financial constraints the researcher faced.

3.4 SAMPLING TECHNIQUE

A sampling technique is a method used to determine which individuals should participate in the study (Cresswell, 2010). As mentioned earlier, a sample is selected from the larger population with characteristics representing the whole population. It is the researcher's responsibility to determine who or what constitutes the sample. According to Johnston and Vanderstoep (2009) sampling enables the researcher to make generalisations that claim that the research findings on the sample represents

the entire population. The key components of a sample according to Cohen (2000) are sample size, the representativeness and parameters of the sample, access to the sample and the sampling technique used.

Cresswell (2010) further classified samples as probability or non-probability. A probability sampling is based on random selection while non-probability is based on a specific sampling selection. This study adopted a non-probability sampling technique which does not need randomization in selecting a sample from the target population. It rather makes use of subjective methods in selecting the elements to be included in the sample. In other words, the samples are drawn in such a way that all the participants or units in the population do not have equal probabilities of being chosen.

Most researchers prefer non-probability sampling because it is cheaper than probability sampling and can be carried out more quickly (Battaglia, 2008). It is the researcher's responsibility to determine the non-probability sampling technique applicable to the research. The choice depends on the nature, type and main objectives of the study. In this case the researcher's main purpose was to investigate the impact of credit card incentives on consumer borrowing. The researcher chose convenience sampling on the basis of the target population meeting practical criteria such as geographical proximity, easy accessibility, willingness to participate and availability at a given time for the purpose of the study (Dörnyei, 2007). In this research the participants were selected at the researcher's discretion. It is important to note that in this case sampling had to be done carefully due to the sensitivity of the research topic. The sample size of one hundred respondents is seen as adequate considering time and financial constraints faced by the researcher.

Convenience sampling is cheap, easy and the respondents are readily available. It makes use of the assumption that the members of the target population are homogenous. That means there would be no difference from research findings obtained from a random sample (Leiner, 2014). The disadvantage of this sampling method is that it is likely to be biased and there is a problem of outliers due to the high self-selection possibility (Bernard, 2002). Outliers are elements considered to be outside the scope of the data required.

3.5 DATA-COLLECTION METHOD

The purpose of collecting data is to address the research problem stated above and reach the necessary conclusions that are aimed at responding to the research questions stated and hence achieving the objectives of the study. There are various instruments that can be used to collect data for purposes of analysis in research. Such instruments are required to fulfil the most important criteria of reliability and validity (Melville, 1995). In this regard questionnaires are the best instruments for data collection in this research. According to Kumar (2014) a questionnaire is a written list of questions addressed to respondents. It is supposed to be structured in an easy and simple format for respondents to understand it as this has a major bearing on the reliability of the questionnaire (Melville, 1996).

According to Fox and Bagat (2007) in quantitative research the use of questionnaires reduces unfairness due to their uniformity when presenting questions and they are less intrusive than face to face or telephonic surveys. The study ranks attributes as either nominal or ordinal for the purposes of measurement. All questions are closed-ended. The researcher prefers the ordinal ranking attributes method in ranking respondents' perception and views on the subject matter. This questionnaire consists of two parts, the first part is aimed at addressing personal data and the second part focuses on the objectives of the research and consists of thirty-two questions based on the five objectives of the research. The questions measured responses according to a five-point Likert scale where 1 was "totally disagree" and 5 "totally agree" (Questionnaire attached as Appendix A).

The researcher sent the questionnaires to respondents either through e-mails or by physical delivery. It is important for the researcher to do follow-ups on e-mailed questionnaires through telephone or sending reminder e-mails to encourage them to respond. Physically delivered questionnaires are better than e-mailed ones in that you can make prior arrangements for collection or they can be completed while waiting. Closed-ended questions guide respondents and ensure that they respond within pre-set boundaries (Oppenheim, 1992), thereby avoiding collection of irrelevant data.

Questionnaires were chosen due to the following advantages (Kumar, 2014):

- Analysis is easy because the same questions were asked.

- Distribution and administration of questionnaires are simple, i.e. time saving.

- Information obtained from questionnaires can be filed for future or historical reference.

- A variety of information is obtained from questionnaires.

- As respondents can fill in questionnaires in the comfort of their homes or workplaces and more time is available for them to understand.

- It is cheap.

Despite the above-mentioned advantages, questionnaires do have the following disadvantages:

- Questionnaires are impersonal, i.e. no way of clarification.

- The wording on the questionnaire can lead to a biased response.

- Sometimes there is no response.

- Getting the questionnaires back can be a mammoth task.

- If the questions are not straightforward ambiguous answers will be obtained.

In order to mitigate the above-mentioned weaknesses of questionnaires, the researcher ensured that only relevant questions derived from secondary objectives were asked. In addition to that, simple language is used and double-barrelled questions were avoided. Both indicative and sensitive questioning is avoided.

3.6   DATA ANALYSIS

According to Kumar (2014) data analysis refers to the process of attaching meaning to responses from the research participants. He identified the following procedure in carrying out the process:

- Analyse verbatim responses and incorporate them into the text in order to substantiate or contradict your argument;

- Assign a code to each theme and note the frequency; or

- Combine the two methods above to communicate the findings.

The researcher used a quantitative methodology to populate the collected data on spreadsheets and made use of descriptive statistics to analyse the data. Data was analysed according to the questionnaires designed and was grouped according to the five research objectives. The average important scores were used to weigh the significance for each objective. Each objective was discussed according to the responses to measure the impact of credit card incentives on consumer borrowing. The research therefore relied on a combination of literature and information gathered from the questionnaires.

The data collected is shown in graphs, pie charts and tables. The advantages of using tables, graphs and pie charts are:

- Responses of key indicators to the questionnaires are pictorially illustrated on pie charts.
- Key indicators can be easily compared and contrasted over time by the use of tables.

The researcher used the SPSS package complemented by the Excel package in analysing the data collected. The data was efficiently processed depicting a clear trend and pictorial view that is easy to analyse. In addition to that the package was chosen due to its simplicity and adaptability.

The last step involves deriving meaning from the data by inferring lessons learned. This could be lessons drawn from the results of comparisons between the research findings and findings from literature review. The researcher's experiences and cultural background may have an influence on personal interpretations and thus on lessons learnt. The personal interpretations may also raise new questions on the data that needed to be interrogated (Creswell, 2009)

3.7 VALIDITY AND RELIABILITY

Validity and reliability are very important features of this research. According to Krefting (1991) validity is a measure of authenticity of the data obtained using particular instruments. As noted by Leedy and Ormrod (2010), the measurement instrument must have the ability to measure what you actually intended to measure

for it to be valid. Reliability refers to the ability of an instrument to measure consistently (Tavakol & Dennick, 2011). According to Polit and Hungler, (1999) it is the degree of consistency with which the instrument measures an attribute. In other words, the measuring instrument must produce the same results under comparable conditions. Therefore, in this study, the researcher tested the questionnaires to establish, confirm and validate relationships.

3.8 ETHICAL CONSIDERATIONS

According to Polit and Hungler (1999), when people are used as research participants it is very important to take into account ethical considerations to avoid infringing on their rights. The participants' interests must be protected at all times to avoid data manipulation. Their participation should be voluntary as guided by the principles of informed consent. Mouton (2005) defines ethical behaviour as "characterized by fairness, honesty and equity in professional, interpersonal and academic interactions as well as in research and scholarly activities". The research observed the principles of respect for human dignity and justice as noted by Polit and Hungler (1999). The nature of the questions in the questionnaire bears testimony to this. They are free from harm, exploitation or any psychological discomfort. Therefore, the information gathered from bank customers was treated with all the confidentiality it deserved. The researcher followed the following process:

- Informed participants about the purpose of the research and gave assurances that it was intended for academic purposes only.

- Ensured that the respondents made an independent decision without fear of negative consequences.
- Assured respondents about confidentiality of their responses.

3.9 SUMMARY

This Chapter plays a paramount role in setting out a framework which guided the whole research process. The chapter mainly looked at the research design and research methodologies. Also, the strength and weaknesses of sources of data were discussed. Furthermore, the advantages and disadvantages of questionnaires as the

main instrument of data collection were discussed including their relevancy to the research. Ethical considerations were also taken into account. The following chapter now looks at the presentation and analysis of data collected.

4   CHAPTER 4: DATA PRESENTATION AND ANALYSIS

4.1   INTRODUCTION

The presentation, interpretation and analysis of collected data ARE done in this chapter. A statistical analysis of data was done using Statistical Package for Social Sciences (SPSS22) followed by interpretations and inferences. In this regard one hundred questionnaires were randomly distributed and out of this ninety-four were completed and returned. This was a very good response considering that the research topic is very sensitive. Only a few respondents were not comfortable to respond to the questionnaires. However, those who responded were considered to be representative of the population.

4.2   DEMOGRAPHICS

The demographic characteristics include gender, age and respondent's bank. It should be noted that in this study the questionnaires where directed to bank customers or borrowers. As revealed in the study all the respondents came from the five major banks. Table 4.1 below shows that most of the respondents were from Standard Bank with 28.72% of the target population followed by First National Bank with 25.53%. The same information is shown graphically in figure 4.1. The least is African Bank with only 2 respondents.

Table 3: Name of Bank

Bank	Frequency	%
Standard Bank	27	28.72
FNB	24	25.53
Absa	18	19.15
Nedbank	15	15.96
Capitec	8	8.51
African Bank	2	2.13
Total	**94**	**100**
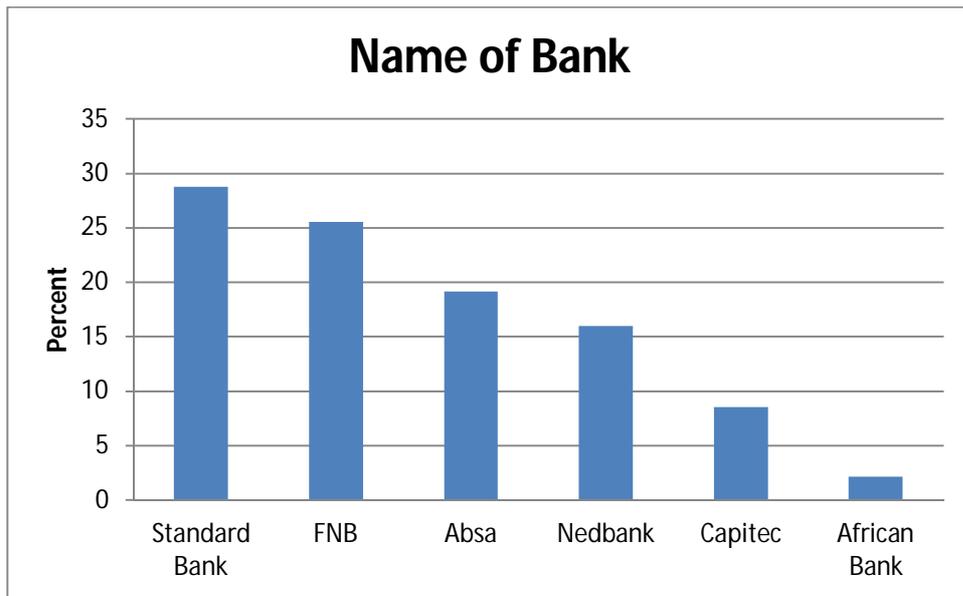
Figure 1.:Name of Bank

The majority of respondents were females who returned 57 (60.64%) of the questionnaires sent whilst males returned 37(39.36%) as shown in table 4.6. However, it should be noted that such differences in the frequency of male and female respondents may not be of significance since it's not varying by a big magnitude. No meaningful inference can be drawn from this.

Table 4: Gender

Gender	Frequency	%
Male	37	39.36
Female	57	60.64
Total	**94**	**100**
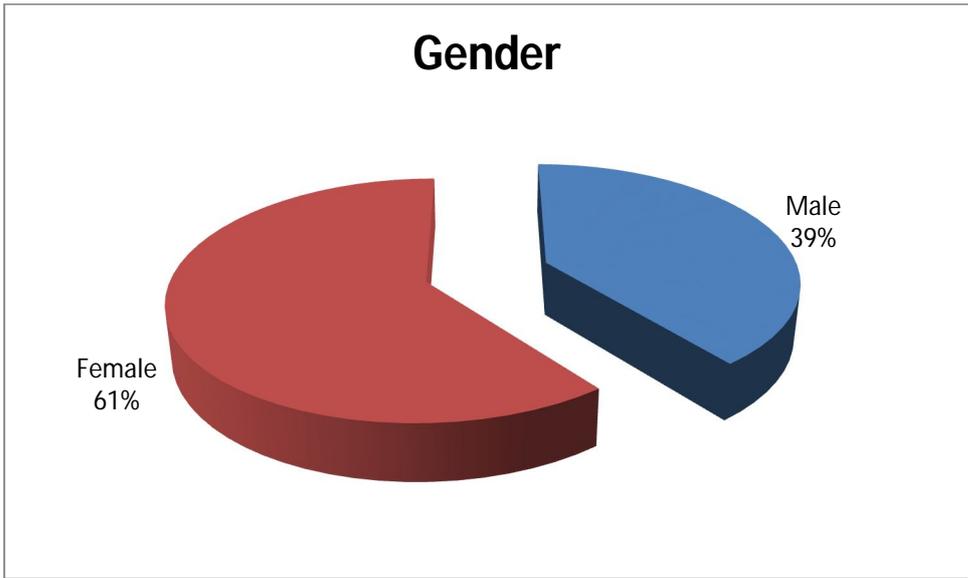
Figure 2.: Gender

Table 5: Age category

Age category	Frequency	%
20 - 25 yrs	12	13.04
26 - 35 yrs	22	23.91
36 - 45 yrs	26	28.26
Above 45 yrs	32	34.78
Total	**92**	**100**

The respondents were further classified according to age groups. Table 5 reveals that twelve (13%) of respondents were aged between twenty and twenty-five years, twenty-two (23.9%) were aged between twenty-six and thirty-five years, twenty-six (28.3) were aged between thirty-six and forty-five; thirty-two (34.8) were aged above forty-five. Therefore, it can be concluded that that the majority of respondents were aged above 26 years. The same information is shown on figure 4.4 below. A study by Jiang and Dunn (2013) revealed that younger people tend to incur more debt on their credit cards than older people and repay at a lower rate.
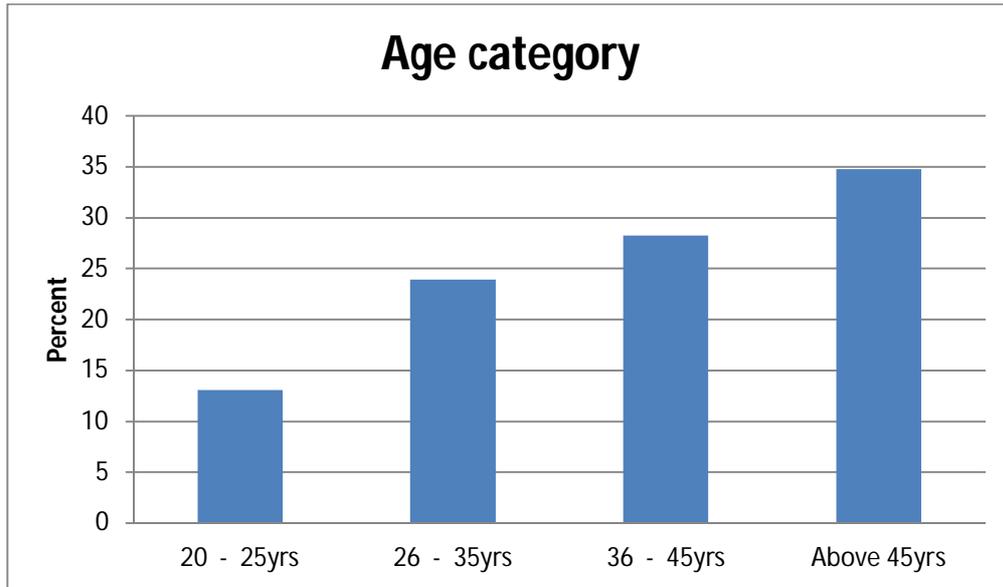
Figure 3.: Age category

Table 6: Marital status

Marital status	Frequency	%
Single	35	38.89
Married	34	37.78
Divorced	12	13.33
Widow	9	10
Total	**90**	**100**

Table 6 above shows a further analysis based on marital status. As depicted in the table most of the respondents were either married or single. This constituted a combined 76.8% of the total respondents. The remaining 10% were widows and 13.3% divorcees. Figure 4 shows the same information.
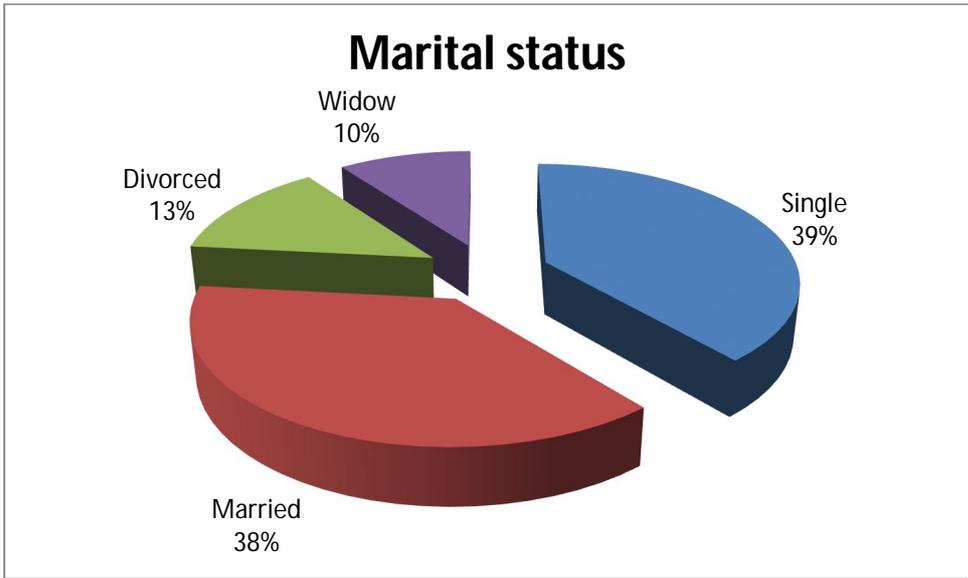
Figure 4.:Marital status

4.3   DO CONSUMERS SPEND MORE OR INCREASE THEIR DEBTS BECAUSE OF INCENTIVES OFFERED BY CREDIT PROVIDERS?

Most consumers view credit card offers by banks as an opportunity to grab. As shown on table 7 below, among the respondents 40.9% agreed that they have received credit card incentives. Here it is important to realize that most consumers just accept the credit cards without knowing the implications of using them in terms of interest rates. About 75% of respondents confessed that they had received SMS adverts to take up credit cards. To them credit cards are very helpful as alluded to by 77.6% of the respondents. This shows that consumers generally have a positive view of credit cards. About 67.7% of the respondents also agreed that credit cards offered them convenience and they used them to buy goods and services. Respondents agreed to the fact that credit cards could be easily obtained and about 75% agreed that it was very easy for them to apply for credit cards. As noted by Schor (1998) easy access to a credit card is viewed as one of the main causes of overspending. Other several studies revealed that the availability of liquidity through the use of credit cards improves the chances of making a purchase and the amount one is willing to part with on a given item. About 30% of the respondents used more than one credit card and 72% of the respondents agreed that they are responsible for payment of their bills. As shown in figure 5 below it can be concluded that the use

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of credit cards increases consumer debt (Soman & Cheema, 2002). More than 60% of the respondents agreed to this.

Table 7: Section A

| No.	Item	Yes (%)	No (%)
6	Have you ever received any incentives on your credit card(s)? (N=93)	40.86	59.14
7	Have you ever applied for an increase on your credit card limit? (N=93)	59.14	28.26
8	Do you get SMSs from your bank advertising credit cards? (N=94)	75.53	23.40
9	Credit cards are helpful (N = 94)	77.66	22.34
10	Do you buy goods and services with your credit card? (N = 93)	67.74	32.26
11	Credit cards are easily accessible (N = 94)	73.4	26.6
12	It was easy for me to apply for a credit card (N = 93)	75.27	24.73
13	Do you use more than one credit card? (N = 93)	30.11	69.89
14	Are you responsible for payment of your own credit card bills? (N = 94)	72.34	27.66
	Average Response (%)	**66.4**	**34.92**
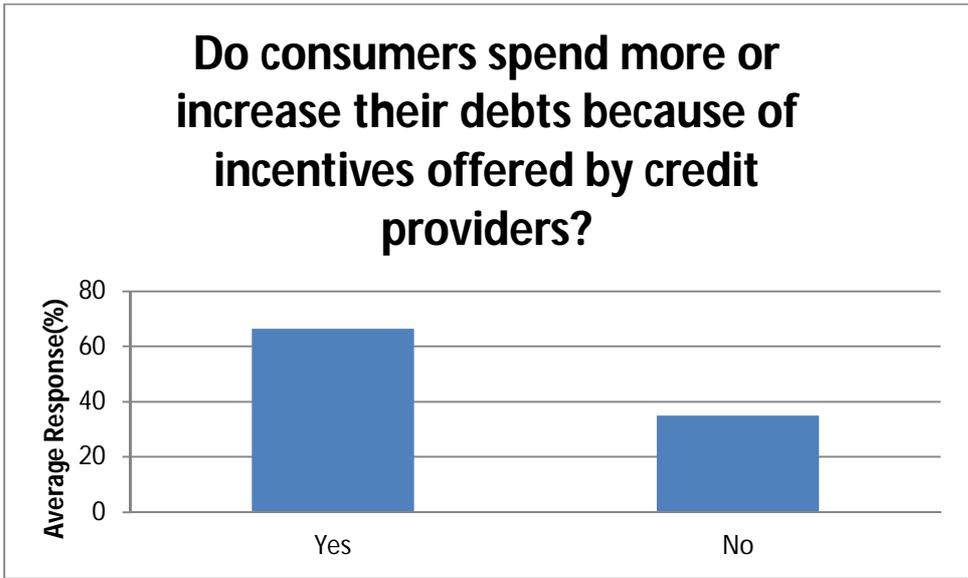
Figure 5.: Consumer Spending

4.4 DO BORROWERS HAVE ADEQUATE FINANCIAL KNOWLEDGE?

As seen in table 8 below it can be inferred that borrowers do not have adequate knowledge about the mechanics of credit cards, particularly how they work. Responses from the questionnaires show that 34% misuse their credit cards and about 44% agreed that they spend more when they use credit cards (Soman & Cheema, 2002). This really shows that the consumers are not worried or they do not understand the implications of spending more with credit cards as noted by Swart (2012). Therefore, many researchers contend that some consumers regard or view an increase in credit limit as an indication of future income thereby prompting them to spend more. Warwich and Mansfield (2000) contended that a reduction in credit card debt can be possible as a result of increased awareness and understanding in the use of credit cards. However, it should be noted that awareness and understanding are two different things. For instance, a simple disclosure of terms and conditions by the bank or credit provider cannot be enough. What is more important is for the bank to ensure that those terms *and conditions are clearly explained to customers so that they are able to make effective credit decisions. There is a general consensus among many researchers that consumers' lack of financial knowledge is a major problem in the credit card market (Lee & Hogarth, 2000).

Table 8: Section B

Key: SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree

No.	Item	SA (%)	A (%)	N (%)	D (%)	SD (%)
15	I worry how I will pay off my credit card debt (N = 92)	21.74	29.35	10.87	26.09	11.96
16	I miss use my credit cards when I shop. (N = 90)	11.11	23.33	7.78	32.22	25.56
17	Credit cards are generally helpful (N = 92)	18.48	43.48	11.96	19.57	6.52
18	I spend more when I use a credit card (N = 92)	13.04	31.52	14.13	25	16.3
19	I am worried about establishing a good credit record (N = 92)	19.57	34.78	11.96	26.09	7.61
20	I know how credit cards operate (N = 92)	32.61	41.3	16.3	7.61	2.17
21	I receive statement of account every month (N = 92)	41.3	35.87	7.61	9.78	5.43
22	I know my rights and obligations as a credit card holder? (N = 92)	33.7	44.57	15.22	3.26	3.26
23	My bank adheres to the concept of responsible lending (N = 90)	15.56	57.78	14.44	8.89	3.33
24	Credit cards are user friendly and safe (N = 89)	13.48	42.7	16.85	24.72	2.24
25	Credit cards are cost effective (N = 89)	10.11	19.1	21.35	37.08	12.36
26	I am generally satisfied with the use of credit cards.	10	44.44	28.89	12.22	4.44

	(N = 90)					
28	Credit cards give me peace of mind and I enjoyed a happy and stress free financial life (N = 90)	7.78	27.78	12.22	33.33	18.89
29	I always make only minimum payments on my credit cards? (N = 90)	17.78	35.56	15.56	23.33	7.78
30	I often exceed my credit card limit? (N = 89)	10.11	22.47	7.87	29.21	30.34
31	The banks need to improve on in terms of credit cards. (N = 90)	20	43.33	13.33	14.44	8.89
32	I am credit-worthy (N = 90)	31.11	42.22	13.33	10	3.33
	Average Response (%)	**19.26**	**36.45**	**14.10**	**20.17**	**10.02**

Table 8 shows the responses to each question in the questionnaire. It makes use of a scale that ranges from *strongly agree* to *strongly disagree*. As noted earlier on about 34% of the respondents agreed that they misused their credit cards. This resulted in some consumers failing to service their debts. About 51% confessed that they were worried about how they are going to get out of debt. More than 61% claim that credit cards are helpful but at the same time worried about establishing good credit records as alluded to by 54.4% of the respondents.

An overwhelming 76% of the respondents agreed that they received their monthly statements from the banks which showed that they were aware of their obligations in terms of repayments. About 33.7% strongly agreed that they were aware of their rights and obligations. Also, most of the respondents (73.4%) agreed that banks practise responsible lending and that they were generally satisfied by the service from banks. But about 63% claimed that banks needed to improve in in terms of their terms and conditions of service. For instance, consumers must not be allowed to increase their credit card limits unless there is a corresponding increase in income. The questionnaire revealed that 32% of the respondents have exceeded their credit limits. Banks should not arbitrarily increase consumers' credit limits as

this would encourage them to spend more and end up in precarious debt situations. This concurs with the observation made by Swart (2012) that consumers do not mind when buying with credit cards.
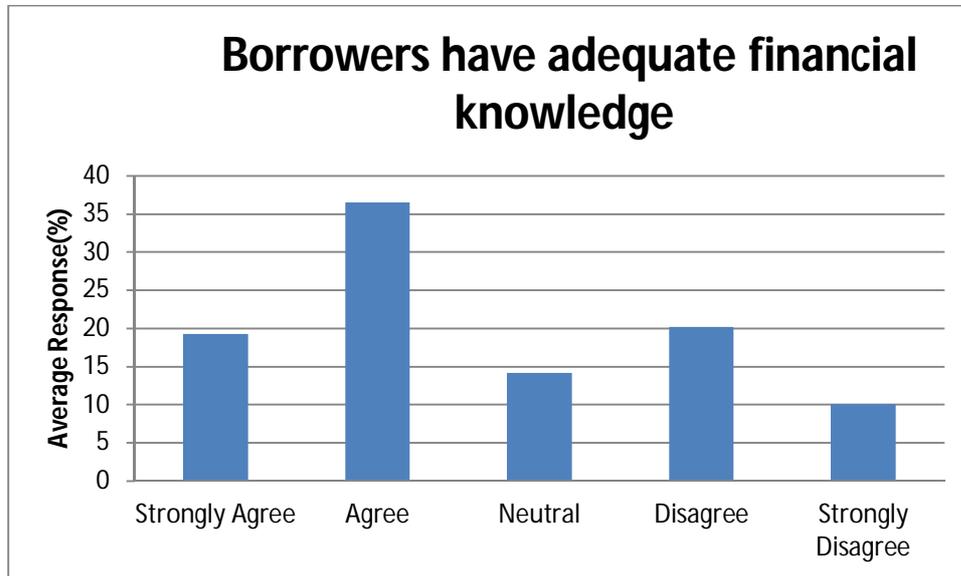
Figure 6.: Borrowers have adequate Financial Knowledge

4.5 CHI - SQUARE TEST OF INDEPENDENCE

This test mainly looks at the relationship between two different variables (or categories) in the target population. If the two categories have a probability value (p-value) which is less than 0.05 level of significance, then there is a significant relationship between the two categories.

Table 9: Cross-tabulation of perceptions of respondents about the application for a credit card by age

	It was easy for me to apply for a credit card		
Age category	Yes	No	Total
20 - 25yrs	5	7	12
26 - 35yrs	17	5	22
36 - 45yrs	21	5	26
Above 45yrs	25	6	31
Total	68	23	91
p-value = 0.044 chi-square statistic = 8.097df = 3			

The researcher used SPSS 23 software package to carry out a chi-square test of independence for the data shown in Table 9. The chi-square statistics, p-values and observed frequencies with 3 degrees of freedom are shown in Table 4.8. The perceptions of respondents about the application for a credit card are significantly dependent on their ages as shown by p-value of less than 0.05 level of significance. The majority 81% (25/31) of the respondents above 45 years of age agree with the statement stated in Table 9, whereas the majority 58% (7/12) of the respondents below 26 years of age disagree (see Figure 7 below to justify this research finding).
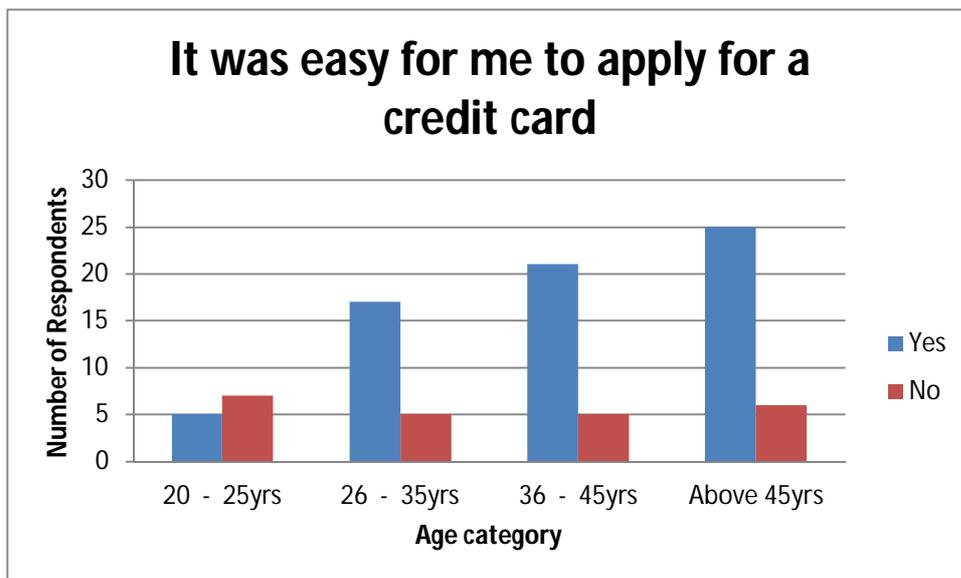
Figure 7.: Easy to apply for credit card

Studies reveal that what people believe in has more impact than the knowledge they have about credit cards. The positive attitudes about credit cards observed earlier on flow from beliefs. Chien and DeVaney (2001) found that younger credit cardholders are more inclined to credit card use than older consumers. This is attributed to the fact that younger consumers believe that they have the potential to earn more money in the near future, thus are at present willing to adjourn their payment. A further study by Roberts and Jones (2001) shows that young people have a more lenient attitude towards debts. They are growing up with a culture of debt and can use credit liberally.

4.6 SUMMARY

As already revealed in the literature review section the findings display a positive correlation between credit card incentives and consumer spending patterns. The majority of credit cardholders have positive attitudes towards credit card incentives and credit limit increases and most of the respondents claimed that they were aware of the operations of the credit market. In other words, they were well-informed in terms of their rights and obligations. However, it should be noted that having such knowledge cannot be the only solution to the problem of over indebtedness as some of the respondents confirmed that they were in debt traps. Credit card providers should be found to be responsible and ethical in dealing with borrowers. It should also be noted that regulators should ensure that there are efficient mechanisms and controls in the credit market. The next chapter presents the research findings and recommendations.

5 CHAPTER 5: FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter is a culmination of the theoretical and empirical findings of the research. A report on whether the research questions were addressed or not is presented. Conclusions are also drawn from the research findings and possible explanations given. The researcher finally proposes recommendations based on the research findings.

5.2 FINDINGS

Literature on credit cards revealed that there are basically two strands according to which credit cards can be viewed. The first strand looks at the borrower and tries to identify who uses the credit card, how is it used and who defaults in repayments. The second strand focuses on the lender and looks at what criterion credit providers use to accept credit card holders and what they do to ensure uptake of credit cards by borrowers. The findings of this research are summarized below:

5.2.1 THEORETICAL FINDINGS

- It was noted in the literature review that consumers generally view credit cards positively and thus tend to spend more than they would spend with hard cash. It was also revealed that credit cards offer convenience to the consumers as they are able to buy goods and services without money in their accounts. In other words, they are able to spend now income which they will receive in future.

- It has also been stressed in the literature what credit providers can do in terms of improving on credit scorecards and estimating the default risk of potential borrowers. In this regard very little progress has been made which justifies why the credit market is largely made up of defaulters and over-indebted consumers.

- The concepts of affordability and over-indebtedness have been explained in the literature and definitions provided. However, it should be noted that no definitions specifically for credit cards have been provided or proposed.

- The literature reviews also revealed the fact that when assessing over-indebtedness, it is recommended that credit providers, specifically banks, should use various indicators to approve credit. For instance, 30% or a third of gross income is used on repayments of unsecured loans as an indicator of over-indebtedness.

- The findings also reveal that responsible lending must be exercised in every aspect of lending. That means credit providers are required to explain all the terms and conditions of lending that involve credit limits, credit agreement, affordability, defaults, arrears, advertising credit, repayments, and interest rates. However, it should be noted that most of the theoretical findings are concentrated on the anomalies rather than on standard credit card usage.

5.2.2 EMPIRICAL FINDINGS

The following findings were noted from the research:

- Most respondents indicated that they viewed credit cards offered by banks as an opportunity to be utilized. Amongst the respondents, 40.9% agreed that they had received credit card incentives. Banks actually send SMS adverts appealing to consumers and promising incentives in the first few months of credit card uptake. Therefore, credit cards are considered helpful as alluded to by many respondents. Most of the respondents claimed that credit cards offered them convenience and are easy to obtain and can be used to do purchasing transactions even if they do not have money in their accounts. In other words, they are able to spend now rather than in the future when they have money in their accounts. Therefore, it can be concluded that the use of credit cards has an effect in terms of increasing spending and thus consumer debt.

- The target population confessed that they had adequate financial knowledge. This is a divergence from the literature which claims that the majority of borrowers are financially illiterate. The questionnaires reveal that about 33.7% strongly agreed that they were aware of their rights and obligations. Also, most of the respondents (73.4%) agreed that banks practise responsible lending and that they were generally satisfied by the service from banks but

they did allude to the fact that banks need to improve their terms and conditions of service. Unsolicited credit card limit increases can be cited as one area that needs improvement. For instance, consumers must not be allowed to increase their credit card limits unless there is a corresponding increase in income. The questionnaire revealed that 32% of the respondents have exceeded their credit limits. Banks should not arbitrarily increase consumers' credit limits as this would encourage them to spend more and end up in precarious debt situations.

- Repayment of credit card debt has never been easy for consumers. Questionnaires have also revealed that some consumers are already over-indebted and finding it difficult to get out of the debt trap. The majority are now concerned about how they are going to be able to improve their credit-worthiness.

- Therefore, from the findings it can be deduced that there is a positive relationship between credit card use and spending. However, as observed earlier, most credit card holders become victims of unsolicited credit card limit increases and credit card rewards.

5.3 DISCUSSION

The empirical findings concur with the theoretical findings, particularly the fact that credit cards prompt customers to spend more than they would with cash. The increase in the use of credit cards has been attributed to the use of credit card incentives and increases in credit card limits. Both empirical and theoretical findings point to the notion that credit cards are necessary in the modern economy to make the buying process easier and safe despite its downside. Further findings also point to the need for proper regulations to curb irresponsible lending by credit providers. However, the concepts of responsible lending and over-indebtedness were more emphasized in the literature review than in the research findings.

5.4 CONCLUSION

Causes of the rising trajectory on the use of credit were investigated since the purpose of the research was to determine the incentives prompting consumer borrowing. Unsolicited credit card offers were identified as the major cause of credit

card uptake by consumers. Generally, it was noted throughout the research that consumers spend more or increase their spending or debt because of incentives.

Easy access to credit cards was observed to be one of the causes of overspending. The respondents agreed that it was easy for them to obtain credit cards from the banks. Previous research by other scholars confirms that the availability of liquidity prompts one to make a purchase and determines what to purchase and the amount one is willing to spend. This corroborates well with the assertion that credit cards directly cause an explosion in consumer debt (Sapsford, 2004). It also came out in the research that a reduction in credit card debt can only come about through increased awareness and understanding in the use of credit cards. The fact that most of the banks disclose the terms of the credit card agreements with their customers is not enough. What is important is for the consumers to understand the implications of those terms. The increased use of credit card incentives by banks and other credit providers has resulted in a massive uptake of credit cards by customers.

As revealed in the research, many consumers view credit cards positively. Banks offer them low interest rates, high credit limits and in some cases get pre-approval of credit card applications and these have become familiar terms to many consumers. The research also shows that credit providers sometimes waive some requirements for promotional purposes. Incentives such as a free one-year charge and a supplementary card encourages consumers to use their credit cards. It has also been noted in the research that the use of credit card incentives has changed the attitude of the bank customers. Consumers generally accept debt as part of the modern consumer society. This new culture of accepting overspending and excess buying creates an environment that supports one's attitudes, personal norms and beliefs differently. According to Livingstone and Lunt (1992), attitudes towards debt and credit have been found to be relevant.

Many lessons were drawn from the literature review section especially on other countries' credit markets and how they are regulated. It was noted that it is not only the South African credit market which is fraught with many irregularities. Other countries are even worse when it comes to ethical issues. Therefore, what is important is for a country to have a continuous review of policies.

5.5   RECOMMENDATIONS

Considering both theoretical and empirical findings of the research the researcher recommended the following:

- Although the majority of respondents in the target group showed a remarkable degree of financial literacy it is important that borrowers should continuously be educated on financial literacy so that they keep pace with the changes in credit regulations. Regulatory documents should be readily available at banks and micro-lenders for borrowers to use. For instance, market information with respect to quotations or prices and trade executions should be readily available.

- Financial institutions must be transparent in their dealings with credit card holders. For instance, they must be able to provide evidence on their decision-making processes in terms of how they make interest rate adjustments and credit limit increases.

- Relevant regulatory bodies like the National Credit Regulator should constantly carry out surveys of defaulters on credit cards and establish why and how they defaulted. This may reveal very important information on the relationship between the lender and borrower acquisition of credit card, before default and after default.

- More needs to be done by the relevant regulatory bodies as far as the relationship between acquisition strategies and the associated default risk is concerned. As noted in the findings the use of credit card incentives have resulted in borrowers getting into precarious debt situations.

- Market manipulation and other unethical behaviour must be severely punished as a deterrent to criminal activities. Stringent predatory lending rules should be set and the National Credit Regulator be given more discretionary powers to decisively deal with the malcontents in the credit market.

- Credit providers should be guided by cardinal values of market transparency and accountability.

- Additionally, there is need for a continuous development of the credit market and this can only be possible if a conducive and appropriate enabling monitoring and evaluation system is in place. This then requires effective economic policies that bring about stability in exchange rates, interest rates and general economic wellbeing. The South African economy and more particularly the credit market have been affected by a high budget deficit and expansionary monetary policy.

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7 ANNEXURES

7.1 APPENDIX A: QUESTIONNAIRE

Questionnaire- Bank Customers

Please indicate your response with a cross(X) in the appropriate box and give any other relevant information in the spaces provided.

SECTION A: Demographic information

1. Name of Bank

2   Gender

Male	
Female	

3. Nationality

4. Age

20-25	26-35	36-45	45+

5. Marital status

Single	Married	Divorced	widow

SECTION B: Do consumers spend more or increase their debts because of incentives offered by credit providers?

No		Yes	No
6	Have you ever received any incentives on your credit card(s)?		
7	Have you ever applied for an increase on your credit card limit?		
8	Do you get SMSs from your bank advertising credit cards?		
9	Credit cards are helpful		
10	Do you buy goods and services with your credit card?		
11	Credit cards are easily accessible		
12	It was easy for me to apply for a credit card		
13	Do you use more than one credit card?		
14	Are you responsible for payment of your own credit card bills?		

If your answer is no please specify:

6……………………………………………………………………………………………

7……………………………………………………………………………………………

8……………………………………………………………………………………………

9……………………………………………………………………………………………

10………………………………………………………………………………………….

11………………………………………………………………………………………….

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13…………………………………………………………………………………………

14………………………………………………………………………………................

Section C: Do borrowers have adequate financial knowledge

No		Strongly agree	Agree	Neutral	Disagree	Strongly disagree
15	I worry how I will pay off my credit card debt					
16	I misuse my credit cards when I shop.					
17	Credit cards are generally helpful					
18	I spend more when I use a credit card					
19	I am worried about establishing a good credit record					
20	I know how credit cards operate					
21	I receive a statement of my account every month					
22	I know my rights and obligations as a credit card holder.					
23	My bank adheres to the concept of responsible lending					
24	Credit cards are user-friendly and safe					
25	Credit cards are cost effective					
26	I am generally satisfied with the use of credit cards.					
28	Credit cards give me peace of mind and I enjoyed a happy and stress-free financial life					
29	I always make only minimum payments on my credit cards.					
30	I often exceed my credit card limit					
31	The bank needs to improve on in terms of credit cards.					
32	I am credit-worthy					

General comments not covered by the questions:

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