

Financial Literacy and Credit Card Usage in Oman

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Abstract

This study aims to find financial literacy (henceforward FL) and credit card usage (henceforward CCU) in Oman. It investigates how financial literacy affects five credit card behaviours: (1) Maximum Credit Limit; (2) Timely payment of dues; (3) Only minimum payment; (4) Delinquency in payment and (5) Maximum Cash Withdrawal. A survey was conducted on 200 respondents who were using a credit card in Oman. The questionnaire used for collecting data consisted of three sections: demographic information, FL, and CCU. To check the FL, the customers were asked to rate their awareness of the terms and conditions of the credit card providers, while CCU was measured using five questions. FL is found to be 39%. This paper gives a unique insight into FL and CCU in Oman. An understanding of the CCU will help control excessive debt and high interest payments.

Keywords: Credit card, credit card literacy, credit card behaviour, demographics

Credit card usage offers several benefits and drawbacks, subject to the pattern of use. Sensible and correct use of credit cards increases liquidity and offers supplementary resources. However, credit card transactions, which are careless and over the user's financial limits, result in unnecessary debt. The increased spending due to credit cards results in excessive credit card debts. Credit card debt has risen more rapidly than the disposable income; this has alarmed the policy makers and governments. Though, increase in consumption is usually seen as an encouraging factor for the economy but high levels of debt may create financial difficulties or lead to bankruptcy, hence in the long term it will result in slower economic growth. Apart from misuse by consumers, sometimes the credit card companies exploit the customers through high interest rates and hidden fees (Tidwell et al., 2010).

1. INTRODUCTION

Credit cards originated in the United States of America in the early 1940s, and their usage became common due to their convenience and use in online transactions. Initially cash was replaced by cheques for transactions and later with the popularity of credit cards cheque were replaced by credit cards. The wide acceptability of cards the world over can be gauged by the large numbers of credit cards worldwide. A credit card offers several advantages as compared to cash for its users such as safety, convenience, short-term free credit, rewards points, etc. Merchants also benefit from credit cards as people have an inclination to spend more while using credit cards.

In 2018, there were 22.11 billion credit, debit, and prepaid cards in circulation worldwide. This figure is set to reach 29.31 billion by 2027. Off late Oman is moving towards consumerism and debts due to cars, mortgages, student loans and credit cards payments are weighing down on most Omanis. Apart from the increase in loan amount the average age of loan applicants between 2004 and 2008 was 26 years but compared to the subsequent five-year period to 2014, it fell to 22 years. As per the Central Bank of Oman (2016) total credit extended by local banks increased to OMR17.8 billion in 2015 and around 60 percent of these are personal loans (TOO, 2015).

Credit card literacy can be stated as having knowledge about the basic terms and conditions of a credit card. Since there are limited numbers

of studies on credit card literacy, generally the literature uses financial literacy as a proxy for credit card literacy. Financial literacy (as per OECD-INFE, 2012) consists of awareness, knowledge, skill, attitude, and behavior required for taking wide-ranging financial decisions resulting in an individual's financial wellbeing. Lack of financial knowledge results in more credit card debt (Norvilitis et al., 2006) and higher financial knowledge translated into lesser risky use of credit cards (Robb, 2011). In general, though there is proof that financial literacy positively encourages individual to exhibit a more conscious financial behavior but there are contradictions in the previous research. Results of previous study vary based on the topic or population of study (Robb, 2011). In view of the inconsistencies in the previous studies there is a need to research the role of credit card literacy and credit card behavior in Oman. This will be helpful to the individuals, regulating bodies, business, and banks.

2. LITERATURE REVIEW

Usage of credit cards is increasing and individuals and business all over the world are moving from cash to cards in their day-to-day transactions. Humphrey (2004) through an econometric model showed that during a twenty-five-year period the use of cash has fallen as people are going in for cashless transactions. Consumers report that they spend more with credit cards as they facilitate spending (Feinberg, 1986; McCall & Belmont, 2002). Reasons for the increased use of credit cards range from esteem and acceptability (Medina and Chau, 1998), convenience and safety (Mayer, 1997), easy to fulfill eligibility conditions (Canner and Lucket, 1992); easy to borrow money and encouraging higher levels of spending by the holder (Cargill and Wendell, 1996) and providing an opportunity of investing the available cash (Chang and Hanna, 1992).

Demographics and Cards Usage Behavior

Researchers have studied how the various demographic factors (gender, age, ethnic background, education, income) influence the usage of credit card (Confer and Cynrak, 1986; Kaynak and Harcar, 2001; Lee and Hogarth, 2000 and Lucas, 1991). Credit card companies

also consider the demographic factors while issuing the cards, for example preference is given to individuals with high income and education (Adcock et al., 1997).

Syed Sharaf (1998) found no differences in credit card usage between males and females. While Armstrong and Craven (1993) and Davies and Lea (1995) found that women have a greater number of credit cards and a much higher level of debt as compared to males. Conversely, Henry, Weber, and Yarbrough (2001), found that women are more likely to limit their spending.

Age has been found to be a major factor in the possession and use of credit cards. Researchers have found that youths are more hopeful about their financial future and thus have more credit (Sumarwan and Hira, 1993) and the middle age or age group between 36 and 45 are more likely to own credit cards (Kaynak and Harcar, 2001; Barker and Sekerkaya, 1992).

Occupation is a significant indicator of credit card usage (Mansoor, 2009). Other researchers such as Mandel (1972) found that family income and education were the primary indicators. Slocum and Mathews (1970) found that using credit cards to create revolving credit is regularly done by cardholders from low socioeconomic status. High income was also found to influence credit card account (Kinsey & McAlister, 1981).

Financial Knowledge and Cards Usage Behavior

The relationship between financial knowledge and cards usage behavior has been varied and conflicting. Results of the studies vary depending on the behaviors studied, methods of measuring financial knowledge, and the populations used in the study (Mandell, 2004 and Peng et al. (2007). Some studies have found that higher financial knowledge is associated with avoiding future financial problems (Shim et al. 2010; Norvilitis et al. 2006; Avard et al. 2005; Braunsberger et al. 2004).

Liebermann and Flint-Goor (1996) found that past knowledge is one of the significant factors influencing information processing. Chen and Volpe's (1998) research also supported this view by suggesting that financial knowledge

impacts decisions. Furthermore, Hilgert et al. (2003) examined household behavior and concluded that there is a strong relationship between knowledge and credit management.

Jones (2005) found no significant relationship between knowledge and the use of credit cards. Robb and Sharpe (2009) used six questions to measure financial knowledge and found that personal financial knowledge and credit card balance behavior are related, and more knowledgeable individuals reported higher balances. The time and switching cost associated with searching and subscribing to a new credit card lead to adverse selection problems (Calem & Mester, 1995).

Lyons (2004) studied credit card customers in the USA and identified risky customers based on high revolving balance, delinquency in their credit card payments, borrowing up to the maximum credit limit, and irregular payments. Borden et al. (2008) stated that good knowledge of credit cards also increases risky behavior, possibly lowering the fear of using credit cards. His finding is supported by some researchers who have also found that greater financial knowledge leads to higher credit card debt (Borden et al., 2008; Norvilitis and MacLean, 2010; Robb and Sharpe, 2009).

3. RESEARCH METHODOLOGY

3.1 Sample Frame and Sampling Procedures

Data was collected using a questionnaire through a convenience sampling method since it is an exploratory study aimed to provide preliminary knowledge on the issues being examined. 200 complete and usable questionnaires were collected. Data was collected during the period January 2021 to June 2021.

The customers of the three banks in Oman were part of the survey- Bank Muscat, Bank Dhofar and National Bank of Oman. These three banks are the top 3 Banks in Oman and among the top 50 banks in the GCC for 2015 (<http://gulfbusiness.com/lists/top-50-gcc-banks-2016>).

3.2 Development of the Questionnaire

The questionnaire used for collecting data consisted of two sections. The first included demographic information, and the second dealt with financial literacy. The questionnaires were developed based on the literature review. After experts from the banking industry assessed the content validity, the questionnaires were then tested for reliability by conducting a pilot study. Based on the feedback, the items in the scale were later modified in terms of wordings/language. Financial Literacy quiz developed by Klapper, Lusardi, and van Oudheusden (2015) was used to ascertain the level of financial literacy of the respondents. The respondents were asked 5 questions as below;

Q1. Suppose you have some money. Is it safer to put your money into one business or investment or put your money into multiple businesses or investments?

A1. Multiple

Q2. Suppose over the next 10 years the prices of the things you buy double. If your income also doubles, will you be able to buy less than you can buy today, the same as you can buy today, or more than you can buy today?

A2. Same

Q3. Suppose you need to borrow OMR100. Which is the lower amount to pay back: OMR105 or OMR100 plus three percent?

A3. OMR 100 Plus three percent

Q4. Suppose you put money in the bank for two years and the bank agrees to add 15 percent per year to your account. Will the bank add more money to your account the second year than it did the first year, or will it add the same amount of money both years?

A4. More in second year

Q5. Suppose you had 100 OMR in a savings account and the bank adds 10 percent per year to the account. How much money would you have in the account after five years if you did not remove any money from the account?

A5. OMR 150

A person is defined as financially literate when he or she correctly answers at least three out of

the four financial concepts described above. Higher scores indicate more Financial Literacy.

3.3 Research Variables and Their Measurement

Table 1 Measurement of Variables Used in Regression

TABLE 1. VARIABLES DESCRIPTION	
Owning a Credit Card	0=No;1=Yes
Gender	0=Male; 1=Female
Age	1=18-30 years; 2=31-45 years; 3=46-60 years; 4=Above 60 years
Marital Status	0=Married; 1= Unmarried
Education	1= up to class 12; 2=above class 12
Employment	0=Part Time; 1= Full Time
Income	0=Below the national average income; 1= above the national average income
Financial Literacy	0= Below Average Score; 1= Above Average Score

4. FINDINGS

The financial literacy was found to be 38 percentages. Table 2 and 3 below show the findings of the study. Table 2 shows that 84% pay off my credit cards at the end of each month and 19% make the minimum payment on my credit cards. 60% are using up to the maximum credit limit.

TABLE NO.2 CREDIT CARD USAGE BEHAVIOR	
Questions	Percentage of respondents
My credit cards are usually at their maximum credit limit	60%
I am seldom delinquent in making payments on my credit cards	22%
I seldom take cash advances on my credit cards	16%
I always pay off my credit cards at the end of each month	84%
I often make only the minimum payment on my credit cards	19%

Source: Robb & Sharpe (2011)

Table 3 shows the results as per the Demographic variables included Gender, Age, Marital Status, Education, Employment, and Income.

TABLE 3. DEMOGRAPHIC PROFILE OF THE RESPONDENTS				
Cross Tabulations			Credit Card	
			No	Yes
Education	Up to class 12	% within Education	72.00%	28.00%
		% within Credit card	79.00%	54.00%
	Above Class 12	% within Education	48.50%	51.50%
		% within Credit Card	23.00%	46.00%
Comments: 41.5 % were educated above class 12 and in this category 51.5% owned a credit card. 58.8 % were educated up to class 12 and in this category, only 28% owned a credit card.				
Employment	Part-Time	% within Employment	73.50%	26.50%
		% within Credit card	68.50%	47.50%
	Full Time	% within Employment	57.00%	43.00%
		% within Credit card	35.50%	48.50%
Comments: 49.5% were employed full time and in this category, 43% owned a credit card. 50.5% were employed part-time and in this category, only 26.5% owned a credit card.				
Income	Below national income	% within income	80.50%	19.50%
		% within Credit card	43.00%	19.50%
	Above national income	% within income	61.50%	38.50%
		% within Credit card	62.00%	75.50%
Comments: 56 % were above the national income and in this category, 38.5% owned a credit card. 44 % were below the national income and in this category, only 19.5% owned a credit card.				
Gender	Male	% within Gender	68.50%	31.50%
		% within Credit card	72.00%	64.50%
	Female	% within Gender	67.50%	32.50%
		% within Credit card	34.00%	29.50%

Comments: 58.5% were males and in this category, 31.5% owned a credit card. 41.5% were females and in this category, only 32.5% owned a credit card.				
Marital	Single	% within martial	79.50%	20.50%
		% within Credit card	62.30%	30.50%
	Married	% within martial	54.50%	45.50%
		% within Credit card	41.50%	65.50%
Comments: 49.5% were married and in this category, 45.7% owned a credit card. 50.5% were unmarried and in this category only 20.2% owned a credit card.				
Age	18-30 years	% within Age	63.50%	36.50%
		% within Credit card	21.50%	22.00%
	31-45 years	% within Age	61.50%	38.50%
		% within Credit card	24.50%	26.50%
	46-60 years	% within Age	75.50%	24.50%
		% within Credit card	40.50%	23.50%
	Above 60 years	% within Age	83.50%	16.50%
		% within Credit card	21.50%	20.50%
Comments: 20.5% were in the age group 18-30 years and in this category 36.5% owned a credit card. 25.5% were in the age group 31-45 years and in this category 38.5% owned a credit card. 32.5% were in the age group 46-60 years and in this 24.5% category owned a credit card. 21.5% were above 60 years and in this category 16.5% owned a credit card.				

5. Conclusions and Suggestions

Individuals with higher credit card literacy have been found to engage in lesser risky behavior such as spending up to maximum credit limit, making due payment on time, lesser likelihood of delinquency in payment, and taking a lesser cash advance. Previous studies such as Norvilitis et al. (2006) and Robb (2011) also found that lower financial knowledge results in more credit card debt and riskier use of credit cards. The results of previous studies show that the general knowledge, education level, and credit education program were important factors (Gartner and Todd (2005); Chien & DeVaney (2001) and Zhu & Meeks (1994).

Future research should also aim to understand better what improves credit card literacy as it is associated with better credit card usage behavior.

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