

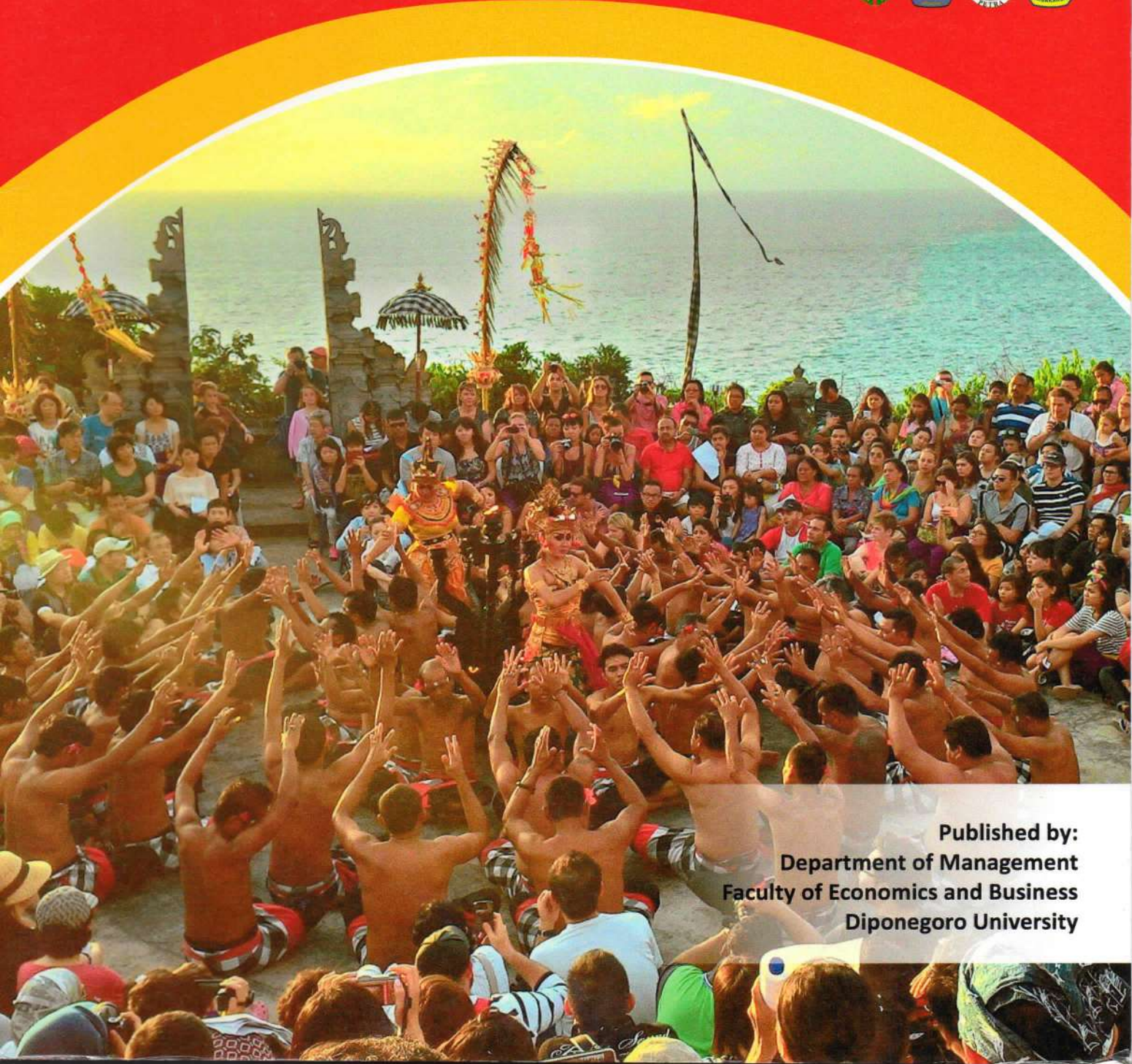
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Dr. Suharnomo, M.Si

Erman Denny Arfinto, SE, MM

Department of Management  
Faculty of Economics and Business  
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The Indonesian Financial Management Association

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# The Relationship between Demographic Factors and Financial Behavior on Credit Card Usage in Surabaya

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## ABSTRACT

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This research aims to examine the relationship between demographic factors and financial behavior on credit card usage. There are five demographic factors that were used in this research, such as age, gender, education, income, and marital status. Financial behavior on credit card usage refers to the behavior that willing to get more debt and hold more credit card. The research design conducted through questionnaire. Chi-square and Cross Tabulation is used in this study. Respondents of this study are 105 credit card holders coming from Surabaya. The result of this research shows that the financial behavior on credit card usage is low. Furthermore, the education has significant relationship with financial behavior on credit card usage. However, age, gender, income, and marital status have no significant relationship with financial behavior on credit card usage.

**Type of Paper:** Empirical

**Keywords:** Credit Card Usage, Demographic Factors, Financial Behavior.

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## 1. Introduction

Economic development accompanied with technological developments. One form of this development is the payment system using the card. This payment instrument called credit card. With this technology, the credit card holder will make the payment later or without using cash today. Then, at the maturity date, credit card holder will pay in cash or at minimum amount, and the rest will be paid as credit.

Credit card offers a variety of attractive facilities. The credit card to be one of the sources of money for the holder, when there is such a sudden transaction (Brito and Hartley, 1995). Therefore, credit card will create an additional financial source. Credit card can make the holder feel more comfortable without too much holding cash (Khare, Khare, and Singh, 2012 and Lee and Kwon, 2012). Credit card will also show the symbolize of lifestyle

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(Bernthal, et al. 2005) and perceptions of social status for self actualization that related to consumptive benefit (Medina and Chau, 1998). Self actualization demonstrates the highest achievement to fulfill everyone's needs and desires when using credit card.

Indonesia as the one of emerging market, also has many credit card holders. Around the 1980s, credit card in Indonesia was introduced by Bank Duta collaboration with the principal of VISA and Master Card International. The credit card usage at that time is limited to certain people which is rich and an businessman. Along with the time goes by, credit card still attracts many people.

According to Indonesia Credit Card Association (2015), credit card holder is growing year by year. Since 2009 until 2014, in average for every year, the number of outstanding credit cards is increasing 5,6%, the number of transactions is increasing 7,1%, and the amount of transactions in Indonesian Rupiah is increasing 13,58%. Whereas, in August 2015, the number of credit cards is 16.709.600, the number of transactions is 179.642.419, and the amount of transaction in million Indonesian Rupiah is 179.984.199.

The increasing of credit card usage causes several problems. These problems may affect the economy of a country. Therefore, The Indonesian government make the rule and update it every year that is called Bank Indonesia Regulation about Card Based Payment Instruments. The government considers that the crimes against payment instrument with credit card usage has increased and varied, and requires more detailed settings about fulfillment of safety and reliability of the system. One way to avoid such case, can be done by taking more attention into demographic factors for every credit card owner.

Some people use credit card to feel happy because they can fulfill family's needs and wants. There will be no problem, although the use of credit cards lead to increased debt. Therefore, they maybe want to apply for increasing credit limit and try all types of credit cards. Usually, this is done by woman (Mottola, 2012), who has high income, and already married (Bulu and Koprulu, 2012). But sometimes, there is a person that very wise to use credit card.

According to Circular Letter of Bank Indonesia (2012), about Credit Card Ownership Adjustment Mechanism, in Indonesia, credit card holder must meet the minimum age that is 21 years old or has been married to hold major credit card and minimum 17 years old or has been married for additional credit card holder. Credit card holder also must has minimum personal income of 3.000.000 IDR. Not surprisingly, credit card issuer will choose selected person. It is typically upper income and well educated (Adcock, et al., 1997).

Based on the phenomenon and previous studies, this research aims to examine the relationship between demographic factors and financial behavior on credit card usage in Surabaya. Surabaya became the second largest city in Indonesia and many person used credit card. According to the limitation from the Circular Letter of Bank Indonesia, financial behavior on the credit card usage in Indonesia may be different with the other country such as India, Botswana, Cyprus, and China. In the context of Indonesia, as a country with a developing economy, the society may have great spending and high level income, but regularly use credit card is limited only about 6,6% of Indonesia's population (250.000.000 persons in 2014). It could be demographic factors will explain the financial behavior on credit card usage.

## 2. Literature Review

### Theoretical Background

Zywicki (2000), state that credit card perform alot of functions. It may be used for transaction medium when someone do not carry much cash. They can buy the goods and

services now, then paying it all later. Credit card holder will also have the benefit of future payments in accordance with the concept of time value of money. Credit card holder, not only get benefit from the concept time value of money, but also bonus points. Using credit card as often as possible in high debt, credit card issuer will award them by bonus points.

Conversely, the use of credit cards also have disadvantages. This is due to the greater monthly expenses when we use of credit cards. Furthermore, the credit card usage lead someone more consumptive, then pay the greater credit payments. If this payment is overdue, then the holder will be charged interest. So, the longer payment, will also cause the term of compounding interest rate on credit card usage.

In Indonesia, credit card payment system can be done in several ways. It depending on the policy that implemented by the credit card issuer. The payment can made by cash payment, auto-debit facility, e-banking, minimum payment 10% and the rest will get interest charged to the cardholder, interbank clearing, and pay at any amount between 10% and all repayment. Zywicki (2000), in addition, when someone can not pay the bill, then there is default risk.

Credit card usage will show everyone's financial behavior when manage the debt. It combines the behavior and cognitive psychological theory with economic theory that sometimes, people can make irrational decision (Ackert and Daves, 2010:28). Financial behavior on the credit card usage will show that credit card will make the holder happy. Someone willing to have higher debt with credit card usage and want to hold more than one credit card. They may also request until the limit of credit.

Different demographic characteristics will lead different view of financial behavior on the credit card usage. As the demographic factors indicate the population structure of the individual (Nosic and Weber, 2010). There are alot of studies show that demographic factors can explain the financial behavior on the credit card usage, such as formal education, family income, age, gender, personal income, and marital status (Safakli, 2007; Khare, Khare, and Sigh, 2012; Themba and Tumedi, 2012).

**Table 1. Previous Studies**

<b>Researchers</b>	<b>Country</b>	<b>Analysis Method</b>	<b>The Results of the Study</b>
Safakli (2007)	Nothern Cyprus	Factor Analysis	Education and family income are important of credit card selection
Khare, Khare, and Singh (2012)	India	Multiple Linear Regression	Young customers were likely to use credit cards
Themba and Tumedi (2012)	Botswana	Chi-square and Cross Tabulation	Credit card ownership and usage are relatively high related with education, gender, and marital status.

This study attempted to examine the correlation between demographic factors and financial behavior on the credit card usage. Based on these previous studies, the demographic factors that will be used in this research may consist of age, gender, income, education, and marital status.

#### Age and Financial Behavior on the Credit Card Usage

Age is one of the limitations, when someone wants to have a credit card (Circular Letter of Bank Indonesia, 2012). Based on this rule, the major credit card is owned by

someone who was 21 years old and additional credit card is owned by someone who was 17 years old. The age will show the maturity of credit card holders. Someone in adult age will have more than one credit card and more frequently use the credit card (Ramayah et. 2000, Kaynak and Harcar, 2001, Safakli, 2007, and Themba and Turnedi, 2012). According Bulu and Koprulu (2010), 18-25 years old, is the age of the most widely used credit cards. It because at that age, they like shopping and more consumptive. Usually at this age, the payment is under control by their parents. When the holder was 25-40 years old, they tend to be wiser than the younger credit card holder, with their needs and capability to pay the debt. Meanwhile, when the holder was more than 40 years old, they do not tend to use credit card alot. According to Lutfi (2010), the older man, the more risk averse to take financial decision. Thus, the first hypothesis is:

H<sub>1</sub>: There is a significant relationship between age and financial behavior on credit card usage

#### Gender and Financial Behavior on the Credit Card Usage

The result of previous studies stated that gender associated with someone's behavior. Gender will show the differences between female and male in the act. A female exhibited more costly credit card behavior than a male (Mottola, 2012). Female more likely to be charge a late fee than male. Female has positive financial behavior on credit card usage than male. Female is less likely to pay in full and they usually use credit card for shopping. Otherwise, Themba and Turnedi (2012) and Bulu and Koprulu (2010), state that male will tend to frequently use a credit card. Instead, a female will have more than one credit card (Themba and Turnedi, 2012). Thus, the second hypothesis is:

H<sub>2</sub>: There is a significant relationship between gender and financial behavior on credit card usage

#### Income and Financial Behavior on the Credit Card Usage

Someone who has unexpected decreasing income, have higher levels of costly credit card usage. This indicates that someone has higher income will easier to hold credit card. In Indonesia, someone with income greater than 3.000.000 IDR were allowed to have a credit card (Circular Letter of Bank Indonesia, 2012). Income is shown by all cash inflow obtained in one month. Someone who has the ability to lower middle economy will be less able to meet the obligation to use credit cards. Otherwise, someone with the ability of the upper middle economy will be able to meet the obligations of a credit card. Thus, the third hypothesis is:

H<sub>3</sub>: There is a significant relationship between income and financial behavior on credit card usage

#### Education and Financial Behavior on the Credit Card Usage

The level of education showing someone's understanding about the knowledge that they ever taken from formal school. It has formative effect on the mind, character, and ability (Nzeyimana, 2014:44). The formal level of education will be very helpful in decision making. According Bulu and Koprulu (2010), high school graduates have more additional credit cards than university graduates. Meanwhile, according to Themba and Turnedi (2012), individual higher education, would encourage to have a credit card, such as bachelor degree or postgraduate. Bank requires higher education for security reasons. With higher education, people tend to know more about financial management and have more responsibility in financial behavior on the credit card usage. Thus, the fourth hypothesis is:

H<sub>4</sub>: There is a significant relationship between education and financial behavior on credit card usage

### Marital Status and Financial Behavior on the Credit Card Usage

A single person tend to be braver to use credit card, while married person would be more careful (Gan et al, 2008). This is due to a single person is more consumptive than people who are married. A married person already has family members, so they have to be careful with financial behavior when use of credit card. Whereas, a married person with higher needs would be more likely use credit cards to meet the daily expenses (Bulu and Koprulu, 2010). Thus, the fifth hypothesis is:

H<sub>5</sub>: There is a significant relationship between marital status and financial behavior on credit card usage

### 3. Methodology

This study using purposive sampling method to select a sample with two criterias such as the respondent is a credit card holder and domiciled in Surabaya. The data is collected by using closed questionnaire that consists two sections. The first section is showing demographic variables and the second section is showing the statement about financial behavior on credit card usage variable. The statement for financial behavior on credit card usage variable is presented using likert scale 1-5 (strongly disagree-strongly agree). There are 10 statements to show financial behavior on credit card usage, such as the feeling when the holder usage credit card, credit card usage will show personal debt, the cost using credit card is high, the holder want to apply until the maximum credit limit, they willing to have all types of credit card, and willing to pay a late fee (interest rate). In this research, there are 105 usable questionnaires were collected. The respondents obtained from a wide variety of classes. The research design is done by using Chi-square Test and Cross Tabulation to examine the relationship between demographic factors and financial behavior on credit card usage.

### 4. Results and Discussion

#### Profile of Respondents

The respondents in this research are 105 persons. There are six age categories, such as  $\leq 17$  years old is 0 (0%) respondent,  $> 17-22$  years old are 5 (4,8%) respondents,  $>22-30$  years old are 28 (26,7%) respondents,  $>30-40$  years old are 16 (15,2%) respondents,  $>40-50$  years old are 18 (17,1%) respondents, and  $>50$  years old are 38 (36,2%) respondents. Among the respondents, there are 54 (51,4%) male and 51 (48,6%) female. There are four personal income categories, such as  $\leq 3.000.000$  IDR are 18 (17,1%) respondents,  $>3.000.000-10.000.000$  IDR are 36 (34,3%) respondents,  $>10.000.000-20.000.000$  IDR are 12 (11,4%) respondents, and  $>20.000.000$  IDR are 39 (37,1%) respondents. Furthermore, there are five level of education categories, such as less than senior high school is 1 (1%) respondent, senior high school are 18 (17,1%) respondents, diploma degree are 13 (12,4%) respondents, bachelor degree are 41 (39%) respondents, and postgraduate degree are 32 (30,5%) respondents. The majority of respondents have financial behavior on credit card usage at low level that are 54 (51,4%) respondents.

#### Validity Test and Reliability Test

Validity test is needed when the research uses the questionnaire. A questionnaire is declared valid, if the questions on the questionnaire is able to express something that will be measured by the questionnaire. In this research, all the question items on financial behavior on the credit card usage variable have the Pearson Correlation significance value less than

0.05. Based on this result it can be concluded that the question items which measure the variables of this study was valid. Besides, reliability test has been done by calculating the value of Cronbach's Alpha. The Cronbach's Alpha value in this study was more than 0.6 which is 0.603, so the question items that measure the research variables declared reliable.

## Results and Discussion

In this study, there is significant relationship between education and financial behavior on credit card usage. Significance of the Pearson Chi-square value is 0,005. This result is consistent with Safakli (2007) and Themba and Tumedi (2012). The higher education will show someone's level mastery of knowledge to have better mindset and behavior as the result of their formal education. Someone with higher education will be more excellent to analyze before take financial decision. One form of financial decision is by using credit card when someone needs to get debt. Safakli (2007) stated that education is important on the credit card selection. Someone with higher education tends to calculate cost and benefit before using debt. In this result, the respondents show that higher education will like to using more debts. Credit card makes them happy and wants to apply more than one credit card to get more debt for bachelor degree, in order to fulfill their needs. But, someone with post graduates degree does not want to apply more than one credit card.

While, age, gender, income, and marital status have no significant relationship with financial behavior on credit card usage. Significance of the Pearson Chi-square value for each variables is more than 0,05, such as 0,298, 0,208, 0,508, and 0,376. This results consistent with previous studies, such as Joo, Grable, and Bagwell (2001) who stated that there is no difference gender between in behavior of credit card usage, Jusoh and Lin (2012), who stated that there is no significant difference between monthly income towards credit card usage, and furthermore, marital status and age has not relationship significant with credit card usage (Kizgin, Karaosmanoglu, Hiz, and Benli, 2013).

The characteristics of majority respondents have low financial behavior on credit card usage. Such as the respondents were more than 50 years old, male, married, and have income more than 20.000.000 IDR for a month. They are only agree enough that credit card makes someone happy, because credit card usage will show personal debt. Higher credit card usage, will lead higher debt. The respondents also have never experienced the payment of penalties or additional costs due to late payments or transactions that excess limit. This is because the respondents are trying to pay the credit balance full payment every month.

The majority of respondents have more than one credit cards that is about 78 (74,29%) respondents. This can be caused that the majority of the respondents' job are private employees, as they need the money for their needs or wants. But they did not deign to make the application for all types of credit cards. May be only a particular credit card that meets their needs or desires. According the result of this study, the respondents tend not to use their credit cards to pay for basic daily needs. But if the credit card is used, then they used credit card for paying something as long as they needed. This phenomenon shows that the respondents do not have consumptive behavior when using credit card. Those reasons might explain that some demographic factors not correlated to the credit card usage.

## 5. Conclusion and Limitation

### Conclusion

This study examine the relationship between demographic factors and financial behavior on credit card usage in the scope of credit card holder in Surabaya. Before analyzing the relationship between two variables, the model has passed the validity test and the

reliability test. The findings of this research are the financial behavior on credit card usage is low, education has significant relationship with financial behavior on credit card usage, whereas age, gender, income, and marital status have not significant relationship with financial behavior on credit card usage.

### Limitations

Other demographic factors such as job, the number of family member, ethnic background, religion, and etc did not include in this research. Detail information about the major that someone ever taken during a college student, might better describe the education. Therefore, for the further research, we can use those as the demographic factors. The further recommendation, the future research can increase the sample with different area, excluded Surabaya.

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