

CHATER TWO

REVIEW OF LITERATURE

This chapter reviews the literature in the usage behaviors of people working in the Aree Area. It consists of the main areas as follows:

- 2.1 The meaning of credit card
- 2.2 Types of plastic cards
- 2.3 The history of credit cards
- 2.4 The rules about credit cards from the Bank of Thailand
- 2.5 The trends of credit card usage
- 2.6 Previous studies relating to credit cards

2.1 THE MEANING OF CREDIT CARD

The word “credit” is rooted from the Latin word, “credere,” which means to trust or to believe. However, some linguists said that this word is rooted from “credo” which is compounded of a Sanskrit word “crad” meaning trust and a Latin word “do” meaning contributing or giving. The meaning of the word “credit” can be summarized as follows:

- In terms of trade, credit means the trust of the seller on the buyer that the seller will give the merchandise or the service to the buyer before receiving cash. However, there is an agreement made between them that the payment will be made soon. This makes the condition of debt.
- In terms of the consumer, credit means the condition of having used the merchandise or service before the payment is made.
- In terms of a financial institution, credit means one of the services provided by a financial institution which provides them with profit. Such service might impact the community business system.

From the above meanings, it can be concluded that “credit” is about the trust between two parties in providing services or merchandise. This is made under the agreement determining the payment terms.

For the meaning of credit card, French (1988) defined that credit cards are plastic identification devices that allow their holders to buy merchandise and services if the holders follow the obligations which are contracted by the card issuers.

2.2 TYPES OF PLASTIC CARDS

Plastic cards in Thailand can be divided into 3 categories as follows:

2.2.1 Debit Card and ATM Card: This type of card is used as a pay now card for purchasing merchandise or services. The card is linked to the cardholder's savings or current account, and the amount of money used through the card is deducted immediately after the purchase transaction is made.

2.2.2 Credit Card: This type of card is used for pay later transactions. The issuers have to set a credit line for the cardholder to use the card. During the grace period when the purchase transaction is made, the issuer has to pay for the transaction amount to the merchant. However, when due each month, the cardholder must pay for it on time. If the payment is not made on time, there will be an interest charge payable.

2.2.3 Prepaid Card or Store Value Card: This is the card that the cardholders have to pay to the issuer before actually purchasing the merchandise or services. Mostly, it is used for low value merchandise or services such as telephone or expressway account refill purposes.

2.3 THE HISTORY OF CREDIT CARDS

Credit cards were first introduced in the United States of America in 1920. In Thailand, credit cards was brought in to be one of the devices for exchanging merchandise with cash in 1969 by Standard Chartered Bank which was a shareholder of Diner's Club in Hong Kong. However, at that time, it was not very popular. Then, in 1973, Thai Farmers Bank (currently named Kasikornbank) promoted it again. This time, it was popular since a lot of people applied for it.

French (1988) stated that the first plastic money was not issued by Visa or MasterCard which are the well-known bank issuers today but it was first presented by independent stores. Such store credit cards acted as a credit device for exchanging merchandise or services between the store and its loyal customers.

2.4 THE RULES ABOUT CREDIT CARDS FROM THE BANK OF THAILAND

The announcement from the Bank of Thailand about the monthly income of the credit cardholder has been changed many times. The latest changes are summarized as follows:

- In the middle of 2004, the Bank of Thailand announced a decrease of the monthly income for new credit cardholders from 20,000 baht to 15,000 baht.
- At the end of 2004, a new announcement again decreased it to 10,000 baht.

According to the Bank of Thailand's notification on the Permission to Operate Credit Card under Section of Announcement of National executive Council No. 58 issued in 2002, the summary of the key points are that each cardholder must provide documents proving a minimum monthly income of 10,000 baht or annual income of 150,000 baht, or maintain deposits in accounts at a financial institutions up to an amount that the credit card issuers considers adequate.

Moreover, the Bank of Thailand set interest rates and fees for credit card users as follows:

- Cash advance fee of up to 3% of the amount withdrawn
- Actual but justified amount of expenses on debt collection
- Fees for check return not exceeding 200 baht per return for credit card issuers which are non-financial institutions
- Operating fees as per the list specified by the Bank of Thailand or with further approval by the Bank of Thailand
- Interest and other expenses other than 4 items above not exceeding 18% per annum.

The issuers must publicly disclose their interest rates, operating charges, and other details as specified by the Bank of Thailand, and must inform their cardholders accordingly. Moreover, the cardholders can repay their debt obligations in installments. However, each payment must be at least 5% of the remaining outstanding balance.

The new regulation for the minimum payment of the credit card expense is changing from at least 5% to 10% next year. However, according to Mrs. Sukdee Chongmankhong, the Managing Director of Krungsriayudhya Card Co.,Ltd., this would increase the outstanding balance.

2.5 THE TRENDS OF CREDIT CARD USAGE

A credit card or plastic money has become one of the most important things for almost all modern people. Day by day, it becomes more important and necessary for people's everyday life. The evidence proving its popularity for Thai people is the increasing number of credit cards each year. At the end of 1986, there were about 143,000 credit cards. In 1990, there were about 728,000 cards. Then, in 1993, the number of credit cards was increased to about 1,389,000 cards. And at present, in 2006, there are about 9,977,384 credit cards issued in Thailand by both banks and non-banks (Krungtep Turakij, 2006). Its enlargement was made by various causes such as economic situations that contribute to domestic business, the consumer's needs for a credit card that would allow them to be able to purchase things easily, and the credit card's issuer who provides more privileges activating the cardholders to use more of their cards.

The Bank of Thailand has set the lowest rate for the credit card payment which is 5% of the whole amount used. However, it was the issuer's consideration to set its own rate for this such as 10% or 20%. Then, the cardholder also has his or her own right to choose to the credit card issuer who is most suitable to his or her ability and lifestyle.

Other factors that the cardholders would have to consider for applying a credit card are member fees, annual fees, interest rate, cash advance, minimum payment for each installment, and other privileges provided by the issuers.

However, different banks have their own different marketing strategies for their new and old cardholders. Some banks launched many campaigns offering the old cardholders who were potential to be responsible for their purchasing transactions. Also, the credit card issuer must promote other campaigns for other customers who held many credit cards and made them realize that their credit card should be the first choice when purchasing merchandise or services.

For the current situation of the credit card business in July 2006, the Bank of Thailand revealed that the amount of credit cards issued had decreased when compared to previous months. The Bank of Thailand informed that the number of cards decreased by about 30,000 cards (Prachachart Turakij, 2006). Although there was no confirmation

from the Bank of Thailand on the reason why the number of credit cards had been decreased, it could be assumed that the cardholder's capacity to be responsible for their own debts in their credit cards was decreased. Therefore, it was the issuers themselves who cancelled those credit cards due to financial problems. Moreover, the cardholders who held too many credit cards but actually did not use all of them might have cancelled the credit cards by themselves.

Since the trend for the credit card market could still be extended, many financial institutions including both Thai and foreign commercial banks, compete with each other by launching various strategies to catch people's intention. However, on the other side, the credit card business is not as smooth as many people had expected. Most of the credit card issuers are faced with fraudulent credit card transactions which tend to be made more and more, just like the increasing number of credit cardholders. This damages them a lot.

2.6 THE PREVIOUS STUDIES RELATING THE CREDIT CARDS

According to Oranuch Payakapun (อรนุช พยัคฆพันธ์, 2546), conducting a research on the behavior of credit cardholders in Chatujak district, she found that credit card consumption behavior differs due to personal and external factors. The different personal factors such as sex, age, education level, status, occupation, income, the number of years holding a credit card, the number of credit cards being held, the frequency of using credit card, and the amount of money paid on credit card had an effect on the different behaviors in using a credit card. The different external factors such as family influence, peer pressure, media influence, and updated value also made a difference in credit card consumption behavior. When considering applying for a credit card, the cardholder should compare the fees, which are application fee, annual fee, cash withdrawal fee, and other fees, with other issuers. Also, personal behavior and capacity to pay should be considered, too.

The credit card holders' reasons for applying for a credit card were for a supplement to money, convenient and safe, interest free period, and the ability to withdraw money in advance.

According to the study of Prut Chumrakphun (พฤทธิ์ จำรัสพันธุ์, 2545) about the factors related to Kasikornbank's credit card usage behavior of employees at Kasikornbank Public Company Limited in Bangkok:

- 1) Most of the credit cardholders were married males aged between 31-35
- 2) Most of them had 1-10 credit cards; 4 cards as an average
- 3) They often used credit cards to pay for petrol expenses
- 4) The average expense used through the credit card each month was 501-1000 Baht.

He also found that the higher income they have, the more often they use a credit card for the payment. But their age, their monthly income and their work position of the credit cardholders are not related to their credit card usage behavior in the aspect of the consumption activities and the expense they pay each time.