

Credit Card Usage Among Youth: Are They Using It Responsibly?

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Abstract: The aim of study is to find out the way credit cards are being used by young people, based on a series of recommendations suggested by Mexico's National Commission for the Protection and Defense of Financial Services Users (CONDUSEF for its acronym in Spanish). Also, the paper aims to know if this population has the necessary information to use their credits in a responsible way, because the data from the research by Solano et al. (2015), which identifies the "Determinants of credit card use in Mexico", lead us to question the role of financial education or lack of it among young Mexicans. Thereby, real tests are carried out to corroborate the afore-mentioned, by means of a survey applied to the young people from Veracruz-Boca del Río metropolitan area.

Keywords: Credit card, college students, consumption habits, financial education, indebtedness, interest rate, usage of credit card

INTRODUCTION

The main objective of this paper is to know how Young people use their credit cards and what are their expenditures, as well as knowing if they have the necessary information to use their cards, if they are financially literate and if banking institutions offer enough information to the users.

According to the studies by Solano, Vega & Cardenas [1] about the determinants of credit card use, most young Mexicans have a higher possibility of falling into over-indebtedness due to the lack of financial literacy, meaning that there is no evidence that they have a proper savings culture, as it has been proven by CONDUSEF, the Bank of Mexico and other studies by Moreno-García, García-Santillán & Munguía [2]. Because of the former, it is relevant to question if there is no savings culture and knowledge, which indicates that there is also probably a lack of notions about investment and in turn will increase the lack of knowledge among the population as time passes.

Therefore, it is necessary to ask if young people between the ages of 20 to 40 years are using their credit cards with responsibility, that is to say: are young people really using their credit cards sensibly? In order to understand this fact and prove if the usage of credit cards among youth takes place in a responsible manner, it is vital to offer the required context based on the review of literature specialized in the subject and thus, this is discussed and analyzed on the following lines.

LITERATURE REVIEW

In the literature review about this matter, it is possible to find several studies about credit card usage among college students, which have provided relevant

information by examining the characteristics, attitudes and behaviors of this population that explain some tendencies about credit card use.

As an example of the former, we can find the works of Lawrence *et al.* [3], who proved that ethnicity is not a determining factor in the distribution of credit card users in college, and Lyons [4], who focused on establishing the risk probability of credit card misuse among college students. Regarding gender differences, it was found that female students are more likely to have a credit card than their male counterparts [5, 3] and also had a higher debt than male students [6]. Other research about credit card usage among college students was carried out by Allen & Jover, [7], Hayhoe *et al.* [8] and Staten & Barron [9], to mention a few.

It should be noted that Wang [10] states that college students show an irresponsible behavior with regard to their credit cards by spending more than they have, which is the result of a lack of financial literacy about credit cards; this is a matter of great importance because excessive indebtedness of students in their credit card leads them to be bankrupt and prevents them from entering the job market.

From the pertinent literature review specific to Mexico, we consider the paper by Solano *et al.* [1], where the "Determinants about the use of credit cards

in Mexico” are identified. This analysis aimed to explore the participation of credit cards in the financial market and the variables associated to service quality and the consumer’s information about financial products.

A study made by the National Bank of Mexico (BANAMEX for its acronym in Spanish) and the Autonomous University of Mexico [11] was applied to young persons and the findings were consistent with the aforementioned: the lack of information provided to users, the lack of financial culture, the lack of personal finances planning, the distrust of users towards their banks, the lack of a savings culture and the high chance of over-indebtedness, which in Mexico not only applies to youth but to the general population as well.

Furthermore, once the arguments regarding the determinants about the use of credit cards in Mexico were discussed, we analyze next the fundamentals, suggestions and actions that CONDUSEF [12] has been carrying out as part of literacy action plans. Thus, CONDUSEF points out that a credit card is a financial instrument that works as a payment method and to gain credit. The bank, as the institution that issues the card, provides to the customer, by means of a contract, a revolving line of credit (as soon as the debt is paid, the user can use that money again) for a determined amount known as credit limit [12].

For that reason, the Commission suggests that the following elements are considered to evaluate the choice of a credit card: payment pattern, consumption habits, life style, credit record and total annual cost (CAT for its acronym in Spanish). Regarding these indicators, CONDUSEF mentions on its webpage the following:

Payment pattern

In Mexico, Little more than 40% of credit card users are total payers, meaning that each month they pay 100% of the purchases made by their card (used as payment method).

Consumption habits

This element suggests that the credit card user must define the use he/she will give to their card. If he/she is a person who does not use the card much and only does so whenever there is an emergency or to take advantage of a promotion of interest-free payments or special discounts, then he/she should choose a card with a low yearly cost or one without a yearly cost and without any use requirements to benefit from such a low or free yearly cost. The goal is to have a credit card for eventual use with the lowest possible financial cost.

Life style

It is important to identify what are the more frequent and higher expenses. For instance, if one is a regular traveler and usually flies with a determined airline, it is convenient to choose a credit card that is “related” in order to obtain free miles in each purchase. Hence, the person can get free flights after gaining a number of miles, as well as free hotel nights and access to VIP waiting rooms at airports and all the rewards related to travels (luggage insurance, car rental, legal and medical assistance, to mention a few).

Credit record

If you have a positive credit record (zero payment delays and you have never stopped paying), you will surely have no problems when applying for a credit card or any other credit you need: a car credit or a mortgage. In any case, the restriction could be explained by other factors, such as your income and current financial situation (indebtedness level with other institutions).

Annual Total Cost (ATC)

This is a factor that includes interest rate, yearly cost and fees that an institution charges for the card. It is a number expressed as percentage per year that helps to compare all the credit cards in the market as long as they are calculated in the same manner (interest rate, amount of debt, term, currency, etc.).

Finally, it is relevant to consider the words by José Luis Blando, who works as Executive Director of payment methods (credit cards) at Santander Bank and who points out that: “the use of credit cards must be measured and based on the client’s income. A credit card is not an extension of income but a vehicle to manage consumption and plan for purchases outside daily expenses” [12].

Therefore, it is clear that revolving credit must be used with the highest sense of responsibility, since what the Director of Santander is true regarding that it should not be seen as an extension of income or job payment.

On the other hand, we identified a survey in 2014 made by the researchers of the Financial Studies Foundation (FUNDEF) to the Mexican population about the use of credit cards. It consisted on the application of 1,003 questionnaires in 17 public spaces of Mexico City between September 15th, 2013 and January 15th, 2014. The survey was made face to face with electronic tablets with an average duration of 50 minutes and they looked for a balanced composition of the sample, according to the aim of the study. On table 1 we can see important data about people who pay interests and the ones who pay their debt in full.

Table-1: Have you paid any kind of interest in the last 3 months?

| | Yes Revolving | No Revolving | Total |
|----------------------------|---------------|--------------|-------|
| 1 Credit card | 13% | 2% | 15% |
| 2 Credit cards | 40% | 5% | 45% |
| More than two credit cards | 35% | 5% | 40% |
| TOTAL | 88% | 12% | 100% |

Source: information taken from FUNDEF (2014)

As can be observed in table 1, it is possible to state that in the case of people who pay interest we can infer that they do not pay their debt in full and keep postponing the settlement of the debt by paying the minimum amount and thus, pay interests (88%); on the contrary, there are people who do not pay interest and use their revolving credit in a sensible way by paying the entire amount of the debt (12%).

METHODOLOGY

The present study is non experimental, descriptive and of a cross-sectional type. Its theoretical construction was based on the empiric study by Solano *et al.* [1] as well as the indicators from the survey of CONDUSEF [12] and FUNDEF [13]. Because the aim of the study focused on identifying the determinants about the use of credit cards in Mexico among the youth, we considered the indicators from an online survey that is available in the webpage of the CONDUSEF and using them as basis, other socio-demographic indicators were added to build a questionnaire as the instrument.

The selection of the population for the study and sample was made considering the following: people with ages ranging from 20 to 40 years old from the Veracruz-Boca del Río Conurbation. The application of the survey took place between the days of July 10th and July 13th, 2016, in one of the busiest areas: Starbucks coffe in Boka mall, America’s mall, Mocambo mall and

Río mall. The characteristics of the non-probabilistic sample taken randomly consisted on the verification of the respondent’s age, at least visually with a simple identification.

The gathered data was captured on the statistical software SPSS V.19, as well as STATISTICA V.10, and then the calculations to prove the hypothesis were made considering the following:

To verify the hypothesis, we perform the statistic Z test to corroborate the proportion, considering the percentage of all the cases that fall in this range. Also, to prove the hypothesis H1, H2, H3, H4 and H5 in all the cases the invariable considered format is:

$$H_0: p = 0.5 \text{ y } H_i: p > 0.5$$

H1 Most credit card users usually make the minimum payment.

H2 Most young people use their credit cards to pay for the total amount of their purchases.

H3 Most young people use their credit cards for their trips.

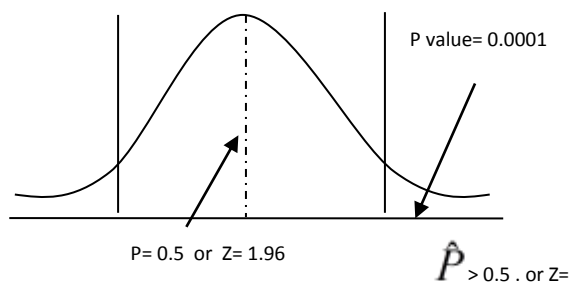
H4 Most young people believe there is a balance between what they pay each month and the benefits they get from their credit cards.

Its statistic form is:

$$Z = \frac{\hat{P} - p}{\sqrt{\frac{pq}{n}}}$$

Where:

$$X = \text{ratio of the sample, } n = \text{sample } \hat{p} = \frac{x}{n}$$



RESULTS AND DISCUSSION

For this analysis a test proposed by CONDUSEF is used, which was applied at random considering the following elements: age between 20 and 40 years old, gender and highest level of educational attainment. In order to prove the 4 hypothesis stated in the present document, we present the subsequent table

where Z value is calculated and the results lead us to state the following:

Regarding **H1**: there was no evidence to prove that this is the case among the surveyed population. It is likely that there are more cases of people who pay other amounts beyond the minimal payment.

About **H2**: we could not find evidence about this, since it seems that most of the people questioned use their credits to take advantage of other promotions or in case of emergencies.

In regards to **H3**: According to the acquired information there was not any evidence that this is the case because the youth who were surveyed use their cards not only for entertainment but probably aslo an extension of their income.

With reference to **H4**: The largest part of the respondents are not satisfied with the benefits that they have and pay for their credit cards, which lead us to think that not all of the credit card users are a good match with their corresponding credit cards.

Next we can see the afore-mentioned table, where we can see the summary of the hypotheses results and the value of Z and P, which are the theoretical basis that lead to the decision of not rejecting the stated hypotheses.

Table-2: Summary of hypotheses test

| | x | n | \hat{p} | p | $q=1-p$ | $\hat{p} = -p$ | $\frac{\hat{p}-p}{\sqrt{\frac{pq}{n}}}$ | Valor de Z | Valor crítico de tablas | Valor de p | Decisión |
|----------------------|-----|-----|-----------|-----|---------|----------------|---|------------|-------------------------|--------------|----------------|
| H₁ | 23 | 50 | 0.46 | 0.5 | 0.5 | -0.04 | 0.0707 | -0.565 | 0.2877 | 7E-01 | No rechazar Ho |
| H₂ | 13 | 50 | 0.26 | 0.5 | 0.5 | -0.24 | 0.0707 | -3.394 | 0.0003 | 0.999 | No rechazar Ho |
| H₃ | 2 | 50 | 0.04 | 0.5 | 0.5 | -0.46 | 0.0707 | -6.505 | 0.0001 | 0.999 | No rechazar Ho |
| H₄ | 23 | 50 | 0.46 | 0.5 | 0.5 | -0.04 | 0.0707 | -0.565 | 0.2877 | 0.712 | No rechazar Ho |

CONCLUSIONS

Based on the analysis of the test results [14], it is possible to observe that the surveyed population have not paid more than the credit they use, they are using their cards for emergencies or sales promotions and they see their credit card as an extension of their income; however, they point out that they are not entirely satisfied with the high cost of their cards.

It is likely that this “responsible” use they make of their credit is due to the fact that most of the surveyed population have an educational level above average (Graduate), which lead us to think that the way they handle their personal finances, even though it is not ideal, at least they have more knowledge than average people and also, the predominant age range is from 31 to 35 years old, meaning that most of this people are at an age of higher responsibility despite their youth. Furthermore, it can be seen that even when there are few savings and management of personal finances campaigns, people do seek information about this subject.

Future lines of research

According to the findings, it is possible to suggest carrying out a study about exact interest rates charged by the banks used by young people, in order to know if they are paying a fair amount or more than what they should and to solve the hypothesis regarding if they are paying more than what they are really consuming.

Additionally, this same questionnaire can be applied to people of older ages to establish the average age where they acquire over-indebtedness, as well as to

make an analysis about which banks in Mexico charge a higher interest rate for their credit cards.

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