

# A Study on Chinese Credit Card Users' Behavior

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Although Bank of China issued the first credit card in mainland China, "BOC Card", as early as in 1985, it was not until 2003 the credit card industry really began to develop and entered a rapid trajectory. By the end of 2007, China's total volume of credit card issuance has reached 99,760,000, representing an increase of 70 percent over the previous year. The number of the credit card holders was a few more than 31,770,000, an increase of 54 percent. Within the background of rapid expansion of the credit card issuers, credit card greatly changes the real life of Chinese people. In this paper we want to answer the following questions: To what extent China's credit card users are aware of the terminology "Credit Card"? What are their willingness and habits to use the credit card? What kinds of functions do they need on the credit card products and services?

Based on a market survey<sup>2)</sup> sponsored by my company from March to May 2008, we studied 3,974 credit card users in China, who are above 20 years old, from different cities and access the web at least once per week. The findings of this article are mainly from the market research. Finally, I present a number of suggestions in this paper.

## I Main Findings

### A. Credit Card Market Status and Trends of in China

1. China's credit market grows rapidly, with the total amount of credit card issuance in 2007 nearly 100 million. Each card user has 3.14 credit cards from different banks.
2. With a substantial increase in the number of card-issuing banks, brand preference has emerged. In 2007 there were 27 domestic card-issuing banks competing nationally. The users applying the card have different preferences to the bank brands, and their first choice is China Merchants Bank, accounting for 25.26 percent. The order of the user's bank brand preferences is: China Merchants Bank, Bank of China, Industrial and Commercial Bank of China, Bank of Communications, China Construction Bank.
3. Credit card usage rate of online shopping has reached a high level, providing a good opportunity to develop online card issuing and payment. This paper shows that 53% of card users shop online, a high level of penetration rate. The development of online shopping encourages online payment and promotes online usage of the credit card.

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2) The market survey is sponsored by Sino Credit Corporation and only for the purpose of market research.

In return, the growth in demand for online payment will be able to stimulate the major card-issuing banks to raise the volume and quality of the cards. Correspondingly these banks will enrich the credit card's functions and broaden the application scope of the on-line request.

4. In the next 2-3 years, the demand for credit card will continue to grow rapidly. The study shows that the users who would apply new credit cards in the near future account for 60.77 percent. Known from the credit card market historical data, the demand for credit card is expected to increase more substantially.

#### **B. User features and consumption experience**

1. The male cardholders cover a slightly higher proportion. They are young and mainly corporate staff. The study shows that in card users men is slightly higher than women with the proportion . They reach a higher level of income, mainly between RMB 2,000 to 8,000 yuan, than Chinese internet users. Most of them are the company employees, live in Beijing, Shanghai, Guangzhou, Shenzhen and other developed cities.
2. Such factors as income level, occupation, age, etc, affect cardholder's consumption behavior. Academic degrees do not significantly affect the user behavioral characteristics. Card user groups with different educational background show small difference in behavior of card application, consumption, repayment. Credit card marketing, incentive

programs and other promotions should pay much more attention to the income level, profession and age of the user groups rather than academic background.

#### **C. User consumption behavior**

1. Online card-issuing has got a certain degree of acceptance in card users. While 57.25 percent of card users prefer face-to-face contact of banking staff visiting their homes or offices to promote the card, there are still 13.89 percent of the card users like to apply cards online.
2. Cardholders with different monthly income use credit card in different consumption types. As income increases, the proportion of online shopping users declines, but the proportion of ticket booking, hotel reservation, food and entertainment consumption goes up. Users with income below RMB 1,000 yuan participate less frequently in real market shopping, air ticket booking, hotel reservation, catering and entertainment than other groups. But 69.06% of this low level income group shop online frequently, the highest penetratino ration in all groups. Users with monthly income above 8,000 yuan involve less frequently in online shopping. Those with 10,000 yuan or above cover the biggest proportion to use credit cards in air ticket booking, hotel reservation, catering and entertainment.
3. As for the repayment, the most ofen used repayment channel is automatically binding the user's own bank deposit card, 35.56

percent, followed by online banking repayment, 29.89 percent, and the third, bank counters, accounting for 17.36 percent. Most cardholders make fully use of the credit card interest-free period policy.

4. To activate the credit card users focus more on the card functions and repayment convenience rather than promotion gifes and member benefit programs. This study shows that during the application and usage decision-making process 63.46 percent of the users are concerned about the repayment convenience, 55.06 percent about usage security, in addition to the functions of the credit card itself. Other value-added services and personalized designs do not become a major consideration of users. The importance of the beneficial plans and promotional presents the bank offers is not high in decision-making process.
5. Users do not have good experience in credit card application incentive plans and after-sale services. This paper shows that 56.01 percent of the users do not consider themselves to benefit much from member programs, implying that the banks do not improve customer experience and waste a certain amount of activity costs. Since more than 40% of users believe that the bank should enhance the standard of after-sale services, it's a ergent task for the banks to improve its overall customer services.

provide good and timely services, credit card repayment is far from convenient and becomes a very important problem. This leads to a very low activation rate with year-on-year downward trend.

2. Private information security is presently the main bottleneck for online card application. There are 56.51 percent of users worrying about security issues, 33.36 percent of users do not trust the information authenticity on the web, implying that the current bottleneck of online card application exists in the user's security and privacy concerns.
3. The portion of users contributing their interest income to the bank is relatively low. The income of credit card business mainly comes from three parts. One is stable annual fee, the second is interest and penalty fee, and the third is processing fee from merchants. Since the major card-issuing banks compete intensely with free annual fee policy, interest income becomes the focus them to meet the profit target. But the sloppy payers who can contribute overdue fines and interest income are below 3 percent. Meanwhile, the revolving credit users account for only 7.73 percent. So commercial banks are facing the problem that a large portion of revenue relies on the merchant processing fees. Finding the profit model of credit card business has been the biggest problem for card-issuing banks.

#### **D. Industry development**

1. Because the network of banks can not

## II Suggestions

1. Product. Since credit card functions is the user's primary concern, card issuers should design different types of credit cards targeting users with different occupations, ages and income levels. Card-issuing banks should strengthen the users' brand awareness, improve card-swiping and online payment environment, better after-sale service and customer service efficiency in order to enhance the activation rate.
2. Card application channels. With the users growing interest in online card application, the new internet channel will be able to increase the number of valid card users. The main problem for online application is the privacy and security concerns of card users. Therefore it is recommended that card-issuing banks and third parties make great efforts to promote brand awareness and strengthen the cooperation with merchants and other famous internet portals.
3. Consumption channels. 53 percent of card users shopping online shows that online utilization rate has reached a high level. Card issuers should increase the number of merchants supporting online payment as well as using mail order and amortization loan, to provide the users with a variety of online services.
4. Repayment channels. The users portion of choosing bank teller repayment remains relatively high, and other convenience tools utilization rate is relatively low. It can be seen that banks need to improve the traditional repayment channels reducing the inconvenience on the user experience. Meanwhile, they should promote the new repayment facilities and other options to diversify the users' choices.
5. Promotions. Since the male credit cardholders account for a slightly higher ratio than female and most card users are young company staff, card application gifts should be choosed from digital products, coupons and household appliances. Regarding the credit card activation, issuers should pay much attention to the user's major concerns, strengthen card-swiping incentives and provide users with personalized services such as SMS reminders and other value-added services.
6. Pricing. The free annual fee policy has become an important concern for a card application and utilization, but it reduces largely the revenue of the credit card business. Banks may consider digging out qualified customers based on their card usage frequency and consumptin amount as well as setting up different grades of free or return policy for different users.
7. Regulation: To create a favorable credit environment, it is strongly recommended that the Chinese government increases the quality of state owned Personal Credit Information System, combining and consolidating data and information from banking, commerce, public security, taxation, customs, transportation, real estate and other official

departments, establishing mechanisms for information management and exchange, sharing more credit information resources with the public. At the same time, the 1999 version of Regulations On Bank Card Business is outdated and a new Bank Card Act should be introduced as soon as possible in order to balance innovation and risk.