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## Demographics, attitude, personality and credit card features correlate with credit card debt: A view from China

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### ABSTRACT

With the help of a commercial bank in China, we studied consumer credit card debt behavior<sup>2</sup> in correlation with demographics, attitude, personality, and credit card features factors. The study was conducted by using mail-in questionnaires, which were sent to credit card holders who was using or had used either revolving credit or petty installment plans. According to regression functions, we found that demographic variables and credit card features had limited explanatory power compared to attitude variables and personality variables. Specifically, we found that revolving credit use and petty installment use were closely related to attitudes about credit cards, money and debt. Risk attitude efficiently predicted petty installment use; however, it did not correlate with revolving credit use. Personality factors of self-control, self-esteem, self-efficacy, deferring gratification, internal locus of control and impulsiveness were significantly correlated with revolving credit use; on the other hand, sensation seeking, impulsiveness, and deferring gratification were correlated with petty installment use. We also found that some credit card features easily led to an "illusion of income" that facilitated consumer credit card debt behavior.

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## 1. Introduction

Credit card has become a vital payment tool for consumers all over the world (Bernthal, Crockett, & Rose, 2005; Feinberg, 1986; Garcia, 1980; Hayhoe, Leach, Turner, Bruin, & Lawrence, 2000). Although credit card was first created in developed countries, it has spread rapidly in developing countries, such as South Korea and China. According to the data provided by the People's Bank of China (Report on the Payment System for the First Quarter, 2010), credit card issuers mass-mailed over 18.6 million credit card offers in mainland China in 2009, an increase of 30.4% compared to last year. With the fast growth of credit card use, credit card debt has grown exponentially in both developed and developing countries and districts (Scott, 2007). At the end of 2009, American credit card debt totaled \$91.5 billion. In South Korea, credit card debt rose to 14%

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<sup>2</sup> Previous literature has showed that credit card debt can be attributed to revolving credit and petty installment use. Therefore in the present study, we call revolving credit use and petty installment use credit card debt behaviors.

of the GDP in 2009. In Taiwan, the almost 7 million people have become “credit card slaves”,<sup>3</sup> which account for almost 6% of economic population.<sup>4</sup> Meanwhile, credit cards, along with guns and drugs, are regarded as the big three poisons in Taiwan. In mainland China, credit card delinquency over a 6-month period in the first quarter of 2010 was \$1.32 billion (about 8.87 billion RMB<sup>5</sup>) and increased 14.4% over the fourth quarter of 2009.

Although a sizeable literature has been amassed on debt including credit card debt (e.g., Chien & Devaney, 2001; Dessart & Kuylen, 1986; Kim & Devaney, 2001; Robb & Sharpe, 2009), few empirical research studies have been conducted on this topic in developing countries (Barker & Sekerkaya, 1993; Goyal, 2006; Kaynak & Harcar, 2001; Wickramasinghe & Gurugamage, 2009). Almost no research has been conducted in China, where the traditional consumption value is “save first and spend later”. There is no doubt that due to the supposed convenience (Hirschman, 1979) and painlessness (Wickramasinghe & Gurugamage, 2009) of credit card, more Chinese would like to use credit cards. In light of this fact, reasons must be found for the sharp increase of credit card debt in China.

The specific objectives of present research were: (1) to explore the factors related to credit card debt in China; (2) to distinguish between two sources of credit card debt (revolving credit and petty installment plans); and (3) to explore variables related to these two specific credit card debt behaviors.

This article includes a brief literature review and a discussion of the void in extant research. Next, the study methodology is explained, followed by presentation and discussion of the research findings. The conclusion contains the limitations and implications of the findings.

## 2. Literature review of debt

### 2.1. Three research questions on debt

Consumer debt has been extensively documented. In debt-related literature, researchers tend to focus on three questions: What factors differentiate debtors from non-debtors? What determines how far people get into debt? What determines how much of debt is repaid? Extensive research has been conducted to address these three questions (Kamleitner & Kirchler, 2007; Livingstone & Lunt, 1992).

### 2.2. Discriminating debtor from non-debtor

Two main streams of research have addressed this question. First, substantial factors have been identified in order to enhance the accuracy of differentiating debtors from non-debtors. For example, Livingstone and Lunt (1992) incorporated demographic measures, economic measures and psychological variables into a discriminate function that can correctly classified 95% of subjects as either debtors or non-debtors. However, these researches have neglected the specific roles of groups of factors and of each factor individually.

The second stream of research is particularly interested in identifying the effects of each group of factors, even though some of them investigate the predictiveness of only a single factor. Lea, Webley, and Levine (1993) were interested in discerning the contribution of each group of factors to discriminating debtors from non-debtors. They indicated that along with economic resources and economic need variables, social support, attitude forming variables, and attitude variables could independently discriminate debtors from non-debtors. In addition to background characteristics and adverse life events, Tokunaga (1993) paid special interest to the additional predictive ability of psychological variables. He found that debtors tended to display an external locus of control, lower self-efficacy, viewed money as a source of power and prestige, took fewer steps to retain money, and presented a lower level of risk-seeking and sensation seeking. With the debt data from a public utility company, Lea, Webley, and Walker (1995) explored the role of money management and economic socialization of debt. They stated that debtors had less money management facilities such as bank accounts, and rated their abilities at money management lower, had a shorter time horizon, and were more likely to report that their parents' financial situation were better than their own. Inspired by Lea et al. (1995) and Walker (1996) further explored the inter-relationship between feelings of coping, financial management and debt. They found that people who were in debt perceived themselves as coping less well, but in contrast, they also believed that they had better financial management.

In addition to directly investigating the specific roles of each group of factors and each factor, some research explored the factors affecting specific debt behavior such as revolving credit use (Hamilton & Khan, 2001) and installment use (Baek & Hong, 2004; Ponchio & Aranha, 2008) to indirectly identify debtors. For example, Ponchio and Aranha (2008) found that materialism was the latent drive for low-income families entering into installment plan agreements. Baek and Hong (2004) focused on the lifecycle stage in predicting the likelihood of taking installment debt and credit card debt.

In summary, extant research really contributes a lot to the knowledge of discriminating debtors from non-debtors. These researchers not only tell us how to recognize debtors from non-debtors using different group variables, but also show us

<sup>3</sup> This term refers to credit card holders who, due to overuse or misuse credit card, cannot meet their payment due dates. Consequently, these people forced to spend a large percentage of their income to pay down this debt.

<sup>4</sup> Economic population represents people who have a secure job and stable income.

<sup>5</sup> As of September 17, 2010, The conversion rate was 6.72 (1US dollar = 6.72 Chinese Yuan).

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