

Factors Affecting the Preference of Debit cards to Credit cards in Nigeria.

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ABSTRACT

This study investigated factors affecting customer's preferences in the use of debit cards over credit cards. The use of bank notes for every day to day activities is of the norm in Nigeria, especially among the rural population. This might be attributed to the limited publicity of other available payment system that that can ease the hurdles of making payments. However, the Central Bank of Nigeria (CBN) has taken a number of steps to improve this situation through the introduction of prepaid cards in the banking system, but there is a preference towards these cards. In these paper, an analyzing of factors such as (1) its use helps individuals avoid debt, (2) it lowers the chances of overspending, (3) the use of credit card servers as a source of stress and (4) its use has an erosion effect on individual subjective welfare was presented. The data was received electronically through e-questionnaire containing 9 (Nine) questions including demographic factors. The questionnaire was circulated through social networking website and 62 responses were received. The Individuals who sent in their responses are from different strata of life and class in the Nigerian society the data was analyzed using descriptive statistics and graphical analysis. Percentage method was used to test the hypothesis. Results showed that a larger portion of the society agree that using the debit helps them avoid debt, spend less and avoid the quest to desire more while the notion that it causes them stress was disagreed to a large extent.

Keywords: Credit cards, debit cards, prepaid cards, percentage method.

I. INTRODUCTION

The economic, business, social and technological components of the nation and the globe at large, are becoming very dynamic and versatile. The need to make effortless payment is synonymous with e-commerce or e-money transactions and this has been accorded the appropriate recognition in today's business world

by the introduction of prepaid cards. as an important part of the economy ,this electronic payment came to be and overshadowed the traditional way of payment system [1]. Hence, virtually all parties – government bodies, MDA's, business community, the financial service industry, academics and a range of diverse individuals are exploring on various electronic payment system and the digital currency, which has no doubt, resulted in a definite and positive impact on our Nigerian contemporary development and economic sustainability since the financial system of every nation occupies a crucial position in its economy's [2].

According to review from a paper presentation by Ayo et al 2011 Nigerian's is still a cash based economy county where more people prefer to handle them transaction in Cash rather than a the bank transaction. Comparing them to other developed countries like UK and US that has less than 4percent and 9 percent respectively in circulation as against the Nigeria system where 90 percent of cash is in circulation. A popular adage in Nigeria that says" cash and carry" is as a result of many compromised transaction that has failed, this has made individuals and the society at large to prefer doing their business manually rather than electronically [3].

However, CBN has invested and implemented so many initiative so as to reduce the volume of cash in the economy, these has promoted the adoption of electronic payments and boost the Nigeria payments system. Nigeria having a large population and largely a consuming society it is not well adapted to buying things on credit, spending money as it comes has helped the society to curb their spending habits and help them spend as they earn. But as technology grows significantly many banks has been able to influence the lifestyles of some mostly salary earners and government workers those who are sure of their payday and convince them into taking these cards for their spending. Access to cash has also increased significantly since the adaptation of automated

machine tellers which dispense money 24/7 .the first machine was reported to have been installed by the then national cash register NCR for the defunct society general bank in 1987.since then the number of ATM has hugely gain wide spread in the country it is reported to has reached 18,321 since 2018 by the Nigeria interbank settlement system NIBSS.While the total number of transactions performed is 650.06 million, the transaction value is N4.76 trillion [4].

From their report if comparing the increase on a yearly basis the difference from September 2017 to September 2018 an additional 1,270 ATM with total transaction capping 560.86 million as against 650.06million.This results are also seconded by CBN which also backs the review that currently the Nigerian society are attached to their bank cards more than cash, Even with the above figures people tend to stick to their debit cards than their credit cards [5].



Figure 1: PREPAID CARDS.

1. What is a Credit Card?

A credit card are cards given out by a financial firm. A user can borrow funds by using the credit card. Credit cards are issued with the caveat that the individual will return the both the principal and the additional interest at when due. A line of credit (LOC) can be offered by the card agency which enables the holder to borrow cash in advance. Most credit cards are issued by the approved issuing bodies and must adhere to the standards of printing this cards which is specified by the ISO/IEC 7810 standard as ID-1. This is defined as 85.60×53.98 mm (3.370×2.125 in) ($33 \frac{1}{8} \times 21 \frac{1}{8}$ in) in size. The first proposal of completing a transaction with cash was first described in 1887 by

Edward Bellamy in his Utopian novel looking Backward. He mentioned the word credit card eleven times in this novel. The present card is from the evolution of different cards that have been in used in the past by different card distributors, the first was seen in the 1920s, in the United States, which was used majorly to sell fuel to transporters and private car owners. In 1938 several cards has evolved and people are confident enough to accept

each other's cards from different card issuing companies .it was also reported that Western Union begun issuing charge cards to its frequent customers in 1921, Some of those cards as of then were printed on paper card stock, but were easily counterfeited which encouraged the quest to strengthen the card production and usage. [6].

2. What is a debit card?

A debit card is a plastic payment card that allows a customer of a bank to make payments and do transactions while been charged directly from his or her bank account. This type of service is different from a credit card. [6].

So many countries has adopted these technology that it has come to displace the use of cheques and bank drafts. The services provided by debit card is flexible that it's been tailored to each countries specifics unlike credit cards this has made the number of service companies handling debit card to be on the increase and their cards been incompatible with others around the world, some changes has started surfacing from mid 2000s where different countries cards can make purchases online and wire money electronically. [4].

This card is also known as a check card that subtracts cash directly from the holder's checking account while paying for a buy. People avail the facility of a debit card when they do not want to carry cash or bypass physical checks while making purchases. These cards offer consumer protections when issued by note-worthy payment processors like Visa or MasterCard. This card enables the owner to access cash from his own savings account via an ATM or through a cashback function which several merchants offer at the point of sale. Furthermore, they let the users make purchases. Furthermore one of the benefit of using it is helps regulate the individual from over withdrawing it might allow maybe for lesser negative balances that might be have been charged if the account holder is using an overdraft coverage [7].

3. Benefits of Credit Card against Debit Card

1. Only the available cash in either current or savings account can be utilized while making transactions while in credit card The credit limit related to the credit card account can be utilized while making transactions
2. Money is drawn directly from checking account while in credit cards Purchase charged to a line of credit which the user is billed for later
3. Money is instantly deducted from the checking account while in credit cards Generally, the customer has 30 days to pay after the purchase
4. You can earn interest which depends on the amount of deposits available while in credit cards Interest is charged on outstanding amount
5. There is Non-debt instruments as no repayment is required. Debit card holder is simply tapping into the bank account. While in credit cards it Serves as debt instruments as the credit card holder has to repay the amount borrowed from credit card company
6. it Cannot avail EMI facility on debit cards while EMI facility can be availed on credit cards
7. Charges such as joining fee, annual fee, processing fee etc. are levied while in credit cards Charges such as joining fee, processing fee, annual fee, delayed payment fee, prepayment penalty or foreclosure fees can be levied
8. Bank statement are given to individuals on a monthly basis stating the transactions while in credit card Bank statement is sent to the beneficiary monthly stating their bills,

transactions, outstanding balance, minimum amount due and the payment due date

9. A debit card can be held by any savings or current account holding customer but In order to avail a credit card, the borrower must fulfil lender's eligibility standards. Particulars such as a CIBIL score, transaction his- tory with the bank, debt-to-income balance etc. is factored in for approval
10. They offer Low fraud liability offered by bank while credit card offers High fraud liability with insurance cover in case of loss or theft or misuse of credit card.

4. Characteristics of debit versus credit cards

Availability of funds

The debit card can only avail you the funds present in your bank account, sometimes you can access more than you have but its charges often discourage the account owner from overdrawing. While credit card is not limited to what is available in your account it avail you cash which you are qualified to access according to the monetary system of the card or financial institute that issued the card.

Fees & charges for usage of card

Knowing the additional fee each cards can help individual make choice of which card Severs their purpose, Debit card usually doesn't incurs any annual fee but the card issuer might charge monthly fee and surcharges if used in some business Enterprise these charges ranges from 0- 1 percent. While credit cards can really be frighten to use because of its charges that include annual fee, interest fees and cash advance fee these ranges from 1-3 percent depending on the type and usage.

Rewards from their usage

Debit cards don't often offers freebies from its usage but can sometimes offer points to its customers for their usage while the credit card has huge availability of rewards and freebies that its customers can receive this can be attributed to the large interest and fees they pay so it's a way of encouraging them to keep on using them.

Chance of been in debt

An individual can only incur huge debit on debit card if he or she overdraws the card but if an individual is meticulous and stick to its available funds the fear of debt is evitable while in curing debt in a credit card its inevitable it's a feature that comes with the card but can be reduces if the customers spends responsibly.

Credit history

For an individual to be eligible to assess a credit facility you have to have a history of credit taken, this cannot be easy for a customer with debit card and its history been that of its debit card usage in as much as debit card helps you curb habits of over spending it can limit you from enjoying the benefit of being qualified to access credit facilities and having good credit rating. This is not the case for a credit card user their chances is high up when it comes to accessing credit facilities.

Security

A prepaid card holder needs PIN to access its fund if these PIN is misplaced anyone in contact with the card and PIN can have direct access to your funds, if a debit card is unfortunate to be in a fraud situation your cash is gone but for a credit card owner in as much as they can also be victims of fraud, if the fraud is reported fully they can be exempted from reimbursing said cash.

Application process of collecting these cards

Most financial institution offer debit cards option with each account opened, there is no

addition eligibility checks and requirement for its usage while credit cards comes with a lot of checks, filling of forms and disclosures of personal information about self and family, this is so because they don't only give you access to your account but also assess to the bank account which you can only access if you have the ability to pay back. [8].

5. Penetration of cards in Nigeria

According to global economy.com the penetration of individuals who are above 15 and have access to credit cards from 2011 to 2017, The average value for that period in review was 2.05% with a minimum of 0.79% in 2011 and a maximum of 2.76% in 2014. The least value from 2017 is 2.59%. In other to compare this figure, the world average as in 2017 in comprising to 142 countries is 19.28% while the data for the debit card for the same time period The average value was 28.57% with a minimum of 18.56% in 2011 and a maximum of 35.61% in 2014. The least been 31.55% from 2017. Also against the for the world average in 2017 based on 142 countries is 44.40% [7, 9, 16].

Distribution of card scheme in Nigeria as of 2020

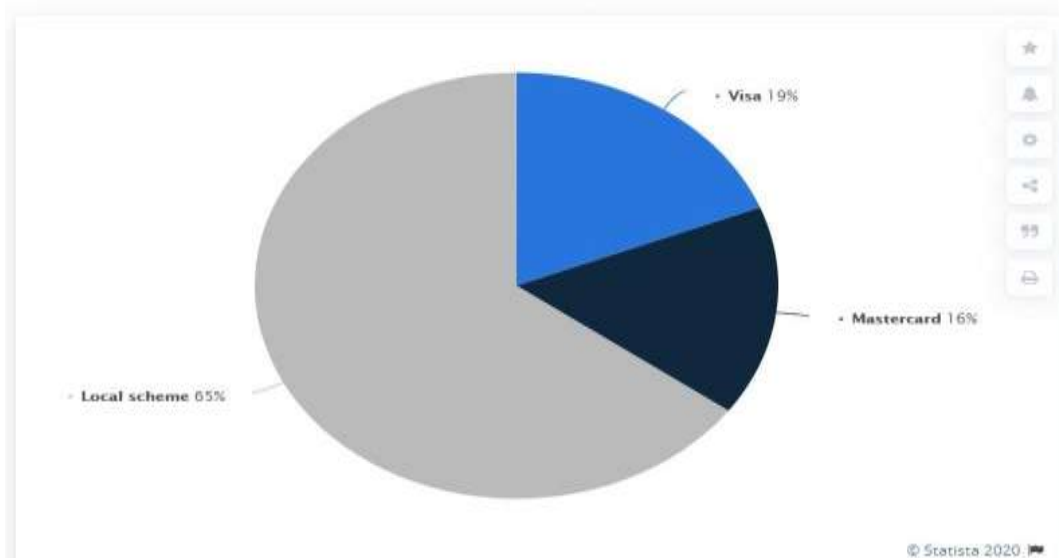


Figure 2: card penetration in Nigeria.

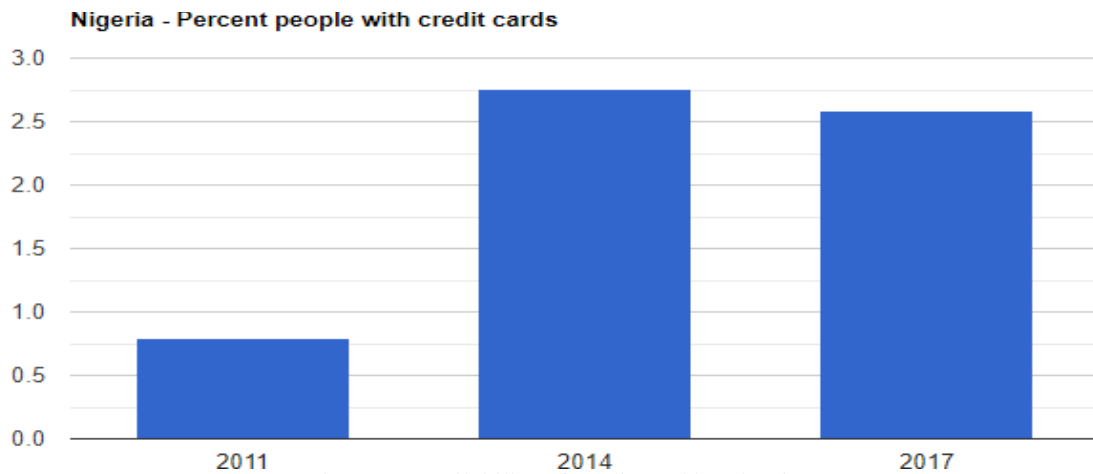


Figure 3: Availability of credit card in Nigeria

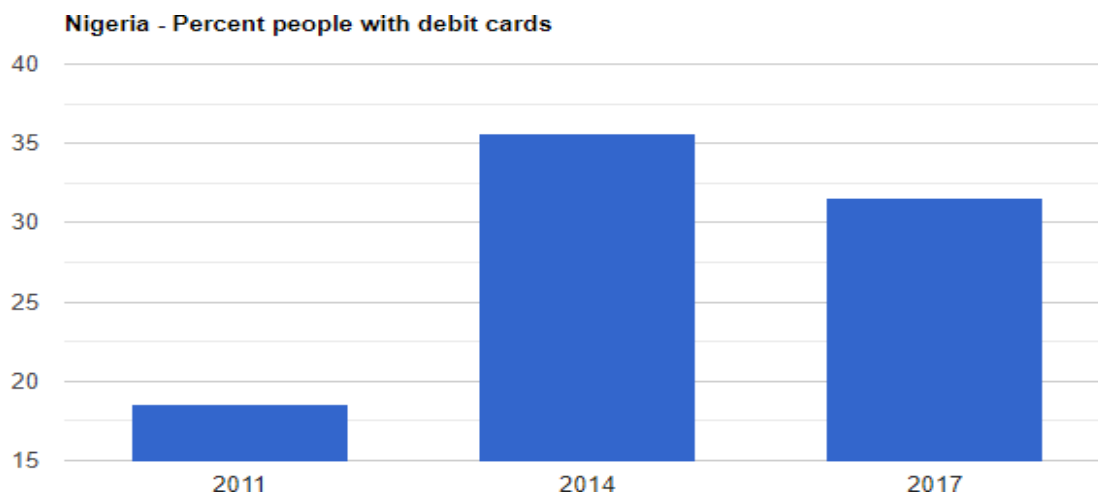


Figure 4: Availability of debit card to individuals in Nigeria.

II. LITERATURE REVIEW

Complete and efficient means of during a transaction has become eminent in the modern society so as the government and also individual bodies and corporations are in constant quest to find better ways to fill the missing gaps .the methods employed can be manual or electronic as the case maybe but as the world is going live on net most modern society has adopted the electronic means more than the former. The need to have a standardized means and efficient network has made these ventures to grow widespread and received many commendations ,some countries has also come up with country specific system that is tailored to cater to e4each countries specific needs. Examples of these payment systems are credit card and ATM'S, internet banking, Real time gross settlement RTGS, SWIFT etc. [2, 10, 11].

Electronic Payment Systems (EPS) not only been save and a convenient means of making payment has also contributed in the growth of the economy, it has also been a way of monitoring funds and making them readily available to both government and individual companies who which to access funds.it also encouraged the Nigeria society of the culture of savings and keeping their cash in the bank being rest assured that they can access it any anytime. [12]. Furthermore, this method has the ability to provide individual with their transaction history, help them spend less, also help government in their decision making in terms of finance .it also reduces the printing of bank notes and encourage individual to key in into using these electronic method of payment. According to Moody's Analytics (2010) a countries has a chance of growing its real global GDP when it reduces its physical money usage and adopts the electronic means it stated that it can reduce by 0.2%. [5, 13].

Nigeria been a cash society (up to 90% of its cash in circulation) resisted for a long time been moved to cashless society it has been a great concern to the government and other bodies that have interest in moving them to the next level in terms of efficient and convenient payment opportunities. The difficulty in transforming the Nigerian society into a cashless society is as a result of the society been able to make instant convertibility to other forms of value without involving the bank and also for their inability to trust the system initiating from when the government was accused of corruption in the civil service where the federal government Treasury issued a circulation that all payments from government funds be done through electronic means. The circular was called NO TRY/A8 & B8/2008 of 22nd October 2008 which took effect from January 2009. [14].

Credit cards has not made a name for its self in the Nigeria population it has also recorded a huge decline in 2019, also the issuers also has restriction on the class of people who are qualified to access these cards which are people who are civil servants or those whose salary are domiciled in their bank. The paper gave an insight to the already existing market base, the cards available, those in the forefront of distribution and implantation of these cards, the spread covered and also gave key insight on trends to lock out for. [15].

It can be said that the level of trust a customer gives to his or her bank depends on their long-term relationship and the type of services they get from them, A review showed that the bank card does not just connect individuals and their money it also connects them to people and the services rendered by the financial firm which can be both electronically and manually. Stating these it might be true to say that most Nigerians are emotional attached when it comes to who they keep their money with and how they spend it due to some of the reasons exhibited by banks which include but not limited to

- i. Trustworthiness: To clear the doubt of customers that their transactions and money is safe with them.
- ii. Non-repudiation: to ascertain that all parties involved are on the same page and have proofs of transactions.
- iii. Privacy policy: to make sure that their personal data's and transactions has all the privacy it deserves.
- iv. Integrity: to show that they are capable of the tasks being assigned and would handled timely without failure.

- v. Authorization: To make customers capable to access the right services promptly.

In the same sense, [10] suggests that for a financial firm to build strong bond with its customers there is need for social awareness and incentives to encourage the customers to bank with them. It would be deducted that so much awareness has not being done for credit cards as it has been done for debit cards, also been that most Nigerians spend their money as it comes see no need to keep money in the bank when it's not enough for spending. Also the fact that most do not have access to these social network that can help them gain full awareness of the benefits of this cards.

It was also observed in Regards to consumer behavior, [2] that the individual who possess credit cards especially the platinum brands do so to increase their social standing and image. This also implies that most Nigerians are not concerned about the type of card being used in as much as its can improve the social image from the type of card is holding.

In the same light [3] believes that credit cards affect the level of happiness of an individual and allows certain leisure, welfare and satisfaction in the present time to pay at a later time, however, which causes an erosion effect on the individual subjective welfare because it generates additional needs once the current needs are met. [12].

III. METHODOLOGY AND RESEARCH DESIGN

Analysis Instrument: This paper adopted the Percentage Method in the analysis of the findings.

Percentage Method: - The method is used to draw specific interference from the collected data that is to fulfill the objective of my finding succession

Formula:- $P = \frac{Q}{R} * 100$

P = reading in percentage

Q = No. of respondent falling in the specific to be measure.

R = total number of respondent or it is the population as a whole

1. Data analysis and Interpretation

Four hypotheses would be used for these study which includes

Hypothesis 1: it is easier to avoid debt when you are using a debit card.

Hypothesis 2 : it lowers your chances of overspending.

Hypothesis 3: it serves as a sources of stress

Hypothesis 4: credit card usage as an erosion effect on the individual subjective welfare because

it generates additional needs once the current need are met.

Firstly data's made available are been analyzed in tabular form and there- after, it is analyzed with the help of percentage method and through pie chart. A brief description of the analysis and interpretation is given below It is observed from fig 5. that from all correspondents, there are 24% respondents which be- long to the age group 18-25, 59% of respondent belongs to 26-30, 14% of 36-45, 2% of 56 and above and response from those between 46-55. Thus, majority of the respondents are between 26-35 years which represent a huge percentage of youths and those still in their prime.

It is observed from figure 6. That a larger part of the respondents which consist of 60 percent are male and the remaining 40 percent are women. This give a clear review that majorly the corresponding data given are majorly from male. This is also true from figure 7 that represents the

occupational background of our respondents the figures gotten are 48%,44%,8% which represents graduate, post graduate and intermediate respectively this gives us a clear understanding of the background of our correspondents. Observation from figure 8 that there are 32% respondents who are engaged in government sector, 12% respondents who are self-employed, only 32% are private employee and 36% are students. Thus it can be said from the data that a better part of the respondents are students. It is also evident from figure 9 that, most of the respondents have annual income between 51,000 naira and 500,000 Naira (41%), 21% of respondents have income between 501,000 and 1,000,000, 23% are more than 1,000,000 and only 15% earn below 50,000.this concludes that most of our respondents earn less than 500,000 annually.

Table 1
Description of the Samples

		Numbers of respondents (NR)	Percentage of NR to number
Sex	Male	55	59.7%
	Female	35	40.3%
Total Respondents Age	18 ≤ age < 25	20	24.2%
	26 ≤ age < 35	55	59.7%
	36 ≤ age < 45	10	14.5%
	46 ≤ age < 55	0	0
	55 ≤ age	5	1.6%
Education	Intermediate	4	8.1%
	Graduate	40	46.8%
	Post graduate	36	43.5%
	others	10	6.26%
Salary	50000 ≤	5	14.8%
	Btw 51000-500000	34	41%

Btw 501000-1000000	24	21.3%
More than 1000000	27	23%

Occupation	Self employed	10	11.5%
	Govt. Employed	16	19.7%
	Private employed	28	32.8%
	Students	36	36.1%

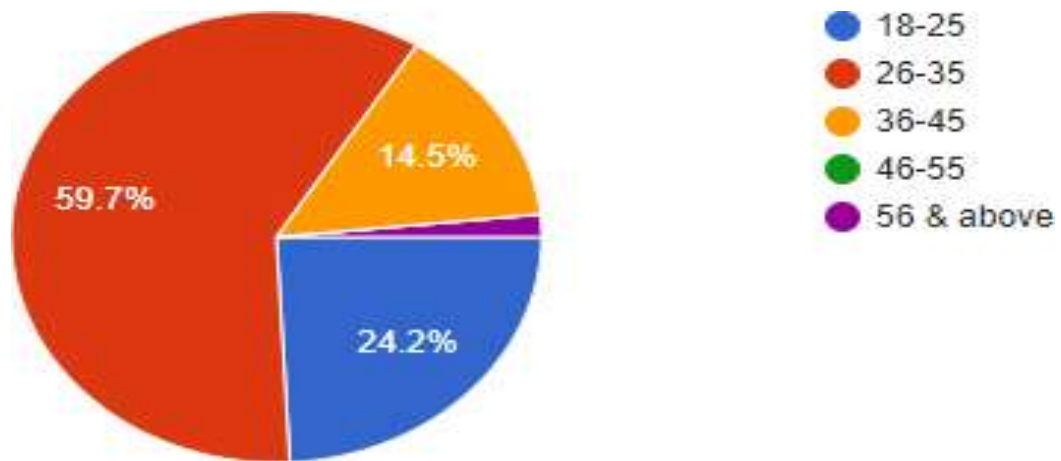


Figure 6: AGE BRACKET.

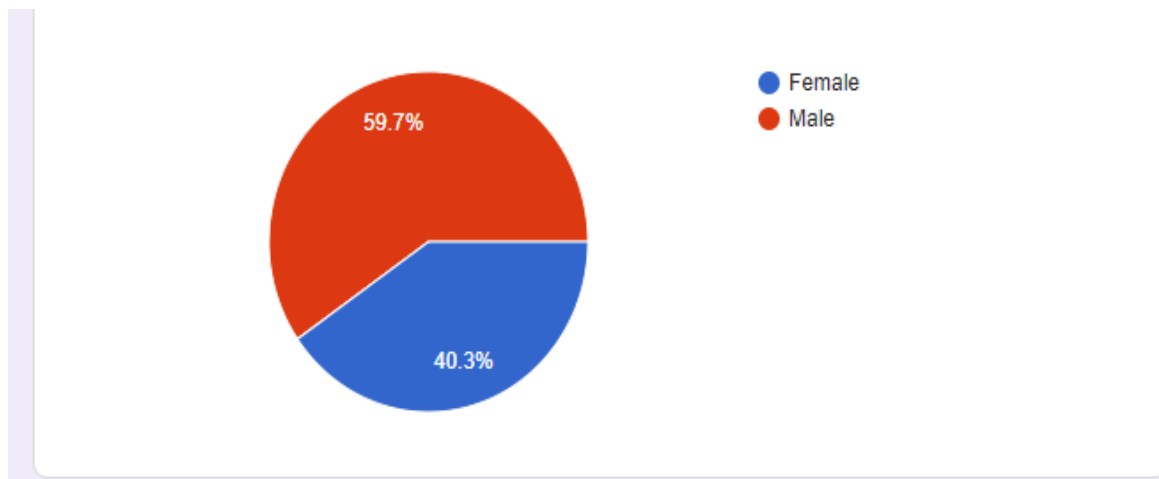


Figure 5: GENDER

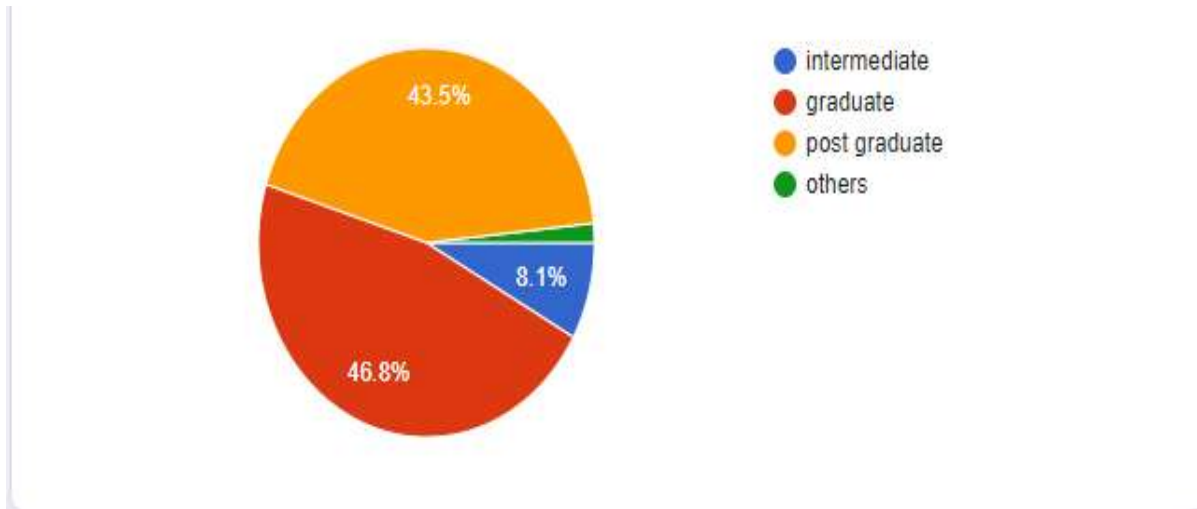


Figure 7: QUALIFICATION

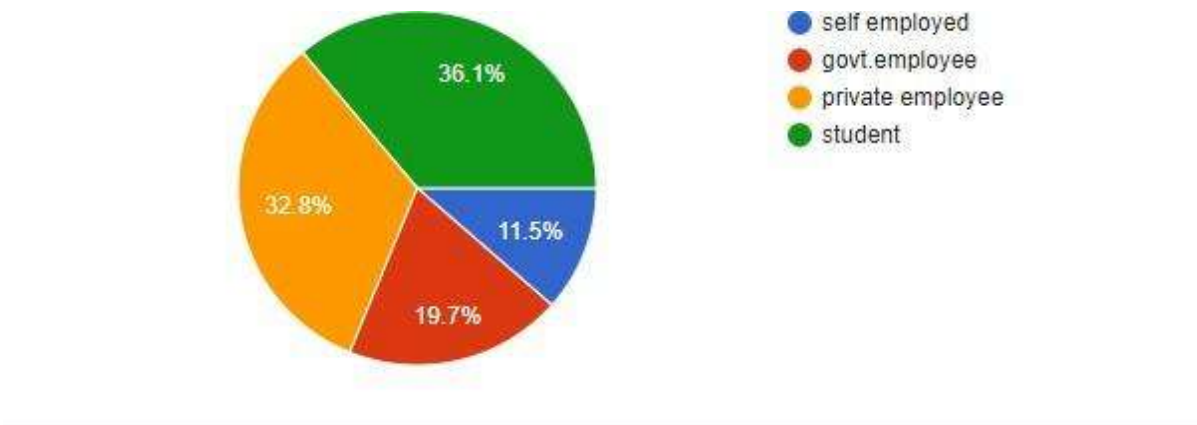


Figure 8: OCCUPATION.

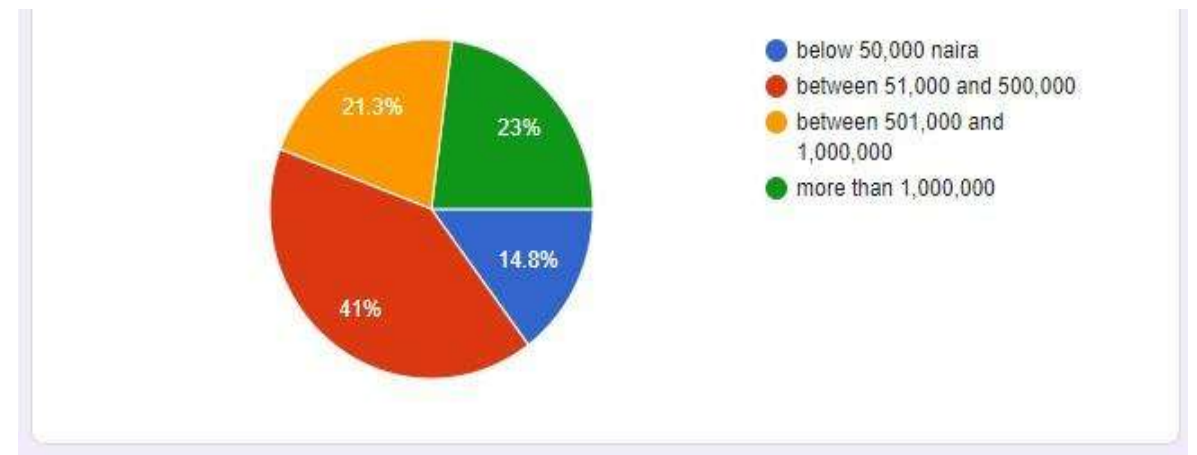


Figure 9: ANNUAL INCOME.

IV. RESULTS

Nigeria as a country is a developing country and so many people are so conscious on their spending and afraid to incur debt for its household this holds true for the first hypothesis with figure 10 and table 1 which where 40 percent of our respondent strongly agree that the fear of incurring more debit is a very strong evidence to attest to the fact that the use of credit cards which will avail them more cash from more than they could earn in a month will make them incur debt they are trying to avoid, 32 % agree with this fact and 14% are neutral and 12% of our respondents disagree. This also holds true for our second hypothesis that says that it increases the chances of over spending according to Naira metric which captured a diagram at a glance of how a typical household expenditure in an average Nigerian home looks like these shows a clear picture of how many percent are being allocated to each expenditures when it comes to the opportunities that credit card brings the average Nigerian is skeptical of next pay and try sticking to its budget the use of debit card helps keep them in check and grounded so as not be carried away from how much that can spend using the credit card the data in

figure 11 and table 2 clearly portray these where 40% of our respondent strongly agrees, 21% agrees and 27 and 8% respectively are neutral and disagree respectively.

The third hypothesis is received differently from the other hypothesis a significant number of our respondent which represented in figure 12 and table 3 is 40% supports being neutral to the question and 40% disagrees with it that using credit card puts stress on their shoulder and other form of social stress that are in society. The last hypothesis which states that the use of credit card has an erosion effect on individual subjective welfare because it generates additional needs once a current needs is met represented in figure 13 and table 4, 40% of our respondents agrees with these fact while 27% strongly agree and 19% are neutral to these fact and 12% disagrees with the said question.

Thus, from the table and graphs from the study we can deduce that the preference of debit card to credit card in Nigerian is due to but not limited to people avoiding spending more than they could earn and avoiding putting themselves in unnecessary stress and trying their very best to stick to their budgets and not overspend.

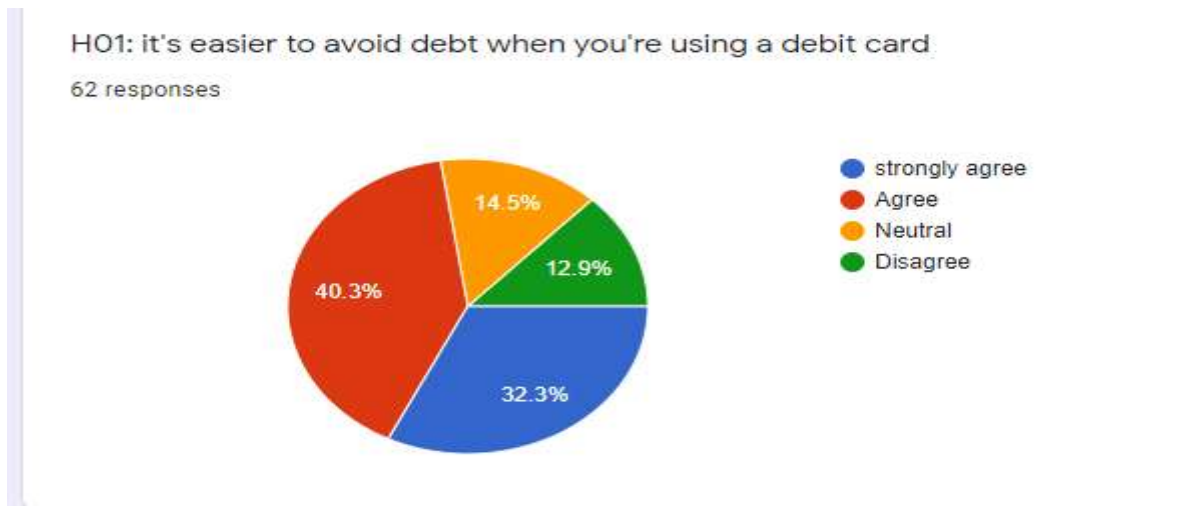


Figure 10: HYPOTHESIS 1.

Answer	percent	No of respondents
1	32.3	20
2	40.3	25
3	14.5	9
4	12.9	8

Figure 14: table based on response to hypothesis 1.

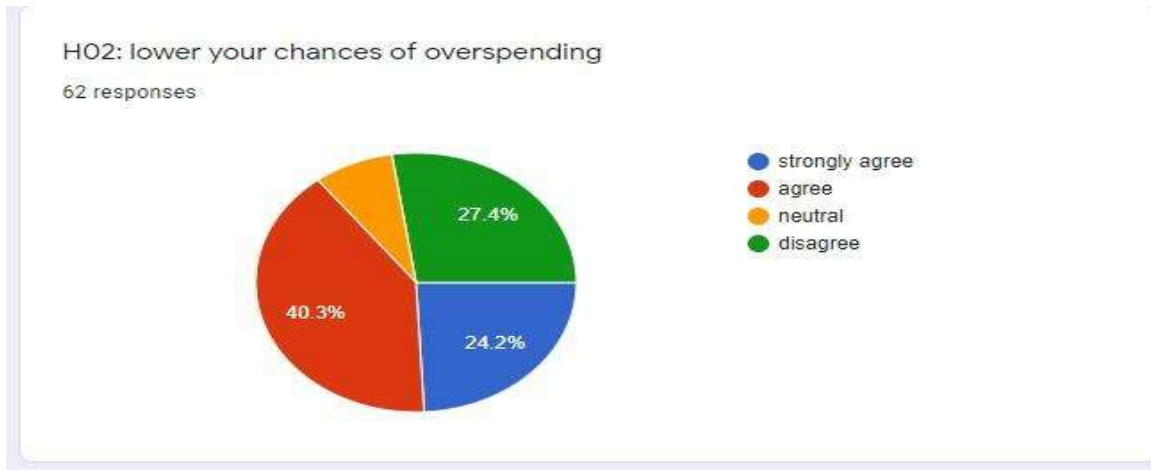


figure 11: HYPOTHESIS 2.

Answer	PERCENT	NO OF RESPONDENTS
1	24.2	15
2	40.3	25
3	8.1	5
4	27.4	17

Figure 15: Table based on response to hypothesis 2.

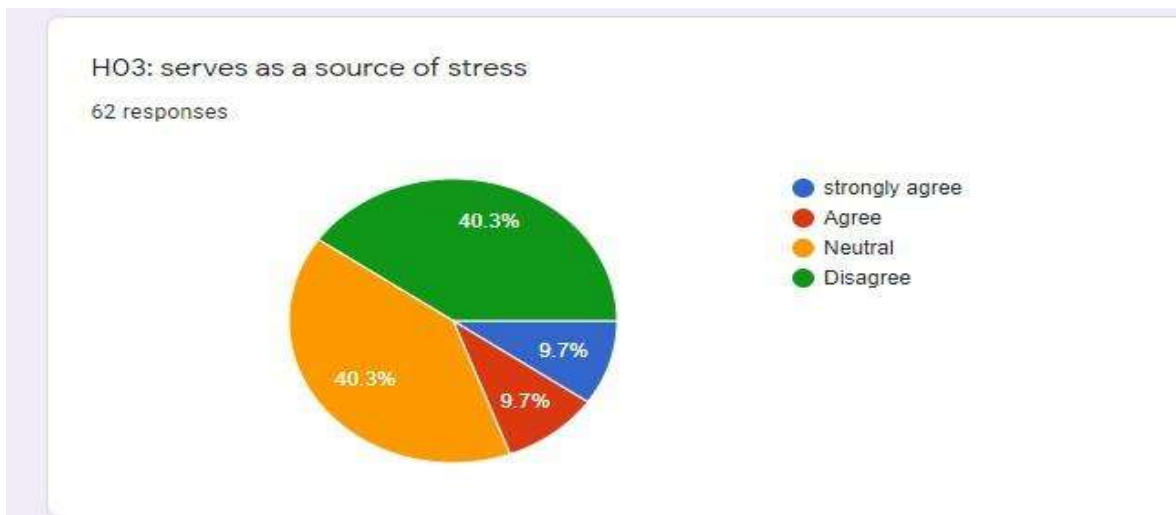


Figure 12: HYPOTHESIS 3.

Answer	percent	No of response
1	9.7	6
2	9.7	6
3	40.3	25
4	40.3	25

Figure 16: Table based on response to hypothesis 3

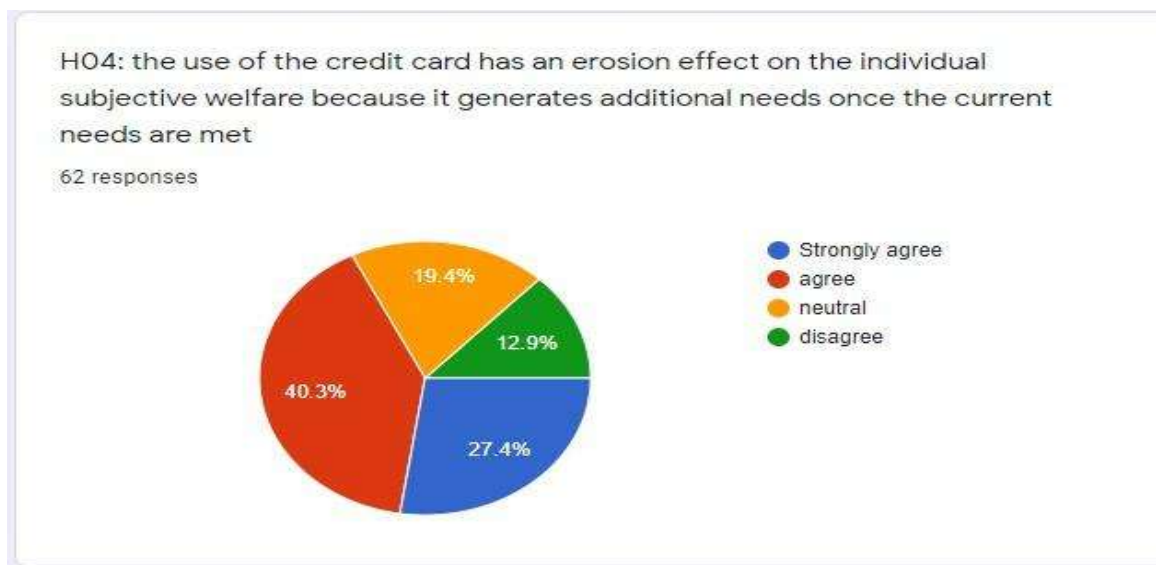


Figure 13: HYPOTHESIS 4.

Answer	percent	No of response
1	27.4	17
2	40.3	25
3	19.4	12
4	12.9	8

Figure 17: Table based on res pone to hypothesis 4.

V.CONCLUSION

Observing majorly from our collated data it can be deduced that majority of the respondent are students mostly graduates and between the ages of 26 -30 years that earn close to 1,000,000 naira monthly it can also be deduced that the four hypothesis used which are it is easier to avoid debt when you are using a debit card. it lowers your chances of overspending, it serves as a sources of stress and the use of credit card has a erosion effect

on the individual subjective welfare because it generates additional needs once the current need are met. Majority of our respondents strongly agree with these factors stated and only reacted differently on the second hypothesis these shows a clear picture of the mind of the Nigeria society when it comes to spending and sticking to bugets.other factors can also be a valid reason why credit card is not being received with open arms in the Nigeria system this is open for more research in

the future .the use of credit card in Nigeria may change in the future as these factors are not cast on stones and may be viewed from another perspective from different individuals.

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