

Lund University

Department of Sociology

**An Analysis of the Determinants of Credit Card Use  
among Urban Residents in China**

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Master's Thesis (2 years) in Global Studies—SIMV07

30 Credits

Spring 2016

Supervisor: Kjell Nilsson

## **ABSTRACT**

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Along with globalization, the use of credit cards has become popular among Chinese urban residents; China has witnessed the tremendous growth in the accumulated number of credit cards issued and the amount of credit loans utilized. The new-classical consumption theory holds individuals responsible for the use of credit loans, however, from Veblen's institutional perspective, the use of credit cards is influenced by issuers, consumers and governments. Hence in this research factors from individual (micro) level and institutional (macro) level are both analyzed. The research question is: frequency of credit card use of Chinese urban residents being the dependent variable, the research aims at analyzing the determinants of credit card use, including generalized trust, trust in institutions, socioeconomic status on the individual level, and driving forces on the institutional level, including card issuance and promotion policies, and competition in the payment market. Quantitative models and qualitative interviews are applied to identify the significant determinants of credit card use and to unveil the mechanism of their influences. From multinomial logistic regression models, conclusions can be drawn such as: compared with the response "having no credit cards", (1) among socioeconomic variables, social status, income and higher education have significant positive impacts. (2) Among trust variables, generalized trust has positive impacts on the frequency of credit card use, while trust in institutions has positive impacts on holding cards. Furthermore, to understand the impacts and interactions of generalized trust and social status, cross the two to form four types of consumers: ( I ) high status-low trust, ( II ) high status-high trust, ( III ) low status-low trust, and ( IV ) low status-high trust. Further conclusions can be reached: (3) for individuals with low social status, the higher the generalized trust one has, the more likely one will own a credit card; (4) for individuals with low generalized trust, the higher the social status one belongs to, the more frequent one will use credit cards; (5) for individuals with both high status and high generalized trust, they will use credit cards more frequently. In the interview phase, this research has found that on the individual level, the use of credit cards is propelled by the dual effects of status and trusts, as different types of trusts have various mechanism in affecting credit card holding or use; people from different social status exhibit distinct perspectives on the two major motives of credit card use—financial flexibility and credit cards preferential. On the institutional level, China's commercial banks adopt

aggressive credit card promotion policies; the credit card issuing institutions mirror not only the “U.S. model” which established formal rationalized institutions, but also the “Russian model” which availed informal social networks to promote cards; besides, the rapid growth of China’s payment market and the emergence of electronic payments have also shadowed the convenience of credit card use. Finally, a graph is generated to depict the mechanisms of trusts, status and institutions on credit card use (shown as Graph 5).

*Key words:* credit cards, trust, social status, credit institutions

Words: 17,537

## Table of Contents

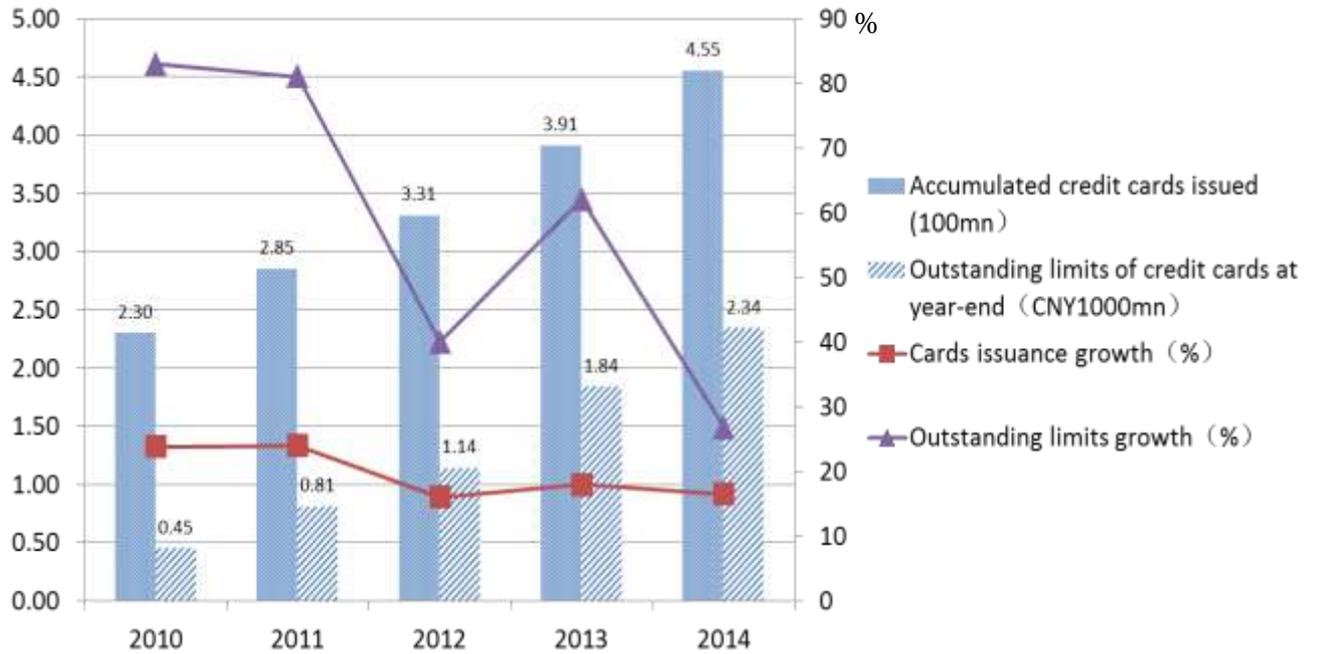
1. Introduction and Research Question .....	1
1.1 Overview of Credit Card Use in China .....	1
1.2 Research Background and Research Question .....	2
2. Literature Review and Hypotheses .....	4
2.1 Individual Factors .....	5
2.2 Institutional Factors .....	8
3. Methods.....	11
3.1 Quantitative Method.....	11
3.1.1 Sample and Variables Description .....	11
3.1.2 Model .....	17
3.2 Qualitative Method.....	18
3.2.1 Case Selection Strategy.....	18
3.2.2 Interview Design.....	19
4. Data Analysis .....	20
4.1 Analysis on Model (A) .....	20
4.1.1 Trust .....	22
4.1.2 Socioeconomic Status .....	23
4.1.3 Basic Variables .....	24
4.1.4 Tier of Cities .....	24
4.2 Analysis on Model (B) .....	25
5. Findings from Interviews.....	28
5.1 Cases Description .....	28
5.2 Findings: Individual Level—Status and Trust as Dual Driving Forces .....	29
5.2.1 Impacts of Status on the Motives of Credit Card Use .....	29
5.2.2 Impacts of Trusts on Holding and Using Credit Cards .....	38
5.3 Findings: Institutional Level—Credit Card Issuing Policies and Competition in Payment Market .....	44
5.3.1 Credit Card Issuing Institutions: U.S. Model plus Russian Model..	44
5.3.2 Fierce Competition in Payment Market.....	48
6. Summary and Discussion.....	49
7. References.....	58
Appendix 1:.....	61

## **1. Introduction and Research Question**

### **1.1 Overview of Credit Card Use in China**

As a means of non-cash payment and credit service, credit cards can provide convenience for transactions and postponement of payment. Credit cards have been prevalent in western countries along with the emergence of over-consuming on the individual level and credit risk on the social level, which have drawn scholars' attention. For Chinese residents, with the process of globalization and the infiltration of over-consuming, and the rising household income, the credit card market in China has witnessed a rapid growth. Researches have shown that since its first issuance of dual-currency credit card in 2003, China has become the fastest-growing credit card market with the largest potential in the globe (Yin, et. al., 2014: 63). According to *China Payment System Development Report 2014* (People's Bank of China, 2015), by the end of 2014, China has accumulatively issued 455 million credit cards, up by 16% compared with 2013, almost doubled the number in 2010; the national average number of credit card holding per capita is 0.34, up by 17% compared with 2013; the average credit limit per card has exceeded CNY 12 thousand, with 42% utilized. In addition, the average number of credit card holding per capita in Beijing and Shanghai is much higher than the national average, reaching 1.70 and 1.33 cards respectively. As exhibited in Graph 1, from 2010 to 2014, the annual growth rate has remained above 15% for China's accumulated credit cards issued; besides, the annual growth rate has kept above 20% for Chinese residents' credit utilized, with the credit loan utilized climbing up from CNY 450 billion (2010 year-end) to CNY 2340 billion (2014 year-end). Therefore, both credit cards issued and the credit loan utilized have been increasing in China, which means that Chinese residents may have welcomed the popularity of credit cards in their life, and might be inclined to use credit cards more often. Thus it is necessary to understand the driving forces and mechanisms

behind these growth trends.



Graph 1: Growth Trends of China's Credit Cards Issued and Credit Loan Utilized (from 2010 to 2014)<sup>1</sup>

## 1.2 Research Background and Research Question

Besides the fact that the credit card market in China has been rapidly growing, from the theoretical perspective, in Ritzer's study on credit cards, he indicates that micro-macro relationships should be incorporated, as the macro-level credit card industry leads to various public issues and personal troubles while the micro-level individuals re-create the industry (Ritzer, 2001:75). Hence both micro and macro factors affecting credit card use are considered in this research. From the individual (micro) level: firstly, based on Weber's rationalization theory, Ritzer further claims that the prevalence of credit cards derive from credit McDonaldization, which involves calculability—the number of credit cards one owns and the credit limit authorized on those cards have become increasingly

<sup>1</sup> Data source: Graph 1 is composed according to data from *China Payment System Development Reports 2010-2014*, People's Bank of China (China's central bank).

important status symbols (Ritzer, 2001: 84); as a result, individuals with higher status may own and use more credit cards. Secondly, a trustworthy payment environment is a premise of credit card use, individuals with higher trust level toward strangers and transaction environment are more likely to use credit cards to pay. From the institutional (macro) level, banks' credit cards issuance policies, such as promotion and approval institutions, may have contributed to the prevalence of credit cards. Therefore, this research conducts an empirical study in China, focusing on analyzing the significant determinants of credit card use from both individual and institutional levels and unveiling the mechanism of their influences.

The research question: frequency of credit card use of Chinese urban residents being the dependent variable, the research aims at analyzing the determinants of credit card use, including generalized trust, trust in institutions, socioeconomic status on the individual level, and driving forces on the institutional level, including card issuance and promotion policies, and competition in the payment market.

This thesis consists of six parts: Part One introduces the research background, including the fast development of credit card market in China and the sociological inspiration of relevant studies; then raises the research question. Part Two reviews the literatures regarding the determinants of credit card use, in order to summarize the impacts from micro-individual level and from macro-institutional level, and to propose research hypotheses accordingly. Part Three elaborates on the methods, firstly the quantitative analysis—establishing multinomial logistic regression models on factors from individual level (mainly trusts, status, basic variables); and then the qualitative analysis—conducting interviews with four types of cases generated from typology (along two dimensions: status and generalized trust). Part Four analyzes the results of regression models and explains the individual

impacts on credit cards use, especially from status and generalized trust. Part Five presents the findings from interviewing with typical cases, and discusses the profound mechanisms of credit cards use influenced by individual and institutional factors. Part Six summarizes the analysis and findings, and lastly reflects on the limitations of this research.

## **2. Literature Review and Hypotheses**

The invention of credit cards dates back to post-industrial revolution America, along with a general rise in the issuance of consumer credit for a variety of goods and services. Many scholars believe that the prevalence of credit cards is related to consumption; the convenience of credit cards stimulates consumption, while over-consuming lures people to purchase products on credit even if they could not pay the full price instantly. Based on the permanent income and life cycle consumption hypothesis developed by Friedman and Modigliani, neoclassical consumption theory holds individuals solely responsible for their credit cards, which fails to consider the influence institutions exert on consumer spending or borrowing decisions (Scott, 2007: 569). Different from the neoclassical perspective on credit card use, Veblen's institutional theory on consumption argues that not only individual factors, but also institutional factors affect the use of credit cards: there is a large portion of credit card holders who over-spend using credit cards simply because they are authorized credit too easily without considering whether they really can cope with the amount of the credit limit. Veblen asserts that most individuals wish to be recognized as living one class-stratum above where they currently live, however, households have been trapped in the class-stratum with very few means to achieve a breakthrough; credit cards provide such a ladder that people can climb up to higher class-stratum via lending. Within Veblen's theory, credit card debt is influenced by three parties:

credit card companies (producers), consumers, and the government (Scott, 2007: 570). Starting from the above theories, the following two sections will review the determinants of credit card use on individual level and institutional level respectively.

## **2.1 Individual Factors**

Firstly, many scholars have studied the impacts of income and socioeconomic status on credit card use. A study on the credit card use in America shows that consumer debt has surged in past decades and advertisements seek to link credit card use to positive, high-status symbols (Klein, 1999). There are two motives of using credit cards: as a convenient medium of exchange and as a source of short-term revolving credit, researches have demonstrated that both can explain why people use credit cards; a survey conducted by Blackwell et.al. finds that over 60 percent of card users consider convenience as fundamental to their use while 33 percent emphasize the potential of generating credit. Cardholders with low income and low socioeconomic status prefer the function of generating revolving credit more often than do cardholders with high income and status; the rich more frequently regard credit cards as a convenient means of exchange (Garcia, 1980: 329-332). Thus it can be assumed that income and socioeconomic status have impacts on credit card use. Also, some scholars distinct the effects between status and income on credit card use, through a study on credit cardholders, and they find that social status does not outperform income level as an indicator of consumer credit behavior (Slocum & Mathews, 1970: 73), hence income and status may both show significance in influencing credit card use. In addition, some scholars explore the factors that affect the ownership of credit cards based on a research in Turkey: the outcome is that holding credit cards is positively associated with the number of household members who generate income (Yayar & Karaca, 2012: 202). Apart from the empirical studies abroad,

Chinese scholars also conduct some researches on credit card consumers: it turns out that cardholders' income and occupation significantly influence one's frequency of credit card use, cardholders with higher income exhibit higher frequency; cardholders working in banks use credit cards more frequently than those with other occupations (Huang & Shen, 2010: 115-116).

Secondly, people's level of generalized trust and institutional trust may affect their credit card use. Particularized trust (thick interpersonal trust) is established on a strong tie between each other in a face-to-face society, which has now transitioned to a society with widespread anonymity, where a person often needs to interact with others who are not known well or even at all (Lewis & Weigert, 1985:973); these interactions are based on generalized trust, or thin interpersonal trust. People place generalized trust in strangers or people whom they do not know well, they expect that others will be in compliance with expectations and be fair, honest and reasonable in dealing with each other (Solomon & Flores, 2001:42). Generalized trust relies on the person being trusted or the reputation of the intermediary (Khodyakov, 2007:122). For institutional trust, some scholars believe that trust towards institutions is generated on the foundation of interpersonal trust (Fukuyama, 1995), while others contradict that trust toward institutions is more likely stemmed from the trust in the effective performance of institutions (Khodyakov, 2007:118); this research is more inclined to adopt the latter definition. Among consumer researches, consumer trust is defined as: the expectation held by consumers that the service provider can be relied upon to deliver on its promises (Sirdeshmukh et al. 2002:15-37), or consumers' willingness to depend on a counterparty in whom they have confidence (Kantsperger & Kunz, 2010:4-25); to widen the definition, trust includes cardholders' reliance on all elements involved in the card payment process, such as on organizations, on individuals and on technology (Koivunen & Tuorila, 2015:

86). With credit bureaus and computerization, the credit loan approval process has been greatly accelerated; credit card loans are now being served up in highly rationalized, assembly-line fashion, as a result, dehumanization has been associated with the process (Ritzer, 2001:81). Meanwhile, when using credit cards, consumers need to interact with strangers such as sales people or cashier and the POS (point of sales) machine as well, exposing themselves to the risk of credit card theft and fraud. Therefore, whether a person is willing to hold and frequently use credit cards depends on whether that person trusts the payment environment, which involves the trusts toward the strangers in the transaction process, and the trusts toward the institutions which operate the payment devices and technology. In empirical studies, a research has been carried out in Finland to explore the association between consumer trusts and use of bank cards for payments. The major findings are: 1) consumers' trust toward institutions is illustrated by the fact that they count on banks to be responsible for card fraud, and they seek help from third-party organizations when banks reject their claim; 2) consumers' generalized trust toward others make them believe that strangers are honest and will not attempt to steal their PIN codes to misuse it, however, these expectations can be breached—in the empirical cases, one cardholder was given a lift by strangers, as payment for the ride, the travellers stopped to fuel up and later the cardholder found that his payment card had disappeared. Another example is that self-alleged police officers claiming to represent narcotics division copied foreigners' card information and made unauthorized withdrawals (Koivunen & Tuorila, 2015: 90-91).

Thirdly, among other individual level factors, scholars have examined the impacts of factors such as race, education, etc. People with higher education level have accumulated higher human capital and usually are paid with higher salaries, thus they are able to payback the credit card loan on a timely manner; also,

well-educated individuals are more prone to understand and utilize the credit terms so that they would use credit cards more often. In a research on the credit card market in US, determinants have different significance for different races: for white people, middle-income and well-educated individuals with professional occupations are significantly associated with higher credit card limit utilized; but for black people, only education level exhibits significant association (McCloud, 2006). Moreover, some contemporary researches indicated that people are likely to save during early and late stage of life while over-consuming during high-income stage (Scott, 2007: 569), so it is necessary to incorporate consumer's age as a factor.

To sum up the above review of the influences from individual factors on credit card use, the following hypotheses can be proposed:

Regarding socioeconomic status:

H (a1): Status has positive effect on credit card use;

H (a2): Income has positive effect on credit card use;

H (a3): Education level has positive effect on credit card use;

Regarding trusts:

H (b1): Generalized trust has positive effect on credit card use;

H (b2): Institutional trust has positive effect on credit card use;

## **2.2 Institutional Factors**

Apart from determinants on the individual level, many scholars adopt Veblen's institutional angle to study the impacts on credit card use from institutions such as credit card issuance companies, banks and governments. Using credit cards is popular in the U.S., some researchers believe that the reason behind the obsession about credit cards is the credit institutions—the state's loose regulatory policy towards banks, and companies encourage consumers to purchase products they may not actually need (Manning, 2000).

From Veblen's consumption theory, the prevalence of credit cards is due largely to card issuance parties as the propeller. Credit card issuers encourage over-consuming, and excessive consumptions trigger overburden of debt and possibly credit risk; once consumers fail to payback their credit card loan on time, the issuance party will take at least one of the following measures: 1) raise interest rate; 2) charge fees or penalty; 3) increase the limit, so that the debtor is more likely to be unable to get rid of the loan. Credit card issuance parties play an important role in economy, as they not only gain proceeds from interests and fees of credit cards, but also issue more credit limits, thus the phenomenon of over-consuming deteriorates (Scott, 2007: 569-571).

Institutional driving forces can facilitate the expansion of credit cards market, no matter it is a formal institution such as a complete credit reference system, or an informal system like social network. Some scholars compare the development paths of credit cards markets between US and Russia, in dealing with uncertainties in credit assessments, US gradually takes the formal institution of rational computerization, which transforms uncertainties into quantitative evaluation of risks; however, Russia lacks formal institutions to handle these uncertainties and thus the Russian banks assess cardholders' social network to decide whether the applicants should be trusted (Guseva & Rona-Tas, 2001: 623). In the early stage of credit cards market development, Russian banks were under-institutionalized, which hindered the establishment of credit reference system; in absence of formal institutions, Russian banks deployed a series of strategies via social networks: initially they provided debit cards to the wealthiest clients and social elites, and then carried out the "salary plan" which paid salaries to bank accounts instead of using cash, next they cooperated with high-end stores to launch credit cards to consumers (Guseva and Alto, 2008: 1291). In China, behind the boom of credit cards market is the attribution to card issuance and

promotion policies conducted by many commercial banks. Some researcher has studied the promotion of credit cards in one of China's banks and has found out that during the promotion, sales tasks are assigned layer by layer—from headquarters to branches, and from head to subordinates; bank employees make full use of their close relatives to complete these sales tasks, i.e., asking relatives to become credit cardholders. Bank employees stimulate the promotion by offering gifts and other benefits; the approval of company loans is subject to the condition that the company will agree to ask each of their workers to become a credit cardholder. All these promotion policies ignore the prudence should have been implemented during the credit issuance process, which should have carefully identified applicants' credit performances. One of the consequences of these aggressive institutions is that many credit cardholders become merely card owners rather than card users; another consequence is that credit cardholders may show consumption behavior in anomaly (Wang, 2010). Furthermore, the excessive use of credit cards should be constrained by social institutions, researches have indicated that social norms that clearly specify over-consuming have significant effect on the overuse of credit cards among the young (Sotiropoulos & d'Astous, 2013: 179).

Based on the above review on the institutional factors of credit card use, another hypothesis can be raised: H (c): Credit card issuance institutions have effect on credit card use: aggressive issuance policies will enhance individual's willingness to over-consume, while conservative issuance policies will curb excessive use of credit cards. According to *Measures for Supervision and Administration of Credit Card Business of Commercial Banks* (issued by China Banking Regulatory Commission in 2011), credit card issuance business includes marketing and promotion, review and approval, production and delivery of credit cards, transaction authorization, processing and monitoring, settlement, accounting and

dispute processing, value-added services and debt collection. Among them, the regulatory body has made important statements on the sectors of marketing and promotion, review and approval, such as “Sales staff should not be evaluated and rewarded based solely on the number of credit cards sold”, “Sales staff should not make promise to clients that the credit cards can be approved, and cannot execute promotions in terms of fast-approval, approval based on previous credit cards or business cards”; nevertheless, commercial banks may take more aggressive credit card issuance and promotion policies in practice in order to generate more profits, leading to rapidly growing number of credit cards issued and credit limit expansion.

### **3. Methods**

To cater the different features of determinants on individual level and institutional level, both quantitative and qualitative methods are applied in this research. For determinants on the individual level, firstly use survey data to run regression models, in order to identify which determinants have significant positive or negative effects on the frequency of credit card use; then conduct case interviews to interpret the mechanisms of how these determinants exert their influences on individuals’ holding and using credit cards, and to explain the association between these determinants and the various motives of using credit cards. For determinants on the institutional level, combine case interviews with content analysis on institutional texts, in order to analyze the impacts of institutional determinants on holding and using credit cards.

#### **3.1 Quantitative Method**

##### **3.1.1 Sample and Variables Description**

Based on survey data of the research “Credit System in Chinese Society” (the urban version) conducted by Nanjing University and Fudan University in 2011,

focusing on urban residents in China, this research includes a sample with 2658 observations, covering five cities—Shenzhen, Tianjin, Nanjing, Chongqing and Lanzhou, with approximately equal-weighted distribution. The dependent variable in this research is the frequency of credit card use among urban residents in China (ordinal variable). In line with the previous literature review, the independent variables on the individual level fall under three categories: 1) basic variables such as gender, age; 2) socioeconomic status variables: personal income, status, and education level; 3) individual's trust level: generalized trust, institutional trust. Besides the above-mentioned independent variables that represent the heterogeneities among individuals, the tier of city in which an individual resides is also incorporated in the model, as first-tier cities have more capacity to hold credit cards transactions of higher-standard than do lower-tier cities. The following paragraphs in this section describe the dependent and independent variables, which are also summarized in Table 1.

**Dependent Variable:**

Frequency of credit card use (ordinal variable): for the question of “Do you use credit card?” there are four responses, namely “Yes, often use”, “Yes, occasionally use”, “I am a cardholder but never use” and “I am not a cardholder”. In the sample, 32.6 percent of the residents answer that they often use credit cards, which is counterbalanced by the fact that 34.6 percent respond that they are not credit cardholders; another 24.9 percent of the residents say that they only occasionally use credit cards while the rest 7.9 percent claim themselves as cardholders who never use credit cards (exhibited in Graph 2). The rationale of choosing the frequency of credit card use rather than the amount of credit limit as the dependent variable is based on the ground that the amount of credit limit also involves credit supply, which cannot mimic the net effect of consumer's willingness to use credit cards as a way of payment. Some scholar has pointed out

that due to regulation from industry and government, credit cards market has to offer different customers the same price (the centralized interest rate), but credit card issuers (suppliers) can differentiate consumers by approving different amount of credit limits (Garcia, 1980: 331). Hence if the amount of credit limits is adopted as the dependent variable, then in the regression models which concentrate on the individual effects, it would be difficult to eliminate the impacts from the supply side; as a result, this research selects the frequency of credit card use as the dependent variable.

**Independent Variables:**

- Personal income (interval variable): individual's annual income (in CNY), including basic salaries, bonus and other benefits, the value is transformed into its natural logarithm.
- Status (interval variable): individual's perceived social status in which one believes he or she belongs to in the society, ranging from high to low, or from 1 to 5 correspondingly (1—upper class, 2—upper-middle class, 3—middle class, 4—lower-middle class, 5—lower class); the smaller the value, the higher the status.
- Education level (categorical variable): recode the original values into three categories: low, middle, high; low education level includes those who are illiterate, or graduated from elementary schools; middle education level includes those who graduated from junior, senior high schools, and junior colleges; high education level includes those who achieved bachelor degrees, master degrees or above.
- Generalized trust (interval variable): the original responses of residents' interpersonal trusts toward different types of people include five options (5—can be totally trusted, 4—can be trusted, 3—neutral, 2—can hardly be trusted, 1—definitely cannot be trusted); the higher the value, the higher trust

is placed upon this type of people. By carrying out a factor analysis on the fourteen types of people listed in the survey, the result categorizes the trusts toward four types of people (Internet-pals, producers, sales agents, strangers) into one common factor, defined as “generalized trust”, the value of which equals the arithmetic mean of the four components; the higher the value, the higher the generalized trust.

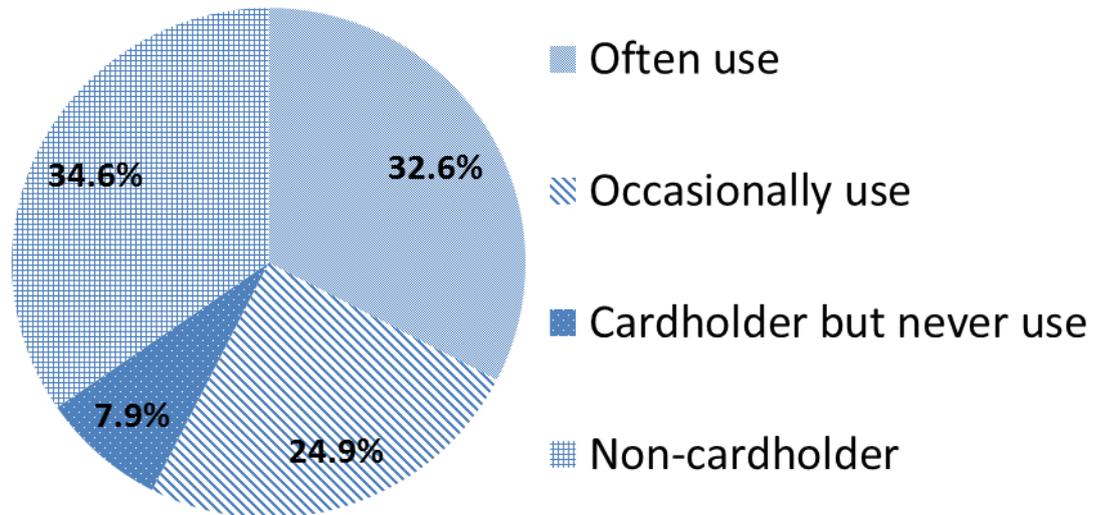
- Institutional trust (interval variable): the original responses of residents’ trusts toward varying institutions consist of five options (5—can be largely trusted, 4—can be trusted, 3—neutral, 2—can hardly be trusted, 1—definitely cannot be trusted); the higher the value, the larger the faith one has in this type of institution. By carrying out a factor analysis on the twelve types of institutions or government bodies listed in the survey, the outcome classified the trusts toward ten types of institutions or bodies (the central government, the provincial government, the municipal government, the county government, community agencies, the courts, the military forces, the police department, National People’s Congress, the Party’s institutions) as one common factor, defined as “institutional trust”, the value of which equals the arithmetic mean of the ten components; the higher the value, the higher the institutional trust.
- Development of city (categorical variable): defined as tier of city, can be classified as the “first tier city”, the “second tier city”, the “third tier city”. Since cities at distinct development stages have varying capacities to hold commercial infrastructures which are essential to credit card transactions. For instance, the first tier cities are equipped with more developed commercial infrastructures and can provide premium transaction environments, thus the inhabitants there are likely to conveniently use credit cards more frequently. Consequently, it is necessary to treat tier of city in which an individual resides as controlled variable in the models. According to the publicly recognized

classification of Chinese cities into distinct tiers in 2014<sup>2</sup>, the cities covered in this research can be sorted as follows: Shenzhen and Tianjin—first tier city; Nanjing and Chongqing—second tier city; Lanzhou—third tier city.

Table 1: Description of Dependent and Independent Variables (N=2658)

		<b>Mean</b>	<b>Std.Dev.</b>	<b>Min</b>	<b>Max</b>
<b>Dependent Variables</b>	<b>Frequency of credit card use</b>	2.44	1.26	1	4
<b>Independent Variables</b>	<b>Trusts</b>				
	Generalized trust	2.41	0.68	1	5
	Institutional trust	3.69	0.84	1	5
	<b>Socioeconomic status</b>				
	Income	10.34	0.97	6.21	13.82
	Status	3.78	0.81	1	5
	Education	2.08	0.70	1	3
	<b>Basic variables</b>				
	Gender	1.53	0.50	1	2
	Age	39.15	13.81	18	80
	Tier of city	1.81	0.75	1	3

<sup>2</sup> Source: Sohu News, <http://news.sohu.com/20140330/n397446587.shtml>



Graph 2: Distribution of Responses to the Frequency of Credit Card Use among Urban Residents in China

Moreover, this research places extra emphasis on two core variables that reflect individuals' heterogeneities: one is the generalized trust, the other is status. With the purpose of exploring different performance demonstrated by different types of individuals, using typology along the two dimensions of generalized trust and status, four types of individual consumers can be formed: ( I ) high status-low trust, ( II ) high status-high trust, (III) low status-low trust, and (IV) low status-high trust (shown as Graph 3). For any observation in the sample, if the value of its status is lower than the sample mean of 3.78, then this case is sorted as high status, otherwise it belongs to low status (in variable setting, the higher the value, the lower the status); if the value of its generalized trust is lower than the sample mean of 2.41, then this observation is classified as low generalized trust, otherwise it belongs to high trust. The rationales of selecting these two core variables as the dimensions for creating four typical consumers are: firstly, as for the dimension of generalized trust, since consumers usually interact with strangers such as cashier and sales agents during their credit card payment process, while

they call card issuance institutions only when they encounter problems with their credit cards (e.g. unauthorized credit card withdrawals), therefore generalized trust better mirrors the nature of consumers' trust than institutional trust does when consumers are using credit cards. Secondly, as for the dimension of status, which is measured by consumers' perceived social status, is more appropriate than objective socioeconomic indicators such as income or education level, because consumers' purchasing behaviors are more often dominated by their subjective status; for instance, if a consumer with average salary considers herself as a member of the upper-middle class, then she is more willing to participate in consumptions in higher class; on the contrary, if a person with high income but sees herself as one of the lower-middle class, then she might be reluctant to over-consume. Therefore using perceived status as the dimension of individuals' socioeconomic attribution can better reflect the connection between status and consumption capacity.

Generalized trust	High	( II ) High status-High trust	( IV ) Low status-High trust
	Low	( I ) High status-Low trust	( III ) Low status-Low trust
		High	Low

**Status**

Graph 3: Four Types of Individuals

### 3.1.2 Model

Models can be established by applying Stata to run the survey data. Since the dependent variable—frequency of credit card use is an ordinal variable, initially the ordered logistic regression is used; however, the outcome of approximate likelihood-ratio test of proportionality of odds across response categories has indicated that the ordered logistic model violates the parallel regression

assumption, thus the model ought to be replaced by multinomial logistic regression.

The equation of multinomial logistic regression model is exhibited below:

$$\log (\pi_j(x) / \pi_J(x)) = \alpha_j + \beta_j X, \quad j=1,2,3,4$$

$$\begin{aligned} \beta_j X = & \beta_{1j} \text{ Generalized trust} + \beta_{2j} \text{ Institutional trust} + \beta_{3j} \text{ Status} \\ & + \beta_{4j} \log(\text{income}) + \beta_{5j} \text{ Middle education} + \beta_{6j} \text{ High education} \\ & + \beta_{7j} \text{ Gender (Male)} + \beta_{8j} \text{ Age} + \beta_{9j} \text{ Age square} + \beta_{10j} \text{ Second tier} \\ & + \beta_{11j} \text{ Third tier} \end{aligned}$$

After reporting the model result, independent variables with significant effects on credit card use (positive or negative) can be identified; furthermore, the influences of trusts and socioeconomic status can be analyzed.

### **3.2 Qualitative Method**

After the results of regression models have been generated, for determinants which exert significant impacts on the frequency of credit card use, further interviews can be conducted to interpret how these factors play their roles; for insignificant variables in the model, insights can also be obtained through case interviews to find out why these variables are insignificant. Therefore, the case interview approach is helpful in examining and explaining the influences from individual factors. In addition, for institutional factors, interviewing with bank employees in China can enhance the understanding of the practical issuance and promotion policies for credit cards.

#### **3.2.1 Case Selection Strategy**

The major case selection strategy is to interview with typical consumers according to the four types of individuals in Graph 3, then adding cases in each type if necessary. In order to better explore the effects of status and generalized trust, the first round of selection matches four cases with the four types, the case selections at later stage try to fill the same category with diverse cases, for example, cases in

the high status-low trust category should contain as much diversity as possible in other aspects, such as gender, occupation, age, etc., despite the fact that all cases within this category share the same status-trust attribution. Interviewees are sorted into the four types based on their responses to the questions of trust and status; specifically, cases with status value higher than 3 belong to low-status, otherwise belong to high-status; cases with generalized trust value higher than 3 are classified as high-trust, otherwise as low-trust. Ten cases in total have been interviewed in this research, including 3 cases of high status-low trust, 1 case of high status-high trust, 2 cases of low status-low trust, 1 case of low status-high trust, 1 case of average status and trust, 1 case of high trust and average status, and 1 case of low trust and average status (basic description of each interviewee is summarized in Appendix 1).

### **3.2.2 Interview Design**

In the qualitative analysis, interviews are designed in a way that the different features of credit card use among the four types of individuals can be compared. The comparisons in the following aspects are considered: firstly, how often does the interviewee use credit card? This aspect attempts to verify whether the conclusions regarding the effects of trust and status reached from the quantitative analysis can echo with the interview findings. Secondly, what are the motives of credit card use? As mentioned in the literature review section, Garcia proposed two main motives for credit card use: 1) payment convenience—card users value credit card as a means of non-cash transaction; 2) gain loans—card users value the function of postponed payment, which is equivalent to a short-term loan without interest cost; the rich are inclined to the previous purpose while the poor are in favor of the latter. Therefore, the second aspect of the interview focuses on the comparison of motives for using credit cards among different types of individuals. Thirdly, pay attention to the distinction between holding credit cards and using

credit cards, and compare the different influences of various trusts on credit card application and credit card use.

## 4. Data Analysis

### 4.1 Analysis on Model (A)

Using the multinomial logistic regression model specified in the above section, for the responses to frequency of credit card use, setting the response of “Non-cardholder” as base, comparing this base with the other three responses (“Often use”, “Occasionally use” and “Cardholder but never use”), the results of the regression model consisting of independent variables of trusts (generalized trust, institutional trust), socioeconomic variables (income, status, education level), basic variables (gender, age) and tier of city, along with their coefficients and level of significance are shown in Table 2:

Table 2: Multinomial Logistic Regression Model (A)

Use of Credit Card	Often use vs Non-cardholder	Occasionally use vs Non-cardholder	Cardholder but never use vs Non- cardholder
<b>Trust Variables</b>			
Generalized trust	0.202 **	0.134 *	0.034
Institutional trust	-0.013	0.084	0.197 **
<b>Socioeconomic Variables</b>			
Income	0.600 ***	0.098	0.222 **
Status	-0.233 ***	-0.276 ***	-0.047
Middle-education	1.012 ***	0.455 ***	0.219
High-education	2.046 ***	0.908 ***	0.529 **
<b>Basic Variables</b>			
Gender (Male)	-0.022	0.381 ***	0.227
Age	0.181 ***	0.119 ***	0.039
Age-square	-0.002 ***	-0.002 ***	0.000
<b>Development of City</b>			
Second-tier	-0.488 ***	-0.464 ***	-0.309 *
Third-tier	-0.140	0.025	0.281
Constant	-9.569	-3.013	-5.231

\*\*\*P<0.01, \*\*p<0.05, \*p<0.1

- Notes: 1) The middle-education, high-education levels both take low-education level as base;  
 2) Gender takes female as base;  
 3) The second-tier and third tier cities both takes the first tier city as base.

Model (A) is based on a sample of 2658 observations, with LRchi2 of 827.77; overall model (A) shows significance (Prob>chi2=0.000), with Pseudo R<sup>2</sup> of 0.122 and McFadden's R<sup>2</sup> of 0.122. The outcome of Hausman test on Model (A) suggests that odds are independent of other alternatives. Thus Model (A) is valid. The likelihood-ratio test is operated on all the independent variables in Model (A), at a significance level of 0.1, individual's generalized trust has significant impact on the frequency of credit card use (P>chi2=0.088), but individual's trust towards institutions is not significant (P>chi2=0.130). At a significance level of 0.01, all variables show significant impacts except for trust variables and the third-tier city variable. The outcome of the test is exhibited in Table 3.

Table 3: Likelihood-ratio Test Results for Model (A)

	chi2	df	P>chi2
Generalized trust	6.547	3	0.088
Institutional trust	5.654	3	0.130
Income	81.384	3	0.000
Status	18.326	3	0.000
Middle-education	42.776	3	0.000
High-education	121.951	3	0.000
Gender(Male)	17.859	3	0.000
Age	46.621	3	0.000
Age-square	64.216	3	0.000
Second-tier	19.302	3	0.000
Third-tier	4.264	3	0.234

To implement further analysis on the effects of different independent variables to credit card use, the interpretation of the variables' coefficients in Model (A) is illustrated as follows:

#### **4.1.1 Trust**

From the coefficients of generalized trust and institutional trust in Model (A) Table 2, it is obvious that individual's generalized trust and institutional trust have different impacts on the frequency of credit card use. Compared with the response of "Non-cardholder", generalized trust has a positive effect on choosing "Often use" and "Occasionally use" credit cards. For a unit increase in the value of generalized trust, the odds of choosing "Often use" versus "Non-cardholder" are 1.22 times larger ( $1.22 = e^{0.202}$ ), the odds of choosing "Occasionally use" versus "Non-cardholder" are 1.14 times larger ( $1.14 = e^{0.134}$ ), holding all other variables constant. However, generalized trust doesn't have significant effect on the response of "Cardholder but never use". In contrast, compared with the response of "Non-cardholder", institutional trust has a positive effect on choosing "Cardholder but never use". For a unit increase in the value of institutional trust, the odds of choosing "Cardholder but never use" versus "Non-cardholder" is 1.21 times larger ( $1.21 = e^{0.197}$ ), holding all other variables constant. As a result, an individual's trust toward institutions plays a significant role in positively affecting oneself to become a cardholder, while his or her generalized trust positively affect the frequency of credit cards use. This conclusion is easy to understand as the more trust one has in institutions such as banks, he or she is more likely to accept the credit card promotion or voluntarily apply for a credit card and eventually become a cardholder; however, whether a person would frequently use credit cards is more closely related to his or her generalized trust, as one usually needs to deal with strangers such as cashier and other customers in the process of credit card payment, the higher the generalized trust one places in others, the more

frequently one would use credit cards. For instance, if a person has very low generalized trust, then he or she may not be willing to use credit cards too often even though being a cardholder.

#### **4.1.2 Socioeconomic Status**

Status: from the results in Model (A) Table 2, compared with the response of “Non-cardholder”, perceived social status has a positive effect on choosing “Often use” and “Occasionally use” credit cards (although the coefficient of status is negative, in variable setting the lower the value of status, the higher the actual status). Taking “Often use” versus “Non-cardholder” as an illustration, for a unit increase in the value of status (actual status decreases), the odds of choosing “Often use” versus “Non-cardholder” are 0.79 smaller ( $0.79=e^{(-0.233)}$ ). But social status is not a significant factor determining “Cardholder but never use”, indicating no proven associations between status and credit cards holding.

Income: compared with the response of “Non-cardholder”, perceived social status has a positive effect on choosing “Often use” and “Cardholder but never use” credit cards; but for “Occasionally use” versus “Non-cardholder”, the effect is not significant. The result is not difficult to understand, as income is an objective indicator of one’s socioeconomic status, and one must meet the minimum threshold of income in order to get credit card approval from banks, thus income generates positive effect to distinguish “Cardholders” from “Non-cardholders”. It is also simple to understand that income has positive effect on choosing “Often use” versus “Non-cardholder”, since people with higher income have higher ability to pay back credit card loans and can use them as often as they wish.

Education: taking low-education level as base, high-education has a positive effect on choosing “Often use”, “Occasionally use” and “Cardholder but never use” versus “Non-cardholder”; middle-education has a positive effect on choosing “Often use”, “Occasionally use” credit cards versus “Non-cardholder”. The

better-educated an individual is, the better one can understand and utilize the credit terms and benefit from promotions, thus become more frequent credit card users.

#### **4.1.3 Basic Variables**

Age and age-square: the coefficient of age is positive while that of the age-square is negative, indicating that choosing “Often use” and “Occasionally use” versus “Non-cardholder” are significantly affected age factor in a reverse U-shaped pattern, i.e., one would more frequently use credit cards as age grows and then the willingness declines. This trend echoes with some research findings in the literature, which claims that individuals have lower level of consumption in early and late stage of life, while having higher consumptions during highly compensated middle-ages.

Gender: the gender effect is not apparent, taking females as base, males have positive effect on choosing “Occasionally use” credit cards versus “Non-cardholder”, but this effect is rather standalone and disappears in the other two sets of responses. Thus the influence of gender on credit card use is relatively ambiguous.

#### **4.1.4 Tier of Cities**

The development of cities conveys whether the credit card payment is available or convenient, taking the first-tier city as base, from Model (A) Table 2 it can be found that only second-tier city exerts significant influence—compared with the response of “Non-cardholder”, choosing “Often use”, “Occasionally use” and “Cardholder but never use” are negatively affected by the second-tier city variable. The result is in line with the expectation that the commercial infrastructures in the second-tier cities are less well-allocated than those in the first-tier cities, which hinders consumers to use credit cards as a way of payment in the second-tier cities. However, it is surprising that the variable of third-tier city does not have

significant effect on the frequency of credit card use, which will be left as a question to be further examined in following-up studies.

As a brief summary for the above analysis on the effects of individual determinants in Model (A), two major conclusions can be drawn: compared with the response of “Non-cardholder”, (1) among the socioeconomic variables, status has positive effect on the frequency of credit card use; income has positive effects on choosing “Often use” and “Cardholder but never use”; high-education level has positive effects on both holding and frequently using credit cards while middle-education only has positive effects on the frequency of credit card use. (2) Among the trust variables, generalized trust has positive effect on the frequency of credit card use; institutional trust has positive effect on holding credit cards. Among other variables, compared with the response of “Non-cardholder”, the choice of “Often use” and “Occasionally use” credit cards rises with age and then declines; inhabiting the second-tier cities (relative to the first-tier cities) has negative effect on using and holding credit cards.

#### **4.2 Analysis on Model (B)**

Based on the analysis of Model (A), it turns out that on the individual level, generalized trust has positive effect on the frequency of credit card use, and perceived status also has positive impact on choosing to often use credit card. In order to further analyze the interaction effects of the two core variables—generalized trust and status, the attributions of the two variables can be jointly transformed into four dummy variables based on the four types of individuals in Graph 3, so that each case can be classified into one of the four types: ( I ) high status-low trust, ( II ) high status-high trust, (III) low status-low trust, and (IV) low status-high trust. Substitute the four dummy variables for generalized trust and status in Model (A), a new model can be generated. The results of the new model are reported in Table 4:

Table 4: Multinomial Logistic Regression Model (B)

Use of Credit Card	Often use vs Non-cardholder	Occasionally use vs Non-cardholder	Cardholder but never use vs Non-cardholder
<b>Generalized Trust and Status</b>			
High status-Low trust	0.388 **	0.401 **	0.636 ***
High status-High trust	0.451 ***	0.402 **	0.243
Low status-High trust	0.087	0.102	0.332 *
Institutional trust	0.023	0.106	0.201 *
Income	0.627 ***	0.136 **	0.227 **
Middle-education	1.034 ***	0.466 ***	0.210
High-education	2.073 ***	0.948 ***	0.486 *
<b>Basic Variables</b>			
Gender (Male)	-0.020	0.346 ***	0.248
Age	0.176 ***	0.112 ***	0.032
Age-square	-0.002 ***	-0.002 ***	0.000
<b>Development of City</b>			
Second-tier	-0.485 ***	-0.467 ***	-0.308 *
Third-tier	-0.122	0.042	0.251
Constant	-10.472	-4.239	-5.485

\*\*\*P<0.01, \*\*p<0.05, \*p<0.1,

- Notes: 1) “High status-Low trust”, “High status-High trust” and “Low status-High trust” all take “Low status-Low trust” as base;
- 2) The middle-education, high-education levels both take low-education level as base;
- 3) Gender takes female as base;
- 4) The second-tier and third tier cities both takes the first tier city as base.

Model (B) has a LR chi<sup>2</sup> value of 820.89, overall model is significant (Prob>chi<sup>2</sup>=0.000), with Pseudo R<sup>2</sup> of 0.120.

From the variables’ coefficients and their significance reported in Model (B), it indicates that “High status-Low trust” (relative to “Low status-Low trust”) has positive effects on the frequency of use credit cards and holding credit cards. Hence, for both individuals with low level of generalized trust, higher status plays an important role in encouraging a person to frequently use and own credit cards.

“High status-High trust” (relative to “Low status-Low trust”) only has positive effect on the frequency of credit card use, but not on the holding of credit cards.

“Low status-High trust” (relative to “Low status-Low trust”) only has positive effect on holding credit cards, but it shows no significant influence on using them.

Consequently, for both individuals with low status, generalized trust exerts a significant impact on the holding of credit cards; the individual with higher generalized trust is more prone to own a credit card. Besides, institutional trust also solely affects the holding of credit cards. These results imply that trust are vital for low-status individuals in determining whether they should become cardholders or not: residents with higher trust towards institutions are more likely to accept the banks’ promotion of credit cards, or to apply for credit cards spontaneously; it is inevitable to interact with strangers such as the banks’ staff, or to cope with client pitch in the process of applying for credit cards; residents with higher generalized trust may be more willing to trust the staff he or she comes across and may become a cardholder eventually. Moreover, for low-status individuals, higher generalized trust would not significantly affect the frequency of credit card use, this is probably due to the fact that people with low-status intend to under-consume, or the marketplaces of their consumption simply do not support credit card payments; thus their high generalized trust might be constrained by their low-status, so their frequency of credit card use is compromised.

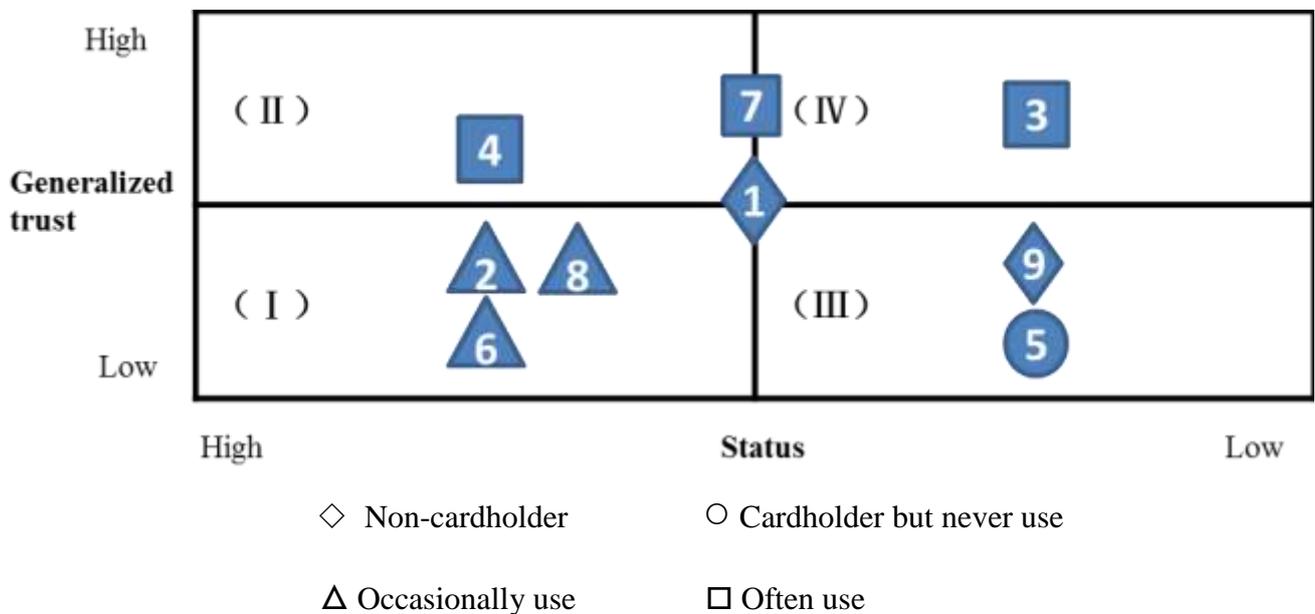
From the analysis on the four types of individuals in Model (B), the following conclusions can be reached: compared with the response of “Non-cardholder”, (3) for individuals with low-status, generalized trust has significant positive effect on holding credit cards; the higher generalized trust one has, the more likely to become a cardholder. (4) For individuals with low generalized trust, status places positive impacts on both holding and using credit cards; the higher the status, the

more frequently one would use credit cards and the more likely to own them. (5)  
For individuals with high status and high generalized trust, they would more often use credit cards.

## 5. Findings from Interviews

### 5.1 Cases Description

Ten cases have been interviewed in this research. Eight of the interviewees are cardholders (three often use credit cards, four occasionally use credit cards, one holds credit card but never use it in China), the other two currently don't have credit cards but both imply that they would apply for credit cards after they start a career. To clearly present the status and generalized trust attributions of different interviewees, all of the ten cases are sorted according to the four types in Graph 3, and various shapes are used to represent the frequency of credit card use for each case, which is marked with sequential numbers. The description of cases is exhibited in Graph 4.



Graph 4: Description of cases—generalized trust, status and credit card use

Comparing cases from different types: firstly, for the factors affecting the frequency of credit card use—Case 3, Case 4 and Case 7 have high generalized trust, so they use credit cards more often. For Case 3 and Case 5 who are both from low-status, Case 5 shows low level of trust while Case 3 shows high generalized trust, thus Case 3 often uses credit cards but Case 5 never uses credit card in China. Another illustration is: Case 2, Case 6 and Case 8 belong to high-status while Case 5 stays with low-status, thus Case 2, Case 6 and Case 8 would use credit cards more frequently than Case 5 does. The preliminary findings of this qualitative analysis are consistent with the conclusions drawn from the regression models. Secondly, for the factors influencing the holding of credit cards—Case 1 has higher status and trust level than Case 5 does, however, Case 5 owns a credit card while Case 1 do not, then the reason behind this is worth exploring. On the individual level, how do trust and status affect people's credit card use (including the frequency of use and the holding of credit cards)? Furthermore, on the institutional level, how do banks implement their promotion and approval policies to expand their credit card business? The following sections try to elaborate on the mechanism of impacts on credit card use in China from both individual level and institutional level.

## **5.2 Findings: Individual Level—Status and Trust as Dual Driving Forces**

### **5.2.1 Impacts of Status on the Motives of Credit Card Use**

In the previous literature review, some scholar has argued that: compared with the rich, cardholders with low income and low status are more likely to regard credit card as a means of postponing payment while those at higher status tend to see credit card as a convenient transaction tool (Garcia, 1980: 329-332). However, from the interviews with Chinese urban residents, in contrast, the impacts of status on the motives for credit card use are not segregated as described in the literature; the reality is more complicated: although interviewees with low-status indicate

that the financial flexibility (postponement of payment) is the primary motive of using credit cards, yet some high-status cases also imply that financial flexibility is an important function to them. As to credit card's convenience, nowadays China is witnessing the fast growth of electronic payments such as WeChat Payment, Alipay, etc., therefore the attribution of convenience of credit card payment can easily be substituted by those from more up-to-date payment tools. Neither interviewees from high status nor those from low status consider convenience of payment as an essential function of credit cards. In this research, motives for using credit cards can be summarized into two categories: (1) financial flexibility, and (2) the preferential along with credit card use. These two motives are demonstrated below incorporating the interview minutes.

**(1) Financial flexibility: “Interest-free loan” and “Credit upgrade”**

Firstly, individuals with low social status usually use credit card for the purpose of getting “interest-free loans”. Credit card's function of postponed payment in fact is an option to enjoy interest-free loan in certain period until the repayment day. The term “grace period” of credit card means that using credit card in non-cash transactions, the period from the bank's accounting date to the repayment date is the grace period, during which the interests derived from the advances are not required to be paid. For individuals with low status, using credit card can relieve the pressure of tight liquidity, which is equivalent to borrowing a short-term loan from the bank without interest costs. Taking Case 3 as an example, he believes that the main motive of applying for credit cards is to benefit from delayed payment, which can increase his flexibility of capital use. Benefits from credit card preferential are less important than that of flexibility. He also pays extra attention to the setting of billing day and repayment day, to optimize the grace period so that more flexibility can be obtained:

*Q<sup>3</sup>: Why do you use credit cards for these payments?*

*A<sup>4</sup>: The reason why I applied for credit cards is not only the benefits of card preferential, this is trivial. The most important purpose is to postpone the payment, which is equivalent of using money without paying interest for a month. Considering this aspect, I think using credit card is beneficial, since you can save the interest.*

.....

*A: One of the crucial factors for credit card is to minimize annual fee, the other is to optimize the repayment structure. Repayment consists of two parts, one involves setting billing day and repayment day; the other is how you link the repayment account.*

*Q: Do you have anything else to share on these?*

*A: For the annual fee, some credit cards are free of annual fee charges, some can avoid the annual fee if you complete six transactions using credit card, so basically the annual fee can be free of charge. As to the repayment day, some bank can offer very long grace period, while other bank's grace period is not that long; then it depends on you to adjust and optimize the repayment. For example, you can set the repayment day of all your credit cards at the same day so that you won't forget to repay on time; but if you want to more flexible use of money, then you may set one repayment day in the beginning of the month, set another one later in the month, so that you can have less amount of bullet payments. Also, don't forget to link the credit card to an account to a debit card, which will make it easier to repay.*

---Excerpt from the Interview Minute of Case 3

Besides, for people with lower status, they can have access to advanced

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<sup>3</sup> "Q" stands for Question in the interview;

<sup>4</sup> "A" stands for Answer in the interview

consumption via interest-free loans using credit cards, which can improve their life style and don't have to be constrained by the liquidity need; in doing so, they can participate in consumption in higher class. Taking Case 9 for instance, who is currently a university student and doesn't own a credit card, but she confirms that she will apply for her own credit card after she starts working, and believes that using credit cards can strengthen her money management, and provide her with the ability to consume in advance, and enjoy card preferential:

*A: I will definitely apply for a credit card after I start working.*

*Q: Really? Why?*

*A: Because I will gradually become aware of the importance of money management and credit cards can allow you to consume in advance, plus some preferential benefits, which I think are quite good. Also, I will have fixed-income every month after I get a job, so that I will be able to pay back the credit limit. One more thing, I will work in the bank, so it is necessary to have a comprehensive knowledge on our products, thus I will definitely have a credit card, to enhance my money management and to enjoy the benefit of advanced consumption.*

*Q: If you have your own credit card in the future, then what functions do you value? What would be the driving forces that lead to your credit card use?*

*A: First of all I think the function of advanced consumption is quite good, which can improve my living standard. Another thing is that credit card issuers will usually launch some promotions, such as discounts, which can bring benefit to my life.*

---- Excerpt from the Interview Minute of Case 3

Secondly, for people with higher status, "interest-free loans" may not be their first choice of priority when using credit cards, but the grace period policy can save the

cardholder a considerable amount of interest expense when the cardholder uses credit card to settle a large sum of payment, therefore using credit cards for large-scale payments also appeals to the high-status individuals. It is interesting that both Case 4 and Case 6 belong to high-status, but Case 4 claims that the flexibility of finance is his primary motive for using credit cards, while Case 6 suggest that she has sufficient liquidity and does not highly expect the flexibility brought by credit cards.

For Case 4, since he has high status, and invests heavily in capital market. When his money is invested in equity and bond markets, using credit card to pay can solve the problem of inadequate liquidity, therefore credit card becomes a tool to adjust one's liquidity. Making full use of credit card's grace period can reduce capital cost. After rational calculation, individuals with high-status may value interest-free loan to gain flexibility:

*A: Credit cards can help me reduce the interest cost, for instance, I will pay for the tax of my house purchase next week, which requires a large amount of money, but my money is mostly invested in equity and bond markets, using credit card can help me to adjust my liquidity. Another advantage is that when I go travelling, the purchase of flight tickets will cost thousands of RMB, then I won't pay with cash, instead I will pay with credit card so that I adjust the liquidity in hand. I believe this is the largest advantage of credit cards.*

*Q: Then under what circumstances would you use credit cards to pay?*

*A: One is for large amounts of payments--usually I will pay with the credit card with the highest credit limit to pay for the large sum. I need to pay for tax in one or two weeks, which requires RMB 30-40 thousand; if I go with cash, then I have to withdraw such an amount in advance; but if I pay with credit card, it is very convenient. For small amount of payment,*

*I won't differentiate between credit cards or debit cards, for example, it won't make any difference if you pay with credit card or debit card for a 10-yuan payment in grocery store. As a result, the major use of credit card is for payments with relatively large sum. If I have a large payment to be met this month, then I will absolutely consider paying with credit card firstly. It is worth-mentioning that I will pay with the credit card with the longest grace period until next repayment day. For example, if I made a purchase on the 5<sup>th</sup>, then I will find the credit card with repayment date at 2<sup>nd</sup> to 4<sup>th</sup> until next month. With the longest grace period, there is no rush to repay that amount of money.*

----- Excerpt from the Interview Minute of Case 4

To ensure that large amount of payment can be completed with credit cards, many applicants will consider the credit limits. Since people tend to use credit cards for large amount of payment, for those with high-status and often use credit cards, they pay high attention to credit limit they can get when applying for credit cards, only those with high credit limit and good client services would be kept, while those with low credit limit would be abandoned:

*Q: What factors have you considered when applying for a credit card?*

*A: Actually I applied for many and filled in the forms in many commercial banks; then I chose the banks which approved the highest credit limit for me. If a bank only give me three or five thousand of limit, then it would be too low and inconvenient to keep them, so I would abandon these low-limit credit cards. If you have applied for credit cards in various banks, then you would know what it is like.*

---- Excerpt from the Interview Minute of Case 4

But for Case 6 who also has high-status, claims to have sufficient liquidity, so she doesn't overvalue credit card's function of relieve liquidity pressure.

Thirdly, those who frequently use credit cards and maintain a sound repayment records will gain good personal credit reference, which can help these individuals to access more resources in the society using their credit reference as endorsement, therefore they can have “credit upgrade” and uplift their credit limit. This effect can be explained using an analogy, holding a credit card is like building a pivot point in the society, through this pivot an individual can use leverage to get more resources. A person with more frequent credit card use, with higher credit limit and with timely repayment will be rewarded by society’s recognition to upgrade his or her credit, which enables him or her to access higher leverage, and gain more financial flexibility. From the interviews, both Case 3 and Case 4 expressed their experiences that using credit cards can extend their borrowing sources, and their credit references can endorse other types of loans such as house mortgage and automobile loans:

*Q: In addition to flexibility of capital, what else will drive you to use credit cards?*

*A: For instance, when I apply for visas for travelling abroad and I need to submit deposit certificate and other documents to prove my financial performance, however, when my credit limit reached a certain level, I can just show them the credit card and get a pre-authorized amount as deposit, which saves a lot of time. Also, I know an application in Taobao (the Chinese counterpart of Amazon), you can use it to accumulate your credit point after you finish transactions; when your credit points hit a certain level, you will be able to get credit loans online. Without a credit card, it would be very difficult to access other funding sources in the society, the higher your credit level gets, the more potential you will gain to use leverage; the more leverage you can access, the more financial flexibility you will have.*

---- Excerpt from the Interview Minute of Case 4

*A: Another merit of using credit card is that it can prove your accumulated credit reference, if you need to purchase a car or house, the credit reference will be an easy endorsement.*

--- Excerpt from the Interview Minute of Case 3

## **(2) Credit card preferential:**

Relative to the motive of financial flexibility one obtained via using credit cards, credit card's consumer preferential is not prioritized. Also, credit card preferential has different mechanisms to influence credit card use for people at varying status. Firstly, for credit card users with low-status, they will comprehensively consider and inquire about the consumer discounts and preferential entailed in each credit card. In addition, credit cards with preferential in a global scope, such as preferential in oversea travels, are welcomed. For Case 3 who already has a credit card, he later found out that other banks could offer credit cards with more attractive consumer discount and preferential, so he voluntarily applied for these credit cards. Case 9 also will apply for credit cards with different preferential such as discount at airports, gas stations, etc. These people attempt to get more information in the card applying process, probably because they use credit cards for daily consumption, thus they are more sensitive to credit card preferential:

*Q: How many credit cards do you hold? Under what circumstances did you apply for these cards?*

*A: I hold five credit cards. One is the credit card I have in Bank J, where I used to work. Since I was an employee there, the approval and limit was quite favorable. The second credit card was a DIY card in Bank G, I applied for this card when I came across their promotion by the street. This card has many preferential, especially on Fridays, and the cardholder is exempt from any fees incurred by remote inter-bank*

*withdrawals. The other three credit cards are all from Bank Z, including Visa and Master cards with all currencies, therefore I can have more payment choices when I travel in foreign countries. Credit cards in Bank Z also have a diversified preferential for restaurants.*

*Q: So, only the credit card from Bank J was required while you voluntarily applied for all other cards?*

*A: That's right.*

--- Excerpt from the Interview Minute of Case 3

*Q: Will you consider applying for several credit cards with different preferential?*

*A: At first I will apply for one. After I work for 3-4 years, or even 5-6 years, I will consider applying for more credit cards. I heard that credit cards can offer different preferential and benefits, such as VIP preferential in airports, discounts at gas stations. I will apply for these cards if I have the demand.*

--- Excerpt from the Interview Minute of Case 3

Secondly, for credit card users with high-status, they would incorporate the credit card preferential during their consumption, but are not likely to dig into the preferential information when applying for credit cards. This might be due to the fact that individuals with high-status are more inclined to use credit cards for large amount of payment, so the discounts in daily consumption may be trivial. Owning credit cards just provide them another option for payment during consumption. Interestingly, for Case 10 who has middle status, his attitude towards credit card preferential lies between those with high or low status. He considers credit card preferential when during the application process, but he seldom conduct consumption according to their discounts offered by credit card preferential.

*Q: You said that one of the motives for using credit card is the*

*preferential; will you buy certain product because of the preferential offered by credit card?*

*A: Not really. Let's put it this way, when I go to one restaurant and it happens to offer discount if using credit cards to pay, then I will use credit card payment in this restaurant.*

*Q: So you won't go to a store just because it offers credit card preferential?*

*A: That rarely happens.*

*Q: What factors would you consider when you apply for a credit card?*

*A: I think credit cards with a wide range of preferential and benefits and with convenience for overseas travels. For example, using JCB credit card abroad can give you some free transportation.*

--- Excerpt from the Interview Minute of Case 10

### **5.2.2 Impacts of Trusts on Holding and Using Credit Cards**

From the above findings, it can be concluded that people with different status value the two functions of credit cards in different ways with their varying angles on financial flexibility and credit card preferential. Although people may exhibit divergent motives for using credit cards, yet generalized trust such as trust in strangers influences their willingness to use credit cards to pay. Although people may not think of the same factors when deciding whether to apply for credit card or not, particularized trust (thick interpersonal trust) exerts impact on whether they passively become a credit cardholder or spontaneously apply for a credit card. In the study of trusts' influence on credit card use, it is necessary to separate the credit card application stage and the using stage.

#### **(1) Credit card application and particularized trust:**

The result in the quantitative analysis suggests that individual's trust toward institutions have positive effect on becoming cardholders. But in the case

interviews, respondents seldom mention the consideration of institutional trust towards banks and other bodies, during their credit card application process, instead, they point out that their relatives and friends may facilitate their application. One of the described situations is: since individuals are not familiar with the information of credit card repayment terms and preferential when they apply for credit card for the first time, by seeking help from friends or relatives who work at banks, individuals can reach these information at a lower cost, and to gain more reliable information; on the other hand, they can also help the bank employees to finish their assigned sales task. Such a pattern of relying on particularized trust to seek their sources in the credit card application process might be caused by the fact that commercial bank's credit card promotions lack accountability, so that particularized trust between friends and relatives are in place to bridge the gap:

*Q: When you own a credit card, what functions would you expect?*

*A: I hope the credit card can offer preferential to the stores I usually go to; I will also consider my friends, I will apply for the credit card in the bank where my friend works, so that I can help them complete their assigned sales task.*

*Q: What factors will draw your attention during your application process?*

*A: Like I said, I will compare preferential and benefits among different credit cards. I prefer to apply for credit cards in my friend's bank.*

*Q: So you will prioritize the credit card application from your friend's bank?*

*A: Yes, at least I can ask my friends about the information of their credit cards.*

---- Excerpt from the Interview Minute of Case 1

The other situation is: individuals are passively pitched by their friends or relatives working in banks; they agree to become cardholders for the sake of the trust on their acquaintances. This credit card application process is influenced by particularized trust as an intermediary, together with banks' aggressive promotion policies (these will be discussed later). For individuals such as Case 2, who does not need extra credit cards, but she agrees to apply for another credit card to help her acquaintance to finish their sales targets; she also indicates that she will just hold this extra credit card but won't actually use it.

*A: Some of my parents' colleagues work at banks, they have sales tasks, so I was asked to apply for their credit cards; but I won't use these cards even after they issue the card to me.*

---- Excerpt from the Interview Minute of Case 2

## **(2) Credit card use and generalized trust:**

In the previous literature and empirical studies, generalized trust is usually regarded as a stationary feature reflecting individual's trust toward strangers, however, case interviews in this research has found that a person's generalized trust varies from place to place—he or she can adjust the level of generalized trust according to the credit card transaction place. Overall, in places in large cities and formal venues, people are more likely to trust the transaction environment and the strangers within that space (including strangers such as cashiers and customers around), thus they are more willing to use credit card payment. On the contrary, in some small places, a person's generalized trust shifts downward and the person becomes less willing to use credit card payment. For instance, Case 5 originally has low generalized trust, but in the interview he mentioned that in foreign countries most of his consumption is implemented using credit card payments, while he never uses credit card in China; he once even gave the credit card to a waiter and left it out of sight in Germany, but in China he would never do that

because he believed that strangers in China are not reliable:

*Q: So you never used credit card once in China?*

*A: Never.*

*Q: Do you often use credit cards abroad?*

*A: Almost all of the consumption is paid by credit card, because I only have credit card and cash abroad, using credit card is more convenient.*

.....

*Q: Has it ever occurred that you let your credit card out of your sight?*

*A: Yes. There was one time that I went to have beer in Munich with my friend from Brazil, I gave the waiter my card to pay the bill and left it out of my sight. My foreign friend said it was normal to give the credit card to waiter for payment because they trust others. I was a little bit worried at first, but then I thought it was a large marketplace, and the waiter would need my signature to complete the transaction, so I trusted him.*

*Q: Now you are back in China, would you let your credit card out of sight in large shopping malls here?*

*A: Absolutely not.*

*Q: Why?*

*A: I don't think they are reliable. I will be very cautious during credit card payment to prevent my card information from being stolen.*

---- Excerpt from the Interview Minute of Case 5

Another similar example is Case 8, his generalized trust is low in the response; he will closely follow the waiter when making payment with credit card; but in decent restaurants in some foreign countries he would leave the card to the waiter alone for payment; he adjusted his trust level upward when dealing with credit card payment overseas:

*Q: What do you do in the credit card payment process?*

*A: First of all I will look around and check if any stranger is approaching me on purpose; then I will check if the transaction machine has any tricky device. I will closely follow the waiter until the payment is finished.*

*Q: Have you ever let your card out of your sight?*

*A: Normally I won't, but it happened when I was abroad.*

*Q: How come? Why do you believe in waiters in foreign countries?*

*A: In some foreign countries the credit card culture are more common, just give the waiter your credit card and let him swipe the card; but in China people use cash more often and I'm worried to hand in the credit card to a local waiter so I will follow the waiter to the transaction machine.*

---- Excerpt from the Interview Minute of Case 8

Besides the country difference in changing people's generalized trust, for situations in China, consumers will pay attention to the scale and decency of the transaction environment, and to observe whether the place is too crowded. Taking Case 3 as an illustration, he initially responds with high level of generalized trust, he trusts transaction places such as large chain stores and franchises in China and gives credit cards to cashier for payment; but he will be alerted if there is a crowd.

*Q: What would you pay attention to in the credit card transactions?*

*A: In China I think larger stores are safer, if credit card fraud happened, you could still ask the store for claim.*

*Q: Have you ever let your credit card out of your sight?*

*A: Yes. It seemed to be kind of risky, but I only let it happen in very large chain stores and reputable shopping malls. I think these places are better.*

*Q: Then would you look around when you pay by credit card?*

*A: Yes, I will. It is inconvenient to use credit card in crowded space because many people are around you. For supermarkets with long lines*

*by the cashier, I don't recommend you use credit cards in such places; the risk is out of control.*

---- Excerpt from the Interview Minute of Case 3

Therefore, the effect of generalized trust on credit card use is not static; consumers will adjust their level of generalized trust according to the environment in which the credit card payments take place. Thanks to globalization, Chinese credit cardholders can have credit card payment experience overseas, and they will adjust upward their trust levels in order to blend into the space where credit card payments are common and are usually considered safe. Within the same country, consumers will adjust their trust levels according to the scale and reputation of the stores and they are more willing to use credit cards when they largely trust the transaction place.

### **(3) Credit card use and institutional trust:**

In some case interviews the respondents believe that their trust toward credit card payment is influenced by the intermediary of banks, albeit in the previous regression models institutional trust is more effective for becoming cardholders. If any risk occurs during the credit card payment, institutions like banks can serve as the source for claim, so that consumers put their trust in credit cards via the intermediary of guarantor institutions; this is especially true for anonymous online transactions in which consumers can hardly distinguish the counterparty's reputation:

*Q: Under what circumstances would you use credit cards?*

*A: For online-shopping.*

*Q: Why do you think online transactions should be completed with credit card payments?*

*A: Because using credit cards can make sure that your money can be claimed from the bank if any trouble occurs during the transaction. I trust*

*the banks so that I can get my money back if the deal is cancelled by the online-store.*

---- Excerpt from the Interview Minute of Case 10

### **5.3 Findings: Institutional Level—Credit Card Issuing Policies and Competition in Payment Market**

Besides the analysis on the impacts on credit card use from individual level, from the macro institutional level there are several cases in the interviews that involve the credit institutions such as promotion and approval by China's commercial banks, as well as the fierce competition in China's payment market due to the emergence of other non-cash payment tools. The following sections elaborate on the two aspects of institutional influences.

#### **5.3.1 Credit Card Issuing Institutions: U.S. Model plus Russian Model**

Looking back on the forerunners in the credit card markets all over the globe, they may have gone through different paths in building up their credit institutions. Being a global phenomenon, credit institutions worldwide may have both commonalities as well as uniqueness. Hence it is important for China to draw lessons from some foreign countries in order to develop sound credit institutions. Credit card market in China is undergoing fast growth, and commercial banks are expanding their credit card businesses. Meanwhile, regulatory body has established some formal regulations. According to *Measures for Supervision and Administration of Credit Card Business of Commercial Banks* (issued by China Banking Regulatory Commission in 2011), credit card issuance business includes marketing and promotion, review and approval, production and delivery of credit cards, transaction authorization, processing and monitoring, settlement, accounting and dispute processing, value-added services and debt collection. Among them, the regulatory body has made important statements on the sectors of marketing and promotion, review and approval, such as Provision Thirty-nine

which states that “sales staff should not be evaluated and rewarded based solely on the number of credit cards sold”, “sales staff should not make promise to clients that the credit cards can be approved, and cannot execute promotions in terms of fast-approval, approval based on previous credit cards or business cards”. For the standard approval procedures of credit cards, Provision Forty-one states that “issuing bank should investigate on applicants’ credit records and to make sure that they have jobs and stable income or reliable repayment sources”. For quantitative credit limit management, Provision Fifty states that “credit card issuing banks should build up credit limit management policies, conduct dynamic managements on the cardholders’ credit limits based on their credit records and card uses; cardholders ought to be notified in a timely manner that the second source of repayment or the collateral should be in place if necessary; issuing bank should manage the total credit limits of each account and sub-accounts”. Since the *Measures* had been enacted in 2011, it seemed that China’s credit card market has been well-regulated with sound institutional guidance to restrain the over-expansion of credit card promotion and to enhance risk management in credit card business; however, from the interviews with some employees in China’s commercial banks, it turns out that in practice, commercial banks do not entirely comply with the institutional regulations in their credit card business; instead, they adopt quite aggressive promotion approaches which set credit card sales target as benchmark and reward sales staff according to the number of credit cards they sold. For instance, Bank X in China has taken aggressive expansion strategies and strengthened its competitiveness in the industry. One of its employee mentioned that “If I work for Bank X, then I need my whole family to be my clients”, which is not much exaggerated, because the sales staff in Bank X usually have to pitch their family and relatives, friends and acquaintances to meet the assigned sales target for credit cards; for customers who come to the counter for other bank

businesses, sales staff in the bank also try their best to cross-sell their credit card business. There are other cases which support this argument: Case 3 and Case 7 (who are both bank employees) said that their banks rewarded sales staff benefits for pitching clients with credit cards—each credit card sold can be rewarded with cash stimulus ranging from RMB70-100. Case 1 and Case 2 have both mentioned in the interviews that they had applied for credit cards in order to help their acquaintances in banks to complete the tasks. And Case 7 added that employees from different banks sometimes help each other to meet their credit card sales target:

*Q: When you apply for a credit card, has the clerk asked about your credit or financial performance?*

*A: Bank clerks make sure that you fill in the form, and copy your ID, and other basic procedures; then they submit these files to back office for approval and credit limit issuance.*

*Q: Does this approval procedure include interviewing with you?*

*A: Well, if there is anything unclear, the bank will call you. But the purpose for bank clerks is to help you get the credit card approval, not the other way around. Actually employees in the bank are quite motivated to credit card issuance because they can be rewarded RMB70-80 for each card sold, so they would wish you to apply for more credit cards.*

---- Excerpt from the Interview Minute of Case 3

*Q: How many credit cards do you have? Under what circumstances did you apply for them?*

*A: I have two credit cards. One is linked with my salary account, thus repayment is more convenient. The other one is gained through my colleague, who asked me to help her finish their sales target.*

*Q: How did your colleague ask you to apply for the credit card?*

*A: It is common for bank colleagues to help each other on meeting their credit card sales target; there are colleagues from other banks to make exchanges with us as well, to help each other by applying for credit cards of the counterparty bank. For each credit card sold the reward to the bank employee is RMB100. Some of my colleagues now own dozens of credit cards, from different banks.*

---- Excerpt from the Interview Minute of Case 7

Compare the credit card issuance policies with those from foreign countries, such as the U.S. and Russia, which are reviewed in the literature section: Guseva & Rona-Tas (2001: 623) described the development paths of credit card markets in the U.S. and Russia—the U.S. model is an ideal type that forms rationalized computerization as a formal credit institution, while the Russian model issues credit card based on social network which is regarded as an informal arrangement. Therefore, the credit card issuance institutions in China resemble both the U.S. model and the Russian Model: on the one hand, via the content analysis on *Measures for Supervision and Administration of Credit Card Business of Commercial Banks* (2011), which clearly specifies the importance of credit card promotion, approval and risk management policies, the regulatory body of China's credit card market has made an effort to emulate the formal institutions in the U.S. credit card market and has proposed institutional regulations such as dynamic credit limit management featuring rationalized calculations. On the other hand, in the practice of China's commercial banks, the institutional regulations are ignored, and the marketing and promotion of credit card issuance are inevitably embedded in the interpersonal network that bank employees utilize in order to expand their credit card business, which is similar to the Russian model. In conclusion, the credit card issuance policies in China's banks combine the U.S. model and the Russian model, with formal institutions in place at the regulatory level while

practicing informal arrangements at the bank level. The commercial banks' aggressive credit card business expansion policies in practice have impelled the boom of credit card users in China.

### **5.3.2 Fierce Competition in Payment Market**

Relative to traditional cash payments, credit card payments have the advantage of convenience; however, in the era of fast technology advances, the merit of convenient payment for credit cards is no longer competitive compared with the emerging payment alternatives such as payment apps in cell phones. According to the statistics published by People's Bank of China, by the end of 2014, there have been 269 institutions with permits of operating payment business in China; the market for alternative payment tools is emerging and expanding. From the case interviews, several cases have implied that there is a wide range of non-cash payment tools can be chosen from, such as WeChat Payment, Alipay, which are fashionable and convenient (these apps require the user to link a cell phone with a bank account, so that the payment can be completed only with the phone at presence, instead of carrying any bank cards); using these apps as payment tools can avoid the risk of stolen credit cards and do not need to input the code in transaction devices, thus these apps are competitive substitutes for credit cards. For Case 2 who occasionally uses credit cards and Case 5 who never uses credit card in China, they think that using debit card, WeChat Payment are already convenient enough, while using credit cards will require them to remember the repayment date, which is an extra burden.

*A: ... I think using credit cards to pay for lunches would be rather inconvenient, because inputting code and writing signatures are time-consuming.*

*Q: Is there any factors that drive you to use credit cards?*

*A: I don't think the driving force of credit card use is irreplaceable. I*

*usually use WeChat Payment and Alipay for daily non-cash payments, since these apps have simpler payment procedures which are even more convenient than credit cards.*

---- Excerpt from the Interview Minute of Case 2

*A: I don't use credit cards when I come back to China, because for domestic consumptions debit card is more convenient. If I use credit card to pay, then I need to remember the repayment date, otherwise the penalty of overdue repayment is severe....*

---- Excerpt from the Interview Minute of Case 5

The last point worth mentioning is: despite the fact that on the institutional level, commercial banks in China aggressively promote their credit card business, and on the individual level, consumers can gain benefits such as financial flexibility and preferential brought by credit cards, yet this research has found that consumers are relatively rational—they will consume within their repayment ability, instead of being excessive consumers. As Case 4 believes, credit card is not a magic power that drives or curbs consumption, and everyone should match the consumption with his or her purchasing power. From the respondents interviewed, their credit limit ranges from RMB20 thousand to RMB100 thousand per month, none of the respondents has used up the credit limit excessively. The reasons to support their rational consumptions include: excessive consumption using credit cards may lead to a vicious circle that eventually the cardholder cannot afford the increasing credit limit, resulting in severe interest penalties; furthermore, with the establishment of personal credit reference system, any credit card misuse will be reported and recorded, negatively affecting one's credit in the society.

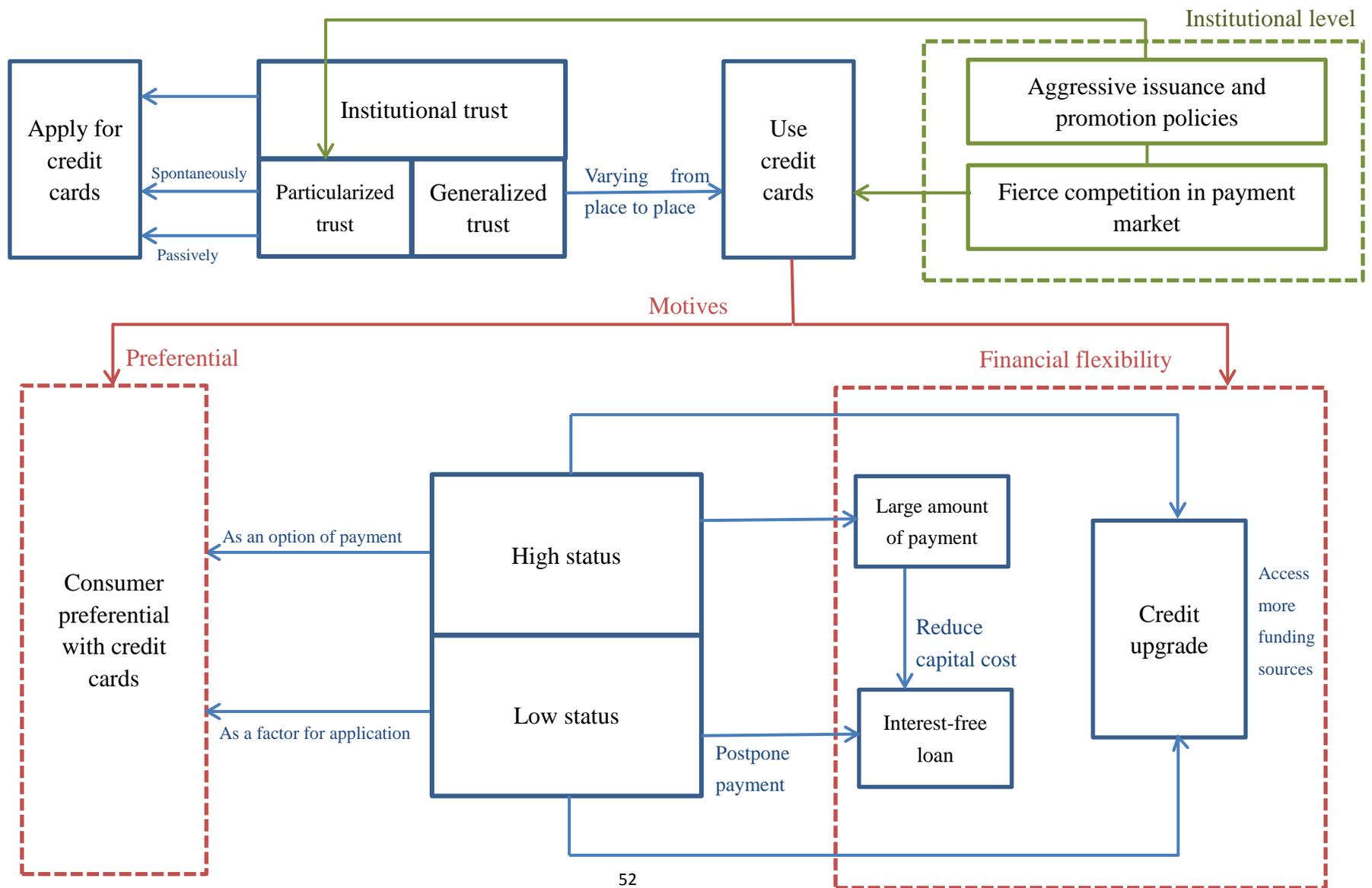
## **6. Summary and Discussion**

This research firstly answers the question of which factors significantly affect the frequency of credit card use among urban residents in China. Based on survey data from the research “Credit System in Chinese Society” (the urban version), multinomial logistic regression models are established to analyze the effects of individual level determinants. The result of Model (A) supports all the hypotheses related to trust and socioeconomic variables (H (a1): Status has positive effect on credit card use; H (a2): Income has positive effect on credit card use; H (a3): Education level has positive effect on credit card use; H (b1): Generalized trust has positive effect on credit card use; H (b2): Institutional trust has positive effect on credit card use;), except for H (b2), where institutional trust only has significant and positive impact on holding credit cards. The two main conclusions from Model (A) are summarized as follows: compared with the response of “Non-cardholder”, (1) among the socioeconomic variables, status has positive effect on the frequency of credit card use; income has positive effects on choosing “Often use” and “Cardholder but never use”; high-education level has positive effects on both holding and frequently using credit cards while middle-education only has positive effects on the frequency of credit card use. (2) Among the trust variables, generalized trust has positive effect on the frequency of credit card use; institutional trust has positive effect on holding credit cards.

On the individual level, holding and using credit cards are influenced by the dual effects of status and trust. This research places emphasis on these two core independent variables by incorporating dummy variables representing four types of individuals (along the two dimensions of status and trust) into the regression model. Analyzing the new regression model—Model (B), leads to the following conclusions: compared with the response of “Non-cardholder”, (3) for individuals with low-status, generalized trust has significant positive effect on holding credit cards; the higher generalized trust one has, the more likely to become a cardholder.

(4) For individuals with low generalized trust, status places positive impacts on both holding and using credit cards; the higher the status, the more frequently one would use credit cards and the more likely to own them. (5) For individuals with high status and high generalized trust, they would more often use credit cards.

After the quantitative analysis on the effects of individual determinants of credit card use, this research incorporates Veblen's institutional perspective on consumption into the exploration of the mechanisms influencing credit card use. This research then explains how the factors on institutional level and factors on individual level affect residents' credit card use. On the institutional level, the major driving forces include Chinese banks' aggressive credit card issuance policies, and fierce competition in the payment market. On the individual level, the dual effects of trust and status influence consumers' decisions on becoming credit cardholders and using credit card payments. Combining the results from quantitative analysis and findings from interviews, a map can be generated to depict the mechanism of trust, status and institutions to influence people's credit card use (shown in Graph 5):



Graph 5: Trusts, Status and Institutions—Mechanisms of Credit Card Use

Based on Graph 5, the following four paragraphs interpret the mechanisms of credit card use among urban residents in China:

Firstly, during the credit card application stage, from the institutional level, although formal regulation are in place, commercial banks do not fully comply with these institutions in practice: they aggressively issue and promote credit card business utilizing particularized trust between bank employees and their acquaintances. Hence from the individual level, if a person exhibits higher level of trust toward institutions (credit card issuing banks) and higher level of particularized trust (trust in friends, relatives, etc.), then the person is more likely either to spontaneously apply for credit cards, or to passively accept the bank employees' pitch and eventually become a cardholder. These findings are consistent with Conclusion (2) previously mentioned: institutional trust has positive effect on holding credit cards.

Secondly, during the credit card use stage, from the institutional level, China's emerging diverse of payment tools has strengthened the competition in the payment market, shadowing the convenience of credit card payment. Consequently, some residents are switching to alternative electronic payment tools such as WeChat Payment, thus they use credit cards only occasionally. From the individual level, a person's generalized trust affects the frequency of credit card use in a dynamic way, because a person may adjust his or her level of generalized trust according to the place of transaction. For those who have overseas credit card payment experience, they often adjust their generalized trust upward in some western countries where the credit card cultures are more common and the infrastructures are more mature. Within in China, cardholders usually adjust their generalized according to the scale and reputation of the place of transaction, they are more likely to trust strangers in large franchises or shopping malls, thus are more willing to use credit cards in these places. Therefore, generalized trust is

varying from place to place, and affects the credit card use dynamically.

Furthermore, to differentiate between the motives for credit card use, this research has found that the primary motive for using credit card is for individuals to gain financial flexibility, followed by the consumer preferential along with credit card use. Also, individuals with different status have different perspectives when they consider the purpose of credit card use. The financial flexibility lies in the two aspects—“interest-free loan” and “credit upgrade”. For individuals with low-status, they often use credit cards to postpone payments for their consumption, equivalent of getting an “interest-free loan”, so that their liquidity pressure can be relieved; for those with high-status, on the other hand, they do not necessarily value interest-free loan, but when it comes to large amount of payments, using credit card can save some interest expense if their money is heavily invested in some profitable assets, thus using credit card for large sum of payments can reduce the capital cost and benefit those with high-status as well. Besides “interest-free loan”, individuals who frequently use credit cards and make repayment in a timely manner can have “credit upgrade” as they are able to access more funding sources in the society using their credit reference as endorsement. No matter high or low status one has, owning a credit card is like establishing a pivot point in the credit community, by which he or she can reach more resources using leverages against the pivot, therefore, the more often one uses credit card and the higher credit limit one gets, this person is more likely to upgrade his or her credit potential and obtain more financial flexibility. As for the other major motive of credit card use—consumer preferential, individuals with low-status consider consumer preferential as a fundamental factor when applying for credit cards, because they usually are sensitive to discounts and they need to have a comprehensive knowledge of preferential information before deciding which credit card to apply for. In contrast, individuals with high-status usually just view

credit card preferential as an option during payment, they do not intend to collect full information on discounts before applying for credit cards. Therefore, individuals with different status stand on different perspectives toward the motive of credit card preferential: those with low-status consider consumer preferential as a factor during the application process, while those with high-status treat consumer preferential as an option during payment.

Graph 5 can also be used to explain the results from Model (B), to illustrate the dual effect of status and generalized trust. For Conclusion (3): for individuals with low-status, generalized trust has significant positive effect on holding credit cards; the higher generalized trust one has, the more likely to become a cardholder. But in Model (A), generalized trust only significantly affects the frequency of credit card use, while in Conclusion (3) it also exerts impact on holding credit cards. According to Graph 5, Conclusion (3) can be explained in this way: consumer preferential is one of the main motives for individuals with low-status to use credit cards, they need to inquire the preferential information with bank clerks, so individuals who exhibit higher generalized trust are more prone to trust bank clerks, so that they are more likely to become cardholders for the preferential. Another illustration is for Conclusion (4): for individuals with low generalized trust, status places positive impacts on both holding and using credit cards; the higher the status, the more frequently one would use credit cards and the more likely to own them. This can be explained in this way: individuals with high status usually use credit cards to pay for large sum, which can save the interest cost and provide for liquidity; the places where large amount of payments are needed are generally high-end, thus even those with low generalized trust can adjust upward their trust level in such places and be willing to use credit card payments.

After interpreting the mechanisms of trust, status and institutions in credit card use, it is worth noticing that the pattern of credit card use among Chinese

residents reflects some of the impacts embedded in the background of globalization. On the individual level, the generalized trust studied in this research is dynamic, and the varying level of generalized trust is due partly to the context in which people implement their credit card payment; owing to globalization, individual consumers can compare credit card transaction places in different countries and adjust their generalized trust accordingly. Compared with western countries with mature credit card markets, China still has room for improvement in terms of building up safer infrastructures for credit card transactions and training more professions in providing reliable credit card payment services. In doing so, consumers will be more willing to trust the strangers they come across in the payment process, without worrying about being exposed to the risks such as credit card frauds or stolen credit cards. On the institutional level, it has been demonstrated that China's credit institution is a combination of the U.S. model and the Russian model, with both formal institutions of rationalized computerization and informal arrangements of social network. Transnational trades and capital flows accompanied by globalization set higher standards for China's credit card markets, thus the regulatory body has established institutional regulations with the purpose of keeping up with the customs recognized by international counterparties. However, since most of the Chinese commercial banks currently view local residents as their pitching target for credit card services, they may be concentrated unduly on the local social network while overlooking the international connections. As more and more residents in China have shown the potential for global mobility, their credit card use would be more closely associated with international connections; therefore the credit card promotion strategies should shift toward a more diversified service package, such as providing consumer preferential in oversea travels.

Before wrapping up the discussion, it is necessary to reflect on the limitations of

this research to serve as a stepping-stone for following-up studies.

Firstly, regarding the credit card issuance and promotion policies in China's commercial banks, the first-hand interview sources are mainly from large state-owned banks. However, this may cause availability bias. In the following-up researches, provided sufficient interview sources, scholars should approach more diversified cases, such as employees from foreign banks, non-state-owned Chinese banks, and municipal banks, so that a comparison of credit card issuance policies can be implemented among different types of banks. In this research, large state-owned banks utilize informal arrangements to expand their credit card business, exploiting bank employees' network with their friends and relatives, and rewarding sales staff based the number of credit cards sold. In the following-up studies, it would be interesting to see whether other types of banks comply with the regulator's formal institutions or adopt informal arrangements.

Secondly, the dependent variable in the regression model is defined as the frequency of credit card use, instead of the amount of credit limit. This is to solely reflect consumers' willingness to use credit cards, with the detailed explanation listed previously. On the other hand, another reason why frequency of credit card use is used as the dependent variable is that the survey questionnaire only involves the question on the frequency aspect, without mentioning the actual amount of credit limit utilized. In order to better reflect both the frequency and amount of credit card payments, in the following-up researches, scholars might redesign the questionnaire and incorporate the questions such as "the amount of credit limit" and "the proportion of credit limit utilized", etc., so that the dimension of credit limit utilized can be studied. Moreover, a comparison of significant determinants can be conducted between this research and the following-up research, to examine whether the sensitivities are similar between the frequency and the amount of credit card use.

Lastly, due to limited knowledge of the author, it is almost infeasible to incorporate all the determinants of credit card use into the analysis, albeit the author has reviewed as many relevant literatures and empirical studies as possible. Therefore, following-up studies on the determinants other than those examined in this research are welcomed to complement the research findings.

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## Appendix 1:

Basic Description of the Interviewed Cases

<b>Case Number</b>	<b>Gender</b>	<b>Age</b>	<b>Occupation</b>
1	Female	25	University student
2	Female	25	University student
3	Male	25	Bank employee (former)
4	Male	26	Teacher
5	Male	25	University student
6	Female	55	Retiree
7	Female	25	Bank employee
8	Male	56	Company employee
9	Female	25	University student
10	Male	25	Company employee