Students' Credit Financial Knowledge Gap And Potential Credit Card Abuse

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Abstract

The purpose of the study was to explore the stimulus, knowledge gap and benefits expected from credit card usage among university students. A qualitative method was adopted, followed by interviews of ten (N=10) students, from a rural university campus in the North West province, who maintained credit card usage. The responses were grouped according to themes and then analysed. Only a few students participated in the study, while others were reluctant to discuss money matters, yet those who are in financial distress suffer in silence. The research concluded that students are the least-informed of credit card risk and rewards; thus, are exposed to potential abuse and overspending beyond their means and affordability. Ignorance of the consequences of late or non-payment was evident, as students admit to paying debt when they or their parents have enough money to do so. Sadly, such behaviour would cause material damage to their credit profile and their future access to credit.
The findings suggest a need for banks to be upfront with critical information in their marketing and branding to help students make informed financial decisions, and thus minimize credit default. Supporting educational programmes that increases finance literacy could allow banks to foster lasting relationships with the student clientele, including a period when they participate actively in the country's economy.

Keywords: credit card access, credit finance education, knowledge gap, students' credit abuse,

Introduction

The credit cards services are gaining momentum with different consumers, as households and individuals struggle to qualify for or maintain other forms of debt. Lately, debt is deemed necessary to keep up with the cost of essential goods, yet loans are getting harder to acquire, hence people are turning to the less stringent option such as a credit card, to augment their income or to make ends meet (Bhattacharjee & Sharma, 2021; Çokgezen & Kuran, 2015; Massoud et al., 2011). Debt is also increasing, as lenders, wanting to elevate their market share and profit maximization, are encouraging loan officers to relax risk assessment criteria and randomly select marginally rejected applications to increase loan approvals (Verster et al., 2021; Asiedu, 2016; Karlan & Zinman, 2009).

Role players in students' credit card services

South African (SA) banks offer generic credit card services to qualifying clients, one of which qualifications is, among others, proof of regular deposits into an applicant's bank account. It is common knowledge that the country's legislative requirement compels banks to verify an applicant's credit situation, comprising proof of dependable income, and to be fastidious about ensuring full disclosure of all debt, (National Credit Act 34/ NCA, 2005, as amended). To generalize, the services, however, minimize students' credit access because of their limited income, which is often irregular subsidies from sponsors, families, and friends, which is not comparable to that of working people.

Many banks are stagnant with unsecured credit offers, as client's economic dimension changes, or they demand a higher interest rate (Dynarski, 2021; James, 2014). Other banks suspend their specialized service indefinitely, with high payment defaults, debt mismanagement, and increased bad debts. Indeed, students may fall prey to default resulting from over-indebtedness **(**Stoop, 2009**).** Amongst SAs thirty-four registered banks, two banks, popularly known as Nedbank and ABSA (Amalgamated Banks of South), continue to offer student credit card services. These two banks designed credit cards services specifically catering for students' unique needs (Businesstech SA, 2022). They must be commended for the opportunities afforded to students to participate in the credit market, irrespective of the risk involved.

Whatever the reason for inclusion or exclusion, it is critical to embrace and nurture the student community into understanding credit issues, so that they can gradually take active participation in the financial and credit markets. These students are the generation expected to take over the reins from the aging management structures when they retire. A disturbing factor continues to be that students and the majority of youth remain unbanked, excluded from knowledge-based job opportunities; neither are they nurtured to gradually mature into being competent future custodians of the society's economic wellbeing (Motlhabane, 2017; Shutan, 2015).

Academic debate and literature review

The credit card behaviour of students has been the subject of academic debate, being argued from different perspectives and giving policy inclusion and recommendations to narrow the gap. The stimulus, attraction and knowledge, or lack thereof, of the risk and rewards associated with credit card usage among university students has not been interrogated enough in academic debate. The World Bank survey portrayed South Africans to be among the biggest borrowers in the world, where 86% of the population hold some form of debt, with a staggering 10.26 million people having accounts that were three months or more in arrears between 2013 and 2014 (Twyford, 2015; Badiee, 2013). According to Torkelson (2020) and Ndlovu-Gatsheni (2017), the country had one of the largest household debt-to-GDP (gross domestic product) ratios in the world, at 36%, and half its people (50%) or about 25 million, the bulk of whom are middle working class; are property-less but highly indebted.

To curb over-indebtedness, South African legislation requires credit providers to analyze the borrower's credit profile before granting credit (NCA, 2005, 2007 amendments), and requires lenders or banks to do due diligence in evaluation prior to granting credit, by comparing a borrower's regular income to existing level of commitment or debt before granting more credit (Estate Agency Affairs Board, 2022**;** Van Heerden & Steennot, 2018)**.** The onus seems to be more on lenders and credit providers than borrowers, to protect themselves against the risk of reckless borrowing (Vessio, 2009; Moolla, 2016). De Wet et al., (2015) argue that regulation cannot prevent the occurrence of adverse external economic events causing consumers to become over-indebted, but it can assist in capacitating the consumers in dealing with such events.
These credit burdens weigh down heavily on many households with wasted resources, and students from these households inherit these financial burdens and blunders (Badat, 2016). The question is whether the country's society understands what debt is and whether the legislation requirement compels borrowers to calculated borrowing that is within their means.

According to Henegar et al., (2013), credit card impulsivity and control behavior is associated directly by transmission by a parent, especially a mother. Some studies focused on the number of credit cards held by individual students, meaning the total debt owed to different banks at the same time (Hancock et al., 2013; Ali et al., 2017). From South African perspective the *total sum of money* owed, rather than the number of credit cards held, would be significant, as the NCA (2005) prescripts demand banks and lenders do a thorough credit check before granting additional credit.

Financial literacy is an important factor in the choice between risky and healthy credit behaviour (Liu & Zhang, 2021). Mngomezulu et al., (2017) challenge higher education institutions to acknowledge financial literacy as a necessary life skill to form part of their programmes, the absence of which could undermine student progression and success. The question may be how the subject is taught, as finance illiteracy continues, with little improvement in efficacy or debt management abilities, particularly the among the youth and students, despite numerous education programmes and workshops.

It is believed that students who are highly knowledgeable about credit card terms and conditions, and who have the critical thinking abilities and sensibilities that support lifelong learning, are likely to be confident and responsible in credit card use and improved financial well-being beyond graduation (Limbu et al., 2019; Kuh et al., 2006). The role of financial knowledge in better money and credit card management remains unclear, though (Norvilitis & Mao, 2013). These arguments, however remain as assumptions, as it is hoped that, even without substantial validation from this study or the existence of empirical evidence, financial education and literacy would improve credit card and debt management. Students perceive loans to be necessary, but they neglect the basic skills and education around borrowing. Studies however show that financial illiteracy is associated with high levels of debt, low financial satisfaction, increased overall stress, and a decreased sense of financial well-being (Akin et al., 2019; Solis & Ferguson, 2017; Norvilitis & Mendes-Da-Silva, 2013).

Over time, students' credit card behaviour has been a subject of debate; however, according to Hayhoe, Leach, Allen and Edwards (2005), the factors underpinning the selection of a credit card by college students are unknown, including the literature debate about factors influencing the decision to own one. According to Liu and Zhang, (2021) students' decision-making in terms of credit choices depends on their financial literacy, as their ability to learn and apply financial knowledge affects both their risk cognition and decision preference. The literature appraises the importance of credit cards beyond their use as a tool to bolster purchasing power, or a source of revolving credit to build a credit profile (Wickramasinghe & Gurugamage, 2012). Late or non-payment of a credit card or student loan debt damages a person's financial health (Braga, McKernan & Hassani, 2019).

Peltier et al., (2016) found that many students often lack even a basic understanding of financial knowledge required to make informed choices, which is a contributory factor to high-debt acceptance, or succumbing to the credit card marketing companies' efforts to acquire student users. Many young people use or seek refuge in the social media popular with the youth, and its intensity in marketing products may therefore make them prone to falling prey to social media pressure, or envy, which drives them to fit in **(**Andreou & Philip, 2018).
Limbu and Sato (2019) regard college students as a high-risk group when it comes to financial stability and well-being; conversely, when students comprehend the financial terms and conditions and are skilled to apply them effectively, it can boost their confidence and sense of security.

Ignorance about the credit card costs, comprising interest, default penalties, and cash withdrawal charges, may lead to the negative consequences of over-indebtedness and abuse among the students (Norvilitis & Mao, 2013; Zainudin et al., 2019,). Kamil, Musa and Sahak, (2014) relate credit card consumption and credit default closely to the consumer behavioural aspect, especially informed by the reputable Theory of Planned Behaviour (TPB), to better understand the attitude to credit, indiscriminate spending, and defaulting on credit card payments, particularly among the youth. In other instances, when students default on their payments, parents take over and pay the debt on the children's behalf (Hancock et al., 2013; Kennedy, 2013). Meantime, delayed or late payments of credit card debt, a mortgage, or a student loan damages a person's financial health (Braga, McKernan & Hassani, 2019).

Parental involvement is emerging as an option to minimize students' credit card default and abuse through education, influence and supporting their children's financial behaviour. Other than parents helping their children to pay off debt, their partnership has been found to decrease irresponsible borrowing and credit default risk for students, who later become mature young adults (Antoni, Rootman & Struwig, 2019; Santos et al., 2022). The challenge is for parents to be financially savvy themselves, to be able to mentor their children. If parents are financially illiterate, they risk harbouring financially delinquent students, who have increased credit card and auto loan balances, followed by declining credit scores (Dettling & Hsu, 2018).

Method

A qualitative research approach was adopted, exploratory in nature, to be able to understand the underlying reasons, opinions, and motivations for utilizing credit cards, and factors that could lead students to credit card abuse. The study used a case study approach which was deemed appropriate to discover the emerging trends and realities (Creswell, 2014).

Interviews were conducted to ascertain the credit knowledge, the gaps and the consequence among university students. The aim was to assess the financial knowledge and gaps in the credit card knowledge of rural university students, which could result in abuse

Sampling

The research paradigm, which was qualitative in nature, was adopted by using in-depth interviews with students, with a sample size (N=10). The sample size is typically small, and respondents were selected to fulfil a given quota (Liamputton, 2013). Liamputton (2013) explains that qualitative research is based on the belief that first-hand experience provides the most meaningful data, believing that it gives a large volume of quality data from a limited number of people, aimed at understanding the world of participants from their own frame of reference. The study attempted to explore the students' experiences with financial management and credit card debt, based on their personal attributes and family background. Their subjective perceptions formed the core data of the study.

Amato-McCoy (2006) suggests that, since finances are a complex and sensitive subject, the suitable method for data collection would be of a qualitative nature, because of its ability to bring out participants' experiences in both exploratory and descriptive forms. The study outcome would be used to inform policy regarding information inclusion, transparency, and guidelines to be adopted by credit card granters in order to forearm borrowers well in advance.

Results

Table 1: *Demographic information*

Age structure	Responses	Percentage
18yrs – 23yrs	5	50%
24yrs – 29yrs	3	30%
30yrs and above	2	20%
Total	10	100%

Gender	Responses	Percentage
Male	6	60%
Female	4	40%
Total	10	100%

Tool for data collection is in-depth interviews

Interview analysis (thematic analysis)

Questions	*Responses*	*Total*	*Percentage*
How did you gain credit card access?	Referral by friend or family member	4	40%
	Bank invitation / offer on evidence of regular income	2	20%
	Own inquiry and application which was approved	4	40%
Do you view credit card as a necessity, and why?	No, but it help to buy products even when you have inadequate or no cash	3	30%
	Yes, we live in a credit society, so it boost credit profile/record for loan access to buy houses, car etc. in the future	4	40%
	No, it comes with financial trouble and bring debt repayment stress	4	30%
What are the Disadvantages of using credit card	Easy money but high temptation and risk of recklessness to buy beyond needs or affordability	4	40%
	High risk of debt trap and credit bureau blacklisting that damages credit score and profile	1	10%
	Technical errors, hidden costs, and interest charges are ridiculously high. Non-payment or late penalties are worse	3	30%
	Not knowing credit card demand in advance and inability to repay the money is very stressful	2	20%
Who repays for your credit card balance	I pay it myself, with the allowance I receive	1	10%
	I pay it from my pocket, but it is not always possible to repay the whole amount	3	30%
	My parents pay it for me	1	10%
	I pay it but My parents help if balance is high as they know we still learning how to navigate through university and we are not well informed on how credit cards work	5	50%
How soon do you settle your credit card balance**?**	Every month end after receiving allowance	2	20%
	It depends on how much money I have at that time but if I do not have enough money, I cannot pay it	4	40%

	When I have excess cash, I pay it	2	20%
	I try to pay it monthly but most of the time I do not settle it at all as I do not have enough money	2	20%
Do you know the buying difference between budget and straight method? Please explain	Yes I know, straight must be paid off monthly then it charges less or no interest; budget give longer period but interest is high	2	20%
	I know a little, straight give short period to pay and charge less interest and budget longer period and charge higher interest	2	20%
	No I do not know the difference	6	60
Do you **regret having** a credit card, and why?	Yes, its worst decision I have ever made so far, as I am not well informed in finances or may say illiterate in finances	3	30%
	Yes, I regret it. as I'm deep in debt and unable to repay them, I hate having a credit card	4	40%
	No, I don't regret it, as I can buy items, even if I don't have cash. It also helps me to build good credit profile	3	30%

Discussion

What drive students' credit card applications?

Many students were reluctant to participate in the study, as it seems they viewed finance as a sensitive subject not to be discussed. Male students dominated the study, at 60%, and ages 18-23yrs (years) old, at 50%. Those aged 30yrs and above may be the least number but may bring an element of maturity in their credit card management. At 40%, family and friends influenced credit card access, which is the same rate as the self-driven applications, also at 40%. The 20% of bank invitations could be those students who have shown consistency in their banking behaviour, or perhaps were part of the banks' drive to increase their market share.

Do students regard a credit card as a necessity?

Indeed, students view credit card as essential, as is also supported by the literature (Akin et al., 2019; Wickramasinghe & Gurugamage, 2012). 30% say it provided access to buying power they never had but are later shocked when lenders and banks demand payment and impose penalties for late or non-payment. 30% realize the opposite was true after use, saying it causes them stress, which can be detrimental to their studies. 40% say living in a credit society requires that they boost their credit profile or records for future access to loans to be able to buy houses, cars, etc., in the future.

Reflection on the ills of credit card use

Students say a credit card is bad (40%), as it is easy money, but the temptation and risk of recklessness to buy beyond ones needs or affordability is high. 10% say it is a high debt trap, and they risk credit bureau blacklisting, which is damaging to their credit score and profile. 30% say technical errors, hidden costs, interest, and penalties are ridiculously high. 20% blame their high stress levels on lack of prior knowledge of credit card demands, resulting in payment default.

Who pays and who must pay student credit card debt?

40% of students say they are responsible for paying their credit card debt even when they default, but the debt remains their responsibility. It is a worrying factor that some parents (10%) take full responsibility to repay a student's credit card debt, while 50% say they share the debt with their parents, also blaming lack of knowledge.

Students seem to assume that repayment of credit card debt is non-obligatory. 20% confirm they do settle their debt monthly, while the rest (30%, 10% and 50%) confess to paying when they have excess or enough money, or they pay a fraction, depending on how much they have been assisted by their parents.

The choice between Budget or Straight

Knowledge about critical credit card buying choice between budget and straight was shallow among students. 20% had limited knowledge about the difference between the budget and straight options, while a very high 60% had no idea. Only 20% seemed to have facts about the difference.

Do students regret or rejoice to use a credit card?

70% of students regret and hate having a credit card, as the joy of having excess cash they never had was short lived, blaming a lack of financial literacy or ignorance. They felt they were drowning in debt and had little hope of finding the resources or the means to repay it. 30% were happy and did not regret having a credit card, because it allows them to buy even when they do not have the cash at the time. This group could be having a high tolerance to debt, or they knew enough to allow them to use it well. The service ability to build a credit score was real, and so was their exposure to the risk of it being damaged if they missed honouring their payment obligation on time.

Conclusion

Financial illiteracy continues to be a thorny issue in credit card management, and financial decision-making in general. Indeed, students have fallen prey to credit card abuse and inability to service the debt. They confessed that the debt is one of the contributory factors to their stress levels, and the damage may affect their academic performance, following them well into their adult life. Much as the students may be a high-risk clientele, they cannot be excluded from participating in the financial markets and access to credit. When they are equipped with the knowledge, the service can indeed work to their advantage.

Many assumed that because they are still learning and were ignorant of their obligation, lenders and banks would understand and write their debt off; otherwise, parents need to continue to rescue them from their financial delinquency.

Way forward

Initiatives have been undertaken to educate and develop students and communities around financial management, as recommended by many authors. Financial illiteracy, however, continues, and people make financial blunders. Education and development seemed to have little impact on improving the financial literacy level and debt management.

Perhaps financial education needs to be strengthened, to include mentoring led by skilled and financially-savvy personnel, supported by genuine systems that will continue to advise and coach with few punitive measures.

Akin et al. (2019) identified the United Kingdom's free financial counselling system, which is offered to the country's low-income consumers. In South Africa, free pre-counseling is necessary for students to have realistic expectations of credit card services to be aware of their pros and cons prior to access, and for it tocontinue during usage.

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