

# THE MAIN FACTORS AFFECTING CREDIT CARD USE IN ALBANIA-THE CASE OF TIRANA

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## Abstract

Considering the importance of debt in the economy, this study aims to find out the main factors that indicate the changes in credit card usage in Albania. Moreover, the research is focused on answering the questions regarding the attitude of cardholders and non-cardholders in particular after Covid-19 pandemic. Firstly, specific data have been taken from the Bank of Albania and the information was used to release the position of credit cards in Albania in recent years, by illustrating the total number of credit card payments and the number of issued and active credit cards in years. After that, a survey was conducted through an online questionnaire and personal interviews in order to have a clear picture of the current use of credit cards in Tirana. Data collected and analyzed points out that the majority of citizens have knowledge about credit cards. It is indicated that education and level of income are the main factors that affect credit card usage. The pandemic situation affected also the behavior of customers, making them buy more often with credit cards. The data show that the biggest advantage regarding credit cards is that they are a very practical payment method. However, financial institutions should create other eligibility criteria that could be met by a wider proportion of the population and also they should be more informative. As this research paper is related only to people who live in Tirana, further study is needed to cover other regions of Albania as well.

**Keywords:** *Credit card, Covid-19, usage, frequency, customer satisfaction*

## 1. Introduction

### 1.1 Background

According to Cambridge Dictionary (2021), a credit card is a small plastic card that is issued by the bank and can be used as a method of payment. It allows the cardholder to obtain funds from a credit institution at a rate of interest up to a certain maximum. Instead of the account holder's cash deposits, charges are made against a line of credit. Failure to pay off the debt on time could result in interest charges and late fees. Almost every credit card also comes with a rewards program, in which account users earn points for every amount spent. The first idea about the credit card is given by the author Edward Bellamy in the book "Looking Backward" which was published in 1888. The concept of applying for payment with credit cards began in the U.S. during the 1920s. In 1950, the Diners' Club, Inc. launched the first standardized credit card, which could be accepted by many different establishments. Later in 1970, following the example of Bank of America, a number of financial firms merged the capital to form an Internal Bank Card Association network which is

today known as MasterCard.

Electronic payments in Albania's banking system became a component of the banking market only after 2003. This means that Albania can still be considered in the development stages of easily using these electronic payments. Despite an upward trend in credit card usage over the years, the Albanian banking sector is still lagging behind other markets in the Western Balkan countries. This is one of the reasons why the Albanian banking sector lacks advanced credit card application approval systems.

### 1.2 Relevance and objectives

The main purpose of this research study is to analyze the current conditions of the credit card market in Albania, and find out the factors that lead to an increase in credit card usage and frequency. It will be focused more on the current perceptions and opinions of Albanian citizens with regard to credit cards. The reason behind choosing this topic relates to many factors: firstly credit

cards may be useful for earning rewards, traveling, dealing with unexpected costs, and building a good credit history, secondly by providing businesses with a guaranteed method of payment and customers with a way to bridge the gap between paychecks in times of emergency, credit cards may play an important role in the cycle of increased consumption and production, thirdly to identify what can be done further to increase the number of credit card users in Albania.

## 2. Literature Review

### 2.1 Importance of credit cards in economy

Credit and the absence of cash, have become essential to the modern economy, so businesses all around the world rely on credit to pay and receive payments. It also enables people to spend more, which raise the economy's revenue levels. Meanwhile credit cards and electronic payments, on the other hand, make operating trade in a worldwide market a lot easier. This convenience increases long-distance transactions, which boosts GDP and consumption, both of which result in job creation. The increased use of credit contributes to economic growth by reducing transaction costs, increasing transparency, and increasing productivity. For this reason, credit cards are in fact a significant component of household and global activity. The reward system is a significant element in pushing customers to use credit cards against cash and debit cards. In the research paper of Doyle (2018), was reported that as a result of reward programs 40% of credit card holders, mostly high-income consumers, had credit card benefits, while 30% of credit card users, mostly low-income customers, faced expenses because they mainly used credit cards just to borrow. According to Turan (2013) it was determined that there is a positive association between the income level and the credit cards ownership by individuals and businesses. The results also show that the usage of credit cards was at very low rates in Albania at that time.

### 2.2 The effect of pandemic Covid-19 on the usage of credit cards

The Covid-19 pandemic has made society more hygiene-conscious, and it appears to have influenced people's preferences for cards versus cash. The volume of cash being used in the UK

dropped by up to 60% in 2020 while in the US, 28% of people stopped using cash altogether. On the other hand, credit card usage worldwide increased during the pandemic, especially when compared to cash.

Despite the coronavirus outbreak, Americans are using their credit cards daily. Referring to a recent survey by Money and Morning Consult (2020) around 70% of Americans indicated they had no intentions to cancel or deactivate an existing credit card. When it comes to food and self-care products, 29% of credit card users say they're using their cards more than they were before the pandemic.

## 3. Descriptive Statistics

### 3.1 Credit Card Market in Albania

At the beginning of 2005, credit cards were still considered an innovation for the majority of the population in Albania. In fact, as a low-income country on average, customers initially felt skeptical about its use.

According to the Bank of Albania, there are currently a total of 12 banks that operate in the banking system of Albania. That is the same number of banks that were in 2019. All the banks operating in the Republic of Albania are licensed as card issuers, while 7 of them are also licensed as card acceptors. This means that cash can be taken from banks using credit cards. The services provided by these banks resulted in a significant increase in the number of POS, representing an 8.5% improvement in the usage of POS compared to 2019. Despite the positive trend in the number of POS terminals being added, their concentration is mostly in Tirana region, at 88.5%.

### 3.2 Payment made with credit card in years

The total number of credit card purchases in Albania exceeded two million in 2019, a figure that doubles the sum of purchases accomplished in 2015. As a small county still in development, the usage of credit cards in Albania is not at very high levels compared to other countries. According again to the Bank of Albania, the banking system has used technology efficiently, enabling the provision of new and modern electronic payment systems.

### 4. Methodology

In this research paper cross-sectional analysis of data is conducted, in order to have a clear view of characteristics that exist in the community and to see at what levels is the usage of credit cards, in order to identify which factors mostly affect the usage of credit cards in Albania. This study will be focused more on the analysis of the current position of the credit card market in Albania by taking into consideration some indicators and also the perceptions and opinions of the individuals and that are or not credit cardholders.

#### 4.1 Research Question

This study is going to give responses to the following questions: Which are the main factors that affect the increase of credit card usage in Albania? How Covid-19 has changed the consumer behaviour with respect to credit card use?

#### 4.2 Research Design

Both secondary and primary data are used for this research study. The previous chapter covered secondary data analysis, also known as a literature review. We started our secondary data exploration with research generated by numerous studies, papers, and articles, and then moved on to several documents and reports released by well-known and acknowledged national and worldwide institutions and organizations. All of the secondary data that was collected and evaluated helped to generate a set of questions that was used to guide the study design.

Furthermore, we based our primary data collecting on surveying to make some measures and gather useful and reliable information, as well as establishing a communication approach. We constructed a questionnaire with some well-chosen questions that yielded information that otherwise would be very hard to collect and would take much more effort. We made use of computer-assisted questionnaire through google forms, an interview technique with computer-sequenced questions capable of employing visualization and also by face to face expert interviews. The great strength of the survey, as a method to collect primary data, was its versatility. Because the survey creates a better pattern for the current situation and attitudes of Albanians about credit cards, this

flexibility is important. The chosen period was July 2021. The study's major focus is on evaluating the data collected, in which many factors that may indicate credit card usage were examined one by one and then combined to evaluate what effect they have on it. We attempted to explain the link between the factors and the patterns that were created, as well as to arrive at certain conclusions and generalizations.

##### 4.2.1 Target Population

The target population for this research is located in Tirana, Albania. Since Tirana is the largest city in Albania and most importantly the country's major economic, social, and cultural center, the study is concentrated in this city as the results are more significant.

##### 4.2.2 Sampling Design

The research sampling method chosen to be used in this research is random sampling, in order to increase the efficiency. All of the participants live in Tirana, and they are all individuals who may or may not have credit cards.

In order to come up to the conclusions quantitative and qualitative data is gathered and analyzed. The sample size is 130. All the participants in the survey reveal representative information considering the attitude they have toward the credit cards. It was also explained to all participants the necessary terms of privacy before they completed the questionnaire, and it was guaranteed their anonymity.

##### 4.2.3 Questionnaire

The questionnaire has been prepared and was available for the respondents on a web-based. For the construction of the web-based questionnaire, it is used platform of Google Forms. The platform used preserves all the privacy conditions and gives access to the information only to the researcher that constructed the questionnaire. The channel used in order to send the online questionnaire to the participants is by e-mail and social media.

The overall questionnaire contains 32 questions. There are included both open-ended questions (in order to allow the participants to give short answers) and closed-ended ones. Most of the questions are closed-ended with multiple choice

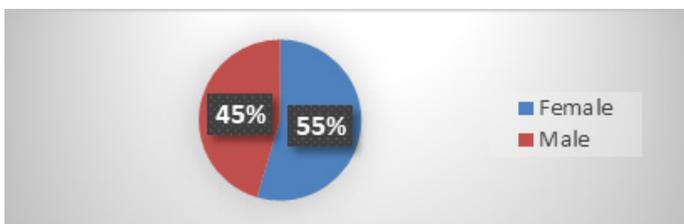
(each question contains 2-6 alternatives). The participants were given the possibility to choose the alternative “other and specify” if their answers were not included in any of the listed alternatives. Most of the multiple-choice questions are created as a single response scale, but there are even some questions that allow the participants a have multiple responses. The close-ended questions are included on purpose because their responses make it easier to get significant results from the survey. Also, the dichotomous and discrete response strategy is used, to give the flexibility of response to the participants and lowering the error scale of responses.

**5. Data analysis**

**5.1 Background of respondents**

In the survey participated 130 respondents in total. All respondents that participated in this survey live in the capital city of Albania, Tirana. The following findings were obtained after processing and analyzing the collected information:

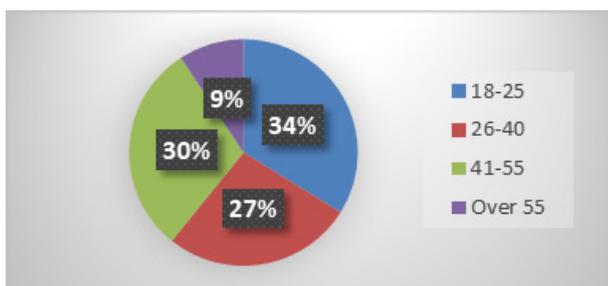
*Chart 1: Gender of respondents*



Source: Author’s calculation

According to Chart 1, in this survey participated respectively 55% females and 45% males. The proportion between the two genders is almost balanced, which makes the data collected more reliable.

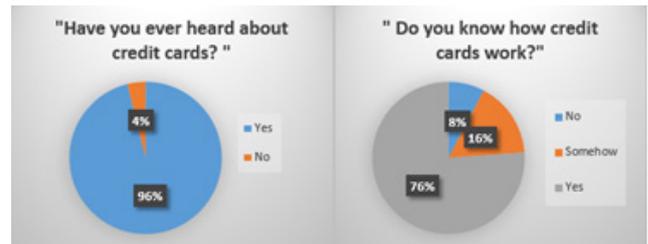
*Chart 2: Age of respondents*



Source: Author’s calculation

Chart 2 shows that young people represent 34% of the survey, while people that are considered as the most appropriate category to fulfill the criteria of owning a credit card, all together, and represent 57%. Only a few elder people participated in this survey. Even though they are not the most representative category of people we still need to consider their attitude toward credit card usage.

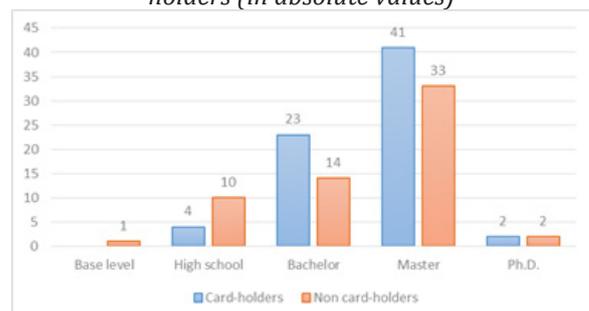
*Chart 3: Knowledge about credit cards*



Source: Author’s calculation

It is clearly shown in Chart 3 that very few respondents have never heard about credit cards at all, so the majority of them have a general idea for at least what represents a credit card. When they were asked if they know exactly how credit cards work, some of the respondents said that they know somehow in general how it works, but not every specific aspect of its functions. Only a small category has no idea at all how a credit card works. But luckily there is no lack of information these days, and whoever makes just a small effort will find easily everything they need to know about credit cards. According to their further answers, only a small portion of people that don’t know anything about credit cards didn’t even intend to ask or find information about the benefits of using credit cards. This mentality of choosing only cash as a payment method continues to be present especially among elder people.

*Chart 4: Education level of card-holders and non-card-holders (in absolute values)*



In terms of the level of education, the majority of respondents have a master's degree, specifically 74

of them. Meanwhile, 37 of them hold a bachelor's degree, 14 have finished high school, 4 have a Ph.D. degree and only 1 has the base level of education. As it is shown in Chart 4, there are no cardholders with the base level of education. In the category of people with a high school level of education, there are more people who do not use a credit card than those who do.

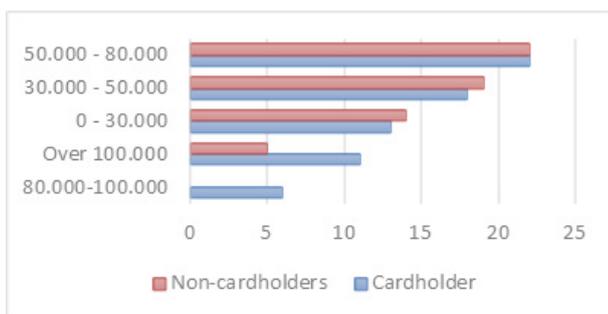
Meanwhile, in the category of people that have a bachelor's or master's degree, we notice that there are more cardholders than non-cardholders. For the Ph.D. level, there is the same number of people that hold/do not hold a credit card. Lifestyle is also an indicator of these results. We can understand that the higher the information that people get in many aspects of life, (which come in fact with a higher level of education) the higher is their usage of credit cards as a method of payment. They know better the benefits and choose to take advantage of them. Hence, the higher the level of education, the higher the usage of credit cards. So, it is obvious that education is a factor that indicates the usage of credit cards in Albania.

a credit card. This means that people who have less income tend to use other payment methods rather than credit cards, while those people who have a higher level of income make use of them because they want to benefit from the bonuses and other rewards that the credit cards offer.

**5.2 Effect of Covid-19 in the ownership of credit cards in Albania**

The pandemic of 2020 affected almost every part of the economy and even the most important aspects of everyday life. It also affected how people make their purchases. There are 8 respondents that didn't have a credit card before the pandemic, but they currently use a credit card. Regarding the ownership of credit cards, almost all respondents say that in fact, the pandemic situation didn't affect their decision in owning a credit card, as is shown in Table 1. It is clear that the pandemic didn't urge the ownership of credit cards. For sure the pandemic affects the way people think about the purchases they make and how they manage their time shopping.

*Chart 5: Income level (in absolute values)*



*Source: Author's calculation*

Chart 5 shows how many respondents within a specific range of income use (or do not use) a credit card. There are only cardholders in the category of people that have an income within the range of 80.000 to 100.000 ALL. We notice that in the category of people who have a level of income over 100.000 ALL there are more cardholders than non-cardholders. At the two lower ranges of income, there are more non-cardholders than cardholders. Meanwhile, at a considerable high range of income (50.000 - 80.000 ALL), there is the same number of people who use and don't use

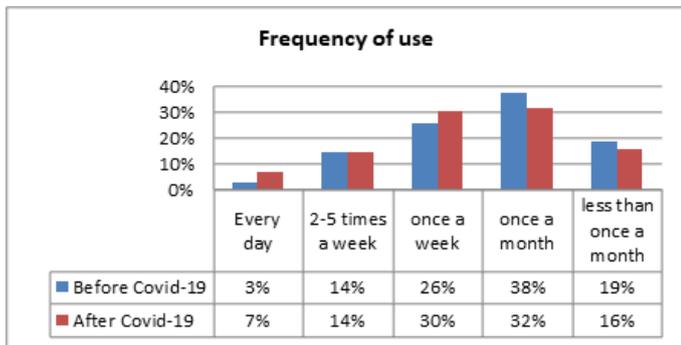
**Table 1: Effect of Covid-19**

	Yes	No
<b>Did Covid-19 affect your decision to get a credit card?</b>	<b>1</b>	<b>6</b>

*Source: Author's calculation*

As mentioned above, the pandemic situation was not the reason why previous non-cardholders decided to use a credit card. The majority of non-cardholders didn't feel the need to use a credit card during the pandemic situation. In fact, Covid-19 was a sensitive situation, because it was directly affecting the health of everyone. It is understandable that the higher concern of people was not to find an optional payment method. So there might be other reasons why people decide to start using a credit card, but Covid-19 was not a factor affecting their decision.

*Chart 6: Frequency of credit card usage before and after Covid-19*



*Source: Author's calculation*

The pandemic situation didn't disappear without leaving its mark, so we have to find out, what was the frequency of cardholders after Covid-19 redrawing the usage of credit cards. It is evident from Chart 6 that the usage of credit cards that have been used every day, 2-5 times a week, and also used once a week has increased after the pandemic situation. This means that in fact, people have started to use credit cards more often after the pandemic situation. This comes as a result of a new way of living for a while, which people somehow adapted new ways of purchasing online because of the social distance that was mandatory during the Covid-19 situation.

**5.3 Card-holders**

Since the usage of credit cards in Albania is increasing as years go by, this level of frequency in the use of these cards indicates that in most cases people use the credit cards for specific reasons. Generally, people pre-think when and where they are going to use their credit cards. This is in fact a good aspect because credit needs to be used wisely. Somehow this shows that Albanian cardholders are pretty careful and smart when it comes to credit card usage, which makes them reliable as cardholders.

The results show that a significant proportion of cardholders own them because they see them as a practical payment method considering as their most significant indicator that led them to become a cardholder. Online purchases are another significant factor that is indicated in the decision of people to become cardholders.

Another factor that led to receiving a credit card is that people need it for everyday purchases. Since everyday purchases can be a little bit tiring and usual, using a credit card makes the activity easier and faster. At almost the same proportion, cardholders say that they have to use a credit card because they need to make some specific payments that only require card payments. Recommendations from others and advertisements/offers seem to have a low effect on their decision to own a credit card. It means that, once people understand how practical credit cards are, they may easily become credit cardholders.

*Chart 7: Main reasons why card-holders use credit cards (in absolute values)*



*Source: Author's calculation*

Most of the cardholders use their credit cards to buy online and for shopping, as shown in Chart 7. Most online shopping is made on foreign web pages by using a credit card. This is due to many different reasons, but the most important reason is because some stores offer rewards and bonuses when the customers pay with a card. Incentive makes people buy in stores with their cards in order to have the benefits of using this payment method. Making the payments of the bills is also another reason why people use credit cards because they want to pay those bills on time. In Albania, it is not usual to find restaurants, and especially bars that offer the service to pay with credit cards. Only a very low proportion of cardholders use credit cards everywhere they find the opportunity to make payments with them. By the majority of respondents, the credit card is considered to be mostly an alternative method of payment.

It is clearly shown from the results that the majority of cardholders consider the biggest advantage about the credit card the fact that they can make a purchase even when they don't have cash and

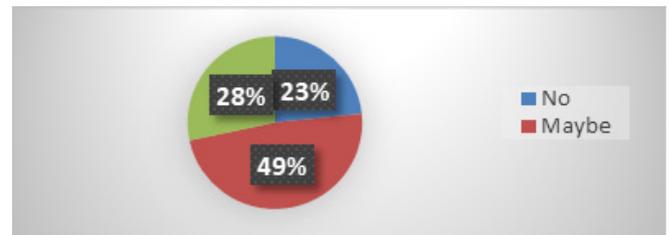
that it is also easy to use. A smaller proportion category of respondents consider it as a loan without interest since they pay in time, or they pay without interest-bearing instalment. Also, they like to benefit from bonuses that the credit card payment method offers. Since hard holders have tasted the experience of using credit cards, all these advantages that they express can be used in order to clarify the benefits of credit card usage to non-cardholders. The majority of cardholders consider that credit cards serve as a good payment method, which means that a significant portion of the cardholders are satisfied with credit card services although there is always room to do better. Only a few of them think is not good at all.

### 5.4 Non-cardholders

There are also people that don't own a credit card and their opinion or attitude toward the credit card is very important for this study. By their answers, we can see the factors that could affect their decisions to start using a credit card.

The results show that the majority of respondents that don't own a credit card don't like it as a method of payment. It is in our interest to know why respondents think that, and for this reason, we decided to interview some people that don't have a credit card because they don't like it as a way of payment. Non-cardholders have information for this payment method, but they still don't prefer to use it. From their answers, we notice that the majority of people that don't have a credit card don't like to borrow constantly and to pay any possible interest along with that. When asked if they have ever taken a loan, they conducted that the loan is different because it is taken once in considerable amount, paid later, and then it's over. Non-cardholders are less likely to use credit cards because they think that banks have many strict rules and it requires long procedures to become a credit card owner. Some other people don't trust financial institutions and don't like to have continuous relationships with them. Still, the majority would consider using one if banks are more helpful with specific information and its advantages are more considerable for them in the future.

Chart 8: The portion of respondents who would switch to use a credit card in the future



Source: Author's calculation

Moreover, Chart 8 shows that the majority of respondents that don't have a credit card would consider using it in the future but still, they are not sure about that. Meanwhile, there is a considerable close difference between non-cardholders that would be ready to use a credit card in the future and those who won't do so. So there is a higher chance for the majority of non-cardholders to become credit card users. If some aspects are improved to what fits the Albanians lifestyle, then the credit card usage by them may be increased.

## 6. Conclusion and Recommendations

The total number of credit card payments in Albania has been increased, but cardholders still need the services of credit cards to be provided more widely. The first step to start this transformation has to come from the banks, by increasing the number of POS. When card acceptance hits a certain point and reaches higher rates, many retailers would have to adjust their existing system due to competition. Youth are the highest category that is ready to use credit cards as their payment method anytime. Elder people, on the other hand, do not have much information about how credit cards work and are not users of credit cards in large proportions. There exists a mentality in Albania of choosing cash as a payment method, which continues to be present in a small category of people, especially among elders.

Data collected by the Albanian National Statistics Institute (ANS) indicated that education level is a very significant factor in credit card usage. The pandemic situation was not a direct reason for making people choose to become cardholders but it affected the increase of the frequency that people use their credit cards. The usage regarding the level of income, on the other hand, indicated

that Albanians now use credit wisely, because people that have low income choose to benefit from bonuses while people with high income just do not need to deal with debt.

People with lower income should have a lower credit card limit, but still be provided with credit cards, according to respondents to a survey by the Bank of England. In this way, more non-cardholders will switch to credit cards in the future and the amount of cash circulating will be reduced. Respondents say banks should be able to have conditions reachable from a wider proportion of the population and also should be more informative.

Banks need to create an application so cardholders can track everything about their card transactions from their phone and keep them informant with new updates. If all the aspects are improved to what fits the Albanian lifestyle then credit card usage will be increased.

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