



Journal of Applied Sciences

ISSN 1812-5654

science
alert

ANSI*net*
an open access publisher
<http://ansinet.com>

A Research on the Usage of Credit Cards in TRNC

Okan Veli Safakli

Department of Banking and Finance, Faculty of Business and Economics,
Near East University, Nicosia-Northern Cyprus, Mersin 10 Turkey

Abstract: The level of change in financial markets, demographic structure and cultural factors create differences in credit card usage in each country. The aim of this study was to conduct a research on the factors effecting credit card usage in the Turkish Republic of Northern Cyprus (TRNC) that is a politically unrecognized country. Local banks are only agents in the credit card market and therefore they have no profit in this other than customer satisfaction due to the political status of the country, the scale and market structure of the banking sector in TRNC. Moreover, it is also seen that in the TRNC besides the use of VISA and MasterCard services provided by foreign banks, use of shopping cards like Smart/Uni/Optimum that can only be used in the TRNC is increasing. As a result of the research, it can be said that the most important factors effecting credit card usage are high education level, status of government workers, the opportunity of not carrying cash, spending money when in need of cash, the banks those people frequently work with and the installments opportunities the credit cards provide.

Key words: TRNC, credit card, usage

INTRODUCTION

Financial and banking sector plays the leading role amongst the sectors that greatly developed together with technologic developments and globalization. Therefore, the competition in this sector is getting denser, profits are decreasing and gaining competition advantage is becoming more difficult. Thus, the main condition of being able to compete in the sector is providing customers with services that are new in the sector and are advantageous for the customers. However, when looked at the banking sector in the TRNC, it is seen that local banks here cannot provide their customers with most of the electronic banking products mainly credit cards and Internet banking. This study was conducted to determine the level the banks in the TRNC provide credit card services and also will focus on the effective factors on credit card usage.

CONCEPTUAL FRAMEWORK OF CREDIT CARD USAGE

Those cards, which are used to buy and services are called by many different names. Most common names used for these cards are; plastic card, plastic money, pay card, bank card, credit card, debit card, ATM card, cheques card, common card, store card, smart card, intelligent card, chip card, affinity card, spending card, interactive card and gold card^[1].

In general meaning credit cards are the cards that belong to a bank or a financial organizations and that are given to bank customers within a certain credit limit to provide them with the opportunity to buy a product or a service from member companies in their own country or abroad without paying in cash^[2]. In other words, credit cards are the cards that provide convenience in payments and that provide opportunity for revolving (rotational) credit usage^[3]. Convenience in payments means that customers who have credit cards can pay for their shopping instantly without carrying cash and therefore they can delay the payments of good and services they are already using for a certain period of time^[4,5]. Therefore, the usage of credit cards provided economic life with two important dimensions namely, convenience in payment and revolving credit opportunities^[6].

With the authority given by international organization it is possible to shop everywhere in the world with the credit cards and with these cards it is also possible to withdraw cash from bank branches and ATMs all around the world. The main credit card brands in the world today are Visa, MasterCard, Amex, JCB and Diners Club^[7]. Amongst these the most important and most widely used credit card systems are Master Card and Visa^[8,9].

The fact that the credit card usage became widespread is related to the needs of different organizations. In other words, card holder, member company, organization that issues credit cards, banks that

accept credit cards and advantages obtained by the credit card usage made the credit card usage a need in the global world.

Benefits of credit card usage for cardholders: Credit card usage provides the card holder with respect, saves them from the hassle and risks of carrying cash^[10,11], provides them with credit opportunities without any interest^[12], relatively easy and convenient usage, use abroad, use in emergencies, cash credit opportunity, promotions that banks offer^[13], ease in other banking services and advantages in insurance^[14]. Research shows that factors that are effective in owning a credit card and credit card usage are; it is safer to carrying credit cards than carrying cash, it is easy to use credit cards, credit cards are sources of finance and they provide opportunity for card holders to divert their current sources to other investment tools^[15].

Benefits of credit card usage for member companies: The main benefits credit cards provide for the member companies are as follows^[16,17]:

- Increasing the sales and therefore gaining profit exceeding the commission paid,
- Regulating cash flow and getting rid of difficulties in collecting money,
- Decreasing stationery expenses and increasing profit,
- Gaining benefits from advertising and promotional activities of the bank that issues the credit card.

Benefits of credit card usage for the organizations that issue credit cards: The main benefits of credit card usage for the organizations that issue credit cards, mainly the banks, are summarized below^[18-20]:

- Commissions taken from the member companies,
- The membership revenues taken for each card every year,
- Late payment fees,
- Fees for exceeding the credit limit,
- Cash withdrawal commissions when card holders withdraw cash,
- The rates taken from the card holders who are in credit and who make their payments late^[21],
- In order to make payments card holders have money in current accounts in banks and this brings profit to the banks as banks don't pay interest for these accounts,
- The number of customers increases because of credit cards.

In addition to different bodies expressed above, while credit card usage provides income for the banks accepting credit cards under commissions they also provide the credit card organizations like Visa and MasterCard with prestige as well as with income through commissions and fees^[22].

THE BANKING SECTOR OF TRNC AND CREDIT CARD APPLICATION

Before talking about the main problems of credit card application in the TRNC, it is necessary to state the current status of the sector and the scale structure. Because there is evidence that significant economics of scale pervade the credit card field for, in general, only the largest bankcard operations are consistently profitable^[23]. The banks that issue credit cards and market these cards to their customers need to invest in capital to buy machines issuing cards, machines printing statements and big printers^[24]. Therefore, in order to gain profit from issuing credit cards, a few years should pass and also in order to decrease cost the number of card systems should be less and they should appeal to the international market^[25].

The main structure of TRNC banking sector: As of 2004, there are 2 state banks, 2 cooperative banks, 15 commercial private banks and 6 foreign branch banks, totaling to 25 banks operating in TRNC^[26]. When evaluated according to the international standards, it is seen that the asset structure of the banking sector in the TRNC is extremely weak. Especially, when compared to the banking sector in the South Cyprus it is seen in Table 3 that although there are more banks in the TRNC, asset amount is only about 8% of the amount in the South Cyprus banking sector (Table 1). As can also be seen in Table 1, total assets of the banking sector of the TRNC are approximately 1% of the total assets of the banking sector in Turkey. It is also 8.6% of the bank with the biggest privately owned capital. Moreover, the total assets of the banking sector in the TRNC are not even three in one thousand, in the biggest bank assets in the world and in Europe.

Besides the reality that the total asset structure of the banking sector in the TRNC is insufficient, it can be seen in Table 2 that in the sector there is an oligopoly structure. In other words, while the first five banks own approximately the 70% of the assets, this ratio for the first 10 banks is 90% and this shows that most of the banks have very weak structures.

Besides the weakness of the asset structure of the banking sector in the TRNC, the very limited local market

Table 1: Total Assets of Banking Sector in Selected Countries (Million \$) (December 2004)

Country/Bank	Asset amount (\$)	The ratio of TRNC sector total (%)
TRNC (sector total)	2763.15	100.0
South Cyprus (sector total)	35335.97	7.8
Turkey (sector total)	213800.00	1
Turkey (The bank with the biggest privately owned capital)	23048.00	8.6
The biggest bank in the world	1285471.00	0.21
The biggest bank in Europe	1120543.00	0.24

Source:^[27-31]

Table 2: Concentration in the TRNC Banking Sector (December 2004)

	Share in the total assets (%)	Share in the total credits (%)	Share in the total deposit accounts (%)
The first five banks (*)	69.23	65.44	69.05
The first ten banks (*)	89.29	84.62	90.79

(*) According to the active sum

Source:^[32]

Table 3: The amount of population per bank in the TRNC, South Cyprus and Turkey

Country	Number of banks (1/9/2004)	Population per bank*
TRNC	25	8520
South Cyprus	14	50714
Turkey	36	1944444

(*) Calculated in accordance with the population in 2002, Source:^[33]

share the banks have influences the operation of credit card systems negatively. In Table 3 the market share in the TRNC is compared with the biggest potential competitor South Cyprus and with Turkey which is largely integrated. According to this, while the population per bank in the TRNC is 8520, in South Cyprus this number is 50714 and 1944444 in Turkey. This when explained in a simple manner, makes the banks in the TRNC local shops, banks in South Cyprus supermarkets and banks in Turkey mega markets.

Another important reason for low market share of banks in the TRNC, besides low population, is the fact that there are many banks in the TRNC. A research done on the number of banks in the TRNC shows that, according to the data obtained in year 2000 TRNC has the highest number of banks in ratio with its population than other 18 countries including European Union Countries, South Cyprus and Turkey^[34].

The main problems of credit card application in the TRNC: Starting in late 1980s local banks began implementing branch automation systems to offer their traditional services like checking and savings accounts, money transfers, trade transactions, but they have not planned, implemented or integrated these systems in way that they would bring them a competitive advantage and

help them not to lose any customer to their competitors. Things started to change later on in mid 1990s when customers, especially the younger ones, started to demand the same services that others have been receiving in other parts of the world, especially in Turkey. As a result, some local banks realized that they need information systems that are critical for their long-term prosperity and more importantly for their survival. This was then a catalyst for few local banks to reconsider their information systems. They realized that if they had continued to do business as before with their current banking systems, they could have easily lose the competition to other banks, especially to those based in Turkey and having branches in TRNC. A local bank made the initial step with the introduction of ATM services in mid 1990s. In the last few years, local banks have been eager and fast in getting into the retail banking market through credit cards and POS (point of sale) terminals. Local banks have always had loyal customers but after the recent striking economic events, customer loyalty has diminished and local banks started losing customers against their competitor Turkish banks (local branches of mainland Turkish banks) with extensive retail banking capabilities. In order to compete with their Turkish rivals in the retail field of electronic banking, local banks offer the same services in cooperation with some banks in Turkey, though less efficiently and with almost no profit. It has been a real task for local banks to offer electronic retail banking services such as overseas fund transfers, credit cards, POS and ATMs as these services require membership to foreign global networks like SWIFT, Visa and Master Card; unfortunately, being operating in an unrecognized country, local banks have been denied membership to such networks and hence they are currently unable to issue their own international credit cards and register their local ATMs to global networks (even to the Turkish Interbank Card Center network-BKM network). This has created an unfair competition in the banking sector, as Turkish banks were able to penetrate into the market easily while the locals could only accomplish a minimal success in doing so. The fact that a local bank should cooperate with another party (a Turkish bank in this case) in order to provide credit card and POS services, negatively affects its operation in terms of high expenses, difficulties in independent operation and decision-making. As cited above, another factor, which directly affects the electronic banking penetration in the sector, is the population size of the country. When combined with the adverse effect of the high number of banks in the sector, the small population and the resulting small customer portfolio per bank make electronic banking investments almost infeasible. Electronic banking services

require a high initial investment and a continual operating expenses and it is not feasible to provide such services to customer portfolios in terms of only few thousands. On the other hand, Turkish banks in TRNC do not make any initial investment as they simply use the already established infrastructure in Turkey; moreover, their operating costs for electronic banking services are much lower due economics of scale. Local banks have been trying constantly to keep up with the technology and provide the same electronic banking services their Turkish competitors have been providing. Major local banks now offer credit card, POS and ATM services and a couple of them have on-going internet banking projects; however, due to the unfavorable conditions – operating in an unrecognized country, small population size (small customer base) and the high number of banks on top of these – electronic banking services offered by local banks have not reached to a satisfactory level within the TRNC^[35].

As of January 2005, 6 foreign branch banks provide their customers with Master and/or Visa cards that can be used internationally, 9 local banks provide their customers with Master and/or Visa cards via Turkish banks and 2 local banks provides their customers with local cards called Optimum and Uni Card. On the other hand, 8 local banks do not have any card services. In other words, looking at the customer numbers, there are 26226 Visa Cards, 4800 Master Cards, 6590 Visa/Master Cards, 4000 Master/Euro Cards and 56,000 shopping cards (smart/uni/optimum). With approximately 200,000 populations and 100,000 working population approximately 98,000 credit cards in the TRNC creates an important market and spending potential^[36].

By focusing on the Joint-venture type organizations between the local banks, currently it is aimed to share the cost of issuing credit cards and providing internationally useable credit cards through sponsorship of the Turkish banks although TRNC is not politically recognized.

RESULTS AND DISCUSSION

In order to find out the factors effective on the credit card usage in the TRNC, a research has been carried out in January 2005. For this research, 300 people were chosen randomly and they were interviewed face to face. The main findings of the research (Table 4) are expressed in percentages as follows:

- While the majority of the people using credit cards in the TRNC are between 35-40 years old, 83% of them are over 25 years old.
- There isn't a big difference in the number of female and male credit card users.

Table 4: Results of effective factors on the credit card usage in TRNC

Factor	Category	Percentage (%)
Age	Between 20 -24	17
	Between 25-29	22
	Between 30-34	16
	Between 35-39	27
	Above 40	18
Gender	Male	51
	Female	49
Education	Primary	2.44
	Secondary	8.54
	High school	17.04
	University	57.31
	Post graduate	14.64
Ratio of samples that are credit card Holders	Yes	77
	No	23
Sectors using credit cards	Government workers	31
	Academic staff	23
	Private sector	21
	Other jobs	21
	Students	4
Definition of credit card according to users	Good service when used in correct place	41
	Convenience in shopping	27
	Interactive money	17
	Cash	15
Reasons for using credit cards	Not to carry cash	45
	It is safer than carrying cash	35
	Use in an emergency	13
	Financial confidence	7
Reasons for not using credit cards	The instinct of use as if you will never pay	41
	The lack of usage control	25
	Preferring cash while shopping	21
	Not feeling the need for a credit card	13
	Give opportunity of shopping when you don't have cash	38
Advantages of credit cards	Sopping and paying in installments	29
	The payment is made after your bill is calculated	14
	You can use it all around the world	19
	Working with local banks	39
Reasons for Preferring uni-card optimum and smart credit cards	Being able to use them in many shops	23
	Installment opportunities	21
	Supporting local banks	17

- Approximately 72% of the credit card holders are university graduates or they have a post-graduate degree.
- The number of samples using credit cards in the research is estimated to be 77%.
- Parallel to the findings in Figure 3 the biggest sector using credit cards is government workers with 31 and academic staff with 23%.
- While 41% of the cardholders define credit cards as Good service when used in the correct place, 27% of them define it as convenience in shopping.

- The main reasons for using credit cards in the TRNC are; not carrying cash (45%) and the fact that credit card is safer than carrying cash (35%).
- The main reasons for not using credit cards in the TRNC are; the instinct of using it as if you'll never pay (41%) and the lack of control over usage (25%).
- The main advantage of using credit cards in the TRNC is stated to be the opportunity of shopping without paying in cash.
- The main reasons for preferring local cards like uni-card, optimum and smart credit cards are; being customers of these local banks and being able to shop in installments from many shops, which do not accept installments to other cards.
- The main advantage of using credit cards is Being able to shop when you don't have enough cash.
- Working with local banks and being able to shop in installments from many shops which do not accept installments to other cards are the main reasons for preferring cards like Uni-card, Optimum and Smart credit cards.

The findings above may guide the local banks trying to provide credit card services in order to plan and determine their organizational structure, target audience and main marketing strategies.

CONCLUSIONS

While it is not feasible to issue credit cards due to the small-scale structure of banking sector in the TRNC and the insufficient market share, being politically unrecognized also makes it technically impossible to provide credit card services. Therefore, the local banks in the TRNC, in order to be able to compete with the foreign banks, market credit cards issued by the Turkish banks without demanding profit. However, banks comprising 40% have weaker assets and therefore they cannot provide credit card services. To overcome this situation, it is inevitable to make marriages or arrangements like joint ventures between the local banks. On the other hand, by looking at the research carried out, following evaluations can be made related to the factors effecting credit card usage in the TRNC:

- In TRNC, mostly middle-aged people use credit cards.
- There is no difference in gender related to credit card usage in the market.
- Majority of the credit card holders either have a graduate degree or a post-graduate degree.
- The majority of the credit card holders are government workers, who relatively have more job security and academic staff.
- Credit cards are generally defined as a good service that should be used in correct place and convenience in shopping.
- While the main reasons for using credit cards in the TRNC are not carrying cash and the fact that carrying credit card is safer than carrying cash, the main reasons for not using credit cards in the TRNC are the instinct of using it as if you'll never pay and the lack of control over usage.

REFERENCES

1. Yılmaz, E., 2000. Credit Card Applications and Economic Effects in Turkey. Istanbul: Türkmen Publishers pp: 8
2. Michael, G., 1994. Business Dictionary. 4th Ed., London: The Penguin Books, pp: 144-145
3. Hempel, G.H. and D.G. Simonson., 1999. Bank Management. 5th Edn., of America: John Wiley and Sons, Inc. pp: 478
4. Parasız, İ., 2000. Modern Banking. Istanbul: Kusak Publisher, pp: 316-317.
5. Öçal, T. and Ö. F. Çolak., 1999. Financial System and Banks. Ankara: Nobel Publisher and Distribution, pp: 149
6. Alpergin, P., 1990. Retail Banking. Banks Association of Turkey. Pub. No. 160, Ankara, pp: 19
7. Yılmaz, E., 2000. Credit Card Applications and Economic Effects in Turkey. Istanbul: Turkmen Publishers, pp: 12.
8. Parasız, İ., 2000. Modern Banking. Istanbul: Kuşak Publisher, pp: 317.
9. Hempel, G.H. and D.G. Simonson., 1999. Bank Management. 5th Edn., of America: John Wiley and Sons, Inc., pp: 491
10. Mayer, M., 1997. The Bankers, The Next Generation, The New Worlds of Money, Credit and Banking in an Electronic Age. Truman Talley Books, New York: Penguin Group Publishing, pp: 141
11. Parasız, İ., 2000. Modern Banking. Istanbul: Kuşak Publisher, pp: 332.
12. Yılmaz, E., 1997. World of plastic card: World economy. J. Politics. Credit Card Annex, November 24: 11.
13. Reichheld, F., 1996. The Loyalty Effect, The Hidden Force Behind Growth, Profits and Lasting Value. Bain and Company Inc., Boston: Harvard Business School Press, pp: 274

14. Yılmaz, E., 2000. Credit Card Applications and Economic Effects in Turkey. Istanbul: Turkmen Publishers, pp: 24-31
15. Chang, Y.R. and S. Hanna, 1992. Consumer credit search behavior. *J. Consumer Studies and Home Economics*, 16: 207-227.
16. Altan, M., 2001. Functional and Operational Banking. Istanbul: Beta Publisher, pp: 178
17. Takan, M., 2002. Banking. 2nd Edn., Ankara: Nobel Publisher, pp: 252-253
18. Parasız, İ., 2000. Modern Banking. Istanbul: Ku^oak Publisher, pp: 333-334.
19. Pond, K. and Lipscombe, G., 1999. The Business of Banking. United Kingdom: Chartered Institute of Bankers, pp: 162-163
20. Yılmaz, E., 2000. Credit Card Applications and Economic Effects in Turkey. Istanbul: Turkmen Publishers, pp: 34-35
21. Yetim, S., 1997. Credit Cards and Consumer Credits. Capital Markets Board Pub. No. 69, Ankara, pp: 22.
22. Yılmaz, E., 2000. Credit Card Applications and Economic Effects in Turkey. Istanbul: Turkmen Publishers, pp: 37-38
23. Rose, P.S., 2002. Commercial Bank Management. New York: McGraw-Hill/Irwin, pp: 604
24. Yılmaz, E., 2000. Credit Card Applications and Economic Effects in Turkey. Istanbul: Turkmen Publishers, pp: 34
25. Takan, M., 2002. Banking. 2nd Edn., Ankara: Nobel Publisher, pp: 253
26. TRNC Central Bank 2005. 2004 Annual Report. Nicosia, pp: 29
27. TRNC Central Bank 2005. 2004 Annual Report. Nicosia, pp: 32
28. Central Bank of Turkey 2005. Annual Report 2004. Ankara, pp: 105
29. Central Bank of Cyprus 2005. Monetary Survey. Nicosia: Economic Research Department, pp: 3
30. BRSA 2004. Evaluation Report of Banking Sector. Ankara: Banking Regulation and Supervision Agency, pp: 99
31. The Banker 2004. Top 1000 World Banks. 02 July, UK, URL: http://www.thebanker.com/news/fullstory.php/aid/1699/Top_1000_World_Banks.html, August 25, 2005, pp: 168.
32. TRNC Central Bank 2005. 2004 Annual Report. Nicosia, pp: 31
33. Şafaklı, O., 2004. Evaluation of Internet Banking in TRNC in The Process of EU. 3rd National Information, Economics and Management Congress. Osmangazi University Faculty of Economics and Administrative Sciences, November 25-26, Eskşehir, pp: 628
34. Şafaklı, O., 2003. The Analysis of Banking and Financial Crises: Case of TRNC. Second Global Conference on Business and Economics. July 5-7, Imperial College South Kensington Campus, London, England.
35. Şafaklı, O., 2003. Basic Problems of the Banking sector in the TRNC with partial emphasis on the proactive and reactive strategies applied. *Doğuş University J.*, 4: 229-230
36. SPO, 2004. Economic and Social Indicators 2003. Nicosia: State Planning Organization Follow Up and Coordination Department, pp: 70-71.