

## Factors Affecting Customer's Preferences in Selecting Credit Card in Bangladesh

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### Abstract

This paper focuses on the different factors that affect the customer's preference in selecting credit cards in Bangladesh. More than three hundred and fifty credit card users are taken as a sample from the south region of Bangladesh of different banks. In this study the most important influencing factors are discount and reward, maximum credit limit, loan payment system and loan processing system to the users of credit card. One way ANOVA test was used to test the significance between different factors. KMO and Barlett's test was also used to measure sampling adequacy and to analyze the strength of associations among different variables. Other influencing factors are annual charge, interest rate on unpaid amount, accessibility, validity period, loan payment time, different favorable terms. 'Interest rate' is the most critical factor in this research that affects the customer preference greatly in selecting credit cards. The interest rate is as high as thirty to forty percent annually. Even interest is charged daily basis on the unpaid amount. Annual charge on credit card is also high and on an average difficult to avoid.

**Keywords:** Credit card, customer's preference, principal factors, card holder, grace period, Bangladesh.

### 1. INTRODUCTION

The banking sector has flourished in Bangladesh with a hopeful prospect. Banks and other financial organizations are in a massive competition to provide better opportunities to their customers. Modern banking facilities are introducing by the banks to make the financial facilities convenient and available for twenty four hours. Credit card facility is such an introduction. Credit card is an electronic based plastic card mostly known as plastic money that bears an account number assigned to a cardholder with a credit limit used to purchase goods and pay for services. The card holder repays the money later within specific time. It is convenient to carry a plastic card rather than to carry bundles of cash. It also helps lowering the risks of losing money, usually issued for a year with renewal facility available. A credit card increases purchasing power, eases the transaction process, and allows for obtaining credit facility for a definite period.

Standard Chartered Bank is the pioneer issuer of credit card in Bangladesh. In January 1997, the bank launched its local currency based credit cards from both visa and MasterCard. In the first few years, it got a huge response from the consumers because it reduced the risks of carrying cash and fosters expensive buying. Dhaka Bank, United Commercial Bank, Prime Bank, National Bank and Dutch Bangla Bank Ltd are also strengthening their foothold in this market. These banks offer VISA card, Master Card and the American Express credit cards. But the credit card market is dominated by the Master Brand.

A person has to fulfill some criteria to be a cardholder. Every bank has its own policy by which the qualification of an applicant is assessed. The criteria to be a Card Holder is income range, social status, place of living, education, job designation. Generally a credit card applicant had to submit photocopies of a National ID card, six months Bank Statement, a Tax Identification Number (TIN), two copies passport size recent photographs, salary certificate etc. On an average a monthly income of BDT 15,000 can give him credit worth at least BDT 50,000 on the card. The upper limit may be as high as BDT 500,000. The service providers furnish the cardholders with a number of attractive benefits and rewards depending on the category of cards. A credit card user has to pay annual fee for the card. The annual fee ranges from BDT 1,000 to BDT 2,500 and plus VAT. If one wants to get the annual fee waiver he should had at least 18 transactions in a year or should earn a minimum reward point by the credit card user per year. A credit card offers some common benefits to its users. Smart shopping, auto bills pay facility, installment loan facility, rewards program, card check, insurance coverage, SMS banking facility, balance transfer, e-statements, 24-hour contact center, worldwide acceptance, immediate cash advance, convenient payment option are one of them.

When a credit card user buy goods or take loan using the credit card he/she is given a time limit to pay the balance before interest is charged to the balance. The time limit is known as Grace Period. Grace periods vary, but usually range from 20 to 50 days depending on the type of credit card and the issuing bank. Usually, if a customer is late paying the balance, finance charges will be calculated and the grace period does not apply.

Credit card issuing banks charge interest expenses and operating costs to the credit card. This research paper will help to study the factors that attract the users to use credit card or the factors that strongly discourage the card users to use their credit card.

## 2. LITERATURE REVIEW

There are no sufficient papers or publications regarding the credit card in Bangladesh. Different banks offer different credit cards to the people having different facilities in Bangladesh. Some people show negative attitudes toward the credit card like insurance policies.

Actually credit card is at the initial stage in Bangladesh. Most of the people in Bangladesh are not familiar with the culture of using credit card. Few people use the credit card only for the prestige and status. If the companies establish the ATM booth and make it easy and simple for the customers to use these instruments, then the users of the credit card will be increasing day by day in our country. (Mohammad Zahedul Alam, 2009). But he doesn't point out the different factors like balance transfer, worldwide acceptance, immediate cash advance, convenient payment option, twenty four hour cards center, increases purchasing power, eases the transaction process that will increase the number of credit card users and their preferences in choosing credit card in Bangladesh.

Today's banking world there is no even any one bank without credit card facility. It is a key operation of the new banking system. All the bank's account holders are now enjoying this facility with great appreciation. All the banks are now trying to give the most hassle free and comfortable system to enjoy the facility. Credit Card has a good future market in Bangladesh (Lawyers n jurists, 2013). The article emphasis only on credit card marketing in Bangladesh. It did not discuss the total factor that describes the preference of selecting credit card in

## 3. Objectives of the Study

This study has the following main objectives:

- i) To identify the main factors that affect the choice of credit card in Bangladesh
- ii) To identify the subsidiary factors that affect the choice of credit card in Bangladesh
- iii) To analyze the variance among the different factors.

## 4. Methodology of the Study

**4.1 Research instructions:** A structured questionnaire was prepared based on group discussion and objectives of the study. The questionnaire was organized into two sections: Demographic and Analytical. Demographic information includes sex, occupation, age, educational level, income level and frequency of usage of credit card of the respondents. Analytical section includes questions that identify the respondent's problems, opportunities, and satisfaction of using their credit cards.

**4.2 Sampling and data collection:** This research is mainly based on primary data. Some secondary data were also used. A sample of total four hundred and forty (440) questionnaires is taken in this study from Khulna and south regions of Bangladesh. The judgment sampling method was used in the selection of the respondent from using different banks credit cards. BRAC Bank, Duch-Bangla Bank, United Commercial Bank, Standard Chartered Bank, Bank Asia, Prime Bank, National Bank, City Bank, Eastern Bank's credit card were used in this study. All samples of were collected through the students of Northern University Bangladesh. Before collection of information, they were given a lesson about questionnaire. Out of total 440 questionnaires, student collected 376 questionnaires, of those, 13 were considered problematic due to excessive missing data, refusal to answer many questions and response biases. Finally 363 questionnaires are selected for this study purpose. Most of the questionnaires are collected between the periods of October 2013 to December 2013.

**Table 01: Administration of Questionnaire**

Student group	No of Questionnaire Administered	No of Questionnaire Returned	Percentage
Section-2A	110	86	78
Section-2B	110	97	88
Section-2C	110	103	94
Section-2D	110	90	81
Total	440	376	85.46

Source: Field survey by the author.

**4.3 Data analysis procedure and hypothesis:** Responses derived from the questionnaires were coded, entered and analyzed by the use of Statistical Package of Social Science (SPSS). SPSS 16.00 was used for all of the statistical analysis. This study is based on factor analysis. Factor analysis is a technique which is used to reduce a large number of variables to some smaller number by telling us which belonging together and which seem to say the same thing (Emory and Cooper, 1991). Prior to factor analysis Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Barlett's test of sphericity were measured to analyze the strength of associations among variables. KMO is calculated at first to determine the suitability of data for factor analysis. On the other hand,

Barlett's test statistic is used to examine the hypothesis that correlation matrix is an identity matrix (Malhotra, 2008). ANOVA test was used to determine whether the mean score of the factors differ significantly between the users with regard to age, education level, and income level. Following null hypotheses have been tested for each principle factors:

H<sub>01</sub>: Usage of credit card does not differ significantly between different ages.

H<sub>02</sub>: Usage of credit card does not differ significantly between different education levels.

H<sub>03</sub>: Usage of credit card does not differ significantly between different income levels.

## 5. Results and Discussions

### 5.1 Demographic characteristics of respondents

We have demographic attributes like gender, occupation, age group, education level, per month income, frequency of usage, and using period of 363 credit card users or respondents which is shown in Table 02. In the following table, it is found that the majority portion of our respondents is males (90.10%) and only 9.90% is female. This is because males are mostly engaged in business and trade and they need to use more credit cards in Bangladesh. We also found that most credit card users are service holders who engaged in private or international organization. They are more than 45% of total respondents.

Twenty to forty age groups of people are more than 80% of our total credit card users in Bangladesh. The 30-40 years of age group are highest. They constitute more than 48% of our total respondents. Literacy rate in Bangladesh is not satisfactory. However most credit card users graduated or have completed masters program. The highest number credit card users are Post-graduated (Masters). It constitutes 61.20% of total respondents. The per month income group between BDT 35,001 to 50,000 is the highest number of credit card users. They constitute more than 45% of total credit card users.

The frequency of using credit card is also very much important factor. Most of the users in Bangladesh use their credit card 01-06 times per month to purchase products or services. 00-03 time's users are 40.50% of total users. That is, credit cards are still not frequently used financial tools. Our last demographic attribute is 'using period'. Most of our credit card users are new users or middle users who use credit card not more than 03 years. There are also some beginners who use credit card not more than 01 year and are some expert users who use credit card not more than 04 years.

**Table 02: Demographic of respondents.**

Variables	Attributes	Frequency	Percentage
Gender	Male	327	<b>90.10</b>
	Female	36	09.90
Occupation	Service holder-govt. or semi-govt.	91	25.10
	Service holder-Private or int. org.	165	<b>45.50</b>
	Businessman-Small enterprise	42	11.60
	Businessman-medium or large	50	13.80
	Others	15	04.10
Age group	Below 20 years	0	00.00
	20-30	116	32.00
	30-40	175	<b>48.20</b>
	40-50	42	11.55
	50 years and above	30	08.25
Education level	SSC or below	02	00.50
	HSC	30	08.30
	Honors or graduation	92	25.30
	Masters	222	<b>61.20</b>
	M. Phil or Ph. D	17	04.70
Per month income	Less than BDT 20,000	17	04.70
	BDT 20,001 - 35,000	91	25.10
	BDT 35,001 - 50,000	165	<b>45.50</b>
	BDT 50,001- 65,000	48	13.20
	More than BDT 65,000	42	11.60
Frequency of usages	00- 03 times Per month	147	<b>40.50</b>
	04- 06 times Per month	99	27.30
	07-0 9 times Per month	64	17.60
	10- 12times Per month	28	07.70
	More than 12 times Per month	25	06.90
Using period	Beginners = 0- 01 year	61	16.80
	New users = 01- 02 years	95	<b>26.20</b>
	Middle users =02- 03 Years	89	24.50
	Expert users =03- 04 Years	45	12.40
	Old users = more than 04 years	73	20.10

Source: Field Survey Data, December, 2013

## 5.2 Factor Analysis

First in this study, the KMO (Kaiser-Meyer-Olkin) measure of sampling was calculated in table 03, to examine whether our variables are appropriate or not for factor analysis. Our KMO value is 0.69 that exceeds 0.50 which implies that factor analysis is useful with the data. We have also calculated the Bartlett's Test of Sphericity. The result of Chi-Square is Approx. 1.351 for Bartlett's Sphericity strongly allows for the appropriateness of using factor analysis with a significant value of 0.000. Hence, the variables used in this study are correlated.

**Table: 03 KMO and Bartlett's test**  
**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.690
Bartlett's Test of Sphericity	Approx. Chi-Square
	1.351E3
	df
	153
	Sig.
	0.000

Source: Computation from the field survey data, December 2013

To identify the principal factors in factor analysis, we consider Eigenvalue greater than one and we get six principal factors out of 19 variables in Table 04. These principal factors consist of 60.50 percent of total variance. To determine the minimum loading necessary to include the variable in its respective principal factor, variables with a loading of 0.4 or greater are significant and should include in factor analysis (Hair et al-1998). Thus all variables with factor loading of 0.4 and above are retained in the study. Only one factor, 'credit cars processing fee each time' was factor loading less than 0.4 and therefore this factor is excluded in our research.

**Table 04: Results of factor analysis**

Principal factors and variables	Factor loading	Eigenvalue	% of Variance
<b>Factor one: Annual charge and interest</b>		3.517	19.537
Bank charge lower interest rate on unpaid amount	0.792		
Annual charge of your card is low	0.756		
<b>Factor two: Accessibility, validity and payment time</b>		1.890	10.499
Have access in most shopping stores	0.716		
You are satisfied with validity period	0.588		
You are satisfied with loan payment time	0.566		
<b>Factor three: Discount, reward and satisfaction level</b>		1.756	9.758
You have opportunity to get discount	0.862		
You have opportunity to get gifts and reward	0.708		
Your overall satisfaction level	0.424		
<b>Factor four: Maximum limit, loan payment and processing</b>		1.480	8.224
You are satisfied with maximum limit of your card	0.707		
You are satisfied with bill payment system	0.704		
You are satisfied with loan processing system	0.536		
<b>Factor five: Terms, times and knowledge</b>		1.201	6.673
Your card has insurance coverage	0.834		
You enjoy favorable terms and conditions	0.597		
You know sufficient about your credit card	0.424		
Bank takes less time to issue your card	0.403		
<b>Factor six: Communicating information</b>		1.047	5.814
You get message after each transaction	0.811		
Initial charge of issuing your card is low	0.568		
You get regular monthly message	0.617		

Source: Computation from the field survey data, December 2013.

The first factor in Table-04, 'annual charge and interest' is consists of two variables and account for 19.537 percent of total variance. These variables are interest rate on unpaid amount and annual charge of credit card. The second principal factor 'accessibility, validity and payment time' occupies 10.499 percent of total variance and consists of three variables. Three variables are accessibility, validity period and loan payment time of credit card. The third principal factor can be named as 'discount, reward and satisfaction level' of a credit card. It consists of three variables and shows 9.758 percent of total variables. Three variables are discount, reward and overall satisfaction level of credit card.

The fourth principal factor, 'maximum limit, loan payment and processing' shows total 8.224 percent of total variables and consists of three variables. Three variables are maximum limit, bill payment system and loan processing system. 'Terms, times and knowledge' is the fifth principal factor and consists of 6.673 of total

variance and consists of four variables. The four variables are insurance coverage, terms and conditions, knowledge on credit card and time of issuing a credit card. The sixth and last principal variable is names as ‘communicating information’. This factor consists of three variables and is account for 5.814 percent of total variables. The three variables are initial charge, message after each transaction and monthly message to a card holder.

### 5.3 Ranking of principal factors

Total six factors are ranked according to their importance on the basis of their mean score which is shown in Table 05. The principal factors are annual charge and interest, accessibility, validity and payment time, discount, reward and satisfaction level, maximum limit, loan payment and processing, terms, times and knowledge and communicating information. The top three factors are discount, reward and satisfaction level (mean =3.87), Communicating information (mean = 3.83) and maximum limit, loan payment and processing (mean = 3.69) respectively.

**Table 05: Ranking of principal factors**

Factors	Mean	Standard Deviation	Rank
Factor one: Annual charge and interest	2.92	0.956	6
Factor two: Accessibility, validity and payment time	3.55	0.731	4
Factor three: Discount, reward and satisfaction level	<b>3.87</b>	0.663	<b>1</b>
Factor four: Maximum limit, loan payment and processing	<b>3.69</b>	0.684	<b>3</b>
Factor five: Terms, times and knowledge	3.52	0.665	5
Factor six: Communicating information	<b>3.83</b>	0.687	<b>2</b>

### 5.4 One way ANOVA test between age groups of respondent

Table 06 shows the one way ANOVA test between the different age groups of respondents on the basis of six principal factors like annual charge and interest, accessibility-validity and payment time, discount-reward and satisfaction level, maximum limit-loan payment and processing, terms-times and knowledge, and communicating information.

Findings of the study shows that all the principal factors significantly differ with the opinion that there is no significant difference in usage of credit card in between different ages except only one factor, discount-reward and satisfaction level of the respondent. Therefore, we reject the null hypothesis ( $H_0$ ) that the usage of credit card does not differ significantly between different ages. We, conclude that there is significant difference between the different age groups of people in uses of credit card in Bangladesh.

**Table 06: One way ANOVA test between age groups**

One way ANOVA of respondents in terms of age						
	Sources of variation	Sum of Squares	df	Mean Square	F	Sig.
Annual charge and interest	Between Groups	13.587	3	4.529	5.130	<b>.002</b>
	Within Groups	316.925	359	.883		
	Total	330.512	362			
Accessibility, validity and payment time	Between Groups	9.134	3	3.045	5.926	<b>.001</b>
	Within Groups	184.469	359	.514		
	Total	193.603	362			
Discount, reward and satisfaction level	Between Groups	1.024	3	.341	0.775	.508
	Within Groups	157.955	359	.440		
	Total	158.979	362			
Maximum limit, loan payment and processing	Between Groups	6.898	3	2.299	5.078	<b>.002</b>
	Within Groups	162.573	359	.453		
	Total	169.472	362			
Terms, times and knowledge	Between Groups	5.611	3	1.870	4.348	<b>.005</b>
	Within Groups	154.430	359	.430		
	Total	160.042	362			
Communicating information	Between Groups	8.063	3	2.688	5.935	<b>.001</b>
	Within Groups	162.573	359	.453		
	Total	170.636	362			

### 5.5 One way ANOVA test between education groups of respondent

Table 07 shows the one way ANOVA test between the different education groups of respondents on the basis of six principal factors like annual charge and interest, accessibility-validity and payment time, discount-reward and

satisfaction level, maximum limit-loan payment and processing, terms-times and knowledge, and communicating information.

Findings of this study show that four principal factors significantly differ with the opinion that there is no significant difference in usage of credit card in between different education level. Two factors: terms-times and knowledge of credit card and communicating information do not differ significantly with our null hypothesis ( $H_0$ ). Their significant values are below 0.05. Therefore, we partially reject the null hypothesis ( $H_0$ ) that the usage of credit card does not differ significantly between different education levels. We conclude that in majority there is significant difference between the different education groups of people in uses of credit card in Bangladesh.

**Table 07: one way ANOVA test between education groups**

One way ANOVA of respondents in terms of education						
	Sources of variation	Sum of Squares	df	Mean Square	F	Sig.
Annual charge and interest	Between Groups	9.282	4	2.320	2.586	<b>.037</b>
	Within Groups	321.231	358	.897		
	Total	330.512	362			
Accessibility, validity and payment time	Between Groups	6.343	4	1.586	3.031	<b>.018</b>
	Within Groups	187.261	358	.523		
	Total	193.603	362			
Discount, reward and satisfaction level	Between Groups	5.954	4	1.489	3.483	<b>.008</b>
	Within Groups	153.025	358	.427		
	Total	158.979	362			
Maximum limit, loan payment and processing	Between Groups	8.754	4	2.188	4.875	<b>.001</b>
	Within Groups	160.718	358	.449		
	Total	169.472	362			
Terms, times and knowledge	Between Groups	2.867	4	.717	1.633	.165
	Within Groups	157.175	358	.439		
	Total	160.042	362			
Communicating information	Between Groups	3.609	4	.902	1.934	.104
	Within Groups	167.028	358	.467		
	Total	170.636	362			

**5.6 One way ANOVA test between income groups of respondent**

Table 08 shows the one way ANOVA test between the different income groups of respondents on the basis of six principal factors like annual charge and interest, accessibility-validity and payment time, discount-reward and satisfaction level, maximum limit-loan payment and processing, terms-times and knowledge, and communicating information.

Findings of this study show that most of the principal factors significantly differ with the opinion that there is no significant difference in usage of credit card in between different ages. But two factor: (i) discount-reward and satisfaction level of the respondent and (ii) maximum limit-loan payment and processing do not differ significantly with our null hypothesis ( $H_0$ ). Their significant values are below 0.05. Therefore, we partially reject the null hypothesis ( $H_0$ ) that the usage of credit card does not differ significantly between different income groups of people. We conclude that in majority there is significant difference between the different income groups of people in uses of credit card in Bangladesh. Higher income group of people use more credit card.

**Table 08: One way ANOVA test between income groups**

One way ANOVA of respondents in terms of income						
	Sources of variation	Sum of Squares	df	Mean Square	F	Sig.
Annual charge and interest	Between Groups	20.453	4	5.113	5.904	<b>.000</b>
	Within Groups	310.060	358	.866		
	Total	330.512	362			
Accessibility, validity and payment time	Between Groups	5.007	4	1.252	2.376	<b>.052</b>
	Within Groups	188.597	358	.527		
	Total	193.603	362			
Discount, reward and satisfaction level	Between Groups	1.453	4	.363	0.826	.509
	Within Groups	157.526	358	.440		
	Total	158.979	362			
Maximum limit, loan payment and processing	Between Groups	1.944	4	.486	1.038	.387
	Within Groups	167.528	358	.468		
	Total	169.472	362			
Terms, times and knowledge	Between Groups	4.395	4	1.099	2.527	<b>.040</b>
	Within Groups	155.646	358	.435		
	Total	160.042	362			
Communicating information	Between Groups	14.023	4	3.506	8.014	<b>.000</b>
	Within Groups	156.613	358	.437		
	Total	170.636	362			

## 6.0 Conclusion

Credit card is at the initial stage in Bangladesh. In its preliminary stages, it offered only few facilities to the users. Now it offers a lot of facilities to the credit card users. In this research, twenty eight factors were selected-some of them are demographic and some of them are scale variables. Out of total nineteen scale variables, six principal variables are extracted through our factor analysis. Findings shows that credit card users gave more emphasis on discount, reward and satisfaction level, maximum limit, loan payment system, loan processing system, communicating information of credit card etc. Different age groups differ significantly in the satisfaction of using credit card. Similarly, different education level groups also differ significantly in choosing credit cards. Factors like maximum limit of the card, loan payment system, and loan processing system had a great influence in the preference of selecting credit card. Different types of credit cards are offered to different income groups of people. Higher income groups of people enjoy higher facilitating credit card including higher credit limit, more gifts and rewards on credit card purchase, more acceptability worldwide etc.

In fine, this study states that customer's preference in selecting credit card is also influenced by some factors like availability of issuance of credit card, maximum limit of credit loan, easy conditions to acquire a credit card, issuing credit card to minimum levels of incoming people, large age range, more grace period to repay loan without interest etc.

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## Appendix-A

### Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.517	19.537	19.537	3.517	19.537	19.537	1.946	10.811	10.811
2	1.890	10.499	30.035	1.890	10.499	30.035	1.864	10.358	21.169
3	1.756	9.758	39.793	1.756	9.758	39.793	1.815	10.086	31.255
4	1.480	8.224	48.017	1.480	8.224	48.017	1.796	9.980	41.235
5	1.201	6.673	54.689	1.201	6.673	54.689	1.765	9.804	51.039
6	1.047	5.814	60.503	1.047	5.814	60.503	1.704	9.465	60.503
7	.914	5.076	65.579						
8	.855	4.752	70.331						
9	.791	4.393	74.724						
10	.667	3.706	78.430						
11	.639	3.551	81.981						
12	.609	3.385	85.365						
13	.577	3.203	88.568						
14	.494	2.747	91.315						
15	.467	2.593	93.909						
16	.413	2.292	96.201						
17	.367	2.040	98.241						
18	.317	1.759	100.000						

Extraction Method: Principal Component Analysis.

**Appendix-B**

Rotated Component Matrix <sup>a</sup>						
	Component					
	1	2	3	4	5	6
Bank charge lower interest rate on unpaid amount	.792					
Annual charge of your card is low	.756					
Have access in most shopping stores		.716				
you are satisfied with validity period		.588		.447		
You are satisfied with loan payment time		.566				
You have opportunity to get sdiscout			.862			
You have opportunity to get gifts and reward			.708			
Your overall satisfaction level			.424			
You are satisfied with maximum limit of your card				.707		
You are satisfied with bill payment system				.704		
You are satisfied with loan processing system				.536		
Your card has insurance coverage					.834	
You enjoy favorable terms and conditions					.597	
You know sufficient about your credit card					.424	
Bank takes less time to issue your card				.402	.403	
You get message after each transaction						.811
Initial charge of issuing your card is low						.658
You get regular monthly message						.617
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.						
a. Rotation converged in 25 iterations.						

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