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# Credit Card Usage and Consumer Debt Accumulation: A Review of Existing Literature

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***Abstract***

*Important changes in consumer spending have occurred around the world as financial services has rapidly developed and credit cards have been made easily available to consumers. While consumers have ready access to funds and credit and have purchasing power to boot, they are using their credit cards more than they should and their consumer debt is growing. This literature review summarises the results of a number of previous empirical and theoretical studies conducted on the link between the behaviour of credit cards and the development of consumer indebtedness. The literature suggests that income level, knowledge about finance, impulsive buying, marketing strategies of financial institutions and the demographic characteristics have significant impact on the use of a credit card and on credit card debts. Research also demonstrate that regular practice of using the credit card is associated with using the credit card in an irresponsible way and, in this way, in the tendency to end up in situations of greater expenditure, which in the long term can be economically unstable and financial strain. Moreover, the lack of financial education and financial management amplifies the probability to become an overspender with entanglement in debt-dilemma among consumers. Another key point emphasized by the review is that high household-level debt burdens, particularly those of younger adults and mid-income households have become an increasing worry. The policy makers, financial institutions as well as the researchers of this field can benefit from this study to develop a solution for the problem of debts caused by credit cards by highlighting the needed determinants and consequences of these debts.*

***Keywords:*** *Credit Card Usage; Consumer Debt Accumulation; Consumer Behaviour; Financial Literacy; Household Indebtedness; Overspending; Financial Stress; Consumer Finance; Spending Patterns; Debt Management.*

## Introduction

The financial services sector and digitization of payment mechanisms have dramatically affected consumers' purchases in the world. Given the diverse kinds of payments and instruments, credit cards have been gaining popularity as financial products, being convenient, readily available and providing short term credit facilities. Credit cards empower the consumer to pay for the products/services later; thus giving them the freedom to purchase even more. New and sophisticated technology along with penetration of banking services, continuous rapid urbanization and rising daily disposable incomes and rapid growth of ecommerce modes further fuelled the credit card penetration in different categories of people. Very much as in the other economies, credit card possession is an important measure of financial inclusion and modernizing of consumer behaviour in both economy types. The credit card explosion of today has many negative implications, particularly with regard to consumer debt. The availability of credit can work to the disadvantage of consumers, if the problem is that they may be spending too much by putting themselves back in credit by borrowing more than they can afford. Many people typically use a credit card without thinking about the real-life money it requires to cover, which can often result in impulse and non-planned expenses and spending. That leaves more and more people in the grip of a vicious circle of debt: They pay the minimum, and even though they are paying a high interest rate and penalty, their debt just compounds each month. These circumstances can affect an individual's financial situation as well as the overall economy including a decline in household saving, financial fragility and an increase in lending risk. One of the important issues that has been raised, developed as well as in the policymaking economies around the world, is the debt associated with credit cards. Numerous studies have supported the relationships between credit card patterns of use/debt and factors such as age, income, education, marital status and occupation.

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Young adults and people in the middle income range are especially liable to high levels of debt on credit cards due to low levels of financial experience and ambitions for a larger standard of living as well as peer pressure to keep up with habits to consume more. In addition, the marketing strategies adopted by financial institutions like cashback deals, reward points, short-term pay-back offers make consumers feel they have never known the consequences of relying on credit cards when, in actuality, these offers add to the dependency on credit cards that consumers may have no long-term ability to afford and do not understand fully. The other characteristics that were identified and which are linked to financial Literacy are responsible use of credit cards. You are at greater risk of getting into the debt trap if you don't understand the rates of interest, repayment terms and the methods in which the credit is to be processed. Financial mismanagement, budgeting issues or even lack of knowledge about how much it costs to access credit card loans issues large contributors on why some users may find themselves in financial crisis. Abnormally high debt can lead to a negative impact on the individual, for example: psychological stress, standard of living decline, detailed family relations and in severe cases, financial exclusion and bankruptcy. This indicates that the determinants of consumer indebtedness are research topics of great interest for academics and policy makers.

Researchers, policy makers, and financial institutions and regulatory agencies have increasingly been interested in consumer credit. Numerous studies have examined the economic and the behavioral and psychological aspects of the link between the use of credit cards and indebtedness. The information at hand suggests that credit cards can be a good financial tool if used responsibly, but can have negative effects when used irresponsibly. This makes it interesting to examine the habits of consumers in using their credit cards and the reasons behind their debt level.

So, the present work is titled: Credit Card Usage and consumer debt accumulation: a review of existing literature; an attempt is made to give your synthesis and critical analysis on the previous studies. The study will try to provide light on the credit card dependency risk factors, trend, their effects on individual and about future research gaps. The findings of this review will inform research and policy as well as the development of impactful financial education programmes, prudent credit policy measures and strategies to improve consumer financial outcomes that are based on sustainable credit practices.

**Objectives of the Study**

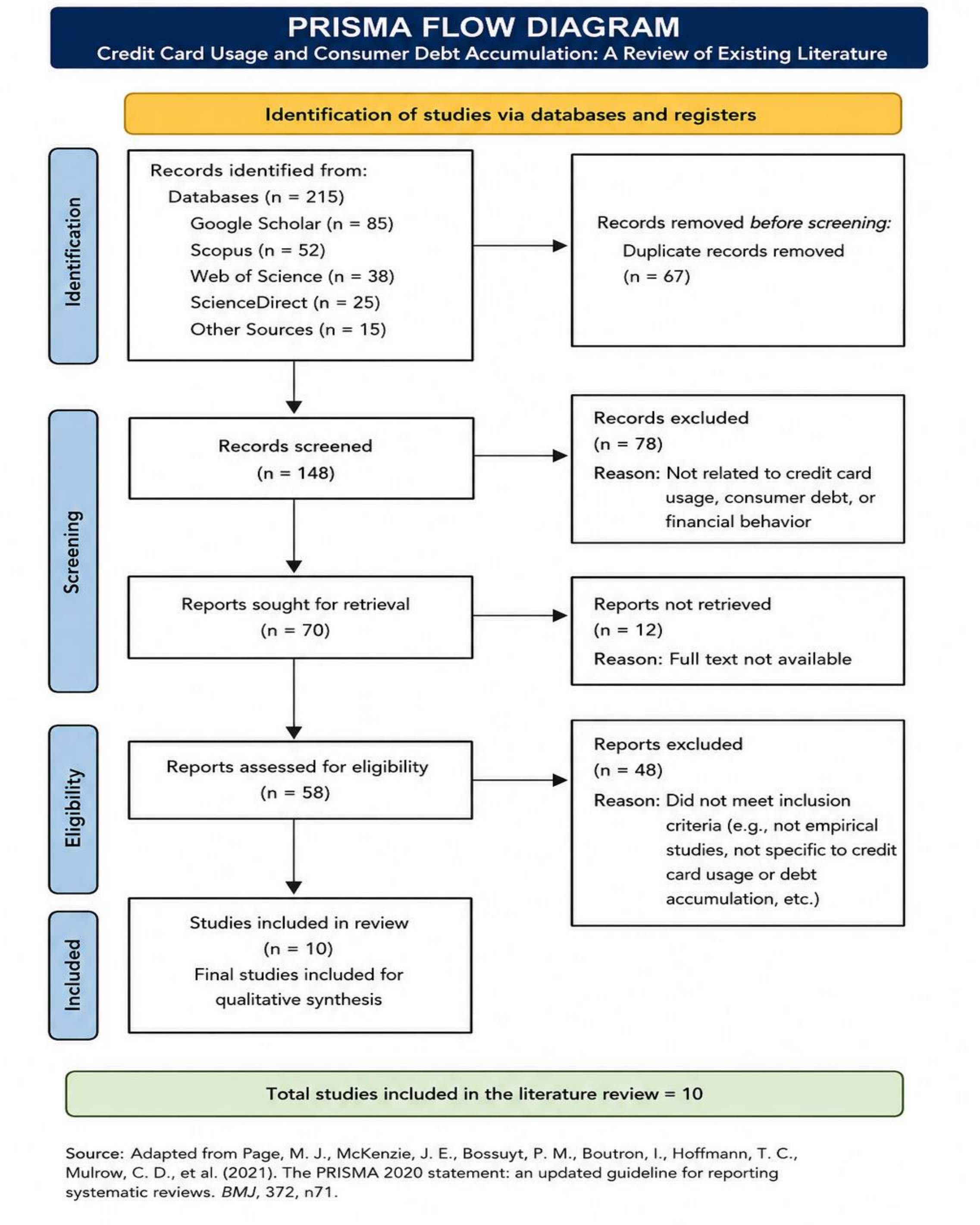
1. To examine the patterns and determinants of credit card usage among consumers by analyzing factors such as income, age, financial literacy, spending behavior, and demographic characteristics.
2. To analyze the relationship between credit card usage and consumer debt accumulation and identify the major factors contributing to excessive indebtedness and financial stress.
3. To review and synthesize existing literature on credit card usage and consumer debt accumulation in order to identify research gaps and provide recommendations for promoting responsible credit management and consumer financial well-being.

**Research Methodology**

The descriptive and exploratory research design was employed to collect secondary data were used to structure the research easily, practically and not lose the essence of the research in order to generate insights into the relationship between credit card utilization and consumer debt. Because the study is a literature review, it is, to a large extent, basically a systematic analysis of all published literature that can be found in the form of research articles, books, conference proceedings, Government Reports and publications by financial institutions as well as publications by International organisations. Relevant materials on the subject have been collected by scanning the databases such as: Google Scholar, Scopus, Web of Science, JSTOR, ScienceDirect, SpringerLink and trusted academic resources. Research captures literature in both the past 20 years and the study seeks to draw some conclusions on the differences in the shift of the use of credit cards and consumer indebtedness among various generations and countries.

A systematic review method was employed to select and eliminate studies from the study which fulfilled inclusion/exclusion criteria. The reviewed literature has been critically analyzed to recognize the main themes such as determinants of credit card use, consumer expenditure, financial knowledge, the psychological factors that can contribute to excessive credit card debt, and the socio-economic impact of credit card debt. The collected data was analysed by content analysis and thematic synthesis approach to provide useful information about the situation between credit card usage and increase of consumer debt. The methodology also aims at pointing out the gaps in the previous knowledge body and the possible future research areas. This study findings will lead to understanding in the financial behaviour of the consumers and helpful insight for the policy makers, financial organisations and researchers in designing the strategies in making use and managing credit cards effectively and responsibly.

**Prisma**




The systematic review process undertaken to select literature for the review "Credit Card Usage and Consumer Debt Accumulation" was presented using a Preferred Reporting Items for a Systematic Review and Meta-Analysis (PRISMA) diagram. First, an initial search of 215 research records using the electronic databases Google Scholar, Scopus, Web of Science, ScienceDirect and other academic databases was carried out. In the stage of identification, 67 duplicate records were eliminated and 148 studies were screened in the preliminary stage. The titles/abstracts of these studies were then reviewed and 78 of these were culled from the analysis due to not being directly related with credit card use, consumer debt, financial literacy or consumer financial behaviour in Australia. As a result, the full text of 70 studies were retrieved. In the process of eligibility assessment, 12 studies were retrieved, but less than full text were available for four of them. 58 articles were left which met the inclusion and exclusion criteria and were fully appraised. Those 48 studies that fell short of meeting research objectives were excluded after careful review as they did not focus on the identified project research objectives or provided no empirical evidence or related to consumer finance other than those identified. Finally, 10 studies met all of the inclusion criteria and were selected for a qualitative synthesis and in-depth literature review. The PRISMA documentation clarifies each of the steps in conducting a literature review, making sure that the process is transparent, methodologically sound, and consistent. The final group of selected studies provides a basic outline for understanding the link between the patterns of using credit cards, and patterns of Consumer Debt accumulation, and helps to pinpoint research gaps and future research directions for the consumer financial research field.

**Review of Literature**

According to Ahmad & Omar (2013), the ease with which the young professionals can access their credit cards can sometimes lead to one of the problems of over spending and loading up the bank with debt. Research findings revealed that financial planning, their Savings habit and their repayment behaviour are important influencing factors in young consumers becoming credit card in debt. Financial education and prudent credit management is very important in order to not become a long-term debtor," the authors wrote. Sondinti and Reddy (2023) studied the impact of financial education and credit card usage and debt management for Millennials and Generation Z consumers to evaluate the socioeconomic impact of financial education initiatives on consumers' credit card usage and debt management. They found that financial literacy programs are very successful in improving the knowledge of the consumers about the credit products, credit taker's credit repayment process and budgeting. Financial literacy was found to be associated with the responsible use of credit card and also avoiding over-indulgence in credit card usage, according to the study. Akinwande et al. (2024) studied how credit card debt is consumed, and how those consumers use it to impact the economy of the United States. The study found that higher debt levels among families due to using their credit card adversely affect families' financial health, savings, and even their likelihood of repaying loans. The researchers also touched upon projections of macroeconomic effects from consumer debt like lower ability to spend and greater financial fragility in already reassessing economies. The determinants to the adoption of Debit and Credit card in India were studied by Biradar (2024) using the data collected from 77th All India Debt and Investment Survey. The income, education, urbanization, occupation and availability of banking services were found to be important factors influencing the level of card use. The results showed positive relationships between income and education level, and credit card usage and debt awareness programmes, meaning these activities need to be carried out more often. John and Satam (2018) studied the effect of the use of credit card on employee spending behaviour in Pune City. The ease and flexibility provided by credit cards is believed to be an incentive to make unplanned purchases and spend more. The researchers discovered that buyers are more likely to be costlier spenders than cash buyers and therefore more likely to remain under greater credit card debt and continue to experience financial strains in their finances. The study, carried out by Dev, Gupta and Kumar (2024) aimed to analyse how the digital payment systems have impacted the payment behaviour of the payment-users in India with a specific focus on the UPI system and its impact on the spending behaviour. In spite of the fact that the study was made on UPI transactions, it laid emphasis on cashless payment systems and how they decrease the psychological obstacles and hesitations with regards to spending cash. The findings provide a glimpse at some of the shifts in the use of credit cards, and the ease of paying with digital cards could trigger increased purchasing – and potentially an increasing level of credit card debt. The study conducted by Siddiqui (2020) studied the probability of default of Indian repayment with different segments of the Credit Card Users. The researchers discovered variations in situations of repayment by demographics, income, and spending. The default risks seemed to be higher among those with higher outstanding balance and low financial discipline. This study showed that credit evaluation is important and Consumer's awareness to default on credit card is also highlighted. Jacob and Sensarma (2022) pointed out the relationship between debt education to credit consumption among the rural people segment of the financial sector. They were able to see which part of their study revealed higher-level debt literacy skills that were more likely to be in debt and able to manage their indebtedness. The role of financial education is largely one that allows the consumer to make informed spending decisions on the use of the credit line and reduce the probability of over**- indebtedness, the study found.**Legato Khare and Varshneya (2015) discussed the effect of materialism values and compulsive buying tendency towards the use of credit card by the Indian buyer. Those results indicated that the materialistic orientations were positively associated with excessive use of credit card for the participants, and compulsive purchasing was also correlated with excessive credit card use for the participants. The findings from this study showed that the consumers having high level of materialistic orientations and high compulsive buying had more level of their credit card use. These behaviors were good indicators of financial problems and debt. Hegde (2015) looking into the effects of word of mouth communication on credit card usage, explained the role of identity among the younger generation (generation Y) consumers in India. The researchers found consumer's intention to adopt and utilize a credit card is greatly affected by the social identity of the product, peer influence, family and friends recommendations. The study found that social and psychological factors are very important with respect to the use of credit cards particularly among young customers. The impact of credit scoring over the consumer behaviour observed by Agarwal et al (2015) revealed that credit score is very important for the impact of credit usage over the consumer's credit and their spending. People that were fair at credit fell short are fair at having suboptimal loans, and are fair to default on their loans and mismanage them, while people that were good at credit were more likely to have credit loans that were better suited for them, and be able to repay credit loans well regarded. The credit scoring determinants of consumers' financial habits and indebtedness have emerged as an important parameter. The study by Chen & Volpe (2002) investigated gender differences within the field of personal financial literacy among college students. Their findings indicated that financial knowledge of males was greater than females and also had a better financial decision making. It emphasized that lower financial literacy is associated with the lower financial management and over-indebtedness of young adults, highlighting the need to provide financial-literacy training for them. This study, conducted by Hilgert and Hogarth, 2003, investigated relationship between financial knowledge and financial management in households. The study discovered a solid positive correlation between financial literacy and responsible financial behaviour which included budgeting, saving and debt management. The authors found that people with higher financial literacy are more prone toward making informed credit choices, and do not incur excessive debt loads. Hogarth and Anguelov (2004) investigated whether there is an association between the use of Electronic Banking Services and financial knowledge in a household. Households that used Digital Financial Services had better financial planning practices and financial management practices were found to be associated with their use of such services. However, in the case of electronic payment options, a higher tolerance level or higher rates of electronic payment would stimulate higher levels of spending, as long as the holders of those bills are spending a bit fast, and a bit too far. The findings underlined the importance of finance awareness to be utilized effectively in the management of the digital credit facilities. Lusardi and Mitchell (2014) did an exhaustive, econometric survey of all the literature on financial literacy and concluded that there exists significant financial-savings relationship between the two. The study highlighted the need for financial literacy to minimize the risk of incurring unsustainable indebtedness or acting as a slave to the debt trap and also the power to take important financial loan choices. The authors were very encouraging towards conducting financial education initiatives to enhance the financial wellbeing of consumers. Mottola (2013) examined the link between women’s financial literacy and credit-card use. However, women who appear to be less financially savvy are more likely to have credit card debt with higher annual loan interest, notes a new study. The study revealed that being financially aware can be very pivotal when determining how to use the credit card responsibly and also in avoiding lending debt. Robb and Sharpe (2009) has looked into the impact of personal monetary information on credit card activities of college students. What they found is that increasing level of financial literacy increases a student's likelihood to be less risky to use their credit cards, such as paying them less and staying at a high debt. The study argues that financial education programmes are significant in assisting in the successful implementation of the strategies to achieve responsible borrowing behaviour and effective debt management. Singh and Sahay (2012) have explored the determinants of credit card spending pattern to Indians. These factors, which were identified through the study as contributors towards spending attitudes in the use of credit cards, are lifestyle, age, social influence, convenience and income. Credit card users are more likely to consume, and if it's not being handled properly, they would be more liable to loading up their credit cards. Building on this, Soman (2001) investigated the effect on consumer purchasing behaviours of the different methods of payment and found that different types of payment affect consumer purchases. It was determined that people spend more money using their credit cards than cash due to the less painful nature to card paying immediately. This 'phenomenon' causes impulsive purchases and can result in people getting into debt. Xiao, Tang, and Shim (2009) conducted their study on Connection in Finance Behaviour and Life Satisfaction of College Students. The current study revealed that good financial habits such as good budgeting and sound use of debt are important factors that are associated with living life and overall satisfaction. However, financial stress was associated with extreme borrowing and credit control problems were associated with credit risk.

**Research Gap**

Based on the literature review, the following research gaps have been identified for using credit card and the way people are accumulating their consumer debt:

1. Limited studies in Indian context: Majority of the research works in the Indian context of credit card behaviour and consumer indebtedness have been done in developed economies such as U.S. and the European countries. There are few empirical evidences relating to the consumer credit card usage and the debt policies of consumers in India.
2. The factors affecting integrated determinants are inadequate; on a case by case basis financial literacy and demographic characteristics and spending behaviour have been included in studies. Limited research exists which have explored the interaction of these factors within the frame of consumers' use of debt.
3. There is also insufficient research on digital payment ecosystems and the consumer's spending behaviour is also altered, as the various digital payment platforms have developed quickly. The cashless consumption of cash and mobile banking services are also changed. Little research, however, has been done on how such digital financial innovations affect the use of and attitudes towards credit cards and debt behaviours.
4. Materialism and compulsive shopping behaviours have been studied in relation to credit card debt, but few studies have studied psychological factors (e.g. impulsive buying tendencies, peer

influences, social status and financial stress) in a comprehensive manner.

5. Lack of longitudinal studies: Most research in the present literature is cross sectional research, and the reason for this is that they only deal with consumer behaviour in one moment in time. To make statements about trends in credit card behaviour and debt over longer periods of time, longitudinal studies of credit card behaviour will be necessary.
6. Limited study on specific demographic groups – fewer studies are done on the credit card behaviour of the specific group of young workers, rural consumers, women and middle-income families in developing countries, especially India.
7. Debt buy-up as the focus: The last literature that mentioned debt-related topics focused on the accumulation of debt, but not about how the consumer his/her refuses can deal with and tackle debt, nor on the techniques the consumer his/her refuses may follow to avoid credit card indebtedness.
8. However, limited investigation of the impact of financial literacy intervention: Although financial literacy is recognized as a factor contributing to responsible use of credit, few has investigated about the effectiveness of financial literacy efforts to reduce credit card debts.
9. Lack of analysis of socio-economic consequences: Less research has been done that provides a comprehensive examination of the consequences of credit card debt on household saving, mental health, financial stress and quality of life.
10. Lack of policy oriented research; few studies have addressed the need for policy oriented studies for financial institutions and policy makers relating to financial credit card use and the excessive indebtedness of consumers.

**Research Gap Statement was identified:**

While there exist publications that highlight the usage of and behaviour of credit cards, or the aspects of financial literacy or behavioural trends, very few of the available literature has taken a multifaceted approach which combines financial literacy, behavioural factors, demographic characteristics and payments through electronic methods to explain why consumer debt accumulates, at least in the Indian context. Better research can help explain shoplift attitudes and behaviours and the most effective strategies to responsible credit and financial well-being.

**Overall conclusion**

The literature review of previous research undertaken on the use of credit cards and consumer debt has indicated that the credit card use is indispensable as it has allowed consumer to have conveniences, flexibility of spending power and easy access to short-term credit. With such banking services, and emergence of digital payment modes and e-commerce, the bank credibility card usage growth among various demographics has accelerated to an unprecedented rate. It's a story everyone reads, everyone hears, everyone knows: unchecked consumer credit card usage can escalate into a massive consumer debt and burden. The reviewed literature showed that there are many factors that affect the behaviour of using a credit card such as financial literacy, income status, age, education, lifestyle, materialistic values, impulsiveness buying behaviour, social influence. People with little financial information and credit card management skills are more likely to be in credit card revolving loans, pay only the minimum payment due on their credit card and have large balance. Moreover, ease of cashless payment reduces frictions of spending and increased spending adds more risks of borrowing and subsequent borrowing.

There has also been some literature that suggests that too much use of the credit card adversely affects the individual but also the economy. A build-up of consumer debt might result in lower saving rates, heightened financial stress, diminished satisfactions and increased financial risk profiles for financial institutions. While research in this area is continuing, there is continued ignorance on the interactions among financial and behavioural literacy, as well as digital payments and consumer debt accumulation—especially in India. So in the end, the study concludes that credit cards can be a wonderful financial tool when used properly and responsibly, but can have dangerous financial and psychological backlash if they are used irresponsibly (that is, too young). As a result, there is a need for better financial literacy campaigns, the practice of lending, better legislation and better consumer information campaigns to allow people to use their credit card wisely and responsibly handle their debt. Future studies should include more detailed models that combine information on both demography and expectations and behaviour with information on technological change, to understand and solve problems related to consumer indebtedness.

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