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Bernama Feature

CREDIT CARDS: A NECESSITY THAT CAN TURN INTO A NIGHTMARE?

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KUALA LUMPUR: Several years ago, Adam owned six credit cards. But four years later, he had to dispose four of those cards as his outstanding debts had accumulated to about RM10,000.

To settle it, he took a bank loan. Now, with two credit cards in his hands, he feels less burdened.

But what makes him own so many cards?

"By having several cards, I thought I could use one or two cards to settle payment for the other cards as I often use them till the maximum credit limit. Till one day, I was left with no avenue but to get a loan from the bank to settle the debts," Adam says.

"To me, possessing credit cards is a necessity but at the same time it also encourages debts and this could turn into a problem."

For Maria, owning two credit cards is like having instant cash, especially in desperate times.

"But what is important is to be disciplined in paying. Credit cards are like instant cash as we could withdraw about RM1,000 a day at the Automatic Teller Machine (ATM) without any hassle or guarantor needed."

Maria's friend, Ana, has been summoned to court as she could not settle her six months' outstanding payment.

Adam, Maria and Ana, represent nearly two million cardholders who are trapped in the credit card business which has become increasingly popular among Malaysians and is no more a status symbol, as those earning RM800 a month could also own one.

Credit cards are a medium of payment but have been used to secure deposit-free loans which come with high interest rates ranging from 18 to 24 percent a year.

They are a saviour in cases of urgencies when one have insufficient or no cash, but it is a nightmare for those with unsettled debts.

For instance, statistics have shown that in 1992, 58,498 people were taken to court for failing to settle their debts and 2,121 cardholders were declared insolvent by the court.

These are worrying facts about cardholders spending habits and poor personal financial management, and steps must be taken to reduce this problem.

Malaysia now has a 12 percent credit card delinquency rate - twice the worldwide average.

Total credit card transactions grew by 44.8 percent from RM2.9 billion as at June last year to RM4.2 billion in the corresponding period this year. And as at June this year, total unpaid balances of credit cards amounted to RM698 million, while non-performing balances stood at RM295 million or 42.3 percent of the total overdue.

Now there are two million credit cards with 17 issuers in the country.

To curb excessive spending using credit cards, Finance Minister Datuk Seri Anwar Ibrahim in the 1996 Budget, declared that the minimum monthly payment for outstanding balances in credit cards be raised from 10 percent to 15 percent, with effect from January 1995.

As a result, the cardholder will have to pay more and will be less in debt. The move was also part of the measures to curb inflation.

And when tabling the 1997 Budget in the Dewan Rakyat last week, Anwar who is also Deputy Prime Minister, announced that a service tax of RM50 a year will be imposed on all types of credit cards including those given on

a complimentary basis as a measure to encourage prudence.

With two million credit cards, the government will make a good RM100 million a year from the tax.

Meanwhile, Finance Ministry secretary-general Tan Sri Clifford F. Herbert recently stated that the RM50 service tax was a cautious step taken to curb excessive spending, as the government had found that many people were becoming increasingly careless and some had large unpaid balances which incurred high interest charges.

Herbert also noted that Prime Minister Datuk Seri Dr Mahathir Mohamad, had mentioned that some people had as many as 14 cards.

To further monitor the credit card spending situation, Bank Negara had last year announced a new set of guidelines for credit card companies that could result in cardholders saving on interest payments should they settle their balances promptly.

The Central Bank also says that credit card companies must inform cardholders of the charges imposed on the outstanding balances and the method of computing such charges.

The move was aimed at introducing more transparency in the way card issuers compute and impose interest charges. The new guidelines are aimed at helping curb excessive spending using credit cards as well as encouraging prompt payments and nurturing better spending habits among cardholders.

But with all these new guidelines, will cardholders take it as an opportunity to settle more of their outstanding balance or to spend more?

According to Consumer Association of Penang (CAP) President S.M. Idris, the new guidelines are not good enough to curb conspicuous spending and to achieve that aim, CAP suggests that the government implement the following new rules. They are:

- + The minimum annual income pre-requisite for a cardholder shall be RM36,000 from the present RM24,000 per annum so as to restrict access to credit card facilities to only those who can really afford them; and
- + Payment for outstanding balances should be raised from the present 15 percent to 20 percent of the bill.

"Undoubtedly, there are many cardholders who flash their cards at every opportunity and are later overwhelmed by the amount of the credit. We need restrictions so that cardholders do not get into debts that are way above their heads," says Idris.

"If consumers spend lavishly and without care, they do not realise that they are actually accumulating their debts each month. This all boils down to bad consumers spending habits. I feel that some advertisements promoting people to spend so much and lavishly, should be curb and controlled," he says.

Idris also stresses that consumers must use their credit cards wisely and pay promptly. "If you feel you cannot control your spending, cut off all the cards."

Associate Professor Dr Zulkefly Osman from the Universiti Kebangsaan Malaysia's (UKM) Economic Faculty, also suggests that the government impose the minimum income pre-requisite for a cardholder to be RM36,000 per annum.

He also adds that no cardholder should be allowed to run up bills exceeding two months' salaries in order to keep his debt management.

"There should be proper planning, control and restriction from the part of the cardholders so as not to be overwhelmed by the bill that they would receive later," Dr Zulkefly says.

Nevertheless, educating credit cardholders about their rights and responsibilities would probably go a long way in reducing the rate of bankruptcy, summons and debts.

In this respect, perhaps the banks and consumer organisations could

work together to achieve this end. -- BERNAMA  
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