

■ PLASTIC MONEY

DEBIT TRUMPS CREDIT AMID DOWNTURN

The belt tightening that accompanied the financial crisis of 2008 combined with the inherent debt aversion of Indian customers has resulted in debit cards gaining primacy over credit cards

SANJAY KR SINGH

IN THE growth years preceding the credit crisis of 2008, banks, especially private ones, had loosened their purse strings. In those years, credit growth averaged above 30 per cent and loans and cards were easy to get. Then the crisis struck, the fear of



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| Total number of credit and debit cards. | 1, 621 lakh, up 25% |
| No. of credit cards. | 246.99 lakh, down 10.33% |
| Credit card market share. | ICICI (28%), HDFC (16%), HSBC (14%), SBI (11%) |
| Market share among bank types. | Private (47%), foreign (37%), public (15%) |
| Credit card spend at points of sale. | Rs 65, 356 crore, up 13% |
| Per capita annual credit card spend. | Rs 26,461, up 26% |
| No. of debit cards. | 1,374 lakh, up 34.18% |
| Debit card market share. | SBI (30%), ICICI (10%), Axis (9%), HDFC (7%) |
| Debit card spend at points of sale. | Rs 18,547 crore, up 48% |
| Per capita annual debit card spend. | Rs 1,350, up 10% |
| Total number of ATMs. | 43,651, up 25% |

All current figures are for March 2009, and comparisons are with March 2008

funds at any point of time. With the majority of banks, particularly public sector banks ones, having brought all or most of their branches under Core Banking, debit cards are nowadays issued with almost every savings bank account that is opened. It does not add to any credit risk and at the same time saves transaction costs compared to brick- and-mortar banking transactions," says Khaitan.

The number of debit cards is likely to grow rapidly in future as the proportion of people holding these cards is still quite low compared to those having savings accounts. The challenge, according to Khaitan, however, lies in getting customers to use their debit cards more at points of sale (PoS) rather than just at the ATM.

Card-based expenditure up

Though the total number of credit cards outstanding fell, the total expenditure done using credit cards was Rs 65,356 crore in FY09, up 13 per cent over the previous year. The explanation for this is that even as inactive and delinquent card accounts were being closed, expenditures done using active and productive cards went up. The Venture Infotek study

cash-back schemes in the market for its debit card users.

Don't get buried under plastic debt

Here are ten tips from financial planners to ensure that you use your credit cards prudently.

One, they say, don't pile on debt. Your overall debt, including all equated monthly instalments (EMIs) and credit card payables should not exceed 30 per cent of your gross or 40 per cent of your net monthly salary. If it does you are on the way to bankruptcy.

Two, don't use credit cards to spend more as it is the most expensive form of debt available, especially when you revolve the debt outstanding.

Three, according to Mumbai-based financial planner Vishal Dhawan, if you have already accumulated a lot of credit-card debt, try to move to a secured debt such as loans against insurance policies, National Saving Certificates (NSC), or gold. The loan rates are much lower in such debt. If you don't have these assets to offer as security, take a personal loan to pay off the credit-card debt.

to get. Then the crisis struck, the fear of high non-performing assets became all pervasive, and the most aggressive players in the market turned the most conservative. All these developments had an impact on the plastic money market as well, as a recent study by Venture Infotek Global, a transaction processing company, highlights.

Fewer credit cards

The Venture Infotek Global survey has found that at the end of FY09 the number of credit cards in circulation had declined to 246.99 lakh, 10.33 per cent lower than the previous year. According to Piyush Khaitan, vice-chairman and managing director, Venture Infotek, "Banks have been closing inactive and unproductive accounts from their credit card portfolio. Moreover, with the delinquency rate in the country rising, banks and card issuers remain hesitant about issuing new credit cards."

The study predicts that the number of credit cards issued is likely to decline further to 226 lakh by March 2010. But ac-

ording to a Reserve Bank of India (RBI) release, the decline, in fact, has been even steeper: by September 2009 the number of credit cards had already declined to 212.92 lakh. Says Khaitan: "Next year onwards banks may have to make standard provisioning in their books against the total credit limits sanctioned under credit cards, as per BASEL II norms. This could be one more reason why banks are closing down inactive and unproductive credit card accounts." Besides, he says, it does not make business sense for banks to maintain inactive accounts that add to their maintenance cost and take up space in their systems.

Debit card numbers surge

Reflecting the belt-tightening that occurred during the crisis, the number of debit cards rose to 1,374 lakh in FY09,

up 34.18 per cent compared to the previous year. "This surge in debit card usage can be attributed to the economic slowdown and people's cautious attitude towards spending money. In such times, consumers prefer to spend out of their own savings rather than borrow from other sources," says Khaitan.

Another interesting fact that the study highlights is that today the number of debit cards outstanding is around 5.56 times more than the number of credit cards. Besides the inherent conservatism of Indian customers, which makes them more comfortable using debit cards, there is another, more prosaic, reason behind the growth in the number of debit cards. "A debit card is an electronic payment device. It is a card of convenience for accessing one's own bank

went up. The Venture Infotek study found that Indians now use their credit cards to buy essentials as well as luxury goods. Rising e-commerce and Internet-based transactions are the main drivers of growth in credit card spending. Purchasing airline and railway tickets is the key usage for which customers use credit cards online. Shopping, jewellery purchase, dining and travelling together account for nearly 70 per cent of credit card expenditure.

While per capita annual spend using credit cards is a respectable Rs 26,461, the figure for debit cards is still a measly Rs 1,350.

With debit cards gaining primacy over credit cards (in terms of numbers), banks too have changed tack and are now promoting spending through debit cards by offering incentives such as loyalty rewards and cash-back options. The State bank of India has launched Freedom Rewards, a loyalty program for their debit card holders. MasterCard too has attractive

credit card debt.

Four, always pay off your credit card bills in full. Paying the minimum adds a heavy interest burden to your purchase and without realising it you would have paid a lot more for your purchases.

Five, according to Pune-based financial planner Veer Sardesai, "Paying less than the full amount makes it very difficult to budget and save. This wreaks havoc with your entire financial plan."

Six, transferring balances and getting more cards doesn't help you get out of the debt trap. It only delays the day of reckoning.

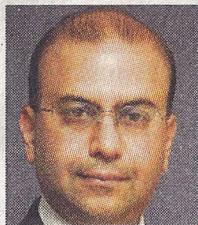
Seven, avoid using credit cards to withdraw cash from the ATM as the charges are exorbitant.

Eight, if you have money in a bank deposit while holding credit-card debt, foreclose the deposit and pay off the debt. The interest earned from the deposit is much lower than that paid on credit-card debt.

Nine, set up a standing instruction or ECS to pay off your credit card in full on the due date each month. This will ensure that you do not miss out.

Ten, keep a smaller number of debit and credit cards (ideally one each) so that management, tracking and annual fees stay under control. Remember that if you default on paying annual fee for your credit card, it hurts your credit history. ♦

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PIYUSH KHAITAN

Vice chairman and managing director, Venture Infotek Global

The number of credit cards declined in FY09 because banks closed unproductive accounts and were hesitant to issue new cards



VISHAL DHAWAN

Financial planner

If you are mired in credit card debt, replace it with a secured loan against assets like insurance policy, NSC or gold where the interest rate is lower