

Keeping Credit Card Defaults In Check



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Competition to sell credit card is increasingly heating up. Banks have been aggressively promoting their credit cards by giving away free gifts to successful applicants and offering waivers on annual fees. Existing cardholders may also enjoy discounts at selected stores as well as redeem attractive gifts from the bank after they have collected a certain number of points from spending with the bank's credit card. According to Bank Negara Malaysia's (BNM) 2004 Annual Report, the number of credit cards in circulation in Malaysia reached a total of 6.6 million as at end-2004.

Efforts by the banks to promote credit card as a mode of payment are complemented by sound risk management standards to ensure that the risk arising from more aggressive lending to this sector is manageable. Although the number of credit cards in circulation has risen by 28.6% in 2004, non-performing loans (NPL) for credit cards remained small at 4.7% of total credit card loans. In fact, the gross NPL ratio for credit cards has remained below 5% since 2001.

Contrary to popular belief, banks are reluctant to carry out bankruptcy proceedings against credit card defaulters. This is because going through a bankruptcy process can be time consuming and counter-productive. With the bankruptcy threshold set at RM30,000 and above, recourse can only be taken against defaulted accounts with high limits. Furthermore, should a default occur, banks are more likely to work towards a structured repayment programme with the cardholder rather than take the punitive measure of bankruptcy.

Hence, in order to prevent credit card defaults, banks have invested heavily in improving their risk management standards. Stringent and robust measures have been implemented, such as checks made on the customer during the bank's evaluation of credit card applications which include:-

- Credit Tracking Online System for any outstanding civil suits filed against the applicant.
- Biro Maklumat Cek for incidences of bad cheques violation.
- BNM's Central Credit Reference Information System for applicant's conduct of accounts in respect of all his credit facilities with financial institutions and his total credit exposures.
- The bank's internal negative list.

Some banks also use a credit scoring system whereby an applicant's occupation or nature of business and the number of dependants in relation to his earnings capacity and total credit exposures would be reviewed to gauge his eligibility for the card. These evaluations are subject to periodical reviews and the bank may increase or reduce the cardholder's credit limit according to their findings.

In addition, regular statements are sent to existing cardholders and prompt reminders are issued for invoices that are overdue. Banks have also provided payment convenience for their cardholders such as standing instructions, 24-hour self service deposit machines and online banking facilities.

Apart from the above stringent measures undertaken by banks to prevent credit card defaults, BNM has also issued one of the most comprehensive credit card guidelines in Asia to protect cardholders and discourage them from using credit cards as a mean to obtain loans. In order to apply for a credit card, the applicant must be 21 years old or above, and earn an income of at least RM18,000 per annum. This to ensure that young Malaysians who may be ignorant in managing their finances do not have access to too much credit.

Nevertheless, cardholders themselves should also be financially responsible and use their credit card wisely as it has been noted that the most common reasons for default are:-

- Loss of employment or business failure.
- Emergency e.g. accident or serious illness of cardholder or their family members.
- Personal lifestyle e.g. impulse purchases and gambling.
- Other loan commitments.

As part of the banking industry's consumer education programme, BNM, in collaboration with The Association of Banks in Malaysia, has published an informative booklet on credit card under the "bankinginfo" series. The booklet provides tips on how cardholders can shop for a credit card that best meets their needs and how they can use their credit card effectively and wisely. By working closely with the public, the banking industry hopes to inculcate better spending habits amongst Malaysians and thereby reducing the number of credit card defaulters.