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Debit cards gain appeal as payment channel

OF late, debit cards have been gaining popularity, especially so in the current weak economic climate where people are becoming aware of its benefits and with more merchants accepting this mode of payment.

With this positive trend, many banks are now looking to launch debit cards in a bid to garner a slice of the growing local debit card market. On the other hand, existing players are enjoying good growth in line with surging demand for such payment cards.

Licensed financial planners, although supporting the growth of debit cards, feel there are still limitations on the usage of these cards.

Growth Drivers

Citibank Bhd head of wealth management products Aisyah Lam says one of the driving factors behind the growth is the increased awareness and acceptance of debit card as a cash replacement alternative as well as a viable financial tool in managing personal or household finances.

"We have experienced a major increase in debit card usage over the last 12 months. The bank has seen tremendous growth and demand for its Citibank Debit & ATM card since its launch last year and we are on track for a 100,000 card base by year-end.

"The card can be used to do transactions at 13,500 Citibank ATMs worldwide at no cost as well as to pay for purchases at over 29 million retail and service outlets bearing the VISA logo and to conduct withdrawals at over 1.2 million VISA Plus ATM machines globally. Gone are the days when it was merely an ATM card for a single purpose of cash withdrawal," she adds.

Malayan Banking Bhd (Maybank) is currently the leader in the debit card segment with more than seven million cards and a market share of about 85% in terms of total debit card spending by financial institutions in Malaysia.

Its senior executive vice-president and consumer banking head Lim Hong Tat says the bank issues the Maybank Bankard and the Maybankard Visa Debit cards.

Both function as ATM as well as debit cards for payment of purchases at points of sale, with the Maybankard Visa Debit card being accepted by Visa merchants worldwide. These debit card transactions can be viewed online via Maybank2u.com, he notes.

Lim says the demand for debit cards has been growing month-on-month. For the Maybankard Visa Debit alone, the card base has grown to over 1.6 million since it was launched in March 2008.

"The debit card is becoming increasingly popular with customers. It is easily acquired as it does not require any income statement nor does it impose any annual fee like a credit card. It also provides an advantage to customers seeking a credit-free lifestyle," Lim explains.

Maybank plans to roll out more debit cards this year as part of the bank's initiative to offer different value propositions to suit different segments of customers, Lim adds.

RHB Banking Group head of retail banking Renzo Viegas says the trend for debit cards has been positive.

Since launching its first debit card, the Cash Connect in August last year and subsequently the Tesco-RHB Debit Card in January this year, the bank has seen a rise in activation for

They allow consumers to plan finances and to be in control of their expenses



Consumers queuing up at payment counters of a hypermarket in Kelana Jaya. There are efforts to promote debit card as a means of good financial management



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AISYAH LAM OF CITIBANK



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»Debit card provides an advantage to customers seeking a credit-free lifestyle«

LIM HONG TAT OF MAYBANK

usage of up to 5.5% to date, Viegas notes. He says RHB is aggressively expanding its market share and has ambitious plans through relevant partnerships and propositions that will appeal to many.

Viegas views debit cards as entirely different from credit cards and believes comparison should not be drawn between the two.

"Debit cards are popular among those who are risk averse or those who do not qualify for credit cards or individuals who prefer to plan their finances and be in control of expenses. An individual can spend or utilise the balance up to the amount that they have in their account and for many, this results in prudent money management," he says.

Limitations

Great Vision Advisory Group head of tax and financial planning Datuk Chua Tia Guan, however, believes that credit cards are preferred over debit cards as, unfortunately, many

Malaysians are still living on credit.

Credit cards allow one to spend what "he does not have" whereas debit cards only allow one to spend "what he has", Chua adds.

As a result, debit cards are less attractive to Malaysians as these cards are without any credit facility as compared to credit cards.

Although debit cards may be popular among students and young graduates who have yet to establish their creditworthiness records, Chua says he does not foresee its growth surpassing that of credit cards, at least not in the near future.

"In case of emergency, credit cards may serve as a saviour when banks are not accessible in odd hours, for example, to pay a substantial medical fee at midnight.

"This is where the credit feature of the credit cards helps the cardholders and is the most appealing feature that cannot be matched by debit cards," he notes.

Licensed financial adviser Jeremy

lose their own money, unlike credit cards where they consider it as the banks' money," Foo points out.

Future Trends

Lam says the debit card industry continues to register growth with new players coming into the market, expansion of partnerships and innovation in products.

In Malaysia, debit card is experiencing strong growth as evidence by an increase of 73.5% in the amount of transactions in 2008, she adds.

She expects the industry to grow, moving forward, supported by Bank Negara in line with efforts to increase the efficiency and reliability of the payment systems in Malaysia.

There are also efforts to promote the change in consumer perception from that of a credit culture to one that leans to debit card as a means towards good financial management, Lam says.

Lim of Maybank says apart from individuals, more corporations are also seeing the benefits of debit cards. Maybank, he adds, has an ongoing programme to recruit more debit card merchants and this will also increase the number of outlets that accept the cards.

With increased customer education and knowledge of electronic payment channels, coupled with a growing mass market of "Generation Y" entering the job market, Tan says the demand for debit cards is expected to grow.

Generation Y refers to a group of people born between the 1980s and early 1990s who should, by now, either just enter the job market or are already young working adults.

"Debit card is a "pay-now" channel. This is compared with credit card culture of spend first and pay later that has impacted a lot of young working adults churning up debts with hefty finance charges that eat into their cashflow.

"The importance of this electronic payment channel has caught on, as can be seen from telcos introducing a hybrid between debit and credit cards to capture the "pay-now" culture," Tan adds.