

PETALING JAYA: Various quarters are backing the call by Deputy Finance Minister Datuk Donald Lim to lower credit card interest rates but at the same time feel it would be more effective to reduce the escalating household debt by limiting the number of cards a consumer can have as well as the credit limit for cards.

At the same time, banks are of the view that the current interest rates need not be lowered as it was among the lowest in the region.

Consumer Association of Penang (CAP) president S.M. Mohamed Idris said it was more important to limit the number of credit cards owned as well as limit the credit available for each card to reduce personal debt.

"Lower interest rates does not mean less debt as cardholders may just borrow more since it is cheaper to do so. We are interested in reducing credit card debt since even young cardholders are being made bankrupts.

"Interest rates for credit cards are definitely high because the base lending rates for banks is 6% to 6.3%

'Limit credit cards per person' call

CAP: Lower interest rates may result in more borrowings

while the interest rate for credit cards are around 17.5% to 18% per annum. Late payment charge is usually 1% per month and hence the profit that can be made from issuing credit cards explains the popularity of the cards for banks," he told StarBiz.

Federation of Malaysian Consumer Associations (Fomca) secretary-general Muhammad Sha'ani Abdullah felt the current credit card rates were too high compared to other loans, although in practice the risks were more or less the same. Besides, banks are making commission from

each transaction at around 2% to 3%.

Apart from high interest rates for cards, late charges are levied and merchants pay banks 1% to 2% of the transactions costs. Banking analysts feel the time is right for card rates to be reviewed by Bank Negara.

In consensus with CAP, Sha'ani said Bank Negara should limit the total value of the credit limit and the number of credit cards. "Can the central bank stop anyone from acquiring a credit card from overseas?" he said, stressing that there should a cap on the number of cards a consumer can have.

Anandakumar Jegarasasingam, Malaysian Rating Corp Bhd (MARC) vice-president and head of financial institution ratings, said the possession of multiple credit cards with a combined credit limit that was disproportionately higher than their income could tempt unwitting cardholders to spend beyond their means.

Bank Negara's proposal to impose limits on credit cards was a timely move which had the interests of both the banking sector and that of the cardholding population, he said.

Based on reports, the central bank

was considering increasing the required income level for credit card applications from RM18,000 to a minimum of RM24,000. The new ruling was expected to be announced in Budget 2011, and would also see customers only being allowed to own credit cards from two banks of their choice, the reports stated.

Lim, however, felt the central bank should consider reducing interest rates which could reach as high as 18%, rather than limiting the number of credit cards. Bank Negara declined

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to comment on Lim's views on these matters.

On whether interest rates should be lowered, the Association of Banks in Malaysia (ABM) said in a statement: "It should not, as the current rates in our opinion are not too high. The rates were revised downwards on March 31, and are already among the lowest in the region. At the time of the revision, a comparative study was made and in Australia then, for

example, the rates were between 9% and 19.5%, in Hong Kong they ranged from 17.8%-36%, Singapore 24% (standard), India: 18%-39% and Indonesia: 33%-45%.

"It must be acknowledged that in addition to funding costs, there are very real and substantial costs surrounding a credit card operation. Given the complexities of the credit card business, these costs include credit risk (non-performing credit) particularly since the amount outstanding is unsecured, fraud risk,

administration, infrastructure, administration and customer services costs.

"Ultimately, a consumer must still exercise caution and control over personal spending and live within one's means. Consumer education thus remains key and the commercial banking sector would prefer to focus on this aspect."

ABM, it added, was confident that any guidelines with regard to card businesses would only be issued after a holistic review and careful

evaluation by all parties concerned so as to avoid any negative impact to the businesses as well as consumers.

HSBC Bank Malaysia Bhd general manager of personal financial services Lim Eng Seong said: "The objective on limiting the number of credit cards owned by customers is to reduce accumulation of debt by consumers. One option that should be considered is to allow more flexibility on credit card pricing beyond the current cap of 18%."