

Build Your Wealth



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Credit cards popular, but still largely untapped

SAJJADUR RAHMAN

CORPORATE executives and businessmen quite often get stupefied with phone calls from banks selling credit cards. It's a surprise for many that banks want to give credit willingly, even going to their doorsteps to extend credit.

Once you say you want it, the marketing crew of those banks will not let you go without a credit card in hand. These loans are processed the fastest with a minimum level of documents.

A monthly income of Tk 15,000 can give you credit worth at least Tk 50,000 on the card. The upper limit may be as high as Tk 500,000.

Despite these efforts, the product is yet to gain momentum in the country, with figures stuck within four lakhs in the past few years.

Bankers blame this stalemate on the mandatory requirements of a tax identification number or TIN.

"Earlier, big players used to sell 5000-7,000 credit cards a month, now it came down to 1,000," said Firoz Ahmed Khan, head of retail banking of BRAC Bank, the second biggest player in the credit card market after Standard Chartered Bank.

Nazeem A Chowdhury, head of cards of Eastern Bank, a rising player, also attributed slow growth to the same issue.

"Many customers cannot enjoy the facility because they don't have a TIN," said Chowdhury.

Slow growth can also be attributed to a fear of excessive charges and interest rates. It is one of the costliest forms of borrowing, where any credit card outstanding balance could carry an interest as high as 40-45 percent annually. This makes it imperative for a user to clear the outstanding amount within the allocated credit period. The

average interest rate for credit cards in the country is nearly 30 percent.

Credit cards do not date back too far in Bangladesh. Standard Chartered Bank, after acquiring Grindlays Bank's Bangladesh operations, introduced the product a decade ago, to replace the use of cash. In the first 5-6 years, it got a huge response from the consumers because it reduced the risks of carrying cash and fosters expensive buying.

Nearly half of the 30 local private banks now have the product, often competing each other for clients. These banks offer VISA, MasterCard and the American Express credit cards. But the credit card market is dominated by the Master brand.

Standard Chartered Bank is the biggest player with nearly 200,000 active cards, followed by BRAC Bank with over 50,000. Two other emerging players -- The City Bank and Eastern Bank -- each have over 40,000 cards active in the market.

Dhaka Bank, United Commercial Bank and Dutch Bangla Bank Ltd are also strengthening their foothold in this still untapped market.

The service providers furnish the cardholders with a number of attractive benefits and rewards. All of them offer to waive the annual charges ranging between Tk 1,200 and Tk 4,000, depending on the category of cards, provided that the user had at least 18 transactions in a year.

According to bankers, they are yet to tap 20 percent of potential customers. Some bankers say an overall risk framework for credit cards can facilitate growth.

"Bangladesh Bank can formulate the guidelines, to minimise fraudulent activities," said Khan.

On whether the cost of borrowing and higher charges deter the growth, Khan said, "the credit card is bad for those who do not need it". For example, he said a person may have deposits in a bank but he purchases with a credit card.

On the additional charges between 1 percent and 3 percent that merchants charge during a purchase, bankers said it is not ethical, but they do it because banks charge for every transaction. And the merchants pass on the cost to buyers.

Although Bangladesh is still an underutilised market, there are risks too. "The default rate may rise without vigorous risk assessment," said a central bank official.

According to bankers, a default rate of less than 8 percent is good and



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A man withdraws cash from an ATM booth of Standard Chartered Bank by plastic card. StanChart is the biggest player in the credit card market in Bangladesh.

acceptable, but it is alarming when it goes as high as 20 percent.

Standard Chartered Bank

The market leader issues six credit cards in Bangladesh. These are -- Platinum, Gold, Silver, Cricket, Picture and International cards. Each of these cards offers different packages.

For example, the Cricket Card was developed keeping in mind the passion for the game in Bangladesh. The bank donates a percentage of each taka spent through a Cricket Credit Card to a fund specially created for the development of cricket in Bangladesh. If Bangladesh wins a test or a one day international match, Standard Chartered doubles the card holder's reward points for the following 15 days, to celebrate the victory. Card users also get discounts at exclusive sports shops in the country.

Also, Standard Chartered has an offer called the 4-in-1, meaning that one can get two cards, both VISA and MasterCard, within the same limit. Furthermore, these cards can also be used locally and internationally.

BRAC Bank

BRAC Bank is the second biggest player with 53,000 cards active in the market. They offer three prod-

ucts, both VISA and Master brands, and they also have a dual currency credit card.

The annual fee for the Visa and Master Cards is Tk 4,500 plus 15 percent VAT for platinum card, Tk 2,500 plus 15 percent VAT for gold and Tk 1,300+VAT for classic card. But users can be waived of these charges if he/she uses the card at least 18 times a year.

BRAC also offers a supplementary card for free.

Eastern Bank Limited

EBL introduced credit cards in 2007 and came up with some unique offers to net customers.

Some of these are -- one time fees or lifetime free, where a user has to pay the issuance/joining/subscription/annual fee only once. After that there is no annual fee for the user, as long as the card is used at least 18 times in a whole year. As per market standards, an average cardholder uses his/her card almost 24 times a year.

EBL also introduced balance transfer for the first time in Bangladesh. If a card user has other bank credit card(s), he/she has the option to transfer his/her current outstanding balance at a much cheaper rate to an EBL Credit Card. This saves time and

nearly 8 percent of money. EBL offers balance transfer at 22 percent a year.

The bank also gives the opportunity to share the benefits of your card with dear ones by providing supplementary cards. Being a primary cardholder, you have the option to set a spending limit for each of your supplementary cards. This service is perfect for parents who want to give children a certain amount of pocket money. Their sending limit can easily be setup, while keeping an eye on their spending behavior.

The City Bank

The City Bank is the distributor of American Express Credit Cards in Bangladesh. It also issues VISA. The bank has nearly 40,000 cards in the market, a majority of which is American Express. It became popular in the last one year, when the market was stagnant. The card comes with a package of benefits for users, such as complimentary return tickets from Dhaka to Kolkata for two, six percent cash back at Agora Superstores, travel emergency and medical assistance abroad, accident insurance, special privilege health check-ups and other facilities at Square Hospital and United Hospital.

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Plastic money keeps tabs on sales

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IN a market where people are used to making transactions with no receipt trail, it is tough to introduce the credit card that ensures recorded payment and collection of tax.

"Establishing credit card acceptability was a huge challenge," said Muhammad A Rume Ali, an architect behind the introduction of credit cards in Bangladesh in the mid 1990s. He said merchants were not ready to accept cards.

Ali was with the then ANZ Grindlays Bank. "When they (merchants) understood that credit cards would help boost their sales they started accepting it," he said.

Ali has worked with different foreign and local banks and was a deputy governor of the central bank. He is currently the chairman of BRAC Bank and managing director of BRAC Enterprises.

"Anything new is full of challenges," he recalled. Deployment of funds, cost recovery and identifying target customers are some of the challenges, he added.

In the first 5 to 6 years, credit cards grew at a good pace, but growth was affected when the government made TIN (tax identification number) a mandatory requirement to apply for a card. The number of credit cards hovered in between 4 lakh and 5 lakh for the past five years.

"A loan of up to Tk 5 lakh does not require a TIN. But it is a must for a credit card, irrespective of the amount," said the experienced banker.

Ali said as transactions through credit cards are recorded payments, it helps increase tax collection. A credit card can be a great convenience and provides the safety of not dealing with cash, he added.

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