

Industry welcomes updated credit card guideline

STAR BUSINESS REPORT

An updated guideline on credit card operations, resetting of the highest interest rate, provisioning requirement for default loans and the doubling of the credit limit will not only boost expansion of the electronic payment method but also speed up the digital transformation, said industry players.

Industry people said these changes are the steps in the right direction and now banks will be able to promote the digital transformation agenda of Bangladesh.

The central bank published a policy guideline on credit card operations on May 11 this year. The guideline came following consultation with banks.

But industry people raised concerns as the policy contained some issues that were not discussed with the banks during the consultation period.

The guideline had set the maximum limit on interest rate on the payment tool for the first time.

Before the issuance of the guideline, the average interest rate on consumer credit was 12 to 13 percent, while the rate for credit card loans is 30 percent. As per the guideline, it will come down to 20 percent on an average for credit cards.

At the time, bankers said the interest rate of 16-17 percent is not sustainable for the credit card business. They also termed the BB move unrealistic and also detrimental to the country's digital vision that encourages cashless transactions.

Banks, however, have been able to convince the central bank about implications of some of the issues of the guideline. As a result, the central bank



updated the guideline on August 3.

The updated circular said the interest rate on the outstanding amount of credit cards shall not exceed 5 percent of the highest interest rate offered on any credits from banks.

Mashrur Arefin, additional managing director of City Bank, said now they can charge 25-28 percent interest for credit card loans. "This is a pragmatic decision."

On August 20, the central bank published another circular, saying banks will need to maintain 2 percent general provisioning against all unclassified credit card loans under consumer financing, down from the previous 5 percent.

The move was taken to promote cashless secured transactions and bring down the cost of

operation of the credit card business, according to the central bank.

Provision means keeping aside a certain amount from the bank's income for mitigating risk. The banks cannot consider the amount as profit.

Normally, 1 percent general provision has to be kept against unclassified loans. But in case of consumer financing, which included credit card usage, it was 5 percent.

"We have been soft to some extent as the central bank wants digital transactions to increase," said Subhankar Saha, executive director of the BB, on the notice.

The 5 percent provisioning for consumer loans is too high, he said.

Banks also welcomed the decision. Arefin said the regulator has

understood that the operating costs of the card business are very high due to the cost of building the infrastructure and systems and marketing expenses.

"That's why the Bangladesh Bank has relooked at the earlier interest rate for cards. The decision is a breeze to the card industry and consumers," he said.

Nazeem A Chowdhury, head of consumer banking of Eastern Bank Ltd, also said the reduction in provisioning requirement from 5 percent to 2 percent is a huge boost to the credit card industry.

"The move will help the market grow," he added.

The central bank has cut the banks' cost for loans for credit card usage with a view to encouraging digital transac-

tions, said a BB official.

The use of credit cards as a payment instrument for purchase of goods and services is increasing day by day. As of December last year, the outstanding amount of credit cards was Tk 2,963 crore, according to data from the BB.

The central bank also took a number of measures this year to promote cashless transactions.

In April, the BB doubled the credit card limit and extended the personal loan ceiling to support investment growth by stimulating consumption in the economy. The new credit card limit was set at Tk 10 lakh, which was Tk 5 lakh earlier.

"This is a major change," said Syed Mohammad Kamal, MasterCard country manager for Bangladesh.

He said when the limit was Tk 5 lakh, it was tough to cater to high-end customers. As a result, many people did not show interest in taking the credit cards.

"With the new Tk 10 lakh limit, some people will definitely show interest in credit cards," he said.

Banks can provide an additional Tk 10 lakh to credit card holders. The excess credit will have to be backed by liquid securities, such as fixed deposits or foreign currency accounts, maintained with the respective bank, according to the central bank.

Industry people said it was also a positive decision that the central bank is not implementing the policy this year because it would give banks more time to adapt and make necessary changes to cut costs.

The policy, which will bring down interest rates significantly, will become effective from January 1 next year.

Credit card market still untapped

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

Shafiqul Alam, managing director of Jamuna Bank, said he is very surprised to see such a small number of credit cards in Bangladesh.

"In many countries around the world, the number of credit cards is higher than the number of cell phones. But in Bangladesh, the two numbers are not even comparable," Alam said.

He, however, disagreed with Arefin of City Bank that the credit card is a lifestyle product.

"It's a basic product and the consumers can avail any amount up to Tk 1,000, depending on his/her requirement," Alam said.

But the main problem lies with the infrastructure, even in the capital, he added.

Bankers also said issues related to tax act as a fear factor for card users who think that their expenses will be tracked down by the tax administrator.

Many people refrain from taking credit cards due to the growing cyber crime, said Ahmed Kamal Khan Chowdhury, managing director of Prime Bank.

Chowdhury too said the credit card is not a product for the masses.

"The benefits the credit card users enjoy can be given through debit cards also to encourage cashless transactions. People do not feel the necessity of availing credit cards, as banks also sell many loan products that the cards offer," he said.

Still Standard Chartered Bank, the pioneer in this field in Bangladesh, is hopeful about the prospects of the product.

Aditya Mandloi, head of retail banking of SCB in Bangladesh, said they have been operating in the country for over 112 years and have become ingrained in the growth story of the nation's economy.

"We remain committed to introducing innovations from around the globe in Bangladesh, so that we could offer our customers the best in-class financial products and services," he added.

The 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 annual interest as high as 36 percent. The average interest rate for credit cards in the country is nearly 30 percent.

This makes it imperative for a user to clear the outstanding amount within the allocated timeframe. Credit cards do not date back too far in Bangladesh.

SCB, after acquiring Grindlays Bank's Bangladesh operations, introduced the product two decades ago.

In the first 5-6 years, it got a huge response from consumers because it reduced the risks of carrying cash and fostered expensive purchases.

Now almost all of the 39 local private banks offer the product, often competing with each other for clients. These banks have Visa, Mastercard, Diners Club and American Express credit cards.

City Bank is the biggest player in the credit card market in Bangladesh, followed by SCB and EBL.

Presently, City has a total 326,347 credit cards, of which 233,170 are the high-end American Express cards and the rest are Visa cards.

Brac Bank, Dhaka Bank, United Commercial Bank and Dutch Bangla Bank are also strengthening their foothold in the market that still has a huge potential.

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