



## Credit Cards

### Choose what you need, not what they give

It seems convenient and even empowering, and it makes many things seem affordable. In the last decade or so, beginning with retiring legend Sachin Tendulkar endorsing the use of plastic currency on TV, credit cards have become household names. From buying things on credit to getting them on instalments or making online transactions, or simply paying for your impulse buy when you are not carrying enough cash, cards come in handy. Now, with rewards points and bank tie-ups with food chains, airlines, apparel brands and gift shops, credit cards are a sort of necessity for many. The rising trend in popularity of cards is proved by the number of cardholders (rose from 17.65 million in 2011–12 to 19.55 million in 2012–13). Yet, this is the beauty of numbers – they conceal much more than they reveal.

**Ankita Kashyap**, *Consumer VOICE FSRG Group*

**T**he flipside to card power is the ‘mystery’ that comes bundled in the form of interest rates, unexplainable penalties, confusing interest rates, hidden charges, annual fees, service charges... there are many more such terms that you must have heard from

the customer care executive when she last explained your credit card bill in detail. As a matter of fact, there are growing concerns in some parts of the world over unfair trade practices of credit card companies. Consumer forums have more cases of cheating and fraud against credit card companies than ever before.

## THE CARD TYPES

### Standard Credit Card

With this card, the customer is allowed to use money up to a certain limit and once the level of balance goes down, he/she is required to deposit the money to top up to the desired limit. In case of excess drawings, a penalty is levied.

### Premium Credit Card

It is issued to people with higher bank balances. The incentives offered are more as compared to the standard credit card. Incentives like reward points on shopping/purchases, points on using credit card to pay for travel, and cash-back facility are available on these cards.

### Virtual/Prepaid Credit Card

These cards require users to deposit a particular amount in the card; at the time of purchases this amount is debited. It is like debit cards – with one major difference that the user does not need a bank account for prepaid cards. It is generally to protect the risk of loss of cards as there is only a limited balance loaded on this card.

### Other Customized Cards

Examples of these include student cards issued specifically to college students for them to avail of student-focused schemes run by some companies; women cards specifically focused at needs of women consumers; fuel cards by fuel companies that provide waiver on fuel surcharge; and travel cards that provide different sorts of discounts on tickets and hotel bookings.

*Are you among those who are feeling trapped in this credit cycle? Are banks taking enough measures to educate their customers about the credit cards? Are you actually aware of the terms and conditions of using credit cards? Are you actually benefitting from the use of credit cards or is everything just designed to confuse you?*

In an effort to find answers to these questions, the Consumer Voice research team went out in the field, met real credit card users, spoke to potential customers and thoroughly analysed 10 credit card products from banks. What emerged in the course of the study are

11 most important variables that influence customers' choice of credit cards.

The findings and recommendations are not just on the basis of what card companies/banks are offering, but also variously relevant according to the understanding level of customers. While one set of customers understand credit cards very well, there is another set who are relatively naive and do not much understand the financial complexities. Hence, the weightage points for selecting best cards for customers were decided accordingly.

### CV Recommendation

#### For Financially Smart Customers

**Best Buy:** Punjab National Bank Gold Card  
**Good Buys:** HDFC Titanium Edge | IndusInd Platinum Aura

#### For Financially Naive Customers

**Best Buy:** Punjab National Bank Gold Card  
**Good Buys:** Union Bank of India Gold Card | Axis My Choice

### What to Look for in Customer Care Service?

- Customer care service in terms of blocking of lost card or rectification of bill
- Customer care service with respect to discontinuing credit card facility or bill disputes
- Availability of 24 X 7 customer care service
- Less call waiting time
- Online customer care facility
- Online grievance redressal mechanisms

## The 11 Factors

### Joining Fee

It is the lump sum fee payable at the time of taking a credit card. It is a one-time expense and most of the cards these days are available for free or there is some scheme of offering shopping vouchers of an equivalent amount.

### Annual Fee

The recurring amount charged every year on the credit card issued is called the annual charge. Annual fee charged varies from one category of card to another. Some cards do not charge any annual fee while others charge between Rs 500 and Rs 1,500. Certain cards offer waiver of annual fee on conditions like achieving a fixed amount of spending during a specified period. Some cards do not charge in the first year but bill you in the subsequent years.

### Grace Period

The total time allowed in which the interest rate is not charged on the purchases made is called the grace period. The longer the grace period, the more is the time available to repay the card dues without being charged any interest on the same. So, longer the grace period offered, better it is for the customer.

### Revolving Credit

An important point that needs a significant mention here is that in case the cardholder is

revolving the credit – one pays only the minimum payable amount by the due date (leaving the balance unpaid and carried over to the next billing cycle) and also makes no fresh purchases – the amount of interest is charged not only for the balance amount but also for the new purchases made in the next billing cycle. In this case, the cardholder does not enjoy any grace period. In some cards this revolving credit concept exists, which means that virtually the entire charm of the short-term credit is lost to customers since no grace period is offered on new purchases in case full settlement of the previous billing cycle is not done.

### Credit Limit

The total amount up to which the credit is available in each billing cycle is termed as credit limit. The credit limit offered to a customer depends upon various eligibility factors like income, age, residence location, CIBIL scores, etc. More the credit worthiness, more is the credit limit offered.

### Interest Rate

This is the rate of interest charged on the amount unpaid after the grace period is over. Lesser the interest rate, better it is for the customer. Customers who do not pay back the entire amount of credit used within the allowed grace period should opt for cards with a lesser rate of interest. The interest rate charges generally range from 2 per cent to 3.5 per cent per month, which amounts to 24 per cent to 42 per cent



per annum. So, this is an expensive way to use money as compared to a personal loan that has an interest rate of around 12 per cent per annum.

### Cash Advance

When the credit card is used to withdraw cash through the ATM, it is called cash advance and there are additional charges for it – ranging from 2 per cent to 3.25 per cent per month. Usually, no grace period is allowed for the amount of cash withdrawn using the credit card.

### Cash-Handling Charges

When the amount due to be paid on credit card is paid in cash, certain additional charges are imposed. These are called cash-handling charges. It ranges from Rs 75 to Rs 100 per transaction.

### Customer Care Facility

The service provided to the users of credit card is the customer care facility. It includes customer's enquiry about the product (credit card), its usage and redressal of any problem faced. The most important use of this facility is to get the credit card blocked in case you lose the card. The call waiting time to speak to the executive is a crucial aspect of this service. For better customer grievance handling and better customer experience, the call waiting time should be the minimum. Also, customers should choose a card that provides 24 X 7 customer care facility. In case of the SBI credit card, customer service is available only from 8 am to 8 pm. For customers, a limited time period for contacting the customer service becomes a hurdle.

In case of credit cards, post-purchase customer service is perceived to be important, but it is not essential to be having a direct bearing on the selling of the product. Hence, we have assigned 30 per cent weightage to this factor in our study.

### Reward Points

On every purchase made through a credit card, certain points are earned which can then be redeemed once they get accumulated. The redemption can take place in the form of shopping vouchers or discount coupons and sometimes redeemed in the form of cash too. The more the reward points offered on each spending, the better it is for customers. Those who are particularly aware about their grace period – and



pay all dues within the allowed grace period with no interest charges applicable – should prefer credit cards with more reward points. They may not worry about the interest rate.

### CIBIL Score

The Credit Information Bureau India Limited (CIBIL) score is a three-digit numeric summary of a person's credit history indicating their financial and credit health. The score ranges from 300 to 900 points. The more the CIBIL score, the higher is the credit worthiness of a person and the stronger is the debt-repaying capacity. Before issuing a credit card to any applicant, the bank verifies the CIBIL score in order to know the financial standing of the applicant. Generally a CIBIL score of 650 and above is acceptable. The acceptance criteria vary for different banks.

#### POINTS TO KNOW

- Visa, MasterCard, American Express, Discover and Diners are payment networks, not credit card issuers.
- In September 2013, RBI issued guidelines banning zero interest payment plans offered to credit card users. The growing market for tech-savvy products like tablets and high-end smartphones accelerated the push towards zero interest instalments. Credit card companies claimed to provide interest-free EMI. But RBI felt that there were many disguised and concealed facts with regard to such offers because of which consumers unknowingly ended up paying a huge amount of hidden charges.

### FINDINGS

Of the 11 variables explained above, we used six – interest rate (per month), annual fee, joining fee, reward points, benefits and grace period – to rate the card brands.

	Axis My Choice MasterCard	ICICI Coral Visa	Union Bank of India Gold Card Visa	Citibank Platinum Visa	HDFC Titanium Edge MasterCard
Interest Rate (per Month)	2.95%	3.4%	1.9%	3.25%	3.25%
Annual Fee	Rs 250 from second year	Rs 500. Waived off if previous year purchase exceeds Rs 125,000	NIL	NIL	Rs 499
Joining Fee	Rs 250	Rs 1,000	NIL	Rs 1,000	NIL
Reward Points	Rs 100 = 1 reward point = Re 1 redemption value	Rs 100 = 1 reward point = Re 0.4 redemption value	Rs 100 = 1 reward point = Re 0.5 redemption value	Rs 125 = 1 reward point	Rs 150 = 2 reward points and 100 reward points = Rs 40 cash back
Benefits	Customize the card by choosing any of two categories for 5% cash back on dining out, supermarket purchases, utility bills, fuel, travel and electronics	Cash rewards, complimentary movie tickets, discounts on dining out, complimentary air tickets, airport lounge	Surcharge waiver on fuel purchases of Rs 400–Rs 4,000 per billing cycle	Surcharge waiver from Indian Oil petrol stations, discounts on Kaya products, tie-ups with Berco's, Costa Coffee	Petrol surcharge waiver, additional 50% extra rewards points on dining
Grace Period (Days)	52	48	20–50	15–20	10–49

#### For Financially Smart Customers

One important inference we have made while conducting interviews is that there are two sets of customers. Customers in one set are fully aware of the major aspects related to credit cards. They are aware of the billing cycle, the grace period, the

interest rates, the reward points and other facilities and benefits linked to their cards. These customers are vigilant and pay the total amount due on credit cards within the allowed grace period and do not pay any interest. We describe them as financially

## Credit Cards



Kotak League Platinum Card Visa	IndusInd Platinum Aura Visa	SBI Platinum Card Visa	PNB Gold Card Visa	Canara Bank Gold Card Visa
3%	3.83%	3.35%	2.45%	2.5%
Rs 499	--	Rs 2,999 welcome gift: choice of base fare free domestic return air ticket or apparel voucher worth Rs 3,000	NIL	Rs 250
NIL	Rs 3,000–Rs 7,000; equal amount of vouchers given to customers	Rs 2,999	NIL	Rs 250
Rs 100 = 1 reward point	Rs 100 = 1 reward point; minimum 500 reward points required for redemption	Spend five lakh rupees in a year and earn a free one-way domestic air ticket (full fare)	Rs 100 = 1 reward point; minimum 500 bonus points required for redemption	Rs 100=1 reward point = Re. 0.50 redemption value; minimum 500 points required for redemption
Tie-ups for air tickets and with PVR for movie tickets	Tie-ups with BookMyShow, golf course, discounts on dining in different hotels	Flower and gift delivery, movie tickets, airline ticket reservation, hotel referral and reservation assistance	10%–25% discount on food and beverages, and room tariffs at Sarovar Hotel, Kairali Ayurvedic, discount offers on mobiles, DTH services	Floating medical insurance cover
45	15	20–50	20–50	20–50

smart customers.

As they pay the amount due within the allowed grace period, for them the interest rate holds lesser significance in comparison to the reward points and benefits offered. Hence, less weightage is assigned to interest rate and more to rewards and benefits

offered by the particular card. Joining fee is another important variable but as it is a one-time expense the weightage assigned is only 10 per cent. The annual fee is a more significant factor in comparison to the joining fee, as it is a recurring expenditure; it has been given a weightage of 15 per cent.

In order to find the best cards for these customers, weightage to various parameters is assigned in this order: interest rate: 20 per cent; annual fee: 15 per cent; joining fee: 10 per cent; reward points: 30 per cent; benefits: 25 per cent. While scaling these factors down to a total of 70 per cent weightage, 30 per cent weightage is assigned to customer service.

*On the basis of the above weightage points, we recommend PNB Gold Card as best buy and HDFC Titanium Edge and IndusInd Platinum Aura as good buys for this category of customers.*

### For Financially Naive Customers

Financially naive customers are not aware of the interest charges, do not bother to know the grace period or the billing cycle, and generally fall prey to the additional charges levied including interest, as payment is made after due date. They do not avail of the actual benefit of using short-time credit without having to pay any interest rate and, as a result, end up paying a huge amount as interest charges.

For this category of customers, the most significant factor is the interest rate. They would prefer cards offering a less interest rate even if the other rewards and benefits are less. So, the highest weightage in their case is given to interest rate charged and less weightage to rewards and other card-linked benefits. For joining fee and annual fee, the weights remain the same as in the other category.

Weightage to various parameters is assigned in this order: interest rate: 40 per cent; annual fee: 15 per cent; joining fee: 10 per cent; reward points: 20 per cent; benefits: 15 per cent. These variables are then scaled down to 70 per cent assigned weightage for product and 30 per cent assigned weightage for customer service/satisfaction.

*For this category of customers we recommend PNB Gold Card as best buy and UBI Gold Card and Axis My Choice as good buys.*

The advice given above is based on pre-defined criteria. The 30 per cent weightage for customer satisfaction and service is allocated on the basis of scores given in the study titled 'Consumer Satisfaction and Assessment of Quality of Service in Banking Sector', conducted by Voice Society in January 2012. In the study, the scores on customer satisfaction of different banks offering credit cards are as under:



AXIS	8.1	Kotak	7.97
ICICI	8.19	IndusInd	7.97
UBI	8.03	SBI	8.96
Citibank	6.09	PNB	8
HDFC	8.64	Canara	8.15

*(Customer scores for IndusInd and Kotak were not available in the particular study, so we have taken an average score of 7.97 for customer satisfaction.)*

### The Card Advantage

Credit cards are a good source of short-term credit without having to pay any interest (if paid within the allowed grace period). In return, you can earn several reward points, facilities and other benefits like discounts on dining out, travel and show tickets as well as lifestyle products.

However, the customer should always keep close track of his billing cycle and pay the entire sum of money due within the allowed grace period. The maximum number of interest-free days can be availed if the user plans and times his purchases at the starting of the card's billing cycle. The maximum utilization of the grace period can be achieved by using more than one card and timing the purchase according to the respective billing cycles.

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