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PERSONAL FINANCE

CREDIT CARDS – FRIEND OR FOE?

Credit card growth in Indonesia has been explosive over recent years as the fast-growing middle class has embraced a new-found affluence. Credit cards reduce the amount of cash people need to carry and have made it easier to book flights or hotels and even to shop by going online. They have enabled people to purchase items weeks before they have to pay for them.

The benefits do not stop there

The two most widely accepted credit cards are Visa and MasterCard. They are generally marketed to the public by banks and sometimes in conjunction with individual companies such as airlines. To promote sales they frequently offer incentives such as large discounts on products, particularly restaurant meals. Locally, many cards offer access to airport lounges. Great value if you wish to escape from the crowded public areas outside, not to mention the saving you make by eating there free of charge.

Many credit cards will also award points according to how much you spend. These points can be exchanged later for goods or air miles.

If you travel internationally it is hard to get by without a credit card. In most countries you cannot rent a car if you have no credit card, no matter how much cash you can place on the counter. Using a credit card overseas also reduces the amount of foreign currency you have to take with you.

But there is a dark side

Using a card is easy; the consequences may not be. If the bill is paid on time and in full there is no issue; you will have enjoyed up to five or six weeks' 'free' credit. I say 'free' because retailers will often mark up the original price to cover the fee they have to pay to the banks or card companies. The real problem arises if you do not or cannot pay the bill in full. This is when interest rates kick in and very often at outrageous rates, up to the equivalent of 40% per annum. Manageable perhaps if you can plan to pay for a major item over three or four months. If not, the interest will mount up rapidly. Some find a

solution to this; they take out another credit card to help repay the first one! Inevitably, this does not work out and debts pile up even faster. It can lead to a downward spiral from which there is no hope, only a future laden with debt. This is not just a local problem; one of the richest countries in the world, the USA, probably has the highest average credit card debt, running at around \$15,000 per person. But at least the US now has laws and self-help programs to help people get out of debt.

The best way to avoid getting into a debt situation is to instruct your bank to pay the credit card bill every month in full before the payment deadline. This of course entails more closely monitoring your spending as well as your bank balance.

Take care of your cards

Even if you are a responsible user you need to be aware of a number of pitfalls. Credit card fraud is massive and sophisticated. While copying credit card details can be done easily by any retailer's employee the more advanced criminals have other ways of copying and cloning cards. Sometimes this is achieved by inserting a device inside an ATM machine. They also have means of scanning the Internet to look for transactions that have not been protected by a secure site. Fortunately the banks will usually pick up the bill for a fraudulent transaction. But it does mean checking your statement and immediately reporting any anomaly. If you are lucky, the bank will be proactive and contact you should they spot a suspicious transaction.

Protect and memorize your PIN number and change it if you think it may have been compromised.

It is a good idea to advise your bank prior to any travel, otherwise you may find that your card has been blocked when they spot a charge appearing on the other side of the world. This is where a second card can come in useful.

Make sure you keep details handy of your bank's emergency numbers so that you can report immediately should your card be lost or stolen.

Is a debit card more prudent to use than a credit card?

Yes, if you have an aversion to debt. When you use a debit card the amount you are spending or withdrawing is deducted immediately from your bank account. If there are insufficient funds in your account the transaction is simply declined.

The problem is that many businesses such as hotels or car rental companies will not accept a debit card since while you may have funds in your account at check-in your account could be empty at check-out time! A credit card, on the other hand, will guarantee payment so that should your account run out, the hotel or rental company still gets paid and you are left to settle up with the bank. For debt-conscious people the solution is to use a debit card whenever possible but keep a credit card up your sleeve (or preferably in your wallet!).

So is your credit card a friend or foe?

Like it or not, unless you live a very sheltered life, a credit card is now an indispensable part of modern living. Used responsibly it can be a great convenience, can actually save you money and can give you access to creature comforts at airports. But it can become your worst enemy if you don't keep it under control. Take charge of your card or cards; don't let them take charge of you!

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