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Why is credit card usage on the rise?

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EXPERT SPEAK

# Why is credit card usage on the rise?

In the past couple of years, credit card outstanding has been increasing. It went up 35% in value during the April-October period in FY18. **Vivina Vishwanathan** asks experts about the increased focus on credit cards



**SUMIT BALI**  
senior executive VP and head-personal assets, Kotak Mahindra Bank

If you look at the overall lending market, there is hardly any demand from companies. A lot of repricing is happening, but there is no fresh demand coming in. It is the same story for home loans as well. These are two big segments going through a slowdown. On the large ticket loans, a lot of churn is happening. Borrowers with higher rates of interest are negotiating and getting lower rates or moving to other banks at a lower rate. Overall, that segment is not growing for the bank.

However, the unsecured piece has been growing. Over the last few years, we have seen systemic change in unsecured lending. Today, you have a lot of information from the (credit) bureaus. Fintech companies give you a lot of data about a customer. Even if you don't have a customer's credit history, you can still onboard her based on other data about her. Based on the transaction history from her savings account, though she is a new-to-credit customer, a bank is now comfortable to lend. Also, post-demonetization, acceptance of card has grown.

Another reason why personal loan is growing is that there is a segment now that is happy to consume now and pay later. Today if you want to go on a holiday or buy latest gadgets, the new generation is happy to take a loan. As consumers, you should use credit card sensibly because ultimately it will reflect on your credit history.



**VIJAY JASUJA**  
chief executive officer, SBI Card

Overall, credit card spends have increased 42% year-on-year. Our credit card outstanding growth has been 80% year-on-year. There are multiple reasons for the growth in spends. Firstly, the e-commerce boom has increased the spends on the cards. Secondly, the confidence level of consumers to use cards has gone up post-demonetization. Earlier, there was a concept that unless you have a credit history you will not be eligible for a credit card. But now individuals have a higher income in their first year of job itself. But they don't have a credit history. Technically, they will be called new-to-credit customers. Another segment is the individuals in the tier 1 and 2 cities who see their peers using cards.

The question is, will the bubble burst if credit card spends go up significantly? In the credit card asset portfolio, the credit card outstanding amount is of people who are away from the due date. There are customers who get their high-value spends converted to EMIs, which has also increased the overall credit card outstanding amount. Then there are people who don't have sufficient liquidity to pay. They pay a minimum amount and revolve the facility with high interest. This is the segment (that is) risky. About 20-27% of our customers fall in the last segment and it is consistently the same. That means additional and new-to-credit portfolio are not bringing in additional risk.



**RANJIT PUNJA**  
co-founder and CEO, Creditmantri.com

Largely, since the last downturn in the economy, lenders have become careful about who they lend to. They typically only lend to those who have demonstrated a good credit score. They have clamped down on bad credit customers. However, today, with a general upsurge in income, the whole advent of e-commerce, the ability to pay online and digitally savvy customers has led to utilization of more income. Banks have started believing that newer fintech models are probably the way to go in terms of underwriting. At this point, it is a drop in the ocean. Banks are making the underwriting journey simpler. There is a lot of data available digitally.

Time will tell if that is a good way to look at lending. At this moment, the end users are enjoying the benefit. Typically, in the financial world, you see these ups and downs. You will see a bad credit cycle and then delinquencies. I am concerned with newer models that are not time tested.

As a consumer you shouldn't spend beyond your means. Credit card and unsecured loans tend to do that to you, especially for people who don't have the discipline to borrow and repay. Credit card is a simple way to overspend. And interest rates are very high. Being credit wise is critical for someone who has not used a credit card ever. Our advice is to start small, display discipline and make sure you service your debt.



**SURYA BHATIA**  
New Delhi-based financial planner

The push by the government has helped India convert to a cashless economy. Meanwhile, none of the banks want to miss out on the retail population. The people in the higher income bracket were already having a credit card. Digital banks like Patym Payments Bank will give this a further push. The bigger banks want to have the bigger pie, which includes the HNI segment and those in the higher income group. But the real money in terms of volume is the young population. Everyone wants to grab hold of that population. The young millennials are the people who want to spend, especially digitally.

There is also a bit of loyalty factor. For instance, I still hold the credit card that I got for the first time. In the last many years, I have bought two other cards and discarded them too. But my first credit card still continues. There is no specific reason why I hold on to it. Every bank wants to cash in on that population. The idea is to catch them young and to make them stick with you.

Consumers have also changed. They are now spoilt for choices. In the early days, they used to pay for credit cards. Now there is no concept of paying for cards. For instance, if you spend a certain amount, most of the card providers waive off the charges.

Logically, you should not have more than one card. And better still is stick to a debit card. Once you understand debit cards well enough, then may be opt for a credit card.