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[Credit card firms explore ways to get repayments]

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Credit card firms explore ways to get repayments

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Credit card companies are incentivizing those willing to pay their dues following the repayment moratorium, while some have increased penalties for errant customers in a move to check defaults.

India's largest credit card company, SBI Cards, is encouraging customers to avail of its own repayment plan or the Reserve Bank of India's (RBI's) restructuring scheme to repay their dues.

Under its internal scheme, titled Easy Repayment Scheme, customers can con-

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vert the outstanding dues into a 15-month loan at a lower interest rate of 13% by paying an irregularity amount.

While the RBI restructuring scheme is available only to delinquent customers who have missed payments by more than 90 days, SBI Cards says it aims to benefit a wider group of customers.

"We have been able to enrol large numbers of customers in these schemes, and the way it works is if you don't enrol into a payment plan, you cannot sustain the revolver interest, which is 40% plus. So you come to a scheme, you get more time. Your rate comes from 40%-plus to 12-20%, which is the rate for these schemes. You get two years in the RBI scheme and 15 months in our scheme. So it's a win-win situation for both. Many are good customers. For instance, 55% had never missed a payment for the last 24 months," SBI cards managing director and chief executive officer Ashwini Kumar Tewari said in an interview.

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A 8 September Macquarie report observed that while this is a business-as-usual practice, the focus on it under the current environment is much higher. The report added that the interest income for SBI Cards may be significantly lower as the equated monthly instalment (EMI) loans have much lower interest rate than revolver loans. But the extent of defaults can be avoided under these schemes, resulting in better profitability.

On the other end of the spectrum, credit card issuers such as HDFC Bank and RBL Bank have raised late payment fees to deter customers from defaulting.

While HDFC Bank is said to have raised late payment fees by 16-20% for small overdues (up to ₹10,000) and by 50-75% for large overdues (₹25,000 and above), it has also increased the interest rate on revolver balances on some credit cards from 3.49% monthly (i.e., 41.88% annually) to 3.6% monthly (i.e., 43.2% annually).

HDFC Bank has also hiked the rate on revolver loans to 43.2%, with effect from September, from 41% earlier.

"We had tweaked penal charges in the month of April. The average realization may be higher. These charges are effective from September now that the moratorium period is over. We need to see how the repayment picks up post this as it will be the first month when the higher rates come into effect," said Harjeet Toor, head, retail and credit cards, RBL Bank.

Banks have also been cautious in growing their credit card base during the past six months. They have been weeding out weak and unprofitable customers.

According to a Macquarie report, Axis Bank saw a net reduction in their cardholder count by 175,000, RBL Bank by 70,000 and ICICI Bank by 45,000 in the first quarter of the current financial year.

At the industry level, net reductions were 450,000. While both HDFC Bank and SBI Card witnessed net reduction during April and June, they have swung back into net positive additions momentum during June.

"Market started sourcing cards from June onwards. We started a little later. We have reached 55-60% of volumes. We would want to see the payment behaviour of customers for September and October before we scale up to our original run rate," said Toor.

Business in terms of credit card spending is, however, back to near pre-covid levels for many banks and credit card companies. With the onset of the festive season, credit card companies are expecting a growth in spends of 15-17% compared to 25% last year.