

Bwalya K E Ng'andu: Benefits, problems and challenges associated with credit cards

Remarks by Dr Bwalya K E Ng'andu, Deputy Governor (Operations) of the Bank of Zambia, at the launch of the Access Bank Zambia Limited Visa International Credit Card, Lusaka, 19 June 2013.

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The Board Chairman, Access Bank Zambia Limited, Mr. Caleb Mulenga;

Access Bank PLC Executive Director – Subsidiaries, Mr. Tek Koroye;

Access Bank Zambia Limited Chief Executive Officer, Mr. Jekwu Ozoemene;

Members of the Diplomatic Corps;

Government Officials;

Members of the Press;

Ladies and Gentlemen

It is indeed a pleasure for me to be here this evening to join Access Bank on this important and auspicious occasion marking the launching of the Access Zambia Limited Visa International Credit Card. Through you Chairman, I wish to extend our congratulations to the Bank for this commendable addition to your range of products and services. Undoubtedly, this will go some distance in responding to demands and needs of customers who are looking to benefit from this product with its combination of credit and the application of technology in payment for goods and services.

While acknowledging this initiative, I will fall short of presenting the introduction of a credit card service as cutting edge technology, because it is not. As you are aware credit cards have a long established history of extensive usage in many countries around the world, including a number of African countries. But credit cards are not common in Zambia as only a few banks issue them while most cards held by residents have been issued offshore.

This initiative taken by Access Bank should directly contribute to an increase in the number of people holding such cards and taking advantage of the range of benefits that can be derived from their use.

In countries where credit cards are used extensively, their benefits for users are commonly recognized and include:

- Elimination of the risk associated with carrying large amounts of cash as it may be lost or stolen. Credit card companies have over the years developed a variety of anti-theft practices which protect the cardholder in the event of theft of the card. In any case, the cardholder is protected from fraud on the card except in event of negligence on his/her part;
- Cards make it easier to buy things as one can pay for a range of goods and services from small items to airline tickets, hotels, car-rentals etc. They are particularly appropriate for online purchases;
- Cards offer you additional protection if what you purchased is lost, damaged or stolen as the credit card statement can vouch for the fact that you bought the item even in the absence of the original receipt;
- It helps you build a credit line which can be used by the credit reference company to support your creditworthiness when applying for a loan; and

- In the case of emergencies, a card can become handy in paying for requirements which may be completely outside your budget.

These are some of the basic conveniences of credit cards which will come about with the extensive use of this instrument in this country.

Apart from the cardholders, credit cards have other wider advantages which impact on the greater economy. From our perspective as a Central Bank, we are keen to promote the use of non-cash and more efficient payment systems for its convenience, flexibility and security. We consider it as one of the instruments that can contribute to the promotion of financial inclusion as has been clearly demonstrated in other countries where cards are a common tool for the settlement of financial transactions. In the United States, for instance, 80% of households have at least one credit card. In Zambia, with the growing emphasis on trade within the regional economic groupings like SADC and COMESA, plastic money in the form of credit cards, is a very practical way of facilitating settlement of cross border transactions.

Another benefit which may be associated, with the more extensive use of e-money is the potential increase in tax compliance among the retail and wholesale sectors. The use of credit cards generates accurate records of purchases which currently may not be captured by the Zambia Revenue Authority because business houses may declare false figures. With the use of a credit card there is no provision to cheat the taxman by refraining from issuing a receipt as the record of the transaction will speak for itself.

Whilst on the subject of greater tax compliance, I would want to see some form of requirement for most businesses to use points of sale terminals and other non-cash forms of payment in our shopping malls and central business district businesses where we see a resistance from businesses to embrace this technology in favour of cash.

But let me end my remarks this evening by pointing out a number of problems and challenges that might be associated with the use of credit cards.

The biggest disadvantage of credit cards is that they encourage the holders to spend money they don't have. If the credit card does not require that you pay off your balance each month, this balance will accumulate. The longer you wait to settle, the more money you will owe since interest will be charged each month on the unsettled balance. Cardholders therefore need to be careful not use the card liberally. If you think, the card makes you throw caution to the wind as you spend; you might consider leaving the card alone.

The possibility of falling into a debt trap is another real danger that cardholders need to watch out for. Interest rates on credit cards can be high. In some countries interest rates on credit cards can be as high as ten times what banks are willing to give on deposit balances. We will keep our sight on what rates apply in the market as a central bank and may even intervene if necessary. But the responsibility of avoiding falling into a debt trap lies primarily with the cardholder. It is prudent to remember that whilst a credit card can make your life easier and can be a wonderful tool for facilitating payments, if you do not use it wisely, it will become a massive financial burden for you. We must learn some lessons from how failure to keep track of purchases and the uncontrollable propensity to spend outside budget, has led to the financial ruin of many people in the developed economies.

The last risk, I want to talk about is pertinent to both cardholders and issuers of cards – and that is the risk of credit card frauds. Cards can be physically stolen or credit card numbers can be acquired by thieves over the phone, internet or website and then used illegally to rack up debts. Access Bank must therefore, develop adequate security measures that can protect it and its clients from the crimes which seem to pervade the electronic based payment platforms. To fight this crime, you will need to educate your customers on how to safely and securely conduct transaction using their cards. You will help prevent fraud by educating your customers on what to do when they lose their card or wallet, how to secure their card by, for instance, not giving out credit card information anyhow or on the website and the need to check statements closely. On their part, cardholders must also do their part as responsible

cardholders, including paying off balances on credit cards as required, not loaning credit cards to others or divulging credit card information to anyone not entitled to it.

Chairman, Ladies and Gentlemen, let me reiterate my words of commendation to Access Bank for introducing this product on the market. It is a great product which when used properly will benefit both the bank and its customers. This outcome is however, predicted on customers using the card wisely and responsibly and on the bank issuing cards to clients after a careful vetting and scrutiny and charging fair interest on the product. Failure to choose creditworthy customers will lead to defaults which may trigger excessive charges.

Allow me again to congratulate the Board, Management and Staff of Access Bank Zambia Limited on this important initiative.

I thank you!