

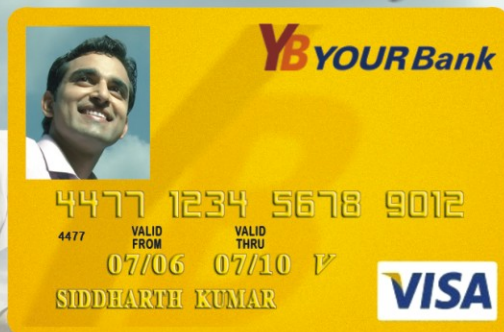
ICICI BANK CUSTOMER FIRST SERIES

A consumer education initiative

Credit Card Series I: Article 1 of 6

TIMES BUSINESS ASSOCIATE COMMUNICATION

Credit Card Essentials



Raveendra had never felt more important. He had looked upon himself as one of the millions that dealt routinely with his bank. But the agent who called him that morning had offered him a pre-approved credit card. That phone call made his day. It made Raveendra feel that he had arrived, finally. The bank was at his door, seeking his attention. Credit cards have the power to make us feel important and empowered. In this six-part series, we will move beyond the psychological high of the credit card to its essential financial features.

Purchasing Power

A credit card is a kind of loan from the bank to a customer. Therefore most banks employ agents to get new customers. Customers like Raveendra tend to look at the credit card as a perk – an additional purchasing power placed in their hands. While this is also true, credit cards are in fact loans that fund the purchases of customers, until they pay back to the card-issuing bank.

Convenience

The biggest convenience the credit card offers is the facility of spending now and paying later. Raveendra's spending need not be restricted by the amount of cash he physically holds in

his wallet. He need not suffer the embarrassment of checking his cash at the restaurant while his family orders food; nor does he have to stand in queues for his movie and train tickets. The credit card is his tool to purchasing what he needs, when he needs it.

Merchants

Millions of establishments across the world are willing to swipe the card for the payments on purchases made. Merchants support card payments through EDC (electronic data capture) terminals deployed at their shops. Accepting credit cards reduces bulky cash handling and enhances the spending of their customers, bringing

them more business. The magnetic strip on the card carries the details of Raveendra's card. The swipe of the card in the EDC machine ensures that the transactions are recorded against Raveendra by the card-issuing bank.

Limits and Billing

The issuing bank consolidates the transactions that Raveendra conducts in a given period, called the billing cycle, and sends him a monthly statement. This indicates the money that is due from Raveendra to the bank. When a card is issued, the bank determines the credit limit for the customer. This is the maximum money Raveendra can spend on his

card, until he pays back to the bank in full or in part.

Revolving Credit

A credit-card loan is not secured by any assets. If Raveendra pays off the entire bill amount when the statement comes to him, he actually enjoys no-cost credit from the bank, for that cycle. This is the biggest advantage of the credit card. But if he does not pay the dues in full, the bank charges him interest for the amount due from him. The interest rates on credit-card dues are very high, because of the unsecured nature and short duration of the credit-card loan, and range from 24% to 38% per annum.

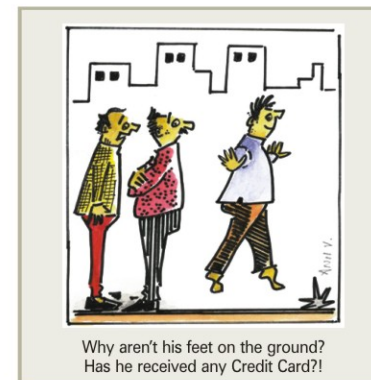
Validity

Credit cards are issued usually for a specific period and are valid up to a certain date. This is to ensure that the customer's repayment track record can be used to decide whether the credit limit, or the credit card itself, can be extended for a further period. The customer can also voluntarily close his card account at any time before the expiry of this validity period, by clearing all dues.

Multiple Cards

Raveendra is free to hold as many cards as he likes. But each one needs to be serviced, paid and handled well. Too many cards may be more pain than pleasure. The Credit Information Bureau of India Limited (CIBIL) enables banks to share information about the repayment history of a customer. Therefore defaulting on payment for any of his cards can make it difficult for Raveendra to take loans from his banks, or get a credit card renewed.

Credit cards are a convenient form of loan a customer enjoys. They are safer



GET SET KNOW

CONTEST

Question
A credit-card user is expected to make payment for his credit-card purchases _____.

Answer
A. soon after a transaction
B. once in a year
C. after every billing cycle

To answer SMS DISHA A, B, or C to 53030 and win a 2N 3D Holiday*.
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Visit www.dishafc.org for details and winners.

than carrying cash and are widely accepted at merchant establishments. We will discuss how cards are priced and how interest is computed, in the next part of this series.

Center for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at www.icicibank.com or send an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

DID YOU KNOW ?

A credit card with the photograph of the user is easier to verify and difficult to misuse. It also doubles as a simple proof of identity.

FAQs

Why do all credit cards have Visa, MasterCard or AMEX logos on them?

Visa, MasterCard and AMEX are electronic payment networks, which actually facilitate payments to the merchant establishments that accept credit cards. The logos indicate their identity. The issuing banks deal with their cardholding customers, determining the eligibility and limits and managing the dues from them.

If I do not like to avail of credit, I don't need a credit card. Right?

A credit card is valuable for its convenience, which hugely outweighs the fact that it is a form of loan. It is impractical to assume that we will be able to forecast all our cash requirements, and have adequate liquidity to pay every time the need arises. Credit cards give us purchasing power that is immensely useful in both routine and emergency situations. Besides, if the outstanding bills are paid in full by the due date, the credit has zero cost.

What is an add-on card?

The bank can issue additional cards to members of the cardholder's family, where the payment of bills is made by the primary cardholder. For example, an add-on card can be issued to the wife, to be used by her. The bills are sent to the husband who pays for the add-on card and for the purchases his wife makes with it.



TIPS TO KNOW YOUR CREDIT CARD BETTER



CAREFULLY READ THE MITC

While applying for a credit card, insist on your agent to provide you with the Most Important Terms and Conditions (MITC).

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