

# How to make your credit cards work harder



THE  
LAST WORD



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TWO weeks ago I wrote about credit cards and how Malaysia seems to be ahead of us since they cap credit card interest at 15, 17 and 18 per cent, depending on how promptly a person pays his or her credit card bills. Three Malaysian banks go beyond that and charge a mere 8.88 per cent interest on credit card debt.

Malaysian banks don't claim "we have to charge high interest because of high credit card default rates" since it's only high-risk cardholders (who pay their bills late) who get charged high rates.

It is a clever scheme and keeps credit card interest low in Malaysia. Our banks do the opposite and charge everyone the same rates, even though our credit card default rates are low at only 0.2 per cent. Our banks recently raised credit card interest, which I estimate to be about 28 per cent compounded, based on their formula.

The banks offer the solution of "balance transfer", which offers low promotional rates of 0 to 8 per cent,

plus an administrative charge of 3 to 5 per cent for six to 12 months, after which the rates go up again to 28 per cent. A little-known downside is only the old debt gets the low 0 to 8 per cent interest, while new credit card debt is charged 28 per cent interest.

## What's the cost?

Most of us pay our credit card bill on time and think our credit card is free. That's wrong if you ever make an overseas purchase and charge it to your credit card. Then, you are hit with a "currency conversion charge" which can cost more than the average money changer.

Most cardholders pay without knowing the exact cost, although I calculate it at about 3 per cent for Visa and MasterCard. That's an estimate since we don't know all the costs. American Express is also expensive although it discloses its total conversion costs, which are 2.5 per cent.

Note there are two types of Amex cards. One is co-branded, like the

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Peter Tan,  
independent investment manager

DBS/Amex credit card, while the other type is issued solely by American Express. The co-branded cards are similar to the bank's other credit cards, while those issued solely by American Express are needed to enjoy unique Amex deals.

It's a well-known secret that you can get your yearly credit card fees waived by simply asking. It makes you wonder why banks impose these fees in the first place. Annual fees are higher for prestige cards, and officially these yearly fees cannot be waived. It is an open question as to whether these cards offer enough extras to make them worth the higher cost.

## How low can we go?

Did you know your card "double converts"? It means only US dollar purchases are converted once, while other currencies get converted twice.

Say that you use your credit card to buy a boomerang in Australia (because you want to return). The bank first converts the bill from Aussie to US dollars. Then it converts from US to Singapore dollars. Banks don't explain why they don't just convert once, from Aussie to Singapore dollars.

Do we have a right to expect lower currency conversion costs? I think so, and a fair charge is – are you ready – zero. That's right, make it free. I know it sounds like I am picking on the banks and denying them the right to make a decent living, but not so.

Free is reasonable because the currency conversion costs that banks and card companies pay are also near zero. In a revealing US court case (Schwartz versus Visa), Judge Ronald Sabraw found that Visa and MasterCard

"merely act as a clearinghouse, performing arithmetical calculations at insignificant cost".

In the highly competitive US market, two large credit card issuers – Charles Schwab and Capital One – waive credit card conversion fees entirely.

A final thought. I usually look for a market solution to provide an easy fix. Unfortunately, there doesn't seem to be one, since consumers can't do much to lower these costs. One idea might be to convert your cash to foreign currency before you travel, but that also has costs.

A not-very-satisfying solution would be to hold off on overseas purchases and do your shopping when you get home. Like I said though, it's not very satisfying.

All things considered, I don't see a solution to the high cost of credit card currency conversion for foreign purchases. I'm afraid they got us this time.

An adjunct professor at SMU, Dr Haverkamp contributes this column weekly to help our readers understand money matters better.