

'If your outgo exceeds your income, then your upkeep will be your downfall.'

— American philosopher Bill Earle



# Tips on credit cards usage

Currency conversion charges on overseas purchases give banks substantial profits, says **LARRY HAVERKAMP**

**T**HERE are pros and cons when using credit cards. We are well aware of the pros since banks advertise them all the time, but not so much about the cons. Here are some issues to think about.

## Promotions

Credit cards constantly advertise discounts for dining and shopping. I spent a few days trying to compare them and the winner is... none. Some go for French cuisine while others, like me, prefer McDonalds and Burger King.

But each card has its own niche. The "best" deal depends on your own tastes.

## Gotta get 'em all?

If you really have lots of time on your hands, one questionable strategy is to obtain all the credit cards available. It will give you access to many deals and lots of one-for-one meals.

Someone I know of has as many as 24 cards. He said he uses them mostly for dining deals.

One drawback is banks could wonder what you are up to and lower your credit rating. See how banks view your credit history from the Singapore Credit Bureau.

You can access it through any of the 62 SingPost branches or online at [www.creditbureau.com.sg](http://www.creditbureau.com.sg). It costs \$6.42 (which you can pay by credit card).

## Don't pay annual membership fees or late fees

A problem with having many credit cards is you will incur lots of annual fees. Fortunately, there is an easy way out. When your bank statement arrives with your annual card membership fee, call the bank and say, "Sorry but I prefer not to pay."

Banks quietly permit this. All you have to do is make the request and if the bank argues, you can add a little pressure by saying: "We can cancel my credit card or cancel my fee. We would prefer to cancel the fee. Please help."

That seems to work. Banks want to keep your business, which is worth more than the card's annual fee.

Surprisingly, all cards, including American Express, will consider waiving annual membership fees although they don't talk about it much.

Late fees are similar. Banks usually waive it automatically so you don't need to tell them a long story about how you were stuck on top of Mount Everest and couldn't descend in time to pay.

## Air miles, VIP lounges and free travel insurance

If you collect air miles, the choices are American Express, Citibank, DBS, HSBC and UOB. Even more useful may be access to VIP lounges

at airports. The top cards for that perk come from Citibank, DBS, HSBC and ANZ.

These banks also offer free travel insurance, and some toss in "inconvenience coverage", which pays in case your flight is delayed or your bags are lost.

## Don't roll over

"Roll over" means carrying your credit card balance forward rather than paying on time. The cost is typically 2 per cent per month, which comes to 26.8 per cent per year with compounding. It is super-expensive and only loan sharks charge more.

Malaysia has a better scheme that our banks might consider some day. Their credit card charges are layered at 15, 17 and 18 per cent depending on whether cardholders have had zero late payments for the past 12, 10 and less than 10 months.

A mystery is why Singapore charges remain so high. The banks claim it is necessary because these loans have high default rates.

Not true. According to a Sept 16, 2013, reply to a parliamentary question on credit card debt, credit card default rates are very low, at only 0.2 per cent.

My guess is banks charge 26.8 per cent interest because they can and not because they need to.

## Balance transfer

No matter what I recommend, some people will roll over their debt and end up paying 26.8 per cent interest.

We have five million credit cards and roll-over debt is around \$4 billion. The good news is it's easy to rollover and still pay zero interest.

How? Simply borrow for six months at 0 per cent interest plus a yearly administrative charge of 3 per cent.

This particular deal is offered by Maybank, but other banks offer six to 12 month balance transfer deals that are roughly the same.

After the promotion period, the interest rate reverts to 26.8 per cent. Then what? It's time to go look for another good balance transfer deal at another bank!

## On the downside

One of the basics of business is that companies are tempted to charge more if customers don't realise how much they are paying.

Banks have succumbed to this temptation. An example: For every currency conversion on overseas credit card purchase, banks charge an "administrative fee".

Everyone who uses their credit card overseas has to pay this "currency conversion cost" but no one knows how much. Rough estimates are possible but even that is difficult.

It works like this: Your credit card statement arrives in the mail with only (i) the cost of the purchase in foreign currency plus (ii) the cost in Singapore dollars. Hidden in all that is the currency conversion cost.

Suppose you took a holiday to Australia and purchased a boomerang for A\$100. The credit card bill shows that charge as well as the charge in Singapore dollars (like \$1.14).

You look for the exchange rate history and find it was \$1.107 on the posting date, so it looks correct if the currency conversion cost was around 3 per cent. So far, so good.

One problem, however, is that's not cheap. It is much higher than the costs to the bank and higher than it needs to be.

A second problem is that most customers don't have the skills to do these calculations, so they can't uncover basic bank charges like the ones in this little example.

The third problem is even if they have those skills, a part of the cost is hidden, so it's impossible to know total currency conversion costs.

## Buried deeper than the Titanic

Another way to find the cost of using your credit card overseas is to study the small print on the back of your bill (which is filled with legal jargon so why bother?).

What it appears to show is that almost all banks charge 1.5 per cent of the foreign currency transacted amount for currency conversion costs.

After that are charges imposed not by the bank, but by the credit card companies themselves. They are 0.8 per cent to 1 per cent for MasterCard depending on whether you transact in Singapore or foreign currencies outside of Singapore, and one per cent for Visa, bringing the total cost to the cardholder to about 2.5 per cent. For American Express (Amex), the fee is 2.5 per cent - but this is different with co-branded cards.

A separate problem is you don't know if you will receive the perks that typically come with Amex cards since you don't know if you are really getting an Amex card. Your Amex card could be a co-branded card issued by big banks like DBS, UOB and Citibank. It will carry the Amex name and logo on the card but co-branded cards follow the rules and offers from the banks and not Amex.

To get Amex deals, you need a "pure" Amex card issued by American Express. It's confusing and the only way to know for sure what you are getting is to call the co-branded bank or American Express.

## What are the charges?

Back to the problem of credit card charges, currency conversion fees might not what they appear to be.

It is difficult to figure out what exactly you are paying, and what you pay might be more than the stated 2.5 per cent that you find after some digging.

Even so, 2.5 per cent might amount to big numbers. Questions can be asked on whether this charge is fair.

Billions of dollars have been spent by credit card holders for overseas purchases and

not one has ever been told about their total cost of currency conversion.

An amusing part of my investigation is how the banks and card companies blame one another for this non-disclosure.

On this, I vote with the card companies. They say disclosure is up to the banks since banks mail out the credit card bills. Only banks know how much they have charged their customers for their overseas credit card spending.

Visa and MasterCard have no way of knowing this. It is quite unfair for banks to insist that card companies provide complete currency conversion cost information which they don't have.

There are no good solutions. The only alternative to paying for an overseas purchase with your credit card is to do it yourself (DIY) and make a cash conversion from Singapore dollars to the foreign currency on your own.

How do you do that? It's easy. Do it at a bank or a moneychanger. Of course, these have currency conversion charges too, which are nearly as high as the credit cards.

You roughly pay 2 to 3 per cent to a bank or moneychanger when you convert currencies with them. As a retail customer, you don't have access to low forex rates of 5 to 10 pips (0.05 per cent to 0.1 per cent), while institutions - like banks and credit card companies - have access to those rates.

Of course, you can get these rates if you are a forex trader, but you can only trade at those rates, and not convert and take the foreign currency in cash.

Well, I am supposed to give you tips but in this case, there is no tip.

The only partial (and unsatisfying) solution is to try not to spend when on an overseas holiday. Wait until you get home and don't need to convert a currency.

## Back to the good old USA

Perhaps our role model on this issue can be the US. It has more discussion, transparency and competition on the topic. From time to time, it even shines a spotlight on it.

As a result, two large credit card issuers, Charles Schwab and Capital One, waive credit card currency conversion fees entirely.

It's great for customers, although not quite as generous as it seems since foreign exchange costs to all card issuers as well as banks are very cheap, especially for the huge volumes they deal in.

Depending on the currencies traded, the costs rarely exceed 10 pips, which is 0.1 per cent. Compare this to what our banks and card companies charge customers. While not precisely known, I think it could be around 3 per cent (300 pips).

In a revealing US court case on this subject (Schwartz vs Visa), Judge Ronald Sabraw found that Visa and MasterCard "merely act as a clearing house, performing arithmetical calculations at insignificant cost".

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