



Credit Cards: Time to take a breath

After a hectic growth period, the UAE credit card industry is pausing for breath. It's also looking away from the lower end of the market, focusing more on relationship and the higher end of the market. **Utpal Bhattacharya** finds out why.

Even until early this year, there were all sorts of credit card salesmen pushing their wares without exception to whomever would pay for them. In the UAE, the quest for market share reached fever pitch last year, and the mass market was flooded with credit cards of all hues and makes. Those were the days of the “Wild West”—the gold rush to Dubai had touched the farthest corners of the society.

Even **MONEYworks**' staff received phone calls for credit cards!

There were even instances of sales executives pleading for help, as they had to complete their quota for the month. Were they unable to meet their sales targets, they would not be entitled to certain levels of commissions.

In one classic instance, this writer remembers, one young sales executive, saying: “Sir, if you have

many credit cards, I am sure you won't have any problem to add another one. Just don't use it when you get it. But you'll have really helped me if you apply for our card.”

And the banks claim that they are constantly training their sales teams! Although it's not fair to point fingers at the whole industry, there are undoubtedly enough instances that can be cited when a lack of ethics had become quite conspicuous

Historically, on average, delinquency levels in credit card portfolios in the UAE have been around four per cent at the lower end to nine per cent at the higher end. Most banks have seen an increase in these levels between 60 and 100 per cent.

Perera, HSBC's regional head of cards, says: "The mass market is not gone. It is very much there. Maybe, the measure by which you ascertain the mass market, has gone up. Maybe we were offering cards at AED2,500-3,000 monthly salary. That may have changed now."

R.Sivaram, Emirates NBD's head of cards, is more forthcoming. He admits that the card market below the AED7,000 monthly salary levels is not there in the UAE any more, as banks have become risk averse.

According to industry sources, the UAE market has a total of three and half million credit cards in circulation, and 75 per cent of these cards are in the low end, which is the AED7,000 and below level. The spending on cards is much higher in the premium segment, as between gold and platinum cardholders, they contribute about 50 per cent of the spend, while the rest of the half comes from lower end of the market.

Stress in the portfolio

With the economic downturn hitting the economy, it is obvious that there have been job and financial

losses, and which has built up significant stress levels in credit card portfolios. Whilst different GCC countries have had varied levels of stress to cope with, nothing has come near to Dubai, according to bankers. Dubai, of course, was on a hyper growth trajectory and has been affected the most when the unwinding began late last year.

But, surprisingly again, bankers say that the real levels of damage are much less than many people have talked about. William Keliehor, Citibank's cards division head for Middle East, Africa and Pakistan, says that both revolve rates and credit losses have increased only slightly, just a few percentage points each over what existed before - not too much of a cause for worry.

The average revolve rate in the UAE credit card portfolio is about 70 per cent, according to bankers. The increase in the rate has been about five to six per cent on the existing rate, they say.

"Besides, not all markets in the region are showing the same patterns in stress. For example, Bahrain did not have the stress the UAE has. This could be predominantly because Bahrain is

with hard pressed sales executives, whose only aim it seemed, was to meet targets.

However, those days are gone, and with that the mass market for cards has also seen its demise. Bankers are uneasy discussing the subject of the mass market. Thimal



R.Sivaram



William Keliehor



Thimal Perera

a smaller place, and I think it was a bit insulated from a lot of hyper growth of the UAE,” explains Keliehor.

There are also some differences in opinion among the leading banks in the UAE on how the downturn has affected the spending on cards. HSBC, which is the market leader, does not see a big drop in spend as of now. Also, Perera feels that he would be in a much better position to analyse and give a proper picture in a few months from now. Keliehor talks of a five per cent drop across the portfolio in terms of spend, while Sivaram says that there has been a decline of 15-20 per cent in spends across portfolios.

“Card spends have dropped 15 to 20 per cent, most of it in luxury. There is also some drop in the day to day expenses. The impulse buying is perhaps no longer there,” says Sivaram.

Adds Keliehor: “We see a shift away from spend on luxury items to more basic items. We also see a shift on international spend to more GCC spend. So, people are taking shorter trips.”

Sivaram agrees, but also adds that the industry will be in a better position to gauge the drop in leisure travel once summer vacation for schools start later this year.

However, card spend on business travel, including hotel, ticketing, and other travel and entertainment expenses, is down almost 25 per cent, according to him.

“It is also important to understand that the volumes in units of transactions may not have fallen that much; but, since prices have come down quite drastically, it is reflecting as a large decline in spend,” he explains.

Bankers also agree that the rate of delinquency on credit card portfolios is also going up, as a number of expatriates are forced to leave the country. Bankers also agree that there has been an increase in the numbers of skip cases.

Historically, on average, delinquency levels in credit card portfolios in the UAE were around four per cent at the lower end to nine per cent at the higher end. Most banks have seen an

increase in these levels between 60 and 100 per cent.

“The way delinquency levels have gone up, it would need a big book for banks to absorb losses,” admits Sivaram.

What are banks doing?

Banks in the UAE had betted on the population growth that the market was expecting 12 months back. The bet went awry as global markets turned turtle. But the same banks have now become over cautious. They have gone to the other extreme, and are denying credit cards to those who do not earn high salaries. The whole focus of the UAE’s retail banking is now on the upper end of the market, which constitutes about 25 per cent of the total credit cardholders in the market. Banks are also focusing a lot more on risk management and are selling credit cards to customers that already bank with them, or are insisting on salary

transfers. There is also less focus on sales, and more effort on consolidating and boosting systems and processes. This also means increasing redundancies in the sales departments of banks or their direct sales agents.

There is also a strong emphasis on collections. And most banks are talking to customers facing difficulty in repaying. On a case to case



basis, banks are working with customers to create new payment schedules, so as to make it easy for all parties.

"We are setting up special units to help customers who are having genuine difficulty repaying their loans. We have set up hotlines. When customers come and talk to us, we can come up with solutions for them," points out Perera.

Keliehor and Sivaram are working with their customers in the same way in their respective banks.

It is also not surprising to hear that most banks do not have plans to launch new credit card products in the next few months. HSBC plans to launch its debit card in the UAE market shortly, while Citibank is set to re-launch some of its existing credit card products with significantly larger benefits. Both Citibank and Emirates NBD are working on beefing up their loyalty programmes, and both of them are working closely with merchants to come up with exclusive offers.

"We have always had successful programmes with merchants. But now, when footfall has fallen, merchants are keener to work with us," notes Sivaram.

Adds Keliehor: "A downturn is the right time to commit yourself to customers. It is the right time to entrench yourself in building up loyalty, invest in card platforms and systems, sales technologies, etc."

So, in other words, banks are taking a breather after hectic growth in the past few years. It is likely that this phase of pause will be extended to the next few months before rumours and fears of large numbers of expatriates leaving the country are put to rest. There are some fears that June end could see some serious numbers of people leaving the country. Although there is no basis for targeting June as the month for people to leave, bankers will still wait to find out more at the end of that month. And, until then, activity is expected to remain subdued in the credit cards sales market. In fact, some feel that the market could take a further dip in summer, and then stabilise in the later part of the year, and begin to come back in 2010. One just hopes that newcomers to the UAE, earning less than AED7,000, will not need to wait that long to get their first credit cards once they are here to take up their new jobs. 

More technology initiatives coming: Visa

Kamran Siddiqi, general manager, Middle East, Visa Inc. tells **MONEYworks** that Visa is working on a number of technology initiatives to enable efficient electronic payment.

Banks are cutting credit lines to customers due to the economic downturn. Please comment.

Our role is to enable financial institutions, and they in turn provide people with products. We have a range of products, from pre-paid cards to debit cards, to credit cards, to commercial cards to corporate cards.

Visa's basic role has not changed. If anything, we have become more focused on protecting cardholders and financial institutions on the risk management side. Visa is a key player in the Payment Card Industry Data Security Standard.

Who to lend and when to lend, etc., is a decision of banks. We do not get involved.

Credit cards are a very important offering among your products. If banks are not promoting credit cards, then isn't it hurting Visa?

What's most important for Visa is the secular shift from cash to electronic payments. We are in the business of driving and being part of this secular shift. If you look at our business in the Middle East, more than half of our volumes come from debit cards. It was a very small percentage some years ago.

To speak about products, has contactless technology failed?

It is too early to say if that technology has worked or not. Contactless is still in its infancy. If you look at the history of debit card as a product, it has been around for a long time, but it did not attain the critical mass until much later when circumstances came together for a value proposition that worked for all the parties to make it a success.

For contactless to work, it is no different to the debit or the credit card. You got to have clear benefits for a card holder to change his behaviour. It has also to be technologically possible for merchants, acquiring banks and issuing banks. It has to also provide the right level of economics to all the parties. But that only comes through launching the product and



Kamran Siddiqi

allowing it to evolve, just like debit or prepaid cards.

We are working with banks to at least get the technology right, and then get all parties together and make an economic case for it. Cardholder acceptance of the technology is vital for the product's success after we launch it.

Any new technology initiatives planned in the region?

We did a couple of things. One of these was using SMS messaging to people that came to the Dubai Shopping Festival this year. When they switched on their mobile phones in Dubai, they received text messages from Visa telling them where they could shop. We are beginning to look at working with some of the mobile and telecom companies in the region for messaging. People have their mobile phones switched on all the time. We are looking at doing some communication in that space.

We are also doing a couple of pilots, but I cannot disclose them now.

Any work on small denomination electronic payments?

The short answer is yes. The long answer is I cannot talk about it now, as we are right in the middle of something that we cannot disclose.

What sort of dialogue are you having with your customers now, given the economic downturn?

Our fundamental role has not changed. Other than our products, we bring in a lot of global best practices and experiences to our customers. We have also set up late last year a very senior level forum in the CMEA region called the Visa Advisory Council. It is a group of dozen and half banks from the CMEA region. There are issuing banks, acquiring banks and merchants on it, too.