

## **GOOD AND POOR HABITS OF CREDIT CARD : LESSON LEARNED**

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### **1.0 Introduction**

Tiffany is a fresh graduate who has newly joined as a junior executive in one of the top fashion magazine companies, IZZI Magazine. In order to adapt to the new working environment, Tiffany needs to spend on clothing, shoes, makeup and accessories.

Whenever Tiffany goes to shopping mall, credit card promotions will be offered to her. Tiffany quite excited with the services provided by the credit card salesperson and gift given to her once she agreed to sign the credit card application form. Since Tiffany is a fresh graduate, the bank offers her a credit card with a limit of RM 7, 000.00 only as a start.

For Tiffany, credit card is the starting point for a modern life. Without realizing, Tiffany now owns three credit cards from two different banks. Each credit card offers different packages and features as an attraction.

After 2 years.

On 5th February 2016, Tiffany received a phone call from GOGO Bank. The banker explained to her that she has an outstanding credit card debt of RM 15,000.00. On top of that, she also failed to make payments for 3 consecutive months.

Tiffany panicked and shocked at the amount of her debt. At that moment, Tiffany aware that her credit card debt is out of control and will ruin her life if she does not take any action! The situation makes Tiffany feel depressed. Her financial problems also affect her job performance. Tiffany does not know what to do! In a worried and stressful situation, Tiffany recount about her financial problems with her friend.

The next day, Tiffany seat at her office desk and looks very depressed looking at some papers in her hand. Her condition was noticed by her friend and asked "Tiffany, are you okay? What's up, what's the problem?" Tiffany showed the piece of paper she was holding it to her friend. "Oh my god! Tiffany! What you have done?" Tiffany's friend shock and asked after perusing the papers given by Tiffany. Tiffany cried and explained about her credit card problems. Tiffany's friend remembered that she heard about AKPK while driving this morning in Sintok FM radio. Without delay, Tiffany friend suggested her to get information about AKPK and contact the agency as soon as possible.

At AKPK's Office, Alor Star Branch

15<sup>th</sup> February 2016, Tiffany was in her mid-20s, has come to AKPK with worry and a sad face. She was on the verge of a severe credit card debt and seem confused about her future with the debt. In general, youth in Malaysia is facing financial difficulties caused by the mismanagement of credit cards. Thus, how credit cards have implications for human life?

## **2.0 AKPK: The Background**



The Credit Counselling and Debt Management Agency, or commonly known as Agensi Kaunseling dan Pengurusan Kredit (AKPK), is an agency set up by Bank Negara Malaysia in April 2006. Their mission is "Make Prudent Financial Management a Way of Life". Meanwhile, AKPK

vision is to create a society that is financially savvy, to be recognized as the trusted provider of financial education to adult consumers and continue to promote financial prudence. AKPK aims

to help individuals take control of their financial situation and gain peace of mind that comes from the wise use of credit.

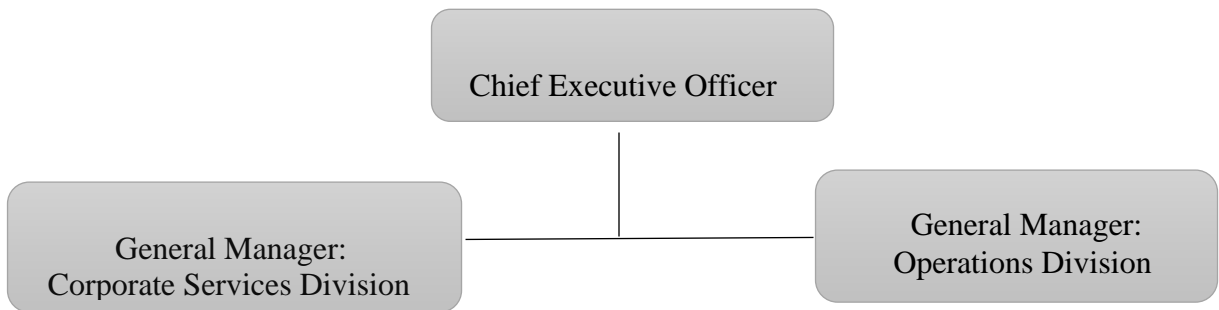
In brief, AKPK set up at the height of the financial boom in 2006. Bank Negara Malaysia took a pre-emptive move by setting up Agensi Kaunseling Dan Pengurusan Kredit (AKPK) as part of the Financial Sector Master Plan (2000 - 2010). AKPK is a one-stop center for Malaysians who seeking financial counselling and services provided by AKPK are free. Their target group is individuals, both young and old, found themselves in debts they could not manage.

AKPK have been successful in constructing an approach to educate the public through main three services, namely, financial education, financial counselling and debt management program. Financial educations teach about the responsible use of money and credit management skills. Meanwhile, financial counselling provides counselling and advice on financial management. Lastly, debt management program is to assist consumers to regain financial control. Furthermore, AKPK website provides an online learning centre such as financial calculators, success stories for motivation, related tips and articles.

AKPK Board of Directors are as follows:

Chairman: Y. Bhg. Dato' Mohd Hanif Bin Sher Mohamed
Board Member: Y. Bhg. Datuk Fazlur Rahman Bin KMM Ebrahim
Board Member: Y. Bhg. Datuk Mahani Tan Abdullah
Board Member: Mr. Abu Hassan Alshari Yahaya
Board Member: Mr. Nik Hassan Bin Nik Mohd Amin
Board Member: Madam Jessica Chew Cheng Lian

Equally important is their management team. The AKPK management team consists of:



Under corporate services and operations division they have (1) financial education department, (2) corporate communication department, (3) Debt Management Program department, (4) compliance and risk management department, (5) channel management department, (6) information technology department, (7) human capital department, (8) finance department and (9) administration department.

AKPK headquarter is located at Level 8, Maju Junction Mall, Kuala Lumpur. They have 10 branches located in Malaysia including one branch in Sabah and one branch in Sarawak. In addition to that, 28 counselling offices are located throughout Malaysia.

In this case study, a person authorized to sign a release form is Mr. Mohd Nordin Abdul Rahman, AKPK Manager at Alor Setar branch. The branch is located at No 11, Ground Floor, Jalan Persiaran Sultan Abdul Hamid, Kompleks Sultan Abdul Hamid and he can be contacted using landline at 604- 771 5773 extension 106.

### **3.0 Counselling session begin.**

Tiffany's friend who know about her financial problem suggest her to call AKPK, in helping her to minimize her credit card debt. Then Tiffany tried to find AKPK contact information via AKPK website "<https://www.akpk.org.my>". While looking for contact information, Tiffany carefully read services offered by AKPK and one of the AKPK services are a Debt Management

Program (DMP). Right after that, Tiffany called AKPK Alor Star, Kedah branch and asked about the program. AKPK officer explained to her that DMP is a program where AKPK counselors will work with borrower to develop a personalized debt repayment plan in consultation with their financial service providers without any consultation fee. The aim of this program is to help those who are distressed by their financial obligations to financial service providers under the purview of Bank Negara Malaysia (BNM). Immediately, Tiffany signed up for the program using AKPK online application “<https://www.akpk.org.my/debt-management>”. Tiffany needs to provide information such as personal details, cash flows (income and expenses) and creditors’ information in the online submission.

On Monday morning, 15 February 2016, Tiffany was ready to attend the program with an open mind and with a hope to find a solution to her financial problems. In the AKPK office, Tiffany had to attend 30 minute public briefing. After the public briefing, Tiffany was introduced to one of the AKPK counsellor, Mr. Andrew. Mr. Andrew asked Tiffany if she was free for an immediate counselling session or would she like to make another appointment at her convenience.

Tiffany said that she was happy to continue with counselling session immediately. Hence, Mr. Andrew led her to one of the AKPK’s counselling rooms and begin the counselling session.

Mr. Andrew: How are you Tiffany?

Tiffany: Fine, thank you, but a bit upset with my credit card debts.

Mr. Andrew: It is okay, no one is perfect in this world and we are glad that you have taken a right step by visiting our AKPK Alor Star branch and enrolled our DMP program.

Tiffany: Thanks to you too, and for your time.

Mr. Andrew: Well, shall we begin our counselling session?

Tiffany: Yes, please.

Mr. Andrew: Could you share with me your financial predicament?

Tiffany: Yes, of course.

The problem started when I got my first credit card and I was so excited with the gift offered to me. I think paying the minimum every month will be fine and no issues. After that, I started to get more credit cards with packages that are more attractive. One of the reasons why I apply more than one credit card is because my credit limit is only RM7,000.00 at that time. I need more money for my expenses. Sometimes, I do withdraw using credit card when I do not have enough money for shopping.

Now I feel so bad and embrace with my poor financial management.

Mr. Andrew: I see, before I proceed with your monthly expenses and other relevant things. May I check if you have brought all the relevant documents to proceed this counselling session?

Tiffany: Yes, those documents are:

1. Latest credit card statements (refer to Exhibit 1)
2. Latest salary slip (refer to Exhibit 2)

Mr. Andrew: Okay, those are the correct documents. Let me ask my staff to print your latest Central Credit Reference Information System (CCRIS) report.

Tiffany: Okay (with a sullen look)

After 10 minutes.

Mr. Andrew: Now, we have your CCRIS report and the report shows that you have outstanding of three credit card bills with 2 different banks about RM 15,051.70.

Tiffany: I guess so (Tiffany sigh).

Mr. Andrew: Just to check with you, do you know the concept, roles and functions of credit card?

Tiffany: (Tiffany ponder for a while)

I think credit card is a card where you can borrow money to buy things and pay later.

Mr. Andrew: True and Andrew explains the concept, roles and functions of credit card.

Why do you really need to apply credit card? Is it for a specific purpose like

air miles or petrol discounts, or is it just to fatten your wallet and boost your spending power?

Tiffany: I need a credit card for shopping to purchase clothes, shoes and accessories because I rarely bring cash for shopping and most of the time I run out of cash when I am at the mall.

Oh yeah! Sometimes I also use a credit card for petrol and groceries.

Mr. Andrew: I see. Firstly, we need to focus what is the main purpose in getting a credit card. There is a wide range of cards that can match our lifestyle and spending needs. As an example, credit card was chosen due to low interest rates and fees, rewards and point, travel, business, cash back, petrol and others.

Besides, we also need to understand that credit card is different compared to debit card or charge card.

Tiffany: Now, I realized that I should focus on the purpose in using my credit card.

Mr. Andrew: Yes and you should consider again the purpose why you apply credit card after this.

On average, how much do you spend using credit card monthly?

Tiffany: I am not sure about that. I just use the credit card and what I only know that every month I just have to a pay minimum amount to avoid interest.

Mr. Andrew: Oh, I see. Can you tell me, what was your biggest purchasing using credit card for the last 3 months?

Tiffany: I bought an iPhone 7 and a gold chain for my mom for her 50<sup>th</sup> birthday. Apart from that, most of my monthly spending is on clothes, shoes and accessories every month.

Mr. Andrew: Okay, now I can see your problem.

Tiffany: That is the problem, my desire and demand are high, but my salary is not matching with my lifestyle.

Mr. Andrew: So, I guess you do not have any spending budget plan, is it?

Tiffany: Oh gosh! Budget plan never come across in my mind before.

Mr. Andrew: Okay, just now you were saying that you were paying your credit card bills at minimum amount, right.

Tiffany: Yes.

- Mr. Andrew: Why can't you pay more than the minimum?
- Tiffany: I'm not sure why I can't but what I know that paying minimum amount is good enough and I don't have to put a large amount of my salary only in paying credit card bills every month.
- Mr. Andrew: Do you aware penalties that you have to pay if you were paying a minimum amount of your credit card bills every month.
- Tiffany: Tiffany shook her head, indicated that she did not know.
- Mr. Andrew: It's okay, you are not alone and do not be afraid with my questions. Stay positive with me. Questions that I am asking are to help you in all ways that I can to support you.
- Tiffany: Okay and thanks for your support.
- Mr. Andrew: You are welcome.  
Before I explain, let me show you the credit card interest calculation.
- Tiffany: Oh my god!. The calculation and additional amounts for credit card payments really show a huge impact on the credit card bills.  
Sometimes, I do withdraw money from an ATM using my credit card. Does this action give any impact or extra charges on my credit card bills too?
- Mr. Andrew: Yes of course. A credit card cash advance is available readily with use of your credit card through an ATM and banks are calculating the interest charges on a daily basis. A cash advance from an ATM will usually carry a fee of 5% per transaction or a minimum of RM15-25. On top of this fee, you will be charged the highest annual interest rate in the range the bank offers (usually 17-18%). If you are withdrawing a large amount, the initial 5% will be a hefty amount already and that is even prior to charging full interest.
- Tiffany: How can I lower interest rates and avoid some fees on my credit card?
- Mr. Andrew: Before eventually spiralling out of control and leaving you feeling helpless and hopeless as you watch the aftermath. Several strategies can be used to reduce or to avoid some fees that engaged with a credit card. Those strategies are:
- i. always settle your statement balance in full prior to the due date to avoid interest charges,



- ii. choose credit card that offers a low rate or no annual fee,
- iii. do not ever withdraw cash / cash advance using credit card, and
- iv. convert to easy scheme payment / zero balance transfer option.

Tiffany: Oh god, how do I deal with my massive credit card debt?

Mr. Andrew: Do not worry, every problem has a solution. Before that, I would like to ask for your permission, are you willing to co-operate with the advice given to you in order to help you out with your credit card debts?

Tiffany: Yes, I will cooperate with AKPK to settle my massive credit card debts.

Mr. Andrew: May I know about your pending bills on each credit card?

Tiffany: Yeah, I bring all my latest credit card bills to show to you. Here you are (Tiffany provides her latest credit card bills to Andrew).

Mr. Andrew: Andrew carefully examines each bill given by Tiffany.

After examining, Andrew explains and suggest various methods that can be utilized by Tiffany to settle her credit card bills. Tiffany has some bills with a small amount and some bills with a huge one.

Tiffany: After settling all my debts, how many credit cards should I maintain?

Mr. Andrew: A recommend number of credit cards a person should have is only 2. It is because the main credit card will be for active usage and a second credit card will be a passive credit card, but the second credit card is useful as emergency credit. If you lose one of your credit cards or it is stolen. It's nice to have a backup while you wait for a new replacement card to be issued. This is especially the case when you are traveling. Besides that, the second credit card might have a potential for a better credit score where, part of credit card is based on the percent of available credit that is been used. With a second credit card, the available credit goes up, and can spread the balances between the two accounts, lowering the credit card use compared to available credit. Finally, the second credit card can be an alternative card in case a merchant does not honor your primary credit card or utilized the cashback, rewards, points or discounts.

Tiffany: Can I ask you a question?

Mr. Andrew: Yes, please.

Tiffany: Are there any tools available that I can use to manage my credit?

Mr. Andrew: Actually, there is no short cut way to manage our financial unless with a strong self-discipline. The best way to deal with credit problems is to develop good habits in order not to over-spend.

Firstly, make a list before you go shopping, then try to stick to it.

Second, purchase when you need and third, look for a less expensive alternative.

Not only that, there are several websites for financial management that you can use for free such as:

- i. Debt calculation from CNN
- ii. Mint.com Financial Goals
- iii. Unbury. Me
- iv. The Debt Eliminator
- v. Learn Vest Financial Planning Program
- vi. Debt Snowball Calculator
- vii. Ready for Zero
- viii. Debt Payoff Assistant
- ix. Debt Control Free and many more.

Tiffany: Last question. How do I protect myself against credit card fraud because nowadays even a person who is educated in financial matters does fall into this trap? You know...

Mr. Andrew: Yes, yes. I understand your curiosity.

We are reading newspapers that credit card fraud happens every day around the world. What I can advise you is that, when you receive any suspicious calls, email or Short Messaging System (SMS) that asks you to provide sensitive personal information, passwords or to make transactions, do not inform him/her any information. Instead, call your bank on a number that you trust and inquired about that call or SMS or email. Remember that bank will

never ask your 4-digit card PIN or your online banking password, even by tapping them into the telephone keypad, or ask you to update your personal details by following a link in a text message, even tell you over the phone how to respond to a text message confirming a transaction and ask you to transfer money to a new account for fraud reasons, even if they say it is in your account name.

Tiffany: I feel relieved after getting all the information about credit card and your valuable advice in settling my financial problem is much appreciated.

Tomorrow definitely, I will go to the GOGO Bank to discuss and restructure my credit card debts. Hope I will be assisted by the banker to settle this problem. (Tiffany pulls a sigh of relief).

Mr. Andrew: Yes, they should, but just in case if the banker does not really give any co-operation to your matter, you can always come back here. We as authorized person by BNM can negotiate with financial institutions on behalf of the borrower to come out with some solution to overcome their financial problem. Beside you can also make complaints if the banker does not cooperate satisfactorily.

Tiffany: Thank you so much Mr. Andrew. I really appreciate your time and advice given to me. Now I know how to handle this problem.

Mr. Andrew: Tiffany once you have discussed with your banker, could you please update us for our record and follow up, so that we know our clients successfully overcome their financial problem.

Tiffany: Sure, not a problem. I will definitely update you as soon as possible.

Mr. Andrew: Thanks.

Tiffany: Thank you to you, for your time and helpful advice.

Mr. Andrew: It is my job. Take care and have a nice day.

Tiffany: Thanks and same to you.

After one year.

Now, Tiffany free from credit card debt. She followed the advice and suggestions given by Mr. Andrew. Tiffany becomes more aware and wise in her spending. A monthly budget planning is a

must and necessary in her life. Tiffany's life is more systematic, living with less worry and peacefully. Additionally, Tiffany also signs up a retirement and investment planning scheme for her golden age. She also from time to time equips herself with advanced knowledge in finance by attending AKPK talks and workshops and understands the ins and outs of personal financial management much better.