Credit Cards: Statistics and Facts

CANADIAN BANKERS ASSOCIATION

Fast facts

» Credit cards provide interest-free credit from the time of purchase to the end of the billing period

» 60% of Canadians pay their credit card balance in full each month[1], so for them the interest rate is zero

» For those who choose to carry a balance:

» Credit cards offer access to unsecured credit (no collateral required)

» There are many low interest rate cards on the market and over 30 of those cards have an interest rate of under 13%[2]

The bottom line

Credit cards offer valuable benefits for both consumers and retailers. And the majority of Canadians use their credit card as a method of payment rather than a means of borrowing.

Credit card benefits

For consumers

A credit card is a convenient and flexible payment tool accepted in more than 200 countries and at millions of locations worldwide. Benefits include:

- Access to unsecured credit (no collateral required against amounts charged).
- Interest-free payment from time of purchase to the end of the billing period.
- Instant payment of purchases, allowing for instant receipt of goods and services.
- Coverage for purchases if the item is damaged, stolen or not delivered within 90 days.
- 24/7 access.
- Fraud protection with zero liability to the consumer in cases of fraud.
- Other rewards and benefits, such as air travel points, car insurance, damage and loss insurance and extended warranty programs.

For retailers

Retailers are not required to accept credit cards, but do so in increasing numbers because that is the method of payment many customers prefer. Retailers that do accept credit cards receive many benefits, including:

- Fast, guaranteed payment, which can reduce line-ups at checkout. If every credit card transaction took an extra 30 seconds, it would use up an additional 27 million hours of staff time each year.
- The ability of accepting credit without worrying about the creditworthiness of customers, insufficient funds or outstanding receivables.
- Reduced cash on hand and cash handling time and costs, including counting cash at the end of the day, armoured transport, higher likelihood of theft and pilfering and potential mistakes by cashiers.
- Increased sales; ability to offer customers a variety of payment options.
- Expanded markets; ability to sell to customers throughout Canada and around the world in the currency used by the retailer.

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Competition and choice

When making a purchase, consumers can choose to use cash, cheques, debit cards, credit cards as well as electronic payments services like PayPal and Interac Online. Eighty-nine per cent of adult Canadians have at least one credit card[3] and this method of payment is the choice for the overwhelming majority of retail e-commerce transactions.

When it comes to choosing a credit card, banks offer consumers a wide variety of products. Customers may choose among standard cards without an annual fee, premium cards that offer rewards and features, and low-rate cards if the interest rate is a key consideration influencing the card choice.

- Hundreds of institutions in Canada, including banks, credit unions, retailers, caisses populaires, trust companies and finance companies offer credit card products.
- 72 million Visa and MasterCard cards are in circulation in Canada.[4]
- There are many low-rate cards on the market and over 30 of those cards have an interest rate of under 13%.

Consumers are encouraged to learn more about the choices available and to select the credit card that best suits their needs. Just like any item or service that a customer buys, the customer has the control to decide on their credit product.

For longer-term borrowing requirements, a term loan or line of credit may be a better choice.

Consumers should visit the Financial Consumer Agency of Canada (FCAC) website www.fcac.gc.ca, for an extensive list of cards and features, and use the credit card comparison tool to help select the card that best suits their needs.

Strong regulations[5]

Consumers with credit cards from banks are protected by *Bank Act* regulations that require:

- Statements to include itemized transactions, the amount you must pay on or before the due date in order to have the benefit of a grace period.
- Disclosure of the previous month's payments and the current month's purchases, credit advances, as well as interest and non-interest charges.
- Disclosure of the interest rate at the time of solicitation or application, and on every monthly statement.
- Plain language information for customers.
- Rules on advertising.
- Limits on consumer liability in the event of fraud.

Credit card pricing

There are a number of factors that influence card fees and interest rates.

- An interest-free period from purchase to payment, depending on the card, as long as the balance is paid in full when owing.
- Access to unsecured credit where no collateral is needed, which makes it a higher risk for the credit card issuer.
- Significant costs to operating the credit card system including processing a large volume of transactions, technology that is constantly updated to support transactions, preparing and mailing statements, collecting payments and the costs for providing value-added rewards programs.
- Costs to fight fraud and customer reimbursement. When fraud occurs, customers have zero liability. In 2014, financial institutions reimbursed more than $548 million to their Canadian credit card customers, representing the losses these customers suffered as a result of criminal activities.
- The Bank of Canada rate represents less than one per cent of bank funding and does not influence the pricing of consumer lending or credit cards interest rates.

Most Canadians pay cards off every month

- A 2014 survey by the Abacus Data found that 60% of Canadians pay their balance off in full every month.
- Of those who do not pay off their card balances each month, 15% pay it off most months and 48% pay a lot more than the minimum payment requirement.[6]
- Credit cards account for just 5.4% of total household debt.[7]
- Banks work with clients who are concerned about their debt, helping them get control of their finances or choose more suitable credit products. Banks also support non-profit credit counseling services.

Why interest rate caps are not in the best interest of consumers

There have been proposals in the past to cap credit card interest rates. This would not reduce the cost of credit as intended, but instead it would:

- make it harder for some Canadians to get a credit card,
- limit choice and innovation in credit products.

Currently, there are a number of low-rate cards in the marketplace to choose from, so there is a lot of choice for consumers who want to reduce their interest payments. An overwhelming number of Canadians – 92%[8] – believe that consumers have a responsibility to shop around for the credit card that best meets their needs.

» The Canadian Bankers Association works on behalf of domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 280,000 employees. The CBA advocates for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions.

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[1] Abacus Data for the Canadian Bankers Association, December 2014
[2] FCAC Card Card Selector Tool Comparison – as of February 2014
[3] Abacus Data, December 2014
[4] CBA credit card statistics as of October 2014
[5] Note – these protections only extend to federally-regulated financial institutions (not other card issuers)
[6] Abacus Data, December 2014
[7] Bank of Canada, *Banking and Financial Statistics*, December 2014
[8] The Strategic Counsel, Assessment of Canada's Banks, May 2011