

Pre-approved credit cards: Know the pros & cons

Buy a pre-approved credit card only after scrutinising its details, terms and conditions, and only when you truly require one

RAVI JESWANI & GAUTAM RANGRAS

A FEW PRIVATE banks recently launched instant credit cards for their pre-approved customers wherein they have an option to avail virtual instant credit cards within minutes after authentication. Customer can then link these with the bank's application and make payments at POS terminals immediately after the virtual card is generated.

This move has empowered customers to get an instant credit card and enable them to make hassle-free payments at retail outlets. But these banks are not new to the party and almost every bank is trying to make their mark by reaching out to their pre-approved customers through various modes of communication.

Check before you leap

Receiving pre-approved credit card offers via email can be worth giving attention to especially when it has relatively low interest rate or excellent rewards scheme.



ILLUSTRATION: SHYAM KUMAR PRASAD

Credit cards are omnipresent these days. But before planning purchases with your new card, it's important to know what exactly is in for you!

Merely receiving a pre-approved credit card offer does not entitle you to receive the card. The bank has actually done an extensive screening process in its database to identify customers within the acceptable CIBIL score range and lure them towards this scheme by reaching them via mails. What the bank won't tell you even after your application is that they'll run a second stage due diligence process to eval-

uate your creditworthiness. If at all in this stage the bank finds out that your credit worthiness and your credit score is too risky, your application for the card may get rejected and invite hard enquiry thus dampening your CIBIL score temporarily.

After successfully passing the screening and evaluation process, potential customers are then lured by the credit companies which say that they have been offered a very low interest rate and their card will be "free for a lifetime". But customers trapped in this bait forget that these are just marketing gimmicks. A life-

time free credit card actually means that an initial period annual card fee is waived off which varies from bank to bank. Also, there is no question of lower interest rate considering that the competitive banking industry already charges high annual percentage rate of 35-40% on credit cards.

Deeper debt trap

For customers having more than one credit card whose bills are still outstanding, they are digging themselves even deeper in the debt trap. There could be fraudulent offers and schemes when a credit card nears its expiration date. The card issuer may not provide complete terms and conditions and may even avoid revealing the contact information. It may even ask for upfront payments before issuing a card.

So, the dilemma exists, whether or not to apply for a pre-approved card? In case you are unhappy with the offers, schemes and rewards your current credit card is offering, you can apply for a pre-approved credit to get rid of the process of manually comparing credit cards and their benefits before selecting one. Pre-approved credit cards are best suited only when you have a very good CIBIL score or the capacity to repay the bills on time. But if you bite the bait and purchase the card only because the rewards scheme looked attractive then it's better you stay away from it.

Your credit history is affected by keeping an inactive credit card. Therefore one should buy a pre-approved credit card only after scrutinising its details, terms and conditions, and only when you truly require one.

Jeswani is professor and Rangras is a MMS final year student at Vivekanand Education Society's Institute of Management, Chembur, Mumbai

