When is it Good to Use a Credit Card?

-VIDYA KUMAR

Executive Summary - Even though credit cards are considered bad,, they can be useful in different ways. Many people avoid owning credit cards and many personal finance experts warn you of the dangers of getting trapped in debt by using credit cards. But if one uses credit cards responsibly, they can offer many advantages. They offer hassle free transactions when travelling. They offer air miles and points to redeem for purchases. They are good to use for emergencies and online transactions. They offer better safety and security than cash, netbanking and debit card usage.

Credit cards face a lot of flak. They have a bad reputation and people who use credit cards regularly are treated with disdain and considered not careful with money. The other day, my friend was lamenting that despite repeated requests, her parents living alone in a different city do not have even one credit card. Old people treat credit with even more contempt than youngsters. Credit cards are associated with unnecessary expenditure, high interest rates and debt. Credit cards are not bad if you know how to use them to your advantage. Here are some scenarios where it is 'Good' to use credit cards!

1) You travel a lot - If you are constantly travelling on your job or in your leisure time, it is good to use credit cards to as many credit cards offer airline miles, points for discounts and free stays in hotels which can be redeemed. Some credit cards offer travel insurance too which is also advantageous. Credit cards are useful to book hotel stays and car rentals too so that it is easier to manage the transaction.

2) You shop online - Many of us shop online. It is better to pay online stores with credit card. Fraudulent purchases, purchases to be returned can be handled better from a money perspective with credit cards. It is easier you get your money back if you are not satisfied with the transaction in case of a credit card. If you use a debit card or netbanking, you have to follow the refund process to get your money back.

3) You are not comfortable carrying/storing cash - Carrying a lot of cash and moving around or
storing cash in the house always has a risk element. You can get stuck in uncomfortable situations and lose your hard earned money.

4) You have dependent adults in your home - If you have adults in your home who are dependent on you, you can give them a add-on card on the basis of your credit card. Typically dependent adults are old. If they are not in the best of health, it helps if they have financial freedom without problems of physical security as they are easy victims to fraudsters and thieves who can steal their cash. But you have to be aware that you are responsible for the credit card dues and debts that this person runs up.

5) Safety and Grace period - Credit cards are a safer option in many cases. For example, in an online transaction, if you had paid using a debit card, the amount is instantly debited from your account. If this transaction is fraudulent or you get a faulty product, then you have to ask for refund and explain to the bank that the transaction was not legitimate. But if you use a credit card, only the credit limit goes down and the payment is taken at the end of the payment cycle. For fraudulent transactions, the bank and merchants can negotiate on the transactions. In case of debit cards, the amount is instantly debited but in case of a credit card transaction, the amount is debited only when you pay the bill. If your debit card gets stolen, you risk losing all the money in your account but if a credit card is stolen, the money will not be lost immediately and you have ways to protect yourself.

6) Other advantages - The credit card bill will have all the expenses listed and this helps in budgeting and expense tracking. Credit cards offer reward points that can be used to redeem for things. Different credit cards offer different advantages. Some offer free movie tickets, some offer joining bonus points and others offer cash back. These can be used to your advantage.

Credit cards are convenient to use if you use them wisely. It helps in short term cash management. If your responsible enough to keep your spending within budget and pay the balance due on time, credit cards are a useful tool to have.
Do let us know how using a credit card has been beneficial to you.

Vidya writes on personal finance at www.gettingyourich.com. She can be reached at
vidya@gettingyourich.com'.