

Your Guide To Debit Cards

Brought to you by:

creditworld™

TABLE OF CONTENTS

- Introduction 3
- How did debit cards come to be and what exactly are they? 4
- How does a debit card work? 5
- What happens when I use my debit card as a credit card? 6
- What happens when I use my debit card via eftpos? 7
- How do I apply for a debit card – do I need to open a new account? 8
- How do you use a debit card? 9
- Debit cards and Contactless Payments, can I tap and go? 10
- Profile of a Debit Card user 11
- Advantages over traditional credit cards 12
- Drawbacks of using a debit card 13
- Why choose a debit card, or have a debit card and a credit card? 14

INTRODUCTION

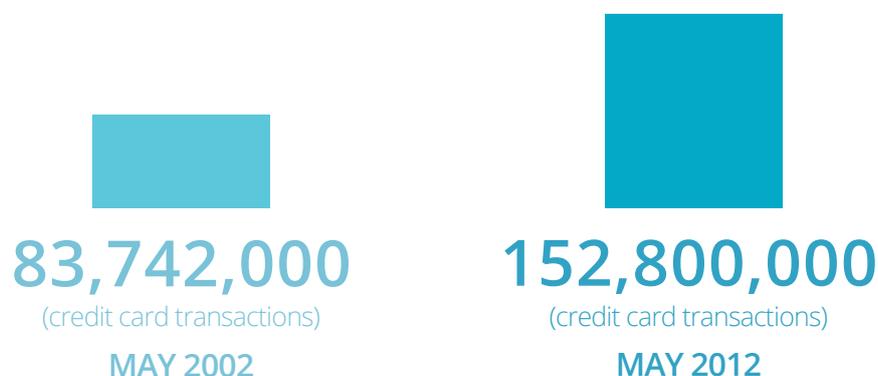
Debit cards are the go to way for consumers to pay for items in a society that is less and less interested in using cash.

According to the latest available statistics from the Reserve Bank of Australia (RBA), the total number of debit card transactions in Australia more than tripled from May 2002 to May 2012



[Debit Cards](#) are popular for a few reasons too. They offer a certain amount of control, and you only spend your own money.

Credit card transactions have also been part of the trend, but the increase has not been so dramatic. According to the RBA, the number of credit card transaction has only doubled since May 2002.



HOW DID DEBIT CARDS COME TO BE, AND WHAT EXACTLY ARE THEY?

Credit cards became one of the most popular ways of paying for things, but people were still at risk of going into debt (and started building up credit card debt) so not everyone wanted one or could have one.

As a solution to the problem, banks and financial service providers dreamt up debit cards, to work like credit cards that can be linked to customers' transactions accounts. This means you can use your debit card to pay for goods and services online, over the phone, and in-store. It was really an answer to the demand for the convenience of a credit card without the debt.

When you use your credit card to make a purchase, you're basically taking out a short-term loan on the amount of the purchase. The [credit card](#) provider pays for the item, and you agree to pay back the loan at a later point in time. The credit card provider will charge a certain amount of interest on the amount borrowed (the only way you avoid paying credit card interest is usually for a very short introductory period with special offers, or if you pay off the balance in full when the statement arrives every month).

HOW DOES A DEBIT CARD WORK?

When you buy things on your debit card, the money required to finalise the transaction is taken straight out of your linked transaction account.

You pay for the item without having to worry about cash, or the drawbacks of a credit card.

In Australia, there are two types of debit cards: proprietary or domestic debit cards, and debit cards by international card schemes (Visa and Mastercard).

- **Proprietary or domestic debit cards** are issued by the banks, and managed by eftpos. They can be used to make purchases at any eftpos terminal. To do this you use the CHQ or SAV buttons at the terminal, and the card's PIN must be entered. You can also withdraw cash when using eftpos (but merchants may have limits on how much, or how much you need to spend to take cash out).
- **Visa or Mastercard debit cards** function as a credit card. You can use these cards to make purchases over the phone, online or in-store.

WHAT HAPPENS WHEN I USE MY DEBIT CARD AS A CREDIT CARD?

When you buy things on your debit card, the money required to finalise the transaction is taken straight out of your linked transaction account.

When you use the CR button at the terminal, the card will act like a credit card. When CHQ or SAV is used, it will work in the same way as an eftpos card.

***If you choose to use the CR button, just remember that the purchase may not actually show up on your bank account statement for around three days, as the merchant chooses when to process credit card payments**

WHAT HAPPENS WHEN I USE MY DEBIT CARD VIA EFTPOS?

When the debit card is used to make a purchase, the payment terminal will contact the debit card provider, check that there are funds available in the linked transaction account to make the purchase, and earmark the necessary amount.

The money will then be taken out of the transaction account, and a description of the purchase should appear on the debit card user's statement instantly.

If there is **not enough money** in the account, **the transaction should be declined**. Depending on your situation the transaction may not be declined. For example if you have an overdraft facility or back-up in place, that will allow payments to go through even if there is not enough money in the account.

HOW DO I APPLY FOR A DEBIT CARD – DO I NEED TO OPEN A NEW ACCOUNT?

If you already have a transaction bank account, check whether you can link that account to a debit card.

Most providers now offer a debit card service, and will just send you a new card, but if your bank doesn't you can easily find a suitable account by looking online. It's also become even easier to change bank accounts since new banking reforms came into effect on July 1, 2012, so check out our handy guide to [switching bank accounts](#) to find out just how easy it is to move your money.

To open a new account, you will need to provide some personal details, such as your address, date of birth and so on. Unless you already have accounts with that bank or provider, you will usually have to provide identification, such as a passport or driver's license, and you may have to deposit money into the account.

Accounts can usually be opened online, and the process only takes a few minutes. Once identification has been provided, you can normally pick up the debit card at the branch, or it will be sent out to you. A PIN will be sent out separately. Keep your PIN safe – don't write it down, or keep a copy with your debit card.

HOW DO YOU USE A DEBIT CARD?

If you want to make a purchase in-store, you will need to swipe the card or insert it into the terminal, check the purchase amount, and enter your PIN.

If you've ever used a credit card it works exactly the same way when it comes to making a transaction.

- **ATM** – performs in the same way as a standard bank card – using your savings account to access your money.
- **Overseas ATM** – may only work using credit function – or may not work at all – check with the issuer
- **Overseas swipe/efpos** – as per ATM – may only work using credit function – or may not work at all – check with the issuer.
- **Online Purchases** – debit transactions may not be guaranteed against fraud as they often are with credit cards. Check this with the issuer.

For purchases online, you will usually need to enter the card number, your name, the expiry date, and the security code on the back of the card. Only use secure sites, and don't give out your details to anyone you don't trust.

The same applies for over the phone transactions. You will need to provide similar details as you would online. Always make sure you trust the person or company you are giving your details to though!

Once again, as soon as the transaction has been processed, the money will come straight out of your linked account, and a description of the purchase will show up on your statement. If you find any transactions that you do not recognise, contact your provider immediately.

DEBIT CARDS AND CONTACTLESS PAYMENTS, CAN I TAP AND GO?

Contactless payments, such as Mastercard PayPass and Visa PayWave have become increasingly popular over the past few years.

Each card is fitted with a chip that allows users to simply tap or wave the card over the payment terminal to make a purchase. With a maximum purchase amount of \$100, this is a quick and effective way of paying for smaller purchases with a credit or debit card.

The number of people making 'contactless' payments has increased dramatically in recent times, and the most recent data from the Australian Payments Clearing Association states that there are more than 82 000 contactless payment terminals across Australia as of the end of May 2012. That is up from 20 000 at the same time in 2011.

To read more about how many people now use contactless payments, visit the [creditworld blog](#).

PROFILE OF A DEBIT CARD USER

As debit cards become increasingly popular, more and more banks offer a debit card option along with their basic transaction accounts.

Whether you're someone who has been caught out over spending, or you don't qualify for a credit card because you have no credit history, there are a lot of different types who suit a debit card perfectly.

- **Prone to overspending** - Some debit card users prefer debit cards over credit cards, because they tend to overspend with too much credit. Having one credit card – or many – can provide too much temptation to undisciplined spenders. It is easy to rack up huge amounts of debt on a credit card, which can be difficult to pay off. A debit card provides a great alternative, as users only spend their own money.
- **Can't get credit** - There are lots of people out there who can't get credit. They may have poor credit history, or no credit history, which can make it very difficult to get approved for a credit card. A debit card provides most of the advantages of plastic, without the credit check.
- **Doesn't want to be in debt** - Some people don't like the idea of being in debt, no matter how short the time, how small the debt or how they would be able to pay it back. That's fair enough too, credit cards can seem innocent enough, but they can get people into trouble if they are not used correctly. Using a debit card provides most of the advantages of a credit card, with none of the disadvantages.
- **Doesn't want to pay interest** - Depending on the card, different providers will charge different rates of interest on purchases made on the card. If the bill is not paid in full each month, credit card interest will keep accruing and will add to your debt. On the other hand, customers using a debit card will only use their own money, so they will not have to worry about interest accruing on debts.
- **Doesn't want bill shock** - Most people don't keep track of how much they are spending on their cards. This can lead to bill shock when the credit card statement arrives at the end of the month. While you can still suffer using a debit card if you don't keep track of spending, you won't end up with a large bill to pay at the end of the month.

ADVANTAGES OVER TRADITIONAL CREDIT CARDS

Fees and Charges - Traditional credit cards can have a lot of nasty fees and charges attached. There are over the limit fees, cash advance fees for withdrawing money, and annual fees. There can also be balance transfer fees, for transferring balances onto a new credit card. And that's only some of them!been using your own money.

Although there can be fees attached to using a debit card (monthly service fees and overdraft fees, for example), generally, the debit card user has far fewer fees and charges to worry about compared to a credit card. Most debit cards will cost you less than \$6.50 per month to maintain. Compare debit card [bank accounts](#) with our comparison tool to check.

Accruing Interest - [Credit card](#) providers will generally charge a certain amount of interest on purchases made on the card. If the bill is not paid in full at the end of the month, then interest can start to build up, dropping the credit card user deeper into debt.

Paying with a [debit card](#) means only using the money that is already in the linked transaction account. This means no interest can accrue, because no money has been borrowed.

Falling into Debt - Unfortunately, it can be far too easy to fall into debt with a credit card. When you are not using your own money, it can be easy to be tempted to make purchases that aren't really needed, and to spend too much.

With a debit card, you will only use your own money, which makes it much more difficult to get into debt.

No Credit Needed - If you don't have credit, or if you have bad credit, it can be difficult to get approved for a credit card. Even if you are approved, you may have to pay much higher interest and fees. Because you will only be using your own money with a debit card, there is no credit check required.

Convenience - A debit card allows you to use your card for purchases almost everywhere. This means you can make purchases online – throughout Australia, and for many issuers overseas too. You can also pay for things over the phone, and at the retailer. It means you don't have to carry cash, and you also don't need to worry about owing money to a credit card provider.

DRAWBACKS OF USING A DEBIT CARD

No Rewards: One of the most attractive benefits of having a credit card is the ability to earn rewards points. Rewards credit cards allow users to earn points for making purchases on the cards. These points can be redeemed for a variety of things, such as flights, accommodation, merchandise, shopping vouchers, cashback and more.

Although some debit cards do offer the chance to earn rewards points, credit card rewards programs tend to be more generous. Having said that, it's worth taking a look at some common features you still have with a debit card as you might really be surprised by what you're able to get.

These extras are offered by ANZ, but Citibank, HSBC and others all offer at least some of these features:

- Money off at restaurant (sometimes up to 20% off the bill at participating restaurants)
- \$25 towards your first online shopping purchase of \$100 or more
- \$50 off travel tickets of \$750 or more
- Roadside and emergency assistance
- Mobile phone and domestic travel insurance

No Access to Credit: Credit cards allow you to temporarily borrow money to pay for a purchase. This means that if you don't have the money to pay at that particular moment, you can still make the purchase and pay it off later. This can come in incredibly handy if you are short on cash, and also if there is some sort of emergency.

No Interest Free Days: Many credit cards offer a certain amount of interest free days on purchases made on the card. This means the card user can have up to 44-55 days of paying no interest on a purchase.

No Build up Credit Rating: Using a credit card correctly can allow you to build a better credit rating. Paying credit card bills on time, and using the card wisely, can result in a more positive credit score. This can give good credit card users the opportunity to apply for more credit, such as other credit cards, personal loans, car loans and home loans.

WHY CHOOSE A DEBIT CARD, OR HAVE A DEBIT CARD AND A CREDIT CARD?

There are numerous advantages to having a debit card – whether it is a standalone option, or used alongside a credit card.

Using a debit card is more secure than using cash, while still offering the convenience of a credit card.

With a debit card you can make payments at home or while away over the phone, or online – and still keep in control of your finances by only using your own money.

While there are a few disadvantages to using a debit card over a credit card, as we've covered above, there are still many advantages. Debit card users are subject to fewer fees and charges, there is a much smaller likelihood of getting into debt, and almost anyone can apply for one.

Whether you want only a debit card, or a debit card to use in conjunction with your credit card, you are sure to find one that suits your needs. Check out what's available, do some research, and apply online today!