Chocolate Finance sets spending limit to $250 on its debit card, the Chocolate Card

Description

If you have been living under a rock, Chocolate Finance is a fund management company that operates by providing attractive returns on deposits placed with it. It also has a debit card, The Chocolate Card, which you can spend and earn miles off. Recently, because of Chocolate Finance's move to stop users of The Chocolate Card from using the card to make payments on AXS, users started to make withdrawals from their accounts with Chocolate Finance. Chocolate Finance did not allow immediate withdrawals which caused even more anxiety.

If you want to read about Chocolate Finance and what has been happening, you can read my blog article on my personal blog here:

> [Chocolate Finance: When things are too good to be true, they probably are…]

So now what is the issue?

Chocolate Finance stopped immediate withdrawals from client deposit accounts. This meant that if you have monies with Chocolate Finance and you would like to make withdrawals, you would need to submit a request and your request would be queued.

So what did clients do? They continued to use The Chocolate Card to make debit card purchases. I mean I would. If I could not withdraw the monies in my account with an organisation and the only access I had to my monies was by spending my debit card, you can be certain that I am going to spend as much of my money as possible instead of having my monies locked up in an organisation that does not look too financially stable.

Now what did Chocolate Finance do?

It set a SGD$250 daily spending cap on debit card purchases.

Now this, to me at least, is a bit worrying. What happens if I had set up recurring payments? What if I made arrangements to pay my utilities, internet bills, mobile bills and even insurance policies with this recurring payment with The Chocolate Card? Well, if the amount is more than SGD$250, this amount will be declined.

Why did Chocolate Finance come up with this arrangement? They did so because they needed help in managing their “liquidity programme”.

Is this worrying?

Well I believe so.

Why do I feel so strongly about this?

I do because the people who placed their monies with Chocolate Finance did not want to undertake such a risk. If Chocolate Finance had made sound investments with the monies that are placed with them from the public, then why is it that they cannot return the monies immediately?

For example, if Chocolate Finance invested the monies in equities and fixed income and those monies made a profit, then they would have more monies than were placed with them. They could return the monies that customers are wanting to withdraw.

For example, say Chocolate Finance started a fund and SGD$100 million was placed with them and they invested in say Apple Inc. and Apple Inc. increased in value. Then they would have more than SGD$100 million. So why would they have an issue in returning customers’ deposits with them? In fact, if the fund value dropped 20% to SGD$80 million, it would be inconceivable that there would be so many clients asking for withdrawals that they could not fulfil the requests.

Now they cannot even do “withdrawals” of more than SGD$250 a day per client. This is concerning. Imagine individuals who placed monies with Chocolate Finance in hope of earning more “interest”. They did not invest in anything that had any hint of being more risky than a bank account with higher interest rates. They did not invest in the latest cryptocurrency craze (to be clear I am not against the cryptocurrency industry).

Yes we need more financial innovation. But at what cost?

Here is an interview that was done with the CEO of Chocolate Finance 6 months ago. You can watch it and decipher whether he actually answered the relevant questions.

Yours sincerely,

Daryl

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