



5 Reasons to Ditch Your Debit Card for a Cash Back Credit Card

Description

Debit cards have their advantages. They don't rack up debt. They help you avoid carrying large wads of liquid cash. And they can work well with a strict budget, as you can't spend more than you have in your chequing account.

As advantageous as a debit card seems, it does come with significant shortcomings, especially when compared with a cash back credit card. Even if you love your debit card, here are five big reasons you should dump it for a cash back credit card.

1. You'll earn cash back

Alright, let's get the most obvious reason out of the way: with a cash back credit card, you earn, well, *cash back*.

Now, to be fair, you can earn cash back on certain debit cards, too. But a cash back debit card will rarely earn more than its credit card counterpart. At most you *might* get 2% back. More than likely, you'll get 1% or lower.

Many of [Canada's top cash back credit cards](#) will give you 1% to 2% back for everyday shopping, along with bonus rates for certain spending categories. For instance, your cash back credit card could give you 5% back for grocery purchases. It could also give you more for gas, restaurants, utilities, or even entertainment. Some cards even have rotating bonus categories, which allows you to earn more cash back for certain purchases made within a specific quarter.

As long as you don't carry a balance on your card, these earnings can reinforce your budget. At the very least, they could help you keep pace with Canada's ongoing inflation rates.

2. You can build your credit

A credit card is one of the best ways to build a [credit score](#). So long as you pay off what you

borrow—neither maxing out your card's [credit limits](#) nor missing payments—your credit score will improve steadily over time.

Even if you've damaged your credit score in the past, a credit card could help you rebuild it. For example, you could get a [secured credit card](#), which requires a security deposit upfront to use the card. As you build your credit with a secured credit card, you also build rapport with your credit card provider. At a certain point, they might offer you an *unsecured* credit card—like a cash back credit card.

A debit card doesn't build credit, nor does it rebuild credit. Your bank won't report your buying activities to credit bureaus, nor will they consider your oldest debit card when you apply for a mortgage.

3. You get fraud protection

Credit cards come with ample fraud protection. Even if a thief stole your credit cards and maxed them out, you wouldn't be responsible for paying the unauthorized charges. Just call your credit card provider, let them know what happened, and poof — your card will be cancelled.

At most, you might pay \$50 for an unauthorized charge on your credit card, a maximum fixed by the government. Even then, paying \$50 is rare.

A debit card might offer fraud protection, too, but it's usually not as extensive. Additionally, the process of returning your money can be long and gruelling. Since your debit card is linked to your bank, if a fraudster got ahold of your card (and PIN), they could drain your account. That could leave you without liquid cash for a long time, in which case it might be smart to have a credit card on hand.

4. You might get shopping and travel insurance

This is one of my favourite things about cash back cards—they typically come with a slew of free insurance.

For instance, your card might have shopping insurance, such as price protection, extended warranties, and purchase protection. On top of that, you might even get mobile device insurance, which will refund you the price of your phone if you misplaced or damaged it.

Travel insurance is a popular perk, too. Many cards come with rental car coverage, along with lost or stolen baggage insurance. You might get trip interruption, trip cancellation, or even emergency medical coverage.

Again, these are all *free*. As long as you use the cash back card to make purchases, you activate the insurance. No debit card could even dream of offering the level of coverage that's built into Canada's best credit cards.

5. You can snag a welcome bonus

Finally, you can snag a hefty welcome bonus on many of Canada's best cash back credit cards. These days, you could easily get a \$200 to \$300 bonus just for opening a new account and hitting a spending

threshold within a specific timeframe. Some cards will even offer *more* than this, especially if the card comes with an annual fee.

Now, banks *do* offer welcome bonuses on bank accounts, to which a debit card is often attached. But these offers aren't as common as welcome bonuses on cash back cards, nor are they usually as high.

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