

## CREDIT CARD OPERATIONS OF BANKS

### A. Issue of Credit Cards by Banks

The term “credit card” usually/generally refers to a plastic card assigned to a cardholder, usually with a credit limit, that can be used to purchase goods and services on credit or obtain cash advances.

Credit cards allow cardholders to pay for purchases made over a period of time, and to carry a balance from one billing cycle to the next. Credit card purchases normally become payable after a free credit period, during which **no interest** or finance charge is imposed. Interest is charged on the unpaid balance after the payment is due. Cardholders may pay the entire amount due and save on the interest that would otherwise be charged. Alternatively, they have the option of paying any amount, as long as it is higher than the minimum amount due, and carrying forward the balance. Credit card schemes are operational at international level also.

The credit card scheme involves following parties viz.

|    |                   |  |
|----|-------------------|--|
| a. | Card holders      | Persons who are authorized to use the cards  |
| b. | Card Issuers      | Institutions which issue credit cards  |
| c. | Merchants         | Entities which agree to accept credit cards for payment of Goods & Services.   |
| d. | Merchant acquires | Banks/NBFCs which enter into agreements with merchants to process their credit card transactions   |
| e. | Credit Card Assn  | Organizations that license card issuers to issue credit cards under their trade mark e.g. Visa and Master Card and provide settlement services for their members (i.e. Card Issuers and Merchant Acquirers). |

Credit cards can be broadly categorized into two types viz. General purpose cards and private label cards. The former are issued under the trademark of credit card associations (VISA and Master Card) and accepted by many merchants while the latter are only accepted by specific retailers (e.g. a departmental store).

Banks in India with net worth of Rs. 100 crores and above can undertake credit card business either departmentally or through a subsidiary company set up for the purpose. Prior approval of the Reserve Bank is **not** necessary for banks desirous of undertaking credit card business either independently or in tie-up arrangement with other card issuing banks, but with the approval of their Boards. Banks desirous of setting up separate subsidiaries for undertaking credit card business would, however, require prior approval of the Reserve Bank.

Most of the card issuing banks in India offers general purpose credit cards which are normally categorised by banks as **Platinum, Gold or Classic** to differentiate the services offered on each card and the income eligibility criteria. Banks may partner with business corporations or non-profit making organizations (e.g. charitable or professional bodies) for issuance of co-branded

cards upon undertaking due diligence. Banks may also issue corporate credit cards to the employees of their corporate customers.

### **Fair Practices Code**

Each bank must have a well documented policy and a Fair Practices Code in line with the “Code of Bank’s Commitment to Customers”(Code) as also the Guidance Note announced by The Banking Codes and Standards of India(BCSBI) in July 2006 and December 2006 respectively for credit card operations.

### **Issue of cards** - Guidelines\_\_

- Banks/NBFCs should assess independently the credit risk and ensure prudence while issuing credit cards to persons, especially to students and others with no independent financial means. As holding of several credit cards enhance the credit limit to the credit card holder, banks should assess the credit limit on the basis of self declaration/credit information.
- Banks/NBFCs should convey in writings the main reason/reasons for rejection of the loan applications for credit cards.
- The card issuers are solely responsible for fulfillment of all KYC requirements, even where DSAs / DMAs or other agents solicit business on their behalf.
- While issuing cards, the most important terms and conditions for issue and usage of a credit card should be mentioned in clear, unambiguous and simple language (preferably in English, Hindi and the local language) comprehensible to a card user.

### **Interest rates and other charges**

- Credit card dues are in the nature of non-priority sector personal loans and as such, interest would be charged on the amount due at the issuing bank’s Base Rate system instead of BPLR system with effect from July 01, 2010.
- Banks/NBFCs are required to maintain transparency in respect of prescribing ceiling rate of interest and they should publish through their website and other means the interest rates charges to various categories of customers. Banks/NBFCs should upfront indicate to the credit card holder, the methodology of calculation of finance charges with illustrative examples.
- Banks/NBFCs have to ensure that there is no delay in dispatching bills and the customer has sufficient number of days (at least one fortnight) for making payment before the interest starts getting charged so as to obviate the frequent complaints of delayed billing. They may also consider providing bills and statements of accounts online, with suitable security built therefore.

- Banks/NBFCs should quote Annualized Percentage Rates (APR) on card products (separately for retail purchase and for cash advance, if different) with method of calculation along with a couple of examples for better comprehension. The APR charged and the annual fee and the manner in which the outstanding unpaid amount will be included for calculation of interest should also be specifically shown with prominence in all monthly statements. Implications of paying only 'the minimum amount due' should also be explained to the card holders preferably in the Welcome Kit being sent and on the card issuers' website.
- The banks /NBFCs should not levy any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and without getting his / her consent. Changes in charges (other than interest) may be made only with prospective effect giving notice of at least one month. There should be transparency (without any hidden charges) in issuing credit cards free of charge during the first year.

### **Wrongful billing**

Bank/NBFC should ensure that wrong bills are not raised and issued to customers. Any grievances, on this count, should be redressed amicably to the customer within a maximum period of sixty days.

### **Use of DSAs / DMAs and other agents**

- Banks /NBFCs, while outsourcing the various credit card operations, should extremely careful that the appointment of such service providers does not compromise with the quality of the customer service and the banks'/NBFCs' ability to manage credit, liquidity, operational risks and the confidentiality of the customer's records, respect customer privacy, and adhere to fair practices in debt collection.
- Banks/NBFCs should prescribe a Code of Conduct for their Direct Sales Agents (DSAs) whose services are engaged by banks for marketing their products/services and further ensure that the DSAs scrupulously adhere to the Code of Conduct and the same may be displayed on the individual bank's/NBFC's website and be available easily to any credit card holder.
- The bank/NBFC should have a system of random checks to ensure that their agents have been properly briefed and trained and conveying the correct terms and conditions of the product on offer and customers' privacy, etc. The card issuing bank/NBFC would be responsible as the principal for all acts of omission or commission of their agents (DSAs / DMAs and recovery agents).

### **Protection of Customer Rights - Guidelines**

Customer's rights in relation to credit card operations primarily relate to personal privacy, clarity relating to rights and obligations, preservation of customer records, maintaining confidentiality of customer information and fair practices in debt collection.

### **Right to privacy**

- Card issuing banks/NBFCs avoid issuance of unsolicited cards which attracts penalty besides such persons approaching the Banking Ombudsman for compensation for loss of time, expenses, harassment and mental anguish, etc.
- It is the responsibility of the card issuing bank/NBFC for any misuse of the unsolicited cards and the person in whose name the card is issued cannot be held responsible for the same.
- The consent for the cards issued or the other products offered along with the card has to be explicit and should not be implied.
- Unsolicited loans or other credit facilities should not be offered to the credit card customers.
- The card issuing bank/NBFC should not unilaterally upgrade credit cards and enhance credit limits or effect any change in terms and conditions without prior consent of the card holders.
- Banks should engage Telemarketers (DSAs/DMAAs) who comply with directions/regulations on the subject issued by the Telecom Regulatory Authority of India (TRAI) from time to time, etc.

### **Customer confidentiality**

- Confidentiality in respect of customer details should be maintained and banks/NBFCs should not reveal any information without obtaining specific consent of the customers in writing.
- In case of providing information relating to credit history / repayment record of the card holder to a credit information company (specifically authorized by RBI), the bank/NBFC may explicitly bring to the notice of the customer that such information is being provided in terms of the Credit Information Companies (Regulation) Act, 2005.
- Reporting default status of a credit card holder to the Credit Information Bureau of India Ltd. (CIBIL) or any other credit information Company authorized by RBI, banks/NBFCs should ensure that they adhere to a procedure, duly approved by their Board, including issuing of sufficient notice to such card holder about the intention to report him/ her as defaulter to the Credit Information Company.
- The disclosure to the DSAs / recovery agents should also be limited to the extent that will enable them to discharge their duties.

### **Fair Practices in debt collection**

- In the matter of recovery of dues, banks should ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code as also BCSBI's Code of Bank's Commitment to Customers ( wherever applicable).

- It is also ensured that while appointing third party agents for debt collection, the agents should refrain from action that could damage the integrity and reputation of the bank/NBFC and that they observe strict customer confidentiality.
- Banks /NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.
- The banks should also ensure to comply with the guidelines of RBI in respect of engagement of recovery agents.

### **Insurance cover to cardholders**

Banks/NBFCs may arrange for insurance cover to their credit card holders, of course, upon obtaining in writing the details of nominee/s, etc. for settlement of any claim in future and the same may be forwarded to the insurance companies.

### **Redressal of Grievances**

- Bank /NBFC should constitute in house Grievance Redressal machinery and genuine grievances of credit card subscribers are redressed promptly without involving delay. **Generally, a time limit of 60 (sixty) days is given to the customers for preferring their complaints / grievances.**
- **Bank/NBFC is required to dispose off the complaint within a period of 30 days of lodgement of the same.** The complainant can approach Ombudsman for redressal of his grievances in case he does not receive satisfactory response within the timeframe. Bank/NBFC would be held responsible and liable to pay compensation for the any consequences.
- The name, designation, address and contact number of important executives as well as the Grievance Redressal Officer of the bank/NBFC may be displayed on the website.

### **Internal control and monitoring systems**

Standing Committee on Customer Service in each bank/NBFC is required to review on monthly basis the credit card operations including reports of defaulters and credit card related complaints so as to ensure improvement in the services for an orderly growth in the segment. Card issuing banks should have in place a suitable monitoring mechanism to randomly check the genuineness of merchant transactions also.

### **Fraud Control**

- Banks/NBFCs should set up internal control systems to combat frauds and actively participate in fraud prevention committees/ task forces which formulate laws to prevent frauds and take proactive fraud control and enforcement measures.
- With a view to reducing the instances of misuse of lost/stolen cards, it is recommended to banks/NBFCs that they may consider issuing (i) cards with photographs of the cardholder (ii) cards with PIN and (iii) signature laminated cards or any other advanced methods that may evolve from time to time.

In terms of instructions issued by Department of Payment and Settlement Systems, Reserve Bank of India on security issues and risk mitigation measures, as amended from time to time, banks have been advised to put in place additional authentication/ validation based on information not visible on the cards for all on-line card not present transactions including IVR transactions. Banks are also advised to implement:-

- A system of "Online Alerts" to the cardholder for all 'card not present' transactions of the value of Rs.5, 000/- and above. (RBI Cir. DPSS.CO.PD.2224/02.14.003/2010-11 dated March 29, 2011)
- Blocking of a lost card immediately on being informed by the customer and formalities, if any, including lodging of FIR can follow within a reasonable period.

### **Right to impose penalty**

RBI reserves the right to impose any penalty on a bank/NBFC under the provisions of the Banking Regulation Act, 1949/ Reserve Bank of India Act, 1934, respectively for violation of any of these guidelines.

### **B. Issue of Debit Cards by Banks**

In terms of the revised guidelines issued by the Department of Payment and Settlement Systems (DPSS) of the Reserve Bank of India, banks may ensure to issue debit cards, including co-branded debit cards, without seeking prior approval of the Reserve Bank, subject to certain conditions as under:-

- Banks should have a comprehensive debit cards issuance policy including policy on co-branded debit cards with the approval of their Boards. Debit cards should be issued to customers having Saving Bank/Current Accounts but **not** to cash credit/ loan account holders.
- Banks may issue only online debit cards including co-branded debit cards where there is an immediate debit to the customers' account, and where straight through processing is involved.
- Banks are not permitted to issue offline-debit cards.
- Compliance of instructions/guidelines on KYC/AML/ CFT issued by RBI from time to time.
- Payment of interest should be in accordance with interest rate directives as issued from time to time.

- No cash transactions through the debit cards should be offered at the Point of Sale under any facility without prior authorization of RBI.
- Issuance of international debit cards will also be subject to directions issued under Foreign Exchange Management Act, 1999, as amended from time to time.
- Review of the debit card operations/issuance of debit cards shall be undertaken by the banks on half-yearly basis.
- Reporting of operations of smart/debit cards issued to DPSS is **discontinued** with immediate effect.

### **Terms & Conditions of issue of cards to customers**

- i) Bank should avoid dispatching unsolicited cards to customers except replacement of a card already held by the customer.
- ii) The relationship between the bank and the card holder shall be contractual.
- iii) Each bank shall make available to the cardholders in writing, a set of contractual terms and conditions governing the issue and use of such a card. These terms shall maintain a fair balance between the interests of the parties concerned.
- iv) The terms shall be expressed clearly with basis of charges but not necessarily the amount of charges at any point of time. The terms shall specify the period within which the cardholder's account would normally be debited. Any alteration of the terms, sufficient notice have to be given to the card holder to enable him to withdraw if he so chooses.
- v) The terms shall put the cardholder under an obligation to take all appropriate steps to keep safe the card and the means (such as PIN or code) which enable it to be used.
- vi) The terms shall specify that the bank shall exercise care when issuing PINs or codes and shall be under an obligation not to disclose the cardholder's PIN or code, except the cardholders.
- vii) The bank shall be responsible for direct losses incurred by a card holder due to a system malfunction directly within the bank's control. However, the bank shall not be held liable for any loss caused by a technical breakdown of the payment system if the breakdown of the system was recognizable for the cardholder by a message on the display of the device or otherwise known, etc.

### **Security & Other aspects**

- The security of the debit card shall be the responsibility of the bank and the losses incurred by any party on account of breach of security or failure of the security mechanism shall be borne by the bank.
- Internal records should be preserved for sufficient periods by the bank to enable the operations to be traced and errors to be rectified taking into account the law of limitation for the time barred cases.
- The card holder shall be provided with a bank statement or written record of transactions either immediately or within a reasonable period.

- The cardholder shall bear the loss sustained up to the time of notification to the bank of any loss, theft or copying of the card but only up to a certain limit (of fixed amount or a percentage of the transaction agreed upon in advance between the cardholder and the bank), except where the cardholder acted fraudulently, knowingly or with extreme negligence.
- Each bank shall provide means whereby his customers may at any time of the day or night notify the loss, theft or copying of their payment devices.
- On receipt of notification of the loss, theft or copying of the card, the bank shall take all action open to it to stop any further use of the card.
- With a view to reducing the instances of misuse of lost/stolen cards, banks may consider issuing cards with photographs of the cardholder or any other advanced methods that may evolve from time to time.

### **Redressal of grievances**

Banks may ensure to put in place an effective mechanism for redressal of customer complaints. There should be a system of acknowledging customers' complaints for follow up, such as complaint number / docket number, even if the complaints are received on phone. If a complainant does not get satisfactory response from the bank within a maximum period of **thirty (30) days** from the date of his lodging the complaint, the customer can have the option to approach the Office of the concerned Banking Ombudsman for redressal of his grievance/s.

### **C. Co-branding Arrangement**

Co-branded debit cards can be issued by banks subject to certain terms and conditions as under:-

- i) Banks should have a comprehensive Board approved policy for undertaking the business.
- ii) Banks should carry out due diligence in respect of the non-banking entity with whom they intend to enter into tie-up for issuance of the co-branded cards so as to protect against the reputation risk.
- iii) The card issuing bank would be liable for all acts of the co-branding partner.
- iv) The role of the non-bank entity under the tie-up arrangement should be limited to marketing/ distribution of the cards or providing access to the cardholder for the goods/services that are offered.
- v) Confidentiality in respect of the customers obtained at the time of opening of the account or issuing the card should be maintained by the issuing bank and the non-banking entity should not be permitted to have access to any details thereof which may violate the bank's secrecy obligations.
- vi) Banks may ensure that they engage telemarketers who comply with directions/ regulations issued by the Telecom Regulatory Authority of India (TRAI) from time to time.

### **D. Issuance of rupee denominated co-branded pre-paid cards**

Banks/NBFCs are permitted (general permission) to issue rupee denominated pre-paid cards subject to the instructions/ guidelines issued from time to time by Department of Payment &

Settlement Systems (DPSS) of RBI. Banks are also permitted to issue foreign denominated pre-paid cards including co-branding arrangements subject to the guidelines issued under FEMA 1999. Issuance of rupee denominated pre-paid cards is subject to certain terms and conditions as under:-

The co-branding arrangement should be as per the Board approved policy of the bank.

- i) Banks should carry out due diligence in respect of the non-banking entity with which they intend to enter into tie-up for issue of such cards to protect themselves against the reputation risk they are exposed to in such an arrangement.
- ii) The card issuing bank would be liable for all acts of the co-branding partner.
- iii) The role of the non-bank entity under the tie-up arrangement should be limited to marketing/ distribution of the cards or providing access to the cardholder for the goods/services that are offered.
- iv) Compliance of instructions/guidelines on KYC/AML/CFT issued by RBI from time to time.
- v) Confidentiality in respect of the customers should be maintained by the card issuing bank and the co-branding non-banking entity should not be permitted to access any details of customer's account that may violate bank's secrecy obligations.
- vi) No interest may be paid on the balances transferred to pre-paid payment cards.
- vii) Compliance with DPSS Guidelines on Issue and Operation of pre-paid instruments in India.
- viii) Banks may ensure that they engage telemarketers who comply with directions/regulations issued by the TRAI from time to time.

#### **E. White Label ATM (WLA)**

Considering the nearly 23-25% year-on-year growth in the number of ATMs (90,000+ presently) and their deployment has been predominantly in Tier I & II centres, a need to expand the reach of ATMs in Tier III to VI centres was felt. Accordingly, non-bank entities incorporated in India under the Companies Act 1956 are permitted to set up, own and operate ATMs in India after obtaining authorisation from RBI under the Payment and Settlement Systems (PSS) Act 2007. Non-bank entities that intend setting up, owning and operating ATMs, would be christened '**White Label ATM Operators**' (WLAO) and such ATMs would be called '**White Label ATMs**' (WLAs). They will provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks. They will provide the banking services to the customers of banks in India, based on the cards (debit/credit/prepaid) issued by banks.

#### **Eligibility Criteria**

- The Memorandum of Association (MOA) of the applicant entity must cover the proposed activity of operating WLAs.
- In case of FDI being an applicant entity, necessary approval from competent authority to be obtained besides compliance of regulations framed under FEMA.

- No-bank entities must have net worth at least Rs. 100 crore as per the last audited balance sheet
- The net worth of at least Rs. 100 crore has to be maintained at all times.
- The authorisation for setting up a WLA operation would be initially valid for a period of one year

### **Number of WLAs**

There are three schemes for setting up WLAs. Each scheme indicates the number of WLAs to be installed which are as under:-

#### **Scheme A**

Year -1 minimum of 1000 WLAs

Year -2 minimum of twice the number of WLAs installed in Year 1 and

Year -3 minimum of three times the number of WLAs installed in Year 2

The ratio of 3:1 would be applicable, i.e. for every 3 WLAs installed in Tier III to VI centres, 1 WLA can be installed in Tier I to II centres. Out of the 3 WLAs installed in Tier III to VI centres, a minimum of 10 % should be installed in Tier V & VI centres.

#### **Scheme B**

A minimum of 5000 WLAs every year for three years.

The ratio of 2:1 would be applicable, i.e. for every 2 WLAs installed in Tier III to VI centres, 1 WLA can be installed in Tier I to II centres. Out of the WLAs installed in Tier III to VI centres, a minimum of 10 % should be installed in Tier V & VI centres.

#### **Scheme C**

A minimum of 25,000 WLAs in the first year and at least another 25,000 in the next two years.

The ratio of 1:1 would be applied under this scheme i.e. for every 1 WLA installed in Tier III to VI centres, 1 WLA can be installed in Tier I to II centres. Out of the WLAs installed in Tier III to VI centres, a minimum of 10 % should be installed in Tier V & VI centres.

#### **Other features/stipulations:**

- The authorisation issued to a WLAO cannot be assigned/transferred without prior approval of the RBI.
- No switchover of schemes is permissible. The date for determining the time line for implementation would commence 30 days after issuance of the authorisation.
- Only cards issued by banks in India (domestic cards) would be permitted to be used at the WLAs in the initial stage.
- Acceptance of deposits at the WLAs, by the WLAO would not be permitted
- The extant guidelines on five free transactions in a month as applicable to bank customers for using other bank ATMs would be inclusive of the transactions effected at the WLAs.

- The WLA Operator would not be entitled to any fee from the card issuer-bank other than the 'Interchange' fee payable to 'acquirer' bank under the bank owned ATM scenario.
- WLAs are not permitted to charge bank customer directly for the use of WLAs. They are entitled to receive a fee from the banks for the use of ATMs resources by the banks' customers
- WLAO is permitted to have more than one Sponsor Bank. Cash Management at the WLAs will be the responsibility of the Sponsor Bank, etc.

#### **F. Brown Label ATMs**

The concept of "Brown Label ATMs" comes up as an alternative between bank- owned ATMs and White Label ATMs. Under this concept, the hardware and lease are under the ownership of the service provider whereas the connectivity and cash management is the sole responsibility of the sponsor bank.

The ATMs would be under the brand and logo of the sponsor bank. Brown Label ATM model is a shared network that results in tremendously cutting costs within banks.

Under the bank-owned model, banks buy outright ATMs and bear the cost of service. In the Brown Label ATM model, the ATMs as well as related service are outsourced thereby substantial operating expenses can be achieved. In view of the high cost of ATMs and RBI guidelines for expansion of ATMs, it is likely that there would be greater demand for switch over to the model by banks.

(Source: RBI M. Circular)

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