

THE SALIENT FEATURES OF RBI MASTER CIRCULAR ON CREDIT CARD OPERATIONS OF BANKS

01. Basic features of credit cards

- 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.
- 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; and
 - 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 offer 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 also issue corporate credit cards to the employees of their corporate customers.

02. 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.

03. 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.

04. 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.
- Banks/NBFCs have to ensure that 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.

05. 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.

06. Use of DSAs / DMAs and other agents

Banks /NBFCs, while outsourcing the various credit card operations, should be 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).

07. 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.

7.1 Right to privacy

- a. 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.
- b. 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.
- c. The consent for the cards issued or the other products offered along with the card has to be explicit and should not be implied.
- d. Unsolicited loans or other credit facilities should not be offered to the credit card customers.
- e. 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.
- f. Maintenance of the Do Not Call Registry (DNCR) and strict compliance of avoiding unsolicited calls/SMS for marketing of the products should be put in place.
- d. Proper monitoring of the calls being made by DSAs/ DMAs /Call Centers for marketing purposes should be made so as to have a healthy practice.
- e. Banks should not engage Telemarketers (DSAs/DMAs) who do not have a valid registration certificate from DoT, Govt. of India, as telemarketers.
- f. Banks should furnish the list of Telemarketers (DSAs/DMAs) engaged by them along with the registered telephone numbers being used by them for making telemarketing calls to IBA to enable IBA to forward the same to TRAI.
- g. As per the laid down procedure, the telemarketer (DSAs/DMAs) shall get automatically registered with NDNC Registry while they register themselves with DoT.
- h. As IBA will be the co-coordinating agency at the industry level to ensure compliance with the requirements of TRAI regulations, banks are advised to actively cooperate with IBA in this regard, etc.

7.2 Customer confidentiality

- a. 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.
- b. 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.
- c. 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.

d. The disclosure to the DSAs / recovery agents should also be limited to the extent that will enable them to discharge their duties.

7.3 Fair Practices in debt collection

(a) 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).

(b) 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.

(c) 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.

(d) The banks should also ensure to comply with the guidelines of RBI in respect of engagement of recovery agents.

08. 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.

09. 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 lodgment 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.

10. 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.

11. 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.

Banks are also advised to put in place (RBI Cir. RBI/DPSS.No.1501/02.14.003/2008-09 dated February 18, 2009) :-

- Additional authentication/ validation based on information not visible on the cards for all on-line card not present transactions including IVR transactions (RBI Cir. RBI/DPSS No.2303/02.14.003/2009-2010 dated April 23, 2010)
- 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)

Banks are advised to block a lost card immediately on being informed by the customer and formalities, if any, including lodging of FIR can follow within a reasonable period.

12. Right to impose penalty

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

(FOR DETAILED CLARIFICATION/EXPLANATION, RBI MASTER CIRCULAR NO. DBOD.No. FSD.BC.14/24.01.011/2011-12 DT. 01.07.2011 MAY BE REFERRED TO)