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# MONETARY AND CREDIT INFORMATION REVIEW

## POLICY

### Draft Guidelines on Credit Card Operations

The Reserve Bank has placed draft guidelines on credit card operations on its website for views/suggestions from the members of the public. The guidelines, when finally issued, would be applicable to all commercial banks/non-banking finance companies (NBFCs) and would come into effect as soon as implemented.

It may be recalled that the Reserve Bank had constituted a Working Group to evolve a Regulatory Mechanism for Cards to ensure orderly growth of this segment of consumer credit and protect the interest of banks/NBFCs and their customers. The report of the Group was placed in public domain on April 23, 2005. The draft guidelines issued now have been framed taking into account the feedback received from the media, members of the public and others on the report of the Working Group. The draft guidelines are as indicated below :

Each bank/NBFC must have a well documented policy and a Fair Practices Code for credit card operations and should widely disseminate its contents, including through their websites, latest by August 31, 2005.

#### Issue of cards

While issuing credit cards, banks/NBFCs must ensure that -

- Cards are issued only to those prospective customers who have independent financial means after completion of all "Know Your Customer" (KYC) requirements. The card issuing bank/NBFC would be solely responsible for fulfillment of all KYC requirements, even where direct selling agents (DSAs)/direct marketing agents (DMAs) or other agents solicit business on their behalf.
- The maximum credit limit is fixed having regard to the means of the customer.
- Add-on cards i.e., those that are subsidiary to the principal card, are issued with the clear understanding that the liability will be that of the principal card holder.
- The terms and conditions for issue and usage of a credit card are mentioned in clear and simple language (preferably in English, Hindi and the local language) comprehensible to a card user. The Most Important Terms and Conditions (MITCs) termed as standard set of conditions, (please see box on page 3) should be highlighted and advertised/sent separately to the prospective customer/customer at all the stages i.e. during

marketing, at the time of application, at the acceptance stage (welcome kit) and in important subsequent communications.

#### Interest rates/other charges

Card issuers should ensure that -

- Bills are promptly dispatched and the customer has sufficient number of days (at least ten days) for making payment before the interest starts getting charged.
- Annualised percentage rates (APR) are quoted on card products (separately for retail purchase and for cash advance, if different). The method of calculation of APR should be given with a couple of examples for better comprehension. The APR charged and the annual fee should be shown with equal prominence. The late payment charges including the method of calculation of such charges and the number of days should be prominently indicated. The manner in which the outstanding unpaid amount would be included for calculation of interest should also be specifically shown with prominence in all monthly statements. Even where the minimum amount indicated to keep the card valid has been paid, it should be indicated boldly that the interest will be charged on the amount due after the due date of payment.
- Any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and at the time of getting his/her consent, should not be levied.
- The terms and conditions for payment of credit card dues including the minimum payment due is stipulated so as to ensure that there is no negative amortization.

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- Changes in charges (other than interest) are made only with prospective effect giving at least one month's notice.

### Billing

The card issuing bank/NBFC should ensure that wrong bills are not raised and issued to customers. In case, a wrong bill is issued and the customer protests, they should provide an explanation and documentary evidence without delay to the customer, within a maximum period of a fortnight, with a spirit to amicably redress the grievances of the customer.

To obviate frequent complaints of delayed billing, credit card issuers should consider providing bills and statements of accounts online.

### DSAs/DMAs

While outsourcing the various credit card operations, banks/NBFCs should be extremely careful that the appointment of such service providers does not compromise with the quality of customer service. They should ensure that the DSAs/DMAs maintain confidentiality of the customer's records, respect customer privacy, and adhere to fair practices in debt collection.

Card issuers should use the 'Conduct for DSAs' formulated by the Indian Banks' Association (IBA) in formulating their own codes in this regard. Banks/NBFCs should ensure that the DSAs engaged by them for marketing their credit card products scrupulously adhere to the Code of Conduct for credit card operations. The Code should be displayed on the card issuer's website and should also be easily available to any credit card holder.

Card issuers should have a system of random checks and mystery shopping to ensure that their agents have been properly briefed and trained, particularly in aspects like soliciting customers, hours for calling, privacy of customer information, conveying the correct terms and conditions of the product on offer, etc.

### Customer rights

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*

- Unsolicited cards should not be issued. In case, an unsolicited card is issued and activated without the consent of the recipient and the latter is billed for it, the card issuer should not only reverse the charges forthwith, but also pay a penalty without demur to the recipient amounting to twice the value of the charges reversed.
- The card issuing bank/NBFC should not unilaterally upgrade credit cards and enhance credit limits. Prior consent of the borrower should invariably be taken whenever there are any changes in the terms and conditions.
- The card issuers should maintain a Do Not Call Registry (DNCR) containing the phone numbers (both cell phones and land phones) of customers as well as non-customers (non-constituents) who have informed them that they do not wish to receive unsolicited calls/short message service (SMS) for marketing of their credit card products.
- The intimation for including an individual's telephone number in the DNCR should be facilitated through a website maintained by the bank/NBFC or on the basis of a letter received from such a person.
- The card issuing bank/NBFC should obtain a list of numbers its DSAs/DMAs as well as its call centres, which they intend to call for marketing purposes. It should then refer to the DNCR and

only those numbers which do not figure in the Registry should be cleared for calling. The card issuing bank/NBFC would be held responsible if a Do Not Call Number is called by its DSAs/DMAs or call centre/s.

- The DNCR numbers should not be passed on to any unauthorised person/s or misused in any manner.

#### *Customer confidentiality*

- The card issuing bank/NBFC should not reveal any information relating to a customer obtained at the time of opening the account or issuing the credit card, to any other person or organization without obtaining their specific consent, as regards the purpose/s for which the information would be used and the organisations with whom the information would be shared. Banks/NBFCs should satisfy themselves, based on specific legal advice, that the information being sought from them is not of such a nature as would violate the provisions of the laws relating to secrecy in transactions. The bank/NBFC would be solely responsible for the correctness or otherwise of the data provided.
- In case of providing information relating to credit history/repayment record of the card holder to a credit information company (specifically authorised by the Reserve Bank), the bank/NBFC should explicitly bring to the customer's notice that such information is being provided in terms of the Credit Information Act (to receive President's assent).
- Before reporting default status of a credit card holder to the Credit Information Bureau of India Ltd. (CIBIL) or any other credit information company authorised by the Reserve Bank, 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 procedure should also cover the notice period for such reporting as also the period within which such report would be withdrawn in the event the customer settles his dues after having been reported as defaulter. Banks/NBFCs should be particularly careful in the case of cards where there are pending disputes. The disclosure/release of information, particularly about the default, should be made only after the dispute is settled.
- The disclosure to the DSAs/recovery agents should be limited to the extent that would enable them to discharge their duties. Personal information provided by the card holder but not required for recovery purposes should not be released by the card issuers. They should ensure that their DSAs/DMAs do not transfer or misuse any customer information during marketing of credit card products.

#### *Debt collection*

- While recovering dues, banks/NBFCs should ensure that they and their agents adhere to the Reserve Bank's instructions of May 2003 on Fair Practice Code for lenders as also their own code for collection of dues.
- While appointing third party agencies for debt collection, the card issuing bank/NBFC should ensure that such agents observe strict customer confidentiality and refrain from action that could damage their integrity and reputation.
- Banks/NBFCs and 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.

### Grievance Redressal

- Generally, a time limit of 60 days should be given to customers for preferring their complaints/grievances.
- The card issuing bank/NBFC should constitute an internal grievance redressal machinery and give wide publicity to it through electronic and print media. The name and contact number of the designated grievance redressal officer should be mentioned on credit card bills. The designated officer should ensure that genuine grievances of credit card subscribers are redressed promptly.
- Card issuers should place the grievance redressal procedure and the time frame fixed for responding to complaints on their website.
- If a complainant does not get satisfactory response from the bank/NBFC within 60 days from the date of his lodging the complaint, he would have the option to approach the office of the concerned Banking Ombudsman for redressal of his grievance/s.

### Monitoring

Banks/NBFCs and their Standing Committees on Customer Service should review on a monthly basis the credit card operations, including reports of defaulters to CIBIL and credit card related complaints. They should also put up a detailed quarterly analysis of credit card related complaints to their Top Management.

### Banks' Exposure to Real Estate

The Reserve Bank has reviewed the position relating to risk management, reporting requirements and balance sheet disclosures in respect of real estate exposure of banks and has issued instructions for the guidance of banks as indicated below -

#### Risk Management

Banks have been advised to -

- have a board mandated policy in respect of their real estate exposure;
- include in their policy, the exposure limits, collaterals to be considered, margins to be kept, sanctioning authority/level and the sector to be financed;
- have risk management system in place for containing risks involved in this sector, including price risk, etc; and
- have a monitoring mechanism to ensure that the policy stipulations are being followed by field level functionaries and that their exposure to this sensitive sector is within the stipulated limits.

The above instructions are indicative in nature and banks should adopt a system depending upon their portfolio size, business complexities, risk appetite, etc.

## Credit Cards - Most Important Terms and Conditions

### Fees and Charges

- Joining fees for primary card holder and for add-on card holder
- Annual membership fees for primary and add-on card holder
- Cash advance fee
- Service charges levied for various transactions
- Interest free (grace) period
- Finance charges for both revolving credit and cash advances
- Overdue interest charges - to be given on monthly and annualised basis
- Charges in case of default

### Drawal Limits

- Credit limit
- Available credit limit
- Cash withdrawal limit

### Billing

- Billing statements - periodicity and mode of sending
- Minimum amount payable
- Method of payment
- Billing disputes' resolution
- Contact particulars of 24 hour call centres of card issuer
- Grievances redressal escalation - contact particulars of officers to be contacted

### Default

- Recovery procedure in case of default
- Recovery of dues in case of death/permanent incapacitation of card holder

- Available insurance cover for card holder and date of activation of policy

### Termination/Revocation of Card Membership

- Procedure for surrender of card by card holder - due notice

### Loss/Theft/Misuse of Card

- Procedure to be followed in case of loss/theft/misuse of card - mode of intimation to card issuer
- Liability of card holder in case of loss/theft/misuse

### Disclosure

- Type of information relating to card holder to be disclosed with and without the card holder's approval

### Stages for Disclosing the Most Important Terms and Conditions

- Fees and charges - during marketing, at application time, in the welcome kit and on bills
- Drawal limits - on bills, in the welcome kit
- Billing - in the welcome kit, on bills
- Default - in the welcome kit
- Termination/revocation of card membership - at application time, in the welcome kit
- Loss/theft/misuse of card - in the welcome kit
- Disclosure of information relating to card holder - in the welcome kit
- Any change in the terms and conditions - on an ongoing basis

*The font size of the most important terms and conditions should be minimum Arial -12. The normal terms and conditions communicated by the card issuer to the card holder at different stages would continue as hitherto.*

## Reporting

Banks should, henceforth, report to the Reserve Bank their real estate exposure under the following heads -

### Direct exposure

- (i) Residential mortgages - Lendings fully secured by mortgages on residential property that is or would be occupied by the borrower or that is rented (individual housing loans up to Rs.15 lakh should be shown separately).
- (ii) Commercial real estate - Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure should also include non-fund based limits.
- (iii) Investments in mortgage backed securities and other securitised exposures i.e., residential and commercial real estate.

### Indirect Exposure

Fund based and non-fund based exposures on National Housing Bank and Housing Finance Companies.

## Balance sheet disclosure

Banks should also disclose their gross exposure to real estate sector as well as the details of the break-up of their direct and indirect exposure in their annual report.

## Banks' Investments in Venture Capital

On a review of the recent developments, including overall credit growth and growth of investment in venture capital vis-à-vis other sectors, it has been decided that -

- (i) fresh investments made by banks on or after July 1, 2005 in venture capital shall not be eligible for classification under priority sector lending; and
- (ii) investments, which have already been made by banks up to June 30, 2005, in venture capital shall not be eligible for classification under priority sector lending with effect from April 1, 2006.

Investments made by commercial banks in venture capital are reckoned under priority sector lending with effect from April 24, 1999, provided the venture capital funds/companies are registered with the Securities and Exchange Board of India (SEBI).

## Acknowledgement of Transfer/Allotment of Shares

The Reserve Bank has decided that private sector banks going for rights issues should, henceforth, make complete disclosure of the regulatory requirements in their offer documents. They should also disclose that -

- (a) Subscription to rights other than own entitlement will not be permitted if such subscription would result in breach of any statutory/regulatory ceilings.
- (b) Any acquisition of shares that will take the shareholding of any entity/group of entities to 5 per cent or more of the paid-up capital of the bank would require the Reserve Bank's acknowledgement. Further, in terms of the guidelines on ownership and governance issued in February 2005, any

acquisition that would take the shareholding of any entity/group, directly or indirectly, to 10 per cent or more of the paid-up capital of the bank would require the Reserve Bank's prior approval.

- (c) If the holding of any shareholder breaches any statutory/regulatory ceiling as a result of non-subscription of rights by other shareholders, the concerned shareholder would not be able to acquire any further shares till his/its shareholding is brought within the stipulated ceilings.

In the event of the statutory/regulatory limits getting breached, banks should inform the concerned entities/group of entities suitably.

In terms of the Reserve Bank's circular of March 2002, listed as well as unlisted private sector banks are not required to obtain the Reserve Bank's approval for rights issues. While reviewing the position, however, it was observed that at the time of a rights issue, some of the shareholders (individuals/entities/groups) pick up unsubscribed shares, which result in his/its holding going up as a percentage of the total paid-up capital of the bank. Also, if some of the shareholders do not pick up their entitlements, the holdings of the other shareholders go up in percentage terms even if they pick up only their own entitlements.

## Internet Banking in India

It has been decided that now scheduled commercial banks would not require the Reserve Bank's prior approval for offering internet banking services. Banks should, however, ensure that their internet banking policy -

- has been approved by their board;
- fits into the bank's overall information technology and information security policy and ensures confidentiality of records and security systems;
- takes into account operational risk;
- clearly lays down the procedure to be followed in respect of KYC requirements; and
- broadly meets the parameters laid down in the Reserve Bank's circular of June 14, 2001.

## UCBs

## Relaxation in Provisioning for Small UCBs

With a view to give relief to the small urban co-operative banks (UCBs) in provisioning with retrospective effect, i.e., from the financial year ended March 2005, it has been decided to permit unit banks (i.e. single branch banks) and multi-branch banks operating within a single district having deposits up to Rs.100 crore, to classify non-performing assets (NPAs) based on 180-day delinquency norm instead of the earlier norm of 90 days. This relaxation would be in force for three financial years ended/ending March 31, 2005, 2006 and 2007.

This relaxation would enable small UCBs to transit to the 90-day norm in a calibrated manner by the end of three years. UCBs not falling in the above category would continue to classify accounts as NPAs based on 90-day delinquency norms. For these banks, the current relaxation with regard to classification of gold loans and small loans up to Rs.1 lakh would continue till March 31, 2006.