

Monetary and Credit Information Review

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POLICY

Guidelines on Credit Card Operations

The working group on regulatory mechanism for cards constituted by the Reserve Bank had suggested various regulatory measures aimed at encouraging growth of credit cards in a safe, secure and efficient manner as well as to ensure that the rules, regulations, standards and practices of the card issuing banks are in alignment with best customer practices. Based on the recommendations of the Group as also the feedback received from the members of the public, card issuing banks and others, guidelines on credit card operations have been framed. All credit card issuing banks/non-banking financial companies (NBFCs) have been advised to implement these guidelines immediately.

Each bank/NBFC should 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 November 30, 2005.

Issue of cards

While issuing credit cards, banks/NBFCs should ensure that –

- The credit risk is independently assessed while issuing cards especially to students and others with no independent financial means. Add-on cards should be issued with the clear understanding that the liability will be that of the principal cardholder.
- The maximum credit limit for a credit card holder should be assessed taking into account the limits enjoyed by him/her on credit cards issued by other banks, on the basis of self declaration/credit information.
- The card issuing banks/NBFCs would be solely responsible for fulfillment of all ‘know your customer’ (KYC) requirements, even where direct selling agents (DSAs)/direct marketing agents (DMAs) or other agents solicit business on their behalf.
- The terms and conditions for issue and usage of the 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 MCIR of July 2005) should be highlighted.

Interest rates/other charges

Card issuers should ensure that -

- Bills are promptly dispatched.
- 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 and late payment charges is prominently indicated.
- Any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and getting his/ her consent, is not levied.
- The terms and conditions for payment of credit card dues, including the minimum payment due, are stipulated so as to ensure that there is no negative amortization.
- 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, if necessary, documentary evidence to the customer within a maximum period of sixty days. To obviate frequent complaints of delayed billing, the credit card issuers should consider providing bills and statements of accounts online.

DSAs/DMA's

When 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/DMA's maintain confidentiality of the customer's records, respect customer privacy and adhere to fair practices in debt collection. They would be responsible as the principal, for all acts of omission or commission of their DSAs/DMA's and recovery agents.

Customer rights

Right to privacy

Credit card issuing banks/NBFCs should ensure that –

- Unsolicited cards are not issued. In case, an unsolicited card is issued and activated without the consent of the recipient and he/she is billed for it, the charges are reversed forthwith and also a penalty without demur to the recipient amounting to twice the value of the charges reversed is paid.
- Unsolicited loans or other credit facilities are not offered to credit card customers. In case, an unsolicited credit facility is extended without the consent of the recipient and he/she objects to it, the credit limit is withdrawn and a penalty as considered appropriate is paid.
- Credit cards are not upgraded and credit limits enhanced, unilaterally.
- 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/SMS for marketing of their credit card products is maintained.
- The intimation for including an individual's telephone number in the DNCR is facilitated through their website or on the basis of a letter received from such a person.
- The list of numbers their DSAs/DMA's as well as call centres intend to call for marketing purposes should be obtained and after referring to the DNCR only those numbers which do not figure in the Registry should be cleared for calling. The bank/NBFC would be held responsible if a Do Not Call Number (DNCN) is called on by its DSAs/DMA's or call centre/s.

Customer confidentiality

- The card issuing bank/NBFC should not reveal any information relating to customers obtained at the time of opening the account or issuing the credit card to any other person or organisation 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.
- 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 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.

Debt collection

- While recovering dues, banks/NBFCs should ensure that they, as also their agents, adhere to the Reserve Bank's instructions of May 2003 on Fair Practices Code for Lenders as well as their own code for collection of dues.
- While appointing third party agencies for debt collection, the card issuers should ensure that such agents observe strict customer confidentiality and refrain from any action that could damage their integrity and reputation. All letters issued by recovery agents must contain the name and address of a responsible senior officer of the card issuing bank whom the customer can contact at his location.
- 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 sixty days should be given to the customers for preferring their complaints/grievances.
- The card issuing banks/NBFCs should constitute an internal grievance redressal machinery and give wide publicity to it through electronic and print media. The grievance redressal procedure and the time frame fixed for responding to complaints should be placed on their website. The name, designation, address and contact number of important executives as well as the grievance redressal officer should also be displayed on their website. A system of acknowledging customers' complaints for follow up, such as, complaint number/docket number, even if the complaints are received on phone, should also be devised.
- If a complainant does not get satisfactory response from the bank/NBFC within a maximum period of thirty 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 Committee 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.

Penalty

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

Revised Guidelines on Corporate Debt Restructuring

Based on the recommendations made by the Special Group constituted in September 2004 to review the corporate debt restructuring (CDR) scheme and also the feedback received on the revised draft guidelines circulated amongst banks for comments, the scheme has been modified as below:

- (a) The coverage of the scheme has been extended to include entities with outstanding exposure of Rs.10 crore or more.
- (b) With a view to making, decision making more equitable, the support of 60 per cent of creditors by number in addition to the support of 75 per cent of creditors by value, is required.
- (c) The core group to be given the discretion in dealing with wilful defaulters in cases, other than those involving frauds or diversion of funds with malafide intentions.
- (d) Restoration of asset classification prevailing on the date of reference to the CDR Cell to be linked to implementation of the CDR package within four months from the date of approval of the package.

- (e) Regulatory concession in asset classification and provisioning to be restricted to the first restructuring where the package also has to meet norms relating to turn-around period and minimum sacrifice and funds infusion by promoters.
- (f) Convergence in the methodology for computation of economic sacrifice among banks and financial institutions (FIs).
- (g) Reserve Bank's role limited to providing broad guidelines for CDR mechanism.
- (h) Disclosures in the balance sheet to be enhanced for providing greater transparency.
- (i) Additional finance requirement by both term lenders and working capital lenders, to be shared on pro-rata basis.
- (j) One time settlement to be allowed as a part of the CDR mechanism to make the exit option more flexible.
- (k) Non-SLR instruments acquired while funding interest or in lieu of outstanding principal to be subjected to regulatory treatment and valuation.

Debt Restructuring for SMEs

In view of the fact that the procedure for identification of wilful defaulters has been made more transparent, the Reserve Bank has advised banks that, under the debt restructuring mechanism for small and medium enterprises (SMEs), they may review the reasons for classification of the borrower as wilful defaulter and satisfy themselves that the borrower is in a position to rectify the wilful default provided he is granted an opportunity. Banks may admit such exceptional cases for restructuring with their board of directors' approval. Banks should, however, ensure that cases involving frauds or diversion of funds with malafide intent are not covered.

It may be recalled that in September 2005 the Reserve Bank had advised banks that SME accounts involving wilful default, fraud and malfeasance would not be eligible for restructuring.

Additional Provisioning for Standard Assets

Taking into account the recent trends in credit growth, it has been decided to increase the general provisioning requirement for 'standard advances' from the earlier level of 0.25 per cent to 0.40 per cent. These provisions would continue to be eligible for inclusion in Tier II capital for capital adequacy purposes up to the permitted extent.

Banks' direct advances to agricultural and SME sectors would be exempted from the additional provisioning requirement. Banks would continue to make provision at 0.25 per cent for direct advances to agricultural and SME sectors in the standard category.

Repo/Reverse Repo Rates Revised

In view of the current macroeconomic and overall monetary conditions, it has been decided to increase the fixed reverse repo rate under the liquidity adjustment facility (LAF) of the Reserve Bank from 5.0 per cent to 5.25 per cent with effect from October 26, 2005.

The repo rate would continue to be linked to the reverse repo rate. The spread between the reverse repo rate and the repo rate has been retained at 100 basis points. Accordingly, the fixed repo rate under LAF would be 6.25 per cent, effective October 26, 2005.

Interest Rate Ceiling on NRE Deposits Revised

NRE Term Deposits

On a review, it has been decided that, until further notice, the interest rates on fresh repatriable non-resident (external) rupee (NRE) deposits for one to three years contracted effective close of business in India on November 17, 2005 should not exceed 75 basis points (as against 50 basis points effective since November 1, 2004) above the London Inter Bank Offered Rate (LIBOR)/swap rates for US dollar of corresponding maturity.

The maturity period of repatriable NRE deposits would continue to be one to three years and the interest rate as determined above for three year deposits would also be applicable in case the maturity period exceeds three years.

The changes in interest rates would also apply to repatriable NRE deposits renewed after their present maturity period.

NRE Savings Deposits

The interest rate on NRE savings deposit accounts would be at the rate applicable to domestic savings deposits (as against LIBOR/swap rates for six month maturity on US dollar deposits) effective close of business in India on November 17, 2005.

BRANCH BANKING

“No-frills” Bank Accounts

The Reserve Bank has advised all banks to introduce a basic banking ‘no-frills’ account which could be accessible to vast sections of the population. The “no-frills’ accounts could either be with ‘nil’ or very low minimum balances/charges. The nature and number of transactions in such accounts could be restricted, but should be made known to the customer in advance in a transparent manner. Banks have been advised to give wide publicity to the facility of such a ‘no-frills’ account, including through their web sites, indicating the facilities and charges in a transparent manner.

Banks have been further advised to report to the Reserve Bank on a quarterly basis, the number of such deposit accounts opened by them.

FEMA

External Commercial Borrowings

The Reserve Bank has modified the external commercial borrowings (ECB) policy as below:

- Special purpose vehicles (SPVs) or any other entity, notified by the Reserve Bank, set up to finance infrastructure companies/projects exclusively, would be treated as financial institutions and ECB by such entities would be considered under the approval route on a case by case basis. The current practice of ECB proposals of financial institutions dealing exclusively with infrastructure or export finance, being considered by the Reserve Bank on a case by case basis under the approval route, would continue.
- With a view to facilitating capacity expansion and technological upgradation in the Indian textile industry after the phasing out of multi-fibre agreement, banks would be allowed to issue guarantees, standby letters of credit, letters of undertaking or letters of comfort in respect of ECB by textile companies for modernisation or expansion of their textile units. Such applications would be considered under the approval route subject to prudential norms.

Foreign Investment in ARCs

FDI in Asset Reconstruction Companies

In consultation with the Government of India, the Reserve Bank has decided to permit persons/entities eligible under the foreign direct investment (FDI) route, other than foreign institutional investors (FIIs), to invest in the equity capital of asset reconstruction companies (ARCs) registered with the Reserve Bank.

Accordingly, the Foreign Investment Promotion Board (FIPB) would, henceforth, consider applications from eligible persons/ entities under the FDI route to invest in the paid up equity capital of asset reconstruction companies which are registered with the Reserve Bank, subject to the following conditions:

(a) The maximum foreign equity should not exceed 49 per cent of the paid up equity capital of the ARC.

(b) Where investment by any individual entity exceeds 10 per cent of the paid up equity capital, the ARC should comply with the provisions of Section 3(3) (f) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

Investments in Security Receipts issued by ARCs

It has also been decided to grant general permission to FIIs registered with the Securities and Exchange Board of India (SEBI) to invest in security receipts (SRs) issued by ARCs registered with the Reserve Bank. FIIs can invest up to 49 per cent of each tranche of scheme of security receipts. The investment of a single FII in each tranche of scheme of SRs should, however, not exceed 10 per cent of the issue.

The policy on FDI in ARCs would be reviewed after two years and that of FII investment in SRs would be reviewed after one year.

Interest Rates on Rupee Export Credit
(Effective from November 1, 2005 to April 30, 2006)

Categories of Export Credit	Interest Rates@ (per cent per annum)
Pre-Shipment Credit	
(a) (i) Up to 180 days	Not exceeding BPLR minus 2.5 percentage points
(ii) Beyond 180 days and up to 270 days	Free*
(b) Against incentives receivable from government covered by ECGC guarantee up to 90 days	Not exceeding BPLR minus 2.5 percentage points
Post-Shipment Credit	
(a) On demand bills for transit period (as specified by FEDAI)	Not exceeding BPLR minus 2.5 percentage points
(b) Usance Bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period wherever applicable)	
(i) Up to 90 days	Not exceeding BPLR minus 2.5 percentage points
(ii) Beyond 90 days and up to 6 months from the date of shipment	Free*
(iii) Up to 365 days for exporters under the Gold Card Scheme	Not exceeding BPLR minus 2.5 percentage points.
(c) Against incentives receivable from government (covered by ECGC guarantee) upto 90 days	Not exceeding BPLR minus 2.5 percentage points
(d) Against undrawn balances (up to 90 days)	Not exceeding BPLR minus 2.5 percentage points
(e) Against retention money (for supplies portion only) payable within one year from the date of shipment (Up to 90 days)	Not exceeding BPLR minus 2.5 percentage points
Deferred Credit	
Deferred credit for the period beyond 180 days	Free*
Export Credit Not Otherwise Specified (ECNOS)	
(a) Pre-shipment credit	Free*
(b) Post-shipment credit	Free*

@ Since these are ceiling rates, banks would be free to charge any rate below the ceiling rates.

*** Banks are free to decide the rate of interest keeping in view the BPLR and spread guidelines.**

BPLR : Benchmark Prime Lending rate

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