

## Guidelines on Credit Card Operations by Urban Cooperative Banks

This circular is aimed at providing general guidance to banks on their credit card operations, and the systems and controls expected of them in managing their credit card business. It also sets out the best practices that they should aim to achieve.

### 2. Basic features of credit cards

2.1 The term "credit card" 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.

2.2 A credit card scheme typically involves the following parties

**Cardholders** - persons who are authorized to use credit cards for the payment of goods and services;

**Card issuers** – Institutions/ banks which issue credit cards

**Merchants** - entities which agree to accept credit cards for payment of goods and services;

**Merchant acquirers** - Banks / NBFCs which enter into agreements with merchants to process their credit card transactions; and

**Credit card associations** - organisations that license card issuers to issue credit cards under their trademark, e.g. Visa and MasterCard, and provide settlement services for their members (i.e. card issuers and merchant acquirers).

2.3. Credit card schemes normally operate at an international level too, meaning that cardholders belonging to card issuers in one country can make purchases at the place of business of merchants in another country.

### 3. Types of Credit cards

UCBs are permitted to issue general purpose cards to their customers, but are not allowed to issue co-branded credit cards. General purpose cards are those that are issued under the trademark of credit card associations (VISA /Mastercard etc.) and accepted by many merchants.

#### **4. Eligible Cardholders**

UCBs are permitted to issue credit cards to their regular members and nominal members only, but not to non-members. The card issuing banks would be solely responsible for fulfillment of all KYC requirements.

#### **5. Credit Card Limits**

5.1. Credit card debt is an unsecured line of credit. As repayment of credit card dues depends primarily upon the card holders' capacity to repay and customers hold more than one credit card from different banks with the intention to pay only minimum monthly payments on outstanding balances, the individual credit limits should be arrived at after assessing the repayment capacity of the customer having regard to the limits enjoyed by the cardholder from other banks.

5.2. The maximum individual limit for a credit card issued to a regular member should be kept at the permitted individual unsecured limit as prescribed in our circular UBD.BPD.(PCB) Cir. No.21/13.05.000/2010-11 November 15, 2010 and as amended from time to time. The individual credit card limit together with other unsecured borrowings by an individual should not exceed the permissible unsecured limit for an individual borrower. The credit card limits for nominal members should be as prescribed in our circular UBD.No.Plan.PCB.20/09.63.00/96-97 dated October 16, 1996 and as amended from time to time.

5.3. The total unsecured loans and advances (with surety or without surety or cheque purchases) granted by a bank to its members together with cumulative approved credit card limits should not exceed 10 percent of its total assets as per audited balance sheet as on 31<sup>st</sup> March of the preceding financial year.

5.4 Banks are advised to convey in writing the main reason / reasons which in the opinion of the bank have led to the rejection of the loan applications. It is reiterated that banks should convey in writing the main reason / reasons which have led to the rejection of the credit card applications.

5.5 The card issuing banks would be solely responsible for fulfilment of all KYC requirements.

5.6. Banks should ensure that credit cards are invariably offered to the visually challenged without any discrimination

## **6. The Most Important Terms and Conditions (MITCs)**

While issuing cards, the terms and conditions for issue and usage of a credit card should be 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, as given in the Appendix, should be highlighted and advertised / sent separately to the prospective customer / customers at all the stages i.e. during marketing, at the time of application, at the acceptance stage (welcome kit) and in important subsequent communications.

## **7. Interest rates and Other charges**

7.1 Credit card dues are in the nature of non-priority sector personal loans therefore should be priced at rate at which the bank will charge for personal loans.

7.2 Banks are advised to be guided by the instructions on interest rate on advances, as amended from time to time, while determining the interest rate on credit card dues. They should prescribe a ceiling rate of interest, including processing and other charges, in respect of small value personal loans and loans similar in nature. The above instructions are applicable to credit card dues also. In case banks charge interest rates which vary based on the payment / default history of the cardholder, there should be transparency in levying of such differential interest rates. In other words, the fact that higher interest rates are being charged to the cardholder on account of his payment / default history should be made known to the cardholder. For this purpose, the banks should publicise through their website and other means, the interest rates charged to various categories of customers. Banks should upfront indicate to the credit card holder, the methodology of calculation of finance charges with illustrative examples, particularly in situations where only a part of the amount outstanding is paid by the customer.

7.3 Further, banks have to adhere to the following guidelines relating to interest rates and other charges on credit cards:

a) Card issuers should 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. In order to obviate frequent complaints of delayed billing, the credit card issuing bank may consider providing bills and statements of accounts online, with suitable security measures. Banks could also consider putting in place a mechanism to ensure that the customer's acknowledgement is obtained for receipt of the monthly statement.

b) Card issuers should quote Annualized Percentage Rates (APR) 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 will 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 in bold letters that the interest will be charged on the amount due after the due date of payment. These aspects may be shown in the Welcome Kit in addition to being shown in the monthly statement. A legend / notice to the effect that "Making only the minimum payment every month would result in the repayment stretching over years with consequent interest payment on your outstanding balance" should be prominently displayed in all the monthly statements so as to caution the customers about the pitfalls in paying only the minimum amount due.

c) Banks should step up their efforts on educating the cardholders of the implications of paying only 'the minimum amount due'. The "Most Important Terms and Conditions" should specifically explain that the 'free credit period' is lost if any balance of the previous month's bill is outstanding. For this purpose, banks could work out illustrative examples and include the same in the Welcome Kit sent to the cardholders as also place it on their website.

d) The banks 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. However, this would not be applicable to charges like service taxes, etc. which may subsequently be levied by the Government or any other statutory authority.

e) The terms and conditions for payment of credit card dues, including the minimum payment due, should be stipulated so as to ensure that there is no negative amortization.

f) Changes in charges (other than interest) may be made only with prospective effect giving notice of at least one month. If a credit card holder desires to surrender his/her credit card on account of any change in credit card charges to his disadvantage, he/ she may be permitted to do so without the bank levying any extra charge for such closure. Any request for closure of a credit card has to be honoured immediately by the credit card issuer, subject to full settlement of dues by the cardholder.

g) There should be transparency (without any hidden charges) in issuing credit cards free of charge during the first year.

## **8. Wrongful billing**

The card issuing bank should ensure that wrong bills are not raised and issued to customers. In case, a customer protests any bill, the bank should provide explanation and, if necessary, documentary evidence may also be provided to the customer within a maximum period of sixty days with a spirit to amicably redress the grievances.

## **9. Fair Practices Code**

Each bank must have a well documented policy and a Fair Practices Code for credit card operations. The Banking Codes and Standards of India (BCSBI) has released a "Code of Bank's Commitment to Customers" (Code), which have been adopted by most of the banks with the approval of their Boards.

## **10. Protection of Customer's 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.

### **10.1 Unsolicited cards**

- a) Unsolicited cards should not be issued. In case, an unsolicited card is issued and activated without the written consent of the recipient and the latter is billed for the same, the card issuing bank shall 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.
- b) In addition, the person in whose name the card is issued can also approach the Banking Ombudsman who would determine the amount of compensation payable by the bank to the recipient of the unsolicited card as per the provisions of the Banking Ombudsman Scheme 2006, i.e., for loss of complainant's time, expenses incurred, harassment and mental anguish suffered by him.
- c) There have been instances where unsolicited cards issued have been misused before reaching the person in whose name these have been issued. It is clarified that any loss arising out of misuse of such unsolicited cards will be the responsibility of the card issuing bank only and the person in whose name the card has been issued cannot be held responsible for the same.
- d) The consent for the cards issued or the other products offered along with the card has to be explicit and should not be implied. In other words, the written consent of the applicant would be required before issuing a credit card.
- e) Unsolicited loans or other credit facilities should not be offered to the credit card customers. In case an unsolicited credit facility is extended without the consent of the recipient and the latter objects to the same, the credit sanctioning bank shall not only withdraw the credit limit, but also be liable to pay such penalty as may be considered appropriate.
- f) The card issuing bank should not unilaterally upgrade credit cards and enhance credit limits. Prior consent of the borrower should invariably be taken whenever there are any change/s in terms and conditions.

## 10.2. Customer confidentiality

a) The card issuing bank 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 organization without obtaining their specific consent, as regards the purpose/s for which the information will be used and the organizations with whom the information will be shared. Instances have come to light where banks, as part of the MITCs, obtain the consent of the customer for sharing the information furnished by him while applying for the credit card, with other agencies. Banks should give the customer the option to decide as to whether he is agreeable for the bank sharing with other agencies the information furnished by him at the time of applying for credit card. The application form for credit card may be suitably modified to explicitly provide for the same. Further, in case where the customer gives his consent for the bank sharing the information with other agencies, banks should explicitly state and explain clearly to the customer the full meaning / implications of the disclosure clause. Banks should satisfy themselves, based on specific legal advice that the information being sought from them is not of such nature as will violate the provisions of the laws relating to secrecy in the transactions. Banks would be solely responsible for the correctness or otherwise of the data provided for the purpose.

b) For providing information relating to credit history / repayment record of the card holder to a Credit Information Company (that has obtained Certificate of Registration from RBI), the bank 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) Before reporting default status of a credit card holder to Credit Information Companies which have obtained Certificate of Registration from RBI, banks 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 will be withdrawn in the event the customer settles his dues after having been reported as defaulter. Banks 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 as far as possible. In all cases, a well laid down procedure should be transparently followed. These procedures should also be transparently made known as part of MITCs.

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

In the matter of recovery of dues, banks should ensure that they have their own code for collection of dues. Banks 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.

## **11. Redressal of Grievances**

11.1 Generally, a time limit of 60 (sixty) days may be given to the customers for preferring their complaints / grievances.

11.2. The card issuing bank should constitute Grievance Redressal machinery within the bank and give wide publicity about it through electronic and print media. The name and contact number of designated grievance redressal officer of the bank should be mentioned on the credit card bills. The designated officer should ensure that genuine grievances of credit card subscribers are redressed promptly without involving delay.

11.3. Banks should ensure that their call centre staff is trained adequately to competently handle all customer complaints.

11.4. Banks should also have a mechanism to escalate automatically unresolved complaints from a call center to higher authorities and the details of such mechanism should be put in public domain through their website.

11.5. The grievance redressal procedure of the bank and the time frame fixed for responding to the complaints should be placed on the bank's website. The name, designation, address and contact number of important executives as well as the Grievance Redressal Officer of the bank may be displayed on the website. 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.

11.6. 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, he will have the option to approach the Office of the concerned Banking Ombudsman for redress of his grievance/s.

## **12. Internal control and monitoring systems**

With a view to ensuring that the quality of customer service is ensured on an on-going basis in banks, the Board/ Committee on Customer Service in each bank should review the credit card operations including reports of defaulters to Credit Information Companies which have obtained Certificate of Registration from RBI and credit card related complaints on a monthly basis and take measures to improve the services and ensure the orderly growth in the credit card operations. Banks should put up detailed quarterly analysis of credit card

related complaints to their Top Management. Card issuing banks should have in place a suitable monitoring mechanism to randomly check the genuineness of merchant transactions. Banks should prepare and place before their Boards a comprehensive Review Report on credit card business on half-yearly basis as at the end of September and March of each accounting year, which should cover essential data on credit card business, such as category and number of cards issued and outstanding, number of active cards, average turnover per card, number of establishments covered, average time taken for recovery of dues from the card holders, debts classified as NPAs and provisions held there-against or amounts written off, details of frauds on credit cards, steps taken to recover the dues, profitability analysis of the business, etc.

### **13. Fraud Control**

13.1 Banks 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.

13.2 With a view to reducing the instances of misuse of lost / stolen cards, it is recommended to banks 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.

13.3 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 a system of providing for additional authentication / validation based on information not visible on the cards. The same has been extended to Mail order Transactions Order (MOTO) transactions, which are also a subset of the card-not present transactions. Further, banks have been advised to take steps to put in place a system of online alerts for all types of transactions irrespective of the amount, involving the usage of cards at various channels. Banks have also been advised to put in place various security and risk mitigation measures for electronic payment transactions, in terms of guidelines issued by DPSS from time to time.

13.4 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.

13.5 Banks may consider introducing, at the option of the customers, an insurance cover to take care of the liabilities arising out of lost cards. In other words, only those cardholders who are ready to bear the cost of the premium should be provided an appropriate insurance cover in respect of lost cards.

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1. Most Important Terms and Conditions (MITCs)

(a) Fees and Charges

- i) Joining fees
- ii) Annual membership fees
- iii) Cash advance fee
- iv) Service charges levied for certain transactions
- v) Interest free (grace) period - illustrated with examples
- vi) Finance charges for both revolving credit and cash advances
- vii) Overdue interest charges - to be given on monthly & annualised basis
- viii) Charges in case of default

(b) Drawal Limits

- i) Credit limit
- ii) Available credit limit
- iii) Cash withdrawal limit

(c) Billing

- i) Billing statements - periodicity and mode of sending
- ii) Minimum amount payable
- iii) Method of payment
- iv) Billing disputes resolution
- v) Contact particulars of 24 hour call centers of card issuer
- vi) Grievances redressal escalation - contact particulars of officers to be contacted
- vii) Complete postal address of card issuing bank
- viii) Toll free number for customer care services

(d) Default and Circumstances

- i) Procedure including notice period for reporting a card holder as defaulter
- ii) Procedure for withdrawal of default report and the period within which the default report would be withdrawn after settlement of dues
- iii) Recovery procedure in case of default

- iv) Recovery of dues in case of death / permanent incapacitation of cardholder
  - v) Available insurance cover for card holder and date of activation of policy
  - (e) Termination / Revocation of Card Membership
    - i) Procedure for surrender of card by card holder - due notice
  - (f) Loss / theft / misuse of card
    - i) Procedure to be followed in case of loss / theft / misuse of card-mode of intimation to card issuer
    - ii) Liability of card holder in case of (i) above
  - (g) Disclosure
    - i) Type of information relating to card holder to be disclosed with and without approval of card holder
2. Disclosure of MITCs - Items to be disclosed in stages
- i) During marketing - Item no : a
  - ii) At application - Item nos : all items from a to g
  - iii) Welcome Kit - Item nos : all items from a to g
  - iv) On billing - Item nos : a, b and c,
  - v) On an ongoing basis, any change of the terms and conditions

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