

REPORT OF THE WORKING GROUP
ON
REGULATORY MECHANISM FOR CARDS

(1) Introduction

In recent years plastic cards(credit, debit and smart cards) have gained acceptance and their use has become popular in the country. The total number of cards issued by 42 banks and outstanding, increased from 2.69 crore as on 31st December 2003 to 4.33 crores as on 31st December 2004. Like wise, the actual usage has registered increases both in terms of volume and value i.e. from 14.57 crore transactions amounting to Rs 26,951 crores during 2002-03 to 18.55 crore transactions aggregating Rs 35,870 crores during 2003-04.

In the current year up to December 2004 (April—Dec 2004) alone, card customers undertook about 21.19 crore transactions amounting to Rs 44,737.73 crores. In view of such a widespread use of cards, issues relating to the regulation of this payment mode as well as those relating to customer protection assume considerable importance. The functioning of the card payment system should not present any risks to the payment and settlement systems in particular and to the country's financial system in general. Thus it was felt necessary to build an appropriate regulatory mechanism on payments by cards.

While building a regulatory oversight on the card payment system, we need to ensure it neither reduces the efficiency of the system nor it does in any manner stifle the growth of cards/ hampers card usage. However, cards represent an important financial service offering and they should work in the best interests of their users. Hence aspects such as terms of access, pricing, trade practices, and customer grievances redressal mechanism are very important.

In view of these aspects, the Governor of Reserve Bank, in his Mid-Term Review of the Annual Policy Statement 2004-2005 on the 26th October 2004 had announced the setting up of a Working Group for Regulatory Mechanism for Cards.

The terms of reference of the Working Group are as follows:

- (a) To suggest the type of regulatory measures which are to be introduced for plastic cards (credit, debit and smart cards) keeping in mind the need to encourage their growth in a safe, secure and efficient manner.
- (b) To recommend measures to be introduced to ensure that the rules, regulations, standards and practices of the card issuers are in alignment with the best customer practices.
- (c) To draw a roadmap for setting up of a grievances redressal mechanism for the card users.

The list of members is furnished in the Annexure- 1

The Working Group met on five occasions. The Department of Information Technology and the Department of Payment and Settlement Systems of the Reserve Bank of India acted as the secretariat to the Group.

The Working Group invited two card companies, Visa and Mastercard, to share their international experience in the area of regulation and customer grievances redressal system. These companies made presentations on the subject and briefly discussed the issues with the members of the Working Group.

The Working Group also invited well known consumer rights protection activist Prof Manubhai Shah of Consumer Education and Research Society (CERS), Ahmedabad to discuss the issues relating to customer grievances and customer rights protection in the area of card payment system.

The Group also studied the developments with regard to card business and the institutional and regulatory arrangements in many developed countries.

Based on the study, discussions and the consensus reached, the Group submits its report and recommendations as follows:

(2) Current regulatory structure for cards

Banks in India having a networth 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 to set up domestic credit card business, the approval of concerned bank's Board is sufficient for the purpose. Banks desirous of setting up separate subsidiaries for undertaking credit card business would require prior approval of the Reserve Bank. The Reserve Bank has laid down broad guidelines to card issuing banks regarding selecting customers, recovery of dues, sharing of information on card holders, fraud control, processing, transparency in fees etc.

Banks can introduce smart /on-line debit cards with the approval of their Boards, keeping in view the stipulated guidelines issued by Reserve Bank. While banks need not obtain prior approval of the Reserve Bank, the details of the smart /on-line debit cards introduced and copy of bank's Board approval may be submitted to the Reserve Bank. Issue of off-line debit cards requires prior approval of the Reserve Bank, in view of the risk perception since it does not lead to immediate debiting of the customer's account and use of such cards can lead to build up of large payables.

As at the end of December 2004, 42 banks undertook card business. While 24 of them are issuing credit cards, 30 of them issue debit cards and only 2 banks are issuing/ have issued smart cards. While earlier banks used to issue proprietary cards, the current practice is that the banks mostly issue cards under affiliation to international card companies like Visa, Mastercard, Diners Club and American Express.

Card business by banks is primarily governed by the rules, procedures, guidelines, terms and conditions agreed to between the card-issuing banks and the card companies. The relationship between card-issuing banks and the cardholders is governed by the set of terms and conditions of card issue and usage. The terms and conditions between card holders and card issuing banks vary depending on the bank and the type of credit card held.

Banks have developed their own policies on disclosure, customer grievance redressal, customer rights protection etc. While there is a certain magnitude of

convergence on these matters, divergence of procedures and practices are also discernable. The practices followed by card issuing banks vary from bank to bank. Foreign and private sector banks are known to use more aggressive marketing methods, are more likely to outsource the work relating to selling of cards as well as collection /recovery work to private agencies, as compared to public sector banks.

(3) Customer service issues

The rapid expansion of the card usage in India merits regulation. The growth of this non-cash mode of payment should be in a safe, secure, efficient and customer friendly manner. In India the main areas of regulatory concern in this regard relate to the issue of customer service/ consumer protection. The Reserve Bank has been receiving a number of complaints regarding undesirable/ objectionable practices by credit card issuing banks/institution and their agents. They mainly relate to:

- (i) Unsolicited and vexatious calls to members of the public by card issuing banks/ direct selling agents pressurising them to apply for credit card.
- (ii) Communicating misleading/ wrong information regarding credit cards regarding conditions for issue, amount of service charges/ waiver of fees, gifts/prizes by DSAs
- (iii) Sending credit cards to persons who have not applied for them / activating unsolicited cards without the approval of the recipient.
- (iv) Not issuing credit cards to members of certain professions e.g. legal and police.
- (v) Upgrading credit cards without knowledge of the credit card holders.
- (vi) Charging very high interest rates /service charges.
- (vii) Lack of transparency in disclosing fees/charges/penalties. Non-disclosure of detailed billing procedure.
- (viii) Wrong billing
- (ix) Not sending credit card statement in time to the customers.
- (x) Delaying credit of cheques meant for credit card payments and then levying heavy penalties for defaults on customers.
- (xi) Use of physical coercion/harassment/ intimidation by recovery agents appointed by card issuing banks.
- (xii) Banks sharing confidential information about their customers to their credit card issuing subsidiaries/ other credit card issuing banks/ DSAs etc.

During the last few months the issue of customer grievances and setting up a suitable system to quickly and effectively redress the grievances has been discussed by the Reserve Bank of India with the senior officers of the card-issuing banks i.e. on 16th and 17th November as well as 24th December 2004.

More recently, Public Interest Litigations (PIL) have been filed in the Supreme Court and the High Court of Bombay on matters relating to unsolicited calls for marketing products and services and to the behaviour of sales and recovery agents who strong-arm tactics to effect recovery of dues.

The Group noted these developments and decided to study the international scenario and practices in the matter.

(4) Regulation of card payment schemes in other countries

In recent years world over card systems have been receiving focused attention of the regulators. (Details are given in Annexure 2). In general it is observed that card-based payment businesses in Asia, Australia, Europe and North America have been examined for their methods of determining interchange fees, exclusivity arrangements, no- surcharge rules, honour all cards rules, membership requirements and governance policies. The survey revealed that generally it is from the perspective of the competition and customer/consumer rights protection that the financial services including cards have been receiving attention and there are specific legal/statutory provisions. There are also institutional arrangements such as competition commissioners and customer/consumer fora. It is very rarely that banking regulators/supervisors have been entrusted with these responsibilities.

(5) Deliberations and Recommendations

(I) Regulatory framework

The Working Group studied the regulatory regimes for the credit card industry in various countries and found that the industry is mostly governed under competition /consumer protection/ fair trade practices regulations and or specific statutes relating to credit. The central banks or the banking regulators play mostly only a secondary role. International position based on the countries surveyed also shows that the emphasis is less on regulation, setting fees/ charges (left to the market dictates) and more on consumer rights protection and fair trade practices. Also in many countries many non-banks are also authorized to issue credit cards e.g Australia (specialist credit card institutions, USA (federal savings and loan associations, federal credit unions, finance companies) etc.

In India only banks /bank subsidiaries are permitted to enter the card payment business. Commercial banks in the country are subject to a stringent regulation system as well as a fairly robust supervisory system as compared to other financial intermediaries. It is felt that the present eligibility criteria for issue of credit cards are appropriate and do not warrant allowing access to non-banking entities in this business.

(II) Customer grievances/ rights protection

The Working Group deliberated major issues relating to customer grievances and rights under three heads. They are as follows:

- (A) Transparency and Disclosure
- (B) Customer Rights Protection
- (C) Code of Conduct

The Working Group deliberated on the need for customer rights protection/ customer grievances redressal mechanism for credit cards, debit cards and smart cards. The Group felt since debit cards in India are mainly on-line in nature, they present few risks and there are very few complaints regarding these cards while smart cards issued are very few in number, the focus of the deliberations of the Group should be mainly

centered on credit cards, whose usage is widespread and with regard to which there are a very large number of customer grievances issues involved.

(A) Transparency and Disclosure

- (i) Transparency and Disclosure is an important issue, since there is often an asymmetry of information, both written and oral, between the provider of this financial service (card-issuing banks who have complete information) and user of the financial service (the card holders who very often do not have complete information on their rights).
- (ii) The Group noted that communication between the card issuing banks and their prospective customers / customers occurs through written and oral modes. Further, the communication occurs in different stages like marketing, application, acceptance (welcome kit), billing and during the entire relationship period.
- (iii) As regards written communication, the Group noted that while the card issuing banks do provide enormous information to their customers, many a times, the language used is legal terminology which is not easily comprehensible to ordinary customers; the written information is often printed in very small print hampering easy readability; crucial information is buried in a mountain of information; there are no standards in this regard among the card issuing banks. The Group therefore recommends that it is imperative that the terms and conditions for card issue and usage should be clear, in simple language comprehensible to a layman, prominently displayed, easily readable and the crucial items highlighted and accordingly the following standards are suggested.
 - a. The Working Group recognizes that for meeting their legal obligations and protecting their own interests, card issuing banks need to provide their customers with a complete set of the terms and conditions. However, from the view point of customer friendliness, the Group found that the practice of some banks to highlight certain important terms prominent to attract the attention of their customers is worthy of emulation by all card issuing banks. Accordingly the Group recommends that the Most Important Terms and Conditions (MITCs), as indicated in Annexure 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 during billing and in subsequent communications.
 - b. The objective of the MITCs is to immediately draw the attention of the prospective customer/ customer to crucially important conditions, presented briefly in 2-3 pages. The MITCs would cover items like fees and charges, drawal limits, billing cycle, default termination/ revocation of card membership, loss/misuse of card and disclosure of information. The MITC should be printed in Arial format using font 12 for easy readability.
 - c. The card-issuer will however continue to send the document containing the normal terms and conditions as is being done now to meet the legal requirements.

- d. The marketing brochures should invariably contain the financial terms and conditions in such a way that they command the attention of the cardholder/ prospective cardholder.
 - e. The Group recommends a standard list of terms and conditions which should feature in the MITCs as given in Annexure-3.
 - f. The Group noted that the current practice of banks to indicate the interest rates applicable to the card holders for rolling over of outstanding amounts and other related facilities on monthly basis can be misleading for ordinary customers, as their full implication may not strike them easily. The Group, therefore, recommends that the card-issuing banks will clearly mention the interest charges, on an annualised basis, in all communications to the card holder, including at the application stage. The card-issuing bank may continue to mention the monthly interest charges in addition to interest charges on an annualised basis.
- (iv) As regards transparency in oral communication between the card-issuer and the prospective customer/ customer, the Group noted that the general complaint is about lack of transparency on the part of the officials/ employees of the card issuing banks as well as their direct selling agents (DSAs)/ direct marketing agents (DMAs). While marketing their products over telephone or during personal visits, they are alleged to give incomplete/incorrect information to the prospective customers, highlighting their attractive features, while not mentioning certain unattractive, but important aspects of the products on offer. This presents a distorted picture of the terms and conditions of the products on offer. These practices in effect prevent the members of the public from making an informed decision in the matter. The Group therefore recommends that
- a. the persons entrusted with the responsibilities of product marketing should exhibit a high degree of professionalism and integrity in their work,
 - b. the DSA/ DMA arrangements, if resorted to, should be entrusted to well known firms or firms on whom proper and adequate due diligence has been applied. Also it is the responsibility of the card issuing bank to see where cards are issued through DSA/ DMA mode, the Know Your Customer (KYC) norms laid down by the Reserve Bank of India are scrupulously followed.
 - c. the staff, of both the banks and their DSA/DMAs should be properly briefed and trained in order to handle their responsibilities, particularly in areas like polite conversation, hours for calling, privacy of customer information, conveying the correct terms and conditions of the product on offer etc.
 - d. Card-issuing banks would introduce a comprehensive Code of Conduct for their DSAs/ DMAs and suitably penalize those firms which violate this Code. It is understood that IBA has already formulated a Code for the DSAs and the card issuing banks should adopt the code expeditiously. Serious and continued violations should result in termination of the contract between these banks and the concerned firms.

(B) Customer Rights Protection

In the wake of fast growth of the card business, certain infringement of the rights of the card customers has been observed. These basically relate to rights of customers with regard to their privacy, privacy of information and agreement. There was a general consensus in the Group that these rights are non-violable and therefore should be protected. Further, the Group also agreed that as responsible institutions in the financial services area, the card issuing banks will have to exercise voluntary restraints in exercising their own marketing rights, In addition, they should also show exemplary conduct in helping the customers to enforce the latter's rights. Accordingly, the Group recommends as follows:

(i) The Right of Privacy of Information

Various aspects relating to the Right to Privacy of Information of the customer were discussed by the Group which shared the concern regarding the release of the customer information to the third parties. After deliberations, the following consensus was arrived at:

- a) At present the card-issuing banks obtain the consent of the card holder at the outset which authorizes them to disclose any information to third parties. Hence by default the card-issuing banks obtain this right carte blanche. The Group, therefore, recommends that henceforth the card-issuing banks will obtain the specific approval of the cardholder regarding the information which the former can release to third parties.
- b) The card-issuing bank may be permitted to release information regarding the credit history/ repayment record of the cardholder to the credit information bureau and collection/ recovery agent (in case of default) without the approval of the card holder. The card issuing banks will release customer information to the collection/ recovery agents (only in case of default) only to the extent that will enable the latter to discharge their duties. Personal information if provided by the card holder, not required for recovery purposes, will not be released by the card issuing bank.
- c) In addition any information sought by courts or statutory bodies, may be released by the card-issuing banks in discharge of their legal/ statutory obligations.
- d) The card-issuing banks will have to obtain the specific approval of the cardholder for releasing any information for any other purpose including business/marketing purpose i.e. to subsidiaries / affiliates, to business partners in case of co-branded cards etc. While obtaining the specific approval the card issuing banks will have to specify the purposes for which the information can be used.
- e) The card-issuing bank will ensure that their respective DSAs/ DMAs do not unauthorisedly transfer or misuse any customer information obtained by them during marketing of the card products and subsequently held by them in their records.

(ii) Telemarketing

The Group noted that in recent times there have been increasing complaints regarding people being disturbed, often at odd hours, by persistent calls from

Direct Sales Agents(DSAs)/ Direct Marketing Agents(DMAs) as well as from the banks' call centres offering various card products. These unsolicited calls have been seen as serious invasion of privacy of individuals. These calls are received both on cellphones and landlines. Public Interest Litigation (PIL) has been filed in the Supreme Court against unsolicited calls from such agencies. The issue was discussed at great length by the Working Group. While it was felt that it may not be advisable to ban all calls by telephone/ cellphone for the purposes of marketing, since this is an important marketing tool and a number of people (both existing and potential customers) are in favour of receiving calls regarding new products/ information update on existing products, for the members of the public who did not wish to receive such calls a mechanism has to be introduced to protect their privacy.

The Group therefore recommends as follows:

- a) all card-issuing banks should maintain a 'Do Not Call Registry' which will have the phone numbers(both cell phones and telephones) of customers as well as non-customers (non-constituents of the banks) who have informed the respective banks that they do not wish to receive unsolicited calls for marketing purposes.
- b) The intimation for inclusion of a person's telephone number in this registry can be facilitated through a website maintained by banks for this purpose or by a letter from such person addressed to the bank.
- c) The banks should introduce a system whereby their DSAs/ DMAs as well as their call centres would have to first submit to the banks the list of numbers they intend to call for marketing purposes and the banks would be obliged to refer to the 'Do Not Call Registry' numbers and only numbers which do not figure in this registry would be cleared for calling.
- d) The numbers cleared for calling would only be accessed. Card-issuing banks would be held responsible if a 'Do Not Call' number is called by either their respective DSAs/ DMAs or their respective call centres.
- e) The banks should also ensure that the information relating to the numbers on their 'Do Not Call Registry' is neither divulged to unauthorized persons nor misused in any manner.

The Group also noted that a mechanism had to be provided for persons who did not wish to be disturbed by marketing calls from any bank and did not want to individually intimate all the card-issuing banks (a mammoth and time consuming task) to this effect. To take care of this problem, the Group recommends as follows:

- f) The Indian Banks Association (IBA) would set up a web-site where such persons could register their phone numbers.
- g) The IBA, periodically and in a confidential manner, should circulate the contents of their 'Do Not Call Registry' to the card-issuing banks.
- h) The card-issuing banks would be responsible to ensure that the listed numbers on this registry are not called, information not divulged to unauthorized persons and not misused in any manner.

(iii) Mechanisms for Arbitration

At present, in case a cardholder has a dispute/ grievance with a card issuing bank which cannot be resolved/ addressed, the recourse for him or her is either to approach the consumer court or the civil court. This recourse may be expensive and time consuming. In view of the increasing number of complaints against card issuing banks it was felt that there should be a body which is able to quickly resolve the dispute/ address the grievance with minimum cost.

The Group therefore recommends as follows:

- a) The Banking Ombudsman who is looking into issues relating to deficiencies in service in the banking area and also attending to customer service issues could be the appropriate authority to arbitrate in credit card disputes between card holders and card-issuing banks.
- b) Necessary regulations be suitably amended to bring the card-issuing subsidiaries of banks within the ambit of the Banking Ombudsman's jurisdiction.
- c) The Banking Ombudsman be provided with sufficient and suitably trained staff as well as adequate infrastructure to deal with such cases.

(iv) Unsolicited cards

There are rising number of complaints regarding receipt of unsolicited cards by members of the public from banks. Without securing the approval of the concerned person and without communicating the terms and conditions of that card product, the cards are activated and the customer billed for joining fees / annual membership charges. Such cases result in harassment to members of public who do not wish to avail of the product on offer. Quite often the unsolicited cards are pre-activated, which in addition to invasion of privacy presents a risk to the recipient in case it falls into the hands of an unauthorized person who misuses it and the intended recipient is billed for the amount spent by the unauthorized person. At times it becomes very difficult for the intended recipient to convince the card-issuing bank that he or she had not received the unsolicited card and hence had not used it. In fact it is illegal in certain countries like USA to send a credit card to a person unless that person has applied for the same or agreed to receive one.

The Group therefore recommends that

- a) unsolicited cards,, should not be issued to any non-customer.
- b) In case an unsolicited card is activated by the card-issuing bank without the approval of the recipient and the latter is billed for the same, the card-issuing bank will not only immediately reverse the charges but will pay a penalty without demur to the recipient of the card amounting to twice the value of the reversed charges.

(v) Insurance cover for card outstandings in case of death of card holder

The Working Group discussed the difficulties faced by family / relatives of the card holder in case of death of the card holder who left behind card outstandings. The family/ relatives of the deceased card holder in addition to coping up with their bereavement had to arrange to clear the dues of the deceased card holder.

The Group recommends that as a consumer rights protection measure, the card-issuing banks would offer all their card holders a group insurance policy to cover their card payables. In case of the death of the card holder the card payables, to extent of the cover, would be paid off by the insurance company. The premium for this insurance cover (known as credit shield by some card-issuing banks) would be paid for by the card holder.

(C) Code of Conduct

(i) Law to regulate card payment system

The Working Group deliberated on the need to have a separate law to regulate the card payment system. The Group is of the view that this requires detailed deliberations also by parties beyond the purview of the regulatory jurisdiction of the Reserve Bank.

However, the Group felt that cards in India are either issued or jointly issued (in case of co-branded cards) by banks. The banks are subject to the regulation by the Reserve Bank of India and hence the Group recommends that the Reserve Bank may, for the time being, place appropriate regulatory structure as envisaged in this report.

(ii) Self Regulatory Body

The Working Group recommends that card-issuing banks should consider setting up a Self Regulatory Body on the lines of IBA, FIMMDA, FEDAI etc to deliberate on the issues of common interest affecting all card-issuing banks. This body would be in constant dialogue both with its members and the regulator regarding issues like minimum technical and operational standards, security of cards/protection against frauds, customer service, customer grievances redressal mechanism etc.

(iii) Code of Conduct

The Working Group discussed the need for the card-issuing banks to set certain norms and standards for customer service and protection of consumer rights. However, the Group noted that as per the Reserve Bank's recommendation, the Indian Banks Association (IBA) has set up a Committee to introduce a Code of Conduct for the card-issuing banks in the country. It is understood that the IBA Committee has already formulated a Code for the DSAs. The Group noted that there is no justification to duplicate the efforts of the Committee. It therefore recommends that the card issuing banks may adopt and conform to such a Code when made available by IBA. The introduction of a Code of Conduct by card issuing banks for their DSAs/DMA's has already been recommended under(I) A (iv) (d).

(6) Conclusion

The Group submits that the card industry will emerge as a crucial component of the payment systems in India and has immense potential to facilitate non-cash transactions in a disciplined manner. The Group therefore concludes that the card industry needs to be nurtured, of course within the ambit of customer convenience and rights.

R Gandhi
(Chairman)

K.V.Subbarao
(Member)

Shekhar Bhatnagar
(Member)

M.K. Samantaray
(Member)

J.S.Marfatia
(Member)

Soundara Kumar
(Member)

A.Muralidhar
(Member)

Murali.M. Natrajan
(Member)

Pralay Mondal
(Member)

V.Vaidyanathan
(Member)

T.R.Ramachandran
(Member)

Mumbai 1
8th April 2005

Members of The Working Group

<u>Sr No:</u>	<u>Name</u> S/Shri/Smt	<u>Designation</u>	<u>Organisation</u>
1	R. Gandhi (Chairman)	Chief General Manager In- Charge, Department of Information Technology Central Office	Reserve Bank of India (Presently Regional Director for Andhra Pradesh, Hyderabad)
2.	K.V. Subbarao	Chief General Manager Dept Of Banking Supervision, Central Office	Reserve Bank of India
3.	Shekhar Bhatnagar	General Manager Dept Of Non-Bkg Supervision, Central Office	Reserve Bank of India
4.	M.K.Samantaray	General Manager Dept Of Bkg Operations And Development, Central Office	Reserve Bank of India
5.	J.S. Marfatia	Vice-President	Indian Banks Association
6.	Ashok Mukand (Till 13-3-2005)	Chief General Manger, Personal Bkg Central Office	State Bank of India
	Smt Soundara Kumar (W.E.F 14-3-2005)	General Manager Personalbkg Central Office	State Bank Of India
7.	A. Muralidhar	General Manager Head Office	Andhra Bank
8.	Murali.M.Natrajan	Regional Head Consumer Bkg	Chartered Standard Bank
9.	V. Vaidyanathan	Sr. Manger,General Retail Bkg	ICICI Bank

- | | | |
|----------------------|---|-----------|
| 10. T.R.Ramachandran | Vice President
& Business Mgr,
Credit Cards | Citibank |
| 11. Pralay Mondal | Sr.Vice President
& Head Credit Cards | HDFC Bank |

Invitees

- | | | |
|--------------------------|--|--|
| 1. Prof Manubhai
Shah | Chairman Emeritus | Consumer Education &
Research Centre
Ahmedabad |
| 2. Santanu
Mukherjee | Country Manager
South Asia | Visa Consolidated
Support Services (I)
Pvt Ltd |
| 3. Nitin Gupta | Country Manager
South Asia | Mastercard
International
(Sa,Me&Af Reg) |
| 4. S.Ganesh Kumar | General Manager
Dept Of Information
Technology,Central
Office | Reserve Bank
of India |

Secretariat

- | | | |
|------------------|--|--------------------------|
| 1. Arun Pasricha | General Manager
Dept Of Information
Technology,
Central Office | Reserve Bank
of India |
| 2. G. Raghuraj | Asst.Gen Manager
Dept Of Information
Technology, Central
Office | Reserve Bank
of India |

Regulation of card payment schemes in other countries

Consumer protection laws in Australia require transparency of product terms and conditions and provide a complaints resolution mechanism for consumers who believe that the stated terms and conditions have been breached. Federal and state consumer affairs ministries have powers to resolve disputes by negotiation or arbitration, to commence civil litigation and to recommend prosecution for serious breaches. General competition law prohibits 'misleading and deceptive conduct' which includes the making of misleading or deceptive statements. Recently, the Payment System Board undertook a comprehensive evaluation of the regulations of the credit card schemes to improve competition and efficiency as well as further public interests. The reform measures covered aspects like merchant pricing and removed the restrictions imposed by international credit card schemes. The aim of this reform was to reduce the average interchange fees charged and objectively calculate the costs incurred in interchange transactions. The reform aimed at liberalizing the existing barriers to entry to designated credit card schemes for non-financial institutions. The new regime involved the creation of a special class of authorized deposit taking institutions (ADIs), known as specialist credit card institutions to be authorized by the Australian Prudential Regulation Authority (APRA) to conduct only credit card business. These specialist credit card institutions would be required to maintain higher minimum capital ratio than a traditional ADI reflecting their concentration of risk in one business line. The APRA issued prudential guidelines on risk management of credit card schemes. The Australian Payment Systems Board has also examined issues in the area of debit cards like charging of interchange fees for EFTPOS transactions.

In Canada the Financial Consumer Agency of Canada (FCAC) was founded in 2001 under the Financial Consumer Agency of Canada Act to consolidate and strengthen oversight of consumer protection measures in the federally regulated financial sector and to expand consumer education. As a federal regulatory agency, the FCAC is responsible for enforcing many of the federal laws that protect consumers in their dealings with financial institutions. The FCAC reports annually to the Canadian Parliament on its activities and the degree to which financial institutions are meeting their obligations. The FCAC reviews hundreds of compliance cases involving a broad range of consumer issues under federal financial institution legislation. The FCAC has dealt with violation in credit card regulations like failure to disclose information regarding the time interest accrues, calculation of interest, grace period etc, failure to disclose information relating to rate of interest in advertisement or application, failure to provide information in monthly statement when payments were credited to credit card account and failure to disclose amendment to required information in credit card agreement.

In the European Union, the Competition Directorate of the European Commission in July 2002 announced a settlement with Visa, whereby the card company would reduce interchange fees gradually over five years and also keep them below a cap that will be calculated each year on the basis of card issuers' costs. A Regulation in 2001 had decreed that the banks have to charge the same customer fees for domestic and cross-border payments (credit card). A deadline has been laid down which decrees that national and cross-border transactions should be treated identically by 2010. In March

2003 the European Payments Council (EPC) made certain recommendations which were agreed to by the Cards Working Group. These recommendations deal with issues like a common approach to tackle frauds, domestic/ international card issuers to present their tariff structures to member banks in a transparent manner, self-regulation by card issuing banks as well as cooperation with legislatures.

The consumer credit laws and regulations in France are very comprehensive. These measures are incorporated in the Consumer Code which has been reinforced by the Emergency Economic and Financial Measures Act 2001 and the Financial Security Act of 2003. The scope of the laws and regulations is vast since they cover every credit transaction (along with guarantees) for amounts up to 21,500 euros. Decrees lay down the method of calculating the Annual Percentage Rate (APR) which is required to include all the direct and indirect costs. The Financial Security Act 2003 stipulates that credit institutions should in their advertisements use language which is easily understood and information regarding interest and other charges should be clearly mentioned. The preliminary loan offer should be kept separate from any advertising medium/document and there are safeguards to ensure that advertisements do not imply that credit would be advanced without ascertaining the borrower's financial condition. The French Civil Code lays down the procedure to be followed in case of default and the penal interest payable by the defaulter. The Financial Security Act 2003 has provisions to prevent accumulation of excessive debt through better information on revolving credit and increased disclosure requirement. In terms of the Consumer Code a lender who grants a loan without providing a preliminary loan offer which does not meet the requirements of the Code will be deprived of the right to charge interest i.e. the borrower gets an interest-free loan. It is the Bank Card Consortium (CB) set up in 1984 made up of 150 members that is responsible for setting standards for cards issued by its members and ensures the security of the entire system of issuing and acceptance of cards. The Everyday Security Act of 2001 set up the Observatory for Payment Card Security, which is chaired by the Governor of the Banque de France consists of members of Parliament, issuers of cards, representatives of government departments, retail and consumer organizations. It is a forum for dialogue and its main tasks are measures to enhance payment card security, compile fraud statistics and keep a watch on technology for combating frauds using technology.

In Singapore, card issuers are required to comply with the rules and regulations issued by the Monetary Authority of Singapore regarding the operation of credit/ charge cards in that country. These relate to disclosure of terms and conditions both during sales/marketing as well as on dispatch of cards (relating to service charges, finance charges, late payment fees, cash advance charges, minimum monthly payment, repayment grace period, balance computation method etc) annual membership fees, lost/stolen card liability security of cards, theft/ loss of cards, offering of gifts, prizes, discounts etc, unsolicited cards, customer enquiries and the setting up of consumer mediation unit within the card issuing institutions to handle customer complaints. The Code of Practice for Banks in Singapore drawn up by that country's Association of Banks (ABS) places a lot of emphasis on resolution of disputes between banks and customers and has directed its members to set up an elaborate machinery both within and outside the bank for resolution of disputes, including facility for mediation by third parties.

In South Korea the credit card market grew dramatically from 1998 due to a variety of incentives and tax breaks offered by the government (to reduce cash

economy and tax avoidance). The government has regulated the credit card interest rates as well as the quantum of cash advances which can be given and also has imposed regulations on operations and pricing.

In the United Kingdom, an independent organization, Office of Fair Trading (OFT) set up under consumer and competition laws plays a leading role in helping consumers understanding their rights, protecting consumer interests and enforce competition laws. The OFT set up by the government, also promotes good practices in businesses by granting 'approved status' to Consumer Codes of Practice that meet and carry out set criteria. The OFT regulates card business under laws like the Consumer Credit Act 1974, Competition Act 1998 etc. The OFT has directed many credit card companies not to advertise introductory interest rates as APRs, as advertising a temporary interest rate as an APR is misleading and incorrect, since the APR should measure the overall charge for credit including interest and other charges over the lifetime of the agreement.

In the U.S.A. between 1996 and 1998, anti-trusts suits have been filed against honour all cards and exclusivity rules. In USA, the Congress passed the Fair Credit and Charge Card Disclosure Act in 1988 to ensure that the consumers receive detailed and uniform disclosures of rates and other cost information relating to credit and charge card accounts. To implement this law, the Federal Reserve Bank amended its Truth in Lending Regulation (Regulation Z), which is designed to help consumers know the cost and terms of credit and reveal all related information in a clear, easy to read and easy to compare manner so that consumers can make an informed choice while selecting cards. Similarly the sharing of financial information with other members of the financial group and other businesses is strictly regulated in USA . The Graham-Leach-Bliley Act of 1999 which came into effect from 1st July 2001, limits the transfer of personal financial information, balancing the right to privacy of the customers with the need of financial institutions' need to share information for normal business purposes. Under this law the financial institutions are required to disclose the kinds of information that may be shared. The customers can decide under the 'privacy notice' whether they are comfortable under the information sharing arrangements. The financial institutions are required to disclose how they will protect the confidentiality and security of the customer's information. The Fair Credit Reporting Act in USA clearly lays down the information which the financial institution can share even if the customer declines i.e. for normal business, to protect against fraud and unauthorized transactions, in response to court orders, what is publicly available and where information is required to be given for joint marketing agreement where two or more institution jointly sponsor the same product/ service. The US Fair Credit Billing Act allows non-application of finance charges for wrongly billed amounts and stipulates that the card-issuing institution sends full explanation and statement of amounts owed in response to all complaints of wrong billing. The US Congress passed the Fair Debt Collection Practices Act 1996 which lays down procedures to be followed by debt collectors in locating the debtor, method and time of contacting the debtor, not subject the debtor to harassment, oppression and abuse and not use intimidation or misrepresentation to collect debt. There are strict stipulations for the debt collectors in carrying out legal actions against debtors and the debt collectors are liable to civil liability in case they violate the law. The Federal Trade Commission and other regulatory bodies are charged with enforcing the provisions of this law.

List of Most Important Terms and Conditions(MIT&C)

(a) Fees and charges

- (1) Joining fees for primary card holder and for add-on card holder
- (2) Annual membership fees for primary and add-on card holder
- (3) cash advance fee
- (4) Service charges levied for certain transactions
- (5) Interest free (grace) period
- (6) Finance charges for both revolving credit and cash advances
- (7) Overdue interest charges—to be given on monthly and annualised basis
- (8) Charges in case of default

(b) Drawal limits

- (1) Credit limit
- (2) Available credit limit
- (3) Cash withdrawal limit

(c) Billing

- (1) Billing statements—periodicity and mode of sending
- (2) Minimum amount payable
- (3) Method of payment
- (4) Billing disputes resolution
- (5) Contact particulars of 24 hour call centres of card issuer
- (6) Grievances redressal escalation—contact particulars of officers to be contacted

(d) Default

- (1) recovery procedure in case of default
- (2) recovery of dues in case of death / permanent incapacitance of card holder
- (3) available insurance cover for card holder and date of activation of policy

(e) Termination / revocation of card membership

- (1) Procedure for surrender of card by card holder—due notice

(f) Loss/theft/misuse of card

- (1) Procedure to be followed in case of loss/ theft/ misuse of card- mode of intimation to card issuer
- (2) Liability of card holder in case of (1) above

(g) Disclosure

- (1) Type of information relating to card holder to be disclosed with and without approval of card holder

Disclosure of MIT&C

Stage	Items to be disclosed
(i) during marketing	Item nos: a
(ii) at application	Item nos: a, e(2), and 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

Note

- (i) the font size of most important terms and conditions should be minimum 12 (ariel format)
- (ii) the normal terms and conditions communicated by the card issuer to the card holder at different stages will continue as hitherto.