

**RBI / 2007-2008/32  
DBOD.FSD.BC.17 / 24.01.011/ 2007-08**

**July 2, 2007  
Aashadha 11, 1929 (Saka)**

**All Scheduled Commercial Banks /NBFCs  
(Excluding RRBs)**

Dear Sir

**Master Circular on Credit Card Operations of banks**

Please refer to the Master Circular No. DBOD.FSD.BC.10/24.01.011/2006-07 dated July 1, 2006 on credit card operations of banks consolidating the instructions/guidelines issued to banks till June 30, 2006. The Master Circular has been suitably updated by incorporating instructions issued upto June 30, 2007. The Master Circular has also been put on the RBI website (<http://www.rbi.org.in>). All the credit card issuing banks/NBFCs should adhere to these guidelines strictly.

Yours faithfully

**(P.Vijaya Bhaskar)  
Chief General Manager**

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## **Master Circular on Credit Card Operations of banks**

### **Purpose**

To provide a framework of rules/regulations/standards/practices to the credit card issuing banks/NBFCs for their credit card business and ensure that these are in alignment with the best customer practices. Banks should adopt adequate safeguards and implement the following guidelines in order to ensure that their credit card operations are run on sound, prudent and profitable lines.

### **Classification**

A statutory guideline issued by the RBI

### **Previous guidelines consolidated**

This Master Circular updates the instructions contained in the previous Master Circular No.DBOD.FSD.BC.10/24.01.011/2006-07 dated July 1, 2006.

### **Scope of Application**

To all scheduled commercial banks (excluding RRBs) / NBFCs that engage in credit card business directly or through their subsidiaries or affiliated companies controlled by them

### **Structure**

1. Introduction
  - 1.1 Background
  - 1.2 Basic features of credit cards
  - 1.3 Types of credit cards
  - 1.4 Fair Practices Code
2. Issue of cards
3. Interest rates and other charges
4. Wrongful billing
5. Use of DSAs/ DMAs and other agents
6. Protection of customers rights
  - 6.1 Right to privacy
  - 6.2 Customer confidentiality
  - 6.3 Fair practices in debt collection
7. Redressal of Grievances
8. Internal control and monitoring systems
9. Fraud Control

## 10. Right to impose penalty

### **Annex**

#### **1.0 Introduction**

##### **1.1 Background**

1.1.1 This circular is aimed at providing general guidance to banks/NBFCs 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.

1.1.2 Experience has shown that the quality of banks' credit card portfolios mirrors the economic environment in which they operate. Very often, there is a strong correlation between an economic downturn and deterioration in the quality of such portfolios. The deterioration may become even more serious if banks have relaxed their credit underwriting criteria and risk management standards as a result of intense competition in the market. It is therefore important for banks to maintain prudent policies and practices for managing the risks of their credit card business which are relevant to the market environment that they operate in.

1.1.3 To facilitate a better understanding of the credit card operations, the basic features of credit cards and their associated operations are highlighted in the sub-sections below.

##### **1.2 Basic features of credit cards**

1.2.1 The term "credit card" usually/generally refers to a plastic card assigned to a cardholder, usually with a credit limit, that can be used to purchase goods and services on credit or obtain cash advances.

1.2.2 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.

1.2.3 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 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).

1.2.4 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.

1.2.5 The focus of this circular is on the operations, risks and controls associated with credit card schemes of which banks (or their subsidiaries or affiliated companies under their control) are either the card issuer or the merchant acquirer.

### **1.3 Types of credit cards**

1.3.1 Credit cards can be broadly categorised into two types:

General purpose cards and private label cards: The former are issued under the trademark of credit card associations (VISA and Mastercard) and accepted by many merchants while the latter are only accepted by specific retailers (e.g. a departmental store).

Banks in India can undertake credit card business either departmentally or through a subsidiary company set up for the purpose. They can also undertake domestic credit card business by entering into tie-up arrangement with one of the banks already having arrangements for issue of credit cards. Prior approval of the Reserve Bank is not necessary for banks desirous of undertaking credit card business either independently or in tie-up arrangement with other card issuing banks. Banks can do so with the approval of their Boards. However, only banks with networth of Rs.100 crore and above should undertake credit card business. Banks desirous of setting up separate subsidiaries for undertaking credit card business would, however, require prior approval of the Reserve Bank. Banks should adopt adequate safeguards and implement the guidelines enunciated in this circular in order to ensure that their credit card operations are run on sound, prudent and profitable lines

1.3.2 Most of the card issuing banks in India offer general purpose credit cards. These cards are normally categorised by banks as platinum, gold or classic to differentiate the services offered on each card and the income eligibility criteria. Banks may, at the request of a cardholder, issue a supplementary card (also referred to as 'add-on cards') to another individual who is usually an immediate family member of the cardholder.

1.3.3 It is quite common for banks to partner with business corporations or non-profit making organisations (e.g. charitable or professional bodies) to issue co-branded cards. However they need to undertake due diligence on the non-bank entity to protect themselves against the reputation risk to which they are exposed to in such an arrangement.

1.3.4 Banks may also issue corporate credit cards to the employees of their corporate customers.

1.3.5 The types of credit cards mentioned above are illustrative and not exhaustive. Banks may, from time to time, introduce new credit card products to satisfy customer needs and cater to the changes in market conditions.

#### **1.4 Fair Practices Code**

Each bank must have a well documented policy and a Fair Practices Code for credit card operations. In March 2005, the IBA has released a Fair Practices Code for credit card operations, which should be adopted by banks. The banks' Fair Practices Code should, at a minimum, incorporate the relevant guidelines contained in this Master Circular. Banks/NBFCs should also widely disseminate the contents of this Master Circular, including through their websites.

## **2. Issue of cards**

a. Banks/NBFCs should independently assess the credit risk while issuing cards to persons, especially to students and others with no independent financial means. Add-on cards i.e. those that are subsidiary to the principal card, may be issued with the clear understanding that the liability will be that of the principal cardholder.

- b. As holding several credit cards enhances the total credit available to any consumer, banks/NBFCs should assess the credit limit for a credit card customer having regard to the limits enjoyed by the cardholder from other banks on the basis of self declaration/ credit information.
- c. The card issuing banks/NBFCs would be solely responsible for fulfillment of all KYC requirements, even where DSAs / DMAs or other agents solicit business on their behalf.
- d. 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 Annex, 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.

### **3. Interest rates and other charges**

Credit card dues are in the nature of non-priority sector personal loans and as such banks are free to determine the rate of interest on credit card dues without reference to their BPLR and regardless of the size. Further, the banks/NBFCs 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.
- 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. The banks /NBFCs should not levy any charge that was not explicitly indicated to the credit card holder at the time of issue of the card and 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.

d. 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.

e. 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 credit card on account of any change in credit card charges to his disadvantage, he may be permitted to do so without the bank levying any extra charge for such closure.

#### **4. Wrongful billing**

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

b. In order to obviate frequent complaints of delayed billing, the credit card issuing bank/NBFC may consider providing bills and statements of accounts online, with suitable security built therefor.

#### **5. Use of DSAs / DMAs and other agents**

a. When banks /NBFCs outsource the various credit card operations, they have to be extremely careful that the appointment of such service providers does not compromise with the quality of the customer service and the banks'/NBFCs' ability to manage credit, liquidity and operational risks. In the choice of the service provider, the banks/NBFCs have to be guided by the



need to ensure confidentiality of the customer's records, respect customer privacy, and adhere to fair practices in debt collection.

b. The Code of Conduct for Direct Sales Agents (DSAs) formulated by the Indian Banks' Association (IBA) could be used by banks/NBFCs in formulating their own codes for the purpose. The banks should ensure that the DSAs engaged by them for marketing their credit card products scrupulously adhere to the banks'/NBFCs' own Code of Conduct for credit card operations which should be displayed on the individual bank/NBFC's website and be available easily to any credit card holder.

c. The bank/NBFC should have a system of random checks and mystery shopping to ensure that their agents have been properly briefed and trained in order to handle with care and caution their responsibilities, particularly in the aspects included in these guidelines like soliciting customers, hours for calling, privacy of customer information, conveying the correct terms and conditions of the product on offer, etc.

## **6. Protection of 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. The card issuing bank/NBFC would be responsible as the principal for all acts of omission or commission of their agents (DSAs / DMAs and recovery agents).

### **6.1 Right to privacy**

a. 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 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. 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/NBFC shall not only withdraw the credit limit, but also be liable to pay such penalty as may be considered appropriate.

c. 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 change/s in terms and conditions.

d. The card issuing bank/NBFC 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 the bank/NBFC that they do not wish to receive unsolicited calls / SMS for marketing of its credit card products. Since the DNCR would have been already set up by the banks, they should give wide publicity to the arrangement.

e. The intimation for including an individual's telephone number in the Do Not Call Registry (DNCR) should be facilitated through a website maintained by the bank/NBFC or on the basis of a letter received from such a person addressed to the bank/NBFC.

f. The card issuing bank /NBFC should introduce a system whereby the DSAs/ DMAs as well as its Call Centers have to first submit to the bank/NBFC a list of numbers they intend to call for marketing purposes. The bank/NBFC should then refer to the Do Not Call Registry (DNCR) and only those numbers which do not figure in the Registry should be cleared for calling.

g. The numbers cleared by the card issuing bank/NBFC for calling should only be accessed. The bank/NBFC would be held responsible if a Do Not Call Number (DNCN) is called on by its DSAs / DMAs or Call Centre/s.

h. The card issuing bank/NBFC should ensure that the Do Not Call Registry (DNCR) numbers are not passed on to any unauthorised person/s or misused in any manner.

i. Banks/NBFCs/ their agents should not resort to invasion of privacy viz., persistently bothering the card holders at odd hours, violation of "do not call" code etc.

## **6.2 Customer confidentiality**

a. 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 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. Banks/NBFCs 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/NBFCs would be solely responsible for the correctness or otherwise of the data provided for the purpose.

b. In case of providing information relating to credit history / repayment record of the card holder to a credit information company (specifically authorized by RBI), the bank/NBFC may explicitly bring to the notice of the customer that such information is being provided in terms of the Credit Information Companies (Regulation) Act, 2005.

c. Before reporting default status of a credit card holder to the Credit Information Bureau of India Ltd. (CIBIL) or any other credit information Company authorized by RBI, banks/NBFCs should ensure that they adhere to a procedure, duly approved by their Board, including issuing of sufficient notice to such card holder about the intention to report him/ her as defaulter to the Credit Information Company. 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 /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 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.

d. The disclosure to the DSAs / recovery agents should also be limited to the extent that will 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 issuing bank/NBFC. The card issuing bank /NBFCs should ensure that the DSAs / DMAs do not transfer or misuse any customer information during marketing of credit card products.

### **6.3 Fair Practices in debt collection**

(a) In the matter of recovery of dues, banks should ensure that they, as also their agents, adhere to the extant instructions on Fair Practice Code for lenders (circular DBOD. Leg. No. BC. 104 /09.07.007 / 2002–03 dated May 5, 2003) as also IBA's Code for Collection of dues and repossession of security. In case banks have their own code for collection of dues, they should, at the minimum, incorporate all the terms of IBA's Code.

(b) In particular, in regard to appointment of third party agencies for debt collection, it is essential that such agents refrain from action that could damage the integrity and reputation of the bank/NBFC and that they observe

strict customer confidentiality. 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.

(c) Banks /NBFCs / their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts, including acts intended to humiliate publicly or intrude the privacy of the credit card holders' family members, referees and friends, making threatening and anonymous calls or making false and misleading representations.

## **7. Redressal of Grievances**

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

b. The card issuing bank /NBFC should constitute Grievance Redressal machinery within the bank/NBFC and give wide publicity about it through electronic and print media. The name and contact number of designated grievance redressal officer of the bank /NBFC 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.

c. The grievance redressal procedure of the bank/NBFC 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/NBFC 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.

d. If a complainant does not get satisfactory response from the bank/NBFC which is a subsidiary of a 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 redressal of his grievance/s. The bank/NBFC which is a subsidiary of a bank shall be liable to compensate the complainant for the loss of his time, expenses, financial loss as well as for the harassment and mental anguish suffered by him for the fault of the bank and where the grievance has not been redressed in time.

## **8. 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/NBFCs, the Standing Committee on Customer Service in each bank/NBFC should review on a monthly basis the credit card operations including reports of defaulters to the CIBIL, credit card related complaints 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.

## **9. Fraud Control**

Banks/NBFCs should set up internal control systems to combat frauds and actively participate in fraud prevention committees/ task forces which formulate laws to prevent frauds and take proactive fraud control and enforcement measures.

## **10. Right to impose penalty**

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

## Annex

### 1. Most Important Terms and Conditions (MITCs)

#### (a) Fees and Charges

- i) Joining fees for primary card holder and for add-on card holder
- ii) Annual membership fees for primary and add-on card holder
- 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 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

**Note :**

- (i) The font size of MITC should be minimum Arial-12**

- (ii) The normal terms and conditions communicated by the card issuer to the card holder at different stages will continue as hitherto.**