

July 23 , 2008

All Scheduled Commercial Banks (excluding RRBs)

Dear Sir

Credit Card Operations of Banks

Please refer to the Master Circular on Credit Card Operations of banks (Circular No.DBOD.FSD.BC.6/24.01.011/2008-2009) dated July 1, 2008.

2. In this connection, we advise that the Reserve Bank of India had undertaken a study on the credit card operations of banks, based on the complaints received by the Bank as also by the Offices of the Banking Ombudsmen. The gist of the recommendations of the study together with existing RBI instructions, if any, and the action required to be taken by banks in this regard are given in the **Annex**. Banks may ensure that action is taken by them as shown in column 4 of the **Annex**. The study report has also made certain recommendations relating to recovery of credit card dues through recovery agents in respect of which a separate circular has already been issued by the Bank (DBOD.No.Leg.BC.75 /09.07.005/2007-08 dated April 24, 2008).

3. Issue of Unsolicited Cards

Attention of banks is invited to paragraph 6.1 (a) of the Master Circular on Credit Card Operations of banks dated July 1, 2008 wherein banks have been advised that unsolicited credit cards should not be issued and that 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.

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 credit 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. Further, there have been instances where unsolicited credit cards issued have been misused before reaching the person in whose name the card is 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 as indicated at item (4) – Column (4) of the Annex.

4. Insurance cover to credit card holders

It has been decided that in cases where the banks are offering any insurance cover to their credit card holders, in tie-up with insurance companies, the banks may consider obtaining in writing from the credit card holder the details of nominee/s for the insurance cover in respect of accidental death and disablement benefits. Banks may ensure that the relevant nomination details are recorded by the Insurance Company. Banks may also consider issuing a letter to the credit card holder indicating the details regarding the name, address and telephone number of the Insurance Company which will handle the claims relating to the insurance cover.

5. Banks are advised to scrupulously adhere to these instructions and any violation/s would be viewed seriously.

Yours faithfully

(P.Vijaya Bhaskar)
Chief General Manager

Annex

Sl. No. 1.	Issue in brief 2.	Gist of recommendations of the Credit Card Study 3.	Existing RBI instructions, if any on the issue and action to be taken by banks 4.
I. Card Issuance	1. Prudence in issuing credit cards	The banks need to ensure prudence while issuing credit cards.	Banks have already been advised vide paragraph 2(a) of the Master Circular on Credit Card Operations(Circular No.DBOD.FSD.BC.6/24.01.011/2008-2009 dated July 1, 2008) that they should independently assess the credit risk while issuing cards to persons, especially to students and others with no independent financial means. It is reiterated that banks need to ensure prudence while issuing credit cards.
	2.Reasons for rejection of credit card applications to be intimated	The banks are required to inform the reason for rejection of credit card applications as per the extant RBI guidelines.	In terms of the instructions contained in the circular DBOD.No.Leg.BC.65/09.07.005/2006-2007 dated March 6, 2007, banks have been advised that in case of all categories of loans irrespective of any threshold limits, including credit card applications , banks should 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.
	3. Consent for issue of credit cards	The consent for the cards issued or the other products offered along with	Banks have already been advised vide paragraph 6.1(a) of the Master Circular on Credit Card Operations (Circular No.DBOD.FSD.BC.6/24.01.011/2008-09

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		the card has to be explicit and should not be implied.	dated July 1, 2008) that unsolicited credit cards should not be issued. It is further clarified that consent for the cards issued or the other products offered alongwith the card has to be explicit and should not be implied.
	4. Losses arising out of misuse of unsolicited credit cards	Any misuse of an unsolicited card or any other product associated with the issue of such an unsolicited card is the responsibility of the card issuing bank only and cannot be laid at the door of the customer.	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.
	5. Safeguards against misuse of lost/stolen cards	In order to reduce misuse of lost cards, banks may consider issuance of – (i) Photo cards (ii) Cards with a PIN (iii) Signature laminated cards	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.

	<p>6.Explicit option to share customer information with other agencies</p>	<p>The banks should explicitly state and explain to the customer the full meaning of their disclosure clause. While reporting to Credit Information Companies/CIBIL is mandatory, all the other clauses added making the customer provide his consent to parting with his personal information and credit history to a host of agencies is purely voluntary and should not have any bearing on the issue of the card.</p>	<p>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. It is clarified that 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 credit card. The application forms for credit cards may be suitably modified to explicitly and clearly provide for the same. Further, in cases 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.</p>
<p>II Card Statements</p>	<p>7.Acknowledgement for monthly statements</p>	<p>The banks should have a mechanism to ensure that customer's acknowledgement for receipt of the monthly statement is taken.</p>	<p>Banks have been advised, vide paragraph 3(a) of the Master Circular on Credit Card operations dated July 1, 2008(Circular No.DBOD.FSD.BC.6/24.01.011/2008-2009 dated July 1, 2008) that they 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</p>

			the interest starts getting charged. Banks could consider putting in place a mechanism to ensure that the customer's acknowledgement is obtained for receipt of the monthly statement.
	8. Undue delay in issue of credit card statements	Banks should be advised against sending statements after a gap of a few years and demanding payments and the same has to be seen as a grossly unfair act on the part of the bank. Specifying a time limit for rectifying any errors or making a claim on the cardholder need to be considered.	There have been instances where banks have issued credit card statements after undue delays and demanded payments. Banks may ensure that credit card bills/statements are sent to the customers promptly without any delay. Attention of banks is invited to paragraph 4(b) of the Master Circular on Credit Operations of banks (DBOD.FSD.BC.6 /24.01.011/2008-2009 dated July 1, 2008) wherein it is stated that 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 built therefor.
	9. Educating customers on the implications of paying only the 'minimum amount due' on credit cards	Banks should step up their education efforts on the implications of card holders paying only the 'minimum amount due'. An average credit card customer is not clear as to how the interest/finance	Banks should step up their efforts on educating the cardholders of the implications of paying only the 'minimum amount due'. The MITC should specifically explain that the 'free credit period' is lost if any balance of the previous month's bill is outstanding. For this purpose, they could work out illustrative examples and include the same in the Welcome Kit sent to the cardholders as also place it on their website.

		charges are calculated. The MITC should specifically explain that 'the free credit period' is lost if any balance of the previous month's bill is outstanding.	
III Interest and other charges	10. Excessive Interest rates/ Other Charges	<p>The complaints received by RBI/Banking Ombudsmen's offices on charges indicate that customers consider the charges to be on the higher side. While there could be an issue of customer education here, the banks are required to note that the interest rate/other charges on credit card dues fall within the purview of RBI circular on excessive interest rates issued on May 7, 2007.</p>	<p>Banks have already been advised vide RBI circular dated May 7, 2007 on excessive interest rates on advances that 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. It is clarified that the above instructions would apply to credit card dues also.</p>

	<p>11. Variable Interest charges</p>	<p>Some of the banks levy interest charges which vary based on the payment/default history of the cardholder. The issue needs to be handled transparently.</p>	<p>Where 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.</p>
	<p>12. Calculation of finance charges</p>	<p>As regards the amount of finance charges, the entire amount outstanding is taken into account for finance charge calculations, if only partial amount is paid thereby losing the advantage of grace period given for payment. This should be made known to the customer.</p>	<p>Banks should upfront indicate to the credit card holder, the methodology of calculation of finance charges with illustrative examples, particularly in situations where a part of the amount outstanding is only paid by the customer.</p>

	13. Issue of cards free of charge	In issuing cards that are free of credit card issue charges for the first year only, the issue needs to be handled transparently and without any hidden charges.	There should be transparency (without any hidden charges) in issuing credit cards free of charge during the first year.
IV DSAs/DMAs	14. Authentication of documents by the banks	It is desirable that the DSAs provide to the customer only the documents/papers authorized by the banks. It is desirable that the banks design the modes in such a way that no disputes arise later between the customer and the bank. Most of the complaints of mis-selling are attributed to DSAs/DMAs.	In terms of para 5 (c) of the Master Circular on Credit Card operations of banks(Circular No.DBOD.FSD.BC.6/24.01.011/2008-09 dated July 1,2008), banks have been advised that they should have a random check 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 on the aspects included in the Master Circular like soliciting customers, hours for calling, privacy of customer information, conveying the correct terms and conditions on offer etc., Banks are once again advised to adhere to the above instructions.

V Grievance Redressal	15. Training of call center staff	Banks should take efforts to properly train their call centre staff who are presently equipped to handle only routine complaints.	Banks should ensure that their call center staff are trained adequately to competently handle all customer complaints.
	16. Escalation of unresolved complaints	Banks should have a mechanism to escalate automatically unresolved complaints from a call centre to higher authorities, if a higher level of intervention is required.	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.
VI CIBIL Issues	17. Reporting to CIBIL/Credit Information Companies	It is desirable that the banks are made to follow a uniform method of reporting to CIBIL/Master Card International Negative List.	In terms of paragraph 6.2 (c) of the Master Circular on Credit Card Operations of banks (Circular No. DBOD.FSD.BC.6/24.01.011 /2008-2009 dated July 1, 2008), before reporting default status of a Credit card holder to CIBIL or any other Credit Information Company authorized by RBI, banks should ensure that they adhere to a procedure duly approved by their Board including issuing of sufficient notice to such cardholder 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. These procedures should be transparently made known as part of the MITCs. The above instructions are reiterated.
VII Others	18. Registration of Telemarketers	Banks to register all their telemarketers with Department of Telecommunication s within the deadlines set by TRAI and scrupulously follow RBI instructions on the National Do Not Call Registry of TRAI.	Instructions in this regard have already been issued to banks vide RBI Circular No.DBOD.FSD,BC.19/24.01.011/2007-2008 dated July 3, 2007. Banks may scrupulously adhere to the above instructions.
	19. Coverage of all ATMs by CCTVs	The banks may be advised to cover all the ATM sites by CCTVs so that the identity of the withdrawing person can be established	The banks may consider covering all ATM sites by CCTVs so that the identity of the person withdrawing cash from the ATM can be established. Further, the security staff posted at ATMs may be trained adequately in this regard.
	20. Prompt honouring of requests for closure of credit cards	A request for closure of the credit card has to be honoured immediately by the bank.	Any request for a closure of a credit card has to be honoured immediately by a bank, subject to full settlement of dues by the cardholder

	21. Blocking of lost card	A lost card should be immediately blocked on being informed by the customer and formalities if any, including lodging of FIR can follow within a reasonable period.	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.
	22. Insurance cover in respect of dues relating to lost cards	Banks may consider introducing a cover for the lost card liability or limiting such liability at the option of the customers.	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.