

RBI/2015-16/31 DBR.No.FSD.BC.18/24.01.009/2015-16

July 1, 2015 Ashadha 10, 1937(Saka)

All Scheduled Commercial Banks (Excluding RRBs) and Credit Card Issuing NBFCs

Dear Sir/Madam

Master Circular on Credit Card, Debit Card and Rupee Denominated Co-branded Pre-paid Card Operations of Banks and Credit Card issuing NBFCs

Please refer to <u>Master Circular No. DBOD.No.FSD.BC.02/24.01.009/2014-15 dated</u> <u>July, 2014</u> consolidating the instructions/guidelines issued on credit card operations of banks and NBFCs and debit cards/pre-paid card operations of banks.

2. The instructions on credit card operations of banks and NBFCs as well as guidelines on issuance of debit cards and co-branded pre-paid cards by banks issued up to June 30, 2015 have been consolidated in this Master Circular.

3. It may be noted that the instructions on credit card operations of banks are applicable, mutatis-mutandis, to NBFCs issuing credit cards.

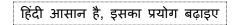
4. All the credit, debit and pre-paid card issuing banks and credit card issuing NBFCs should adhere to these guidelines strictly.

Yours faithfully

(Lily Vadera) Chief General Manager Encl: As Above

बैकिंग विनियमन विभाग, केंद्रीय कार्यालय, केन्द्रीय कार्यालय भवन,13 माला, शहीद भगतसिंह मार्ग, मुम्बई 400001

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cards to the employees of their corporate customers, as well as add-on credit cards. 3.2 However, while issuing co-branded credit cards, banks must 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. NBFCs, which desire to enter into a co-branding arrangement for issue of credit cards with banks, may be guided by the instructions contained in <u>circular No. DNBS (PD) CC</u> <u>No.83/03.10.27/2006-07 dated December 04, 2006</u>

3.3 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. Similarly while issuing corporate credit cards, the responsibilities and liabilities of the corporate and its employees may be clearly specified.

4. Compliance with Know Your Customer (KYC) Norms/ Anti -Money Laundering (AML) Standards/ Combating of Financing of Terrorism (CFT)/Obligation of Banks under PMLA, 2002

The instructions/guidelines on KYC/AML/CFT applicable to banks, issued by RBI from time to time, may be adhered to in respect of all cards issued, including cobranded, corporate, and add on credit cards.

5. Interest rates and other charges

5.1 Banks are advised to be guided by the instructions on interest rate on advances issued by RBI and as amended from time to time, while determining the interest rate on credit card dues, the latter being in the nature of non-priority sector personal loans. Banks should also prescribe a ceiling rate of interest, including processing and other charges, in respect of credit cards. In case banks/NBFCs 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. For this purpose, the banks should publicise through their website and other means, the interest rates charged to various categories of customers. Banks/NBFCs 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.

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5.2 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. 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 measures. Banks/NBFCs could also consider putting in place a mechanism to HQVXUH WKDW WKH FXVWRPHU¶V DFNQRZOHGJHPHQW LV R 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 i n the repayment stretching over years with consequent interest payment on your outstand ing 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/NBFCs should step up their efforts on educating the cardholders of the implications of SD\LQJ RQO\ µWKH PLQLPXP DPRXQW GXH¶ 7KH and &RQGLWLRQV´ VKRXOG VSHFLILFDOO\ H[SODLQ WKDW WI balance RI WKH SUHYLRXV PRQWK¶V ELOO LV RXWVWDQGLQJ 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) Banks are advised to follow uniform method of determining over-due status

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14.3 Banks may ensure that they put in place the various security and risk mitigation measures for usage of cards and electronic payment transactions, issued by Department of Payment and Settlement Systems, Reserve Bank of India from time to time.

14.4 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.

14.5 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.

15. 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.

II Issue of Debit Cards by B anks

1. Introduction

Debit cards were issued by banks in terms of the guidelines contained in <u>circular</u> <u>DBOD.No.FSC.BC.123/24.01.019/99-2000</u> dated November 12, 1999, and subsequent amendments and mail box clarifications. After enactment of the Payment and Settlement Systems Act, 2007 (PSSA), Department of Payment and Settlement Systems (DPSS) of the Reserve Bank of India, has also issued instructions on some aspects of debit cards such as security and risk mitigation, transfer of funds between domestic debit, prepaid and credit cards, and merchant discount rates. In view of the above, and in supersession of previous instructions, comprehensive guidelines on debit cards were issued.

In terms of the revised guidelines, banks may ensure to issue debit cards, including co-branded debit cards, without seeking prior approval of the Reserve Bank, subject to the following:

2. Board approved policy

Banks may formulate a comprehensive debit cards issuance policy including policy on co-branded debit cards with the approval of their Boards and issue debit cards to their customers in accordance with this policy. Debit cards should be issued to customers having Saving Bank/Current Accounts but not to cash credit/loan account holders.

3. Types of d ebit cards

Banks may issue only online debit cards including co-branded debit cards where there is an immediate dHELW WR WKH FXVWRPHUV¶ DFFRXQW DQG processing is involved.

4. Offline debit cards

Banks are not permitted to issue offline-debit cards. Banks which have been issuing offline debit cards were advised to conduct a review of their offline debit card operations and discontinue operations of such cards within a period of six months from December 12, 2012. Banks may, however, ensure that customers are duly informed regarding switching over to online debit cards. The review and confirmation regarding discontinuation of issue and operations of offline debit cards should be sent to the Chief General Manager, Department of Banking Regulation, Central Office Building, Shahid Bhagat Singh Marg, Mumbai 400001. However, till such time as offline cards are phased out, the outstanding balances/unspent balances stored on the cards shall be subject to computation of reserve requirements.

5. Compliance with Know Your Customer (KYC) Norms/ Anti-Money Laundering (AML) Standards/ Combating of Financing of Terrorism (CFT)/ Obligation of B anks under PMLA, 2002

The instructions/guidelines on KYC/AML/CFT applicable to banks, issued by RBI from time to time, may be adhered to in respect of all cards issued, including cobranded debit cards.

6. Payment of int erest on balances

Payment of interest should be in accordance with interest rate directives as issued from time to time.

7. Terms and conditions for issue of cards to customers

i) No bank shall dispatch a card to a customer unsolicited, except in the case where the card is a replacement for a card already held by the customer.

ii) The relationship between the bank and the card holder shall be contractual.

iii) Each bank shall make available to the cardholders in writing, a set of contractual terms and conditions governing the issue and use of such a card. These terms shall maintain a fair balance between the interests of the parties concerned.

iv) The terms shall be expressed clearly.

v) The terms shall specify the basis of any charges, but not necessarily the amount of charges at any point of time.

vi) 7 KH WHUPV VKDOO VSHFLI\ WKH SHULRG ZLWKLQ ZKLFK normally be debited.

vii) The terms may be altered by the bank, but sufficient notice of the change shall be given to the cardholder to enable him to withdraw if he so chooses. A period shall be specified after which time the cardholder would be deemed to have accepted the terms if he had not withdrawn during the specified period.

viii) (a) The terms shall put the cardholder under an obligation to take all appropriate steps to keep safe the card and the means (such as PIN or code) which enable it to be used.

(b) The terms shall put the cardholder under an obligation not to record the PIN or code, in any form that would be intelligible or otherwise accessible to any third party if access is gained to such a record, either honestly or dishonestly.

(c) The terms shall put the cardholder under an obligation to notify the bank immediately after becoming aware:

- of the loss or theft or copying of the card or the means which enable it to be used;

- RI WKH UHFRUGLQJ RQ WKH FDUGKROGHU¶V DFFR transaction; and

- of any error or other irregularity in the maintaining of that account by the

bank.

(d) The terms shall specify a contact point to which such notification can be made. Such notification can be made at any time of the day or night.

- ix) The terms shall specify that the bank shall exercise care when issuing PINs or codes and shall be under an obligation not to GLVFORVH WKH FDUGKROGHL code, except to the cardholders.
- x) The terms shall specify that the bank shall be responsible for direct losses LQFXUUHG E\ D FDUGKROGHU GXH WR D V\VWHP PDOIXQ control. However, the bank shall not be held liable for any loss caused by a technical breakdown of the payment system if the breakdown of the system was recognizable for the cardholder by a message on the display of the device or otherwise known. The responsibility of the bank for the non-execution or defective execution of the transaction is limited to the principal sum and the loss of interest subject to the provisions of the law governing the terms.
- 8. Cash withdrawals

No cash transactions through the debit cards should be offered at the Point of Sale under any facility without prior authorization of Reserve Bank of India under Section 23 of the Banking Regulation Act, 1949.

9. Security and other aspects

i) The bank shall ensure full security of the debit card. The security of the debit card shall be the responsibility of the bank and the losses incurred by any party on account of breach of security or failure of the security mechanism shall be borne by the bank.

ii) Banks shall keep for a sufficient period of time, internal records to enable operations to be traced and errors to be rectified (taking into account the law of limitation for the time barred cases).

iii) The cardholder shall be provided with a written record of the transaction after he has completed it, either immediately in the form of receipt or within a reasonable period of time in another form such as the customary bank statement.

iv) The cardholder shall bear the loss sustained up to the time of notification to the bank of any loss, theft or copying of the card but only up to a certain limit (of fixed amount or a percentage of the transaction agreed upon in advance between the cardholder and the bank), except where the cardholder acted fraudulently, knowingly or with extreme negligence.

v) Each bank shall provide means whereby his customers may at any time of the day or night notify the loss, theft or copying of their payment devices.

vi) On receipt of notification of the loss, theft or copying of the card, the bank shall take all action open to it to stop any further use of the card.

vii) With a view to reducing the instances of misuse of lost/stolen cards, banks may consider issuing cards with photographs of the cardholder or any other advanced methods that may evolve from time to time.

10. Compliance with DPSS instructions

The issue of debit cards as a payment mechanism would also be subject to relevant guidelines on cash withdrawal, issue of international debit card, security issues and risk mitigation measures, card-to-card fund transfers, merchant discount rates structure, failed ATM transactions, etc, issued by the Department of Payment and Settlement Systems under the Payment and Settlement Systems Act, 2007, as amended from time to time.

11. Issue of international debit c ards

Issue of international debit cards will also be subject to directions issued under Foreign Exchange Management Act, 1999, as amended from time to time.

12. Review of operations

The banks should undertake review of their operations/issue of debit cards on halfyearly basis. The review may include, inter-alia, card usage analysis including cards not used for long durations due to their inherent risks.

13. Reporting requirements

The report on the operations of smart/debit cards issued by banks required to be submitted on a half yearly basis to the Department of Payment and Settlement Systems (DPSS) with a copy to the concerned Regional Office of Department of Banking Supervision in whose jurisdiction the Head Office of the bank is situated, is discontinued with effect from December 12, 2012.

14. Redressal of grievances

Banks may ensure to put in place an effective mechanism for redressal of customer complaints. 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. 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 redressal of his grievance/s. DPSS guidelines on timeframe for reconciliation of failed transactions at ATMs as amended from time to time should be complied with in this regard.

15. Co-branding arrangement

Co-branded debit cards issued by banks will be subject to the following terms and conditions, in addition to the above:

15.1 Board approved policy

The co-branding arrangement should be as per the Board approved policy of the bank. The policy may specifically address issues pertaining to the various risks associated with such an arrangement including reputation risk and put in place suitable risk mitigation measures.

15.2 Due diligence

Banks should carry out due diligence in respect of the non-banking entity with which they intend to enter into tie-up for issue of such cards to protect themselves against the reputation risk they are exposed to in such an arrangement. Banks may ensure that in cases where the proposed co-branding partner is a financial entity, it has obtained necessary approvals from its regulator for entering into the co-branding agreement.

15.3 Outsourcing of activities

The card issuing bank would be liable for all acts of the co-branding partner. The

bank may ensure ad KUHQH KWWGHOLQVRQQQUQVMDQ&GHRI

&GXV/QXXRX/FLQQILQQLDOVHUY/FHVEED102/DVFR102/LQGL162/

<u>circular</u>

DBOD.No.BP.40/21.04.158/2006-07 dated November 3, 2006, as amended from time to time.

15.4 Role of non -bank entity

The role of the non-bank entity under the tie-up arrangement should be limited to marketing/distribution of the cards or providing access to the cardholder for the goods/services that are offered.

16. Confidentiality of customer information

The card issuing bank should not reveal any information relating to customers obtained at the time of opening the account or issuing the card and the co-branding non-ED COMPLOW REAGE GLACH SHUPLING RADEFHVV DCGHDYLOV RIFXRIPHUT

DFFR XXXX DAROD HED XXX secrecy obligations.

Banks, which were granted specific approvals for issue of co-branded debit cards in the past, were advised to ensure that the co-branding arrangement is in conformity with the instructions mentioned above. In case, the co-branding arrangement is between two banks, the card issuing bank may ensure compliance with the above conditions.

17. Unsolicited commercial c ommunication

As stated in paragraph I 7.4, banks may ensure that they engage telemarketers who comply with directions/ regulations issued by the Telecom Regulatory Authority of India (TRAI) from time to time while adhering KWGHOLQV LVVKG RQ Unsolicited Commercial Communications ± National Customer Preference Register (NCPR)'

III Issuance of Rupee Denominated C o-branded Pre -paid C ards

1. Introduction

Banks were permitted to issue smart cards subject to the instructions contained in our <u>circulars DBOD.No.FSC.BC.123/24.01.019/99-2000 dated November 12, 1999</u>, <u>DBOD. No.FSC.BC.133/ 24.01.019/2000-01 dated June 18, 2001</u> and DBOD.No.FSC.BC.88/24.01.019/2001-02 dated April 11, 2002. While foreign currency denominated pre-paid cards, including co-branding arrangements, if any, can be issued subject to the guidelines issued under Foreign Exchange

Management Act, 1999, as amended from time to time, issue of rupee denominated pre-paid payment instruments is subject to the stipulations contained in the ³Issuance and Operation of Pre-paid Payment Instruments in India-Consolidated Revised Policy Guidelines ŁVVMG under the Payment and Settlement Systems Act, 2007, vide <u>circular DPSS.CO.PD.No.2366/02.14.006/2013-14 dated May 13, 2014</u>.

Accordingly, in supersession of the earlier guidelines on issue of smart cards, it was decided to grant general permission to banks to issue rupee denominated cobranded pre-paid cards in India, subject to the following terms and conditions:

2. Board approved policy

The co-branding arrangement should be as per the Board approved policy of the bank. The policy may specifically address issues pertaining to the various risks associated with such an arrangement including reputation risk and put in place suitable risk mitigation measures.

3. Due diligence

Banks should carry out due diligence in respect of the non-banking entity with which they intend to enter into tie-up for issue of such cards to protect themselves against the reputation risk they are exposed to in such an arrangement. In case of proposed tie up with a financial entity, they may ensure that the entity has the approval of its regulator before entering into such arrangement.

4. Outsourcing of activities

The card issuing bank would be liable for all acts of the co-branding partner. The EDNQD\HQXHDGKUHQHKWWGHOLQVRQQUQQVWDQ8GHRI

Conduct in outsourcing of financial serviceVEVED **W**DVFR **W**LQGL **G**/ <u>circular</u> <u>DBOD.No.BP.40/21.04.158/2006-07 dated November 3, 2006</u>, as amended from time to time.

5. Role of non -bank entity

The role of the non-bank entity under the tie-up arrangement should be limited to marketing/ distribution of the cards or providing access to the cardholder for the goods/services that are offered.