

## **Credit Card business of banks**

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To

All Scheduled Commercial Banks  
(excluding RRBs)

Dear Sir,

### **Credit Card business of banks**

A special study on credit card business of certain banks covering aspects relating to the systems and controls on issue of credit cards and recovery of dues thereunder, was undertaken by us. The study report was circulated to banks for their comments and suggestions. Based on the response received from banks, it has been decided that banks should adopt the following additional safeguards to ensure that their credit card operations are run on sound, prudent and profitable lines.

#### (i) Recovery of overdues

- Credit card debt is an unsecured line of credit. Repayment of credit card dues depends primarily upon the card holders' capacity to repay. The highly competitive environment in credit card business has provided customers with opportunity to hold more than one credit cards from different banks with the intention to pay only minimum monthly payments on outstanding balances. As a result, the card holders are often overextended and unable to repay the dues in full. As banks are aware, credit card operations entail credit risk in their overall credit portfolio. Relaxed underwriting standards, aggressive solicitation programmes, inadequate account management increase credit risk and may lead to overdues and non-performing assets in the credit card portfolios of banks. It is therefore imperative that banks take immediate steps to reduce the incidence of default in this business and closely monitor the recovery of credit card outstandings. Banks may formulate specific Action Plans to this effect with the approval of their Board of Directors.
- Banks are advised to observe the code of ethics formulated by the Indian Banks' Association while engaging recovery agents for collection of credit card overdues.

#### (ii) Sharing of information on credit card holders

Credit Information Bureaus are now being set up to provide a mechanism for mitigating credit risk by enhancing the quality of credit decisions and help in curbing the growth of fresh non-performing assets. Banks are advised to become members of one or more Credit Information Bureaus in order to maintain the selectivity of customers in their credit card business. Banks are also advised to take advantage of the existing negative file projects to guard against defaults in this business.

#### (iii) Fraud Control

The common methods of fraudulent usage of credit cards include the following:

- Fraud at application stage
- Misuse of lost/stolen cards and cards not received by genuine applicants
- Counterfeit and altered cards
- Merchants acting in collusion with card holder

Banks are advised to set up internal control systems to combat frauds committed through the above or other methods. Fraud prevention committees/task forces are in existence which formulate laws to prevent frauds and take proactive fraud control and enforcement measures. Banks are advised to actively participate in such fraud prevention committees/task forces.

(iv) Processing

In order to provide efficient back office solution to the cards management process and in the areas of accounts receivables, billing, settlement and other related services it is necessary that banks have in place a proper processing solution. Banks are advised to make use of developments in this area to ensure better operating controls.

(v) Fees/Charges on credit cards

Fees are charged by banks for services in respect of credit card operations. These include membership/entrance fees, renewal/annual fees, service charges on revolving credit facility and penal charges for overdue payments. Disputes often occur between card issuing banks and card holders regarding the basic level of penal charges. Banks are advised to clearly spell out fees/charges to the cardholder at the time of their applying for credit card, if not done so far. In particular, banks should bring to the notice of the cardholder, the rates of interest to be charged in case of delays and default in payments, besides the membership/renewal fees.

2. Please acknowledge receipt.

Yours faithfully,

(K. Seetharamu)  
Chief General Manager