

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2667
ANSWERED ON:04.12.2009
REGULATORY MECHANISM FOR CARDS
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Working Group on Regulatory Mechanism for Cards constituted by the Reserve Bank of India to look into credit cards related complaints and suggest regulatory measures to encourage growth of cards in a safe, secure and efficient manner had submitted its recommendations;
- (b) if so, the salient features of main recommendation;
- (c) whether the Government has examined these recommendations and proposes to set up regulatory authority to regulate the inflow of credit cards and to protect the interests of customers;
- (d) if so, the details thereof; and
- (e) the time by which the said recommendation is likely to be implemented?

Answer

The Minister of State in the Ministry of Finance (Shri Namoo Narain Meena)

(a) & (b) : The Working Group on Regulatory Mechanism for cards constituted by Reserve Bank of India (RBI) submitted its Report on 8 April, 2005. The recommendations cover the aspects of

(i) Regulatory framework and

(ii) Customer grievances/right protection covering transparency and disclosure and code of conduct. The Working Group recommended, inter-alia, that the terms and conditions by card issuing banks should be communicated to customers in simple language; Separate communication should be made for the Most Important Terms and Conditions (MITC); Card issuing banks should mention interest charges on an annual basis; Persons entrusted with product marketing to have high degree of professionalism and integrity; Direct Selling Agents (DSA) / Direct Marketing . Agents (DMA) work should be entrusted to well known firms on whom due diligence has been carried out; in case of cards issued through DSAs/DMA, Know Your Customer (KYC) norms laid down by RBI to be scrupulously followed; DSA/DMA staff to be properly trained and briefed; and card issuing banks to formulate a code of conduct for them, etc.

(c) & (d) : The Group studied the regulatory regimes for the credit card industry in various countries and found that since the credit card business worldwide was not limited to banks only, the central banks or the banking regulators play mostly only a secondary role in the regulatory aspect. The Group did not recommend setting up of a separate regulatory authority to regulate credit card business, since in India only banks/bank subsidiaries are permitted to enter the card payment business and commercial banks in India are subject to a stringent regulation system as well as a fairly robust supervisory system as compared to other financial intermediaries.

(e) Based on the recommendations of the Group, RBI issued a Master Circular on Credit Card Operations of banks on November 21, 2005 and advised all the credit card issuing banks/NBFCs to adhere to those guidelines strictly. This Master Circular is updated every year on July 1, consolidating the instructions/guidelines issued to banks during the preceding year.

Further, to provide for a sound legal and regulatory institutional framework to exercise direct regulation and oversight of the diverse payment systems, including the credit card providers in the country, the Payment and Settlement Systems Act, 2007 has been enacted. The Act and the Regulations framed thereunder require all payment system providers to obtain authorisation from Reserve Bank of India to operate any payment systems in the country, including those relating to credit cards.