

RBI Card Issuance Compliances And Regulations For MSMEs To Bear In Mind

written by Charanya CV | July 30, 2022



RBI Card Issuance Compliances

On April 21st 2022, the Reserve Bank of India ["RBI"] published the Master Directions on Credit Card and Debit Card - Issuance and Conduct Directions, 2022 [1]. These Master Directions were created to govern how banks and non-banking financial institutions ["NBFCs"] handled credit and debit payments.

The majority of India's MSMEs are not borrowing from the formal financial sector which is leading to a huge credit gap [2]. Moreover, MSMEs are borrowing at high rates and have access to only limited financial products. For these reasons and to engage the MSMEs for lending via the formal sector, these guidelines are a step in the right direction. These Master Directions' provisions apply to all Scheduled Banks and NBFCs operating in India, whereas the debit card provisions apply to all banks in India.

While these guidelines are applicable to any financial institution, the Directions focus on three main areas concerning MSMEs in particular. Key highlights of the Directions are explored below:

- Conduction Of Credit Card Business
- Conduction Of Debit Cards
- Co-branding Arrangement

Highlights Of Credit Card Provisions

- Credit card operations are restricted to Scheduled Commercial Banks ["SCB"] with a value of a minimum of INR 100 crore and board clearance. Credit cards may also be issued by Regional Rural Banks ["RRB"] in collaboration with other banks or even issued by CBS-enabled Scheduled Urban Cooperative Banks ["UCB"] having a minimum net value of 100 crores, subject to the restrictions indicated. However, without prior clearance from the RBI, NBFCs are prohibited from operating a credit card firm.
- NBFCs registered with the RBI cannot undertake credit card business without prior approval. Aside from needing specific permission to engage in this business, any company, including a non-deposit-taking company must obtain a Certificate of Registration, which requires a minimum net worth of INR 100 crore.
- Each card issuer is required to have a well-written, board-approved policy

for the issuance and use of credit cards that complies with all current RBI rules. This policy must be available on the card issuer's website. Card issuers should also have a framework in place for their Audit Committee and Director to undertake a six-monthly review of their credit card operations. The review must include an assessment of scams, complaints, fraudulent activity, grievance redressal, customer service issues and card usage data analysis.

- Card issuers must submit a one-page Key Fact Statement with the credit card application that contains the card's main information, such as the interest rate, fees, and other costs. Furthermore, credit card companies are prohibited from issuing unauthorized cards or upgrading an active card without the full approval of the consumer -- the card issuer is exclusively liable for any loss resulting from the unauthorized use of such unsolicited cards, not individual who received the card. The individual may seek compensation from the card-issuer for any expenses incurred or time lost.
- Furthermore, card-issuing institutions must now obtain OTP-based consent from clients. If the cardholder does not activate within 30 days of receiving the card, the card issuer must do so within seven business days of seeking confirmation from the customer. Card-issuing institutions demand the cardholders' affirmative approval for any credit limit breach that occurs after the authorized and disclosed limit.

Highlights Of Debit Card Provisions

- Banks must adopt a thorough debit card issuance policy with the approval of their boards and issue debit cards to clients in compliance with this policy. Banks that want to offer debit cards to their customers do not need prior approval from the RBI.
- Banks must submit a complete report to RBIs' Department of Regulation. Any bank that issued such a product before the Master Directions' effective date must provide the Department of Regulation with a complete report within 30 days of the directive's implementation.
- Every six months, banks are required to assess their business practices and debit card distribution. The assessment will include an examination of card usage, including cards that have been dormant and the risks associated with them.

Highlights Of Co-Branding Arrangement

- The issue of co-branded debit and credit cards does not require prior RBI approval. However, UCBs should not work with non-banking businesses to issue such cards. Any co-branded credit or debit card must state that it was issued as part of a co-branding agreement, and neither party is allowed to promote the card as their own.
- In this arrangement, the role of the co-branding partner shall be limited solely to marketing and distribution of the cards and providing access to the cardholder for the goods/services offered. The co-branding partner shall not have access to data regarding transactions related to the co-branded card. After the issuance of the card, the co-branding partner must not involve itself in the area concerning the co-branded card except for being the initial point of contact in case of customer grievances.

- In addition to marketing and distribution of the cards, the partner may only provide access to the commodities and services. When selecting a co-branding agreement for the issuance of credit cards with a card issuer, NBFCs must follow the Master Directions (applicable to NBFCs), which include guidelines on the issuance of co-branded credit cards.

Wrapping Up

The goal of these regulations is naturally to protect the interests of cardholders and customers. The regulations governing the issuance of debit and credit cards, as well as the services linked with them, have been clarified, as has the relevant language. The scope of co-branding agreements, as well as the obligations of card issuers and co-branding partners, have also been clarified. The incorporation of mechanisms for consumer complaint resolution, harassment protection, and fraud prevention has improved the safety and security of customers and cards.

After the scale-based limits for NBFCs become active and stabilize in October 2022, select NBFCs may be reviewed for the capacity to conduct credit card operations. These NBFCs would be subject to governance, exposure norms, the internal capital adequacy assessment system, and other regulations similar to those governing banks.

[1] <https://rbi.org.in/>

[2] <https://www.business-standard.co>

Contributed by Charanya CV, Associate and Dhaval Bothra