

# Here's all about RBI's new regulations for credit cards

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The Reserve Bank of India (RBI) recently issued regulations aimed at safeguarding the interests of credit card customers.

These regulations mandate lenders to take consent of customers on various issues pertaining to credit cards and also strengthens the grievance redressal mechanism.

Many issuers are already following most of these practices but with the regulations, there is a governance mechanism in place now. "Currently, there are checks and balances, but the regulatory framework by RBI is more robust with consequences and the timeline, which is very important. The central bank has made it clear that the credit card issuing entities have to follow the regulations both in letter and spirit," said Mayank Mehta, partner at Pioneer Legal.

Here are a few of the important regulations that will come into effect from 1 July.

## **Customer consent**

Credit card issuers, either banks or other entities, have to now mandatorily take the explicit consent of the customer for issuing credit cards, upgrading their features, enhancing the credit limit, and for offering other products/services along with the card.

For example, banks must obtain the consent of cardholders, either in writing or in digital mode, for introducing an insurance cover to take care of the liabilities arising out of lost cards, card frauds, etc.

If consent is not taken, the issuers are liable to not only reverse the charges levied but also pay a penalty to the customers. For instance, if an existing card is upgraded without consent and the customer is billed for the same, the card issuer will be liable to pay a penalty amounting to twice the value of the charges levied.

Further, if customers approach the RBI Ombudsman for resolution of any grievance, the amount of compensation payable by the card-issuer to the customers will be decided by the latter, in most cases, based on the loss of complainant's time, expenses incurred, harassment and mental anguish suffered by them.

Card issuers are also obliged to complete requests by customers seeking closure of the credit card within seven working days when there is no outstanding liability. Note that, if a credit card is not used for more than one year, the card will be closed after 30 days from the date of intimation to the cardholder.

## **No hidden charges**

Credit card issuers allow you to defer your outstanding liability by paying only a portion of your monthly outstanding due, called minimum amount due (MAD). Making only the minimum payment every month can result in the repayment term stretching over months/years and the resultant

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compounding interest payment piling up. This is in addition to the impact on customer's credit score and loss of interest-free period. The issuer is now obliged to give more disclosures with illustrations about the impact of choosing to pay only MAD in the billing statements.

Further, any changes in charges being levied on credit cards can be made only with prospective effect giving prior notice of at least one month. There will not be any hidden charges, too, when credit cards are issued free of charge.

### **More options**

Cardholders will now be given a one-time option to modify their billing cycle of the credit card as per their convenience.

Also, if the cardholder protests any bill in the statement, the card issuer must provide an explanation on this within 30 days of the date of complaint. Further, no charges (including interest) shall be levied on transactions disputed as 'fraud' by the cardholder until the dispute is resolved. The regulations also opened doors for NBFCs to issue credit cards. But "NBFCs may have higher flexibility in reaching out to customers, who should be wary of cross-selling of products," said Sachin Vasudeva, AD & business head (cards), Paisabazaar.