

# Amendments to Credit Card and Debit Card Master Direction: Enhancing Consumer Protection

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On March 7, 2024, the RBI introduced certain [amendment](#) to the existing [Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022](#) ('Master Direction'). In our view the amendments reflect the RBI's recognition of the escalating digitization within the financial sector, aiming to foster reforms that address this trend. The amendments notably relax stringent entry conditions for NBFCs to participate as co-branding partners. Additionally, the changes focus on bolstering consumer protection, transparency, and accountability.

In this article, we endeavor to analyze the significant changes specifically concerning NBFCs. We will delve into the rationale behind these changes and outline actionable steps for NBFCs to navigate the implications of this amendment.

## To whom is the amendment applicable?

The amendments are applicable to all card issuing Banks and card issuing NBFCs.

## From when is the amendment applicable?

The amended provisions are applicable from the date of notification of the Master Directions, that is, from 07 March 2024.

## Major changes as per the amended Master Direction

For the purposes of this article, the major changes have been divided into 2 parts namely:

- a. Changes applicable on NBFC, where the NBFC is the card issuer
- b. Changes applicable on NBFCs, where the NBFC is a co branding partner.

## Changes applicable on NBFC, where the NBFC is the card issuer

### 1. Monitoring of end use of funds in case of business credit cards:

#### a. Change pursuant to the amendment

The earlier iteration of the Master Direction did not necessitate the monitoring of the end use of business credit cards. However, following an amendment, there is now a requirement to track the end use of funds along with the implementation of suitable mechanisms for monitoring such end use.

**b. Rationale for change:**

The Master Direction defines business credit cards as cards issued to business entities or individuals specifically for business-related expenses, with clearly outlined terms and conditions, excluding personal use. This can take various forms such as charge cards, corporate credit cards, or such cards which are linked to credit facilities like overdrafts or cash credits designated for business purposes.

It is crucial to underscore that the essence of business credit cards lies in their exclusive utilization for business expenditures, precluding any personal use. To ensure strict adherence to this mandate and to guarantee that these cards are utilized solely for business purposes, robust measures for monitoring the end use of funds have been integrated into the Master Direction.

For instance, business credit cards may be issued in the form of corporate credit cards; these are typically assigned to individuals within the organization. Despite being issued to individuals, these cards are explicitly intended for business expenses only. To enforce this stipulation effectively, amendments have been made to facilitate monitoring of the end use of funds, prioritizing compliance and accountability.

**c. Actionables by NBFC:**

- i. Put in place a suitable mechanism to monitor end use of funds

**2. Removal of timelines for notice to customer prior to notifying CIC**

**a. Change pursuant to the amendment:**

Earlier before reporting of credit card default to CICs, the credit card issuer had to provide a 7 days notice to the credit card holder. The requirement of providing notice to the cardholder still remains, however, the timeline of 7 days has been removed via the amendment.

**b. Rationale for change:**

Previously, a 7-day notice period was extended to cardholders. The intention of such notice might have been to offer the customers to make any pending payments before being reported to the Credit Information Companies (CIC) as defaulters. This also allowed customers the chance to dispute such reporting if necessary.

However, with the recent amendment by the Reserve Bank of India (RBI), NBFCs now have the flexibility to customize the notice period provided to cardholders. Accordingly, the NBFCs may opt for a reporting period less than 7 days (however, should not be less than

3 days from past due<sup>1</sup>) for defaults. Previously, the requirement mandated a 7-day notice period, allowing a window for customers to rectify their overdue status or contest it before being reported. With the removal of this stipulation, the exact intention of the RBI regarding the notice period remains ambiguous, leaving the decision in the hands of NBFCs.

It is essential to note that while NBFCs now have the autonomy to determine the notice period, it is imperative to maintain a reasonable timeline that provides customers with adequate opportunity to address any outstanding payments or raise disputes before reporting their default or 'past due' status. In this context, we believe that a 7-day notice period should be considered the minimum standard, ensuring fair treatment and transparency for all stakeholders involved.

**c. Actionables by NBFCs:**

- i. NBFC to ensure that sufficient period of notice is provided to the customer prior reporting to CIC;
- ii. In case of any modifications to the existing time period, NBFCs to ensure that the modified notice period is made a part of its policy/procedure;
- iii. Currently, the NBFCs are following 7 days notice for the cardholder, however, this period can be increased or decreased.

### **3. Issue of form factor by NBFC for credit cards**

**a. Change pursuant to the amendment:**

Previously, the issuance of form factors, was exclusively within the purview of banks. However, the amendment has expanded this responsibility to include NBFCs. It's important to highlight that this extension of form factor issuance applies solely to credit cards, as NBFCs are restricted from issuing debit cards under the Master Directions.

**b. Rationale for change:**

- i. Promote market competition and improve consumer choice.
- ii. Ensure regulatory frameworks adapt to changing market dynamics.

**c. Actionable by NBFCs:**

NBFCs can now provide form factors for credit cards

### **4. Customers to be provided with an option to deny renewal of credit card**

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<sup>1</sup> Para 9(v) of Master Direction

a. **Change pursuant to the amendment:**

Previously there was no requirement of customer consent/intimation prior to renewal of a card. However pursuant to the amendment it has been mandated that the customer has to be provided with an option to deny the renewal of the card, prior to its dispatch.

b. **Rationale for change:**

Requiring customer consent (by providing an option to deny) prior to the renewal of a card empowers consumers and upholds their rights. It ensures that consumers are aware of the renewal process and have the opportunity to make an informed decision about whether they want to continue with the service or not. This is particularly important in financial transactions where consumers may be subject to recurring charges or fees.

c. **Actionables by NBFCs:**

- i. Prior to dispatch, NBFCs should provide an option to the customer, to decline the issue of a new credit card;
- ii. NBFCs should ensure that the period between the time from which the customer can have the option to deny, till the time of dispatch of the card, needs to be reasonable so that the customer has sufficient time to make an informed decision.

## 5. Outsourcing related amendment

a. **Change pursuant to the amendment:**

- i. NBFCs are required to take into consideration [Master Direction on Outsourcing of Information Technology Services](#) (IT Outsourcing Master Direction) along with master direction on outsourcing of financial services in case of outsourcing of financial as well as IT activity to any third party.
- ii. The amendment also states that the sharing of card data (including transaction data) with the outsourcer should be only on a need to know basis to discharge its functions with the prior consent of the customer. The amendment also states that the ownership along with the storage should always be with the card issuer.

b. **Rationale for change:**

The main amendment has been towards the incorporation of IT Outsourcing Master Direction within this circular (NBFCs might already be following this since the IT Outsourcing Master Direction was notified on 10th April 2023).

IT Outsourcing Master Direction does not consist of explicit clauses stating with whom the ownership and storage of the card related data should lie. Since the card data are

mainly sensitive personal data as defined under Section 3 of the [SPDI rules](#), explicit consent prior to sharing of such data is a very important prerequisite.

Also since these are highly sensitive information relating to the customer, the RBI along with compliance with the IT Outsourcing Master Direction, has mandated that the storage and ownership of the card data shall always lay with the card issuer.

**c. Actionables by NBFCs:**

- i. Ensure that the card data is not stored by the outsourcing partner, and read only access can be provided to the outsourcing agent to ensure that no data is being stored by the outsourcing partner;
- ii. Ensure that explicit consent from the card holder has been obtained before sharing of any card data;
- iii. Ensure that ownership of the card data always lies with the issuer

## **6. List of payment methods to be provided on website and billing statement**

**a. Change pursuant to the amendment:**

This is a newly added provision in the Master Direction which requires the NBFC to add the list of payment modes in their website as well as specify the same in each billing statement.

**b. Rationale for addition:**

- i. Enhance consumer convenience and accessibility.
- ii. Ease in monitoring of the end use

**c. Actionables by NBFCs:**

- i. Publish payment modes in websites and billing statements by the card-issuer
- ii. Advise cardholders to exercise due caution and refrain from making payments through modes other than those authorized by them.

## **7. SOP towards blocking/deactivation/suspension of credit card along with intimation to the customer**

**a. Change pursuant to the amendment:**

- i. Earlier there was no requirement to this effect. The addition via amendment of the Master Direction requires that a board-approved SOP is in place for blocking/deactivation/suspension of credit cards in the scenarios where discretion towards the same is retained by the NBFC.

- ii. The cardholders are required to be informed along with reasons for blocking/deactivating/suspending through electronic means and other available modes.
- b. **Rationale for addition:**
  - i. **Consumer Protection:** Implementing a standardized procedure ensures that cardholders are treated fairly and transparently in cases where their credit cards need to be blocked, deactivated, or suspended. Providing reasons for such actions helps to prevent arbitrary decisions and ensures that cardholders are aware of the circumstances leading to these measures.
  - ii. **Risk Management:** By having a clearly defined SOP, NBFCs can effectively manage risks associated with credit card operations. This includes mitigating fraud risks, identifying potential instances of misuse, and protecting both the NBFCs interests and those of the cardholders.
  - iii. **Operational Efficiency:** Establishing a standardized procedure streamlines the internal processes of the NBFC, ensuring that actions such as blocking or suspending credit cards are carried out consistently and backed by established procedures and defined circumstances. This helps to minimize errors, reduce operational costs, and improve overall service quality.
- c. **Actionables by NBFC:**
  - i. Put in place a board-approved SOP for blocking/deactivation/suspension of credit cards
  - ii. Provide intimation along with reasons for blocking/deactivating/suspension of credit cards through electronic means and other available modes.

## Changes applicable on NBFCs, where the NBFC is a co-branding partner

### 1. Display of transaction data in co-branding partner platform

- a. **Change pursuant to the amendment:**

Earlier a co-branding partner could not have access to the transactional data related to the card. The requirement remains, however, the same is amended to the extent that the transactional data can be directly drawn from the card issuer's system and displayed on the co-branding partner's portal subject to such data being encrypted. Further, the co-branding partner should not have access to such data nor store such data.
- b. **Rationale for change:**

As the fintech landscape continues to evolve, there is a growing demand among customers for streamlined access to their financial information through a unified

platform. In response to this need, fintech platforms are striving to become comprehensive hubs, offering users a one-stop destination for all their financial needs.

Previously, customers often faced the inconvenience of being redirected to the card issuer's website to access their transaction data. This process could be cumbersome, particularly for individuals unfamiliar with the layout and functionality of the card issuer's page. Recognizing the importance of improving customer experience, the RBI has acknowledged the significance of consolidating transaction data within the co-branding partner's platform subject to restriction on their access and storing by the co-branding partner.

By permitting transaction data to be seamlessly displayed on the co-branding partner's portal, the RBI has taken a significant step toward enhancing customer convenience and satisfaction. Furthermore, consolidating transaction data in one accessible location not only simplifies the user experience but also facilitates smoother resolution of customer disputes, with the co-branding partner serving as the primary point of interface.

**c. Actionables by NBFC:**

To ensure that in case of integration, the data access is encrypted, the co-branding partner should not have any access nor should store the transactional data displayed on its platform.

## **2. No requirement of prior approval from RBI for entering into co branding arrangements**

**a. Change pursuant to the amendment:**

Earlier NBFCs required prior approval from RBI for entering in co-branding transactions with banks, however, this restriction has been lifted in case of NBFCs – ICC, HFC, Factor, MFI, and IFC.

**b. Rationale for change:**

The amendment might have been brought to increase the number of NBFCs who enter into co-branding arrangements with card issuers. In any case, the due diligence of the NBFC shall be undertaken by the card issuer before entering into the co-branding transaction. The requirement of consent for entering into transactions might have caused operational impediments on the part of the NBFC.

**c. Actionable by NBFCs:**

No actionable

### 3. Repeal of paragraph 60 along with Annex XVII of SBR Master Direction

#### a. **Change pursuant to the amendment:**

Paragraph 60 and Annex XVII of the SBR Master Direction that contained guidelines on the issuance of co-branded cards have been repealed.

Under paragraph 60 and Annex VII there were certain sets of qualifying metrics and approvals that the NBFCs had to satisfy and take respectively, to become a co-branding partner, the erstwhile requirements have been listed below:

- i. Prior approval of RBI for an initial period of 2 years and review thereafter;
- ii. Minimum NOF of ₹100 crore;
- iii. Net profit as per last two years audited accounts;
- iv. The percentage of net NPAs to net advances of the NBFC as per the last audited balance sheet should not be more than 3 percent;
- v. NBFC-BL (other than NBFC-MFIs) shall maintain a Leverage Ratio of seven. NBFCs in all other layers and NBFC-MFIs shall have CRAR of 15 percent.

However since paragraph 60 along with Annex VII of the SBR Master Directions have been repealed, the requirements of the above mentioned conditions are no longer required.

Currently, for NBFCs there are no qualifying metrics or approvals that are required to be satisfied to enter in a co-branding arrangement as a co-branding partner.

#### b. **Rationale for change:**

The amendment appears prudent, given that the NBFC, acting as a co-branding partner, serves primarily as a marketer and distributor of the co-branded card. The previous directives' stringent requirements seemed ill-suited considering the NBFCs operational scope. Moreover, it's essential to recognize that criteria such as maintaining net owned funds, keeping NPAs below 3%, and maintaining leverage/CRAR ratio primarily address credit risks. However, concerns relating to credit risks are only prudent to be considered where there is a sanction of credit being made by the NBFCs. However, since the NBFCs involvement as a co-branding partner is limited to marketing and distribution without any form of funding, the requirement of maintaining the above mentioned standards does not arise. The RBI's decision to ease these requirements in such an aspect is a judicious move.

#### c. **Actionables by NBFCs:**

No actionable



## Conclusion

The amendments introduced by the RBI signals a pivotal shift in understanding the role of NBFCs in co-branding arrangements, easing the stringent norms previously imposed upon them. Moreover, the amendment represents a significant leap forward in enhancing consumer protection, driving innovation, and reinforcing regulatory compliance within the financial landscape.

This multifaceted approach aims to achieve several critical objectives:

- a. Reinforcing compliance measures, mandating NBFCs to diligently monitor fund utilization for business credit cards, thereby mitigating potential misuse.
- b. Streamlining customer experiences through the removal of the 7-day notice period for default reporting, granting enhanced flexibility and satisfaction levels.
- c. Fostering innovation through the authorization of NBFCs to issue credit card form factors, thus catalyzing technological advancement and broadening consumer choice.
- d. Safeguard consumer rights by instituting a requirement for customer consent in card renewal processes, empowering consumers and fostering transparency in financial transactions.
- e. Bolster operational efficiency through the implementation of standardized procedures for card blocking and communication, thereby enhancing risk management and operational effectiveness.

The amendment underscores the RBI's commitment to cultivate a harmonized regulatory environment, one that not only promotes financial inclusion and innovation but also prioritizes consumer welfare through robust oversight and risk management practices.