

Credit Card Guidelines No: 01/2010

To: Chief Executive Officers of Service Providers Engaged in Credit Card Industry

Credit Card Operational Guidelines

1. Introduction to the Guidelines

Over the past few years, the usage of Cards as a payment instrument for purchasing goods and services and/or cash withdrawals has increased significantly mainly due to the growing preference of the general public to use Credit Cards for their day to day transactions. The increase has been driven by customer convenience and transaction security. This is further evidenced by high increase in the volume of electronic Point Of Sales outlets (POS), and reward schemes and incentives offered by Credit Card issuers, to promote Credit Card usage.

Central Bank of Sri Lanka (CBSL) through the Payment and Settlement Systems Act No. 28 of 2005 is entrusted with a legislative mandate to implement the national payment system policy and oversee the payment and settlement systems in the country to ensure safety, efficiency, competitiveness and stability. Having considered the timely requirement of improving the electronic payment mechanisms and at the same time ensuring customer protection, the CBSL took steps to execute the Service Providers of Payment Cards Regulations No. 1 of 2009 on 31 July, 2009. Following guidelines on operations of Credit Cards are issued by the CBSL, in order to ensure safe, secure and efficient operations when Credit Cards are used as a payment instrument.

These operational guidelines for Credit Cards which are based on the above mentioned Regulations shall apply to all Service Providers engaged in Credit Card business and shall come into force with effect from **01 March, 2010**.

In these guidelines words denoting or importing the singular number shall include the plural number and vice versa and words denoting or importing the masculine gender shall include the feminine.

2. Marketing of Credit Cards

Any institution (hereinafter referred to as 'Card Issuer') enters into a contractual relationship with a Cardholder (hereinafter referred to as 'the Customer') through the issue of a Credit Card shall ensure that marketing strategies of the Credit Card operations are designed and undertaken in accordance with the following guidelines.

- 2.1. Marketing staff shall disclose their official identity at promotional campaigns before or during the meeting with prospective and/or existing Customer.
- 2.2. Benefits, incentives, rewards or reduction of any charges / fees which are offered by the Card Issuers in any promotional campaign or any event with regard to Credit Card operations shall be clearly communicated to the Customers in legible writing (electronically or document form).

- 2.3. The terms and conditions relating to the Credit Card shall be clearly communicated to the Customers and the same shall be provided in writing in the preferred language of communication, on request. The terms and conditions shall be displayed in the Card Issuers' web sites.
- 2.4. Card Issuers shall disclose their Code of Conduct/Institutional Policy on Credit Card operations to the Customers throughout the marketing process and the same shall be published in Card Issuers' official websites.
- 2.5. Marketing personnel of Card Issuers shall provide complete information on features, benefits and drawbacks to the Customers and shall not make false claims on any features / benefits which Card Issuers do not offer.
- 2.6. Misleading and unethical information/advertisements shall not be conveyed/published by Card Issuers.
- 2.7. Card Issuers shall not engage in aggressive and hard selling marketing practices during working/office hours or inconvenient hours for the Customers, except with prior appointments.
- 2.8. Regular training and awareness sessions shall be conducted by Card Issuers for their marketing staff covering all aspects of Credit Card operations including charges to be paid by the Customers, safety measures, complaint/dispute resolution mechanisms etc.

3. Issue of Credit Cards

(a) Issue of Principal Credit Cards

- 3.1. Credit Card shall be issued only to an individual who has following eligibilities -
 - a citizen or a resident of Sri Lanka who is above 18 years of age on the date of the application and has independent financial means;
 - a non-resident provided that he has a Non Resident Foreign Currency Account/Resident Foreign Currency Account/Resident Non National Foreign Currency Account or Off Shore Banking Unit Account and all dues of the Credit Card are settled in foreign currency through such accounts.
- 3.2. Card Issuers shall be solely responsible for fulfillment of all "Know Your Customer" (KYC) requirements and such documents shall be maintained under safe custody.
- 3.3. Card Issuers shall not accept funds as deposits from the Customers at any time, in any way that contravene the provisions of the Banking Act and the Finance Companies Act.
- 3.4. Credit Card shall be issued by a Card Issuer on receipt of duly filled and signed application form from a prospective Customer, supported with necessary documents. Pre-approved cards shall be activated only after receiving of Customer's signed acceptance. Unsolicited cards shall not be issued.
- 3.5. Card Issuer shall take utmost care in ascertaining credit worthiness of Customers. Credit risks shall be assessed independently, before issuing a Credit Card, taking all

reasonable steps and using reliable modes to assess the creditworthiness of the Customer. Card Issuer shall obtain information available at the Credit Information Bureau (CRIB) to ascertain the creditworthiness of the Customer.

- 3.6. Card Issuer shall not issue a Credit Card to any Customer who has already obtained a Credit Card from same/any other Card Issuer by providing the same income particulars, without obtaining the aggregate credit outstanding liabilities of the Customer.
- 3.7. Card Issuer shall determine the credit limit for the Customer considering the cumulative limits enjoyed by the Customer from other Credit Cards on the basis of Customer's self declaration and credit information obtained from the CRIB.
- 3.8. The prevailing credit limit may be increased temporarily subject to a maximum time limit of 6 months on the request of the Customer, based on the nature of the requirement. However, Card Issuer should be satisfied with the Customer's ability to settle all the liabilities incurred on such extended facility.
- 3.9. Card Issuer shall not unilaterally upgrade or/and enhance Credit Card type/limit without informing the Customer in writing.
- 3.10. At the time of issuing a Credit Card to a Customer, applicable terms and conditions relating to the Credit Card shall be clearly communicated and same shall be provided in legible font size to the Customer in the preferred language of the Customer, even though such details have already been provided during the marketing campaign.
- 3.11. Any stipulation, caveat, clause or provision in terms and condition of the agreement/contract, which may result in an unreasonable curtailment of rights of the Customers, shall not be included.
- 3.12. Card Issuer shall notify the following details in simple language to Customers, in writing (electronically or in document form) and same shall be published in the web sites maintained by Card Issuer:
 - i. Benefits / services provided to the Customers;
 - ii. Terms and conditions as well as important information that the Customers shall be aware of in using the card and the consequences and risks;
 - iii. Rights, liabilities and obligations of the Principal Customers and Supplementary Customers;
 - iv. Joining fees, annual fees, administrative and handling fees or any other fees which the Customers are required to pay;
 - v. Cash advance limit and fee as appropriate;
 - vi. Interest free (grace) period;
 - vii. Calculation method of minimum payment ;
 - viii. Calculation methods of overdue interest regarding both revolving credit (amount outstanding after paying the minimum payment) and cash advance, applicable annualized interest rates and penalties/fees which have to be borne by the Customers. The calculation method of overdue interest shall be expressed clearly using examples;
 - ix. The late payment charges and the method of calculation of such charges with examples;
 - x. Method of computation of interest when partial payments exceeding the minimum payment due is paid by the Customer, with examples;

- xi. The procedure for handling lost, stolen or destroyed Credit Cards and other complaints, and the time period required for dealing with such complaints;
- xii. Contact numbers of dedicated telephone lines for handling complaints;
- xiii. The rights and liabilities arising out of unauthorized third party use of a Credit Card ;
- xiv. The procedure to be followed in the event of a discrepancy/dispute regarding a Credit Card transaction;
- xv. Disadvantages for the Customers if they default i.e. Reporting procedures to CRIB etc.;
- xvi. Procedure for cancellation of the Credit Card.

3.13. Card Issuers shall not encourage/ induce the Customers to use Credit Cards to acquire land or any other property, payment of monthly installments of any property acquired by the Customers or any third party, and/or any capital account transaction specified in the Exchange Control Act, Regulations, Directions or Guidelines issued by the relevant authorities.

3.14. Card Issuer shall state in the terms and conditions that Credit Cards are not to be used for any unlawful activity deemed as an offence under Sri Lankan Law. If any Customer is found to have used the Credit Card for such unlawful activity, Card Issuer shall immediately terminate the card facility and inform details of such transaction to the CBSL.

(b) Issue of Supplementary Credit Cards

3.15. Card Issuers shall give clear instructions to Principal/Supplementary/Add-on Customers on their responsibilities for liabilities incurred on the cards issued. The Principal Customer shall also be informed that they are ultimately liable for all the liabilities incurred by the Supplementary/Add on Customer.

3.16. Card Issuer shall not issue a supplementary, add-on or subsidiary card to any individual who is below eighteen (18) years of age except to students who are between 16 - 18 years of age and for educational purposes. Such exceptions shall be granted only for students who are direct dependents of the Principal Customer.

4. Interest Rates and Other Charges

4.1. Card Issuer shall quote interest rates and service charges separately on an annual basis, for purchase of goods or services and cash advance.

4.2. Card Issuer shall not charge any amount that was not explicitly indicated to the Customers at the time of issue of the Credit Card without prior notice to the Customer. However, this consideration will not apply for charges such as taxes, etc., levied by the government or any other statutory authority, time to time.

4.3. Prior notice shall be given to the Customers before offering any new charged service.

4.4. Any revisions in the schedule of charges/fees, interest rates, or terms and conditions and revision of any incentives, shall be communicated to all active Customers in

legible writing/electronic means, at least ten (10) days before the effective date of the revision, if it was not communicated at the time of issue.

5. Billing Process

- 5.1. Card Issuer shall dispatch a billing statement on Credit Card transactions to each active Customer in writing or through electronic means at the end of each billing cycle (period). The billing statements shall fully disclose the following details:
- i. Transaction date, merchant name, type of currency and amount billed;
 - ii. Date from which interest accrues;
 - iii. The calculation method regarding charges to be borne by the Customer;
 - iv. Amount of minimum payment to be made by the Customer;
 - v. Due date of minimum payment;
 - vi. Annualized percentage rate of interest for purchase of goods/ services and cash advances. (The said charges shall be included separately);
 - vii. Amount of penalty and interest charges for late payments;
 - viii. Acceptable modes of payment (i.e. through cash, direct debit, cheques, account transfer facility);
 - ix. Expected number of days a particular mode of payment may take for clearing and handling charges if any;
 - x. In the case of foreign currency transactions foreign currency amount and billed amount in LKR.

Format of the billing statement shall be published in the Card Issuers' web site in all three languages.

- 5.2. Card Issuers are required to dispatch the billing statement at the end of each billing period to all active Customers at least fourteen (14) days before the payment due date.
- 5.3. If the Customer lodges a complaint regarding non-receipt of current billing statement of account, a copy of the statement shall be dispatched to the Customer free of charge, within ten (10) calendar days from the date of complaint.
- 5.4. Card Issuer shall make comprehensive and convenient arrangements in line with the business plan and requirements of the Customers for the collection of bill payments through designated branches, collection centers, cheque collecting boxes or other electronic channels provided by the Card Issuer.
- 5.5. Card Issuer shall inform the Customers about the status of the unrealized cheques within seven (7) working days from the date of receipt of unpaid cheques. Customer shall not be penalized for cheques submitted within the time prescribed by the Card Issuer but cleared after due date.
- 5.6. Card Issuer shall ensure that "due date" for payment does not fall on Saturday, Sunday or any other public/bank holiday(s) published/ gazetted by the CBSL/Government at the beginning of each year. However, if a Card Issuer is unable to adhere to this condition, the date payable has to be clearly mentioned in the statement, when the due date falls on a holiday.

6. Collection /Recovery Mechanism

- 6.1. Card Issuer shall ensure that collection of any dues against Credit Card transactions by Card Issuer are conducted prudently. Card Issuer shall not engage in any activity which is against the public interest in handling collections and shall exercise its rights using the principles of honesty and good faith.
- 6.2. Card Issuer shall ensure that recovery letters are issued to the last known address of the Customer and such letters should bear the designation, contact number(s) and office address of the concerned official.
- 6.3. Card Issuer shall ensure that the recovery process shall not resort to any verbal or physical harassment or threats to the Customers, their family members, referees or friends.
- 6.4. Card Issuer shall respond to the queries arising out of the recovery letters within a reasonable time period. The time period must be specifically defined in their Code of Conduct and shall be communicated properly to the Customers.
- 6.5. Procedure followed by the Card Issuer when recovering default payments shall be properly communicated to Customers, at the time of issuance of Credit Card. Card Issuers shall not divulge information regarding Credit Card defaults to third parties.

7. Confidentiality and Protection of Customer Rights

- 7.1. Card Issuer shall maintain the confidentiality of Customer information and shall be responsible for all such information used by marketing personnel, debt recovery agents or any other third party in the business process.
- 7.2. Card Issuer shall not reveal any information/contact details relating to Customers, obtained at the time of opening/issuing the Credit Card to any other person or organization without obtaining prior consent of the Customer. Card Issuer should satisfy themselves, based on specific legal advice, that the information being sought from third parties will not violate the provisions of the laws relating to secrecy in the transactions.
- 7.3. Unsolicited loans or other credit facilities shall not be offered to the Customers based on the Credit Card.

8. Dispute Resolution

- 8.1. Card Issuer shall have an appropriate dispute resolution mechanism and service procedures in place, commensurate with the volume of complaints and shall resolve the same within a minimum period.
- 8.2. Credit Card dispute resolution mechanism shall be disclosed on the official website of the Card Issuer. Card Issuer may also arrange online complaint registration procedure. Card Issuers shall develop a mechanism for tracing a complaint and same shall be communicated to the Customer.

- 8.3. Card Issuer shall resolve the disputed transactions of the Customer promptly and as per the franchise rules of VISA, MasterCard, AMEX or any other international card company/association, taking into account the nature of the transaction, distances, time zones, etc.
- 8.4. Card Issuer shall clearly communicate to the Customers, whether they would be allowed to use the Credit Card during the investigation period in the event of a dispute.
- 8.5. Card Issuer shall reverse interest and other charges on disputed transactions if the dispute is settled in favour of the Customer and accumulated interest shall be recovered only when the dispute is settled in favour of the Card Issuer.
- 8.6. Card Issuer shall provide related evidence regarding disputed transactions to the Customer without any charges, if complaint is settled in favor of the Customer.

9. Outsourcing of marketing/recovery functions and other operations

- 9.1 Card issuer may outsource marketing, recovery, and other operations such as card embossing, processing of applications and courier service to third party service providers.
- 9.2 Card Issuer shall clearly define the responsibilities and liabilities of the outsourced service providers.
- 9.3 Card issuer shall ensure the maintenance of confidentiality and secrecy of the customer information by outsourced service providers.
- 9.4 Card issuer shall ensure that the outsourced service providers adhere to the guidelines given in Section 2 and 6 above with regard to marketing and collection/recovery mechanisms respectively.
- 9.5. Card Issuer shall ensure that employees of outsourced service providers are properly educated and trained on their responsibilities such as soliciting customers, convenient hours for calling, conveying the correct terms and conditions applicable to Credit Card operations.
- 9.6 Card issuer shall have an exit mechanism for outsourced activities, if it is observed that an outsourced service provider is unable to continue the service.

10. Rights to impose non-compliance charges

Under the provisions of the Payment Card Service Providers Regulations No. 1 of 2009, CBSL reserves the right to impose non-compliance charges on Card Issuers on any violation of these guidelines.

11. Legal Provisions

- 11.1. Card Issuer shall have sound legal basis for Credit Card operations together with appropriate rules and procedures.

- 11.2. Appropriate processes shall be in place to ensure that rules and procedures as well as the contractual relationships with relevant parties (e.g. financial acquirers and card issuers, merchants and cardholders) shall be valid and enforceable. Where applicable, this shall be consisted of clear rules and procedures to regulate authorization and clearing and settlement of both domestic and cross-border transactions.

12. Business Continuity, Internal Control and Compliance

- 12.1 Card Issuer shall have sound and prudent management, administrative, accounting and control procedures to minimize financial and non-financial risks to which the Card Issuer may be exposed.
- 12.2 Card Issuer shall conduct risk analysis and feasibility study on new products/services. In addition, when there is a change of relevant circumstances, Card Issuer shall perform a review on the risk profile of existing products/services to assess risks relating to security and continuity of the product/service.
- 12.3 Card Issuer shall ensure to have an adequate number of properly trained and competent personnel to operate systems at an appropriate level.
- 12.4 Card Issuer shall provide Customers and relevant merchants with information the Card Issuer reasonably considers relevant to fraud awareness in the context of Credit Card operations and proper use or processing of cards to reduce the risk of fraud.
- 12.5 Card Issuer shall have comprehensive, rigorous and well-documented operational and technical procedures to address reasonable operational reliability, integrity of network and timeliness of transactions in case of malfunctions, system interruption and transmission failures or delays. Card Issuer shall also have in place a reasonable, effective, well-documented and regularly-tested business contingency plan to be used in the event of unforeseen interruption.
- 12.6 Card Issuer shall have a thorough due diligence and oversight process for managing outsourced relationships, if the Card Issuer considers that it may affect the operation of the Credit Card system.
- 12.7 Card Issuer shall design technical systems for Credit Card processing with sufficient capacity to continue ongoing operations, which shall be monitored periodically and upgraded when the Card Issuer considers reasonably necessary.
- 12.8 Card Issuer shall have sufficient clearing and settlement arrangements to enable efficient, reliable and secured operation of the Credit Card system.
- 12.9 Card Issuer shall review the security objectives, policies and operational services periodically.
- 12.10 Card Issuer shall ensure to perform an annual self-assessment of the Card Issuers compliance with the Regulations, Guidelines and Code of Conduct. Internal auditors, internal compliance officer or appointed independent assessor shall perform this self-assessment as part of their on-going functions.
- 12.11 Card Issuer shall have clearly defined and documented organizational arrangements, such as ownership and management structure and shall operate as the Card Issuer

deems fit, with appropriate segregation of duties and internal control arrangements so as to reduce the likelihood of mismanagement and frauds.

12.12 Card Issuer shall have reasonably effective measures and controls to ensure compliance with these guidelines and their Code of Conduct.

13. General Conditions

13.1 The clearing of International Credit Cards issued and used in Sri Lanka shall be made in Sri Lankan rupees. The clearing of International Credit Cards issued in Sri Lanka and used in foreign countries or issued in foreign countries and used in Sri Lanka shall be made in the relevant foreign currency authorized by the respective principles.

Signed by: Mr. P D J Fernando
Deputy Governor

Appendix

Most Important Terms (MITs)

- a. “Cardholder” means any person authorized to use a Credit Card issued by a Card Issuer;
- b. “Card Issuer” means an institution which issues a Credit Card and thereby enters into a contractual relationship with a Cardholder;
- c. “Central Bank of Sri Lanka (CBSL)” means the Central Bank of Sri Lanka established under the Monetary Law Act. , No. 58 of 1949 (Chapter 422);
- d. “Credit Card” means a payment card which indicates a line of credit granted by the Issuer to the Cardholder and where the Cardholder may settle the credit utilized in full or in part, before a specified date. Any amount of the credit utilized by the Card holder and not settled in full on or before the specified date, may be subject to interest, profit or other charges;
- e. “Day” means a calendar day;
- f. “Direct Dependent” is a child of a Principal Cardholder or a child whose guardian is the Principal Cardholder;
- g. “Licensed Commercial Bank (LCB)” means a company or a body corporate licensed under the provisions of the Banking Act, No. 30 of 1988 to carry on banking business in Sri Lanka;
- h. “Licensed Specialized Bank (LSB)” means any company or a body corporate which has been issued with license under the provisions of the Banking Act, No. 30 of 1988 to carry on the business of accepting deposit money and investing and lending such money;
- i. “Principal” is a person, who is the sole owner of brand rights of the Credit Card;
- j. “Unsolicited cards” means a Credit Card issued without obtaining signed acceptance from the Cardholder;
- k. “Unsolicited Loans” means loans granted without obtaining signed acceptance from the Customer.