



Banking Codes and  
Standards Board of India  
www.bcsbi.org.in

# CUSTOMER MATTERS

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## BCSBI News

During the quarter ended June 2016, two new banks have joined Banking Codes and Standards Board of India (BCSBI) viz. IDFC Bank Ltd. and Bandhan Bank Ltd. With these additions the membership of BCSBI stands at 136.

### Annual Conference of the Principal Code Compliance Officers

The annual Conference of Principal Code Compliance Officers (PCCOs) representing member banks of BCSBI was held on May 23, 2016 at Mumbai. Shri S S Mundra, Deputy Governor, Reserve Bank of India delivered the keynote address. Shri C Krishnan, Member, Governing Council, Shri Arun Pasricha, Chief General Manager, Consumer Education and Protection Department (CEPD), RBI and Shri Anand Aras, CEO, BCSBI also addressed and interacted with the participants. A live interaction with the press was held with Shri Mundra. The same was extensively covered and published in newspapers all over the country.

A detailed report of the Conference is available on the BCSBI website ([www.bcsbi.org.in](http://www.bcsbi.org.in)).



Shri S S Mundra, Deputy Governor, RBI being welcomed by Shri C Krishnan, Member, Governing Council, BCSBI at the Conference. They are flanked by Shri Arun Pasricha, CGM, CEPD, RBI (extreme left) and Shri Anand Aras, CEO, BCSBI (extreme right).



Shri S S Mundra, Deputy Governor interacts with the Press. Also seen next to him are Shri Arun Pasricha, CGM, RBI (seated) and Shri Anand Aras, CEO, BCSBI (standing).

## AWARENESS ACTIVITIES

BCSBI continued its ongoing efforts to increase awareness of the Codes and Standards developed by it and adopted by member banks among bank officials and customers.

BCSBI organised a Customer Meet at Guwahati on April 21, 2016. The Meet was addressed by Shri Anand Aras, CEO, BCSBI, Shri Anand Prakash, Banking Ombudsman, RBI, Guwahati and Smt. Gopika Arora, Assistant Vice President, CIBIL. About 520 customers and bank officials attended the Meet. BCSBI organised two more Customer Meets during the quarter at Madurai on May 31, 2016 and at Aurangabad on June 16, 2016. Around 400 customers and bank officials attended each of these Meets. The deliberations during the above meetings centered on increasing awareness about the BCSBI Codes, Customer Rights, Transparency and Information Dissemination by banks while dealing with customers, Banking Ombudsman Scheme, Grievance Redressal mechanism and precautions to be taken for maintaining a healthy credit score.



Shri A C Mahajan, Chairman, BCSBI addressing the gathering at the Customer Meet held at Aurangabad. Also on the dais are Shri Nawal Kishore Mishra, DGM, SBI; Shri Anand Aras, CEO, BCSBI and Shri Pratik Jhaveri, Manager, CIBIL.

BCSBI conducted workshops of officers of member banks at (i) Madurai on June 1, 2016 which was attended by 135 officers; and (ii) at Aurangabad on June 17, 2016 attended by 144 officers. At both these meetings, Shri A C Mahajan, Chairman, BCSBI highlighted the importance of dissemination of Code provisions and Charter of Rights amongst officers/ staff of banks and customers. He also touched upon the rating awarded to banks in the last Survey by BCSBI and suggested measures for improvement in rating of Code Compliance during the ensuing Survey exercise, scheduled to commence in September 2016. The importance of holding Customer Service Committee (CSC) meetings at branches by Banks with at least one Senior Citizen as member was also highlighted. Shri Anand Aras, CEO, BCSBI

expressed the need for customer education on Bank's products and tariff charges amongst other things.



Seen at the meeting with officers of banks at Madurai are (from left) Shri K Velusamy, GM, Canara Bank; Shri A C Mahajan, Chairman, BCSBI; Shri Anand Aras, CEO, BCSBI and Shri Vigneshwar K V from CIBIL.

BCSBI organised a Meeting of Controlling Heads of Banks on April 22, 2016 at Guwahati. Shri Anand Aras, CEO highlighted the need for dissemination of Code provisions and Charter of Customer Rights down the line. The inputs for educating customers for maintaining a healthy credit score was shared by CIBIL with the participants. Around 45 Controlling Heads of member banks from 35 banks operating in Guwahati attended the meeting.



Shri Anand Aras makes a point at the meeting of Controlling Heads of Banks at Guwahati. Also Seen on the dais are Shri PVSLN Murty, CGM, SBI and Smt. Gopika Arora, AVP, CIBIL.

Shri AC Mahajan, Chairman participated in a Customer's Meet at Karnal on April 24, 2016 organised by Canara Bank. In his keynote address, Shri Mahajan sensitised the customers about their rights and advised the bankers to adopt higher standards of banking practices to extend better customer service and achieve higher levels of customer satisfaction. Around 200 customers from various branches and staff attended the Meet.



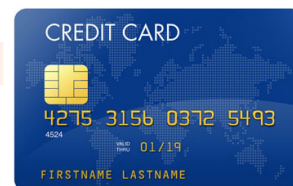
Shri AC Mahajan, Chairman (extreme right) addressing the Customer Meet organised by Canara Bank at Karnal.

During the quarter, officials of BCSBI extended faculty support to Indian Institute of Banking and Finance and handled sessions on "Customer service related compliance under BCSBI" and Banking Ombudsman Scheme. Officials from BCSBI also extended faculty support to College of Agricultural Banking (CAB), Pune and handled sessions on "Code of Bank's Commitment to Customers" and "Code of Bank's Commitment to MSEs".

## THEME OF THE QUARTER

### Credit Card Charges -

#### The Hidden Truth



Customers are often lured into acquiring a 'free' credit card. It would be prudent to note that there is no such thing as 'free' credit cards. Most of the charges associated with credit cards may not have been properly revealed upfront to the customers and so the credit card promised is anything but free.

Here are the various fees and charges applicable to credit cards that customers should know about before applying for one.

**Annual Maintenance Charge:** Most credit cards come with an annual maintenance fee. However, when a customer is being offered a 'free' credit card, it probably means that the joining fee and the annual fee have been waived for a maximum period of one year, after which the annual maintenance charge would become applicable. Customer should get clarification if this is the case or whether it is a "life time free card".

**Interest Charges:** The monthly credit card bill shows two amounts, viz. (i) the total amount due; and (ii) the minimum payable amount. Some pay the minimum payable amount thinking that they would pay the rest later. But they fail to realise that approximately 2-4 per cent monthly interest is charged on the remaining amount. Usually, the monthly interest rate is annualised to arrive at an annualised percentage rate (APR) which can be as high as 36-38 per cent.

**Service Tax:** Credit card transactions are subject to service tax.

**Late payment Charges:** These are additional charges levied when the customer defaults in payment of monthly credit card dues after the due date. This is a flat fee amount and is independent of the interest charges.

**Overdraft Charges:** These charges are levied when the customer exceeds the monthly credit limit applicable on the credit card.

**Foreign Transaction Charges:** These charges are levied for every overseas transaction made on the credit card. This is approximately 3-5 per cent of the overseas transaction and is converted to INR depending upon the exchange rate prevailing on the date of transaction.

**Charges on buying petrol, rail ticket:** Using the credit card to buy petrol or rail tickets attracts additional charges. This charge is a flat percentage of the amount spent.

**Outstation Cheque Charges:** Using outstation cheques to settle credit card dues attracts additional charges. This would be a fixed percentage levied based on the slab in which the bill amount falls.



**Cheque bouncing or dishonour of ECS Charges:** Additional charges are levied in case the cheque issued in payment of the credit card bill bounces or is dishonoured.

**Lost Card Charges:** In case of loss of credit card, a new card is issued on payment of penal charges.

**ATM withdrawal Charges:** Withdrawing money from ATMs using a credit card is chargeable. The transaction charges on cash withdrawal are as high as 2.5 per cent of the cash advance. Over and above this, interest on the cash right from the date of withdrawal becomes due and this interest cost may range from 24-46 per cent per annum. Hence, using a debit card would be a better option.

### Reserve Bank of India (RBI) Regulations

As the regulatory authority, RBI has stepped in to protect the customer by putting in place a framework of rules and guidelines for credit card operations of banks. Accordingly, banks are required to follow instructions laid down by the Regulator in this regard.

Concerning interest rates and other charges banks are advised to be guided by the instructions on interest rate on advances issued by RBI and as amended from time to time. Banks are required to prescribe a ceiling rate of interest, including processing and other charges, in respect of credit cards. The fact that higher interest rates are being charged to the cardholder on account of his payment/default history should be made known to the cardholder. For this purpose, the banks should publicise through their website and other means, the interest rates charged to various categories of customers. Banks should upfront indicate to the credit card holder, the methodology of calculation of finance charges with illustrative examples.

Banks should quote Annualized Percentage Rates (APR) on card products (separately for retail purchase and for cash advance, if different). The method of calculation of APR should be given with a couple of examples for better comprehension. The APR charged and the annual fee should be shown with equal prominence. The late payment charges, including the method of calculation of such charges and the number of days, should be prominently indicated. The manner in which the outstanding unpaid amount will be included for calculation of interest should also be specifically shown with prominence in all monthly statements. Even where the minimum amount indicated to keep the card valid has been paid, it should be indicated in bold letters that the interest will be charged on the amount due after the due date of payment. *A legend/notice to the effect that “Making only the minimum payment every month would result in the repayment stretching over years with consequent interest payment on your outstanding balance” should be prominently displayed in all the monthly statements so as to caution the customers about the pitfalls in paying only the minimum amount due.*

Further, banks are required to adhere to the following guidelines relating to interest rates and other charges on credit cards:

- Banks should step up their efforts on educating the cardholders of the implications of paying only ‘the minimum amount due’. The “Most Important Terms and Conditions” should specifically explain that the ‘free credit period’ is lost if any balance of the previous month’s bill is outstanding.
- The banks should not levy any charge that was not explicitly indicated to the credit card holder at the time of issue of

the card and without getting his/her consent. However, this would not be applicable to charges like service taxes, etc. which may subsequently be levied by the Government or any other statutory authority.

- The terms and conditions for payment of credit card dues, including the minimum payment due, should be stipulated so as to ensure that there is no negative amortization.
- Changes in charges (other than interest) may be made only with prospective effect giving notice of at least one month. If a credit card holder desires to surrender his credit card on account of any change in credit card charges to his disadvantage, he may be permitted to do so without the bank levying any extra charge for such closure. Any request for closure of a credit card has to be honoured immediately by the credit card issuer, subject to full settlement of dues by the cardholder.
- There should be transparency (without any hidden charges) in issuing credit cards free of charge during the first year, if so offered.

More details on this subject can be accessed at [www.rbi.org.in](http://www.rbi.org.in)

### Code of Bank’s Commitment

As per the Code formulated by BCSBI and adopted by member banks, the banks are committed to explain to their customers the relevant terms and conditions such as fees, interest and other charges, billing and payment, method of computation of overdues, financial implications of paying only ‘the minimum amount due’, renewal and termination procedures, and any other information that the cardholder may require to operate the card.

### Conclusion

It will be clearly seen from the above that the concept of a ‘free’ credit card is but a myth and the customer would do well to go through the “Most Important Terms and Conditions” (MITC) before applying for a credit card. Knowing about the various fees and charges associated with the credit card can equip the cardholder to manage his credit score prudently as well as keep his financial health in order.

### EXEMPLARY CASES RELATED TO CUSTOMERS

The Metropolitan Region Development Authority (MMRDA) had invested surplus funds of Rs. 350 crore in a fixed deposit with Bank ‘A’ at 9.99 per cent interest for 366 days. The amount was remitted through RTGS. The bank divided this amount and issued 45 deposit receipts.

Later MMRDA received a letter from the Economic Offences Wing of the city police that Rs. 45 crore had been siphoned off through a fraud. Subsequently, it was learnt that the deposit receipts were not genuine as they bore forged signatures of the bank officials. The original deposit receipts were alleged to be discharged and submitted by MMRDA to the bank for obtaining a loan through a fictitious overdraft account, which showed dues of more than Rs. 45 crore. The bank wanted to recover this amount and even refused to pay the maturity value of the fixed deposits as the receipts were forged. Aggrieved on this account, MMRDA filed a complaint before the National Consumer Disputes Redressal Commission.

Likewise in another case, Maharashtra Tourism Development Corporation (MTDC) had invested about Rs. 125 crore with Bank 'A'. The investment was divided over 20 deposit receipts. Later, MTDC received a letter from the police that Rs. 69 crore had been siphoned off. The method in both the cases was identical. MTDC filed a separate complaint before the National Consumer Disputes Redressal Commission.

The bank in its defence alleged that the officials of MMRDA and MTDC had collected the genuine fixed deposit receipts and used these to open fake overdraft accounts to siphon off money.

The National Commission rejected the bank's defence on the following grounds:

- i. It was revealed from the records that CBI had registered a case on the basis of a complaint from Bank 'A' about a loss of about Rs. 245 crore.
- ii. A charge-sheet was filed against several persons for criminal conspiracy.
- iii. The bank's branch manager had fraudulently issued forged receipts with the connivance of another person who posed as a bank officer.
- iv. Bogus overdraft accounts were opened without adherence to Know Your Customer (KYC) procedures and by forging the signatures and stamps of the MMRDA and MTDC officials.
- v. A loan was advanced by pledging the genuine fixed deposit receipts illegally retained by the bank manager.
- vi. The approval of the overdraft facility was not communicated to MMRDA or MTDC.
- vii. The cheque book for the fraudulent overdraft account was handed over to a stranger, so that funds could be siphoned off.

The Commission concluded that the above were acts of negligence and further observed that since the bank had received the funds through direct transfer, it had a duty to deliver the original deposit receipts to MMRDA and MTDC against proper acknowledgement from the authorised person. Instead, the bank had handed over the deposit receipts to a rank outsider, causing the fraud to take place.

The Commission relied on Supreme Court judgements that the bank is vicariously liable for the wrongdoings of its employees which resulted in money loss to customers. Accordingly, by its judgement the National Commission directed Bank 'A' to pay MMRDA and MTDC the principal amount of the fixed deposit along with the agreed rate of interest.

*(Inputs from: Business Standard)*

Would you like to share any information/ experience connected with customer service on Code related matters? If so, please feel free to write to us at C-7, RBI Building, Bandra-Kurla Complex, Mumbai – 400 051 or mail us at [ceo.bcsbi@rbi.org.in](mailto:ceo.bcsbi@rbi.org.in)

## DID YOU KNOW?

### Publicity in the bank branches cautioning public against placing deposits in dubious schemes

There have been several incidents in recent years, of unscrupulous entities duping the general public by floating various dubious schemes for mobilisation of funds by way of deposits/ investments etc. Many a time such schemes are projected as investments in reality, farms, and other miscellaneous products. However, invariably such schemes lure gullible public by offering returns which are much higher than that offered by banks on deposits.

It has also been noticed that customers receive telephone calls advising them of their winning lotteries/ prizes, etc. and to deposit cash in an unknown account as service charges, so that the winnings would be remitted to them. The customers believing such fraudulent messages remit the required amount apart from divulging details of their accounts to the fraudsters.

The absence of financial literacy and lack of alertness to fraudulent schemes/ calls are the main reasons behind the innocent depositors falling prey to such schemes. These episodes, apart from impacting the public at large, have repercussions on the banking sector, as the money that is misappropriated by these unscrupulous entities should have come into the banking system thus augmenting banks' deposit base.

In view of the above, banks have been advised in their own interest and as customer education effort in the interest of the public, to consider designing suitable posters or pamphlets or flyers or notices containing following messages:

- Never respond to unsolicited offers of money received through emails/ phone/ other media
- No one really gives you money for free
- Be careful while investing in seemingly attractive schemes offering high returns
- Don't invest in unregulated companies/ entities
- Don't rely on hearsay – Check for yourself
- High return means higher risk including potential loss of entire money – Check your risk-appetite!
- Take care of your money – it is hard to earn but easy to lose
- When in doubt check with a trusted financial adviser

*For any clarification, visit [www.rbi.org.in](http://www.rbi.org.in) or [www.sebi.gov.in](http://www.sebi.gov.in) or [www.irda.gov.in](http://www.irda.gov.in)*

Further, banks have been advised to display or distribute such messages wherever feasible (in the official language of the state) in the bank branches to enable easy notice by the customers. Banks have also been asked to consider places like Automated Teller Machines or Business Correspondent Points where such messages could get wider visibility.