

RBI asks banks to make credit card interest payment easier for users

You might get more time to repay your credit card dues without having to pay any interest or pesky fees. The Reserve Bank of India (RBI) has asked banks to make credit card charges “reasonable” and directed them not to levy interest on card dues till the next bill date even if payment is not made before the due date, bankers familiar with the development told Business Standard.

This is the first time the regulator has addressed the issue of credit card charges and this follows RBI’s recent instructions on waiver of pre-payment charges on floating-rate consumer loans and removal of penalty for non-maintenance of minimum balance in savings deposit accounts.

“So far, cardholders had to pay interest on credit card dues at expiry of the due date. This (new order) will offer them a few more interest-free days. We are revising our practice accordingly,” the chief executive of a large credit card issuer said, asking not to be named.

For instance, suppose a customer has to repay his card dues on the fifth of every month, while his bill is generated on the 10 of the month. So far, if the customer did not repay his dues by the fifth day of the month, he had to pay interest. With the new instruction, the customer can pay his dues on the 10th day without an additional charge.

Bankers, however, clarified that if the customer failed to clear his dues even after the next billing date, he would have to pay interest from the date of purchase. “The idea is to make it more convenient for customers by granting a few additional days. But if they continue to delay their repayment, they will need to pay interest,” said another banker familiar with the development.

STREAMLINING CREDIT

Top players in India

Bank	No. of cards* (mn)
HDFC Bank	5.12
ICICI Bank	3.09
SBI	2.76
Citibank	2.40
Axis Bank	1.31

* As of November 2013

Source: Reserve Bank of India

For now, most banks and credit card companies appear reluctant to reduce credit card charges. Credit cards carry one of the highest interest rates — between 35 and 47 per cent a year. For select customers, certain banks charge credit card interest at a little lower rate of 24 per cent.

“One should bear in mind that credit card is one of the riskiest forms of lending where delinquency rates are relatively high. Also, it is not an amortising product in the sense that the principal amount does not decline over time. There are risks of fraud for which banks are often held liable. It is an extremely capital-intensive product and a lot of investment is needed in technology

and other areas. So, the pricing is higher than other products,” said a banker in charge of retail lending at a private bank. He ruled out any plan to cut credit card charges in the near term.

(Business Standard)