**Title**

Credit Card-i – Guidelines

**Effective Date**

1-Apr-2011

**Applicability**

All issuers and acquirers of credit card-i

**Summary**

Part 1 of the Guidelines outlines specific requirements and minimum standards to be observed by credit card-i issuers and acquirers while Part 2 of the Guidelines outlines the risk management principles and requirements for credit card-i issuers and acquirers and also specific requirements for non-financial institution issuers.

- Clause 6.1 - Minimum income requirement : **Immediate**
- Clause 8.2 - Payment allocation requirement : **1 October 2011**
- Clause 9.2, 9.3 and 9.4 - Over-the-limit transactions : **1 October 2011**
- Clause 29.7 - Implementation of "Chip and PIN" technology : **1 January 2015**
- Clause 29.9 - Implementation of strong authentication method for on-line transactions : **1 April 2012**
- Clause 29.10 to 29.17 - Implementation of transaction alerts : **1 January 2012**
- Appendix 2, 3 and 4 : **1 October 2011**

**Issuing Department**

Consumer and Market Conduct Department
Payment Systems Policy Department
Islamic Banking and Takaful Department

Guideline Info

# OVERVIEW

## 1. INTRODUCTION

1.1 The usage of credit card for making payments is well entrenched in Malaysia. Over the past decade, credit card transactions had grown significantly with an average increase of 17.2% per annum in terms of value.

1.2 Recognising the importance of credit card as a payment instrument, the Credit Card-i Guidelines (Guidelines) have been revised to promote the usage of credit card-i as a payment instrument, enhance the security feature of the credit card-i infrastructure and protect consumers' interest.

## 2. LEGAL PROVISIONS

2.1 The Guidelines are issued pursuant to:

a. Sections 5, 25 and 70 of the Payment Systems Act 2003 (PSA).
b. Section 126 of the Banking and Financial Institutions Act 1989 (BAFIA);
c. Section 53A of the Islamic Banking Act 1983 (IBA);
d. Section 126 of the Development Financial Institutions Act 2002 (DFIA); and

## 3. SCOPE

3.1 Part 1 of the Guidelines outlines specific requirements and minimum standards to be observed by credit card-i issuers and acquirers while Part 2 of the Guidelines outlines the risk management principles and requirements for credit card-i issuers and acquirers and also specific requirements for non-financial institution issuers.

3.2 The Guidelines will supersede the following:

a. Credit Card-i Guidelines which were made effective in January 2004.
b. Guideline on Minimum Requirement on Risk and Fraud Management of Credit Card Operations which was made effective on 9 July 2002.
c. Circular on Credit Card-i Tiered Pricing which was made effective on 8 August 2007.

d. Circular on Marketing of Credit Card which was made effective on 25 May 2008.

## 4. APPLICABILITY

4.1 The Guidelines are applicable to all credit card-i issuers and acquirers.

## 5. DEFINITION

5.1 For the purpose of the Guidelines, the following terms are defined as follows:

5.1.1 *Credit card-i* refers to a payment instrument which indicates a line of credit or financing granted based on Shariah principles by the issuer to the cardholder and where any amount of the financing utilised by the cardholder has not been settled in full on or before a specified date, the unsettled amount may be subjected to a lesser rebate (ibra') by the issuer.

5.1.2 *Issuer* refers to:

c. A financial institution which issues credit card-i; or

d. A person who has obtained approval from Bank Negara Malaysia under section 25(1) of the Payment Systems Act 2003 to issue credit card-i .

5.1.3 *Acquirer* refers to any person that enters into a contractual relationship with the merchant for the purpose of accepting credit card-i for payment.

5.1.4 *Financial institution* refers to any person licensed under the BAFIA and IBA or prescribed under the DFIA.

5.1.5 *Financial group* refers to entities within the group of companies of the issuer (within Malaysia) which are involved in the promotion, sale, delivery and distribution of financial products and services.

**PART 1**

## A. ELIGIBILITY AND MINIMUM MONTHLY PAYMENT REQUIREMENTS

### 6. MINIMUM AGE AND INCOME REQUIREMENTS

6.1 To be a principal cardholder, a person should be at least 21 years old and earns at least a minimum income of RM24,000 per annum.

6.2 For applicants/principal cardholders who earn RM36,000 per annum or less, the following restrictions are applicable:

6.2.1 Cardholders can only hold credit cards from a maximum of two issuers[1]. Existing cardholders who do not meet this requirement will be given until 31 December 2011 to select their preferred two issuers and cancel credit cards from the remaining issuers.

a. Effective 1 January 2012, cardholders shall ensure that they hold credit cards from a maximum of two issuers and their eligibility shall be reviewed by their issuers on the anniversary date of the credit card. Issuers shall not extend the credit card facility to the cardholder if the cardholder has fulfilled its quota of holding credit cards from two issuers.

b. If the credit cards cancelled for the purpose of meeting this requirement still have outstanding balances, the cardholder should be given at least two years to settle the outstanding amount. Cardholders should be given the opportunity to settle the amount under the same repayment and charges plan the cardholder was under prior to the card being cancelled or to restructure the credit card debt with reasonable terms. There shall not be any additional fee that is different from the original fee plan imposed on the cardholder.

6.2.2 The maximum credit limit extended to a cardholder shall be two times his monthly income per issuer. This is applicable to **both existing and new cardholders.** As such, if the credit limit extended to an existing cardholder exceeds twice the cardholder's monthly income, the issuer shall reduce the

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[1] Refers to both conventional credit card and credit card-i issuers.

credit limit accordingly. However, if the cardholder's existing outstanding balance exceeds the maximum credit limit of two times cardholder's monthly income, the cardholder shall be given a two year grace period from the effective date of the Guidelines to settle the amount in excess of the maximum credit limit. During the two year grace period, the issuer shall observe the following:

a. The cardholders shall be given the opportunity to reschedule their credit card-i debts;
b. There shall not be any additional fee or increase in profit/ujrah that has not been incorporated in the original fee plan; and
c. Cardholders shall not be charged any over-the-limit compensation charge.

6.3 For retirees, the income requirement under paragraph 6.1 and restriction under paragraph 6.2 will not be applicable as issuers are required to assess their credit worthiness based on the criteria specified by the issuers.

## 7. DEPOSIT IN INVESTMENT ACCOUNT-i

7.1 An issuer may issue credit card-i to a person who is unable to prove his annual income, but meets the minimum age requirement, by requiring the applicant to deposit in the Investment Account-i an amount equivalent to the credit limit granted to such person.

7.2 The deposit in the Investment Account-i shall be placed with the financial institution that issues the credit card-i. Where the issuer is not a financial institution, the deposit in the Investment Account-i shall be placed with the financial institution that is providing the financing to the cardholder.

7.3 The deposit in the Investment Account-i shall be maintained for as long as the credit card-i facility is available.

## 8. MINIMUM MONTHLY PAYMENT

8.1 Issuers shall require their cardholders to make a minimum monthly payment of at least 5% of the total amount outstanding.

8.2 Issuers are required to allocate the payments received from cardholder to settle the balances (i.e. items appearing in the statement) attracting the highest profit/ujrah rate first.

8.3 Issuers shall provide cardholders with a grace period of at least 4 days after the payment due date to cater for payment due dates falling on weekends or public holidays

## B. FEES AND CHARGES

## 9. GUIDING PRINCIPLE ON FEES AND CHARGES

9.1 In determining the type and quantum of fees and charges on credit card-i, issuers are required to ensure compliance with the Guidelines on Imposition of Fees and Charges on Financial Products and Services.

9.2 For over-the-limit transactions, issuers are required to obtain **all new** cardholders' expressed consent at the point of application with clear disclosure of relevant charges. For existing cardholders, consent can be obtained via the monthly statement sent to the cardholders with clear disclosure of relevant charges.

9.3 The following transactions are exempted from having to obtain the cardholders' consent:

a. stand-in processing transaction;

b. profit / ujrah or fees imposed by the issuer; and

c. auto-debit transaction.

However, issuers are not allowed to impose over-the-limit compensation charge in the event the cardholder's account exceeds the credit limit as a result of items (a) and (b).

9.4 Issuers should not impose over-the-limit compensation charge if the excess over the limit is due to holds by merchants.

## 10. TIERED PRICING STRUCTURE

10.1 Issuers are required to implement a tiered pricing structure for credit card-i. Under this structure, profit/ujrah rate levied will be tiered according to the different risk categories.

***Risk categories***

10.2 Under the tiered pricing structure, cardholders are to be categorised into different tiers as follows:

10.2.1 Tier-I: Cardholders who promptly settle their minimum payment due for 12 consecutive months;

10.2.2 Tier-II: Cardholders who promptly settle their minimum payment amount due for 10 months or more in a 12-month cycle; and

10.2.3 Tier-III: Cardholders who do not fall within the above categories.

The above represents the most stringent conditions for the categorisation of Tier-I and Tier-II risk groups. Issuers, in their risk assessment of cardholders, may impose less stringent requirements, for example, less than 12 consecutive months or less than 10 months for Tier-I and Tier-II risk groups respectively.

***Profit/Ujrah Rate***

10.3 Profit/ujrah rate payable (for retail transactions) that may be imposed on the different risk categories are as follows:

10.3.1 Tier-I: Maximum of 1.25% per month, which is equivalent to 15% per annum, of the total outstanding balance;

10.3.2 Tier-II: Maximum of 1.42% per month, which is equivalent to 17% per annum, of the total outstanding balance; and

10.3.3 Tier-III: Maximum of 1.5% per month, which is equivalent to 18% per annum, of the total outstanding balance.

10.4 For cash withdrawal transactions in *bai' inah* and *tawarruq* based credit card-i, the profit rate may be imposed up to a maximum of 1.5% per month, which is equivalent to 18% per annum. For cash withdrawal transactions in *ujrah* based credit card-i, the charge should reflect the actual cost incurred in providing the facility subject to a maximum of 1.5% per month, which is equivalent to 18% per annum.

10.5 If a cardholder does not have any carried forward balance in their credit card-i account, issuers are not allowed to charge profit/ujrah for at least 20 days from the posting date of all retail transactions (as opposed to cash withdrawal transactions) paid with the credit card-i. Issuers may extend this benefit to all its cardholders regardless of the account standing.

***Late payment charge***

10.6 Issuers may impose a late payment charge of up to a maximum of 1% of the outstanding balance or RM10, whichever is higher, subject to a maximum of RM100. However, in imposing the above, credit card-i issuers are expected to place the excess charge in a gharamah account (previously known as Excess Compensation Account) if the charge imposed is more than the actual cost borne.

10.7 Issuers are also expected to consider the difficulties faced by the cardholders and to give extension for payment or reduce the charge for late payment.

10.8 The charge for late payment and monthly profit charges shall not be compounded.

10.9 Issuers should also comply with the requirement on the late payment charge which will be issued and made applicable to credit card-i from time to time by Bank Negara Malaysia.

## C. DISCLOSURE AND TRANSPARENCY REQUIREMENTS

This section should be read together with the general policy requirements stipulated in the Guidelines on Product Transparency and Disclosure.

Disclosure is effective when product information is given to the cardholders at a time that is most relevant to enable the cardholders to make informed decisions at each of the three stages of the contractual process.

Issuers are required to provide a product disclosure sheet (as per the format provided in Appendix 5 of the Guidelines) containing key information for cardholders to make informed decisions. The product disclosure sheet should be provided before the cardholder signs up for the credit card-i, and at the point of entering into a contract, if there are material changes in the information. Issuers should also ensure that the product disclosure sheet is made available in Bahasa Malaysia, upon request.

## 11. PRE-CONTRACTUAL STAGE

a. Basic features

- Issuers should inform cardholders of the basic features of the credit card-i., including the underlying Shariah contract governing the credit-card-i.

b. Profit/ujrah rates, fees and other charges

- Cardholders should be informed that profit/ujrah rates apply if any credit card-i outstanding amount is not fully paid by the due date.
- Issuers should also disclose **all** applicable fees and charges in relation to the credit card-i, the amount and frequency of payment, for example, annual fee on principal and supplementary cardholders and transaction fees for cash advances. The information must be provided in the product disclosure sheet.

c. Placement of collateral

- Issuers should inform cardholders, who can meet the minimum eligibility requirements but are unable to provide documented evidence of income, of any requirement for collateral and / or any other associated terms.

d. Promotional items

- Cardholders should be made aware of the conditions tied to any promotional item and the implications of not complying with such conditions, if any.

e. Disclosure by intermediary

- Sales and marketing representatives of issuers contacting consumers must clearly identify the issuer they represent.
- The sales and marketing representative must describe the key terms and conditions of the credit card-i product being offered, in particular those imposing liabilities or obligations on cardholders.

## 12. AT THE POINT OF ENTERING INTO A CONTRACT

a. Terms and conditions

- Issuers are required to make readily available to cardholders the written terms and conditions of the credit card-i. The document should contain a concise but clear description of the major terms and conditions which impose liabilities or obligations on the part of the cardholders (principal and supplementary). Such terms should be described in plain language, which is easily understood by cardholders.
- Issuers should advise cardholders to read and understand the terms and conditions before signing the agreement. Issuers should take reasonable steps to draw cardholders' attention to the terms that have implications on liability.
- Issuers shall ensure that customer service staff are able to answer queries on the credit card-i terms and conditions. The hotlines for the customer service shall be published in the brochures, monthly billing statements, web pages and at the back of the credit card-i.

b. Terms of payment

- Issuers should inform cardholders of the minimum monthly payment requirement and highlight to cardholders the consequences of partial payment or only minimum monthly payment.

c. Late payment charge

- Cardholders should be informed of the issuers' right to impose a late payment charge if cardholders fail to pay at least the minimum monthly payment by the due date.
- Issuers should disclose when the late payment charge will be imposed, the minimum and maximum late payment charge that may be imposed as well as its computation.

d. Right to set-off

- It should be made clearly transparent to cardholders if the card issuer has the right to set-off any credit balance in cardholders' deposit accounts against any debit balance in the credit card-i accounts.

e. Liability of principal and supplementary cardholders

- Issuers should ensure that principal cardholders are made aware of their liability for the debts of all supplementary cardholders.

f. Cash advance

- If a cash advance facility is available to cardholders, issuers should disclose the daily withdrawal limit and the relevant charge, including the amount of minimum charge.

g. Usage of credit card-i outside Malaysia

- Cardholders should be informed of the relevant charges for retail transactions made outside Malaysia.
- Cardholders should also be informed of the transaction fees and currency conversion fees applicable on the use of credit card-i for making cash withdrawals overseas.

h. Cardholder responsibility

Issuers should highlight to cardholders at the point of entering into a contract, of their responsibilities to:

- abide by the terms and conditions for the use of card;
- safeguard the card and Personal Identification Number (PIN). Cardholders should be advised not to disclose the PIN or credit card details to anyone;
- report lost card / PIN without undue delay;
- use the card responsibly, including not using the card for unlawful activity; and
- check the monthly statement and report any discrepancy without undue delay.

i. Liability for unauthorised transactions

- Cardholders should be warned, through clear and prominent notices of any liability for losses arising from cardholders' failure to notify the issuers immediately after finding that the credit card-i is lost or stolen, or when the cardholders have been found to have acted fraudulently.
- Issuers are expected to inform cardholders of the circumstances leading to liability for losses resulting from an unauthorised transaction. Cardholders should also be informed of the maximum liability for any unauthorised transaction(s).
- Cardholders must be clearly informed of the circumstances in which their liability for loss may exceed the maximum liability for unauthorised transactions to avoid unnecessary disputes.

j. Change of contact details

- Cardholders should be informed of the importance of notifying the issuers of any change in contact details.

## 13. DURING THE TERM OF THE CONTRACT

a. Statement

- Issuers should provide a monthly statement to cardholders indicating the outstanding balance, the minimum payment, the amount credited and charged, including profit/ujrah charges and other charges, and the dates when those amounts were posted to the account.
- Issuers are required to provide a minimum payment warning statement (in a box and 12-point red font) on the front page of the monthly statement (refer to the sample in Appendix 1). Issuers should advise cardholders to use the calculator available on the issuer's or *bankinginfo* websites to compute the length of time it would take to fully settle the balance outstanding based on different repayment amounts. On the back page of the monthly statement, issuers should provide a standard illustrative example as per the format in Appendix 2.
- The back page of the monthly statement should also at the minimum, disclose the information in a standard table as set out in Appendix 3. This information

should be clearly visible (i.e. should not be in light shade and less than 8-point font size).

- On the front page of the last statement of the year, issuers must inform cardholders of the length of time it would take to fully settle the cardholder's actual existing balance outstanding and the total profit/ujrah payable assuming there are no further transactions on the card (refer to the sample in Appendix 4).
- In addition to the above, the last statement of the year should provide information on the total credit utilised, total profit/ujrah charges, and total charges imposed to encourage prudent use of the credit card-i.
- For cardholders that opt to receive e-statements, issuers must ensure that the information on the e-statement is the same as the hardcopy statement.
- Issuers should also raise cardholders' awareness on the measures to prevent credit card-i fraud. The information may be communicated via the monthly statement.

b. Closure of account

- Issuers should allow cardholders to close their credit card-i accounts at any time without being subjected to any fees and charges or a cumbersome account closure procedure.

- In the event that there is a credit balance in the credit card-i account, issuers must refund such balance to the cardholder within **30** days from the date of receipt of a closure request.

c. Change to the terms and conditions

- Should there be any change in the terms and conditions, issuers should provide at least 21 calendar days notice to cardholders before the new terms and conditions take effect. Communication could be done either through monthly statements or other means deemed effective. The change notice must be prominently displayed.
- Any change in fees and charges applicable to the credit card-i account should be communicated to the cardholder at least 21 calendar days prior to the effective date of change.

d. Intention to set-off

- If the issuer has the right to set-off any credit balance in cardholders' deposit accounts against any outstanding balance in the credit card-i accounts, the cardholders should be informed at least 7 calendar days in advance on the issuers' intention to set-off a credit balance in the cardholders' deposit accounts against a debit balance in the credit card-i accounts.
- Issuers may concurrently earmark the available funds in the cardholders' deposit accounts against the outstanding balance in the credit card-i accounts upon the issuance of the notice to the cardholders.

e. Delinquent account

- It should be transparent to cardholders that the issuers reserve the right to terminate the cardholders' credit card-i in the event of consecutive defaults in the minimum monthly payment.
- Issuers should ensure that cardholders are given sufficient reminders to update the credit card-i accounts and warnings of possible recovery actions if reminders to update the accounts are ignored.
- Cardholders should be informed at least 7 calendar days in advance if the collection of debt for the account is to be outsourced to a third party debt collection agency. This notification time frame also applies to cardholders whose credit card-i accounts have been classified as non-performing financing (NPF) and are sold to a third party. In this regard, issuers should notify the affected cardholders of the sale of the credit card-i accounts within 7 calendar days of obtaining a vesting order from the Court.
- Issuers should inform cardholders of the impact on the cardholders' rights and obligations after the accounts have been transferred to a third party debt collection agency or sold to a third party.
- Under specific circumstances where cardholders are not contactable, issuers are considered to have fulfilled the obligations if such notice has been sent to the last known address of the cardholders within the above stipulated timeframe for notification.
- Issuers should provide cardholders with the name and contact details of the appointed third party debt collection agency or the third party to whom the NPF has been sold.

- Issuers should also inform cardholders of the services of Agensi Kaunseling Dan Pengurusan Kredit by inserting the note below in all reminders sent to cardholders (disclosure to be made in not less than 8-point font):

  English version

  "Agensi Kaunseling Dan Pengurusan Kredit has been established by Bank Negara Malaysia to provide free services on money management, credit counselling, financial education and debt restructuring for individuals. For enquiry, please call 1-800-88-2575".

  Bahasa Malaysia version

  "Agensi Kaunseling Dan Pengurusan Kredit telah ditubuhkan oleh Bank Negara Malaysia untuk menyediakan perkhidmatan pengurusan kewangan, kaunseling kredit, pendidikan kewangan dan penstrukturan semula pinjaman secara percuma kepada individu. Untuk pertanyaan, sila hubungi talian 1-800-88-2575".

## D. LIABILITY

### 14. SUPPLEMENTARY CARDHOLDER'S LIABILITY

14.1 Issuers shall not hold the supplementary cardholder, jointly or severally liable for the debts of the principal cardholder or the other supplementary cardholders.

### 15. LIABILITY FOR UNAUTHORISED TRANSACTIONS

15.1 Issuers shall provide effective and convenient means by which a cardholder can notify any lost, stolen or unauthorised use of his credit card-i and shall provide procedures for acknowledging receipt and verification of the notification for the lost, stolen or unauthorised use of credit card-i.

15.2 The cardholder's maximum liability for unauthorised transactions as a consequence of a lost or stolen credit card-i shall be confined to a limit specified by issuers, which shall not exceed RM250, provided the cardholder has not acted fraudulently or has not failed to inform the issuers as soon as reasonably practicable after having found that his card is lost or stolen.

15.3 Where the amount imposed on the cardholder for unauthorised transactions due to lost or stolen credit card-i is in excess of the maximum liability limit, the issuer has to prove that the cardholder has acted fraudulently or failed to inform the issuer as soon as reasonably practicable after having found that his credit card-i is lost or stolen.

15.4 Cardholders should not be held liable for any unauthorised transactions charged to the credit card-i after the cardholder has notified issuers verbally or in writing, that his credit card-i is lost or stolen. Issuers should have clear processes in place to register any notification of lost/stolen cards and take immediate action upon notification by the cardholder, to prevent further use of the lost or stolen credit card-i.

15.5 Issuers should inform cardholders in the monthly billing statements of the cardholder's potential liability for unauthorised transactions if he has acted fraudulently or has failed to inform the issuer as soon as reasonably practicable upon discovery of the loss or theft of credit card-i.

## E. MARKETING REQUIREMENTS

### 16. ADVERTISEMENT

16.1 Issuers shall ensure that advertisements and promotional materials on credit card-i products are clear, fair and not misleading or deceptive.

16.2 Issuers should establish processes for an independent review of advertisement and promotion materials on credit card-i products, for instance by the Compliance Unit, or Legal Unit and Shariah Committee, to ensure that they are clear and not misleading.

16.3 For print media advertisement, the advertisement should clearly and conspicuously disclose material information about any credit card-i offer that is likely to affect cardholders' decisions. Legible font size should be used to bring cardholders' attention to any important information, such as profit/ujrah rates, relevant fees and charges and eligibility criteria to enjoy the benefits being offered.

16.4 Promotion materials should provide adequate information on the key terms and conditions of the credit card-i product. The materials should also contain information on the effective annual profit/ujrah rate together with the annual fee and any other applicable charges to facilitate comparisons by cardholders. The information must be presented in plain language and in legible font size.

16.5 When advertising promotional rates, for instance on balance transfer from another credit card-i, issuers must clearly disclose the key conditions on the applicability of those rates such as the circumstances that could shorten the promotional rate period or cause the promotional rate to increase. Other costs involved in the balance transfer must also be disclosed prominently to cardholders.

16.6 Issuers should state prominently any critical terms and conditions associated with offers of free gifts, prizes, discounts or vouchers for the promotion of credit card-i in print advertisements, or in the marketing material for new cardholders, or together with the regular monthly statements for existing cardholders.

16.7 In advertising special features or promotions in print media, the applicable eligibility criteria to enjoy the privileges should be disclosed up-front with the announcement. The "applicable eligibility criteria" are those that are imperative to the advertised feature/promotion in addition to the basic terms and conditions of holding the cards. Issuers should not merely indicate in a footnote that "terms and conditions apply".

16.8 Advertisements or other promotion materials should not describe any credit card-i feature as "free" or "no cost" if other forms of charges will be imposed on cardholders.

## 17. MARKETING PRACTICES

17.1 Issuers should ensure that sales and marketing representatives (including telemarketing) are adequately trained and knowledgeable in the key features, benefits and risks of the credit card-i products, including the underlying Shariah contract.

17.2 Issuers should apply due care and diligence when preparing information for use by sales and marketing representatives so that the information is sufficient, accurate, appropriate and comprehensive in substance and form. This is to ensure that cardholders are informed adequately of the terms, benefits, material limitations of the credit card-i product or services being offered.

17.3 Sales and marketing representatives must identify themselves as well as the issuer they represent and act in a professional manner when approaching consumers to market credit card-i products. In particular, sales and marketing representatives should not adopt aggressive tactics to pressure or mislead consumers into signing up for a credit card-i and should avoid harassing consumers who are not interested. Sales and marketing representatives must not mislead consumers on any product and services offered or make any false commitment on behalf of issuers for any facilities or services. Consumers must also be given adequate time to consider and to complete application forms without undue pressure.

17.4 Sales and marketing representatives should be required to highlight the following, at the minimum, to consumers to ensure that the consumers are provided with the relevant information before making decision:

a. Profit/ujrah rates that will be imposed on the credit card-i outstanding balance if the amount is not fully paid by the due date;
b. Fees and charges, such as annual fee, charges for failure to pay at least the minimum monthly payment by the due date, transaction fee for cash advances and over-the-limit compensation charge when transactions exceed the given credit limit;
c. Eligibility criteria to enjoy the privileges that are being promoted, such as rebates, free gifts, fee waivers; and
d. Cardholders' responsibilities.

17.5 Issuers should establish procedures and take reasonable steps to ensure that cardholders' expressed preference (e.g. not to be contacted on new product offers) are duly respected.

17.6 Telemarketing representatives must not contact cardholders at unreasonable hours. Generally. Most people dislike being contacted between the period before 9am and after 9pm.

17.7 In remunerating or rewarding sales and marketing representatives, issuers should ensure that the reward system would not encourage or lead to inappropriate behaviour such as unethical sales and marketing practices that expose issuers to reputational risk. Issuers should avoid poorly designed reward systems that induce behaviours which focus on maximising sales without due regard to the interests of consumers who may be offered credit card-i products that are not suited to their needs or circumstances.

17.8 Reward systems for sales and marketing representatives should reflect the responsibility to treat customers fairly. Issuers should use a mix of quantitative and qualitative factors (e.g. customer service and complaints) to assess the performance of sales and marketing representatives.

17.9 Issuers should put in place adequate verification procedures to confirm the identity of credit card-i applicants to prevent the use of stolen information (e.g. identity theft) for credit card-i applications. This should include contacting the applicants at random to confirm credit card-i applications and to verify that applicants are aware of all the applicable and relevant conditions. This process also serves as a means to evaluate the performance and representations made by sales and marketing representatives.

17.10 Cardholders should be given the opportunity to revoke credit card-i applications even after receiving the credit cards without any charge or unreasonable inconvenience, if it is established that sales and marketing agents had coerced the cardholders into applying and/or the cardholders were not given enough time to consider the applications.

## 18. UNSOLICITED CARD / CREDIT LIMIT INCREASE / CREDIT ADVANCE

18.1 Before sending any existing customers/cardholders an unsolicited credit card-i, or other offerings, issuers should conduct proper credit assessments and be reasonably satisfied based on robust affordability assessments, that the credit card-i facility will not expose the customer/cardholder to excessive financial burdens.

18.2 If an issuer sends a credit card-i to an existing customer or an additional credit card-i to an existing cardholder, the issuer should not activate the card until the customer/cardholder has communicated his acceptance of the card to the issuer either orally or in writing. Prior to this confirmation, the cardholder will not be liable for any form of charges, fees, payments and purchases with regard to the card. The customer/cardholder should not be required to go through a cancellation procedure if he does not wish to accept and activate the card.

18.3 Issuers should not offer a credit advance in the form of cheque payable to cardholders unless the cardholders have expressly requested for it. All relevant charges for the credit advance should be clearly disclosed to the cardholders.

18.4 For any unsolicited offer to increase credit limits, the issuers should obtain cardholders' written or oral acceptance of the offer before activating the credit limit increase. Issuers should also include information on how cardholders may reduce their credit limits.

18.5 Issuers should not increase the credit limit if the cardholders have a history of poor credit performance or have difficulty meeting payments or habitually make minimum monthly payments that indicate difficulty in meeting payments.

# F. OTHER REQUIREMENTS

## 19. DEBT COLLECTION

19.1 Issuers are required to comply with the debt collection requirements as specified in the circular issued by Bank Negara Malaysia on "Fair Debt Collection Practices".

## 20. CUSTOMER INFORMATION

20.1 Issuers are not allowed to reveal or share any cardholders' information with third parties outside the financial group without obtaining the consent of the cardholders, unless legally permitted or approved by Bank Negara Malaysia.

20.2 Issuers wishing to share customer information with other companies within the financial group must inform cardholders to whom the information may be disclosed to and the purpose for such disclosure. Issuers shall not share the information of any cardholder who has objected to such disclosure for purposes of cross-selling.

20.3 Issuers wishing to share customer information (excluding information relating to the affairs or account of a customer) with third parties under strategic alliances for marketing and promotional purposes, must obtain the express consent of the cardholder through an "opt-in" provision for disclosure of information to the parties specified by the issuers.

20.4 Where personal information is given to the issuers' agents or representatives, issuers should ensure that such information is strictly for the purpose of performing their function. Issuers should ensure that such information is treated with strict confidentiality and adequately safeguarded by the agents or representatives. In doing so, issuers should require the agents or representatives to sign a confidentiality agreement or undertaking, to comply with the secrecy provisions under the relevant legislation.

20.5 Issuers remain accountable to cardholders for any complaints arising out of the mishandling or abuse of customer information by the agents or representatives and must take reasonable steps to remedy any inconvenience or losses suffered by the cardholders as a result of such mishandling or abuse. Firm actions should also be taken against errant agents, including terminating the contract with the agency in the event that there has been a breach of confidentiality.

20.6 Issuers should ensure that all unsuccessful application forms are not mishandled and confidentiality of cardholders' information is adequately safeguarded.

## 21. COMPLAINTS MANAGEMENT

21.1 Issuers are required to comply with the complaints management requirements as specified in the "Guidelines on Complaints Handling" issued by Bank Negara Malaysia.

21.2 Issuers must establish monitoring mechanisms to ensure that their staff and representatives act in accordance with the requirements of these guidelines.

21.3 Issuers remain accountable to cardholders for any complaints against its employees and representatives, including external agents, and should not disclaim responsibility for any agents' or representatives' misconduct.

21.4 Issuers should establish a tracking mechanism to ensure that all complaints are properly investigated and appropriate remedial actions are taken for any misconduct or unethical practices. All complaints must be handled fairly, efficiently and in a timely manner.

21.5 In the event of a dispute over any transaction amount, the issuers should not require the cardholder to pay the disputed amount or impose any charge on such amount during the investigation period.

21.6 Issuers should provide cardholders with information on how complaints, including complaints against agents may be made and the contact details of the issuers' complaints unit. In addition, contact details of BNM LINK and BNMTELELINK should be provided in the monthly credit card-i statement.

21.7 In the event that there are genuine complaints made against an issuer and such complaints are left unrectified, Bank Negara Malaysia will take necessary actions against the issuer, including banning the issuers from issuing new credit card-i products.

## 22. USAGE OF CREDIT CARD FOR UNLAWFUL ACTIVITIES

22.1 Issuers shall include in the terms and conditions a clause specifying that the credit card-i cannot be used for any unlawful activities. Issuers shall immediately terminate the credit card-i facility if the cardholder is found to have used the credit card-i for an unlawful activity (breach of terms and conditions).

**PART 2**

## G. RISK MANAGEMENT AND SPECIFIC REQUIREMENTS FOR NON-FINANCIAL INSTITUTION ISSUERS

The rapid pace of technological innovations has changed the scope, complexity and magnitude of risks that issuers and acquirers face in carrying out the credit card-i business. Issuers and acquirers are expected to have adequate processes and controls in place to manage and respond to such risks, including credit, operational and liquidity risk associated with credit card-i business.

## 23. EFFECTIVE MANAGEMENT OVERSIGHT

23.1 The Board of Directors and senior management of issuers and acquirers shall establish effective management oversight over the risks associated with their credit card-i operations, which include, among others, the following:

23.1.1 Establishment of a comprehensive risk management process and internal controls for managing and monitoring risks associated with their credit card-i operations.

23.1.2 Establishment of processes for the review, approval and implementation of appropriate policies and procedures governing the credit card-i operations to ensure the risks in their credit card-i operations are adequately mitigated.

23.1.3 Oversight of the development and continued maintenance of the security infrastructure that safeguards their credit card-i systems and data from internal and external threats.

23.1.4 Audit by an independent party should be required and undertaken with reasonable frequency to ascertain and detect weaknesses in the entire card process in a timely manner.

23.1.5 Establishment of a comprehensive and ongoing due diligence and oversight process to manage outsourced arrangements and other third-party dependencies supporting the credit card-i operations.

23.2 The Board of Directors and senior management of issuers and acquirers shall also ensure that a strong management information system (MIS) is in place to support decision making, analysis and risk management.

## 24. COMPREHENSIVE SECURITY POLICIES, PROCEDURES AND CONTROLS

Issuers and acquirers shall implement and enforce relevant policies and procedures to ensure confidentiality, integrity and availability of data as well as to ensure the system and network infrastructure are safe and secure.

24.1 Robust security controls such as firewall, intrusion detection and prevention systems , etc. shall be put in place to secure the system and network infrastructure while penetration tests shall be performed regularly.

24.2 Procedural and administrative controls on critical processes shall be put in place. Critical processes include, but are not limited to, the following:

24.2.1 PIN generation and printing

PIN generation and printing processes are tasks that should be performed in a highly secure environment. In this regard, the following shall, at the minimum, be observed:

a. Usage of hardware-based PIN generation and verification.

b. Generated PINs shall be protected from being accessed or viewed by unauthorised persons.

c. The process of generating the PIN has to be strictly controlled. PIN generation and printing area should be strictly restricted to authorised personnel only.

d. Regeneration of same PIN for same card / account shall be prohibited.

e. At least one independent party (which may be personnel independent of the process) shall be present to observe and check that the processes are in accordance to accepted procedures.

24.2.2 Personalisation[2] process

a. Personalisation process shall be performed in a secure environment. Access to personalisation machine, reader and data shall be strictly restricted.

b. Data used for personalisation shall be classified as confidential information and issuers shall ensure confidentiality and safety of the data that has been sent, stored and processed. These data shall be deleted upon completion of the process.

c. Sensitive keys used to perform personalisation shall be kept in a secure manner. Adequate policy and procedures to govern the management of such keys shall be put in place.

d. Periodic card inventory reconciliation and audit shall be performed on blank cards.

e. Card personalisation centre shall ensure that the following controls are in place:

i. Adequate physical and logical security controls.

ii. Segregation of duties and dual control.

iii. Network security control.

As card personalisation process is normally outsourced, controls shall be in place to ensure that data sent for personalisation to outsourced parties are secured. The issuers must monitor the outsourced vendor to ensure that the above requirements are met.

24.3 Effective segregation of functions on handling of credit card-i and PIN shall be observed at all stages of processing, particularly the following:

24.3.1 Card processing (e.g. embossing and encoding processes) and PIN generation functions.

[2] A process of injecting/encoding customer data into the blank card's chip/magstripe; and embossing the cards with customer's details e.g. name, expiry date, etc.

24.3.2 Physical management of card and PIN including mailing (if applicable).

24.4 Effective dual control over critical functions shall be implemented. Critical functions include the following:

24.4.1 Setting and maintaining all system parameters.

24.4.2 PIN generation processes and handling of secret keys or codes and other unique security features.

24.4.3 Handling and safekeeping of blank cards.

24.4.4 Handling of returned and undelivered credit card-i.

24.5 Necessary measures shall be taken to ensure the confidentiality of credit card-i data and information.

24.5.1 Confidential data and sensitive information shall be protected from unauthorised viewing or modification during transmission and storage.

24.5.2 Sensitive information shall be encrypted end to end during transmission over the network.

24.5.3 Minimal account information shall be printed on sales draft to minimise the risk of misuse of information to conduct fraudulent “card-not-present” transactions.

24.5.4 Storage of sensitive authentication data, e.g. magnetic stripe data, PIN and validation code (e.g. three digit numbers on credit card-i used to verify card-not-present transactions) should not be allowed as this information may be used by fraudsters to generate fake credit card-i and create fraudulent transactions.

24.5.5 Confidential data and sensitive information shall only be accessible and managed by authorised parties.

24.6 Proper identification and authentication method (e.g. passwords and PINs) shall be adopted to avoid unauthorised usage of credit card-i as well as unauthorised access to system, network and data. For more robust security, the following shall be adopted at the minimum:

24.6.1 PIN shall be at least six digits in length. Password shall be alphanumeric and at least six characters in length. Where possible, the use of strong PIN/password shall be adopted.

24.6.2 Maximum PIN/password tries shall be limited to three on an accumulated basis.

24.6.3 PIN shall not be stored permanently in any format or media. Passwords should be securely maintained.

24.6.4 If the PIN/password is computer-generated and is not chosen by the cardholder, mandatory PIN/password change shall be adopted before the first transaction is permitted.

24.6.5 Cardholders shall be allowed to change the PIN/password at any time.

24.7 Disposal of credit card-i related materials/assets, such as damaged or returned cards, reports, embossing machines, etc., shall be performed in a controlled environment.

## 25. ROBUST OPERATIONAL RELIABILITY AND BUSINESS CONTINUITY

A high level of system availability is required to maintain public confidence. Issuers and acquirers should ensure that they have the resources and capacity in terms of hardware, software and other operating capabilities to deliver consistently reliable and secure services.

25.1 Measures to ensure operational reliability include, but are not limited to, the following:

25.1.1 Strong internal controls for system and personnel administration.

25.1.2 Comprehensive and well-documented operational and technical procedures to ensure operational reliability.

25.1.3 System should have sufficient capacity to support business requirements.

25.1.4 System has a robust business continuity and disaster recovery plan, including a highly reliable backup system.

## 26. OUTSOURCING RISK MANAGEMENT

Outsourcing does not reduce the fundamental risk associated with credit card-i operations. Neither does it absolve the issuers and acquirers from their responsibilities of having to manage the risks of their credit card-i operations. As such, issuers and acquirers that outsource any part of their credit card-i operations shall observe the minimum requirements set out below.

26.1 Prior to entering into any outsourcing arrangement, the following should, at the minimum, be considered:

26.1.1 Availability of sufficient expertise within the issuer/acquirer to oversee and manage the outsourcing relationship.

26.1.2 Scope and critical nature of services/operations to be outsourced.

26.2 Issuers and acquirers should also perform appropriate due diligence review of the integrity, competency and financial viability of the outsourcing service provider before the arrangements are formalised.

26.3 The outsourcing agreement should be comprehensive and include the following:

26.3.1 Clearly defined roles, responsibilities and obligations of the service provider.

26.3.2 Clear provisions for Bank Negara Malaysia to enter the premises of the service provider to conduct examination and investigation with regard to the services outsourced, should the need arise.

26.3.3 Conditions under which the outsourcing arrangement may be terminated.

26.4 Although the operational activities of credit card-i are outsourced, reporting and monitoring mechanisms should be put in place by issuers and acquirers to ensure that the integrity and quality of work conducted by the outsourced service provider is maintained.

26.5 Regular due diligence should be conducted on the outsourcing service provider and periodically reviewed to ensure the suitability and performance of the service providers.

26.6 Periodic independent internal and/or external audits should be conducted on the outsourced operations with at least the same scope as if the operations had been conducted in-house.

## 27. CREDIT RISK MANAGEMENT

Credit risk poses a significant risk to the credit card-i business. An issuer has an exposure to a cardholder when the issuer reimburses an acquirer for a transaction on behalf of the cardholder or when the cardholder obtains cash advances from his credit card-i account. Therefore it is important that the issuers put in place necessary measures to manage credit risk.

27.1 Issuers shall plan and formulate appropriate business strategies including marketing strategies that are consistent with the issuers' credit risk appetite for the credit card-i product. The strategy should consider and identify the following:

27.1.1 Target market and acquisition channels, including the nature and level of risk to be assumed.

27.1.2 Adequacy of risk management, infrastructure and operational support to implement the business strategy.

27.2 Robust policies and procedures should be put in place. These policies and procedures should be reviewed regularly and, at the minimum, should include the following:

27.2.1 Assessment of credit card-i applications as well as determination of appropriate credit limit. Issuers shall utilise the Central Credit Reference Information System (CCRIS) and other sources of credit information for the purpose of verifying the applicant's credit worthiness in the credit assessment process.

a. Payment capacity should be considered in assessing the application, assigning initial credit limit or increasing existing credit limit.

b. Issuers should avoid granting additional cards or higher credit limit to cardholders who are already experiencing payment difficulties on their existing cards.

27.2.2 Underwriting standards for products and customer segments covering eligibility criteria, maximum credit limit, minimum documentation requirement, exposure to certain customer segments (e.g. maximum exposure to certain income group where the inherent risk is higher) and others.

27.2.3 Parameters for approval and monitoring exceptional cases (e.g. applications which are approved with deviations from established criteria).

27.2.4 Processes for the verification of documents and credit checking.

27.2.5 Account management covering renewal, assigning temporary increase in credit limit, issuance of supplementary cards, etc.

27.2.6 Management of delinquent accounts covering the classification of problem accounts, provisioning and write-off, controls on rescheduled accounts and collection actions.

27.3 Issuers should have in place a robust credit risk measurement tool or system which supports underwriting, continuous monitoring and the recovery process.

27.3.1 Issuers may use credit risk measurement tools such as scorecards or segmentation method or a combination of both methods to measure credit risk. Issuers may develop application, behavioural, collection scorecards or segment or pool their exposures by product type and delinquency rate.

27.3.2 The development of such tools should take into consideration relevant information on customer risk characteristics (e.g. customer demographics) and transaction characteristics (e.g. type of card) as well as account performance based on a sufficient length of historical data.

27.3.3 Issuers should periodically assess the performance of tools developed to ensure they remain appropriate. Policies on remedial actions to be taken such as re-development of a tool should be in place, where the performance of these tools becomes unacceptable.

27.4 Issuers need to develop and implement comprehensive policies and procedures supported by robust systems infrastructure to monitor their credit card-i portfolios, both on an individual and portfolio basis.

***Individual credit analysis***

27.4.1 Issuers should continuously monitor the account performance and credit behaviour of cardholders.

27.4.2 Systems should be able to monitor individual credits on an aggregate basis taking into account holding of multiple credit card-i as well as exposures to the same customer across other portfolios.

27.4.3 Monitoring procedures need to define criteria for identifying, managing and reporting problem credits and credits where there are indications of deterioration in credit quality, to ensure that they are subject to more frequent monitoring as well as possible recovery or remedial actions.

***Portfolio analysis***

27.4.4 Issuers should have a process to review the asset quality of their credit card-i exposures on a portfolio basis. The review should be performed independently, i.e. separated from the business functions. Issuers should conduct more granular analysis of their credit card-i portfolios by segmenting the portfolio (e.g. by types of cards, marketing programme, co-branding arrangement, credit behaviour, vintage etc). At the minimum, the review should cover the following:

a. Credit limit utilisation.
b. Delinquency analysis.
c. Provisioning and write-off levels.

27.4.5 Issuers should also take into account the impact of stressed conditions on the credit card-i portfolio. The stress testing framework should commensurate with the nature and profile of the credit card-i issuers' business activities. At the minimum, credit card-i issuers should adhere to the following requirements to ensure the stress testing is meaningful:

a. All material risks and spill over effects of stress events on the credit card-i portfolio should be taken into account.
b. The magnitude of the shocks should be large enough to stress the credit card-i portfolio and should be larger than a regular/cyclical variation.
c. Stress tests conducted should include at least a scenario that is based on an exceptional but plausible event.
d. Stress tests should consider latest economic developments and outlook.
e. The stress event should exist for a prolonged period of time.
f. The time horizon used to capture or reflect the impact of the stress test should cover a period relevant to the portfolio.

g. Issuers need to consider and appropriately factor in the interlinkages between credit and other risks inherent in credit card-i business.

27.4.6 Issuers should have in place clear policies on triggers for remedial actions and types of actions to be taken upon the deterioration of the credit card-i portfolios. For example, an indication of deterioration in a portfolio segment emanating from a particular marketing strategy should result in a timely review of that strategy.

27.4.7 Results of the portfolio review should be periodically reported to senior management and the Board.

27.5 Issuers should have comprehensive policies and procedures to effectively manage delinquent accounts which should, at the minimum, cover classification of delinquent accounts, provisioning and write off requirements, workout solutions (including cardholders' eligibility for the workout solutions) and management of collections.

27.6 Issuers should be guided by relevant accounting standards and regulatory requirements when classifying their problem credits as well as when determining the level of provisions and write-offs.

## 28. LIQUIDITY RISK MANAGEMENT

Issuers are exposed to liquidity risk as issuers are obliged to settle payments with acquirers for transactions made by their cardholders within a short period of time, regardless of when payments are received from cardholders.

28.1 Issuers shall establish adequate liquidity management systems and controls to ensure sufficient liquidity to meet their obligations. Among the controls include:

a. Conducting liquidity gap analysis to measure potential liquidity shortfalls.

b. Conducting stress testing to identify and measure potential funding shortfalls.

## 29. FRAUD RISK MANAGEMENT

Issuers and acquirers need to be vigilant of the evolving typologies of fraud and monitor such developments on an on-going basis.

29.1 Issuers and acquirers shall deploy effective and efficient fraud detection and monitoring mechanism.

29.1.1 The fraud detection and monitoring of transactions should be conducted on an on-line real time basis.

29.1.2 The fraud detection and monitoring mechanism should be able to capture high risk transactions and trigger unusual transactions.

a. Issuers shall put in place criteria for high risk transactions and merchants to facilitate early detection of fraud.

b. Issuers shall put in place procedures to facilitate early detection of unusual transaction pattern or trend that could be indicative of fraud and take necessary action to block/delay these transactions for further investigation.

29.2 Issuers and acquirers shall establish comprehensive fraud investigation, analysis and reporting procedures.

29.2.1 Issuers and acquirers shall conduct regular analysis to understand the fraud trend and modus operandi.

29.2.2 Adequate risk management processes, systems and controls shall be in place, and where necessary, strengthened, to mitigate fraud risk taking into account new developments in fraud trends and material changes in the business strategy which may increase exposure to potential fraud risk.

29.2.3 Fraud incidents shall be reported to senior management and the Board on a regular basis. Reporting to Bank Negara Malaysia shall be in accordance to the fraud reporting requirement imposed by Bank Negara Malaysia from time to time.

**Fraud prevention mechanism**

Fraud may take place during the course of the different cycles of the entire credit card-i value chain, i.e. card application, card delivery, card activation, change of cardholder's contact details as well as when the card is in the possession or being used by the cardholder.

***Minimum Fraud Mitigation Measures for Card Application, Delivery and Activation***

29.3 The following shall be observed at the point of collecting card applications from applicants:

- 29.3.1 Issuers shall ensure the confidentiality of the data and information provided by the applicant. Necessary measures should be put in place to ensure that the information provided by the applicant would not be misused by the persons authorised by the issuer to collect the application(s).
- 29.3.2 Issuers or any persons acting on behalf of the issuers to collect card applications are prohibited from photocopying the applicants' other credit cards. This is because card security features which are used for cardholder authentication are available on the card itself such as card number, Card Verification Value (CVV) and expiry date of the card.

29.4 The following controls shall be taken into consideration when processing card applications:

- 29.4.1 The identity of the applicant should be verified to ensure that the applicant exists and is the person applying for the card.
- 29.4.2 Key information provided by the applicant should be verified for accuracy.
- 29.4.3 Issuers should ensure the confidentiality of the data and information provided by the applicant.

29.5 Issuers are prohibited from sending out live cards to its cardholders. Stringent activation procedures, which shall include proper verification process that cannot be easily bypassed by fraudsters including its own employees, should be implemented unless the cards are personally collected by the cardholder from the issuers' premises and subjected to proper verification process.

***Requirements when Changing Cardholder's Contact Details***

29.6 To mitigate the risk of account takeover, issuers shall put in place measures to verify any request it received for change of address and shipment of new or replacement card or PIN. Some examples of best practices that the issuers may consider include:

29.6.1 Allow request only if it is made in person at the issuer's premises.

29.6.2 Allow request through secured electronic mode (e.g. electronic banking) but subject to further verification before updating the contact details.

29.6.3 Send written correspondence to the previous address for verification before shipping any card or PIN to the new address.

***Implementation of "Chip and PIN" technology***

29.7 In line with efforts to enhance the security features of credit card-i, all issuers and acquirers are required to enable chip and PIN verification for credit card-i transactions at point-of-sale terminals (POS) and cash advance withdrawals at automated teller machines (ATMs).

***Implementation of strong authentication method for non face-to-face transactions***

29.8 Non face-to-face transactions, i.e. card-not-present transactions, especially online payments, are currently the main modus operandi for fraud globally. This is due to the vulnerability posed by this type of transaction whereby cardholders need not be personally present to have the transaction completed.

29.9 Issuers and acquirers are required to implement measures to authenticate cardholders for online transactions. Issuers are required to adopt strong authentication method, such as dynamic password/PIN, multi-factor authentication (e.g. mobile PKI), etc., to mitigate the risk of unauthorised use of cards for online transactions.

***Implementation of transaction alerts***

29.10 Issuers are required to implement transaction alerts via send short message service (SMS) to their cardholders, unless cardholders opt to receive transaction alerts via other channel such as via e-mail. This shall be applicable to the following:

29.10.1 Purchase transactions at POS.

29.10.2 Online transactions.

29.10.3 Withdrawal/Cash advance transactions.

29.10.4 Mail and telephone order transactions.

29.11 Issuers are required to take into consideration the following minimum criteria to trigger transaction alerts:

29.11.1 Transaction type, e.g. transaction at high risk merchant[3].

29.11.2 Transaction location, e.g. transaction in high risk countries[4].

29.11.3 Transaction amount, e.g. transaction exceeding certain amount.

29.11.4 Transaction velocity, e.g. transaction exceeding certain number per day.

29.11.5 First time use of new card

29.12 Issuers are required to send transaction alerts in the event any of the following trigger is met:

29.12.1 Transactions exceeding a specified threshold amount. In this regard, issuers are required to set a threshold amount to trigger an alert. Issuers should also allow cardholders to set their own preferred threshold amount for the transaction alert. If cardholders do not set the preferred threshold amount, issuers are required to send transaction alerts based on the default threshold amount set by the issuer.

29.12.2 First time use of new card.

29.12.3 All card-not-present transactions.

29.13 By default, the alert should be sent for transactions meeting the specified criteria, except where the cardholders opt not to receive any SMS alerts. In this regard, issuers should ensure that the cardholders:

29.13.1 understand the risks associated with their decision; and

29.13.2 submit such request in writing.

29.14 To ensure the effectiveness of the alerts, issuers should ensure that the contact numbers of their cardholders are kept up-to-date. As such, issuers should highlight to their cardholders the criticality of providing updated contact numbers to them.

[3] Minimum list of high risk merchants will be specified by the industry.

[4] Minimum list of high risk countries will be specified by the industry.

29.15 To mitigate abuse, issuers shall not provide a contact number as part of the message in the SMS alert. Instead, issuers should advice cardholders to contact their card centre and use the contact number indicated at the back of their credit cards.

29.16 Issuers shall not transfer the cost of sending SMS alerts to their cardholders.

29.17 Issuers may stop sending transaction alert for purchase transactions at POS and withdrawal/cash advance transactions after full implementation of chip and PIN technology, and for online transactions after adoption of strong authentication method.

**Exchange of information and dissemination**

29.18 Sharing of information regarding fraud experiences and modus operandi is encouraged among issuers and acquirers as this will enhance efforts to combat fraud, hence, is encouraged.

29.19 Issuers and acquirers should also be resourceful in gathering relevant information from the industry, their overseas counterparts, the card associations, etc. Having first hand information will assist them to strengthen their defense against fraudsters.

29.20 Close cooperation with law enforcers and regulators should also be established.

## 30. SPECIFIC REQUIREMENTS FOR ACQUIRERS

Acquirers should be diligent in their acquiring business to ensure that they are not being used by the merchants as a means to easily obtain funds through illegal means, fraudulent acts or cheating. Controls should be put in place both prior to engaging the merchant and on an ongoing basis.

30.1 Acquirers' should establish the criteria for merchant selection and recruitment, and establish policies and procedures for ongoing monitoring of their merchant accounts, which should include risk criteria for merchants.

***Merchant recruitment***

30.2 Acquirers shall establish prudent underwriting criteria and procedures for approving new merchants. The criteria for assessing new merchants should also cover financial strength and reputation (e.g. has not been declared a bankrupt, has a clean fraud track record, has not been blacklisted by other acquirers etc.)

30.3 Acquirers should ensure that the merchant has a legitimate business and is not involved in or otherwise associated with any illegal activities or schemes that have been deemed illegal, including business activities that are meant to deceive consumers, such as schemes like “scratch and win”, “get-rich-quick”, etc.

30.4 If a third party merchant recruitment agent is engaged, acquirers shall ensure proper controls are in place to ensure that the third party merchant recruitment agent complies with relevant requirements set out in this Guidelines.

***Merchant monitoring and audit***

30.5 Acquirers should monitor the trend in chargebacks and merchant’s capacity to repay these chargebacks and act accordingly to mitigate any risks associated with engaging such merchants.

30.6 Acquirers shall take appropriate risk management measures on their high risk merchants, including conducting more frequent audit/checks on the merchant and more stringent monitoring of transactions that pass through the merchant.

30.7 The relationship with merchants with confirmed fraudulent or illegal activity should be immediately terminated. Whenever the merchant has been terminated or blacklisted due to fraud-related matters by one of the acquirers, other acquirers shall be vigilant and gather relevant information and evidence on the conduct of the said merchant.

30.8 Acquirers shall conduct continuous due diligence on their merchants to ensure that merchants are not involved in any fraudulent or illegal activity and maintain a “watch list” of suspected collusive merchants, if any. The activities of these merchants shall be closely monitored and investigated. Once identified as collusive, acquirers shall immediately terminate their acquiring relationship with the merchant.

30.9 Acquirers shall conduct periodic audits on the merchants to ensure that merchants adhere to card acceptance and authorisation procedures to minimise chargeback and disputes.

## 31. SPECIFIC REQUIREMENTS FOR NON-FINANCIAL INSTITUTION ISSUERS

31.1 Non-financial institutions may only issue credit card-i after approval pursuant to section 25(1) of the PSA has been obtained. Approval may be granted if the following eligibility criteria are met:

31.1.1 Local incorporation

a. Locally incorporated and have been operating in Malaysia for at least five years; or

b. Forms a joint venture with a domestic financial institution where the domestic financial institution has to hold at least 51% equity in the joint venture company.

31.1.2 Core business is consumer financing.

31.1.3 Strong financial standing with systems capability and technical know-how in credit card-i operations.

31.1.4 Able to provide value-added benefits to the industry and consumers.

31.1.5 Holding company (if applicable) shall provide initial and continued funding.

31.2 Non-financial issuer shall maintain a capital ratio of at least 16% at all times.

## H. APPROVED SHARIAH CONCEPTS APPLIED IN CREDIT CARD-i

### 32. SHARIAH CONCEPTS

**Shariah Concepts**

32.1 Three Shariah concepts have been approved for application in credit card-i. The Shariah concepts are:

a. *Bai' Inah* (sell and buy back);

b. *Tawarruq*; and

c. *Ujrah* (fee on service).

**Description of Shariah Concepts Applied in Credit Card-i Facility**

32.2 *Bai' Inah* based Credit Card-i

Under the *Bai' Inah* concept, credit card-i may be structured through two approaches as follows:

First Approach

The structuring of *Bai' Inah* based credit card-i involve two separate and independent sale contracts. The first sale contract refers to the contract in which the issuer of the credit card-i sells an identified asset on deferred instalments to the customer (card applicant) at a marked up price, which is the Selling Price. Under the second sale contract, which is undertaken immediately after the first sale contract, the issuer buys back the asset from the customer for cash at a price equivalent to credit limit, which is called the Purchase Price. The proceeds (cash) from the buy back contract will be deposited in an Islamic account to be utilised by the cardholder and will constitute as his credit limit.

Second Approach

The structuring of *Bai' Inah* based credit card-i involve two separate and independent sale contracts. The first purchase agreement refers to the contract whereby the issuer (bank) purchases an asset from the customer for a cash price equivalent to credit limit, which is called the Purchase Price. The proceeds (cash) arises from the purchase agreement will be deposited in an Islamic account to be utilised by the cardholder and will constitute as his credit limit. Thereafter, under the second sell back agreement, the bank sells back the asset on deferred instalments to the customer at a marked up price (plus profit), which is called the Selling Price.

32.3 *Tawarruq* based Credit Card-i

Under the concept of *tawarruq*, card issuer/bank will purchase an identified commodity from commodity broker on cash and sell the commodity at a mark-up price (plus profit) on deferred basis to customer and this profit is considered a ceiling profit. Customer will then sell the commodity to another commodity broker on cash price (which normally equivalent to the earlier cost price paid by the bank). Alternatively, customer may appoint the bank as his agent to sell the commodity to a commodity broker for cash. The cash received will be deposited with the bank to be utilised by the cardholder and will constitute as his credit limit. The issuer will charge actual profit to the customer depending on the utilisation of the credit limit and may grant ibra' (rebate) to the customer on the unutilised portion.

32.4 *Ujrah* based Credit Card-i

Under the concept of *ujrah*, credit card-i will grant the cardholder identified services, benefits and privileges provided by card issuer in exchange of ujrah fee. The credit card-i may be used to utilise the credit limit assigned on the basis of qadh (interest free loan) e.g. for retail purchase or cash withdrawal or any other mode of utilisation determined by the bank from time to time. The general conditions of application of *ujrah* concept in credit card-i are as follows:

a. It is permissible to impose fee (*ujrah*) in Islamic credit card. The fees are charged on services, privileges and benefits which are permissible in Shariah.

b. The fee must be a fixed amount which is not tiered to the credit limit. If the fee is charged based on the percentage of the total loan amount provided, the fee charged will be the same as charging fee to a loan which is not permissible in Shariah. In this regard, total fee should be charged based on type of credit card-i (platinum, gold or silver) instead of credit limit.

c. The imposition of fee on services, benefits and privileges should not result to riba (charging interest). This shall apply in the following context:

i. Charging of fee/ujrah must be as a consideration to the Shariah compliant services, benefits and privileges only. Therefore, issuer should not charge fee on extending the loan, delaying the loan repayment and benefits or privileges in the form of cash back; and

ii. For the services related to providing a loan, delaying loan settlement and exchanging cash with cash for different amount, it is only allowed to charge nafaqah/taklifah (actual cost incurred) in providing such services. Among the services in this category are cash advance services and retail services.

**General Conditions for Credit Card-i Facility**

32.5 The issuance of credit card-i by the issuer to cardholder and the use of the aforesaid card financing shall be subject to the terms and conditions made known to the cardholder. Necessary arrangement shall be made such as obtaining consent from contracting parties prior to any action made which is against the agreed terms and conditions.

32.6 Fulfilment of the requirement of each Shariah concept used is essential. In this regard, issuer of the credit card-i must ensure that proper mechanism is applied in order to ensure all requirements are in accordance with the concept needs, either bai' inah, tawarruq or ujrah. For instance, each transaction in bai' 'inah and tawarruq must be executed separately with a correct sequence and without any inter-conditionality element.

32.7 The underlying asset used in bai' 'inah and tawarruq concepts must be free from encumbrances. Issuer must ensure that proper mechanism is applied to avoid overlapping transaction on the same asset at the same time.

32.8 The issuer and the cardholders shall ensure that the credit card-i is not used for non-Shariah compliant transaction.

32.9 The credit limit cannot be changed unless through proper arrangement. As such, change in credit limit could only be practised through execution of new akad.

32.10 The acquirer shall ensure that the contract with the merchant is Shariah compliant.

32.11 Approval from Bank Negara Malaysia must be obtained in the event the issuer intends to change the underlying Shariah concept for its credit card-i structure.

# APPENDICES

## Appendix 1: Minimum payment warning statement

NOTICE ON PAYING ONLY MINIMUM MONTHLY PAYMENT

If you make only the minimum payment each period, it will take you longer to pay off your balance including profit / ujrah payable. Please refer to the back page for more information. Alternatively, you may also refer to the credit card calculator available on our website or *bankinginfo* website.

## Appendix 2: Standard illustrative example on how long it would take pay off outstanding balance

| | Examples under different outstanding amount scenarios | | | | | |
|---|---|---|---|---|---|---|
| **Outstanding balance (RM)** | **3,000** | | **5,000** | | **10,000** | |
| **Payment** | **Pay only minimum amount (RM150)** | **Pay RM250** | **Pay only minimum amount (RM250)** | **Pay RM350** | **Pay only minimum amount (RM500)** | **Pay RM650** |
| **Payment period (months)** | | | | | | |
| **Total profit / ujrah charge (RM)** | | | | | | |

**Assumptions:**

- **Profit / ujrah rate – 17.5% p.a**
- **No new transactions**
- **30 days a month**

**Appendix 3: Minimum Disclosure in monthly statement**

| | |
|---|---|
| Grace period | E.g. there is no grace period on cash advances |
| Profit / ujrah charging information | Indicate the computation method and the periods over which profit / ujrah is charged for:<br>– Purchases<br>– Cash advances<br>– Balance transfers |
| Fees and charges | ▪ Cash advance fees<br>▪ Replacement of card<br>▪ Overseas transactions<br>▪ Other charges |
| Default charges | ▪ Late payment charge and its computation<br>▪ Over-the-limit compensation charge |
| Payment allocation statement | |
| Statement on liability for unauthorised transactions | |
| Information on customer service contact details and BNMTELELINK | |

**Appendix 4: Statement on minimum monthly payment**

| | | |
|---|---|---|
| New Balance | | RM 3,000.00 |
| Minimum payment due | | RM150.00 |
| Payment due date | | 15 Jan 2011 |
| Minimum Payment Warning: If you make only the minimum payment each period, it will take you longer to pay off your balance including profit / ujrah payable. For example: | | |
| If you make no additional charges using this card and each month you pay… | You will pay off the balance shown on this statement in about… | And you will end up paying an estimated total of profit / ujrah charge of…. |
| Only the minimum payment of RM150 | 4 years and 8 months | RM1,055 |
| RM200 | 1 year and 6 months | RM424<br><br>**(Savings = RM631)** |

## Appendix 5: Product Disclosure Sheet - Credit Card-i

# PRODUCT DISCLOSURE SHEET

**Read this Product Disclosure Sheet before you decide to take out the <Name of Product>. Be sure to also read the general terms and conditions.**

<Name of Financial Service Provider>

<Name of Product>

<Date>

**1. What is this product about?**

This is a Gold Visa credit card-i, with a line of financing granted by us to you and where any amount of the financing utilised by you has not been settled in full on or before the due date, the unsettled amount will be subject to profit/ujrah charges.

**2. What do I get from this product?**

- Credit limit: RM xxx

| | | Annual rate | |
|---|---|---|---|
| Profit / Ujrah rates | Purchases | x%<br>y%<br>z% | With prompt payments for 12 consecutive months<br>Make 10 / 11 times prompt payments in the last 12 months<br>Make 9 or less prompt payments in the last 12 months |
| | Cash advances | m% | |
| | Balance transfers | n% | |

To enjoy lower profit/ujrah rates for retail transactions, you should make at least 10 prompt payments in the last 12 months.

**3. What are my obligations?**

| | |
|---|---|
| Minimum monthly payment | 5% of the outstanding balance or a minimum of RM xx |
| Grace period | ▪ For retail transactions* - 20 days from the statement date, if you pay the balance in full and on time.<br>▪ If you do not pay in full and on time, profit/ujrah payable on retail transactions that the issuer may charge will be calculated from the posting day of the transaction.<br>*not applicable to balance transfer or cash advances |

- As the principal cardholder, you are liable to all transactions incurred by the supplementary cardholders.

**4. What are the fees and charges I have to pay?**

| | |
|---|---|
| Annual fee | |
| Cash advance fee | |
| Card replacement fee | |
| Sales draft retrieval fee | |
| Additional statement request fee | |
| Overseas transaction conversion fee | |
| Over limit compensation fee / charge | |
| Other fees and charges | |

**5. What if I fail to fulfil my obligations?**

- Late payment charge: maximum of 1% of the outstanding balance or a minimum of RM10.
- Right to set-off: We have/do not have the right to set-off any credit balance in your account maintained with us against any outstanding balance in this credit card-i account.
- Liability for unauthorised transactions.
- If you fail to abide by the terms and conditions of the credit card-i, we have the right to terminate your card.

***(To highlight other key terms and conditions.)***

**6. What if I fully settle the balance before its maturity? *(For balance transfer or flexi payment plans)***

- Lock-in period: y months
- We will explain to you the consequences of making full payment during the lock-in period.

**7. What are the major risks?**

- If you pay only the minimum amount due, it will take you longer and cost you more to settle the outstanding balance. Think about your payment capacity when charging the credit card-i.
- If you use your credit card-i to make payment for other financing, it may cost you more.
- If you have problems paying for your credit card-i balances, contact us early to discuss payment alternatives.
- You should notify us immediately after having found that your credit card-i is lost or stolen.

**8. What do I need to do if there are changes to my contact details?**

It is important that you inform us of any change in your contact details to ensure that all correspondences reach you in a timely manner.

**9. Where can I get further information?**

Should you require additional information on credit card-i, please refer to the *bankinginfo* booklet on 'Credit Card-i', available at all our branches and the www.bankinginfo.com.my website.

If you have any enquiries, please contact us at:

**ABC Bank Berhad**
**51, Jalan Sultan Ismail**
**50122 Kuala Lumpur**
**Tel:**
**Fax:**
**E-mail:**

**10. Other credit card-i products available**

- abc
- xyz

**IMPORTANT NOTE: LEGAL ACTION MAY BE TAKEN AGAINST YOU IF YOU DO NOT KEEP UP PAYMENTS ON YOUR CREDIT CARD-I BALANCES**