

Acceptability Standards in Credit Card Industry*

¹ and Ashish Das²

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²Department of Mathematics, Indian Institute of Technology Bombay, Mumbai-400076, India

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Abstract

There has been a significant increase of credit card usage in India. As the credit card network spreads and more persons get into its ambit, customer service in its business gains further importance. Two aspects related to customer service and acceptability standards in credit card industry that we focus in this paper are (1) Charges to cardholders for use of credit card at merchant establishments and (2) Prescription of minimum transaction amount for use of credit card at merchant establishments. We raise these two important issues on acceptability standards for credit cards with the major participating financial institutions in India.

It is found that there is an amount of unwillingness on the part of MasterCard and VISA to address the issues though on paper they have set up rules to overcome the two problems. The banks take advantage of such lukewarm attitudes of MasterCard/VISA and do not adhere to their responsibility to eliminate such practices.

The findings in this paper are derived from analyzing the opinions of various players in the credit card business. It presents the dilemmas in acceptability standards of payments by credit cards. In particular, the paper brings out the predicament among the various players in the credit card industry on the two issues under focus. On analyzing these responses, we find that in absence of any regulatory framework to address these aspects, the customer is left to the nonchalant disposition of these players.

Though in this paper we focus on the practices in India, identical scenarios also exist in other countries and there too the situation is no different with respect to the players involved in the card business. India's initiative in the matter will have repercussions worldwide since this is a worldwide phenomenon, and not specific to India.

Authors' note: *This draft paper is still to reach its final form. In order to receive valued comments, the paper is being put in the public domain for comments. For technical reasons the name of one author is not revealed in this draft paper. The final paper would be available only after making necessary changes.*

* The views expressed in the paper are those of the authors and not necessarily of the institution to which they belong.

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² Dr. Ashish Das is a Professor of Statistics with the Indian Institute of Technology Bombay. E-mail: ashish@math.iitb.ac.in

1. Introduction

In India, the number of valid credit cards in circulation is more than 275 lakh, the number of transactions is of the order of 2282 lakh and the amount of transactions Rs. 57,958 crore in the year 2007-08. Over the past 5 years, there has been a substantial increase in credit card transactions.

The following charts depict the growth of both credit and debit cards business in India. The debit cards have had a slow start and their growth only took off in the last one year. On the other hand, the credit cards grew faster since inception with the growth turning even sharper in the latest year.

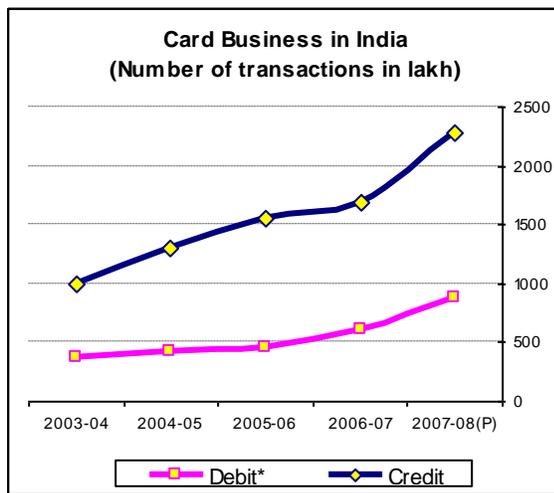


Chart 1

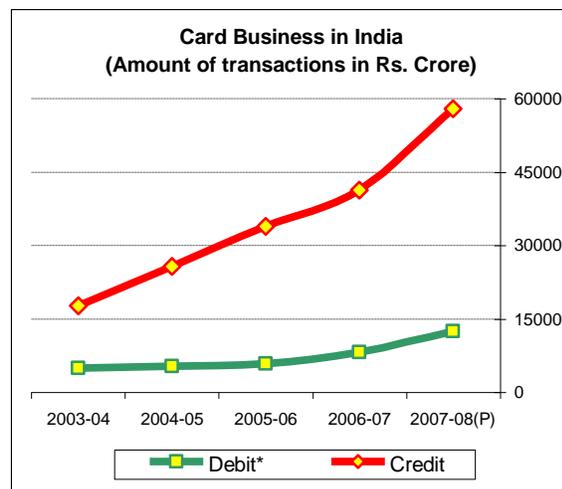


Chart 2

As per current trends, the annual rate of increase in the number of credit cards and its number of transactions is 16% and 25% respectively. Even the amount of transactions increased at a nominal rate of 28% per annum. See Appendix A for card payments data.

Before we introduce the issue under study, it will be interesting to know the parties to the credit card system, the flow of funds and levy of fee charges. The system consists of a customer who holds a credit card from his issuing bank (called issuer), a merchant who has been given the facility of accepting credit cards by his acquiring bank (also called acquirer) and MasterCard/VISA, etc., whose networks are being used. In this system, first a merchant who decides to accept credit or debit cards in exchange for goods or services establishes a merchant account by forming a relationship with an acquiring bank. This relationship enables the merchant to receive sale proceeds from credit card purchases through credits in his account. However, while receiving such credits, the acquirer applies a Merchant Discount Rate (MDR), which is paid by the merchant to the acquirer in consideration for card acceptance services. A MDR is the percentage of sales that a merchant pays to the acquiring bank to process credit card transactions. This rate generally varies from 1% to 3%. Thus, considering the average MDR to be 2%, the revenue generated in the card business, through MDR only, is of the order of Rs. 1160 crore. On

the other hand, the cardholder pays charges in form of annual fee, finance charges, late payment charges, etc. to his card issuing bank. The risk of default by credit cardholders is borne by the issuing bank. The figure below describes the working of the credit card system.

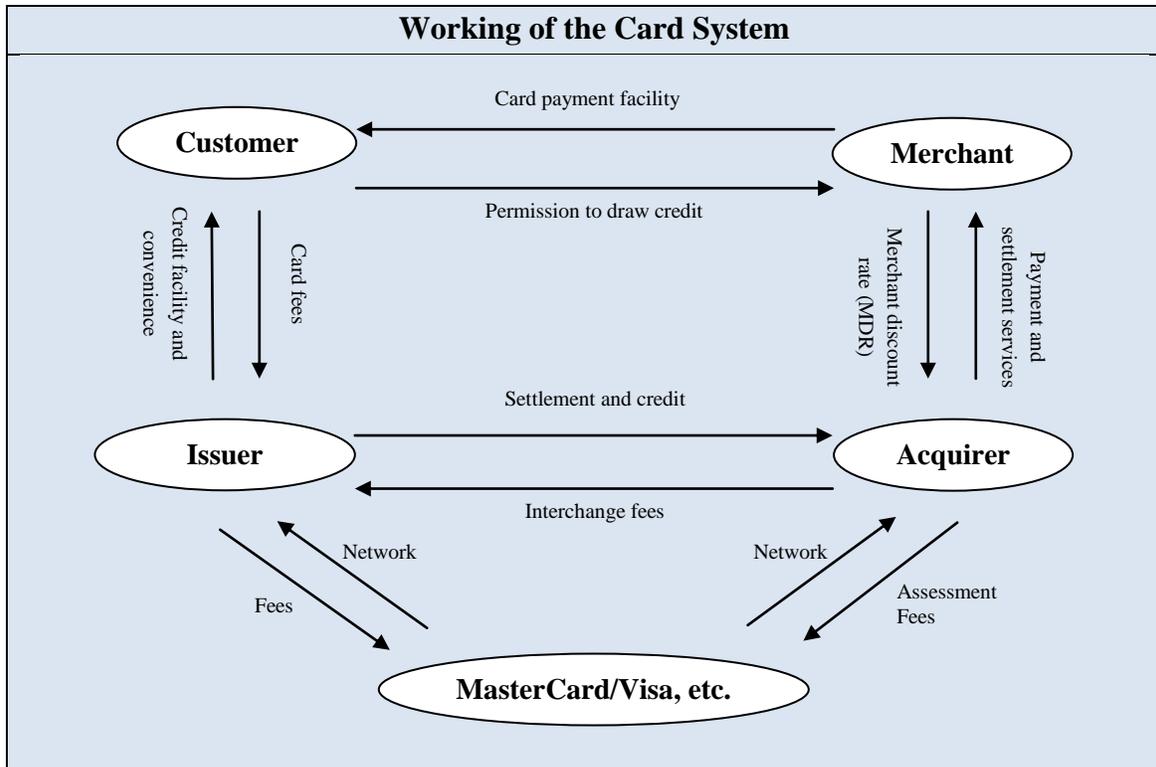


Figure 1

The Interchange fee on a purchase transaction flows from the merchant acquiring bank to the card issuing bank. The settlement and credit transactions between the issuer and the acquirer are done using the network of MasterCard/VISA, who gets a share of the fee in exchange.

In India, though competition guides acquirer-merchant pricing policies, it is generally understood that Interchange fees is one component of the MDR established by acquirers. The implementation of proper Interchange rates is necessary and also very crucial for maintaining a strong and vibrant credit card payments network. The other major component of the MDR is the fee imposed by the acquirer which is retained by the acquirer to meet its own expenses. It is quite common to see a transaction at a merchant establishment involving a bank which is both the acquirer and the issuer. In such a situation it may be possible to reduce the Interchange fee since the payment network is substantially reduced. However, such reduced Interchange fee is not generally passed on to the merchants.

The banks and MasterCard/VISA generate revenue and make profit in the credit card system by charging Interchange fees. In the western countries big merchants have already realized this and are in union in their demand for reduction in Interchange fees. MasterCard USA, moving

towards being more transparent, has now explicitly placed on its official web site the Interchange Rates.

The remaining paper is organized as follows. Section 2 describes the present regulations on the functioning of the credit card network and introduces the issues under study. Section 3 details the responses of various banks and MasterCard/VISA on the issues raised and analyses their responses. In July, 2008, this paper was circulated in the form of a draft report for receiving inputs and disagreements. Section 4 deals with such inputs received and how it is addressed. The concluding remarks are presented in the last section.

2. Issues on usage of credit cards

With the objective of strengthening the financial markets, Reserve Bank of India has focused on building up a strong payments system in the country. It recently brought out a report on review of Payment and Settlement Systems. In this November 2007 report, in connection with debit and credit cards, it is remarked:

"4.18 Credit cards and Debit cards: In case of Credit Cards and Debit Cards there is no visible charge on the customer for use of cards at merchant establishments. Charges are levied directly on customers only at few locations like petrol stations etc. and for cash withdrawal at ATMs. In all other cases, charges levied by banks have been for the credit availed (beyond the due date). In credit cards and debit cards the interchange fees - the charges paid by the merchant are an integral part of the pricing structure of credit and debit card transactions. As this fee is levied on the merchant establishment, there is differential cost for the merchant for payment received by cards or cash. This serves as a disincentive for merchants to encourage payments by cards. This was observed as the reason why the use of cards for purchase of valuable items and goods continue to be discouraged by the merchants; if payments are made by cards the interchange fee is recovered from the customer. This is because, in case of larger value purchases, the merchants find it unremunerative to absorb this interchange fee.

4.19 The interchange fees in most countries are set by credit and debit card networks except in Australia, where the central bank has been regulating interchange fees."

In the above, the interchange fee is used synonymously with MDR. Through the above the RBI shows its concern on an issue which is also the focus of this paper on the usage of credit cards. RBI indicates that "if payments are made by cards the interchange fee is recovered from the customer". In letter, however, the banks in the card business are required to prohibit such a practice.

It is obvious that for increasing business in the area of credit cards, apart from acquiring more credit cardholders, the banks try to bring more and more merchants into the umbrella. Any card transaction leads to sharing of certain amount of the revenue earned from use of credit cards. The revenue includes the interchange fee while the share holders are primarily the (1) MasterCard/VISA, (2) card issuing bank and (3) merchant acquiring bank. Every merchant acquiring bank is required (by existing rules and regulations in the credit card payments system in India) to incorporate a clause in their agreement binding the merchant not to pass on any component of the Merchant Discount Rate to a customer using credit card. Having said this, and understanding that RBI presently is not dissenting on this issue of customer service, why should

a merchant acquiring bank volunteer to be proactive in decreasing its own revenue by loosing certain merchants who in defiance of their agreements may be passing on some component of the card acceptance service fees to the cardholders of not only their bank but of all other banks which issues credit cards. In fact, not only the banks but also MasterCard/VISA, from the point of view of revenue being generated, would not want to see the removal of a merchant from the system since that would lead to each losing its share of revenue. Thus, there is a tendency by the players in the credit card business to play low on the issue unless there are forces pressing for corrective measures. The question is what or who are these forces? Technically, RBI (under the RBI Act 1934, the BR Act 1949 and the recent Payment and Settlement Systems Act 2007) is one of the main forces. Another important force is the Banking Codes and Standards Board of India (BCSBI).

We now introduce the two concerns in the credit card industry related to card acceptability standards.

i) *EXTRA CHARGE FOR USING A CREDIT CARD*

Some merchants seek to impose a service fee for all credit card purchases. When a merchant gives a credit card slip to the credit card company or bank for processing, a percentage of each purchase, usually 1% to 3% of the purchase amount is deducted. This "merchant discount rate" helps pay for the bank's services and for the credit card system. By charging the customer extra for credit card use, the merchant passes the discount fee on to customers. The MasterCard and VISA prohibits such surcharges, and American Express discourages them and prohibits "discrimination" against the use of Amex card. Thus if a merchant accepts MasterCard and VISA (and does not impose a surcharge under those companies' rules), the merchant is not expected to discriminate against Amex by imposing a surcharge. Surcharges invite numerous abuses by retailers, including bait-and-switch tactics. There are no laws on how and when surcharges must be disclosed, making it difficult for the customer to figure out the actual price of an item. Further, credit card acceptance usually promotes higher sales for merchants, offsetting the cost of processing credit card transactions. Note that a cash discount is legal and permitted under all credit card companies' rules. A cash discount offers a lower price for cash purchases than those by credit cards. While this may merely be a loophole, it is permitted.

ii) *MINIMUM CHARGE REQUIREMENTS*

In order to use the credit card, some stores require consumers to make purchases above a minimum amount. They engage in this practice because they and their banks do not want the expense of processing a credit card transaction involving a small amount of money. This practice defeats one of the major purposes of credit cards, i.e., convenience, and may force credit card users to spend more than they want to. MasterCard's and VISA's regulations *prohibit* minimum charge amounts while American Express's regulations discourage any merchant practices that create a "barrier to acceptance." Further Amex does prohibit "discrimination" against its card, and therefore if a merchant has no minimum charge for MasterCard and VISA, the merchant may have to extend same service to Amex card.

Thus, there are two issues in hand- (1) Charges to cardholders for use of credit card at merchant establishments and (2) Prescription of minimum/maximum transaction amount. It may be worthy to note that when the merchant decides to pass some component of the MDR to the customer, he may well be justified in doing so in case the MDR set by the acquirer bank is disproportionate to

gains he has on account of increase in sales by accepting credit cards. Generally merchants and service providers in the present era of high competition work on thin margins to boost their business and it is not profitable for them to pay a high MDR (this includes internet merchants³ who are likely to have a greater appetite to accept card payments than a small shop with low ticket sizes). When the acquiring bank is not ready to compromise on MDR, an easy way out for the acquiring bank is to underplay on card surcharge charged by the merchant from its customer. This way it becomes a win-win situation for both the merchant and the acquiring bank and the bank is able to retain the merchant at its desired level of MDR. In this process the acquiring bank violates the rules set forth by MasterCard/VISA for its member banks. The rule states that it is the member bank's sole responsibility to ensure that their merchants do not surcharge. Noncompliance of such a rule by the member banks attracts penalties of the order of USD 20,000 (see Appendix B for more details).

In contrast to the Indian scenario on MDR and surcharge by merchants, in Australia the law allows every merchant to decide on a surcharge rate as per their marketing strategies and thereafter be upfront to their customers on such a surcharge. This could indeed be a solution for the merchants unless MasterCard/VISA and the banks, as a tradeoff, agree to bring down the MDR by reducing their earnings from it.

Just to name a few, brand merchants like Electronics Bazaar and RPG Cellucom probably working on a thin margin feel justified to surcharge their card customers and pass the true competitive benefits to customers who pay by cash or cheque.



It may be noted that in India a gas station merchant does not charge extra, but it is the issuing bank who may charge some extra money from the cardholder for using the card at a gas station merchant. Also, for purchases of train tickets over net/etc. it is the bank who may charge an additional amount and not the railway company. Currently, such charges are 2.5% of the actual transaction amount (with the exception being for train tickets bought over the net for which a rate of 1.8% applies). The cardholders are issued credit cards in India under the understanding that

³ For example, Ryanair, one of Europe's low cost carriers, to defray the substantial administration costs incurred when processing credit and debit cards, applies a credit card fee to each adult passenger per flight segment. However, there is no charge associated with Electron card transactions.

such cards could be used in lieu of cash at any merchant establishment which accepts credit cards. However, merchants may not want to agree to this for the simple reason that the MDR may be relatively high to accept at par concept.

Again, in situations where a transaction amount is small (say Rs. 100) a merchant may not wish to consider the card at par with cash as a mode of payment. Each transaction has an associated minimum cost implication to a merchant. Since this minimum may be too high relative to the transaction amount, a few merchants decline to accept the card thereby costing the cardholder in terms of convenience and acceptability commitments provided by the card issuing bank. This is a very common situation faced by a cardholder who does not argue on the issue because of his tolerance and ignorance. Here again, it is the bank's responsibility to ensure that a merchant must not require, or indicate that it requires, a minimum or maximum transaction amount to accept a valid and properly presented credit card. As earlier, noncompliance of such a rule by the member banks attracts penalties of the order of USD 20,000 (see Appendix B for more details).



These two incorrect practices exist because the banks do not care and the cardholders are tolerant and ignorant. However, cardholders' ignorance is more a contribution of the banks and MasterCard/VISA who are not willing to provide proper guidance/education to the cardholders. There is no proper procedure in place for the banks to entertain or eliminate such issues. The industry position as it stands now can only be attributed to MasterCard and VISA's reluctance to

act, follow proper procedures towards removing such practices and its tendency to gain convenience at the cost of credit cardholders in India. However, now with RBI having regulatory powers even to regulate the business procedures and practices of MasterCard/VISA, the general public looks up to the RBI for support. One such step could be to make it mandatory for the banks to ensure that their acquired merchants apart from displaying the MasterCard/VISA decal also display that (1) they do not surcharge and (2) they have set no minimum/maximum amounts for a transaction.

It is found that there is an amount of unwillingness on part of MasterCard and VISA to address the issues though on paper they have set up rules to overcome the two problems. The banks take advantage of such lukewarm attitudes of MasterCard/VISA. Though it is desirable and worthwhile for a general customer not to get burdened on such an issue, he is being bamboozled by the banks that have not adhered to its responsibility to eliminate such practices. RBI, under its various regulatory powers, may like to look into the issues discussed in this paper. In what follows, we address these two aspects of the credit card acceptability standards by detailing the responses from different players in the industry.

3. The Data and Analysis

In order to get clarification on MasterCard/VISA credit cards issued by banks and its acceptance by merchant establishments, RBI and BCSBI were contacted. While the BCSBI was not sure how best to address the issues, RBI indicated that such aspects are governed by the terms and conditions of the agreement between the merchant establishments and service providers like MasterCard and VISA. RBI also adds that the mutual agreement between a bank and a merchant establishment governs their mutual relations and RBI guidelines do not cover such operational aspects as yet. The very questions were subsequently addressed to MasterCard and VISA along with some select banks like HSBC, HDFC Bank, Citibank, ICICI Bank, Standard Chartered Bank and SBI Cards.

The questions involve two points.

POINT 1 (Surcharge):

- a. *A merchant establishment displays the MasterCard/VISA logo at his shop door. However, by the time one reaches the counter to make payment using the card, he is told that they charge an extra 1% of the displayed merchandise cost for paying through MasterCard/VISA vis-a-vis cash or debit card (for which this 1% does not apply). Kindly advise what should be done in such a situation? Through what means have you ensured that your bank's MasterCard/VISA cardholders in India are aware of their rights on this aspect?*
- b. *In India, does the display of the MasterCard/VISA logo give your bank's cardholder the right to use the card at par with cash?*

POINT 2 (Minimum amount prescription):

- a. *A merchant establishment displays the MasterCard/VISA logo at his shop door without any precondition. However, by the time one reaches the counter to make payment using the card, he is told that they do not accept MasterCard/VISA (for that matter any other credit card) unless the amount to be charged is more than USD 6 (or INR 200 or INR 100, say). Kindly advise what should be done in such a situation? Through what means have you ensured that your bank's MasterCard/VISA cardholders in India are aware of their rights on this aspect?*
- b. *In India, does the display of the logo give your bank's cardholder the right to use the card and is the merchant liable to accept the card and swipe for the amount to be charged (however small the amount may be)?*
- c. *Is non-acceptance of your bank's credit card at par with non-acceptance of cash for a similar situation?*

(We restrict our attention only to situations where the merchant unilaterally prescribes a minimum or maximum transaction amount.)

In regard to POINTS 1 and 2, is there a specific statement which your bank is required to incorporate in agreements with merchant establishments that the merchant (a) cannot surcharge due to use of credit card as a mode of payment and (b) cannot refuse a card transaction of any amount?

In regards to POINT 1 does your bank have a well laid out chargeback policy which can be used by your bank's cardholders? If yes, kindly indicate where in the documents provided by the bank (to their cardholders) could one read such a well laid down procedure.

In regards to POINT 1, what is the fate of the bank's credit card and its holder, in case the holder declines to pay the surcharge and thus either declines to purchase the merchandise or pays through cash? Kindly elaborate.

In regards to POINT 2, in case of a merchant's refusal to honour a card purchase below a certain value, what is the well laid down procedure set by your bank to counter such a situation faced by your cardholders?

Finally, when a bank customer (or a non-customer) brings to your bank's notice (without any supporting documents) that there is a merchant who is charging a surcharge for the past few months and that the merchant accepts this as their policy when bank officials call in the merchant to verify the information, kindly let me know the procedure in place to charge back suitable amount for all transactions carried out on the EDC machine by the merchant (without a cardholder coming forward to make such a claim)?

A summary of the responses (or non-response) based on series of difficult, persistent and repetitive correspondences from various financial institutions are presented below. Each of these responses comes from no less than heads of card division of respective banks.

1. HSBC

The Bank's statements:

1. We wish to confirm that the Visa/MasterCard Association guidelines do not mandate it necessary for merchants to post sign boards indicating minimum transaction amount for acceptance of Credit Card. This is in line with the rules of the Association that does not specify any spending limits for the acceptance of a credit card. However certain merchant establishments do have the practice of posting such sign boards as part of their conscious business strategy.
2. We would like to confirm that the Visa/MasterCard Association do not mandate the merchant to specify the minimum transaction amount. The specification for minimum amount is dependent on various merchants adopting different transaction models due to their overheads and other costs per transaction. Should you have any further clarification on the captioned, please contact Visa/MasterCard directly.
3. The Visa/MasterCard Association and our Merchant agreement do not mandate the merchant to place sign boards and the inference is that the merchant cannot specify the minimum amount for a transaction. In case if a HSBC Merchant refuses to accept the card for a particular transaction, the cardholder can report the same to the bank.
4. The Merchant should not be charging the customer surcharge of 1% but in case of such incidence with our Merchant, the cardholder can report the same to the bank.
5. In case if the query is about a merchant establishment using any other Bank's (other than HSBC) electronic data capturing (EDC) machine, we urge you to highlight the same to the respective Bank or to the VISA / MASTERCARD association, directly.

Our Observations:

Points 1 and 2 above had been HSBC's standard response. This indicates that the bank may have either setup agreements with merchant establishments in violation to membership rules of MasterCard/VISA or is not aware of its own agreements.

HSBC may not be aware of the fact that MasterCard/VISA makes it mandatory for the member bank HSBC to ensure that their merchants do not require, or indicate that it requires, a minimum or maximum transaction amount to accept a valid and properly presented Card.

HSBC has setup exclusive customer service facilities catering to their credit cardholders. However, HSBC would not entertain their cardholder on the issues unless it pertains to their own acquired merchants.

It thus follows that a HSBC cardholder when coming across such situations (from say, a HDFC Bank / ICICI Bank acquired merchant) would get recourse neither from HDFC Bank / ICICI Bank, nor HSBC nor MasterCard/VISA. (See below for responses from HDFC Bank / ICICI Bank and MasterCard/VISA)

2. HDFC Bank

The Bank's statements:

1. The card member should get in touch with the card issuing bank. It is the onus of the card issuing bank to take up the issue with the acquiring bank through appropriate channels. We have internal training facilities to ensure that our representatives are prepared to handle any queries pertaining to this nature. In situations where we identify gaps, we do ensure that such gaps are plugged in immediately.

2. Yes, in India the display of the logo give the cardholder the right to use the card at par with cash.

3. We have incorporated the below mentioned specific statement in agreement with our merchants:

"The ME (merchant establishment) hereby agrees, undertakes and covenants not to require any cardholder to pay a surcharge, to share any part of the ME commission, whether through any increase in price or otherwise, or to pay any contemporaneous finance charge in connection with the transaction in which a valid card is used."

4. In case a card member encounters a merchant establishment setting minimum transaction amount, the card member should get in touch with the card issuing bank.

5. Yes, in India the display of the logo give the cardholder the right to use the card and the merchant is liable to accept the card and swipe for the amount to be charged (however small the amount may be).

6. Visa/MC International mandates that the merchant should not discriminate against or discourage whether in favour of cash or any other competing card brand. They also mandate that the ME should not place any minimum transaction limit for the use of a valid card.

7. We have the following specific statement in our Terms and Conditions with our merchants:

"Honour every valid, unexpired card when properly presented as payment from cardholders for all/any transactions. The ME shall not engage in any practices or procedures that discriminate against, or discourage the use of such valid cards whether in favour of cash or any other competing card brand. In particular and without prejudice to the generality of the aforesaid, the ME shall not attempt to levy any service charges on the cardholder for permitting the customer to use the valid card. The ME shall also not place any minimum transaction limit for the use of a valid card."

Our Observations:

Among the surveyed banks, HDFC Bank states that the card members should approach the card issuing bank when faced with surcharge or minimum prescription issues. They are clear that merchant establishments are not to discriminate or surcharge.

The bank does not provide satisfactory response to "Through what means have you educated your bank's cardholders on the issue?"

It emerged after talking to the customer service officers at phone banking that the bank has no specific advice except to indicate that such grievances relate to understandings/relations between the merchant and the buyer on the merchandise in question. Thus it appears that there is discordance between what the card member should do and what the bank wants the card member to do.

3. Citibank

The Bank's statements:

1. It would be most appropriate for someone from MasterCard Association to respond to the specific issue raised. The guidelines as issued by them could be clarified better by them.

2. As a principle, accepting establishments are not supposed to implement any minimum thresholds, for card acceptance. Merchant Establishments tie up with different banks for their custom, and the bank they tie up with may or may not be the same as the one which issued the card. The issue that you have highlighted is one which would affect all card members and we will pass your feedback on to MasterCard and VISA. What would help us would be the specific details of the establishment where you faced this problem; we would then pass this on to MasterCard and/or VISA - and if the ME happened to be tied up with Citibank, we would take it up ourselves.

3. We wish to confirm that all your previous queries, as also the similar set of questions forwarded by you to BCSBI, have been responded by us. In light of the same, and the fact that the questions you raise are more in the realm of the industry positions in general, we wish to reiterate that in order to address your queries/issues faced, if any, better, we would need from you the following specific details:

a. Are you an existing Citibank customer or have you been our customer in the past?

b. If yes, please share the last 4 digits of your credit card number.

c. Which is the merchant that has prompted you to write to us/seek clarification?

d. Please share details of the specific instances where you, as a customer of Citibank, have faced situations such as those highlighted in your e-mails.

You would appreciate that the above specifics would assist us taking up the matter immediately with the concerned merchant and resolve at the earliest. However, in the absence of the basic requisite details, we are constrained in our ability to carry out any further investigations.

4. We would like to reiterate our previously stated position viz: Merchant Establishments enter into agreements with different banks, for their credit card acceptance business. Therefore, the interface with Merchant Establishments, in general, would be between multiple banks and their individual Merchant Establishments. It is not possible for Citibank to comment upon any practices while speaking for the industry in general. We would like to reiterate that we remain committed to helping our customers with any issue pertaining to Citibank that they bring to our notice. The questions you have asked are generic in nature and, therefore, we advise you to direct them to MasterCard and VISA, for a response that is in consonance with their industry-wide

nature. If, however, we receive any specific instances of a customer grievance on this subject, we will address it at the earliest possible and to the satisfaction of the concerned customers.

5. We note that your mail dated Jan 14, 2008, highlights 'RPG-U-COM' as the merchant, where you apparently faced the merchant surcharge issue. In this regard, we would like to clarify and confirm that the said merchant does not have a tie-up with us and is not on our books. We therefore, advise you to approach MasterCard and Visa Association in order that this issue can appropriately be routed to the concerned member bank. If there is any other Merchant where you have faced a similar problem, we request you to highlight the same. We assure you that if it is a Citibank Merchant, then corrective action against the surcharge practice will be initiated with immediate effect.

Our Observations:

Points 1 and 2 of the bank's statement are standard response without having much depth. However, when one seeks in-depth responses, the bank (as seen in point 3) wants to verify if you are their customer. Through points 4 and 5 the bank makes it explicit that it would not like to address questions which are generic in nature even though it may relate to customer service of the bank and concerns the realm of the industry positions in general. Point 5 contradicts few of the bank's claim made in points 2 and 4.

BCSBI may have approached Citibank to understand industry positions on the two issues. However, Citibank's responses to them may not be more informative than statements made as above.

In order to provide answers to general queries, the bank's insistence for the person seeking an answer to be its customer is rather stringent since such queries are also important to any prospective customer for taking informed decisions. It is generally understood that a prospective customer should seek and get answers related to bank's product which are more general in nature and have bearing on the use of the product.

With Citibank duly acknowledging that the questions raised are more in the realm of the industry positions in general, one expects more concrete answers from them. However, Citibank wants only to handle specifics and avoid commenting on the industry practice on this issue of customer service thereby letting its ignorant and tolerant customers remain gullible. Citibank can use its own staff to gather details through incognito visits. It appears that Citibank believes in gaining convenience on such matters at the cost of their customers.

Citibank is categorical on not to be approached unless one holds a Citibank credit card. Furthermore, Citibank would not entertain their cardholder on the issues unless it pertains to their own acquired merchants. Thus a Citibank cardholder when coming across merchant violations (from say, a HDFC Bank / ICICI Bank acquired merchant) would get recourse neither from HDFC Bank / ICICI Bank, nor Citibank nor MasterCard/VISA. (See responses from HDFC Bank / ICICI Bank and MasterCard/VISA)

4. ICICI Bank

The Bank's statements:

1. The acceptance of a particular card (Master/ Visa) is indicated by the merchant by displaying the logo at his outlet. Further the denial of a transaction by a merchant could be due to the terminal not operating or connectivity issues. However we would like to clarify that a merchant should not deny any transaction due to the value of the transaction (Low value purchases). We request you to provide us the details of the specific merchant (ICICI Bank Merchant) who has refused a low value transaction, to understand the reason for decline and can take suitable action accordingly.
2. Regarding the issue of a non- ICICI Bank Merchant and a customer holding an ICICI Bank Credit Card - we would like to state that ICICI Bank does not have a say on a non-ICICI Bank merchant.
3. The agreement between the merchant and the bank clearly states that
"The Merchant hereby undertakes to honor and accept every valid card when properly presented as a mode of payment by the customers for all transactions. The Merchant shall not engage in such acceptance practices or procedures that discriminate against, or discourage the use of Master/Visa Cards in favor of any other card that is also accepted by the merchant or other payment mode accepted by the merchant."
4. In case the merchant denies the acceptance of the card stating that the transaction is a low value purchase the same can be reported to the bank for further course of action.
5. In the Visa/MasterCard guidelines there is no such specific stating that the merchant cannot refuse a card transaction.
6. Any merchant accepting Master/Visa cards cannot charge any surcharge from the cardholder for making a purchase using his credit/debit card except in certain specific transactions as mandated by MasterCard/Visa. These are MasterCard/Visa guidelines which are applicable to merchants accepting Master/Visa cards. The same is also part of our bank's agreement with the merchant.
7. Any merchant shall not refuse to honour a card purchase below a certain value. This is also as per MasterCard/Visa guidelines and is part of our bank's agreement with the merchant.
8. If a cardholder faces issues with respect to the points mentioned, then we have a well laid out chargeback policy which can be used by the cardholder. This entails logging a written request, along with supporting documents (bill/invoice) showing such charges, with the card issuing bank. The issuing bank will then take up the matter with the respective Acquiring bank /MasterCard/Visa as per the prescribed process.
9. With respect to your point of this information not being clearly provided by our customer service officers, we are conducting refresher training for them.

10. We refer to your e-mail dated November 23, 2007 to Mr. Sachin Khandelwal. Your queries have been addressed by Mr. Anup Saha and Mr. Sunith Menon in your discussions with them. As stated in your mails to us, if you do come across any such irregularities (as mentioned by yourself) we request you to please provide us with the relevant documentary evidence so that the required action can be initiated.

Our Observations:

Points 1 through 5 of the bank's statement are standard response. However, when one seeks in-depth responses, the bank (as seen in points 6 through 11) clarifies that they entertain queries/requests/complaints only of their bank's cardholders on such matters.

The bank (unlike other banks) has a well laid out chargeback policy in case their bank's cardholders face any of the two problems in question. However such a documented policy could not be provided by the bank to be viewed by a prospective customer.

The chargeback policy entails logging a written request, along with **supporting documents (bill/invoice)** showing such charges. The bank will then take up the matter with the respective Acquiring bank / MasterCard / Visa as per the prescribed process. Without a **supporting document (bill/invoice)** the bank may not look into complaints or inconvenience of their cardholder. Thus in a surcharge situation, the bank has a policy to retrospectively help its cardholders who shell out cash despite having a valid ICICI Bank credit card and has no policy for helping a customer who is unable to purchase the merchandise (at a premium using the credit card) .

The bank did not answer as to how it has disseminated the information that in such instances of violation, a credit cardholder is supposed to contact ICICI Bank along with their bill/invoice.

The bank also did not advise as to what their cardholders should do in order to gather **supporting documents** when they encounter a merchant setting minimum transaction amount and its cardholders accordingly are either forced to buy a little extra or unable to purchase the merchandise, despite having a valid ICICI Bank credit card.

The bank could not address the last question posed to them on their procedure in place to charge back suitable amount for all transactions carried out on the ICICI Bank's EDC machine by the merchant (without a cardholder coming forward to make such a claim) when the merchant has surcharged.

The November 23, 2007 e-mail, as indicated by the bank in point 10, refers to an ICICI Bank acquired merchant RPG cell-u-com. The specific merchant's name was quoted in discussions with the bank officials. As a follow up, initially the officers assured to look into it, however later they informed that they, during their investigations, did not observe any surcharging activity being carried out by the said merchant. Thus, they reiterated their stance on documentary evidence.

The above shows, how the bank works towards customer service issues when it pertains to masses. With such state of affairs, one wonders how things could be when it comes to individuals!

5. Standard Chartered Bank

The Bank's statements:

1. Merchant Establishment agreement states that surcharging is not permitted on the Maximum Retail Price of product. Should the Merchant surcharge and a clear segregation is mentioned on the sales invoice, the issuing Bank can take up the matter with the Merchant. It is confirmed that if we evidence through the invoice/charge-slip that an SCB merchant has levied a 'surcharge' over and above the MRP (Maximum Retail Price), we will refund the surcharge amount to our customer and take up the matter appropriately with the merchant.

2. There are no regulations with respect to the minimum amount that needs to be swiped at the Merchant's Outlet. However, if a merchant declines to accept the card if the value of the transaction is INR 100 or less, then such precondition should be displayed prominently at the showroom / merchant establishment.

3. With regard to a minimum amount required for accepting a card payment there is no minimum amount stipulated by Banks. However a merchant may decide not to accept cards below a certain amount which should be displayed prominently for customer information and convenience.

Our Observations:

With regard to points 2 and 3 (point 3 being a reiteration and further clarification by the bank on what it said in point 2) on the issue of minimum transaction amount, it has been brought to our notice that the statements address the practice followed by some merchants.

It is a well know fact that in India under the Standards of Weights & Measures Act (Packaged Commodities' Rules) all manufacturers are required to print the MRP, inclusive of all taxes. This prohibits a merchant to sell the product at a price higher than the MRP. The mode of payment has nothing to do with MRP. The bank's response statements appear to indicate that they have set rules which are in violation to standards set by MasterCard/VISA.

6. SBI Cards

The Bank's statements:

1. The true and correct position is that this practice is an industry practice per se spanning across all credit card issuing companies. The inflated value by certain percentage (1-2% in this case) is per merchant agreement with the Bank from whom the Electronic Data Capture machine is procured and installed. Also the agreements regarding these charges are between the aforementioned acquiring Bank and the Merchant. Note that SBI Cards is a card issuing company and not a merchant acquiring company. The charge back policy is applicable from the acquiring bank and not by the card issuing bank which is SBI Cards in this case.

2. The cardholder may pay by cash and in the event that there are any merchants who declines on the basis of refusal of card in the swiping machine, the agreement of the acquiring bank with the merchant establishment shall be able to give some protection to the aggrieved customer. Once more the card issuing bank has no role to play in this context. You may also note that it is the cardholders' discretion of carrying out any transaction in cash or some other payment mode.

Our Observations:

SBI Cards is one of the largest credit card issuers in the country with over 3.2 million credit cards in circulation. The two issues on which concern was raised to the bank are not concern of SBI Cards and they indicated that the same needs to be addressed by the acquiring bank.

7. MasterCard

The Company's statements:

1. A merchant acceptance violation can be reported to MasterCard by the issuer. You can find the form on MasterCard OnLine, Member Publications. Under Quick Links, choose Business Forms. Select All Forms, then Acceptance Rules and Operating Regulations.

2. The issuer is the financial institution that issued the card to the cardholder. The cardholder should contact his financial institution and give them the merchant information so the issuer can report the merchant to MasterCard.

3. The reporting of merchant violations is not a mandate to the issuer. It is purely voluntary. If HSBC India does not wish to, they are under no obligation.

4. As I stated before, the cardholder should notify his issuer. The issuer should then follow MasterCard procedures and report the merchant violation.

5. All the information you seek is freely available either from MasterCard's website: www.mastercard.com or from the bank which issued your payment card.

6. Please note that financial institutions do not issue cards "on MasterCard's behalf". Rather, each bank issues cards for its own account and the banks (not MasterCard) enter into contractual relationships with its cardholders and merchants. While MasterCard sets standards which apply to the use of its brands, each bank is solely responsible for enforcing those standards against the merchants with whom they have an agreement. Accordingly, I trust you will now appreciate why your recourse is to provide the bank which issued your payment card with full details of any transaction as to which you have a complaint.

7. I would ask you to appreciate that your recourse is with the bank which issued your payment card, and MasterCard cannot provide you with any further assistance.

Our Observations:

The MasterCard has informed that "There are over 25 million locations where cardholders can use their MasterCard cards. As you might imagine, a network this large must operate under specific rules and regulations. MasterCard requires our members – banks and other financial institutions that issue cards and acquire transactions – to comply with MasterCard rules. Those members, in turn, must ensure that merchants they acquire for also comply with MasterCard rules.

Merchants are critical to the success of MasterCard, and that success is better assured if merchants are afforded access to and understand MasterCard rules applicable to their businesses. For this reason, MasterCard is pleased to now be able to share with merchants rules applicable to the acceptance of MasterCard cards and Maestro cards.

Please be aware that these rules establish minimum standards of acceptable conduct; an acquirer may require a merchant to adhere to additional, more stringent standards than MasterCard rules require."

Points 5, 6 and 7 of the company's statement come from the General Manager, South Asia, MasterCard Worldwide.

The MasterCard mentions that the customer's recourse is with the banks. On the other hand, HSBC and Citibank (to name a few) have indicated that MasterCard should address the issues. Thus, most of the unanswered questions still lie with MasterCard, more so since answers to them are not easily available by browsing the MasterCard website. Thus in view of the above and in view of the fact that MasterCard is indeed transparent on the issue in hand, the customers would expect them to address the specific questions explicitly.

Understanding MasterCard statement "While MasterCard sets standards which apply to the use of its brands, each bank is solely responsible for enforcing those standards against the merchants with whom they have an agreement.", leads to the basic question about the recourse for a customer in case a bank is not diligent in its responsibility for ensuring the MasterCard standards (which is at a cost to the MasterCard facility users and the card payments system of the country in general)?

This present situation of non maintenance of standards could be since some banks may either not understand or completely agree with the MasterCard standards or do not have a proper procedure in place to completely take the responsibility for ensuring the MasterCard standards.

It appears from points 3 and 4 of the company's statement that MasterCard is highly passive in their approach.

8. VISA

The Company's statements:

1. Visa will be publishing some India-based research this year (2007). The India-based research will provide you with inputs to your queries. Will share the research when it is ready!

2. There is quite a bit of information we are unable to supply at this time as Visa is currently undergoing a proposed restructuring that will most likely transform Visa from an association to a publicly listed company. As a result there is a lot of information that we are not at liberty to provide at this time due to certain restrictions under securities law. However, I can direct you to our website www.visa-asia.com, where you will find some basic information. Additionally, I can refer to you our SEC S-4 filing, which provides extensive detail of our business. <http://www.sec.gov/Archives/edgar/data/1403161/000119312507140569/ds4.htm>
If you have any specific card-related issues pertaining to your personal card, you may wish to contact the bank which issued that particular card.

3. Under normal circumstances your financial institution should have been able to provide you with the information. Regardless, the answers of VISA are:

- a) Merchants are not supposed to engage in surcharging or setting minimum transaction amounts. As a cardholder, you have a right to complain either to the bank that issues your VISA card or, (if you know it) the bank which handles that merchant's transactions (in many cases, this is displayed either at the shop front or on their card terminal). You can also ask for the information from the merchant.
- b) In India, the display of the logo gives the cardholder the right to use the card at par with cash.
- c) In India, the display of the logo give the cardholder the right to use the card and the merchant is liable to accept the card and swipe for the amount to be charged (however small the amount may be).
- d) VISA regulations require that the merchant must accept all VISA cards.

4. The answers to the questions below (see Our Observations) fall into jurisdiction of the RBI's banking and payment legislation. VISA suggests contacting RBI.

Our Observations:

One would, from points 1 and 2 of the company's statement, see that VISA has constraints in giving answer to the simple queries affecting the masses in India holding VISA cards or EDC machines. VISA (as on date) is referring to its research that would provide inputs to India's masses on its product.

The initial response does not make things clear as to what are the exact questions to which VISA is not at liberty to provide information. Information had only been sought on VISA product in current use by cardholders across India (and worldwide). It is important to note that it is the banks who are directing their cardholders to VISA for the answers since it appears that the banks themselves may not be aware of any documented procedures laid down in this regards.

Response as in points 2, 3 and 4 of the company's statement come from the office of Country Manager, South Asia, VISA International.

The questions for which VISA suggests to contact RBI are:

- a) Through what means have VISA ensured that the VISA cardholders in India are aware of their rights on the issue?
- b) Has VISA made it mandatory for the banks to entertain such complaints from a cardholder?
- c) In connection with VISA's advise on cardholders' right to complain, is it required to provide some sort of a documentary evidence (in other words, one needs to purchase the merchandise indicating surcharge or card charges in the receipt) in order to enable a bank initiate corrective measures or carry out an investigation?
- d) In case merchandise is purchased at a cost which includes a 1% (say) surcharge, would it imply that VISA (or its franchise bank) is liable to payback this surcharge amount once pointed out by the cardholder?
- e) What is the fate of the bank's VISA credit card and its holder, in case the holder declines to pay the surcharge and thus either declines to purchase the merchandise or pays through cash?
- f) In case of a merchant's refusal to honour a card purchase below a certain value, what is VISA's well laid down procedure for its franchise banks to counter such a situation faced by VISA cardholders?

4. Further Data and Analysis

In July, 2008, this paper was circulated in the form of a draft report for receiving inputs and disagreements, if any. Each of the respective financial institution's top management was contacted and reverts obtained based on such communications. First we itemize the respective responses and then try to address them.

1. HSBC

Have no disagreements or inputs.

2. HDFC Bank

The bank has wished to bring to notice certain disagreements. For instance the average merchant discount rate (MDR) which is paid by the merchant to the acquirer bank is far below the 2% that we have considered. Also, the bank wishes to reiterate that it undertakes trainings for its customer service officers on a regular basis. Further the customer service officers have always been advised on the steps to be followed for resolution of complains and queries pertaining to the concerns raised here.

3. Citibank

The Bank raised certain concerns as below:

1. As you are aware from our previous correspondence, we are constrained by policy to comment on matters that are generic in nature and do not refer to Citibank in particular.
2. We are also disappointed to note your comments on our earlier responses to you on this subject.
3. In our view, these are drawn out of context and are undeservingly uncomplimentary.
4. As stated in our earlier response, Citibank remains committed to helping our customers with any specific issue pertaining to Citibank that is brought to our notice.

5. And while we will reserve comment on industry practices, we wish to reiterate that we ensure that if our customers highlight to us any issues of this nature, we resolve their concerns to their satisfaction at the earliest.

4. ICICI Bank

Have no disagreements or inputs.

5. Standard Chartered Bank

The bank provides clarification as below:

a) On the *Surcharge* issue

i) The bank reiterates that if a Standard Chartered Bank merchant has recovered surcharge (with the result of total amount of charged exceeding MRP) and the cardholder provides the bank a proof of it, the bank will refund the surcharge to the customer and pursue appropriate action against the merchant.

ii) The bank under their merchant agreement requires that the merchants do not discriminate credit card payment against any other mode of payment.

iii) The bank's stand as above is thus to ensure that the merchant does not sell for a price in excess of MRP.

b) On the *Minimum transaction amount* issue

i) The bank's response to this question was a statement on the practice followed by some merchants.

ii) Under the merchant agreement, the bank requires that the merchant does not discriminate credit card payment against any other mode of payment. This includes that the merchant cannot stipulate a minimum transaction amount for accepting a card.

iii) In case the bank receives a complaint on this matter from their customer, the bank investigates and takes appropriate action against the merchant.

6. SBI Cards

Have no disagreements or inputs.

7. MasterCard

MasterCard highlight inaccuracies in the paper and findings which do not appear to be supported by facts. While MasterCard is pleased to support the academic exercise on which considerable energy is spent, MasterCard should not be taken, expressly or implicitly to agree with any of the findings whether or not comment is made here.

a) One of MasterCard's objectives is to ensure MasterCard branded payment cards are used at as many locations as possible. Merchant practices which refuse or discourage acceptance of payment cards are therefore of high concern to MasterCard. MasterCard also places considerable resources to ensure that the costs of the payment system are allocated in an appropriate manner designed to maximise the payment network and its usage. Further information on interchange is provided. Accordingly, MasterCard consider there to be no foundation to conclude any "unwillingness" to address these issues or a "lukewarm attitude" or other negative finding.

b) MasterCard does not agree that "identical scenarios" exist in other countries. For example, in Australia, the position is markedly different to that in India.

c) No source is indicated for the statistics. The source is not MasterCard.

d) While there is reference to American Express in section 2, there is no explanation, comment or other reference to the very different, 3 party model of American Express compared to that of MasterCard or Visa. The merchant service fee on an American Express transaction is typically higher than on a MasterCard transaction.

e) A fundamental error is the comment, in various parts of the paper, that MasterCard sees any revenue from interchange. In the MasterCard payment system, interchange on a POS transaction passes through completely from acquirer to issuer. Kindly refer to the documents attached below to understand interchange:

f) The attached interchange materials also explain that the purpose of interchange is to allocate costs in order to optimize the output of the system. There is no profit element in the calculation of interchange fees when set by MasterCard.

g) There is no rationale to support the suggestion that the merchant discount fee should be different whether the issuer and acquirer are the same entity or not. Precisely the same services are involved to cardholder and merchant so there is no compelling reason for the fee to be reduced.

h) From the passage of the RBI report cited, we would have thought that some conclusion would be drawn about the cost of cash, including the perception that it is zero or that it is incurred by parties other than the merchant.

i) That MasterCard receives no revenue from interchange partly proves the inaccuracy of your conclusion that MasterCard would not want to see a merchant removed from the system as it would lose revenue. More importantly, a merchant who discouraged card transactions while purporting to accept payment cards creates cardholder dissatisfaction and, to a degree, makes that cardholder less inclined to use the card for future transactions. Mitigating that risk and ensuring merchants comply with the payment system rules is considerably more important to MasterCard than retaining a merchant who discourages card payments.

j) We would query how it can be said that all merchants, in all retail sectors operate on the same thin margins. A grocery store and a jewellery store are likely to have very different business models. Merchants are likely to have different ideas about what is a "high" merchant service fee, in part, dependent upon the form of payments which merchants receive. An internet merchant is likely to have a greater appetite to accept card payments than a small shop with low ticket sizes.

k) The conclusion that the Australian experience of surcharging provides a useful precedent for India is most surprising. In Australia the surcharge is not pegged to the merchant service fee but represents a means for dominant merchants to gouge cardholders. Combined with the restrictions

on interchange, merchants have enjoyed windfall revenue, largely at the expense of cardholders. Your paper does not consider what the effects would be on cardholders and issuing banks of reducing merchant service fees or permitting merchants to surcharge. The attached material highlights the detrimental consequences of the Australian regulation.

l) You may also wish to review the CRA report on the subject (http://www.mastercard.com/us/company/en/ourcompany/cra_intl_report_on_regulatory_intervention.html).

m) Around the world, MasterCard places great importance on consumer education. With over 1 billion cards in issue and over 25 million acceptance locations, you will understand that this is not a road MasterCard can walk alone but requires contribution from all stakeholders. In India, please visit www.money4you.in

n) We do not consider it appropriate to comment on your correspondence with any other party. We do not feel we can do more than reiterate our several previous responses. Surcharging a payment card transaction such that the cost to the cardholder at the point of sale is more than the marked retail price or the price a cash customer would pay (subject to any discount for cash) is not permitted under MasterCard's rules. MasterCard has a contractual relationship with neither the merchant nor the cardholder. The merchant should have contractual obligations (e.g. not to surcharge) with its acquirer which the acquirer (and not MasterCard) can enforce contractually. MasterCard has developed a system for the banks to resolve acceptance issues and provides a dispute resolution mechanism between banks. We struggle with your conclusion that, despite having no contractual relationship with merchants, MasterCard is highly passive or that it has not answered questions.

o) MasterCard does not establish merchant agreements. These are negotiated between Acquirer and merchant.

p) Having carefully analyzed the Australian experience, particularly the detrimental effect on cardholders who are paying more for a reduced service, your conclusions might be more robust in this respect.

8. VISA

Communicated no disagreements or inputs.

9. BCSBI

Communicated no disagreements or inputs.

10. RBI

The central bank has noted the increased usage of credit cards in India of late and considers the study timely but needs to ensure that the reflections of such a study provide the right perspective to the common man. RBI's observations are as follows:

a) The paper contains several conclusions which are not corroborated by irrefutable data or facts.

- b) The conclusions appear to be based on inadequate research. Further, some of the statements appear to be opinionated. There should be no bias on the part of the person/s conducting any study, but in this case, one gets a feeling that that research seems to have been done to reach a pre-decided conclusion.
- c) A survey of this nature, we feel, should have been based on personal interactions which could have led to more valid and useful conclusions.
- d) No merchant / POS end has been a part of the survey which is necessary for arriving at some crucial conclusions which would be correct only if their input is taken into account.
- e) The researchers seem to draw their own conclusions from the responses of the banks, which would not ensure in an objective, meaningful and implementable set of recommendations.
- f) Given the above, the Reserve Bank is of the considered view that a lot more has to be done before substantially sound conclusions can be arrived at.

After studying each of the responses, where there are disagreements or constructive inputs, we arrive at the following.

HDFC Bank:

HDFC Bank has highlighted a very important point. It is true that the authors have no explicit data to indicate the exact average MDR for the card business in India. We wonder whether it could be possible to arrive at such a figure unless each acquirer bank shares its average MDR and the number of merchants involved in arriving at such an average. We indicate that “considering the average MDR to be 2%, the revenue generated in the card business, through MDR only, is of the order of Rs. 1160 crore”. Nevertheless, now that HDFC Bank has indicated that their bank’s average MDR is far below 2%, this raises a vital question on the reasonability of it charging 2.5% from cardholders for purchases of petrol/diesel/CNG at the gas stations or charging 2.5% from cardholders for train tickets purchases at the railway ticket counters. Based on general interaction with banks, it transpires that over the years, the average MDR has been decreasing. However, MasterCard/VISA found it justified to retain the 2.5% charge on gas station purchases and train ticket purchases. Furthermore, one needs to take into consideration that nonpayment of any merchant service charges by the gas station owners or the railway company amounts to acceptance by MasterCard/VISA that there is no convenience gained by these merchants for accepting card payment as a mode of receiving sale proceeds. This may be in contradiction to the general view floated by MasterCard/VISA that the MDR includes a charge that merchants pay for the convenience gained in non-handling of cash.

Another factor playing its role in order to justify a component of MDR is the merchant’s increase in sales while accepting card payment as a mode of receiving sale proceeds. Most often sales do increase and the net gain from such increased sales is expected to offset the price merchants pay as part of their MDR. It is crucial for a merchant to be able to figure out what MDR would indeed be beneficial for them. Once they are able to demonstrate such a figure, MDR should not be accepted above that threshold MDR. Ideally, while pricing a product, the merchant should assume that the payment is received by cash. Let such a pricing be Rs. 100. Note that while arriving at the price, the merchant has taken all factors into consideration which includes the cost of cash handling while selling the product. Let us also assume that the net profit is Rs. 5. Suppose the merchant sells 80 pieces of the product in case it accepts cash only and is able to sell 95 pieces of the product in case it accepts card as well. While accepting card, the sale

distribution could be say 55 pieces by cash payment and 40 pieces by card payment. Now, let 2% be the MDR leading to spending an extra Rs. 2 each on the 40 pieces sold using a credit card. Thus, (i) the net profit for 80 pieces sold is $5 \times 80 = 400$ and (ii) the net profit for 95 pieces sold is $5 \times 55 + 3 \times 40 = 275 + 120 = 395$. In this example, it appears that not accepting card as a mode of payment is more profitable to the merchant. However, if the merchant is able to negotiate a MDR of 1.875% or less, it makes sense for him to start accepting card as a mode of payment. The above is a simplified version of a more complex model. Here we have taken the impact of convenience for accepting card (in terms of cost) as zero since its overall impact is expected to be minimal. Instead of zero in case we take it as 1% of the net sales through card, the net profit would be $395 + 1.20 = 396.20$. This in turn would mean that if the merchant is able to negotiate a MDR of 1.9059% or less, it makes sense for him to start accepting card as a mode of payment. Now, in a gas station, it is expected that sales would increase in case credit card is accepted. This in turn does increase the net profit in the balance sheet of the gas station. If this is so, there is no reason why a gas station owner would not agree to pay a well calculated MDR. It is acknowledged that this MDR has to be quite low since the total consumption level of automobile fuel would not go down in case all gas stations jointly decide not to accept credit cards. However, in case some gas stations accept cards and some don't, the ones not accepting cards would definitely see a drop in sales.

There needs to be a level playing field among all merchants and service providers in India. Thus, it would be desirable to remove the charges a card holder pays at gas stations and train ticket counters by introducing appropriate MDR for them. This would remove any kind of bias among the merchant community accepting cards. There is no surcharge of the kind in any country (except Australia, of course) and thus India's falling in line needs to be relooked by RBI in the interest of the country's credit card payments system.

There is no doubt that HDFC Bank undertakes trainings for its customer service officers on a regular basis and have in place steps that is followed for resolution of complains and queries pertaining to the concerns raised here. However, the bank has still maintained, while disseminating information (HDFC Bank Terms and Conditions) to their card holders, that

“1. The Bank will not accept responsibility for any dealings the Cardholder may have with the merchant including but not limited to the supply of goods and services. Should the Cardholder have any complaints concerning any Visa Electron / Maestro merchant establishment, the matter should be resolved by the Cardholder with the merchant establishment and failure to do so will not relieve him from any obligations to the Bank. However, the Cardholder should notify the Bank of this complaint immediately.

2. The Bank accepts no responsibility for any surcharge levied by any Merchant Establishment and debited to the Cardholder's account with the transaction amount. However, at Railway stations and Petrol pumps, transaction charges as per industry practice will be applicable.

3. The Bank accepts no responsibility for refusal by any establishment to honour the Card.”

Thus there still appears to be some disconnect between what the card member should do and what the bank wants the card member to do.

Citibank:

We did not expect that the comments in the report would be something to rejoice with since based on the facts we could not comment anything positive which would be in the interest of Citibank cardholders.

We do agree that the comments, from the company's standpoint, are indeed undeservedly uncomplimentary. That is the basic reason why (through a draft report) we requested Citibank to correct us with true facts. Though could be unintentional, making a casual statement like "these are drawn out of context" would not help in correcting what may be incorrect in the observations made in the report. We have requested Citibank to be more specific.

Our observations do not concern Citibank's general commitment in helping their customers with any specific issue pertaining to Citibank that is brought to their notice. There would not be two opinions on the impeccable quality of customer service provided by Citibank. However, specific to the two issues in hand, the bank's terms and conditions in the Cardmember Agreement do not safeguard or educate on the aspects in focus. In fact, it clearly states that

“1. The Cardmember can use the Credit Card to pay for charges incurred for transactions conducted by the Cardmember at the Merchant Partners and the Merchant Partner accepting MasterCard/Visa Credit Cards and Diners Club Cards, as the case may be, subject however, that Citibank and the Merchant Partners concerned reserve the right at any time to refuse without any notice to permit the use of the Credit Card at the Merchant Partner for any reason whatsoever.

2. Citibank shall not be made party to any disputes between the Cardmember and the Merchant Partner. The Cardmember shall not communicate in any manner whatsoever, *inter alia*, by electronic mail, telephone, post, or personal meeting, with Citibank in this regard any such communication if sent to Citibank shall not be entertained by Citibank.

3. Without prejudice to the foregoing, the Bank shall be under no liability whatsoever to the Cardmember in respect of any loss or damage arising directly or indirectly out of (b) the refusal of any Merchant Partner to honour or accept a Card; (i) any injury to the credit character and reputation of the Cardmember alleged to have been caused by the repossession of the Card and/or any request for its return or seizure of all or any purchases made on the Credit Card or the refusal of any service establishment/mail order establishment to honour or accept the Card.”

Citibank reiterating that they ensure resolving customer concerns to customer's satisfaction at the earliest when any issues of this nature are highlighted. Doesn't this again contradict Citibank's earlier stance? How could Citibank provide satisfaction through the current system that allows 'a pass the parcel' between banks and the credit card companies?

We do not think Citibank should expect each and every cardholder to be having interest, time, knowledge, awareness and tenacity to run after a surcharged amount. This idea has also been highlighted by RBI Deputy Governor Usha Thorat in one of her recent speeches, quote

"In the area of customer service the cherished principles in treating customers fairly are transparency, reasonableness, truth in selling, confidentiality and assistance when needed, apart from effective grievance redressal machinery. However, quite often one comes across cases of complaints where these principles are hardly followed and the customer feels treated unfairly - for every one person who files a complaint there are probably 99 others who do not."

Again, in BANCON 2007 panel discussion on 'Delivering Superior Customer Experience', Citigroup CEO-India Mr Sanjay Nayar admitted to customers becoming more discerning, while stressing the need for a right business model for every set of clients. He urged bankers to have customer champions who would take up the cause of customers and ensure they take customers complaints very seriously. He said the incidence of customer complaints could be significant but would have to be taken up at the CEO level, lest it manifests itself in many ways.

Keeping Ms. Thorat and Mr. Nayar's views in forefront, we are unable to find the champions (at least for the two issues under focus) which Mr. Nayar is referring to.

Standard Chartered Bank:

Standard Chartered Bank has reiterated that even though the bank under their merchant agreement requires that a merchant do not discriminate credit card payment against any other mode of payment, it still considers the issue of surcharging perfectly within MasterCard/VISA guidelines as long as the merchant's recovery of credit card surcharges does not lead to the total amount charged exceeding the MRP. Thus, the bank taking a stand to only ensure that the merchant does not sell for a price in excess of MRP appears quite misleading. Also, from the bank's stand, one gets a feeling as if payments made through cards necessarily correspond to a manufactured product for which a MRP holds. The vast business of various services rendered in the country, (e.g., automobile servicing, movie halls, car rentals, etc.) for which a manufacturer is not involved, the bank has no say and no responsibility on the issue of surcharging.

On the minimum transaction amount issue, Standard Chartered Bank acknowledges that the practice is followed by some merchants. The bank makes it clear that it requires the merchant not to discriminate credit card payment against any other mode of payment and thus the merchant cannot stipulate a minimum transaction amount for accepting a card. Furthermore, it appears that there already exists a procedure in place where Standard Chartered Bank investigates and takes appropriate action against merchants prescribing such minimum transaction amounts. This is unlike most of the other card issuing banks.

MasterCard:

MasterCard does not address our impression regarding the "unwillingness" or a "lukewarm attitude" or other negative finding with respect to surcharge or minimum transaction issues. Information on interchange or MasterCard working a lot on interchange issues are not the thrust point of the paper. However, materials provided by MasterCard are quite informative and they are (web-links provided)

- Interchange and the Payments Industry. MasterCard Fact Sheet
<http://www.mastercard.com/us/company/en/docs/Interchange%20backgrounder.pdf>
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The paper does indicate that the Australian experience of surcharging provides a useful precedent for India. However, no conclusion has been made regarding going the Australia way. That has been clearly left to the RBI. That is why we felt no need to study the Australia situation

in detail. Though Australia way is an alternative, our thrust throughout is in the direction of no surcharge.

On lines of MasterCard, the present study also places great importance on consumer education regarding where one stands when faced with a surcharge situation or non acceptability of card below a certain amount. This paper attempts to contribute in that direction.

In case MasterCard had not been passive towards addressing the issues, it should have (keeping in mind that “Around the world, MasterCard places great importance on consumer education”) reverted with answers in the interest of consumer education. Note that many of the questions still remain unanswered and MasterCard still want to debate on whether it should be answered by them or not. In fact some of the answers provided by MasterCard has highlighted that it may consider not appropriate to take actions against member banks who fail to follow the membership rules.

MasterCard’s response is concentrated on the issue of Interchange which, incidentally, is not the focus of this paper. To summarize, literature provided by MasterCard, or its explicit response on the draft report, could not highlight how it is addressing the two main concerns of this paper. In contrast, note that VISA has made its position clear by making RBI responsible for addressing the two issues.

RBI:

In order to improve on the present study, based on inputs received from RBI, a draft report was sent to concerned financial institutions in order to corroborate any irrefutable data or facts. As a result, HDFC Bank’s inputs have thrown some new light on the Average MDR. Also, MasterCard has quite adequately highlighted how it would be wrong to go the Australia way.

We feel no research of the nature undertaken here, could be classified as complete. There would always remain further research to be done and new ideas to come. However, there need to be a beginning. Our present study is just to highlight certain findings derived not from explicit numerical data analysis but by analyzing the opinions of various players in the credit card business. It presents the dilemmas in acceptability standards of payments by credit cards. In particular, the paper brings out the predicament among the various players in the credit card industry on the two issues under focus. We have addressed only the facts and have tried to carefully research and argue on the conclusions arrived at. The current system allows “a pass the parcel” between banks and the credit card companies that is counterproductive for customers and merchants alike. The suggestion that merchants would have to display as part of the MasterCard/VISA decal the rules on not surcharging and no minimum transaction amount would be very useful in stopping the problem (though neither side, banks and card companies, may be very keen on doing this).

Having said this, the flip side is equally important. In order to remain unbiased, it is necessary to keep open the option to allow surcharging by all merchants, as in Australia. However, as correctly pointed out by RBI, this would require opinions from merchant organizations and a survey of the merchant establishments. Such a survey would also highlight the issue of

appropriateness of the quantum of MDR applied on credit cards vis-à-vis cash transactions, costs and profits, etc.

It is felt that reasoned views and comments of the merchants is crucial in deciding whether they feel there is some component of unreasonableness in arriving at the MDR, more so since currently credit card has taken the place of a basic banking service for the merchants. We have already received feedback from few merchants and organizations and further inputs from companies are required to have a well represented view of the merchant community. However, this can be taken up as a separate study like the one carried out in a recent CRA report (see reference [13]) on the subject.

As an example, consider the industry which caters to retailing of Mobile Phones, Laptop, Accessories etc. Their retail margin varies from 2% to 6%. This means that effectively such retailers decide to keep on an average 4% margin on sales. Now when customers buy using a credit card, retailers need to pay at least 1.25% of sales as card usage charges to the banks. On this when one adds 12.36% service tax, this works out to 1.4045%. Now, when 65% of total sales happen through credit cards, this would in effect have an impact of 0.9129%. This works out to 23% of the 4% margin on sales. This means that by accepting credit card as a mode of payment the company ends up being short by 23% of the margins decided upon. Most companies thus decide on margins after embedding the bank charges into their costs. As a consequence companies usually hike their price appropriately by thinking to keep 4.9129% margin but effectively land up in achieving the target of 4%. In this process they are passing on the expenditure for cards to those who pay cash. The payment system of a country may not have envisaged this while allowing the card system. Thus, a way out is possibly to allow surcharging.

On the question of increased sales, yes, there may be an increase, but there is no guarantee that this increase would necessarily retain the desired margin for a given MDR. On the other hand, not accepting cards would deprive the company of their customers. These days the question of credit cards being a mode of increase in sales has diminished and it has taken a shape of a basic mode of payment in any economy's payment system. Like cash, card is just a mode of payment accepted by the payment systems of a country. The government incurs cost for offering cash as a mode of payment. With the use of the credit card system, the government's expenditure on cash would decrease. The savings on such costs needs to be channelized to the banks so that this can act as a subsidy on card transactions leading to reduction in MDR. This needs to be coordinated by RBI.

Based on the data and its analysis, we now draw our conclusions.

5. Remarks and conclusion

It appears that we are in a Catch-22 situation. When one approaches HSBC or Citibank in the first place to report merchant violation, they direct cardholders to MasterCard/VISA. MasterCard in return directs back to HSBC/Citibank as they are unwilling to address the issues though on paper they have set up rules to overcome the two problems. VISA says that in India, the display of their logo gives the cardholder the right to use the card at par with cash and the merchant is

liable to accept the card and swipe for the amount to be charged (however small the amount may be) and are not supposed to engage in surcharging. They add that the financial institutions should be able to provide this information in normal circumstances. In case MasterCard and VISA are correct, it appears that they have not instructed the banks clearly what their duties are and the banks take advantage of this lukewarm attitude of the MasterCard/VISA.

HSBC and Standard Chartered Bank's replies clearly indicate that they are not guiding the cardholders about the correct procedure on MasterCard/VISA merchant violations. This thus appears more of a violation on part of member institutions that issues the credit cards.

When HSBC/Citibank cardholders come across such merchant violations (from say, a HDFC Bank / ICICI Bank acquired merchant) they would get recourse from none of (1) HDFC Bank / ICICI Bank, (2) HSBC/Citibank and (3) MasterCard/VISA.

The banks along with MasterCard/VISA have nothing to say about the fate of a bank's credit card and its holder, in case the holder declines to pay the surcharge and thus either declines to purchase the merchandise or pays through cash. Again, in case of a merchant's refusal to honour a card purchase below a certain value, the banks do not have a well laid down procedure to address such a situation faced by their cardholders.

An exercise was undertaken wherein the phone desk of the card customer service was approached. For each of the above banks, it became apparent after talking to the customer service officers that the banks have no specific advice except to indicate that such grievances relate to understandings/relations between the merchant and the buyer on the merchandise in question. The officers reiterate that the bank has no say since it is up to the buyer either to pay a surcharge or pay cash or decline to purchase the merchandise. Again, in case of prescription of minimum transaction amount the officers explain that the merchant can set his own standards. In short the banks rather than laying down correct procedure to financially educate their cardholders are misguiding them on procedural facts.

Merchant agreements, as established by MasterCard/VISA prohibit passing on the cost to the cardholder in the form of a surcharge. Despite that, the merchants pass on the costs in the form of "surcharge", "convenience charge", etc. Though the practice is prohibited in letter, one does not see any evidence of the credit card companies enforcing the provision in spirit. Based on several (off the record) discussions with some card industry executives, it emerges that non-enforcement in this area makes sense in order to solicit their merchant account business.

It is the acquiring bank's responsibility to ensure that the merchant does not surcharge. Banks usually fail in their responsibility to supervise the acquired merchant which is at a cost to the cardholders. A cardholder's relationship is only with the bank which has issued the card. Whatever may be the reasons for such surcharging activity, the acquiring bank is required to fully accept the responsibility and also be liable to compensate the cardholders. The MasterCard and VISA need to coordinate between the issuing and acquiring banks for such matters.

MasterCard Category B noncompliance addresses conduct that is visible to customers. The Corporation has the authority to impose immediate monetary noncompliance assessments for

incidents of category B noncompliance or, in the alternative, may provide notice and limited time to cure factors relating to noncompliance before imposing monetary assessments. “Visible to customers” violations include, by way of example but not limitation, noncompliance regarding the use of the Marks, identification of the Merchant at the point of interaction, or the setting of minimum and maximum Transaction amounts.

Violations to above, as per MasterCard Rules, attract penalties on member banks ranging from up to USD 20,000 on first violation to up to USD 60,000 on third violation within 12 months. Fourth and subsequent violations within 12 months attracts up to USD 100,000 per violation. For further details see Appendix B.

Though the banks have the freedom to charge any MDR (and RBI has presently granted the banks the freedom of competition), the credit card payments system does not allow the merchant to decide on whether to charge a component of the MDR from their customers. Should competition guide the merchants too? With freedom given to banks to set any MDR, it appears unjust to force merchants not to have a level playing field. Furthermore, a merchant for an acquiring bank is just a depositor who brings in new funds for the bank in form of credits into his current account. Thus, merchants in absence of strong deterrent may prefer to surcharge their customers and the bank or even MasterCard/VISA tend to play low on these issues fearing resentment in the merchant community like in the west.

Credit card surcharges in Australia are regulated by the Reserve Bank of Australia. In Australia, merchants such as shop keepers, trades people and other businesses can charge an extra fee (a surcharge) if you pay for goods and services with a credit card. This surcharge allows them to recover the costs of processing credit card payments. The Reserve Bank of Australia re-regulation assumed merchants wouldn't surcharge as this would push customers away, but the sea change in surcharging that is taking place now seems to be having the opposite effect. For more details see references [6] and [7].

By agreeing to accept the card payments, the merchant not only gets business for the financial players but also increases its own clientele by encompassing persons who prefer to use cards rather than carry cash. Further, like banks gain convenience and cost reductions by using ATMs to dispense cash, the merchants also gain convenience by using EDC machines that result in lesser cash handling. None-the-less, the merchant violations exist because the banks do not care and the cardholders are tolerant, ignorant and worse, habituated to using card rather than carry cash. Cardholders' ignorance is more a contribution of the banks and MasterCard/VISA who are not willing to provide proper guidance/education to the cardholders. There also lags a proper and customer friendly procedure for the banks to entertain reporting of such violations or eliminating such violations. The industry position as it stands now can only be attributed to MasterCard and VISA's reluctance to act, follow proper procedures towards removing such practices and its tendency to gain convenience at the cost of credit cardholders in India.

The matters were also raised with the BCSBI and RBI. BCSBI apparently got in touch with a few banks to understand the industry position. However, no firm stand on this has so far been received from them. RBI on the other hand indicated that such aspects are governed by the terms and conditions of the agreement between the merchant establishments and service providers like

MasterCard and VISA. RBI also rightfully adds that the mutual agreement between a bank and a merchant establishment governs their mutual relations and RBI guidelines do not cover such operational aspects as yet. However, the lack of discreteness in either way may not be in the interest of the card payments system and customer/merchant service in the card business.

The Reserve Bank of India has been proactive in bringing out transparency in credit card operations in India. In its latest circular to the commercial banks based on its finding from its own studies on credit card operations of banks, it directs banks on matters pertaining to card issuance, card statements, interest and other charges and a host of other issues (see references [8] and [9]). The instructions contained therein will streamline several aspects of credit card business. However, with the RBI having regulatory powers, under the Payment and Settlement Systems Act 2007, not only to regulate banks but even to designate and regulate the business procedures and practices of MasterCard/VISA, the general public looks up to the RBI for a possible solution on the issues raised on this paper as well. Moreover, VISA feels that such customer centric issues fall into the jurisdiction of the RBI's banking and payment legislation. As a possible rectification of the existing industry position, RBI could consider making it mandatory for the banks to ensure that their acquired merchants apart from displaying the MasterCard/VISA decal also display that (1) "as required by credit card rules they do not surcharge" and (2) "as required by credit card rules they have set no minimum/maximum amounts for a transaction". This would not only serve as a self control for the merchants, but would also serve towards an awareness program for banks, merchants and cardholders alike. Alternatively, since surcharge is not good as per MasterCard and since banks have taken the responsibility to ensure that there is no surcharging done by their merchants, in order to facilitate the banks to eliminate surcharging and identifying merchants who surcharge, it would be best to set a regulation by RBI where a bank would be required to pay a card holder double the amount which has been surcharged due to use of credit card (vis-à-vis cash) as a mode of payment. This way we expect the card holders to report more of such cases, allowing identification and subsequent removal of such merchants from the system. This is a win-win situation for the banks, MasterCard/Visa and the cardholders. This would hold provided RBI arrives at a policy decision that surcharge is not good for the Credit Card payment system. In case RBI feels otherwise, then RBI, in the interest of clarity and consumer education should make a policy of allowing surcharging by merchants.

In case RBI feels prudent to go the Australia way, it would be so keeping in mind the genuine problems faced by merchants and related indirect burden on general public who prefers using cash. In this case, if the merchants are allowed to surcharge, they may have no reason to prescribe any minimum transaction amount.

Acknowledgements

The genesis of this work is based on certain initiatives taken in 2007-08 and some general feedbacks received from RBI and BCSBI. We would like to thank RBI, BCSBI, MasterCard, VISA and several card issuing banks for some fruitful inputs. The original text of the correspondence with the financial institutions is available with the authors. In the paper all possible care has been taken to project the correct picture using the data gathered. Deviations, if any, are inadvertent.

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Appendix A

Credit and debit card business in India

Year / Period	Card Payments					
	Credit			Debit		
	Number of Valid Cards (Lakh)	Number of Transactions (Lakh)	Amount of Transactions (Rs. crore)	Number of Valid Cards (Lakh)	Number of Transactions (Lakh)	Amount of Transactions (Rs. crore)
2003-04	–	1,001.79	17,662.72	–	377.57	4,873.67
2004-05	–	1,294.72	25,686.36	–	415.32	5,361.04
2005-06	173.27	1,560.86	33,886.47	497.63	456.86	5,897.14
2006-07	231.23	1,695.36	41,361.31	749.76	601.77	8,171.63
2007-08 (P)	275.47	2,282.03	57,958.52	1,024.37	883.06	12,521.22

Source: RBI Bulletin July 2008

Appendix B

Extracts from MasterCard Rules February 2008 (Revised 7 March 2008), MasterCard Worldwide

5.9 Prohibited Practices

An Acquirer must ensure that none of its Merchants engage in any of the prohibited practices set forth in this Rule 5.9.

5.9.1 Discrimination

A Merchant must not engage in any acceptance practice that discriminates against or discourages the use of a Card in favor of any other acceptance brand.

5.9.2 Charges to Cardholders

A Merchant must not directly or indirectly require any Cardholder to pay a surcharge or any part of any Merchant discount or any contemporaneous finance charge in connection with a Transaction. A Merchant may provide a discount to its customers for cash payments. A Merchant is permitted to charge a fee (such as a bona fide commission, postage, expedited service or convenience fees, and the like) if the fee is imposed on all like transactions regardless of the form of payment used, or as the Corporation has expressly permitted in writing. For purposes of this Rule:

1. A surcharge is any fee charged in connection with a Transaction that is not charged if another payment method is used.
2. The Merchant discount fee is any fee a Merchant pays to an Acquirer so that the Acquirer will acquire the Transactions of the Merchant.

5.9.3 Minimum/Maximum Transaction Amount Prohibited

A Merchant must not require, or indicate that it requires, a minimum or maximum Transaction amount to accept a valid and properly presented Card.

3.1.2 Failure to Comply with a Standard

Failure to comply with any Standard(s) may cause damage to the Corporation in an amount difficult to calculate. Accordingly, a Member that fails to comply with any Standard is subject to such liquidated damages (“noncompliance assessments”) as may be set forth in the Standards or that the Corporation deems to be necessary or appropriate. In lieu of or in addition to the imposition of a noncompliance assessment, the Corporation may require a Member to take such action and the Corporation itself may take such action as the Corporation may deem necessary or appropriate. The Corporation has the sole power to determine whether to impose a noncompliance assessment and the amount of any such assessment. The Corporation has the authority to immediately impose a noncompliance assessment for any noncompliance with any Standard or, in the alternative, may provide notice and limited time to cure such noncompliance before imposing a noncompliance assessment.

3.1.2.1 Noncompliance Categories

The Corporation has implemented a compliance framework designed to group noncompliance with the Standards into three (3) categories.

3.1.2.1.1 Category A—Payment System Integrity

Category A noncompliance affects payment system integrity. The Corporation has the authority to impose immediate monetary noncompliance assessments for incidents of category A noncompliance with the Standards. “Payment system integrity” violations include, by way of example but not limitation, noncompliance regarding Membership and License requirements, Merchant signing and monitoring requirements, or protection of Card, account, and Transaction information.

3.1.2.1.2 Category B—Visible to Customers

Category B noncompliance addresses conduct that is visible to customers. The Corporation has the authority to impose immediate monetary noncompliance assessments for incidents of category B noncompliance or, in the alternative, may provide notice and limited time to cure factors relating to noncompliance before imposing monetary assessments. “Visible to customers” violations include, by way of example but not limitation, noncompliance regarding the use of the Marks, identification of the Merchant at the point of interaction, or the setting of minimum and maximum Transaction amounts.

3.1.2.1.3 Category C—Efficiency and Operational Performance

Category C noncompliance addresses efficiency and operational performance. The Corporation has the authority to impose immediate monetary noncompliance assessments for incidents of category C noncompliance or, in the alternative, may provide notice and limited time to cure factors relating to noncompliance before imposing monetary assessments. “Efficiency and operational performance” violations include, by way of example but not limitation, noncompliance regarding presentment of Transactions within the required time frame, supplying Merchants with materials required for Transaction processing, or the obligation to provide the Corporation with requested information.

3.1.2.2 Noncompliance Assessments

The following schedule pertains to any Standard that does not have an established compliance program. The Corporation may deviate from this schedule at any time.

Noncompliance Category A

Assessment Type

Per Violation

Assessment Description

First violation: up to USD 25,000

Second violation within 12 months: up to USD 50,000

Third violation within 12 months: up to USD 75,000

Fourth and subsequent violations within 12 months: up to USD 100,000 per violation

Assessment Type

Variable Occurrence (by device or Transaction)

Assessment Description

Up to USD 2,500 per occurrence for the first 30 days

Up to USD 5,000 per occurrence for days 31–60

Up to USD 10,000 per occurrence for days 61–90

Up to USD 20,000 per occurrence for subsequent violations

Assessment Type

Variable Occurrence (by number of Cards)

Assessment Description

Up to USD 0.50 per card

Minimum USD 1,000 per month per card base

No maximum per month per card base

No maximum per month per Card base or per all Card bases

Noncompliance Category B**Assessment Type**

Per Violation

Assessment Description

First violation: up to USD 20,000

Second violation within 12 months: up to USD 30,000

Third violation within 12 months: up to USD 60,000

Fourth and subsequent violations within 12 months: up to USD 100,000 per violation

Assessment Type

Variable Occurrence (by device or Transaction)

Assessment Description

Up to USD 1,000 per occurrence for the first 30 days

Up to USD 2,000 per occurrence for days 31–60

Up to USD 4,000 per occurrence for days 61–90

Up to USD 8,000 per occurrence for subsequent violations

Assessment Type

Variable Occurrence (by number of Cards)

Assessment Description

Up to USD 0.30 per Card

Minimum USD 1,000 per month per Card base

Maximum USD 20,000 per month per Card base

Maximum USD 40,000 per month per all Card bases

Noncompliance Category C

Assessment Type

Per Violation

Assessment Description

First violation: up to USD 15,000

Second violation within 12 months: up to USD 25,000

Third violation within 12 months: up to USD 50,000

Fourth and subsequent violations within 12 months: up to USD 75,000 per violation

Assessment Type

Variable Occurrence (by device or Transaction)

Assessment Description

Up to USD 1,000 per occurrence for the first 30 days

Up to USD 2,000 per occurrence for days 31–60

Up to USD 4,000 per occurrence for days 61–90

Up to USD 8,000 per occurrence for subsequent violations

Assessment Type

Variable Occurrence (by number of Cards)

Assessment Description

Up to USD 0.15 per card

Minimum USD 1,000 per month per Card base

Maximum USD 10,000 per month per Card base

Maximum USD 20,000 per month per all Card bases

In the above table all days refer to calendar days and violations of a Standard are tracked on a rolling 12-month basis.