



# BANK OF THAILAND NEWS

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## **The Revision of Regulations on Supervising Credit Card Business**

Since 2002, the Bank of Thailand (BOT) imposed the ceiling of interest rate and other service charges on a credit card at 18% per annum to protect the consumer benefit of having appropriate expenses and to be fair to operators of the credit card business (the operators). Afterwards, the state of economy and financial system of the country has changed in such a way that interest rates have increased gradually. As of the third quarter of 2006, the BOT key policy rate, the average MLR, and the average 3-months fixed deposit rate were at 5.00, 7.75, and 3.50 % respectively which increased 3.75, 2.00, and 2.50 % respectively from the end of 2003 (the year that the 18% ceiling was enforced). The increased rates have impacted financial costs of the operators to rise consistently. In addition, the Credit Cards Club submitted requests to the BOT for considering increasing the ceiling of interest rate and other service charges on a credit card, and other related regulations.

The BOT with the consent of the minister of finance ministry has issued the BOT Notifications Re: Interests and service charges that commercial banks can earn on operating the credit card business, Re: The Imposition of practices, methods, and conditions on operating the credit card business for commercial banks, and Re: The Imposition of practices, methods, and conditions on operating the credit card business for non-bank operators, totaling of 3 notifications. These notifications will set the ceiling of interest rate and other service charges at 20% per annum, increased by 2% per annum according to the higher operating cost. They will be enforceable on 1 December 2006 onwards with an aim to be fair to both consumers and the operators.

The customers that incurred the debt through spending with credit cards or making cash advance before the enforceable date (including customers with the agreement to repay in parts or a full amount) will be protected under the framework of the repealed notification. That is, the operators can earn interests, penalty fee, service charge, and other fees totaling not higher than 18% until 30 June 2007. However, the actual rate to be charged has to adhere to the agreement stipulated in the old contract with the customer as well. This is aimed to provide customers with an extended period about 7 months to adjust themselves with the new rate. A main reason for this period of

relaxation is to alleviate the burden of the old customers who registered before 1 April 2004 that will have to increase their minimum monthly payments from 5% to 10% of their debt outstanding starting from 1 April 2007. However, after customers have the 7 months period of relaxation, from 1 July 2007 onwards the operators may charge interests, penalty fee, service charge, and other fees at the new ceiling (not higher than 20% per annum) on all debt incurred before or since the enforceable dates of the 3 notifications, under the framework of the contract with the customer as well.

Importantly, customers shall be careful on incurring the higher credit card debt because if the interest rate to be charged is higher, customers will definitely bear higher debt burden. This is as a result of the fact that most credit card contracts permit the operators to change the interest rate with a condition to inform customers one month in advance only.

Moreover, the BOT has revised the other regulations on qualifications of a credit card holder and on practices, methods, and conditions of operating the credit card business summarized as follows;

- **Considering qualifications of a credit card holder** The operators can consider a credit card holder's deposits or investments in debt instruments issued by commercial banks, government agencies, or state owned enterprises founded by a specific law.

- **Extending a regulation on considering qualifications of a corporate card holder** The operators can consider qualifications of a corporate card holder by evaluating the financial positions of the company requesting for credit cards in replacement of considering qualifications of an individual card holder.

Bank of Thailand

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