

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1240
ANSWERED ON:18.07.2014
ZERO PERCENT INTEREST SCHEME
Dhruvanarayana Shri Rangaswamy

Will the Minister of FINANCE be pleased to state:

- (a) whether the Reserve Bank of India (RBI) has barred 'zero per cent interest' schemes offered by the banks to credit card holders in the recent past;
- (b) if so, the details thereof and the reasons therefor along with the reaction of the Government thereto;
- (c) whether any retailers have conveyed their dissent to the RBI in this regard; and
- (d) if so, the details thereof along with the reaction of the RBI thereto?

Answer

FINANCE MINISTER(SHRI ARUN JAITLEY)

(a)& (b): Reserve Bank of India (RBI) circular dated September 17, 2013 on "Pernicious practices of select banks deterring customer protection and account integrity" prohibited zero percent equated monthly instalment (EMI) schemes, which is reiteration of certain guidelines issued earlier on the subject. The reiteration was essentially done on the basis of certain studies which showed that the banks which offered zero percent EMI schemes on credit card outstandings were found not disclosing the actual interest rate charged to the borrower transparently, as the banks were found to pass the same on to the borrowers as processing fee and service charges and further banks were also found to be receiving certain benefits from dealers/ manufacturers of certain products (automobiles, equipments etc.) under sale promotion schemes for the purpose of passing it on to the borrowers of banks who availed the loans from banks to purchase such products. These benefits were not passed on to the customers in a transparent manner, though banks claim that they did so by lowering the rate of interest.

(c)& (d): Yes. The Retailers Association of India, Mumbai had written a letter dated September 30, 2013 to RBI to give a window for 2 months, instead of applying immediate ban and also that RBI, instead of banning, could have laid down guidelines for disclosure/structuring of scheme by banks which could lead to greater transparency to the customer. While appreciating the concerns of the retail industry RBI replied to the Retailers Association of India, stating that RBI instructions dated 17th September, 2013 are only a reiteration of the extant instructions in clearer terms with focus on compliance.