

21- INSTRUCTIONS CONCERNING CREDIT CARDS ISSUED BY ISLAMIC BANKS

- A) Instructions No.(2/IBS/150/2003) concerning credit cards issued by Islamic Banks.
- B) Circular No.(2/BS, IBS/167/2004) concerning the amendment of Item “second” addressing the repayment period for debit balances arising from the use of credit cards.
- C) Circular No.(2/BS/196/2006) requiring local banks to obtain the guarantee of the minor’s guardian in respect of transactions which create obligations on the part of the minors towards local banks.
- D) Circular stressing the requirement of implementing EMV Technology for shifting to the Smart Card.
- E) Circular urging local banks to finalize the implementation of EMV Technology for shifting to the Smart Card before the end of 2007.
- F) Circular No.(2/BS,IBS/208/2007) stressing the requirement of full compliance with all the limits included in the Central Bank of Kuwait’s instructions concerning credit cards issued by local banks.

Instructions NO. (2/IBS/150/2003)
Concerning Credit Cards issued by Islamic Banks:* ⁽¹⁾

Introduction :

For the purpose of implementing these instructions, banks should differentiate between credit cards and those cards which use does not result in the installment of the debt, but the balances resulting from their use are repaid by charge to the credit account of the customer. These cards are called (Charge Cards) and do not need specific controls to govern their use, as they do not result in any debt from the customers side. The matter of organizing the issuance and use charge of cards is left for banks discretion.

As for cards which use entail a debt on the customer's side and the installment of such a debt, these are called (Credit Cards) which are the subject of these instructions that aim at exercising strict control thereon to limit haphazard expansion in this type of credit.

Therefore, all the rules of these instructions apply to the second type of the cards, where the installment of debit balances resulting from their use is allowed.

First: Maximum Limit

The maximum amount resulting from the use of a credit card and allowed to be repaid in installment, should not exceed ten times the monthly salary or the regular ⁽²⁾ monthly income of the customer, subject to a maximum of KD 10,000, whichever is lower .

Second: Repayment Period ⁽³⁾

The maximum period for repayment of debit balances resulting from the use of Credit Cards shall not exceed one year, unrenewable. The repayment period shall commence from the maturity date of the monthly invoices charged to the customer's account.

(*) Instructions issued by the Central Bank of Kuwait Board of Directors at its meeting of 3/11/2003.

(1) Circular No. (2/BS,IBS/208/2007) stressing the requirement of full compliance with all the limits included in the Central Bank of Kuwait's instructions concerning credit cards issued by local banks.

(2) Circular No. (2/BS/196/2006) was issued on 22/11/2006, requiring local banks to obtain the guarantee of the minor's guardian in respect of transactions which create obligations on the part of the minors towards local banks.

(3) Payment period was amended by circular No. (2/BS, IBS/167/2004) issued on 10/8/2004.

Total installments deducted from the customer's account in settlement of the debt balance resulting from the credit cards, and in repayment of the installments of consumer loans (finance transactions) and other installment loans (finance transactions), whether through the issuer of the credit card or the other creditor parties, may not exceed 50% of the monthly salary or continuous monthly income of the customer ⁽¹⁾.

Third: Other Rules

- 1- Necessary actions should be taken to curb the excess to credit limits granted to customers, so that if a customer wishes to exceed his limit, the transaction would be automatically declined. In the event the customer intends to exceed his limits, he has first of all to refer to the bank, where the bank will determine whether or not to allow a temporary excess over the customer's authorized limit.
- 2- In the event the customer does not settle the due invoices after 60 days from their maturity, his credit card will be frozen and will not be reactivated except after payment of the due amount in full. If the delay period exceeds 90 days, the card will be frozen and will be reactivated only after 6 months from the date of the Bank's recovery of the due amount in full. In the event of repeated default, the card will be renewed only after one year from the date of the Bank's recovery of the due amount in full. In case of customer's default for the third time, the credit card will be cancelled and shall not be renewed.

Local banks should coordinate necessary actions to ensure that no credit cards are issued to other banks customers whose credit cards have been cancelled due to default, as per the time limits stated above.

- 3- For the purpose of computing necessary provisions for irregular debt cases, the same rules applicable to consumer finance and other personal installment finance shall be applied, as detailed under Central Bank's instructions concerning the Rules and Regulations of Investment & Finance Classification, Computation of Their Provisions, and the Manner of Treating Income Generated There-from.

(1) Pursuant to circular No. (2/IBS, IIS/215/2008) issued on 24/3/2008, this paragraph was amended to read as follows:

Banks and investment companies shall consider all customers' existing obligations (cash and non-cash), including installments for settlement of the debit balance arising from credit cards, whether such obligations are towards banks and investment companies subject to Central Bank of Kuwait's supervision, or towards any other entities, such as monthly payment orders, lease financing installments etc, when deciding on the amounts of consumer finance and installment finance granted to customers, **without causing the customer's monthly obligations to all parties to exceed 40% (30% for loans and finance to retired persons) of the net continuous monthly salary or income.**

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A) Instructions No. (2/IBS/150/2003) concerning credit cards issued by Islamic Banks.

- 4- Each bank shall monthly provide the Central Bank with the following data, using the attached form, not later than the 10th day of the month following the month for which the statement is prepared :
- a) Total number of customers for whom Credit Cards have been issued, as well as the total debit balances resulting from the use of the credit cards and allowed for installment pursuant to these instructions.
 - b) Number of customers for whom credit cards have been issued and against whom legal actions have been taken, and the debit balances due from them.

Fourth: These instructions shall be implemented from the date of their notification.

**Central Bank of Kuwait
Supervision Sector
Off-Site supervision Department
(Credit Section)**

**Bank:
Date :**

**STATEMENT OF THE TOTAL DEBIT BALANCES OF
THE CREDIT CARDS AS ON .. / .. / ..__**

(AMOUNT IN KD)

CUSTOMERS TO WHOM CREDIT CARDS HAVE BEEN ISSUED			CUSTOMERS AGAINST WHOM LEGAL ACTIONS HAVE BEEN INITIATED	
NO. OF CUSTOMERS	CREDIT CARDS LIMITS	TOTAL DEBIT BALANCES (UTILIZED) ALLOWED TO BE SETTLED IN INSTALMENT	NO. OF CUSTOMERS	DEBIT BALANCES DUE FROM SUCH CUSTOMERS

Signature & Bank's Stamp:

GOVERNOR

*Jamada Al-Awal 24, 1425 H
August 10, 2004*

**Circular No. (2/BS, IBS/167/2004) To All Local Banks
Concerning Credit Cards Instructions⁽¹⁾**

THE CHAIRMAN,

We would like to advise you that the Central Bank Board of Directors resolved at its meeting of 3/8/2004 to amend Item “Second – Repayment Period” of instructions No. (2/BS/12/1997) passed on 10/4/1997 with regard to credit cards issued by local banks, and instructions No.(2/BSA/150/2003) passed on 3/11/2003 in connection with credit cards issued by Islamic banks. The amended item shall read as follows:

Second: Repayment Period :

“Repayment period of debit balances resulting from the use of credit cards shall not exceed one year, non-renewable. The one year period is to be calculated from the maturity date of the monthly invoices to be deducted from the customer’s account”.

“Total installments deducted from the customer’s account in settlement of the debt resulting from the credit cards, and in repayment of the installments of consumer loans (finance transactions) and other installment loans (finance transactions), whether through the issuer of the credit card or the other creditor parties, may not exceed 50% of the monthly salary or continuous monthly income of the customer”.

With my best wishes,

SALEM ABDUL AZIZ AL SABAH

(1) Circular No. (2/BS, IBS/208/2007) was issued with regard to full compliance with the limits set out in Central Bank of Kuwait instructions regarding credit cards issued by banks.

21- INSTRUCTIONS CONCERNING CREDIT CARDS ISSUED BY ISLAMIC BANKS

B) Circular No. (2/BS, IBS/167/2004) concerning the amendment of Item “second” addressing the repayment period for debit balances arising from the use of credit cards.

GOVERNOR

Thu Al-Qi'da 1, 1427 H

November 22, 2006

Circular No. (2/BS/196/2006) requiring local banks to obtain the guarantee of the minor's guardian in respect of transactions which create obligations on the part of the minors towards local banks

THE CHAIRMAN,

This has reference to circular No. (2/BS/12/1997) issued on 10/4/1997 concerning the credit cards issued by local banks, and which stipulated that the customer must have a continuous monthly salary or income in order to be qualified for obtaining a credit card, except for customers who have credit lines with the bank.

Whereas, it has been noticed that some local banks offer banking services comprising the issuance of credit cards to minor customers (below the age of 21), we stress the need for local banks' compliance with the requirement of not issuing credit cards to minor customers (below the age of 21) who do not have a monthly salary or income, while observing the stipulation of obtaining the guarantee of the guardian in case of issuing credit cards to such customers.

In general, local banks should not carry out any transactions creating obligations on the part of any minor customer (below the age of 21), except in the case where the guardian guarantees such obligation.

With my best wishes,

SALEM ABDUL AZIZ AL SABAH

Executive Director

*Moharram 10, 1428 H
April 6, 2006*

THE GENERAL MANAGER,

**Implementation of EMV Technology
for Shifting to the Smart Card**

This has reference to the second meeting held with the local banks chairmen in Central Bank of Kuwait premises on 29/11/2005, where Central Bank of Kuwait stressed the importance of the above subject, and the responsibility for the risks ensuing from not shifting to the Smart Card by the beginning of 2006, for both credit cards and ATM cards issued by local banks.

By way of ensuring that the units subject to Central Bank of Kuwait's supervision are implementing and coping with the international standards in this regard, kindly update us on this issue.

Best Regards,

Ibrahim A. Al-Qadhi
Executive Director of the Supervision Sector

Executive Director

*Rabi Al-Akhir 26, 1428 H
May 16, 2007*

THE GENERAL MANAGER,

**Implementation of EMV Technology
for Shifting to the Smart Card**

This has reference to the Governor's meeting held with local banks chairmen in Central Bank of Kuwait premises on 29/11/2005, where Central Bank of Kuwait stressed the importance of finalizing the implementation of EMV Technology for shifting to the Smart Card by the beginning of 2006, as well as the need for adapting your POS system, so as to avoid the responsibility for the risks that may arise from misuse of credit cards and ATM cards issued by your bank.

Further to our circular to local banks of 6/4/2006, and by way of reminding you of the importance of the above subject and re-stressing the need to finalize its implementation, **we would like to draw your attention that the implementation of the subject technology must be completed by the end of the current year at the latest.**

In case of any inquiry, you may call Mr. Basel Al Hashash – Head of Coordination and IT Supervision Unit - Supervision Sector - Tel: 2972745.

Best Regards,

Ibrahim A. Al-Qadhi
Executive Director of the Supervision Sector

GOVERNOR

Rabi Al-Akhir 5, 1428 H

June 20, 2007

**Circular No. (2/BS, IBS/208/2007)
Concerning Credit Cards Issued by Local Banks**

THE CHAIRMAN,

This has reference to Central Bank of Kuwait instructions of 10/4/1997 concerning the credit cards issued by local banks, and to Central Bank of Kuwait instructions of 3/11/2003 concerning the credit cards issued by Islamic banks, as well as to Central Bank of Kuwait circular of 10/8/2004 concerning the amendment of the mentioned instructions.

Further to Central Bank of Kuwait circular of 13/2/2007 concerning the procedures local banks and investment companies have to comply with for rectifying existing violations of the rules and regulations for extending consumer and installment loans (finance transactions), and in the light of the findings of the follow-up by Central Bank of Kuwait, which indicated the existence of breaches by some local banks of the limits established under Central Bank of Kuwait instructions for credit cards issued by local banks, we would like to advise you that all local banks have to fully comply with all the limits established under Central Bank of Kuwait instructions relevant to credit cards. Local banks are also required to comply with and implement the following:

First: Rectifying within one year - from above date - any breaches of the following limits established under Central Bank of Kuwait instructions related to credit cards:

- 1- The maximum amount resulting from the use of a credit card and allowed to be repaid in installment, may not exceed ten times the monthly salary or the continuous monthly income of the customer, subject to a maximum of KD 10,000.
- 2- The maximum period for repayment of debit balances resulting from the use of Credit Cards shall not exceed one year, unrenewable.

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F) Circular No. (2/BS,IBS/208/2007) stressing the requirement of full compliance with all the limits included in the Central Bank of Kuwait's instructions concerning credit cards issued by local banks.

- 3- Total installments deducted from the customer in repayment of the debit balance arising from the use of credit cards, as well as in repayment of the installments of consumer and other installment loans – finance transactions, whether through the credit card - issuing bank or other creditors, may not exceed 50% of the customer's salary or continuous monthly income (this relates to the breaches arising from adding the credit cards installments to the installments of consumer and installment loans - finance transactions – leading to exceeding the 50% ratio).

Banks will have to rectify all of the above mentioned breaches during the granted grace period (one year as mentioned above). At the end of the said grace period, banks will have to provide us with a statement of the number of breaches, accompanied by a certificate from both of the external auditor offices stating that all such breaches have been rectified. Central Bank of Kuwait will consider the application of appropriate penalties to the banks that do not rectify the subject breaches within the granted grace period, pursuant to the rules of article (85) of law No. (32) of the year 1968.

Second: The monthly installment of the credit card must be determined on the basis of the limit established for the card, when calculating the ratio of total installments of consumer and installment loans – finance transactions – and installment of credit cards / customer's net salary or continuous monthly income, which may not exceed 50% according to the aforesaid instructions. Any breaches ensuing from this calculation must be rectified during the granted grace period (one year from above date).

Third: the installment determined on the basis of the credit card limit must be entered into the “last payment” box on Ci-Net system. This should be done in coordination with the mentioned company.

With my best wishes,

SALEM ABDUL AZIZ AL SABAHI

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