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Credit Cards An Overview



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INTRODUCTION :

Credit card is given by the banker to the customers in which the name of the customer is embossed in block letters, the name of the bank of issues and expiry are also mentioned on the field the reverse side of the card will bear the specimen signature of the customers. A list of vendors or sellers will be given by the banker to the customers. Any card that may be used repeatedly to borrow money or buy products and services on credit. Issued by banks, savings and loans, retail stores, and other businesses.

A credit card is part of a system of payments named after the small plastic card issued to users of the system. The issuer of the card grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user. A credit card is different from a charge card, where a charge card requires the balance to be paid in full each month.

ORIGIN OF CREDIT CARD The idea of a credit card is not new. In fact, mentions of credit cards can be found from 1890, when some European merchants offered a credit card as a perk to better customers. Still, the origin of the first wide-use charge account dates to the late 1940s, and is attributed to New York businessman Frank McNamara. The story goes that in the fall of 1949, McNamara went to pay the bill after entertaining a client at Major's Cabin Grill, only to re-

alize he had left his wallet in another suit. Luckily for McNamara, his wife was able to save him from potential embarrassment. But he continued to think about what happened and began to consider why a businessman could not freely spend what he could afford instead of just the cash in his wallet.

Fast forward a few weeks, and McNamara was sitting down with his lawyer, Frank Schneider, to discuss the details for a relatively simple idea — a club of diners who would be able to sign for their meals at certain restaurants and then settle the bill at a later date. As his idea became a reality, McNamara enrolled 27 establishments in his plan, also offering \$3 memberships in his diner's club to 200 friends and acquaintances. McNamara and Schneider became the first diners to say "charge it" when they sat down to a February 1950 meal at Major's. The credit card industry recognizes the importance of this meal even though the Diners Club card was not technically a credit card, since Diners Club members were expected to settle their bills each month. With 20,000 cardholders by the end of 1950, the Diners Club was an instant success. By 1952, franchises have been set up on Canada, France and Cuba, and in 1955, Western Airlines became the first air carrier to take payment by the Diners Club card. On the heels of Diners Club, American Express introduced a card in 1958 for paying entertainment and travel costs. The next year,

Bank of America issued a “revolving credit” card that could be used for a greater range of purchases and paid off over a longer period of time, with interest. But due to federal banking regulations, the card was only valid in California. In 1966, Bank of America started forming licensing agreements with other banks that allowed cardholders in different states to charge purchases. In 1981, the Diners Club was purchased by Citicorp. Still, the origin of the credit card industry can be traced to Frank McNamara’s innovation, which allows members to make payment for a purchase at a later date.

CREDIT CARDS IN INDIA :

In India the foreign banks and organizations forayed first into the credit card market the pioneer in the Indian field is the City Bank’s Diner’s Club Card, which entered in 1969. Recognizing the potentiality of the credit cards, few Indian banks took early initiative to introduce them. However it was only during 1981 when Andhra Bank introduced its own credit card did the Indian bank constructively enter the field central bank of Indian in association with Vysya Bank, United Bank, of India issued the central card it 1985 the bank of Baroda along with Allahabad Bank launched the bob card. The mercantile credit corporation limited merchant came in 1986 the Canara Bank made later entry into the credit card business in 1987 and the bank of India issued its own card, India card in 1988. Among the foreign banks the ANZ Grindlays Bank came with visa classic card by 1989. Citibank’s master and visa card appeared in 1900m along with Taj Premium Card market turned busy with all the twenty-eight public sector banks operating in it. The state bank of India has introduced also state bank cheque card. In 1992 the hongs Kong bank entered the field with its visa international card and master card international and recently it has launched the Hyatt regency preferred gold card

Following are major **credit card providers in India:**

- | | |
|------------|------|
| · ABN Amro | Visa |
| · HDFC | HSBC |

- | | |
|--------------------|--------------------|
| · American Express | Master card |
| · ICICI Bank | Deutsche Bank |
| · Axis Bank | Amex |
| · SBI | Barclays Bank |
| · Bank of Baroda | Diners club |
| · Canara Bank | Standard Chartered |
| · Citibank | Kotak Mahindra |

TYPES OF CREDIT CARD :Master Card – MasterCard is a product of MasterCard International and along with VISA are distributed by financial institutions around the world. Cardholders borrow money against a line of credit and pay it back with interest if the balance is carried over from month to month. Its products are issued by 23,000 financial institutions in 220 countries and territories.

VISA Card–VISA cards is a product of VISA USA and along with MasterCard is distributed by financial institutions around the world. A VISA cardholder borrows money against a credit line and repays the money with interest if the balance is carried over from month to month in a revolving line of credit. Nearly 600 million cards carry one of the VISA brands and more than 14 million locations accept VISA cards.

Affinity Cards-A card offered by two organizations, one a lending institution, the other a non-financial group. Schools, non-profit groups, pro wrestlers, popular singers and airlines are among those featured on affinity cards. Usually, use of the card entitles holders to special discounts or deals from the non-financial group.

Standard Card – It is the most basic card (sans all frills) offered by issuers.

Classic Card – Brand name for the standard card issued by VISA.

Gold Card/Executive Card – A credit card that offers a higher line of credit than a standard card. Income eligibility is also higher. In addition, issuers provide extra perks or incentives to cardholders.

Platinum Card – A credit card with a higher limit and additional perks than a gold card.

Titanium Card – A card with an even higher limit than a platinum card.

Secured Card – A credit card that a cardholder secures with a savings deposit to ensure payment of the outstanding balance if the cardholder defaults on payments. It is used by people new to credit, or people trying to rebuild their poor credit ratings.

Smart Card – Smart cards, sometimes called chip cards, contain a computer chip embedded in the plastic. Where a typical credit card's magnetic stripe can hold only a few dozen characters, smart cards are now available with 16K of memory. When read by a special terminals, the cards can perform a number of functions or access data stored in the chip. These cards can be used as cash cards or as credit cards with a pre-set credit limit, or used as ID cards with stored-in passwords.

Charge Card – Falls between a debit and credit card. Works like the latter and you don't have to be an account holder. Just pay up in full when the bill arrives with the mail. No outstanding are allowed, in other words, no revolving credit facility either. American Express and Diners are providers.

Co-branded Card – This is a marriage of convenience between two service providers who want a trade-off with the other's strengths. Specific facilities are made to members through these tie-up. Eg :SBI-GE Capital has a co-branded card for retail loans.

Cash Card – Cash cards, similar to pre-paid phone cards, contain a set amount of value, which can be read by a special cash card reader. Participating retailers will use the reader to debit the card in increments until the value is gone. The cards are like cash — they have no built-in security, so if lost or stolen, they can be used by anyone.

Travel Card – These work mostly as debit cards for the limited purpose of travel.

PARTIES INVOLVED

* **Cardholder:** The holder of the card used to make a purchase; the consumer.

* **Credit-issuing bank:** The financial institution or other organization that issues the credit

card to the cardholder. This bank bills the consumer for repayment and bears the risk that the card is used fraudulently..

* **Merchant:** The individual or business accepting credit card payments for products or services sold to the cardholder

* **Acquiring bank :** The financial institution accepting payment for the products or services on behalf of the merchant.

* **Independent sales organization:** Resellers (to merchants) of the services of the acquiring bank.

* **Merchant account:** This could refer to the acquiring bank or the independent sales organization, but in general is the organization that the merchant deals with.

* **Credit Card association:** An association of card-issuing banks such as Visa, MasterCard, Discover, American Express, etc. that set transaction terms for merchants, card-issuing banks, and acquiring banks.

* **Transaction network:** The system that implements the mechanics of the electronic transactions. May be operated by an independent company, and one company may operate multiple networks. Transaction processing networks include: Cardnet, Nabanco, Omaha, Paymentech, NDC Atlanta, Nova, TSYS, Concord EFSnet, and VisaNet.^[2]

* **Affinity partner:** Some institutions lend their names to an issuer to attract customers that have a strong relationship with that institution, and get paid a fee or a percentage of the balance for each card issued using their name. The flow of information and money between these parties — always through the card associations — is known as the interchange, and it consists of a few steps.

TRANSACTION STEPS (PROCESSING) :

1. Authorization: The cardholder pays for the purchase and the merchant submits the transaction to the acquirer (acquiring bank). The acquirer verifies the credit card number, the transaction type and the amount with the issuer (Card-issuing bank) and reserves that amount of the

cardholder's credit limit for the merchant. An authorization will generate an approval code, which the merchant stores with the transaction.

2. Batching: Authorized transactions are stored in "batches", which are sent to the acquirer. Batches are typically submitted once per day at the end of the business day.

3. Clearing and Settlement: The acquirer sends the batch transactions through the credit card association, which debits the issuers for payment and credits the acquirer. Essentially, the issuer pays the acquirer for the transaction.

4. Funding: Once the acquirer has been paid, the acquirer pays the merchant. The merchant receives the amount totaling the funds in the batch minus the "discount rate," which is the fee the merchant pays the acquirer for processing the transactions.

5. Chargebacks: A chargeback is an event in which money in a merchant account is held due to a dispute relating to the transaction. Chargebacks are typically initiated by the cardholder. In the event of a **chargeback**, the issuer returns the transaction to the acquirer for resolution. The acquirer then forwards the chargeback to the merchant, who must either accept the chargeback or contest it.

HOW CREDIT CARD WORKS :

(A) An example of the front in a typical credit card:

1. Issuing bank logo
2. EMV chip
3. Hologram
4. Credit card number
5. card brand logo
6. Expiry Date
7. Cardholder's name

(B) **An example of the reverse side of a typical credit card:** [1]. Magnetic Strip [2]. Signature Strip [3]. Card Security Code

Credit cards are issued after an account has been approved by the credit provider, after which cardholders can use it to make purchases at merchants accepting that card. When a purchase is made, the credit card user agrees to pay the card issuer. The cardholder indicates his/her consent to pay, by signing a receipt with a record of the card details and indicating the amount to be paid or by entering a Personal identification number (PIN). Also, many merchants now accept verbal authorizations via telephone and electronic authorization using the Internet, known as a 'Card/Cardholder Not Present' (CNP) transaction. Electronic verification systems allow merchants to verify that the card is valid and the credit card customer has sufficient credit to cover the purchase in a few seconds, allowing the verification to happen at time of purchase. The verification is performed using a credit card payment terminal or Point of Sale (POS) system with a communications link to the merchant's acquiring bank. Data from the card is obtained from a magnetic stripe or chip on the card; the latter system is in the United Kingdom and Ireland commonly known as Chip and PIN, but is more technically an EMV card.

CONCLUSION : Credit Card which was considered to be a luxury, has become one of necessity. It was considered to be used only by higher income group. But today, with development in banking and trading activities, fixed income group or salaried class has also started using the same. There may be the criticism that it includes for more purchases or makes people spend thrift. This may be so in the initial stage, but when once a customer gets used to the credit card, he/she will know how to use the same in a discretionary manner.

REFERENCE

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