CHAPTER I
INTRODUCTION

1.1 INTRODUCTION

A credit card is a small plastic card issued to users as a means of payment. It allows its holder to buy goods and services based on the holder's promise to pay for them, later. The issuer of the card creates a revolving account and grants a line of credit to the consumer (or the user) from which the user can borrow money to pay a merchant or for use as an advance. A credit card is different from a charge card: a charge card requires the balance to be paid in full each month. In contrast, credit cards allow the consumers a continuing balance of debt, subject to interest being charged. A credit card also differs from a cash card, in that it can be used like currency by the owner of the card. Most credit cards are issued by banks or credit unions, and are of the shape and size specified by the ISO/IEC 7810 standard as ID-1. And this is given as 85.60 x 53.98 mm (33/8 x 21/8 in) in size.

1.2 HISTORY OF CREDIT CARD

The concept of using a card for purchases was delineated in 1887 by Edward Bellamy in his utopian novel Looking Backward. Bellamy used the term credit card eleven times in this novel. The modern credit card was the successor of a variety of merchant credit schemes. It was first used in the 1920s, in the United States, to specifically sell fuel to a growing number of automobile owners. In 1938 several companies started accepting each other's cards. Western Union had begun issuing charge cards to its frequent customers by 1921. Some charge cards were printed on paper card stock, but were easily counterfeited.

The Charge-Plate, developed in 1928, was an early predecessor to the credit card used in the U.S. from the 1930s to the late 1950s. It was a 2½ in x 1¾ in rectangle of sheet metal related to Addressograph and military dog tag systems. It was embossed with the customer's name, city and state. It held a small paper card for a signature. In recording a purchase, the plate was laid into a recess in the printer, with a paper "charge slip" positioned on top of it. The record of the transaction included an impression of the embossed information, made by the printer pressing an inked ribbon against the charge slip. Charge-Plate was a trademark of Farrington Manufacturing.
Co. It was issued by big merchants to their regular customers, and was much like the department store credit cards of today. In some cases, the plates were kept in the issuing store itself rather than allowing to be held by customers. When an authorized user made a purchase, a clerk retrieved the plate from the store's files and then processed the purchase. Charga-Plates speeded the business of back-office bookkeeping that was being done manually using paper ledgers in each store, before the advent of computers.

In 1934, American Airlines and the Air Transport Association simplified the process even more with the Air Travel Card. They created a numbering scheme that identified the Issuer of card as well as the Customer's account. This is the reason the modern UATP cards still start with the number 1. With an Air Travel Card passengers could "buy now and pay later" for a ticket bought against their credit cards and also get a fifteen percent discount with any of the accepting airlines. By the 1940s, all of the major domestic airlines offered Air Travel Cards that could be used on 17 different airlines. In 1941 about a half of the Airlines Revenues came through the Air Travel Card agreement. The Airlines had also started offering installment plans to lure new travelers into the air. In October 1948 the Air "Travel Card became the first internationally valid Charge Card among all members of the International Air Transport Association.

The concept of customers paying different merchants using the same card was expounded in 1950 by Ralph Schneider and Frank McNamara, founders of Diners Club, to eliminate multiple cards. The Diners Club, created partially through a merger of Dine and Sign, produced the first "general purpose" charge card that required the entire bill to be paid with each statement. That was followed by Carte Blanche and in 1958 by American Express which created a worldwide credit card network (although these were initially only charge cards these acquired credit card features after Bankcard demonstrated the feasibility of the concept).

However, until 1958, no one had been able to create a working, revolving credit financial instrument issued by a third-party bank that was generally accepted by a large number of merchants (as opposed to merchant-issued revolving cards accepted by only a few merchants). A dozen attempts by small American banks yielded nothing. And In September 1958, Bank of America launched the BankAmericard in Fresno, California, Which became the first successful, recognizably modern credit card (although it underwent a troubled gestation during which its
creator resigned), and in conjunction with its overseas counterparts, eventually evolved into the Visa system. In 1966, the ancestor of MasterCard was born when a group of banks established Master Charge to compete with BankAmericard; but it received a significant boost only when Citibank merged its proprietary Everything Card (launched in 1967) into Master Charge in 1969.

Early credit cards in the U.S., of which BankAmericard was the most prominent example, were mass produced and mass mailed unsolicited to bank customers who were thought to be good credit risks. But, "They had been mailed off to unemployables, drunks, narcotics addicts and to compulsive debtors, a process President Johnson's Special Assistant Betty Furness found to the very much like 'giving sugar to diabetics'." These mass mailings were known as "drops" in banking terminology, and were outlawed in 1970 due to the financial chaos they caused, but not before as many as a 100 million credit cards had been dropped into the U.S. population. And from 1970 onwards, only credit card applications could be sent unsolicited in mass mailings.

The fractured nature of the U.S. banking system under the Glass–Steagall Act meant that credit cards became an effective way for those, who were traveling around the country, to move their credit to places where they could not directly use their banking facilities. In 1966 Barclaycard in the UK launched the first credit card outside of the U.S. There are now countless variations of the basic concept of revolving credit for individuals (as issued by banks and honored by a network of financial institutions), including organization-branded credit cards, corporate-user credit cards, store cards and so on.

Although credit cards reached very high adoption levels in the US, Canada and the UK in the mid twentieth century, many cultures were more cash-oriented, or developed alternative forms of cash-less payments, such as Carte bleue or the Euro card (Germany, France, Switzerland, and others). In these places, adoption of credit cards was initially much slower. It took until the 1990s to reach anything like the percentage market-penetration levels achieved in the US, UK or Canada. In some countries, acceptance still remains poor as the use of a credit card system depends on the banking system being perceived as reliable. Japan remains a very cash oriented society, with the credit card adoption being limited to only the largest of merchants, although an alternative system based on RFIDs inside cell phones has seen some acceptance. Because of strict regulations regarding banking system overdrafts, some countries,
France in particular, were much faster in developing and adopting chip-based credit cards which are now seen as major anti-fraud credit devices. Debit cards and online banking are used more widely than credit cards in some countries.

The design of the credit card itself has become a major selling point in recent years. The value of the card to the issuer is often related to the customer's use of the card, to the customer's financial worth. This has led to the rise of Co-Brand and Affinity cards, where the cards design is related to its "affinity" (with a university or professional society, for example) leading to higher card use. In most cases a percentage of the value of the card is returned to the affinity group.

1.2.1. forms of credit cards

In the growing field of numismatics (the study of coins and medals), or more specifically econumia (study of money-like objects), credit card collectors seek to collect various embodiments of credit from the being now familiar plastic cards to older paper merchant cards, and even metal tokens that were previously accepted as merchant credit cards. In the beginning credit cards were made of celluloid plastic, then metal and fiber, later paper, and now they are mostly of polyvinyl chloride (PVC) plastic.

1.2.2. Working of credit cards

Credit cards are issued by agencies, such as a bank or credit union, after an account has been approved by the credit provider, after which cardholders can use it to make purchases with merchants who accept that card. Merchants often advertise which cards they accept by displaying acceptance marks – generally derived from logos – or may communicate this orally. When a purchase is made, the credit card user agrees to pay the card issuer. The cardholder indicates his consent to pay by signing a receipt that contains a record of the card details and the amount to be paid, or by entering his Personal Identification Number (PIN). Many merchants nowadays also accept verbal authorizations via telephone Internet, known as Card Not Present transactions (CNPs).

Electronic verification systems allow merchants to verify in a few seconds if the card is valid and besides if the credit card customer has sufficient credit to cover the purchase, thus 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 that has 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 called Chip and PIN in the United Kingdom and Ireland, and is implemented as an EMV card. For card not present transactions where the card is not shown (e.g., e-commerce, mail order, and telephone sales), merchants additionally make sure that the customer is in physical possession of the card and is the authorized user, by asking for additional information such as the security code printed on the back of the card, date of expiry, and billing address. Each month, the credit card user is sent a statement indicating the purchases made with the card, any special fees, and the total amount owed. After receiving the statement, the cardholder may dispute any charges that he or she thinks are incorrect (see 15 U.S.C. § 1643, which limits cardholder liability for unauthorized use of a credit card to $50, and the Fair Credit Billing Act for details of the US regulations). Otherwise, the cardholder must pay a defined minimum proportion of the bill by a due date, or may even choose to pay a higher amount up to the entire amount owed. The credit issuer charges interest on the amount owed if the balance is not paid in full (typically at a much higher rate than most other forms of debt). In addition, if the credit card user fails to make at least the minimum payment by the due date, the issuer may impose a "late fee" and/or other penalties on the user. To avoid this, some financial institutions can arrange for automatic payments to be deducted from the user's bank accounts, as long as the cardholder has sufficient funds in them.
1. The interchange fee of a purchase transaction flows from the merchant acquiring bank to the card issuing bank.

2. For following the use of the network of Master Card/Visa, they get some amount as fee in exchange, the issuer’s and the acquirer’s settlement and Credit Transactions are done.

3. In India, though content acquirer-Merchant pricing policies, it is generally understand that interchange fees is one ingredient of the MDR, established by acquirers.

4. The implementation of proper interchange vote is necessary and also very crucial for maintaining a strong and vibrant credit card payments network.

5. 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.

6. It is quite common to see a transaction at a merchant establishment involving a bank which is both the acquirer and the issuer.

7. In such a situation it may be possible to reduce the interchange fee since the payment network is substantially reduced.

8. However, such reduced interchange fee is not generally passed on to the merchants.
9. The banks that own master / VISA network generate revenue and make profit through the credit card system by charging the interchange fees.

10. In the western countries big Merchants have already realized this and are united in their demand for reduction in interchange fees.

11. Master Card USA, which claims to be moving towards being more transparent, has not explicitly placed on its official website the interchange rates.

1.2.3. Advertising, solicitation, application and approval

Credit card advertising regulations include the Schumer box disclosure requirements. A large amount of junk mail consists of credit card offers created from lists provided by the major credit reporting agencies. In the United States, the three major US credit bureaus (Equifax, TransUnion and Experian) allow consumers to opt out of credit card solicitation offers via its Opt out Pre Screen program.

1.2.4. Interest charges

Credit card issuers usually waive interest charges if the balance is paid in full each month, but typically will charge full interest on the entire outstanding balance from the date of each purchase if the total balance is not paid. For example, if a user had a $1,000 transaction and repaid it in full within this grace period, there would be no interest charged. If, however, even $1.00 of the total amount remained unpaid, interest would be charged on the $1,000 from the date of purchase until the payment is received. The precise manner in which interest is charged is usually detailed in a cardholder agreement which may be summarized on the back of the monthly statement. The general calculation formula most financial institutions use to determine the amount of interest to be charged is APR/100 x ADB/365 x number of days revolved. Take the annual percentage rate (APR) and divide it by 100 then multiply with the amount of the average daily balance (ADB) divided by 365 and then again take this total and multiply it with the total number of days the amount revolved before payment on was made the account. Financial institutions refer to interest charged back to the original time of the transaction and up to the time a payment was made, if not in full, surely as RRFC or residual retail finance charge. Thus after an amount has revolved and a payment has been made, the user of the card will still receive interest charges on their statement after paying the next in full (in fact the statement may only
have a charge for interest that collected up until the date the full balance was paid, i.e. when the balance stopped revolving).

The credit card may simply serve as a form of revolving credit, or it may become a complicated financial instrument with multiple balance segments each at a different interest rate, and possibly with a single umbrella credit limit, or with separate credit limits applicable to the various balance segments. Usually this compartmentalization is the result of special incentive offers from the issuing bank, to encourage balance transfers from cards of other issuers. In the event that several interest rates apply to various balance segments, payment allocation is generally at the discretion of the issuing bank, and therefore these will, usually be allocated towards the lowest rate balances until paid in full before any money is paid towards higher rate balances. Interest rates can vary considerably from card to card, and the interest rate on a particular card may jump dramatically if the card user is late with a payment on that card or any other credit instrument, or even if the issuing bank decides to raise its revenue.

1.2.5. Benefits to customers

The main benefit to each customer is convenience. Compared to debit cards and cheques, a credit card allows small short-term loans to be quickly complete to a customer who need not calculate the balance remaining before every transaction, as long as the total charges do not exceed the maximum credit line for the card. Credit cards also provide better against fraud protection than debit cards. In the UK for example, the bank and the merchant are joining responsible for purchases of defective products costing over £100. Many credit cards offer rewards and benefits packages, such as offering enhanced product warranties at no cost, free loss/damage coverage on new purchases, and points which may be redeemed for cash, products, or airline tickets.

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, a 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 India in association with
Vysya Bank, United Bank of India issued the central card in 1985. The Bank of Baroda along with Allahabad Bank launched the BOB card. The mercantile credit corporation limited came in 1986 the Canara Bank came into the credit card business in 1987 and the bank of India issued its own card named India card in 1988. Among the foreign banks, the ANZ Grindlays Bank launched visa classic card by 1989. Citibank's master and visa card appeared in 1900 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 also introduced the state bank cheque card. In 1992 the Hong Kong bank entered the field with its visa international card and master card international and recently it has launched the Hyatt regency prefer gold card. Credit card is given by the banker to the customers whose name will be embossed on it in blocks letters, the name of the bank and the date of expiry are also found 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 customer.

Credit Card which was considered to be a luxury has become a necessity. It was considered to be used only by higher income group. But today, with the development in banking and trading activities, fixed income group or salaried class has also started using it. There may be the criticism that it induces people to spend a lot. This may be so in the initial stage, but he/she will know how to use the same in a discretionary manner.

The basic information about credit cards in India:

The concept of credit card was introduced in India by Diners club with the issue of dimer's card in the year 1960. It was primarily meant for the upper most strata of the society to meet their travel and entertainment needs. Central bank of India was the first bank to introduce its central card with master card affiliation in the year 1980 on the Indian subcontinent followed by Andhra Bank which introduced its Andhra Bank card in the year 1981 with the application of the VISA International. Later, bank of Baroda and Canara bank launched their proprietary cards without any affiliations with the international organizations in the year 1985 and 1987 respectively and subsequently, many foreign and Indian Banks entered the Indian credit card market.
Basic information about credit cards in India can come in handy when living in the subcontinent, with some kind of visa or one who is a permanent resident. There are numerous banks are willing to extend credit in India, some of which are very well known banks in the world, nearly.

- The credit card attracted customers who did not live, because geographical proximity was not an important factor in issuing credit cards. Their outstanding loans grew as a result of the card programmes.
- The new card holders are viewed as prospects for cross selling additional bank products.
- The merchants gave discounts to banks for handling cardholder’s purchases and that way often brought additional deposits to the bank.

These banks enjoyed benefits from both the cardholders and the merchant’s establishments and thus opportunities arose for banks to establish more relationships.

**Meaning of Credit Card:** A Credit Card is a small plastic card issued to users as a means of payment. It allows its holder to buy goods and services on the holder’s promise to pay for these goods and services. Later, the issuer of the card creates a rotating account and grants a line of credit to the consumer 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: a charge card requires the balance to be paid in full each month. In contrast, Credit Cards permit the consumers a continuing balance of debt, subject to interest being charged. A Credit Card also differs from a cash card, in that it can be used like currency by the owner of the card. Most credit cards are issued by banks or credit unions.

**The First Universal Credit Card:** - One that could be used at variety of stores and businesses was introduced by Diners club in 1950. With this system, the Credit Card Company charged card holders a yearly fee and billed them on a monthly or yearly basis. One more Major universal card was issued in 1958 by the American Express Company.
Later came the bank Credit Card method. According to this plan, the bank credits the account of the Merchant with sales slips that are taken (this means Merchants are paid rapidly something they like) and assembled charges to be billed to the cardholder at the end of the billing period. The cardholder in turn, pays the bank either in full or in monthly installments with interest that are called carrying charges.

The first national card was issued statewide in 1959 by the Bank of America in California. This method was licensed in other states in 1966 and was renamed visa in 1976. Other banks including master card, soon followed suit. In order to offer extended services such as providing meals and lodging, many smaller banks that had earlier offered credit cards on a local or regional basis, formed relationships with large national or international banks.

The Stripe on a Credit Card: Every Credit Card has a Magstripe on the back of it and a place for customer's specimen signature. It is made up of Tiny Iron based Magnestric particles in a plastic like film. Each particle is a really tiny bar magnet about 20 millionths of an inch. The Magstripe can be written on because the tiny bar magnets can be magnetized in either a north or South Pole direction. The Magstripe on the back of the card is very similar to the cassette tape. A Magstripe reader can understand the data on the three-track stripe. If the ATM is not accepting your card, your problem is likely to the either.

> 1. A dirty or envisioned Magstripe or
> 2. An effaced Magstripe

There are three types of tracks on the Magstripe. Each and every track is about one tenth of an inch in width. Every Credit Card typically uses only tracks one and two. Track three is a read/write track, but its use is not standardized among banks. The information on track one comprises introformats: A which is reticent for proprietary we of the card issuer and B, which contains the following.

| Start Sentinel | - | One character |
| Format Code 'B' | - | One character (Alpha only) |
| Primary account number | - | up to 19 characters |
| Separator | - | One character |
Country code - Three characters
Name - Two to 26 characters
Separator - One character
Expiration date or separator - Four characters or one character
Discretionary data - Enough characters to fill out maximum
End Sentinel - One character
Longitudinal redundancy check - one character

LRC is a form of computed check character

The format the track two developed by the banking industry is as follows:
Start Sentinel - one character
Primary account number - up to 19 characters
Separator - One character
Expiration data or Separator - Four characters or one character.
Discretionary data - Enough characters to fill out maximum
LRC - One character.

There are three basic methods (systems) for deciding whether your credit card will pay what you are charging: Merchants with a few transactions each month do voice authentication using a touch - tone phone.

Electronic data Capture (EDC) Magstripe - Card swipe terminals are becoming more common - so is swiping your own Credit Card at the checkout.

Virtual terminals on the internet.

The working of the credit card system:

After Cashier Swipes the Credit Card through a reader, the EDC software at the point-of-sale terminal dials a stored telephone number to call an obtainer. An obtainer is an
organization that gathers credit authentication for Marchants and supplys them with a payment guarantee.

When the obtainer company gets the Credit Card authentication ask, it checks the transaction for validity and the record on the Magstripe for:

- Merchant ID
- Valid Card number
- Expiration date
- Credit Card Limit
- Card use

Single dial up transactions are done at speeds of 1,200 to 2,400 bits per second, while direct internet transaction uses much higher speeds via this protocol, the card holder enters a personal identification number using a keypad.

The pin is not on the card is hidden as a code in a database. The pin can be either in the bank’s computers in an encrypted form or encrypted on the card itself. The transformation used in this type of cryptography is called one way. This means that it’s easy to compute a cipher if given the bank’s key and the customers pin, but not computationally possible to procure the plain text pin from the cipher, even if the key is known. This lineament was intended to protect the card holder from being impersonated by someone who has access to the bank’s computer files. Likewise, the communications between the ATM and the bank’s central computer are encrypted to prevent stealing from, tapping the phone lines, recording the signals sent to the ATM to authorize the dispensing of cash and then feeding the same signals to the ATM to trick them into authorized distribution of cash, if this is not enough precausion to ease your mind, there are now cards like that utilizes more of them your general agreement credit card

CREDIT CARD INDUSTRY AN OVERVIEW

History

Card systems for payments date from 1914 when western union issued a card to their employees instead of a paycheck. This card could be used in the company stores to purchase goods. Later in 1950 diners introduced a travel and entertainment card for business travel 1958 Bank of America released their bank americard which was the first rotating credit card. In the
1970's both of these card companies started using electronic payment methods instead of the paper based system. In 1976 bank Americard changed its name to visa, which is pronounced the same way in almost all languages and in 1979 master charge changed its name to master card.

WORKING OF CREDIT CARD PAYMENTS

The Players

Obtaining Bank (Merchant BANK) – This is a bank which supplies credit card accounts and processes the transactions for the merchant.

Issuing Bank – This is the bank which issues the credit cards to the consumers on behalf of the credit card companies. So, if you go to your local bank and get a credit card this is the issuing bank. The issuing bank puts money in the merchant account on behalf of the consumer and then charges the consumer for that purchase.

Card Associations – These are the organizations which make the rules and fix the interchange fee.

Procedures – There are two types of procedures front-end and back-end. The front-end deals with authorization and settlement with the acquiring banks. The back-end actually handles the movement of the money from the issuing bank to the acquiring bank.

Merchant – This is the place where the product is purchased, whether it is a local retail establishment or an online store.

Credit Card and Merchant Account Setup – An obtaining bank will provide an account to a merchant to be able to accept credit card payments, and an issuing bank will supply a credit card account for a consumer to be able to use a credit card.
CREDIT CARD AUTHORIZATION

A credit card authorization process is as follows.

1. The consumer swipes their credit card or is surrendering it online on a website.
2. Merchant sends the credit card data and the sales amount to request authorization of this sale to their obtaining bank.
3. The obtaining bank then sends the request to the card issuing bank.
4. The issuing bank checks the amount of credit available on the account and issues a proper authorization response.
5. The bank processes this information and sends the authorization code back to the merchant.
6. Even if it is a brick and mortar establishment a receipt is printed and signed guaranteeing that the consumer will pay the debt.

Settlement way of merchant establishment

Later, usually at the end of the day, the merchant requests the obtaining bank for decision and the day’s sales.

1. The merchant transfers the request for decision to their obtaining bank.
2. The obtaining bank sends the request through card association interchange to the issuing bank.
3. The issuing bank then records the decision on the consumers account and transfers the funds minus some fees back to obtaining banks.
4. The obtaining bank then deposits the sale amount minus fees into the merchant account.
5. Later the issuing bank transfers a statement to the customer to pay for the credit card debt.
DETRIMENTS TO CUSTOMERS

High interest and bankruptcy

Low interest credit card rates are limited to a fixed term, usually between 6 and 12 months, after which a higher rate is charged. As all credit cards charge fees and interest, some customers become so indebted to their credit card provider that they are driven to bankruptcy. Some credit cards often levy a rate of 20 to 30 percent if a payment is missed. In other cases a fixed charge is levied without change in the interest rate. In some cases universal default rate may apply: the high default rate is applied to a card of a good standing for missing a payment on an unrelated account from the same provider. This can lead to a snowball effect due to which the consumer gets drowned by unexpected high interest rates. Further, most card holder agreements enable the issuer to arbitrarily raise the interest rate for any reason they see fit. First in Premier Bank at one point, offered a credit card with a 79.9% interest rate. However they withdraw on this card in February 2011 because of persistent defaults. Complex fee structures in the credit card industry limit the customers’ ability to shop, and help ensure that the industry is not price-competitive and therein help maximize industry profits.

Inflated pricing for all consumers

Merchants that accept credit cards must pay interchange fees and discount fees on all credit-card transactions. In some cases merchants are barred by their credit agreements from passing these fees directly on to credit card customers, (no longer prohibited in the United States). The result is that merchants may charge all customers (including those who do not use credit cards) higher prices to cover the fees on credit card transactions. In the United States, in 2008, credit card companies collected a total of $48 billion in interchange fees, or an average of $427 per family, with an average fee rate of about 2% per transaction.

Weakens self regulation

Several studies have shown that consumers are likely to spend more money when they pay by credit card. Researchers suggest that when people pay using credit cards, they do not experience the abstract pain of payment. Furthermore, researchers have found that using credit cards can increase the consumption of unhealthy food.
Grace period

A credit card's grace period is the amount of time the customer is allowed to pay the balance before interest is assessed on the outstanding balance. Grace periods may vary, but usually range from 20 to 50 days depending on the type of credit card and the issuing bank. Some policies allow for reinstatement after certain conditions are met. Usually, if a customer is late in paying the balance, finance charges will be calculated and the grace period does not apply. Finance charges incurred depend on the grace period and balance; with most credit cards, there is no grace period if there is any outstanding balance from the previous billing cycle or statement (i.e., interest is applied on both the previous balance and new transactions). However, there are some credit cards that will only apply finance charge on the previous or old balance and exclude new transactions.

Benefits to merchants

An example of street markets accepting credit cards. Most simply display the acceptance marks (stylized logos, shown in the upper-left corner) of these all the cards they accept. For merchants, a credit card transaction is often more secure than other forms of payment, such as cheques, because the issuing bank commits to pay the merchant the moment the transaction is authorized, whether or not the consumer defaults on the credit card payment (except for legitimate disputes, which are discussed below, and can result in charges back to the merchant). In most cases, cards are even more secure than cash, because they discourage theft by the merchant's employees and reduce the amount of cash on the premises.

Prior to the arrive of credit cards, each merchant had to evaluate each customer's credit history before extending credit. That task is now performed by the banks which assume the credit risk. Credit cards can also aid in securing a sale, especially if the customer does not have enough cash on his or her person or checking account. Extra turnover is generated by the fact that the customer can purchase goods and/or services immediately and is less inhibited by the amount of cash in his or her pocket or the immediate state of his or her bank balance. Much of merchants' marketing is based on this immediacy. For each purchase, the bank charges the merchant a commission (discount fee) for this service and there may be a certain delay before the agreed payment is received by the merchant. The commission is often a percentage of the transaction
amount, plus a fixed fee (interchange rate). In addition, a merchant may be penalized or may not receive payment or the use of credit card restricted if there are too many cancellations or reversals of charges as a result of disputes. Some small merchants require credit purchases to be of a minimum amount to compensate for the transaction costs.

In some countries, for example the Nordic countries, banks guarantee payment on stolen cards only if an ID card is checked and the ID card number/civic registration number is written down on the receipt together with the signature. In these countries merchants therefore usually ask for ID. Non-Nordic citizens, who are unlikely to possess a Nordic ID card or driving license, will instead have to show their passport, and the passport number will be written down on the receipt, sometimes together with other information. Some shops use the card's PIN for identification, and in that case showing an ID card is not necessary.

Costs to merchants

Merchants are charged several fees for accepting credit cards. The merchant is usually charged a commission of around 1 to 3 percent of the value of each transaction that is paid for by credit card. The merchant may also pay a variable charge, called an interchange rate, for each transaction. In some instances of very low-value transactions, use of credit cards will significantly reduce the profit margin or cause the merchant to lose money on the transaction. Merchants with very low value transactions or very high value transactions are more averse to accepting credit cards. In some cases merchants may charge the users a "credit card supplement", either a fixed amount or a percentage, for payment by credit card. This practice is prohibited in the United States, although merchants are allowed to give discounts for cash payment.

Parties involved

Cardholder

The holder of the card uses it to make a purchase; the consumer.

Card-issuing bank

The financial institution or other organization that issues the credit card to the cardholder. This bank bills the consumer for repayment and risks the card being used fraudulently. American Express and Discover were previously the only cards-issuing banks for their respective brands,
but as of 2007, this is no longer the case. Cards issued by banks to cardholders in a different country are known as offshore credit cards.

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 Discover, Visa, MasterCard, 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.

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 in their name. Examples of typical affinity partners are sports teams, universities, charities, professional organizations, and major retailers.

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

Typical Point of Sale Card Transaction

Authorization

The cardholder presents the card as payment to the merchant 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 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.

Batching

Authorized transactions are stored in "batches", which are sent to the acquirer. Batches are typically submitted once a day at the end of a business day. If a transaction is not submitted in the batch, the authorization will stay valid for a period of time determined by the issuer, after which the held amount will be returned to the cardholder's available credit (see authorization hold). Some transactions may be submitted in the batch without prior authorizations; these are either transaction falling under the merchant's floor limit or the ones where the authorization was unsuccessful but the merchant still attempts to force the transaction through. (Such may be the case when the cardholder is not present but owes the merchant additional money, such as extending a hotel stay or car rental.)

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.
Funding

Once the acquirer has been paid, the acquirer pays the merchant. The merchant receives the amount totaling the funds in the batch minus either the "discount rate," "mid-qualified rate," or "non-qualified rate" which are tiers of fees the merchant pays the acquirer for processing the transactions.

Charge backs

A chargeback is an event in which money in a merchant is account is held up due to a dispute relating to the transaction. Chargeback 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.

Secured credit cards

A secured credit card is a type of credit card secured by a deposit account owned by the cardholder. Typically, the cardholder must deposit between 100% and 200% of the total amount of credit desired. Thus if the cardholder puts down $1000, they will be given credit in the range of $500–$1000. In some cases, credit card issuers will offer incentives even on their secured card portfolios. In these cases, the deposit required may be significantly less than the required credit limit, and can be as low as 10% of the desired credit limit. This deposit is held in a special savings account. Credit card issuers offer this because they have noticed that delinquencies were notably reduced when the customer perceived that he had to sit to lose if the balance was not repaid.

The cardholder of a secured credit card is still expected to make regular payments, as with a regular credit card, but should they default on a payment, the card issuer has the option of recovering the cost of the purchases paid to the merchants out of the deposit. The advantage of the secured card for an individual with negative or no credit history is that most companies report regularly to the major credit bureaus. This allows for building up of positive credit history.

Although the deposit is in the hands of the credit card issuer as security in the event of default by the consumer, the deposit will not be debited simply for missing one or two payments.
Usually the deposit is only used as an offset when the account is closed, either at the request of the customer or due to severe delinquency (150 to 180 days). This means that an account which is less than 150 days delinquent will continue to accrue interest and fees, and could result in a balance which is much higher than the actual credit limit on the card. In these cases the total debt may far exceed the original deposit and the cardholder not only forfeits their deposit but is left with an additional debt.

Most of these conditions are usually described in a cardholder agreement which the cardholder signs when their account is opened.

Secured credit cards are an option to allow a person with a poor credit history or no credit history to have a credit card which might not otherwise be available. They are often offered as a means of rebuilding one's credit. Fees and service charges for secured credit cards often exceed those charged for ordinary non-secured credit cards. However, for people in certain situations (for example, after charging off on other credit cards, or people with a long history of delinquency on various forms of debt), secured cards are almost always more expensive than unsecured credit cards. Sometimes a credit card will be secured by the equity in the borrower's home.

Prepaid "credit" cards

A prepaid credit card is not a true credit card, since no credit is offered by the card issuer: the cardholder spends money which has been "stored" via a prior deposit by the cardholder or someone else, such as a parent or employer. However, it carries a credit-card brand (such as Discover, Visa, MasterCard, American Express, or JCB etc.) and can be used in similar ways just as though it were a regular credit card. Unlike debit cards, prepaid credit cards generally do not require a PIN. An exception is prepaid credit cards with an EMV chip. These cards do require a PIN if the payment is processed via Chip and PIN technology.

After purchasing the card, the cardholder loads the account with any amount of money, up to the predetermined card limit and then uses the card to make purchases the same way as a typical credit card. Prepaid cards can be issued to minors (above 13) since there is no credit line involved. The main advantage over secured credit cards (see above section) is that you are not required to come up with $500 or more to open an account. With prepaid credit cards purchasers
are not charged any interest but are often charged a purchasing fee plus monthly fees after an arbitrary time period. Many other fees also usually apply to a prepaid card.

Prepaid credit cards are sometimes marketed to teenagers for shopping online without their parents having to complete the transaction. Because of the many fees that apply to obtaining and using credit-card-branded prepaid cards, the Financial Consumer Agency of Canada describes them as "an expensive way to spend your own money". The agency publishes a booklet entitled Pre-paid Cards which explains the advantages and disadvantages of this type of prepaid card.

3. Features
As convenient, accessible credit, credit cards offer consumers an easy way to track expenses, which is necessary for both monitoring personal expenditures and the tracking of work-related expenses for taxation and reimbursement purposes. Credit cards are accepted worldwide, and are available with a large variety of credit limits, repayment arrangement, and other perks (such as rewards schemes in which points earned by purchasing goods with the card can be redeemed for further goods and services or credit card cash back). Some countries, such as the United States, the United Kingdom, and France, limit the amount for which a consumer can be held liable due to fraudulent transactions as a result of a consumer's credit card being lost or stolen.

4. Security problems and solutions
Credit card security relies on the physical security of the plastic card as well as the privacy of the credit card number. Therefore, whenever a person other than the card owner has access to the card or its number, security is potentially compromised. Once, merchants would often accept credit card numbers without additional verification for mail order purchases. It's now common practice to only ship to confirmed addresses as a security measure to minimize fraudulent purchases. Some merchants will accept a credit card number for in-store purchases, whereupon access to the number easy fraud, but many requires the card itself to be present, a signature to be appended. A lost or stolen card can be cancelled, and if this is done quickly, will greatly limit the fraud that can take place in this way. European banks will require a cardholder's security PIN be entered for in-store purchases with the card. The PCI DSS is the security standard issued by The PCI SSC (Payment Card Industry Security Standards Council). This data
A security standard is used by getting banks to impose cardholder data security measures upon their merchants.

A smart card, combining credit card and debit card properties. The 3 by 5 mm security chip embedded in the card is shown enlarged in the inset. The contact pads on the card enable electronic access to the chip. The goal of the credit card companies is not to eliminate fraud, but to "reduce it to manageable levels". This implies that high-cost low-return fraud prevention measures will not be used if their cost exceeds the potential gains from fraud reduction - as would be expected from organizations whose goal is profit maximization.

Internet fraud may be by claiming a chargeback which is not justified ("friendly fraud"), or carried out by the use of credit card information which can be stolen in many ways, the simplest being copy information from retailers, either online or offline. Despite efforts to improve security for remote purchases using credit cards, security breaches are usually the result of poor practice by merchants. For example, a website that safely uses SSL to encrypt card data from a client may then email the data, unencrypted, from the web server to the merchant; or the merchant may store unencrypted details in a way that allows them to be accessed over the Internet or by a rogue employee; unencrypted card details are always a security risk. Even encryption data may be cracked.

Controlled Payment Numbers which are used by various banks such as Citibank (Virtual Account Numbers), Discover (Secure Online Account Number, Bank of America (Shop Safe), 5 banks using eCarte Bleue and CMB's Virtually in France, and Swedbank of Sweden's eKort product are another option for protecting against credit card fraud. These are generally a one-time use numbers that front one's actual account (debit/credit) number, and are generated as one shop on-line. They can be valid for a relatively short time, for the actual amount of the purchase, or for a price limit set by the user. Their use can be limited to one merchant. If the number given to the merchant is compromised, it will be rejected if an attempt is made to use it again.

A similar system of controls can be used on physical cards. Technology provides the option for banks to support many other controls too, that can be turned on and off and varied by the credit card owner in real time as circumstances change (i.e., they can change temporal, numerical, geographical and many other parameters on their primary and subsidiary cards). Apart from the obvious benefits of such controls: from a security perspective this means that a
customer can have a Chip and PIN card secured for the real world, and limited for use in the home country. This way a thief stealing the details will be prevented from using these overseas in non chip and pin (EMV) countries. Similarly the real card can be restricted from use on-line so that stolen details will be declined if this is tried. Then when card users shop online they can use virtual account numbers. In both circumstances an alert system can be built in notifying a user that a fraudulent attempt which breaches their parameters has been made, and can provide data on this in real time. This is the optimal security for credit cards, as it provides very high levels of security, control and awareness in the real and virtual world.

Additionally, there are security features present on the physical card itself in order to prevent counterfeiting. For example, most modern credit cards have a watermark that will fluoresce under ultraviolet light. A Visa card has a letter V superimposed over the regular Visa logo and a MasterCard has the letters MC across the front of the card. Older Visa cards have a bald eagle or dove across the front. In the aforementioned cases, the security features are only visible under ultraviolet light and are invisible in normal light.

The Federal Bureau of Investigation and U.S. Postal Inspection Service are responsible for prosecuting criminals who engage in credit card fraud in the United States, but they do not have the resources to pursue all criminals. In general, federal officials only prosecute cases exceeding US$5,000. Three improvements to card security have been introduced to the more common credit card networks but none has proven to help reduce credit card fraud so far. First, the online verification system used by merchants is being enhanced to require a 4 digit Personal Identification Number (PIN) known only to the card holder. Second, the cards themselves are being replaced with similar-looking tamper-proof smart cards which are intended to make forgery more difficult. The majority of smart card (IC card) based credit cards comply with the EMV (Euro pay MasterCard Visa) standard. Third, an additional 3 or 4 digit Card Security Code (CSC) is now present on the back of most cards, for use in card-not-present transactions. Stakeholders, at all levels in electronic payment, have recognized the need to develop consistent global standards for security that account for and integrate both current and emerging security technologies. They have begun to address these needs through organizations such as PCI DSS and the Secure POS Vendor Alliance.
Code 10

Code 10 calls are made when merchants are suspicious about accepting a credit card. The operator then asks the merchant a series of YES or NO questions to find out whether the merchant is suspicious of the card or the cardholder. The merchant may be asked to retain the card if it is safe to do so.

5. Credit history

The way of credit card owners pay off their balances has a tremendous effect on their credit history. Two of the most important factors reported to a credit bureau are the timeliness of the debt payments and the amount of debt to credit limit. Lenders want to see payments made as agreed, usually on a monthly basis, and a credit balance of around one-third of the credit limit. The credit information stays on the credit report generally for 7 years. However, there are a few jurisdictions and situations where the timeframe might differ.

6. Profits and losses

In recent times, credit card portfolios have been very profitable for banks, largely due to the booming economy of the late nineties. However, in the case of credit cards, such high returns go hand in hand with risk, since the business is essentially one of making unsecured (uncollateralized) loans, and thus being dependent on borrowers not to default in large numbers.

7 Costs

Credit card issuers (banks) have several types of costs:

Interest expenses

Banks generally borrow the money; they then lend to their customers. As they receive very low-interest loans from other firms, they may borrow as much as their customers require, while lending their capital to other borrowers at higher rates. If the card issuer charges 15% on money lent to users, and it costs 5% to borrow the money to lend, and the balance sits with the cardholder for a year, the issuer earns 10% on the loan. This 10% difference is the "net interest spread" and the 5% is the "interest expense".
Operating costs

This is the cost of running the credit card portfolio, including everything from paying the executives who run the company to printing the plastics, to mailing the statements, to running the computers that keep track of every cardholder's balance, to taking the many phone calls which cardholders place to their issuer, to protecting the customers from fraud rings. Depending on the issuer, marketing programs also form a significant portion of expenses.

Charge-offs

When a consumer becomes severely delinquent on a debt (often six months without payment), the creditor may declare the debt to be a charge-off. It will then be listed as such on the debtor's credit bureau reports (Equifax, for instance, lists "R9" in the "status" column to denote a charge-off.) A charge-off is considered to be "written off as uncollectable." To banks, bad debts and even fraud are simply part of the cost of doing business. However, the debt is still legally valid, and the creditor can attempt to collect the full amount for the time periods permitted under state law, which is usually 3 to 7 years. This includes contacts from internal collections staff, or more likely, an outside collection agency. If the amount is large (generally over $1500–$2000), there is the possibility of a lawsuit or arbitration.

Rewards

Many credit card customers receive rewards, such as frequent flyer points, gift certificates, or cash back as an incentive to use the card. Rewards are generally tied to purchasing an item or service on the card, which may or may not include balance transfers, cash advances, or other special uses. Depending on the type of card, rewards will generally cost the issuer between 0.25% and 2.0% of the spread. Networks such as Visa or MasterCard have increased their fees to allow issuers to fund their rewards system. Some issuers discourage redemption by forcing the cardholder to call customer service for rewards. On their servicing website, redeeming awards is usually a feature that is very well hidden by the issuers. With a fractured and competitive environment, rewards points cut dramatically into an issuer's bottom line, and rewards points and related incentives must be carefully managed to ensure a profitable portfolio. Unlike unused gift cards, in whose case the breakage in certain US states goes to the state's treasury, unredeemed credit card points are retained by the issuer.
Fraud

Relatively, the values lost in bank card fraud are minor, calculated in 2006 as 7 cents per 100 dollars worth of transactions (7 basis points). In 2004, in the UK, the cost of fraud was over £500 million. When a card is stolen, or an unauthorized duplicate is made, most card issuers will refund some or all of the charges that the customer has received for things they did not buy. These refunds will, in some cases, be at the expense of the merchant, especially in mail order cases where the merchant cannot claim sight of the card. In several countries, merchants will lose the money if no ID card was asked for, therefore merchants usually require ID card in these countries. Credit card companies generally guarantee the merchant will be paid on legitimate transactions regardless of whether or not the consumer pays their credit card bill. Most banking services have their own credit card services that handle fraud cases and monitor for any possible attempt at fraud. Employees that are specialized in doing fraud monitoring and investigation are often placed in large of Risk Management, Fraud and Authorization, or Cards and Unsecured Business. Fraud monitoring emphasizes minimizing fraud losses while making an attempt to track down those responsible and contain the situation. Credit card fraud is a major white collar crime that has been around for many decades. Even with the advent of the chip based card (EMV) that was put into use in some countries this continues to be a problem.

Promotion

Promotional purchase is any purchase on which separate terms and conditions are set on each individual transaction unlike a standard purchase where the terms are set on the cardholder’s account record and their pricing strategy. All promotional purchases that accrue to a particular account will be carrying its own balance called as Promotional Balance.

8 Revenues

Offsetting the costs are the following revenues:

Interchange fee

In addition to fees paid by the card holder, merchants must also pay interchange fees to the card-issuing bank and the card association. For a typical credit card issuer, interchange fee revenues may represent about a quarter of total revenues. These fees are typically from 1 to 6 percent of each sale, but will vary not only from merchant to merchant (large merchants can
negotiate lower rates, but also from card to card, with business cards and rewards cards generally costing the merchants more to process. The interchange fee that applies to a particular transaction is also affected by many other variables including: the type of merchant, the merchant's total card sales volume, the merchant's average transaction amount, whether the cards were physically present, how the information required for the transaction was received, the specific type of card, when the transaction was settled, and the authorized and settled transaction amounts. In some cases, merchants add a surcharge to the credit cards to cover the interchange fee, encouraging their customers to instead use cash, debit cards, or even cheques.

Interest on outstanding balances

Interest charges vary widely from card issuer to card issuer. Often, there are "teaser" rates in effect for initial periods of time (as low as zero percent for, say, six months), whereas regular rates can be as high as 40 percent. In the U.S. there is no federal limit on the interest or late fees credit card issuers can charge; the interest rates are set by the states. Some states such as South Dakota, having no ceiling on interest rates and fees, invited some banks to establish their credit card operations there. Other states, for example Delaware, have very weak usury laws. The teaser rate no longer applies if the customer doesn't pay their bills on time, and is replaced by a penalty interest rate (for example, 23.99%) that applies retroactively.

Fees charged to customers

The major fees are for:
- Late payments or overdue payments
- Charges that result in when the credit limit on the card is exceeded (whether done deliberately or by mistake), called over limit fees
- Returned cheque fees or payment processing fees (e.g. phone payment fee)
- Cash advances and convenience cheques (often 3% of the amount)
- Transactions in a foreign currency (as much as 3% of the amount). A few financial institutions do not charge a fee for this.
- Membership fees (annual or monthly), sometimes a percentage of the credit limit.
Exchange rate loading fees (sometimes these might not be reported on the customer's statement, even when applied). The variation of exchange rates applied by different credit cards can be very substantial, as much as 10% according to a Lonely Planet report in 2009.

10. Over limit charges

Consumers who keep their account in good order by always staying within their credit limit and always making at least the minimum monthly payment will see interest as the biggest expense from their card provider. Those who are not so careful and regularly surpass their credit limit or are late in making payments are exposed to multiple charges that were typically as high as £25 - £35 until a ruling was made by the Office of Fair Trading that they would presume charges over £12 to be unfair and this led the majority of card providers to reduce their fees to exactly that level.

US

The Credit CARD Protection Act of 2009 that was made into law by President Obama requires that consumers "opt-in" to over-limit charges. Some card issuers have therefore commenced solicitations requesting customers to opt in to over limit fees, presenting this as a benefit as it may avoid the possibility of a future transaction being declined. Other issuers have simply discontinued the practice of charging over limit fees. Whether a customer opts in to the over limit fee or not, banks will, in practice, have the discretion as to whether they choose to authorize the transactions above the credit limit or not. Of course, any approved over limit transactions will only result in an over-limit fee for those customers who have opted in to the fee. This legislation took effect on February 22, 2010.

UK

The higher level of fees originally charged were claimed to be designed to recover the costs of the card operator's overall business and to ensure that the credit card business as a whole generated a profit, rather than simply recovering the cost to the provider of the limit breach which has been estimated to be typically between £3-£4. Profiting from a customer's mistakes is arguably not permitted under UK common law, if the charges constitute penalties for breach of contract, or under the Unfair Terms in Consumer Regulations 1999. Subsequent rulings in
respect of personal current accounts suggest that the argument that these charges are penalties for breach of contract is weak, and given the OFT’s ruling it seems unlikely that any further test case will take place. Whilst the law remains in the balance, many consumers have made claims against their credit cards providers for the charges that they have incurred, plus interest that they would have earned had the money not been deducted from their account? It is likely that claims for amounts charged in excess of £12 will succeed, but claims for charges at the OFT’s £12 threshold level are more contentious.

11 Neutral consumer resources

Canada

The Government of Canada maintains a database of the fees, features, interest rates and reward programs of nearly 200 credit cards available in Canada. This database is updated on a quarterly basis with information supplied by the credit card issuing companies. Information in the database is published every quarter on the website of the Financial Consumer Agency of Canada (FCAC). Information in the database is published in two formats. It is available in PDF comparison tables that break down the information according to type of credit card, allowing the reader to compare the features. The database also feeds into an interactive tool on the FCAC website. The interactive tool uses several interview-type questions to build a profile of the user's credit card use and needs, to eliminate unsuitable choices based on the profile. And this way the user is presented with a small number of credit cards and equipped with the ability to carry out detailed comparisons of features, reward programs, interest rates, etc.

Controversy

Credit card debt has increased steadily. Since the late 1990s, lawmakers, consumer advocacy groups, college officials and other higher education affiliates have become increasingly concerned about the rising use of credit cards among college students. The major credit card companies have been accused of targeting a younger audience, in particular college students, many of whom are already in debt with college tuition fees and college loans and who typically are less experienced in managing their own finances. Credit card debt may also negatively affect their grades as they are likely to work more in both part and full time.
Another controversial area is the universal default feature of many North American credit card contracts. When a cardholder is late in paying a particular credit card issuer, that card's interest rate can be raised, often considerably. With universal default, a customer's other credit cards, for which the customer may be regular on payments, May also have their rates and/or credit limit changed. The universal default feature allows creditors to periodically check cardholders' credit portfolios to view trade, allowing these other institutions to decrease the credit limit and/or increase rates on cardholders who may be late with another credit card issuer. Being late on one credit card will potentially affect all the cardholder's credit cards. Citibank voluntarily stopped this practice in March 2007 and Chase stopped the practice in November 2007. The fact that credit card companies can change the interest rate on debts that were incurred when a different rate of interest was in place is similar to adjustable rate in mortgages where interest rates on current debt may rise. However, in both cases this is agreed to in advance, and there is a trade off that allows a lower initial rate as well as the possibility of an even lower rate incase (mortgages, if interest rates fall) or perpetually keeping a below-market rate (credit cards, if the user makes their debt payments on time). It should be noted that the Universal Default practice was actually encouraged by Federal Regulators, particularly those at the Office of the Comptroller of the Currency (OCC) as a means of managing the changing risk profiles of cardholders.

Another controversial area is the trailing interest issue. Trailing interest is the practice of charging interest on the entire bill no matter what percentage of it is a creed paid. U.S Senator Carl Levin raised the issue of millions of Americans getting affected by hidden fees, compounding interest and cryptic terms. Their woes were heard in a Senate Permanent Subcommittee on Investigations hearing which was chaired by Senator Levin, who said that he intended to keep the spotlight on credit card companies and that legislative action might be necessary to purge the industry. In 2009, the C.A.R.D. Act was signed into law; enact providing solutions protections for many of the issues Levin had raised.

In the United States, some have called for the Congress to enact additional regulations on the industry to expand the disclosure box to clearly disclose rate hikes, use plain language, incorporate balance payoff disclosures, and also to outlaw universal default. At a congress hearing on March 1, 2007, Citibank announced it would no longer practice this, effective
immediately. Opponents of such regulation argue that customers must become more proactive and responsible in evaluating and negotiating terms with credit providers. Some of the nation's influential top credit card issuers, who are also among the top fifty corporate contributors to political campaigns, successfully opposed it.

**Hidden costs**

In the United Kingdom, merchants won the right through The Credit Cards (Price Discrimination) Order 1990 to charge customers different prices according to the payment method. As of 2007, the United Kingdom was one of the world's most credit-card-intensive countries, with 2.4 credit cards per consumer, according to the UK Payments Administration Ltd.

In the United States until 1984, federal law prohibited surcharges on card transactions. Although the federal Lending Act that prohibited surcharges expired that year, a number of states have since enacted laws that continue to outlaw the practice; California, Colorado, Connecticut, Florida, Kansas, Massachusetts, Maine, New York, Oklahoma, and Texas have laws against surcharges. As of 2006, the United States probably had one of the worlds highest if not the top ratio of credit cards per capita, with 984 million bank-issued Visa and MasterCard credit card and debit card accounts for an adult population of roughly 220 million people. The credit card US capital ratio was nearly 4:1 as of 2003 and as high as 5:1 as of 2006.

12. **Credit card numbering**

The numbers found on credit cards have a particular of internal structure, and share a common numbering scheme. The card number's prefix, called the Bank Identification Number, is the sequence of digits at the beginning of the number that determine the bank to which a credit card number belongs. This is the first six digits for MasterCard and Visa cards. The next nine digits are the individual account number, and the final digit is a validity check code. In addition to the main credit card number, credit cards also carry issue and expiration dates (given to the nearest month), as well as extra codes such as issue numbers and security codes. Not all credit cards have the same sets of extra codes nor do they use the same number of digits.
13. **Credit cards in ATMs**

Many credit cards can also be used in an ATM to withdraw money against the credit limit extended to the card, but many card issuers charge interest on cash advances before they do soon purchases. The interest on cash advances is commonly charged from the date the withdrawal is made, rather than the monthly billing date. Many card issuers levy a commission for cash withdrawals, even if the ATM belongs to the same bank as the card issuer. Merchants do not offer cash back on credit card transactions because they would pay a percentage of the additional cash amount to their bank or merchant services provider, thereby making it uneconomical. Many credit card companies will also, when applying payments to a card, do so at the end of a billing cycle, and apply those payments to everything before cash advances. Are given for this reason, many consumers have large cash balances, which have no grace period and incur interest at a rate that is (usually) higher than the purchase rate, and will carry those balances for years, even if they pay off their statement balance each month.

14. **Credit cards as funding for entrepreneurs**

Credit cards are a risky way for entrepreneurs to acquire capital for their start-ups when more conventional financing is unavailable. It's widely reported that Len Bosack and Sandy Lerner used personal credit cards to start Cisco Systems. It is rumored that Larry Page and Sergey Brin's start up of Google was financed by credit cards to buy the necessary computers and office equipment, more specifically "a terabyte of hard disks". Similarly, filmmaker Robert Townsend financed part of Hollywood Shuffle using credit cards. Director Kevin Smith funded Clerks in part by maxing out several credit cards. Actor Richard Hatch also financed his production of Battle star Galactica: The Second Coming partly through his credit cards. Famed hedge fund manager Bruce Kovner began his career (and, later on, his firm Caxton Associates) in financial markets by borrowing from his credit card. UK entrepreneur James Can (as seen on Dragon's Den) financed his first business using several credit cards.

**Indian Credit Card Scenario:**

India has come out of self-binding shackles because of the young work force of the country that is driving the economy like never before. In the now a day's world, no one wants to
be bothered by the presence of huge amount of wallet cash in his or her purse and the Indians are no exception. The unprecedented growth in the number of Credit Card users has stimulated the Indian economy to a significant extent. The arrival of malls, online shopping stores and shopping complexes have contributed to the growth of the use of plastic cards.

The benefits of plastic money have offered unmatched ways to create and offer an amicable solution when it comes to purchases or the inability to possess or carry cash. The modern day Indian customers find it easier to carry cards than to carry too much cash. The introduction of credit card facilities to pay for mobile, electricity, movie tickets and other related transactions have also contributed to the growth of plastic money in the country.

Credit cards are the plastic cards issued by the banker to its customers to purchase items on credit or actually draw cash at short notice. A credit card lets the consumer buy now and pay later.

In India, the total circulation of the credit cards is 265.1 millions in the year 2011, and the amount of transactions is Rs. 75516 crores. Over the last few years, there has been a substantial increase in credit card transactions.

Method of Payment and Charging Scenario

The credit card is the most modern means of payment. The maturity of any economy can be gauged by the stage of development reached by its payment system. Barter might have been appropriate when needs were simple, but the system ran into problems when these needs did not coincide. In the next stage, items considered to be valuable were accepted as a common medium of exchange, as the times changed and civilization progressed, people began to look for something intrinsically useful and easily applicable to their everyday transactions. So they turned to metal, silver, gold, iron, platinum etc., and payment was made by measuring the size and weight of the metal. Later, a stamp was put on the metal to save the trouble of weighing to decide its value and this led to the birth of the coins. The expansion of trade, coupled with sheer inconvenience of transporting large number of coins gave rise to the development of paper money and subsequently bank notes. Finally central banks were formed to regulate the issue of currency notes and impose monetary controls to protect the banks and their customers from counterfeiting. Though cash has been the predominant payment mechanism, as a country develops, it graduates to cheques and ultimately plastic cards.
A Conceptual Model for Credit Card Scenario

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.

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 Master Card / Visa, which 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 the 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 transactions 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 Master Card/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 united in their demand for reduction in Interchange fees.

Benefits to Customers

- The main benefit to each customer is comfort
- Compared to debit cards and cheques, a credit card permits small short term loans to be made reading available to a customer who need not calculate the balance remaining before every transaction, and the total charges do not exceed the maximum credit line of the card.
- Credit card provides more protection against fraud than debit cards.
- It offers remunerations and profit packages, such as offering increased product warranties at no extra cost, free damage coverage on new purchases, and points which may be bought back for cash, products or airline tickets.
- Additionally, carrying credit card may be a comfort to some customers as it removes the need to carry any cash for most purposes.

**Benefits to Merchants:**

- A credit card transaction is often more secure than other modes of payment, such as cheques, because the issuing bank guarantees to pay the merchant the moment the transaction is authorized, regardless of whether or not the consumer defaults on the credit card payment.
- In most cases, using cards is better than using cash, because merchant’s employees and cannot steal them and besides it will be refer to have less cash in the store.
- Prior to the advent of the credit cards, each merchant had to evaluate each customer’s credit history before extending credit.
- That task is now executed by the banks which the credit risks.
- Credit card can also help in securing a sale, especially if the customer does not have enough cash on his or her person.
- Extra turnover is generated by the fact that the customer can buy goods or services immediately and is less inhibited by the amount of cash in his or her pocket and the immediate state of his or her bank balance.
- Much of merchant marketing is based on this immediacy.
- For each purchase, the bank charges the merchant a commission for this service and there may be a certain delay before the accepted payment is taken by the merchant.
- The commission is often a percentage of the transaction amount, plus a fixed fee.
- In addition, a merchant may be punished if there are too many or reversals of charges as a result of contests.
- Some small merchants require Credit purchases to have a minimum amount to recompense them for the transaction costs.
Costs to Merchants:

- Merchants are charged several fees for the prerogative of accepting credit cards.
- The merchants are usually charged a commission of around 1 to 3 percent of the value of each transaction paid for by credit card.
- The merchant may also pay a variable charge, called an interchange rate, for each transaction.
- In some instances of very low-value transactions, use of credit cards will significantly decrease the profit margin or cause the merchant to lose money on the transaction.
- Merchants must look at these transactions as part of their costs to keep the right to accept credit card transactions.
- Merchants with very low value transactions or very high average transactions are more averse to accepting credit cards.
- In some cases merchants may charge users a “Credit Card Supplement,” either a fixed amount or a percentage, for payment by credit card.

Parties Involved:

- **Card holder:** The holder of the card used to make a purchase.
- **Card Issuing bank:** This financial Institution or other organization that issued the credit card to the cardholder.
- **Merchant:** The individual or business accepting credit card payments for products or services sold to the cardholder.
- **Acquiring Bank:** The financial institution agreeing to pay for the products or services on behalf of the merchant.
Number of Credit Cards in India: Number of Credit Cards in India from 1981-2010 are as in the table below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Cards</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>5,000</td>
</tr>
<tr>
<td>1982</td>
<td>20,000</td>
</tr>
<tr>
<td>1983</td>
<td>30,000</td>
</tr>
<tr>
<td>1984</td>
<td>40,000</td>
</tr>
<tr>
<td>1985</td>
<td>50,000</td>
</tr>
<tr>
<td>1986</td>
<td>60,000</td>
</tr>
<tr>
<td>1987</td>
<td>90,000</td>
</tr>
<tr>
<td>1988</td>
<td>2,00,000</td>
</tr>
<tr>
<td>1989</td>
<td>2,50,000</td>
</tr>
<tr>
<td>1990</td>
<td>3,00,000</td>
</tr>
<tr>
<td>1991</td>
<td>4,00,000</td>
</tr>
<tr>
<td>1992</td>
<td>6,00,000</td>
</tr>
<tr>
<td>1993</td>
<td>8,00,000</td>
</tr>
<tr>
<td>1994</td>
<td>12,00,000</td>
</tr>
<tr>
<td>1995</td>
<td>18,00,000</td>
</tr>
<tr>
<td>1996</td>
<td>28,00,000</td>
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<tr>
<td>1997</td>
<td>29,50,000</td>
</tr>
<tr>
<td>1998</td>
<td>30,10,000</td>
</tr>
<tr>
<td>1999</td>
<td>30,90,000</td>
</tr>
<tr>
<td>2000</td>
<td>N.A</td>
</tr>
<tr>
<td>2001</td>
<td>N.A</td>
</tr>
<tr>
<td>2002</td>
<td>N.A</td>
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<tr>
<td>2003</td>
<td>27,65,000</td>
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<td>2004</td>
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<td>30,30,144</td>
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<td>2006</td>
<td>31,86,230</td>
</tr>
<tr>
<td>Year</td>
<td>Number</td>
</tr>
<tr>
<td>------</td>
<td>---------</td>
</tr>
<tr>
<td>2007</td>
<td>33,55,766</td>
</tr>
<tr>
<td>2008</td>
<td>35,83,974</td>
</tr>
<tr>
<td>2009</td>
<td>38,33,535</td>
</tr>
<tr>
<td>2010</td>
<td>40,67,744</td>
</tr>
</tbody>
</table>

From the above table it can be inferred that though many Indian banks entered the credit card market in the 80's, the size of the market was just 4067744 by the year 2010.

**Master Card:** Master Card is a product of master card international and this long with VISA is distributed by financial institutions around the world. The company is a Delaware registered corporation that owns the globally recognized family of brands. Master card, cirrus and maestro and its proprietary global payments network connects issuers to acquirers around the globe to facilitate the processing of Transaction and, thereby, allows Master Card cardholders to use their cards at millions of merchants worldwide. Transactions are made through this network of financial institutions and other entities that are their customers, in more than 210 countries and territories that have more than 150 types of currencies. A group of banks in California joined together to form an association called interbank to create a competitive card called Bank America Card (now VISA international) because of its unprecedented growth. The Interbank thus created in the mid 1960s launched Master charge which was converted into Master Card international. However, the true effect of the successful introduction of Master charge was synergistic – the total market for bank cards grew at even faster rate. The master card international is divided into six regions with two functional groups. Asia – pacific, Canada, Europe, Latin America, Middle East/ Africa, United States, global functions and operations (Net work / Data Processing) functions. Each self funded region manages local marketing and advertising, member relations and other services under the guidance of regional boards of directors.

**Payment Services and Solutions of Master Card:**

- It provides transaction processing and other payment – related services as well as a wide range of payment solutions to enable our customers to design, package and implement products and programs targeted at the specific needs of their customers.
- It works with customers to provide customized solutions, as well as to move general solutions.
- Its payment solutions are built upon our expertise in payment programmes, product development, payment processing technology, consulting and information services and marketing.
- It also manages and promotes our brands for the benefit of all customers through brand advertising, promotional and interactive programs and sponsorship initiatives.
- Develops new products and services.
- Sets and enforces policies and rules to support the family of brands.

**Typical point of sale card transaction:**

A typical Transaction processed over the Master Card worldwide network involves four participants in addition to us:
1. Card holder
2. Merchant
3. Issuer
4. Acquirer.

The diagram below describes a typical point of sale card transaction have a cardholder.

**Diagram of Master Card**

![Diagram of Master Card Typical Point of Sale Card Transaction](attachment:image.jpg)
• Purchases goods and services from a merchant
• By using a card or any payment device, the transaction is authorized by the issuer.
• An amount equal to the value of the transaction, minus the interchange fee, and posts the transaction to the cardholder’s account.
• By using their network, the issuer pays the acquirer.
• The acquirer pays the purchase net of a discount, to the merchant.
• The merchant discount, among other things, takes into consideration the amount of the interchange fee.
• The payment of transactions is utilizing MasterCard – branded cards and certain transactions using cirrus and Maestro-branded cards between issuers and acquirers.

On a global scale, Master card clears more than 150 currencies in more than 210 countries and territories. Across the world it had 966 million card holders in the year 2010, with 32.1 billion in total transaction in the world and 2454 billion total volume with 1,852 billion payment volume.

Visa card: VISA cards are a product of VISA USA and along with master card it is distributed by financial institutions around the globe. Developed out of bank America card, this credit card was launched by the bank of America in 1958. Visa international service association was formed in 1970 when Bank of America sold its Bank America card operations to an independent company called Bank America incorporate, which later formed into a separate international organization called IBANCO, which again became visa international in the year 1977. Their head quarter is at sanfranisco. Visa is one of the largest consumer payment systems in the world with more than 1,808 million cards its total transaction is around 62.2 billion. Its total volume is $4,423 billion and its payments volume is around $2,793 billion at the end of the march 2010 and it is also on its way to providing a complete electronic product called chip card to interact with merchant point of transaction (pot) terminal in order to complete the financial transaction with unsuppressed acceptance in more than 150 countries.

Japanese credit bureau (JCB): JCB a subsidiary of Sanwa Bank of Japan introduced its charge card called JCB card in the year 1961 and entered the international arena only in the year 1981.
Its headquarters is in Tokyo and it has a card base of around 61 million cards with 0.8 billion transactions and total volume of $83 billion. Its payment volume stands at 75 billion at the end of the march 2010.

**American express:** It was established in 1850 for only a small part of its corporate life. It launched its money order in 1882 and traveler’s cheques in 1891. Its first travel and entertainment cards were used in 1958 and gold cards were introduced in 1966. It is continuously developing products with more than 88 million cards and its total transactions were 5.1 billion. Its total volume was 620 billion and its total payment volume was 613 billion at the end of march 2010. American express cards are especially popular in the U.S., Canada, Europe and Asia and are used widely in the retail and everyday spend categories. American express traveler’s cheques are still acknowledged as the dominant force in the global market.

**Diners club:** It was formed by Frank X ML Namara in 1950 in the United States to introduce travel and entertainment card called diners club card. It was the number one charge card. Its card holders live all over the world and are an old corporate favorite.

It was acquired in 1981 by Citi Corp., the parent of Citi Bank; the parent of Citi Bank. T&E cards were made especially for higher income peoples. These cards don’t have revolving creditor extended credit. The diner’s club card members have no pre-set spending limit and are known as the charge card. It had 7 million cards with 0.2 billion total transactions and its total volume of 26 billion with 25 billion payments volume in the year of 2010.

**Discover cards:** It is also one of the most popular card in the world had 54 million cards with 1.7 billions total transactions and its total volume was 109 billions with 100 billions of payments volume in the year of 2010 financial year.

**Travel and entertainment (T&E) cards:** these are also known as charge cards and so are not real credit cards since they offer credit for a brief period between purchase and billing. When billing occurs, the card holder is expected to settle in full. When required, if the settlement is not made in full, it results in overdue account which normally attracts a penalty. The banker will collect different types of fees like admission fees and annual fees from the card holders and commission from the merchant establishments. These cards are mainly used for travel and
entertainment needs and for official expenses. Charges are approved by the bank based on the financial data provided at the time of application, spending and payment pattern. JCB cards, Amex cards, and Diners cards are the travel and entertainment cards.

**Automated Teller Machine (ATM) Cards:** Automated TM cards are used to perform, several functions that depend upon the type of machine and the nature of card. Some of the functions are making deposits or withdrawals of cash from savings or checking accounts, getting emergency cash advance from Master of VISA card accounts, loan payments, balance enquiry, transfer of funds from one account to another. Through ATM cards we can withdraw cash from ATM centers of any area of the bank.

**Cheque Generate Cards** are those that guarantee the payment of the cheque by the banker when a cheque bounces. In that a case the Merchant May collect the amount of the cheque from the bank that issued the card. These cards are frequently attached to a line of credit and customers pay the interest and fee associated with them as and when he avails of the credit.

**Affinity Cards:** Affinity cards are offered by two organizations one a lending institution, the other one a non-financial group. Affinity cards features might have schools, non-profit groups, prowrestlers, popular singers, and airlines. Usually, non-financial groups may give special discount or deals to the users of Affinity Cards.

**Credit card:** A secured card holder secures with a savings deposit to ensure payment of the outstanding balance if the card holder defaults on payment. This is a new credit card used by the people trying to rebuild their poor credit ratings.

**Smart Card:** Smart Cards are also known as chip cards which contain computer chips, embedded within the plastic, to provide unique capabilities. The data are stored on the chip so that transactions are carried out within the prescribed limits. If the purchase amount exceeds the credit available, the purchase will not be authorized. It will be where a typical credit and magnetic stripe can hold only a few dozen characteristics. Chip cards or smart cards are now available with 16k of memory. These cards can be utilized as cash card with a preset credit limit, as well as 10 cards with stored-in passwords.
**Charge Card:** Charge Cards are provided by American express and Diners. They fall in between a debit card and credit card.

**Co-branded Card:** Co-branded card is a marriage of convenience between two service providers who want a tradeoff between each other’s strengths. Specific facilities provided to members through these tie-ups. So, times bank and Citibank have a co-branded card that allows concessional rates for add-on cards or telephone banking. Stanch art and Hindustan level limited have a co-branded card for beauty products. SBI-GE capital has a co-branded card for retail loans.

**Cash Card:** Cash Cards, similar to pre-paid phone cards, contain an assigned amount of value, which can be read by a special cash card reader. Participating retailers will use the reader to debit the card until the value is gone, the cards are like cash.

**Debit Cards:** It is the account holder’s mobile ATM. Open an account with a bank that offers a debit cards, and payments for purchases will be deducted from your bank account. The retailer swipes the card through an electronic terminal at his outlet, and enters the personal identification number on a pin pad the money is immediately debited at the bank. Citi bank and a few domestic banks like time bank offer these. Debit cards are the plastic cards which can be used in the place of paper cheques and the transaction will be automatically guaranteed. Debit is a financial term and its use in accepted by the bank. Debit card is really a combination of cheques. Every time the card holder makes a payment to the retailer through this card the payments are automatically deducted from his personal bank account. The NETS system in Singapore allows a shopper to access their personal account via point of sale (POS) terminals.

**Pre-paid Card:** Prepaid cards are pre-programmed to a set limit and the consumer can continue to use them until to stored value is spent. The most common version of the pre-paid card is the telephone card. These cards are sometimes called junior cards. Since they are not truly credit cards at all, you cannot use them without depositing some money into the card account. You can then use your card to spend any amount up to the amount in the account. When you add more money, you can charge more to your card.
When you have poor credit or no credit, prepaid debit cards allow you to enjoy credit card benefits without the hassle of making a credit card application. However, with these cards, it is hard to rack up high debt. The financing charges on these cards are also very small, in some cases. But some prepaid debit cards charge extra fees for applications and for yearly use so compare offers carefully with those in the featured articles.

**Credit cards for bad cards:** Bad credit cards are designed for people with poor credit histories. These cards generally have very low credit limits and charge extra fees. This is because they are designed for people who are less likely to repay their debits. If you have a bad credit rating, these types of credit cards can be a great way to rebuild your credit history. These cards can also allow you to have credit even if you will be rejected by most due to your credit history.

**Student Credit Cards:** Student Credit Cards are cards meant to attract college and university students. These cards often sign-up bonuses for students. They are also easier too apply for, since credit card companies recognize that students have much shorter credit histories than the average customer. If you are a student, student credit cards can be a great option. They are simple to use and can help you build a good credit rating before getting the regular credit cards. These cards may have 90 reward programmes and have fewer benefits, including fewer bonuses and services, than other cards.

**Business Credit Cards:** Business Credit Cards are created especially for business use. They offer the same advantages as traditional credit cards, but also offer services that can really help a business. With some business credit cards for example, you can enjoy higher interest rates, extra cards for business expenses and services that let you keep your personal and business expenses separate on the same card. These advantages earned by using this card for your business is more convenient. If you own a business, you may wish to consider these types of card. The only real disadvantage of business cards is that there are so many of them. Some of them have features like additional business fees that can be useful for your needs.

**Low Interest Credit Cards:** These types of credit cards charge very low interest. In some cases, these cards just do not charge.
Credit Cards: Credit Cards are the plastic cards issued by the banker to its customer to use to for purchase items on credit or actually draw cash at short notice. A credit card lets the consumer buy now and pay later. The card holder has the option of settling the monthly statement in full or taking up to a present limit at a monthly interest rate and subject to making only a specified minimum repayment each month.

The banks charge high rate of interest, normally on the unpaid balances. Many of the Indian banks are offering charge cards rather than credit cards because the amount is to be paid to the bank in full when the card holder is billed. Indian banks are not allowing revolving credit, a facility to pay a part of the amount due. But the foreign banks operating in India are allowing the revolving credit.

The acceptability of bank credit cards in many places offers tremendous potential to business and leisure travel. The working of the card system is depicted below.

Independent Sales Organization: Resellers of the services of the obtaining 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 Cards Association: An association of card issuing banks such as visa, master card, discover, American express etc. that set transaction terms for merchants, card issuing banks, and acquiring banks.

Transaction Network: The system that implements the electronic transactions of the merchants. It may be operated an independent company, and one company; may operate multiple networks.

Affinity Partner: Some institutions lend their name to the card issued to invite customers that have strong relationship with that institution, and get paid a fee or a percentage of the balance for each card issued using their name. Examples of typical affinity partners are sports teams, universities, charities, professional organizations and major retailers.
The Merchant Establishment

From the merchant establishment point of view, the advantages in operating credit card system are as follows.

- If a retailer accepts a bank credit card, it obviously signifies a guarantee of payment and therefore is an excellent form of protection.
- Accepting bank credit cards and introducing store credit cards should help in increasing turnover for the retailers, this will be especially so as more retailers and consumers accept the idea of credit cards.
- A retailer by accepting credit cards and will also reduce the possibility of theft.
- Accepting cheques or credit cards instead of cash lessens the risk of keeping the cash with retailers.
- Overseas visitors may purchase more.
- The profitability of systematic accounting since sales receipts are routed through banking channels.
- Gets advertising and promotional support on a national scale.
- Development of a prestigious clientele base.

Easy validation of sales and guarantee of payment, expanded revenue opportunities and better credit plans played a key role in the merchant's acceptance of credit cards. But some merchants don't accept them because their small profit would not be adequate to pay the discount rate. However, if they don't keep abreast with the market trends in terms of credit cards, they may well lose potential customers.

To the Bank

There were some important advantages to banks that issued cards to their customers. In the early days the revolving line of credit card associated with the card was probably the main attraction. Under a revolving line of credit, the customer could borrow, repay the amount, and borrow again without having to go into the bank to apply for another loan. The customer could borrow repeatedly and repay the amount owed in monthly installments as long as the total
amount borrowed, did not exceed the credit limit. Banks used cards as an easy way to extend credit and as an incentive for customers to borrow.

The main advantages are:

- Interest grew as more and more customers borrowed money and repaid part of the balance due each month.
- Credit cards can also help in increasing sales, especially when the customer does not have enough cash on his or her person or account.
- Extra turnover is generated by the fact that the customer can buy goods or services immediately and is less inhibited by the amount of cash in his or her pocket and the immediate state of his or her bank balance.
- Much of the merchants marketing is based on this immediacy.
- The bank charges the merchant a commission for this service and there may be a certain delay before the accepted payment reaches the merchant.
- In addition, a merchant may be punished if there are too many abolisations or reversals of charges as a result of contests.
- Some small merchants require credit purchases to have a minimum amount to recompense for the transaction costs.

Costs to Merchants:

- Merchants are charged several fees for their prerogative of accepting credit cards.
- The merchant is usually charged a commission of around 1 to 3 percent of the value of each transaction paid for by credit card.
- The merchant may also pay a valuable charge, called an interchange rate, for each transaction.
- In cases of very low value transactions, use of credit cards will significantly decrease the profit margin or cause the merchant to lose money on the transaction.
- Merchants with very low value transaction prices or very high average transaction prices are more averse to accepting credit cards.
- At times, merchants may charge users a “credit card supplement”. Either an interchange amount or a percentage, for payment by credit card.
A credit card is different from a charge card, in that a charge card requires the balances to be paid in full each month; credit cards permit the consumers to rotate their balance, by collecting interest charges.

**Parties Involved:**

**Card holder:** The person who uses a credit card is called a card holder; he can use the card to make a buy as a consumer.

**Card issuing bank:** The financial / institution or other organization that issues the credit card to the customer is called a card issuing bank.

**Merchant:** The individual or a business house that accepts credit card payments for products or services sold to the card holder is called a merchant.

**Acquiring Bank:** The financial institution that agrees to pay for the products or services on behalf of the merchant is known an obtaining bank.

**Affinity Partner:** Some institutions lend their names to an issuer to lure the customers that have a strong relationship with that institution, and set as fee a percentage of the balance for using their name Ex: Sports teams, Universities, Chaities, Professional, Organizations, and Major Retailers.

**To the Government:**

- Extensive use of credit cards reduces the currency in circulation and thereby reduces the cost of printing the currency notes.
- The Cardholder gets one periodical bill and the merchant receives single payment for each day’s business and thereby the load on the national cleaning gets reduced.
- In the long run, this will reduce the cost of making stationery for printing paper money and cheques.
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