

THE HISTORY OF CREDIT CARDS

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As far back as the late 1800s, consumers and merchants exchanged goods through the concept of credit, using [credit coins and charge plates](#) as currency. It wasn't until about half a century ago that plastic payments as we know them today became a way of life. In the early 1900s, oil companies and department stores issued their own proprietary cards. Such cards were accepted only at the business that issued the card and in limited locations. While modern credit cards are mainly used for convenience, these predecessor cards were developed as a means of creating customer loyalty and improving customer service. The first bank card, named "Charg-It," was introduced in 1946 by John Biggins, a banker in Brooklyn. When a customer used it for a purchase, the bill was forwarded to Biggins' bank. The bank reimbursed the merchant and obtained payment from the customer. In 1951, the first bank credit card appeared in New York's Franklin National Bank for loan customers. It also could be used only by the bank's account holders. The Diners Club Card was the next step in credit cards. By 1951, there were 20,000 Diners Club cardholders. A decade later, the card was replaced with plastic. Diners Club Card purchases were made on credit, but it was technically a charge card, meaning the bill had to be paid in full at the end of each month. In 1958 the company emerged into the credit card industry with its own product, a purple charge card for travel and entertainment expenses. American Express introduced the first card made of plastic (previous cards were made of cardboard or celluloid). American Express soon introduced local currency credit cards in other countries. About 1 million cards were being used at about 85,000 establishments within the first five years, both in and out of the U.S. In the 1990s, the company expanded into an all-purpose card. American Express, or Amex as it often is called, is about to celebrate its 50th credit card anniversary. The Diners Club and American Express cards functioned in what is known as a 'closed-loop' system, made up of the consumer, the merchant and the issuer of the card. The general-purpose credit card was born in 1966, when the Bank of America established the BankAmerica Service Corporation that franchised the Bank American brand (later to be known as [Visa](#)) to banks nationwide. The ICA is now known as MasterCard Worldwide, though it was temporarily known as Master Charge. This organization competes directly with a similar Visa program. The new bank card associations were different from their predecessors in that an 'open-loop' system was now created, requiring interbank cooperation and funds transfers. Visa and MasterCard still maintain "open-loop" systems, whereas American Express, Diners Club and [Discover Card](#) remain "closed-loop." Visa and MasterCard's organizations both issue credit cards through member banks and set and maintain the rules for processing. They are both run by board members who are mostly high-level executives from their member banking organizations. As the bank card industry grew, banks interested in issuing cards became members of either the Visa association or MasterCard association. Visa and MasterCard developed rules and standardized procedures for handling the bank card paper flow in order to reduce fraud and misuse of cards. The two associations also created international processing systems to handle the exchange of money and information and established an arbitration procedure to settle disputes between members. Although American Express was among the first companies to issue a charge card, it wasn't until 1987 that it issued a credit card allowing customers to pay over time rather than at the end of every month. Its original business model focused on the travel and entertainment charges made by business people, which involved significant revenue from merchants and annual membership fees from customers. Discover Card Services sought to create a new brand with its own merchant network, and the company has been successful at developing merchant acceptance. A 2004 antitrust court ruling against Visa and MasterCard - initiated by the U.S. government and the Department of Justice - changed the exclusive relationship that Visa and MasterCard enjoyed with banks. It allows banks and other card issuers to provide customers with American Express or Discover cards, in addition to a Visa or MasterCard. While the plastic card has been the standard for a half century, recent developments show alternative forms of payment rising to prominence, from online services such as PayPal to credit card key fobs to chips that can be implanted into cell phones or other devices. But with the sheer volume of devices in use around America whose sole purpose is to read a flat piece of plastic with a magnetic stripe, the "card" in "credit card" is unlikely to pass from the scene any time soon.

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