

## History

The earliest form of the bankcard was "Charge-It", a system of credit developed by John Biggins in 1946, which allowed customers to charge their local retail purchases. The merchant then deposited the charges at Biggins' bank, and the bank reimbursed the merchant for the sale and collected payment from the customer. This system helped introduce the first bank credit card, which was circulated by Franklin National Bank in Long Island, New York in 1951. Once an application was submitted for credit worthiness a card was issued. Merchants copied information from the card onto a sales slip and called for an approval for each transaction over a specified limit. The bank would then credit the merchants' account for the sale minus a discount to cover the cost for providing the loan.

By 1959, many financial institutions had begun credit programs. Simultaneously card issuers were offering the added services of revolving credit. This gave the cardholder the choice to either pay off their balance or maintain a balance and pay a finance charge.

In 1960, Bank of America, introduced its own bankcard, called BankAmericard, and began licensing regional financial institutions to act as the BankAmericard bank for their region. BankAmericard is now what we know currently as Visa. Other banks began looking for other ways to compete, in 1966, 14 banks formed Interbank, a new association with the ability to exchange information on credit card transactions.

The following year, four California banks opened its memberships to other financial institutions in the Western U.S. (Western States Bankcard Association). The product was known as MasterCharge. They have purchased the right to use this name from First National Bank of Louisville (currently known as National City Bank of Kentucky). The WSBA licensed Interbank to use the MasterCharge name and Logo. In the late 1960's, numerous financial institutions became MasterCharge members to compete with BankAmericard.

## The Players

MasterCard and Visa are worldwide payment service organizations composed of Member institutions.

They do not:

- Issue credit cards
- Create policies for solicitation of new cardholders or merchants
- Establish criteria for evaluating applicants
- Set credit limits offered to cardholders
- Determine procedures for billing customers

MasterCard and Visa are managers of their respective brand. As such, they:

- Create advertising and promotion programs to support their brand
- Develop new products
- Conduct clearing and settlement processing of transactions (Interchange)
- Set and enforce rules and regulations governing their bankcards, such as operational procedures, interchange procedures, and graphic design approval of their cards.

Upon becoming a member of MC/Visa, a bank is licensed to issue cards to its members. These banks are also required to provide cash advances on MC/Visa cards at their teller windows. As a Member, banks are issued a Bank Identification Number (BIN) and pay membership dues and assessments to fund Card Associations.

## The Acquirer

The acquirer is a member of MasterCard and Visa, and is contracted with merchants to accept merchant sales drafts, provide authorization terminals, instructions, and support, and handle the processing of credit card transactions. The key responsibilities of the acquirer are:

- Sales
- Investigation Procedures
- Pricing
- Merchant Acceptance
- Support Services
- Risk Management

The acquirer usually charges a fee or "discount rate" for handling the transactions. The acquirer is licensed by MC/Visa and agrees to follow the association rules and regulations. Some financial institutions are both issuers and acquirers. MC/Visa both require that the merchant be financially responsible and of good repute. The merchant has a written agreement with the acquirer to accept the bankcards as payment and to abide by the terms of the agreement.

## The Issuer

The issuer is responsible for the cardholder account program which encompasses nearly all aspects of cardholder account activities ranging from acquiring new customers to billing current ones. The Issuer's responsibilities include:

- Acquisition and marketing of new accounts
- Processing application; establishing credit limits and policies
- Overseeing design, manufacturing, and embossing of inventory cards
- Handling of issuing and reissuing of cards
- Overseeing PIN Numbers
- Maintaining authorization file

- Providing customer service
- Processing payments and handling settlement and income Interchange
- Establishing collections operations

Managing a credit card program is expensive. Smaller banks can issue cards without becoming an issuing member by being an agent. The issuer usually keeps most of the income from the cardholder account: the agent receives a small compensation for providing the application. This allows small banks to retain customers who want a credit card program.

## Transaction Process Overview

- The cardholder purchases goods or services from the merchant.
- The merchant transmits the transaction to the acquirer.
- The acquirer then submits the ticket to the issuer for payment, via the MasterCard or Visa clearing and settlement systems.
- The acquirer credits the merchant for deposits (net of chargebacks, returns, and agreed to fees -- the merchant discount).
- The issuer funds its cardholders' purchases (net of chargebacks, returns, and agreed to fees).
- The issuer bills the cardholder.
- Finally, the cardholder repays the issuer for the goods or services originally purchased from the merchant. The issuer, via the MasterCard or Visa clearing and settlement system, has already paid the acquirer transaction amount, less the interchange fee. From the cardholder's point of view, it seems as if he or she is paying the issuer for the goods or services originally purchased from the merchant. In fact, the cardholder is actually repaying a loan from the issuer.