Boom of credit cards

ASSIGN BUSTER

Credit cards have become such a familiar feature of the life style in the world that it is difficult to imagine a consumer economy functioning without them. The credit cards are nowadays the most convenient of all types of payments. The boom of the credit card industry has affected everyone in the world of the " plastic money". That was the name given to the credit card right after it was invented. Nowadays, the " plasticmoney" occupies a very important place in the economy of the country. " Settlements indicates that the number of credit cards in circulation increased 34 percent between 1988.....

The data also show that the value of credit card transactions increased 98 percent during the same period" (Yoo, p. s. 1997). A lot of reasons explain the fact that the credit cards are holding the most important place in the wallet and purses today. Behind these reasons , is hiding a crucial social phenomenon that has very bad consequences in the country, credit card abuse. Despite the measures taken by the officials, statistics prove that the number is increasing everyday. Today, Visa and Master card occupy an important place in the credit card marketplace but the pioneer in the business remains to be Diners Club.

In 1949, as the luncheon tables were cleared at the Major" s Cabin Grill, a popular New York restaurant of the period whose location next door of the Empire State Building was then a considerable asset, three men sat huddled over a prime table off to one side .... In their excitement, they called over Major, the proprietor and asked him how much he would pay for business that he would not ordinarily get. Without flinching, Major replied " 7 percent" , number that established a major industry (Lewis, 1990). ` Those three men were Alfred Bloomingdale, Frank Mc Namara and Ralph Snyder.

They conceived a plan for a new type of credit card. Unlike the retail and gas credit cards, which were restricted in use to those industries, theirs would be " universal" card that allowed its holders to purchase goods and services at different places across the country. An industry was born, Diners Club As a matter of fact, the period right before the First World War, was the first year for a new industry, the credit card industry. Those first credit cards were not really credit cards as they are today because they served only for limited needs. They could be used only on a very low level. The use of credit cards by retailers began in 1914" (Lewis, 1990).

Since that date there was an inconceivable growth of credit card production. Prior to World War I, few hotels, oil companies and department stores issued credit cards. Then in 1931 the airline companies introduced the credit cards in their business (Lewis, 1990). The evolution and the expansion of the card went lide the speed of light. The most important step was the introduction of the credit card to the Internet in the 90" s. Today, Web servers enable payments by credit card. A credit card transaction over the Internet is one of the most common types of payment.

If a merchant has an account with a merchant bank that offers Internet credit card processing, he would be able to accept credit card payment over the Internet (http://search. netscape. com). " There was an increase of $78 billion over 1994, in just one short year. We" ve been tracking it since 1980, and we" ve never seen that kind of increase before. " (Glenn, 1984, pp. 857- 68). What are the reasons that explain the fast increase of the use of the credit cards? As one reason that might explain the phenomenon, some

people may think that carrying a credit card is much easier than having cash or a checkbook in their wallets or purses.

There is no doubt that the " plastic money" doesn" t bother in a wallet or a purse because of its tiny size. Another reason that may explain the credit card fever is that it allows its holders to spend the money they haven" t got yet. Actually, it looks like free money, although it really isn" t. That is the case of the college students who have credit cards and whose parents will pay the debt their child has created. The strongest argument that could be also the main reason the t explains the increasing number of credit card transactions is that a lot of low income-persons are carrying " plastic money" and are using it widely but not wisely.

When the time for paying off the balance due comes, a lot of people do not have enough money to clear their bills. Here is the beginning of a cycle that probably will never stop (Kathy and Bill B. " s case) until the credit card company or the banks realize that their customer" s debt is growing every month. Before any reaction of the creditors, the debt has reached an unbelievable amount. As a result of a non-payment of the bills, the problems in the credit card industry began. In addition to lost or stolen cards and billing errors, an uncontrollable phenomenon was born in the industry, fraud.

Two major aspects determine the fraud in the industry, stolen cards and the black market created around the " plastic money. " In fact, counterfeiting credit cards has taken an important turn during the 60s. As expected, not long after they had instituted the unsolicited credit card programs in the late 1960s, the bank began to experience significant losses due to fraud (Lewis,

1990). Statistics prove how fast the fraud went up in the industry. In 1964, the U. S. Post Office investigated only fifteen cases of credit card fraud. Four years later, in 1968, that figure shot up to 360, and the following year, it more than doubled to 762.

In 1970, Andrew Brimmer, one of the Federal Reserve Board" s seven governors, showed that bank charge card losses had increased 50 percent that year to $115. 5 million or $3. 4 percent of $3. 4 billion in outstanding credit card debt (Lewis 1990). In 1971, the Los Angeles Police Department made public its first reported of counterfeiting credit cards. The counterfeiters, two women and one man who apparently had knowledge of at least one bank numbering system used authentic blank cards stock to succeed their operation (Lewis, 1990).

The very fast assumption of the abuse in the credit card industry made the banks and the credit card companies think about finding solutions that could stop this terrible phenomenon. Since the major source of losses in the industry was stolen cards, it was very hard for the credit card companies to find a solution that would stop fraud. The fraud in the credit cards industry had had an important impact in the economy of the United States such as financial losses. In 1973 alone, credit cards losses were estimated to be $288 million-or 1015 percent of the total credit card sales (Lewis, 1990).

The delinquency rate has risen four quarter in a row for the first time since 1991..... At the end of 1991, $3. 4of every $100 owed on credit card was delinquent, up eight percent from 1994 (Business Journal of Charlotte, 1996). Whoseresponsibilitywas it? In large part, the banks themselves were

responsible for their continuing losses. In their desire to market their cards as actively as possible, they were reluctant to tarnish the image go the credit card by publicizing stories of thefts and losses , so they hid the information not to alarm potential cardholders(Lewis, 1990, p. 8).

The government may be held responsible as well because the government issues cards to the members for government travel expenses only. Unfortunately, those cards have been used for the purchase of liquors, jewelry and flowers (Fritz, S. 1996, March 16). That is another " ugly face" of credit card abuse. The people who were supposed to help the country to overcome the problems abuse intensify the situation. As the industry was growing, the banks and the credit card industries did not think of any alternative that would stop an eventual fraud in the industry.

The lack of management was one of the major sources of the problem. As one solution that had to be found, the credit cards companies invented the secured credit card that allows the customer to spend not more than what he or she has in his or her bank saving account. That seemed to be a good solution to stop the fraud but criminals are so good that they devised ways to tap into potentially lucrative market. By the mid 1970" s, the credit card companies installed their own law enforcement to fight credit card fraud, the Association of Credit Card Investigators (ACCI).

The role of this unit o the credit card companies was to have a better management of the growing number of customers. One measure initiated by the ACCI that proved effective was a combination of a post mailer with dual dating on the credit card. A dual dating enables the credit card Company to

delay the effective starting date of the card until after it should have been received by the cardholder. The post mailer informed the intended cardholder that a card had been mailed to him or her and that the credit card Company should be notified if it had not yet been received.

As a result to the important measures taken by the credit cards companies, 75% drop in fraud in the first years (Ventura, 1992). Another preventive measure adopted by the credit cards companies was a warning bulletin alerting the banks and merchants to fraudulent cards. All the major credit cards companies did not approve this kind of measure. On one hand, American Express, Diners Club felt that the warning bulletins were necessary to control fraud as well as the misuse of cards by delinquents and overspenders.

On the other hand, Visa took the position that warning bulletins were not necessary and that sending postcard was enough. Statistics proved later that Visa was losing a higher percentage of its charge volume from fraud than American Express and diners Club(Lewis, 1990). The solution on the federal level would be an abolishment of the government credit card system as suggested republican George W. Gekas (R-Pa)(Los Angeles Times, 1996, March 16). In spite of the tough measures taken by the banks and the credit card companies, losses due to fraud continued throughout the 70s.

As the 80" s approached, the credit card companies overcome most of the legal and operational problems such as billing errors and the development of an efficient nationwide up-to-the-minute authorization system. A wide laws and regulations system now govern the functioning of the industry but still

the fraud is inevitable. This number is still increasing due to the corruption of our society. The only way you can help to stop this is by changing the whole system. But then there will be some people who will pursue their illegal actions, and will find a way to abuse other systems also.