



EVOLUTION OF CREDIT CARD – a study

KEYWORDS

Credit Card, Demonetization, Money

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ABSTRACT

Money is ordinarily defined as a generalized means of purchasing power that is acceptable as payment for goods and services, since they serve as immediate means of payment. The development and growth in the financial arena is earmarked by the phenomenal growth of the banking industry. In the developing economy a parallel growth was also evidenced in the field of finance. Credit assumed so much important in the development and growth of economy. The development was multifold and multidimensional. The various forms of credit today have developed into the credit card. Credit cards play a predominant role in general and particularly in the post demonetization in particular.

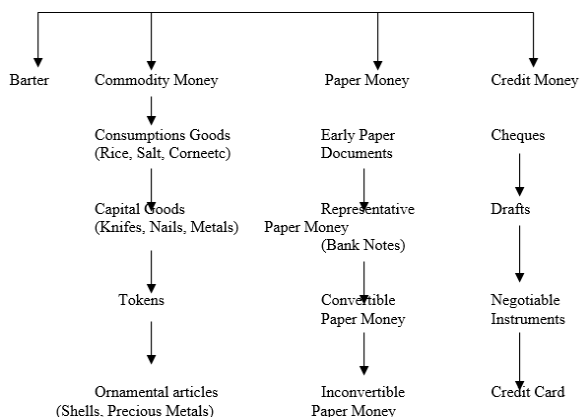
Introduction:

The word credit has been derived from the Latin word Credo, meaning "It believe", Credo, however is a combination of the Sanskrit word Cred, meaning "trust " and the Latin word do, meaning, " I place". According to wing field – Stratford, Credit is "nothing more or less than faith, and faith no less on the stock exchange that before the other, is the substance of things hoped for, the evidence of things not seen". According to William Stanley Jewons, Credit is "nothing but the deferring of payment". According to Cole. "Credit is purchasing power not derived from Income, but created by financial institutions either as an offset to ideal incomes held by depositors in the bank, or as a net addition to the total amount of purchasing power. In this sense the term credit is used in current monetary discussions.

- Credit saves the economy in many ways.
- Credit provides a convenient and economical medium of exchange by implementing or superseding other forms of money.
- Credit facilities the production and exchange of goods and services in the economy.
- Credit also increases consumption.
- Credit promotes thrift.
- Credit makes the optimum use of economy's capital resources possible.
- Credit enables the financial system to render its two fold service by providing a system of exchange and a system of capital supply.

In the development and growth of economy credit assumed so much importance. The development was multifold and multidimensional. The various forms of credit today have developed into the credit card, "use now pay latter system".

Evolution of Money ²



Origin of Credit System/Credit:

The word credit comes from Latin, meaning, trust. Credit was first used in Assyria, Babylon and Egypt 3000 years ago. The bill of exchange, the forerunner of banknotes was established in the 14th century. Debts were settled one-third by cash and two-thirds by bill of exchange. Paper money followed in the 17th century. Christopher Thrornton placed the first advertisement for credit, which offered furniture that could be paid off weekly. In 1875 cheques came into use. From the 18th century until the early part of the 20th century tallymen sold clothes in return for small weekly payments. They were called "tallymen" because they kept a record or tally on a wooden stick, of what people and bought. One side of the stick was marked with notches to represent the amount of debt and the other side was record or tally on a wooden stick, of what people had brought. In the 1920's a shopper's plate – a "buy now, pay later" system was introduced in the USA. It could only be used in the shops, which issued it. This marked the first use of magnetic stripe system in early 1960's. San Francisco Bay Area Rapid Transit installed a paper-based ticket the same size as the credit cards in the late 1960's.

The origin of credit card has been traced to John C. Biggins, as consumer credit-specialist at the Flatbush National Bank of Brooklyn, New York. In 1946, Biggins launched a credit plan called 'change-it'. The programme featured from of scrip that was accepted by local merchants for small purchases. The merchant deposited the scrip in their bank account after the sale was completed and the bank billed the customer for the scrip issued.

In 1950, Dinners Club and American Express launched their charge cards in USA, the first "plastic money". In 1951, Dinners Club issued the first credit card to 200 customers who could use it at 27 specified restaurants in New York continued until the establishment of standards the magnetic strip in 1970. The credit card became part of the information age.

EVOLUTION OF CREDIT CARD:

The proliferation of credit card soon revealed a big drawback of the payment system. Cardholders could shop only in their geographic area. The merchants only with their bank were able to sign up. Bank of America overcame this difficulty. Bank of America began forming licensing agreement with a handful of bank outside California to issue the Bank Americard, Later in 1976 change its name to Visa.

This arrangement worked well for banks that obtained the bank americard license. Many banks, however, were left out. In 1956, 16 banks get together in Buffalo, New York, to form their own network. The resulting association was called the Inter bank card association, which became the grandfather of what is now MasterCard international.

As the visa and master card organizations gained prominence, most banks no longer tried to enter the credit card field, but joined one of the two (Master and Visa) that were already in existence. The banks agreed to card displaying both the individual bank name and symbol signifying that the bank was part of a larger network of banks agreeing to interchange transactions. This interchange feature made card more attractive to merchants because of the greater pool of current and potential cardholders. Credit card experienced phenomenal growth in a short period of time because they offer many tangible benefits of cardholders, merchants and institutions.

BENEFITS OF CREDIT CARDS

CARDHOLDERS

Convenience:

Consumers are solicited to carry credit card, they saw more and more places to use them. This account for the success of the card, as it is highly convenient to use.

Wide Acceptance:

The number of cardholders grew as more merchants signed to accept credit card. The convenience factor was promoted.

Freedom of Credit:

The convenience and credit availability offered by credit card are the major contributors to the proliferation for the prospective cardholders. Credit card offers customers the freedom to use credit. They need not go to the bank to apply for a loan or to repay with the monthly payment. Credit card facilitates the amount of credit used to be paid in full, by the payment due date. In the case of amount borrowed it can be repaid in flexible monthly installment.

Credit Period:

Another feature that makes the credit card more attractive to consumers is that the payment on purchases can be delayed for approximately one month or to the period of credit extended by the credit card agency. Today, approximately 70 percent of cardholders do not pay the outstanding balance in full. The remainder uses the card as a convenient transaction vehicle.

Safety:

Credit card offers a comparatively safe means for conducting transactions. The customer can avoid the risk of carrying cash.

Shopping facility:

Since the cards are accepted widely in majority of the places, it enables the facility of shopping in almost all the places.

Accounts:

Credit card facilitates record keeping too. At the time of each purchase the cardholders is given a sales receipt. When the statement of account is received, the sales slip from the merchant is included with details of purchase made. The cardholders could match the receipt with the merchant draft and thereby confirm the purchase made and reconcile the balance. Now, transactions are printed on the monthly statement, and the merchant draft is not returned to the cardholder. The copy of charge slips are provided to the cardholder at the time of purchase is made. The reconciliation of purchases made with what is reflected in the statement of account provided would become easier.

The net result is that consumers have found that credit card is convenient, widely accepted, safe and flexible. Credit is immediately available to fund everyday transactions, including when the cardholder wants to avoid using personal funds. The accumulated transactions are easy to account for each month and the card has become universally accepted by merchants.

Technology and Frauds in Credit Cards

With banks deciding on setting up networks and computerizing the whole banking process, and providing services through multiple

channels, they face many risks. Mail spoofing (e-mail forgery), web spoofing (website forgery), attacking the user computer, attacking the bank's server, media tapping, services denial etc., are some of them.

All frauds generally happen due to impersonation, sniffing information and hacking. The impersonation can be for an individual, a website, a computer, a router etc. Frauds of this nature may be prevented by adopting public key infrastructure (PKI). Other frauds may be minimized through firewalls and intrusion detection system (IDS).

This illegal activity could de-stabilize economies and result in lack of public trust in the banking system. To fight this evil, there is evidently a need for collective action by all the nations. It needs to be tackled at organizational, national and international level.

The crimes and frauds in Credit Cards are rising throughout the world. Some of the popular techniques employed to carry out these crimes are:

Card Jamming

The card reader is tampered with, in order to trap a customer's card. Later on, the criminal removes the card.

Card Skimming

It is the illegal way of stealing the card's security information from the card's magnetic stripe.

Card Swapping

Through this method, the customer's card is swapped for another card, without the knowledge of the cardholder.

Website spoofing

A new fictitious site is made, which looks authentic to the user and customers are asked to give their card number PIN and other information, which are used to reproduce the card for use as an ATM.

Physical Attack

ATM machines are physically attacked for removing the cash.

The Global ATM security Alliance (GASA), which was formed in June 2003, has issued certain guidelines to the customers to prevent the frauds in the cards. In India, where the total number of ATMs is not very significant, the ATM and credit card related frauds are very few, as of now.

Credit card frauds are rising very fast, in many parts of the world. On e-commerce transactions, face to face contact between the merchant and the customer is absent and this is the main source for most of the credit card frauds. In online transactions, the card is not present during the transaction and there is no signature of the customer on the receipt. These transactions are treated as "card not presented" transaction and in such cases, issuers generally do not reimburse the merchants. The worst sufferers in the credit card frauds appear to be merchants.

There are many types of card frauds like the application fraud, counterfeiting, impersonation during account takeover, card stealing and other forms. The remedies include algorithm testing, proper documentation, effective primary investigations, police investigations, etc. Also an effective legal framework and trained law enforcement agencies could act as deterrents.

Biometric system in Credit Cards

Biometric identification refers to identifying an individual based on his/her distinguishing physiological and or behavioural characteristics. As these characteristics are distinctive to each and every person, biometric identification is more reliable and capable than the traditional token based and knowledge based technologies

differentiating between an authorized and fraudulent person.

All biometric systems consist of three basic elements:

- Enrollment or the process of collecting biometric samples from an individual, known as the enrollee, and the subsequent generation of his template.
- Templates or the data representing the enrollee's biometric.
- Matching or the process of comparing a live biometric sample against one or many templates in the system's database.

Biometric technological type of identification

The function of a biometric technologies authentication system is to facilitate controlled access to applications, networks, personal computers (PCs), and physical facilities especially in credit card system. The purpose of having this type identification is required to prevent the information technological frauds. A biometric authentication system is essentially a method of establishing a person's identity by comparing the binary code of a uniquely specific biological or physical characteristic to the binary code of an electronically stored characteristic called a biometric. The defining factor for implementing a biometric authentications system is that it cannot fall prey to hackers; it can't be shared, lost, or guessed. Simply put, a biometric authentication system is an efficient way to replace the traditional password based authentication system. While there are many possible biometrics, at least eight mainstream biometric authentication technologies have been deployed or pilot-tested in applications in the public and private sectors and are grouped into two as given,

1. Contact Biometric Technologies: Fingerprint; Hand/finger geometry; Dynamic signature verification, and Keystroke dynamics
2. Contact less Biometric Technologies: Facial recognition; Voice recognition, Iris Scan; Retinal Scan.

Conclusion: The credit card industry in India has registered an encouraging growth in recent times. In the recent times after demonetization the requirement is developing. The success of the marketing and promotion programme by any company has usually been measured by the degree of information reach to the target audience via the communication media, which indirectly translates into sale of products and services.

Credit card, which was well-thought-out to be superfluous, has become essential. It was reflected to be used only by higher income group. But today, with expansions in banking and trading activities, fixed income group or salaried class have also started using the same. There may be criticism that it induces far more purchases or make general public spendthrift. This may be so in the early stage, but when once customers get used to the credit card, cardholders will know how to use the same with discretion.

In general no doubt the credit card provides benefits to their customers.

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