What's in Store for Bank Credit Cards in the Southeast?

by Emerson Atkinson

Credit cards are a unique method of setting financial obligations and, according to many persons, are the key to future changes in the payments system. Though consumers have used credit cards for over ten years, they are probably not aware of the tremendous change that has taken place in the credit card business. This is true for all types of credit cards, whether issued by retail stores, oil companies, travel and/or entertainment companies, and banks.

After an unsettling period in the 1950's and early 1960's, the growth of bank credit cards has been rapid, both in terms of banks offering plans and volume outstanding. As the public's acceptance of bank credit cards increased, changes in the operation of the card system and distribution and physical makeup of the cards also occurred.

Banks across the nation scrambled to set up a credit card system in the mid-1960's, perhaps thinking that the rewards of such a system would be immediate as well as large. New merchant and customer accounts were quickly attracted because they represented good profit potential. In addition, offering a credit card system was a way of meeting the competition head-on or, in some situations, jumping ahead. The mass mailing of unsolicited cards was the most common marketing approach, and, in some instances, led to disastrous results, whether banks were large or small. The large losses that banks were forced to absorb because of uncollectible debts was well publicized. As a result, the enthusiasm for bank credit cards was dampened, at least temporarily.

Since the mid-Sixties, banks have drastically revised their marketing efforts because of their unsatisfactory experience with mass mailing and because of consumer protection legislation. Amendments to the Truth in Lending legislation, which became effective in October 1970, prohibited the mass mailing of unsolicited credit cards and limited the cardholder's liability. As a result, banks have been more careful in screening prospective cardholders.

Three types of credit card operations emerged as the most common. A bank could start its own, independent system and maintain the operational responsibilities for the plan. Thus, it would carry cardholders' credit and be responsible for any losses. It could, if possible, have interchange arrangements with other systems. The second type of operation was the concept of licensee banks,which was similar to the independent bank system, but with several exceptions. The emblem or design on the card would not be that of the

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licensee's banks, although its name would appear on the card. The licensee might have to pay a fee to the operator of the plan, but it would receive technical and operational assistance. Perhaps the most common arrangement was that of an agent bank. In this situation, the plan's operator (not the agent bank) would usually set credit standards, operate the accounting system, including carrying the cardholder's credit, and determine the interchange arrangements.

During the development of the bank card system, the card's physical appearance also changed. More and more often, the date of expiration has appeared on the card, and to cut down on fraudulent usage, the customer's picture, magnetic strip with a special code, signature line, or other means of identification, is usually present on all cards today. In addition, standardization of card materials, shapes, thickness, and other physical aspects has been increasing.

Credit Card Banking Expands

As the data in Table 1 show, the growth of credit card banking in the Sixth Federal Reserve District[1] has exceeded that of the U. S. Between December 31, 1967 and December 31, 1970, the number of banks reporting their participation in a credit card operation (i.e., they carried receivables on their own books) increased more than sixfold. On the other hand, in the U. S. for a comparable period, the increase in bank participation was slightly more than threefold. Moreover, in the District as well as in the U. S., the largest increase in the number of banks participating in card plans occurred during 1968. For the District, the growth was over 300 percent; for the U. S., 136 percent.

With the exception of 1968, in the District and in the U. S., the largest number of banks reporting credit card participation had a total deposit size ranging between $11 million and $25 million (Table 2). This range is relatively small, based on a deposit size ranking composed of eight groups and ranging from less than $5 million in total deposits to more than $1 billion. This suggests that banks, regardless of size, can successfully participate in credit card banking. A further classification of the data for 1969 and 1970 (Table 3) indicated that the number of banks participating in credit card plans was greater in Standard Metropolitan Statistical Areas (SMSA's) than in non-SMSA's. This, of course, should be expected in view of the greater population density of the SMSA than the non-SMSA.

Credit Cards and the Consumer

Consumers in metropolitan Atlanta and in selected cities in Florida, for the most part, have at least one credit card and have definite ideas about future card developments, according to the Atlanta Payments Project. The Georgia Tech Research Institute began this Project in 1969 for the Federal Reserve Bank of Atlanta. Its goal was to investigate means of improving the payments system. This was accomplished by mailing questionnaires to a sample of households, and thus provided interesting results in regard to ownership of cards, acceptance of a universally acceptable credit card, and automatic payment of overdrafts. Phase III of this research involved a detailed probe into consumer motivations and attitudes in regard to new payment procedures and was more extensive and approached differently than the research done in Phases I and II of the project.

According to the results from Phases I and II (Table 4), slightly more than three-fourths of all Atlanta families made widespread use of some type of credit card; in Florida, the percentage was over four-fifths of all households. As might be expected, the higher the income level the more cards a household possessed. Retail store cards

[1]*The Sixth District includes: Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee.*

TABLE 1

District Credit Card Banking Outpaces That of U. S.

	December 31, 1967		December 31, 1968		December 31, 1969		December 31, 1970	
	No. with Plans	Amount Outstanding ($ mil.)	No. with Plans	Amount Outstanding ($ mil.)	No. with Plans	Amount Outstanding ($ mil.)	No. with Plans	Amount Outstanding ($ mil.)
Sixth District	43	40.0	53	99.5	243	301.4	273	438.5
U. S.	390	828.4	510	1311.5	1207	2638.7	1432	3791.6

NOTE: Figures cover all commercial banks. Source of national data is "Growth and Profitability of Credit Card Banking," a paper presented at the 1971 National Credit Card Conference of the American Bankers Association on October 27, 1971, by Andrew F. Brimmer, member of Board of Governors.

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TABLE 2

The Size Distribution of Banks Participating in Credit Card Plans is Similar to the U. S.

Size of Bank (Total Deposits in Millions of Dollars)	Number of Banks					
	December 31, 1968		December 31, 1969		December 31, 1970	
	U. S.	District	U. S.	District	U. S.	District
Under 5	29	1	56	12	74	26
5 — 10	58	6	157	48	171	46
11 — 25	123	9	331	69	389	70
26 — 50	80	10	227	54	271	57
51 — 100	67	8	153	27	190	35
101 — 500	109	17	209	28	241	33
501 — 1000	19	1	41	4	52	5
Over 1000	25	1	33	1	44	1
TOTAL	510	53	1207	243	1432	273

Source: U. S. Data—Same as Table I
District Data—Reports of Condition

were the most popular of all types, followed by oil companies, banks, travel and entertainment, and other miscellaneous types. Of the families who owned at least one credit card of any type, nearly one-half in Atlanta and two-fifths in Florida owned bank credit cards. In Atlanta, popular acceptance of bank credit cards relative to retail store and oil company cards was greater than in Florida. Perhaps surprising to some was that households having credit cards wrote more checks per month than did households, of the same economic level, that did not own credit cards. This suggests, therefore, that checking accounts and credit cards, in economic jargon, are not substitutes as might be expected but, rather, are "complementary" services.

What Does the Future Hold?

Perhaps the most important information regarding the future of all types of credit cards was consumer preference for a universally accepted card. Over half of the households in Atlanta and Florida preferred the universally accepted card concept (Table 5). Once again, household income level had a direct bearing on the response. In Atlanta, about two-fifths of the households with a gross income of less than $5,000 were in favor of the concept, compared with nearly three-fourths of the households with income of $25,000 and over. The response in Florida was similar. Since the number of cards held by a household increases with its level of income, the greater popularity of a universal card is understandable.

Males and females do not think alike, with respect to acceptance of the universal card. Two-thirds of male heads of households in Atlanta were in favor of the idea, compared with less than one-half of the female household heads. Again, Floridians had similar responses.

It is not too surprising that age was an important determinant in the one-card idea. Generally speaking, the younger the heads of households, the more inclined they were toward the universal card idea. For the most part, the "under 25 group" had the highest favorable response rate of all groups. As a whole, females in practically all age groups were less receptive to the universal card concept than were males.

The response to an already available service, the automatic overdraft, was also surveyed. The

TABLE 3

More District Banks Located in SMSA'S Participated in Credit Card Plans Than Did Banks Outside SMSA'S

Size of Bank (Total Deposits in Millions of Dollars)	Number of Commercial Banks			
	December 31, 1969		December 31, 1970	
	SMSA	Non-SMSA	SMSA	Non-SMSA
Under 5	3	9	5	21
5 — 10	12	36	15	31
11 — 25	34	35	30	40
26 — 50	32	22	34	23
51 — 100	19	8	25	10
101 — 500	27	1	32	1
501 — 1000	4		5	
Over 1000	1		1	
TOTAL	132	111	147	126

Source: Reports of Condition

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TABLE 4

Household Credit Card Ownership Atlanta Metropolitan Area and Metropolitan Areas of Florida

	Percentage of Households Owning at Least One Credit Card			
	Atlanta Metropolitan Area 76		Metropolitan Areas of Florida 83	
BY INCOME LEVEL				
Gross Income Level of Household	Percentage of Households with at Least One Credit Card	Average number of Cards Held	Percentage of Households with at Least One Credit Card	Average Number of Cards Held
Under $5,000	37	1.8	59	2.2
$ 5,000 — 9,999	74	3.2	86	4.1
$10,000 — 14,999	85	5.2	92	5.5
$15,000 — 19,999	93	6.2	96	7.6
$20,000 — 24,000	98	8.6	94	7.9
$25,000 and Over	96	9.3	97	9.3
BY TYPE				
Credit Card Type	Percent of Households with Credit Card Type	Average Number Held	Percent of Households with Credit Card Type	Average Number Held
Retail Store	66	2.8	71	3.2
Oil Company	55	2.8	64	2.9
Bank	48	1.5	39	1.4
Travel and Entertainment	18	1.5	19	1.6
All Other	3	1.8	6	2.2

results showed that in Atlanta and Florida consumers were generally in favor of this concept of stretching a checking account "automatically."

In the near future, the form and function of bank credit cards as we know them today will probably undergo dramatic changes. Assuming that households in Atlanta and Florida are representative of Sixth District consumers, it is clear that a majority of consumers have at least one credit card and would prefer to have only a universally acceptable one. Recently, 24-hour automated banking machines have been put into operation in various parts of this region and elsewhere, and point-of-sale terminals have been tested in selected banks and retail outlets across the nation. Is this the small beginning of an automatic, practically paperless, payments system? Undoubtedly such developments **could** be the first step toward such a payments system because the card is a natural vehicle for the transfer of funds to and from a consumer's account.

TABLE 5

Consumers Were Receptive to a Universally Acceptable Credit Card

Percentage of Households in Favor of a Universally Acceptable Credit Card		
	Atlanta Metropolitan Area	Metropolitan Areas of Florida
	61	65
By Income (Percentage)		
Less than $5,000	44	46
$25,000 and over	70	72
By Sex (Percentage)		
Male	65	67
Female	45	53

An interesting arrangement that is quite similar to present card operations is the cash-card service. This concept was presented to selected consumer groups in 1971 as part of the research in Phase III of the Atlanta Payments Project. The cash-card arrangement, though very similar to the basic operation of a credit card, is a dual-purpose card. It could be used for cash as well as credit transactions. The card itself would have a magnetic strip encoded with a consumer's checking account number. It would be inserted into a point-of-sale terminal by the sales person and the customer would receive a sales slip, similar to the credit card receipt presently used. The merchant's and customer's account would be promptly settled by electronic transfer. At the end of the month or other specified settlement time, the customer would receive his checking account statement (and cancelled checks) and a separate category with all his cash-card transactions recorded. The study found consumers to be only

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mildly positive toward the cash-card concept, but willing to accept it. It is clear that consumers do have some reservations concerning the immediate transfer of funds, the loss of grace periods in settling accounts, and the loss of the ability to "play the float," but these objections do not appear to be of great intensity.

If the credit card does smooth the way for a future electronic payments system, widespread acceptance of the concept and perfection and implementation of such a system is not likely to occur immediately. One reason is that some have not fully recognized its advantages. Perhaps, as others have suggested, the offering by financial institutions of "tailor-made" financial management services (including deposits and withdrawals, credit, collections, payments, transfers, and record keeping) would have mass appeal to consumers and businesses. And greater public acceptance, spurred by an intensive educational effort, might make a change in our payments system more economically feasible as well as easier. ■

Bank Announcements

May 1, 1972
FARMERS & MERCHANTS BANK
Centre, Alabama

Opened for business as a nonmember and began to remit at par. Officers: Mary George Jordan Waite, president; Nell Kilgore, assistant to president; J. W. Hampton, Thomas S. Graves, and Jack Fortenberry, senior vice presidents; Jane Poovey, vice president; Elba Sewell, cashier; and Nell Tracy, Lounell Usry, Frances Burns, and Phillip N. Davis, assistant cashiers. Capital, $300,000; surplus and other capital funds, $1,040,132.

May 2, 1972
PAN AMERICAN BANK OF MIAMI BEACH
Miami Beach, Florida

Opened for business as a nonmember. Officers: Joseph Shulman, chairman; Edward J. Melniker, president; William E. Boyd, senior vice president; and Ronald G. Potter, vice president and cashier. Capital, $1,000,000; surplus and other capital funds, $700,000.

May 8, 1972
PEOPLES NATIONAL BANK
Naples, Florida

Opened for business. Officers: Charles M. Odorizzi, chairman; B. Gene Trapnell, president; Edward J. Oates, Jr., vice president and cashier; John H. Druffel and W. Duke Taliaferro, vice presidents; and Mrs. M. V. Anspach, Mrs. Mildred A. Nestor, and William C. Root, assistant vice presidents. Capital, $1,500,000; surplus and other capital funds, $1,500,000.

May 15, 1972
BANK OF BOSTON INTERNATIONAL OF MIAMI
Miami, Florida

Opened for business as an Edge Act Corporation.

May 16, 1972
THE CITIZENS COMMERCIAL BANK OF OCALA
Ocala, Florida

Opened for business as a nonmember. Officers: D. H. Oswald, president; and James L. Williams, vice president and cashier. Capital, $250,000; surplus and other capital funds, $208,617.

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