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SUPPLEMENT

TO

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by

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BANK CREDIT CARD AND RELATED PLANS

The purpose of this report is to describe the results of a brief survey on the nature and extent of bank credit card plans and related forms of bank credit in New England member banks. The details on the major features of these plans and their prevalence might then be useful in assessing more fully some of their implications for the payments mechanism.

Credit card programs, as such, have until recently developed along two lines: first, those operated on a national level by nonbank organizations primarily for financing travel and entertainment expenditures (American Express, Diners Club, Carte Blanche); second, those operated locally by banks for financing retail sales. Recently, the nonbank organizations have initiated programs (still largely restricted to travel and entertainment) intended for banks, while banks (BankAmericard) or groups of banks (Illinois, California, Michigan, Connecticut) have launched or are studying plans for local retail bank credit cards on a national or regional basis.

In addition to the straight credit card program, there are other related forms of credit which banks may operate, alone or simultaneously with a credit card plan. Revolving check credit, although certainly not new, must be considered because (1) it achieves a somewhat similar result without the use of a credit card or the necessity for including the merchant in the plan and (2), perhaps more important, it is an essential element in other programs which may have implications parallel to credit cards. For example, one well known plan (referred to below as an "overdraft-travelers check" plan), launched in Boston in June and already accepted by over 130 banks throught the country, is a rather extreme variant or extension of the check credit theme with some features of the credit card device.

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The novelty of the total plan and its rapid spread would appear to justify the separate consideration given to it below.

In essence, this survey finds that as yet very few New England banks have made a firm decision about the adoption of a credit card plan. While it may simply be too early to expect positive action in this direction, conversations with bankers suggest that they are intentionally being cautious, partly because they are well aware of past "failures" in bank credit card programs and the admittedly high start-up costs of such plans, and partly because they are uncertain as to the kind of program which will best meet their particular needs.

On the other hand, the survey does indicate that many bankers feel they will be forced by the pressures of competition to make a decision in the near future, presumably in favor of some kind of expanded consumer credit program similar to those considered here. Hence, they are giving serious consideration to the possibilities open to them. In particular, having some knowledge of the problems of an independent credit card plan, many are expressing interest in (1) regional interchange programs and (2) competing ideas, some of which involve the extension of revolving check credit into an overdraft plan, thus tying the line of credit directly to the checking account.

Despite the great interest expressed in these various programs, there is as yet no evidence that their development will be such as to have a significant impact, in either a quantitative or qualitative way, on the payments mechanism in the near future. Nevertheless, if and when such programs become more common, they can contribute to a gradually accumulating amount of knowledge and experience on the part of those most concerned -- bankers, retailers and

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consumers -- with respect to the procedures and technology most suitable for a more automatic credit transfer process. Credit card plans may help especially in problems at the point of retail transactions, while overdraft loan types of programs may contribute by relating more closely bank procedures for a more automatic extension of credit to those for account settlement and customer statements. It is to be remembered also that credit cards are simply one of the many developments in recent years which have the effect, if not the intent, of reducing the volume of checks and/or improving the check settlement mechanism in a variety of ways.

Extent of Major Types of Plans

Because of the complexity and cost involved in establishing a credit card program, it was decided that this survey would at first include only the larger member banks in the district since they are located in the areas of greatest population concentration and trading activity. Then, if preliminary findings warranted it (and they do not at present appear to do so), the survey could be extended to smaller banks. Accordingly, member banks with deposits of $50,000,000 and over, of which there are 30, were contacted (7 by personal visitation and 23 by telephone). Results by major category of program are indicated in the following table:

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Type of Plan	Number of[1] Banks	Approximate Length of Time in Operation: Just Starting	Less than 1 Year	1-5 Years	5-10 Years	Over 10 Years
Credit Card	6[2]	4			1	1
Check Credit	10		3	4	2	1
Overdraft-Travelers Check	7	3	(4 not yet started)			
Other	2		1	1		
None	9					

Although the table shows that 21 of the 30 banks have some type of credit card or similar program, this does not necessarily mean that there is as yet any great surge toward such plans in New England. It is to be noted that only six banks have a regular credit card program and two of the six have been in operation for several years while four are just becoming operative. Seven of the 10 check credit programs have been in existence for more than 5 years. In addition, plans for the actual implementation of the overdraft-travelers check program are either incomplete or nonexistent on the part of some of the banks which have paid for this franchise. Moreover, most banks have adopted a "wait and see and in the meantime let's study them" attitude toward straight bank credit card programs.

On the other hand, the inconclusiveness of the figures in the sample may well disguise and understate the nature and significance of present and impending developments in the programs under consideration

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[1]Does not add to 30 because of duplications, i.e., four of the banks have two plans each, in the following combinations: overdraft-travelers check and credit card; overdraft-travelers check and check credit; credit card and check credit; check credit and other.

[2]It is possible that credit cards are more widespread than is indicated by the sample used in this survey, but contacts with bankers do not suggest so. On the contrary, several of the large banks do not have any such plans under active consideration. Moreover, to date our attention has been called to only one bank in the less-than-$50,000,000-deposit category which has a credit card plan, while nine banks in this category have adopted the overdraft-travelers check plan.

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here. Several plans, some national and others regional in coverage, are just now in the stage of being presented to banks for their consideration. Most bankers, feeling the mounting pressure of competition and being increasingly aware of the possibilities of automation in relation to credit operations, feel that it is simply a matter of time before they will have to enter the credit card field too. However, all banks will not adopt the same type of program. Each will select that plan--credit card, check credit, overdraft or some other variant--which seems to meet its needs best. Nevertheless, many of these may well have similar effects on the payments process. Or, it is conceivable that over a period of time the variety of plans may tend to converge toward a common system.

For these reasons, the following sections will describe the essential features of each of the major types of programs, providing a partial basis[1] for consideration of the relative strengths and weaknesses of each and thus some indication of the chances of its survival and potential impact on the payments mechanism.

Essential Features of Major Plans[2]

Bank Credit Cards

Bank retail credit card programs are basically a means by which the

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[1] In the absence of detailed case studies of the results of individual programs, this seems to be the only basis for evaluation at this time, other than the subjective comments of participants which will be referred to below.

[2] Recently developed nonbank-sponsored bank credit card plans (American Express, Diners Club, Carte Blanche) are not included because they are still more concerned with travel and entertainment expenditures and with higher income and credit rating groups than are retail credit cards. However, the volume generated by these plans as well as their potential move to the local retail level suggests that they may become increasingly relevant to the problem at hand. Note, for example, the recent announcement by several New England banks with over 90 branches of their plan to introduce one of these cards in January, 1967.

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bank in one process finances the consumer's purchases and the retailer's accounts receivable. Since the major features of these plans, including those in the New England banks, are quite similar, the following description is a composite of the plans found in the six banks interviewed.

The consumer becomes a cardholder by meeting the bank's credit requirements and having a line of credit established for him. Usually the card has an expiration date of 6 months or 1 year, at the end of which the bank can reassess the credit rating of the customer and cancel the card if necessary. Each bank has an announced credit ceiling for loans in the program. ($300-$500 was most frequently mentioned although it was felt that the ceiling would gradually be raised if and when experience justified it.) However, the maximum for each individual cardholder will vary with his credit rating. In addition, it is customary to have "floor limits" ($25, $50, and $100 were most frequently mentioned) on each transaction, which may be exceeded only after the merchant obtains the bank's approval. This is a safeguard aginst the so-called "runaway" card.

The merchant, usually on a daily bais, deposits the sales slips generated from transactions under the plan and receives immediate credit for that amount less the bank's discount. In turn, the bank bills the cardholder monthly for the total amount charged at the various stores participating in the plan. The sales slips which the merchant deposited with the bank may be included with the statement. Normally the bank

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makes a photographic record of these sales slips and the credit card agreement states that such records are sufficient to establish the customer's liability in the event of any action or dispute.

Income to the bank is derived from two sources--interest or service charges on consumer loans and merchant discounts and fees. Although the consumer does not pay for the credit card and is not charged interest for any bill paid within a grace period (usually 25 or 30 days), he does pay a service charge of 1 - 1 1/2 per cent per month on any unpaid balance. Almost without exception, the cardholder is required to repay at the monthly rate of $10 or 1/10 of the amount borrowed, whichever is greater. The retailer pays (1) an entrance fee upon joining the plan, (2) an annual rental fee or sometimes an outright purchase price for the sales slip imprinter (although on some occasions the bank may provide these without charge), and (3) a discount on the sales slip deposits, which may vary from 2-7% depending on the volume of sales generated by the merchant.

In addition to the features described thus far, which are common to all credit card plans, there are a few variations of interest mainly because they may illustrate the attempt by individual banks to surpass their competition by extending consumer services or simply to deal with particular customer grievances concerning present services. For example, some banks advertise that a certain amount of life insurance goes into effect automatically whenever the cardholder elects to extend his borrowing beyond the grace period. Again, it is not uncommon for a "cash advance" or "instant money" privilege to accompany the credit card. Under this arrangement, the cardholder may in effect borrow cash up to a set maximum upon presentation of his card at any of the bank's branches.

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The amount borrowed is then added to the outstanding balance in the customer's account. (An extended version of this check cashing privilege, adopted as an independent program by one bank, is described more fully in the section below on "Other Plans"). Finally, it is sometimes asserted as a peripheral benefit of the credit card that a cardholder who is a regular checking account customer may use the card as a virtually uncontestable means of identification for cashing his own personal checks at any of the bank's branches where he might otherwise be unknown.

Check Credit

Revolving check credit is in effect a straight consumer loan type of program. In the past it has been offered by banks as simply another form of consumer instalment financing. More recently, however, check credit appears in some banks to have been relegated to the position of a comparatively unadvertised supplement to the newly established credit card program, while for other banks it is viewed as a relatively uncomplicated and inexpensive, although perhaps temporary, means of competing with credit cards.[1] The revolving check credit type of procedure is relevant to this survey also because the recently launched overdraft-travelers check plan appears to be an extension of check credit and is in some respects a direct competitor of bank credit cards with many similar implications.

Under a check credit plan the consumer obtains from the bank a revolving line of credit just as under a credit card plan. However, in

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[1]An exception to this latter point is a bank which early this year installed a check credit plan although it has had a credit card program in operation for many years. The reason given for the initiation of the check credit program was that it was aimed at a different group of borrowers.

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place of the charge card he is given a book of checks, specially numbered or otherwise uniquely identified. Use of the check to make purchases constitutes a loan by the bank for which the consumer pays a 1-1 1/2 per cent service charge per month on the unpaid balance. In addition, the customer may be required to pay a fixed amount for each check as in a regular checking account.

Overdraft-Travelers Check Plan[1]

The franchise for a quite different but related type of program has now been acquired by over 130 banks, 16 of them in New England. Referred to as "a marriage between check credit and the regular checking account," additional features make a package which its sponsors regard as superior to credit card plans for competitive purposes in the foreseeable future.

To participate in this plan one must have a checking account with the bank, file an application, and establish eligibility for a line of credit. The depositor then receives in addition to his regular checks, (1) up to a $2,500 cash reserve or line of credit behind his checking account, (2) a supply of special travelers checks and (3) an identification card.

The cash reserve is simply a revolving check credit but it entitles the depositor to overdraw his regular checking account, to the extent of his line of credit, by the use of either his regular checks or the special travelers checks. Thus, whenever the depositor writes a check

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[1]Security First National Bank of L.A. is now promoting a plan similar to this one in certain respects.

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for an amount in excess of the balance in his regular account, additional funds (in units of $100) are automatically credited to his account.

The special checks are direct obligations of the bank and designed to be used like any other type of travelers check. Each check may be written for any specific amount, up to a maximum of $25, $50 or $100 as designated on the check itself, and that amount is deducted from the depositor's balance. In order to use these checks the depositor must show his identification card -- a protection against the use of lost or stolen checks. An added benefit from the identification card, it is asserted, is that it entitles the owner to cash personal checks without delay at any office of the bank. This feature is not without merit perhaps to the depositor who has experienced difficulty in establishing his identity for check cashing purposes at a branch office.

A final element in the plan is a common one in loan programs -- the protection of credit life insurance for the depositor to the extent of his use of the cash reserve feature.

The costs to the user are of three kinds: (1) 50¢ per month, (2) the normal checking account charges of the bank, (3) 1 per cent interest on the loan balance. If the loan is repaid within a 10-day grace period, there is no interest charge. Minimum repayment terms are the customary monthly $10 or 1/10 of the loan balance whichever is greater.

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Other Programs

The two plans described here are included because they represent interesting competitive variations on parts of programs outlined above and hence they may in some respects add to developments in the same general direction.

(1) Special Overdraft-Loan Account

This plan, initiated in June of this year, is somewhat comparable to the one above in that it represents a partial tie between the bank's revolving check credit program and its regular checking accounts. However, this service does not include a travelers check and the special account is actually still separate from the regular checking account. The depositor who wishes to participate establishes a maximum credit line (the bank's general announced maximum is $4,800). He then in effect has two accounts, his regular checking account and a special loan account, and he receives two kinds of checks, regular and special, differentiated only by color and a code number. Any use of the special check constitutes a loan from the so-called "cash reserve" even though the depositor has a positive balance in his checking account.[1] However, a regular check may be drawn in an amount exceeding the checking account balance and the bank will automatically transfer the required amount, in multiples of $50, from the cash reserve to cover the overdraft. The depositor receives two monthly statements, one for his checking account and one for his special loan account whenever the latter is activated by use of either a special check or an overdraft on his regular account.

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[1]By comparison, the travelers check previously described is drawn against the regular checking account.

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Loan repayment is by a pre-established schedule, with the monthly payment depending upon the amount borrowed, although a minimum of $15 per month is required for loans under $360. The cost to the depositor for this program consists of a 1 per cent interest charge per month on the average loan outstanding plus the normal charge per check for both regular and special checks.

(2) Check Cashing Guarantee Card

Everyone with a checking account is given, at no charge, an identification card. New depositors receive the card only upon presentation of satisfactory references or after the lapse of a period of about 90 days during which the depositor has established an acceptable deposit record.

Introduced in the fall of 1965, the plan in its first phase offered simply an identification and check cashing guarantee card enabling the holder to cash checks up to $50 in some 60 local area supermarkets of leading chains as well as at the bank's many branches. A few months ago the use of the card was expanded when the bank arranged for 20 restaurants to honor it.

In this latter type of transaction the restaurant, upon being shown the customer's card, makes out a two-part form (provided by the bank) which is signed by the customer. One part of the form is a receipt for the customer, and the other part is an actual check which the restaurant deposits daily. The bank gives immediate credit to the restaurant, charges the cardholder's account, and sends each a monthly statement.

It is to be noted that this plan has no cash reserve or loan aspect connected with it. However, according to the bank it has been successful in helping to attract depositors.

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Some Points of Comparison

With the exception of the check cashing guarantee card, which is strictly a deposit service with no cash reserve or check credit feature attached to it, all of the programs described above are essentially forms of instalment credit. However, there are certain important differences among them--important here because they lead to contrasting advantages and/or disadvantages of each plan from a competitive viewpoint, with possibly different kinds of impacts on the payments mechanism (although as is suggested later all may tend ultimately to work in the same direction).

Basically, a bank retail credit card program involves charge account banking, whereby the bank finances the purchases of the consumer and the accounts receivable of the merchant through the charge card and revolving credit devices. Check credit includes a similar revolving line of credit but eliminates the use of credit cards and does not involve the financing of accounts receivable of merchants. In contrast to credit card and check credit plans, under the overdraft-travelers check plan the consumer must be a depositor of the bank. His line of credit or so-called cash reserve is in the form of an overdraft privilege on his regular checking account, regardless of whether he uses his regular checks or the travelers checks to make the transaction. The special overdraft-loan account plan described above also includes the overdraft by either the regular or special check, but the use of the special check always results in a loan regardless of the size of the checking account balance.[1]

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[1] In response to the BankAmericard plan by Bank of America, Security First National Bank of Los Angeles has recently introduced an overdraft system in which a customer using his regular checking account can draw upon a pre-arranged line of credit, with no special checks or separate accounts involved. In addition, Security First will issue to these depositors, at no charge, a Check Guarantee Card whereby it "guarantees payment on all Security First personalized checks for either cash or merchandise, up to $100."

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Given the essential similarities and differences in the major plans, some of the more important advantages and disadvantages of each can be summarized in a fairly clearcut way. However, the quantitative assessment of them by a bank for competitive purposes is quite a different matter, of course.

A credit card plan, from the point of view of the bank, can be a highly profitable operation. In addition to the direct income from consumer loans and merchant discounts, it can be used to attract new depositors, both merchant and individual consumer, and these in turn may be induced to make use of other services of the bank. Moreover, the major promotional effort required for both the launching and the continuing success of a credit card program may result in the creation of a new and expanded image of the bank in the community.

For the merchant, a credit card plan, if sufficiently widely accepted and used by the public, may result in a reduction (but not elimination) of accounts receivable and customer credit problems, a better cash position, and an increase in sales. To the consumer a credit card means immediate credit with participating retailers and the convenience of a smaller pocket cash requirement.

On the other side of the picture, a major diasdvantage of a credit card plan for the bank is its invariably high startup cost, including promotional programs aimed at both consumer and merchant, installation of imprinters, enrollment of cardholders, and acquisition of computer facilities if not already available.[1] Moreover, experience has shown that the bank may face a rather prolonged period (probably several years) of losses on the plan, during which it will be necessary to sustain its promotional campaign.

Obviously, to be successful the bank must induce retailers to participate in the plan and consumers to make use of the charge card. Hence, any

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[1]Comments from bankers in this survey as well as from other sources suggest that although computer facilities have not been absolutely essential to a successful credit card operation in the past, they will probably become increasingly so in the future as competition becomes more severe.

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grounds for retailer or consumer opposition or dissatisfaction also constitute obstacles for the bank. Merchants may not be receptive because of the cost involved: entrance fee, imprinter rental or purchase, discounts. In addition, the merchant must establish an account with the bank if he is not already a depositor, sign a contract, and submit to all the usual details of a bank credit card transaction--including the use of the charge slip, imprinter, daily deposit of sales slips, referral to the bank on sales in excess of the "floor limit," and lists of lost and stolen cards. Moreover, it should be remembered, the merchant will still have to conduct his own credit operation since not all of his customers will be credit cardholders. At the same time, experience to date shows that large chain and department stores do not as yet participate in bank credit card plans, the result being that the bank must attract a large number of small and medium size merchants if it is to achieve the volume necessary for profitable operation.

With respect to the consumer, the bank is faced with obtaining his acceptance of the charge plan--even though many merchants may not participate in the plan and/or the consumer may still prefer to use cash or pay his bills by separate checks. It is not difficult to put the charge card in the hands of a large number of people. The problem is in making sure that the cardholders are creditworthy and that enough of them make sufficiently active use of the cards to create an adequate volume of total billings under the plan. At this point the bank is confronted with a dilemma and what many bankers believe to be the source of the real danger in a credit card program. In order to persuade merchants to join the program the bank must give evidence of having at least a potentially large number of cardholders, but indiscriminate issuance of cards on the basis of too lenient credit standards may mean high credit losses. It is to be remembered that in accepting the merchant's daily sales slips for deposit the bank acquires these receivables without recourse,

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except in instances when the merchant has given credit in excess of the "floor limit" without prior approval by the bank.

As already indicated, revolving check credit is a much simpler and less expensive type of program and in some respects may be regarded as either a partial alternative or a supplement to a credit card plan. Since the bank finances only the consumer, there is no merchant solicitation of any kind under check credit. In turn, the consumer is not restricted in his purchases to participating merchants, although credit card plans may to some extent offset this by offering an "instant cash" feature.

With check credit the bank can ordinarily be more selective in its credit exposure and retain closer control over it than under a credit card program where there is necessarily pressure to achieve a relatively widespread distribution of charge cards. Also, since check credit transactions are normally for larger amounts than credit card purchases, the bank may be able to achieve profitability on a smaller volume of transactions through the check credit method.

On the other hand, a check credit program does not by itself appear to create as many avenues for increasing the bank's total business as does a credit card plan. For example, a merchant who wishes to participate in the credit card plan becomes a depositor of the bank if he is not already one. In addition, banks launching charge card programs indicate their belief that the additional services rendered the consumers, over and beyond the mere loan aspect in the check credit plan, will entice many cardholders to become customers of the bank's other departments. If true, this is an important result for the banks because most indicate that the majority of borrowers under ordinary check credit programs are not depositors of the lending bank. The attraction of new deposits is thought to be especially important by some banks now in a period of tight money because with the launching of the kinds of programs surveyed here the banks may give the appearance of easily

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expanding consumer credit when they are rationing credit to business.

On balance, to the extent that check credit is viewed as a partial alternative or competitor for a credit card plan, it would appear to be a very temporary one at best. Competitive pressures are presently in the direction of the extension of bank consumer financing services well beyond the scope of simple revolving check credit. Newly created programs with the overdraft feature--such as those described above--may be important here not only because they compete with credit cards but also because they all have the common element of tying the revolving line of credit directly to a regular checking account. Experience gained in programs involving this type of relationship may be beneficial in any future development of a direct "on-line" connection between credit card charge transactions and consumer checking accounts.[1] Hence, it is suggested that this aspect, as well as the immediate competitive importance, of a plan, such as the overdraft-travelers check idea be kept in mind in any consideration of its strengths and weaknesses.

To the consumer this latter plan offers the convenience and security of an overdraft or cash reserve behind his regular checking account, which costs him nothing unless used--except for the annual membership fee ranging from $5 to $8 depending on the issuing bank. In the special travelers check the user finds some features superior to both ordinary travelers checks and conventional credit cards--or so it is asserted. A direct obligation of the bank, it is supposedly acceptable everywhere that any travelers check would be and is not limited to retail establishments belonging to a particular credit card plan. Again, in contrast to conventional travelers checks,

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[1]In particular, it could contribute to the development of what Governor George Mitchell refers to as "a credit system which ties settlement accounting into quasi-automatic credit extension." American Economic Review, May 1966, p. 164.

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these are not paid for in advance but only when used--and then through the same procedure and at the same rate as regular checks. Finally, as compared to the inherent dangers from lost or stolen credit cards, the special travelers check is personalized and its use is possible only with the accompanying identification card.

To retailers the overdraft-travelers check concept has an obvious immediate appeal: they pay nothing to handle the special checks, and hence they "save" the 2-7% discount paid to the bank under a credit card plan. In addition, the travelers check is handled just as any ordinary check, and the merchant need not concern himself with charge slips, imprinters, "floor limits," lost or stolen card lists and the other details of a credit card plan. On the other hand, neither is the merchant relieved of financing his receivables unless the travelers checks are a complete substitute for credit cards--a point which its originators have not asserted.

From the bank's point of view a major advantage of this plan is that it avoids the admittedly heavy startup costs associated with a credit card operation. To join the program a bank pays a franchise fee of $10 for each $1 million of its deposits.[1] The sponsoring organization contracts to spend part of the franchise fees in promoting the program among merchants as well as prospective cardholders. Nevertheless, this does not mean that a participating bank need incur no promotional or solicitation expenditures. If the plan is to be financially worthwhile, retailers must be familiar with and willing to accept the travelers checks.

Even more important, if this plan is actually to compete with credit cards, the consumer must be willing to use the travelers checks as fre-

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[1]This is to be compared with the BankAmericard franchise fee of an initial $25,000 plus an "override" ranging from zero to 1/2% of volume.

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quently as he would a credit card, and on this there are several reasons for skepticism. Membership in the plan costs the consumer from $5 to $8 per year, whereas there is usually no charge for a credit card. The checks themselves are less convenient, as compared to credit cards, in that they must be written out for each transaction and are available only in relatively small numbers at a time (books of $500, with checks of $25, $50, and $100 denominations). It is to be emphasized also that, unlike credit card and check credit plans, the customer here cannot borrow until he has exhausted the balance in his checking account. Finally, there is the crucial question of the acceptance of the travelers check where the user is not known. Experience to date, with respect to the long-established travelers checks, does not indicate an easy or quick answer to this problem.

In spite of these possible drawbacks this program (or something comparable to it) may well be an attractive alternative to a credit card plan for many banks in view of the lower immediate cost and the revenues derived from interest on loans, membership fees and check processing charges. Also, according to its proponents, a potentially significant collateral benefit of the plan is the effect it might have in obtaining new depositors, attracted by the convenience and security aspects of the plan, either as a substitute for or perhaps even an addition to the consumer's present use of credit cards and/or check credit.

Implications: Some Observations

If the present interest in bank credit cards (and other kinds of plans discussed above) were to develop into a "movement"--as the frequency of recent press announcements seems to imply, for the rest

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of the country at least--it seems probable that, other things being equal, check flow would be less than might be anticipated under the present system. But, how much less, how soon and what further contributions such a "movement" might make to the evolution of the payments mechanism will depend on the nature and the extent and rapidity of spread of the various kinds of plans.

Clearly, this survey does not provide any basis for quantitative answers to these problems. However, some of the findings are relevant to the issue, if only in a non-quantitative way. In previous sections an analysis has been given of existing programs in major New England banks--their extent, essential features and comparative strengths and weaknesses from the viewpoint of the parties immediately concerned. Some such analysis would seem essential as a starting point. However, any attempt to assess the significance of these plans to date and the direction and momentum of their future development can be put in better perspective if the motivation underlying the banks' acceptance of them is kept in mind.

Thomas W. Gormley, senior vice president of the Pittsburgh National Bank has stated: "Not the least of the reasons Pittsburgh National, and many other banks, are in the charge card business is the conviction that this service is a giant step toward the financial utility...toward the day when we have a checkless, cashless society..."[1] Similarly, president James F. English, Jr. of Connecticut Bank and Trust Company says, "We are moving to a check-

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[1]We're in the Charge Card Business - Should You Be? Based on Presentations at the Regional Meetings of the Bank Public Relations and Marketing Association in Columbus, Ohio, April 5, and in Montreal, Canada, April 22, 1966, by C. T. Russell and D. Dougherty, Pittsburgh National Bank.

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less society and we believe this [credit card plan] is the first step in it."[1] Closer to the thinking of many New England bankers is the position of Security First National Bank of Los Angeles. After some rather extensive research on the marketability of the Bank of Delaware Touch-Tone phone system experiment, Security First concluded that the volume potential would not justify the large investment required.

> Still the research served the purpose of uncovering interest on the part of both retailers and consumers in having checks more widely accepted.
>
> "At this point, we swung completely around in our thinking," says Mr. Stockbridge (senior vice president of Security First). Whereas the bank had started out to jump directly into the "checkless society," it decided that such a step was premature, that a series of intermediate steps was needed - steps that took the bank, customers and retailers in that direction but without the high costs of a computer-terminal system.
>
> "We decided to make the checking account the central instrument," Mr. Stockbridge says. "We were working toward expanding and improving our present banking services, not getting into an entirely new business."[2]

As already mentioned, Security First finally adopted a program which combined a Check Guarantee Card with an overdraft privilege rather than a credit card plan. In view of the presence of BankAmericard in California this choice is not difficult to understand. However, Security First had also given some thought to the possibility of a pooled program with a group of California banks but rejected the idea on the gound that "credit cards lose much of their advantage as a competitive tool when all banks are offering basically the same service."[3]

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[1]Bennett, R. A., "New President of Conn. B. & T. Exemplifies Growing Breed of 'Scientific' Bankers," American Banker, August 8, 1966, pp. 1-2.

[2]Hambleton, J. R., "Security First Takes 'Calculated Risk' with New Check Guarantee Card," American Banker, July 22, 1966, p. 2.

[3]Hambleton, J. R., "Bancardchek Seeks to Provide Variation on Credit Card Theme," American Banker, July 26, 1966, p. 2.

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With this latter point - competition - we come to the fundamental motivation underlying the interest expressed in credit card (and other such) plans by New England bankers. Indeed, this may also be said about bankers anywhere. Despite references to the checkless society, clearly their most remote purpose in launching credit card programs is not, as such, to promote the checkless society but to be in the vanguard of any moves in that direction so they will not be at a competitive disadvantage if and when it arrives. More immediately, our survey suggests, the interest in credit cards and related ideas is quite directly a result of current competitive pressures.

There is the increasing competition among commercial banks themselves and between commercial banks and other institutions for the deposits of individuals and businesses. Also, bank customers have been demanding new services. These developments have perhaps been especially noteworthy in the rapidly growing field of personal and instalment credit. Hence, it is not surprising that bankers have referred to their credit card or related consumer credit plan as "a marketing program aimed at attracting depositors," and as "first and foremost a matter of meeting and staying ahead of our competition." It is to be noted here again that not all banks consider a credit card plan as necessarily the best merchandizing device in the present situation; some conclude that some type of competing program may be as effective; and, as will be explained later, such competing programs if developed to a similar degree could have implications for the payments mechanism perhaps of equal significance to credit cards.

Also in the realm of competition is the relevance of advancing

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computer technology. As more banks make use of the computer and as they graduate to more advanced systems, they are under pressure to justify the expenditure by making more complete use of this equipment. One such use is for a credit card or similar program. In turn, it is recognized that a computerized operation improves the speed and efficiency of the service to merchants and cardholders and, perhaps equally important, gives tighter control over misuse of cards--the "runaway" card problem. In addition, the computer can be used to provide participating merchants with various types of reports in the area of marketing analysis and sales data--information which retailers may otherwise feel that they will lack if they relinquish their own credit operations too completely.[1]

Again, as a competitive device, bank credit card programs if properly managed can be highly profitable. This has been proven by banks with programs started in the early 1950's as well as by those of more recent origin. It should be assumed here, perhaps, that "properly managed" includes not only persevering through the early period of losses and directing the program wisely but also using foresight and judgment in arriving at the initial decision that a credit card program is feasible in the given market area.[2]

On this latter point, it may be of interest to examine some of the reasons advanced by banks which have rejected or are not now seriously studying the possibility of adopting programs of the type being considered here. With respect to straight credit card plans, banks in Maine and

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[1]Kolb, R. C., "Computer Vital Tool for Credit Card Operation," American Banker, June 6, 1966, p. 16.

[2]Barry Pickell and Roger Abouchar, "Look Before You Leap into Credit Card Field," American Banker, June 6, 1966, p. 16.

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Vermont indicated their belief that the population in their areas would not support the expenditure involved, that the people were too conservative and were not ready for local credit cards, that for the present at least the American Express type of card fulfilled the need. Here as well as elsewhere frequent reference was made to Chase Manhattan's experience--"If Chase couldn't make a go of it, who are we to try?" Again, the experience of several banks with revolving check credit was less than satisfactory, and this was cited as a reason for lack of enthusiasm about credit cards. In some cases, the relatively smaller banks in the urban centers felt that there was not room enough for more than one or at most two banks with credit cards, and the larger banks would have the advantage. In other instances, these smaller banks expressed some interest in regional or even national cooperative types of credit card schemes, but not as a purely independent venture.

Despite the preceding reference to the somewhat negative feelings of some banks, it should be remembered that a majority of those contacted indicated that, usually for competitive reasons, they were giving serious consideration to one or more of the types of plans covered by this survey. Given the assumption then that credit cards are here to stay and that they will probably develop on a much larger scale in the near future, a question relevant to the consideration of their impact concerns the means or avenues by which the movement will progress. Bankers interviewed suggested a process of extension of at least two types--geographic and functional.

Geographically, the movement can spread locally simply by individual banks adopting their own separate plans. A second means is regional or statewide expansion through some kind of interchange arrangement, involving

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a pooling or joint system in which a group of banks shares some of the development costs. For example, of the six banks with a credit card program in this survey, four are members of interchange plans (two banks each in two plans), originating in Connecticut. One of these hopes to expand its membership throughout New England, especially in Massachusetts and Rhode Island, and has recently announced the signing of a Massachusetts bank which will launch its program in 1967. Extension could also occur more directly at the national level by a widespread acceptance of a nationally franchised plan, such as BankAmericard, or by some type of national association for interchange purposes.[1] It is possible too that the national credit card plans for banks now being sponsored by nonbank organizations -- American Express, Diners Club, Carte Blanche -- may in the future become more directly competitive at the local retail card level. However, as already indicated, the credit card movement in New England is in a very introductory stage of development, and there is no evidence as yet to suggest which type of geographic extension -- local, regional or national -- will prevail, if any one ever does.

The functional (in contrast to the geographic) extension of credit card refers to the extension of the processes involved, presumably in the direction of a more automatic transfer of credit. Although any discussion in this area is speculative at best, it is here that the distinction between credit cards and the other types of plans described previously may become important, simply because of the differing contribution which each may make to the evolution of the payments process.

Quite aside from the normal practices and policies of credit extension, regular bank retail credit card plans are, in many small but

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[1]For a recent indication of interest in this direction, see "Association for the National Interchange of Bank Credit Cards Under Discussion," American Banker, August 18, 1966.

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perhaps important ways, familarizing the parties involved with the use of methods and equipment somewhat comparable to those so essential to the automatic transfer of credit. The use of the credit card itself points up the problem of a simple and reliable means of consumer identification, a major obstacle to any automatic transfer system. Consumers and retailers become more accumstomed to the use of the imprinter, an admittedly crude sort of terminal device but perhaps a necessary beginning. Banks, retailers and consumers are even occasionally meeting the problem of the immediate credit decision whenever a purchase exceeds the "floor limit."

These aspects of the credit card type of transaction, however seem rather far removed from what would appear to be the next logical step toward automatic credit transfer -- an "on-line" system involving the instantaneous transfer of funds from the account of the consumer to that of the retailer. Moreover, although many bankers appear convinced that this is the next step and that it will occur, they disagree completely as to when. Some predict it as a matter of 2 or 3 years while others feel that it is in the much more distant future.

At this point the various kinds of plans described above as being essentially competitors of credit cards may become of crucial importance. This is especially true of those programs which are extensions of the check credit idea and involve the overdraft system in which the consumer's line of credit is tied directly to his checking account. Although the consumer uses checks rather than a charge card at the place of the transaction, he receives automatic credit at the bank if he exceeds his deposit balance. Since this overdraft fea-

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ture makes "routine consumer activity possible at all times,"[1] it is an important aspect of the automatic transfer process. Hence, Robert V. Head concludes: "The institutions that have taken this step are thus progressing along the pathway toward ultimately providing for automatic credit extension at the point of a retail transaction."[2]

In a footnote to this conclusion Mr. Head also says:

> The reader may have observed that, also during 1965, many banks set up consumer credit card plans, patterned after the long-established BankAmericard. Given the perspective that present-day techniques for the verification and extension of credit are going to be dramatically upgraded, these bank credit card ventures must be viewed more as ill-advised retrogressions than as imaginative breakthroughs into the checkless future.[3]

Although Mr. Head may be correct in this conclusion, two comments concerning it might be in order. First, the underlined portion of the statement draws attention to the premise upon which the conclusion is based: namely, that there will be drastic improvement in credit granting procedures. Clearly, Mr. Head is not asserting that credit card plans as such are a backward step. Second, the credit card movement itself may contribute significantly to the very upgrading of "present-day techniques for the verification and extension of credit" which Mr. Head poses as the basis for subordinating the present credit card developments.

Hence, it seems reasonable to conclude at this early stage of the movement that both kinds of programs can contribute to the evolution of the payments mechanism toward a more automatic transfer system: credit

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[1] Sprague, R. E., "System for Automatic Value Exchange," Banking, June 1966, p. 120.

[2] Head, Robert V., "The Checkless Society," Datamation, March 1966, p. 23.

[3] Ibid. Emphasis supplied.

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card plans especially in the realm of problems at the point of the retail transaction; revolving overdraft loan types of plans particularly in the area of credit extension, by tying the customer's line of credit directly to his checking account. However, at present, credit cards are receiving practically all the attention, even to the point where the other plans are (to the irritation of their originators) confused with, or referred to as, credit card programs. Whether these types of plans can survive in competition with credit cards is a matter of conjecture.

Some evidence suggests that in the minds of many bankers credit cards are the coming thing, and other programs are regarded as more or less interim defensive mechanisms, as perhaps not completely adequate substitutes for credit cards but ones which they do not wish their competitors to acquire either. For example, as already noted, the so-called overdraft-travelers check plan previously discussed has been accepted by over 130 banks throughout the country. Sixteen of these are in New England and 7 of the 16 are banks covered by this survey. However, signing up is one thing and putting into operation is another, since only three of the seven banks contacted in the survey intended to implement the program on or before the middle of August. The other four have no definite target date: one indicated its intention of "taking another look at the situation on September 1st and decide then whether we want to proceed at that time"; another has no specific date in mind "but expects it to be offered soon"; the third indicated that it signed up to forestall its competition and "we have no immediate plans for starting and do not expect it will occur for at least another year"; the fourth bank also took on this program for competitive reasons as another means of expanding its consumer services, but this bank is now in the process of launching its own credit card plan, and it has

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been shelved until our charge card program is operating. At present, there is no active work on its promotion."

That the delay in implementing this plan, after it had been purchased, is not peculiar to New England was indicated by J. R. Hambleton in his series on credit cards in the American Banker:

> Some banks that signed up for it did so only to keep their competition from getting the service. Upon learning of this, Mr. Green /president of First Financial Marketing Group which is marketing the program/ had the contract changed. A bank signing up from now on must make a major effort within six months or lose its exclusive franchise.[1]

Hence, at the present time, the future of the overdraft type of program may be less certain than that of the credit card. Nevertheless, the overdraft feature, considered by some to be an important function in any automatic credit transfer system, has at last been introduced here in the United States. Possibly the next development in the credit card mechanism may be the mass inducement of the cardholder to become a depositor, with an overdraft privilege tied to his checking account in lieu of the present pre-arranged line-of-credit type of authorization. If the banks succed in this, they will have taken another step toward a more automatic transfer process in the sense that the distance will not seem so great to the substitution of an identification card for the credit card.[2]

Moreover, as all of these programs (of the type covered by this survey) multiply and expand, both geographically and functionally, they will intensify the need for solving several kinds of problems which heretofore have been regarded as being almost entirely within the realm of the checkless society. For example, there are the increasing problems of (1) customer identification (more cardholders spread over a greater

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[1]Hambleton, J. R., "Bancardchek Seeks to Provide Variation on Credit Card Theme," American Banker, July 26, 1966, p. 2

[2]For the important distinction between credit cards and identification cards, see Head, Robert V., "The Checkless Society," Datamation, March 1966, p. 24.

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area), (2) standardization of equipment (especially if interchange arrangements become common), (3) faster and more accurate credit verification, extension and interchange (particularly as the "on-line" type of procedure is approached, regardless of the steps by which it occurs). The increasing recognition of and attempt to solve these problems by individual banks and, more important perhaps, by organized groups will itself ease the way to further developments.

On the other hand, while credit card and similar programs may well be a step in the direction of an automatic credit transfer system, there is real disagreement over the speed with which this stage will be achieved, if ever. Several "realists" have given very practical and convincing reasons for their belief that while the "checkless, cashless" society may ultimately be reached, it will be by a much slower and more tortuous process of trial and error than its planners seem to envision.

For example, while agreeing that "there is unquestionable merit in the possibilities suggested by the universal information interchange concept that leads to the 'cashless' society," A. R. Zipf, vice president of Bank of America, feels that more realism is necessary before any real progress can take place. In particular, he poses the problem of obtaining a satisfactory return on the very substantial investment required by the types of systems now contemplated. Then Mr. Zipf, using the BankAmericard program, for purposes of comparision, analyzes briefly the potential benefits and problems involved in a shift to an automatic system, "in three areas: 1) merchants' operations, 2) cardholder utilization, and 3) bank operation." Mr. Zipf finds it difficult at this time to discover sufficient net advantages to the parties most concerned in each of these three areas to justify an expectation of adequate return on the banks' investment.[1]

[1]A. R. Zipf, "A Practical View of Universal Credit," Datamation, March 1966, pp. 121-122.

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Charles Block, vice president of Chase Manhattan Bank, reaches very similar conclusions but by a somewhat different process. In essence, in presenting "an approach suggestive of how to research the checkless society," Mr. Block finds that the check system is far from obsolete. He refers to some recent developments (e.g. better check cashing facilities, overdraft banking, automatic bill payment, payroll distribution, video tapes, credit cards, MICR encoding) as suggestive of ways in which the check system has been and can be further improved in order to enable banks to handle more efficiently the check volume and fulfill better the needs of their customers in a variety of ways. Hence, Mr. Block feels that for the near-term future the continued improvement of our present system is a more realistic goal than the checkless society; that we will probably "require more than one debt settlement mechanism in volume; for example, cash, checks, automatic money transfers;" that presently "the long term potential of the checkless society is completely unknown;" that "there is little danger of it occurring overnight right under our noses before we can do anything about it."[1]

These latter points of view have been mentioned not because they prove anything but simply because they seem to be in harmony with some of the findings of this survey. While there is unquestionably a surge of interest in credit cards and related consumer credit plans here in

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[1]Block, Charles, "Serious Questions Need Answers En Route to Checkless Society," American Banker, July 28, 1966, pp. 4, 5, 9.

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New England, the number of such programs actually in operation or immediately pending does not suggest any appreciable impact in the near future on the volume of checks or other aspects of the payment mechanism. Nevertheless, the increasing competition among banks and between banks and other sources of financial services as well as the increasing demand for banking services (especially check volume) will surely accentuate the attempts by individual banks (and perhaps groups of banks) to maintain and improve their position through more computerization and the adoption of programs aimed at reducing, rerouting and replacing checks. Hence, the "movement" toward the types of plans considered here could speed up significantly in the near future. In any event, we would appear to have here a small but growing and very practical proving ground for increasing the familiarity of bankers, merchants and consumers with respect to the kinds of equipment and procedures necessary for a less checkful, if not a checkless, society.

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