Research Department
Federal Reserve
Bank of
San Francisco

April 1, 1977

Business & Financial Letter

Two Into One?

After an initial period of rapid growth and confusion in the mid-1960's, the bank credit-card industry evolved into a $25-billion system built around two nationwide organizations, BankAmericard and Master Charge. But now credit cards are entering a new phase. Major banks in California and elsewhere, which had originally offered either one or the other of the two competing cards, are now beginning to offer both cards. The results of this change are yet to be felt, but with more banks marketing the two cards together, pressures to rationalize further could push toward a single common card.

Nationwide cards

The original rush into the credit-card business stemmed from the desire of many banks to expand their profitable consumer-lending activities, and from their increasing ability to handle a mass credit operation through potentially low-cost computer systems. Various banks had experimented with credit cards in the 1950's, with indifferent success, but not until 1965 were operating techniques refined to the stage where profitable operations became likely. More banks then entered the field, attracted by such features as interchange arrangements between separate card systems and licensing arrangements for training new entrants, and more banks followed, pulled in to match competition.

The next few years of trial and error were filled with more losses than profits, and a large number of separate card designs fell by the wayside. Most banks eventually came to use only BankAmericard or Master Charge, which had soon outgrown their California origins and were widely accepted nationwide. Large Chicago and New York banks, despite their vast resources, had been unable to move beyond their regional markets with their own card systems, and finally came to adopt either one or the other of the two cards, to gain the merchandising advantages of national coverage.

A major factor stimulating industry growth was the development of two national interchange organizations—Interbank (for Master Charge) and National BankAmericard (NBI). These organizations, formed by the card-issuing banks, helped develop new techniques to facilitate national usage of cards, and in the process reduced the costs of authorization, processing, and fraud losses. Both Interbank and NBI later developed arrangements with foreign banks for acceptance of their cards outside the United States. These international intercharge agreements encountered problems of acceptance among foreign merchants because of their inability to establish common names in different foreign countries, and this name/design

(continued on page 2)

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problem wasn't solved until just last year.

Dual-issue background

Card-issuing banks—the key element in any credit-card system—were prohibited by NBI bylaws from issuing anything except BankAmericard. For a decade banks issued only one card. However, an Arkansas bank belonging to NBI went to court to establish its right to issue both cards. (The NBI view was that the prohibition was necessary to ensure competition between the two credit cards.) After a rather complex series of legal maneuvers, the Department of Justice declined to approve NBI's restrictive bylaw on dual membership, and in May 1976 NBI dropped its prohibition.

In the meantime, NBI had been moving to achieve greater international acceptance by developing a card with a name and design which would avoid problems of language and ties to particular banks or countries. Eventually the various international partners agreed on a new name, Visa, for a card using the familiar blue, white, and gold stripes of the original BankAmericard. With the unveiling of Visa, the final barrier to dual membership was removed.

Dual issue arrives

California's Master Charge banks, which would have been reluctant to issue cards bearing a name developed by their principal competitor, felt no such restraint against using the new Visa card. Consequently, two large California banks, United California and Wells Fargo, last year announced their intention to join NBI so that they could issue their customers both the new Visa card and their existing Master Charge. Not to be outdone, Bank of America then announced its intention to issue Master Charge, and other California banks quickly followed by joining NBI. So today, most California banks are able to offer both credit cards to their cardholders and to their merchants. Similar competitive reactions in other states should soon make dual issue a national practice.

The main advantage for banks is that it helps them compete better for merchant accounts. About one-quarter to one-third of a bank's credit-card revenues come from merchant fees, and the convenience of dealing with only one bank, rather than two for each card, could attract many new merchant accounts. Of course, this advantage can be quickly matched by competitors, so that once an important bank in any market issues a second card, the others quickly tend to follow. Moreover, the costs of joining a second card system are relatively small; heavy start-up costs are associated with the initial entry, not the addition of a second card.

Some new cardholder accounts may also be attracted by such a move, but with many banks offering two cards, any special competitive advantages should be soon eroded. Banks would benefit from the new accounts of customers who like to deal with only one bank, but many other customers might prefer to deal with two separate banks in order to have two lines of credit. When the shifting of customers among banks is completed, there might not be any net gain in new accounts for any bank.

Consumers and merchants

Thus, on balance, the competitive gains of dual issue are likely to be modest for most banks because of the ease with which competitors can respond. In contrast, cardholders should have some clear benefits. By obtaining two cards from their bank, customers would have a wider choice of businesses where they could make credit purchases. Even those using only one card should find more merchants willing to accept that card, because merchants in turn would find their banks willing to handle both cards. Smaller merchants in particular should like the convenience of dealing with only one bank.

The dangers of an overexpansion of consumer indebtedness under a system of dual issue should be relatively slight. Customers would have the same credit limit that they would receive if they were applying for only one card. After all, the issuing bank would realize that it is dealing with the equivalent of one credit account even when it issues two cards. The practice of California banks in this situation is to set the appropriate credit limit and let the customer decide on the allocation between the two cards. Any analogy to the mass issue of unsolicited credit cards of the 1960's is inaccurate. In fact, since Congress has forbidden unsolicited card issuance, customers must ask for the second card. On balance, the addition of a second card in customers' wallets should not change spending habits but should give some greater convenience.

One bank?

The end result of all these developments may be the emergence of only one bank-card system—an entirely different outcome from what was expected when NBI's prohibition against dual membership was challenged. If most merchants in the nation accept both cards, and if most cardholders have both available, why should there be two systems side by side to handle the same type of transaction?

Even so, any change is likely to be gradual. For a while at least, the differences in services and in procedures of the two credit-card systems—and the preference of many banks for either one or the other card—will justify the continuation of two separate systems. BankAmericard (or rather Visa) and Master Charge will survive in the same fashion as the three major nonbank credit cards (American Express, Diners Club and Carte Blanche) by their ability to meet different customers' needs. Yet over the longer run, their similarities could become greater than their differences, and at that point the rationale for two separate systems could disappear.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 3/16/77	Change from 3/09/77	Change from year ago Dollar	Change from year ago Percent
Loans (gross, adjusted) and investments*	94,831	+ 1,562	+ 7,277	+ 8.31
Loans (gross, adjusted)—total	72,252	+ 864	+ 7,196	+ 11.06
Security loans	1,696	+ 190	+ 671	+ 65.46
Commercial and industrial	23,546	+ 225	+ 699	+ 3.06
Real estate	22,135	+ 95	+ 2,539	+ 12.96
Consumer instalment	12,404	+ 12	+ 1,615	+ 14.97
U.S. Treasury securities	9,267	+ 282	− 445	− 4.58
Other securities	13,312	+ 416	+ 526	+ 4.11
Deposits (less cash items)—total*	93,845	+ 1,151	+ 6,461	+ 7.39
Demand deposits (adjusted)	26,782	+ 56	+ 2,989	+ 12.56
U.S. Government deposits	992	+ 726	+ 554	+ 126.48
Time deposits—total*	64,469	+ 214	+ 2,801	+ 4.54
States and political subdivisions	5,385	− 110	− 819	− 13.20
Savings deposits	31,526	+ 189	+ 6,364	+ 25.29
Other time deposits‡	25,505	+ 59	− 2,274	− 8.19
Large negotiable CD's	8,929	+ 100	− 3,691	− 29.25

Weekly Averages of Daily Figures	Week ended 3/16/77	Week ended 3/09/77	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves (+)/Deficiency (−)	+ 25	+ 83	− 13
Borrowings	1	1	1
Net free(+)/Net borrowed (−)	+ 24	+ 82	− 14
Federal Funds—Seven Large Banks			
Interbank Federal fund transactions			
Net purchases (+)/Net sales (−)	+ 79	+ 140	+ 1,543
Transactions with U.S. security dealers			
Net loans (+)/Net borrowings (−)	+ 461	+ 108	+ 310

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

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