Politecnico di Milano

Facoltá di Ingegneria dei Sistemi

POLO REGIONALE DI COMO

Master of Science in Management, Economics and Industrial Engineering

Fundamentals of Cards Business

Supervisor: Prof. Marco Giorgino

Master graduate thesis by: Ozge Gunaydin

Matricola: 736630

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Abstract

In today's world all types of cards whether they are debit, pre-paid or credit are used by different kinds of consumers in their daily life. The places and sectors they are used differ depending on the consumers' culture and habits.

This thesis work aims to highlight the cards business' importance in people's lives and the hall process they will face during the life cycle of a transaction. It is a detailed work which can help both consumer and business owners to use or issue credit cards. Since it seems to be a risky way to use, by understanding this research, people would feel safer for the process they will face through.

Thus, very detailed and statistical data is analyzed in the thesis work. Current market conditions and possible future trends are the leading parts which will guide the readers of this work. By understanding the difficulties that they may come across can be really scary unless they don't know how to respond.

The main objective of this work is to make people understand the cards business in order to make more money on it and create a profitable process for both the consumer and the business owner side. By being aware of the clues, it would be easier for the reader to position his/herself on payment systems market and react relatively.

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Introduction

This research is done on empirical basis with an initial review from different card holders, issuers and business owners. I am working for a private Turkish bank's technology center as a business development analyst. I am in the payment systems department, credit cards division. The main reason for me to hold this topic is that I am planning to work in this sector which I find very interesting and also inspiring for many years.

This work is prepared to make people be aware of the importance of cards business. Despite the fact that payment systems industry is a very huge and profitable market, it can also be said that it is one of most tricky markets ever. To understand the payment systems industry, firstly it is necessary to understand its components. It is a fact that, the more you learn about the contents the more successful the business is. Knowing what you are into and what can you face with helps you to design a business plan just before you jump into that sector. So that you won't be caught on the wrong foot.

The first chapter will help you to have a wide look over the financial services by describing each of them and by the graphical representations you will be able to understand the organization charts of different types of banks. The graphical representation aims to make sure that reader has got the idea of where payment systems fit in different organizations.

Secondly, the next thing that mentioned in the work is the difference between the debit and credit cards considering the customer needs and different types of products and their positioning. The main idea of this part is to let you decide when to use what realizing the behaviors of different types of consumers. Being aware of the risk and the profit that you may get depends on how much you understand the attractiveness of the market.

The next chapter is all about the cards and their roles in detail. As they fit in different roles, their usage also differentiates. Is is explained the modern role of cards in today's world. After that, the positioning of cards business is explained for the readers to use all kinds of opportunities as effectively as possible. Later, one of the main components of payment systems, acquiring is explained very detailed. The role of acquirer, leading acquirer companies and their differences are also mentioned in this very important chapter. As the head of all credit card transaction processes is acquirers the credit card organization models are also explained in this caption. E-commerce and risk part will help you to understand the risks of online shopping and how can minimize the risk while having a regular buying process.

The payment transaction cycle is explained very detailed in this work; because it is the main flow that should be understood in the payment systems market. If you know the cycle, it would be easier for the business owner where to get profit by doing what. To have a general look on the transaction cycle these heading are used like; authorization, cancelling an authorization, batching, clearing settlement, funding, chargeback and steps in a virtual card transaction.

In the risk management chapter, understanding the risks that your business or yourself as a cardholder may face is aimed. The credit risk that a issuer has or the collection risk that a cardholder has is explained in this part. Also, fraud risk which is a nightmare for both the business owner, issuer and the card holder is analyzed to lower the risk to the minimum level by using statistical data and the possibilities that may occur.

Segmentation and product development part is mostly for the business owners and issuers to speak to the right segment for their specific products and decide where or what to invest to get the maximum profit with minimum investment. Also, it is explained how to increase the impression f the product with little touches and how long is the life of the credit card product. After creating the products, it is time to sell it to the right customer. So that the next part is about giving tips to sell the product that have been created newly as effectively as possible. The channels for sale are detailed in this part and it is also highlighted that which channel to use for different kinds of segments and products. It is a very important point that should be expressed; because selling big amounts of products using the minimum effort would absolutely increase the profitability of the business.

The last two chapters are more likely about the marketing of payment cards. To understand the current situation of the market, graphical statistics and different ideas of experts are used. Knowing the current situation it is also important to learn how it is going to be in the future, so that the future expectations for the market is also mentioned. Lastly, the marketing methods that are used in the payments industry are detailed considering the market situation in general. Different types of strategies should be used for each type of segments, products and environment. The importance of marketing in this sector is especially expressed and retention which can also be used as a marketing strategy is explained in the last chapter.

1. Dictionary

SME: Small and medium enterprises, a synonym for Small and Medium-sized Business(es) (SMB)

Branch: A branch, banking center or financial center is a retail location where a bank, credit union, or other financial institution (and by extension, brokerage firms) offers a wide array of face-to-face and automated services to its customers.

ATM: An automated teller machine, more commonly known as a cash machine, which enables cardholders to withdraw cash from their bank or card account.

POS Terminal: Point of sale (POS) or checkout is the location where a transaction occurs. A "checkout" refers to a POS terminal or more generally to the hardware and software used for checkouts, the equivalent of an electronic cash register.

A POS terminal manages the selling process by a salesperson accessible interface. The same system allows the creation and printing of the voucher.

Virtual POS: It is typically a web or windows application that can be used by card-accepting merchants to manually authorize card transactions. Most Payment Services Providers offer this type of functionality.

Mobile POS: It is a wireless terminal designed to allow merchants to accept payments by means of banking payment cards in any location.

Debit card: Debit card (also known as a bank card or check card) is a plastic card that provides an alternative payment method to cash when making purchases. Functionally, it can be called an electronic cheque, as the funds are withdrawn directly from either the bank account or from the remaining balance on the card. In some cases, the cards are designed exclusively for use on the Internet, and so there is no physical card.

Credit card: Credit card is a small plastic card issued to users as a system of payment. It allows its holder to buy goods and services based on the holder's promise to pay for these goods and services. The issuer of the card grants a line of credit to the consumer (or the user) from which the user can borrow money for payment to a merchant or as a cash advance to the user.

Issuer: It is a legal entity that develops registers and sells securities for the purpose of financing its operations. Issuers may be domestic or foreign governments, corporations or investment trusts. Issuers are legally responsible for the obligations of the issue and for reporting financial conditions, material developments and any other operational activities as required by the regulations of their jurisdictions.

Acquirer: In other terms acquiring bank, is a member of a card association, for example MasterCard and/or Visa, which maintains merchant relationships and receives all bankcard transactions from the merchant.

Authorizations: When a merchant accepts a card transaction, they will seek an authorization from the cardholder's issuing bank - that the transaction details that have been processed by their terminal are correct. Where a card issuer confirms that these details are accurate, the merchant will receive an authorization and an authorization code for that particular transaction at that time on that day. However, even though an authorization has been given, it only checks that there are available funds in that card account up to the value of the transaction at the time it is processed and that the card used has not been reported as lost or stolen. An authorization does not guarantee that a transaction is not fraudulent or that it will not be charged back at a later date.

Online Transaction: A terminal is said to have gone online when it dials out to connect to an acquiring bank to process a card transaction and request an authorization. This may be because the chip on the card has told the terminal to do this, or because the transaction value is above a merchant's agreed floor limit.

Offline Transaction: A transaction can be processed off-line where the terminal does not dial out for an authorization. This may happen, for example, if the transaction value is below the floor limit, as agreed by an acquiring bank, for which a merchant can accept a transaction.

Referral: When a merchant is processing a card transaction their terminal may prompt them to make a manual authorization call to the cardholder's issuer known as a referral. An acquiring bank's operating instructions will guide a merchant through how to process a referral.

Terminal Messages: When a merchant is accepting a card transaction, their terminal will provide prompts on the actions they should take when processing a card transaction.

Telephone Authorization: There may be occasions when a terminal asks a merchant to call through a card transaction for telephone authorization. The operator will guide the merchant through what needs to happen next.

Floor Limit: A floor limit is the value of a transaction that has been agreed between a merchant and their acquiring bank above which a terminal will go online to the issuer and request an authorization that will be either approved, and an authorization given, or declined. Conversely, where the card transaction value is below the floor limit, the terminal can process the transaction offline, i.e. the terminal does not go online to the issuer, and stores the transaction details for transmission to the acquiring bank at a later time. A floor limit is agreed by the acquiring bank and merchant that takes into account any card scheme rules that may be applicable and will be pre-programmed into the merchant's terminal.

Fallback: When a merchant cannot accept a card transaction using its standard method, they can fall back to the next available method. For example, where a merchant's terminal or PIN pad has malfunctioned or there has been a power or telephone network failure and they have to fallback and use a manual imprinter. In this case, a merchant is said to have had to 'fallback' to using a paper voucher. The card schemes require different 'fallback' actions to be taken depending on the type of card being processed. Where a terminal has not accepted a chip and PIN card because the chip cannot be read, a merchant can 'fallback' to the card's magnetic stripe and attempt to process the transaction on this basis by swiping the card.

Refunds: There may be occasions when a merchant needs to make a refund on a card transaction for purchases made. This should only be done using the card that was used for the original transaction. When providing refunds, merchants are advised not to give cash or cheque refund as this is a common method used by fraudsters to appropriate cash from the card. An acquiring bank and terminal supplier will supply information on the correct procedure to use when making a refund.

Reversal: If a merchant has processed a transaction, received an authorisation and yet now wants to cancel the transaction or make a reversal – for example if they have made a mistake with the transaction amount. This can be done, but the reversal has to be the next transaction that a merchant processes after the transaction that has to be cancelled. This means a merchant cannot process a transaction for another customer and then go back to cancel a previous transaction. In this case, a merchant would have to make a refund rather than cancel the original transaction. This would mean that a merchant is processing two transactions and their acquiring bank will have negotiated how this will be charged.

End of Day: This is an action that a merchant manually performs at the end of their trading day and is at a time agreed with their acquiring bank. This specified time can be referred to as the 'Banking Window'. This procedure will prompt a merchant's terminal to produce a printout showing the value of card transactions, both debit for amounts taken by a merchant and credit where they have given a refund processed during their business day. It may also show the volume and values for each card type. By performing this procedure, a merchant's acquiring bank can collect the day's transactions that are stored on the terminal for processing. An acquiring bank or terminal supplier will provide instructions on how this process can be performed.

Paper Vouchers: Paper sales vouchers are used if the merchant manually completes the sales details. A merchant places a voucher into an imprinter or zip zap machine together with the customer's card that produces a carbon copy of the card details that are embossed on the front of the card. The voucher is then handed to the cardholder for them to sign. Where a merchant has a working terminal, they must not use paper vouchers. However, there may be occasions when a merchant has to use a paper voucher where the terminal is not working. Processing a transaction using a paper voucher presents a greater risk that it could be charged back than if the transaction was processed online using a terminal. For example, a merchant cannot authenticate the cardholder against the chip on a chip and PIN card. A merchant will also have to carefully inspect the card's security features to guard against a counterfeit fraud.

Paper vouchers can also be used to process card not present transactions and a merchant's acquiring bank will advise if any special agreement is required, what the chargeback risks are and the correct processing procedures to use. An acquiring bank will further provide details on the procedures to process and perform refunds on a paper voucher card transaction, banking these vouchers, and which cards cannot be accepted using vouchers.

IS Audit: Information technology audit or information systems audit examines the controls within an Information Technology (IT) infrastructure. An IT audit is the process of collecting and evaluating evidence of an organization's information systems, practices, and operations. The evaluation of obtained evidence determines if the information systems are safeguarding assets, maintaining data integrity, and operating effectively to achieve the organization's goals or objectives. These reviews may be performed in conjunction with a financial statement audit, internal audit, or other form of attestation engagement.

EDI: Electronic data interchange is the structured transmission of data between organizations by electronic means. It is used to transfer electronic documents from one computer system to another, i.e. from one trading partner to another trading partner. It is more than mere e-mail; for instance, organizations might replace bills of lading and even cheques with appropriate EDI messages.

CC: Call centre or call center is a centralized office used for the purpose of receiving and transmitting a large volume of requests by telephone. A call centre is operated by a company to administer incoming product support or information inquiries from consumers. Outgoing calls for telemarketing, clientele, product services, and debt collection are also made. In addition to a call centre, collective handling of letters, faxes, live chat, and e-mails at one location is known as a contact centre.

SDLC: Systems Development Life Cycle, or *Software Development Life Cycle* in systems engineering, information systems and software engineering, is the process of creating or altering systems, and the models and methodologies that people use to develop these systems. The concept generally refers to computer or information systems.

In software engineering the SDLC concept underpins many kinds of software development methodologies. These methodologies form the framework for planning and controlling the creation of an information system: the software development process.

BPR: Business Process Reengineering is the analysis and design of workflows and processes within and between organizations. A business process is a set of logically related tasks performed to achieve a defined business outcome. Re-engineering is the basis for many recent developments in management. The cross-functional team, for example, has become popular because of the desire to re-engineer separate functional tasks into complete cross-functional processes.

Monthly Billing Cycle: The issuer generates a credit card bill on a predetermined day of month. The customer should pay it before grace period expires; else, a late payment fee has to be paid.

Grace period: A credit card's grace period is the time within which the customer has to pay the balance before interest is charged to the balance. Grace periods vary, but usually range from 20 to 40 days depending on the type of credit card and the issuing bank.

Late Payment: If you carry a balance, credit cards function like very expensive loans. The credit card company allows you to pay off what you owe little by little each month, as long as you pay a minimum amount each time. In exchange, you pay interest on the balance you owe (as high as 29% each year) at the end of each period.

Authorization: The first step in processing a credit card. After a merchant swipes the card, the data is submitted to merchant's bank, called an acquirer, to request authorization for the sale. The acquirer then routes the request to the card-issuing bank, where it is authorized or denied, and the merchant is allowed to process the sale.

Batching: The second step in processing a credit card. At the end of a day, the Merchant reviews all the day's sales to ensure they were authorized and signed by the cardholder. It then transmits all the sales at once, called a batch, to the acquirer to receive payment.

DDA account: Debit deposit account

Cardholder: The owner of a card that is used to make credit card purchases. This term is used to refer to any one of the customers who has been issued with a credit card – and, along with the acquirer, the issuer and the retailer, constitutes one of the parties in a four party payment system.

Card network: Visa, MasterCard or other networks that act as an intermediary between an acquirer and an issuer to authorize credit card transactions.

Clearing: The third step in processing a credit card. After the acquirer receives the batch, it sends it through the card network, where each sale is routed to the appropriate issuing bank. The issuing bank then subtracts its interchange fees, which are shared with the card network, and transfers the remaining amount through the network back to the acquirer.

Discount fee: A processing fee paid by merchants to acquirers to cover the cost of processing credit cards.

Funding: The fourth and final step in processing a credit card. After receiving payment from the issuer, minus interchange fees, the acquirer subtracts its discount fee and sends the remainder to the merchant. The merchant is now paid for the transaction, and the cardholder is billed.

Interchange fee: A charge paid by merchants to a credit card issuer and a card network as a fee for accepting credit cards. They generally range from 1 to 3 percent.

Acceptance location: This term is used to refer to any establishment or any device where credit cards can be used to buy goods or services or withdraw cash – such as retailers, bank branches, ATM machines and unattended or cardholder activated terminals.

Card sales volume: The total number of transactions conducted using credit cards.

CEV: Cardholder expenditure volume is an amount of money which has been spent or withdrawn using a credit card.

Chip and PIN: This term refers to any transaction (at either the point of sale or an ATM) which is protected by a combination of a chip card and a personal identification number. The term can also be used as a description of the underlying technology involved in these transactions.

CVV2: Card Verification Value 2 is used to provide evidence that the card being used is actually in the presence of the cardholder and is valid. Such verification is used primarily in card not present (CNP) transactions occurring over the internet, by mail, or over the phone.

DCC: Dynamic currency conversion is a service which some retailers offer to foreign cardholders, whereby a currency conversion to the cardholder's currency of domicile is conducted at the point of sale.

EMC: The executive management committee is the most senior internal day-to-day decision-making body and reports to the board of directors.

EMV: The Europay MasterCard Visa chip specifications are regarded as the industry standard for payment cards in Europe.

EPC: The European Payments Council is a decision-making body that was established by the European banking industry to support and promote the creation of the Single Euro Payments Area (SEPA).

EC: The European Commission is the executive body of the European Union. Its primary roles are to propose and implement legislation, and to act as 'guardian of the treaties' which provide the legal basis for the EU.

ECB: The European Central Bank is the central bank of the euro zone, in charge of monetary policy of the 25 countries that use the euro currency.

EU: The European Union is an intergovernmental and supranational union of 27 European countries, known as member states.

Four party system: We use this term to describe payment systems, such as Visa, which involve four separate participants – that is, the issuer, the acquirer, the cardholder and the retailer.

Group member: A group member is an independent organization or organizations which represent several individual banks within Visa Europe. In Spain for example, ServiRed S.A., Sistema 4B and ViaCajas S.A. represent the interests of all the Spanish banks, adapt Visa products to the Spanish market and manage the gateway to the Visa Europe processing systems.

Inter-bank routing and switching: A term used in connection with the processing of card transactions. Using the information within a card account number, processing systems such as Visa Europe will automatically send authorization requests and clearing and settlement messages to the cardholder's issuing bank.

Interchange: A fee which may be paid between two banks each time a card is used. It is a 'cost sharing' mechanism and its purpose is to ensure that Visa cards are as widely accepted and as widely used as possible.

Internal market: A term used by the European Commission referring to policies facilitating the free movement of goods, services, persons and capital, thereby opening up markets and removing obstacles to free trade.

Interoperability: This term generally refers to the ability of hardware and software from different vendors to understand each other and exchange data, either within the same network or across dissimilar networks. Within our own industry it means that different payment products from different payment schemes should work in the same way, in the same terminals, and across the same networks.

3-D Secure: A technology developed by Visa which enables a cardholder to be authenticated during an e-commerce transaction. This technology is deployed in a service offered by member banks called Verified by Visa.

Vendors: This term is used to refer to companies (often technology companies) which supply payment-related goods and services to banks and other payment service providers. Examples may include card manufacturers, terminal manufacturers and software providers.

Volumes: This term is used to refer to the total number of transactions conducted using credit cards. This could be either cardholder expenditure volumes (representing the total number of all point-of-sale transactions and cash withdrawals) or point- -of-sale volumes (representing the total number of point-of-sale transactions alone).

2. Financial Services Overview

Financial services refer to services provided by the finance industry. The finance industry encompasses a broad range of organizations that deal with the management of money. Among these organizations are banks, credit card companies, insurance companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

2.1. Types of Financial Services

Commercial Bank: A "commercial bank" is what is commonly referred to as simply a "bank". The term "commercial" is used to distinguish it from an "investment bank," a type of financial services entity which, instead of lending money directly to a business, helps businesses raise money from other firms in the form of bonds (debt) or stock (equity).

Retail Banking: Retail banking is mass-market banking where individual customers utilize multiple channels, including local branches, of large commercial banks. Services offered typically include; current/checking accounts, savings accounts, mortgages, personal loans, payment services, money transmission (debits, standing orders, money transfers), financial advice.

Private banking: Private banks provide banking services exclusively to high net worth individuals. Many financial services firms require a person or family to have a certain minimum net worth to qualify for private banking services. Private banks often provide more personal services, such as wealth management and tax planning, than normal retail banks.

Capital market bank: Bank that underwrite debt and equity, assist company deals (advisory services, underwriting and advisory fees), and restructure debt into structured finance products.

Bank cards: Include both credit cards and debit cards. Bank Of America is the largest issuer of bank cards.

Credit card machine services and networks: Companies which provide credit card machine and payment networks call themselves "merchant card providers".

Foreign exchange services: Foreign exchange services are provided by many banks around the world. Foreign exchange services include:

- Currency Exchange - where clients can purchase and sell foreign currency banknotes.
- Wire transfer - where clients can send funds to international banks abroad.
- Foreign Currency Banking - banking transactions are done in foreign currency.

Investment services:

- Asset management - The term usually given to describe companies which run collective investment funds. Also refers to services provided by others, generally registered with the Securities and Exchange Commission as Registered Investment Advisors.
- Hedge fund management - Hedge funds often employ the services of "prime brokerage" divisions at major investment banks to execute their trades.
- Custody services - The safe-keeping and processing of the world's securities trades and servicing the associated portfolios. Assets under custody in the world are approximately $100 trillion. (1)

Insurance:

- Insurance brokerage - Insurance brokers shop for insurance (generally corporate property and casualty insurance) on behalf of customers. Recently a number of websites have been created to give consumers basic price comparisons for services such as insurance, causing controversy within the industry.
- Insurance underwriting - Personal lines insurance underwriters actually underwrite insurance for individuals, a service still offered primarily through agents, insurance brokers, and stock brokers. Underwriters may also offer similar commercial lines of coverage for businesses. Activities include insurance and annuities, life insurance, retirement insurance, health insurance, and property & casualty insurance.
- Reinsurance - Reinsurance is insurance sold to insurers themselves, to protect them from catastrophic losses.

Other financial services:

- Intermediation or advisory services - These services involve stock brokers (private client services) and discount brokers. Stock brokers assist investors in buying or selling shares. Primarily internet-based companies are often referred to as discount brokerages, although many now have branch offices to assist clients. These brokerages primarily target individual investors. Full service and private client firms primarily assist and execute trades for clients with large amounts of capital to invest, such as large companies, wealthy individuals, and investment management funds.
- Private equity - Private equity funds are typically closed-end funds, which usually take controlling equity stakes in businesses that are either private, or taken private once acquired. Private equity funds often use leveraged buyouts (LBOs) to acquire the firms in which they invest. The most successful private equity funds can generate returns significantly higher than provided by the equity markets
- Venture capital is a type of private equity capital typically provided by professional, outside investors to new, high-potential-growth companies in the interest of taking the company to an IPO or trade sale of the business.
- Angel investment - An angel investor or angel (known as a business angel or informal investor in Europe), is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital.
- Conglomerates - A financial services conglomerate is a financial services firm that is active in more than one sector of the financial services market e.g. life insurance, general insurance, health insurance, asset management, retail banking, wholesale banking, investment banking, etc. A key rationale for the existence of such businesses is the existence of diversification benefits that are present when different types of businesses are aggregated i.e. bad things don't always happen at the same time. As a consequence, economic capital for a conglomerate is usually substantially less than economic capital is for the sum of its parts.
- Debt resolution is a consumer service that assists individuals that have too much debt to pay off as requested, but do not want to file bankruptcy and wish to payoff their debts owed. This debt can be accrued in various ways including but not limited to personal loans, credit cards or in some cases merchant accounts. There are many

services/companies that can assist with this. These can include debt consolidation, debt settlement and refinancing. (2)

2.2. Primary Operations of Banks in Payment Systems

Simply, what banks really do is buy and sell money, manage risks, manage customer relationship, facilitate trade, build wealth and enable payments. To manage those, banks have services like investment banking, asset management, capital markets and exchanges, insurance, retail banking and payment industry. All these components help banks to achieve its goals and satisfy its customers. At this point payment cards are part of banking, an increasingly important part, sometimes pre-eminent but sometimes peripheral.

To create a successful satisfaction banks which are in the payment systems business should be giving the services listed below to its customers. (2)

- Keeping money safe while also allowing withdrawals when needed
- Issuance of checkbooks so that bills can be paid and other kinds of payments can be delivered by post
- Provide personal loans, commercial loans, and mortgage loans (typically loans to purchase a home, property or business)
- Issuance of credit cards and processing of credit card transactions and billing
- Issuance of debit cards for use as a substitute for checks
- Allow financial transactions at branches or by using Automatic Teller Machines (ATMs)
- Provide wire transfers of funds and Electronic fund transfers between banks
- Facilitation of standing orders and direct debits, so payments for bills can be made automatically
- Provide overdraft agreements for the temporary advancement of the Bank's own money to meet monthly spending commitments of a customer in their current account.
- Provide Charge card advances of the Bank's own money for customers wishing to settle credit advances monthly.
- Provide a check guaranteed by the Bank itself and prepaid by the customer, such as a cashier's check or certified check.
- Notary service for financial and other documents

2.3. Sample Organization Charts Different Types of Banks

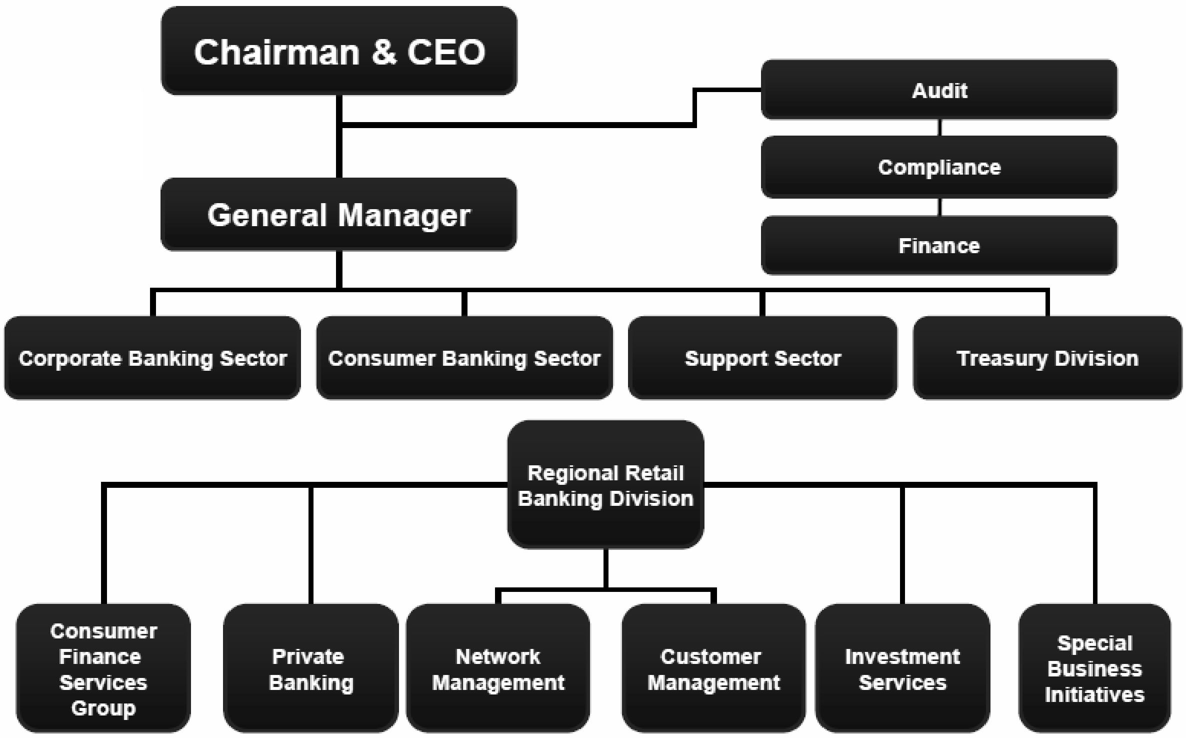


Figure 1. Sample "Universal" Structure

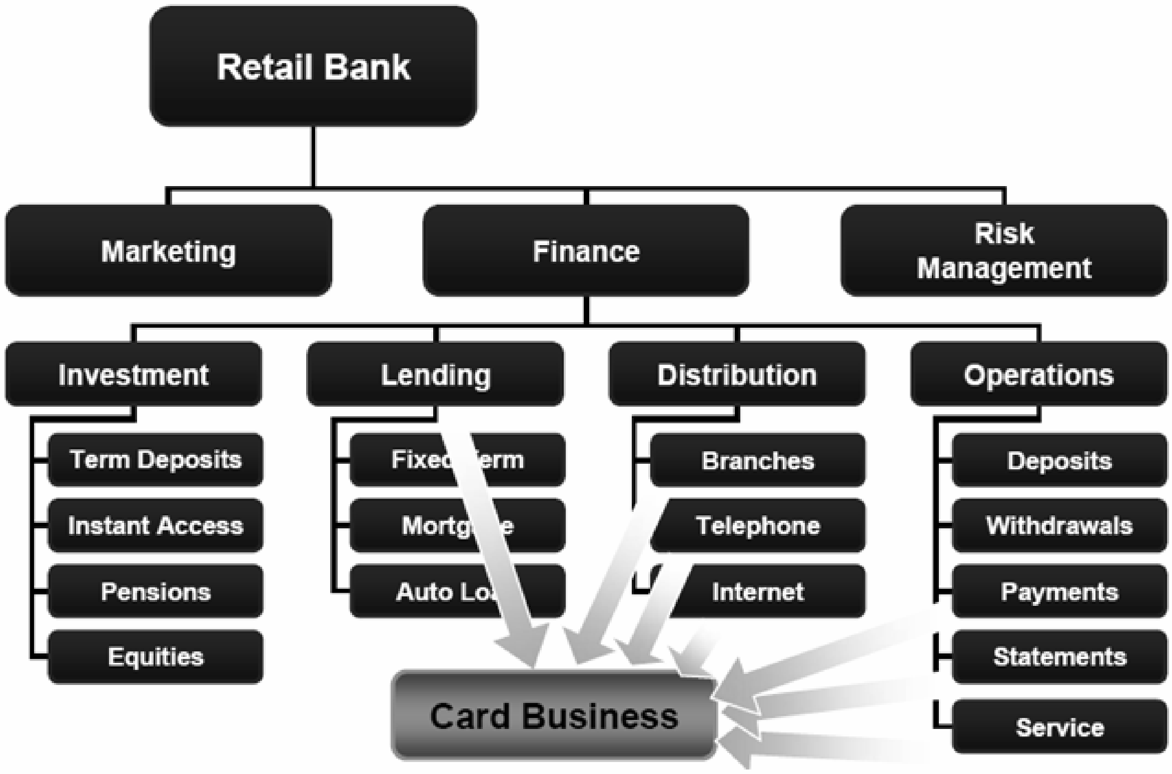


Figure 2. Cards within Retail structure

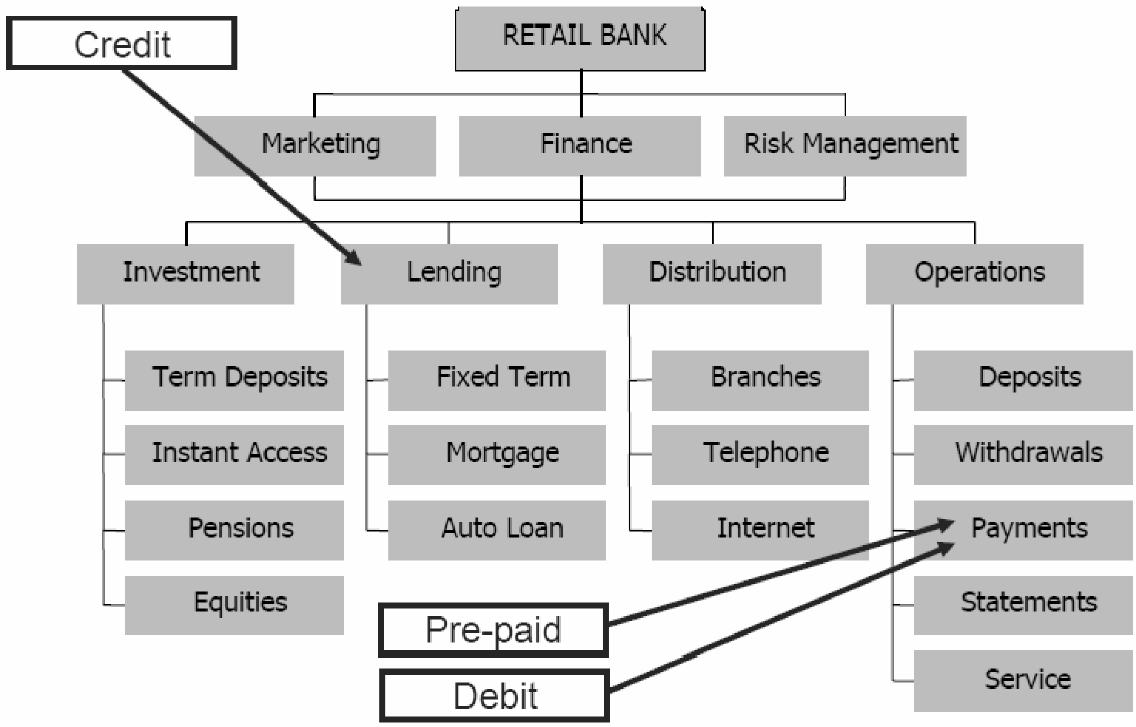


Figure 3. Consumer Bank Structure

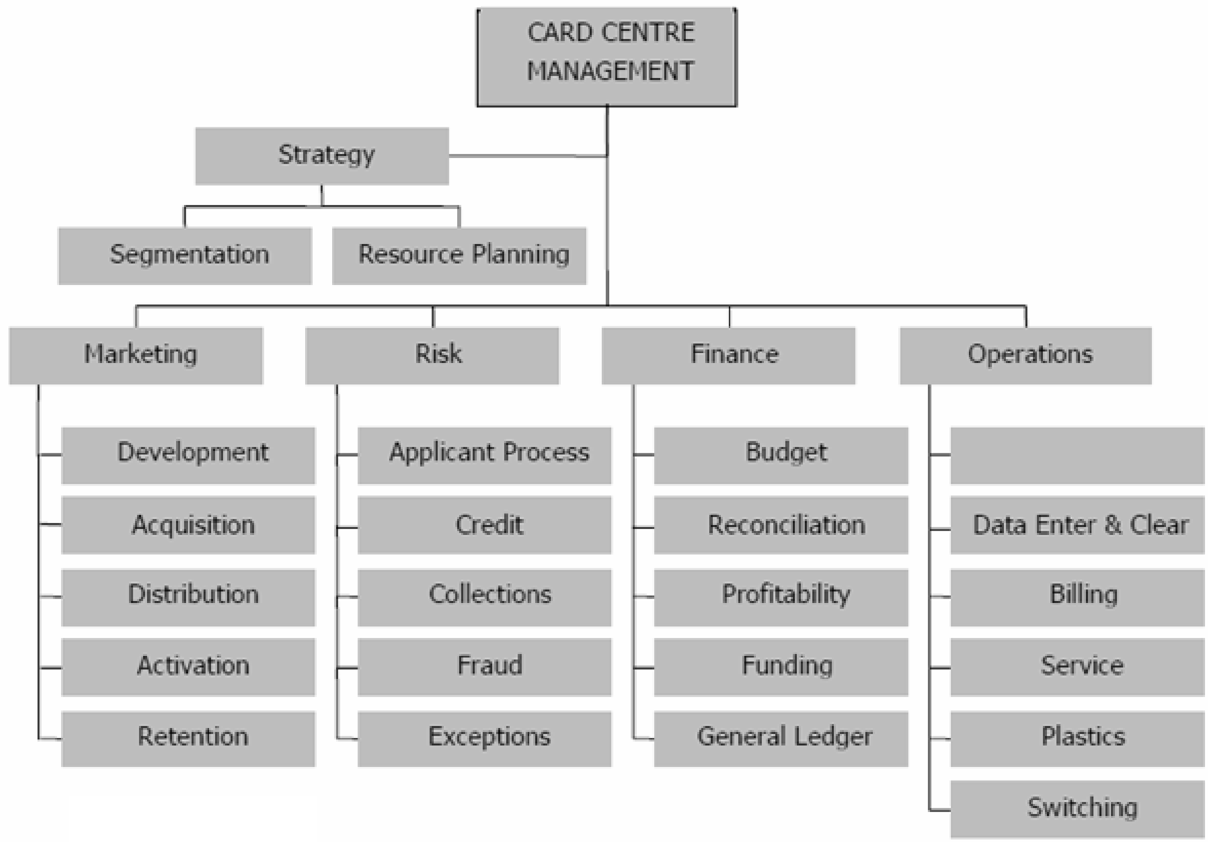


Figure 4. Monoline (card only) Structure

3. Fundamentals of Debit & Credit

3.1. What do customers want?

The technologies that we are used to were not always here to serve us. Every single new technology is an master piece that is designed to serve human beings and they are a result of hard work and patience. Think about our grandparents, they spent years, even decades, adjusting to the cultural impacts of new technologies like the radio or television. Today, we simply adopt them and move on, taking them for granted. We take for granted that tremendously complex, life-changing innovations will simply be there, without considering what it would mean if they were suddenly gone. And sometimes we forget that using them responsibly is crucial to the value they deliver.

For example, on average, there are more than two cars for every U.S. household. Americans can't imagine living without them, and yet auto accidents are their top cause of accidental death. Rather than reintroducing the horse and buggy, which is frankly a safer way to travel, automakers have fought hard to differentiate themselves by introducing new ways to make their vehicles safer and provide drivers with more control. Innovations like air bags and antilock brakes have become standard. No one questions how much easier the vehicle makes people's lives, but consumers will hold automakers responsible if the fast, efficient transportation they are expected to provide is not trustworthy. (3)

Today, the electronic payments industry is in the same situation. The debate about whether or not to use cards or other forms of electronic payments is no longer relevant. It's like debating whether to take the Honda or the horse and buggy to the supermarket. Consumers have spoken. Businesses have spoken. Governments have spoken. The benefits of paying electronically are undeniable. People can buy what they need when they have access to the money in their accounts or lines of credit, without being limited to the cash they happen to have on hand. Creating and helping to fuel an incremental exchange of goods and services is key to economic growth.

However, the economic recession has brought with it a change in consumer attitudes toward spending that is shifting the perception and use of payment products. As I mentioned, consumers will continue to use electronic payments more and cash less because it makes their lives easier. They will do so, however, with a renewed appreciation for electronic payments as valuable financial management tools, rather than as a way to access things that would otherwise be unaffordable. On the surface, this may seem a bit frightening to payment systems industry, but still it is a good thing; because the key is recognizing this as an opportunity, and not as a threat.

3.2. Product positioning and attitudes to credit cards

Before diving into the future, it's better to take a look at the present. At this point, it is a good idea to question whether payment systems industry can possibly play a leadership role in pulling the economy out of recession. After all, plastic certainly gets its share of "credit" for contributing to consumer debt. But it is important to remember the fact that the vast majority of participants in the electronic payments system enjoy its tremendous benefits responsibly. And it is this vast majority who will contribute to economic recovery.

By enabling people, corporations, and governments to leverage these qualities when making their financial transactions, credit cards generate the exchange of funds for goods and services where these transactions were not previously possible, and in many cases, would not otherwise exist. The impact is economic growth on a local, regional, and global scale. Consumers are telling that they seek more control over their finances. Now it is up to credit card issuers to respond. The payments industry is beginning a new wave of innovation that will help consumers better manage their spending. And like airbags and antilock brakes, new products and services will not just provide consumers with the utilities they seek, they will also strengthen the vital trust that has to exist between financial institutions and their customers.

It's easy to imagine how difficult our lives would be without the invention of the automobile, but have people ever stopped to consider a world without electronic payments? These questions just scratch the surface. The answer is already given by the society. Not just those who work in the industry, but for people everywhere, electronic payments are decided to stay. Society has decided that they change the way we live for the better.

Even it depends on the habits and traditions of the consumer, most consumers have spoken loudly and clearly, and their preference for electronic payments has led the shift away from cash and check. Although people slowed their rate of spending, they still relied more heavily on credit cards while doing so.

A 2009 Consumer Payment Choice Survey by the Federal Reserve Bank of Boston indicated that security and ease of use are the characteristics of payment instruments that consumers rate as most important. The survey also found that the average U.S. consumer makes more than 75 payments in a typical month, using cards most often for these payments. Less than 37 percent of all payments are made using cash or check. Prepaid and debit cards have brought millions of excluded consumers into the financial mainstream, and together with credit cards, they create a paper trail of expenditures for budgeting and recordkeeping that simply doesn't exist with cash payments. (4)

3.3. Dimensions of risk and profit

The global credit card market is getting bigger and bigger every day and it will continue growing in the future. efficiency, and encourage entrepreneurial activity. Its ultimate benefit depends on how the electronic payment systems are adopted to the market.

The development of an electronic payments system enlarges the consumer market and boosts the purchase of exports, particularly in the e-commerce and travel and tourism sectors. According to an analysis of a cross-section of 50 countries by Global Insight, increasing the existing share of electronic payments in a country by a margin of just 10 percent will generate an increase of 0.5 percent in consumer spending. For example, according to the Economist Intelligence Unit, consumer expenditure in China was $865 billion in 2005. Increasing credit cards' share of the transaction market from 20 percent to 22 per- cent would result in an incremental $4.33 billion in consumer expenditure. (5)

On the other hand, electronic payments increase access to the banking system; so that would be a way for banks to gain new customers. Electronic payment system acts as a gateways into the banking system for unbanked segments, which make up as much as 70 percent of the world's population. Banks are aware of this tendency so that they drawup a budget considering that. It is also possible to say that electronic payments create macroeconomic efficiency as they have the potential to provide cost savings of paper-based systems through increased velocity, reduced friction, and lower costs. Just for China, with a nominal that is, unadjusted for purchasing power parity GDP of $2.278 trillion in 2005, that amount translates into a potential savings of roughly $23 billion. (5)

It can be said that credit cards are one of the most reliable sources of start-up funds for new entrepreneurs. Unlike bank loan officers, private angel investors, or government lending programs, credit cards offer a simple and rapid access to capital that has helped a significant number of entrepreneurs establish new businesses. In addition, factoring future credit card receipts for short-term capital needs is a valuable option for many small businesses. The small and medium-sized enterprise sector in emerging countries, which typically has difficulty accessing financing, could benefit from that alternative financing source.

In addition to the numerous economic benefits that result from expanding the electronic payments markets, electronic payments systems also provide consumer and seller protection and convenience. From the customer's point of view even it may sometimes seems to be unreliable it is a fact that electronic payments provide an established system of dispute resolution, increase the security of their payments, and reduce their liability for stolen or misused cards. Electronic payments also provide immediate access to funds on deposit through debit cards and offer the convenience of global acceptance, a wide range of payment options, and enhanced financial management tools. Respectively, for sellers, electronic payments improve the speed and security of the transaction processing chain, from verification and authorization to clearing and settlement. Such payments also provide better management of cash flow, inventory, and financial planning through rapid bank payments. Electronic payments may also reduce costs and risks by eliminating the need to run an in-house credit facility.

The financial development that has been held by electronic payment systems increases economic growth by directing capital to an economy's most productive areas. The greater a country's financial development, the larger the economic growth over the subsequent decades. A doubling of the size of private credit in a developing country is associated with a 2 percent annual increase in economic growth. Finally, more new firms are created in countries with developed financial systems, and capital-dependent industries and firms grow faster.

The financial system term includes the banking, securities, and electronic payments sectors. Electronic payments, for example, contribute toward the development of a more efficient and sound financial system. Numerous studies show that the growth of electronic payments has measurable economic benefits for countries primarily because electronic payments are much more cost-effective on a large scale than cash payments. E-commerce and travel and tourism, for example, are two sectors that depend significantly on the ability of consumers to use electronic payments at the point of purchase.

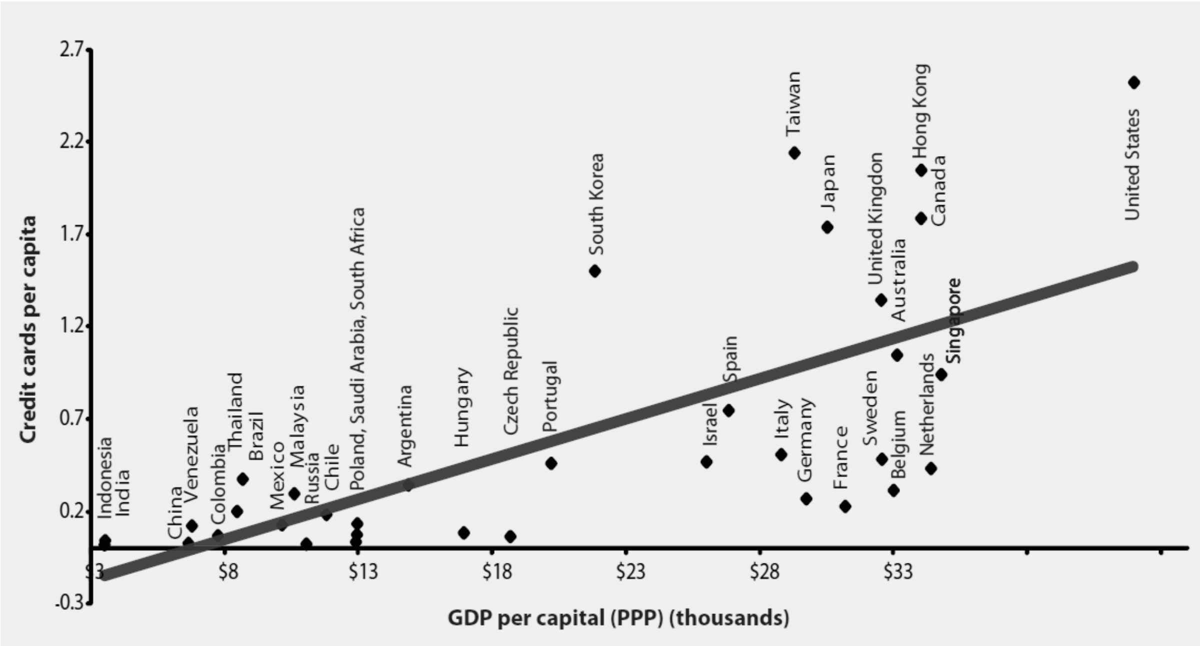


Figure 5. Electronic Payments Sector in the World

The figure illustrates several key trends:

1. There is a positive and sizable relationship between credit card penetration and economic development, as measured by per capita income. Countries with higher levels of economic penetration also have more credit card usage.

2. Credit card usage in the transitional countries of Eastern Europe and the countries of the former Soviet Union is below what we would expect for countries with similar levels of GDP per capita. But, as indicated earlier, that usage is likely a result of those countries' later adoption of credit cards.

3. There are several large economies with low levels of credit card penetration, including China and India. That lack of use can be explained by their low level of economic development. As those countries develop, they are likely to use credit cards more intensely. (5)

In addition to its role in developing a country's domestic economy, the electronic payments sector is also linked to an expansion of exports. As analyzed earlier, more accessible and convenient payment options facilitate larger consumer purchases. An analysis of credit card penetration data shows a moderate correlation between credit cards per capita and exports per capita, which is higher than the correlation between GDP per capita and exports per capita. Also, a moderate correlation exists between changes in credit card penetration and exports. Although it is likely that both credit card penetration and exports between 1998 and 2005 were affected by economic growth in GDP, that analysis suggests that the development of electronic payments markets has important implications for further economic and trade opportunities for U.S. businesses.

4. Cards and Their Role in Retail Banking

4.1. Where do cards fit?

Cards fit to retail banking where individual customers utilize multiple channels, including local branches, of large commercial banks and let the customer do saving, spending and borrowing at the same time.

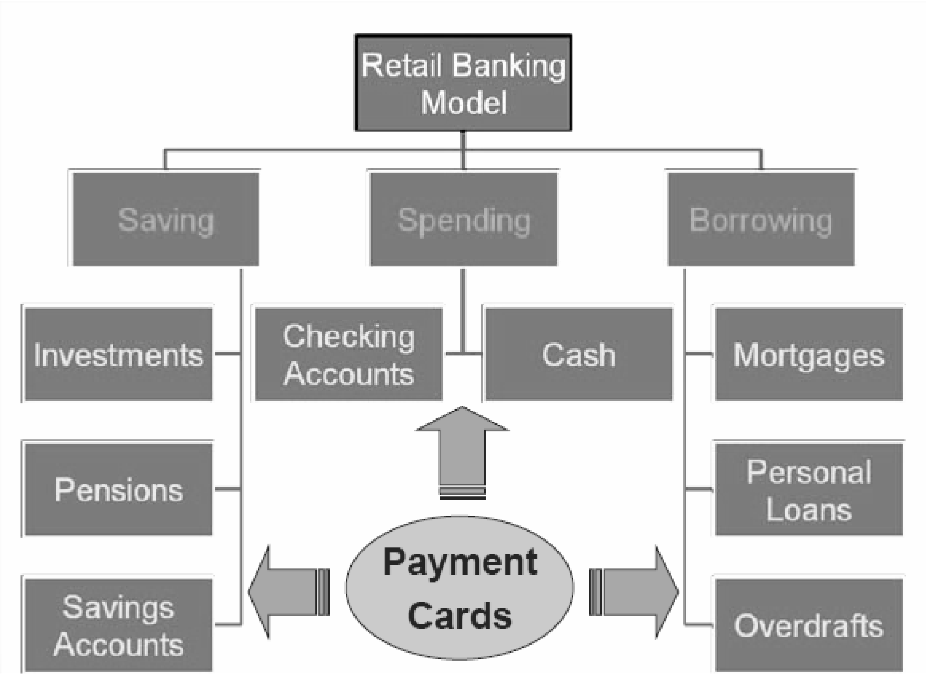


Figure 6. Payment Cards in Retail Banking Model

At this type of banking, cards can therefore perform a number of strategic roles like a "profit centre" in its own right, a source of information for improving customer understanding, a low cost source of new customers for the retail bank, a transaction enabler for existing customers or a partner relationship management tool.

4.2. Modern Role of Card Based Payments

If we divide the types of saving, insuring and borrowing terms depending on their lifecycles, credit cards would just perfectly fit in the medium level in every terms. But the aim of the bank should be turning it into the long area to keep the consumer as its customer for a longer time. Creating loyalty is the most important thing in a bank's perspective. This can also be managed by having salary accounts in their portfolio.

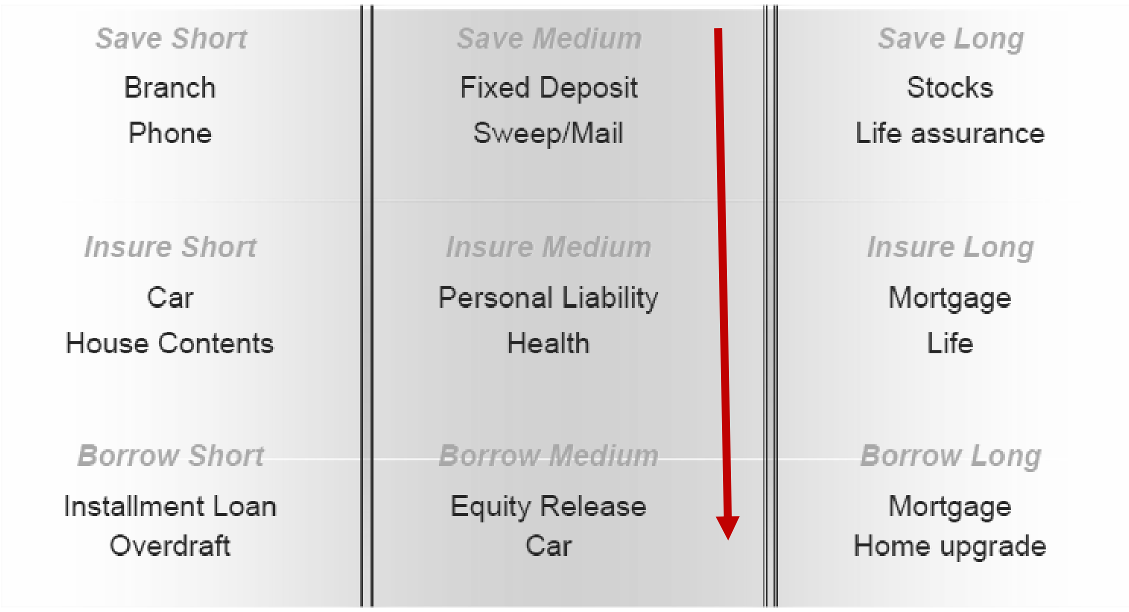


Figure 7. Purchases that people make with their credit cards

Governments are also flocking to payment cards as a way to distribute benefits. The cards give their constituents much easier access to those funds, and it saves taxpayers money.

The U.S. Treasury disburses Social Security benefits on prepaid cards throughout the country, allowing recipients immediate access to their funds. The Treasury reports cost savings of 90 cents every time funds are distributed on a card instead of a check. More importantly, the Treasury also reports a 95 percent satisfaction rate among recipients. As you can figure out, 95 percent is a huge level agreement for government to agree on anything. On Earth Day this year, the Treasury announced a "green" initiative to reduce paper checks. It will expand its electronic distribution of benefits beyond Social Security to include all Veterans Affairs, Railroad Retirement, and Office of Personnel Management benefit recipients who currently receive paper checks. (3)

Businesses and employers, too, are moving payroll programs, purchasing programs, and incentive programs to cards, for all the same reasons. Their employees have much more convenient access to funds. The cards reduce costs, and they create more efficient recordkeeping. MasterCard worked with Walmart and First Data to help Walmart implement a paperless payroll program for sales associates in the U.S., with the goal of saving money and reducing their impact on the environment.

Merchants are guaranteed payment quickly when customers pay with cards, eliminating the concern of bounced checks. Merchants no longer have to extend credit and can cut down on the costs and risks that come with holding and processing cash and checks. They are able to sell through the Internet and, perhaps most importantly, their sales increase because customers are able to purchase what they want and need, without being limited to the amount of cash they happen to have in their wallets at the time.

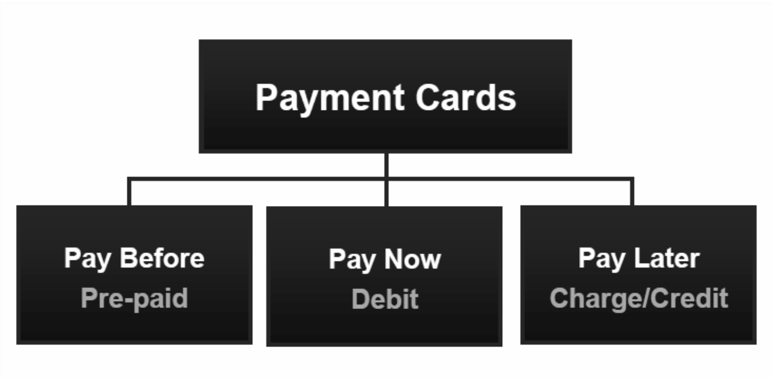
Some merchants argue that the cost of card acceptance is too high. When you take a closer look, however, it can be easily realized that electronic payments are a great deal for merchants. Accepting electronic payments is a choice to make; but while giving this decision the value that will be delivered afterwards should also be considered.

The benefit of guaranteed payment alone should be considered as there are many pieces that contribute to the overall value of payments. In the U.S. during 2008, the average effective interchange rate for consumer credit cards was 1.85 percent, while credit losses on transaction volumes were 4.08 percent. In other words, interchange is often falling well short of covering the cost of charge-offs today, which strongly refutes the premise that it is set too high. Merchants are paid in full for these sales, even though the consumer has not paid the issuer, and may never pay. Many merchants encourage payment by credit and debit cards rather than other forms of payment. For example, gas station owners have voluntarily chosen to make card acceptance more convenient than cash acceptance by installing pay-at-the-pump terminals. It is because it is more safe for the gas station instead of keeping cash in the drawer. And this year, US Airways and Air Canada became the latest on a growing list of major airlines to announce they will move to cashless cabins. So that the hostesses won't spend time to deal with coins or change. (3)

As you probably know, the government is increasingly looking at potential ways to regulate debit interchange fees. The impact would reduce competition and place a higher burden for the cost of debit cards onto consumers. Government intervention in a system that is carefully balanced by the market runs the dangerous risk of throwing that system out of balance. It is important for all of us, merchants and financial institutions, to continue our work together to add value to this system that is so enjoyed throughout the world. And it is crucial that we do so in a way that does not harm consumers.

5. Organizations and Structure

5.1. Positioning the Cards Business



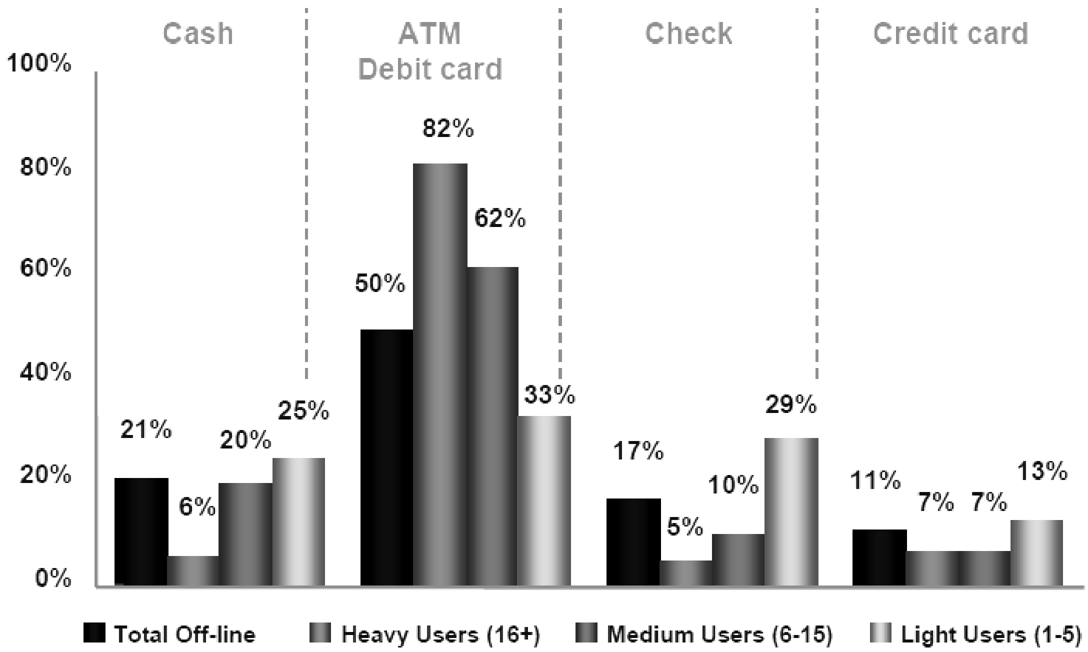


Figure 8. For a $10 purchase where do cards fit?

5.1.1. Consumer vs. Commercial cards

The main difference between two parties of card types is their expenditures. The expenditure of consumer cards is personal, while the commercial's is professional. Consumers use consumer cards and only companies are using commercial cards. The key benefit of both card types is convenient payment. The consumer cards can only provide debit and credits; while commercial cards also can do the expense management. They are both liable and they are accepted ubiquitously. On the other hand commercial cards can be used in B2B relationships. The buyer decision depends on the personal choice in consumer cards and differently, commercial cards are decided by the company's policy. The data needed for consumer cards is only for personal use; but the commercial card lets the company to keep track of its cash management. (6)

Both consumers and companies should be aware of the below equation to pick the most reliable and beneficial card for themselves.

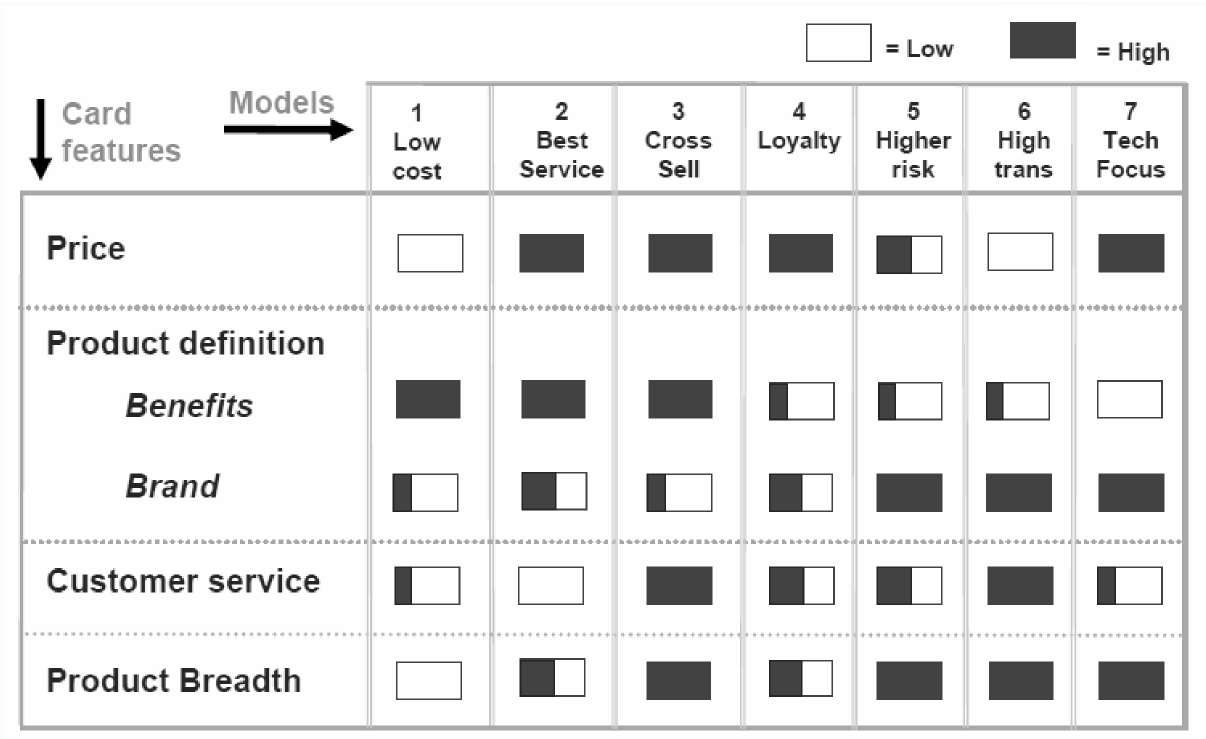


Figure 9. Models for different card features

5.1.2. Product definitions

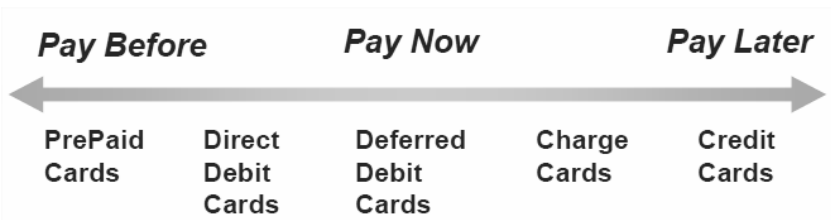


Figure 10. Types of payment cards

Each product type requires the cardholder to pay the card issuer at a different time and also each of them has a different level of functionality, flexibility, control and convenience. The variables in type and definition give issuers the opportunity to meet very different cardholder needs.

Debit card consumer attractions is based on the idea that consumer has in mind is that "***It's my money!***" Debit cards makes its consumers to feel more convenient and safe than cash do. Plus, it is immediate and modern way to shop. Part of the transaction, checking, current or salary account relationship builds on core customer relationships and increases loyalty. Debit cards also allows members to issue the right card to the right customer, it drives substantial cost savings on current accounts, creates valuable revenue streams, gives unrivalled POS usage and gathers data that enables more efficient cross-selling.

Credit, from the consumer's point of view, it is a way that creates the consumer an easier way to travel, raise children, grow up their children, plan retirement, buy different house, buy house, get married, afford college, get his/her first car and have hobbies.

Credit cards, from the bank's point of view, are potential profits and they are interested consumer based with credit appetite. They are a pressure on other revenues and a kind of defense mechanism in the bank. They have the ability to manage risk and reduce administrative costs of loans and overdrafts. Credit cards increase share of customer borrowing and they also create bank to reach new customer base to meet competitive threat.

Credit card, from the consumer's point of view, is based on the idea that consumer has in mind is that "***It's the bank's money!***" If the customer wants it now, he/she can have it now! On the other hand credit cards creates flexibility of payment while spending power. It can also be announced and perceived as a way to get prestige and global reach. Credit cards also make its consumers feel safe as if it is an insurance that can let them buy anything any time they need.

5.2. Using Opportunities Effectively

A lower cost of doing business depends on having lower barriers to entry for businesses, having lower physical and geographic boundaries for businesses and also having a higher exchange of goods and services, which drives revenue. The impact is incremental commerce. And it is commerce, between consumers, businesses, and governments, that will restore strength to financial systems.

However, the future will not look exactly like the past. And while payment systems industry has generally enjoyed strong performance, it creates powerful new opportunities. The right thing for the card issuers to do is to be aware of this opportunities. Understanding the opportunities depends on understanding the mindset of today's consumer. It has been said that those who ignore history are doomed to repeat it. Research from Yankelovich tells us that consumers have learned lessons and embraced a change in attitude toward spending that is shifting the perception and use of payment cards. Consumers will continue to use payment cards more because the cards make their lives easier. But there is a renewed appreciation for electronic payments as financial management and budgeting tools, rather than as a way to make purchases beyond their means. (3)

Now it's time to ask if there is anything better situated to help facilitate, budget, and track responsible spending than electronic payments. Collectively the right thing to do is to recapture payment cards' legacy as part of the financial solution so that they are no longer a scapegoat for consumer debt. Consumers seek clearer insight into what they spend, and they want better control over how they spend. Cash cannot respond, but payment systems can! Opportunities for payment systems industry are everywhere. Every time someone pays for a cup of coffee with cash, or sends in a check to pay their telephone bill through the mail, that is a lost opportunity. The key to capturing this opportunity is to increase the value of paying electronically to the point where paying with, or accepting, cash or check no longer makes any sense.

A BAI/Hitachi Consulting study found that paper-based payments—cash, checks, and money orders—were 37 percent of all consumer payments in 2008, a decline of 20 percent since 2001. But tremendous untapped opportunity still remains, and thanks to the new consumer mindset, the timing couldn't be better to capture it. From this research we can consider how far payment systems have come already. (7)

The payment systems market is at a rare inflection point in the history of electronic payments. The speed, convenience, and security of paying electronically to buy things has driven the secular shift that card issuers and acquirers have all been a part of. But looking forward, cards will not be thought of simply as a way to make purchases. They will be relied on as part of the fabric of financial management. Cards that simply debit a DDA account, or charge a line of credit, will soon become the equivalent of the Oldsmobile—carrying a tremendous legacy but eventually squeezed out of the market by newer models that offer better utility. The consumers of today and tomorrow will stop asking themselves which payment method is best to make purchases, and instead will ask which payment method is best to protect their net worth. The answer will be the key that differentiates one provider's offerings from another's—ultimately deciding who grows and who loses market share.

After a significant research to analyze financial institutions, it is obvious that their focus has been to manage double digit write-offs and improve underwriting standards. Many are focused on back-to-basics banking. They have introduced stricter requirements for new card applicants, as well as more transparent disclosures. They are looking for ways to reward responsible behavior by their customers, and looking for products to help manage risk. They have also spent significant resources to comply with the Card Act, and continue to do so even a year after it was enacted. So it may seem like a challenging time to talk about investments in new products. This vision is a fake that should be ignored.

Issuers are looking for ways to replace lost revenue. They are evaluating opportunities to price for services that might be free today, or are taken for granted. And they are concerned with losing their profitable customers through attrition. Product innovation provides the opportunity to price for services that customers are looking for, and that don't exist today. It can create entirely new revenue streams. But that's just the beginning. Institutions are also holistically evaluating their customer relationships, seeking to maximize participation in their services on a broader scale so that customers don't simply have a credit card relationship, or a DDA account, but rather a larger financial relationship across a range of offerings. Not only does the customer relationship become much more profitable, but the likelihood of attrition is greatly reduced. A financial institution that puts more power to understand and manage spending into the hands of its customers can capture more of those customers' banking business. By demonstrating unique value, the financial institution has given customers a reason to process all of their spending using only its products and services.

And finally, when customers have tools at their disposal to encourage more responsible spending, it can have a positive impact on credit write-offs. Responsible purchasers pay off their responsible purchases.

6. Acquiring

6.1. The Role of Acquirer

The dictionary meaning of an acquiring bank (or acquirer) is the bank or financial institution that accepts credit and or debit card payments for products or services on behalf of a merchant. The term acquirer indicates that the bank accepts or acquires transactions performed using a credit card issued by all banks within the card association scheme. The best known (credit) card Association schemes are Visa, MasterCard, American Express, Diners Club, JCB and China UnionPay. (8)

First we should have a closer look to the best known card acquirers that mentioned above.

6.1.1. VISA

Visa is a global payments technology company that connects consumers, businesses, banks and governments in more than 200 countries and territories, enabling them to use digital currency instead of cash and checks. Visa has built one of the world's most advanced processing networks. It's capable of handling more than 20,000 transactions per second, with reliability, convenience and security, including fraud protection for consumers and guaranteed payment for merchants.

Visa does not issue cards, extend credit or set rates and fees for consumers. Visa's innovations, however, enable its bank customers to offer consumers more choices: Pay now with debit, ahead of time with prepaid or later with credit products. In fact, approximately 70 percent of Visa payment transactions in the United States are debit and prepaid, not credit. Governments here and abroad have switched to digital currency instead of checks for benefits payments and purchasing in order to increase efficiency and lower costs, saving taxpayers money. From the world's major cities to remote areas without banks, people are increasingly relying on digital currency along with mobile technology to use their money any time, make purchases online, transfer funds across borders and access basic financial services. All of which makes their lives easier and grows economies. (9)

Their business primarily consists of the following:

- They provide transaction-based services to their financial institution and merchant customers through VisaNet, their secure, centralized and global processing platform. In addition, they provide value-added services, including risk management, fraud protection, loyalty, dispute management and debit issuer processing.
- They offer a diverse range of branded payment products, which their financial institution clients use to offer credit, debit, prepaid and cash-access programs to their customers (individuals, businesses and government entities).
- They own and manage the Visa brand, which provides the assurance of acceptance at millions of merchant outlets and 1.7 million ATMs in more than 200 countries and territories worldwide.1
- They continually look at how they can use their network breadth and payment expertise to extend the value of electronic payments so that more people can use Visa in more ways and more places around the world. For example, with the Visa mobile platform, they are helping accelerate the convergence of mobile technology and electronic payments. (10)

Visa Inc. is the world's largest retail electronic payments network, with US$5.0 trillion transacted on their payment products over their quarters ended September 30, 2010. Here is a small statistics for Visa:

Financial Institution customers: 15700
Visa Cards: 1,8 billion
Total volume: 5,0 trillion US$
Payments volume: 3,1 trillion US$
ATMs: 1,7 million
Total transactions: 68 billion

Visa is committed to innovation and recent innovations pioneered by Visa are mobile payments and services, money transfer, ecommerce and chip technology. They have a network that they call VisaNet which is an information processing network, facilitating the transfer of value and information among their financial institution clients, consumers, merchants, businesses and governments. VisaNet's centralized, integrated architecture enables Visa to provide their clients with secure, reliable and scalable processing (authorization, clearing and settlement) and value-added services. (11)

6.1.2. MASTERCARD

Mastercard is a franchisor that markets a strong portfolio of brands and products worldwide, including MasterCard, Maestro®, Cirrus® and MasterCard® *PayPass*™. MasterCard's streamlined and intelligent approach to processing enables efficient commerce on a global scale. It is based on an agile network, one of the largest VPNs in the world, which offers unparalleled speed, integration, and reliability. MasterCard helps banks and merchants grow by enabling rapid adoption of new ways to pay and offering customized solutions that deliver value through technology.

They also provide industry-leading insight and solutions that advance commerce on a global scale. Using sophisticated processing and data-mining capabilities. Through MasterCard Advisors, the largest global professional services firm focused exclusively on the payments industry, the company provides strategic and operational solutions covering the payments process from end to end. MasterCard is reshaping the way today's businesses and public sector agencies conduct their transactions. They combine flexible, innovative payment programs with acceptance at more than 25 million locations worldwide. Their offerings and services are reshaping the way today's businesses and public sector agencies conduct their transactions, increasing efficiency and enhancing operations across the board. (12)

MasterCard Payment Gateway™ is a flexible enterprise-wide payment processing platform for routing commercial payments between buyers, suppliers and their financial institutions. This innovative offering gives companies a streamlined total payables solution designed to increase productivity and profits with enhanced security, while simplifying the entire payments process.

MasterCard Smart Data OnLine™ is a global, web-based reporting application that helps companies seamlessly organize, consolidate, analyze, and manage financial data from cards, cash transactions, and other MasterCard programs. Designed to meet companies' specific reporting needs, Smart Data OnLine allows users to view details like hotel chain spending, flight legs, and other information to get a clear picture of spending patterns, volume, and frequency and identify cost-saving opportunities. For additional details, please visit Smart Data.

MasterCard inControl™ is an innovative platform that offers an array of advanced authorization, transaction routing and alert controls designed to enable commercial as well as consumer issuers to more quickly and cost-efficiently introduce new and enhanced products. Integrating Orbiscom's patented payment technologies with MasterCard's global processing platform, MasterCard in Control allows issuers to both leverage off-the-shelf solutions and create customized offerings to meet the needs of their commercial and consumer cardholders.

As a Processor, MasterCard has wired the world for commerce through the MasterCard Worldwide Network-connecting financial institutions, merchants and cardholders with payment processing services that ensure their payment experience is consistent, reliable, secure and valuable. (13)

6.1.3. AMERICAN EXPRESS

American Express Company, sometimes known as "AmEx" or "Amex", is a diversified global financial services company headquartered in New York City. Founded in 1850, it is one of the 30 components of the Dow Jones Industrial Average. The company is best known for its credit card, charge card, and traveler's cheque businesses. Amex cards account for approximately 24% of the total dollar volume of credit card transactions in the US, the highest of any card issuer. (14)

BusinessWeek and Interbrand ranked American Express as the 22nd most valuable brand in the world, estimating the brand to be worth US$14.97 billion. Fortune listed Amex as one of the top 30 Most Admired Companies in the World. American Express is the only company with a strong, global presence across the entire payments chain. (15)

They are the world's largest card issuer, the premium network for high-spending card members, a processor of millions of transactions daily, and a partner that provides business-building services to a worldwide merchant base. Having this horizontal scale across payments gives them diverse opportunities to grow their business and drive innovation in the marketplace. It's also a gateway to a broader array of services that further differentiate American Express.

Their direct relationships with many millions of consumers, businesses and merchants worldwide -- combined with their leading-edge marketing, information management and rewards capabilities -- enable them to offer an array of valuable services that enrich lives, build business success, encourage financial responsibility, and create communities of people with common interests. This is what makes American Express a unique, and uniquely powerful, services company.

How American Express differs from the other big acquirers is that American Express typically plays the role of all three parties above, keeping the entire merchant discount. In recent years Amex has begun authorizing other banks to either acquire or issue on Amex's behalf, primarily in countries where Amex would otherwise have little or no presence. Amex also has historically charged a higher merchant discount than Visa or MasterCard. The size of the premium can differ significantly: in the US, Amex charges 66 basis points more (2.56% vs 1.9%) than rivals Visa and MasterCard, while in Australia Amex charges more than twice as much as Visa or MasterCard due to Australian interchange regulations. (16)

Amex uses this higher discount revenue to invest in rewards programs which provide a higher payout than competing programs. These more substantial rewards programs, in addition to a premium brand and a reputation for superior customer service, allows Amex to attract a disproportionate share of affluent consumers. Amex then uses its strength with affluent consumers to justify charging a higher merchant discount rate, implying that if a merchant does not accept Amex cards he will lose affluent customers. This business model creates a self-reinforcing loop.

Due to what Amex calls its "spend-centric strategy", card spending and fees are responsible for 70% of Amex's card profit, vs. 10-40% for other issuers. Amex also tends to make more money from annual fees than other issuers do. One tension in Amex's business model is acceptance, a volume vs. margin trade-off. Because Amex charges a higher merchant discount fee, it is not as widely accepted as Visa or MasterCard. Amex's business model depends on having a higher discount fee, however, making it difficult to lower it. The company has to strike a balance, keeping its fee low enough to attract sufficient merchants, but high enough to fund rich rewards and drive its business model. In countries where Amex charges a small premium, like the US, it has near-parity acceptance, but its card rewards are not significantly more substantial than those of its competitors. In countries where it charges a large premium, its cards often have a much higher rewards payout than competing cards.

Many banks fund their lending, both card and otherwise, through deposits. Without deposits, however, Amex has historically funded its lending through outstanding travelers cheques (which function like non-interest-bearing deposits), the wholesale funding markets, and securitization. As travelers cheques have declined in popularity since the rise of ATMs, Amex has begun seeking traditional deposits through online high-yield savings accounts. The freeze in wholesale funding markets and securitization during the financial crisis of 2007–2010 caused Amex to accelerate these deposit-raising efforts, and also caused them to decrease growth in lending. Due to its focthem on affluent customers, Amex has historically had lower levels of credit losses than other issuers. The gap has almost disappeared for Q3'08 to Q1'09, however, as card issuers of all types experienced heightened credit losses. (17)

6.1.4. DISCOVER DINER’S CLUB

Diners Club International is owned by Discover Financial Services (NYSE:DFS), a leading credit card issuer and electronic payment services company. Established in 1950, Diners Club International became the first multi-purpose charge card in the world, launching a financial revolution in how consumers and companies pay for products and services. Today, Diners Club is a globally recognized brand serving the payment needs of select and upscale consumers as well as providing corporations and small business owners with a complete array of expense management solutions. With acceptance in more than 185 countries and territories, millions of merchants, and access to over 675,000 cash access locations and ATMs, Diners Club is uniquely qualified to serve its card members all over the world.

Diners Club created what would later be dubbed the "travel and entertainment" (T&E) card market, which focused on frequent travelers with a substantial income to pay for other high-value charges. As these customers had no need to pay for purchases over time, these cards required that the entire balance of the bill was paid upon receipt. This type of account is known today as a charge card. Diners Club's monopoly was short-lived, however, as American Express and Carte Blanche (which later partnered with Diners Club) began to compete with Diners Club in the T&E card market. American Express now dominates the "member card" arena, providing thousands of customers with cards that require the monthly balance be paid in full.

Diners Club also faced competition from banks that issued revolving credit cards through BankAmericard (later renamed VISA), and Interbank MasterCharge (later renamed MasterCard) towards the end of the 1960s. Diners Club began early on to allow franchises of the Diners Club name, at first in Europe and later throughout the world, for many years eclipsing the BankAmericard or Interbank MasterCharge networks abroad. Amoco also issued for a time its own co-branded Diners Club cards called American Torch Club, as well as Sun Oil Company with its version called Sun Diner Club Card.

Diners Club International, the franchisor that holds rights to the Diners Club trademark, was acquired in 1981 by Citibank, a unit of Citigroup, as well as many of the largest franchises worldwide, although a majority of its franchises abroad remain independently owned.

Their cards are accepted at millions of merchants throughout 185 countries for everyday usage. Diners Club Card members also enjoy the convenience of over 675,000 ATMs and cash access locations. Furthermore, they provide valued benefits beyond everyday payment convenience, such as admittance to more than 130 airport lounges worldwide.

Service offerings are tailored to the unique needs of their local markets; but all share the standard of excellence you would expect from Diners Club. They offer specialized lifestyle programs built around popular interests such as golf, wine, travel, celebrity events, other leisure activities and everyday pleasures. their commitment is demonstrated in the innovation of every Diners Club program that offers service, safety and peace of mind. Examples include Privileges Plus, Club Cash and Club Concierge. They strive to provide services and support that go beyond transactions. (18)

6.1.5. JAPAN CREDIT BUREAU

JCB, the only international credit card brand based in Asia. JCB has been pursuing independent expansion since 1981 to make the JCB brand an international brand accepted across the globe. JCB is firmly committed to independence in its quest to make JCB the brand known worldwide for high-quality, products and services meeting the diverse needs of all our customers.

Now the JCB brand is accepted in 190 countries and territories, more than 20 subsidiaries and representative offices overseas, and alliances with more than 350 business partners worldwide. JCB's remarkable success is based on a superior reputation for providing high-quality service as a travel and entertainment card. Our independent international expansion, begun with a great ambition, has established JCB's firm position as a major global brand.

JCB has always been leading the competition as a pioneer in the Japanese credit card industry. Currently JCB has 64.21 million card members and 16.41 million merchants representing a wide range of businesses. JCB annual transaction volume stand at 8,628.2 billion Japanese yen. Needless to say, this superlative performance is due solely to the strong support for the JCB brand from cardmembers, merchants and business partners. In addition to providing an alternative to cash, JCB is commited to satisfying variothem customer demand with high-quality added-value products and services.

Japan Credit Bureau, usually abbreviated as **JCB**, is a credit card company based in Tokyo, Japan. Its English name is **JCB Co., Ltd.** (株式会社ジェーシービー *Kabushiki gaisha jē shī bī*). It was founded in 1961, JCB established dominance over the Japanese credit card market when it purchased Osaka Credit Bureau in 1968, and its cards are now issued in 20 different countries. Fifty-nine million JCB card members worldwide use their cards to purchase over US$62.7 billion of goods and services annually in 190 countries worldwide. JCB also operates a network of membership lounges targeting Japanese, Chinese, and Korean travelers in Europe, Asia, and North America.

Since 1981, JCB has been aggressively expanding its business overseas. Currently JCB cards are issued in 20 countries, in most of which JCB is affiliated with financial institutions to license them to issue JCB-branded cards. All international operations are conducted through its 100% subsidiary, JCB International Credit Card Co., Ltd. In the United States, JCB is not as well known or as widely accepted as other credit cards such as Visa, MasterCard, Discover, or American Express. Instead it is primarily accepted by tourism-related businesses such as airlines, car rental companies, Apple retail stores, and hotels. JCB is also increasingly accepted at businesses such as the Mitsuwa Marketplace, department stores, gas stations, and Japanese specialty retailers. JCB accounts in the United States are issued by JCBUSA, but are currently only available to residents of California, Connecticut, Illinois, Nevada, New York, New Jersey, Oregon, Washington, and Hawaii.

Additionally, on August 23, 2006, JCB announced an alliance with the Discover Network. The two companies signed a long-term agreement that led to acceptance of Discover Network brand cards at JCB point-of-sale terminals in Japan and of JCB cards on the Discover network in the U.S. This partnership is operational as of 2010. (19)

6.2. What's the Difference?

Credit card companies are like watches. As long as they work, you don't worry much how. That said, their inner mechanisms may differ markedly. You can group the four most familiar credit card companies in pairs with Visa and MasterCard using one system of transaction and American Express and Discover another. There are other differences between them, too. Below you'll find a summary of how each pair of cards operates, their histories and other distinctive points:

Visa and MasterCard do not issue cards. Rather, they function as intermediary organizations creating networks between financial companies, including major banks and credit unions that issue cards bearing the Visa or MasterCard name, and merchants providing goods and services. The issuer, a term describing the banks, and merchants pay fees to participate in the Visa or MasterCard networks. Visa and MasterCard set and maintain rules governing use of their branded cards.

When a cardholder requests a purchase via either Visa or MasterCard, it triggers a multistep processes. The merchant submits the charge to his or her bank, which requests authorization from the issuer of the card. If there are enough funds available in the cardholder's account, the issuer, and subsequently the merchant's bank, can authorize the transaction. At the end of a business day, a merchant sends a batch of sales receipts to its bank, which distributes them to the appropriate issuing organizations. For example, the merchant's bank will send separate batches to Chase, Bank of America or Barclays.

Each issuer subtracts a fee from the amount charged. The issuer shares this fee with Visa or MasterCard. The card network sends the remaining amount to the merchant's bank, which subtracts its own fee before advancing a final total to the merchant.

Visa and MasterCard birthed the first general service credit cards in 1966. First, Bank of America created a division franchising a card that later became Visa. At about the same time, a group of banks created a member-owned association, the InterBank Card Association, which is now MasterCard Worldwide. Both organizations developed an open-loop system that enabled banks to cooperate seamlessly on fund transfers. For much of the groups' histories, financial institutions that wished to issue a card had to select one of the two. But rules changes now allow them issue Visa and MasterCard in both networks. The end result has been an extensive worldwide presence. Both cards may be used at more than 25 million locations in 170 countries.

Whereas the Visa and MasterCard systems engage many organizations, American Express and Discover are akin to one-stop shops. That is, they issue their own cards, authorize purchases and settle both with consumers and merchants.

American Express's roots date to the mid-19th century when the company was a competitor to the U.S. Postal Service. It invented travelers checks in 1891 but didn't enter the credit card business until the late 1950s when it introduced a charge card for travel and entertainment expenses. AmEx was first to market with a plastic card, although it didn't allow revolving payments until 1987; prior to then, it required customers to pay their balance in full at the end of each month. American Express generally charges merchants a higher fee. That may account for its lesser reach than Visa and MasterCard. American Express says its cards are accepted in more than 130 countries.

Discover was introduced in 1985 by retailing giant Sears in its expansion into the financial services industry. It was sold to Dean Witter, which was later acquired by Morgan Stanley. In 2007, Discover became its own company, Discover Financial Services. Last year, the company purchased Diner's Club. It is accepted at 4 million locations, which is fewer than Visa, MasterCard or American Express. (20)

6.3. Typical Credit Card Business Model

When a consumer makes a purchase using a credit or charge card, a small portion of the price is paid as a fee (known as the merchant discount), with the merchant keeping the remainder. There are typically three parties who split this fee amongst themselves:

1. **Acquiring bank:** The bank which processes credit card transactions for a merchant, including crediting the merchant's account for the net value charged to a credit card.

2. **Issuing bank:** The bank which issues the consumer's credit card. This is the bank a consumer is responsible for repaying after making a credit card purchase. The issuer's share of the merchant discount is known as the interchange fee.

3. **Network:** The link between acquiring banks and issuing banks. These banks have relationships with a network, rather than with each other, for fulfilling card purchases.

This allows a card issued by a community bank in Peru to be used at a shop in Sri Lanka, for instance, without requiring the banks to have a direct relationship with each other. The two largest networks in the world are Visa and MasterCard.

The average merchant discount in the United States is 1.9%. Of this, approximately 0.1% goes to the acquirer, 1.7% to the issuer, and 0.09% to the network. Most Prime and Superprime card issuers use the majority of their interchange revenue to fund loyalty programs like frequent flyer points and cash back, and hence their profit from card spending is small relative to the interest they earn from card lending. (18)

6.3.1. The Acquirer Value Chain

The acquirer value chain composes of three main activities which are marketing and sales; operations; finance and accounting. As stated before, the acquirer's network gets stronger depending on the number of merchants in that network and also with the quality supplied by the network to the merchants. The schema blow states the overall process and the service provided by an acquirer.

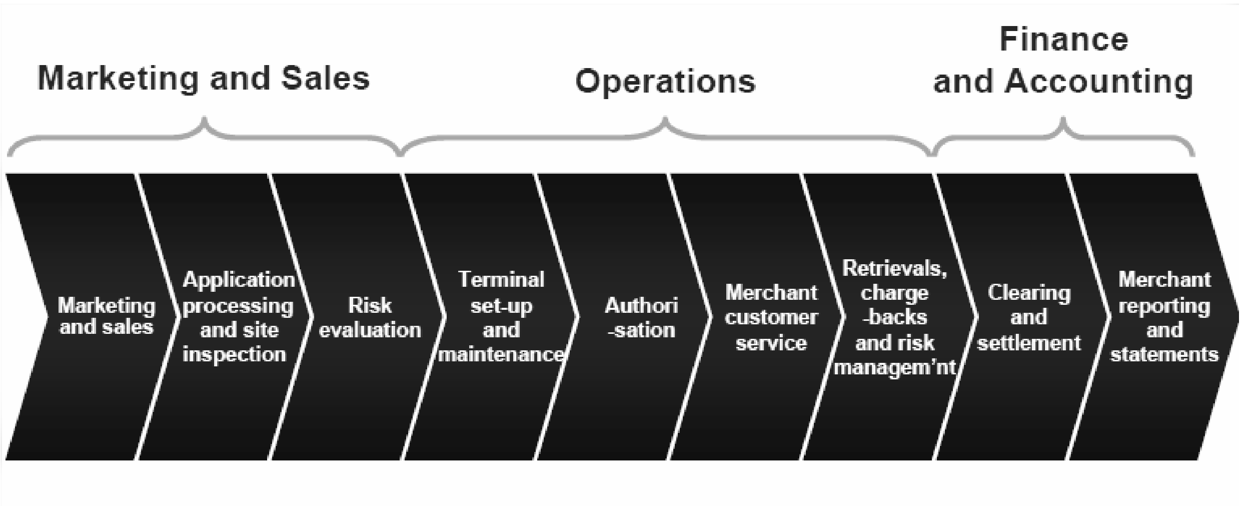


Figure 11. The acquirer value chain

6.3.2. Merchant Sales, Set-Up, Service & Support

Acquiring is defined by scale which composes of number and mix of merchant customers or sectors; technology that is flexible, fast, absolutely reliable; data processed, managed and analyzed and also execution excellence that covers product specification or delivery, service, relationships.

The acquirer's strategy should be over issuer influence and ATM vs. POS. The target should be defined by opportunity and nature of product. The aim of most acquirer is to develop competency and edge to match targets. The sales channels are usually clarify the role of sales by branches or corporate banking. The sales method can be defined pro-active and reactive while the training can be multi level or multi channel. Balance statement, direct e-mail and websites can be merchant promotions and the merchant feedback can be held by market research, mystery shopper and sales force feedback.

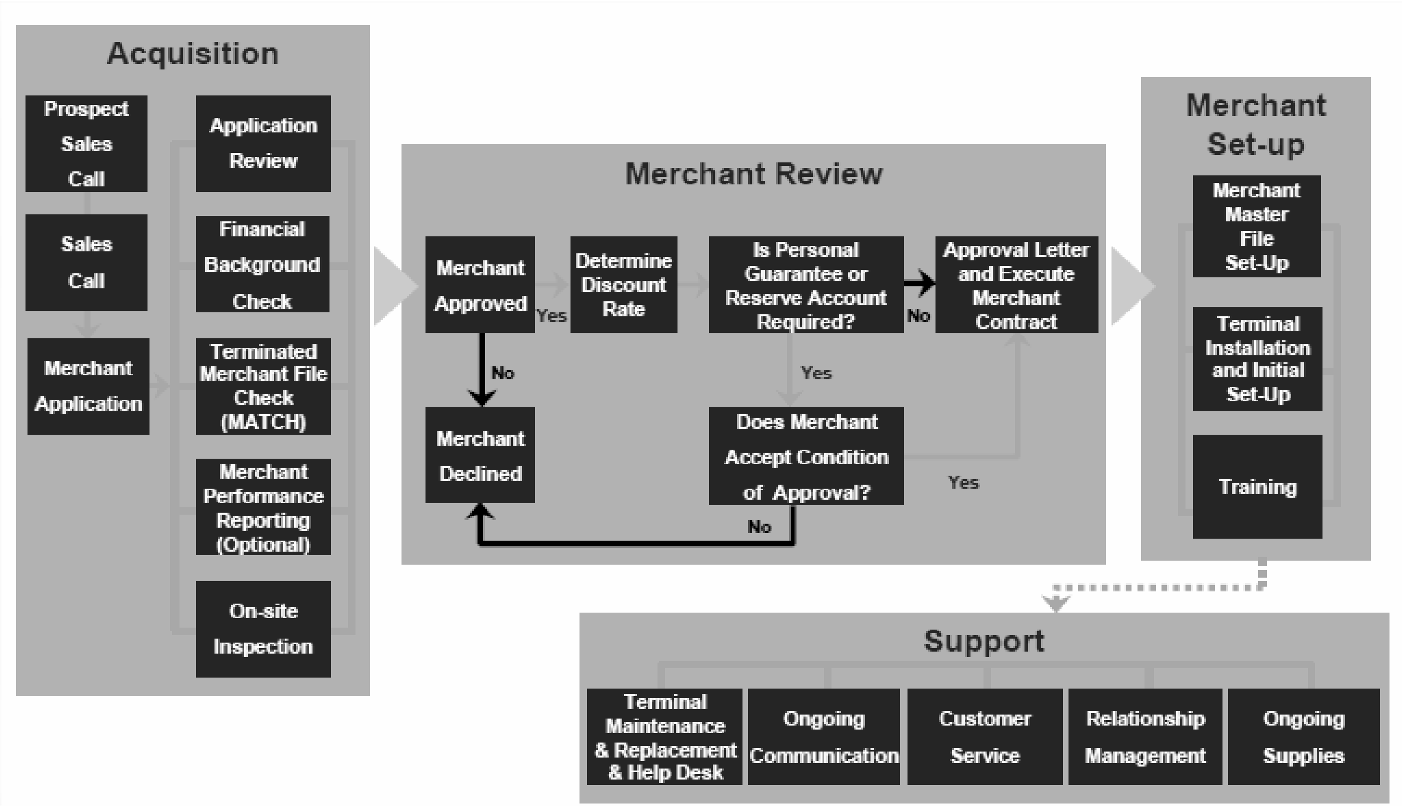


Figure 12. Merchant Sales, Set-up, Service & Support

The business drivers of acquirers are cash, other acquirers, domestic debit schemes, other non-bank payment cards and cheques. Here are some reasons why will merchants want to be a part of acquiring systems.

- New customers
- New business
- Higher transaction amounts
- Reduced business cost
- Faster payment cycle
- Security
- Staff safety
- Payment guarantee

- Management information
- Access to credit
- Incremental sales
- Faster throughput
- Automation
- Telephone orders
- International business

6.4. Acquiring Realities

- Merchants want better products and service
- Merchants always want lower prices
- Margins are tight, scale is critical
- Compliance is never ending (i.e. Scheme Rules)
- Keeping up to date is expensive
- Technology investment is significant
- Control cannot be wholly central
- You need the right people and process
- It's tougher than Issuing!

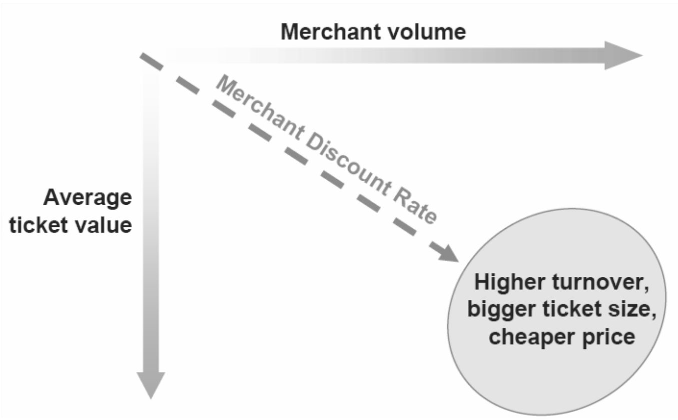


Figure 13. Typical Acquiring Pricing

6.5. E-commerce and Risk

Cards were never designed for the internet, but they are being adapted to fit the space. The acquiring bank accepts the risk that the merchant will remain solvent over time, and thus has an incentive to take a keen interest in the merchant's products and business practices. Crucial to maintaining an ongoing positive balance is the limiting of reversals of funds. Consumers may trigger the reversal of funds in three ways:

- A card refund is the return of funds to the consumer, voluntarily initiated by the merchant.
- A card reversal is where the merchant cancels a transaction after it has been authorized, but before settlement (as if the transaction has never taken place).
- A card charge back is a dispute between the merchant and the card holder over the validity of the transaction. The card holder requests the return of funds to the consumer through the issuing bank for a number of reasons including: goods not received, goods not as advertised or faulty or when the card holder denies all knowledge of the transaction. (8)

Card associations consider a participating merchant to be a risk if more than 1% of payments received result in a charge back. Visa and MasterCard levy fines against acquiring banks that retain merchants with high chargeback frequency. To defray the cost of any fines received, the acquiring banks are inclined (but not required) to pass such fines on to the merchant. Due to the high amount of risk acquiring banks are subject to, as well as their key position in the payment chain, the security of electronic payments is a great concern for these institutions. For this reason they have been involved in the development of electronic point-of-sale security standards, such as PCI-DSS and the emerging SPVA standards. (22)

7. The Payment Transaction Cycle

7.1. Authorization

Authorization is a verification process that happens at the time of purchase that allows merchants to verify that the customer’s account is valid and that sufficient funds are available to cover the transaction’s cost. The verification takes place using a credit card payment terminal or Point of Sale (POS) system with a communications link to the merchant’s acquiring bank. Data from the card is obtained from a magnetic stripe or chip on the card.

At this step, the funds are "held" and deducted from the customer’s credit limit (or bank balance, in the case of a debit card) but are not yet transferred to the merchant. Upon placing a hold, this amount will become unavailable either until the merchant clears the transaction (also called settlement), or the hold "falls off." In the case of credit cards, holds may last as long as 30 days, depending on the issuing bank. (23)

7.2. Canceling an Authorization Hold

The merchant can cancel an authorization hold if the merchant uses an acquirer that supports a process known as authorization reversal. Different acquirers place different restrictions on the conditions that must be met for the merchant to make an authorization reversal, but it is typical that the reversal must be made very shortly (generally within a minute) after the original authorization. In cases where the merchant cannot perform a reversal, but wishes to cancel the authorization it is typical that the merchant would contact the acquirer by telephone. Alternatively, the cardholder may contact the issuing bank to request cancellation. (24)

7.3. Batching

Authorized transactions are stored in "batches", which are sent to the acquirer. Batches are typically submitted once per day at the end of the business day. If a transaction is not submitted in the batch, the authorization will stay valid for a period determined by the issuer, after which the held amount will be returned back to the cardholder’s available credit. Some transactions may be submitted in the batch without prior authorizations; these are either transactions falling under the merchant’s floor limit or ones where the authorization was unsuccessful but the merchant still attempts to force the transaction through. (23)

7.4. Clearing and Settlement

The acquirer sends the batch transactions through the credit card association, which debits the issuers for payment and credits the acquirer. Essentially, the issuer pays the acquirer for the transaction.

7.5. Funding

Once the acquirer has been paid, the acquirer pays the merchant. The merchant receives the amount totaling the funds in the batch minus the "discount rate," which is the fee the merchant pays the acquirer for processing the transactions.

Below we have depicted Authorization, Batching, Clearing and Settlement and Funding in a process flow diagram.

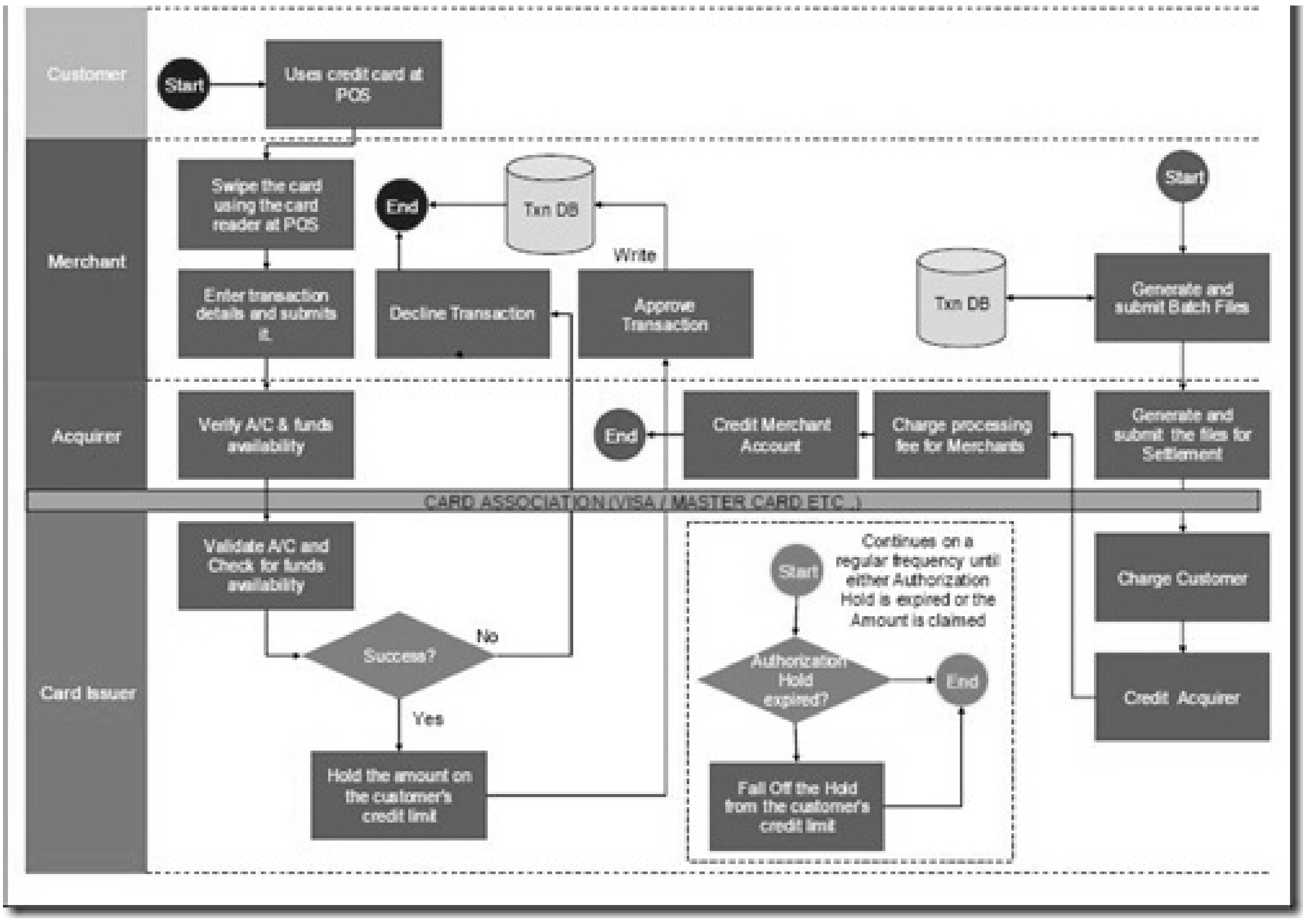


Figure 14. Authorization, Batching, Funding and Settlement Process

7.6. Chargeback

A chargeback is an event in which money in a merchant account is held due to a dispute relating to the transaction. The cardholder typically initiates charge backs. In the event of a chargeback, the issuer returns the transaction to the acquirer for resolution. The acquirer then forwards the chargeback to the merchant, who must either accept the chargeback or contest it.

The card-issuing bank will investigate disputes, and will "charge back" the value of the original transaction directly from the merchant's acquiring bank, which is obligated under card network rules to pay the card issuer. The merchant's acquirer will then attempt to recover an equal value of the chargeback plus a processing fee from the merchant's bank account. Chargebacks, are typically passed on to the merchant as a matter of acquirer policy unless the merchant can prove the transaction was legitimate, or goods and services have been rendered to a customer claiming otherwise. (25)

Sometimes the consumer dispute is untrue, and their refund claim gets denied. In these situations, merchant might have to pay a processing fee.

In cases of credit card fraud, the merchant loses

- The goods or services sold.
- The fees for processing the payment
- Any currency conversion commissions
- The processing fee for chargeback

For obvious reasons, many merchants take steps to avoid chargebacks; such as not accepting suspicious transactions. This may spawn collateral damage, where the merchant additionally loses legitimate sales by incorrectly blocking legitimate transactions.

Below you can find the Process Flow Diagram Files

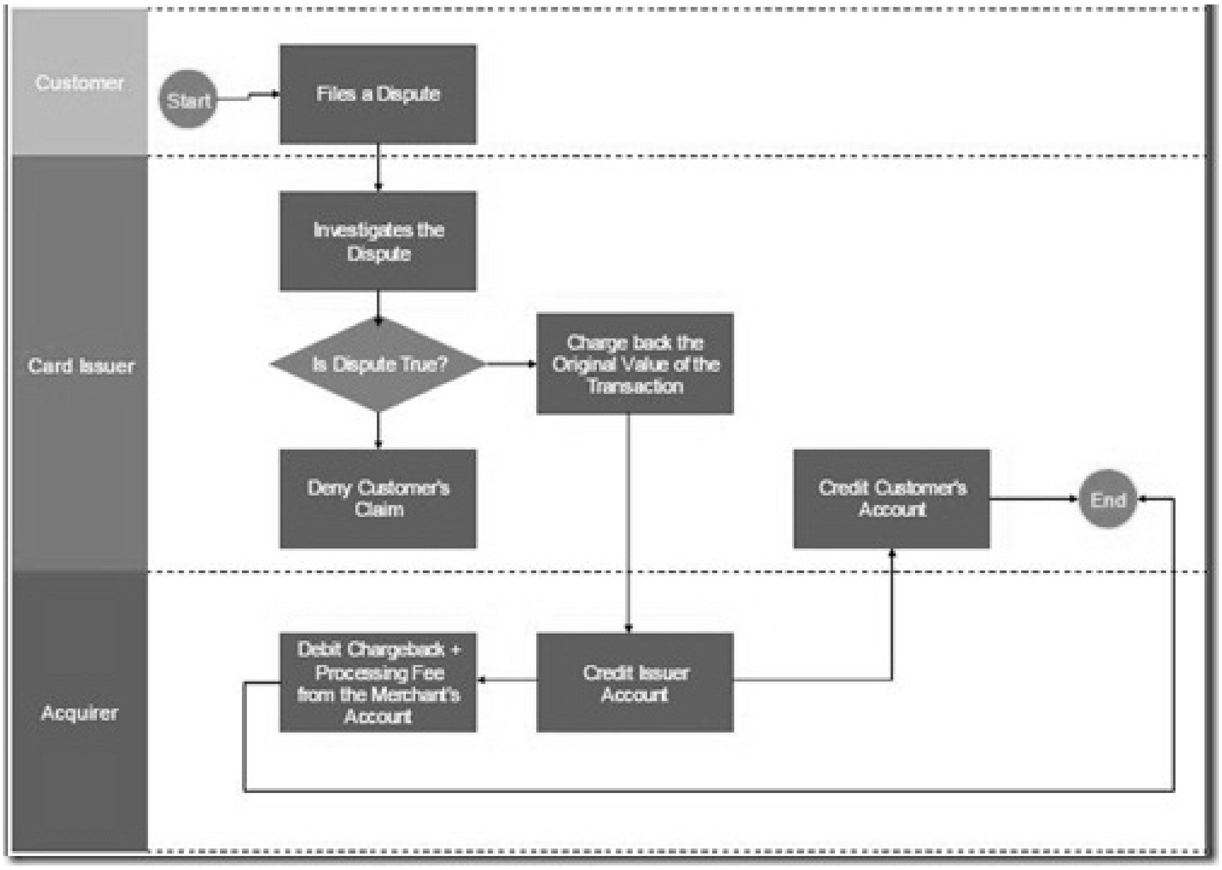


Figure 15. Chargeback and Media Retrieval Process

Here are some of the reasons for a chargeback:

- Card holder requests a copy of the transaction receipt.
- Card holder did not authorize the transaction.
- Non-matching account number.
- Transaction was processed more than once.
- Refund not processed.
- No authorization.
- Customer never received services.
- Card not used within valid expiration date.
- Error in transaction amount.
- Transaction receipt is incorrect, incomplete, or illegible.
- Transaction processed for incorrect amount.
- Product different from what was described or promised.
- Transaction not processed within Visa or MasterCard time frames.

- Signature on receipt different from card.
- Card-holder claims merchant changed transaction amount without permission.
- Merchant knowingly participated in a fraudulent transaction.
- Incorrect Transaction Date.
- Card-holder claims invalid mail or telephone order transaction.
- Card-holder was denied ability to return item.
- Transaction was not cancelled successfully.
- Card-holder not satisfied with quality of product or services.

If the buyer initiating a false chargeback after receiving goods or services; this is considered fraud. (26)

7.7. Steps in a Virtual Credit Card Transaction

1st When the consumer decides to buy something, the merchant's commerce application prompts the consumer for credit card information, usually along with other information such as a shipping address.

2nd The consumer enters payment information either into a form secured by the Secure Sockets Layer (SSL) protocol or into an application, such as Internet Explorer or Netscape Navigator. With the secured form, the payment information is protected by SSL as it is sent to the merchant.

3rd Using the payment software incorporated in the Web server, the merchant sends the encrypted transaction to the acquiring processor for authorization. The authorization is a request to hold funds for purchase.

4th The acquiring processor either authorizes a certain amount of money (or issues an authorization code) or declines the transaction. An authorization reduces the available credit limit but does not actually put a charge on the customer's bill or move money to the merchant.

5th If the transaction is authorized, a "capture" is the next step. The capture takes the information from the successful authorization and charges the authorized amount of money to the consumer's credit card. In line with bank card (Visa/MasterCard) association rules, the merchant is not allowed to capture transactions until the ordered goods can be shipped, so there may be a time lag between the authorization and the capture.

6^{th} If the consumer cancels the order before it is captured, a "void" is generated; if the consumer returns goods after the transaction has been captured, a "credit" is generated.

7^{th} The final step is to "settle" the transaction between the merchant and the acquiring processor. Captures and credits usually accumulate into a "batch" and are settled as a group. When a batch is submitted, the merchant's payment-enabled Web server connects with the acquiring processor to finalize the transactions and transfer monies to the merchant bank account.

The Net billing gateway handles all of the above steps automatically, alleviating the need for the merchant to physically be involved in any of the above outlined processes. Netbilling provides you with security, convenience and control, as well as many additional tools designed to aid in your success, from numerous real time reporting features to variable fraud controls. (27)

8. Risk Management

8.1. Credit Risk

The risk that the card issuer wants to get may have some results. If the issuer takes too much risk, it may threaten its profitability or if the issuer takes too little risk; then the issuer may be missing out the profitable customers. At this point, the issuer has to give a decision of its risk level by considering the bullets that are listed below. These questions can help the issuer to choose its behavior.

- A clear entry point (minimum)
- A clear target group(s)
- Clear ranges of risk = “profiles”
- A definition of the ability to re-pay? (i.e. % of fixed income)
    - Do you use “shadow” limits? What they ask for = customer expectation
    - What you give them = your risk appetite
    - What they are good for = customer affordability
- Do you clearly define “good” vs. “bad”?
- Do you want a balanced portfolio?

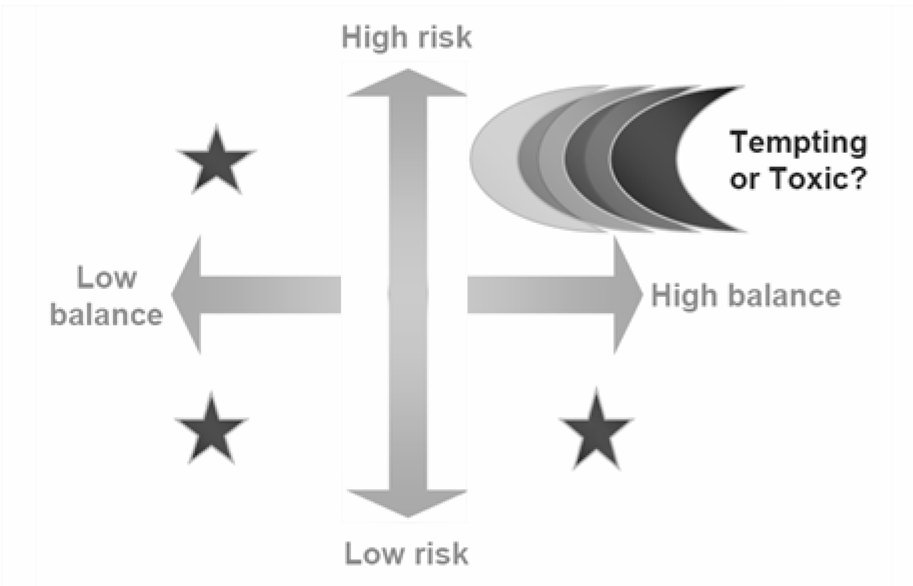


Figure 16. The decision to make is who to issue credit card to

The answer lies beneath the issuer's goals and the level of risk it is ready to gain; but it should always be considered that a customer who is willing to way doesn't mean that he/she always has enough to pay. In able to understand if a customer is safe or not you can use his/her history to get to know him/her. The first thing to do is to contact the credit bureau and learn about the customer's credit history. The next thing to do is to search for the customer's bank history and also the available data that was declared by the customer in the application form data. It is very important to check the values if they match with the data that has been announced by the credit bureau. After that, the issuer calculates the score for the customer depending on the constraints that was already defined before and measure the credit risk of the customer. Later that, the issuer should take action based on predicted behavior that was assumed by the credit risk calculated and depending on that predictions, the issuer should consider these data while defining its customer a credit limit.

Below, you can find a simplified scorecard:

Characteristic	Attribute					
Age	**<20 years**	**< 25years**	**<32 years**	**<40 years**	**<52 years**	**52+ years**
	5	12	16	22	30	42
Time with bank	**no bank**	**0 - <7m**	**<1y**	**<3y**	**<5y**	**5+ years**
	15	25	28	35	43	50
Time at address	**0**	**<1years**	**<3years**	**<7years**	**7+ years**	
	10	15	20	28	35	
Employment status	**Unemployed**	**Housewife**	**Student**	**Full Time**	**Part Time**	**Retired**
	0	7	7	25	15	20
Residential status	**Owner**	**Tenant**	**Parents**	**Other**	**Missing**	
	35	15	18	15	10	
Bank account	**Yes**	**No**	**Missing**			
	27	10	5			
Time with employer	**Not employed**	**0**	**<1year**	**<3years**	**<5years**	**5 + years**
	10	10	15	20	30	35
Telephone	**Yes**	**No**	**Missing**			
	20	17	5			
No Charge-offs	**No bureau**	**0**	**1**	**2 or more**		
	5	28	-10	-30		
No enquiries	**No bureau**	**0**	**1-3**	**3 or more**		
	5	20	5	-25		

The acquiring bank accepts the risk that the merchant will remain solvent over time, and thus has an incentive to take a keen interest in the merchant's products and business practices. Crucial to maintaining an ongoing positive balance is the limiting of reversals of funds. Consumers may trigger the reversal of funds in three ways:

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Card associations consider a participating merchant to be a risk if more than 1% of payments received result in a charge back. Visa and MasterCard levy fines against acquiring banks that retain merchants with high chargeback frequency. To defray the cost of any fines received, the acquiring banks are inclined (but not required) to pass such fines on to the merchant.

Due to the high amount of risk acquiring banks are subject to, as well as their key position in the payment chain, the security of electronic payments is a great concern for these institutions. For this reason they have been involved in the development of electronic point-of-sale security standards, such as PCI-DSS and the emerging SPVA standards. (8)

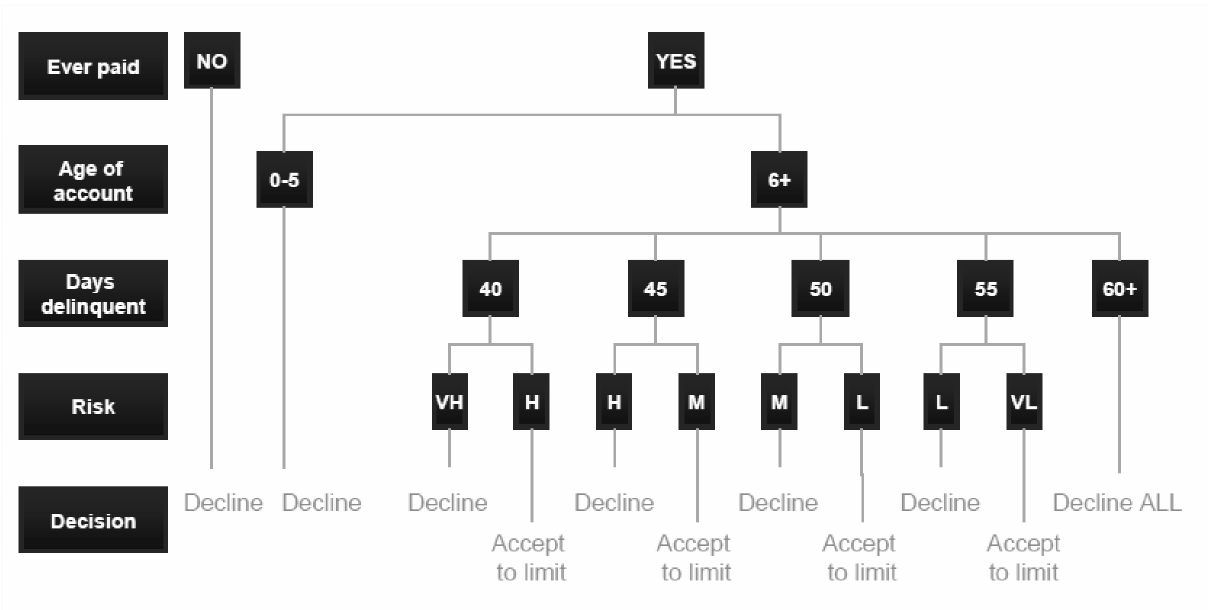


Figure 17. The authorizations control process scheme

8.2. Collections

Some collection agencies are departments or subsidiaries of the company that owns the original debt. First party agencies typically get involved earlier in the debt collection process and have a greater incentive to try to maintain a constructive customer relationship. Because they are a part of the original creditor, first party agencies are not subject to the Fair Debt Collection Practices Act which governs third party collection agencies. These agencies are called "first party" because they are part of the first party to the contract.

The second party is the consumer (or debtor). Typically, most creditors will retain accounts with first party agencies for several months before the debt is written off and passed to a third party agency. (28)

The term collection agency is usually applied to third-party agencies, called such because they were not a party to the original contract. The creditor assigns accounts directly to such an agency on a contingency-fee basis, which usually initially costs nothing to the creditor or merchant, except for the cost of communications. This however is dependent on the individual service level agreement that exists between the creditor and the collection agency. The agency will then take a percentage of the debt that is successfully collected; sometimes known in the industry as the "Pot Fee" or potential fee upon successful collection. This does not necessarily have to be upon collection of the full balance and very often this fee is paid by the creditor if they cancel collection efforts before the debt is collected. The collection agency makes money only if money is collected from the debtor. Depending on the type of debt, the age of the account and how many attempts have already been made to collect on it, the fee could range from 10% to 50% (though more typically the fee is 25% to 40%).

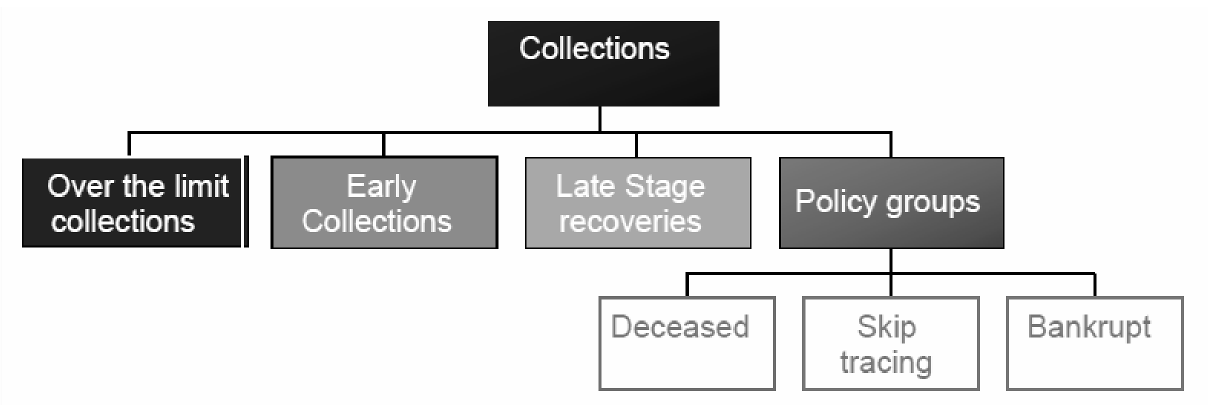


Figure 18. Types of collection

An increasing number of collection agencies, sometimes referred to as "debt buyers", purchase debts from creditors for a fraction of the value of the debt and pursue the debtor for the full balance, or even include "interest" in the balance owed. This allows the original company to generate immediate revenue and reduces the public relations risks involved with collection of defaulted accounts receivables.

The person who owes the bill or debt is called the debtor. People may become debtors because of a lack of financial planning or over commitment on their part, or an unforeseen and uncontrollable event that disrupted their life (i.e. the loss of a well paying job, a disabling accident, or a sudden illness). In other cases a debtor has deliberately refused to pay a creditor and a creditor's only recourse is to use the legal system, or a collection agency, to collect the debt. In commercial collection cases, the debtor is a business. A business could mean a sole proprietor, a corporation, a partnership such as an LLC, or an individual that incurred the debt for business purposes.

Debt collectors who work on commission may be highly motivated to convince debtors to pay the debt, often to the point that they are threatening or abusive to the debtors. Most people are accustomed to being treated with a certain amount of customer service and courtesy and often complain that they do not receive reasonable treatment from debt collectors.

Collection account is the term used to describe a person's loan or debt which has been submitted to a collection agency through a creditor. The term is not used on debts with only original creditors. The collection account normally appears on the credit report of a person (debtor) who has had one or more accounts referred to collection agencies, within the last seven years. If a debtor pays off a collection account, the item will not be removed from the credit reports - it will simply be marked "Paid." However, if a dispute regarding the validity of the debt is filed, an agency is prohibited from placing the debt on the debtor's credit report, unless they mark the account as disputed, or until the dispute is resolved and the debt is indeed verified as accurate. (28)

8.3. Fraud

Credit card fraud has been a major inconvenience for many people all over the world and especially in the United Kingdom. There has been a continued growth each year on credit card fraud which means that more and more people are being affected by scams and phishing techniques. Any of fraud is a very serious crime but with card fraud it actually produces two victims, the first being the customer who owns the plastic cards. The second victim is the credit card company who has essentially been used to lend money to the wrong person and then charged the wrong person's bank account.

A few years ago the credit card companies implemented the chip and pin system and removed the use of signatures as these could often be copied and mimicked extremely effectively. The new chip and pin system did cause a lot of controversy about how effective it would actually be to combat plastic card fraud. Well this system has now been on the market for the past twelve months and the results appear to be excellent with credit card fraud actually dropping by twenty three percent within the United Kingdom.

Some people are attributing this too the recession and are saying that there were more credit cards in people's pockets last year so therefore there was more card fraud. Whereas this year many people have cut their cards up and so there is less fraud because there are fewer cards. This definitely is a valid point however it would only affect the numbers slightly. What is apparent is that it has become much more difficult to commit credit card fraud with the new system as nobody knows what the pin code is but the owner of the card. Obviously if they can be tricked or spied upon and the fraudster can obtain the pin number then fraud will still be committed, but this is quite a difficult thing to achieve, which is why fraud has decreased.

This is a major breakthrough for many people as the constant threat of credit card fraud made petty theft and the stealing of wallets a very popular business for many criminals to be in. Now as it has become much more difficult for them to achieve an easy score, this means that the decrease in cards going missing will also decrease.

One thing is for sure is that fraudsters are constantly on the lookout for new ways to penetrate the systems and figure out new scams and cons to cheat people out of their money. This means that the credit card companies need to be constantly on the lookout and developing new techniques to making the system as secure as possible. Fraudsters still are targeting foreign cards that still do not use the chip and pin system but in time these will eventually follow suit and implement the secure system. It means that credit card fraud at this moment is on the decline and hopefully it will continue to follow this trend. (29)

Issuing Country	Fraud €	Fraud to sales %
UK	449.3	0.10
France	121.6	0.06
Spain	33.5	0.03
Italy	33.1	0.08
Germany	21.8	0.09
Norway	11.4	0.02
Sweden	10.9	0.02
Republic of Ireland	8.7	0.09
Turkey	7.6	0.01
Switzerland	6.9	0.10
All Others	39.9	0.02
EU	744.7	0.06

Figure 19. Top Issuer Fraud Countries

The payments industry recognizes that the fight against fraud must be a long term commitment. The success of chip and PIN in driving down the use of stolen and counterfeit cards has driven the fraudsters to move to different types of attack. The two main areas of fraud in 2008 were on transactions not protected by chip and PIN: specifically internet, phone and mail order fraud; and fraud abroad - committed by criminals using stolen card details in countries yet to upgrade to chip and PIN. It has also been seen fraudsters return to more traditional channels such as cheque fraud, whilst at the same time becoming increasingly sophisticated in the way they dupe the public into parting with personal financial details in order to take over accounts. Tackling all these types of fraud remains our priority, whether it be through work we undertake with the Fraud Control Unit on behalf of the industry, via law enforcement through the Dedicated Cheque and Plastic Crime Unit, working with other agencies like the National Fraud Authority, or by sharing fraud intelligence within and beyond the industry.

The most marked regional increases in fraud – in the South West, Scotland, Wales and East Anglia – are due to larger than average increases in card-not-present fraud losses. However, because of the nature of this crime, it does not necessarily mean that these regions are hotspots for this particular type of fraud. A number of card-not-present retail head offices are located in these particular regions – the figures may be reported into us according to the head office location rather than the location of the cardholder. (30)

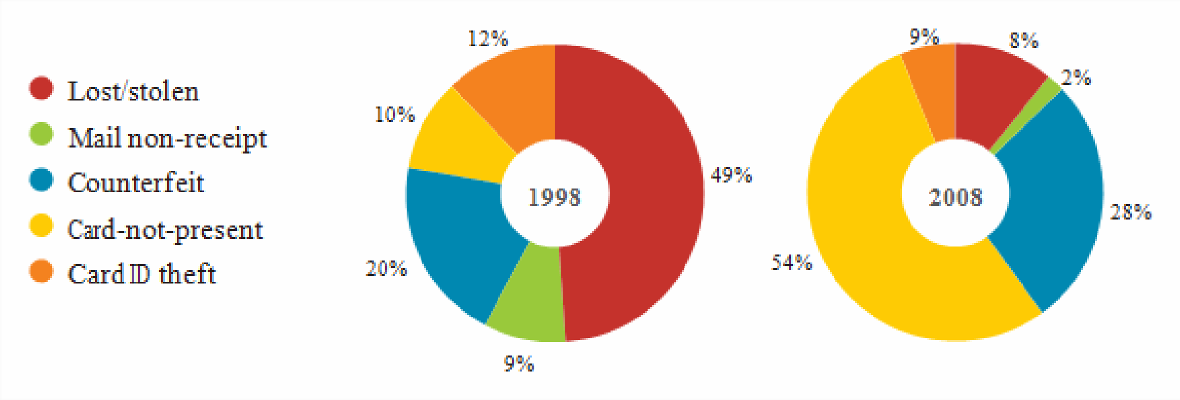


Figure 20. Fraud Methods

Fraud by franchise includes these methods;

- ATM skimming devices offered by former Eastern block criminal syndicates
- ATM skimmers, cameras, blank cards, encoding equipment and a users guide
- Total outright cost of €12,000
    - Or an extended credit facility for a return of 40%

The current situation is;

- Counterfeit and fraudulent use of account number still growing rapidly
- Organized criminal gangs are exploiting the weakness of the magnetic stripe technology and the lack of security in the card not present market
- Several years before Chip is implemented globally
- Payment card fraud funds other type of criminality

What to do against Fraud?

- We need to lobby to ensure the authorities recognize that card fraud is perpetrated by organized gangs who use money to fund other types of crime
- We need to lobby to ensure that adequate criminal legislation is in place to tackle card fraud
- We need to provide training for law enforcement
- We need to work with & support law enforcement when they ask for our help
- We need to look to the future to understand what is happening and act today
- Weaknesses in technology platforms driving fraud exposure; the solution is implementing chip in physical world and improve authentication in the virtual world.

9. Segmentation and Product Development

9.1. Types of Payment Cards

Consumers today can choose from a wide variety of payment cards, and the universe of cards can be partitioned in several ways. For example, one way to differentiate cards is according to the merchants who accept them. Some retailers issue private-label cards that are accepted only in their stores. General-purpose cards, by contrast, are accepted by a wide variety of merchants. Visa and MasterCard are the most common examples.

Another way to classify payment cards is by the amount of time consumers have before payment is due. Debit cards enable a direct withdrawal from the user's savings or checking account, and payment is due much sooner than for a credit or charge card. Debit cards can be used in either online or offline mode. When used in online mode, the card is swiped through a terminal equipped to handle a personal identification number (PIN). In this case, the cardholder enters a PIN instead of signing a transaction slip, and funds are deducted from the user's account immediately. In offline mode, the card is swiped through a standard terminal, and no PIN is entered. Instead, the merchant obtains the cardholder's signature. In this case, the customer's account is debited within two or three days. A debit card user can purchase any amount up to his balance in that account, and some of these cards even come with overdraft protection. In contrast, credit cards and charge cards allow the purchaser a longer period of time before he must deliver funds to cover the purchase, and the card may or may not have a predetermined spending limit.

Charge cards require the cardholder to pay the balance in full each month unless special arrangements have been made while credit cards allow him the option to make only a minimum payment and pay interest on the balance carried from month to month. Still another way to distinguish payment cards is by the type of issuer. Financial institutions issue bankcards, which may be either charge cards or credit cards. Visa and MasterCard are the most popular examples. Nonfinancial institutions issue non-bankcards. Market participants subdivide these non-bankcards into two subcategories. Nonbank credit cards, such as Discover Card, enable the cardholder to roll over a balance from month to month while some travel and entertainment cards, such as the American Express Rewards Green Card and the

Diners Club Charge Card, are charge cards. Cardholder's available credit line is sufficient to cover the purchase before returning a response, either granting or denying authorization. The merchant acquirer receives the response and relays it to the merchant. Usually, this process takes no more than a few seconds. (31)

9.2. Product Design

There are ten basic steps in product design. These are:

- Understanding the market environment
- Understanding cardholder needs and wants
- Understanding the competition
- Understanding how customers choose cards
- Identifying how the market is segmented
- Setting objectives for issuing the card
- Selecting the target market
- Specifying the new "different" card product
- Developing, testing and launching the product
- Managing the product life cycle

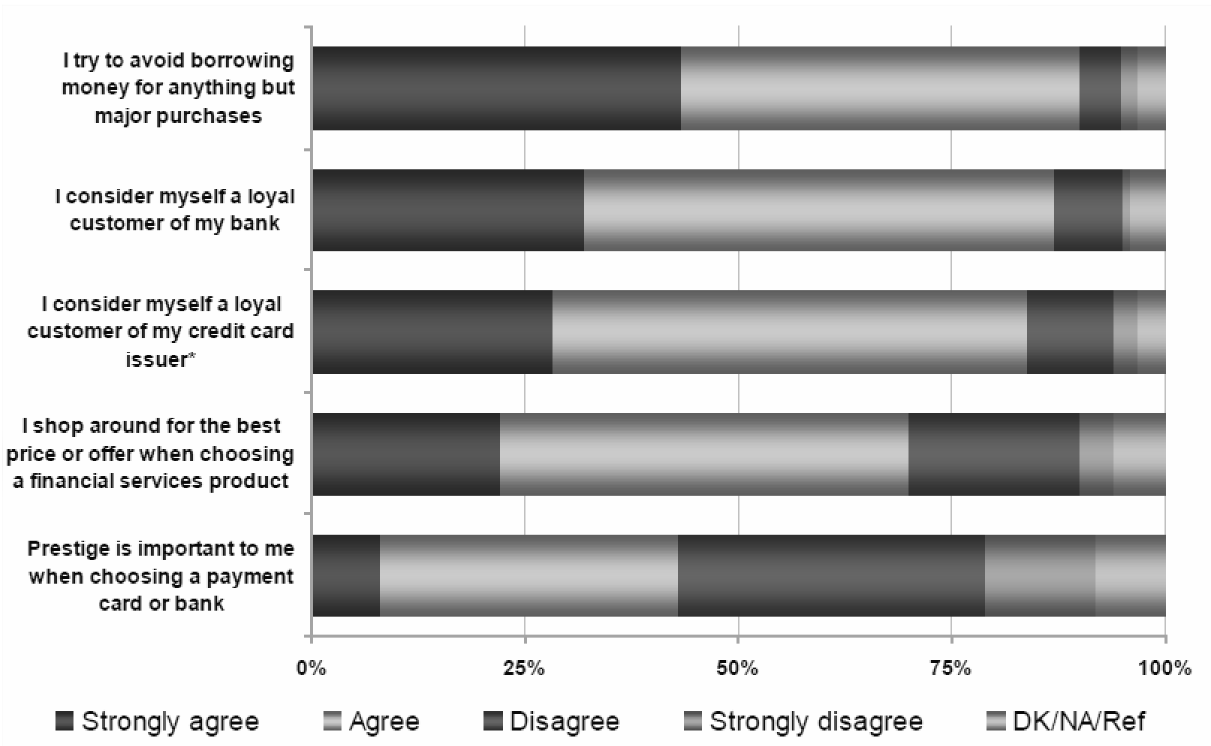


Figure 21. What motivates the choice with percentages

9.3. Defining Customer Segments

The key reasons for segmentation are;

- Increases profitability and maximises existing customer value (80/20 rule)
- It is very hard to serve all your customers: your customers' needs and buying requirements differ
- Enables you to design and market card products tailored to the specific needs of each group of customers
- It makes effective use of limited resources
    - It helps you to get closer to your customers, which encourages uptake
    - Increases usage
    - Improves retention
    - Provides cross-selling opportunities

Instead of people to fit products, the products should aim to fit people. The card issuer should be able to decide which product fits whom and match those combinations for each of its customer. For example,

Youth, Unbanked & New to Banking	➔	*Recruit new customers to bank *Recruit new customers to credit *Reduce risk with tight control	➔	Pre-paid or Online Debit
Mass Market	➔	*Product choices to broad targets *Revenue driven by transacting volume & interest income *Migrate best customers to earn higher revenue	➔	Standard Debit or Credit
Higher Net Worth Customers	➔	*Target "mass affluent" *Relationship consolidation	➔	Premium Products: Gold - Platinum - Infinite

While defining the specifications of the new product, it should be a balance of its functions, features, services, fees, repayment method and added value options. The drivers of a new product definition are price, spending power, risk, brand, sun-brand, image, free gift, rewards, preferential treatment, acceptance, control, lifestyle/life stage and channel.

Or, instead of creating a brand new product, you may prefer to upgrade the existing one by improving and revising of existing offer. Also new offers that provide similar performance at lower cost would be beneficial. Existing offers targeted at new markets, addition of new dimension to existing product, creation of new offer or outside the box thinking, new concept would be other strategies when a card issuer want to create a new product.

9.4. The Credit Life Cycle

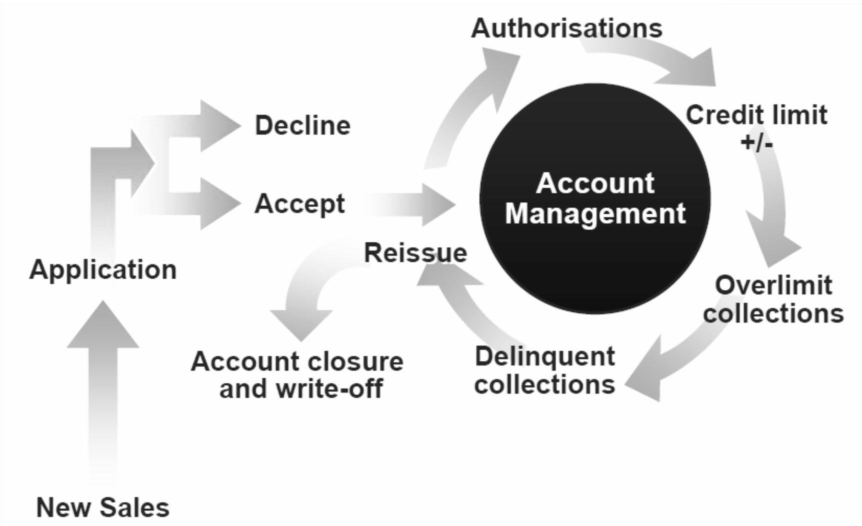


Figure 22. Credit card life cycle

The above scheme represents the life of a credit whose life ends with a closure and write-off. This circle doesn’t have to be lived for all credits; but the worst scenario would be like this.

10. Managing Distribution Channels

The options are advertising, branch, direct mail, telemarketing/teleservice, we, e-mail and partnerships. There may be more channels in the future and old channels may be used less; but this doesn't mean that old channels will be eliminated. They will never be eliminated; because there only happens evolution; not revolution. The only thing that differs is which one is more effective. The table is referenced by the survey I have done.

	$ per Applicant	Approval %	$/Account	Activation Rate
Mail: pre-selected	$65	62%	$105	70%
Phone	$55	45%	$122	40%
Media	$20	15%	$133	60%
Internet	$5	20%	$25	50%
Events	$30	15%	$200	45%
Branch	$15	55%	$27	60%

Once you set the webpage, anybody can get there; but you can't control the qualification of that customers. Anybody can apply any of your products. In the branches, the situation is different; because the customer is directed to the right product. So approval percentage increases when the application is done from the branch. But as the quality gets better, it brings higher costs.

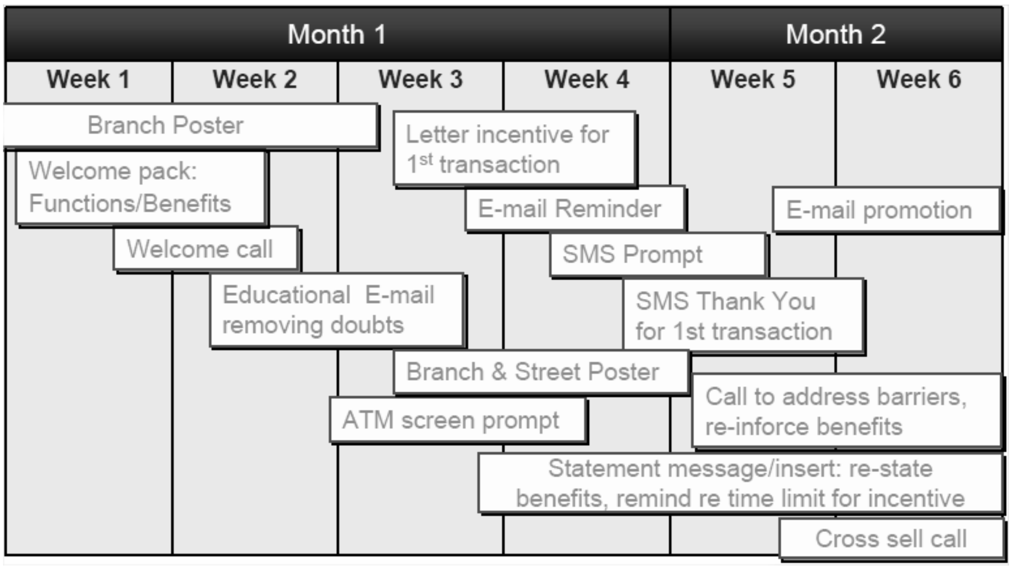
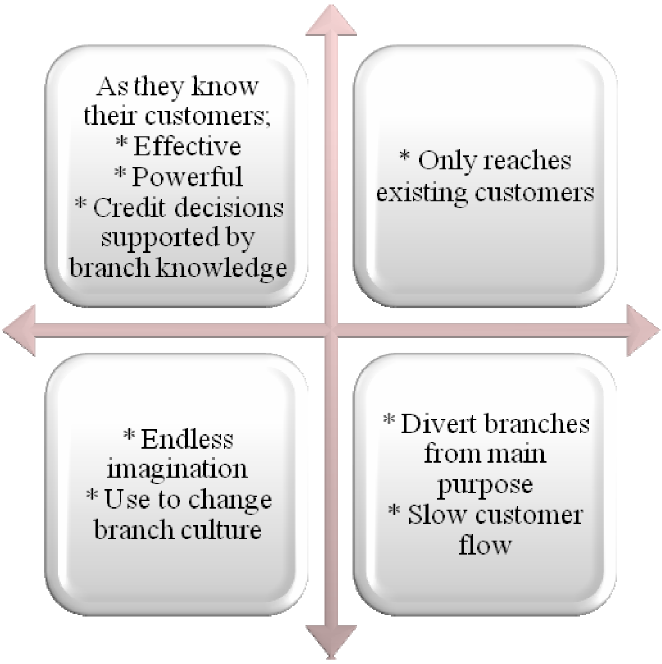
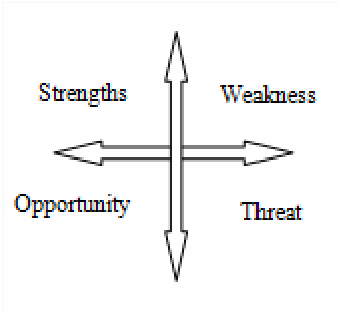


Figure 23. Channel management in life cycle communication

10.1. Branch Sales

Here is the SWOT analysis for the sales that will be done from branches.





10.2. Direct Mail Expertise

- Enables precision in targeting different messages to different customers
- Better communication of a more complex message
- Continuous “Test, learn, change”
- Mailing discounts
- Multiple contents
- Ability to change format, layout, graphics simultaneously
- Time closure
- Ease of completion
- Response envelope and postage

10.3. Telemarketing/Teleservice

Even people doesn’t like it, this method really works. Telemarketing works better at increasing transaction usage and building credit balances than for driving new applications. The most important thing to manage is explaining product and time call for best reception.

Defining the profile of the target audience ("what makes them buy") will maximize response rate. Good, clean data causes fewer dead calls and happier staff; so better response. There should be differentiation between outbound and inbound treatments, service led calls require initial resolution and greater interaction. Outbound tend to be more tightly scripted with a narrower sales objective. And also empowering the front line staff with information and authority would increase the level of success. (32)

10.4. Internet Card & e – Mail

Selling via the web is an essential part of the marketing mix. It works well for specific product types and consumer groups:

- Specialist credit products
- Products that benefit from comparison
- Consumers searching for good deals and particular features

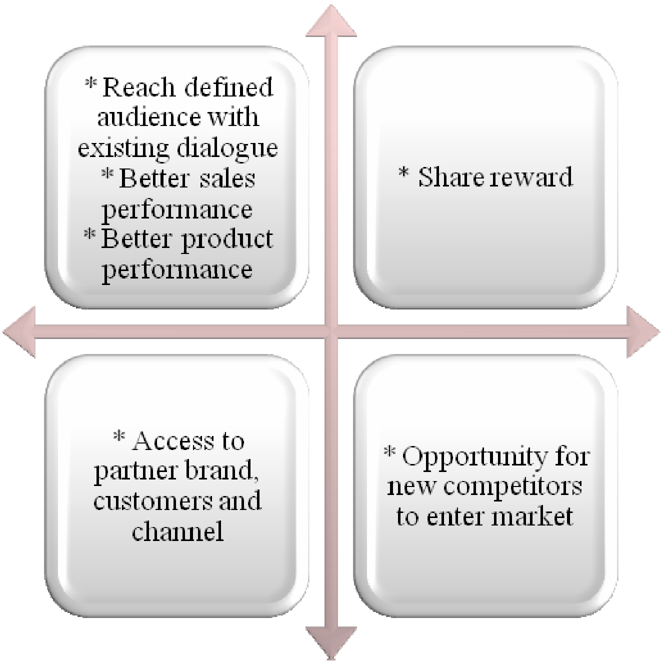
On the other hand, it should be paid attention how to drive consumers to the web sites and how much they can do when they get there. If it is said that online card is available, the all process should be online. The customer should not be directed to branch to finish the process or anywhere in the process.

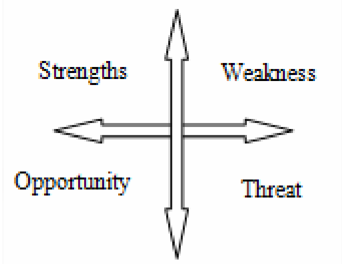
Initially customers expected an e-mail response within 24-48 hours. Today they expect it within two hours but are already impatient after one hour! Issuers have to invest in e-mail management systems like;

- Auto acknowledgement, with response timeframe
- Intelligent queuing, using web forms and business rules to route inquiries to appropriate agent
- Analysis & categorization of inquiry before reaching agents–Back end integration to retrieve relevant data for inclusion in responses
- Integrate email with other interaction channels

The process should be easy for customers (no registration or s/w download), the system should be secure with personal web portals. The customer expectations should be set, tracked and managed while the results are monitored. The customer data should be available to customer service agents. The concentration of inquiry areas should be well developed and new technologies that enhance "look and feel" should be applied. Including marketing and up sell messages within responses is also important. Intelligent routing of emails, responses, & suggestions would create a better response from the customer. It also make it easier to have the access to complete customer interaction history, with integration to call center infrastructure.

10.5. Partnership





Here are the best ways that helps maximizing existing channels:

Channel	Best For…
Branch cashier	**Convincing** - trusted people removing customer doubts, diverting them from cash habits to debit cards
Branch environment	**Awareness** – information and applications
ATM machine	**Informing** - via screen and receipt messaging
ATM environment	**Prompting** - alternatives to cash
Call Centre	**Communicating** - an incentive to increase POS usage
Direct Mail	**Clarity** – time/space to deliver more complex message, i.e. change in pricing for cash access
Mobile phone	**Control** - from transaction information
Retail outlet	**Motivation** – from specific promotion
Retail cashier	**Persuasion** – from prompting Debit over cash

11. Payment Cards Market

As stated before, lending credit cards is highly profitable line of business for banks. As the competitive pressure has increased in recent years and many card issuers have also been prompted, credit cards business became a challenging market. To survive in this market and have a market share the issuers use the methods such as; reducing interest rates, lowering or waiving annual membership fees, providing program enhancements, and offering rebate programs. So that they keep themselves attractive for the consumers. Despite these developments, the profitability of "credit card banks," or banks specializing in credit card operations, not only remains high relative to the rest of the banking industry but also continues to grow.

If we evaluate the trends only in the aggregate, we would be ignoring some interesting differences in profitability between two distinct groups of institutions and I can say that that wouldn't lead us to a certain statement. The first group consists of credit card banks owned by bank holding companies (BHCs), a relatively well-established market segment. The second group comprises credit card banks owned by nonbank firms, a more recent and fast-growing component of the credit card market.

Despite growing competition from nonbank-owned credit card issuers, the return on assets of the more "traditional" issuers--those owned by BHCs--increased significantly and continues to exceed that of nonbank-owned credit card banks. BHC-owned institutions have proved more profitable than their nonbank-owned counterparts largely because better asset quality trends in recent years have enabled them to maintain a lower level of provisions for loan losses. This why nowadays we are mostly using banked owned companies' credit cards. (33)

11.1. Credit Card Market Penetration till 2005

Figure 24 shows the extent to which credit and charge cards were used in different countries in 1998 and 2005. Because of the complicated nature of the electronic payments sector, this table is better for understanding general sector trends and not payment markets in particular countries.

Country	*1998*	*2005*	*Change (%)*	*Number of Companies*	*Country*	*1998*	*2005*	*Change (%)*	*Number of Companies*
Malaysia	0.10	0.30	192	n.a.	United States	1.80	2.53	40	7
Germany	0.19	0.27	46	7	Taiwan	0.49	2.14	341	n.a
France	0.15	0.23	50	5	Hong Kong	1.12	2.05	84	n.a
Thailand	0.04	0.20	372	4	Canada	1.40	1.79	28	5
Chile	0.14	0.19	37	n.a	Japan	1.95	1.74	–11	6
South Africa	0.08	0.13	69	5	South Korea	0.88	1.50	71	6
Mexico	0.06	0.13	112	4	United Kingdom	0.71	1.35	90	6
Venezuela	0.13	0.12	–5	n.a	Australia	0.85	1.05	24	5
Hungary	0.00	0.09	3,022	n.a	Singapore	0.52	0.94	80	n.a
Poland	0.02	0.08	251	4	Spain	0.33	0.75	130	8
Colombia	0.04	0.07	70	n.a	Italy	0.25	0.51	101	5
Czech Republic	0.00	0.07	2,323	4	Sweden	0.34	0.49	43	5
Indonesia	0.00	0.04	360	4	Israel	0.40	0.47	18	n.a
Saudi Arabia	0.02	0.04	101	5	Portugal	0.20	0.46	127	5
China	0.01	0.03	136	1	Netherlands	0.26	0.43	70	n.a
Russia	0.00	0.02	>9,999*	8	Brazil	0.14	0.38	168	6
India	0.00	0.02	405	4	Argentina	0.24	0.35	44	n.a
					Belgium	0.28	0.32	13	n.a

Figure 24. Market Penetration in Selected Countries
(Credit and Charge Cards per Capita) Source: Global Insight.

Figure 24 reveals six important trends or characteristics:

- More developed countries generally have higher card penetration, although there are several examples of less developed countries that have higher usage than more developed countries.
- Credit card penetration varies widely among countries. The United States, for example, had a penetration of 2.53 cards per capita in 2005 versus only 0.02 cards per capita in India.
- There has been impressive growth in credit card penetration across income levels and in economic growth. The average growth rate in credit card penetration has greatly exceeded country and global growth for all but a few countries.
- There is more variation in credit card penetration in Asia than in Latin America or the transition- al economies in Eastern Europe (such as the Czech Republic, Hungary, Poland, and Russia).
- Credit card penetration in the transitional countries has grown faster than in other countries, primarily because of the recent opening of the financial markets in countries that were already enjoying moderate levels of economic development.

- The number of credit card companies competing in a country varies significantly, from eight in Russia to one in China. There appears to be a rough correlation between the number of companies and credit card penetration. (5)

11.2. Growth of Global Electronic Payments Market after 2005

Global Insight which is an economic consultancy, expected a 13.1 percent growth in electronic retail trans- actions from 2004 to 2009 across 79 countries, supported by global economic growth and the transition from cash and paper transactions to electronic payments. **Table Y** shows the actual and forecasted growth by region. Global Insight predicted that the transitional economies of Eastern Europe are likely to have the highest growth rates, behind India, China, and South Korea (individual countries are not shown in the table). Among emerging regions, Latin America would experience more moderate growth in electronic transactions because its overall economic growth rate was slower and it already has higher credit card penetration rates than other regions, particularly Eastern Europe. Electronic payments usage would depend on economic growth, infrastructure, consumer education, transparency, and regulation.

	Electronic Payments (US$ billions)			Annual Change (%)	
	1999	2004	2009	1999–2004	2004–2009
World	$117.4	$209.8	$384.2	12.3	12.9
North American Free	$44.9	$78.3	$140.0	11.8	12.3
South America	$3.8	$12.5	$24.7	26.7	14.6
Western Europe	$50.2	$74.8	$111.9	8.3	8.4
Eastern Europe	$3.8	$9.7	$25.8	20.5	21.6
Asia	$12.9	$31.1	$74.8	19.2	19.2
Middle East and Africa	$1.8	$3.3	$6.9	13.2	15.9

Figure 25. Actual and Forecasted Growth for Electronic Payments, 1999–2009 Source: Global Insight.

Successful electronic payment systems need strong infrastructure and efficient regulation. The infrastructure needed to support a vibrant electronic payments sector has four components which are a telecommunication system, an acceptance network, credit bureaus, and consumer education. In addition, electronic payments require sound and efficient regulation, from both the relevant government bodies and the private payments network. (5)

Telecommunication System

A telecommunication system that can support real-time authorization is essential. Until recently, a sufficient telecommunication system required fixed telephone landlines, but recent innovations in wireless technology permit the development of electronic payments systems in places where they were previously unsustainable.

Acceptance Network

Consumers react most positively to electronic payments when the acceptance infrastructure is widespread and robust. Depending on the target segment, point-of-sale terminals, automatic teller machines, bank branches, and Internet, mail order, or telephone merchants need to be available to accept consumers' cards.

Credit Bureaus

Credit bureaus are necessary to provide accurate and timely credit information to issuing banks. Credit bureaus that cover a wide consumer base, that include positive and negative credit information, that require information sharing, and whose credit information extends for at least two years are integral components of sustainable electronic payments markets. Auxiliary information, such as utility and rent payment timeliness, has recently been used for sectors or markets outside of the traditional credit markets.

Consumer Education

Financial literacy initiatives help to promote safe and responsible banking habits as new payment instruments are introduced. Merchants will need to understand the electronic devices they are using, and institutional buyers will need to develop appropriate procedures and safeguards.

Regulation

A payment system needs common effective operating regulations that are understood and adhered to by all participants. Payment systems should support economies of scale while encouraging competition. Public and private regulators must also effectively oversee the payments network's stability and security, prevent fraud, and manage credit and financial risk concerns that threaten to undermine consumer confidence in new and existing electronic payments systems. (5)

11.3. Last Trends in Business Credit Cards for 2009

The year 2008 was a milestone of last decades because of the a “mortgage crisis” mushroomed into a full-blown, across-the-board “credit crisis”. This situation became a rotten one for the banking business as it had led banks to pull back all types of their credit. Also a greater pull back happened on one of the riskiest types that has been given to small businesses.

When calendars showed the year 2009, there was both good and bad news. The good news was that things probably can’t get much worse since the market had seen the bottom; and the bad news is that the economy wouldn’t compose straighten itself for at least the first half of the year. (34)

Here are some trends that has been encountered during the year 2009

1 st You Used to be Desirable; Now, Not so Much

In 2006, small business credit cards was a huge growth market. After all, businesses spend a lot of money, and most of that money was not going on credit cards but instead still being circulated via purchase orders and checks. Thus, there was an aggressive push by many credit card issuers to roll out new cards for business.

In 2009, the tide has turned. When times get rough, it kept small businesspersons little less attractive. Business credit cards were harder to get in 2009, and the interest rates offered was higher than those offered over the past few years.

2 nd Fewer Business Credit Card Offers in Your Mailbox

Keeping with the trend above, credit card companies had sent out fewer mail solicitations.

3 rd Fewer Credit Card Offers Online

While online marketing of credit cards has been a huge boon for issuers in many ways because of its cheapness, the disadvantage of opening offers to all comers online would create them a bigger disadvantage for them. This included the issuers, especially at times when every business person seems just a step away from being knocked out financially. Thus, issuers were being less aggressive online. In perhaps the most extreme example, Chase has (at least temporarily) pulled most of their business credit cards from online channels altogether. This was a huge decision and a risk to take over.

4 th Lower Credit Limits

This trend was especially tough for the small business owner, who was more likely to want to finance sizable purchases. New cards being issued had lower credit limits than in the past, and you could have even see your existing card company cut the credit line on which you were relying.

5 th Continued Lower Interest Rates than Consumer Cards

Despite the all negativity, business credit cards continued to offer better rates than consumer cards for those who qualify. If a business with a track record and/or having a strong personal credit history, the market for business credit cards was not entirely closed. It could still make sense to apply for a card or two, especially if the alternative was using your existing, high-rate consumer card.

6 th Fewer Rewards

This was probably the last of customers' worries, but, in most cases, credit card companies were being stingier with rewards than in years past, whether it's airlines miles, cash, or merchandise points.

7 th More Discounts

While the straight rewards diminished, expected credit card issuers to continue designing partnerships with relevant business vendors to give discounts on products and services such as office supplies, overnight services, etc. They were not freebies, but these discounts could cut customers' costs.

8 th More Relevance

Many credit card issuers initially treated small business customers the same as consumers. The only real benefit to a business credit card seemed to be that it allowed you to separate your business and personal expenses (and you'd have a credit card embossed with your business name).

9 th More Customization

Banks offering business credit cards targeted to specific industries or occupations, offering discounts or rewards directly related to the type of business being targeted. Other issuers have offered similarly targeted cards, such as those especially for construction contractors. It is expected for this trend to continue.

10 th Companies Again "Playing to Win"

Right now credit card issuers are like a football team that plays "not to lose" when up against a stronger opponent. In this scenario, the opponent is the scary economy. However, issuers are not used to being in this position they prefer playing to win as many of us are all too well aware. They've called time out and are staying on the sidelines, but as soon as they see a vulnerability in their opponent (the economy starts to revive), there is absolutely no reason to believe they won't be back in the game nearly as aggressively as before. This scenario had just became true in the second half of 2009.

As a result, from the second half of 2009 credit card sector has again started growing very aggressively, maybe more aggressively before. Now let's talk about the future trends in the cards business and what is waiting for us for the next decades. (35)

11.4. Future Trends

Because of the population they have, Chinese people had always been a huge market in every terms of trade. But till now, about the credit market, they hadn't show much existence because of their traditional habits and user acceptance terms. Now, it has started changing and China is covering its distance confidently in the way of being the largest credit card market in the world. It can be said that China is expected to overtake the United States as the world's top credit card market in the next decade, according to a new report by MasterCard, as growing wealth and urbanization lead to greater disposable income.

The number of credit cards issued by Chinese banks could quadruple to 800 million or more by 2020, up from 200 million today. Chinese use less plastic than western consumers and often prefer to make payments with cash or debit cards which comes from traditional habits. Also, foreign bank card companies are prohibited from offering local-currency services in China, where state-run China UnionPay is the monopoly processor and operates the only bank card network in the country. But MasterCard and its rival Visa International are betting that China will become a major market for credit card services. MasterCard's report says China's bank card market is expected to grow 11% annually by transaction volume and 13.9% by number of cards between 2005 and 2025. (36)

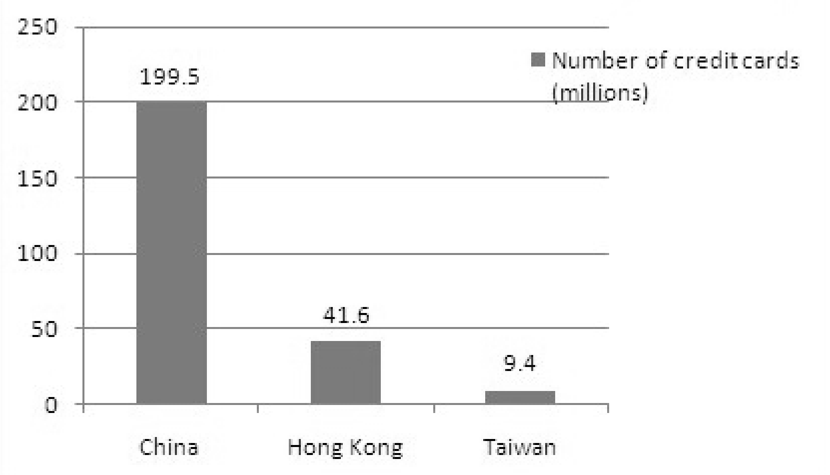


Figure 26. Growing adoption of credit card in China

From 2004 through 2009, credit card adoption in China has been growing an average of 40% annually. This rapid increase could soon make China Asia's and maybe world's most important card market. Credit cards have grown especially quickly in China's coastal areas during the past five years that shows a clear illustration of the upside potential of the market. The penetration of credit cards is directly related to consumers' affluence, so as Chinese consumers' spending power grows, so will the size of the card market.

Credit cards have become popular in China only over the past few years, as consumer demand has risen. Statistics from China's central bank show China had around 207 million credit cards in issue at the end of June, up 10% from the end of last year and more than quadruple the level at the end of 2006. With China's continued urbanization, the domestic spending on credit cards and the number of cards are expected to grow by 11% and 14% a year from 2010 to 2025. Despite the bullish market forecasts, global credit-card companies are feeling increasingly frustrated with their limited access to the Chinese market, where China UnionPay Ltd., the country's only national electronic payment network, has a monopoly on processing card payments.

In March, U.S. trade officials approached major global credit-card companies to assess interest in filing a formal complaint against China with the World Trade Organization for restricting market access, but failed to achieve collective support. In June, Visa Inc. told banks and merchants to stop using UnionPay's network to handle payment transactions initiated outside China with credit cards that share both firms' logo. (36)

12. Marketing of Payment Cards

If there is one secret that is the most guarded in a bank's arsenal of competitive strategies, it is credit card marketing. Here's what banks are doing to retain customers. Ranked as one of the most profitable products a bank offers, credit cards still are racking up some impressive returns on assets, anywhere from 2 percent to 3. percent. Many bank marketers believe assets like that are not only worth fighting for, they are worth safe-guarding.

"Competition is cutthroat right now," says Michael Auriemma, managing director of Auriemma Consulting Group, a Westbury, N.Y., firm that advises banks on managing their credit card portfolios. "More issuers are fighting for market share." Part of the reason competition for market share is so intense, is most of the consumers who are creditworthy already have been issued credit cards. One way t gain new accounts is to lure them away from other issuers. Some strategies include offering low introductory rates for transfer balances, developing co-branded cards, and building exceptional card value by offering consumers something in return for use.

"Cannibalization is what many marketing strategies are about," says Auriemma. "You're not finding a new population, you're shifting market share and moving people from one product to another." (37)

12.1. Credit Cards and Direct Marketing

Direct marketing is a form of advertising that reaches its audience without using traditional formal channels of advertising, such as TV, newspapers or radio. Businesses communicate straight to the consumer with advertising techniques such as fliers, catalogue distribution, promotional letters, and street advertising.

Direct Advertising is a sub-discipline and type of marketing. There are two main definitional characteristics which distinguish it from other types of marketing. The first is that it sends its message directly to consumers, without the use of intervening commercial communication media. The second characteristic is the core principle of successful Advertising driving a specific "call to action." This aspect of direct marketing involves an emphasis on traceable, measurable, positive responses from consumers (known simply as "response" in the industry) regardless of medium. If the advertisement asks the prospect to take a specific action, for instance call a free phone number or visit a Web site, then the effort is considered to be direct response advertising.

Direct marketing is predominantly used by small to medium-size enterprises with limited advertising budgets that do not have a well-recognized brand message. A well-executed direct advertising campaign can offer a positive return on investment as the message is not hidden with overcomplicated branding. Instead, direct advertising is straight to the point; offers a product, service, or event; and explains how to get the offered product, service, or event.

In the credit cards business call centers and point of sales representatives give direct marketing service to customer by communicating the customer in the very first level by not using a channel between two parties. This service makes the issuer more reliable and convincing from the customer's point of view. On the other hand, it is also a risky marketing component which can cost high amounts to the issuer. Online marketing is also a part of direct marketing; but since it is a huge topic, we will be evaluating it separately.

12.2. Marketing Credit Cards Online

With emerging globalization trends in trade and technology, there is a fast growth in financial markets. Cross-border transactions can happen easily and with use of credit cards, the business house has lot more options to go ahead with. They are no longer under pressure and continue to find innovative ways to market their products and services. Credit cards are used by people all over the world and the number of users is growing at an extremely high rate.

Credit card companies are using affiliate marketing as a strategy and the use of internet has proven to be a success. They use conventional marketing tools such advertisements in newspaper ; magazine, radio and television as well. But advantages of Internet Promotions and affiliate marketing are known to credit card companies . Internet offers opportunities to small entrepreneurs, who want to earn online. Credit card companies have been using online marketing to sell their cards since the early days of affiliate marketing. Back then, they had affiliate programs that would pay out anywhere from $10 to $20 per completed credit card application. With increased competition, and more people putting their trust into the web than ever before, this situation has drastically changed.

Now, since the market is more competitive, online marketers can pull in a commission of around $30 to $40 for each referral and completed application. This is more than double the commissions being made as recently as five years ago, and more accurately reflects the high profit margins and lifetime value of the customer to the credit card company. Considering the commissions being paid to the web services it is obvious that the benefit that will be gained from the consumer is a high amount and card issuers don't bother to pay big amounts. With such high commissions, hordes of marketers flock to push these offers on PPC networks such as Google Adwords and Overture, skyrocketing the bid levels up to astronomical heights. It is for this reason that many less brazen marketers shy away from this market, and may even feel intimidated by it. But rest assured, even with such a high level of market penetration, there is ample opportunity for a savvy marketer to experience very handsome profits. (38)

To survive in this market there is a secret that has to be kept which is that a marketer needs to be crafty to succeed in this market. You can't just blindly throw up a PPC campaign, outbid whoever is in the #1 position, and hope to profit. It's just not that simple, because this is a mature market. Instead, the best strategy is to uncover ways of sending prospects to the offers that are often overlooked. The fact is, there are unlimited amounts of ways to send leads to highly profitable offers, without paying upwards of $10 per click to do so. The investment should be divided very carefully and wisely.

Key areas should be captured and evaluated very detailed .At this point, the most important thing to consider is that knowing where the demand is high. The credit card issuer company should focus on this and determine point of advertisement or offers at those points. For example, if you sell anything online, then you have probably had the experience of a customer asking if they can pay by check or money order. Even if you have not had a customer ask this, it's likely that some customers are leaving your site if the only option is to pay by credit card. What better time than that, to put a link saying “Need a credit card?” Those who don't will just ignore it. And those who do could not have been your customer anyway, since you only accept credit cards. In that case, you provide them with something that they need and also give them the opportunity to buy your product with the very credit card you referred them to. This is one of the most effective methods, and it costs you nothing. (38)

12.3. The Advantages of Affiliate Marketing of Credit Cards

Free Website

Credit card companies offer an excellent promotion by offering a unique website to all their affiliates at no extra cost. They enhance their market penetration and credit card can be sold individually with official representation. For example, the use of websites can help create new prospects, improve logistics, or give know how about the card to the customers. Credit card affiliate marketing presents the advantage of reduced budget . There are no storage costs, when it comes to comparison with printing brochures. You neither have to work with artists for producing television or radio advertisements nor managing a call centre. It presents a fast and cost effective option for penetrating new markets .

It's Cheaper

The Internet is information superhighway for anyone who wants to buy something new. At the same time, persons who want to buy would prefer stay back at home, become aware of the promotions & schemes offered by all the competitors in the business before making actual decision to buy. Some persons prefer the freedom that Internet shopping can offer. As a result, the Internet has become the most powerful selling tool .

Reach everywhere

With millions of person using the Internet to search for products and services, small affiliate can penetrate markets at a fraction of the cost of traditional marketing methods.

Websites act as virtual stores, your businesses can stay open 24/7 . Apart from this, the credit card impacts for greater visibility, thereby creating more opportunities for increasing its customers at relatively low cost . Biggest advantage is to reach out to all unknown potential customers, without any infrastructure and overwhelming marketing costs.

Fast communication

Email makes business communications faster . It does not matter whether the business affiliate is across the street or across the globe . It is easy for the affiliates as well to know the latest news, the results of their marketing campaigns, and of course their bonus and income.

Innovative

Many online options are available to reach the business prospects. Affiliates can use ezines, blogs, pop-up ads and other online marketing tools to let customers know about the credit card or services as well as provide information relevant to their respective industry . The benefits of this strategy are twofold. Affiliates can effectively heighten brand awareness for their credit card in the market whilst strengthening customer relationships, with shorter time frames .

Content is Timeless

Internet Promotion is for long term & ; enduring. Conventional techniques like participation at a trade fair or conference loses sales impact, once it is over . Even a big advertisement in newspaper or business magazine rapidly degenerates sales generating value as soon as the next issue is released. Internet Promotion is timeless. Apart from the dates and sometimes prices, website content remains valid years after .

Measurement of success or failure

Internet Promotion is measurable. Affiliates can use tools that provide real time statistics, like hit counters for unique visitors, repeat visitors, click through rates (CTR) on advertisements, thereby allowing them to evaluate the effectiveness of a promotion campaign . This helps to determine what works for their particular market and to make timely changes in their marketing strategies .

Credit Card Affiliate - It\'s FREE to join

No startup is required nor investment. An affiliate can register online and need not pay as a cost of setup or initial membership fee. He gets paid if any occurrence of sales takes place through his advertisement campaigns.

Choice of Revenue Plans

A credit card affiliate need not work for one card company only. The credit cards listings are provided by major credit card issuers . The revenue plans have options of choice of cards, at times 150+ credit cards available in Revenue Plans; you can earn as much as $160 per credit card approval or $30 per application . One can preview cards available. You are able to choose which individual credit cards to promote on the site, as some cards may fit the needs more than others.

Custom Templates

With online tools *Credit card affiliates* can create banners, rotating scripts, clickable ads, flash intros, multimedia intros etc. The customized templates can match website designs and layout . Templates chosen, are hosted on client servers . Means -you just copy paste the code on your web pages, you never have to worry about maintenance .

Direct Payment

Client -server modes of online technology supports the structure of affiliate credit card marketing. The content hosted on your sites can be customized for partner sites, with 100% customization through our Database Connections and Code. Database connections are now free and this facilitates the payments . Affiliates know exactly how much to expect and when they get paid. (39)

12.4. Interactive Marketing

It's a marketer's dream – the ability to develop interactive relationships with individual customers. Technology, in the form of the database, is making this dream a reality. Now companies can keep track of customer preferences and tailor advertising and promotions to those needs. For instance, a grocery store system could note that you recently purchased a sample size of dishwashing detergent and could offer you a coupon to buy the large size. Blattberg and Deighton explore the impact of this development on marketing practice and give practical advice on designing a marketing database and staffing an interactive marketing department. They also address consumer fears and the public debate over marketing and privacy.

Build and Manage Dialogues with Customers

Addressability gives commercial speech some of the character of conversation. When a firm can go back to a customer to respond to what the customer has just said, it is holding a dialogue, not delivering a monologue. Conversation can nurture relationships far richer and more idiosyncratic than one-way advertising can.

Imagine you shop regularly at Bob’s Food Emporium. As you check out, you present your “frequent buyer card.” The cashier uses an optical scanning wand to read the card’s bar code. The cash register’s memory immediately fills with a picture of your transactions over the past year. Your account is credited with the dollar amount of today’s purchases, and at the end of the year you receive a certificate for free products at Bob’s, valued at perhaps 1 percent of your cumulative spending. As a member of the program you also receive coupons from manufacturers who participate in Bob’s frequent buyer program. (40)

On the surface the card appears innocuous: rather like S&H green stamps without the glue. In fact, frequent buyer programs are much more powerful relationship builders. They gather information that can be used by retailer and manufacturer to drive individually tailored marketing programs. The retailer captures and maintains a record of every purchase by each cardholder. This data is married to information from the customer on household characteristics such as address, income, education, family structure, competitive shopping behavior, frequency of shopping, and other pertinent information. The retailer uses the resulting matrix of demographic and behavioral data to seek out and communicate with precisely defined target audiences. Most important, the incentives and coupons that members receive are individually planned to expose them to products they have not yet tried, to reward loyalty to sponsors’ brands, and to encourage switching away from competitors’ brands.

- ALWAYS on the lookout for a good marketing opportunity, banks are aggressively elbowing their way onto the front of MasterCard and Visa credit cards.
- When J. P. Morgan Chase introduces its new credit cards next month, a supersize Chase logo will dwarf the tricolor Visa banner - as well as the names of some of the bank's partners, like Amazon.com.
- After years of pressure from its member banks, Visa said that starting next fall, it would use a smaller logo on the front of its card.
- The payment associations, like Visa and MasterCard, have heavily promoted their own brands for years to create vast merchant networks and consumer acceptance.

- But the banks that issue the credit cards, especially the financial services giants that have long provided much of the associations' financing, are now viewing the credit card as a wallet-size billboard for themselves.
- "If either of those parties had their way, they would probably have gotten the other guy's name off the card.
- But that's not going to happen," said Jim Johnson, the chief executive of the Helms Agency, a branding unit of the WPP Group that designed the MBNA campaign.
- Today, the 10 largest issuing banks account for about 85 percent of the $687 billion credit card market.
- Meanwhile, credit card advertising spending has almost tripled to more than $1.4 billion since 1999, according to TNS Advertising research.
- People still refer to their cards as "my Visa card or my MasterCard," but MBNA's research suggests customer service and perception of the issuer is now more important than the card brand, Mr. Johnson said.
- Discover Financial, for instance, is focused on keeping its merchant fees low and using its presence at checkout counters to keep itself in the back of customers' minds even as its market share has declined. (40)

12.5. Marketing of Card Processing Services to Merchants

Since many consumers now choose to carry plastic as opposed to cash, credit card processing services have become a standard requirement for new businesses. Still, some businesses have avoided establishing a merchant services account due to lack of information. As a seller of credit card processing services it is your job to inform the business representatives of the value of accepting credit cards. Once the contact learns about the opportunity for increased sales and the ease of use that is involved with accepting credit cards, you will have a better chance of closing a sale.

Instructions

- Provide the merchant with brochures and sales sheets that describe the service.

- Ask the merchant how she receives sales---online, phone orders, or in face-to-face meetings. This will determine the equipment required.
- Educate the merchant on how the credit card acceptance process works, including information on the application process, what happens when a card is swiped or entered online, what is a merchant account number, and how the merchant will receive cash from the sale.
- Explain all fees that will be associated with the service including transaction-based fees, chargeback fees, and any monthly statement and gateway fees. Give information on all possible costs so that the customer will know what to expect.
- Ask the merchant about the estimated volume of sales that she receives on a monthly basis, as this may have an effect on the fees that will be charged.
- Quote statistics to sell the merchant on your credit card processing solution. Talk about the sales that the merchant could be losing simply because of the fact that the merchant does not offer credit cards as a payment option. Ask the merchant how many times he has lost a sale because the customer found out that credit cards were not accepted. (This can be a rhetorical question---the point is to make the merchant think about the possible missed opportunity.)
- Ask the merchant to fill out your application for credit card processing services. Explain how long it takes for an approval to come through. Find out what terminal the customer wants to purchase if the customer will need to swipe credit cards. Send the new customer his merchant account number, pass codes, and other account details via email or regular mail; send the terminal by mail.
- Assist the customer with how to set up the terminal (if applicable), log on to the system, and integrate the merchant account number with the customer's website if the account was set up as a gateway for online payments.

12.6. Credit Card Retention Strategies

An effective, robust retention strategy, that is capable of managing all customer relationships, is an essential part of managing a credit card business. The crucial starting point is the bottom line: well-managed credit card businesses are almost unbelievably profitable – typically returning three to four times the cost of equity in markets such as the UK and the US. Furthermore, growth rates – even in the US, the world's most mature cards market – are well ahead of nominal GDP. The revenue comes principally from revolving credit extended to cardholders. Other revenue comes from commission fees paid by retailers, interchange and fees charged to cardholders. Global estimates put the profit pool for credit cards at US$26 billion in 2006, with pre-tax return on assets (ROA) at 4.1% and a 14% share of total consumer lending – including mortgages. This figure is expected to double to US$54 billion (29%) in the next 10 years; however, margins are under attack from a variety of directions.

Retention should no longer be a tactical response within a marketing plan. It must be an organization including the key areas of customer service, marketing, credit and risk, service quality and all facets of operations and IT.

- Credit card organizations need to develop their understanding of retention and loyalty theory before trying to develop a retention strategy.
- A successful retention strategy will take a holistic view of the cardholder relationship and seek to identify key actions that will improve the relationship, expressed as customer satisfaction, loyalty and profits.
- An important challenge in developing a successful retention strategy is gaining organizational commitment. This also requires an understanding that retention management will take time to develop.
- The retention strategy should not be seen as simply an activation and attrition program.
- Successful retention strategies require actions at all levels. This includes acquisition, customer service, collections, credit, activation and attrition.
- A retention strategy will have limited success if it is positioned as a marketing tactic. The successful retention strategies have involved developing an organizational vision. This vision needs to encompass a set of goals to which all components of the credit card organization agree – including segmentation, profit and loyalty. (41)

12.6.1. Major industry trends

- Annual growth for credit cards is forecast (globally) to exceed 10% per annum by 2010.
- The rise of global bank issuers will increase.
- The US trends will continue to dominate.

- Key skills required to run a successful credit card operation will need to be developed.
- The increase in regulation will challenge the global brands.
- Markets will continue to evolve with more developing mature status.
- Consumer finance – both bank and non-bank – is an increasing focus for industry players.
- Technology and direct distribution is playing an increased role in the development of products and services.
- Consumer lending has increased but not at the expense of mortgages.
- Consumer write-offs have largely remained low in line with growth and the economic cycle.
- Regulations including privacy and lending requirements have become major initiatives in many markets.
- Personal loans and car lending have not kept pace with credit card lending.
- Developed credit card markets – such as the US, UK and Canada – have different issues than non credit card markets such as Germany, Spain, Italy and other EU markets.

The creation and implementation of financial institution customer retention strategies, including bank customer retention strategies is one of the core strengths of the Genroe organization. There are a range of strategies that can be implemented and we tend to summarize them based on a customer's position in the customer lifecycle.

The lifecycle is shown below along with the value that different types of customers contribute to the business at different parts of the cycle.

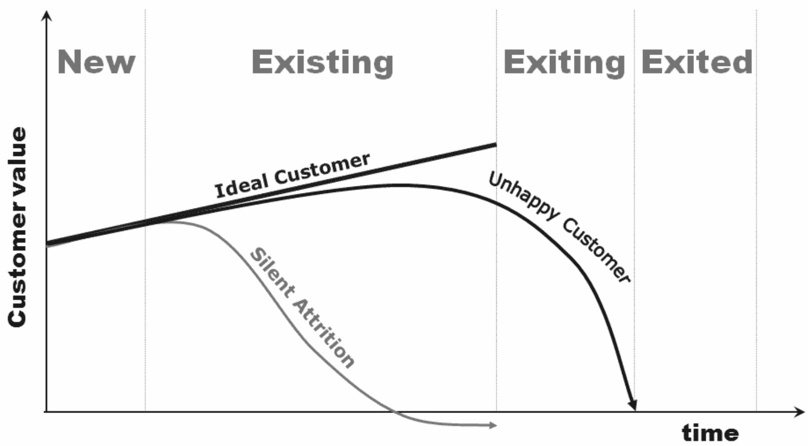


Figure 27. Customer life cycle

12.6.2. Applying New Customers

The single largest group of customer retention strategies that can be implemented in the New section of the customer lifecycle is customer onboarding. Customer onboarding is the process of bedding a customer into your organization and includes ensuring that their personal data is correct, that they understand the products they have purchased and how to quickly contact the organization. It has been proved in time and again that customers that are properly onboarded will stay with the company longer and spend more money than other customers.

Other areas of New customer management include:

- Data integrity management
- Cross-sell leads management
- Product benefit education
- Product activation
- Payment automation optimization

12.6.3. Applying Existing Customers

The best bank customer retention strategy for existing customers is to classify each type of customer (silent attrition, ideal and unhappy) and create appropriate initiatives to change their behavior. For instance customers in silent attrition are those that have reduced or stopped using a product but where the account is still open. Examples for instance are credit card accounts with little or no spending. For these customers you must determine why they are no longer using your product (are you are their "back of wallet" card) and create initiatives to change their behavior.

Examples of Existing customer management programs include

- Product design evolution
- Payment automation optimization
- Active customer complaints management
- Cross-sell leads management
- Product activation
- Usage stimulation
- Preapproved products
- IVR Messaging Offers
- Leveraging sponsorships

- Leveraging affinity marketing
- High value relationship programs
- Low value relationship programs
- Local area marketing
- 3rd Party and Sales consultant commissions
- Driving customers to highest ROI channel mix
- Product bundling
- Product Upsell
- Silent attrition
- Collections process
- Move and Follow
- Differentiated levels of service
- Optimizing product mix

12.6.4. Applying Exiting Customers

Customers that are Exiting are those customers that have started the process of moving their business to another company or are in the process of considering that move. The first step in creating bank customer retention strategies for exiting customers is to identify which customers are in each camp. For customers in the process of moving their business you will need to understand the product drop cycle, i.e. the order in which customers drop your products before leaving. With this information effective customer retention strategies can be created to target those customers.

12.6.5. Applying Exited Customers

Generically, strategies that are aimed at recapturing customers that have left the organization are called Winback strategies. This is the most expensive and lowest ROI place to try to implement your bank customer retention strategies. Mentally customers have already moved to another organization and it takes a large inducement to bring them back. If you do choose execute Winback strategies then you will need to carefully manage the level of incentive that your staff can offer to customers. For instance you will need rules to tailor the incentive level to each specific customer in order to ensure that the level of inducement is not larger than the future business generated by that customer.

13. Conclusion

Since Payment Systems industry has already taken its place in all types of sectors, its awareness is also becoming more popular every day. So that, business owners has to acquire it to keep their existence up to date. It is very important for a business owner not to say “I can’t”, ever. Once the business owner can’t meet its customer’s needs, it is convicted to lose.

In today’s world, consumers believe that they have the right to demand anything. If their demand is not supplied by the business owner, they refuse to shop from that business owner. As the world becomes a place where sovereignty of the consumer increases in an unstoppable way, business owners fight with each other to be the one who meets the demand at most in a competitive way. So that it may sell more and earn more.

On the other hand, from the consumer’s point of view, it is supported to consume as much as possible. People are pushed to demand and want continuously everyday. When people don’t have money, they have the opportunity to use credit at that exact moment without any specific challenging process with their credit cards within their limits. It has become a regular process for the consumer. In fact, even the consumer has cash, he/she may prefer to pay with credit card to fund his/her money till the end of that month. Besides, it is easier to use credit cards since the transaction process is very short. It may feel the consumer uncomfortable to carry too much cash; instead it would be a better idea to carry a credit card.

If the issuer creates a safe environment for the card holder and suddenly it seems to be the best way for a consumer to shop with a electronic payment system. The issuer’s duty is to create the optimum environment for its card holders to shop which can be provided by creating the most safe and fast process. The business owner’s duty is to make it possible for the consumer to use electronic payment systems in its stores. The consumer’s role in this scenario is to spend as much as possible to help business owners and the issuers earn more.

The chapters I have prepared is aiming to bring you a wider look to the cards business from the top. That is why each topic is processed very detailed in itself. It is possible to say that the general of this paper helps issuers to create the best product for its customers; but also the business owners and card holders can derive benefit from this paper by mastering the subject.

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