

## Overview of Credit Cards

**Credit cards** - A credit card can be used to pay for something or to withdraw cash using a line of credit that has been made available by the credit card issuer. The cardholder is then required to pay back the amount that has been borrowed in accordance with the terms and conditions of the credit card agreement. With most types of credit cards, you can settle the amount owing in full and without interest (on purchases) within a given period of time, or pay off a portion of the outstanding amount and carry the remaining balance forward with interest. The majority of consumers do not use credit cards as a borrowing tool as they pay their balance in full each month. Credit cards tend to fall into the following groups:

### Standard Cards

Any credit card that is not a gold, platinum or black card (i.e. a premium card) is likely to be a standard card. Standard cards are available to anyone over 18, subject to the application being accepted.

### Premium Cards (Gold, Platinum and Black Cards)

Premium cards usually offer higher credit limits and have lower interest rates. Many carry extra benefits such as travel insurance, product guarantees and preferential loan rates. Credit card companies offer these cards to people they consider to be a better credit risk. They are often available to people who have a specified minimum income level and the more exclusive cards tend to have annual fees.

### Charity/Affinity Cards

Some credit cards are issued on behalf of charities and other organisations such as football clubs and universities. For this type of card the credit card company generally makes a donation to the charity or affinity group when the card is issued and/or each time that the card is subsequently used — at no additional cost to the cardholder.

### Debit cards

The most popular type of card payment, since their launch in 1987 debit cards have established themselves as the most popular card payment with consumers. Initially developed as a

convenient and cost-effective alternative to point-of-sale cheques, debit cards are increasingly being used as a substitute for cash.

A debit card operates like cash. When you use a debit card the money is immediately deducted directly from your current account. "As long as you have enough money in your account (or have an overdraft facility) then you can use your debit card to buy things in person, over the phone, by mail order and over the Internet. While a credit card is a way to "pay later", a debit card is a way to "pay now". In addition, debit cards can be used to get cashback from merchants offering that service. Debit cards, like credit cards, can generally be used internationally.

Debit cards are issued by the organisations that hold your money on deposit and will also be branded with one of the card schemes. The debit cards most commonly used in the UK are Visa Debit, issued under the Visa card scheme, and Maestro Cards, previously known as Switch cards, have been rebranded Maestro to make them part of a worldwide scheme.

Debit cards usually include other functions such as cash machine and cheque guarantee facilities and often look just like credit cards.

### **Charge cards**

Most charge card companies also offer rewards for their customers to use their cards. These can include cashback schemes, discounts, free services and points systems that can be used towards various purchases etc. Charge cards normally have an annual fee

These cards are similar to credit cards. They allow you to pay for goods and services on interest-free credit. However, the balance owing must be paid in full each month or you may incur additional fees. Most charge card companies also offer rewards systems for their customers. These can include cashback schemes, discounts, free services and points systems that you can use towards various purchases etc. In order to be able to offer this service, including benefits and interest-free credit, charge cards normally have an annual fee.

The two largest charge card companies globally are American Express and Diners Club International. Some high street banks also issue Visa or MasterCard charge cards.

Charge card companies make their revenue by charging annual fees and by charging merchants a fee each time a customer pays using the company's charge card.

Most charge card issuers will require that you have a certain salary level before you qualify for a card and will generally expect you to have a very good credit rating.

### **Pre-paid cards**

Pre-paid cards are a small but growing segment of the card market. The majority of UK pre-paid cards in issue are closed-loop gift cards. Closed loop means the card can be used only at a specific retailer or chain of retailers. These cards have largely replaced paper gift vouchers.

Some pre-paid cards are now scheme (**Visa / MasterCard**) badged and are referred to as



open-loop, i.e. they can be used at multiple locations with both point-of-sale and ATM functionality. Some UK banks and building societies are beginning to issue these types of cards in some numbers as they offer an opportunity to extend their customer base whilst offering a new product to existing customers.

Key target areas are the unbanked (that have no other access to card payments), and teenagers where the advantage is that spending can have limits that there is no possibility of exceeding the value limit. Prepaid cards are attractive to a range of businesses and sectors. This includes insurers (who may seek to issue claimants with a prepaid card) and the travel sector (where prepaid cards can be used as an alternative to cash or travellers cheques for cross-border payments). For the would-be cardholder, benefits include allowing purchases to be made over the internet and by telephone, potentially a less expensive way of conducting financial affairs and greater security (compared to cash).

Key to the success of this product will be the convenience, ease of point-of-sale and ATM transactions, and the level of fees attached to the loading and use of the card.