

DEBIT CARD & CREDIT CARD



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INTRODUCTION

- ▶ A few years ago it was easy to tell the difference between a credit card and a debit card.
- ▶ You used your debit card at the ATM with a personal identification number, and you used your credit card for purchases.
- ▶ But today both types of cards carry familiar credit company logos, both can be swiped at the checkout counter and both can be used to make online purchases.

DEBIT CARD

- ▶ Debit card is a plastic card which provides an alternative payment method to cash when making purchases.
- ▶ Functionally, it can be called an electronic check, as the funds are withdrawn directly from either the bank account, or from the remaining balance on the card.
- ▶ It is also known as BANK CARD or CHECK CARD.

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- ▶ Debit cards can also allow for instant withdrawal of cash, acting as the ATM card for withdrawing cash and as a cheque guarantee card. Merchants can also offer "cashback"/"cashout" facilities to customers, where a customer can withdraw cash along with their purchase.

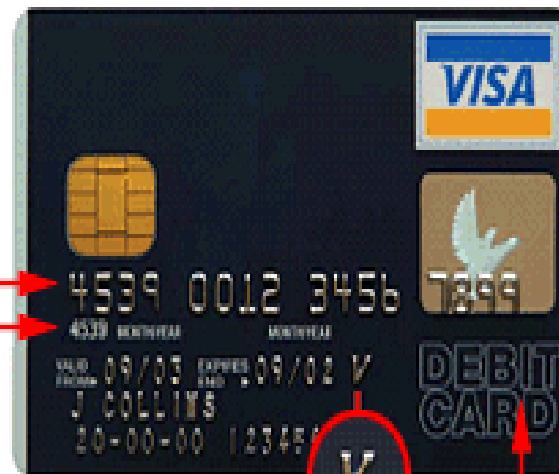


i4 MAESTRO DEBIT CARD

Visa debit

Embossed card number starts with 4

First four digits repeated above or below the embossed card number



The delta symbol may appear on reverse



'Flying V'

The words DEBIT CARD

Switch/Maestro debit

Embossed card usually number starts with 6



Switch/ Maestro logo appears on front or back

First Debit Gold card



▶ Debit Card

- ▶ It is used instead of a check to make purchases, anywhere Visa is accepted
- ▶ It is used instead of a credit card to pay bills such as utilities, insurance and car payments
- ▶ Point-of-sale funds are drawn from primary checking account
- ▶ PIN-system security
- ▶ Change your PIN at any Merchants Bank branch
- ▶ No annual fee
- ▶ Choose from three card designs

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TYPES OF DEBIT CARD

1. ONLINE DEBIT CARD
2. OFFLINE DEBIT CARD
3. PREPAID DEBIT CARD
4. ELECTRONIC PURSE CARD
5. CARDS FOR MAIL, TELEPHONE & INTERNET USE ONLY

1. ONLINE DEBIT CARD

- ▶ Online debit cards require electronic authorization of every transaction.
- ▶ The debits are reflected in the user's account immediately.
- ▶ The transaction may be additionally secured with the personal identification number (PIN) authentication system and some online cards require such authentication for every transaction, essentially becoming enhanced automatic teller machine (ATM) cards.

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- ▶ One difficulty in using online debit cards is the necessity of an electronic authorization device at the point of sale (POS) and sometimes also a separate PIN pad to enter the PIN, although this is becoming common place for all card transactions in many countries.
- ▶ Banks in some countries, such as Canada and Brazil, only issue online debit cards.
- ▶ In the United Kingdom, Solo and Visa Electron are examples of online debit cards, which are typically issued by banks to customers whom the bank does not want to go overdrawn under any circumstances, for example under-18s.

2. OFFLINE DEBIT CARD

- ▶ Offline debit cards have the logos of major credit cards or major debit cards and are used at the point of sale like a credit card.
- ▶ This type of debit card may be subject to a daily limit, and/or a maximum limit equal to the current/checking account balance from which it draws funds. Transactions conducted with offline debit cards require 2-3 days to be reflected on users' account balances.
- ▶ In the United Kingdom, Maestro (formerly Switch) and Visa Debit (formerly Delta) are examples of offline debit cards.

3. PREPAID DEBIT CARD

- ▶ Prepaid debit cards, also called reloadable debit cards or reloadable prepaid cards, are often used for recurring payments.
- ▶ The payer loads funds to the cardholder's card account.
- ▶ Particularly for US-based companies with a large number of payment recipients abroad, prepaid debit cards allow the delivery of international payments without the delays and fees associated with international checks and bank transfers.

4. ELECTRONIC PURSE CARD

- ▶ Smart-card-based electronic purse systems (in which value is stored on the card chip, not in an externally recorded account, so that machines accepting the card need no network connectivity) were tried throughout Europe from the mid-1990s, most notably in Germany.

5. CARDS FOR MAIL, TELEPHONE AND INTERNET USE ONLY

- ▶ Special pre-paid Visa cards for Mail Order/Telephone Order (MOTO) and Internet use only are made available by a small number of banks. They are sometimes called "virtual Visa cards", although they usually do exist in the form of plastic. An example is 3V.
- ▶ Such a card prevents fraud by a card number thief even if the card is not blocked, because the customer normally does not store any money on the sub-account and fraudulent transactions do not get authorized by the bank

ADVANTAGES AND DISADVANTAGES

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▶ ADVANTAGES

1. A consumer who is not credit worthy and may find it difficult or impossible to obtain a credit card can more easily obtain a debit card.
2. Use of a debit card is limited to the existing funds in the account to which it is linked.
3. For most transactions, a check card can be used to avoid check writing altogether.

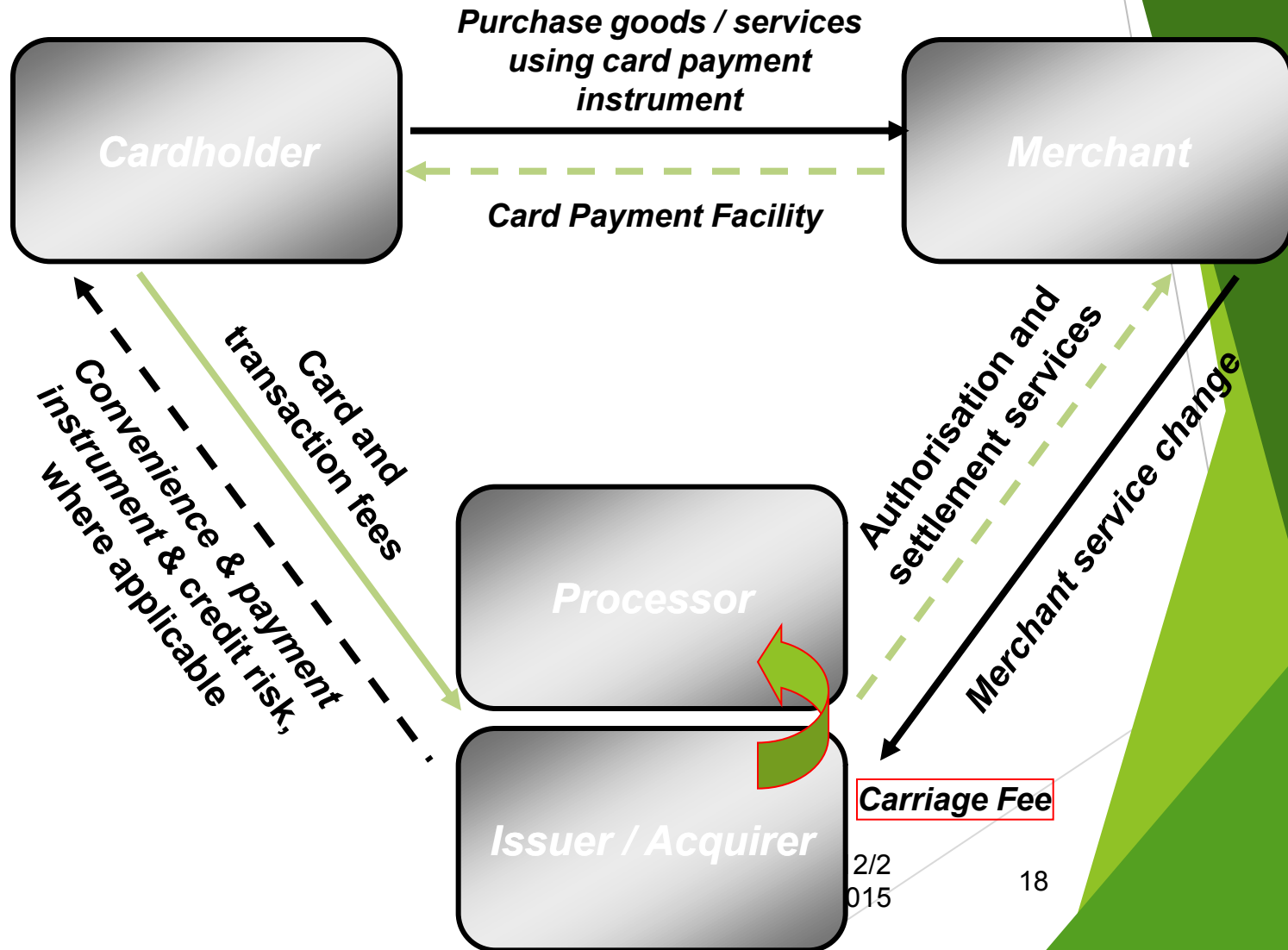
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4. Like credit cards, debit cards are accepted by merchants with less identification.
5. Unlike a credit card, which charges higher fees and interest rates when a cash advance is obtained, a debit card may be used to obtain cash from an ATM or a PIN-based transaction at no extra charge, other than a foreign ATM fee.

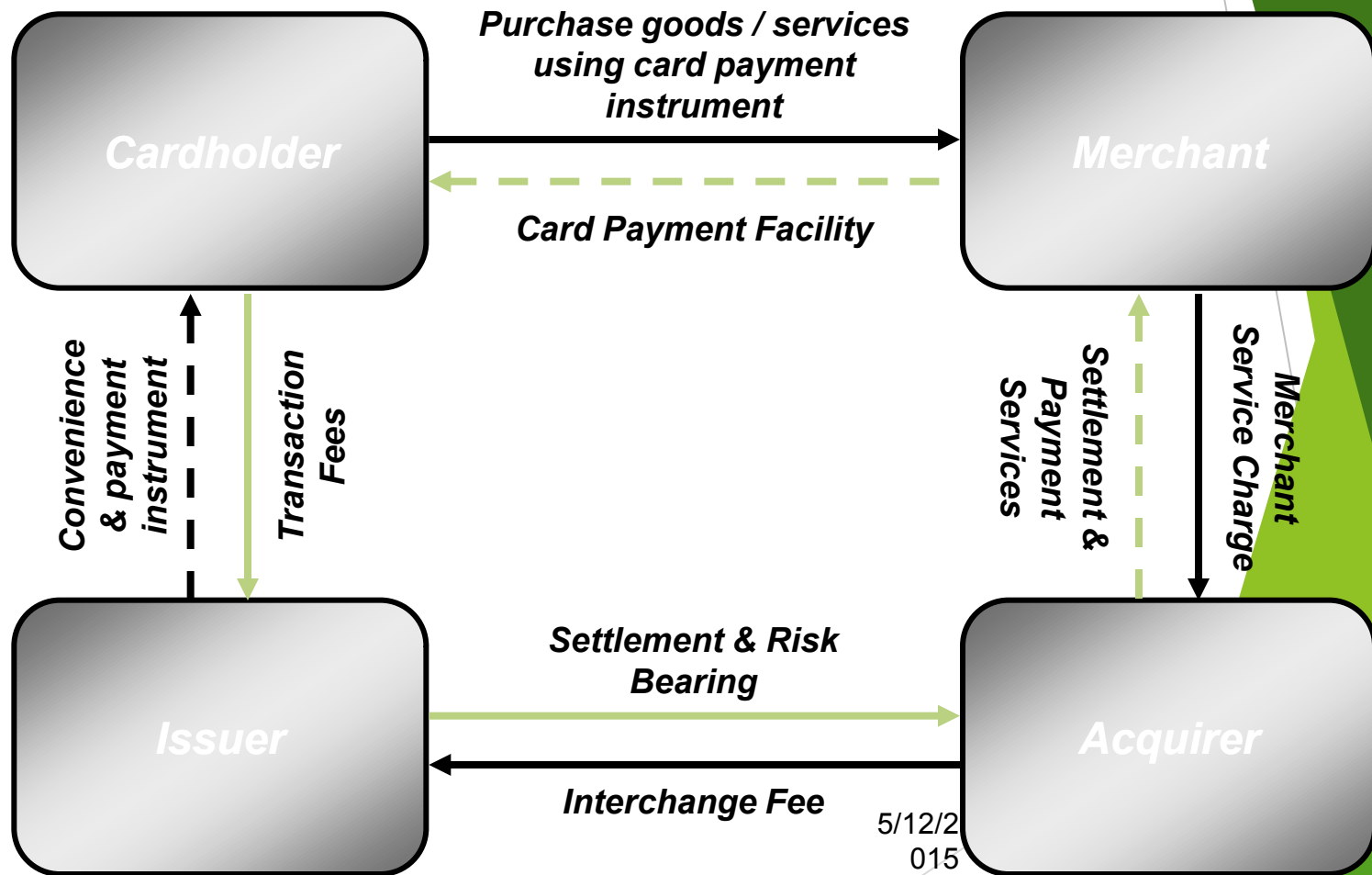
DISADVANTAGES

- ▶ Some banks are now charging over-limit fees or non-sufficient funds fees based upon pre-authorizations.
- ▶ Many merchants mistakenly believe that amounts owed can be "taken" from a customer's account after a debit card (or number) has been presented.
- ▶ In some countries debit cards offer lower levels of security protection than credit cards.

The Three Party Model

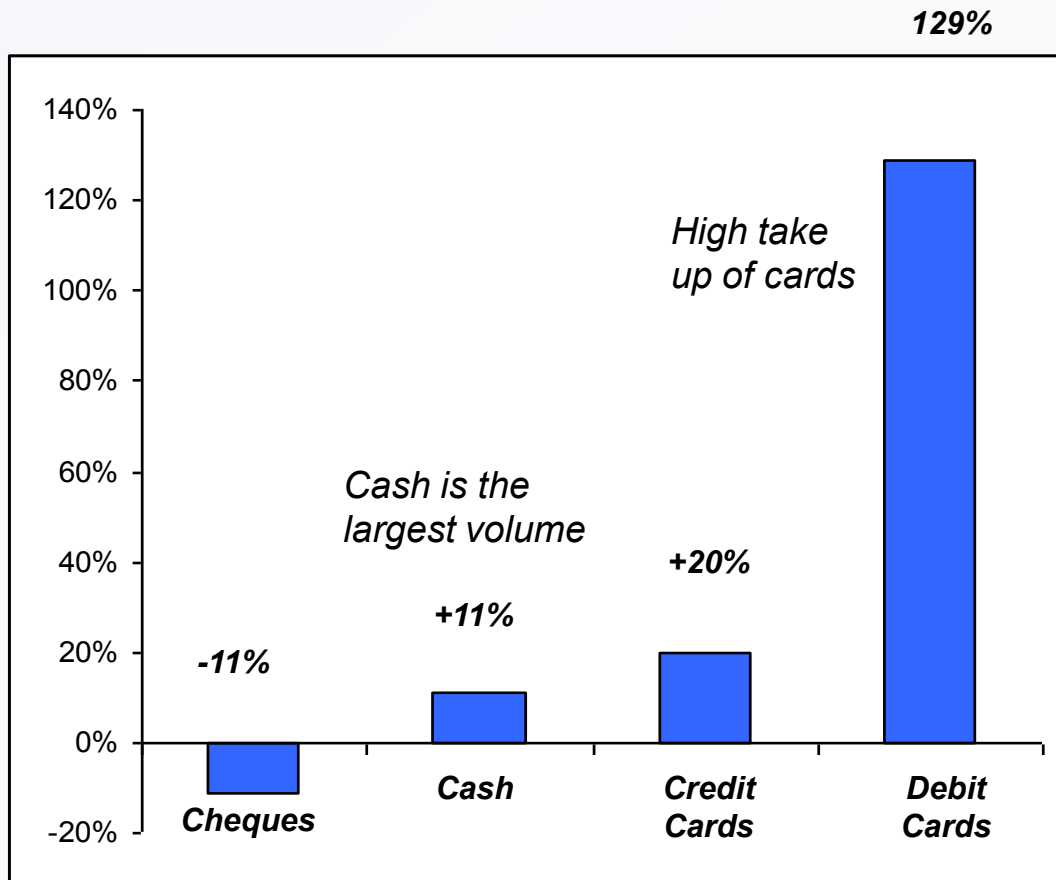


The Four Party Model (Debit Card)



This highly competitive market has resulted in impressive card growth

Volume Growth of Payment Streams 2002-2006 (CAGR)



Source: FRB Data

CREDIT

CARD

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CREDIT CARD

- ▶ A **credit card** is part of a system of payments named after the small plastic card issued to users of the system.
- ▶ It is a card entitling 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.

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- ▶ A credit card is different from a charge card, where a charge card requires the balance to be paid in full each month.
- ▶ In contrast, credit cards allow the consumers to 'revolve' their balance, at the cost of having interest charged.
- ▶ Most credit cards are issued by local banks or credit unions, and are the shape and size specified by the ISO 7810 standard.

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Partnercard, Secondary Card, Company Card...

Credit Card Type

Country & Company

Company Logo

16 Digit Credit Card Number

First Four Digits Printed Below The Embossed Number

Expiry Date

First & Last Name

Embossed Character



Hologram

WORKING PROCESS

- ▶ When a purchase is made, the credit card user agrees to pay the card issuer.
- ▶ The cardholder indicates his/her consent to pay by signing a receipt with a record of the card details and indicating the amount to be paid or by entering a Personal identification number (PIN).
- ▶ Also, many merchants now accept verbal authorizations via telephone and electronic authorization using the Internet, known as a 'Card/Cardholder Not Present' (CNP) transaction.

CONTD.....

- ▶ Electronic verification systems allow merchants to verify that the card is valid.
- ▶ The verification is performed using a credit card payment terminal or Point of Sale (POS) system with a communications link to the merchant's acquiring bank.
- ▶ Card is obtained from a magnetic stripe or chip on the card, but is more technically an EMV card (Europay, MasterCard and VISA). i.e. VSDC - VISA, Mchip - mastercard, AEIPS - American Express, J Smart - JCB

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INTEREST CHARGES

- ▶ Credit card issuers usually waive interest charges if the balance is paid in full each month, but typically will charge full interest on the entire outstanding balance from the date of each purchase if the total balance is not paid.
- ▶ EX:- If a user had a \$1,000 transaction and repaid it in full within this grace period, there would be no interest charged.
- ▶ FORMULAE - $APR/100 * ADB/365 * \text{number of days revolved}$. (Annual %age rate, avg daily bal)

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BENEFITS TO CUSTOMER

- ▶ Due to intense competition in credit card industry, credit card providers offer incentives such as
- ▶ FREQUENT FLYER POINTS
- ▶ GIFT CERTIFICATES
- ▶ CASH BACK(1% based on total purchase)
- ▶ LOW INTEREST CREDIT CARDS
- ▶ EVEN 0% INTEREST CREDIT CARDS ARE AVAILABLE

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GRACE PERIOD

- ▶ A credit card's grace period is the time 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.
- ▶ If a customer is late paying the balance, finance charges will be calculated and the grace period does not apply.

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BENEFITS TO MERCHANTS

- ▶ A credit card transaction is often more secure than other forms of payment, such as checks, because the issuing bank commits to pay the merchant the moment the transaction is authorized, regardless of whether the consumer defaults on the credit card payment.
- ▶ More secure than cash, because they discourage theft by the merchant's employees and reduce the amount of cash on the premises.
- ▶ Prior to credit cards, each merchant had to evaluate each customer's credit history before extending credit.

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COSTS TO MERCHANTS

- ▶ Merchants are charged many fees for the privilege of accepting credit cards.
- ▶ The merchant may be charged a discount rate of 1% - 3% + of each transaction obtained through a credit card.
- ▶ Usually, the merchant will also pay a flat per-item charge of \$0.05 - \$0.50 for each transaction.

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PARTIES INVOLVED

- ▶ CARDHOLDER: Used to make a purchase.
- ▶ CARD ISSUING BANK: The financial institution or other organization that issues the card to the cardholder.
- ▶ MERCHANT: The individual or business accepting credit card payments for products or services sold to the cardholder.

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CONTD.....

- ▶ ACQUIRING BANK: The financial institution accepting payment for the products or services on behalf of the merchant.
- ▶ INDEPENDENT SALES ORGANISATION:
Resellers (to merchants) of the services of the acquiring bank.
- ▶ MERCHANT ACCOUNT: Organization that the merchant deals with.

CONTD.....

- ▶ CREDIT CARD ASSOCIATION: An association of card-issuing banks such as Visa, MasterCard, Discover, American Express, etc.
- ▶ TRANSACTION NETWORK: The system that implements the mechanics of the electronic transactions.
- ▶ AFFINITY PARTNER: Some institutions lend their names to an issuer to attract customers that have a strong relationship with that institution, and get paid a fee or a percentage of the balance for each card issued using their name.

TRANSACTION STEPS

- ▶ AUTHORIZATION - Approval code which the merchant stores with the transaction.
- ▶ BATCHING - Transactions stored in “batches” which are send to the acquirer.
- ▶ CLEARING AND SETTLEMENT - debits the issuers for payment and credits the acquirer.
- ▶ FUNDING - Merchant receives the amount totaling the funds in the batch minus the “discount rate.”
- ▶ CHARGEBACKS - Chargeback is an event in which money in a merchant account is held due to a dispute relating to the transaction.

TYPES OF CREDIT CARDS

CREDIT CARDS FOR BAD CREDITS

1. SECURED CREDIT CARDS

A secured credit card is a type of credit card secured by a deposit account owned by the cardholder.

Typically, the cardholder must deposit between 100% and 200% of the total amount of credit desired.

Thus if the cardholder puts down \$1000, they will be given credit in the range of \$500-\$1000.

2. PREPAID “CREDIT” CARDS

- ▶ A **prepaid credit card** is not a credit card, since no credit is offered by the card issuer: the card-holder spends money which has been “stored” via a prior deposit by the card-holder or someone else, such as a parent or employer.
- ▶ Prepaid cards can be issued to minors (above 13) since there is no credit line involved.

STANDARD CREDIT CARDS

1. BALANCE TRANSFER CREDIT CARDS

Balance transfer credit cards allow consumers to transfer a high interest credit card balance onto a credit card with a low interest rate. Typical in the market today are balance transfer credit cards with an introductory annual percentage rate (APR) of 0 percent, with that introductory or "teaser" rate lasting several months up to a year.

2. LOW INTEREST CREDIT CARDS

Low interest credit cards offer either a low introductory APR that jumps to a higher rate after a certain period, or a single low fixed-rate APR. Low interest cards can be very useful when consumers need make a large purchase because it allows several months to a year to pay it off with very low or no interest.

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SECURITY

- ▶ Credit card security relies on the physical security of the plastic card as well as the privacy of the credit card number.
- ▶ Whenever a person other than the card owner has access to the card or its number, security is potentially compromised. i.e. security PIN is required
- ▶ Some merchants will accept a credit card number for in-store purchases, where upon access to the number allows easy fraud, but many require the card itself to be present, and require a signature.

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- ▶ Thus, a stolen card can be cancelled, and if this is done quickly, will greatly limit the fraud that can take place in this way.
- ▶ The PCI DSS is the security standard issued by The PCI SSC (Payment Card Industry Security Standards Council).

CREDIT CARD COSTS

- ✓ Annual Fees
- ✓ Interest
 - ✓ Annual Percentage Rate (APR)
- ✓ Average Daily Balance Method
- ✓ Cash Advances
- ✓ Convenience Checks
- ✓ Penalty Rates
- ✓ Low Interest Teaser Rates
- ✓ Balance Transfers
- ✓ Late Fees
- ✓ Over Credit Limit Fees
- ✓ Bounced Check Fees
- ✓ Currency Conversion Fees

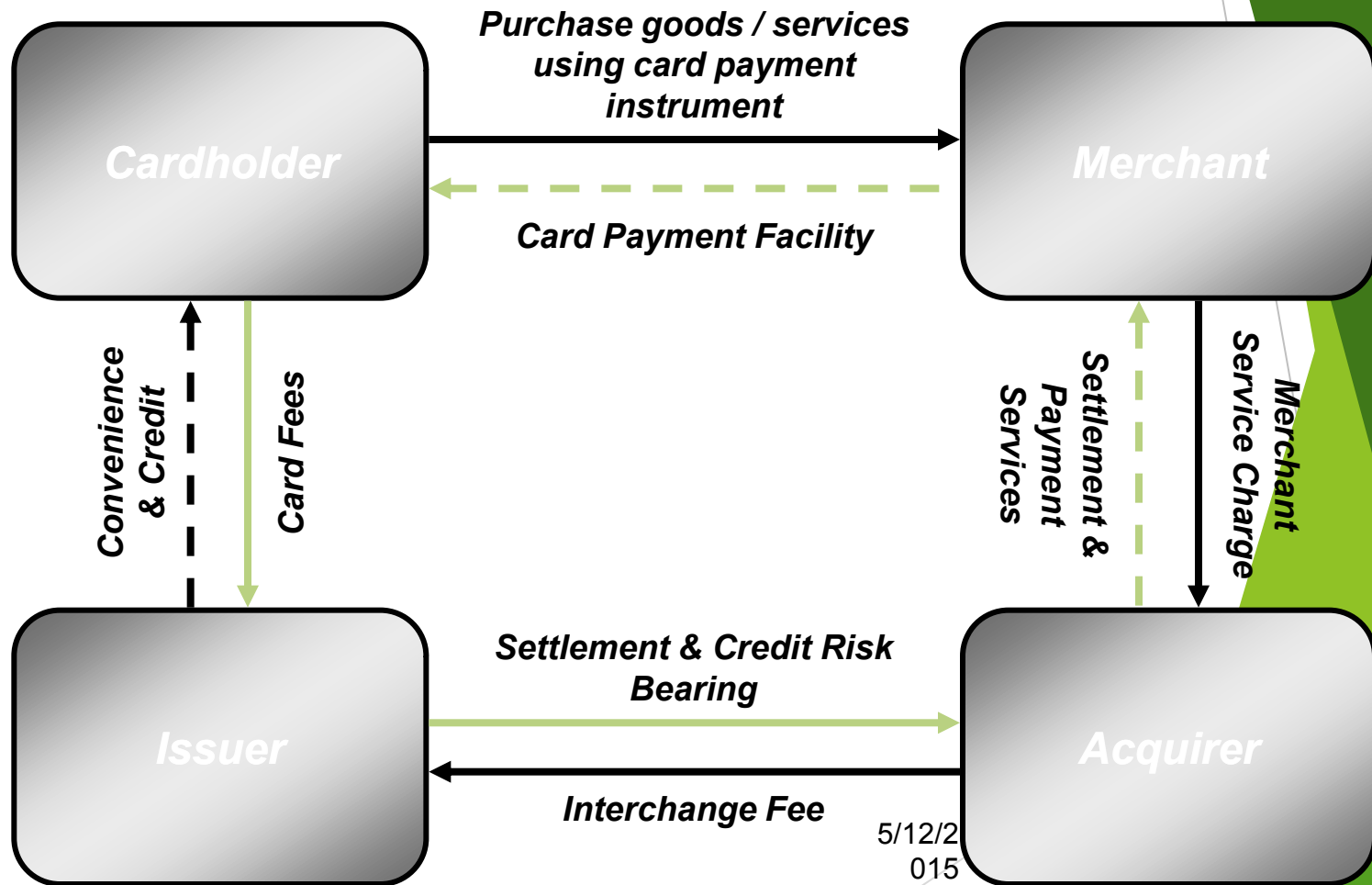
Credit Card Do's

- ◆ Use a debit card vs a credit card
- ◆ Use a card with no annual fee and low interest rates
- ◆ Know all of your card's hidden fees
- ◆ Always pay more than the minimum each month
- ◆ Pay on time, all the time

Credit Card Don'ts

- ◆ Don't get more than one
- ◆ Don't use them for cash advances
- ◆ Don't use them to pay for basics: rent, groceries, etc.
- ◆ Don't charge more than you can pay off in a month
- ◆ Don't let banks increase your credit limit

The Four Party Model (Credit Card)



WHICH CARD DO YOU WANT IN YOUR WALLET??

- ▶ Current data suggests that debit cards are more popular with consumers than credit cards.
- ▶ A recent TNS Financial Services Consumer Credit Card Program Study indicated that over 60 percent of consumers prefer using debit cards to credit cards as a payment vehicle, because debit feels more like "real money."

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CONTD.....

- ▶ Debit cards are also gaining favor as a form of online payment. Based on data from Jupiter Research in American Banker, debit cards will account for 46 percent of all online purchases by 2010, compared to 41 percent in 2006. The same data forecasts a slide in credit card use to 35 percent of all online purchases in 2010 from 41 percent in 2006

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THANKS...

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