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THE ROLE OF THE BANKAMERICARD
IN BANK CREDIT CARDS

by 6408

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A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

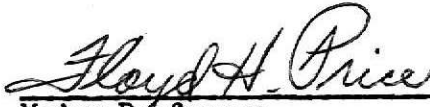
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Chapter 1

INTRODUCTION

Today, much is written and heard about credit cards in general. Consumer credit enables individuals or families to get money, goods, or services and pay for them in the future. A credit card is normally a small piece of plastic which when presented to a merchant allows a consumer to charge almost anything and everything, including travel, gasoline, entertainment, and even cash loans. Because of the recent rapid increase in the number of bank credit card plans, it is difficult to make an accurate estimate as to how many of these plans there may be.

Bank credit cards are not new--at least one has been around since 1951. In recent years, however, banks have become increasingly interested in the credit card field. Today credit cards are a more common bank "service" than ever before.

A bank credit card may represent one bank, a number of banks, or a large non-bank credit card program. The last two types of bank credit cards make it possible to use a bank card in a wider geographical area, as well as for a greater variety of items than does a card issued by a single bank.

BankAmericard, which was launched in California by Bank of America in 1959, is an all-purpose credit plan available to all credit-worthy consumers when doing business with participating retail, service and professional establishments. A mid-year report covering the first half of 1968 stated that the national program had made some of its greatest strides during the first six months of that year, continuing to set new records in every category of growth. Of the fifty million

bank cards in circulation in early 1970, estimates showed that about twenty-three million were BankAmericards and almost twenty-one million were affiliated with Interbank, also known as Master Charge in many places.

THE PROBLEM

Statement of the problem. The writer attempted to determine the use of a universal bank credit card, the BankAmericard, in the Salina, Kansas, area.

Objectives. The purpose of this study was (1) to analyze the position of a specific, universal credit card, the BankAmericard, among other bank credit cards, and (2) to show what the bank credit card means in terms of convenience and service to both the cardholder and the merchant, particularly the smaller merchant.

Limitations and Delimitations. Of all consumer credit cards, this study was limited to bank credit cards and especially, the BankAmericard. Because the move toward bank credit cards is quite new, library sources were limited to a review of magazine and newspaper articles. Other sources of information included addresses, brochures, trade journals, interviews and government reports.

DEFINITIONS OF TERMS USED

Disposable personal income. The total amount of income available for spending by individuals after federal and state taxes are paid.

Consumer. One who purchases goods or services that satisfy human wants and desires.

Credit. Implies that the consumer receives a product and promises to pay later.

Credit card. A source of consumer credit in retail stores as well as other places, evidenced by a small written paper of verification.

Bank credit card. One issued by one bank, a number of banks or a large, non-bank credit card program.

BankAmericard. The bank credit card issued by the Bank of America in California.

Universal credit card. A general-purpose credit card which would enable the holder to use it everywhere for the purchase of goods or services.

"Checkless, cashless society". The result of one all-purpose credit card which would largely eliminate the use of paper and the transactions of which would be recorded in banks by electronic computers.

Chapter 2

REVIEW OF THE LITERATURE

The extension of credit has become an important factor in the growth of our economy, and the consumer's attitude toward credit has changed substantially in recent years. High employment levels, social security, health and pension programs have reduced the individual's need or incentive for savings; therefore, more of the consumer's disposable income is available to satisfy his immediate wants and desires. Out of this situation have been born various credit card plans which are discussed in detail in the following review of literature.

LITERATURE ON THE DEVELOPMENT OF CREDIT

CARDS AND BANK CREDIT CARDS

Credit is one of the many social inventions widely used by families, retailers, financial institutions, and many others involved with distributing goods and services to the ultimate consumer. The expansion in the use of consumer credit by American families during the past twenty years has been of great interest and some concern to those in education, business, and finance. Recognized changes taking place in society have influenced consumers' attitudes toward credit use. As a result, some persons are overextending their use of credit. On the other hand, some lenders may be taking unfair advantage of less knowledgeable consumers.¹

¹Louise A. Young, Consumer Credit in Family Financial Management, Proceedings of a National Workshop, Oct. 9-12, 1967, University of Wisconsin, p. 9.

At the start of the twentieth century a few hotels began to issue credit cards to their regular patrons, and as early as 1914 large department stores and gasoline-station chains were issuing cards. In those days credit cards had three basic functions: (1) they were often prestige items issued only to valued customers (2) they were more convenient to use than cash and (3) they provided some degree of safety. During World War II the use of credit cards virtually disappeared because of Government restraints on consumer spending and credit. After wartime restrictions were lifted, many that had previously issued cards reinstated their plans, and in 1947 railroads and airlines began to issue their own travel cards. In 1949 the Diners Club was established to sell credit cards that were designed for use in restaurants; later that plan was extended to cover general travel and entertainment purchases. The Diners Club card was followed in a short time by similar arrangements through American Express and Carte Blanche.²

Many organizations today issue credit cards. These include oil companies, travel and entertainment credit card companies, commercial banks, and retail outlets, particularly large department stores. It is possible to charge almost anything today--from a trip to Bermuda, to a new refrigerator, to a life insurance policy. One organization even provides a credit card which enables housewives to charge purchases right at home. Credit cards can differ greatly from one another.

²Bank Credit-Card and Check-Credit Plans, A Federal Reserve System Report, July, 1968, Board of Governors, p. 7.

Several cards may be used throughout the world and enable the cardholder to charge a wide variety of items; other cards may be used locally to charge a limited number of items. A credit card may or may not offer a revolving credit feature--a number of them are of the straight thirty-day variety, in which the bill must be paid monthly in full.

Bank participation in charge-card credit plans came rather late in the game. The Franklin National Bank in Franklin Square, New York, started the first of the current bank credit cards in August 1951, but its program did not achieve full-scale operation until April 1952. In the next two years almost one hundred banks--primarily small ones--entered the credit-card field in the belief that profits would be very substantial, but about one-half of them discontinued the service in a short time. The extraordinary profits did not materialize and, in fact, losses were prevalent, due to the unexpectedly high cost of starting a credit-card program and the long time usually required to overcome the initial losses incurred. Aside from the need for additional equipment, the banks had to hire extra personnel and make large outlays for advertising. These expenses, when taken together with a lack of experience in this form of lending, proved too much of an obstacle for many banks to overcome; therefore, many dropped out. Of the nearly two hundred banks with credit-card balances outstanding in September 1967, only twenty-seven had started their card plans before 1958; many of these banks are located in the New York and Chicago Federal Reserve Districts.

A major stimulus to bank credit cards came in 1958 and 1959. By that time a number of banks had become convinced that credit cards could be profitable. The Bank of America introduced its program in

1958, and toward the end of the year Chase Manhattan Bank began credit-card operations. Several other large banks followed quickly, and by the end of 1959 more than forty banks had entered the field, many of them in New York and on the West Coast. After that there was a rapid increase in the number of banks offering either credit cards or check-credit plans. Indeed, of the nearly eight hundred plans reported at the end of September 1967, 235 were first established during the two-year period 1958-1959.

But as it turned out, the two largest banks ran into difficulty with their credit cards not long after the programs were initiated. Chase Manhattan appears to have been discouraged by inability to generate sufficient volume, and in January 1962 sold its credit-card business. The reluctance of the large department and specialty stores in New York City to give up their well-established credit offices contributed to Chase's difficulties. The Bank of America also encountered difficulties in the early phases of its program. Evidently these experiences discouraged many smaller banks from entering the field.

Bank credit cards are used chiefly as a means of charging retail purchases. The card plays the dual role of providing evidence to the merchant that the bank has granted a line of credit to the customer and of being a convenient, accurate means of imprinting sales drafts. A credit-card plan requires a direct connection with retail merchants who agree to accept the use of the cards for charging the purchases of goods and services. The merchant must open an account with the bank, if he does not have one. The merchant may deposit his sales slips either with the card-issuing bank or with one of its agents. In either case he receives immediate credit (less a discount) in his own account.

Thus, the bank in effect takes over the financing of the merchant's accounts receivable.

Credit cards are issued to consumers, who may or may not be depositors of the issuing bank. There is no charge for the card itself. Generally, the larger banks introduced their cards by an unsolicited--but not indiscriminate--mailing of cards and/or applications to selected individuals. The individuals usually were selected on the basis of their deposit or loan relationship with the card-issuing bank. Normally, bank credit-card plans require the owner's signature on the card. Under many plans the cards expire automatically with a given period, usually one year.

At the issuance of a credit card, the cardholder is usually assigned a credit line, constituting the maximum amount of credit the bank will extend through the card. Only one bank with a large plan reported issuing cards with credit lines as low as fifty dollars; one hundred dollars was much more frequently reported as the smallest credit line assigned by the bank. According to a survey, only a small proportion of the banks with the largest card plans reported that they had set no maximum limits on the size of the credit line they might possibly assign to one or another of their cardholders. The bank credit card entitles the holder to charge purchases at retailers who have signed with the plan. The bank bills the cardholder monthly, but the cardholder has the option of repaying the full balance within a specified grace period--usually thirty days--without any service charge. If he does not pay in full within the grace period, his account is placed on a revolving-credit basis. Most card-issuing banks require a minimum repayment--for example, ten dollars a month. Service charges on the

unpaid balances reported in a special survey ranged from three-fourths to one and one-half percent per month. The merchant is charged a discount on his sales slips by the bank. The discounts vary widely, from as low as one-half of one percent of sales-slip volume to as high as eight percent, with an average of about three and one-half percent. In contrast, discounts on sales of airline tickets are much lower, averaging about one and one-half percent. The total number of credit-card accounts is very large, and as might be expected, the mature plans show a higher proportion of active accounts.

Andrew F. Brimmer, member, Board of Governors of the Federal Reserve System, remarked to the American Bankers Association convention in Chicago, November 7, 1968, that "the rapid and widespread acceptance of bank credit cards by consumers should have erased all doubt about the extent to which this innovation in bank financing serves the needs and conveniences of the public."³

He further stated:

It should be obvious that I believe bank credit cards are providing a service that bank customers find useful. I see no inconsistency between the widening use of this form of consumer credit and the requirements of sound banking practices. . . . Most of the recent questions brought up in Congress concerned the periphery of credit-card plans. They did not dispute the basic merits and operations of the plans. Like any new development, credit-cards, and to a lesser extent, check-credit, bring problems. Many of these, mass-mailing, for example, diminish with time. Others, such as the question of liability for fraudulent use of cards, will be a continuing though hopefully also a diminishing problem. As I indicated in my testimony to Congress, the banks are taking steps on their own to reduce these problems and

³Public Convenience and the Expansion of Bank Credit Cards, Remarks by Andrew F. Brimmer, Member, Board of Governors of the Federal Reserve System, before the American Bankers Association, November 7, 1968, p. 1.

doing it in most cases without additional regulatory measures, the pressures of the market being sufficient in most cases. Except in that one area of fraud liability, where some specific legislation may be desirable as to all credit cards--bank and non-bank, alike--it seems clear that banks do not need additional legislative regulation. Banking in the past has been accused of being unwilling to change. Therefore, when banks do develop an imaginative new service, they should be encouraged so long as such innovation is consistent with the furtherance of the public welfare. The degree of consumer and merchant acceptance of credit cards and check-credit plans shows that banks are meeting the need for a new financial service, and financial services are the job of banks.⁴

Bank credit cards have attracted more attention than any other recent innovation in banking services. In part, this is because of the rapidity with which card plans have spread in recent months and the broad distribution of the cards among residents of some areas. In Chicago and much of the surrounding area, for example, virtually everyone who has had satisfactory credit relations with a bank or other establishment by now has been supplied with one or more of the cards.

Advantages and disadvantages of the credit card plans have been debated vigorously. The card-issuing banks believe the card to be a logical extension of their financial services to both retail establishments and consumers. Merchants have found the new plans a stimulant to sales or a cost-saving substitute for their own credit operations and, of course, thousands of card-carrying customers now appreciate the convenience of this key to "instant credit."⁵

In less than two years, bank credit cards became a common banking service throughout much of the Seventh Federal Reserve District,

⁴Ibid., pp. 14-15.

⁵Bank Credit Cards: Stampede in the Midwest, June 1967, Federal Reserve Bank of Chicago, pp. 6-9.

Iowa being the major exception. Almost one thousand banks--half the insured banks in district portions of Illinois, Indiana, Michigan, and Wisconsin--offered credit card services. Because of ceilings on interest charges in Iowa, banks there said credit card plans could not be developed profitably. Three types of credit card plans were used in the district. Some banks operated their own; some were affiliated with such travel and entertainment plans as American Express and Carte Blanche; and some were affiliated with other banks having their own credit cards.⁶

An official study of the banks' rush to offer credit cards and other easy credit plans was completed in 1968, and came to these conclusions: (1) People, by and large, were taking credit cards in stride, not getting too far into debt, not running up big losses for the banks. (2) No steps should be taken by the Government to keep banks from mailing out credit cards unsolicited. (3) Banks, however, were being more careful in screening the people to whom cards were sent. (4) There was no evidence that credit cards were responsible for raising retail prices--an effect that would be felt by everybody. (5) There was no evidence that credit cards and similar plans operated to the disadvantage of small banks or small merchants. For these and other reasons, the study concluded, there was no need for legislation to deal with this easy-credit phenomenon.⁷

The subject of internal and external security systems for credit cards has generated much controversy in recent years. The

⁶Bank Credit Cards: Saturation in the Midwest? June 1968, Federal Reserve Bank of Chicago, pp. 12-16.

⁷"Official Word on Bank Credit Cards," U. S. News & World Report, LXV (August 12, 1968), 81.

massive entrance of banks into the field has intensified the controversy, notably due to the widespread publicity surrounding apparent shortcomings in some banks' security procedures. In fact, among banks who are presently studying whether or not to launch a credit card venture, the question of security is a major consideration; and in general an air of apprehension about possible fraud losses surrounds the subject.

There is absolutely no question, in the minds of experienced security personnel, that fraud can be minimized if the system is realistically created, computer oriented and sensibly controlled. The cooperation of cardholders, merchants and other credit card plans, along with law enforcement agencies, will also aid appreciably in deterring losses imposed by petty thieves, unorganized gangs, and the organized professional rings.⁸

LITERATURE ON THE DEVELOPMENT OF THE BANKAMERICARD

A look at some typical card plans shows what has happened in different parts of the country. One of the biggest programs is that of Bank of America, the nation's largest bank, with headquarters in San Francisco. Its card, BankAmericard, was started in 1959. By 1966, sales had risen to more than \$228,000,000. For the first quarter of 1967, sales were $56\frac{1}{2}$ percent above the same period a year earlier. Meanwhile, one hundred or more banks in California, Utah and Washington State formed the rival Master Charge card association and issued three million cards. In California in 1968, well over one hundred thousand

⁸J. W. Young, "Security and 'The Card'", The Magazine of Bank Administration, XLIV (May 1968), p. 7.

concerns accepted such cards in lieu of cash. During the previous year, BankAmericard holders alone had charged more than \$464,000,000 worth of goods and services, ranging from dinner parties to tombstones.

BankAmericard was first mass-issued in California in 1959, and tested as a statewide all-purpose card. "We got into it early, took our losses and worked the bugs out," said Donald R. McBride, president of BankAmerica Service Corporation which franchises the card outside California.⁹ Rather than undergo the expense--and the risk--of introducing their own cards, many banks have chosen to link up with existing nationwide systems. The biggest single beneficiary has been San Francisco's Bank of America.

Bank charge-card schemes are also going international, enabling holders to use their cards when traveling abroad. Not to be outdone BankAmericard has gone into a joint credit-card venture with Sumitomo Bank in Japan and four banks in Canada, in addition to Barclays Bank, Ltd., in Britain. The growth of bank credit cards throughout the world received a major boost with the announcement that Latin America's largest bank, Banco de Comercio Sa, Mexico City, has joined the BankAmericard international program. The new Mexican credit card will use the identical blue-white-and-gold design employed by BankAmericard in the United States, Chargex in Canada, Barclaycard in Great Britain, Ireland, South Africa, Malta, and Gibraltar, and Sumitomo card in Japan.

By March 1970 both BankAmericard and Master Charge were so widely usable that it is difficult not to think that they will wipe

⁹"Banking: The Card Game," Newsweek, LXI (December 9, 1968), 82.

out most other cards in the long run. Both bank systems tirelessly seek new uses for the cards; holders in ten different states where banks have made the proper arrangements can now use them in paying up to \$500 worth of federal income taxes.

It has taken two decades of experimentation to bring the big card game to the present degree of sophistication. California's Bank of America was first to start it toward fruition. During the early years of the great plastic rush, most visions of large monetary returns proved to be mirages. Bankers setting out to play the new credit game were involved, almost instantly, in a sort of interlocking dilemma; they could not ask the public to use their cards if no merchants would honor them, and could not ask a merchant for acceptance and discounts without being able to suggest that a large number of buyers was waiting. They were usually forced to launch both processes at once--and had to be fast in accomplishing card distribution.

A study of eighty-four representative card operations which San Jose Attorney Richard N. Salle and Economist Constantine Danellis conducted in 1969 for the Charge Account Bankers Association showed that only one-fifth of the banks investigated checked the credit background of those to whom cards were mailed. Neither the FBI nor the Department of Justice will make any estimate of the number of bank card frauds in recent years.¹⁰ Nevertheless, this type of credit has become firmly established, and it will undoubtedly play an expanding role in bank lending to consumers in the years ahead.

¹⁰Paul O'Neil, "A Little Gift from Your Friendly Banker," Life, Vol. 68, No. 11 (March 27, 1970), pp. 48-58.

Recent legislative and regulatory changes affected bank credit cards. The Consumer Credit Protection Act was amended on October 26, 1970, and the Federal Reserve Board made implementing changes in its Regulation Z (Truth-in-Lending) effective January 25 of this year. Among other changes, the legislation prohibited the issuance of unsolicited credit cards after October 26, 1970, and it limited the liability of credit cardholders for unauthorized use of their cards to a maximum of fifty dollars beginning January 25, 1971.¹¹

A table covering the national credit card systems of BankAmericard and Master Charge or Interbank showed the following increases from June 30, 1969, to December 31, 1970: number of card-issuing banks, 108 percent; number of cardholder accounts, ten percent; number of active accounts, seventy-eight percent; and the average amount outstanding per active account, twenty-seven percent.¹²

To a considerable extent, bank credit cards are being used as substitutes for other types of revolving credit. This tendency is suggested strongly by the trends in several types of revolving credit plans over the last three years. At the end of 1967, the volume of bank credit card receivables was about equal to that for oil company cards, but substantially below the outstandings at department stores and in retail charge accounts. By the end of 1970, the amount under bank credit cards was double the amount for oil companies' cards, and the banks had closed a sizeable part of the gap by which they lagged

¹¹Andrew Brimmer, Bank Credit Cards, The Record of Innovation and Growth, (A paper presented at the Annual Seminar of the Puerto Rican Bankers Association, San Juan, Puerto Rico) March 26, 1971, p. 20.

¹²Ibid., Table 7.

department stores and other retail outlets. In terms of relative shares, only banks and oil companies improved their positions over the three-year period. All other categories of revolving credit declined relatively. It seems increasingly clear that bank credit cards are, therefore, substituting for other forms of consumer credit arrangements.¹³

LITERATURE ON THE DEVELOPMENT OF A UNIVERSAL CREDIT CARD

Many misconceptions reflect the general public's confusion and misunderstanding and as we move into a "less check, less cash" society, proper communication on this issue should have top priority among the marketing jobs that need to be done. Today we are in the midst of a financial revolution that has been described as creating the "checkless-cashless society." Some bankers feel that the words checkless and cashless do not fully convey the dramatic changes that are now being designed to shape all our financial lives, and they prefer to describe the financial future as a "paperless society." What role, if any, will universal credit card plans have in this financial future?

It has become increasingly clear to bankers and other financial experts, postal authorities, regulatory authorities, equipment manufacturers, and communications firms that our private and business lives are rapidly being submerged by a sea of paper of all types: monthly bills, sales receipts, checks, deposit acknowledgments, insurance premium notices, and so forth. In 1967, for example, over seventeen

¹³Ibid., p. 18.

billion checks were written. By 1975, unless our system of transferring money changes, more than twenty-five billion checks will be written. The cost to business and consumers of clearing this mountain of paper is estimated at three and one-half billion dollars annually. In addition to this expense, there will be physical limitations (not enough people and machines that are fast enough) within our banking system for handling this anticipated volume of paper.

Will money disappear? Some bankers see the spreading popularity of credit cards as an initial step toward the checkless-cashless society when such cards will permit customers to pay their household bills, do all their banking and make purchases anywhere by electronic computer. This card boom, in fact, has been made possible largely by the automation of bank operations, so that accounts can be debited and credited almost instantaneously, and an individual's credit status ascertained quickly.

Recognizing the increasing paper flow, banks entered the credit card field in the 1950's, and with the maturing of advanced data processing techniques, their credit cards have grown by the millions in recent years. Although traditionally banking is slow to change, most bankers recognize the need for a single or universal credit card. Such a card could be used to charge all types of expenses, from gas and oil to major purchases, such as, furniture and clothing. It could also be used to purchase these articles wherever in the world the customer happened to be at any time. The customer would, of course, receive one consolidated monthly bill. But such a card would have only a limited effect on reducing paper flow and consumer expense, since most consumer purchases are still made with some form of cash payment.

The American Bankers Association has guided the considerations concerning a universal credit card. However, developments in banking are moving rapidly, and rather than restrict future planning to a universal credit card, many bankers feel that an all-purpose identification card will evolve. This card will be used for many purposes, such as, instant and accurate customer identification, cash buying, charge purchasing, installment borrowing, and check cashing.

E. B. Weiss, vice president and director of special merchandising service for the advertising agency, Doyle Dane Bernbach, Inc., has made a study of the marketing role of banks in a checkless society. He said:

As the checkless era approaches step by step, banks intend to increase their share of the credit card total. When cashless technology is fully operational, banks aim to control perhaps ninety percent of what will then be a universal credit card. . . . Full acceptance of any bank credit card system must wait until all banks are linked into one credit card system. . . . Considerable progress has been made in solving this problem. . . . The Bank of America's BankAmericard already has gone spottily national by franchising the use of its card to banks around the country.¹⁴

During the intervening time leading up to the checkless era, banks will broaden the functions of the credit card. These broader functions may create severe problems for the giant retailers who want to hang on to their profitable credit card business. However, it appears more likely that the credit card companies eventually will have to merge into the regular banking system or disappear. The credit card

¹⁴E. B. Weiss, "A Universal Bank Credit Card?" Mid-Continent Banker, LXIV (August 1968), 74.

companies are finding it difficult to compete with bank cards--and banks have barely begun to compete vigorously (with a few exceptions, such as, Bank of America).

Weiss further wrote:

Two decades ago only a small percent of our population had a bank connection of any other than the absolute minimum. Today this percentage has risen phenomenally --and the pace of the rise continues to accelerate in direct ratio to the use in affluence and in knowledge. The same trends will now broaden to include the family-finance services formerly available only to the rich--our new society will demand it and technology will make it economically feasible as a bank service.¹⁵

Most bankers agree that the proliferation of credit cards is moving the nation inexorably toward a cashless and checkless era based on computerized banking. In that society, businessmen would transmit everyone's bills by wire directly into a giant computer network. Debts would be paid by electronic transfer of money from one account to another. "Coins will remain, but mainly for carfare, sales taxes and penny-ante transactions," predicts Governor George Mitchell of the Federal Reserve Board. "It's technologically possible now," notes Vice President Edward Bontems of Los Angeles' United California Bank. "The problem is: will people want it?"¹⁶

Bankers are already looking toward the day when most companies will put payrolls on a reel of computer tape that will be sent to the bank. The bank's computers will automatically credit each employee with his pay, deduct all his recurring bills and credit the deductions to the

¹⁵E. B. Weiss, "New Services in Checkless, Cashless Society," Mid-Continent Banker, LXIV (May 15, 1968), 29.

¹⁶"Easy Go: Use of Bank Credit Cards," Time, LXXXIX (April 21, 1967), 91.

proper account. It may also be programmed to invest his surplus money in interest-earning bonds. No longer will payday mean long waits before tellers' windows and the tedium of paying monthly bills. Businessmen face still more sweeping changes. Conventional credit card firms may have to merge to survive; the Post Office's mail load will be lightened by millions of unsent bills and payments.

"We will have local checkless experiments in the early 1970's," predicts Vice President Herbert Schwartz of Manhattan's First National City Bank, "and tie into a national system in the mid-'70s--much as local telegraph companies connected countrywide a century ago. I visualize an annual statement with interest payments, amortization of the home, taxes paid, insurance--all ready to present to the tax people." Some bankers dispute Schwartz's optimistic timetable, but James S. Duesenberry of the White House Council of Economic Advisors insists: "This electronic transfer of money has to come because of the terrific load of paper and mechanical transfer that's beginning to clog the banking system." What bankers are saying, in short, is that people will get more out of their money if they hardly ever see it at all.¹⁷

Some of the significant recent developments in the world of money and credit center on bank credit cards and banking and credit applications of electronic data processing computers. Let us consider these developments as important building blocks for the future as we think ahead fifteen or twenty years.

¹⁷Ibid., p. 92.

Many people are already calling it the "checkless-cashless society." Others call it the "push-button economy," while still others refer to it as the "paperless society." These labels may all be correct, for by 1985, money, checks, and credit cards as we know them today could well be obsolete mediums of exchange for most consumer transactions. Whether an all-purpose identification card or the current bank credit cards will be the ultimate answer to help stem the pyramiding growth of paper transactions, only time will tell. For the present, the experienced BankAmericard with its franchise plan seems firmly entrenched. It appears to have weathered its pioneering years and continues to gain in popularity at home and abroad.

Chapter 3

PROCEDURE AND METHOD OF ANALYSIS

PROCEDURE

Type of Study. This research incorporated a descriptive research design, specifically making use of content analysis. The content analysis centered around the status of a specific bank credit card, BankAmericard, among many bank credit cards available to consumers today. The main emphasis showed where the BankAmericard fits into the picture in the evolution of credit use presently and furnished evidence for the relevance of that particular credit card.

Description of the Sample. This study did not specifically employ subjects in the traditional sense, but contained opinions and conclusions from local merchants and bankers who were interviewed regarding their business experience with the use of the BankAmericard after a reasonable amount of time had elapsed since the introduction of this bank credit card in this area.

Method of Gathering Data and Presentation. Mailing lists of participating merchants in Salina, Kansas, were obtained from three local commercial banks, one franchised by Commerce Trust Company, Kansas City, Missouri, and the other two by Fourth National Bank, Wichita, Kansas. A questionnaire was formulated, asking for responses from each merchant regarding the effects of the use of the BankAmericard on each individual company's business activity over a specific period of time.

Interviews were conducted with the responsible officer in each of the local banks to obtain evidence on the contribution of the BankAmericard to them as a "new banking service."

Tables showing percentage responses were compiled including the responses of the merchants to the various questions asked regarding their experience to date with the BankAmericard.

Chapter 4

RESULTS

The Salina, Kansas, area is serviced by a bank credit card, the BankAmericard, which was originally developed by California's Bank of America. The BankAmericard company handling most of the Salina area is the Mid-America Bank Card in Omaha, Nebraska, which serves a seven-state area. This company solicits franchise banks who in turn solicit agent banks, the term applied to the Salina banks. Agent banks then secure accounts from merchants who pay a discount of three to five percent on all sales charged with this bank credit card. The agent banks act as the depository for the merchant. The Salina area was first introduced to the BankAmericard service in October 1968 when one bank signed with BankAmericard; the other three banks joined the move to handle this card by the end of December that same year.

Mailing lists of participating merchants were obtained from three Salina banks in the fall of 1970. Then, a questionnaire regarding the effects of the use of the BankAmericard on each firm's business activity over the period of time since its introduction was sent to seventy-nine companies in this area. A copy of the questionnaire may be found in Appendix A, pages 38-40, together with the letter of transmittal. Fifty-nine questionnaires were returned, constituting a seventy-five percent response.

The data concerning thirty-one retail type businesses are shown in Table 1, page 25. A high percentage of these firms employ fewer than ten persons and had participated in the plan for one-two years. Nearly one-half of the replies indicated active promotion of

Table 1

Percentage Responses from Retail Type Businesses
on BankAmericard Experience
in Salina, Kansas, Area

Questionnaire Items	No. of Responses	Percentage Responses (N=31)
Number of employees:		
0-10	25	81
10-20	5	16
over 20	1	3
Time BankAmericard in use:		
Less than one year	2	6
One-two years	28	91
Over two years	1	3
Active promotion of BankAmericard:		
Yes	18	58
No	13	42
Increase in Gross Sales:		
Yes	13	42
No	17	55
No opinion	1	3
Effect on credit problems:		
More	1	3
Less	6	19
Same	24	78
Savings in collection expense:		
Yes	14	45
No	16	52
No opinion	1	3
Influence on people's buying habits:		
To buy more	18	58
To buy less	0	0
To buy the same	13	42
Addition of new customers:		
Yes	13	42
No	18	58
Inquiries from potential customers:		
Yes	16	52
No	14	45
No opinion	1	3
Freedom of working capital:		
Yes	18	58
No	13	42
Prospects for increased future use:		
Yes	24	77
No	7	23

this card and an increase in gross sales, with considerable saving in collection expense; however, they also claimed the existence of the same credit problems on their other accounts receivable. A substantial majority of the returns showed that the bank credit card influenced people to buy more goods in the retail stores, with the addition of new customers and the incidence of inquiries from potential ones. More than one-half of the replies said that working capital had been freed for other purposes, and over three-fourths of these merchants saw prospects for increased future use of the BankAmericard in the Salina area.

Answers from six professional type businesses are reflected in Table 2, page 27. All of them employ less than ten persons, and most of them had participated in the use of BankAmericard for one-two years. Only fifty percent actively promoted the card, but none saw an increase in gross sales. All agreed that their overall credit problems remained the same, but a large majority had a saving in collection expense. The professional firms were evenly divided in their opinions on the influence of the credit card on people's buying habits. None reflected new customers, and most of these companies had few inquiries from potential customers; however, at the same time, one-half of them said that working capital had been released for other use. Finally, all agreed that they felt this credit card would see increased future use here.

Percentage responses from eight service type businesses are shown on Table 3, page 28. One-half of these firms have over twenty employees. A large majority have participated for one-two years but promoted the cards' use very little. These firms, for the most part, did not see an increase in gross sales and saw very little easing of general credit problems. Many experienced a saving in collection expense

Table 2

Percentage Responses from Professional Type Businesses
on BankAmericard Experience
in Salina, Kansas, Area

Questionnaire Items	No. of Responses	Percentage Responses (N=6)
Number of employees:		
0-10	6	100
10-20	0	0
over 20	0	0
Time BankAmericard in use:		
Less than one year	1	17
One-two years	5	83
Over two years	0	0
Active promotion of BankAmericard:		
Yes	3	50
No	3	50
Increase in Gross Sales:		
Yes	0	0
No	6	100
Effect on credit problems:		
More	0	0
Less	0	0
The same	6	100
Savings in collection expense:		
Yes	4	67
No	1	17
No opinion	1	16
Influence on people's buying habits:		
To buy more	3	50
To buy less	0	0
To buy the same	3	50
Addition of new customers:		
Yes	0	0
No	6	100
Inquiries from potential customers:		
Yes	1	17
No	5	83
Freedom of working capital:		
Yes	3	50
No	3	50
Prospects for increased future use:		
Yes	6	100
No	0	0

Table 3

Percentage Responses from Service Type Businesses
on BankAmericard Experience
in Salina, Kansas, Area

Questionnaire Items	No. of Responses	Percentage Responses (N=8)
Number of employees:		
0-10	3	38
10-20	1	12
over 20	4	50
Time BankAmericard in use:		
Less than one year	3	38
One-two years	5	62
Over two years	0	0
Active promotion of BankAmericard:		
Yes	3	38
No	5	62
Increase in Gross Sales:		
Yes	1	12
No	7	88
Effect on credit problems:		
More	1	12
Less	2	25
Same	5	63
Savings in collection expense:		
Yes	5	63
No	3	37
Influence on people's buying habits:		
To buy more	4	50
To buy less	0	0
To buy the same	4	50
Addition of new customers:		
Yes	3	37
No	5	63
Inquiries from potential customers:		
Yes	5	63
No	2	25
No opinion	1	12
Freedom of working capital:		
Yes	2	25
No	6	75
Prospects for increased future use:		
Yes	4	50
No	4	50

on accounts, but opinion was equally divided on the influence of the card to make people buy more. More than one-half of these firms saw no addition of new customers, but they had had inquiries from possible users. Three-fourths of the companies indicated that working capital was not freed for other needs, and they were equally divided in their answers regarding prospects for increased future use.

The fourth classification of companies was termed "Other"--it contained some combination of fourteen retail, professional, and/or service businesses as set out in Table 4, page 30. Again, most of these firms employed under ten employees and had used the BankAmericard for one-two years. Their responses showed that one-half had actively promoted the card, but that few had seen an increase in gross sales. Their credit problems remained the same, and they experienced no saving in collection expense. They felt that people were purchasing about the same quantity of goods as before the card and that few new customers were added, although they indicated a substantial number of inquiries from potential customers. Nearly eighty percent of this category did not find that working capital was more available, but that same percentage felt there would be more use of this card in this area as time progresses.

Interviews were conducted with the bank official in charge of the BankAmericard credit card service in three Salina banks--The First National Bank and Trust Company, The Planters State Bank, and The First State Bank and Trust Company. A copy of the interview guide may be found in Appendix B, page 41.

The First National Bank and Trust Company was the first institution to offer this credit card service, which gave them the competitive

Table 4

Percentage Responses from Other* Type Businesses
on BankAmericard Experience
in Salina, Kansas, Area

Questionnaire Items	No. of Responses	Percentage Responses (N=14)
Number of employees:		
0-10	11	79
10-20	2	14
Over 20	1	7
Time BankAmericard in use:		
Less than one year	0	0
One-two years	12	86
Over two years	2	14
Active promotion of BankAmericard:		
Yes	7	50
No	7	50
Increase in Gross Sales:		
Yes	1	7
No	13	93
Effect on credit problems:		
More	1	7
Less	0	0
Same	13	93
Savings in collection expense:		
Yes	3	21
No	11	79
Influence on people's buying habits:		
To buy more	5	36
To buy less	0	0
To buy the same	9	64
Addition of new customers:		
Yes	2	14
No	12	86
Inquiries from potential customers:		
Yes	9	64
No	5	36
Freedom of working capital:		
Yes	3	21
No	11	79
Prospects for increased future use:		
Yes	10	71
No	4	29

*Other: Some combination of Retail, Professional and/or Service Types of businesses.

"jump" on the other Salina banks. The remaining banks, on the other hand, came into the program in order to maintain their competitive advantage. All three officials agreed that it was a step toward the "cashless society" predicted for the future and was offered primarily as an accommodation to present customers. Length of participation time was approximately the same--The First National Bank and Trust Company began the service in October 1968, while the others joined in December 1968. None of the banks hired additional personnel to handle this credit card, and all said that the income derived therefrom was minimal as compared to the total income of each bank. A slight increase in merchant customers has been noted at all three institutions, generally attributable to the acquisition of new bank customers who are participating in other bank services also.

Each bank claimed an increase in dollar volume in accounts receivable, which is largely seasonal--with Christmas and "back-to-school" buying accounting for the largest part. With regard to the question on whether or not BankAmericard merchant customers participate in other bank services as a result of this contact, one banker said his firm had increased its new accounts slightly; another said he felt the situation was the reverse--that their existing customers engaged in BankAmericard because they were already using other bank services offered. Collection is not an item of concern at these agent banks, because this responsibility is passed on to the BankAmericard Center; local banks have no records of credit experience--one individual assumed that accounts were paid within the first twenty-five days after statements were received, while another thought people were taking sixty to

ninety days to pay their accounts. Stolen or lost BankAmericards do not affect the local banks, but that experience has brought about tighter regulations on issuance of the initial cards in Kansas and elsewhere.

Opinions on the contribution BankAmericard has made to the Salina economy varied and were inconclusive. Finally, when asked about the future of the BankAmericard in the Salina community, all three officials agreed that it and/or similar credit cards are a part of today's world and will be used increasingly as time goes on.

Chapter 5

SUMMARY AND CONCLUSIONS

The purpose of this study was to determine the effects of the use of the BankAmericard on various businesses who were participating members in the Salina, Kansas, area for the limited length of time that this credit card had been in existence.

Literature was reviewed on the development of credit cards in general, on bank credit cards, on the BankAmericard in particular, and on a universal credit card. Much of this literature evidenced a trend toward a "checkless-cashless society" in the future in which an all-purpose identification card or current bank credit cards might be the ultimate answer to the tremendous growth of paper transactions.

Mailing lists were secured from three Salina banks containing names of merchants participating in BankAmericard. A questionnaire containing twelve items was then compiled and sent to seventy-nine firms. Fifty-nine returns were received, constituting seventy-five percent. The data on percentage responses were shown in four tables covering the business categories--retail (thirty-one), professional (six), service (eight), and other (fourteen). The following conclusions were drawn from this study:

1. Only moderate promotion of BankAmericard was evidenced by firms in the Salina area.
2. Increase in gross sales was most apparent in retail businesses where it would be most expected; increase in gross sales for the professional firms was almost non-existent.
3. Only two categories showed a substantial saving in collection expense.

4. Opinion was divided on the effects of the card to increase people's purchasing.
5. Three types of businesses experienced the addition of new customers, while the professional firms had no new names.
6. All businesses agreed that because of BankAmericard some working capital was available for other purposes.
7. There was a positive response by all questioned as to the increased future use of BankAmericard locally.

Interviews were conducted with the official handling the Bank-Americard service at three Salina banks with the following conclusions:

1. All banks undertook the project in order to remain competitive in offering this added service to their customers.
2. There was unanimous agreement that the contribution to bank profits was negligible.
3. This credit card has been operating in this area for about two and one-half years, which is a relatively short time on which to base results.
4. General opinion was that dollar volume in accounts receivable was seasonal.
5. Consensus of the group was that the use of Bank-Americard will continue to grow.

An overall conclusion would be that there was considerable inconsistency in replies to the questionnaire from the different types of businesses, indicating a lack of sufficient records from which to gather accurate information on the questions posed. The service, though firmly entrenched, appeared to be offered by both merchants and banks simply because of competition and as an accommodation to customers. Replies to all questions seemed to imply a lack of motivation or confidence in the plan, probably because the monetary returns were small and difficult to measure.

It would seem to the writer that if the different types of businesses could eliminate their existing credit departments and go exclusively to this plan, it would no doubt be a saving to them. This would apply particularly at the retail level. Such a move would, of course, require customer agreement and cooperation in using the BankAmericard for all credit purchases. One bank official reasoned that the card will not gain widespread acceptance in our geographical section like it would in a metropolitan area and that people locally will continue to use BankAmericard mainly for travel needs, such as, motels, hotels, gasoline, and so forth, away from home as they have in the past. This in substance reflects the situation at the present time.

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APPENDIXES

APPENDIX A

LETTER OF TRANSMITTAL

2063 Raymond Avenue
Salina, Kansas
October 10, 1970

Gentlemen:

Currently I am working on a Master's report which is a requirement for the Master's degree program in which I am engaged. My topic is "The Role of the BankAmericard in Bank Credit Cards." It is necessary that I gather some statistics on the use and experience of the BankAmericard in the Salina area, and I am asking your cooperation in order that I might succeed.

I would be very grateful if you would take the time to complete the enclosed questionnaire and send it back to me by return mail in the self-addressed, stamped envelope provided.

Sincerely,

(Mrs.) Margaret Kelley

QUESTIONNAIRE

The following questionnaire has been prepared for individual research purposes to show the experience of BankAmericard in the Salina, Kansas, area. Firm names and specific statistics will not be identified, but rather the sum of all statistics gathered will be the important item. Please mark the answer that is most appropriate for your situation.

1. What is your type of business?
Retail _____
Professional _____
Service _____
Other _____
2. How many persons do you employ?
0-10 _____
10-20 _____
More than 20 _____
3. How long has BankAmericard been in operation for you?
Less than one year _____
One-Two years _____
Over two years _____
4. Have you actively promoted the use of BankAmericard
in your firm? Yes _____ No _____

If yes, to what degree?

Extensively _____
Moderately _____
Very little _____
5. Have your gross sales increased with BankAmericard?
Yes _____ No _____

If yes, approximately how much?

0-10% _____
10-20% _____
20-30% _____
More _____

6. If you were to compare your credit problems now with those you encountered before BankAmericard, would you say they are:

More _____
Less _____
Same _____

7. Referring to No. 5, would you say that your savings in collection expense are worth the fee paid for BankAmericard?

Yes _____ No _____

8. In your opinion, how has the use of BankAmericard influenced people's buying habits?

To buy more _____
To buy less _____
To buy the same _____

9. Has BankAmericard increased the number of your new customers?

Yes _____ No _____

10. Do potential customers often inquire if you accept BankAmericard before they buy?

Yes _____ No _____

11. Do you feel that participation in BankAmericard has freed working capital for other purposes?

Yes _____ No _____

12. Do you see increased use of the BankAmericard in the Salina area in the future?

Yes _____ No _____

APPENDIX B

INTERVIEW GUIDE FOR BANKAMERICARD

1. Reasons for undertaking BankAmericard project?
2. How long has your bank participated?
3. Has handling BankAmericard accounts necessitated hiring additional personnel?
4. Contribution of BankAmericard to total bank business in month? year?
5. Has number of merchant customers increased as BankAmericard becomes better known?
6. Does time show increased dollar volume in accounts receivable offered by firms?
7. Do BankAmericard merchant customers participate in other bank services as a result of contact with you on the bank credit card?
8. What has been the BankAmericard credit experience of your bank with regard to collection?
9. Do the majority of cardholders pay accounts within the 25-day period?
10. Have stolen or lost BankAmericards caused concern to your bank?
11. In your opinion, do you believe BankAmericard has brought more money into the Salina economy?
12. What do you see as the future of the BankAmericard in the Salina Community?

THE ROLE OF THE BANKAMERICARD
IN BANK CREDIT CARDS

by

MARGARET ELIZABETH KELLEY

A. B., Marymount College, 1941

AN ABSTRACT OF A MASTER'S REPORT

submitted in partial fulfillment of the

requirements for the degree

MASTER OF SCIENCE

College of Education

KANSAS STATE UNIVERSITY
Manhattan, Kansas

1971

BankAmericard, which was begun in California by Bank of America in 1959, is an all-purpose plan available to all credit-worthy consumers when doing business with participating retail, service, and professional establishments.

This study was undertaken because of the writer's interest in the experience of this bank credit card in the Salina, Kansas, area, since its inception in October 1968. The purpose of researching this information was to analyze what the credit card means in terms of convenience and service to both the cardholder and the merchant. Because BankAmericard was a fairly recent innovation, the literature reviewed had, of necessity, to be limited to magazine and newspaper articles, addresses, reports, interviews, questionnaires, trade journals, government publications, and various brochures.

Salina banks were asked for mailing lists of merchant BankAmericard customers, and a questionnaire regarding their use and experience with this bank credit card was mailed to seventy-nine retail, service, professional, and other firms. All companies had offered this service for approximately the same length of time--about two years. Results were tabulated in percentages, and four tables were made showing the response by type of business. Interviews were also conducted with the official in charge of the BankAmericard operations at each of three Salina banks.

Bankers and merchants alike agreed that the operation did not yield returns that could be easily tabulated. In many cases, replies were inconsistent and interest in the program did not seem very strong. Although the questionnaire and interviews reflected opinions mainly, the writer was satisfied that all concerned expected to continue the use of BankAmericard, largely because of current economic trends.