THE HISTORY OF CREDIT CARDS

A Brief Look Back

Before we attempt to peer into the future of the dynamic electronic payments industry, we'd like to first take a look back to examine just how we arrived where we stand today. Five decades ago when today's major card company's got their start, I'm not sure they had any idea of how pervasive the acceptance of credit cards would be in today's society. Naturally, all of the major card companies claim to be the first. American Express issued their first cards in 1958, and the first Visa cards were issued as BankAmericards in 1959, MasterCard got their start when Franklin Bank issued the first real "credit" card in 1951. My research tells me, however, that Diners beat them all, issuing their first cards in 1950.

During the first two decades, the use of charge cards was strictly regional and based on relationships between banks and various "local" merchants. In the early 70's these issuing banks formed associations to enable cardholders to charge at any merchant's establishment, regardless of their banking relationship. At this time, card acceptance and accounting was a manual process, requiring merchants to deposit their charge slips as though they were checks. The various card associations processed these cards by "key punching" them to paper cards and then onto magnetic tape. These card batches were then processed using the "big iron" computer hardware common to this era. This process was called the "interchange", whereby charges made by the cardholders of one bank, could be transferred into funds to be deposited into the accounts of merchants of the local bank. This process took several days and delayed getting the merchant's money in their account. It was also expensive and that expense was borne completely by the merchant. Acceptance of multiple cards at a single facility meant that the process and its inherent frustration were multiplied. The expense and delay of getting a merchant's money into the bank hampered the growth of charge card acceptance. Clearly, a method to quickly get these credit card transactions "interchanged" was needed.

The 3rd Party Transaction Processor

In the mid 70's banks formed independent "3rd party" processing companies who developed systems that "connected" the various bank associations, requiring merchants to communicate with a single entity to process multiple card types. 3rd party processors were a big stride in simplifying the interchange process. They gave hospitality merchant the ability to accept multiple card types through a single authorizations and settlement point. The process at this point was improving, but the time to get the merchants' money into the bank was still an issue.

More Solutions More Problems

At the beginning of the forth decade of credit card acceptance, merchants demanded a faster way to get their money in the bank. To meet that demand, two companies (Verifone® and Hypercom®) created the first electronic credit card terminals. These devices have been the mainstays of merchant credit card acceptance for the last 20 years.

With these powerful little devices, the 3rd party processors were able to get the merchants' money into their accounts more quickly than ever. But with this speed, came the problem of fragmented deposits. This issue was most problematic within the hotel environment. A single hotel typically operates multiple and profit centers under one roof (i.e. front desk, restaurant(s), retail gift shop(s), etc.) Furthermore, each of these entities could very well have multiple points at which credit cards are accepted. A single credit card terminal means a single deposit. Therefore, multiple terminals and multiple points of acceptance mean multiple deposits. This translates into more work in accounting to reconcile this mass of fragmented deposits.

The PC HUB

By the early 90's many of the 3rd party processors decided that they needed to provide hotel merchants with more efficient and convenient ways to handle credit cards. They created a technology that used the power of the Personal Computer (PC) located at the hotel property. Functioning as a hub for the multiple

credit card terminals within a hotel, the PC-HUB consolidated each all of the transactions before forwarding them to the processor. Thus giving the hotel the speed of getting their money in the bank, without the burden of increased accounting cause by multiple fragmented deposits. Many of the 3rd party processors developed PC-HUB products of their own. This started an entire industry of merchant centric credit card processing software to empower merchants rather than empower the banks, their card associations or even 3rd party processors.

The last 10 years has been a decade marked by changing regulations instituted by the card associations. Again, the hospitality industry has lead the way in demanding advanced technology to help them meet these rules, in addition to meeting their needs for a faster, more efficient credit card acceptance process. This demand has lead to Local Area Network (LAN)-based credit card solutions, which interface directly to a hotel's many PMS and POS systems. By providing a centralized point for credit card authorizations, settlements and accounting the directly interfaced, LAN-based credit card solutions saved money by reducing the need for phone lines form each point of sale. This move towards software-based solutions has all but eliminated the need for stand-beside credit card terminals.

The Next Generation

As we end the last decade of the 20th Century, the hospitality industry is again leading the way in pushing the electronic payment technology envelope. Hotel enterprises are demanding systems to process, not only credit card transactions, but transactions for Private Label Cards including Gift Cards, Stored Value Cards, Discount Cards, Family Cards, Loyalty Cards, and any other payment types. They want this functionality using their existing systems, no stand-beside terminals, without requiring a relationship with a particular bank or 3rd party processor. Further, they are demanding systems that protect their entire enterprise from "trusted employee" fraud, and they want to get economies of scale when it comes to telecommunication functionality and charge-back defense.

Because the hospitality enterprise is often a branded or flagged chain, comprised of corporate owned properties and franchised properties, owned themselves by management companies operating multiple hotel brands, the proliferation of an enterprise Private Label system requires sophisticated technology. More often than not, hotel chains and management companies have different, competing merchant banking relationships. So looking to a bank or 3rd party processors to provide this kind of multi-property system is all but futile. Private Label programs require enterprise-wide systems that allow multiple POS devices to authorize and settle Private Label cards and standard credit cards using the same equipment.

A Glimpse into the Future

By all indications the focus for hospitality enterprises is now on the customer. Added value and targeted marketing is the name of the game and the tools of the trade are quickly becoming card-based loyalty programs. Gift Cards, Frequency Cards, Stored Value Cards, Family Resort Cards, Discount Cards and Club Cards will surely be the buzzwords for the next few years.

But before these card-based programs can spread their wings and fly, hospitality technology vendors will need to deliver advanced transaction processing systems and infrastructure to support these programs. Gift Cards and Stored Value Cards require real-time inter-property connectivity and centralized databases in order to track customer use while maintaining account balances and profiles. Discount Card and Loyalty Card programs are designed to track the purchasing habits of guests while at the property and follow rules defined to entice them to purchase products or services that the hotel wishes to promote. Again, inter-property connectivity and centralized databases are necessary.

Family Cards utilize rules databases to allow children or family members to share an account for purchases while on property(s). In order to make these card programs work across the multiple properties an enterprise-wide system is required. See a trend here? With the technologies of the last decade, installing such systems was cost prohibitive and difficult to justify.

With the advent of the Internet, a new class of application software is being developed; the Application Service. Application Service Providers (ASP) are emerging to meet the enterprise-level needs of hospitality

companies. Application services are centralized server-based systems that use a company's Wide Area Network (WAN) or the Internet to communicate to a centralized database, which serves dynamic application content to an end-user's web browser. These application services are typically less expensive to deploy than traditional on-site software models. In addition, such a centralized system can support Private Label functionality along with credit card processing. Further, when the card associations' regulations change, the hotel(s) bank changes, or the PMS/POS vendor(s) change, the hotel enterprise need only update the ASP server and every property is up-to-date the next time their users sign on.

The promise of this new class of system needs to be tempered with the understanding that these systems must be able to provide all of the existing functionality of the "on property" systems. Functionality like secure interfacing to existing Property Management and Point of Sale systems, secure communications with credit card terminals and the ability to audit transactions before settlement, archive settled transactions and retrieve archived transactions, all in real-time. All of this accomplished over the enterprise WAN, if available, or on the Internet, if not. Such systems should also be able to allow company web sites to securely accept credit cards to purchase merchandise, gift cards or for advanced reservations.
The hospital enterprise is in the driver's seat. If they demand this technology it will become a reality. If the last 10 years of merchant-centric credit card processing software is any indication, it's just around the corner. Hold on, the next few years are going to be a trip.