THE HISTORY OF THE CREDIT CARD

The Credit Card has been around a lot longer than we tend to think. Most people, if you asked them, would say that credit cards were first established in the latter half of the 20th century. In fact, the first credit cards, as we know them, were set up in the early part of the 13th century.

The early credit cards came from a Catholic order known as the Knights Templar. They were a group of Knights who were dedicated to the concept of poverty and were committed to fight in the Crusades. They were recognised by the Pope in 1129. The Knights wore a white mantle with a red cross and their symbol was two Knights on the one horse – demonstrating the poverty of the members of the order. They could only afford to share a horse rather than have one each.

The order grew quickly in popularity and attracted many non-combatant members as well as Knights. Each member, because of his vow of poverty, signed over his wealth to the order and the order quickly grew in wealth and power. The Knights, at its height had 2000 fighting Knights, fought in seven battles in the Crusades. The 18,000 non-combatant members were much more powerful.

After the first Crusade had captured Jerusalem, Christian Pilgrims travelled to visit the Holy places. Bandits abounded and pilgrims were routinely slaughtered, sometimes by the hundreds. The Knights Templar were given the responsibility of protecting the pilgrims.

A banking system was set up. They managed a huge economic structure and introduced the first credit and debit cards.

The protection of pilgrims became the prime role of the Templars – not only physical protection but also the protection of their money and assets. The banking system developed almost by accident as a result as this protection role.

The Templar Knights became a favoured charity and money poured into it. They acquired property and business interests throughout the Middle East. Their headquarters were in Jerusalem on the Temple Mount. They captured the Al Aqsa Mosque and changed its name to the Temple of Solomon because it was believed to have been built on the site of Solomon's Temple. Thus they became known as the Temple Knights.

As their wealth grew, they re-invested money and lent money. Of course, at this time there was a prohibition on charging interest for money lent. In the Jewish faith of the Old Testament, Jews were prohibited from charging interest to fellow Jews though they could charge whatever they liked to non Jews. With the advent of Christianity, an important tenant of the young Christian Church since its establishment in the first century was a prohibition on charging interest to anyone so the Knights Templar were forbidden by the church to charge interest. The Templars sidestepped this problem by taking security and retaining the ownership of the property until the debt was repaid. They also owned the crops and produce from the mortgaged property so they earned substantial income from selling crops and livestock, collecting tithes and other income earned from the property they owned. Once the debt was repaid, the property was transferred back to the debtor. Of course, many of the debtors did not return from the crusades so the property remained with the Templars.

Wealthy landlords, who were participating in the Crusades or going on a pilgrimage, also deposited their assets with the Templars. On their return they could then withdraw their money. A cheque system developed to enable the landlords to make payments. These cheques were honoured by the Templars and drawn against the landlords' deposited funds. Letters of Credit,stamped with a seal, were issued that could be drawn on at Templar posts throughout the lands.

The success of the Knights Templar was assured when Pope Innocent 11 in 1139 issued a Papal Bull exempting the Templars from obeying local laws or paying local taxes. This meant they could freely pass through all borders.

The Templars established financial networks across the whole of Christendom. They acquired land in Europe and the Middle East, they bought and managed farms and vineyards, they build churches and castles and they were involved in manufacturing, importing and exporting. They owned their own fleet of ships and at one point they owned the island of Cyprus. In effect, the Order of the Knights Templar was the world's first multinational corporation!

The banking system led to the development of the first credit card because the letters of credit were easy to forge. At the beginning of the 13th century, a card, very similar to our credit card, was introduced. Of course it was not plastic but the card was encrypted with the cardholder's number and this was virtually impossible to duplicate. They had debit and credit cards. The cardholder could deposit funds before he left on a pilgrimage and would withdraw sums of money at Templar stops along the way by using his card. The cards were completely safe and even if they were stolen, the thief could not use them, as he did not know the code, or password. The cardholder could overdraw the card and settle up on his return or cash in the balance still on the card.

Alternatively, the pilgrim could take out a credit card, make transactions along the way and pay the balance plus interest on his return. He could also pay off the balance in instalments. No interest was charged, but a service fee was payable – much like the early Diners Club and American Express cards. Older financial counsellors will remember the full page adds run by American Express in the 1980s. "Unlike other credit cards, we do not charge interest". It did not say that if the balance was not cleared in full at the end of each month, there was a penalty charge of 43%.

Unlike the cards of today, the credit cards were secured, usually by the cardholder's farm lands, property, lifestock, crops or family assets.

So what happened to his world first multi-national? How did the credit card system disappear?

King Phillip IV of France, and to a lesser extent, Pope Clement, both owed the Templars vast sums of money that they could not, or did not want to, repay. King Phillip had a lot of influence with the Pope and he pressured the Pope to withdraw the concessions the Pope had given the order. He finally persuaded the Pope to take action against the order and on Friday 13th, 1307, Phillip ordered the arrest of the Templar Grand Master and hundreds of other French Templars. They were charged with heresy and tortured to give false confessions of blasphemy. Huge numbers were burnt at the stake and an intensive campagine to wipe out the Templars follows. Magically, Phillip's debts and the Pope's debts disappeared. So did the wealth of the Templars.

Phillip was basing his behaviour on the "kill the creditors" model. We do not literally "kill" the creditors but consumers today at times use similar types of tactics. "You can't touch us, we will declare ourselves bankrupt and you will get nothing". This is a form of "kill the creditors". Of course there are times we would like to use the "kill the creditors" model!!

From 14th century till 18th century, we have no record of the existence of credit cards as we know them. In the 1700s, consumers and merchants exchanged goods and services using credit coins and charge plates. These charge plates were made of cardboard or celluloid.

In the early 1900s, petrol companies and department stores issued credit cards in limited form. These cards could only be used at the business that issued the card. A little like the old store cards today. It could only be used in limited locations. A Shell petrol card could not be used at all Shell petrol stations, only at a limited number of participating petrol stations.

John Biggins, a banker in Brooklyn, introduced the first bankcard, named Charg-it, in 1946. When a customer paid with his Charg-it card, the bill was forwarded to Biggins Bank and the bank reimbursed the merchant and charged the amount to the client6's account. Purchases could only be made locally and customers had to have an account with Biggins Bank.

The first bank owned card was issued in 1951 by New York's Franklin National Bank. Again, it could only be used by bank customers.

The first credit card that had widespread use was Diners' Club. It was set up in 1950 and by 1951 had 20,000 cardholders. Theoretically, it was not a credit card; it was a charge card and the balance had to be paid off in full at the end of each month. It was not as sophisticated as the early Templar cards that had much more flexibility.

In 1959 the cardboard and celluloid cards were replaced by plastic by American Express. The same year, revolving balances were introduced. Cardholders no longer had to pay off their cards at the end of each month.

The general-purpose credit card was introduced in 1966 when the Bank of America launched the Bank America card – later known as Visa and a group of credit card issuing banks joined together to launch MasterCard.

The American banks were finding it very difficult to make credit cards cost effective. The USA law only allowed the banks to charge a very small interest rate – only a point of a percent above the prime interest rate on outstanding card balances. So if the prime interest rate was 4%, bank card could only charge 4.1%. In 1980 Citibank was going broke. They had lost $1billion the year before on their credit card operations. At the same time, in South Dakota, the economy was in difficulties. Wheat was sold for $2.20 per bushel; cartage was 50c per bushel. The state was facing bankruptcy. Citibank found an obscure Supreme Court ruling that allowed interest charged in the state where the card operated from, to be the interest charge wherever the cardholder lived. For example, if the interest rate allowed in Tasmania was 18% and in NSW was only 10%, if the card was based in Tasmania the interest charge could be 18%, no matter where the customers lived. Citibank approached the South Dakota Governor and did a deal. The Government in South Dakota passed a law there allowing a high rate of interest. Citibank moved moved its entire card operation to South Dakota. This gave South Dakota an enormous economic boost and Citibank turned its operations around from $1B loss to $30 billion profit. We have been stuck with interest rates at least 10 percentage points above the prime interest rate ever since.

Credit Cards came to Australia in 1972. America needed a nice, contained, small, isolated population as a testing ground for cards and ATMs and funded the Australian banks to get together to launch bankcard. They had hoped to isolate the experiment to the Eastern states but this was not possible. It was not easy to set up the experiment, as they had to obtain the permission of the Reserve Bank and the Federal Treasury to proceed, as the banking industry here was still heavily regulated. It took two years to obtain permission and put everything in place so it was 1974 before Bankcard was actually launched. Within 18 months, Bankcard had over $1 million cardholders and 49,000 merchants. Of course, we know why it grew so rapidly. Apart from the advertising, every account holder was sent a credit card in the mail. It could be used or returned. It could only be used in Australia. The cards could only be used in Australia.

Fourteen years after the launch of Bankcard the experiment had come to an end and the experiences gained in Australia, particularly with the use of ATMs resulted in improvements in the overseas systems. By then, operations and the improvements in technology finally allowed member banks to set up their own data capture and in house processing.

The Bankcard scheme was closed on 20 April 2007. From one single card, we now have more than a thousand different credit cards. In the early days of financial counselling, if we had a client come in with six credit cards, it was panic time. Nowdays we think, “it's only six credit cards”. This changed quickly. The number of cards clients had escalated quickly. Financial counsellors had competitions to see who could get the largest number of credit cards. We would report the results to the FCAN meeting each month. We had no trouble, even on a tiny salaries, of getting twenty or thirty cards. The most I had was a client with a part time job, part social security with 43 cards. But another counsellor had a client with 79! It is interesting, though, that today the number of cards per client has dropped dramatically. On the other hand, the amount owing on the cards has also risen dramatically. Just recently I had a client with 12-14 cards who owed $2.2M.

But what changes can we expect to see in the near future? In 1994 a further experiment was launched – The Smartcard. This card, not to be confused with the Australia Card, could perform a range of functions. Apart from providing ID in a way similar to the Australia Card and being able to utilise it to access Centrelink and other government services, the Smartcard could access credit and savings, even the home equity in a number of cases. It could replace club membership cards in poker machines allowing punters to access their credit facilities and savings directly into the poker machine its greatest profitability was in marketing. It also allows the punter to change machines with ease and does away with direct contact with staff.

The Smartcard recorded on an electronic chip every detail of every purchase made on the card. This provided enormous marketing information such as, girls 18-20 prefer X brand of shampoo, boys 20-25 prefer X deodorant or toothpaste etc.

Financial Counsellors and consumer organisations campagined hard against Smartcard and we thought we had won and that Smartcard had gone away, but in 2008 interest was again awakened and Smartcard is again being trialled in Newcastle and Wollongong. It contains a photo ID plus fingerprint ID. Some of the cards have eyeball identification. The Commonwealth Government earlier this year had a week long conference in Canberra on the Smart Card. We cannot guess at the result of this current research but the issue is very much alive..

Card debts are by far the largest number of debts in consumer bankruptcies. All card debts are provable debts in bankruptcy and are extinguished in bankruptcy. Many consumers are uncertain just what to list in bankruptcy papers. They must list the name of the company, the company address and postcode. What year the debt was incurred. This is the date they first took out the card, not the date of the last credit increase. This date is sometimes a guess but better a guess than to have the papers returned because the information is incomplete.

Clients often wonder who owns the debt when there is a extra card issued as an ancillary cardholder. Or when a card is issued from work. Who is responsible?

If you have any doubt, list it in the bankruptcy papers. Proof of the debt is the responsibility of the creditor. If a creditor does not lodge a satisfactory proof of debt to the trustee, the trustee will not accept that debt in the bankruptcy.

In dealing with card debts, financial counsellors should always check credit card statements. There is usually a story there that will help you to build up a picture of your client. Learn to read that story. It is one of the best ways to, for example, pick up an addiction problem – gambling, alcohol, compulsive spending. Check also when the credit card limits were raised. Were they offered to your client, were they granted after the client finished up working or went to part time work, or after the client retired. We have many card debts written off when these things occur. Particular now, when all creditors are trying to show the Federal Government how helpful and responsible they are.

An excellent example of this occurred when I was supervising a counsellor on Friday. The client had been on Centrelink benefits for 10 years – for four years on Newstart and now on the aged pension. She was granted:

2002 limit $3000
2204 limit increased to $4500
2005 limit increased to $6500
2006 limit increased to $10,500
2008 limit increased to $14,500

Balance now $16,206 and is unaffordable. Apart from the original $3000, the client had not applied for a limit. Each time the off came in the mail in the form of "Congratulations – your credit card limit has been pre approved to " The counsellor did his homework. He wrote to Westpac with the dates of each increase and the annual income of the client. A check of Veda Advantage showed Westpac had not made an enquiry over the last five years so the last three increases as least had not been assessed for capacity to repay. He suggested to Westpac that this could be a case for maladministration.

Always try the creditor before taking the matter to the Financial Ombudsman Service. You will probably get a good result from FOS but an even better result usually from the creditor. I have recently had a client who was elderly and who had gambled $50,000 on three credit cards (all approved after her retirement). Westpac, Citibank and GE all wrote off the full amounts. This is not usual, but you must do the groundwork.

Financial counsellors need to be alert to changes; to new ways of marketing; incentative selling, and above all, we need to closely watch the progress of Smart Card.

Betty Weule PhD (law), MA (Sociology)
Financial Counsellor