Visa-Taking Credit Worldwide CFIN 9 Case Study

Almost from the very beginning of business, there were systems of credit to help sell products when the purchaser did not have ready cash. Neighborhood businesses allowed regular customers to maintain "accounts" where their purchases were recorded. Payments were made later when the buyer had adequate funds. Credit cards expanded the use of credit by allowing businesses to offer credit to customers they did not know. If the customer presented a credit card, the seller knew payment would be guaranteed by the credit card company and that money could be collected from the sale quickly.

The use of credit cards began on a small scale with Diners Club in 1950. Frank McGuire developed an agreement with several restaurants in New York to accept his card in lieu of cash. As he expanded the number of customers who carried the card and the businesses who would accept it, the concept caught on. It was viewed as a convenience for customers and an excellent marketing resource for businesses.

Today there are hundreds of companies that offer credit cards. The uses and acceptance have grown dramatically as have the improvements in the technology supporting the use of the cards. Leading the way in growth is Visa, the world leader in electronic payments. Visa was the brainchild of Dee Hock, a banker in the Bank of America system. He proposed to other bankers that they form an association to develop a common credit processing system. Initially Visa used the same procedures and technology as other credit card companies-a plastic card presented to a merchant by a customer at the time of purchase. Today, customers, businesses, and financial institutions are connected through a worldwide electronic network that instantaneously processes orders, payments, and money transfers.

Today 1.3 billion Visa cards are used worldwide, generating $3.7 trillion in credit sales from over 20 million merchants. Visa International is organized as a private, non-stock for-profit membership corporation owned by 20,000 financial institutions. Visa's transaction processing technology can handle over 10,000 transactions per second with redundant power supplies, communication systems, and data backup capabilities that allow uninterrupted 24/7/365 service to customers and businesses.

THINK CRITICALLY

Handwrite your responses in the space below; 2 sentences each.

1. Why would independent financial institutions want to cooperate in offering one brand of credit card rather than competing and offering their own individual brands?

2. Why are many businesses and consumers willing to accept new technologies for processing credit even though the processes can pose additional risks to personal and financial information security?

3. What do you believe accounts for the tremendous worldwide growth of the use of credit cards such as Visa? What recommendations would you make to Visa to increase the numbers of people using their credit cards and the usage of credit cards by those who already own them?

4. Do you believe that credit card companies encourage the misuse of credit? Provide examples to justify your view. What problems are created for consumers, for businesses that accept credit cards, and for Visa if customers charge more than they are able to pay?

5. Provide examples of technology you have seen or heard about that are changing how credit is used by consumers. Use creative thinking and describe new ways that technology might make it easier or safer to use credit to make purchases.