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Credit card

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A **credit card system** is a type of retail transaction settlement and [credit](#) system, named after the small plastic card issued to users of the system. A credit card is different from a [debit card](#) in that the credit card issuer loans the consumer money rather than having the money removed from an account. All credit cards are the same shape and size, as specified by the [ISO 7810](#) standard.

A credit card user is issued the card after approval from a provider (often a bank, but sometimes a specialised credit card provider such as [American Express](#) or [Diners' Club](#)), in which they will be able to make purchases from merchants supporting that credit card up to a prenegotiated credit limit. When a purchase is made, the credit card user indicates their consent to pay, usually by signing a receipt with a record of the card details and indicating the amount to be paid. More recently, electronic verification systems have allowed merchants (using a strip of magnetized material on the card holding information in a similar manner to [magnetic tape](#) or a [floppy disk](#)) to verify that the card is valid and the credit card customer has sufficient credit to cover the purchase in a few seconds, allowing the verification to happen at time of purchase. Some services can be paid for over the telephone by credit card merely by quoting the number embossed onto the card (the **credit card number**), and they can be used in a similar manner to pay for purchases from online vendors.

Each month, the credit card user is sent a statement indicating the purchases undertaken with the card, and the total amount owing. The cardholder must then pay a minimum proportion of the bill by a due date, and may choose to pay more or indeed pay the entire amount owing. The credit provider charges interest on the amount owing (typically, a fairly high rate much higher than most other forms of debt). Typically, a credit card issuers will waive interest charges if the balance is paid in full each month, which allows the credit card to serve as a form of [revolving credit](#).

As well as profits through interest, card companies charge merchants fees for money transfer. When the companies formally or informally prevent these fees from being passed on to credit card users but instead require them to be spread among all customers, this raises the possibility of a harmful market imperfection through the mechanism of the [Tragedy of the commons](#). [Australia](#) is currently acting to reduce this by allowing merchants to apply surcharges for credit card users. Credit card companies generally do provide a guarantee the merchant will be paid on legitimate transactions regardless of whether the consumer pays their credit card bill. However, credit card companies generally will not pay a merchant if the consumer challenges the legitimacy of the transaction and will fine merchants who have a large number of chargebacks.

The credit card was the successor of a variety of merchant credit schemes. The concept of paying merchants using a card was invented in 1950 with Diners Club invention of the [charge card](#), which is similar but required the entire bill to be paid with each statement. Credit card service was first offered in 1951.

As well as convenient, accessible credit, the cards offered consumers an easy way to track expenses, which is necessary both for monitoring personal expenditure and the tracking of work-related expenses for taxation and reimbursement purposes. They have now spread worldwide, and are offered in a huge variety of permutations with differing credit limits, repayment arrangements (some cards offer interest-free periods, while others do not but compensate with much lower interest rates), and other perks (such as rewards schemes in which points "earned" for purchasing goods with the card can be reclaimed for further goods and services). In addition, some countries such as the United States limit the amount that a consumer can be held liable for fraudulent transactions which shifts the liability to the merchant. This encourages the use of credit cards for electronic and mail order transactions. They have spread far and wide beyond their initial market of the wealthy businessman and are now ubiquitous amongst the middle class of most Western countries.

The relatively low security of the credit card system presents many opportunities for [fraud](#). However, this does not imply that the system is broken. The goal of the credit card companies is not to eliminate fraud, it is to reduce it to manageable levels, such that the total cost of both fraud and fraud prevention is minimised. This implies that high-cost low-return fraud prevention measures will not be used if their cost exceeds the potential gains from fraud reduction. This opportunity for fraud has created a black market in stolen credit card numbers, which must generally be used quickly before the card is reported stolen.

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Credit card numbering

The numbers found on credit cards have a certain amount of internal structure, and share a common [numbering scheme](#).

The card number's *prefix* is the sequence of digits at the beginning of the number that determine the credit card network to which the number belongs. The card number's *length* is its number of digits.

The prefixes and lengths for the most common card types are:

Card Type	Prefix(es)	Length(s)
MasterCard	51-55	16
Visa	4	13 or 16
American Express	34 or 37	15
Discover	6011	16
Diners Club / Carte Blanche	300-305, 36, or 38	14

All legitimate credit card numbers pass a [checksum](#) test. The checksum test for credit card numbers is the [Luhn formula](#), described in Annex B to ISO/IEC 7812, Part 1.

Credit card organizations

- [VISA](#)
- [American Express](#)
- [Diners' Club](#)
- [MasterCard](#)

Collectible Credit Cards

A growing field of [numismatics](#), credit card collectors seek to collect various embodiments of credit from the now familiar plastic cards to older paper merchant cards, and even metal tokens that were accepted as merchant credit cards.

See also: [Loan](#), [Electronic money](#)

External links

- <http://www.didyouknow.cd/creditcards.htm>
- <http://www.evolt.org/article/rating/17/24700/>
- <http://www.beachnet.com/~hstiles/cardtype.html>

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