

BARCLAYCARD AT 50

As Barclaycard prepares to celebrate its 50th anniversary in the summer of 2016, BERNARDO BATIZ-LAZO and GUSTAVO A. DEL ANGEL look back at how the first bank-backed credit card in the UK revolutionised retail payments.

The credit card first appeared in Edward Bellamy's highly influential 19th century socialist novel *Looking Backward* (2000 [1888]). In commerce, credit cards appeared in petrol stations and department stores during the early 20th century, in the form of cardboard and metal charge plates.

In 1936, American Airlines started issuing the Air Travel Card, which is generally considered the first 'charge card' because when launched it already utilised a numbering system that tied a specific user to a specific number. All of these early versions of the credit card shared the common advantage of offering an alternative to banknotes and coins - but most also had the disadvantage of being limited to the issuing merchant (often a local business).

LEADING INNOVATION

Credit cards issued by retail banks emerged alongside other innovations in retail financial services such as cheque guarantee cards, personal loans, overdrafts, travellers cheques and the early forms of electronic transfers and cash dispensers. More importantly, they were built on the back of the Travel and Entertainment (T&E) cards. The T&E card appeared in the US in the late 1950s thanks to Diners Club and American Express, who pioneered a non-cash solution for on-the-spot payments across different merchants, in different locations. Marketing of T&E followed the practice of oil companies' direct mass mailing to potential customers. T&E companies targeted the top end of the market and particularly business travellers, focusing on attracting hotels and restaurants as merchants.

Banks in the US were not immune to the advent of card payments. Several tried to introduce a 'generalised' or 'universal' credit card program throughout the 1940s and 1950s at regional and national level. That is, a payment scheme that was not merchant, industry or location-specific.

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However, most of these were unsuccessful, with none offering revolving credit and US banking laws limiting their geographical scope.

The origins of the credit card in the UK can be traced to 1951, when Finders' Services - a company offering support to professionals - diversified into the T&E card business. A second similar company, called Credit Card Facilities, established in 1953.



Finders' Services signed a reciprocal agreement with Diners Club in 1959. Its credit card operations, plus those of Credit Card Facilities, merged to become Diners Club UK Ltd in 1963. Also in 1963, American Express began to offer card services in the UK. There were other T&E cards in Britain but with lower business volume - for instance, the British Hotels and Restaurants Association Card, Air Travel Card, Hertz Card, Avis Card, and Harrods Card.

DEVELOPMENT OPPORTUNITIES

The launch of Barclaycard by Barclays in 1966 - supported by the Bank of America (BoFA) - was a crucial turning point. It is not clear whether the British approached the Californians or vice versa. But the fact remains that BoFA had benefited from its significant presence in the large Californian economy, and eight years after launch its BankAmericard scheme had just turned profitable. BoFA was seeking opportunities to develop a national franchise and the agreement with Barclays opened up the opportunity for growth abroad.

Barclays adopted the business and organisational model of BoFA, which included breaking from tradition and setting up the new business as a wholly-owned subsidiary.

By 1972 there were 18 members of the BankAmericard international network. These included single players such as Barclays in the UK and Banco de Bilbao in Spain as well as national networks like Carte Bleue in France and Chargex in Canada. In each country the BankAmericard was established in exclusivity. As had been the case for Barclays, foreign banks recuperated their investments faster

than expected. Exclusivity resulted in a competitive response from other domestic banks, which typically associated with what was to become known as Mastercard.

A RECIPE FOR SUCCESS

There were a number of reasons for the success of the bank credit card project. Firstly, bank-issued payment cards had two advantages over T&E cards - namely their marketing and financial muscle. Marketing focused on middle-class consumers rather than businessmen and those who were well-off. This provided a broader user base that appealed to a larger number of customers. Meanwhile, merchants were convinced of giving up a percentage of their sales without passing it on to consumers through research



commissioned by the card company, suggesting cardholders would spend more than cash-carrying customers.

Secondly, financial institutions were significant players in their domestic markets before investing in credit card schemes. Pre-established distribution networks facilitated massification as managers of retail branches were used to select individuals and merchants within their vicinity that were a good credit risk (regardless of whether they had a relationship with the bank). The result was replication of the US-style mass mailing of 'live' cards but with lower losses due to bad credit. At the same time, credit relationships with large retailers were critical for the uptake by other merchants.


Thirdly, computerisation was key to managing the credit card program. The application of computer technology was



Barclaycard was one of the founding members of Visa in 1977

required to enable economies of scale, while framing the development of payment card networks as we know them today.

In summary, like many other histories, the bank-issued credit card story is one of computerisation, globalisation and success. However,

this success resulted from coordinated transnational efforts rather than the strategic vision of a single company or person. In addition, ownership and organisational structure proved to be important for network size. History shows that revolutions are the concurrence of several events and actions, of which payment cards are a prime example. 

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