The credit card was born as a means of payment in the United States during the 1920s. At that time, several retailers provided frequent customers with a small metal plate to use as currency for convenience. In 1951, American Franklin National bank began distributing the first bankcard, debuting credit relations between banks and merchants, as well as with consumers. Later, other banks began providing Waste (VISA) and MasterCard bankcards. The credit card system has thus been developed for more than half a century and is now an important financial tool with benefits from circulation credit, to interest-free periods, to expense points, and so on.

Credit cards and debit cards are two different cards with separate characteristics. The credit card is an electronic payment card released by banks or credit card companies; its release is contingent on the applicant’s credit history. The cardholder may obtain cash from a specific financial institution or obtain goods and services from individual merchants before paying off the credit owed. Debit cardholders open accounts with specified organizations and maintain their preferred amount on the account. When the holder makes a purchase with the card, the money is directly transferred from the holder’s bank account to the merchant. In China, the preparative credit card is now available. Cardholders must first provide a specified amount of funds as required by their bank to use the card. If the reserved funds are insufficient to make a payment, the cardholder may use the overdraft with a credit limit determined by the bank. However, apart from a few state-owned banks, few banks have distributed this type of card.

The credit card has consummated all of its planned functions with the aid of modern technology and become indispensable to consumers.

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It has so many merits. First, using one is both convenient and safe. Once it is gently inserted into the proper machine, it can instantaneously complete the payment process, saving time and reducing the risks associated with carrying cash. Credit card organizations provide cards to applicants depending on their individual credit status. However, since applicants do not need to provide property mortgage information, bank risk is increased. Cardholders enjoy interest-free periods and may use circulation credit. This means that if the cardholder is able to pay off the debt before the payment deadline, no interest will be accrued. Cardholders may also choose to pay the lowest amount due, usually 2% to 5% of the balance, allowing them to continue spending before completing the payment. Although profits are large because of circulation interest and punitive charges, the reliance on electronic data being sent between banks and consumers creates prime opportunities for crime.

There are four primary risks associated with the use of credit cards: credit risk, fraud risk, operation risk, and compliance risk. Credit risk is the highest risk of the card. It refers to debt as a result of cardholder bad credit or refusal to pay. The fraud risk refers to the numerous cheating methods occurring with the use of credit cards. Along with the popularization of the card, application and transaction frauds have become more serious. The operation risk is due to existing loopholes in bank or credit card company policies, computer system failures, or a lack of bank employee professional ethics. The compliance risk refers to banks that are not able to observe related laws and regulations suitable for the profession. Consequently, those banks would be imposed with legal sanctions, suffering significant loss of finances and prestige.

II. Development of the Chinese Credit Card Industry