

Settlement Risks of Credit Card Systems and Present Condition of Risk Management

At present, credit cards have become a major payment instrument in our daily lives due to the convenience of the use and a wide variety of services ranging from purchase on credit to mail order sales, flight reservations and free insurance. With the daily average value of credit card billings recently exceeding one trillion won in Korea, the stable operation of credit card systems are becoming more important to the entire payment and settlement system as well as to the economic life of the nation. In this regard, the current status of risk management, the settlement mechanism of the individual credit card systems and the various settlement risks are examined in this paper.

First, the settlement mechanisms of respective credit card systems are reviewed. Taking the example of the BC card system, the settlement of credit card payments is completed with the participation of BC Card, member banks(card issue banks and those doing business with merchant members), card holders, member stores and VAN service providers. In order to effect the net settlement between member banks which is required for the settlement completion of credit card payments, BC Card calculates the balance between member banks, and after bill clearing by the Korea Financial Telecommunications & Clearings Institute(KFTC), net settlement is made across the current accounts of member banks at the Bank of Korea. Meanwhile, for credit card companies other than BC Card, card issuers(banks), card holders, member stores and VAN service providers are involved in the settlement of credit card payments, and card issuers(banks) charge card users for payment and transfer the money to their merchants.

Next, a look at the present condition of the settlement risks of credit card systems shows that BC Card, member banks, other card issuers(banks) and card systems are exposed to settlement risks. The scale of settlement risks and their influence upon the entire financial system vary depending on the individual card systems.

Finally, to manage the settlement risks of credit card systems, the Bank of Korea develops and releases statistics on present credit card payments. In september 2006, it designated the BC card system on a regular basis, which has the largest scale of daily settlement in Korea, as the one satisfying the definition of a payment and settlement system requiring monitoring by the Bank of Korea. The Bank of Korea plans to step up its monitoring of the system and carry out evaluation of it if necessary.

(Young-seol Kim, Senior Economist, Payment Systems Stability Team,
Payment Systems & Treasury Service Department,
Telephone : 82-2-750-6617)