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The Role of Trust in the Russian Credit Card Market[1]

DRAFT. DO NOT QUOTE WITHOUT THE PERMISSION OF THE AUTHOR.

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The Problem: How Do the Actors in the Russian Credit Card Market Cope?

In contrast to the American credit card market, which is the oldest and the largest, the Russian one is only less than eight years old, and is relatively small. Even in Moscow, which has by far the most advanced credit card market, it reaches out to less than eight percent of adult Muscovites.[2] Nevertheless, its growth has been exponential. Russia was the first country in Eastern Europe where Visa's annual sales reached one billion dollars.[3] It is not surprising, therefore, that Russia is perceived the "choicest cut" by the credit card multinationals that aggressively explore vast markets of the former socialist block. But despite obvious appeals that Russia as a prospective market has – a highly educated and very large population, a shortage of cash especially in the regions, and still a very low card usage, -- it presents serious drawbacks as well.

Russia is a country with poor or absent infrastructure, inadequate legal support and non-existent enforcement. The first regulation controlling the circulation of plastic cards in Russia has been issued only less than a year ago. For seven years prior to that credit cards were not a legally recognized means of payment, though hundreds of thousands of them have been already issued. Several attempts to create a credit reporting agency in Russia have failed, largely due to deep distrust between banks that decided not to share information about their clients with other banks-competitors and the state. Moreover, since the very institution of commercial banking is only ten years old and consumer credit is on an embryonic stage, most people don't have credit histories.

As a result of weak institutional environment as well as cultural and historical legacy, Russia exhibits a particularly low level of generalized trust – a kind of trust that extends beyond kinship circles.[4] Russians are highly distrustful of those outside of their immediate networks, as

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2 Finansist-98. "Aktualnye monitoringi," No. 2(19), March 23, 1998.

3 VISA Report, 5'98.

4 McDaniel, Tim. 1997. *Agony of the Russian Idea*. Princeton: Princeton University Press; Fukuyama, Francis. 1995. *Trust: The Social Virtues and the Creation of Prosperity*. London: Hamish Hamilton; Nichols, Thomas M. 1996. "Russian Democracy and Social Capital." *Social Science Information* 35:629-642; Putnam, R. 1993. *Making Democracy Work: Civic Traditions in Modern Italy*. Chichester: Princeton University Press; Inglehart, Ronald. 1997. *Modernization and Postmodernization: Cultural, Economic and Political Change in 43 Societies. Princeton, NJ: Princeton University Press;* Sztompka, Piotr. 1996. "Trust and Emerging Democracy: Lessons from Poland." *International Sociology* 11:37-62; Misztal, Barbara. 1996. *Trust in Modern Societies*. Cambridge, MA: Polity Press.

well as institutions, organizations and the state. Yet, trust is crucial for economic relations especially for those of credit since if goods or services are provided without being immediately recompensed for, those who provide them have to trust that eventually they will be reimbursed.[5] Kenneth Arrow argues that "[v]irtualy every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time."[6] Luhmann adds that '[w]ithout trust only very simple forms of human cooperation which can be transacted on the spot are possible."[7] A well-functioning credit card network, such as Visa or American Express, has to be built on the principles of trust between its banks-members, merchants and clients. Merchants have to trust that their banks would reimburse them for the price of the purchase without undue delay. Merchants' banks have to trust that banks that issued cards would compensate them for the amount of their clients' purchases. Banks-issuers, in turn, have to trust that their cardholders will honor their bills, pay interest on credit and don't run away.

Thus, the main paradox the paper explores is that the Russian credit card market is developing despite the challenge of sustaining incomplete economic transactions such as credit in a low-trust environment. How do actors cope with the lack of trust? What strategies do they employ to compensate for the lack of trust? How do they establish trust in their local contexts? Despite the multifaceted nature of trust, this paper will mostly deal with the attempts of banks to establish trustworthiness of their clients in the process of issuing new cards. I will show that Russian banks use four strategies (the first two are technical, the last two – informational): (1) shortening the time between the purchase and the payment by requiring to open card accounts; (2) shifting the uncertainty onto cardholders by asking for security deposits; (3) drawing on existing sources of trust; (4) anchoring as an supplement for trust.[8]

The project involves a comparison of the Russian credit market with its American counterpart. Such a comparison would treat American credit card market as an ideal type and is possible for two reasons – practical and analytical. First, the US is the cradle of the credit card. Credit cards are an American "invention" and American banks, merchants and consumers have the

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[5] Thomas Russel. 1975. *The Economics of Bank Credit Cards*. New York: Praeger Publishers

[6] Kenneth Arrow. 1975. "Gifts and Exchanges" in *Altruism, Morality and Economic Theory*, ed. by Edmund Phelps. New York: Russel Sage, p.24.

[7] Niklas Luhmann. 1979. *Trust and Power*. Chichester: Willey, p. 88.

longest history with credit card transactions. Therefore, understanding of principles of credit card operations as well as problems and their solutions comes from the American experience and with the reference to American institutions. Moreover, since the vast majority of transnational card networks imported to Russia are American, the very people that import them inevitably treat the US credit card market as a "standard" one and as a base line for comparison. In other words, what is actually being imported into Russia is the rules and principles that have grown and matured on American soil. Another, analytical consideration for using the American credit card system as an ideal-type stems from the fact that American economic system is highly rationalized and is often used by neo-classical economists as an intellectually pure model of how an economically rational credit card industry should work.

Uncertainty and Trust.

Trust is a troublesome concept for orthodox economic thinking. Neo-classical economic theory ignores trust altogether. It acknowledges that people often face uncertainty, but uncertainty is simply a problem of insufficient information. Actors include uncertainty into their calculations in the form of probability judgements. Thus, all uncertainty is reducible to risk, that is, calculable probability. From this it follows that under more uncertainty more information is necessary to better calculate risk and make proper decisions riding on future events. [9]

Yet risk is only a special -- and benign -- case of uncertainty,[10] and it assumes a calculation that relies on multiple instances of past experience to predict the future. To judge an event, we have to have other events that are similar across time and across events. This requires an institutional stability, which guarantees both that the future is not that different from the past and that the event we have to predict is available to us in a proper classification that makes it a member of a larger class. If past events are not properly classified and measured, we cannot tell what other cases are relevant for our risk assessment. For credit cards this means that for banks

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[8] I am indebted to Akos Rona-Tas for drawing my attention to this idea.

[9] For an overview of the orthodox position on choice under uncertainty see Schoemaker, Paul J.H. 1982. "The Expected Utility Model: Its Variants, Purposes, Evidence and Limitations." Journal of Economic Literature, 529-563; Machina, Mark J. 1987. "Choice under Uncertainty: Problems Solved and Unsolved." Economic Perspectives, 121-154.

to make a risk assessment of a future client, other, previous clients must be classified in a way that the applicant could be seen as highly comparable with one subset, whose behavior in the past then can be taken as an indication how the applicant will behave in the future. This requires institutions that verify, affix and maintain standardized labels. In addition, institutional environment needs to be stable to ensure continuity and predictability of the future on the basis of the past. However, because institutions that could underpin stability are so weak in Russia, Russians are rarely faced with risk and more often faced with radical uncertainty, where the basis for rational calculation is absent.[11]

Radical uncertainty, however, can be solved if there are appropriate social mechanisms to do this. All involve some form of trust. Trust therefore is simply positive expectations in the face of radical uncertainty. We do not claim that trust is blind. Trust is "studied"[12] -- people or banks do seek good information if they can and do not ignore it if they get it. But they know that following rigid rules to calculate would be irrational, in the sense that it would not lead to good results. It is in the absence of trust, that radical uncertainty can have debilitating consequences.

To get a better understanding of what is unique to Russia and what is inherent in the type of transactions credit cards involve, we will build the rest of the paper presenting the Russian credit card business in a comparison with its American model and counterpart.

Brief History and the Current Russian Credit Card Market

Unlike the US, where the first cards were issued in the late 50s, Russia is a novice in the credit card game. Although Western credit cards were present in the former Soviet Union in the mid-70s, their owners were foreigners temporarily visiting the country and used their cards in specialized hard-currency stores. The first mass credit card program (VISA) was carried out by Kredobank in 1991 in order to meet the needs of wealthy clients who often traveled abroad. Today thirty-six Russian banks have Principle Member status in VISA, and forty-six are members

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10 Becker, Jens. 1996. "What is Sociological About Economic Sociology? Uncertainty and the Embeddedness of Economic Action." *Theory and Society* 25:803-840.

11 Bunce, Valerie and Maria Csanady. 1993. "Uncertainty in the Transition." *East European Politics and Societies* 7:2:240-275.

12 Sabel, Charles F. 1992. "Studied Trust: Building New Forms of Cooperation in a Volatile Economy" in *Explorations in Economic Sociology,* ed. by Richard Swedberg. New York: Russell Sage Foundation.

of Europay/MasterCard. Several domestic card networks and local programs are developing as well.

A. Background on consumer credit and commercial banking.

In the US credit cards appeared as a logical successor of small household consumer credit, which was rapidly growing in the affluent post-WWII period. By the early 50s majority of Americans used up to a dozen or more of different credit lines including those opened by gas companies, department stores, a Sears company, airlines, car dealers, etc.[13] Bank of America (at the time, Bank of Italy, founded by a North Italian immigrant A. P. Giannini) introduced a card that combined different kinds of credit into one credit line opened by the bank. From the point of view of merchants, as a form of payment credit cards were also superior to personal checks, since by authorizing the credit purchase banks guaranteed the transaction to the merchant account.

In Russia, the order of things is diametrically the opposite. Credit cards are appearing on the stage where none of its precursors have laid their foot. Personal checks are unheard of in Russia, whereas consumer credit is in embryonic stage. There were ways to use credit under the Soviet regime, but on a small scale, and of a limited kind. Citizens could receive state credit to buy furniture, a fur coat or a car, but the working collective and the enterprise had to apply on their behalf. The state owned enterprise was also a guarantor that the loan will be repaid. Usually the repayment was done in installments that were automatically deducted from the person's monthly paycheck. A small number of borrowers could apply directly to the bank – for instance, pensioners. [14] The situation was highly predictable, and it seemed that trust played little role in such a highly stable and controlled environment. Since the enterprise guaranteed the repayment and there were practically no layoffs[15], and, unlike today, wages were paid regularly, the bank had little reason to worry. The borrower would always be able to repay. In addition, very rigid mechanisms of administrative control blocked mobility across companies, whereas a requirement of a registration in the place of living (*propiska*) hampered geographical mobility. Moreover, enterprises played a central role in people's lives. Not only did they have complete control over

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[13] Josef Nocera. 1994. *A Piece of the Action: How the Middle Class Joined the Money Class.* New York: Simon and Schuster.

[14] *Potrebitelsky kredit* (Consumer Credit), "Economica" series, 5/83. Moscow: Znanie.

one's salary which for overwhelming majority was the only source of income, but companies played a significant role in many other areas their employees' life: provided housing, recreation, travel, even help in family emergencies. To refuse to repay and/or disappear was hardly possible. One should keep in mind that the primary goal of this consumer credit was to help provide for needs of citizens, not to make profits. In fact, certain categories of borrowers (war heroes, orphans, and families with many children) received low or no-interest loans.

Next to the severely limited formal personal credit there has been vigorous and widespread informal borrowing. Anecdotal evidence suggest that in financial emergencies, people would turn to friends and relatives for small loans. This borrowing was based on pure trust, but, it was only restricted to close kin and friendship circles. Contrary to formal borrowing, these loans were interest-free, quite often repaid later that it was agreed, or not repaid at all. Sometimes lenders themselves did not expect them to be repaid or would not be surprised and upset if they were not, perceiving them as pure financial aid.

If consumer credit is recent in Russia, so is commercial banking. A short history of commercial banking has also been a turbulent one. Today, there are two groups of banks in Russia – several large ones that possess the majority of the assets (they are nevertheless small by Western standards), and a fair number of small banks. In 1997, 200 largest banks possessed 88.4 percent, 20 largest -- 60.2 percent and 5 largest -- 37.9 percent of the total assets in Russia's banking system. [16] Despite the skewed distribution of capital all banks are young, and many don't stick around for long. The total number of banks in the Russian Federation, that is now somewhere around 1600 (at least on the books), has been declining quite steadily over the last several years. The total number of banks whose licenses were recalled in 1994-1997 is 922. [17] As a part of the post-August 1998 crisis regulation of the banking sector, the Central Bank has announced that 720 more banks would be put on "death row", which would reduce the total number of banks down to less than 900.

A high concentration of assets in the hands of a limited circle of banks given the short history of private banking is, however, quite surprising. Private banking was legalized in 1988,

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15 Work was a constitutionally guaranteed right of each Soviet citizen.

16 "Finansovye Izvestiya" #29(479), April 23, 1998.

17 DiasoftINFO/may, 1998, p.10.

and from the early 1990s commercial banks were growing like mushrooms after a rain. Most made their initial capital on financial speculations. In the early 1990s inflation was very high which allowed banks to take advantage of differences in exchange rates and receive quick and high profits. This was done in conjunction with capitalizing on another source of income – the state budget. In post-totalitarian countries initially, the state is the only actor that has accumulated significant amounts of capital, since the majority of the enterprises are nationalized property, and the population does not have much in savings and what they have is often stashed away in pillow cases. Besides the fact that money from the state budget meant tremendous and virtually free financial resources, hyperinflation and weak law enforcement opened numerous additional opportunities for easy and quick profit. Banks routinely held money intended for salaries or industrial development for several days while the money was losing its value, pocketing the difference. There was no need to worry about improving banking technologies, development of new services or infrastructure, so easy it was to make a profit. These profits also compensated for frequent bad management decisions by ill trained and inexperienced bankers.

Banks that were granted the privilege of working with budgetary resources received the status of “authorized agents" proudly displayed on the first page of their annual reports. It was this system that paved the road for some banks toward such a rapid growth and the high concentration of bank capital. Not just any bank could get their snout into this “feeder,” but only those who had good connections in the government. Intimate proximity to the power apparatus, which was considered one of the most serious assets banks possessed, allowed chosen banks to engage in the redistribution of GNP to their advantage. Thus, to a large extent, banks simply lived off the state property accumulated over decades preceding the reforms. [18] Therefore, working with budget accounts became the most treasured and vied for privilege, as well as a marker of prestige and success.

Starting in 1995 state budget resources became scarcer and banks had to find new ways to accumulate capital. State privatization as well as loans-for-shares program[19] became such a source engaging banks in a wild race for large state companies with high market value. The principal

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[18] *Delovye Lyudi* (Business People) #82(97) 1997

strategy banks employed remained the same. Just like the state budget redistribution, these programs were administered by state officials, and bank executives used the same contacts in the government to get themselves a piece of state property.

In 1997 the new vice-prime-minister Vladimir Potanin intended to substitute the system of privilege with one based on more impartial rules. The number of authorized banks that was 100 in 1996 was reduced by 50 percent. The remaining banks were divided into three groups depending on their reliability. There were several inflexible criteria that had to be met to make it into one of the groups: a capital above a certain size, a positive balance in the last two years, reserve funds fulfilling the requirements of the Central Bank, existence of a network of branches and a few others. [20] However, instead of settling the banks' internecine war, "Potanin's lists" further spurred the banks' pitched battle for the membership in the three groups to gain resource privileges and the stamp of good relationship with the state and the Central Bank.

Throughout this period Russian banks were actively engaging in a war of compromising information. Several of the largest ones were buying out major Russian dailies quietly privatizing mass media. Now most, if not all, of the large circulation newspapers are owned or controlled by banking and industrial groups. False negative information on a bank's competitor's financial condition intended primarily for the Central Bank also takes its toll on the confidence of the general population. In a situation when banks were going under every day and even the largest ones were not immune from bankruptcy, such information is taken seriously. As a result, a bank that is a target could be denied participation in a privatization tender or can become the subject of a long and exhausting inspection by the Central Bank. Even if the review finds nothing wrong (which is rarely the case) it takes time and dents the bank's reputation, and with it the reputation of the Russian banking sphere as a whole.[21]

The Russian credit card market, unlike its American counterpart, is developing in a period of economic recession and under a banking system that is young, inexperienced, unstable, often

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19 The government heavily borrowed from the banks in exchange for shares of state property – large factories, plants, oil wells. (J. Johnson. 1997 "Russia's Emerging Financial-Industrial Groups" in *Post-Soviet Affairs*, Oct-Dec V13 (N4) pp.333-365.)

20 *Delovye Lyudi*, #82(97) 1997, p.19.

21 This is the classic case of the tragedy of the commons. See Garrett Hardin. 1968. "The Tragedy of the Commons." *Science*, 162: 1243-1248.

corrupt and sometimes outright fraudulent. In addition, contrary to the US of the late 50s, by the time credit cards were introduced in Russia there has been a developed market for consumer credit. As a result, institutions that support and enforce the spread of credit are missing – credit reporting agencies, legal enforcement, etc.

B. The Current Market.

The largest segment of the American credit card market is the market of unsecured credit cards, geared towards people with established credit history. Prospective applicants are evaluated using databanks of credit histories and algorithms for calculating risk. The application processes is fairly standardized, in most cases it is completely impersonal. Banks that issue unsecured Visas and MasterCards allow to carry a balance indefinitely, as long as a monthly minimum payment is made, usually have no annual fee, allow for 25 days or longer grace period on the purchases, and provide cardholders with additional benefits -- car or medical insurance, frequent flier miles and other teasers (low introductory APR, etc.). Students are given special card promotions through heavy recruiting on campuses. Most of them do not have credit histories, nevertheless, their affiliation with an educational institution allows banks to open $300 to $500 credit lines. AmEx and Diners require an annual fee, and are not credit cards per se. They are so called "charge cards," since balances cannot be carried over to the next billing cycle, but have to be paid in full each month. Nevertheless, they allow for a time gap (up to one month) between a purchase and a payment, and therefore also raise a problem of trust.

The smaller, secondary market in the US is the one for secured credit cards. It is geared towards those who do not have an established credit history (e.g., immigrants or divorced women) or those in need of credit repair (bad credit history). Banks usually charge annual fees, higher interest, shorter or no grace period on purchases, and require from $200 to $1000 as a security deposit. Secured cards look and work no different from unsecured ones, but since banks lack information necessary to predict their clients' future behavior or, more often, this information is negative, they balance the resulting uncertainty by a security deposit and higher fees and interest.

All cards in Russia are popularly referred to as "plastic cards." Currently there are two groups of cards issued in Russia. The first group is geared towards higher income professionals and businessmen that often go abroad for either business or pleasure, and employees of the banks themselves. Cards that are issued in this group are regular Classic credit card products of Western multinational companies – Visa Classic, Business and Gold and Eurocard/MasterCard Mass, Business and Gold However, only a minority of these credit cards are "cards with authorized overdraft. " To better suit the Russian market banks usually turn them into what amounts to secured debit cards called "cards with unauthorized or technical overdraft."[22]

With some exceptions, Western cards issued by Russian banks require opening a security deposit account and a card account. The latter is debited as a result of card transactions. They are not pure debit cards as we know them in the US, however, because they cannot always be processed electronically -- many merchants only have imprinters, not point of sale (POS) terminals. As a result, transactions resemble credit card transactions – they require paper slips filled out by the merchant and signed by the client. Slips are then submitted by the merchant's bank to the processing company that reimburses the merchant's account according to the slips. Information on transactions is compiled by the processing company and forwarded to the issuer bank. The issuer bank reimburses the processing company and debit their client's account. Since slips are only submitted at the end of the business day or once or twice a week for smaller merchants, there is a gap between the time of the purchase and the payment. Under certain circumstances this gap can be as big as a month. [23]

Russian banks require that cardholders open security deposit accounts in their bank. There are several reasons why security deposits are needed: they cover overdrafts resulting from off-line authorization and pre-limit purchases, allow banks to honor merchant's slips sent after the card account was closed and pay fees and penalties. However, recently majority of banks have been lowering security deposits due to competition.[24]

The use of paper technology (slips) requires voice authorization – the merchant has to call the bank to authorize the card. In large payment networks (like VISA or MasterCard) voice authorization is usually conducted in an off-line regime. The merchant calls a processing company

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[22] The name itself is telling and is used primarily by bank employees.

[23] Interview with a bank employee.

[24] Security deposits cannot cover intentional defaults and fraud, which reemphasizes importance of pre-screening the applicants.

that permits or prohibits transaction using a database provided by the bank that issued the card. This, however, does not mean debiting of the cardholder's account in the bank-issuer. The account is debited only when paper slips (or an electronic file) are submitted by the merchant to the acquiring bank and then passed through the processing bank to the issuer bank. Since information about transactions is not transmitted immediately, it is technically possibly that the sum of all authorized purchases for the day or a several day period is larger than the balance on the account, thus resulting in an overdraft. As opposed to off-line authorization, authorization in an on-line always occurs when money is withdrawn through an ATM machine or in person in the branch (both are quite expensive operations for the bank and cannot be done in every point of sale). On-line authorization also possible when the processing bank for a network and the issuer bank is the same (like SBS-Agro for STB-Card) or when the issuer bank and merchant's bank is the same (in the situation of local card networks in regional towns).

Security deposits are also supposed to cover overdrafts resulting from purchases on sub-limit amounts. Most merchants (especially abroad) do not ask for authorization on purchases below a certain amount (floor limit) because it is costly for the processing company and not worth it for smaller purchases. For places where there are imprinters instead of electronic terminals, authorization is also time-consuming since the cashier has to phone the authorization center and speak with the operator. Russian merchants allegedly have zero floor limits – all purchases have to be authorized by the bank. However, holders of Russian Visas and MasterCards can travel to foreign countries where such floor limits can be as high as $1000 in some hotels. [25]

In addition, security deposits are used to pay balances when the card is being closed. Security deposits can be retained by the bank for up to 45 days after the card account is terminated. The maximum time to receive slips from the merchant is 30 days. Therefore, security deposits ensure there would be enough funds to cover final purchases. Finally, they cover all the fees, possible penalties, etc., if the money on the card account is insufficient.

Classic credit card products are a small part of cards issued in Russia. Besides, most of them are issued by Moscow banks or those of other big cities. That is where banks are also

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[25] Interview with a high-ranked processing company employee.

actively engaged in the development of card acceptance networks among merchants. In the regions and small provincial towns, however, most cards issued are of the second kind.

The second kind of cards are plain debit cards (Visa Electron or Cirrus/Maestro) or domestic cards (Union, STB, “Zolotaya Korona”). They do not extend credit, either in the form of authorized or technical overdraft. They comprise the majority of cards issued in Russia. In September 1998 Visa reported that Russian banks have issued 1,107,000 Visa Electron (debit) cards which account for 80.9% of all Visa cards issued in Russia, whereas 236,000 Visa Classic only comprised 17.2%, 17,000 Visa Gold 1.2% and more than 9,000 Visa Business 0.7% of all Visa cards issued.[26] By the beginning of 1998 Europay International issued 31,000 Eurocard/Mastercards Mass, Gold and Business (4.5%), and more than 660,000 cards Cirrus/Maestro (debit) (95.5%).[27] Union Card issued 2.4 million cards, STB – more than 2 million by the end of 1997, “Zolotaya Korona” – more than 555 thousand by the beginning of 1999.[28]

Both electronic cards and domestic Russian cards are geared to a wider audience. Electronic cards or debit cards are usually not embossed and can only be serviced through an ATM machine or a POS terminal.[29] They are not compatible with paper technology (imprinter slips, i.e. they are not embossed) and always require 100% authorization with the issuing bank. They cannot go into overdraft[30] and the scope of their use is much more limited (for instance, they cannot be used to make purchases at the Internet). These cards are the most common and the most affordable to Russian clients – they usually have low or no annual and other fees, no security deposits and require low initial deposits.

Two Russian domestic card products – Union Card and STB Card are embossed but usually require 100% authorization which is cheaper and easier to do than in the case of Western cards because networks are smaller and they often only work with cards issued in their region. Besides, in small regional towns there is often only one bank which simultaneously issues cards and works with merchants, making possible on-line authorization (issuer bank itself processes authorizations so information about the balance on the account is constantly updated). “Zolotaya

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26 Card-On-Line, electronic bulletin, January 20, 1999.

27 “Platezhi. Sistemy. Kartochki,” 4/98, p.5.

28 Card-On-Line, electronic bulletin, January 18 1999.

29 With the recent exception of Most-Bank and Sberbank, which are the only two banks in the world that issue embossed Visa Electron cards so that the scope of their use could be wider.

Korona” (Golden Crown) is a microprocessor chip card that does not require on-line authorization since information about the account is stored on the card itself. This network is primarily developed in Siberia where it successfully solves the problem of bad or non-existing telephone lines used for voice authorization. One problem with this solution is that this network is often exclusively local since due to technical reasons most banks only service cards issued in their own region.

Most domestic network cards are issued under salary projects. The problem of cash is the biggest problem in small regional towns. These towns' economy is usually centered around a single enterprise where a big part of the adult population work. Salaries are directly deposited in individual workers’ accounts (from the janitor to the head of the enterprise) and everyone is given a card. Cards can be used for transactions in the factory cafeterias, in the stores, laundries and gas stations that are often owned by the factory and in some other town stores. The factory administration usually sees salary projects as an advantage since they don’t have to worry about security of delivered cash, nor face social pressures when there is no cash to be distributed on the pay-day. Furthermore, salary projects reduce social tension by eliminating long lines in front of cashiers window on paydays and preventing celebratory payday drinking popular among workers. The bank can even credit the salary fund of the factory under certain conditions if there is a delay in payment from buyers. Therefore, cards issued under salary projects can be turned into credit cards. Bank’s risks are not high in this case since the enterprise is responsible for all its workers’ expenses. In turn, these are secured credit cards for the enterprise since future salary is used as collateral.

Salary projects are a way Russian banks break the “vicious” circle fully experienced by American banks in the late 50s - early 60s. At that time the vicious circle was broken through the mass mailing of unsolicited cards. Bank of America launched its first mass credit card program (BankAmericard) by direct mailing 60,000 unsolicited cards to residents of Fresno (California) in 1958. A year later, the bank decided to spread cards to a larger geographical -- several bigger towns and cities, including “untrustworthy” Los Angeles, a home to “the fast Hollywood crowd,

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[30] The only exception to this “rule” of which we are aware resulted from inadequate technical support.

the blue suede show boys."[31] By the end of the next year, about 2 million cards had been mailed to unsuspecting people and 20,000 merchants had been recruited to accept them, but not without a high price. Instead of expected 4% of delinquent accounts (average for loans), they comprised 22%, fraud was rampant and collection was problematic – all a result of issuing cards indiscriminately. The situation was especially difficult in Los Angeles, where even once-good clients often perceived cards as free money running up the bills without any intention of repaying. Bank of America official losses after 15 months of its new credit card program amounted to $8.8 million – a huge sum of money for a bank back then. One of the lessons they learned was that not everyone was worthy of credit and that serious consideration had to be made before extending credit to new cardholders.

"Compulsory cardization Russian style" provides a much more risk-free way to overnight increase the number of cardholders by hundreds or even thousands. Of course this does not automatically mean that people are going to use their cards for non-cash transactions. In fact, evidence suggests that even after a year of receiving salaries directly deposited to their card accounts, people prefer cash and only about 15% of all card transactions are cashless. However, an impressive number of cardholders is a compelling argument for merchants to agree to accept cards. Another reason for which salary projects are very appealing for Russian banks is that they are a way of attracting more financial resources in the form of balances on card accounts. Evidence shows that first 3-6 month people use cards to withdraw almost 90% of their salaries, stipends or pensions. [32] But later, especially for those with higher than average salaries, up to 30% tends to be left on accounts. Finally, salary projects allow banks to reduce issuing risks down to a minimum by providing an avenue for extreme case of anchoring.

Shortening the Time between the Purchase and the Payment.

For an American bank the goal of credit card business is to stretch the period during which interest is charged on the purchase for as long as possible, since interest is the primary and unsurpassable source of banks' profits. Those cardholders that pay their balances in full each month rip banks of their expected earnings. Though such individuals often think positively of this

[31] Kenneth Larkin, a Bank of America executive, quoted in Nocera 1994, p.29.

practice as a sign of their discipline and self-control, they virtually "free ride": banks provide them with an interest free loan for up to 55 days (billing cycle plus 25 days of grace period on average). This comes at a price for those cardholders who do carry balances, since their interest rates have to be higher to account for the "free riders".

Russian banks, on the contrary, are trying to shorten the time between the purchase and the payment. By requiring to open card accounts they attempt to turn credit cards into debit cards. Although due to technical reasons the time gap is still larger then zero, banks take responsibility for paying bills away from cardholders and essentially discourage credit. Where overdraft is allowed, it has to be paid off in no more than 2 billing cycles. Therefore, banks pass the opportunity to earn interest settling instead on security deposits and balances on card accounts as their primary sources of profit. This shows how lack of trust on the part of banks directly affects their earnings.

Shifting Uncertainty onto Cardholders.

As the possibility of unsanctioned (technical) overdraft is real, Russian banks fear that cardholders can turn their debit cards into credit cards by charging more than there is on the account. Since the institutions that are supposed to reduce uncertainty about clients' future behavior are not in place, banks ask for additional guarantee – opening security deposits. However, under the current circumstances in Russia, this simply shifts uncertainty to the client. By holding onto the money of the client, and not trusting the client, the Russian bank is asking the client to trust the bank because accounts in Russia are not insured. American credit card holders, even with secured cards or direct payment systems, take virtually no chances since deposits in the US banks are guaranteed by the Federal Reserve in the amount of up to $50,000. Russian customers, on the other hand, have good reason to be nervous when they give their money to their under- or uninsured bank.

Banks in Russia often go bankrupt. High rate of "mortality" prevalent in the Russian bank sector does not spare even the largest and most well-known banks. The third largest commercial bank in Russia – Inkombank – ceased to exist two month before its widely advertised 10th

[32] A. A. Andreev et al., p. 90.

anniversary. Reasons for such high instability vary, but those that are most often mentioned are mismanagement and risky credits. The pioneer of credit cards – Kredobank – became history in 1996, several other large banks with well-known card programs -- Mytishchinsky Bank, Optimum bank, Tveruniversalbank, also went bankrupt and annulled their card programs. We can only guess what happened to their clients' security deposits.

Furthermore, the general instability of the economy results in periodic financial crises. "Black Tuesday" in October of 1994 brought a dramatic ruble exchange value crash, on "black Thursday" in August 1995 the market for interbank loans virtually disappeared. In August 1998, the crisis has resulted in a more than 50% ruble devaluation, acute cash deficit, frozen card accounts, thousands of cardholders lining up in front of branch offices trying to get their money back. The Central Bank initially announced that it would guarantee all the deposit accounts. Later, however, it turned out that there is not enough money at its reserve, and cardholders were given a choice of either transferring their deposits on unfavorable conditions to the state-controlled Sberbank or to wait and hope to get their money back over an extended period of time.

Finally, the voluntaristic economic policy of the state adds further to clients' uncertainty over the security of their deposit accounts. Over the last several years the Russian state has initiated a series of policies that wiped out savings of millions of Russians. Among these are the exchange of 50 and 100 ruble banknotes in 1991[33], the devaluation of savings in 1992, another banknote exchange in 1993, and a one-sided reduction of the annual rate by the Central Bank three times in 1994 and once in 1995.

Drawing on Existing Sources of Trust.

<u>Categorization of Trust</u>

In the following section I map a model of trust that identifies four main sources of trust and mechanisms by which trust is build: unreflective trust, cross-time comparison, top-bottom transfer and cross-case comparison. While distinguishing between personal and institutional trust I combine the two in the same model. This is especially useful for a case of credit card markets

[33] Only a limited amount of "old money" could be exchanged for new ones. The exchange was unexpected and fast, intending to target "dirty" criminal money, but in reality causing panic and chaos among common people, especially pensioners.

where both organizations (banks, merchants) and individuals (cardholders) evaluate and negotiate each other's trustworthiness.

TABLE 1 ABOUT HERE

The less said about trust, the better. The strongest kind of trust is in the situations when people are not conscious that they grant any trust at all, when trust is unreflective. Alternatives are unimagined because they are beyond the scope of one's repertoire. On a personal level it is trust of one's parents, spouses, intimate friends. On an institutional level it is trust of dynasties, royal families, or charismatic leaders – Stalin, Mao, Hitler. Thus, non-reflective trust is a consequence of a tradition or a strong emotion (love, intimate friendship or charisma).

Non-reflective trust can also be a result of habit and routine brought by socialization. People have been socialized to trust many things and since objective reality does not contradict beliefs they hold, trust continues undisturbed. There is a multiplicity of situations when people accept without questioning - that the content of a carton, jar or package is exactly what it says on the label (which in the case of a mistake could theoretically have some grave consequences for people with food allergies, infants, pregnant women, etc.), that the waiter who takes our credit card is not going to copy its number and use it later, that the photo developing place would not copy one's private pictures and put them on the Internet.

Socialization does not only teach how to trust, but also when to cut the cards. The two processes go hand in hand: trust your family, but be wary of strangers; trust friends, but be careful with acquaintances you've met yesterday; trust those that proved it in the past, while keeping an eye open with others. However, even socialized "blessed ignorance" only holds as long as individuals or their friends are not deceived or tricked, or they don't know of anyone (a friend of a friend, or someone whose story was covered by media) who has been deceived in particular circumstances. If such a possibility is acknowledged and felt as real, trust is no longer unreflective. The decision whether to grant trust or not becomes a matter of cognition and rational calculation.

TABLE 2 ABOUT HERE

I discern between the three kinds reflective (calculative) trust each arrived at via a distinct kind of logic – cross-time comparison, top-bottom transfer and cross-case comparison. The first kind of trust is rooted in one's personal experience with an individual or an institution in question. We trust people we have known, especially if we have known them for a long time. Clients stick with their doctors, tailors, barbers and butchers often despite the possibility of getting a cheaper service elsewhere. Similarly, buyers carry on business relationships with sellers and vice versa instead of always looking for better deals. The logic that lies in the foundation of such trust is a comparison of the performance of the same person or institution across time. Such a comparison allows to estimate future on the basis of the past. Therefore, similarly to the unreflective trust, this kind is based on the information limited to trustees themselves, and is an "earned" kind of trust. It is an equivalent of process-based trust[34], but in addition to serving a foundation of interpersonal relations, I apply it to the public perception of institutional performance. For example, in economies that undergone serious crises, trust in national currency is no longer taken for granted (as it is in most stable economies). However, a prolonged period of stability with low inflation and unrestricted currency exchange gradually teaches population to trust their national means of payment[35]. Although this is a weaker kind of trust than the unreflective trust, it is the strongest among the three reflective types. Our personal knowledge of one's performance in the past is the best and most solid ground for trusting since experience is the best teacher. However, it is also a dear one, and if fools learn from no other, wise people do have alternatives. Experience is often unavailable, yet it does not mean we have to distrust all those with whom we have not dealt in the past.

If trustors are not familiar with trustees' past performances they can resort to a different logic, that of a top-bottom transfer. This refers to borrowing trust from a source (a person or an institution) that already enjoys a high level of it[36]. People can transfer trust from other people. Written or especially informal recommendations are a good example of this. Granovetter

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34 Lynne Zucker. 1986. "Production of Trust: Institutional Sources of Economic Structure" in *Research in Organizational Behavior,* V8, pp. 53-111.

35 Russian ruble before the last August crisis.

36 The idea of a transfer was suggested by Blondel in her treatment of political legitimacy. She called it "one of the principal ways by which the legitimacy of groups is created and can change. Without it, new groups would be very difficult to start, the necessary capital of trust being at the outset quite small" (Jean Blondel. 1975. *Comparing Political Systems*. New York: Praeger Publishers, p. 52).

concludes that majority of jobs are found informally: not through public ads and searches, but via networks of friends and acquaintances (1995). These networks channel information, but they also channel trust, because hiring someone of whom you have heard positively is more appealing than hiring a complete stranger. Borrowing trust from other institutions involves drawing on credentials and affiliations: well-known and respectable institutions and organizations make people who are connected with them more credible.

Institutions can also borrow trust from individuals and other institutions. Celebrities often promote commercial products or other causes (anti-smoking or anti-drug campaigns) transferring some of the trust they enjoy as public figures to these products or causes. Established and trustworthy organizations (including the state) share the trust they themselves enjoy with their subsidiaries. The transferred trust is "unearned" because the information on which it is based is not about potential trustees, but about their link to another source of trust (individual or organizational). This is also a weaker type of trust than the previous one, but it still provides a decent amount of confidence.

The third type of trust is based on a cross case comparison. It is the weakest (the least reliable) way to build trust. We use this type of trust when all the other options failed – we cannot trust blindly, we don't have a reliable information about trustee's past performance, we cannot make any connections to other people or institutions we trust. The last resort is to compare potential trustees to other unrelated individuals or institutions of a similar kind (or to a class to which trustees belong) to determine whether they have characteristics that are deemed trustworthy. Ethnic immigrant networks are based on this kind of trust, when national origin provides enough information about new-comers for them to be accepted, granted membership in the ethnic community, given aid and assistance. This kind of trust is closely related to stereotypical reasoning. We substitute knowledge about a particular individual or organization by a generalization we formed about the classes of individuals or organizations to which they belong. Therefore, stereotypes conveniently serve a basis for distrust. Ethnic and religious characteristics, color of one's skin, age or one's national origin can signal one's unreliability or untrusworthiness.

Organizations can also be subjected to this kind of comparison. Everyone is familiar with an agonizing search for a reliable restaurant in a strange town or a foreign country. If all other sources of information – for example, a friend's recommendation or a tourist guide suggestion -- are unavailable, the decision where to eat would be based both on one's experiences with restaurants of a similar kind (Chinese, French or Mexican), and the assessment of whether this place "looks" all right – in terms of size, cleanliness, local popularity, etc. Consequently, it is not a surprise that Americans travelling in Third World countries where sanitation conditions can be a real hazard are greatly relieved at the sight of familiar yellow arches.

Application of the Model to the Case Studies.

Among the four types of trust identified in the previous chapter only two are used routinely by American banks-issuers. As the process of issuing credit cards is highly standardized and largely impersonal in the US,[37] unreflective trust and top-bottom transfer trust are de-emphasized. It is plausible, however, that community-based banks and credit unions which have a more intimate knowledge of their customers than do large national banks, can use both mechanisms to extend cards to family members of their high-rank employees, friends of long-term customers, etc.[38]

The most common way in which American banks assess trustworthiness of prospective cardholders is by gathering information from credit reporting agencies and using credit scoring. Credit scoring is a sophisticated statistical method based on paralleling data from clients' credit history with aggregate data from millions of others to predict the likelihood of new clients' default. Developing these models involves studying how thousands, even millions of people have used credit in the past and assigning weights to particular behavioral patterns (for example, paying bills on time vs. having accounts past due) and demographic characteristics (age, income, occupation). Credit scoring was first developed in the 1950s, but has come into increasing use in the last two decades. In the early 80s the three major credit bureaus, Experian, Equifax and TransUnion worked with a company called Fair, Isaac and Co to develop generic scoring models that allow each bureau to offer a score based solely on the contents of the credit bureau's data about an individual. Even though the three bureaus use their unique systems, their scoring models were normalized so that their numerical scores are equivalent. FICO model is believed to allow

[37] In most cases, individuals apply by mailing filled out application forms without ever meeting the bank's staff. The exception is constituted by small community banks or credit unions.

for speedy and objective analysis of credit histories, “bringing a new level of fairness to the credit-granting process.”[39]

Credit bureaus and credit scoring systems allow American banks to build trust using elements of cross-time and cross-case comparisons. Cross-time comparison is based on the information of the applicants’ past credit and payment history usually provided by a credit reporting agency. It can be categorized in five areas (in order of importance):

- payment history (including late payments, public records such as judgements or bankruptcy, or derogatory notes like charge-offs or accounts turned over to collections)
- outstanding debt (outstanding balances, size of average balance, ratio of total balances to total credit limits on revolving credit – credit cards and home equity line, the ratio should be no more than ¾ or 75%)
- credit history (age of the longest account)
- pursuit of new credit (number of inquiries and new accounts, how recent they are, and the time passed from the last inquiry).
- types of credit in use (number of bank, travel and entertainment cards, department store cards, installment loans, etc.)

Banks do not directly translate individuals’ past experiences into future expectations. In this case, cross-time comparison is not a solid enough foundation on which to base a decision to issue a card. After all, banks do not *know* these people, they only know *of* them. To supplement cross-time comparison, banks employ cross-case comparison – a comparison of applicants’ credit history and demographic information with those of millions of other cardholders. The demographic data that is scored includes income, occupation type and place of employment, homeownership, age, availability of savings and checking accounts and job-related and residential stability.

In Russia the two sources of information (credit histories and credit scoring) are unavailable. As consumer credit has not been introduced until recently, people do not have credit histories, which complicates the use of cross-time comparison as a foundation of trust. Worse

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[38] Evidence that suggests that these things, though rare, do happen comes from interviews with small local banks in San Diego.

yet, whatever information can be gathered from people is unreliable and unverifiable. People lie about or simply don't know their income. Tax returns or pay stubs are completely useless in checking up on people who routinely dodge income taxes, whose employer underreports their salaries to reduce payroll taxes, who often do not get their salary for months or years, and who make money in the shadow economy. Furthermore, banks have not yet accumulated large numbers of cardholders to develop their scoring models, yet their cut-throat competition does not allow to pool information in a systematic manner. Several attempts to create a credit history bureau by the Association of the Russian Banks (ARB) failed despite the interest in and perceived importance of such an institution. The main reason is that banks distrust each other, the Central Bank, the ARB, and ultimately the state. Banks are apprehensive about releasing sensitive financial information on their clients because they believe this would allow other banks to lure away their best customers. They also fear that the information would find its way to both organized crime (against which the state gives little protection) and the tax inspectors.

TABLE 4 ABOUT HERE

Whom do Russian banks issue cards to in the absence of credit reporting and credit scoring? And what logic underlies their decisions? Evidence suggests that banks in Russia make full use of unreflective (or, in this case, familial or kinship based) trust. It allows to issue cards to families and friends of top bank executives. Here borrower-creditor relationship is intermingled with close social bonds that serve as additional guarantee. The problem of the use of this form of trust for credit issuing is its limiting nature. It turns issuing of cards into an exclusive membership club, whereas profitability of a credit card market is in its numbers. The more cardholders are there, the more likely merchants are to accept cards.

Russian banks also employ cross-time comparison as grounds for issuing credit cards. Although no credit reporting agency has been organized so far, banks gradually accumulate information on their own clients. The one who was a customer of the bank for a long time can be considered a potential cardholder (especially if their bank account demonstrated significant

[39] Quoted from http://www.consumerinfo.com/n/cdscore.htm. This standardized system also eliminates some

rotation of funds). This form of trust can potentially open doors to plastic to a much larger number of people, than in the previous case, but is still problematic. First of all, it is not a pure cross-time comparison, since most people do not have any real credit history, only a history of having a savings account for a few month or a year. Secondly, since banks themselves are repositories of credit histories, cross-time comparison trust is limited to the clients of this particular bank and to the bank's lifetime. Meanwhile, Russian banks come and go, and with them go their clients' banking histories, since they are not centrally accumulated. In addition, if keeping one's savings in a bank is a way to earn its trust, banks' own instability and unreliability makes this very risky and raises a question of people's trust in banks.

Top-bottom transfer of trust operates via the power of networks allowing friends and relatives of banks' top executives and long-term clients to recommend potential cardholders. In addition, people associated with reputable organizations – both domestic (for ex. Ministry of FInance, and Academy of Sciences) and foreign (Coca-cola, and Phillip Morris). One of the banks I've studied compiled a list of issues positions in top governmental or large private companies whose officials can be offered credit cards. What is interesting is that cards are literally issued to positions, not individuals. When people leave their privileged offices, bank has to reissue their card on less favorable conditions.

Finally, cross-case comparison also takes place when banks decide on potential cardholders. Banks have vague preferences for potential cardholders. For instance, bank clerks that receive applications assess how likely a person of a particular occupation is to have funds necessary to open an account or decide whether there is a compelling reason for someone of such occupation to have a card. They can ask the person whether she often goes abroad and if not suggest to open a domestic card which is usually less risky for the bank.

In one of the banks, which specializes in real credit cards, while the application form is no more elaborate, than in other banks, they developed a system of primitive credit scoring. Seven questions are assessed. Getting five out of seven points is necessary for a favorable decision.[40]

1. Are the place of residence reported (*mesto prozhivaniya)* and the place of registration (*mesto propiski)* the same?

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of the uncertainty emerging from the idiosyncrasies of the judgements of loan officers.

[40] The bank's internal document.

2. Is the telephone registered to the applicant?
3. Is the company where the applicant works located in an office as opposed to at a home?
4. Is the applicant's work phone registered to the company?
5. Is the place of work and position indicated correctly?
6. Does a secretary answer the work phone?[41]
7. Is the applicant recommended (in writing) by another client with the bank's card or does the applicant already possesses a plastic card from another bank?

However, because these data are not aggregated into the traditional for the American credit card market scoring system, individual matches are too weak of a grounds on which to build trust. More often cross-case comparison is used to *exclude* someone from a pool of potential candidates (students, pensioners, housewives, those in the military) as having low or irregular income, no demonstrated need to have a Western card, etc.

"Anchoring" as an Supplement for Trust.

As I have demonstrated, American banks have various means to gather information about past behavior and present circumstances of an individual in order to predict their future behavior, In gathering information, there are two issues that the banks want to know. The first is whether the client is *able* to the second is whether the client is *willing* to pay her debt. Income statements from employer or tax returns are to gauge the first, past credit history is to indicate the second. This process treats cardholders as isolated individuals whose trustworthiness is solely a function of their own behavioral patterns and individual characteristics.

Yet this information, even when perfect, leaves some uncertainty. Banks also "anchor" potential clients in their immediate, stable social networks to both constrain their possibility of absconding and to gain a leverage over them in case they default.[42] Anchoring allows banks a foot in the door, a channel of communication that they can use to negotiate, gather information, threaten, etc. Potentially, banks (especially smaller ones) can use these networks -- at the work

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[41] A reflection of the company's and applicant's prestige.

[42] One of the reasons why foreigners on various visa arrangements have a hard time receiving credit, besides lacking credit histories is that they are less invested in their American networks.

place, or neighborhoods -- to informally pressure people to mend their ways if necessary. It is important, however, that these networks are legally not responsible for the client's misbehavior.

Majority of banks use geographic and professional “anchors”; on the application form they are behind questions about residential and job stability accordingly. The longer one has spent at the current address or with the current employer, the larger the extent to which she is embedded in local or job related organizational networks. Some applications ask for previous address or employer if the current one is less that 2 or 3 years old, suggesting 2 or 3 years is not always enough to establish relations that are stable and strong enough to prevent exit or serve as a leverage. This approach acknowledges that applicants are part of larger social networks and organizations that can both prevent shirking by putting pressure to conform to social norms at a risk of jeopardizing their network membership, or can help track individuals down if necessary.

The issuing of secured credit cards gives even more attention to anchoring. In addition to professional and geographical anchors, applications for secured cards ask for a name, address and a telephone number of a closest relative not living with the applicant or names of local friends (kinship anchoring).

For Russian banks anchoring plays an even more important role. In the absence of credit scoring cross-case comparison trust is too weak, and the other three types are rather limiting. Therefore, the banks anchor their potential clients in organizations they work in and their working collectives.

As discussed above, only a tiny portion of the cards issued by Russian banks are credit cards "with authorized overdraft," and still a smaller number of those are unsecured. Unsecured credit cards are issued to people with high social profile, holding positions of economic or political power or people who are famous. One of the banks compiled an internal bank document, a list of positions that are “eligible” for unsecured credit cards. When people who hold such positions apply for a VISA Gold card they are told they can get it on “privileged” conditions – without a security deposit. Such cards are issued to positions rather than to particular people. When people leave such positions, they are asked to reapply for a card on different conditions. These cards are also given to famous artists and pop stars. These cards allow for an unsecured credit line up to $1500. There has been no more than 100 unsecured cards issued in this bank.[43] The reason why such people are deemed trustworthy is not just that they tend to be affluent but because they are securely anchored in the top of the national social hierarchy. Being in the public eye, they are unlikely to jeopardize their reputation by defaulting on their payments.[44]

Another bank claims to issue credit cards unsecured for the first $300 (if the holder wants a higher credit limit the rest should be covered by a security deposit). They issue both regular Classic and Gold cards as credit cards. They are most likely to issue these cards to clients who already have either a debit card issued under a salary project, or are authorized users of a corporate card, a card issued to the company and used by employees on company business. The latter is again an example of anchoring. The company holding the corporate card is not financially responsible for its employee. Yet, through its business relation to the company the bank can easily trace and pressure the client if necessary.

Most credit cards require security deposits as high as twice the credit limit. Several banks issue secured credit cards to long-time clients of the bank or of its daughter-banks, employees of the bank, or those that come with the informal or -- in some cases -- written recommendation of long-time clients or employees.[45] For instance, one interviewee himself has an American Express card that he got as a favor from his friend, at that time a high-rank employee ofAmEx in Moscow.

Anchoring by the Russian banks works somewhat differently than in the US. If questionnaires of American banks anchor their cardholders in both personal and organizational networks, questionnaires of Russian banks only anchor applicants in organizational and professional networks and hierarchies. People, as individuals are not trusted unless they have a personal tie to the bank, either through a bank employee or a long term client. Knowing the name of your nearest relative or best local friend is apparently useless information for Russian banks.

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43 Interview with a bank employee.
44 These credit cards can also be vehicles of bribery to elicit or reward political favors.
45 Interview with a high-ranked employee in a processing company.

Once the Russian banks receive the information from the client, a special department aptly named "security department"[46] verifies the information. They check if the person's internal passport is consistent with the data provided on the form. They call the work number supplied by the applicant to see if the company they claim to work for exists. The entire process fundamentally helps to make sure that the client can be contacted if needed.

Conclusion

How can credit card market be sustained in a low-trust country with non-existent institutions and weak law enforcement? Credit cards involve uncertainty, some of which can be reduced by cutting the credit granting function of the card. In Russia that means that banks shorten the time between the purchase and the payment and they lose the profit to be gained from lending. In addition, banks require opening security deposits shifting uncertainty to clients in a zero-sum game, since the banking institution itself is unstable and unreliable. Furthermore, banks tap into existing sources of trust in the Russian society – those of close knit familial and kin networks and large well-known organizations: domestic ones survived from the communist past and prestigious foreign players. Finally, banks rely heavily on anchoring -- the rooting of prospective cardholders in stable social networks, professional and (to a lesser extent) geographical circles that are not legally responsible for the client. These networks allow banks to prevent exit by the client and to exercise voice if necessary.[47]

[46] The security department (*otdel bezopasnosti)* is a necessary part of every bank in Russia. Their tasks include initial verification of application information and decision to issue a card, tracking and investigating possible cases of fraud, solving interbank charge-back problems, working with "problematic" accounts and clients.

[47] Albert O. Hirschman, Exit, Voice and Loyalty. Cambridge: Harvard University Press 1970