Response to the Issues Paper
"Gift Cards in the Australian Market"

from

Universal Gift Card Pty Ltd

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Our place in the Australian Gift Card market

Universal Gift Card Pty Ltd is a wholly owned subsidiary of Pinpoint Pty Ltd, Australia's leader in loyalty and rewards. Universal Gift Card Pty Ltd promotes Universal Gift Cards and MyPrepaidCards.

Both are open-loop cards: Universal Gift Cards are VISA cards, issued by Heritage Bank Limited, and accepted by virtually all VISA merchants in Australia and overseas and online; MyPrepaidCards are EFTPOS cards, issued by Cuscal Limited, and accepted by virtually all merchants in Australia with EFTPOS facilities.

The bulk of these cards – about 80% – are sold to corporate clients who give the cards to their customers or staff or distributors to reward them for their purchases or loyalty or sales performance or tenure – a multitude of reasons.

Another 10% are obtained by individuals redeeming their points earned in various loyalty programs managed by Pinpoint.

The final 10% are purchased online – mostly as birthday or Christmas gifts – and given to friends.

Our cards are plastic. We do not offer paper vouchers or mobile gift cards via SMS or virtual gift cards via email or vouchers via smartphone applications.

General Comments

1 We see great enthusiasm for open-loop gift cards in the Australian market – both from the recipients of the cards and from our corporate clients. The industry, and Pinpoint specifically, must be doing the right things well.

2 Nevertheless we support regulatory initiatives that address inappropriate behavior that causes true detriment to purchasers or users of gift cards. In particular, we abhor the non-disclosure of expiry dates or similarly vital terms and conditions, as reported in the Issues Paper.

3 It seems to us that most of the problems identified in the Issues Paper relate to closed-loop cards, rather than open-loop cards which have robust consumer protection and product disclosure regulations in place. Therefore we suggest that any recommendations for regulatory reform proposed by CCAAC should relate to closed-loop cards and not complicate the stringent regulations already in place for open-loop cards.

4 The economics of gift card programs require revenues to fund card production, card distribution, transaction processing, customer service and other functions.

- With closed-loop cards the revenue is derived from the margin on the sale of products and services by merchants within the loop.

- With open-loop cards such a revenue stream is not available. So issuance fees, service fees, interest and breakage are necessary features of the open-loop card landscape. There is nothing intrinsically wrong with these fees. Together they constitute the “price” of the product. But they must be disclosed properly.

5 The balloon principle is relevant. Squeeze a balloon, and it bulges elsewhere. Squeeze the bulge, and the balloon takes yet another shape. If promoters and issuers of open-loop cards are forced to change the terms / reduce the fees / extend the card validity periods etc then consequential effects will emerge. If the squeeze is too tight, to the extent that gift cards become unprofitable, then promoters and issuers will exit the market, to the detriment of cardholders and corporate clients. It would be a shame to see an efficient and truly competitive market that meets the needs of so many people vanish.

Our responses to selected Consultation questions

1.2 Consumers purchase gift cards primarily as presents for others: birthday, Christmas, Mothers Day, Fathers Day. Some are sold to assist with holiday expenses or to celebrate a wedding. For purchasers, gift cards are convenient, easily and quickly obtained, low-risk gifts where all or nearly all of the outlay represents spending power for the recipient. For recipients, the advantages far outweigh the disadvantages, because they have free spending power to obtain the products and services they choose for themselves from any of millions of merchants (if an open-loop VISA card) or from the closed-loop set of merchants. The only disadvantages are that the card may be lost or stolen – but most can be replaced – or that they overlook the expiry date shown on the card.

1.3 We think the existing consumer protection framework – which comprises both a principles-based architecture and more prescriptive regulations – does provide practical protections for consumers / cardholders.

Most of the complaints listed in Appendix 1 arise from non-disclosure or misrepresentation: no additional consumer protections are needed to require promoters / issuers to clean up their act.

Nor are extra protections required to compel the issuer / promoter to replace a faulty card.

Non-acceptance of a card is a tricky area, because the Reserve Bank reforms of a few years ago permit merchants greater latitude than previously to not accept any particular card. We urge the Reserve Bank to reverse that specific policy – it has had unfortunate side effects, detrimental to consumers and our corporate clients, and is out-of-step with the rest of the world.

2.1 We think that reasonable terms and conditions, properly disclosed, are not detrimental to consumers because they provide certainty and clarity to the cardholders. They also provide certainty to the promoters / issuers, who can then pitch their pricing and product / service value-adds to optimal levels.

We are aware of a competitor who cancels cards if they have not been activated within 3 months of issuance, and the cardholder forfeits the value of the card: we think that is an unreasonable term that is detrimental to the cardholders.

2.3 Expiry dates. Our cards generally have a validity period of between 13 and 19 months. We think validity periods in that range are appropriate. We observe how the bulk of the average card's value is spent quickly – several months before the card's expiry date. We have received very few complaints about expiry dates – because the validity period is not unreasonably short, the expiry date is printed prominently on our cards, and if special circumstances arise e.g. ill-health / accident mean a cardholder can not spend his card before its expiry, we supply a fresh card as a gesture of goodwill.

Restrictions on low value use. We do not apply any restrictions on the amount that can be spent. We have not received complaints from cardholders about merchants being unco-operative, but we note that a few years ago the Reserve Bank gave merchants more latitude to not accept cards.

Fees and charges. As discussed above, the economics of open-loop cards require revenue from fees. As long as the fees are reasonable and properly disclosed, no consumer detriment arises. Once the issuance fee has been paid (either by our corporate clients or by consumers), our Universal Gift Cards and MyPrepaidCards can be activated and their whole value spent without incurring any fees. Perfect.

Limitations on use. We have had very few complaints in this regard because open-loop cards are acceptable in so many places. However after Reserve Bank reforms a few years ago, merchants are permitted to decline any cards they wish, and this has caused confusion, embarrassment and inconvenience. We urge the Reserve Bank to reverse that particular policy.

Restrictions on receiving change. The terms & conditions on our cards indicate that change will not be given. Not one complaint about this has been received in 6 years. Any proposal to force merchants to give change on open-loop cards would cause merchants angst, because the Merchant Service Fee (MSF) would be calculated on a higher amount than the purchase amount.

2.4 We cannot comment on retailers' flexible policies or grace periods. What we can say is we try to preserve goodwill when circumstances warrant that. For example, if a corporate client needs to cancel a lot of cards because they inadvertently doubled up an order, then we try to figure out an administratively efficient way of cancelling the cards so we charge the client less than the scheduled cancellation fee. Another example -- to do with expiry dates -- is mentioned in 2.3 above. Also our MyPrepaidCards have an automatic grace period of one month of validity after the expiry date shown.

2.5 Your own analysis documents differences in T&Cs between various cards. We think the expectations that customers have about T&Cs might be summarised: that T&Cs

- are reasonable and are disclosed properly
- state clearly where the card can and cannot be used
- state clearly any fees
- advise how to activate their card and set their PIN (if appropriate)
- remind them that the card has an expiry date and states where that expiry date is shown
- advise how to check their card balance and transactions
- advise what to do if their card has been lost or stolen, or is faulty

We try to write the T&Cs in an educational manner rather than in a legalistic tone.

2.6 It is clear from Appendix 1 that recipients have not understood some of the terms and conditions relating to their gift cards. Whether that is due to the T&Cs not being disclosed adequately, or due to the recipient's unwillingness to review the T&Cs, is unclear.

Generally we present our cards attached to an A4 sized letter which includes

- how to activate the card (if necessary)
- how to check the card's balance and transactions
- where to find more information about their card

On the reverse of the letter is a lot more information, which includes

- where the card can and cannot be used
- any fees
- how to activate their card and set their PIN (if appropriate)
- that the card has an expiry date and states where that expiry date is shown
- how to check their card balance and transactions

- what to do if their card has been lost or stolen, or is faulty

Sometimes our cards are presented in a pack, and the salient terms and conditions are published on the pack. Whether it is a letter or pack, the recipient has the opportunity both to peruse the T&Cs and to keep the document for future reference.

Our websites www.universalgiftcard.com.au and www.myprepaidcard.com.au also display the terms and conditions of each card.

Despite what we think is adequate disclosure of the T&Cs, some cardholders do not read the letter or the T&Cs and then contact us by phone or email to query why the card isn't working. Just as we are obliged to publish T&Cs properly, we think cardholders should be obliged to read T&Cs properly!

2.8 The purchasers of our consumer gift cards can see the terms and conditions online – indeed as part of the purchase process we require the purchaser to see them, and tick a box to indicate acceptance of them. Corporate purchasers of our cards are also given the Financial Services Guide and Product Disclosure Statement.

2.10 Lost and stolen cards. We will replace most lost / stolen Universal Gift Cards for a fee of $15 to cover administrative costs, provided there is a balance of more than $15 on the card and the claimant can satisfy us their claim is legitimate, by telling us the card number and identifying themselves. (The exception is Universal Gift Cards sold retail over-the-counter where the anonymity of both card purchaser and card user militate against us and them being able to match any information to identify themselves as legitimate claimants. Also these cards are usually of low value.) We do not replace MyPrepaidCards that are lost / stolen, mainly due to their non-personalised, anonymous nature – for the same reasons as above.

The forfeiture of unspent monies upon the expiry of a card and interest earned on unspent monies go to the heart of the economics of open-loop cards. To repeat what we said earlier (in General Comments, at points 4 and 5), because open-loop cards can be presented for redemption at millions of retailers globally, the costs of the card's utility, production, dispatch and operations cannot be borne by the card's promoter like the retailer of a closed-loop card can. Thus the issuance fee, interest and breakage constitute the only revenue streams to cover the real costs of supplying these valuable cards. Generally the issuance fee covers the costs of card production, transaction processing and fulfillment / dispatch; interest income is minor – because most cards are spent rather quickly; and breakage (which is earned only after the card's expiry) is modest.

We've analysed our expired cards and found that about 72% of all cards have expired with all their initial value spent. About 27% expire partially spent, but the remaining balances are often just a few cents, and seldom are more than $10. Only about 1% of cards are completely unspent when they expire, and sometimes these cardholders contact us later to negotiate an extension. The breakage rates vary according to the amount of value loaded to the card initially: generally, the breakage rate as a % is higher for low-value cards, and the breakage rate as a % is lower for high-value cards.

If some of those revenue streams are constrained by regulation, then other revenue streams will have to be increased or new revenue streams invented (in the absence of reduced costs) else the business becomes less profitable. We can assure you the business is not wildly profitable.

Insolvency is an issue for closed-loop cards where the liability for unspent cards is in the nature of a prepayment and therefore at risk if a particular retail store or chain becomes insolvent. For open-loop cards, it is less of an issue because the funds are held by the issuing bank. In the case of Universal Gift Cards, Heritage Bank Limited, an approved deposit-taking institution, holds funds in account(s) in its own name (not in the name of Universal Gift Card Pty Ltd) equal to 100% of the aggregate value of unspent cards on issue. In the unlikely event of our insolvency, cardholders would suffer no loss. Only if Heritage Bank Limited were to become insolvent might cardholders suffer any loss.

2.11 We think the generic consumer protections afforded under the ACL and the ASIC Act are sufficient.

2.13 To the contrary, we think the Australian gift card market operates very efficiently. We understand closed-loop cards have the dominant share of the total market. For them to be sold with a nil issuance fee suggests an extremely efficient and competitive market. Our open-loop cards are sold with issuance fees that cover our costs but little more; and operational and customer service costs are covered by modest interest and breakage revenues. Millions of gift card recipients spend their cards completely with great satisfaction, buying products and services that they truly desire. The tremendous popularity of gift cards is testament to their meeting the disparate needs of cardholders, our consumer and corporate client purchasers, and merchants accepting the cards.

2.16 As discussed above (in General Comments points 4 and 5 and in 2.10) any restrictions on allowable terms & conditions may have consequential effects on other fees or terms & conditions. For example, if interest earned on unspent monies were to be paid over to the government treasury, then we might have to increase issuance fees, or the fees paid by cardholders for phone calls to customer service or for the replacement of lost / stolen cards. We believe that issuers / promoters are not earning such big margins that they could ignore any reduction in their revenue streams. Hence the squeezed balloon metaphor is apt.

We argue that our collecting a few cents and sometimes a few dollars here and there from the unspent money on about 28% of expired cards to help pay the costs of the program is efficient, and of low detriment to cardholders. If we were restricted in our ability to earn breakage, then increasing our fees or adjusting our conditions would be detrimental to card purchasers and users. If we were forced out of business, that would also be detrimental to our corporate and consumer clients, and would offend those who desire efficient and competitive market-places.

3.1 It is good to read in the Issues Paper that Canadian authorities distinguish between closed-loop cards and open-loop cards. The plastic may look the same, but the economics of the two products are quite different.

But the American 2009 law requiring cards to have a 5 year validity period from the time funds are loaded to the card is misguided for at least three reasons: (a) analysis of the time-of-spending tail for cards shows that very little is spent after the first few months – in other words delaying the expiry will affect the breakage rate % only minimally; and (b) to select the time of load as the start point for the card's validity period means the card's expiry date cannot be printed prominently and permanently on the card at its time of production; and (c) such a variable expiry date would also set up accounting difficulties for recording liabilities and breakage when many retail and "instant issue" corporate cards are loaded with value months after their creation.

4.2 We have articulated in 2.5 and elsewhere what we think are appropriate T&Cs for our cards. But we think that our T&Cs are not necessarily appropriate for all gift cards. T&Cs for open-loop cards should not be the same as T&Cs for closed-loop cards. Cards sold to corporate clients for promotional purposes should not have the same T&Cs as anonymous consumer gift cards bought online or in retail. T&Cs for reloadable cards should not be the same as for single-load cards. Cards that permit ATM access should have T&Cs relating to that.

Thank you for giving us the opportunity to make these comments.

Peter Hamilton