



2 March 2012

CCAAC Gift Card Review
c/- The Manager
Consumer Policy Framework Unit
Infrastructure, Competition and Consumer Division
Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam,

Gift Cards in the Australian Market

Thank you for the opportunity to provide feedback to the CCAAC Issues Paper *Gift Cards in the Australian Market*.

About Wright Express

Wright Express is a leading global provider of payment processing and information management systems. Wright Express was founded in 1983 and was listed on the New York Stock Exchange in 2005. We have operations in Australia, New Zealand, Europe and the United States of America where our head office is located in South Portland, Maine. In the United States, Wright Express is the 7th largest issuer of purchasing cards and the 12th largest issuer of commercial cards. Wright Express employs approximately 900 people worldwide.

In September 2010 Wright Express purchased Retail Decisions' Australian Assets, now known as Wright Express Australia. Wright Express Australia is the issuer of multi-branded fuel cards and gift cards in Australia with approximately 125 employees.

In relation to giftcards, Wright Express Australia has operated continuously in Australia for 11 years and is a leading 'closed loop' prepaid cards provider, processor and program manager in the Australian market. Today we operate more than 200 closed loop gift cards programs for over 120 clients with long term relationships established with Australia's major retailers including the Coles Group, the Woolworths Group, Virgin Australia, Flight Centre and Dymocks.

Gift Card market:

While firm data about the Australian gift card market is difficult to establish, the Australian gift card market in 2010 was valued at over \$1.5 billion in sales. Our estimate of the market last year (closed and open loop) is around 34 million cards issued with a value of \$1.8 to \$2 billion.

The vast majority of the gift card market in Australia (as with other comparable markets) is comprised of 'closed loop' cards. Closed loop gift cards are issued by and may only be redeemed at a specific merchant or group of merchants (for example, retailers within one shopping mall or group of malls). The balance of the market is comprised of 'open loop' cards. Open loop cards are offered through the major card schemes such as Visa and MasterCard and have substantially wider acceptance, including outside of Australia, as determined by the relevant card scheme.

In the Australian market, where gift cards have been integrated into business plans and operations they represent between 1-5% of a retailer's revenue. We have seen case studies from the US where a gift card program contributes as much as 18% of revenue.

Gift cards in Australia may be purchased by consumers online, in store or at gift card 'malls'. Gift card malls are operated by some large retailers such as Australia Post, Coles Group and Woolworths Group and bring together a variety of gift cards (closed loop and often open loop) offered by many different organisations. Gift cards are also increasingly purchased by corporate customers, generally online, to reward employees, suppliers or customers.

Gift cards are not the only single use prepaid cards available in the Australian market. Single use prepaid cards may be marketed to consumers not as gift cards but for example to those who wish to purchase online but do not want to expose their line of credit or bank account to possible compromise. Single use cards in electronic form are also available to corporates as part of a payment solution to promote greater control of corporate purchasing and limit risk of fraud (internal and external).

Wright Express' Response

Wright Express' response will cover the questions set out below. The response is Wright Express' own view and may not necessarily reflect the views of the issuers of any of the gift card programs processed and/or managed by Wright Express.

Question number:

1.1: What are the features that characterise the gift card market and what trends are likely to shape the manner in which consumers use gift cards into the future?

Gift cards are a simple product and have been in the Australian market initially as vouchers and more recently as cards for over 30 years. In a survey conducted for Retail Decisions Australia Pty Limited (now Wright Express) in 2009¹, (“the 2009 Retail Decisions survey”) 62.1% of respondents had received a gift card in the last 12 months and almost 90% agreed with the statement “gift cards are easy to use” (8.2% neither agreed nor disagreed and 2.1% disagreed).

The market has developed more strongly in recent years as the perception of gift cards or vouchers as a gift of last resort has declined. Increasingly in the Australian market and overseas gift cards are being seen as a desirable gift by both purchasers and recipients.

Again, firm data for Australia is difficult to establish but our experience would suggest that Australia is following trends in the United States and United Kingdom gift card markets.

Recent United States research shows that freedom of choice is the overriding reason why the giving and receiving of gift cards or vouchers is considered a good gifting option². Research from the United Kingdom³ stated that in 2010 38% of the UK population had purchased gift cards or vouchers in the preceding 12 months. Those that bought a gift card or voucher had put thought into which card would appeal most to the recipient. Asked why they had not purchased more cards, the principal response was “I did not think about it” which would suggest that although gift cards are well established in the market, there are opportunities to grow awareness and presence in top of mind.

Distribution is the key to a successful gift card program. Most gift cards share the same broad product characteristics but ease of purchase and a range of delivery options are differentiating factors. Innovation in delivery such as e-cards/vouchers and delivery to mobile are exciting developments. Within social media, the idea of group gifting⁴ – where a number of friends and family contribute to a gift card - is also gaining traction.

¹ *Retail Decisions Prepaid Market Research – the Australian Gift Card Market* survey of 1295 Australian Adults by Global Prepaid Exchange

² See for example, *Consumer Insights into the US Gift Card Market: 2011* by First Data and Market Strategies International

³ UKGCVA Consumer Buying and Redemption Research

⁴ See for example, <http://www.groupgifting.com.au/>

1.2: Why do consumers purchase gift cards and how are any advantages or disadvantages shared between the giver and receiver?

Again, recent firm data for Australia is hard to find but in the 2009 Retail Decisions survey around 75% of respondents agreed with the statement “I give gift cards because they are convenient”. Reports from the United States also show consumers purchase gift cards because of convenience. The majority of purchasers say that gift cards make gift giving easy and many say they save time. A factor which is relevant to Australia is that another significant reason for purchasing a gift card is to mail to a recipient living a distance away.

For the receiver certainly of a closed loop gift card it is hard to identify any disadvantage in the gift. In the 2009 Retail Decisions survey, a little more than 80% of respondents agreed with the statement “The best part of receiving a gift card is all the choices” (11% neither agreed nor disagreed; 4.6% disagreed). There are usually no fees associated with the gift card; generally at least 6 months and more commonly 12 months within which to use the gift card. While use may be limited to a particular store or groups of stores, the purchaser has generally put some thought into matching the recipient to the gift destination.

Reports⁵ also show that gift card recipients consider gift cards to be more valuable than an actual gift, for example preferring to receive a \$25 gift card over a gift valued at \$45. Most people would not have bought up to half the gifts they have been given for themselves if they had a choice. In the 2009 Retail Decisions survey 60.6% of respondents agreed with the statement “I prefer to select my own gift using a gift card than have someone else select it for me” (25% neither agreed nor disagreed; 14.4% disagreed). Overall satisfaction in the survey with receiving a gift card was measured at 94% for women and 83.5% for men.

1.3: Does the existing consumer protection framework provide practical protection for consumers who experience problems or issues when they purchase or receive gift cards?

In Wright Express' view, the existing consumer protection framework does provide practical protection for consumers who experience problems or issues.

A gift card is a very simple product and has been in the market in various forms for a relatively long period. Closed loop gift cards generally do not have any issue fee or fees associated with use or non-use. Inactivity or dormancy fees which until prohibited by the US Credit CARD Act of 2009 were common in the US market have not featured in the Australian closed loop gift card market.

We provide telephone and email support to consumers for more than 200 gift card programs, at the first level through First Data International (“FDI”) and at

⁵ See for example the report at note 1

the second level (general escalation following dissatisfaction with outcome at first level and sometimes direct) through our in-house customer service team. In our experience the incidence of complaint about gift cards is very low. On a commercial in confidence basis we can provide more detailed information about complaint volume and complaint type at the request of CCAAC.

Of the complaints received by FDI, around 30% relate to expired cards (can they be reactivated? Who do I need to speak to in order to have the expiry date extended?) but, again, the total volume of complaints is very low.

Of the complaints escalated to Wright Express or which come to us direct from consumers, complaints about expired cards fall within an aggregated "miscellaneous" grouping making up 5% of the complaints received by us.

1.4: What specific features of the ASIC Act or the ACL should be promoted to consumers to better inform them of their rights in relation to gift cards?

Consumers appear to be well informed of their rights.

The complaints that we receive (not in itself a large number) which relate to where consumers have for various reasons not used the gift card before the expiry date, generally arise because the gift card has been forgotten or mislaid for a time rather than the purchaser or recipient being confused or unclear about what the expiry date is.

2.4: What flexible policies or 'grace periods' are offered by retailers to support gift card holders who are unsatisfied with the terms and conditions that may apply?

In our experience, most retailers are very flexible in the event a consumer is unsatisfied with the terms and conditions, which generally means when a card has expired before the consumer has used it. Most retailers will allow a grace period of at least 30 days beyond the stated expiry date when they will issue a replacement card and some will even replace the gift card outside the grace period depending on the circumstances.

2.5: How do terms and conditions vary between gift cards and what expectations do consumers have with respect to the core terms and conditions that apply?

There is little variation in terms and conditions between gift cards in the closed loop category. Most variation, which is still limited, is in the terms and conditions between closed loop and open loop gift cards as categories and between the various open loop cards available in the market.

In the closed loop market, consumers have come to expect that no fees will apply to the use of the card and understand that the gift card can only be used with the stated retailer(s) and will have an expiry date.

2.7: What specific information is provided to consumers at the point of sale?

All consumers are provided with full terms and conditions or a summary of material terms and conditions (including any fees that may apply) at the point of sale. For cards purchased in store, the terms and conditions are printed on the card packaging. For cards purchased online, the terms and conditions are available on the website and also on the packaging of the card or with the e-voucher when received.

The cards are generally intended to be passed to the recipient in the carrier provided ensuring the recipient will also receive a complete set of terms and conditions.

2.12: What accounting, record keeping and administrative processes typically support gift card facilities?

Wright Express offers full accounting, record keeping and administration to support a gift card program. We may process the payment for the gift card, process transactions using the card (purchase, refund, cancellation), manage purchaser and recipient enquiries by telephone or email and provide full reporting to the program owner.

Due to the nature of the product, we do not hold any record of the identity of the cardholder. If a gift card is lost or stolen, in some circumstances where we are provided with purchase information and the gift card value has not been redeemed we may be able to arrange for a replacement card to be issued. In other circumstances where purchase information of a specific gift card is unable to be provided as we do not record the identity of a cardholder we are unable to provide a refund of the gift card value or re-issue of the gift card.

2.16: Are there any market indicators which suggest that the Australian gift card market is not operating efficiently?

No. To the contrary, we see acceptance of gift cards and sales of gift cards increasing, even as retail sales themselves remain broadly flat. Our complaint volume remains very low.

4.2: What are fair terms and conditions in balancing the issues faced by consumers purchasing and using gift cards and gift card issuers?

In our view based on the nature and volume of complaints received, Australia already has a balance in terms and conditions between the issues of purchasers and issuers.

The principal concern of issuers and purchasers is that the purchaser has a reasonable period of time following purchase in which to use the gift card. In Australia, the time allowed is at least 6 months and more commonly around 12 months. In the 2009 Retail Decisions survey, 72% of respondents had used their gift card within one month of receipt, with the remainder taking longer than a month but with no more information provided. The survey also found that lower income households tended to redeem gift cards faster.

4.3: What are fair gift card administration practices in balancing the issues faced by consumers purchasing and using gift cards and gift card issuers?

In our view based on the nature and volume of complaints received, Australia already has a balance in the administration practices between the issues of purchasers and issuers.

The principal issue in program administration from a consumer perspective is, as above, that the purchaser has a reasonable period of time following purchase in which to use the gift card. In our experience, supported by the 2009 Retail Decisions survey and the relatively low incidence of complaints received, the time allowed in Australia to redeem a gift card is sufficient especially as many retailers will allow a grace period following card expiry within which they will issue a replacement card.

Please let me know if you would like any further information or clarification.

Yours faithfully,



David Howell
Managing Director