

From: Jim Bills
Sent: Friday, 2 March 2012 11:34 AM
To: CCAAC
Subject: CCAAC Gift Card Review

Chairman,
Commonwealth Consumer Affairs Advisory Council

Dear Sir,

Thank you for the opportunity to comment on Gift Cards in the Australian Market. I have read the issues paper and terms of reference and considered the specific questions that you wish to consider. I have responded in brief as my comments respond simultaneously to multiple questions. I do not think that the wording of the terms of reference uses the term "gift card" and I would hope that the format of the offering is not an impediment to considering the issues. Specifically on some occasions the gift cards are offered as certificates, or a collection of certificates, rather than as formal plastic or paper cards. With the optimistic view that your terms of reference allow for consideration of the intent, rather than the material I have noted issues based on gift certificates for your consideration as well as commentary on the most common plastic gift card.

Expiry and validation of gift cards.

I have frequently experienced and been told of events where gift cards were rejected, or disposed of, because they had expired. I have frequently been told by store staff that issued cards could not be read, or had not been activated properly and were therefore not able to be used. As you might imagine this situation will only occur at payment and the consumer is faced with either leaving the goods or paying by some other means. This clearly has the potential to increase store revenue and severely disadvantage many consumers. I have personally experienced this at Bunnings, Underwood on more than three occasions that I can easily recall.

Status of Gift Cards as pre-payment or an item in their own right

There appears to be a fundamental disagreement as to the status of gift cards.

Within the content of the issue's paper (page 8 and others) there is reference to "buying the gift card".

Notably a gift card has negligible intrinsic value and it is only the offer of future payment(s) for goods or services on behalf of the purchaser that is being offered. Supporting this is reference that gift card holders are unsecured creditors in the issues paper. There is also an observation in the issues paper that gift cards may be financial products.

Fundamentally the issuer has been provided with cash for their free use (i.e. it is not required to be applied to any trust account, but may be used in general operations. In the event that the user does not access the card, the issuer has been gifted freely the value of the purchase price. This is simply wrong.

Balance Management and minimum spends

Many businesses access gift cards and certificates as a method of increasing revenue.

In the case of certificates, many do this with the intention of only honouring a small percentage of purchasers. These may include a particular specified service or a service offered complementary with another service. Particular examples include personal care providers such as beauty shops, where they offer these services either individually as gift cards, or as part of a group promotion such as "the Entertainment Book". These are sometimes bundled by a small group of similar businesses. Often the ability to access these gifted services is delayed by the provider of services for many

months, often advising clients that they will only honour a certain number of gift cards/certificates per week or month. This often has the effect of actively discouraging gift card recipients from utilising the benefits.

Some businesses have grossly inadequate processes for managing the balance on cards. Bunnings (Underwood) appear unable to accommodate purchases for less than the face value of the card, exchanging a \$100 card for multiple smaller cards and cash to accommodate a MAXIMUM amount of change that may be permitted by their business policy.

Suggestions.

- Gift Cards should be regulated so as to require alignment with a an individual purchaser, i.e. a serial number and name and address should be recorded against any gift card greater than \$5.00. This should cost only a few cents per record and adequate compensation would be received by the vendor through the profit on sale of goods or services. (There is usually no price discount for using a gift card payment, but there may effectively be a discount for cash)
- There should not be an expiry date. The funds paid to the vendor do not expire, and indeed appreciate in value. There is no valid excuse for expiring a pre-payment. A possible compromise may be that cards/vouchers past expiry date must be re-presented for validation, by the recorded purchaser.
- There should be a defined maximum period of delay by the vendor if they are unable to provide the services that are subject of a gift certificate and in the event that they are unable to comply it should be compulsory that the full face value of the certificate be refunded, promptly. Similarly there should be an explicit obligation to process valid cards at payment, else provide an appropriate compensatory payment.
- Businesses that exceed a defined size(e.g. more than 50 employees) may only provide gift cards where they have a system that electronically records balances of the card and allows for accepting purchases above a minimum of A\$5.00. That is to say they may not offer denominated value cards.
- There is no justification for applying the same minimum as may be applied for an electronic funds transfer where a fee is charged for an external party. In the case of a store card/voucher the store has already received the cash payment and is returning a (documented) return on funds to shareholders. It would be worthwhile engaging qualified accounting practitioners on the treatment of gift card funds in the accounts of public companies.
- There is no excuse for any business to fail to return a minor outstanding amount in cash to the gift card holder. The gift card issuer has already received the cash, held it for some period of time and used it for their business. There is no incremental cost due to the card/voucher holder not spending a sufficient amount.
- The US and Canadian approaches have significant merit.

Kind Regards
Jim Bills