



**Submission to
Commonwealth Consumer Affairs Advisory Council**

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

9 March 2012

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This document has been prepared with the assistance of
TransAction Resources Pty Ltd

1 Executive Summary

The cards issued by the major AMPF members represent around 75% of the closed loop cards issued in Australia and about 68% of total gift cards in the market (including open loop cards) ¹.

The members of the AMPF issue gift cards in a manner that is professional, responsible and sensitive to the needs and feedback of their customers. They believe their closed loop gift cards are one of a number of important tools to develop their brand and customer loyalty.

While they have differing terms and conditions (for example one and two year expiry dates and one member with no expiry date) they have clear and simple means of communicating that information to both the purchaser and the redeemer of the gift card.

Levels of consumer complaints and calls for assistance are extremely low in Australia and are symptomatic of an efficient and consumer-aware market. Unlike many overseas countries, closed loop gift cards in Australia are issued free to consumers. This is only possible because administration, fraud and marketing costs are kept down to a minimum level. If program administration and compliance costs increase in the future then it is possible that some level of purchase fees may need to be introduced in order to cover those costs.

The Australian gift card market has different characteristics when compared to overseas markets and therefore some of the conditions that have prompted a regulatory response in other countries do not exist here. For example, open loop cards comprise 20% to 25% of the US market but only account for less than 10% of the Australian market. Australian consumers appear to have a clear preference for gift cards that are issued free of charge and this accounts for the 90% market share enjoyed by the closed loop cards today.

The Australian closed loop gift card market also has low breakage rates (below 3%), has almost no fees (some issuers charge a fee to cover the cost of issuing and delivering a replacement card), has grace periods where cards are accepted for a time beyond their expiry date, has on-line redemption to minimise and control fraud costs and also has a very low incidence of complaints and calls for assistance.

The AMPF believes that there is no current evidence of consumer detriment in this market segment, that consumers are comfortable and confident in their use of gift cards and that they are experienced in comparing and using payment cards with a variety of terms and conditions. The existing generic consumer regulatory framework appears to provide the required level of protection that is needed and therefore it does not seem necessary to introduce specific additional gift card consumer protection measures at this time.

¹ Open loop is a term used to describe payment cards that can be used at a wide range of merchants. These are typically scheme-branded cards such as Visa and MasterCard. Closed loop cards, by contrast, can be used only in a single store or group of stores.

2 Introduction

2.1 The AMPF

The Australian Merchant Payments Forum (AMPF) represents the interests of merchants within the important payments sector of the economy. It is important the perspective of merchants is considered in addition to those of schemes, issuers, acquirers and cardholders. Merchants invest in payments infrastructure and are an essential component of the payments system. Two of the AMPF members, Coles and Woolworths, are EFTPOS acquirers and members of the Consumer Electronic Clearing System (CECS). They are also represented on the Board of EFTPOS Payments Australia Limited (EPAL). The Australian Retailers Association (ARA) is also a member and represents the views of a wide range of small to large merchants.

AMPF members account for the large majority of gift cards issued in Australia. Data has been collected from the major AMPF members for the purpose of providing an accurate response to the CCAAC Issues Paper.

2.2 The ARA

Promoting and protecting retailers for over 100 years, the Australian Retailers Association (ARA) has been the peak industry body in Australia's \$240 billion retail sector which employs over 1.2 million people. As an incorporated employer body registered under the Fair Work (Registered Organisations) Act 2009 and with a range of member services including employment relations, training, policy and advocacy, the ARA represents over 5,000 independent and national retailers throughout Australia.

2.3 Background

The Commonwealth Consumer Affairs Advisory Council (CCAAC) has prepared an issues paper concerning gift cards in the Australian market which was released for comment by Treasury in December 2011. The paper canvasses a number of issues and potential problem areas with a view to determining whether there is consumer detriment in relation to gift cards and, if so, what form of response would be needed to improve the situation going forward.

The AMPF members issue large numbers of 'closed loop' gift cards in Australia and wish to make a contribution to this discussion based upon their combined experience in this market segment.

2.4 Scope

This response has a focus on "closed loop" gift cards as these are the cards issued primarily by the AMPF membership. Some comments on "open loop" cards are made where appropriate to the context.

2.5 Limitations

Independent gift card market research has not been undertaken for this paper, however the number of closed loop gift cards issued by, or on behalf of, AMPF members represents a significant proportion of the closed loop cards in the Australian market. The trend statistics presented here should be viewed in that light.

Statistical data supplied by AMPF members is included in this document in consolidated form to protect the confidentiality of data belonging to individual members.

3 Market Overview

The Australian gift card market is healthy with a wide range of issuers and with both closed loop and open loop cards. While no definitive numbers of gift cards are available, it is estimated that around 32 million closed loop gift cards and some 3.5 million open loop scheme-branded² gift cards were sold in Australia in 2011.

In 2011, six major AMPF members issued more than 24 million gift cards³ which represents an estimated 68% of the total Australian gift card market. These were all closed loop gift cards and represent around 75% of closed loop gift cards issued in Australia. Total spend on these cards was approximately \$1.25 billion out of an estimated total market of between \$1.8 and \$2 billion in 2011. In addition, one other major AMPF member commenced issuing a scheme branded open loop gift card late in 2011. However, this product is too new to provide any meaningful data at this stage. All figures in this paper relating to gift cards issued by AMPF members are only for closed loop cards.

It should be noted there is a major difference between the Australian and US markets in relation to the proportion of open loop to closed loop cards. In the USA, it is estimated open loop cards account for between 20% and 25% of the gift card market, whereas in Australia, it is estimated open loop cards account for between 5% and 10% of the market.

For gift cards issued by AMPF members, the average spend per card is \$53 and on average each card is used 1.4 times.

Market research and the low number of complaints experienced by AMPF members issuing these cards demonstrates that consumers are comfortable with these cards and understand any differences in the offers or the terms and conditions between the various issuers. As the GPX market research concluded: *"Satisfaction is high for givers and receivers because the product works."*⁴

² Scheme branded gift cards are those with a Visa or MasterCard logo and are typically issued by Financial Institutions.

³ Although the ARA is a member of the AMPF, the figures in this document do not include any gift cards issued by individual ARA members.

⁴ Market Research on the Australian Gift Card Market conducted by The Global Prepaid Exchange (GPX) and Retail Decisions in 2009.

4 Responses to Questions

Here are some brief answers to most of the questions posed by the CCAAC. The AMPF is happy to discuss any aspects of the issues covered here with the CCAAC if requested to do so.

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?

Australian consumers understand gift cards very well now and are buying them with confidence. Levels of spend and transaction numbers are increasing year on year, although the total number of cards on issue is declining slightly. The level of issues and complaints with closed loop gift cards is extremely small compared to the volume of cards and transactions being conducted each year.

The vast majority of gift cards have at least one redemption transaction within 12 months of issue, regardless of the expiry period. The length of the expiry period appears to have minimal impact upon the way in which the card is used by the redeemer, although cards with a shorter expiry period do have slightly higher redemption rates.

Consumers in Australia overwhelmingly prefer closed loop gift cards, which are issued free of charge, to open loop gift cards which have purchase fees and typically also have other charges (see also Q2.15).

One impact of closed loop gift cards is that they contribute towards the decline in cash usage at the point of sale in a manner that is very cost effective for the retailer. Unlike open loop gift cards, the merchant is not required to pay a merchant service fee for each transaction.

In the future, the volume and usage of “virtual” gift cards issued via the Internet or through smart phones is predicted to increase rapidly along with a general trend over time towards the use of mobile payment by customers. There is a lot of development in this area and new players such as Apple, Amazon, Google and Microsoft have been showing interest in entering this space. Younger people (18 to 35) are more comfortable with operating in the virtual space and most of the growth is expected to come from this segment.

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

The Global Prepaid Exchange (GPX) / Retail Decisions Australian Gift Card independent research conducted in 2009 found the two main reasons for purchase of a gift card was as a birthday gift (71%) followed by Christmas gift (16%).

69% of the sample had purchased at least one gift card in the previous 12 months. This compares with 76% in the USA, 73% in Canada and 59% in the UK (from earlier Giftex Prepaid studies).

The research established that women purchase gifts more frequently than men and that women are more likely to plan gift purchases in advance.

A key factor in deciding to give a gift card was the dislike people have of giving or receiving an unwanted gift which is considered very wasteful in the current economic climate. A gift card allows the recipient to choose a gift they actually want. This is also important to retailers who prefer to reduce the number of gifts returned or exchanged by customers.

The intention to buy more gift cards in the future is strongly correlated to previous positive experience and therefore retailers hold the key to increasing sales through excellent delivery of their gift card proposition to consumers.

The majority of gift cards are given to friends or close family members, excluding the spouse or partner. There is some reluctance to give them to a spouse or partner as it may appear to be evidence of a lack of thought or understanding of what they really want.

60% of people receiving a gift card believed that it was better than receiving cash. Less than 15% of people disagreed with this proposition. 83% of people receiving a gift card agreed that the best part is the choice such a card offers. Therefore the key attribute is the same for both the purchaser and the redeemer.

89% believe that gift cards are easy to use.

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

The AMPF believes the existing consumer protection framework provides effective protection for consumers purchasing gift cards. The number of complaints received is extremely small compared to the number of cards issued and the number of transactions processed each year. Refer to the response to Q2.4 for more details.

For AMPF members, the average level of complaints is around 0.001% of transactions as measured by calls received at merchants' customer service Help Desks (see also Q2.4). Typically, more than 90% of calls received relating to gift cards are not complaints but requests for information or card balances.

AMPF members are well aware of their obligations under both the ASIC regulations and Australian Consumer Law (ACL) and in most cases will seek to go beyond their legal obligations in order to satisfy genuine customer concerns. For example, while most AMPF members have terms and conditions saying they will not be responsible for lost or stolen gift cards, most will replace cards if they believe the request for replacement is genuine and sufficient details are provided. Most also provide a grace period beyond the expiry date to allow an unused balance to be spent. Two AMPF members have a policy of accepting all gift cards they have issued, regardless of the expiry date, as long as any unused balance remains on the card.

2.1 What evidence is there to demonstrate that issues related to gift card terms and conditions lead to consumer detriment?

The AMPF believes current statistical data indicates clearly that there is minimal consumer detriment being experienced today.

2.2 What experiences have individual consumers had with the terms and conditions that apply to gift cards, including the resolution of any complaints either direct with the gift card issuer or through a consumer affairs or fair trading body?

Figures from AMPF members show complaints on closed loop cards are extremely low. Complaints ranged between 0.005% of gift card transactions and 0.0006% of transactions. Overall the number of complaints in 2011 equated to around 0.001% of cards issued. The majority of these complaints were resolved to the satisfaction of cardholders, typically as a

result of issuers providing benefits beyond what is required under the terms and conditions of the card.

The AMPF has no access to data from consumer affairs bodies. However, based on the level of complaints made directly to our members in their role as issuers, we suspect complaint levels to these bodies will also be very low for closed loop cards with the exception of insolvency or administration issues such as those related to Borders gift cards.

It is the AMPF's view, based on these figures, that the level of complaints indicates a high level of satisfaction with the existing gift card system, at least for closed loop, retailer-issued gift cards.

2.3 What are the specific issues associated with the application of terms and conditions including expiry dates, restrictions on low value use, changes in terms and conditions in the event of insolvency, fees and charges, limitations on use, and restrictions on receiving change? Please provide examples.

Most of the issues raised by this question are covered in the answers to the other questions.

The AMPF members do not place any restrictions on the acceptance of gift cards issued by them which have low balances remaining on the card.

The main limitation on the use of any closed loop gift card is that it is only accepted by a defined and limited set of retailers. Very few retailers will accept a closed loop card issued by some other retailer unless they are operating within some kind of acceptance partnership which is communicated to the cardholder. Consumers seem to understand this limitation whether buying or redeeming a card and seem to be quite comfortable with it.

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?

Retailers want to treat their customers well and want both their shopping experience and gift card experience to be as positive as possible.

Closed loop gift card recipients typically fall into one of two categories. The first category comprises those people who are given a gift card to a particular store or chain because they are known to have an existing affinity to that store and the products it sells. These are often that store's best customers and the retailer wants to ensure that these premium customers are well looked after.

The second category are people who are given a gift card to a store or chain where they rarely or never shop. From a retailer's perspective this provides an opportunity to create an excellent impression and to develop the potential for return visits and purchases based on that customer's satisfaction with the initial experience.

In both cases, the retailer wants to provide a positive gift card experience to maximise the potential for future return visits. Any rules or limitations on the card which are too restrictive or any over-zealous interpretation by the retailer would be highly counter-productive to the whole purpose of the card. Thus, while certain terms and conditions are needed to protect both the retailer and the cardholder, these are typically reasonable in their scope and there is usually reasonable latitude provided to cardholders in their implementation.

The most common issues relating to terms and conditions are expiry dates and lost and stolen cards, although as can be seen from our response to Q2.2, complaints of any type are at very low levels.

Expiry Periods

The closed loop gift cards issued by AMPF members have differing expiry periods of one year or two years and one member has no expiry period at all on its gift cards. Interestingly, the shorter the expiry period, the higher the redemption rate and also the sooner the redemption occurs after the issuing date. This is in line with the finding in the Issues Paper which said:

"Some terms and conditions may benefit consumers indirectly, for example, tight deadlines imposed by expiry dates may force consumers to use their cards instead of forgetting and possibly even losing them."

In other words, mandatory long-term expiry periods such as those imposed in the USA could well be counter-productive and could in fact increase consumer losses. Given recent events relating to administrators and their treatment of gift cards, it is also worth noting that a longer expiry period, such as five years, increases the consumer's risk that the retailer may go out of business before the card expires.

There does not appear to be any issue relating to confusion over expiry periods with the vast majority of customers using their cards before expiry. Overall, around 98% of gift cards issued by AMPF members are redeemed before expiry. In reality, the number of cards which actually expire without redemption is even less than this number would indicate. Most AMPF members offer a grace period on the expiry date⁵. In fact, two of the three largest issuers do not ever expire their cards. These grace periods vary from issuer to issuer, but range from one month to indefinite. The AMPF estimates that after allowing for grace periods, less than 0.2% of gift cards issued by its members actually expire without being redeemed. This is a very low figure.

The AMPF believes that the majority of gift card issuers provide flexibility in imposing expiry dates and provide grace periods which allow for the vast majority of gift cards to be redeemed. We see no evidence of confusion due to the varying expiry periods offered by different gift cards. This is no different to other payment cards where different expiry periods are offered depending on the issuer, the card type and sometimes depending on the credit rating of the cardholder.

Lost and Stolen Cards

Lost and stolen cards account for around 0.005% of all cards issued by AMPF members. Not only is this number very low, but lost and stolen cards have reduced in number and as a percentage of cards issued year on year, possibly due to increased consumer awareness.

Most retailers state in their terms and conditions that lost and stolen cards will not be reissued, partly to protect themselves from fraud and partly because some issuers view gift cards as being the same as cash. However, in reality, the majority of retailers will reissue these cards providing the card has sufficient funds remaining, there is sufficient data to properly identify the card and the cardholder can provide proof of purchase. The number of lost and stolen cards re-issued varies from no re-issuing at all to one issuer who replaced every lost and stolen card that was reported, of course subject to relevant proof criteria.

⁵ One small issuer who is an AMPF member does not offer a grace period, although more than 99.9% of cards issued by AMPF members do offer a grace period.

The AMPF sees no problems relating to terms and conditions. Most AMPF issuers offer a grace period for expired cards and the number of cards which actually expire with an unused balance is very small indeed. Similarly, with lost and stolen cards, an almost negligible proportion of cards fall into this category and most retailers will provide a replacement card subject to proof of ownership. As stated earlier, retailers want customers to have a positive experience with their gift cards and wish to see these customers return to their stores.

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?

The terms and conditions vary between different issuers, as do the goods and services they sell. The major variations in terms and conditions relate to expiry periods and lost and stolen cards.

As discussed in our response to Q2.4, the expiry periods vary from one year to never expiring. This situation is well understood by consumers as similar conditions are in place for other payment cards where different expiry periods apply according to the card type, the issuer and sometimes the cardholder.

The Reserve Bank of Australia (RBA) has implemented a series of reforms over the past decade aimed at improving competition in the card payment market and increasing choice for consumers. Allowing issuers to differentiate their offer in the market with varying terms and conditions is vital to this. The extremely low level of complaints relating to closed loop gift cards demonstrates consumers understand these variations and are comfortable with them.

As with other payment cards, consumers have the opportunity to choose the card which they believe best suits their needs. Unlike many other payment cards, the terms and conditions for closed loop gift cards are generally concise and easily understood. For example, one major retailer issuer of closed loop gift cards has terms and conditions that are so simple they are printed on the back of the card in their entirety⁶.

2.6 Broadly speaking, are terms and conditions of gift cards adequately disclosed to gift card purchasers and recipients? Please provide examples.

The terms and conditions of closed loop gift cards are adequately disclosed to gift card purchasers and recipients and are easily accessible.

Some closed loop gift cards have the complete terms and conditions printed on the reverse side of the card. Some have the conditions printed on the card carrier that is intended to be given to the redeemer by the purchaser. All have a website reference where more information can be obtained, including terms, conditions, card balances, help desk call numbers etc. Some cards also have a telephone number where information can be accessed by card holders who do not have easy access to the internet.

In-store staff are also happy to answer consumer questions relating to gift cards or will refer the customer to the help desk if they are unable to answer a specific query.

⁶ Refer www.bunnings.com.au/gifts-guide_gift-card-terms.aspx

2.8 How can information about gift card terms and conditions be effectively communicated to people purchasing gift cards as well as to those receiving gift cards?

See answer to Q2.6 above.

2.9 What evidence is there to demonstrate that issues related to gift card administration lead to consumer detriment?

The AMPF believes there is no current evidence suggesting that gift card administration issues are leading to consumer detriment today. The very low level of queries compared to the high and growing level of usage allows closed loop gift cards to be issued free of charge to Australian consumers. This contrasts with some other overseas countries where fees of up to \$5.00 may be charged to purchase a closed loop card.

2.11 Are the generic consumer protections afforded under the ACL and the ASIC Act capable of addressing concerns relating to gift card administration?

The AMPF believes that the current generic consumer protection framework is sufficient to address consumer concerns relating to gift card administration. Again, the very low level of complaints supports this position.

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

In addition to accounting and administration processes, retailers that issue gift cards must have processes for card issuing and replacement, marketing, staff training and fraud management. All these processes contribute toward the cost of operating a gift card portfolio.

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

Statistical data provided by AMPF members indicates the Australian gift card market is highly efficient at the present time with comparatively low levels of cost per card issued and cost per transaction processed. Smaller retailers are able to achieve economies of scale by outsourcing their gift card processing operations to specialist service providers.

The low level of breakage and the low level of cards which expire with an outstanding balance also indicate that the gift card market is operating efficiently with significant benefits for consumers compared to other major markets overseas.

2.14 What factors do gift card issuers consider when determining the terms, conditions and administration processes typically applied to gift cards?

Issuers need to balance protection of their own interests and good governance with providing a positive customer experience, as outlined in Q2.4. Issuers of closed loop cards have implemented terms and conditions which are reasonable, but offer the required level of protection against activities such as fraud. All AMPF issuers show flexibility when applying administration processes related to these terms and conditions, as discussed in Q2.4.

2.15 Do consumers compare the terms and conditions of alternative gift card products when making gift card purchases? Please provide examples.

Consumers do compare terms and conditions before making a gift card purchase and this is clear from the large market share enjoyed by the free closed loop gift cards on offer.

Two examples of open loop cards available in Australia today are:

- Bank A Visa Gift Card
 - \$5.95 purchase fee
 - \$4.00 for a telephone conversation with a Customer Service representative
 - \$1.20 for a balance enquiry over the telephone
 - no charge for balance checks over the Internet
 - lost and stolen cards not replaced
 - no extension to expiry date - balance forfeited
 - a \$4 fee may apply to disputed transactions
- Bank B MasterCard Gift Card
 - \$4.95 purchase fee
 - \$1.00 fee for calling the automated Gift Card Call Centre
 - \$4.50 for a telephone conversation with the Gift Card Call Centre
 - no charge for balance checks over the Internet
 - lost and stolen cards not replaced
 - no extension to expiry date - balance forfeited

In contrast, the closed loop cards charge no fees and have less restrictive terms and conditions. Despite the fact open loop cards provide greater flexibility in relation to where they can be used, they represent only a small proportion of gift cards in the Australian market. This is almost certainly due to consumers comparing the various fees and conditions and choosing accordingly.

2.16 How would gift card issuers be affected if there were any restrictions on allowable terms and conditions, including expiry dates, applied to gift cards?

Depending upon the nature of the restrictions, it is possible they will increase issuer costs. If the cost increase was high enough, then potentially closed loop gift cards would no longer be offered free of charge to consumers.

One major retailer gift card issuer has indicated that if changes were made to the allocation of unredeemed funds, they would have to introduce issuing fees to meet the costs that are currently covered by these unredeemed funds. Such a move would be counter-productive as any increase in fees is likely to reduce gift card usage and thus reduce their important role as a cash substitute.

3.1 Are there any other notable international regulatory approaches that specifically address the issues raised in this issues paper?

The AMPF does not believe that international regulatory reforms for gift cards are relevant to the Australian market as the conditions leading to the regulations are absent from our market.

When the USA reforms were introduced via the CARD Act in 2009, many gift cards charged a range of fees, particularly open loop cards but also for some closed loop cards. These fees included issuing fees, mailing fees, dormancy or inactivity fees, card reissuing fees, administration fees, balance check fees, fees for calls to the customer help desk and card customisation fees. With the exception of some issuers charging a fee to cover the cost of reissuing a lost or stolen card, fees on closed loop gift cards in Australia are virtually non-existent.

Also, when the CARD Act was passed, breakage⁷ on US gift cards was estimated at being in excess of 6%. The average breakage for Australian gift cards issued by AMPF members is around 2%, which is significantly less than the US level. Breakage in the UK is more than 5%⁸ and it is believed Canada also has breakage levels much higher than Australia.

The processing environment is also significantly different in Australia with most gift cards being processed over merchants' own card processing systems or over the EFTPOS network rather than over networks owned by either card schemes or third party processors as is the case in the USA. Card processing systems in the USA are also less sophisticated than Australia. For example, the Federal Reserve Bank estimates that around 75% of US merchants do not have PIN pads and are therefore unable to process PIN debit cards such as EFTPOS cards.

4.1 How can consumers be further assisted to develop a practical understanding of how to enforce their rights under the generic consumer protection provisions of the ASIC Act and the ACL?

Consumer education regarding the various protections available to them is always beneficial, regardless of whether it is generic or focussed upon a particular area such as gift cards. The AMPF is happy to consider playing a role to support any such initiative.

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

The AMPF believes the current terms and conditions offered already represent a good balance of the issues faced by issuers, purchasers and redeemers. See also our response to Q2.14.

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?

See the answer to question 4.2.

4.4 Are there any other possible policy responses to issues relating to the purchase and use of gift cards?

The AMPF does not believe any policy response is required except possibly in relation to the situation that occurred at Borders when the administrators decided to amend the terms and conditions of gift cards that had already been purchased in order to require cash of equal value to be spent when redeeming a gift card. This decision was widely objected to by the Borders customers.

⁷ Breakage is defined as the unused balance left on a gift card as a percentage of the original value of the card.

⁸ "In the gift card market, the average card value is less than £50, and the average amount left unused is £2.50". Laying of Regulations to Implement the new E-Money Directive - A Consultation Document, HM Treasury, October 2010.

5 Other Issues

5.1 Terms & Conditions

It is common practice for a gift card to be sold mounted on some form of carrier. This carrier usually has the main terms and conditions printed upon it and also has the website and the telephone number where the purchaser or the redeemer may go to access the full terms and conditions. The retailer intends that the gift card should be given to the recipient while still mounted on the carrier.

Either the purchase date or the expiry date may be hand-written on the back of the card by the point of sale staff at the time of the purchase. If cards are issued without predetermined values and the purchaser can load any value he or she desires, then there is no practical solution other than to hand write the card value onto the card. The same applies to the expiry date.

5.2 Customisation

Some overseas retailers allow customers to purchase gift cards for their friends or relatives from a website where the card can be customised with a selected design, the intended recipient's name and so on. As these cards are printed and shipped to a specific customer the expiry date may be printed on the front of the card. These cards are quite costly to produce and a fee (typically around \$5) is charged in addition to the value loaded on the card.

Australian retailers have generally tried to maintain a free card policy which does not allow for that level of sophistication. For example, Australian consumers are used to paying \$100 for a gift card which has \$100 of value loaded onto it.

5.3 Fixed Expiry Dates

There has been much discussion both in Australia and overseas regarding minimum expiry periods. The Queensland Office of Fair Trading website states that gift card issuers are encouraged to:

"Provide a reasonable time period in which the card can be redeemed. We recommend allowing at least two to five years."

The AMPF believes such a regulation would be counter-productive for consumers. The AMPF data shows that the longer the expiry period, the lower the redemption rate becomes. For cards expiring within 12 months, the redemption rate varies from 98% to 99% whereas for cards with longer expiry dates the redemption rate drops to 97%. The AMPF believes there should be no restriction on expiry dates as market competition allows customers to compare terms and conditions between various cards and make their decision accordingly as to the best product for their needs.

5.4 Secondary Market / Brokers

There is both a formal and an informal secondary market for gift cards in Australia which demonstrates market forces at work and provides an opportunity for recipients of unwanted gift cards to sell these cards, albeit below face value, or even donate them to charity. This in turn helps reduce breakage.

A good example of a more formal secondary market is Cardlimbo (www.cardlimbo.com.au). This Internet site allows consumers to buy, sell, swap or donate their cards to charity.

eBay provides a good example of an informal or less structured means of selling gift cards. There is more risk for both sellers and purchasers of gift cards via this methodology, although on the other hand there is more flexibility in pricing. A recent search of gift cards for sale on eBay's Australian site showed gift cards from a wide range of retailers and issuers, including iTunes, Target, Westfield, Hoyts, Red Balloon, Accor, Just Jeans, Harvey Norman, Myer, Bunnings, Bed Bath 'n Table, and so on.

These secondary markets come with some degree of risk for both retailers and consumers, particularly for purchases via "informal" Internet sites. For consumers, there is potentially the risk that the card may have expired or may be expiring shortly, that the funds may have been partly or fully expended or that the card may be a lost or stolen card. From a retailer perspective, there is the risk of brand damage if a consumer purchases a card that does not deliver what the purchaser is expecting.