A photograph of two women standing in front of a store window. The woman on the left is wearing a dark denim jacket and is pointing towards the window. The woman on the right is wearing a dark blue jacket with a logo and the word 'Summer' on it, and light blue jeans. The window behind them has a chalkboard with some drawings and text. The scene is brightly lit, suggesting an outdoor setting.

# Card *carrying* consumers

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Stored-value cards go beyond the mall



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Lucy Wietharn's holiday shopping this year was easy. But admittedly, so is all her gift giving these days.

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**B**irthdays, Christmas, graduation, weddings ... for relatives, teachers, the cleaning woman..."

Whether it's from Starbucks, Target or a popular restaurant, most everyone on the Wietharn family's list receives gift cards. It's a no-brainer, says the Overland Park, Kan. wife and mother of two. Shopping time is condensed, shipping costs are minimized, and returns and exchanges are eliminated.

"The failure is low" for both the giver and the receiver, Wietharn says.

Many are in agreement. More than two-thirds of consumers polled said they expected to buy at least one gift card during the holiday season, according to a National Retail Federation 2006 survey. Gift card sales increase each year by billions of dollars. Such big bucks are prompting spinoff businesses and even more ways to use stored-value cards.

The concept that perhaps started with prepaid phone cards more than a decade ago and has since transformed gift giving is now expanding beyond the mall into the workplace and even the doctor's office. Stored-value cards allow more consumers than ever the option of an electronic payment in a variety of capacities.

"It's clear stored-value cards are meeting a host of needs and addressing perceived voids in payments options," says Terri Bradford, a payments system research specialist at the Federal Reserve Bank of Kansas City.

Bradford first examined stored-value cards a few years ago when they were emerging as a payment method. At that time, the

extent to which consumers would accept the cards was still uncertain, but now the answer seems quite evident.

“Yes, stored-value cards have definitely come into their own, albeit to varying degrees, depending on the category,” Bradford says. “These cards have become an important and dynamic component of the payments landscape, and their presence and popularity continue to grow.”

### Gift cards: Kiosks, websites

“After diamonds, or perhaps a 42-inch flat panel TV, nothing apparently says ‘Thinking of you’ like a gift card,” Bradford says.

That’s Summer Richards’ mantra. The 14-year-old Lee’s Summit, Mo. girl loves to shop but knows she can be hard to shop for.

And rather than end up with a bad gift (like the “Lady and the Tramp” DVD or the “High School Musical” CD—“I was stuck with them”), Richards says she prefers gift cards to her favorite clothing stores like Abercrombie & Fitch or American Eagle Outfitters.

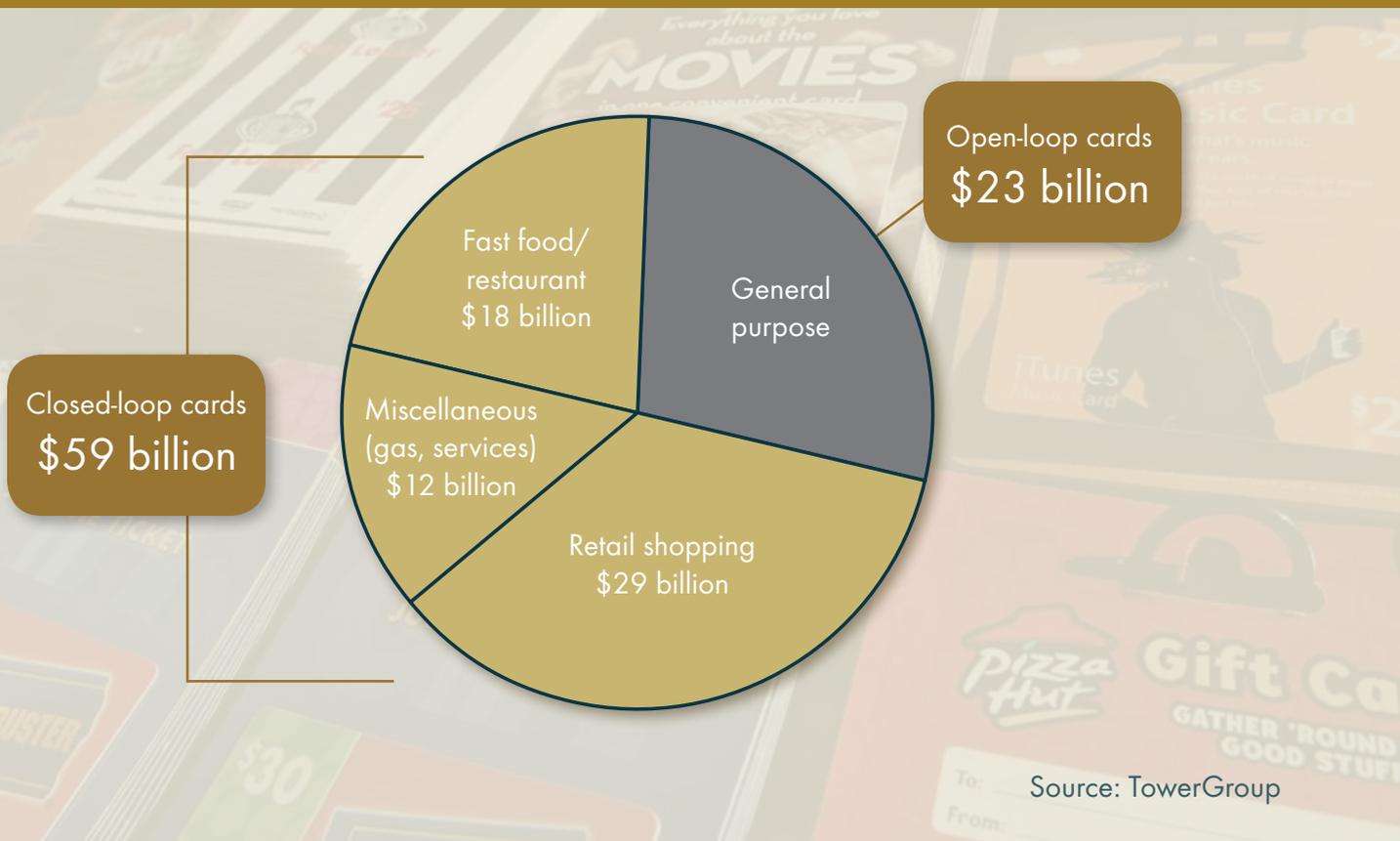
Not only are gift cards ideal for recipients, purchasing them is becoming even more

convenient for the giver as issuers expand their reach. Gift card “malls” are being set up in places shoppers visit often, such as grocery stores. These gift card kiosks feature a variety of merchants and services—Barnes & Noble, iTunes, The Gap—as well as general-use gift cards. Typically located near the stores’ checkout, these kiosks allow shoppers to quickly choose their gift card and denomination, pay, and go.

The gift card issuers pay a commission to both the companies that set up the kiosks, such as Blackhawk Network, and the stores that allow the kiosks on their sites. These merchants may benefit from increased foot traffic as a one-stop shop for the cards as well as their own products.

According to TowerGroup, consumers spent more than \$80 billion on gift cards in 2006. Of that, nearly \$60 billion was spent on cards for specific merchants, such as restaurants or clothing stores, and more than \$20 billion was spent on general-purpose cards, which are those that carry network logos such as Visa or MasterCard and are accepted anywhere the network is accepted.

## More than \$80 billion was spent on gift cards in 2006



Source: TowerGroup



PHOTO BY SCOTT INDERMAUR

SUMMER RICHARDS, 14, takes her gift card to Brighton Collectibles at The Country Club Plaza in Kansas City, Mo., one afternoon while out shopping with her mom. Summer's favorite gifts are gift cards.

While merchants may benefit from the gift card recipients spending even more than the value of their card, there's also a relatively high chance the funds on the cards won't be fully redeemed. In 2006, an estimated \$8 billion, or 10 percent, of gift cards weren't used, according to TowerGroup.

This is where websites such as [cardavenue.com](http://cardavenue.com) come in. This site and others like it facilitate the buying, selling and trading of consumers' unwanted gift cards; sellers and traders are charged a small fee. The site's operators verify and secure all transactions, combating scammers who purchase gift cards with stolen credit cards and then resell them online.

Cardavenue.com Founder and CEO Bob Butler started the website in late 2004 for "not very glamorous" reasons.

"I had a couple of gift cards that I didn't want," he says.

Thousands of cards—mostly from popular retailers and restaurants in varying denominations—are posted on the site each month. Traffic spikes during the holidays through February, he says.

Most site visitors trade their gift cards, Butler says. They still want gift cards, just from a different merchant. Plus, consumers are value conscious and don't want "stored money" to just sit in a drawer at home.

### General-purpose, payroll cards

A second type of stored value-card are the general-purpose card and payroll card, which have similar features, Bradford says. The general-purpose cards can be loaded with funds in a variety of ways, including direct deposit, and payroll cards most often are set up through an employer. In addition, many offer the ability to reload funds.

Both types of cards carry a network brand

(MasterCard, for example), and may be used at ATMs, online or at the point of sale.

For instance, Wal-Mart and partners are issuing a Visa-branded stored-value card that consumers can load with payroll or other funds at Wal-Mart stores, or via direct deposit. The card is accepted almost anywhere Visa is accepted, can be used at ATMs and is covered by Visa's zero-liability policy.

These stored-value cards offer consumers another electronic payment option, one that may be especially important to those who primarily use cash.

"Prepaid products have provided the marketplace with an offering that provides cash-like benefits, while offering the convenience and ease associated with plastic," says Dana Traci, vice president of prepaid and partner marketing for Discover, which has issued a general-purpose card since 2003.

In general, there has been a significant increase in the use of all payment cards, especially debit and credit cards, in lieu of writing checks or using cash. While not all consumers can obtain a debit or credit card, anyone with cash can easily get a stored-value card.

"The growing popularity of these stored-value cards may be linked to the country's millions of unbanked consumers, who often pay expensive fees for check cashing, money orders to pay bills and other services," Bradford says.

Stored-value cards are a way to reduce these fees for the consumer, plus offer benefits that cash doesn't, such as replacement

if lost or stolen. For card issuers, this is an opportunity to convert cash payments to electronic ones, creating new revenue from associated fees.

For employers, payroll stored-value card programs can eliminate the expense of issuing paper checks to employees who don't have an account for direct deposit. The cards also can eliminate the possibility of check fraud and make the payroll process faster and easier—reasons why TriCentury Bank, based in Simpson, Kan., developed a payroll card several years ago for companies and its own employees.

Large companies, such as FedEx, McDonald's and Coca-Cola, offer payroll card programs to employees.

## Flexible-spending, health account cards

A third type of stored-value card is the flexible-spending and health-care reimbursement card. These particular cards hold funds, often pre-tax income up to a certain limit, contributed by employees to accounts offered by their employer. The money can be used for eligible dependent care and medical expenses and is typically accessed via a network-branded prepaid debit card as the expenses are incurred.

Benefits for contributors to health and flexible-spending accounts include convenience and time savings—reimbursement requests, which often require submitting receipts, are eliminated or reduced.

Because the process is less cumbersome, employees are more likely to contribute, say employers. And both the employee and employer benefit from the reduction in taxable income.

In January 2006, Cerner Corporation, a Kansas City-based supplier of health-care information technology services, launched Healthe—one of the first combined health plan ID and debit cards.



BUSY WIFE AND MOM, LUCY WIETHARN, with daughter, Cate, 4, and son, Marshall, 6, loves the convenience and ease of purchasing gift cards. She can pick up them up while running errands. "At any time you can go get them," Lucy says.



More than 11,000 employees and dependents under the Cerner health-care plan are able to access in real time their health-care dollars at Cerner's on-site health clinic and pharmacy with the swipe of their card, says Kelli Christman, Cerner spokesperson.

Cerner partnered with First Data Corporation and United Missouri Bank, and is in the early stages of providing a similar card to other employers with on-site employee health clinics.

"When you leave the appointment, every financial aspect is settled up," says Christman, who has used the card since its inception. Cerner employees, herself included, have responded favorably to the program.

The program gives employees control over their health care, streamlines the care and payment process, and significantly reduces time away from work.

It's the kind of convenience that gift card giver Lucy Wietharn loves about stored-value cards, and she'll continue to happily use them in as many ways as possible, she says.



BY BRYE STEEVES, SENIOR WRITER

## FURTHER RESOURCES

### STORED-VALUE CARDS: A CARD FOR EVERY REASON ...

By Terri Bradford  
[www.KansasCityFed.org/TEN](http://www.KansasCityFed.org/TEN)

**COMMENTS/QUESTIONS** are welcome and should be sent to [teneditors@kc.frb.org](mailto:teneditors@kc.frb.org).