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## Solving the Gift Card Conundrum

I promise, we'll move on from Dick Smith really soon. And I'll spend an extra hour tonight wading through UK stocks to make sure this blog post was written on my time, not that of our investors. But I've been wondering about all those kids that got Dick Smith gift cards for Christmas, and the grandparents that bought it for them.

And I've been thinking about the banks and senior creditors who, almost certainly, very [deliberately waited until just after Christmas to put Dick Smith into administration](#) so that Grandma Elma's money—very much intended to go towards little Bobby's electronics hobby—is instead used to cushion the banks' own past dumb decisions. It's not right.

Gift cards perhaps should be operated under some sort of trustee arrangement. It would avoid issues like this.

The gift card would be branded by the retailer but issued by a bank or a central authority. When you buy the card in store, the cash goes from the retailer into the trust overnight. When you redeem down the track, the cash goes back to the retailer overnight. If the retailer goes bust in the meantime, that money is used to cash out valid cards in circulation. That money could, and should, be protected from creditors, as the business has done nothing to deserve it yet.

Interest on the cash pile could either go directly to the retailer or, more likely, be used to fund the cost of running the trust. I'm sure that if the banks don't want to do it someone like Computershare would.

Unclaimed gift vouchers are a massive part of the upside for retailers selling such cards—apparently something like 40% of total cards gifted are never spent, what a massive gift to the retailer. Under the proposed system, the cash on unclaimed cards could still revert to the retailer on the card expiry date. Or they could do away with expiry dates. Now there's a novel idea.

If anyone wants to offer a deposit product through the financial system, there are massive regulatory hurdles to jump through. Prepayment schemes like gift cards, however, are largely unprotected, even though they're quite similar in nature.

It would be pretty easy to come up with a self-funding or low-cost trustee system that does the trick, whether compulsorily by law or voluntarily by those retailers keen to stand behind the creditworthiness of their gift card offerings. Hey, it might help you win Grandma Elma's business next Christmas.

*Postscript: In the absence any any scheme as suggested above, take note of point 3 in the first comment, by Ben, below.*