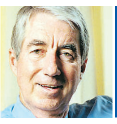
Buying into a gift-card headache



Noel Whittaker

The swipe of a card put my aunt on a slippery slope in something as simple as buying a piece of soap.

WITHOUT doubt technology has enriched our lives.

Now we can check bank balances and make bookings from home at any time of the day or night and that magical device Sonos, coupled to an online music library like Rhapsody, has made CDs redundant.

However, there is one major downside – because more and more business is being done over cyberspace, it's getting harder and harder to find a real switched-on human being if you need help.

The drama suffered over the past couple of months by my poor Aunt Meg is a classic example.

In October she received a gift that was supposed to keep on giving and, true to the label, has been giving her grief ever since.

The saga started when her good friend Jenny bought her a $50 Visa gift card at the local post office as an 80th birthday present.

It's an expensive way to buy a gift card because there is a $5.95 handling fee tacked on, but I guess Jenny figured it would give Aunt Meg the greatest number of spending options – the card is effectively a pre-paid Visa card so it can be used at any establishment that takes Visa until the credit on it is all used up.

The troubles began when my aunt tried to use the card. She explained it to me like this.

"I decided to buy some soap, and having carefully selected a special one, handed over the card. The shop assistant swiped it but to my horror it didn't work. She told me I would have to contact Visa.

"When I got home I looked up the paperwork that came with the card and found a number to call.

"It pointed out that there was a fee of $3 to make this call.

"I thought that was a bit rough as it was not my fault, but made the call anyway and was simply told the card had not been validated. The call centre person then hung up on me.

"The tiny print on the back of the card said it was issued by ANZ Bank so I called in at the local branch. It was not a bit of help – obviously it was way outside the teller's expertise.

"Next stop was the post office but I did no better there. The guy said the card had not been validated, and may well have been stolen!

"The only solution it could suggest was to get Jenny, the woman who gave it to me, to front up at the post office with the original purchase receipt. "Unfortunately she had thrown it out!"

In desperation, because she had no more options left, Aunt Meg turned to me to try to sort it out, as she figured I might have a bit more clout than an 80-year-old pensioner.

To its credit ANZ was most helpful when I rang, and started investigations immediately.

An ANZ spokesperson rang back promptly to say that the card is issued by it on behalf of the Blackhawk financial group in America, and so it couldn't do much to help my aunt.

Apparently validation of these cards is a serious security matter and is tightly controlled – this is why validation can only occur at point of sale.

You can imagine what would happen if a thief broke into a post office and stole thousands of them.

The good news for Aunt Meg is that ANZ has assured me that the card can be validated from existing records if the original buyer took it back to the branch of Australia Post from where they purchased it.

> "Apparently validation of these cards is a serious security matter and is tightly controlled . . ."

There would be no need to produce a receipt.

So the story has a happy ending. But, just imagine how much time and worry could have been saved if Aunt Meg had been told that in the first place.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittaker macnaught.com.au

Q I have been made redundant and will need to relocate interstate for a new job. I owe $400,000 on my house and am 18 months into a five-year fixed term at 8.9 per cent.
Am I better off to sell now or try to rent it out as well as paying rent interstate? If I rent my house for $400 a week I will have a shortfall of around $600 a week.
On my new wage I will just be able to afford this but don't know which way to go.
If I sell I will have to pay break fees and will no doubt walk away with debt.

A Bear in mind that the interest will be tax deductible, even though the rents are assessable, so the government will be paying at least a third of it. If you are strapped for cash you can sign a form requesting your employer to reduce your PAYG tax to take account of your rental property tax deductions. I suggest you hang on to it if you can because you will lose a big chunk of capital if you have to sell it, pay break costs and eventually buy again.

Q I am a single 29-year-old woman and want to start widening my scope but I don't know where to start. I am earning $80,000 a year, salary sacrificing $10,000 straight into my mortgage, which is $260,000.
I have a tiny number of shares and $20,000 in a high-interest online savings account.
I am confused as to whether I should just focus solely on my mortgage, as my parents suggest, or look at equity to invest in property, buy shares, or contribute extra to my super.

A As far as super goes, I suggest you rely solely on the employer contribution at the moment because it will be at least 30 years before you can access your super and changes during this period are a certainty.
Unless you foresee a need for the $20,000, a better option for it would be to use it to reduce your mortgage or else place it in an offset account where the interest on it will be notionally paid at the same rate as you have been charged on the mortgage, but instead will reduce the principal.
Leaving it in the online savings account means you will be paying unnecessary tax on the interest.
I don't know the value of your house so I don't know what equity you have in it, but once your mortgage has been reduced to a stage where you can handle it easily you could seek advice about taking out a home equity loan for investment.

Send your questions to noel.whittaker@whittakermcnaught.com.au

Embedding new 'smarts' in war against cyber crime

By **JOHN KAVANAGH**

PAYMENT card companies will toughen security standards for consumers this year as they attempt to slow the growth in identity theft and other forms of payment fraud.

Starting this month, all new Visa cards issued in Australia will feature smart chips to give higher security levels. Similar changes to Visa debit and prepaid cards will follow in 2011. All Visa cards currently in use that have only a magnetic stripe for customer identification will be replaced, so that by 2013 the use of signatures in credit or debit transactions will be phased out.

MasterCard has not set a deadline for a switch from magnetic stripe to chip technology but says it is working with card issuers and merchants to improve security.

The general manager of Visa Australia New Zealand and South Pacific, Chris Clark, says the chip is a dynamic identification system that produces an algorithm that authenticates the user once only. The next time it is used its interaction with a terminal generates a new algorithm, making it much harder to copy customer details.

The payment card industry accepts that it has a serious problem, with criminal activity directed at online payment data growing fast.

The managing principal for investigative response at Verizon Business Security Solutions, Mark Goudie, says his team investigated 285 million individual data breaches worldwide in 2008 – all confirmed thefts of card details.

But the Australian Payments Clearing Association (APCA) says the Australian situation is not so bad, with the number of fraudulent transactions in the year to June 2009 increasing by 10 per cent to 531,000. Those breaches resulted in losses worth $180 million.

Other security projects being undertaken by payment card companies include the introduction of chip technology into ATMs and greater efforts to encourage merchants and consumers to use additional online security measures, such as Visa's Verified by Visa and MasterCard's SecureCode.

These systems involve an additional step in an online transaction, where the consumer enters the card number and then a pop-up comes up, asks for verification and gives the consumer a unique transaction code. The code is valid for that one transaction. For Verified by Visa and SecureCode to operate, both the consumer and the merchant must be enrolled.

But these systems are not popular with merchants or consumers. Merchants feel they slow down transactions and result in fewer transactions being completed. Consumers report that they are unsure about responding to the pop-up and that they are confused by the different methods used to issue transaction codes.

From April 1, all new Visa cards will be enrolled automatically in Verified by Visa and Visa will require online retailers to accommodate transactions where consumers want to use the system. From April 2012, all outstanding Visa cards will be enrolled.

MasterCard is moving in the same direction but has not set any deadlines or mandated the use of any systems. MasterCard's vice-president of payment system integrity, Joseph Vukasovic, says most of the group's merchant customers are using SecureCode and most financial institutions issuing MasterCards are issuing chip cards.

MasterCard will continue to give consumers the choice of using a signature or a PIN number when they make a transaction. To encourage merchants to sign up for SecureCode, MasterCard is offering what it calls a liability shift. Under current rules the liability in a card-not-present fraud is with the merchant. If the merchant implements SecureCode it will not be liable.

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