

## The Big Swap

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*How card manufacturers are coping with the August deadline to replace millions of gift cards*

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By D.J. Murphy, Associate Editor



Earlier this year, companies up and down the gift card prepaid value chain waited for the Fed's interpretation of the Credit Card Accountability Responsibility and Disclosure (CARD) Act of 2009 to see how they would have to change the way they do business. In March, they finally had their answer when the Fed issued its **final rules**. Among the mandated changes are that certain disclosures—fees, expiration dates and contact information—must appear on gift cards themselves and other information must be included with the packaging.

Effective Aug. 22, 2010, any gift card that doesn't include the required disclosures is not compliant with the law and may not be sold. This has resulted in both an unprecedented opportunity and a significant challenge for card manufacturers that supply the prepaid card industry with its stock in trade.

Are these vital suppliers ready to step up to the challenge? According to the companies themselves: sort of.

### Adding Capacity

Estimates of the number of non-compliant network branded and closed-loop gift cards already for sale that must be replaced prior to Aug. 22 start at 100 million and reach upwards of 150 million.

Complicating matters is that replacing these cards is not happening in a vacuum. Production of gift cards for the 2010 holiday season is ramping up at exactly the same time, putting a strain on manufacturers' capacity.

"It has increased our volume of activity on a daily basis, and we're predicting that to continue through October or November," Docia Myer, vice president of customer experience at CPI Card Group, tells Paybefore. "We've had to add on additional capacity to handle that and we're basically booked to the additional capacity. We're going to do what we say we're going to do for our clients, but it's a challenge. We think there's going to be more demand for product than there is availability, especially given the constriction of the timeframe."

### Preparing Early

With the writing on the wall since the CARD Act was signed 11 months ago, global supplier Oberthur Technologies was urging its clients to forecast demand early, says James Sufrin, vice president of North American payment sales.

"Many of our clients reduced inventory in preparation for this, and we started to order new equipment a few months back to add capacity," Sufrin adds. "The problem is, there's always lead time to make sure any new equipment is working properly and safely. We're not quite ramped up as far as we like, but we'll certainly be ready by June."

While the shelves might not be completely stocked with compliant cards by Aug. 22, Sufrin notes the mandate is merely that non-compliant stock is gone, not that it is all replaced. Even if manufacturing hasn't quite caught up with demand and replaced *all* the cards that were on shelves and in the distribution pipeline, consumers shouldn't feel too much impact.

"Is it going to be a case of consumers noticing fewer gift cards in stores come August? I doubt it," he says. "Is it going to be the loaded supply chain all the program managers want? Probably not."

### Here We Go Again

Another reason some manufacturers feel ready for

### Tips on Preparing for Life Under the CARD Act: How Can I Get the Cards I Need?

- **Talk to your manufacturer NOW.** The earlier you reach out to your manufacturer, the more likely you'll be able to secure a place in its production stream.
- **Differentiate between what you need and what you can live with.** As Oberthur's Sufrin points out, it may not be possible to replace all inventory on day one. Determine—at least internally—what you actually need to get you past the Aug. 22 compliance date.
- **Explore other options.** It's hard to tell whether the larger or smaller card manufacturers will be best positioned to react. But, if your primary manufacturer says it's fully booked, you may need to explore other options—including lesser known companies—to obtain additional production capabilities.

the onslaught is the similar experience of replacing cards compromised by data breaches in **December 2008** and **January 2009**, which provided a valuable learning tool for the current environment, according to Steve Knapp, senior vice president and general manager for Fiserv.

"During that time we had to ramp up a good bit," Knapp says. "The Heartland tidal wave greased the skids, and there was capacity built up in the industry because of it."

Knapp points out that the volume of cards that need to be replaced now dwarfs what happened last year due to the compromises, but the timeframe was compressed even more then.

"The issuers were anxious to have those cards replaced immediately," he notes. "Now, we have several months in the calendar to address the implications of the CARD Act."

### Reality Bites

But, in spite of the apparent optimism, manufacturers do have a thorny challenge that could cause some pain for their clients and some compromises in the production process.

Myer and Sufrin agree that the PVC used to make payment cards has cost more lately. It's not clear to either if the increase is due to demand created by the manufacturers all scrambling at once for raw materials or simply a natural price fluctuation. It's also unclear whether the higher costs will be passed along to their customers.

"We have loyal clients that have a problem. They have to find capacity to get as much out there as possible, as quickly as possible," says Sufrin. "If someone asks us for something new or unusual, we might have to produce in one of our China plants to get it done. In a case like that there could be some price increase. But I don't see a lot of it."

The compressed timeframe also is impacting the complexity of card design.

"Redesigns are pretty much out," Myer says. "There is no time for the usual prototypes and market testing; they have to go with what they have. You might see tweaks, but most people are going out with what they have today or new designs that had already been approved."

### Business as Usual for On-Demand Suppliers

Out of recent technological advances, a niche has grown in the card manufacturing industry that caters to on-demand manufacturing, enabling orders to be shipped in hours or days rather than weeks. For manufacturers in this space, life under the CARD Act is business as usual, according to Render Dahiya, CEO of Chicago-based **Arroweye** Solutions.

"In an on-demand methodology, you don't have to go through press checks, design checks and have to reset an entire card platform for every change," Dahiya says. "In this case, we're really just making minor changes to the back of the card and the next day you have the new card in production."

Dahiya also cautions that the final rules dictating what disclosures appear on gift cards actually might not be final.

"We know how this works: Congress writes a rule, government agencies interpret that rule. Then, real life happens and those interpretations can be modified," he says. "Everybody is reacting to the challenge right now, but are people really thinking about next year when this challenge may crop up again if there are new interpretations of the regulations?"

If that happens, Dahiya says on-demand providers have the flexibility to easily adapt again.

### Ducks in a Row

Like program managers and third-party distributors, card manufacturers are struggling under the new strictures to get compliant cards into the market by the deadline. For the manufacturers, however, it also presents a lucrative opportunity.

"Yes, it really is both," Sufrin says. "I've looked at this as our industry's little stimulus package. It's nice, in that we're seeing a spike, but it does present a tremendous number of challenges. Based on what's transpired over the past five weeks or so, though, I think most folks have most ducks in a row to deliver most of what they need within the August timeframe."

- **Look beyond the United States.** Although prepaid is a global business, manufacturers in other countries may not be as heavily impacted as U.S. manufacturers. If push comes to shove, explore non-U.S. sources—but expect longer lead times and higher costs due to shipping issues. Some card manufacturers are multinational companies and may be able to facilitate this seamlessly on your behalf.
- **Swapping your debit/credit card production slots.** If you're a credit and/or debit card issuer, consider rearranging your standing production schedule to give first priority to your gift cards.