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Technical Advisory

TA 267

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Subject: 'Tis the Season...for Gift Cards

Background. Gift cards are increasingly popular at Christmas, as well as other gift-giving occasions. Is there any coverage under the Homeowners Policy if they are lost or stolen, etc.? These days, a person could easily have several hundred dollars worth of cards after Christmas, and possibly much more than that as graduation gifts, wedding gifts, etc.

Main Points. To say that gift cards are “increasingly popular” is quite an understatement! According to the National Retail Federation, there will be approximately \$25 billion spent on gift cards this Christmas season, up from \$18.5 billion for Christmas 2005.

In addition, some gift cards have a number of fees and charges, and some even lose value if not used in a specified time, so they have come under increasing scrutiny by consumer groups. For this reason, the federal Office of the Comptroller of the Currency (OCC) issued a recommendation to banks in August 2006, regarding increased information to consumers about the terms of usage.

Interestingly, the research firm TowerGroup estimates that approximately \$8 billion in gift cards purchased this year will eventually go unused, according to the *Wall Street Journal*.

And unfortunately for insureds, the Homeowners Policy treats gift cards the same as cash, providing just \$200 in the aggregate – meaning that’s the total amount of coverage for all items in that category (see excerpt below), no matter how many cards an insured had. In addition, cards that are “lost” would not be covered at all, since the perils that apply to Coverage C are named perils only, unless an insured has the HO-5. Note also that while cash and every other type of property in that category is subject to the Section I deductible, the deductible is subtracted from the loss to covered property, and never to an internal limit (such as the \$200 cash limit).

While gift cards have been around for several years, it wasn’t until the HO-2000 edition of the Homeowners Policy that ISO included language addressing how they were covered under the policy.

In the current HO-2000 edition, they are referred to as “stored value cards,” and not “gift cards” – see excerpt below.

However, in the previous 1991 edition, since gift cards were not specifically mentioned, there was some confusion between coverage for gift cards vs. credit cards, which were covered for \$500, with no deductible. While most authorities assumed that gift cards should be treated as cash, the HO-91 edition policy provided no specific guidance on that point.

Here is the relevant excerpt from an HO-2000 edition of the HO-3:

C. Coverage C – Personal Property

3. Special Limits Of Liability

The special limit for each category shown below is the total limit for each loss for all property in that category. These special limits do not increase the Coverage C limit of liability.

*a. \$200 on money, bank notes, bullion, gold other than goldware, silver other than silverware, platinum other than platinumware, coins, medals, scrip, **stored value cards** and smart cards.*

Lastly, under ISO rules, the \$200 limit on cash and similar items of property (including stored value cards) can be increased up to \$1,000 on the HO-3, using endorsement HO 04 65 Coverage C Increased Special Limits of Liability. (Use the HO 04 66 with an HO-5.) Also, check with your individual markets to see if they adopted this optional coverage. The cost is around \$6 per \$100 of coverage.

Necessary Action. Circulate this Technical Advisory to all appropriate agency staff.