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HB 896 – Consumer Protection – Retail Sales of Gift Cards (Gift Card Scams Prevention Act of 2024)
FAVORABLE
House Economic Matters Committee
February 27, 2024

Good afternoon, Chairman Wilson and Members of the House Economic Matters Committee. I am Karen Morgan, a member of the Executive Council for AARP Maryland. As you may know, AARP Maryland is one of the largest membership-based organizations in the Free State, encompassing almost 850,000 members. We thank Delegate Stewart for sponsoring this legislation.

AARP is a nonpartisan, nonprofit, nationwide organization that helps people turn their goals and dreams into real possibilities, strengthens communities, and fights for the issues that matter most to families such as health care, employment and income security, retirement planning, affordable utilities, and protection from financial abuse.

At AARP, there are two things we are very fond of saying. One mantra is “gift cards are for gifts,” and the other mantra is, “if you can spot a scam, you can stop a scam.” AARP does numerous virtual and in-person presentations around Maryland, especially around the holidays, and we say these mantras over and over again. Consumer education is a very important contribution to fraud prevention, but it is not a silver bullet. Gift card fraud needs to be attacked on multiple fronts. Consumers need help in avoiding the complicated, deceptive, and nefarious ways in which gift card fraud can be inflicted. That is why we are here in support of HB 896 today.

Gift cards used to be easy. It was (and still is) the go-to gift for the person who has everything or the just-married couple, the college grad, and the teenager. But what is easy for consumers has become far too easy for scammers to coopt, invade, and ruin.

During 2023, the Federal Trade Commission determined that U.S. consumers reported a loss of \$217 million due to gift or reloadable cards.

In 2022, AARP conducted a survey of U.S. consumers on gift card scams.

Here are some of the key findings:

- More than one-third of U.S. adults have been targeted by gift card scams;
- Of those targeted, about one-quarter purchased gift cards and shared the numbers off the back because they thought they were taking care of a financial obligation;

- Targets were approached to purchase gift cards to pay a fee for a “sweepstakes prize,” to pay for a service or product upfront, or to do a favor for a friend or a person at the workplace, among other pretenses;
- About one-quarter of U.S. consumers have either given or received a gift card that was already drained of funds, and more than one-third of those consumers took action by calling the number on the gift card or visiting the card issuer website;
- More than half of the survey respondents who lost funds and tried to notify the card issuer were not able to obtain a credit or refunds for the missing balance; and
- Nearly 9 in 10 consumers agree and 61% of those *strongly agree* that lawmakers need to do more to protect consumers from frauds and scams.

Scammers have deceived consumers into using gift cards for grandparent scams, to frighten people into paying their (already current) utility bills, to pay supposedly overdue taxes, and even to avoid bogus prosecution threats.

This is not a new problem. AARP research indicates that scammers have latched onto gift cards as a form of payment for years, with the reported costs from this type of fraud rising into the hundreds of millions of dollars annually since 2018. Of course, estimated losses pertain only to the gift card fraud that we know about. The majority of gift card fraud goes unreported and monetary losses are likely significantly higher.

These criminals use software that alerts them when a tampered card has been presented for payment and they can drain the card of funds in seconds. So-called “tech-support” scammers can convince people that their computer is riddled with viruses that can be eradicated by paying the scammer with a gift card. Scammers love to use gift cards because they are readily available, virtually untraceable, easily converted to cash or cryptocurrency, and let the criminals move large amounts of money via small parcels.

This bill would require the merchants who sell gift cards, whether online or in brick-and-mortar stores, to be more proactive in alerting consumers to the very real risks that are now attached to gift card purchases. Online merchants would have to register with the Office of Attorney General to continue to sell gift cards to Maryland residents, and would have to conspicuously display a warning on a webpage that appears before a gift card sale is finalized. Brick-and-mortar merchants would have to ensure that gift cards are enclosed in tamper-resistant packaging, with a warning about broken packaging or tampering. Exceptions would exist for chip-enabled, numberless cards that are sold exclusively by a merchant or group of affiliated merchants for use only in their establishments, but even then, the gift cards would have to be secured in a location that is accessible only by an employee. Brick-and-mortar merchants would have to train their employees to identify and respond to the signs of gift card fraud.

Merchants may believe that they are being unfairly targeted by being required to do more to prevent gift card fraud. Merchants haven’t caused this problem. But they benefit by making profits

from every gift card sale on their websites or on their premises. They need to do more to help shore up the defenses against this type of fraud. Letting consumers know that if they can spot a scam, they can stop a scam, and that gift cards are really only for gifts, can help prevent this type of fraud. But on a website or in a store, seeing additional information about the scams that can be perpetrated may cause a consumer to stop again and think about what they are doing. Of course, we want law enforcement to catch these criminals, but a sweeter victory is preventing the fraud from happening in the first place. Merchants are a last line of defense in helping to preventing this crime before it happens.

AARP supports HB 896 and respectfully requests the House Economic Matters Committee to issue a favorable report. For questions, please contact Tammy Bresnahan, Director of Advocacy for AARP Maryland at tbresnahan@aarp.org or by calling 410-302-8451.