

Proponent Testimony HB 353
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Chairman Dever, Vice Chairman Sprague, Ranking Member Smith, and Members of the Financial Institutions, Housing, and Urban Development Committee, good morning. I would like to thank you for affording me the opportunity to testify on behalf of House Bill 353. But first, please allow me to tell you about Sutton Bank and why we are where we are today.

Sutton Bank is a \$475 million privately held community bank located in Attica (Seneca County) founded in 1878. We have seven additional offices located in the counties of Ashland, Huron, Richland, and Seneca. We are the typical community bank in those markets. It is fair to say we understand what it takes and means to serve our communities as a community bank. But today, it is also important to have a niche. A number of years ago, we began to discuss why the big box stores desired to obtain a bank charter. Simply put, they wanted direct access to the payments system (or the movement of transactional funds) as they saw value. Our management team put together a business plan to take advantage of what others sought. One of the strategies we utilize, to take advantage of this, is through the issuance of prepaid cards.

Sutton Bank currently maintains a competitive and robust prepaid card program focusing primarily on Business-to-Business, General Purpose Reloadable, and Payroll Cards through various relationships with processors and program managers across the country. We currently, and have previously engaged, a number of high profile card programs. We anticipate our 2017 processing volumes to be in excess of \$2 billion. We believe, through prior reporting, this places us in the top 15 prepaid card issuing banks in the country. As you heard in Rep. Reineke's testimony last week, "A 2013 study identified that it is estimated that prepaid purchase volume will top \$150 billion this year and is expected to grow \$45 billion over the next five years, according to Javelin Research & Strategy. Between 2009 and 2012 consumer use of prepaid cards grew 71%." Diversification within any business is important and prudent. Accordingly, we would like to position ourselves to take advantage of that growth and do so in Ohio.

However, **Ohio** financial institutions operate at a **competitive disadvantage** because Ohio unclaimed funds or escheatment laws apply to open-loop gift cards and require an Ohio based institution, whether federally or state chartered, to remit unused funds accessible by open-loop gift cards to the State of Ohio after 5 years of inactivity. To differentiate between an open-loop and a closed-loop card you need look no further than where the card is accepted. An open-loop card is accepted at virtually any Point-Of-Sale location and may be branded with Visa, MasterCard, Discover, etc. A closed-loop card is one that has limited acceptance because it is tied to a particular business, for instance Starbuck's. Closed-loop cards are currently exempt from the unclaimed funds law.

Businesses, such as program managers or processors, seeking to partner with a financial institution to offer open-loop gift cards evaluate state unclaimed or escheatment laws, federal laws regulating the institution, the institutions capability, flexibility, and its technology. Program managers or processors seeking an institution to issue open-loop gift card products will not partner with an Ohio institution because of the escheatment laws. They choose instead to deliver

the economic benefits¹ of their product to institutions subject to the laws of a state like South Dakota² that does not require institutions to remit unused open-loop gift card funds to the state. This fact continues to be shared with us when we attempt to attract open-loop gift card programs. We could charter a separate banking entity in South Dakota to conduct open-loop gift card business but prefer to do business in Ohio.

Ohio Unclaimed funds or escheatment laws are restricting Ohio financial institutions from participating in a \$75 Billion market, assuming 50 percent of the \$150 Billion mentioned above is gift, incentive, or rebate card programs!

The State of Ohio and local communities would directly benefit from this change to Ohio's unclaimed funds or escheatment laws. Financial institutions of all charters and sizes would have the opportunity to bring revenue to Ohio. The **State of Ohio would benefit** from employment taxes and revenue generated through the Financial Institution Tax assessed on the profits and capital of banks such as Sutton Bank. **Local communities would benefit** through taxation and the multiplier effect of money.

As we are all aware rural areas in the United States struggle and quality jobs are important,³ but with your support, financial institutions would also be better enabled to invest in additional infrastructure in communities like Tiffin, Ohio which is home to two universities. By approving HB 353 Sutton Bank will increase our work force; jobs in compliance, our local call center, marketing review, and accounting. We envision potentially adding 20 employees to support an open-loop gift card business over the next 2-5 years which adds to the local revenue base, helping to increase local as well as state-wide spending. The same could occur for other financial institutions with a similar business model.

Consumers will not be harmed by changing the unclaimed funds law as open-loop gift cards are not a new phenomenon. The cards never expire, are widely issued, widely accepted, and have been utilized for years. The difference is Ohio has not allowed financial institutions to competitively participate in the material programs due to the current restrictive unclaimed funds law.

Finally, earlier this year it was brought to my attention by a consultant Sutton Bank utilizes for our prepaid card initiatives that the Ohio Department of Commerce attended a conference outside the United States in an effort to attract business into Ohio using the tag line of "Innovate in Ohio". Ladies and Gentlemen, you have a representative of a progressive Ohio business before you attempting to be innovative in Ohio but our hands are tied. Won't you please help improve the competitive position of Ohio with this simple change to the Ohio Revised Code?

Again, thank you for allowing me the opportunity to offer proponent testimony on this bill. I would be glad to take your questions at this time.

¹ Some \$65 billion was loaded onto general-purpose reloadable prepaid cards in 2012 -- more than twice the amount loaded in 2009. *The Pew Charitable Trusts. "Why Americans Use Prepaid Cards," released 2014.*

² The state's escheat provisions do not apply to an open-loop prepaid card for which the underlying funds do not expire and the records of the depository institution do not disclose the identity of the owner. *S.D. Codified Laws Ann. § 43-41B-40.*

³ "One Nation, Divisible." *The Wall Street Journal*, Janet Adamy and Paul Overberg, 5/26/2017.