Ohio House of Representatives

Representative Bill Reineke

Sponsor Testimony HB 353

October 24, 2017

Chairman Dever, Ranking Member Clyde, and fellow Members of the Financial Institutions, Housing, and Urban Development Committee. Thank you, for allowing me to present sponsor testimony for House Bill 353. House Bill 353 revises the Ohio Revised Code so that its escheatment provisions do not apply to an open-loop gift card for which the underlying funds do not expire and the records of the depository institution do not disclose the identity of the owner.

You are probably wondering what “escheatment” laws are… Escheatment laws require financial institutions to report when personal funds have been abandoned or unclaimed for a period of time, in Ohio’s case, it is five years.

Currently, Ohio businesses operate at a competitive disadvantage because Ohio escheatment laws apply to open-loop gift cards and require an Ohio based bank, whether federally or state chartered, to remit unused funds accessible by open-loop gift cards to the state after 5 years of inactivity. Businesses seeking to partner with a bank to offer open-loop gift cards evaluate state escheatment laws, federal laws regulating the bank, the bank’s employee pool, the bank’s flexibility and its technology. As a preliminary matter, businesses offering open-loop gift card products will not partner with an Ohio bank because of its escheatment laws, but choose instead to deliver the economic benefits of their product to banks subject to the laws of states like South Dakota, that do not require banks to remit unused open-loop gift card funds to the state. Many banks which issue open-loop gift cards benefit from South Dakota law by only opening one physical location in South Dakota.

This disadvantage harms Ohio banks, their employees, potential customers and the state at large, because it drives traditional open-loop gift business out of Ohio and locks Ohio banks out of the exponentially growing prepaid market. Opportunities, which are utilizing the open-loop gift, market to serve both the banked and underbanked. 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%.”

Ohio escheatment laws prohibit Ohio banks from participating in this $150 billion-dollar market opportunity. If Ohio were to change the current laws to equal those of a state such as South Dakota, and if out of $150 Billion in prepaid volume, 50% is attributable to Gift, Incentive, and Rebate products, then approximately $75 billion could be available to banks and businesses in Ohio.

The genesis of this bill was to assist a local community bank in my District, Sutton Bank, which currently maintains a robust prepaid card program focusing primarily on business to business and open-loop GPR cards. They have engaged programs from Facebook, Square, DoorDash, Instacart, Stripe, Instant and approximately 30 other prepaid card programs and anticipates 2017 processing volumes to exceed the approximate $1.4 billion in prepaid transactions in 2016, which places it in the top 15 prepaid card issuing banks in the country. The bank anticipates that being able to partner with businesses offering “open-loop” gift cards will allow the bank to participate in serving the underbanked and unbanked and thereby position itself to grow with both the open-loop gift card market and the gig-economy which anticipates doubling its growth over the next 4 years.

The state of Ohio and its local communities would directly benefit from this change to Ohio’s escheatment laws. Increased revenue streams to community banks would increase the amount of tax paid by banks and their shareholders and would increase the number of employees the banks would employ. Sutton Bank anticipates increasing its potential revenue over the next 10 years so that by year 10, revenue from open-loop gift cards is not just meaningful to Sutton Bank but potentially to other Ohio financial service providers focusing upon the prepaid card industry.

In addition, as rural areas in the United States continue to struggle, local community banks like Sutton, would be free to invest in additional infrastructure in their local communities. By adding additional employees to support a growing open-loop gift card business, local communities and their surrounding areas will see gains to their local revenue base, increasing local spending and thereby increasing overall spending throughout Ohio.

Although the fiscal analysis from LSC has not yet been released, changing Ohio’s escheatment laws will have a minimum impact on any revenue the state is currently generating from escheated, open-loop gift cards funds because escheatment laws are designed to reunite property that is considered abandoned, thus it is not economic activity in-of-itself. The current escheatment laws in Ohio practically prohibit any business from establishing open-loop gift card products, which indicates little if any revenue is flowing to the state from these products.

Finally, changing Ohio’s escheatment laws will not harm Ohio consumers. Escheatment laws exist to facilitate the process of reuniting the owners of property with their property, in this case cash, after it is legally considered “unclaimed” or abandoned. The most efficient method for an open-loop gift card customer to access funds is by using a card. Once funds are escheated to the state, customers cannot use a card to access their funds. As a result, the current escheatment laws in Ohio do not allow consumers to efficiently claim any unused funds after 5 years.

Thank you for allowing me the opportunity to offer sponsor testimony today on this bill, I would be happy to take any questions at this time.