

May 11, 2018

Speaker Michael J. Madigan
Illinois House of Representatives
300 Capitol Bldg
Springfield, IL 62706

RE: Opposition to Illinois SB 3102/HB 4922 (Consumer Rebate Cards)

Dear Speaker Madigan:

On behalf of the Electronic Transactions Association (“ETA”), we appreciate the opportunity to share our significant concerns regarding SB 3102 / HB 4922. **ETA opposes SB 3102 / HB 4922** because they would harm consumers and the state as many types of rebates will likely cease to be offered in Illinois and the state’s unclaimed property revenue and sales tax revenue would decline.

As background, ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. ETA’s members include all parts of the electronic payments ecosystem including financial institutions, acquiring banks, merchant service providers and processors, and payment card networks. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient, secure, and rewarding payment solutions.

Executive Summary

- Contrary to the intent of SB 3102 / HB 4922, these bills will likely have unintended consequences for consumers in Illinois due to reduction of product availability the state.
- The State of Illinois would see a decrease in collection of unclaimed property revenue from unredeemed rebate checks because of the reduction of products in the state.
- A number of other states have looked into this issue and all of them have decided this is not a good option.

Bill Summaries

SB 3102 / HB 4922 would prohibit retailers in Illinois from offering consumers a rebate card that charges fees after a card is issued to a consumer (other than a fee to replace a lost card).

Rebate Cards Overview

The key to understanding the anti-consumer effect of the proposed bills is reviewing the economic model for rebate cards.

In the past, when consumer rebates were paid by check, the rebate fulfillment company would often charge the program sponsor (either a retailer or manufacturer) for processing the rebate fulfillment and check issuance and mailing. When the industry moved from checks to prepaid cards, the program sponsors switched from paying a fee for check fulfillment to receiving prepaid cards for free or at a discount off face because the prepaid card provider would either charge cardholder transaction fees or collect the unredeemed balance after card expiration in order to pay for the significant costs to operate the program including card manufacturing and fulfillment, card processing, cardholder services, fraud monitoring and unclaimed property reporting and remittance. By compensating the prepaid card provider in this manner, the program sponsor can use the cost savings to provide even more rebates to consumers.

In effect, the consumers who don't spend their card balances before the card expiration date pay for additional rebates that are issued to consumers who follow the cardholder terms and conditions as well as numerous disclosures accompanying the card which encourage cardholders to spend the card balance prior to the expiration date.

Specific Comments

While the intent of the bills is to help consumers, SB 3102 / HB 4922 would likely have the opposite effect. In addition to having negative effects for consumers, it will also have negative effects for the State of Illinois.

SB 3102 / HB 4922 would likely have unintended consequences for consumers in Illinois due to reduction of product availability the state. Specifically, many types of rebates will likely cease to be offered in Illinois and consumers will be encouraged to shop in adjacent states where they can take advantage of generous rebates offered by retailers and manufacturers.

In addition to the consumer, the State of Illinois would also a decrease in collection of unclaimed property revenue from unredeemed rebate checks because of the reduction of products in the state. The bill would cause a decrease in sales tax revenues as consumers will travel to adjacent states in order to take advantage of rebates that will no longer be offered in Illinois.

A number of other states have looked into this issue and all of them have decided this is not a good option. Every other state that has looked into the issue has expressly excluded loyalty, award and promotional cards, or LAP Cards (as defined in the CARD Act), from their consumer protection laws governing fee restrictions on prepaid cards.

Conclusion

Passing SB 3102 / HB 4922, which would effectively remove consumer rebates from the Illinois market and encourage Illinois consumers to make the relatively short trip to an adjacent state to make large dollar purchases where rebates are still offered is not in the best interest of the State or consumers. The bill would harm consumers and ultimately harm the State Treasury as well from

lost sales tax revenues and unclaimed property revenue. For these reasons, ETA strongly encourages the Committee to **vote no on SB 3102 / HB 4922.**

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Thank you for the opportunity to participate in the discussion on this important issue. If you have any additional questions, you can contact me or ETA Senior Vice President, Scott Talbott at stalbott@electran.org.

Respectfully submitted,



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