

Date of Hearing: June 25, 2018

ASSEMBLY COMMITTEE ON BANKING AND FINANCE

Monique Limón, Chair

SB 1055 (Bradford) – As Amended June 18, 2018

SENATE VOTE: 36-0

SUBJECT: Banks and credit unions: savings promotions

SUMMARY: Authorizes banks and credit unions to offer contest or promotions with designated prizes for the purpose of encouraging savings deposits.

Specifically, **this bill:**

- 1) Defines a qualifying account as a deposit account, other than a demand account (i.e., a checking account) through which a bank's or a credit union's depositors may obtain chances to win prizes in a savings promotion.
- 2) Defines savings promotion as a contest or promotion to encourage savings deposits, which is sponsored by one or more banks or credit unions, or by a bank or credit union trade association or its subsidiary in conjunction with one or more banks or credit unions, in which bank or credit union depositors are offered a chance to win designated prizes.
- 3) Authorizes a bank or credit union to sponsor or participate in a savings promotion if all of the following criteria are satisfied:
 - a) Depositors are not required to pay any fee or otherwise provide any consideration in order to enter the savings promotion.
 - b) All fees charged by a bank or credit union in connection with a qualifying account are comparable to fees charged in connection with comparable nonqualifying accounts offered by that institution.
 - c) Each entry in the savings promotion has an equal chance of winning.
 - d) Participants in the savings promotion are not required to be present at a prize drawing to win.
- 4) Provides that, for purposes of the bill, a depositor's deposit of at least a specified amount of money in a qualifying account, which is required to enter the savings promotion, is not consideration if the interest rate associated with the qualifying account is not reduced, as compared to comparable nonqualifying accounts offered by the depository institution, to account for the possibility of winning a prize.
- 5) Provides that a savings promotion shall not be considered a lottery or a raffle within the meaning of applicable sections of the Penal Code that define those terms.

EXISTING LAW:

- 1) Defines “lottery” and specifies that every person who contrives, prepares, sets up, proposes, or draws any lottery, is guilty of a misdemeanor, unless otherwise exempt from this law (Penal Code Sections 319 et seq.).
- 2) Neither authorizes nor prohibits a bank or credit union from offering prizes related to savings account activity by depositors.

FISCAL EFFECT: None

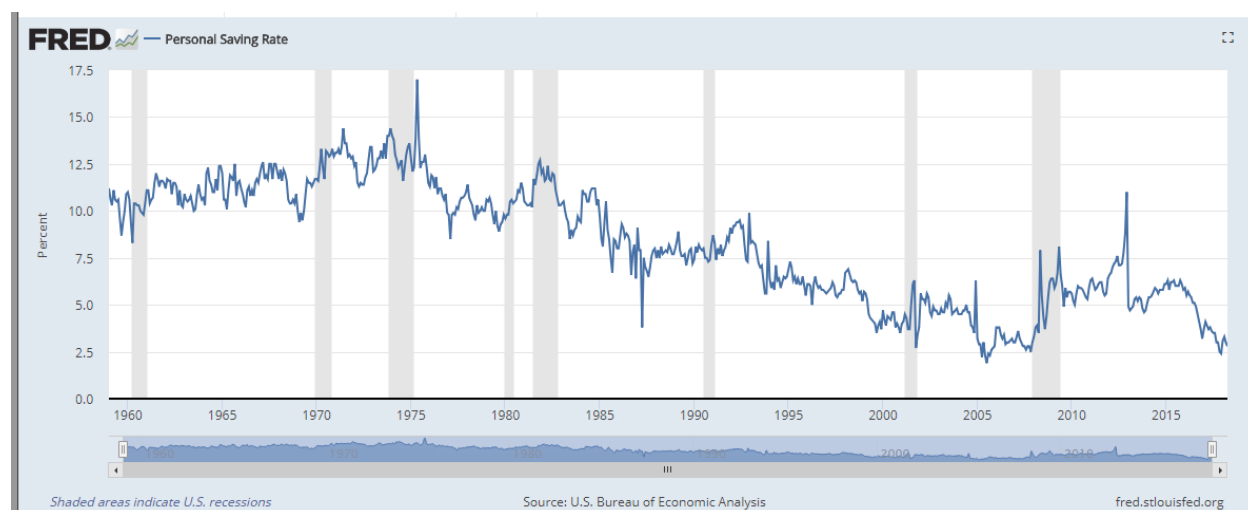
COMMENTS:

1) PURPOSE

This bill is sponsored by the author to help encourage Californians to open new savings accounts and to add money to existing savings accounts in banks and credit unions in the state.

2) BACKGROUND

The personal savings rate in the United States was 2.8%, as measured by the ratio of personal saving to disposable personal income, as of April 2018. This metric is near an all-time low since the U.S. Bureau of Economic Analysis began tracking this data in 1959 (see chart below).



While the personal savings rate has generally declined over the past four years, the percentage of adults who could cover a \$400 emergency with cash has increased steadily from 50% in 2013 to 59% in 2017, according to the Federal Reserve. Yet still, over 40% of the adult population does not have adequate savings to weather even a modest financial shock without turning to credit markets.

Lack of personal savings is driven by a variety of factors, including economic factors (e.g., stagnant inflation-adjusted wages, burdensome housing costs, and rising healthcare, education, and transportation costs), social factors, and psychological factors. Prize-linked savings accounts, as authorized by this bill, may provide a psychological effect that leads to higher savings rates. Such an account offers a low probability of a large gain (the prize) while guaranteeing no loss of principal. Behavioral economics research finds that people often misestimate the probabilities of low-probability events, assuming that such events occur more often than empirical data suggests.

The combination of a depositor's optimism that she will win a prize and the principal guarantee, which appeals to risk-averse depositors, increases her desire to save money in order to increase the depositor's chances of winning the prize.

3) PRIZE-LINKED SAVINGS IN OTHER STATES

In 2014 the federal government enacted the American Savings Promotion Act which authorized federally-chartered banks and credit unions to offer prize-linked savings accounts. Subsequently, 28 states have authorized state-chartered depository institutions to offer these accounts.

California law neither authorizes nor allows these accounts, but the lack of statutory clarity has led state-chartered depository institutions to decide not to offer them.

4) WHO PAYS FOR THE PRIZES?

In a typical lottery, prizes are funded with revenue from tickets sold to people seeking to win the prize. In the case of prize-linked savings accounts, this bill provides safeguards to ensure that deposit account holders do not directly bear the cost of the prizes. Depository institutions that offer prize-linked savings accounts are prohibited from charging a fee or other consideration to depositors for such an account. Many depository institutions fund the prizes from their marketing budgets which are supported by the net interest margin and fee revenue from products and services offered by the bank.

REGISTERED SUPPORT / OPPOSITION:

Support

California Bankers Association
California Community Banking Network
California Credit Union League
Commonwealth
Community Housing Opportunities Corporation
EARN
Mission Asset Fund
Omnium

Opposition

None on file

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