Mobility Loyalty & Rewards

Market Sounding Background Document

November 13, 2023

Cal-ITP / CARB Market Sounding: Mobility Rewards Strategy & Demonstration Project

November 2023

Invitation to The California Integrated Travel Project's (Cal-ITP) & the California Air Resource's Board Market Sounding exercise on Mobility Rewards Strategy

It is with great excitement that we reach out to invite you to participate in the California Integrated Travel Project (Cal-ITP) and the California Air Resources Board's (CARB) Market Sounding effort aimed at improving the distribution of transportation benefits for state agencies and recipients in California.

The challenges faced by many Californians, especially those with lower incomes, in accessing transportation cannot be overlooked. While numerous entities have launched benefits programs, a significant gap remains between those who are eligible for mobility benefits and those who receive them. Rewards and loyalty systems, predominantly used by retail and financial entities to foster brand loyalty and consumer spending, offer a unique opportunity to:

- Improve transportation affordability,
- Promote sustainable transit options,
- Foster collaboration between transit providers and market players, and
- Enable financial inclusion for all.

Cal-ITP and CARB jointly envision an evolved transportation benefit framework where transit and mobility rewards are seamlessly integrated. We aspire to foster user loyalty and align rewards with financial inclusivity to make sure that no Californian is left behind. In doing so, we aim to leverage the private market's expertise to create user-centric and user-friendly solutions to distribute rewards and loyalty programs.

We are pleased to invite your organization to join our Market Sounding exercise. We believe your input will play a crucial role in guiding this project and ensuring we pursue solutions that benefit every Californian. The insights gained from the Market Sounding process will be included in a document publicly available under Chatham House Rules[1], which will be released after the completion of the Market Sounding exercise. This document will be used to inform any rewards demonstration project which might follow

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[1] When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed: https://www.chathamhouse.org/about-us/chatham-house-rule#:~:text=The%20Rule%20reads%20as%20follows,other%20participant%2C%20may%20be%20revealed.

2

as a next step. CARB will commence meetings with interested stakeholders on November 13, 2023.

Following the Market Sounding exercise, we are planning to launch a demonstration project consisting of a program that is backed by a single funder and demonstrates a loyalty scheme that operates on a single mobility mode, ensuring consistency and clarity for our participants. Our emphasis will be on a 100% cash back reward to be stored on a dedicated prepaid card. The aim is to start with a smaller scale project so that we can extract valuable lessons from the engagement, refining our approach and methodology as we progress. As we gather lessons and understand the nuances, we intend to progressively expand the program, adding more providers, funders and reward types, ever exploring the potential of using rewards as a stepping stone to financial inclusion.

Should you have any inquiries about the Market Sounding, please don't hesitate to reach out to us at hello@calitp.org.

On behalf of Cal-ITP and CARB,

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TABLE OF CONTENTS

1. INTRODUCTION

Cal-ITP's & CARB's vision in the rewards space

In the vast and varied landscape of California, with its vibrant cities, sprawling suburbs, and remote towns, effective and sustainable transportation is a lifeline. However, for many Californians and particularly those with lower incomes, the cost of transportation can be a significant barrier to accessing essential services, employment, and recreational opportunities. As California pushes boundaries in technological advancement and environmental consciousness, the need to ensure that no Californian is left behind is paramount.

As this transition takes place, it becomes more evident that state agencies have a central role in ensuring that the communities that need transportation the most are empowered and enabled to use it. And while some entities have attempted to tackle this issue with various benefits and support programs, the approaches have differed across California. Moreover, the complexity and fragmentation of verifying people's eligibility for benefits, and the lack of successful outreach to eligible users, have discouraged people from actively participating in these programs.

During the past few years, Cal-ITP sought to make riding transit simpler and more cost-effective, for providers and customers alike, not only within California but across the country. To do so, Cal-ITP focuses on bringing standardized tools to the public sector. Simultaneously, the CARB has been running benefits programs which distribute subsidies to beneficiaries. CARB is looking to explore innovative ways to improve its benefits distribution. As equity and sustainability become paramount for the future of transportation in California, the two entities have come together to explore the role of rewards in the benefits distribution toolbox.

A comprehensive rewards system will not only distribute mobility benefits more effectively but can achieve three key goals for both residents and state agencies:

- Improve transportation affordability by effectively distributing benefits to those who need them,
- Encourage a broader adoption of sustainable transit options by allowing users to receive or use their rewards across multiple mobility modes, and
- Foster collaboration between transit providers and market players by employing proven concepts running on secure, regulated, standardized technology from the retail world.

A well-planned rewards process holds the promise of improving financial inclusivity, offering a gateway for underbanked or unbanked individuals to access the wider financial ecosystem and providing state and local agencies an array of tools fit to cater to the diverse program needs they encounter. As a result, these agencies would be

able to address the range of affordability and access gaps that reduce transportation equity for Californians.

The purpose of this Market Sounding

The primary purpose behind this Market Sounding exercise is to explore and understand the nuances of the rewards ecosystem. By spotlighting bank cards and other similar financial service instruments, CARB's incentive programs can determine whether a rewards strategy could enhance benefits accessibility for low-income residents and, as a result, distribute them more efficiently. We seek to understand the current landscape of the rewards sector, the challenges it presents, and the opportunities it holds. Through a comprehensive engagement with the market, our goal is to glean insights that can shape actionable recommendations, not only for CARB, but other state agencies too.

2. DEFINING LOYALTY & REWARDS

Historically, loyalty and rewards systems have been the domain of private industries such as retail, airlines, and finance. In this arena, "loyalty" refers to a repeated, preferred, and committed user behavior. "Rewards", on the other hand, are the benefits offered to customers to incentivize these behaviors. Due to the success of loyalty and rewards programs in increasing engagement and driving behavior, public agencies seek to adopt them.

In the transportation and mobility sector, rewards and loyalty programs can serve as potent tools to gain valuable insights into aggregate customer behavior, enabling service providers to adapt and enhance their offerings to create a network of services that amplify value for the customer. Furthermore, reward systems can drive customer behavior to align with state-wide sustainability and conservation policy, ideally while also making transportation more affordable. In The Netherlands between 2013-2015, the Ministry of Infrastructure and Water Management deployed several projects focused on decreasing rush-hour traffic[2]. In these projects, motorists who actively avoided selected regions (typically major road works areas) during rush-hour were financially rewarded. The projects were deemed a great success due to the ease of participation, the program attractiveness, and the availability of transport options. The most important insight when it comes to user behavior? One year post-project, 52% of participants continued with their new behavior.

While there are currently several incentive programs in California, loyalty is not being used as effectively as it is in the retail world. Various state agencies encourage certain behaviors or actions that align with adopted policy by providing benefits to participants. Examples are CARB' s Clean Vehicle Rebate Project (CVRP) which offers rebates for the purchase or lease of qualified vehicles that have zero or low emissions, or CalRecycle's California Redemption Value (CRV) program, which provides cash refunds for consumers who recycle beverage containers at certified recycling centers. The limits of the status quo have motivated CARB's incentive programs to investigate whether a rewards program would be a helpful tool to employ in future incentives propositions.

Four Pillars of Customer Loyalty

As we navigate the complexities of the transportation landscape, it's essential to understand the constituent pieces of effective loyalty programs. There are four

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2

https://rwsenvironment.eu/subjects/sustainable-mobility/toolbox-smart-mobility-management/car/map/fact-sheet-rush-hour-avoidance-projects/

customer loyalty pillars: reward type, loyalty streams, reward carrier, and program funder.

Figure 1: Visual representation of the identified customer loyalty pillars
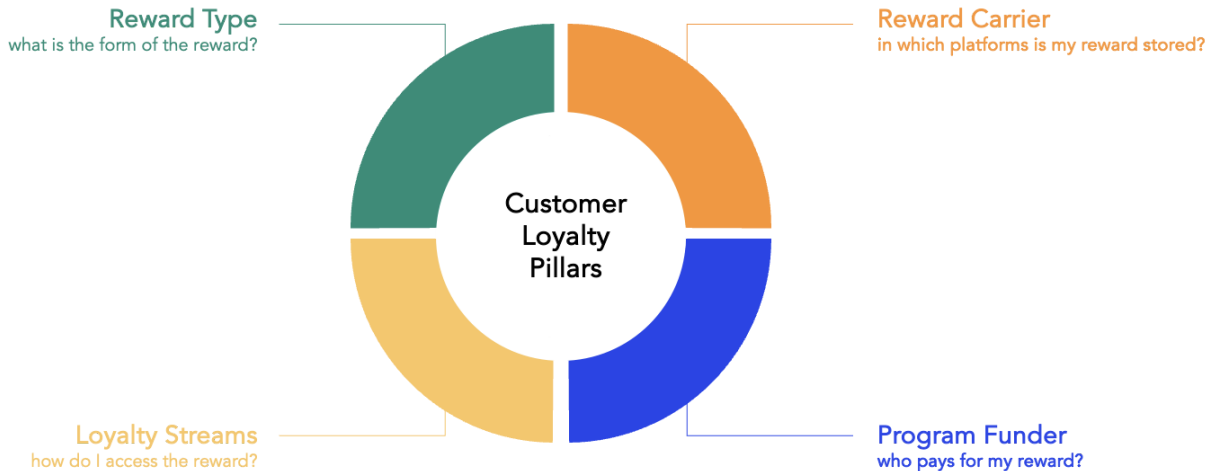
Reward Type: Cash Back vs. Non-Cash Back

The nature of a reward can greatly vary and can include cash back rewards or non-cash rewards such as discounts or vouchers.

Loyalty Streams: Single Mobility Mode vs. Multiple

Single mobility modes are smaller and more straightforward. A larger scale program could engage multiple modes and thereby cater to diverse customer preferences and habits. In a follow-up demonstration, the loyalty trigger could take other variations, for example peak vs. off-peak usage.

Reward Carrier: Dedicated Account vs. "Bring-your-Own" model

There are various platforms on which rewards can be stored and accessed. A dedicated account that is created for the purpose of receiving mobility rewards might be a more clear-cut solution for an initial demonstration, but using one's own account offers incredible opportunities for improving uptake, access and inclusion to financial products.

Program Funder: Single vs. Multiple

Having the project be funded by a single agency or private company ensures consistency, while multiple funders can offer diverse rewards, benefits, and a more streamlined user experience, increasing interoperability and user engagement.

For the purpose of our current Market Sounding, we will be seeking information on the full range of reward program types. Since the next step of our engagement is a demonstration project, we will be focusing on **a single-funder program**, featuring a loyalty scheme that **operates on a single mobility mode**. Our emphasis will be on a **100% cash back reward, which will be stored on a dedicated prepaid card**. This will be our initial demonstration. The aim is to start on a smaller scale to carefully monitor, learn, and iterate. Our goal is to extract valuable lessons from this engagement, refining our approach and methodology. As we gather insights and understand the nuances, our plan is to progressively expand the program, adding more providers, funders and reward types, always exploring the potential of using rewards as a stepping stone to financial inclusion.

3. THE REWARDS ECOSYSTEM

Our understanding of the rewards ecosystem

Credit or debit card rewards can take the form of cash back, points, or loyalty offers provided through the card issuer. The way they typically work is by converting a small percentage of dollars spent into a direct cash back reward or into a number of points that can be redeemed with various merchants and categories. The points system usually steers consumers towards particular redemption categories, such as frequent flier programs retail brands, or hotel bookings, cementing customer loyalty with the brand. Out of credit, debit, and prepaid cards, credit cards are most clearly associated with rewards. However, debit and prepaid debit cards like the Discover Cash back Debit card[3], the PayPal Prepaid Mastercard[4]® or CashApp Boosts[5] are increasingly offering rewards as well.

Within this ecosystem, the number of actors depends on whether the card's rewards are cash back or non-cash back. In cash back rewards, the relationship is largely between the card issuer and the consumer funding the account. An issuer will provide a card to their client through a regular application process, and as the client starts using it to make purchases the issuer credits the consumer's account on a regular cycle (usually at the beginning of their next statement cycle). In this scenario, the cash back rewards drive increased card usage.

Non-cash back rewards require additional actors, namely loyalty partners who can either be negotiated with directly or accessed through a loyalty platform featuring pre-negotiated rewards. Instead of direct cash back rewards, consumers who hold a rewards card receive points for every purchase they make. These points can be redeemed at partner merchants. Partner merchants in this case can agree on a variety of arrangements, sometimes providing discounts to consumers holding a particular card, or partnering with card issuers to provide favorable point conversions to the consumer.

Status quo of the rewards ecosystem

Rewards encourage additional spending and entice people to sign up with a particular issuer. In 2019, reward credit cards made up 60% of all new credit cards that were issued in the USA[6]. Additionally, the largest US banks distributed $5 billion in rewards.

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[3] https://www.discover.com/online-banking/checking-account/

[4] https://www.paypal-prepaid.com/

[5] https://cash.app/help/us/en-us/3089-cash-card-cashback

[6] Agarwal, Sumit, Andrea Presbitero, Andre F. Silva, and Carlo Wix (2023). "Who Pays for Your Rewards? Redistribution in the Credit Card Market," Finance and Economics Discussion Series 2023-007.

Many sectors use rewards today, including the airline industry, hotels, major retailers, department stores, and food and beverage providers. Some are taking part by being partner merchants with issuers while others take a more active role by co-branding cards with issuers, further cementing the effectiveness of rewards in influencing consumer decisions. While our motivation for using rewards differs from the retail world, we believe there are valuable lessons to learn from the long-established tools and mechanisms built to create value.

Our vision for the rewards ecosystem

The benefits distribution space is inconsistent and inefficient, due primarily to the generally ad hoc methods programs establish to offer subsidies to their beneficiaries. As a result, low-income individuals who qualify for these programs can end up with several different cards and accounts each with their own separate, lengthy application processes. This creates numerous problematic outcomes we seek to avoid:

- Some benefits go unused and grow stale in people's accounts.
- Overlapping cards that aim to provide benefits within the same sector (e.g.: a free public transit card, an EV charge card, and a low-income discount on micro mobility apps).

Given the effectiveness of rewards cards in the financial ecosystem, CARB is interested in exploring how this mechanism can be used to distribute benefits most effectively while avoiding the inefficiencies highlighted above.

Directly and shiftly rewarding desired behaviors minimizes the likelihood of funds going stale. While we envision starting this process with one form of transportation on a prepaid card, the long-term vision is to continue layering additional functionalities. Instead of having multiple cards for a number of different benefits, consumers should be able to leverage widely used bank cards to receive multiple benefits on the same card, making the process of paying simpler, more dignifying, and more efficient for different funding agencies like CARB.

The sections below showcase the different transaction flows between the primary ecosystem participants involved in a traditional rewards distribution process.

Traditional process of cash back rewards
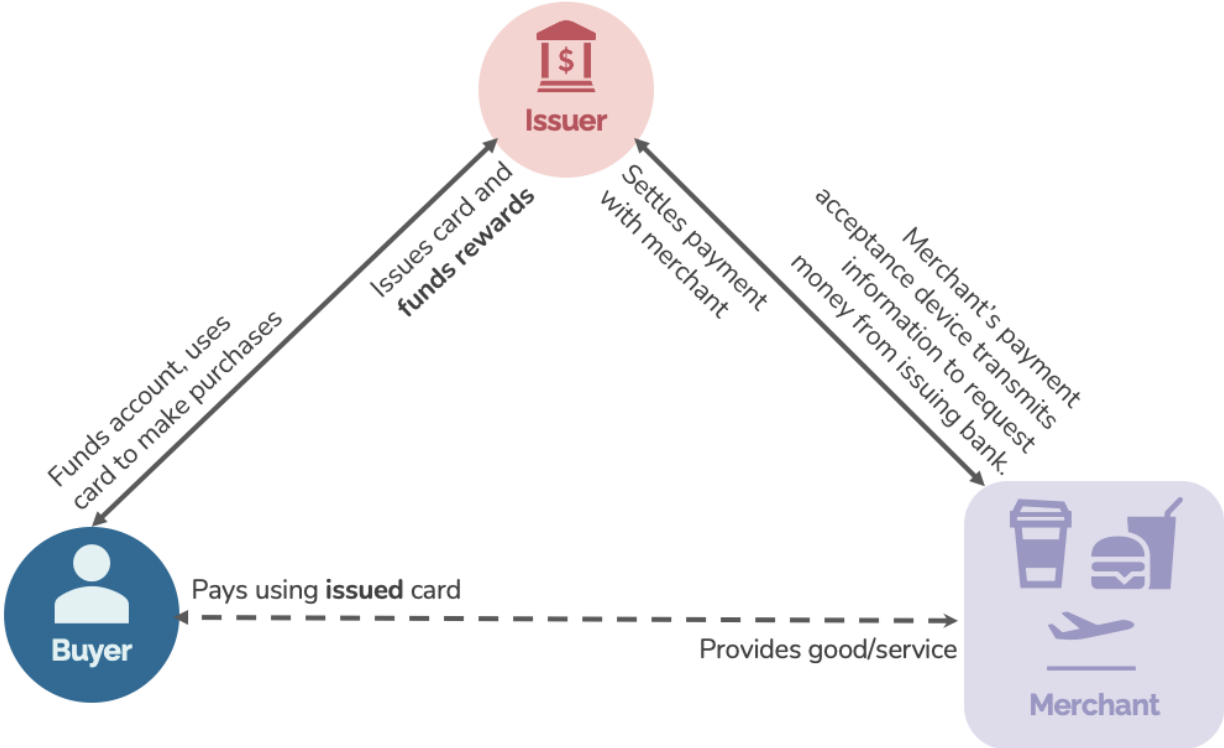
Process flow

- Customer requests a credit or debit card from issuer.
- Customer uses the card to purchase goods or services from a merchant, merchant's payment validator communicates with issuing bank to request payment.
- Issuer receives payment request and starts the process of making the merchant whole and verifying whether the merchant category (e.g., restaurant, public transport, or travel & entertainment) qualifies as a reward category.
- If merchant category qualifies, issuer credits the cash back rewards to the card on the following statement cycle.

Suggested process of cash back rewards for benefits distribution
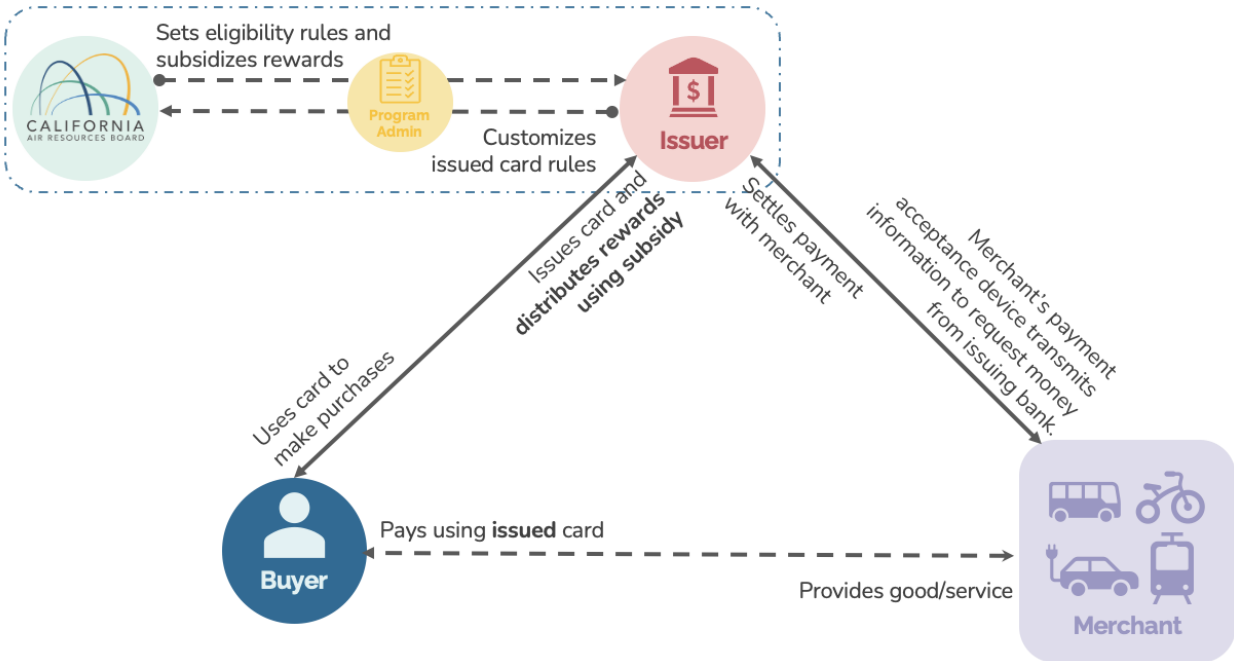
Process flow

- CARB (used interchangeably with the program administrator) works with an issuer to issue a prepaid debit card that is restricted to categories that are eligible for rewards.
- Customers who qualify for the subsidy go through the typical eligibility and administrative process to receive cards.
- When customers make a qualifying purchase, the issuer distributes rewards.
- To ensure regular reward distribution, the issuer would likely require access to a subsidy pool or a master account.

Traditional process of non-cash back rewards
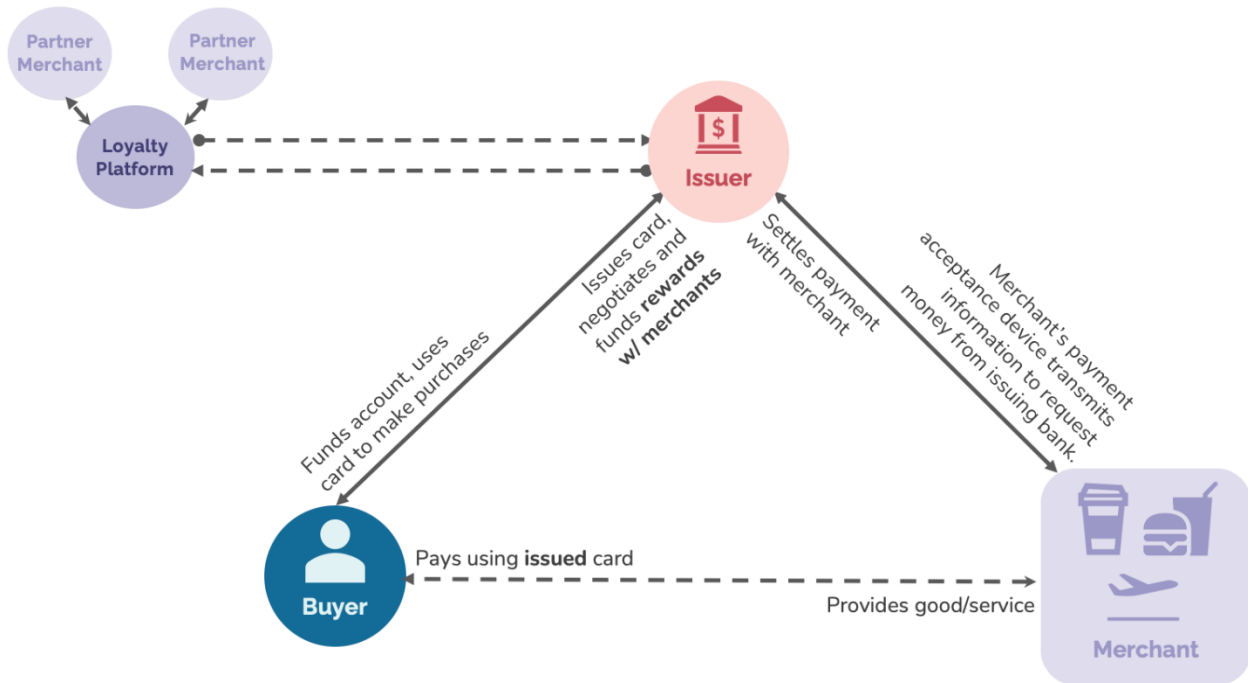
Process flow

- Issuers create card products that award consumers with points when they make purchases.
- Card issuers negotiate with a loyalty platform that gives them access to their merchant pool, allowing cardholders to redeem their points or access offers with these merchants.
- Once consumers use their cards to make qualifying purchases, issuer credits back the points in regular cycles.
- Cardholders redeem the points with participating merchants or convert them into cash at a lower rate.

Suggested process of non-cash back rewards for benefits distribution
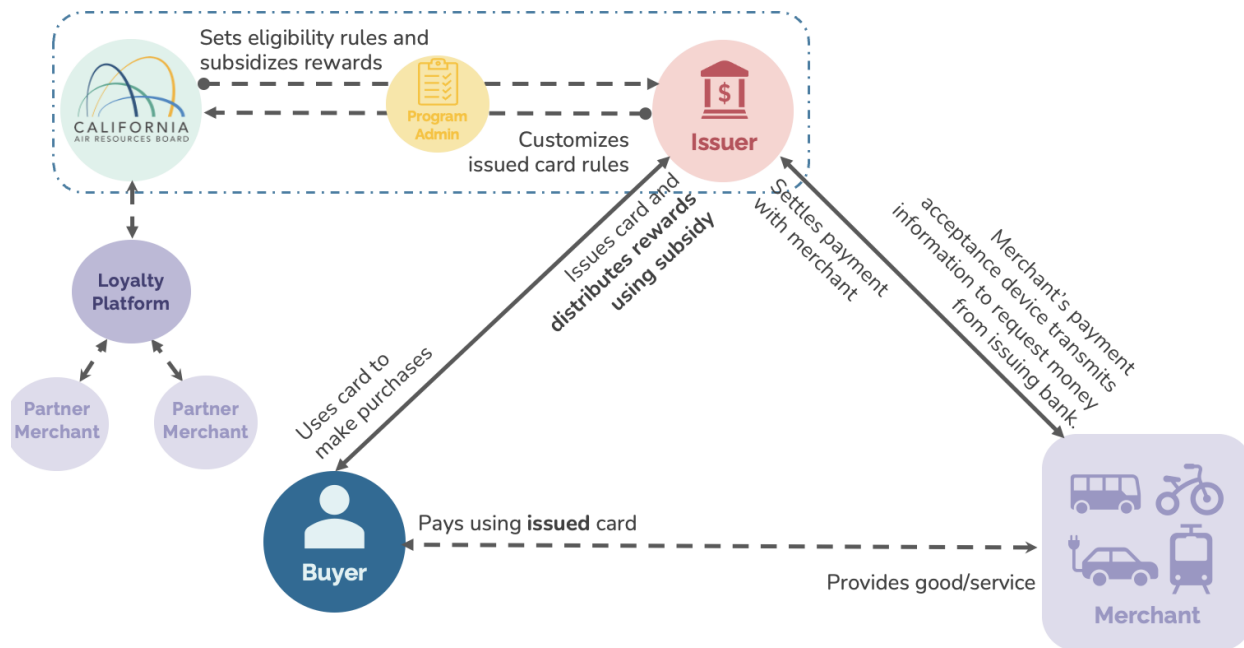
Process flow

- CARB partners with an issuer to create a card product that can be redeemed for points.
- CARB program negotiates with a loyalty platform to allow these points to be redeemed at merchant partners.
- Cardholders make qualifying purchases on sustainable mobility modes, and are rewarded with points subsidized by CARB's participating programs (issuer will have to have access to a subsidy pool or master account to keep rewards flowing to the merchants).
- Customers redeem points at partner merchants accessed through the loyalty platform.

Questions for the Market Sounding

As we delve into this Market Sounding initiative, it's crucial to understand the foundational assumptions that guide our approach. These assumptions provide a roadmap for our inquiry and reflect our current understanding and expectations. We've organized our questions thematically. We encourage Market Sounding respondents to share insights or comments specifically on the questions that align closely with their business expertise and focus areas. Your specialized feedback will be invaluable in tailoring our approach.

What do you think of CARB's suggested rewards flow and its business model?

With the ultimate focus on setting up a transparent and user-friendly rewards demonstration project, CARB seeks feedback related to the technical composition of the proposed rewards process flow, or recommendations and ideas on how to improve the business model.

How can CARB maximize user engagement and change behavior?

CARB seeks to effectively convey the rewards program's benefits and engage participants, ensuring an optimal user experience and allowing for continuous feedback. We welcome learnings from similar programs or initiatives, as well as best practices for achieving behavioral change.

What should CARB be aware of, in terms of financial risk, regulatory, and compliance issues?

Given the nature of the demonstration project and the goals of this engagement, CARB seeks a full understanding of the risk associated with a 100% cash back reward. We encourage respondents to share primary compliance and privacy considerations for this initiative, especially when it comes to data collection.

What are the challenges inherent in scaling the demonstration program?

CARB is interested in scaling a program after this demonstration project. We'd appreciate your expert advice on the following:

- Are there any technological or operational adjustments needed to ensure the efficiency of a rewards system as it scales, especially within the complete loyalty model framework?
- Are there emerging solutions or technologies in the rewards domain that may not be on our radar but are worthy of our consideration?

4. MARKET SOUNDING PARTICIPATION

CARB invites participants to express interest in further discussions regarding the Market Sounding through interviews. All information from these discussions will be incorporated into a publicly available report, using Chatham House Rule.

Please carefully read the below section prior to finalizing your interview submissions and related materials.

Participation

Your insights are crucial to guiding this project towards optimal outcomes. If your organization is interested in participating in this Market Sounding, please draft a brief description outlining your potential contribution to CARB's suggested rewards process flow. When making your request, let us know your availability (refer to: Available slots). Kindly send your interview request to hello@calitp.org as soon as possible, but no later than 5 pm PDT on November 24, 2023.

Interview requests will be evaluated and scheduled upon receipt. To secure your desired slot, we recommend submitting your request promptly. Confirmation of interview timing will be communicated a minimum of two days prior to the scheduled interview. CARB retains the discretion to accept interview requests and interviews do not constitute a contractual relationship between CARB and interviewees.

For any queries, feel free to reach out to us at: hello@calitp.org.

Deadlines for submission of interest

Activity	Date
Submission of interview requests	until November 24, 2023 – 5 pm PT
Interview phase	November 13, 2023 until December 10, 2023

Interview structure

The format for each interviewee will be:

- A 5-minute introductory segment,
- A 10-minute presentation by CARB focused on the suggested rewards process flow and envisioned roles,
- A 20-minute presentation by the interviewee, focusing on:
  - Their perspective on CARB's suggested rewards process flow, its potential complexities and considerations,

○　The potential roles interviewees could undertake to assist CARB in this endeavor and possible collaboration avenues,
　　○　Recommendations for a potential scale-up of the program to capture other loyalty models, as shown in section 2, and finally
● A concluding 25-minute dialogue and interactive session, including any remaining questions from both parties.

Post-Market Sounding

Following the Market Sounding event, we will release a report with relevant information gathered from our discussions with the market. Cal-ITP and CARB intend to launch a demonstration project using a 100% cash back reward implemented on a prepaid card in 2024. The objective is to explore the viability and impact of such a reward system in real-world settings. While we value the insights of parties responding to the Market Sounding, participants are in no way guaranteed a role in the demonstration project or subsequent projects. Our primary goal for this exercise is to understand the landscape, gather feedback, and determine the best way forward, keeping the interests and welfare of Californians first and foremost in our work.

Available slots

November 14, 10-11 am PDT	November 30, 10-11 am PDT
November 14, 11-12 pm PDT	November 30, 11-12 pm PDT
November 20, 11-12 pm PDT	December 4, 9-10 am PDT
November 22, 9-10 am PDT	December 6, 9-10 am PDT
November 27, 11-12 pm PDT	December 6, 11-12 pm PDT
November 28, 10-11 am PDT	December 7, 9-10 am PDT
November 28, 11-12 pm PDT	December 7, 10-11 am PDT
November 29, 9-10 am PDT	December 7, 11-12 pm PDT

Note: If you wish to participate in our market sounding in a different timeslot, please email us.

5. APPENDIX

Market Sounding Terms & Conditions

Participation

Engagement by entities in this Market Sounding exercise is optional. Participation is not a prerequisite or qualification criterion for any subsequent opportunities linked to mobility loyalty and rewards demonstration projects. Any data shared by participants during this Market Sounding will not be used as part of a competitive bid. CARB cannot assure that every entity expressing interest in an interview will be granted one.

Rights of CARB

This Market Sounding does not represent a commitment to solicit or procure goods or services. CARB is not obligated to form a contract with any entity that responds to this Market Sounding. Participants that do not take part in this exercise are not excluded from taking part in future projects related to this work. CARB is not required to entertain additional details, be it written or verbal, from any respondent, nor is CARB required to provide feedback. The decision to pursue procurement lies entirely with CARB. Should CARB opt for procurement, it will be executed through a transparent, competitive process, adhering to California's procurement guidelines and as required by law. CARB reserves the exclusive right to decide and choose entities for interview sessions.

Submissions property of CARB

CARB will not return any submissions or related documents provided by the participant.

Participants shall bear their own costs

CARB holds no responsibility for any costs incurred, inclusive of those related to crafting responses to this Market Sounding. All expenses tied to this Market Sounding process will be shouldered by the participants. This encompasses costs linked to: (a) formulating and releasing this Market Sounding; (b) drafting a submission; or (c) any other activities relevant to this Market Sounding initiative.

Disclosure of information

Participants acknowledge that CARB might disclose information from Market Sounding submissions as required by legal requirements, court orders, or public records requests. CARB plans to release a pertinent summary of the Market Sounding outcomes.

Participants should be aware that, in compliance with the California Public Records Act, CARB may have to submit all responsive portions of their submission.

Confidentiality

CARB might disseminate a condensed version of the Market Sounding findings to state, joint powers, and federal collaborators. These results could also shape subsequent Requests for Proposals (RFP) for procuring software, hardware, and/or services. CARB maintains the prerogative to publish aggregated insights derived from the responses to this Market Sounding, ensuring the confidentiality of the participating Respondent(s) in line with Chatham House Rule.