



Mobility Rewards & Loyalty Market Sounding Report

April 2024





Disclaimer

This report presents the highlights of the Mobility Rewards & Loyalty Market Sounding ("Market Sounding") process initiated by the California Integrated Travel Project (Cal-ITP) and the California Air Resources Board (CARB) in late 2023. To protect the Market Sounding respondents' commercial information, and to encourage candor, the information outlined in this report does not reference specific companies or products.

Cal-ITP and CARB conducted this Market Sounding by collecting written information and conducting follow-up interviews about the knowledge, offerings and capabilities of various market players and industry professionals. The information outlined in this report represents the individual commercial views and interests of these Market Sounding participants. This report is intended solely for informational purposes and is not to be construed, under any circumstances, by implication or otherwise, as a recommendation for any specific policies, solutions, or services.





Executive Summary

The rising costs of mobility present ongoing challenges for low-income and disadvantaged communities. Typically, State and local transit agencies endeavor to address these challenges through discount and benefit programs that aim to make sustainable mobility more affordable. However, existing distribution methods of discount and benefit programs are far from flawless, characterized by siloed and complex processes that prove challenging for users to navigate and for sponsors to maintain.

This situation contributes to a widening gap between eligible users who do not receive their entitled benefits and those who successfully access them, perpetuating costs for the former. Enhancing the user experience of State programs, particularly in benefit distribution, is a primary focus of this Market Sounding. As the administrator of multiple mobility benefit programs, CARB seeks to strengthen, evolve, and modernize its role in benefit distribution by gathering insights from the retail industry on rewards distribution. By leveraging the most widely used tools in the retail industry, we are reimagining how benefits are delivered to those who need them the most.

Cal-ITP and CARB initiated a market sounding exercise to deepen our understanding of the rewards ecosystem and explore new ways of optimizing benefits delivery. The process included 16 interviews with organizations and individuals from banks, financial technology firms (Fintechs), rewards and loyalty providers, industry experts, and transit agencies. The learnings of this Market Sounding will be used to initiate proof of concept projects that seek to test rewards as a new method for benefit distribution of government programs.

The findings of this engagement are summarized across the four main objectives of this market sounding:

Goal #1: Evaluate the accuracy of the distribution model and assess the viability of using the rewards mechanism to distribute subsidies

- Participants confirmed that rewards can be used to improve affordability for mobility users.
- Participants confirmed that CARB and Cal-ITP's proposed process of distributing rewards to beneficiaries & initial proof of concept are in accordance with market standards and practices.
- Participants confirmed that rewards can be an effective way to compensate users for behavior that they are already following.





Goal #2: Understand how rewards tools might be used to maximize user engagement

- Participants confirmed that engagement (customer acquisition) is one of the main pillars of making this initial and future project concepts successful and proposed gamifying participant engagement.
- Participants emphasized the importance of transparent and clear communication when designing and implementing a reward concept project.

Goal #3: Understand any financial risks and compliance issues related to the use of rewards

 Participants suggested that misuse is one of the main concerns, and proposed several mitigation strategies.

Goal #4: Build an understanding of any challenges that could be anticipated when scaling beyond an initial demonstration program

- Participants suggested that any conceptual architecture and business rules should be linked to CARB and Cal-ITP's key goals, allowing for flexibility in testing for different outcomes in line with the needs of the various customer groups and evolving customer expectations.
- In future phases of the program, participants suggested that we consider partnering with merchants and other private companies to both expand the reach of the rewards program or share financial risk.

The insights gained from the conversations with the private market will be used to inform CARB's initial project concept demonstration project, as well as follow-on concept projects as needed.





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1. Introduction

Encouraging the use of public transit, electric vehicles, E-bikes, and other sustainable modes of transportation is critical in achieving national climate and equity goals. While there has been a noticeable positive shift in the public discourse around sustainable mobility, Californians today continue to mainly rely on privately owned passenger vehicles to meet their mobility needs. In some cases, this is due to the lack of mobility alternatives. Irrespective of the choices available, the cost of mobility significantly affects the ability of individuals and families to move around – whether they're residents of urban areas who have access to public transit and other alternatives or living in rural areas and struggling with the accessibility and cost of vehicle charging. This is particularly true for low-income households, where the cost of transportation can make up a significant portion of monthly budgets.

To reduce the cost of shared mobility services and public transportation, government agencies and mobility service providers have long offered discounts to eligible populations. Over the past years these organizations have increasingly sought to complement discounts with subsidies - increasing the affordability and attractiveness of sustainable transportation modes by dedicating funding to direct distribution for eligible participants. As the ecosystem of benefits distribution is changing, we are interested in investigating opportunities to use standardized tools, and potentially broaden the appeal and impact of these programs.

The California Integrated Travel Project (Cal-ITP): Purpose & Mission in Benefits Distribution

Cal-ITP was established to help California deliver on statewide goals of increasing transit ridership, improving the customer experience of travel, lowering transportation-related costs for public transportation service providers and the traveling public, and promoting equity throughout California's vast transportation network.

Cal-ITP is developing tools, resources, and systems to facilitate easy and accessible travel planning and payment in California. The program is using the results of in-depth market research conducted in late 2019, which revealed three main areas of opportunity:

1. Improving reliable, real-time information (e.g. vehicle arrival time, planned service changes, crowding etc.);





- 2. Reducing friction in payment; and
- 3. Providing a process for transit riders to verify eligibility for discounts

As Cal-ITP's progress in enabling mobility providers to benefit from payment innovation takes hold, there have increasingly been opportunities to offer support to other governmental agencies interested in improving access, affordability and convenience of sustainable transportation.

The California Air Resources Board (CARB): Purpose & Mission in Benefits Distribution

CARB's mission is to "... promote and protect public health, welfare, and ecological resources through effective reduction of air pollutants while recognizing and considering effects on the economy¹." One key area of this work is distributing sustainable mobility subsidies to California residents, particularly in disadvantaged communities.

In late 2022 CARB committed funding to working with Cal-ITP to explore payment issuance approaches that make electric vehicle charging and other mobility options easier to access for individuals who have low incomes, or who are unbanked or underbanked. The goal is to identify innovative ways to simplify or improve existing and future mobility subsidy programs, broadening benefits and increasing the span of impact.

CARB delivers benefits to eligible program participants through different methods, which vary by program:

- Direct payments,
- Prepaid cards,
- Vouchers or rebates,
- Tax credits or deductions,
- Checks.

Opportunities for improvement in the current benefits distribution chain

The stakeholders involved in the existing benefit distribution processes face numerous challenges. Approved applicants may receive benefits without a complete understanding of how to use them fully. Grant administrators and their State funding

¹ https://ww2.arb.ca.gov/about





agencies may miscalculate the amount of funds required to run a program, over- or under- estimating its popularity or utility to beneficiaries. This scenario presents various obstacles for beneficiaries, State agencies and grant administrators alike. Potential areas of improvement² in the ecosystem that may be applicable to some funding programs include the following:

Area of opportunity for beneficiaries

Overly Restrictive Payment Cards:

To ensure all funds are spent on appropriate uses, programs sometimes utilize overly restrictive payment tools, reducing consumer choice to a subset of merchants and/or products or services.

Complicated Products and Program Rules:

Some programs use technology products that are hard to use, and beneficiaries can be subject to rules that are difficult to understand. Because of this, beneficiaries can be deterred from applying or using the program altogether. Improvements in this area can improve accessibility to the program.

Areas of opportunity for funding agencies

Delayed or Uneven Use of Program Funds:

Administrators can encounter difficulty distributing funds in the targeted timeframe and/or can distribute funds that don't get used as quickly as anticipated. The overall impact of the program is reduced, and in some cases requires adjusting annual state budgets to account for longer timelines.

Unintended Use:

Financial products that are aimed at restricting spend can sometimes result in gaps that can be exploited by a subset of beneficiaries.

Poor Data Collection:

Technology limitations and poor program design can make robust data difficult to collect. This makes programs harder to track and reduces funding agencies' abilities to accurately report their results and progress.

While there are a variety of ways to address these gaps, CARB and Cal-ITP are exploring the opportunity to apply some of the retail industry's standard practice in payment and rewards distribution -- which have seen significant innovation over the past several years -- to improve subsidy distribution and effectiveness.

² Source: https://www.auditor.ca.gov/reports/2020-114/index.html





2. Using Rewards to Distribute Mobility Benefits

In the retail sector, rewards have long been used in building and maintaining customer loyalty. Whether in the form of cash, points, or loyalty perks, rewards offer a way to attract new customers and honor user loyalty. **Rewards** work by 'rewarding' someone (the "buyer") who makes a qualifying purchase (with a particular retailer, or "merchant" or merchant category or categories) with cash back to their account, or through points that they can redeem at the same retail merchant or other participating retail partners. This is all supported by the "issuer" of the reward card and account, e.g. a bank or credit union. See Figure 1 below.

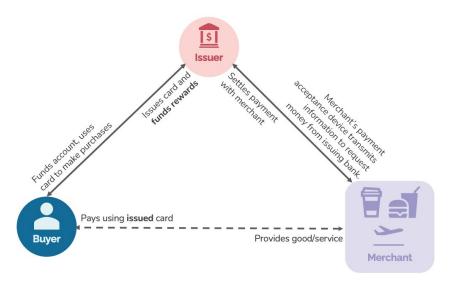


Figure 1 - Rewards Distribution Process in Retail

Note: this is a simplified version of the retail rewards concept. Other models also exist for e.g. one in which the reward could be partially or fully subsidized by a 3rd party retail partner.

This value exchange is a tool and a method for credit (and more recently debit) card issuers and retail merchants to compete for and effectively engage, secure and keep customers. In response, many consumers have become savvy at identifying the most lucrative reward offerings. The goal is building brand loyalty, be it to specific service/product offerings or specific merchants or categories of merchants, and increased card usage for the sponsoring issuers. For cardholders, purchasing behavior is compensated, with products or services becoming more cost-effective and/or offering





value-added benefits. The attractiveness of this exchange is evident from the numbers: according to 2023 data, the global loyalty market is valued at \$7-8.5 billion³.

There are several aspects of rewards programs available in the retail sector. These are not mutually exclusive and can be combined to create a specific program:

Reward type

- Cashback: The reward takes the form of a monetary reimbursement to a customer's account that is distributed at regular intervals determined by the card issuer.
- Non cashback: The reward is in the form of points, vouchers or value-added services that are immediately available or can be redeemed at a future time with the merchant or partner organization.

Loyalty structure

- Fixed: The reward amount or type is always the same for each reward trigger (qualifying purchase of other action that activates the reward).
- Tiered: The reward amount or type improves with increased spending, often by fixed tiers within a specific time e.g. on an annual basis.

Customer fees

- Free: Customers have access to the rewards program simply by enrolling, often at the point of initial qualifying purchase.
- Fee-based: Enrolment requires an upfront fee that is typically charged annually.

Familiar example programs with different designs include:

³ https://www.beroeinc.com/category-intelligence/loyalty-programs-market/#:~:text=The%20global%20loyalty%20program%20market,2022%20and%202026(F)%20.



Program Example	Chase Freedom Unlimited ⁴	Citi Thankyou Rewards⁵	American Express Platinum Card ⁶
Reward Type	Cashback rewards	Non cashback rewards	Airline and hotel fee credits, credits for partner merchants and other
Loyalty Structure	Fixed	Tiered loyalty programs based on total spend	Fixed
Customer Fees	None	None	Annual fee

Table 1 – Example Rewards Programs

Applying the model to the public sector

Given the success of rewards programs in the retail sector, CARB & Cal-ITP are interested in exploring if the traditional rewards approach could be adapted for use by the public sector as a means of distributing a subsidy. In this use case, we are specifically looking into increasing the effectiveness of sustainable transportation benefits programs.

The hypothesis is that a funding organization (i.e. CARB) could specify purchases that qualify for rewards benefits and use the issuer-based rewards mechanism to distribute said benefits, effectively operating as a pay-as-you-go subsidy. For example, purchases for public transit fares, public EV charging, or bike share rides would trigger a reward in the form of a full reimbursement, i.e. 100% cashback, fully funded by CARB. Figure 2 shows the rewards distribution process updated for this subsidy model.

⁴ Source: <u>https://creditcards.chase.com/cash-back-credit-cards/freedom/unlimited</u>

⁵ Source: <u>https://www.thankyou.com/cms/thankyou/</u>

⁶ Source: https://www.americanexpress.com/us/credit-cards/card/platinum/





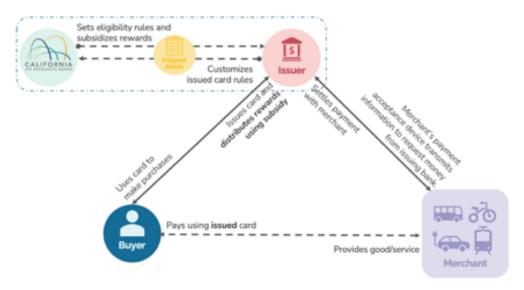


Figure 2 - Rewards Process in Distributing Subsidies

Some of the expected advantages of using this approach are:

For users/recipients:

- Affordability: If the model proves simple for the funder to implement, operate, and evaluate, increased funding would be able to flow to targeted end users.
- Convenience: If scaled appropriately, this can pave the way for consolidating how certain benefits are distributed. Cal-ITP has identified mobility benefit programs that share the pattern of frequent, smaller value purchases such as public transit use, EV charging, and shared bikes. In use cases such as these, the vision is to consolidate multiple funding programs onto individual cards/accounts, streamlining how people receive their benefits. This would not only improve convenience for applicants/recipients but potentially increase the number of funding programs that are accessed by each individual.
- Financial inclusion: In utilizing cashback, non-cashback, or other types of rewards
 on bank cards, unbanked and underbanked subsidy recipients can build
 familiarity with tools and language used by the banking industry. Likewise, these
 cardholders would be using banking products and may over time gain access to
 increased services.

For funding agencies:

Efficiency, impact and reach: If successful, using rewards can also help funding
agencies reduce the amount of unused money that can often be seen in benefits
programs. Fund distribution is dependent on people making actual qualifying
purchases which make them eligible for a reward instead of receiving sums of





money that may go unused. This increases the impact of the funding programs by ensuring that all dollars are going to active users; cardholders who do not make qualifying purchases do not receive funds. It can be assumed that this would enable the distribution of the same total amount of program funding to a greater number of recipients.

- Influencing behavior: The ability to nudge behavior through rewards can be leveraged to encourage the use of sustainable mobility similar to how retail uses rewards programs to encourage brand loyalty for airlines, restaurants, and more. Programs can be designed to create awareness, educate, and reinforce targeted spending, and over time shift preferences and create new habits among recipients.
- Adjustable benefit: While CARB and Cal-ITP's initial program design is assumed to be full reimbursement (i.e. 100% cashback), subsidy rewards program parameters could be adjusted based on either relative need, with some recipients receiving 100% cashback while others, e.g. in high-income households, receiving a 50% or lower reimbursement or purchase type, e.g. public transit purchases are 100% reimbursed while TNC purchases are only 25% reimbursed, and so on. Adjustable program parameters are difficult with existing public subsidy tools.

3. Market Sounding Overview

A first step in validating CARB and Cal-ITP's hypothesis that rewards could play a role in distributing subsidies was to run a Market Sounding exercise. CARB & Cal-ITP started by creating an initial project concept based on providing a 100% cashback reward for sustainable mobility spending to start the conversation. Through a series of specific questions posed to the Market Sounding participants, CARB and Cal-ITP aimed to:

- Evaluate the accuracy of the distribution model (shown in Figure 2) and assess the viability of using the rewards mechanism to distribute subsidies,
- Understand how rewards tools might be used to maximize user engagement,
- Understand any financial risks and compliance issues related to the use of rewards; and
- Build an understanding of any challenges that could be anticipated when scaling beyond an initial demonstration program.





The Market Sounding began with the distribution of a document outlining CARB and Cal-ITP's interest in developing a state-led rewards strategy for rethinking rewards distribution.



A total of sixteen companies and industry professionals active in the rewards and loyalty space responded to the Market Sounding request and were interviewed between November and December of 2023. Respondents came from the retail and mobility sectors in Europe and North America specializing in card issuing, mobility rewards programs, a transit agency, a financial institution, and industry experts.

Figure 3 – Market Sounding Participants & the industries they are active in





4. Market Sounding Findings

The idea of using rewards and loyalty for benefits distribution resonated well with respondents. Specific feedback shed light on key considerations in designing and implementing a rewards program, specifically using the hypothesized process flow. Market Sounding participants provided their thoughts and ideas on the critical elements of the initial project concept, as well as follow-on concepts.

Note that while all feedback was valuable in further understanding the rewards industry, some of it was more relevant in a retail environment and therefore was left out of this Market Sounding report.

Goal #1: Evaluate the accuracy of the distribution model and assess the viability of using the rewards mechanism to distribute subsidies

1. The participants confirmed that rewards can be used to improve affordability for mobility users.

What we heard from the market: In the retail world, the concept of rewards is pretty straightforward. People can use a myriad of widely available payment methods to buy things, and typically choose the most convenient and useful for them and, at the same time, get rewarded for their loyalty. For example, many people are attracted to different types of credit cards because they provide a reward such as travel miles or cashback rewards and choose the ones that resonate with their preferences and minimize their costs.

Recipients of governmental benefits, on the other hand, are looking for streamlined solutions that increase their access to mobility alternatives. Market participants recognized CARB and Cal-ITP's interest in the rewards sector, as well as our intent to evaluate using rewards to incentivize the use of sustainable mobility alternatives, provided that the concept is adjusted to match the needs of benefits distribution. For example, the retail industry is more interested in incentivizing the overall spending and creating loyalty to certain brands. In the case of CARB's subsidy programs, the amount and frequency of spending isn't the primary focus of using rewards. While incentivizing the use of the transit "brand" is also a focus, providing an effective distribution mechanism and making sustainable mobility methods more affordable is, the primary focus.

The rewards concept is still relatively new to the sustainable mobility sector but has been a reality in airlines for decades. All Market Sounding participants that are running a





mobility rewards program confirmed that it has helped account holders minimize their costs; similar to the retail space. Additionally, many indicated that these programs experienced increased success over time (e.g. in terms of number of active users), serving as validation not only for the market but also for the growing enthusiasm among customers for this concept.

Conclusions for next steps: Through the engagement with the market, there is an indication that rewards can serve their primary purpose of improving mobility affordability for end users. If our initial project concept proves that rewards are effective in distributing benefits to those enrolled in CARB programs, it can be assumed that the use of rewards could be broadened to other similar subsidy programs.

2. Participants confirmed that CARB and Cal-ITP's proposed process of distributing rewards to beneficiaries & initial project concept are in accordance with market standards and practices.

What we heard from the market: Market Sounding participants affirmed that the rewards process, as well as the initial demonstration concept (Figure 2), proposed in the Market Sounding align with established industry practices. While consensus exists that the current model is adequate for crafting a reasonable subsidy program, a few recommendations were made regarding potential enhancements to the technical architecture:

- Several industry stakeholders suggested the inclusion of additional sector players in the operational model, specifically a marketing agency. Engaging a marketing agency could assist CARB (and Cal-ITP while it supports demonstrations) in comprehending the demographics of its target population more thoroughly and aid in developing a more targeted communication strategy for expanding the rewards programs more effectively to potential recipients.
- Certain market participants highlighted the possibility of incorporating additional
 technological advancements in our proposed rewards flow, as we further develop
 our proposed concepts. For example, some respondents suggested that the use
 of Artificial Intelligence (AI) can help the rewards logic be continuously updated
 and improved based on the beneficiaries' behavior, preferences, and feedback.
 Others mentioned that having an AI layer in our proposed process flow can help
 deal with issues on MCC codes by updating the system in real-time and properly
 identify qualifying purchases. MCC codes are used by the bank card Industry to





classify purchases according to the type of merchant⁷. This additional layer could provide additional assurance that financial transactions are mapped correctly and minimize occasions and the impact of fraud and abuse.

Conclusions for our next steps: The market's confirmation of the viability of the proposed rewards process flow is crucial in the establishment of the initial concept and follow-on rewards projects. In the earlier stages of the reward project, CARB and Cal-ITP aim to test the concept in a controlled environment with a small group of participants to properly document and enable optimizing the user experience and administrative processes. As the demonstration program scales, onboarding a marketing agency and incorporating AI into our work may become useful to support adding more use cases and validating additional parameters.

If the demonstration(s) is positive, the long-term vision is to move towards an open architecture that enables program participants to receive their mobility rewards and benefits on their existing bank cards. If this vision is realized, transit agencies and different governmental agencies beyond CARB could use rewards to further increase affordability and make a more competitive case for people for using sustainable mobility.

3. Participants confirmed that rewards can be an effective way to compensate users for behavior that they are already following.

What we heard from the market: Whether operating in the retail or mobility sectors, industry participants affirmed that integrating rewards can help sustain existing spending and further incentivize user specific behavior. The rationale behind this lies in the fact that rewards can impact economic decision-making. Many people may not inherently identify as environmentally conscious consumers and thereby might not consciously make sustainable choices. However, participating in a program that incentivizes activities they are already doing (such as using public transit or shared micromobility) can motivate them to sustain these behaviors for extended durations, even increasing their usual participation levels.

Conclusions for our next steps: Prior to the initiation of the initial project concept, CARB and Cal-ITP will conduct surveys with beneficiaries of the rewards program to

⁷ Source: https://www.investopedia.com/terms/m/merchant-category-codes-mcc.asp





map out their preferences and behavior. At the end of the program, a similar survey will take place. Throughout the initial demonstration, CARB and Cal-ITP will document the results of the program, and create and monitor specific Key Performance Indicators (KPIs) that indicate the change in the beneficiaries' behavior.

Goal #2: Understand how rewards tools might be used to maximize user engagement

1. Participants confirmed that engagement is one of the main pillars of making this initial and future project concepts successful and proposed gamifying participant engagement.

What we heard from the market: All Market Sounding participants highlighted the importance of customer engagement, both ahead of the kick-off as well as throughout the program lifecycle. They also provided ideas on how to engage users, namely through:

- Marketing campaigns, flyers and newsletters,
- Establishing continuous feedback loops through the website or soliciting user opinions on the rewards process, and
- Involving community ambassadors who provide learning sessions and share their positive experiences with potential beneficiaries to educate them on the rewards program.

Adding to the importance of user engagement, some of our respondents mentioned the opportunity to gamify the process of onboarding, and maintaining, users. Gamification, in that sense, can take many forms, such as:

- A one-time reward linked to a registration process,
- Giving shout-outs and kudos for significant milestones, e.g. first initial project concept user, most frequent user etc.

Market participants emphasized that adopting such tactics could prove highly advantageous for CARB's program, as they resonate with users' expectations and experiences with other day-to-day, often retail, technology-based interactions.

Conclusions for next steps: The main objective of this program will be to improve mobility affordability, especially among low-income people. To that end, CARB and Cal-ITP, together with the partner(s) that will be selected to run the initial demonstration and any follow-on ones, welcome any suggestions related to strengthening user





engagement. When possible, the tactics chosen for improving the program and enabling engagement with our project concepts will be in response to the feedback from, and be adjusted to, the needs of participating community members.

2. Participants emphasized the importance of transparent and clear communication when designing and implementing a rewards concept project.

What we heard from the market: Participants recommended that all terms and conditions related to the demonstration (and future programs, as applicable) be communicated in terms that are easily understandable to all potential users. It was advised that communications with users be at an 8th-grade level, highlighting that simplicity in communication enhances accessibility and facilitates a broader understanding of the program's intricacies. To emphasize, respondents prioritized clear communication even more than the timeliness of receiving the reward itself in terms of importance to program success.

Furthermore, understanding – and respecting – the needs of different customer groups was highlighted as playing an important role in the success of the rewards concept projects. For example, the well-documented <u>lack of trust</u> in financial institutions by eligible users cannot be understated and will need to be addressed throughout program design and expansion. They underscored the predatory history of the banking sector towards those in need, citing examples such as the high fees charged to cash checks. It is crucial to consider how this factor will impact the structure of the demonstration project and its successful scaling.

While trust in the commercial banking sector or government entities may be lower among low-income or marginalized groups, collaborating with community partners can help bridge this gap. Building partnerships with existing, trusted community organizations can play a pivotal role in establishing credibility and fostering confidence among potential users, thereby enhancing the effectiveness and acceptance of the demonstration project and any program expansion. Overall, market participants agreed that a key objective for a rewards program will be to keep the promise of delivering the rewards to the eligible participants in a smooth and easy way.

Conclusions for our next steps: CARB and Cal-ITP will explore the opportunity of partnering with community organizations for the initial project concept. When producing the outreach and communications materials, CARB and Cal-ITP will ensure that these have been reviewed to be as easily understandable by potential beneficiaries as possible. To the extent possible, CARB and Cal-ITP will use visual materials or offer





FAQs to further enhance accessibility. Throughout the initial project concept lifetime, CARB and Cal-ITP will monitor and adapt communications materials as needed.

Goal #3: Understand any financial risks and compliance issues related to the use of rewards

1. Participants suggested that misuse is one of the main concerns, and proposed several strategies to mitigate it.

What we heard from the market: Fraud, whether it's coming from beneficiaries or opportunistic third-party actors or fraudsters, both intentional or not, has emerged as a unanimously acknowledged critical aspect of this program. In the context of retail rewards programs, fraud can take several forms, for example:

- Account takeover fraud, in which users may aim to gain unauthorized access to another user's account associated with rewards,
- Policy abuse, in which users may take advantage of the rules of the program for their own benefit, for e.g. if a free item is offered for special occasions, users may accept the item and later try to resell it.

While some of these examples may not be directly applicable to government subsidies for mobility, they highlight risks that should be taken seriously when designing and operating a program.

Market Sounding Participants emphasized the importance of enhancing consumer protection to mitigate potential abuse and advised us to:

- Consider imposing limits on cashback rewards to deter misuse. To manage the budget allocated in cashback rewards programs and minimize fraud, market respondents suggested imposing a financial limit as a program parameter. In practice, that would mean that users can only get rewarded for up to a predefined spending amount on a set basis (e.g. monthly). By not committing to depositing the full amount of the pay-as-you-go subsidy in one go, the impact of fraud or misuse would be smaller and easier to control.
- Restrict merchant IDs⁸ for added precaution if Merchant Category Codes (MCC) are not adequate for controlling fraud and misuse. In their first rewards

⁸ A merchant ID (or MID) is a unique identification number attached to a business that tells the payment processing systems involved in a transaction where to send which funds. Source: https://www.tidalcommerce.com/learn/merchant-id-number





demonstration, CARB and Cal-ITP will need to discuss with selected card-issuing parties to define which MCC codes will be identified as appropriate for sustainable mobility usage and the resultant cashback rewards. From an earlier demonstration project using prepaid cards to pay for sustainable mobility⁹, Cal-ITP documented that in some cases some merchants may be using incorrect MCCs. Further, for newer modes of transportation like bike share, a unique MCC does not yet exist. For that purpose, using the merchant ID (or MID), a unique identification number attached to a business that tells the payment processing systems where to transfer funds, can offer an additional security layer.

Conclusions for our next steps: Based on the feedback received from the Market Sounding participants, CARB and Cal-ITP will work with an Issuer or Issuers who are FDIC insured. When an issuer is FDIC insured, it means that the institution's deposit accounts, such as savings accounts, checking accounts, certificates of deposit (CDs), and certain retirement accounts, are insured by the Federal Deposit Insurance Corporation (FDIC). These issuers have (1) the technologies and processes to minimize risk and (2) accountability for any losses due to fraud. A key learning for the initial demonstration project will be quantifying financial losses and continuously working with industry partners to reduce the risks and impact of fraud, considering tactics including but not limited to implementing limits on cashback rewards.

Goal #4: Build an understanding of any challenges that could be anticipated when scaling beyond an initial demonstration program

1. Participants suggested that the concept architecture and rules should be linked to CARB and Cal-ITP's key goals, allowing for flexibility in testing for different outcomes in line with the needs of the various customer groups and evolving customer expectations.

What we heard from the market: Market Sounding participants emphasized the importance of creating a flexible system that allows the program administrator to tweak rewards based on the evolving understanding of users' needs over the course of a program. Such a system should, at minimum, be able to test for different scenarios e.g. some users are rewarded based on their transit usage (e.g. after five trips using public

⁹ See: https://www.calitp.org/assets/Cal-ITP.Universal.Equity.Zero.Emission.Vehicle.Charging.Card.Report.pdf





transport) whilst others receive rewards immediately after the expected behavior takes place. This will be crucial as the program scales, and we need to account for unique beneficiary needs.

Market Sounding participants, particularly those engaged in the retail sector, also emphasized that distinct user groups exhibit varied needs, leading to different sets of reward "triggers". To ensure adequate service for diverse groups within the demonstration program, especially as it expands, Market Sounding participants proposed the implementation of a layered rewards strategy. These layers can be manifested in different ways; either through:

- Creating an ecosystem with multiple reward partners, each with different triggers based on their specific criteria. For example, our rewards program could partner with various transportation providers, including public transit agencies, bikesharing companies, and ride-hailing services. Each partner offers rewards triggered by specific criteria: the public transit agency might reward points for the number of trips taken, the bike-sharing company might reward points for miles ridden, and the ride-hailing service might reward points for the number of rides completed during off-peak hours.
- Having different types of rewards for distinct customer groups (e.g. cashback for some, non cashback for others).
- Rewarding, not only for loyalty, but also for specific user contexts or occurrences
 e.g. a higher reward in the case that the user still used public transit even though
 the vehicle was late.

Conclusions for next steps: On the assumption that the early demonstration is positive and thus the rewards program is expanded, CARB will be reaching out to more (and new) beneficiaries. To account for their needs, while keeping the project interesting to existing participants, future CARB and Cal-ITP project concepts will test and use different mixes of reward types, reward storage, modes included, and the number of and types of grants combined through one program, as below:





	Concept #1	Concept #2	Concept #3
reward type	100% cashback reward	100% non cashback reward	mix of cashback & non cashback rewards
reward storage	specified issuing partner	specified issuing partner	personal bank account
modes included	1 transportation mode	1 or more transportation modes	multiple transportation modes
grant administrator	1 grant administrator	1 or more grant administrators	multiple grant administrators

Figure 4 – Initial and potential follow-on concepts & their characteristics

Note: As future concepts of a state-led rewards strategy have not yet been clearly defined, the concepts highlighted above are not final and thereby characteristics of the reward program may change as fit.

2. In future phases of the program, participants suggested that we consider partnering with merchants and other private companies to both expand the reach of the rewards program or share financial risk.

What we heard from the market: In the retail model, budgeting for rewards program is crucial. As the program gains popularity and attracts more customers, its overall cost increases. For that reason, numerous respondents managing their own rewards programs suggested that forming partnerships with merchants could serve to distribute financial risk and expand the program's reach. Beyond sharing the financial burden, collaborations with private companies can share costs and attract more participants - "co-branding" to offset the cost of engaging customers.

Conclusions for next steps: CARB and Cal-ITP will explore opportunities to partner with merchants and other industry players throughout the initial and potential follow-on demonstrations, with the view of creating value for rewards recipients and for CARB.





5. Acknowledgements and Next Steps

CARB and Cal-ITP would like to thank the Market Sounding participants for their time and valuable insights. The input provided will play a critical role in shaping the upcoming stages of our rewards strategy, and has already helped refine the initial 100% cashback project concept. CARB and Cal-ITP hope to launch this first demonstration project in 2024, with the goal of building a deeper – real world – understanding of the efficacy of rewards as a tool for enhancing benefits distribution. As the program evolves based on the findings of the initial concept project, other refined concepts will follow.

As CARB and Cal-ITP continue this journey, we plan to engage with parties active in the sector to ensure we stay up to date with global standards, trends, and regulations. We are grateful for such continued partnership and look forward to sharing our learnings.



6. Appendix

Current benefits distribution process for CARB programs

Several of the mobility programs that CARB manages target their funding toward supporting low-income individuals in meeting their mobility needs and improving access to sustainable mobility. Some of these programs include Clean Cars 4 All (CC4A)¹⁰, Financing Assistance for Lower Income Consumers¹¹, Clean Mobility Options Voucher Program (CMO)¹², and Sustainable Community-based Transportation Equity Projects (STEP)¹³.

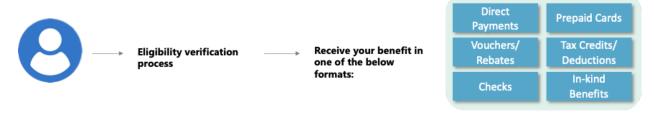


Figure 5 - The Process of Proving Eligibility & Receiving a Benefit for a CARB-Funded

Program

¹⁰ https://ww2.arb.ca.gov/our-work/programs/clean-cars-4-all

¹¹ https://ww2.arb.ca.gov/resources/fact-sheets/financing-assistance-lower-income-consumers

¹² https://ww2.arb.ca.gov/our-work/programs/clean-mobility-options#:~:text=California%20Air%20Resources%20Board,-Main%20navigation&text=The%20Clean%20Mobility%20Options%20Voucher,disadvantaged%20and%20low%2Dincome%20communities.

¹³ https://ww2.arb.ca.gov/our-work/programs/sustainable-transportation-equity-project-step/outcomes-and-results-sustainable