



National **Retail** Federation  
*The Voice of Retail Worldwide*

**Testimony of**  
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**Target Corporation**

**on behalf of the**

**National Retail Federation**

**before the**

**Committee on**  
**Banking, Housing and Urban Affairs**

**United States Senate**

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## **Introduction and Background**

Good morning Mr. Chairman and members of the Committee. My name is Ronald Prill. Until three weeks ago, I served as President of Target Financial Services, and also as Chairman and CEO of Retailers National Bank, Target Corporation's credit card bank subsidiary. I am presently employed by Target as a consultant to our corporate management as I transition into retirement. I appreciate having been given this opportunity to speak to you today on behalf of both my company and the National Retail Federation.

Target Corporation, with annual sales of \$44 billion, is the nation's fourth largest retailer. Like many other retailers, it has evolved to include many affiliated entities. Our divisions include 1100 **Target Stores** (located in each of the lower 48 states except for Vermont), **Mervyn's** (our chain of about 250 stores that sells moderately priced family fashion and home merchandise in primarily western states), **Marshall Field's** (our oldest affiliate, with 62 full line department stores in 8 Midwestern states) and **Target.direct** (our direct marketing affiliate which operates all of our e-commerce sites and direct marketing catalogs). Further, **Retailers National Bank** was established in 1994 as our limited purpose credit card bank affiliate. The bank presently has about 46 million credit cards in circulation, each of which carries the Target, Mervyn's or Marshall Field's brand.

Target Corporation, as well as many other retailers, use multiple affiliated entities to execute critical business processes like sourcing merchandise, transacting the retail sales of goods and services, administering credit card programs, and delivering other expected services and conveniences to their customers. Retail shoppers bring these expectations to every retailer they choose to patronize. Good retailers are attentive to the shopping habits, brands, styles, sizes and price points their customers prefer. For consumers, the benefits they receive as a result of the sharing of information among a retailer's affiliates

are essential to their having a positive shopping experience. Further, the critical business processes that require the sharing of information among affiliates are essential to the success of the retail business.

Mr. Chairman, retail affiliates use the sharing of information in ways that are unique to our industry in order to fulfill important business needs and to deliver real benefits to our customers. The list of the ways in which retailers share information among affiliates is a lengthy one, and I would like to briefly describe some of them for you today.

### **Retail Credit Card Programs**

The sharing of information among affiliates is critical to offering credit through an in-store credit card program. Many retailers, including Target Corporation, have a chartered credit card bank, or other financial institution, that issues their company's credit cards. This entity is often set up as an affiliate of one or more retail divisions. Frequently, the servicing of these credit card accounts is provided by yet another affiliate of the bank. At Target Corporation for example, customer service for Target, Mervyn's, and Marshall Field's cards is provided by an affiliate of Retailers National Bank at two call center locations. The customer service representatives who answer these calls need access to detailed account information in order to answer cardholder questions. In fact, the customer service representatives first use information to verify that the caller is, in fact, the true cardholder, and not someone attempting to perpetrate a fraud. Neither this customer protection nor subsequent servicing of the account would be possible without information sharing.

## **Merchandise Returns**

Another example of affiliate information sharing that results in customer benefits is receipt-less returns. Many retailers, including Target Corporation stores, generally require that customers who are returning merchandise present a sales receipt that reflects the purchase. Frequently, however, retail customers throw away, misplace or forget their receipts. To remedy this problem, we, as well as other retailers, have developed receipt look-up systems, so that customers can return merchandise without presenting their original receipt. Specifically, a Target cardholder can simply present their Target credit card and a Target store team member will use our computerized returns system to look up and verify the original purchase then accept the return and issue a credit.

The benefits of this system are clear: the cardholder doesn't have to return home, hunt for their original receipt and then make another trip back to the store to make their return. They also don't have to keep merchandise they don't want in the event they can't find the original receipt. As you might expect, our customers absolutely love this convenience. This service is made possible only because Retailers National Bank shares Target credit card purchase history information with its affiliated Target Stores.

This return system also uses the same information to protect us from losses due to fraudulent returns. Because each item purchased and returned is so noted in this system, an item that was purchased once will be accepted as a return only once. Shoplifters who repeatedly steal the same item from our stores and attempt repeated returns for repeated credit, sometimes even using counterfeit receipts, are stopped by the use of shared information.

### **Warranties, Repairs and Servicing**

Many retailers also have affiliated or third-party warranty or servicing departments. The sharing of information about their customers among these affiliates makes each part of their business operationally efficient and also provides real benefits to customers.

For example, in one case that I am aware of, a customer needed a specific part to repair his Craftsman lawn mower. After making the drive to the retail store he learned that the service department needed to know the specific model number of the lawn mower in order to find the exact part he needed. Unfortunately, this customer didn't know the model number. Fortunately, however, since the mower had been purchased on his store credit card, an original purchase look-up could be done instantly and the correct model number, and the correct repair part number were quickly determined. Because the retail credit card affiliate shares information with the service department, this business process can not only exist, but can be used to deliver great customer service. This very satisfied customer had to make only one round trip, rather than two.

### **E-Commerce Affiliates**

As you know, many brick and mortar retailers that have e-commerce web sites have established their "dot com" business organizations as separate entities. However, the sharing of information allows customers who make purchases at a retailer's web site to return or exchange those purchases by just bringing them into a brick and mortar store. These returns are more convenient, and save the customer the cost of a return-shipping fee. Our e-commerce retail channels continue to grow at an amazing rate and the need to share information with the store affiliate in the brick and mortar channel is growing just as rapidly.

## **Bank Check Authorization**

Many retailers have also developed in-house bank check authorization systems. These systems contain the MICR number sequence from customer checks that have been returned to the retailer unpaid by the customer's bank, and which are still outstanding. This file of MICR numbers from returned checks is usually called the "negative" file. Some retailer's negative files even include a list of MICR numbers from currently outstanding checks that have been returned unpaid to other businesses. This supplemental information can be purchased from third party services. If a consumer whose check MICR number is in the negative file should attempt to write a new check to the retailer to pay for a new purchase, these check authorization systems will reject that check and the protect the retailer from greater loss. Ultimately, the prevention of losses helps keep prices down for all of our customers.

Many check authorization systems also include a "positive" file. This file consists of the MICR number sequence from checks previously written to the retailer that are now known to have been good checks. The positive file typically includes a record for each MICR number of how many good checks have been written to the retailer, over what length of time, and for what amounts. If a consumer whose check MICR number is in the positive file with a lengthy history of writing good checks should present a new check, the authorization system can instantly approve that check, even if it might be written for a large amount.

Target Corporation is among those retailers who have such check authorization systems. To prevent larger losses by accepting new checks written at one of our retail affiliates by check writers who already have outstanding bad checks at another affiliate, we have a larger, common negative file that includes negative MICR number information from Target, Mervyn's and Marshall Field's. This sharing of affiliate information supports a critical business process – authorization of bank checks – and helps us control our bad check losses. This

protection against loss is especially important in cities where we have multiple stores including two, or all three, of our retail affiliates.

Target Corporation retail affiliates also share their positive check writing data. As a result, we have a much larger common positive check file as well. This sharing of affiliate information benefits many of our check-writing customers as they shop in our retail chains. Checks written at one store can be instantly approved because our common positive check file includes the positive history information from an affiliated store.

Further, our Retailers National Bank affiliate mails over 9 million statements each month. Most payments on Target, Mervyn's, and Marshall Field's accounts are made by check and, of course, most of those checks are good. In fact, through their account with us, many of our store credit card holders also have a long and excellent check writing history with our Retailers National Bank affiliate. Our credit card bank shares these positive check-writing histories with its retail affiliates by passing these MICR numbers to the common positive check file. As a result, millions more customers can write checks for substantial amounts in all of our affiliated stores and have their checks approved instantly.

### **Preventing Identity Theft**

Information is also a retailer's best weapon against identity theft. As you know, identity theft is one of the fastest growing crimes in the United States. At Target we have implemented a number of safeguards to help protect our business and our customers – all of which require information sharing.

Identity thieves thrive on anonymity and rely on the assumption that large retailers such as Target cannot put a name and face together in order to prevent fraud. This is why it is so important for retailers to know their customers, and the

only way we can do this is through the use of information. Information flows between Retailers National Bank and the credit bureaus or between our retail affiliates, combined with sophisticated technology, cuts down on fraud and allows us to offer exceptional customer service.

### **Customer Loyalty Programs**

Retailers today have to work hard to keep their best customers. In recognition of this, many retailers have developed customer loyalty programs to help them identify and reward their best customers. Loyalty program participants typically receive benefits such as discounts on their purchases, free gift-wrapping, free alterations, and other free or discounted offers. Many of these programs are offered only to store credit cardholders and are based on cumulative purchase levels. Often, some or all of the purchase history data for a retailer's customer resides with an affiliate, and the sharing of information among affiliates becomes essential to coordinate and administer a successful rewards program.

### **Communicating With Our Customers**

In addition to protecting customers and providing customer services, affiliate information is also used for marketing. Some retailers depend heavily on direct mail to reach their customers. Clearly, some of this is general advertising. The catalog for a large storewide sale, for example, is mailed to a large share of customers. However, some advertising is targeted to specific customer groups. For instance, a retailer might send advertising about an upcoming semi-annual home sale event to its most recent home furnishings customers, or offer a free gift-with-purchase to its customers who buy a particular brand of cosmetics. Retail customers expect to receive such advertising and information. In fact, many retail credit card holders cite getting these mailings as among the key reasons they opened their account in the first place. Additionally, the most frequent and vocal complaints that retailers receive from their customers usually

involve catalogs and sale information that did not arrive at a customer's home, or arrived late.

Many retailers today depend on their credit card bank affiliate, or their direct marketing affiliate, as the repository of the names and addresses and purchase histories of their customers. They further depend on affiliate sharing of this information to communicate effectively with their customers. These retailers would be unable to market their goods and services or even reach their customers without these information flows. Retail customers not only accept this sharing, they expect this sharing. They are very aware of the benefits they get because of the availability of information where it's needed, and when it's needed. The type of information we collect from each customer and its uses are also explained clearly to our customers in our Privacy Policy.

### **Organizational Structure Shouldn't Matter**

In order for retailers to give our customers the service they expect information sharing among our affiliates is absolutely necessary. This complex business structure is in place for many technical legal and accounting reasons, however the structure is completely transparent to our guests. Through information sharing with these entities we can not only market more specifically to our customers and provide them exceptional customer service, but we can also do things such as prevent fraud and combat identity theft in our stores.

Mr. Chairman, retail stores take on many different corporate structures. Some retailers issue their own credit cards in-house. Other retailers use a credit card bank, or other financial services affiliate, to issue store credit cards. Still other retailers have contractual arrangements with unaffiliated, third party credit card service providers like GE Capital who own and operate the retailer's customer credit card function.

Further, some retailers have established their e-commerce business as a separate entity, while others have not. Some retailers have a separate catalog and/or direct mail affiliate. Others have made these functions part of the advertising or merchandising departments within each of their retail entities. Some retailers own all of their retail store departments and businesses. Other retailers have third party lease arrangements for some merchandise or service categories (such as cosmetics, fine jewelry or a beauty salon), while others have selectively established separate affiliated entities as part of their store.

All retailers, regardless of organizational structure, need to reach their customers. They need to have access to and use the same kinds of customer information to run their business and compete in an efficient manner, regardless of how they are structured. Retail customers expect to receive the same kinds of services, recognition, conveniences, amenities and advertising from their favorite retailers, regardless of structural differences. They expect to be able to write a check as easily in one department of a store as in any other. They also expect to be able to use their credit card in every department in which they shop. Finally, customers expect to be protected from identity theft and, as we are always hearing, they want to receive retail sale catalogs and other promotional materials.

The amount of information about our customers that retailers share among our business, control and operating functions, or our various computer sub-systems, is the same, whether this sharing at a particular retailer ever crosses an affiliate line or not. This information is treated with the same care and control and used to satisfy similar business requirements or deliver similar customer benefits regardless whether we may have chosen different business structures. Therefore, our ability to access information about our business relationships with our customers should not be dependent on what structure we have chosen.

Finally, many people have asked what affiliate sharing has to do with the granting of credit. The answer is: a lot. Retailers use the data and transaction histories that they collect from their stores and affiliates to create internal credit scores and models that predict the credit habits of their customers. This information supplements credit reports and FICO scores to paint the most accurate picture possible of a customer. In fact, retailers most often use this type of proprietary information to grant credit to people on the margins, in lower to middle income households who don't have prime FICO scores, or to those who are just entering the credit market. Mr. Chairman, retailers want to help our customers make purchases to meet their needs. Many times, this means emergency purchases such as a new hot-water heater or refrigerator – both big-ticket items that require credit approval.

In closing, I would like to take this opportunity to emphasize the retail industry's strong support for the permanent reauthorization of the seven areas of preemption contained in section 624 of the Fair Credit Reporting Act. Without the extension of the uniform national standards, retailers and the customers we serve may be subject to a confusing patchwork of new state laws, rules and regulations governing fundamental and important areas such as dispute resolution and the information contained in credit reports. And, as today's hearing reflects, services that millions of customers have come to rely on, and that they routinely take advantage of, could be disrupted if information flows are interrupted.

Mr. Chairman, members of the Committee, consumers have come to expect instant access to credit when purchasing everything from an automobile to consumer goods such as furniture, appliances and apparel. In the final analysis, we in the retail industry have a real concern that a more fragmented process for information sharing and credit approval would negatively impact

consumers in many different levels and, as a consequence, retail sales, ultimately costing jobs and hurting the economy as a whole.

Thank you again for the opportunity to testify here today. I look forward to working with all the members of this Committee to permanently reauthorize the FCRA preemptions before they expire on December 31 of this year

I would be happy to answer any questions you may have.