

# Credit Reporting Customer Payment Data:

## Impact on Customer Payment Behavior and Furnisher Costs and Benefits



By: Michael Turner, Ph.D., Robin Varghese, Ph.D., Patrick Walker, M.A. and Katrina Dusek, M.A.  
Research Assistance: Adam Rodman

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# Table of Contents

## Executive Summary and Key Findings 6

### I. Introduction 9

### II. Business Case for Fully Reporting to Bureaus 13

- a. Broad issues for non-financial full-file reporters 13
- b. Why non-financial data providers need not fear cream skimming/poaching 16

### III. General Findings From the Survey of Firms 17

- a. What Data is Reported and to Whom? 17

### IV. Survey Results by Companies that Currently Report to a Bureau 19

- a. Which Companies are Reporting and Why? 19
- b. Overall Costs, Benefits, and Satisfaction 22
- c. The Benefits 24
- d. The Costs and Difficulties 25
- e. The role of Customer Communication 29

### V. The Case of NICOR Gas 31

- a. Why Do they Report? 31
- b. Costs and Difficulties 32
- c. Customer Education and Communication 33
- d. The Benefits to the Company 33
- e. External Benefits to Consumer 34
- f. Nicor Gas' Legacy 34

### VI. The Case of DTE ENERGY 35

- a. The DTE Energy Story 35
- b. Process and Costs 35
- c. Difficulties 36
- d. Benefits 36
- e. Lessons Learned 39

### VII. Companies that Do Not Report 40

### VIII. Customer Survey 44

Awareness of Reporting 44

Bill Payment Priorities 46

Payment Reporting and Behavior Changes 47

Key Findings from Customer Survey 50

### IX. Facts and Myths of Reporting 51

### X. Road Ahead, How to Report 54

### XI. Conclusion 58

### Appendix A: Overview and Methodology

#### Data Furnisher Survey 60

- a. Limitations 60
- b. Types of Companies that Responded 61

### Appendix B: Overview and Methodology of

#### Customer Survey 64

## Executive Summary and Key Findings

This report examines the perceived and actual costs and benefits of full-file credit reporting by nonfinancial service providers, such as telecommunications companies and utilities, and assesses its impact on customer payment behavior. Full-file credit reporting sends both timely and late payment information to a consumer credit bureau. PERC surveyed energy utility and telecommunications companies and more than 1,000 consumers. On the basis of responses from 70 companies and more than 900 heads of household with primary or joint responsibility for paying bills, and two case studies of large energy utility firms that report full-file payment data, PERC draws the following conclusions:

### From the customers' perspectives...

- » **Customers confirm that credit reporting alters payment behavior:** One-half of all consumers surveyed indicated they would be more likely to pay their nonfinancial service obligation on time—even during economic duress—if those payments were fully reported to one or more national credit bureaus and consumer reporting agencies and impacted their credit scores. Approximately 35 percent of respondents indicated they would be much more likely to pay on time, 15 percent would be more likely to pay on time, while 45 percent would remain unchanged.
- » **Many customers are unaware of which of their obligations are reported:** 44% of consumers did not know if energy utility payments were reported and only 28% thought they were not.

Most customers did not even know that mortgages and auto loan payments were reported, highlighting the importance of customer communication for companies that decide to report customer payments.

- » **Data must be included in a credit file to fully motivate payment behavior changes:** Simply reporting payment data to a credit bureau is insufficient. Data furnishers must make sure the data is included in an FCRA regulated consumer credit database. A major bureau already collects negative payment data from energy utility and telecom firms, but uses it for non-credit purposes. To fully motivate customers, the data needs to be included in consumer credit files.

<sup>1</sup>An example of a cooperative is the National Consumer Telecom and Utilities, Exchange (NCTUE). The data in the NCTUE is used help telecoms and utilities set deposit amounts and locate customers that have unpaid balances, among other uses. Data in FCRA-regulated consumer credit reporting databases, on the other hand, are part of consumers' credit histories and can enter their credit scores.

### From the firms' perspectives...

- » **Firms that fully report see changed consumer payment behavior:** Consistent with results from the consumer survey, the survey of firms and the two case studies reveal that customers are more likely to pay on time when they are aware that their personal credit standing will be affected by their payment actions. As the DTE Energy case study makes clear, customer payment behavior will change only when they are aware that their payments are being reported to credit bureaus.
- » **For most, benefits of credit reporting greatly exceed costs:** All firms that fully report customer payment data say that the benefits of reporting are at least equal to the costs of reporting. Approximately 14 percent of respondents indicated that benefits were between two and five times greater than costs, 29 percent reported benefits were between five and ten times greater than costs, and 29 percent reported the benefits exceed costs by at least a multiple of ten.
- » **Firms that credit report are overwhelmingly satisfied with experience:** No respondents were dissatisfied with their experience of credit reporting. Approximately one-fourth were “neutral or mixed” about their experience, and approximately three-fourths were either “somewhat satisfied” or “very satisfied.”
- » **Firms overestimate perceived costs of credit reporting:** The primary reasons firms did not credit-report were assumed technology (IT) and customer service costs. Yet, among those firms that actively credit-report, all indicated that IT and customer service costs were either small (between 5 and 15 percent of the IT or customer service budget) or minimal or no costs (less than 5 percent of the IT or customer service budget).
- » **Greatest perceived challenges involve soft costs:** When asked to rank the difficulty of implementation issues, firms currently fully reporting to one or more credit bureaus ranked “developing internal policy” and “educating consumers” as by far the two greatest challenges. They rated technological, legal, and regulatory issues as moderate or relatively moderate challenges.
- » **Customer communication is important to fully realizing benefits:** Among firms reporting equal costs and benefits, one-half did not communicate with customers at all. The majority indicating that credit reporting benefits were greater than costs frequently communicated to their customers in various ways, usually monthly in a billing statement. As our consumer survey makes clear, consumers are generally unaware which industries report payments and, apparently, they are unaware of payment reporting in general. Therefore, customer communication is key to reaping the full benefits of payment reporting. Customers unaware of payment reporting will not alter their behavior.

**From the borrowers' perspective...**

- » Many customers become scoreable when payments are fully reported: DTE Energy's case study confirms that many of that utility's customers obtained a credit file and/or became scoreable due to its fully reporting of customer payments. 127,126 of its customers, or 6.2% of its accounts, were able to be scored for the first time when reporting began. Of new utility accounts opened the following year, an additional 9,117 new customers gained credit scores because of DTE's full-file reporting. Having a credit score is crucial when accessing mainstream affordable credit.





## I. Introduction

How can consumers be encouraged to put their utility and telecommunication bills at the top of the payment pile? Bucking the trend of increasing delinquency and write-offs requires a multifaceted strategy, ranging from expanded payment options and opportunities to using agents, utility disconnections, and legal action. The foundation of any new strategy, however, should be grounded in a single solution—*reporting both positive and negative payment data to credit bureaus and consumer reporting agencies*. By holding consumers accountable for their actions, by rewarding positive payment behavior and noting delinquencies on credit reports, utilities have significantly limited slow payment and uncollectible debts.

The rise in uncollectible consumer debt and delinquencies is a major concern of utility and telecommunication service companies. In 2004, Chartwell reported that utility companies wrote off \$1.6 billion annually, an equivalent of about \$8 per customer.<sup>2</sup> Today, utilities continue to lose leverage as utility disconnections rise in dozens of states. New York has seen a 17 percent increase in service disconnections, and Michigan has seen a 22 percent increase, for example.<sup>3</sup> An October 2008 national survey of consumers conducted by the Online Resources Corporation (ORC) revealed that 9 percent of surveyed households were more than 30 days late on a utility bill, up sharply from an October 2007 survey.<sup>4</sup> Furthermore, 5 percent of those in the 2008 survey had had their utilities shut off for nonpayment.

All indications are that the outlook for utility collections in the near term will not improve significantly. The National Mortgage Bankers Association reported record high delinquencies and foreclosures for the third quarter of 2008. It estimates that 10 percent of all mortgage loans are one to three months delinquent or in foreclosure.<sup>5</sup>

<sup>2</sup>The original source for the amount written off is from proprietary research by Chartwell, Inc., from the report “Credit and Collections in the Utility Industry 2004.” (Chartwell, 2004), this figure was referenced by Peace CIS in the 2004 white paper “Utility Collections Best Practices” available at <http://www.peace.com/whitepapers/basscollectionswhitepaper.pdf>.

<sup>3</sup>Associated Press Newswire, “In Bad Economy, Power Cutoffs Soar,” October 6, 2008.

<sup>4</sup>Online Resources Corporation, “Short on Money, Will Your Customers Pay Your Bill? Updated Survey of U.S. Households and Bills They Pay.” (CITY: ORC, December 2008), available online at [www.orcc.com](http://www.orcc.com).

<sup>5</sup>National Mortgage Banker Association, “Delinquencies Increase, Foreclosure Starts Flat in Latest MBA National Delinquency Survey.” Press Release, December 5, 2008. Available at <http://www.mbaa.org/NewsandMedia/PressCenter/66626.htm>

In addition, by February 2009, unemployment had risen to a 25-year high of 8.1 percent, reflecting a loss of about 4.4 million jobs since January 2008.<sup>6</sup>

Faced with rising economic pressures, more households are forced to prioritize bills for payment. A recent study by Experian, one of the three large national credit bureaus, finds that consumers tend to choose to be late on some obligations and not on others rather than being late on all.<sup>7</sup> The study was based on 3.2 million credit records that also had payments reported by telecommunications, energy utility, and cable companies. It found mixed priorities between energy utility, telecoms, cable, and other creditors. The study also found that companies could influence consumers who had some capacity to pay non-prioritized bills. In a direct comparison between bank card obligations and utilities (including energy utility, telecoms, and cable obligations), only 12 percent of the four in ten consumers with derogatories on either chose to be delinquent on both bank card and utilities obligations; 32 percent chose to be delinquent on their bankcard obligations alone, and 56 percent chose to be delinquent on their utility obligations alone. Therefore, most chose to prioritize one obligation over another, and most chose to pay bank card obligations first.

Experian's findings indicate up to 40 percent of slow-paying utility and telecom consumers have no or fewer than three derogatory accounts on their credit report. Although these consumers have not been paying their utility, telecoms, and cable bills, they have remained relatively current on other obligations. Clearly, consumers are making a choice not to pay their utility or telephone bill on time while paying other obligations first.

The October 2008 ORC survey, along with two earlier surveys by ORC, finds that customers placed utilities in the middle of a ranking of bills they would not pay if they lacked the funds to pay all of eight types of bills. They would pay loans, insurance, and mortgages obligations before paying utilities, with roughly 8.5 percent of consumers indicating that they would not pay their utility bill. Phone bills were essentially tied with credit cards as the obligation least likely to be paid. Interestingly, between October 2007 and October 2008, the share indicating they would choose not to pay their phone bill rose from approximately 20 percent to approximately 26 percent, while the share choosing not to pay credit cards fell from approximately 34 percent to approximately 27 percent. Consumers would most often choose to pay their mortgage, with only approximately 2 percent of consumers indicating they would not pay their mortgage if they experienced cash flow problems<sup>8</sup>.

<sup>6</sup>Bureau of Labor Statistics, "Employment, Hours, and Earnings from the Current Employment Statistics survey (National)." Databases, Tables, and Calculators tool. (Washington, DC: BLS, 2009), available at [http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data\\_tool=latest\\_numbers&series\\_id=CES0000000001&output\\_view=net\\_1mth](http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?data_tool=latest_numbers&series_id=CES0000000001&output_view=net_1mth).

<sup>7</sup>Experian, "Consumer Payment Behavior toward Telecommunications, Energy, and Cable Credit Grantors." White paper. Available at [http://www.experian.com/whitepapers/tec\\_wp.pdf](http://www.experian.com/whitepapers/tec_wp.pdf)

<sup>8</sup>Online Resources Corporation, "Short on Money, Will Your Customers Pay Your Bill? Updated Survey of U.S. Households and Bills They Pay." (ORC, December 2008), available online at [www.orcc.com](http://www.orcc.com).

Consumers clearly prioritize payments when their budgets are tight. Being able to influence this choice can have a meaningful effect on a firm's cash flow and bottom line, particularly when the economy is weak. To better understand the degree to which full-file payment reporting can influence consumers' payment decisions, we conducted a survey of more than 900 consumers with primary or joint bill-paying responsibilities. The results indicate that full-file payment reporting can influence whether a consumer pays on time, with roughly 50 percent indicating they would be "more likely" or "much more likely" likely to pay on time if they knew their payment behavior would influence their credit score.

To gauge the costs and benefits of payment reporting from the firm side, we conducted a survey of 70 utility and telecommunications companies. (For details, see Appendix A.) We found that full-file credit reporting (reporting that includes both positive and negative information) requires low upfront costs with limited technological (IT) modifications. Full-file reporting can have significant and long-lasting effects in payment activity for a large proportion of a company's customer base. At the same time,

benefits accrue to the consumer, particularly those outside the credit mainstream.<sup>9</sup> Thus, both nonfinancial data furnishers (utilities and telecommunications companies) and consumers benefit from full-file reporting.

We also include two case studies (Nicor Gas and DTE Energy) to showcase the experiences of moving from no payment reporting to fully reporting to one or more credit bureaus. Finally, we include basic facts of reporting to consumer-reporting agencies, as well as useful information for those considering reporting.



<sup>9</sup>Turner, Michael, et al., *Give Credit Where Credit is Due: Increasing Access to Affordable Mainstream Credit Using Alternative Data*. (Washington, DC: PERC and Brookings Institution Urban Markets Initiative (UMI), 2006, available at [http://www.infopolicy.org/files/downloads/alt\\_data.pdf](http://www.infopolicy.org/files/downloads/alt_data.pdf)).

The report proceeds as follows:

- ▶ **Section 2** makes the business case for nonfinancial firms to fully report customer payment data to credit bureaus and consumer reporting agencies, a practice commonly referred to as “credit reporting.” We present variables for executives to consider when conducting internal cost-benefit analyses, including potential competitive concerns.
- ▶ **Section 3** presents general findings from our survey of utility and telecommunications firms, with a focus on what data is and is not reported to credit bureaus.
- ▶ **Section 4** explores survey results for those firms that are currently credit reporting. We examine perceived versus actual costs and benefits and explore how satisfied firms are with their credit reporting experience.
- ▶ **Sections 5 and 6** present two case studies from two energy utility companies—Nicor Gas and DTE Energy. These case studies focus on specific experiences of internal decision-making, customer communications, relations with regulators, public relations, implementation processes, and implementation costs and benefits.
- ▶ **Section 7** examines the survey results from those firms that do not report, including factors preventing them from reporting and reasons they are considering reporting.
- ▶ **Section 8** reports the results of a survey of more than 900 heads of household with primary or joint bill payment responsibilities (customers). The survey gauges customer understanding of payment reporting and likely responses if obligations they paid were fully reported.
- ▶ **Section 9** addresses some widely perceived myths about credit reporting.
- ▶ **Section 10** discusses steps that energy utility and telecommunications firms may take should they decide to credit report.
- ▶ **Section 11** offers a summary and concluding thoughts on credit reporting.



## II. Business Case for Fully Reporting to Bureaus

### a. Broad issues for non-financial full-file reporters

Energy utility and telecommunications firms considering credit reporting must first undergo some basic cost/benefit analysis before coming to a decision about whether to proceed. Below are some variables that must be factored into such analysis:

#### Costs:

▶ **IT Systems**—Firms with national or regional footprints, especially those that have grown through mergers and acquisitions, need to explore the potential outlays associated with regularly reporting customer payment behavior to one or more credit bureaus or consumer reporting agencies. In a small number of cases, owing to struc-

tural differences in billing systems and differences in billing cycles among units within a single firm, regular credit reporting of all customer payment data is problematic and requires expensive IT upgrades. In most cases, however, billing systems can easily handle regular credit reporting in the industry Metro2 format, and data verification/reverification in the eOscar system. Other IT costs may include data hygiene, programming, and data storage, as records will need to be archived for up to seven years.

▶ **Customer Service**—Making the decision to credit report requires a firm to comply with certain data furnisher obligations as specified in the Fair Credit Reporting Act (FCRA).<sup>10</sup> In general, the act specifies data furnisher requirements regarding how information is shared with credit bureaus and consumer reporting agencies, conditions under which notifications are to be provided to data subjects, responsibilities in the event of actual or suspected ID theft, and responsibilities in cases of adverse actions or disputed information. All of these activities require person hours from designated customer service staff. And while many larger firms may absorb this simply by investing in additional training for existing personnel given excess capacity, some smaller firms may need to actually add customer service capacity to comply with FCRA data furnisher obligations.

<sup>10</sup> Fair Credit Reporting Act. 15 U.S.C. § 1681. See in particular § 623 “Responsibilities of furnishers of information to consumer reporting agencies.”

▶ **Litigation**—Currently, data furnishers found to be in willful or negligent non-compliance with the terms of the FCRA potentially face both civil liability and administrative enforcement actions. Fines for noncompliance range up to \$1,000 to \$2,500 per violation, plus any punitive damages that the court may allow. While reporting has the effect of increasing a data furnisher’s exposure to litigation, actual instances of successful civil litigation and enforcement actions against furnishers are quite rare. Nonetheless, it is a factor that should be considered.

▶ **Internal Communications**—Firms that decide to credit report will need to invest resources in both internal and external communications. Internally, a team of relevant executives will need to be assembled and responsibility assigned to ensure full buy-in initially, and ongoing support once the process of credit reporting has begun. Internal education of executive and staff teams about the benefits of credit reporting to the firm and the consumer relative to cost can further align internal divisions to execute. It is likely that there will be difficult periods—potential troubles with IT, legal concerns, customer backlash, negative publicity—and the staff responsible for the execution of a credit reporting program must have the support of senior management to quickly and adequately respond to and resolve problems as they arise.

▶ **External Communications**—Similarly, resources must be committed to external communications with regulators, the media, and most importantly with customers. Scheduling meetings with the state regulator (PSC or PUC) to discuss the decision to credit report, and share relevant details—how the firm will comply with the FCRA, planned customer awareness campaigns, any customer friendly provisions in the reporting plan (for example, not reporting delinquencies under 60 days, and not reporting small unpaid balances), and the customer benefits of reporting (as quantified in various PERC and Brookings Institution studies), will go a long way toward securing support or tolerance from the regulator. Communications with area mainstream media should also be part of the credit reporting process, as external communications should have collateral materials and op-ed pieces highlighting the very real value that credit reporting will bring to customers. Finally, in that credit reporting is fundamentally about changing customer behavior, regular and ongoing communications with customers will yield considerable dividends. This should go beyond blurbs on monthly statements or statement stuffers, and should include public service announcements, clever print, radio or TV ads, and potentially a series of town-hall style meetings. It is as important, if not more so, to discuss the benefits of reporting linked to timely payments. Collectively, these communications efforts represent real costs. The bulk of these costs will be front-loaded, but continued investments in customer communications will be required for the life of the program.

► **Harmonize Billing Exceptions, Extenuations, and Special Forbearance Programs with Credit Reporting Rules**—Metro2 formatting possess a significant amount of flexibility for the data furnisher when determining when to classify an account as delinquent, when to classify an account as being in default or charging it off (e.g. setting minimum balance requirements for derogatory reporting, and allowing grace periods prior to reporting derogatory information). To maximize the benefits for the data furnisher, it is suggested that industry reporting standards be adopted.

### Benefits:

► **Improved Cash Flow**—Analysis of how people prioritize payment obligations reveals that utility bills rank between the middle to the bottom. However, whenever a utility company engages in credit reporting, the prioritization ranking climbs dramatically. These studies of personal behavior are borne out by the experience of those pioneering firms that have already begun to fully report customer payment data to one or more credit bureaus.

A 2004 report issued by Nicor Gas and TransUnion indicates that a year after Nicor began their credit reporting program, delinquencies and charge offs were reduced by 20%. This number improved during year two, and while delinquen-

cies and charge offs have been trending upward as of late, Nicor executives attribute this solely to a downturn in the American business cycle, and not to and reduced efficacy of credit reporting.<sup>11</sup>

Nicor is not alone with this experience. During an event hosted by the Brookings Institution Urban Markets Initiative in 2005, WE Energy and Verizon each reported that the decision to credit report had immediate and positive impacts on their cash flow.<sup>12</sup> In fact, Verizon was so impressed with the results of an early pilot involving fully reporting landline customer payment data to a single bureau, that within a several months they ramped up their participation rate to over 20 million landline accounts being reported regularly to all three credit bureaus.<sup>13</sup>

► **Increased Appeal**—By allowing customers to be rewarded for their on-time and sufficient payments, and not just punished for their severe delinquencies, utilities and telecommunications firms can offer added value to their customers. This added value should be communicated to the service provider's customers. It may be possible to note on each statement, for instance, that it could be the Xth on-time and sufficient payment in a row reported to credit bureaus or consumer reporting agencies. Such creative ways can be used to align the consumer's interest in improving their credit

<sup>11</sup> Interview with David Lukowitz, Manager of Customer Care Services and Credit, Nicor Gas, March 2008.

<sup>12</sup> Statement by Marcia Johnston of Verizon at the "Roundtable on Using Alternative Data Sources in Credit Scoring: Challenges and Opportunities," Asset Builders of America and The Brookings Institution, December 15, 2005.

<sup>13</sup> Op. cit.

profile with the data furnisher's interest in receiving on-time and sufficient payments. Additionally, advertising that making on-time payments can improve a person's credit profile may also be an effective approach to gaining new customers, and particularly those who expect to pay on time.

► **Increased Customer Loyalty**—The majority of customers, and particularly the best customers (those that consistently pay on-time), are likely to be more loyal to the utilities or telecoms that are reporting their payment information. Communicating the benefits of full-file reporting should be an effective way to increase customer loyalty among these customers.

► **Goodwill with Regulators & Legislators**—Companies that plan to fully report should reach out to regulators and legislators to explain that they are going beyond the usual practice of reporting only delinquencies or sending severely delinquent accounts to collection agencies and will also be reporting the on-time payments. With appropriate customer friendly practices in place, regulators and legislators should welcome this fairer, expanded form of payment reporting. Legislators should also welcome the increased access to credit and the sounder credit that will be enabled with the additional payment information included in credit files, particularly for those consumers that are credit underserved. This should be supplemented with visible media and public relations efforts to build community goodwill.

## b. Why non-financial data providers need not fear cream skimming/ poaching

A common fear expressed by potential data furnishers is that if they furnish the payment history of their customers, their competitors will essentially have access to a list of their best customers and be able to aggressively market to them. For some non-financial companies that do not face competition, such as energy utilities, this, of course, is not an issue. For others, such as telecommunications companies, this could be a real fear. There are, however, a few reasons why companies need not fear this.

Following the Gramm-Leach-Bliley Act of 1999, it is no longer possible to use general "credit header" data, such as names and addresses for general marketing lists. The only marketing that is permissible using credit file data are those that include firm offers of credit or insurance.<sup>14</sup> For non-financial service providers, such as a mobile phone service provider, this could include a firm offer of credit for mobile phone service.

But in cases where marketing does occur (firm offers of credit or insurance), the bureaus do not provide lists of a competitor's customers. So, phone company A cannot acquire a list of phone company B customers.

<sup>14</sup> Section 604 of the Fair Credit Reporting Act (FCRA). <http://www.ftc.gov/os/statutes/031224fcra.pdf>.



And for companies that do report their customers' payment data, they can inform their customers that they are permitted by the FACT Act to individually opt-out of marketing via their credit file. This allows for the benefits of increased access to credit, a result of reported payment history, while at the same time informing customers of their right to opt-out of marketing.



### III. General Findings From the Survey of Firms

#### a. What Data is Reported and to Whom?

Reporting practices of survey respondents varied considerably. While some firms fully reported payment data directly to a credit bureau, many more report negative-only (either directly or indirectly). Among those that believe they are reporting, many report to a cooperative database that while used for account decisioning (e.g. whether a candidate is eligible for an international wireless phone account, or whether an applicant must secure their account with a deposit) is not included in a person's consumer credit file that is accessible by financial organizations.<sup>15</sup>

In such reporting consumers do not enjoy the benefits or suffer the consequences from having their payment data reported to one or more of their nationwide credit files. Instead, data is only accessible by other members of the cooperative database and is only used for determining plan

<sup>15</sup>An example of such a database is the National Consumer Telecom and Utilities, Exchange (NCTUE) housed at Equifax.

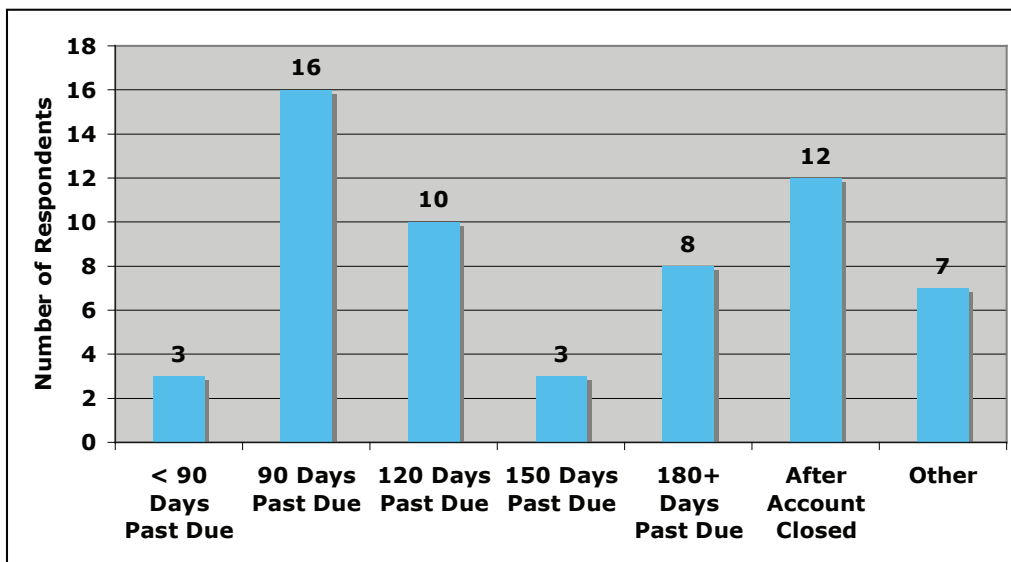
eligibility and whether or not a security deposit will be required. Still, others report late payments and charge-off information to credit bureaus indirectly through collection agencies. Around 22% (10/69) of respondents indicated that their firms reported delinquencies and defaults to a cooperative database.

A far greater share of respondents, 89% (62/70), reported that their companies referred delinquencies and defaults to collections agencies. And of these, 73% (45/62) reported that they were aware that these collection agencies then passed these delinquencies and defaults on to one or more of

the national consumer credit bureaus, with an additional 6% (4/62) indicating that they did not know or did not answer this question. Hence, the majority of the firms participating in the survey indicate that they indirectly pass on negative payment information (severe delinquencies and defaults) to consumer credit bureaus.

As Figure 1 indicates, there is no set point at which delinquencies are considered severe enough to send to collections agencies. What is surprising is that a few indicated that their firms sent accounts to collections in cases in which the account is less than 90 days past due.

**Figure 1: Reporting Behaviors of Surveyed Service Providers**



Source: PERC 2008 Data Furnisher’s Survey Responses

The vast majority, 91% (64/70), of the firms surveyed obtain credit reports or use third party authentication services as part of the new account opening process. Only 14% (10/69) of the companies surveyed reported that their companies currently reported payment information directly to a credit bureau. And of these, 78% (7/9) reported full file and 22% reported only negative payment information.

In sum, the bulk of companies surveyed do not report directly to consumer credit bureaus, but do pass on delinquent accounts to collections, and do use third-party data for processing new accounts.



## IV. Survey Results by Companies that Currently Report to a Bureau

### a. Which Companies are Reporting and Why?

Of the ten companies that indicated that their company reported directly to a bureau, nine were energy utility companies providing gas (4/9) electricity (1/9) or both (4/9). One respondent indicated their firm provided other services to homes and farms. Three reported that their company serves less than one million customers and seven reported that their company serves between one and ten million customers. These companies serve all major regions of the country.

The nine energy utility providers went on to answer additional questions regarding details of the reporting and reporting experiences.

Again, most (7/9) reported full file (both positive and negative account information) to a bureau, with the two remaining companies supplying only negative information to one or more of the bureaus. However, this may be somewhat at odds

with utility data furnishers in general. A major bureau reported to us that only about one-quarter of their active utility data furnishers reported more than only negative information.

Of the (2/9) firms that only report negative information, one indicated that the top six incentives shown in Table M, with the exception of the tax incentives, would be strong incentives to induce a move to full-file reporting. The exception of the tax credit for IT investment may be due to the fact that the firm is already reporting negative information, and may have already made the necessary IT upgrades. This difference should be noted as it is likely that a different set of motivations may be optimal in encouraging firms to switch to full-file reporting from negative-only compared to those encouraging firms to move to full-file reporting

from no reporting. That is, those firms that provide negative-only information would be interested only in the costs and benefits associated from the switch from negative-only to full-file reporting.

While a sample size of seven full-file data furnishers may not be that large, it should be noted that one of the underlying reasons for this survey is that so few utilities and telecoms fully report. In discussions with various personnel at the major credit bureaus, utilities, and telecoms, evidence suggests that the universe of sizeable utility and telecom firms that are actively furnishing full-file data is not much greater than 15 or so. As a result, our survey likely captures approximately half of the total population of energy utility and telecom firms that fully report customer payment data to one or more credit bureaus. The results, therefore, are telling.

**Table A: Factors in Deciding to Report**

Factor	Percentage
To reduce delinquencies, improve promptness of payments	100%
Consumer reporting agencies asked us to	11%
To build brand and a competitive advantage by helping customers build credit	11%
Other (1 response: "To help customers build credit")	11%
My company was consolidated with another company that does so	0%

Source: PERC 2008 Data Furnisher's Survey Responses

The respondents reported whether each of the following was a factor in deciding to report payment information to a bureau.

As seen in Table A, the overwhelming objective from these companies appears to be improvement of the bottom line, improved cash flow and the improvements resulting from the reduction of delinquencies and charge-offs.

And when asked how long their company had been reporting payment information to a bureau, the following responses were returned:

To summarize, most have been reporting for more than two years, and thus would have a good idea of the longer-term costs and benefits of reporting.

Half of the companies indicated they did seek regulatory approval prior to reporting (4/8) even though none (0/7) indicated that they thought such approval was necessary.

Majorities (6/8) of the companies used the industry standard data-reporting format, (Metro2), and the industry standard data reverification system (eOscar). Importantly, the industry reporting standard offers data furnishers a wide range of options in terms of deciding when to report information (negative and positive), thresholds for not reporting outstanding balances, and other information. This enables each reporting firm to customize their reporting process in a manner that reflects their preferences, internal forbearance policies, etc. For example, some have chosen to report positives monthly and delinquencies only after 60 or 90 days. Others have determined that unpaid balances below a certain amount – for example, \$40 – will not be reported. These practices are reported to facilitate customer acceptance and buy-in of the practice of credit reporting.

**Table B: Length of Reporting**

Time Frame	Number of Services
Less than 6 months	0
6 months to 1 year	1
1 to 2 years	1
2-5 years	2
Greater than 5 years	4

Source: PERC 2008 Data Furnisher's Survey Responses

## b. Overall Costs, Benefits, and Satisfaction

Isolating the impact of payment reporting on write-offs and balances past due (benefits and costs) is difficult when a number of factors are changing and there is an insufficient sample size to statistically parse out individual impacts. As a result, we asked a basic question pertaining to the perceived cost and benefits of payment reporting.

The respondents were asked, to compare the costs and benefits of reporting (in dollar terms). The following responses were returned.

Of course, the above responses speak to the relative benefits accrued compared to costs, not the magnitudes of costs, benefits, and net-benefits. Nonetheless, the responses indicate that a firm should expect benefits to exceed costs by several times and that the downside might be benefits roughly equaling costs.

**Table C: Costs and Benefits Comparison**

Responses	Number of Respondents
Benefits are more than 10 times greater than costs	2
Benefits are between 5 and 10 times greater than costs	2
Benefits are between 2 and 5 times greater than costs	1
Benefits are between 1 and 2 times greater than costs	0
Benefits are equal to costs	2
Costs are between 1 and 2 times greater than benefits	0
Costs are between 2 and 5 times greater than benefits	0
Costs are between 5 and 10 times greater than benefits	0
Costs are more than 10 times greater than benefits	0

Source: PERC 2008 Data Furnisher’s Survey Responses

At a more basic level is whether the firms are satisfied with their reporting experience. This captures the costs and benefits in dollar terms but also the harder to measure aspects of the total relationship, such as internal frustrations or anxieties. When asked this question the following responses were elicited.

The average and most common experience is to be somewhat satisfied, which is consistent with the other responses. None indicated that they were unsatisfied with reporting.

**Table D:** Level of Satisfaction from Reporting Experience

Level of Satisfaction	Number of Respondents
Very Satisfied	2
Somewhat Satisfied	5
Neutral/Mixed	2
Somewhat Unsatisfied	0
Very Unsatisfied	0

Source: PERC 2008 Data Furnisher's Survey Responses



### c. The Benefits

Since one of the key reason firms choose to report is to reduce delinquencies and write-offs, we asked how the respondents’ firms had fared in these measures since they had begun reporting. The main problem with this sort of question is that we are not sure what the direct impact of reporting on these measures may be since we are not accounting for macroeconomic factors, local economic circumstances, factor prices of energy, etc.



**Table E: Changes in Rates of Sales and Rates of Write-Offs**

	Change in Rate of Sales Outstanding	Change in Rate of Write-Offs
Strongly Improved	0	0
Somewhat Improved	4	3
No Changes	2	4
Grown Somewhat Worse	3	2
Grown Much Worse	0	0

Source: PERC 2008 Data Furnisher’s Survey Responses

For each measure, the changes are not great and more firms (by just one) have experienced improvements than have experienced deteriorations. It is worth noting, however, that of the three firms that reported deterioration, two indicated that they had been reporting for more than five years. It is therefore likely that many other factors have arisen in that period to influence write-offs and sales outstanding.

There is evidence that suggests the recent downturn in the American business cycle is responsible for the increase in delinquencies and charge-offs. In an open question asking for any further thoughts at the end of the survey, one of the respondents that indicated that both sales outstanding and write-offs had grown somewhat worse indicated that payment reporting did have a positive impact on arrears but that “Our arrears have continued to grow because of the



economy and rising fuel prices.” This respondent had been reporting for more than five years and the statement confirms the notion that over longer periods other important factors may obscure the impact of payment reporting to the reporters.

Another interesting factor may be that of the three firms reporting a deterioration, those that also indicated how they communicated with their customers (two out of the three), indicated that they only used one or two methods of communication, either information printed on the bill (quarterly) or that and a bill insert (once a year). They indicated that there were no public announcements, was no prominent information on their web site, or other special notices when customers opened accounts. This last point may be important, as these companies have been reporting for more than five years. For such firms, many of their current customers may have become customers after the firms had begun reporting. And, so, without ongoing special announcements or information to new customers, many of the newer customers may not be that aware that their utility reports payments.

Since the major reason firms report customer payments to one or more credit bureaus and consumer reporting agencies is to affect customer behavior (giving customers an incentive to make payments in a timely fashion), customer communication must be key. Customers unaware of payment reporting will not alter their payment behavior when their payments are reported.

When asked how long it took after payment reporting to the credit bureaus began before the utilities began noticing the benefits, each of the following responses were received: 0-3 months, 3-6 months, 6 months - 1 year, 1-2 years, 2-4 years, and two indicated they had not received benefits. Importantly, one of the two indicating that they had not noticed any benefits had been reporting for less than a year.



#### d. The Costs and Difficulties

As with the benefits, we asked the respondents both specific and general cost questions.

In the first question to get at costs, we ask the respondents whether, to their knowledge, their company restructured its billing system to facilitate reporting. All but one, (7/8), indicated their company *did not* need to restructure its billing system.

The respondents were asked to rate a number of items in terms of the difficulty to implement to facilitate reporting. They were asked to use a rating from 1 to 7, with 1 being Very Easy, 4 being Moderate, and 7 being Very Difficult. The following are the averages of the eight respondents that answered the question.

**Table F: Levels of Difficulties of Reporting Challenges**

Challenge	Average Difficulty
Developing internal policy	4.75
Educating consumers	4.50
Modifying IT systems	4.00
Working with regulatory agency	4.00
Meeting Fair Credit Reporting Act obligations	3.75
Developing right team	3.63

Source: PERC 2008 Data Furnisher’s Survey Responses

Interestingly, the ‘softer tasks’ of developing internal policy and educating customers are rated more difficult than the ‘hard tasks’ of upgrading/modifying the IT system or meeting FCRA obligations. Developing internal policies regarding reporting, however, is crucial in the process of reporting. Deciding to report does not simply require a flip of the switch. Choices will need to be made, such as how to report customers who receive government subsidies or who have made a forbearance agreement.

As with the benefits, parsing out the precise costs associated with a shift to payment reporting may not be that easy. For instance, a company may move up and modify an already planned upgrading of its IT systems to accommodate payment reporting. The portion of the total costs that should be attributed to “the cost of payment reporting” may be debatable. Also, there is the matter of the time frame of the costs: immediate, short-term, long-term, and reoccurring.

Additionally, costs may change over time, as technologies change and with reporting experience. Nonetheless, we asked two somewhat specific cost questions, one regarding the fixed IT costs and one the reoccurring customer service costs. Getting much more specific would likely have been beyond the scope of a survey, requiring some internal research, and probably would have dissuaded respondents from completing the surveys altogether. We first asked, “If possible, could you estimate the fixed IT costs to your company from payment reporting?”, and received the following responses.



**Table G: IT Costs Related to Reporting**

Response	Number of Respondents
Large cost (>30% of IT budget)	0
Medium cost (15-30% of IT budget)	0
Small cost (5-15% of IT budget)	2
Minimal/No cost (<5% of IT budget)	3
Don't know	2
Would prefer not to answer	1

Source: PERC 2008 Data Furnisher's Survey Responses

Of the five respondents that knew the IT cost impact of reporting, all reported costs of less than 15% of their company's IT budget, with three of the companies reporting minimal or no costs (costs less than 5% of the IT budget). Four out of these five companies were reported to have 1-10 million customers, with the remaining having less than one million customers. And it is interesting to note that the smaller company was in the minimal/no cost fixed IT cost category.

*As such, it may not be the case that relatively smaller companies need to expect larger relative costs to reporting simply due to their size alone. Though, it would be surprising if there were not some economies of scale. The important issues may be what degree of scale is important to achieve (the point at which most of the benefits of scale are realized) and that other factors influence costs as well.*

And consistent with IT advances and cost declines lessening the fixed IT costs of reporting, both companies reporting the higher costs (5-15 of IT budget) began reporting over five years ago. Of the three reporting lower costs, two began reporting two to five years ago with the remaining also over five years ago.

The second cost question asked was, “If possible, could you estimate the direct non-IT costs (customer service/administrative) to your company from payment reporting in terms of staff and/or outlays.” From the following responses, it appears clear that companies should expect small reoccurring customer service/administrative costs of between 5-15% of the total customer service budget.

The greater costs reported for customer service (most indicate small costs) compared to fixed IT costs (most indicated minimal costs) is consistent with the previous survey question in which *Educating Consumers* was revealed to be more difficult relative to *Modifying IT Systems*. And as with IT costs, all respondents that provided customer service costs resulting from reporting indicated that they were either small or minimal.

Taking both costs questions together, we can roughly say that the costs of payment reporting relative to IT and customer service budgets are between minimal and small, likely averaging significantly less than 15% of those combined budgets.

**Table H: Non-IT Costs Related to Reporting**

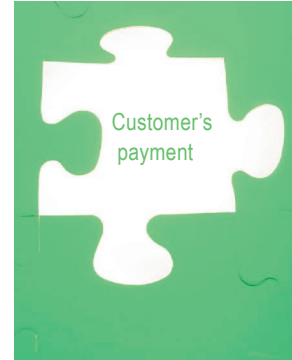
Direct Non-IT Cost Estimates	Number of Respondents
Large cost (>30% of customer service budget)	0
Medium cost (15-30% of customer service budget)	0
Small cost (5-15% of customer service budget)	5
Minimal/No cost (<5% of customer service budget)	1
Don't Know	1
Would prefer not to answer	1

Source: PERC 2008 Data Furnisher’s Survey Responses

What is important from a business perspective, however, is how the costs compare to the benefits. And as was shown previously, benefits either equal costs (2/7) or, in most of the cases (5/7), significantly exceed costs.

**e. The role of Customer Communication**

Nearly all (7/8) reported that their company had a consumer communications program that notified their customers that their payments would be reported to a credit bureau. The specific ways in which these seven companies communicated with their customers are listed below.



**Table I: Consumer Communication Programs**

Methods of Communication	Percentage of Response
Separate insert included with monthly bill	86%
Printed notice on monthly bill	86%
Notice on web page	71%
Public service announcements on television and/or radio	29%
Customers given special notice when they first sign up	43%
Other	0%

Source: PERC 2008 Data Furnisher's Survey Responses

Of these five methods of communication shown above, most companies utilized several, as shown below.

**Table J: Methods of Communication**

Method(s) of Communication Used	Number of Firms
0	1
1	2
2	1
3	1
4	2
5	1

Source: PERC 2008 Data Furnisher’s Survey Responses

Of the companies that used just one or two methods of communication, the methods were information printed on bills, inserts in bills, or both. And four firms went beyond the basic ‘bill’ communication.

Regarding intensity of communication, or how frequently their customers were contacted, the following responses were returned.

- » “Monthly”
- » “Quarterly”
- » “Every 6 months”
- » “Annually”
- » “We had special notification 90 days prior to reporting”
- » “3 - 4 months prior to rollout”
- » “We ran initial campaign only, should have done more”

Furthermore, possibly indicating the importance of customer communication, the eighth firm, (having no communications strategy with its customers), was one of only two firms that reported benefits only equaling costs from credit reporting.



## V. The Case of NICOR Gas

Nicor Gas is located in Naperville, Illinois and has approximately 2.2 million customers, 1.8 million of which are residential consumers. Nicor Gas has been reporting consumer payment information to bureaus since 1998, and has weathered a storm of negative press and initial consumer reaction to the decision to fully report payment information to credit bureaus. Ten years after the implementation of payment reporting, Nicor Gas has provided convincing evidence that the full reporting of credit information to bureaus has an overall positive impact on both company and consumers.<sup>16</sup>

### a. Why Do they Report?

Nicor Gas reports payment information in order to reduce costs associated with late payments and defaults. Delinquent accounts reduce cash flow and create extra costs, such as additional billing, postage, and administration. Reporting payment data to bureaus rewards customers who make timely and sufficient payments while at the same time discouraging late payments, insufficient

<sup>16</sup>Lukowitz, David. "Nicor Gas Credit Reporting" presentation at presentation at Consumer Data Industry Association Symposium, March 13, 2008.

payments and defaults. Reorganizing its account management has allowed Nicor Gas to decrease its net bad debt and reduce the share of accounts that are delinquent.<sup>17</sup> In short, reporting payment information to credit bureaus has helped Nicor Gas to remain competitive.

Customers who express difficulty paying their bills are directed to a Nicor “Budget Plan” program that helps to establish payment plans. In this way, customers who are falling behind can avoid negative reporting. Nicor Gas provides this service to encourage a proactive approach to paying off bills, all part of its strategy to reduce operating costs.<sup>18</sup>



## b. Costs and Difficulties

In preparation to changing over to a full payment reporting system, Nicor Gas spent considerable time and effort to build a transition program that included both internal and external education and training.<sup>19</sup> A Nicor team composed of finance, IT, marketing, legal, regulatory, and customer service representatives undertook the task of determining public reaction, the effects of credit policy, and the impact of a payment reporting system on operations, systems, and staffing.<sup>20</sup>

During the education process, Nicor found confusion among employees and consumers. Many of the Nicor employees were under the impression that Nicor already was reporting payment information to the credit bureaus, and very few understood why payment reporting was significant. Another concern that was consistently voiced was whether or

<sup>17</sup>“How Nicor Gas reduced net bad credit through reporting” 22 Jan 04 Online. Accessed 26 Aug 06: <http://www.eyeforenergy.com/news.asp?id=287> .

<sup>18</sup> Further information about Nicor Gas and credit reporting can be found at [http://www.nicor.com/en\\_us/residential/residential\\_faqs/credit\\_reporting.htm](http://www.nicor.com/en_us/residential/residential_faqs/credit_reporting.htm) .

<sup>19</sup> Lukowitz, David. “Nicor Gas Credit Reporting” presentation at presentation at Consumer Data Industry Association Symposium, March 13, 2008.

<sup>20</sup>“How Nicor Gas reduced net bad credit through reporting” 22 Jan 04 Online. Accessed 26 Aug 06: <http://www.eyeforenergy.com/news.asp?id=287> .



not the company had the right to report.<sup>21</sup> The Fair Credit Reporting Act stipulates the rules for reporting account performance to credit bureaus. Nicor Gas worked to ensure that these guidelines were followed and that an appropriate payment reporting process was implemented.<sup>22</sup>

### c. Customer Education and Communication

Nicor found that external education was a slow process which required constant reinforcement. Messages were sent out through monthly bills, special inserts, news releases, and prepared question and answer handouts. In addition, the new policy was the subject of call center training, an Illinois Commerce Commission correspondence and letters to employees. Nonetheless, some consumers still claimed to have no knowledge of the new policy during its first few years. To make matters worse, the media consistently reported an unbal-

anced message about payment reporting, highlighting negative consequences and neglecting to report positive features. The Nicor Gas payment reporting system was the subject of many proposed bills in the Illinois Legislature.

### d. The Benefits to the Company

From a financial standpoint, Nicor Gas has benefited greatly from the implementation of payment reporting. In three years' time, Nicor Gas experienced a 20% decrease in net bad debt. Nicor estimated that there were five to seven million reduced charge offs in nine years. This result was coupled with a decrease in late payments, an increase in timely payments and promises to pay, and an annual customer dispute rate of less than 1%. Overall, Nicor Gas assumed a minimal implementation cost, and in return experienced increased efficiency in their daily operations.<sup>25</sup>

<sup>21</sup> Lukowitz, David. "Nicor Gas Credit Reporting" presentation at presentation at Consumer Data Industry Association Symposium, March 13, 2008.

<sup>22</sup> "How Nicor Gas reduced net bad credit through reporting" 22 Jan 04 Online. Accessed 26 Aug 06: <http://www.eyeforenergy.com/news.asp?id=287> .

<sup>23</sup> Lukowitz, David. "Nicor Gas Credit Reporting" presentation at presentation at Consumer Data Industry Association Symposium, March 13, 2008.

<sup>24</sup> "How Nicor Gas reduced net bad credit through reporting" 22 Jan 04 Online. Accessed 26 Aug 06: <http://www.eyeforenergy.com/news.asp?id=287> .

<sup>25</sup> *ibid.*

Additionally, Nicor Gas has benefited from a customer service and customer relationship standpoint. Overall, Nicor Gas found that the implementation of a payment reporting system resulted in an increased ability to collect payment. Because good financial habits were rewarded, customers showed an increased motivation to pay Nicor utility bills on time. This practice enabled Nicor to help these consumers build a positive credit file. Also of importance, the payment reporting system has the potential to reduce fraud by providing more information to credit bureaus, and could thereby save Nicor Gas and its customers money and spare each from fraud hassles.<sup>26</sup>

### e. External Benefits to Consumer

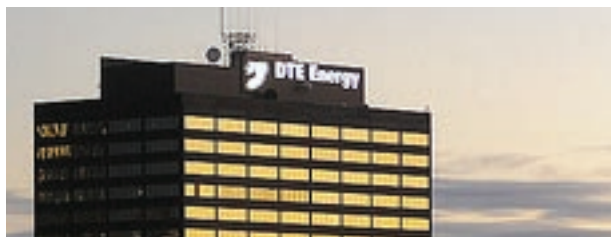
Since December of 1998, Nicor Gas has reported over 200 million records to credit bureaus. While the reporting of payment data has had no impact on “severe situations”, Nicor estimates that 80% of its customers have altered their payment behavior due to the payment reporting policy, and customers are now using the policy to their advantage. With the reporting, thin-file customers have seen improvement in their credit file. And the approximately 1.4 million customers who pay their bills on-time have improved their credit by buying gas through Nicor. An unexpected bonus has been the negative trend in numbers of identity theft as the new (and different type of) information in credit files allows for easier detection of identity theft.<sup>27</sup>

<sup>26</sup> *ibid.*

<sup>27</sup> Lukowitz, David. “Nicor Gas Credit Reporting” presentation at presentation at Consumer Data Industry Association Symposium, March 13, 2008.

### f. Nicor Gas’ Legacy

Nicor Gas was the first major utility to undertake full-file reporting to credit bureaus, and provided an important example to other utilities considering the same policy changes. Nicor’s experience helped other utilities, such as DTE Energy, make a smoother transition to full-file reporting by providing the example of employee and consumer education, as well as tangible evidence of the benefits to both the utility and the customer. Also important was the learning that occurred by the credit bureaus. This made it easier for them to be more responsive to the needs of energy utilities and telecommunications firms seeking to credit report.



## VI. The Case of DTE ENERGY

### a. The DTE Energy Story

DTE Energy is based out of Detroit, Michigan and has approximately 2.5 million electric and natural gas customers. In August of 2006, DTE Energy changed its payment data reporting policies in response to increasing rates of delinquencies among customers. The deteriorating economic conditions across the state had negative impacts on DTE Energy, through increased operating costs, partially due to the increased collections calls and agency costs.

On top of the increased operating costs, the cost of energy was also increasing. At the time, Michigan was experiencing the highest level of unemployment in the country (7.6% in December of 2007).<sup>28</sup> In addition, Michigan had the third highest rate of both bankruptcy and foreclosure in the nation.<sup>29</sup> DTE ENERGY needed to find a solution to the increasing rate of delinquency and operating costs and decreasing customer satisfaction.

<sup>28</sup> Londo, Julie. "Enhancing Collections through Full-File Credit Reporting" presentation at Consumer Data Industry Association Symposium, March 13, 2008

<sup>29</sup> *ibid.*

<sup>30</sup> *ibid.*

Following the example of Nicor Gas, DTE Energy responded to its need to lower arrears and uncollectibles and provide an incentive for customers who paid on time: the positive reporting of their timely payments. As with Nicor, full-file reporting for DTE Energy has resulted in solid evidence of the multiple benefits that can be achieved by fully reporting customer payment data.

### b. Process and Costs

DTE Energy adopted full-reporting of payment information in a staged implementation process. One of the most important aspects of the transition was public education, a lesson learned from Nicor's experience. In April of 2006, DTE Energy posted credit related information on their website and customer service representatives were trained on the new policy. In addition, customers received initial information in their billing statements about the impending changes as part of a four-month education campaign. By July of 2006, a credit reporting message was included on the monthly bill insert and a calling campaign with information about credit reporting had been initiated to alert customers, prior to actual reporting, that credit reporting would soon be implemented.<sup>30</sup>

### c. Difficulties

Many in Michigan viewed these changes as predominantly negative. Some media outlets published stories condemning the new policy as “an assault on the middle and poor working class,” and as hurtful to customers.<sup>31</sup> Many felt that this policy ultimately helped those who were financially stable while harming those who lived paycheck to paycheck and would not always be able to pay on-time. Others highlighted the potential negative effects on families who experienced illnesses or accidents that left them temporarily unable to make timely payments.<sup>32</sup> This perspective focused on the view that many of DTE Energy’s financially strapped customers not making payments would be harmed.

The media did not address both sides of the story. Low credit scores do not necessarily harm a consumer, however an inaccurate or incomplete score can. If a consumer is in financial distress; it is helpful for both the lender and the consumer to understand the financial reality, so that the consumer does not become overextended. On the other hand, a consumer with a history of positive repayment is rewarded through a system of positive reporting. If this information is not reported, the consumer

cannot benefit from responsible financial habits. Moreover, without this information a lender may potentially fail to offer credit to qualified consumers, which will affect lender profits.

The major impact of full reporting of payment data was to be seen in those consumers who regularly paid on-time and not those who already had habits of late payment. DTE Energy offers a similar payment program as Nicor Gas to customers who fall behind in payments. Customers who proactively report difficulties with making payments are eligible to enter into an altered payment schedule and avoid negative reporting.<sup>33</sup>

### d. Benefits

In the months after implementation of the full-file reporting of payment information, data began showing many positive effects of the new policy. The credit reporting began on August 25, 2006. By January 2007, the average improvement in DSO (Days Sales Outstanding) was 5.2 days over the previous January. The real progress however, was seen in the thin- and no-file consumer population. DTE Energy opened 452,542 new accounts in 2007. Of these new accounts, 14,397 customers had no prior credit history, and having a DTE Energy account is allowing these consumers to build a credit file.<sup>34</sup>

<sup>31</sup> *Detroit Free Press*, January 11, 2007.

<sup>32</sup> Londo, Julie. “Enhancing Collections through Full-File Credit Reporting” presentation at Consumer Data Industry Association Symposium, March 13, 2008.

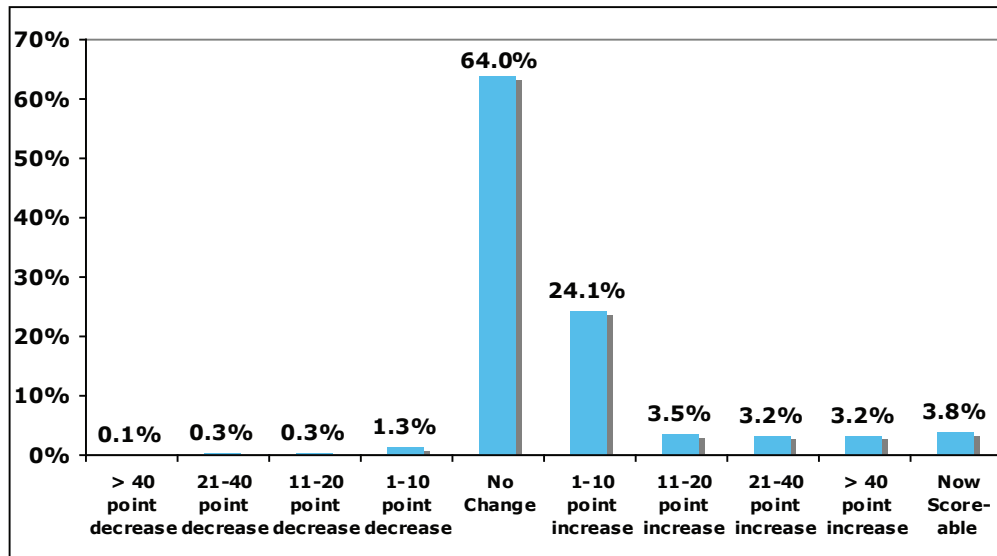
<sup>33</sup> For more information on DTE Energy’s payment programs, please see <http://my.dteenergy.com>.

<sup>34</sup> Londo, Julie. “Enhancing Collections through Full-File Credit Reporting” presentation at Consumer Data Industry Association Symposium, March 13, 2008

Changes, though mostly small, were seen in the credit scores of customers. Sixty-four percent of non-delinquent accounts saw no change in their credit score. However, 24% saw a slight increase in credit score and approximately four percent of non-delinquent accounts are now scoreable as a result of the reporting of the energy payment data.<sup>35</sup>

In addition to the positive benefits experienced by its consumers, DTE Energy also was rewarded by the new reporting system. Through this process, DTE Energy reduced the number of late and defaulted payments, thus lowering arrears and uncollectible accounts. By February of 2007, 80,000 fewer accounts were in arrears as compared

**Figure 2: Distribution of Changes in Score Due to DTE Energy Trade (non-delinquent records)**



Source: Londo, Julie. "Enhancing Collections through Full-File Credit Reporting" presentation at PERC/CFSI "Doing Well and Doing Good Symposium," hosted by the Consumer Data Industry Association, Washington, DC. March 13, 2008

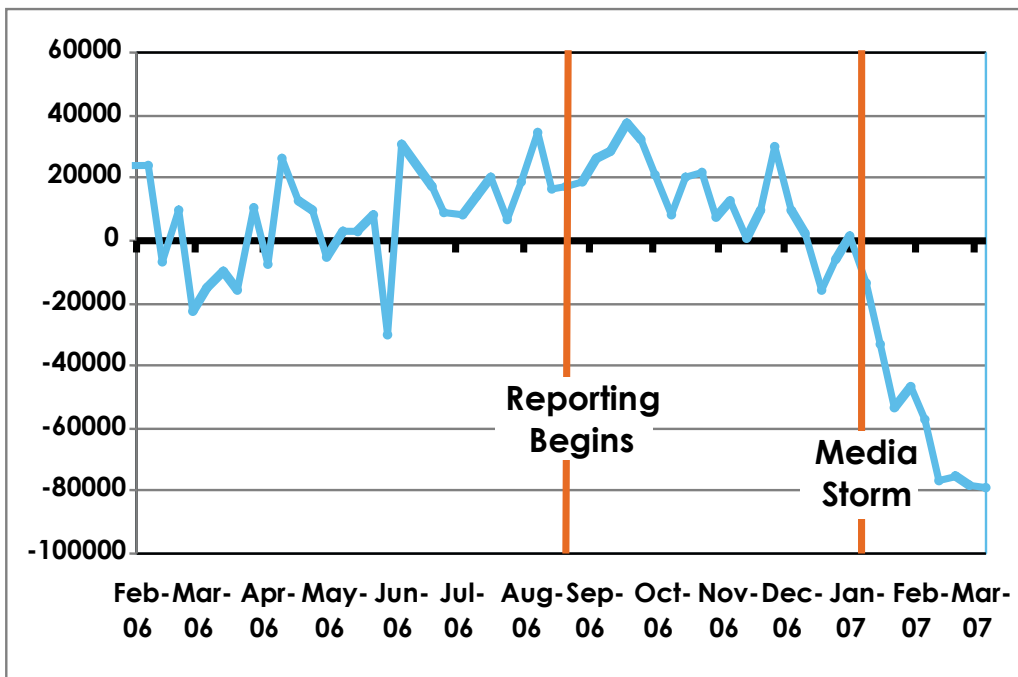
<sup>35</sup> *ibid.*

<sup>36</sup> *ibid.*

to January of 2006. The projected trend indicated that if the new reporting process had not been implemented, an additional 78,000 accounts could have been in arrears. With the average delinquency totaling \$432, this would equal \$33.6 million in losses for DTE Energy. The payment reporting system cost just \$450,000 to implement, a small cost compared to the expenses lost to delinquency and increased operating costs associated with managing delinquent accounts.

As a result of the new reporting system, more customers became actively involved in their payment process by calling to ensure payments had been received on-time. Customers took a greater responsibility for prioritizing DTE Energy utility payments, and as a result, some were able to improve their credit scores just by continuing the responsible habits they had always practiced but for which they had never been rewarded. By being the only utility

**Figure 3:** Weekly Changes in Residential Accounts in Arrears, February 2006 to March 2007



Source: Londo, Julie. "Enhancing Collections through Full-File Credit Reporting" presentation at PERC/CFSI "Doing Well and Doing Good Symposium," hosted by the Consumer Data Industry Association, Washington, DC. March 13, 2008

to offer the benefit of positive information reporting for a service that is almost universally utilized, DTE Energy became a unique energy provider that offered an additional service to customers in the form of full-file reporting.<sup>37</sup>

From figure 3, though seasonal factors are not controlled for, it appears that (1) prior to the launch of full-file reporting, weekly changes in arrears were on the rise; (2) after the launch of full-file reporting changes in arrears declined; and (3) after the media storm, changes in arrears declined dramatically.<sup>38</sup> This likely indicates that the customer communication was successful in changing customer payment behavior after the implementation of reporting. It also indicates the impact of customer communications. The steep decline in accounts in arrears following the free (but mostly negative) media barrage months after reporting began provides strong evidence that customer payment behavior is alterable to a non-trivial extent and how much it is altered is a function of customer communications. Explaining how a customer's interests are more aligned with that of the utility (delinquencies hurt both and on-time payments help both) is the key to altering customer behavior.

## e. Lessons Learned

DTE Energy provided encouraging evidence that the use of alternative data could help the millions of Americans who currently are outside of the mainstream credit market achieve a scoreable credit file. The lessons learned by DTE Energy could offer insight to other utility companies who are interested in a similar change of policy. In an after-action presentation, DTE Energy found that the main keys to success were the thorough education of both employees and customers, along with providing existing customers enough notice to prepare for and understand the change. As with any major policy change, DTE Energy stresses that companies pursuing this sort of change must be ready to handle the negative press and criticism that often accompanies change, and to work to avoid misunderstanding of the policy and its implications. Lastly, DTE Energy enacted a streamlined dispute resolution process that helped customers have a reliable outlet for resolving information disputes. Combined with the consumer benefits associated with the reporting of alternative data, the extra education measures and reliable dispute resolution process DTE Energy is moving in the positive direction of being the creditor of choice (a payment priority) for Michigan energy consumers.<sup>39</sup>

<sup>37</sup> *ibid.*

<sup>38</sup> Adjusting for seasonal factors may actually make this conclusion stronger, as changes in accounts in arrears were rising in the spring and summer of 2006 (the warmest months for Michigan) and declining in the Fall and Winter after reporting began.

<sup>39</sup> *ibid.*



## VII. Companies that Do Not Report

Of the 86% (59/69) of respondents that indicated their companies do not currently report directly to a bureau, four indicated that they had ceased reporting and 53 indicated that they had never reported directly to a bureau.

Of the respondents from companies that have never reported, 58% (31/53) indicated that their company had considered reporting.

Of these 31 companies that had considered reporting, additional questions were asked.

Representatives of 29 of these 31 companies indicated whether each of the following was considered a potential benefit from reporting by their company.

Therefore, most understood the benefits of credit reporting. And while the financial benefits from providing incentives for their customers to pay their bills and in a timely manner were clear to a vast majority, many (52%) understood in indirect benefits of brand building and customer loyalty.

And 30 of the 31 companies that indicated that they had considered reporting indicated whether the following were reasons why they chose not to report.

**Table K: Benefits of Reporting**

Potential Benefit	Percentage Response
Improvement in rate of aged receivables	79%
Improvement in rate of write-offs	69%
Improvement in rate of days sales outstanding	62%
Build brand and competitive advantage by helping customers build credit	52%
Other	10%
Did not see any benefits to doing so	3%

Source: PERC 2008 Data Furnisher’s Survey Responses



**Table L: Reasons Respondents have not Considered Reporting**

Reason	Percentage Response
Perceived high recurring costs (costs stemming from disputes concerning payment reports, costs of furnisher obligations, e.g.)	60%
Perceived high initial costs (need to restructure billing systems, e.g.)	50%
Other	37%
Concern about consumer complaints	37%
Unsure of legal status of reporting/legal prohibition	27%
Did not see any benefits to doing so (e.g. declines in late payments)	17%

Source: PERC 2008 Data Furnisher’s Survey Responses

Several respondents listed other specific reasons why their company had not begun reporting, including:

- » “Believe reporting to an exchange satisfies need”
- » “Unsure how to go about it”
- » “Decided to use collection agency. They report.”
- » “[Do not] want to provide our competitors any advantage from our data”
- » “Still looking into it”
- » “Concern for low income customers/ LIHEAP benefits”
- » “Commission does not favor full file”
- » “Banks don’t consider utility reported items”
- » “Benefits not greater than costs”
- » “Still working through concept”

Of those respondents that are from firms that do not report to a credit bureau directly, 45 assessed the value of the various incentives shown in Table M.

**Table M: Value of Reporting Incentives**

	Modest/No Incentive	Moderate Incentive	Strong/Very Strong Incentive
» Specific information from peer group case studies on whether, how much and how soon write-offs and delinquencies have declined with payment reporting.	18%	13%	69%
» Information that indicates costs and hurdles involved in reporting are modest.	25%	16%	59%
» Evidence your company's customers would, on net, benefit from your company reporting as they build credit histories and enable greater access to more affordable credit.	25%	27%	49%
» Tax incentives for upgrading your IT systems in order to regularly report and verify/re-verify customer payment data.	29%	27%	44%
» Clarification of the legal/regulatory environment in which the onward transfer of payment data is clearly permitted.	40%	18%	42%
» The creation of best practices and guidelines for companies in your industry to begin fully reporting.	35%	24%	40%
» Knowledge that prominent consumer advocacy organizations and minority interest groups support the practice of reporting payment data to credit bureaus.	42%	29%	29%

Source: PERC 2008 Data Furnisher's Survey Responses

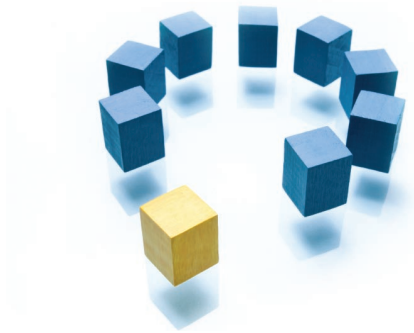
The top four incentives are peer group case studies, specific information of costs and benefits, tax incentives, and the knowledge that the reporting would, on net, benefit their customers. Less important is the support of consumer advocacy groups, the creation of best practices, and legal and regulator clarification. What this suggests is that a firm's decision to report or not to report to a credit bureau is based more on business fundamentals - the costs and benefits - and actual impacts on customers and less on legal/regulatory fears, PR concerns, and general industry practices. That is, it is based on what is good business for their firm.

Tellingly, there seems to be a pronounced disconnect between the perceived costs of credit reporting – the most significant deterrent to reporting payment data to a credit bureau – and the actual costs as revealed through the experience of those pioneering firms that currently credit report. In that nearly seven in ten respondents indicated that peer testimonials are the strongest piece of evidence they would weigh when considering whether to credit report, the fact that all firms that fully report to a credit bureau reported small or minimal costs, that perceived benefits outweighed costs, and that all were satisfied with their experience should provide compelling evidence to industry executives of the value of credit reporting.

Some additional suggestions as to what would make effective incentives to induce the furnishing of customer payment data include the following.

- » “Ease of submitting info for reporting”
- » “CRAs need to rein in OLDE”<sup>40</sup>
- » “Encouragement from regulatory commissions”
- » “Waiver of legal liability”
- » “Make sure all our competitors have also agreed to provide the same data as soon as we do”
- » “Incentives for budget billing to help w/seasonal bills”
- » “ID theft prevention”

<sup>40</sup> OLDE stands for OnLine Data Exchange. This respondent was of the opinion that the CRAs needed more control over this exchange.



## VIII. Customer Survey

The ultimate goal for data furnishers when deciding to report payment data to credit bureaus and consumer reporting agencies is to change customer payment behavior. To explore whether changes would occur if payments were reported, PERC created a

customer survey to gauge (1) current awareness of payment reporting by industry, (2) current bill payment priorities, and (3) how behavior would change if payments were reported to one or more credit bureaus. The survey was given online and fielded by the Opinion Research Corporation to 939 adults that indicated they were either primarily or jointly responsible for paying the bills in the household.

### Awareness of Reporting

Question: Do any of the following types of companies with which you have an account report your payment information to a credit bureau? (Yes, No, Don't Know)

**Figure 5: Awareness of Energy Utility Reporting**

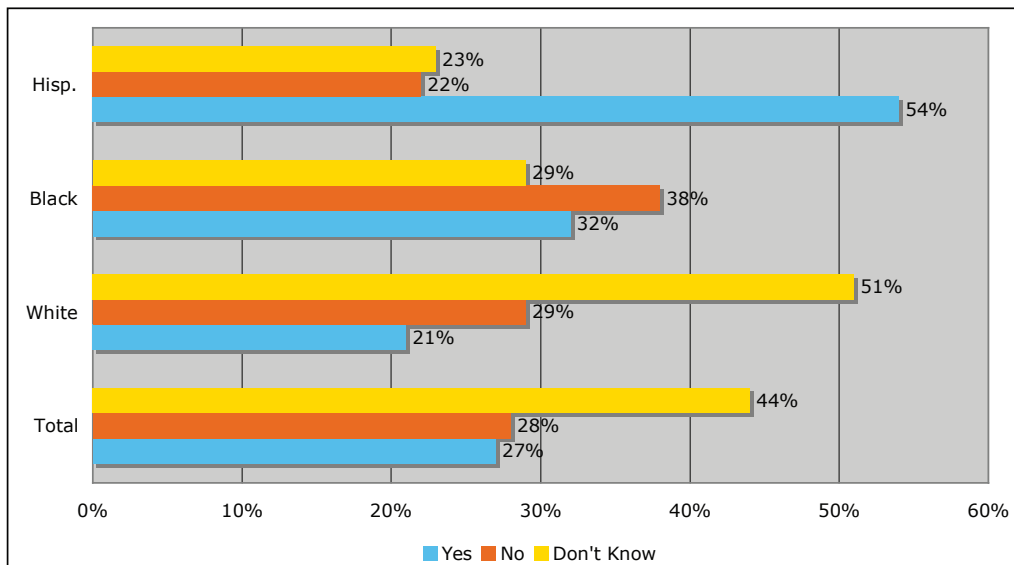
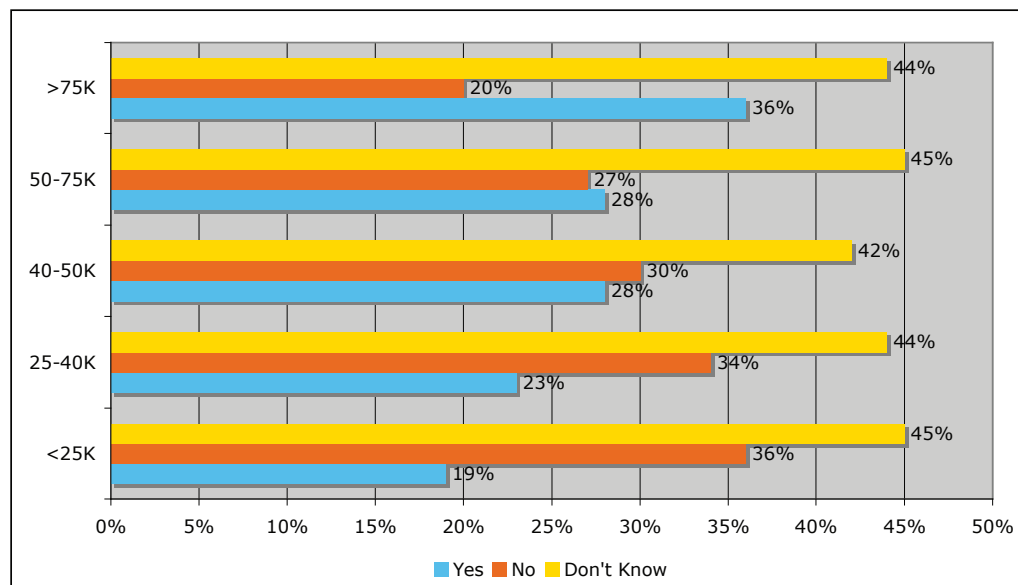


Figure 4 reports the extent of consumer awareness of payment reporting of different financial and non-financial obligations to credit bureaus. Consumers are largely unaware whether obligations are reported to credit bureaus or not, especially in the case of non-financial obligations. (The survey did not attempt to check whether this awareness was correct or not.) The key fact in the survey is the very low level of awareness of the reporting of utility and telecom obligations. Rent was the only non-financial obligation that consumers were more aware that it is not usually reported than were uncertain whether it was reported. The breakdown of customer awareness of payment reporting by ethnicity and income for various obligations suggest that black and particularly Hispanic respondents were more likely (relative to white respondents) to believe payments are reported to credit bureaus. (See Appendix C.)

Figures 5 and 6 report the results by ethnicity and income for awareness of utility reporting. Contrary to common claims that lower-income segments and minorities are more aware of non-reporting than higher income groups and whites, and that this awareness allows them to treat utility payments as a cushion, our results indicate that these segments are more likely to (mistakenly) believe that utility obligations are reported. (Below we show that awareness translates into a greater willingness to pay on-time.)

This was true for all the obligations presented whether or not the obligation’s industry is one that typically reports to bureaus. Therefore, it does not appear that members of one ethnic group or another are more aware which obligations are ac-

**Figure 6: Awareness of Energy Utility Reporting**



tually likely to be reported to a credit bureau. The second finding is that the higher the income of the household the more likely the respondent was to believe that payments were reported to credit bureaus. Again, neither the high nor the low-income groups appeared to be more accurate as to which obligations reported and which did not.

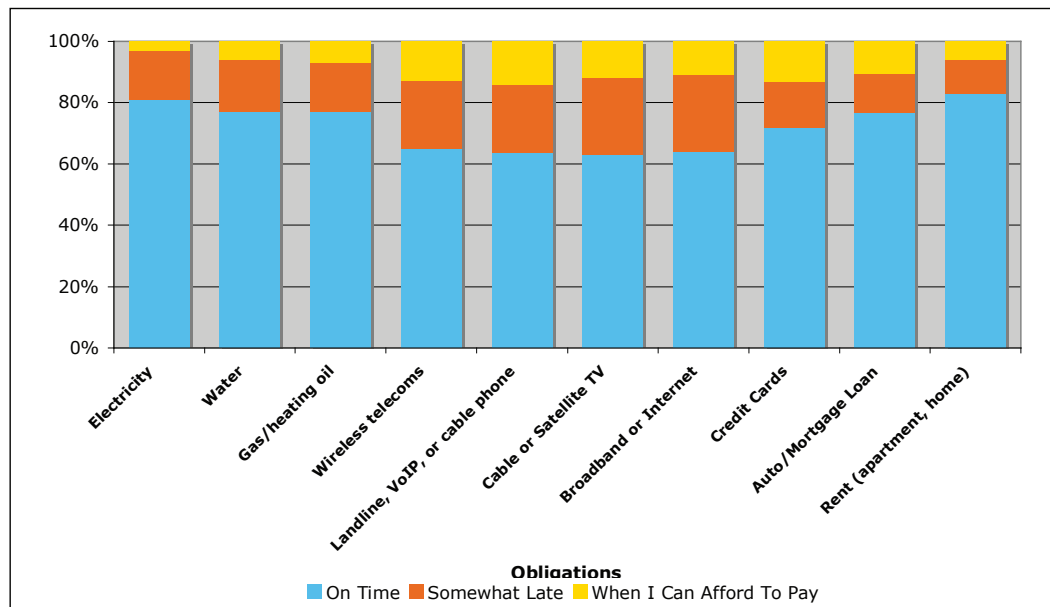
The findings point to a need for personal financial education across all groups. Such education need not only come from the public sector and nonprofits but should also from the private sector data furnishers that have the economic interest in informing their customers that they do indeed report payment activity to credit bureaus and that the customer’s credit file and scores are impacted.



### Bill Payment Priorities

Question: In the event of a cash flow problem, would you pay the following obligations “on time,” pay the bill “somewhat late,” or only pay the bill “when you can afford to pay” something, even if this means being very late?

Figure 7: In the event of a cash flow problem, would you pay...



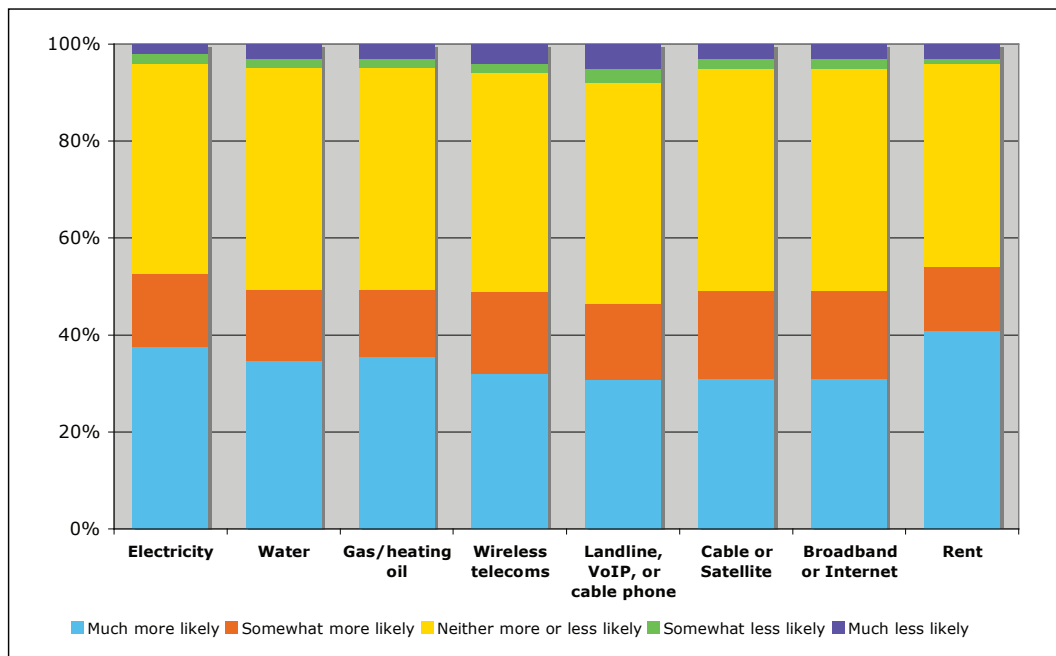
The results shown in Figure 7 can roughly be summed up as consumers giving highest priority to rent, mortgage, auto loans, electricity, gas/oil, and water. Mid-level priority is given to credit cards. The relatively lowest priorities are given to telephone services (wireless and landline), cable/satellite services and Internet services. We found little if any systematic differences across ethnic groups in how late they would likely pay an obligation during a cash flow problem. Across income groups, there is a large increase in those saying they would pay on-time from the lowest income group to the highest in only two of the obligations reported, large loans (auto and mortgage) and credit cards. These are the only obligations

listed that are usually reported to credit bureaus. One possible explanation is that those in upper income brackets have more to lose in the damage done to their credit rating. If so, then the access to credit itself helps to create incentives to pay on time.

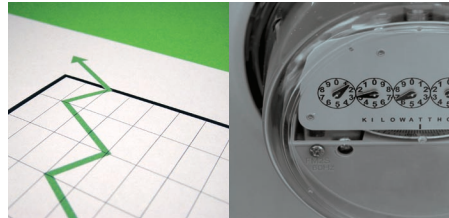
### Payment Reporting and Behavior Changes

Question: Generally, your financial payments-- credit card debt, auto and mortgage loans -- are reported to credit bureaus. However, most non-financial companies report only seriously delinquent bills. If the following non-financial companies were to report each month both your timely and your late payment data to a credit bureau like

**Figure 8:** If the following non-financial companies were to report , how likely is it that you would make timely payments...



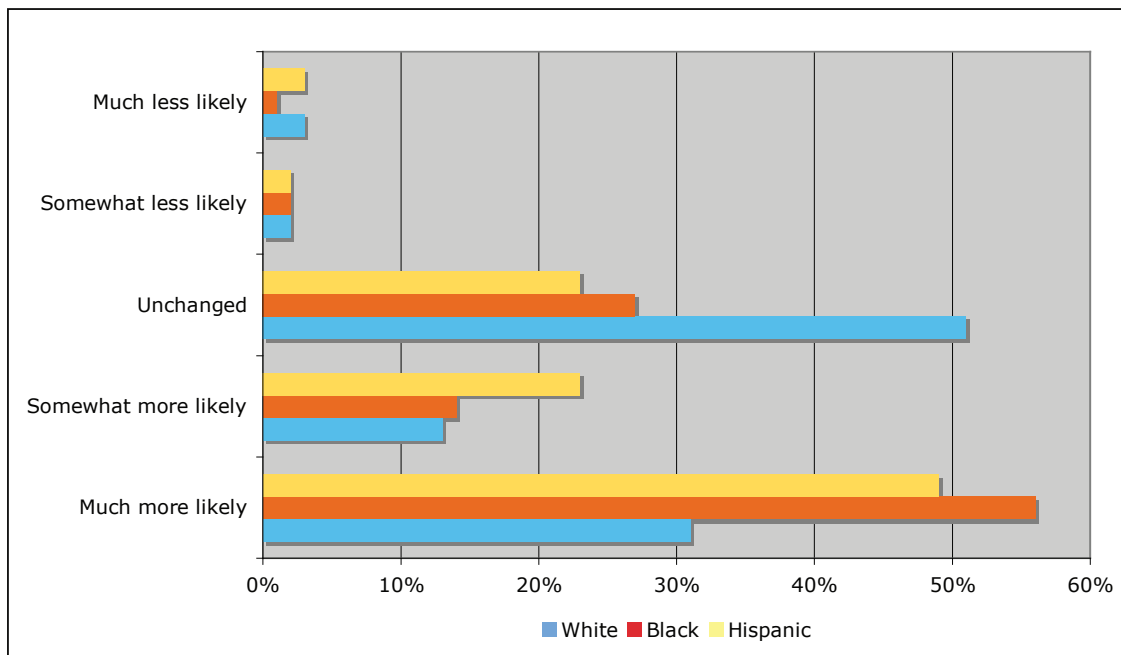
TransUnion or Experian, which might impact your credit score, would you be “much more likely”, “somewhat more likely,” “neither more nor less likely”, “somewhat less likely” or “much less likely” to pay your bill on time?



For the various non-financial obligations listed in Figure 8, the proportion of consumers indicating that they would be more or much more likely to pay their bill on-time if the payment was reported to a credit bureau is roughly 50 percent. What is surprising is that such a large share, roughly 35 percent, indicated that they would be *much* more likely to pay on time.

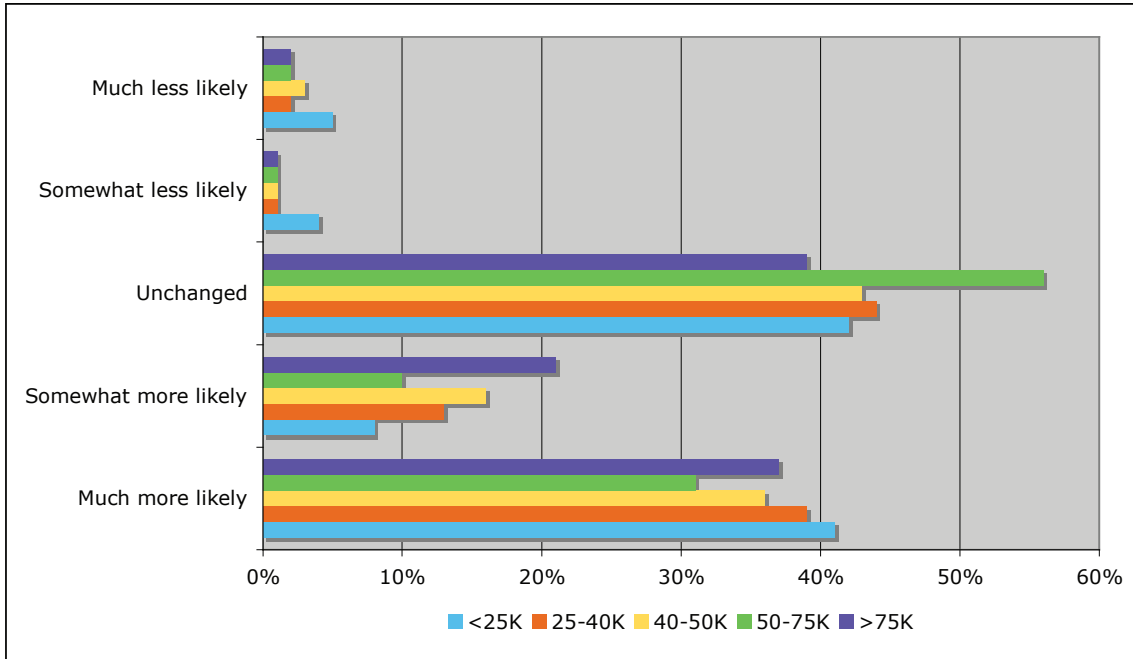
Finally, Figures 9 and 10 show breakdowns of how much more or less likely consumers would be to pay their non-financial bills on time if the payment was reported to a credit bureau by ethnicity and by income.

**Figure 9:** If the following non-financial companies were to report , how likely is it that you would make timely payments... (by ethnicity)





**Figure 10:** If the following non-financial companies were to report , how likely is it that you would make timely payments... (by income)



Black and Hispanic respondents were more likely to report that they would be more likely to pay particular obligations on time if the payment was fully reported to a credit bureau. The results for the income segments are not as clear. The additional incentive to pay on-time if payments are fully reported seems to decrease as income grows

and then increases again for the highest income category across all types of non-financial obligations. A possible explanation of this is as income rises, consumers are more likely to already be paying obligations on-time or near on-time, so an additional incentive is not likely to change behavior much.

## Key Findings from Customer Survey

- » There appears to be a low level of understanding among consumers of payment reporting and which types of payments are more likely to be reported.
- » Though differences exist, no particular ethnic or income groups appear to be more knowledgeable than others regarding payment reporting and which payments are more likely to be reported.
- » Low-income and minority respondents are more likely to rightly or wrongly believe that non-financial obligations are already reported than whites and are more likely to make more timely payments when information is reported. We find no evidence that these consumers treat utility and telecom payment obligations as cushions.
- » Half of those surveyed indicated that if a non-financial obligation payment was reported to a credit bureau and would have an impact on their credit standing, they would be more likely to pay on time (35 percent indicated that they would be much more likely to pay on time and 15 percent indicated they would be more likely to pay on time). Forty-five percent indicated that payment reporting would not make them more or less likely to pay on time. The remaining five percent indicated that they would be less likely to pay on time if payments were reported.



## IX. Facts and Myths of Reporting

Through extensive outreach with energy utility and telecommunications industry executives and state regulators, PERC has been made aware of several pervasive misperceptions about credit reporting. Because these misperceptions are shaping opinions about the relative merits of fully reporting customer payment data to credit bureaus and consumer reporting agencies (CRAs), it becomes important to provide relevant facts that directly address them.

**Myth #1: Customer payment data reported to credit bureaus and consumer reporting agencies will be used for general marketing purposes.**

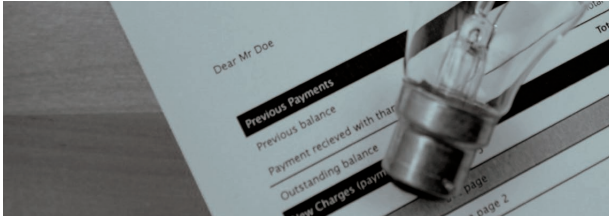
► **FACT #1:** The federal law governing credit file data—the Fair Credit Reporting Act (the “FCRA”)—only permits the use of credit file data for marketing firm offers of credit or insurance. The Gramm-Leach-Bliley Act of 1999 further prohibited the use of so-called “credit header information”—the data subjects name, nicknames, current and previous addresses, age range, gender, and social security number—from being used for general marketing purposes.

To ensure full compliance with the use restrictions placed upon credit bureaus, two of the three national credit bureaus maintain physically separate marketing and credit file databases. In this manner, no data that is collected by credit bureaus for FCRA regulated purposes is ever co-mingled with data collected for marketing solutions and applications. The third bureau does not collect any data for marketing, and operates only with FCRA regulated data.

**Myth #2: My competitors can specifically request a list of all or some of my customers.**

► **FACT #2:** This is patently false. Credit bureaus do not provide information with respect to existing business relationships with a particular entity. That is, AT&T cannot request a list of all persons who have an account with Verizon, and a VantageScore above 660. They could ask for all persons in a specific geographic area who have wireless telephone tradelines, for example, and a VantageScore above 660 .

In some industries, however, the market is so concentrated in a given geography that the existing business relationship can be inferred even without being specifically identified by the bureau. For example, in many areas there is only one or two providers of landline telecommunications, natural gas, electricity, or water. In such cases, there is precedent for the bureau to make a determination not to provide lists when the identity of the data furnisher or the existing business relationship can be inferred. Though, such cases are usually ones of regulated monopolies not facing direct competition.



### Myth #3: Reporting my customer payment data to a credit bureau or a consumer reporting agency costs too much.

► **FACT #3:** More than five in ten respondents to our survey of energy utility and telecommunications firms indicated that start-up costs, and customer service costs were significant concerns. This general concern with the cost of reporting has likely deterred many such firms from fully reporting customer payment data to a credit bureau.

To be sure, there are very real costs associated with reporting payment data to a credit bureau or a consumer reporting agency. The FCRA mandates certain data furnisher obligations, particularly in the context of consumer dispute resolution processes. And non-compliance with the FCRA obligations can result in fines from the Federal Trade Commission and could, depending upon the nature of the violation, result in exposure to litigation.

Despite this, there is real evidence to suggest that the perceived costs of reporting customer payment data vary considerably from the actual costs. While concern with costs were the primary reason cited by survey respondents of firms that don't

currently fully report customer payment data to a credit bureau or a consumer reporting agency, firms that do fully report indicated that the costs of reporting were relatively modest.

With respect to information technology (IT) costs, 60% of respondents reported that the annual costs specific to credit reporting comprised less than 5% of total annual IT expenditures, while the remaining 40% of respondents reported that annual credit reporting IT costs accounted for between 5% and 15% of total annual IT expenditures. Similarly, 83% of respondents that fully report customer payment data to a credit bureau indicated that annual customer services costs attributable to credit reporting accounted for between 5% and 15% of total annual customer service costs, while the remaining 17% put that figure below 5% of total annual customer service costs. In short, the actual costs of reporting customer payment data to a credit bureau or a consumer reporting agency are dramatically lower than most industry executives who have no experience reporting perceive them to be.

### Myth #4: My firm already reports to an industry cooperative database, and won't gain anything from reporting customer payment data to a credit bureau or a consumer reporting agency.

► **FACT #4:** Certain cooperative databases—even when run by a credit bureau--enable energy utility and telecommunications service providers that report data into the database to query for past delinquencies or non-payments of a potential customer. This information is used by service providers to

determine eligibility for varying service plans and whether or not a security deposit is required and what amount.

Critically, such databases do not feed this information into an FCRA regulated consumer credit reporting database that is accessible by financial organizations, and therefore the contents of these databases are not included as tradelines in consumer credit files. Most often, such data that is reported to credit bureaus for inclusion in credit files is primarily serious delinquencies or outright defaults or charge offs. Thus, customers have little to no incentive to expedite payments or even ensure regular and timely payments as there is little consequence apart from service disruption and attendant charges.

By contrast, firms that report fully to credit bureaus—that is timely payments and the amount as well as delinquencies in more frequent intervals (30 day intervals such as 30 days late, 60 days late, 90 days late and so forth)—provide stronger incentives for their customer to make regular and timely payments. First, reporting to a credit bureau or a consumer reporting agency means that both timely and late payments will be consequential to customers in ways that are well understood by the customer base. Second, reporting delinquencies with a greater periodicity—30 day intervals—further incentivizes customers to pay on time as they no longer have the luxury of waiting until threats of costly service disruption take effect to prompt them to pay. Third, while reporting has an undeniable disciplining effect, the fact is that the vast majority of customers pay on time but are not rewarded for their good payment behavior if only

negative data is reported to credit bureau (directly or indirectly through collections agencies) or if a utility firm only reports to a cooperative database.

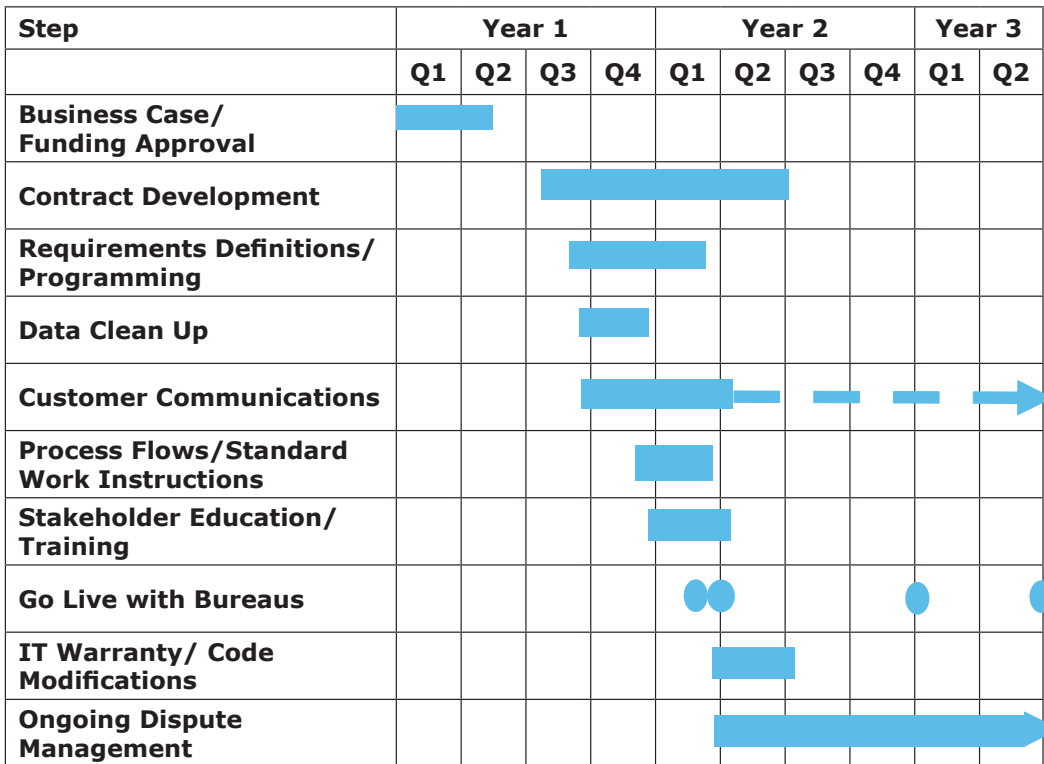
By fully reporting to a credit bureau, energy utility and telecoms firms reap the benefit of improved cash flow and provide their customers with a new benefit—the ability to improve their credit score and thereby potentially save thousands of dollars

## X. Road Ahead, How to Report

While roadmaps to reporting will likely vary by state (given state level regulations and the attitudes of utility commissions) and by company and exact industry, it may be instructive to see the broad steps and corresponding timelines of an actual transition

to full file reporting. The following chart is based on DTE Energy’s transition to reporting. As their transition was ultimately successful, with sizable benefits that far outstripped the costs, their roadmap may be particularly valuable.

**Figure 11: DTE Energy’s Implementation Timeline**



Source: Lando, Julie. “Enhancing Collections through Full-File Credit Reporting” presentation at PERC/CFSI “Doing Well and Doing Good Symposium,” hosted by the Consumer Data Industry Association, Washington, DC. March 13, 2008

Combining DTE Energy's experience with information provided by TransUnion, Experian, and LexisNexis we outline below five basic steps to reporting begin reporting to a CRA.

### ► **Step 1: Contact credit bureaus and consumer reporting agencies (CRAs) to determine if reporting is possible**

In this step the bureau(s) and CRA(s) will provide information that will be needed for the remaining steps. Consider requesting information about:

- » Any Legal/regulatory barriers to reporting
- » Building the business case
- » Commissioning a project team
- » Achieving Metro 2 compliance
- » Communicating with stakeholders
- » Creating the internal processes and procedures to manage and monitor the credit reporting program
- » General data reporting standards
- » Best practices of other utility and telecom data furnishers
- » Training and development of a team of individuals to understand and handle customer disputes

The following is specific contact information and resources for utilities, telecoms, and other non-financial data furnishers interested in obtaining information about reporting to a CRA or beginning the process of reporting to a CRA.

#### **TransUnion:**

**Go To:** <http://www.transunion.com/corporate/business/business.page> to learn about TransUnion's solutions for businesses, including utility and telecommunications companies.

Information on data reporting, including an FAQ and a cost analysis are available there.

**Call:** 1(866)922-2100.

#### **Experian:**

**Go To:** <http://www.experian.com/tec/> to learn about Experian's solutions for utility and telecommunications companies. There a guidebook and other resources for utility and telecommunications data furnishers are available.

**Call:** 1(888)414-1120.

#### **LexisNexis:**

**Go To:** <http://risk.lexisnexis.com> to learn about LexisNexis Solutions for organizations, including utility and telecommunications companies.

Information on LexisNexis solutions to improve credit risk assessment of individuals, along with the benefits of data reporting can be found there.

**Call:** 1 (866) 858-7246

#### **MicroBilt Corporation:**

**Go To:** <http://www.microbilt.com> to learn about PRBC Credit Building and the PRBC Bill Payment Report. Information on MicroBilt's bill payment reporting and traditional credit reporting is available there.

**Call:** 1 (800) 884-474

## ► Step 2: Business Case/Internal Communication/Funding Approval

With information provided from the bureau(s) and CRA(s) in Step 1, a business case with cost estimates can be made along with a budget for the project and the details of what needs to be done to report. The reasons for reporting should be communicated internally to gain buy-in throughout the organization.

## ► Step 3: Contract Development

After getting internal agreement on moving forward, the company should get agreements put in place with vendors and other companies whose involvement is needed.

## ► Step 4: Requirements Definitions/Programming/Data Clean up and Reporting Choices

Once internal buy-in and external agreements are in place, the nuts and bolts of implementation can begin. This involves preparing the data to be reported. Verification of customer identity can be provided by the bureaus, CRAs, or third party providers. This step not only ensures accurate data is reported to the credit bureaus and/or CRAs but also improves the collections process, and reduces identity theft and fraud.

The bureaus and/or CRAs maintain a flexible framework for reporting data, particularly for non-traditional datasets. Many choices will need to be made, such as how subsidized payments or those adhering to forbearance agreements are reported. Examples of some customer friendly choices are listed at the end of this section.

## Customer and Stakeholder Communications

Since the benefits from reporting customer payment information are derived from changes in customer payment behavior, it is key that customer communication is carried out early and often. And since many customers may be aware that their payments are not currently reported to a bureau or CRA, it is important to let customers know well in advance (several months) of a switch to reporting. Some customers may need a few months to adjust their finances and, possibly, communicate to the service provider about payment plans and payment options. In addition to customers it is important to communicate with and, if possible, gain the active support of stakeholders, such as PUCs/PSCs and other regulatory bodies.

## Process Flows/Standard Work Instructions/Training

Implementing new internal procedures to facilitate reporting. Training customer service representatives, managers, and other employees whose job functions will be altered with the switch to reporting.



### ► Step 5: Begin Reporting

Begin reporting (“go live”) with one or more CRAs.

### ► Step 6: Ongoing Dispute Management/Customer Communication

After reporting to CRAs begin, there will be an ongoing need to manage customer disputes. Continuing communications with customers, particularly with new customers, makes good business sense in industries that customers may assume have companies that do not report.

The steps listed and implementation times provided by DTE Energy’s example should only be taken as illustrative of what to expect in a switch to reporting. The actual steps, their order and duration are likely to be very much company and circumstance specific. For instance, an energy utility company after meeting with a CRA may conclude that while it has the authority and can legally report to a CRA, that it may be wise to reach out to its public utilities commission and receive buy-in with it prior to fully making the business case internally and certainly before contracting with outside parties.

To achieve the goal of improved cash flow while minimizing negative reactions from customers, the media, legislators, and regulators, particular emphasis should be placed customer communications (which drives payment behavior changes and thus

cash flow changes) and adopting customer friendly payment reporting practices. Payment reporting (what’s reported and how it is reported) is a flexible undertaking. By making customer-friendly choices in decisions on how and what to report, firms can lessen customer concerns and reduce customer service costs; increase buy-in (or the likelihood of buy-in) by legislators and regulators; and provide the media with a compelling positive view of payment reporting.

Examples of customer friendly choices include:

- » Not reporting small unpaid balances (such as less than \$20) on accounts that are closed.
- » Not indicating that the customer is being subsidized, on a payment plan, or in a forbearance agreement, only indicating that the customer is paying as agreed to.
- » Only payments over 60 days overdue reported as late.
- » When initiating payment reporting, do not report retrospective data, only payment data going forward (that is, only after customers have had sufficient notice).



## XI. Conclusion

The findings presented in this report make a case for reporting positive and negative payment data (full-file payment reporting) by nonfinancial service providers such as utilities and telecommunications companies.

» **Competitive Concerns Unfounded:**

Data furnishers need not fear poaching or the skimming of their best customers because those customers will be the most rewarded by the payment reporting and should likely become more loyal. Also, legal restrictions are in place on using credit-file data in marketing; such data can only be used for extending firm offers of credit or insurance. Bureaus will not simply provide lists of a competitor's customers.

- » **Benefits Exceed Costs:** On average, the firms reported that the benefits were several times the costs. For instance, DTE Energy reported that the customer dispute rate was below 1 percent of all accounts reported, which was well below projections, and less than 10 percent of these disputes required in-depth analysis.

» **Communication with Customers Is**

**Key:** An effective communications strategy is likely critical to reaping the benefits of full-file reporting. Reducing delinquencies depends on customer awareness of the benefits of on-time payments and the costs of being late. It is only then that customer behavior will change and more closely align with the interests of the data furnisher. This link between awareness and delinquencies was most evident when delinquencies dropped precipitously following media coverage of DTE Energy's shift to full-file reporting.

» **Credit Reporting Directly Affects Customer Payment Behavior:**

Results from the survey of more than 900 consumers indicate little awareness of payment reporting. This underscores the need for better customer communication regarding payment reporting. It also helps explain communication's impact on the success of payment reporting for a firm. The same survey revealed that about 50 percent of customers would be more likely to pay utility, telecommunications, and rental payment on time if they knew such payments would be reported to a credit bureau and affect their credit standing (45 percent indicated it would not alter their behavior).

» **Credit Bureaus Are Today More Experienced in Working with**

**Utilities:** Credit bureaus and nonfinancial data furnishers have gained significant insights and experience during the last 15 years. Credit bureaus now have experience with nonfinancial data furnishers and, given the increasing evidence that such payment data can be valuable for lenders, they are willing and better able to assist nonfinancial data furnishers in their transition to full-file reporting.

» **Full-file Credit Reporting Helps Customers Access Affordable Credit:**

Full-file payment reporting improves access to the financial mainstream for the underbanked and those underserved by credit issuers. Combined with the improved ability to assess risk when lenders have access to fully reported utility and telecommunications payment data, these are powerful incentives for regulators, legislators, and consumer groups to support full-file payment reporting.

credit reporting helps many customers access affordable sources of mainstream credit. Many of these customers are currently shut out from the credit mainstream and must rely on high-priced subprime or predatory lenders to meet their credit needs.

Now is the time for industry leaders to recognize this opportunity and take the necessary steps to create this win-win outcome. Reporting positive and negative payment data to credit bureaus and CRAs improves cash flow and helps customers establish a credit history, potentially saving them thousands of dollars a year in lower-priced credit. Given this solid evidence, business leaders should move forward with a tool that is not only good business for their firms, but good policy for their customers.

In short, there is compelling business logic for energy utility and telecommunications firms to begin fully reporting customer payment data to credit bureaus and CRAs. The results of this report clearly show that utilities and telecommunications firms can and do benefit financially from reporting. In addition, by building a positive credit history,

## Appendix A: Overview and Methodology Data Furnisher Survey

PERC, The Center for Financial Services Innovation (CFSI) and the Brookings Institution's Urban Market Initiative (UMI) partnered on the creation of a survey of firms in sectors that have not traditionally, to any great extent, fully reported customer payment data to credit bureaus. Most of the firms that were surveyed and responded were firms that provide energy utility or telecommunications services, though a sizeable share were from other sectors. Essentially, three versions of the survey were produced and fielded according to whether the firm had never reported, is currently reporting, or has ceased reporting. The three versions of the survey deployed are available at [www.infopolicy.org](http://www.infopolicy.org).

Since the survey needed to be sent to employees qualified to answer detailed questions regarding their firm's history and experiences with payment reporting, the three partners approached TransUnion, Experian, the American Gas Association, and the Edison Electric Institute to extend the survey to their relevant contacts.

Individual responses to the survey were only accessible to the three partners. The firms that completed the survey and optionally identified themselves is held confidentially by the partners. The confidential nature of the survey was made clear to the respondents.

The survey was fielded via a secure website in two rounds, first between January 15th and February 29th and second between June 2nd and June 30th 2008. The first round was carried out by the credit bureaus and the second round by the gas and electric trade associations. In all, respondents from 70 firms completed or partially completed the survey.

### a. Limitations

Some questions were skipped presumably due to a lack of familiarity with the particulars of the questions asked. In designing the survey we did not expect all the respondents to be able to answer all of the questions (some were quite specific, such as cost estimates for IT systems). It was designed to gather as much information as possible and not simply to have all questions answerable by all potential respondents. The questions in the survey tended to get progressively more

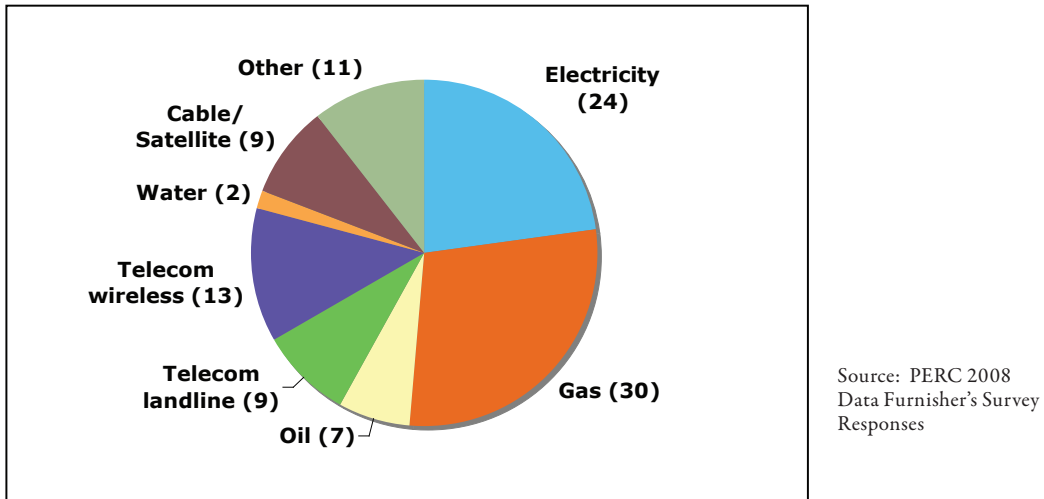
detailed and potentially more difficult to answer. And as such we noticed a tendency to stop answering the questions toward the end of the survey. Of the 70 surveys, nearly all had completed answers for the first 10 questions that dealt with basic questions of what data is reported. Around 81 percent (57/70) went through all the pages and sections of the survey and answered one or more of the final questions (including optional contact information and whether we may follow-up with them in the future). The incompleteness of the surveys should result in the more detailed questions having fewer responses. While this is not desirable, it is better than the alternative of not asking the more detailed questions and having no information or having people answer questions they are not sure about. As long as there is no systematic incompleteness, in which those that had less favorable experiences with the reporting of customer payment data were less likely to answer more detailed questions, for instance, we should not expect that the incompleteness should lead to a bias.

A second limitation is that the group of respondents completing the survey (or who were sent the surveys) may not be fully representative of the universe of utilities and telecommunications companies. Invitations to complete the survey were sent out via four organizations, TransUnion, Experian, the American Gas Association, and the Edison Electric Institute. It may be the case that, for whatever reason, those with a stronger positive or negative experience may have been more likely to respond to the survey, for instance. However, from both the bureaus and trade associations we received responses of those that reported data to bureaus and those that did not. We also received responses by those that had positive, mixed and negative experiences with data reporting. Since we have no better and independent measure of experiences with data reporting from such companies we can not say whether self-selection or the composition of the call lists would lead to a systematic bias in the survey results. Therefore, we make no attempt to correct for any such *possible* problem.

## b. Types of Companies that Responded

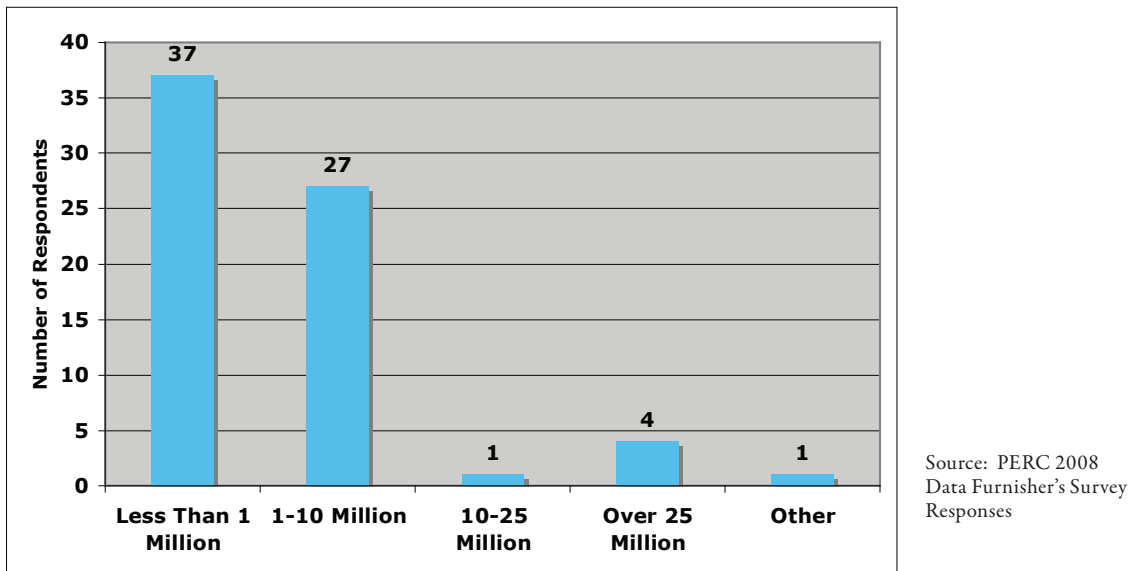
The following chart provides a breakout of the services provided by the respondents. The breakouts add to greater than the number of respondents (70) since many of the companies in the survey provided more than one service, for instance electric and gas service or wireless and landline services. As can be seen, the bulk of the respondents provided energy and telecommunications services.

**Figure 12:** Types of Companies that Responded



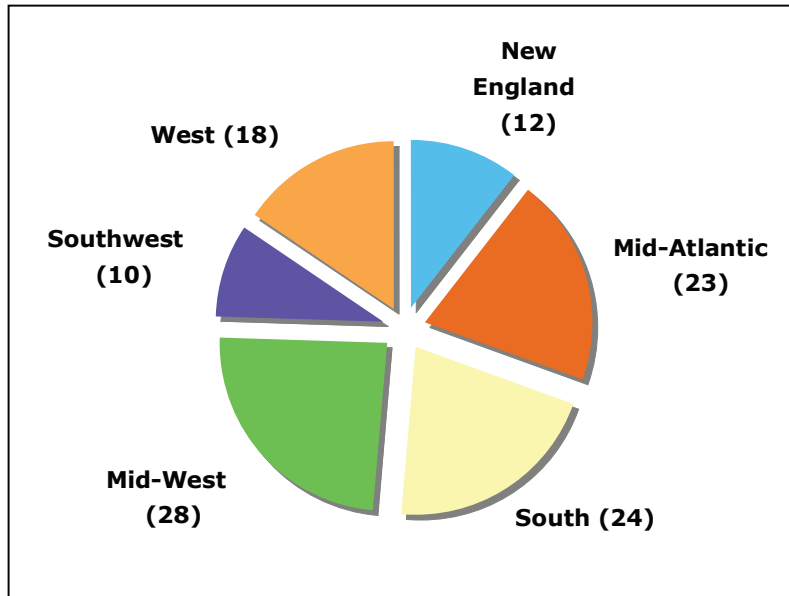
The size of the respondents' companies is shown in the next chart. As expected, some of the companies are quite large in terms of customers served, with five serving over ten million.

**Figure 13:** Distribution of Respondents by Number of Customers



Finally, the companies that responded were not concentrated in or excluded from any region of the country, as seen in the next chart.

**Figure 14:** Regions Covered by Respondents



Source: PERC 2008 Data Furnisher's Survey Responses

## Appendix B: Overview and Methodology of Customer Survey

While the survey questions were written by PERC, the survey was deployed and fielded (online) by Opinion Research Corporation.

The survey was conducted among a sample of 1,086 adults comprising 520 men and 566 women 18 years of age and older.

The online omnibus study (with which this survey was part) is conducted twice a week among a demographically representative U.S. sample of around 1,000 adults 18 years of age and older. Interviewing for this survey was completed on November 20-21, 2008.

Completed interviews are weighted by four variables: age, sex, geographic region, and race, to ensure reliable and accurate representation of the total U.S. population, 18 years of age and older. The raw data are weighted by a custom designed program which automatically develops a weighting factor for each respondent. Each respondent is assigned a single weight derived from the relationship between the actual proportion of the population based on US Census data with its specific combination of age, sex, geographic characteristics and race and the proportion in the sample.

The survey sample was then narrowed down to the 939 respondents that indicated that they had either primary or joint responsibility in bill paying.

Respondents for this survey were selected from among those who have volunteered to participate in online surveys and polls. The data have been weighted to reflect the demographic composition of the 18+ population. Because the sample is based on those who initially self-selected for participation, no estimates of sampling error can be calculated. All sample surveys and polls may be subject to multiple sources of error, including, but not limited to sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments.



Table Appendix B 1: Awareness of Reporting Status of Obligations by Ethnicity and Income

► **Question:** Do any of the following types of companies with which you have an account report your payment information to a credit bureau? (Yes, No, Don't Know)

The choices in the red boxes are the obligations currently most likely to be reported.

		Ethnicity				Household Income				
		Total	White	Black	Hisp.	<25K	25-40K	40-50K	50-75K	>75K
<b>Energy Utility</b>	Yes	27%	21%	32%	54%	19%	23%	28%	28%	36%
	No	28%	29%	38%	22%	36%	34%	30%	27%	20%
	DK	44%	51%	29%	23%	45%	44%	42%	45%	44%
<b>Phone</b>	Yes	26%	19%	28%	53%	17%	22%	26%	28%	33%
	No	29%	29%	35%	23%	35%	34%	31%	26%	22%
	DK	45%	51%	37%	24%	48%	45%	43%	45%	45%
<b>Cable/Satellite/Internet</b>	Yes	27%	21%	27%	47%	21%	20%	29%	28%	34%
	No	27%	26%	39%	24%	32%	34%	27%	24%	19%
	DK	47%	53%	34%	28%	47%	46%	44%	48%	47%
<b>Rent</b>	Yes	21%	16%	29%	44%	22%	21%	19%	18%	24%
	No	44%	46%	50%	31%	40%	47%	56%	42%	42%
	DK	34%	38%	21%	25%	38%	32%	25%	39%	33%
<b>Mortgage/Auto Loan</b>	Yes	45%	41%	49%	61%	27%	37%	47%	54%	55%
	No	28%	27%	36%	25%	42%	35%	30%	21%	18%
	DK	27%	31%	15%	14%	32%	28%	23%	25%	27%
<b>Credit Cards</b>	Yes	61%	58%	67%	72%	49%	59%	58%	66%	70%
	No	17%	16%	27%	18%	28%	21%	19%	12%	10%
	DK	21%	26%	6%	9%	23%	19%	23%	22%	20%

**Table Appendix B 2: Change in Payment Patterns in the Event of a Cash Flow Problem by Ethnicity and Income**

► **Question:** In the event of a cash flow problem, would you pay the following obligations "on time," pay the bill "somewhat late," or only pay the bill "when you can afford to pay" something, even if this means being very late?

		Ethnicity				Household Income				
		Total	White	Black	Hisp.	<25K	25-40K	40-50K	50-75K	>75K
<b>Energy Utility</b>	On-time	79%	78%	78%	79%	76%	74%	81%	81%	81%
	Somewhat late	16%	16%	17%	14%	14%	20%	13%	15%	17%
	Very late	5%	5%	5%	6%	10%	6%	6%	3%	2%
<b>Phone</b>	On-time	64%	64%	54%	68%	65%	57%	57%	68%	69%
	Somewhat late	22%	24%	23%	17%	18%	28%	33%	20%	18%
	Very late	14%	12%	23%	16%	17%	15%	9%	12%	13%
<b>Cable/Satellite/Internet</b>	On-time	64%	64%	54%	65%	66%	54%	61%	67%	68%
	Somewhat late	25%	25%	34%	19%	22%	31%	31%	21%	22%
	Very late	12%	11%	13%	16%	11%	15%	8%	12%	10%
<b>Rent</b>	On-time	84%	84%	85%	82%	85%	77%	86%	85%	84%
	Somewhat late	11%	10%	11%	13%	8%	16%	8%	11%	11%
	Very late	6%	6%	4%	5%	8%	7%	6%	4%	5%
<b>Mortgage/Auto Loan</b>	On-time	80%	82%	76%	73%	70%	76%	79%	83%	88%
	Somewhat late	13%	12%	15%	16%	13%	15%	15%	15%	9%
	Very late	7%	6%	9%	11%	17%	9%	6%	2%	3%
<b>Credit Cards</b>	On-time	71%	72%	65%	71%	63%	70%	71%	75%	76%
	Somewhat late	15%	14%	18%	18%	12%	15%	15%	15%	19%
	Very late	13%	13%	18%	11%	25%	15%	14%	10%	6%

**Table Appendix B 3: If the following non-financial companies were to report, how likely is it that you would make timely payments...**

► **Question:** Generally, your financial payments--credit card debt, auto and mortgage loans – are reported to credit bureaus. However, most non-financial companies report only seriously delinquent bills. If the following non-financial companies were to report each month both

your timely and your late payment data to a credit bureau like TransUnion or Experian, which might impact your credit score, would you be "much more likely", "somewhat more likely", "neither more nor less likely", "somewhat less likely" or "much less likely" to pay your bill on time?

Obligation	Response	Total	Ethnicity			Household Income				
			White	Black	Hisp.	<25K	25-40K	40-50K	50-75K	>75K
Energy Utility	Much more likely	37%	31%	56%	49%	41%	39%	36%	31%	37%
	Somewhat more likely	14%	13%	14%	23%	8%	13%	16%	10%	21%
	Unchanged	45%	51%	27%	23%	42%	44%	43%	56%	39%
	Somewhat less likely	2%	2%	2%	2%	4%	1%	1%	1%	1%
	Much less likely	3%	3%	1%	3%	5%	2%	3%	2%	2%
Phone	Much more likely	32%	27%	44%	45%	36%	34%	29%	26%	31%
	Somewhat more likely	16%	15%	17%	26%	10%	17%	20%	13%	21%
	Unchanged	46%	52%	28%	26%	43%	44%	44%	55%	43%
	Somewhat less likely	2%	2%	6%	2%	5%	1%	3%	3%	2%
	Much less likely	4%	4%	5%	3%	6%	5%	4%	3%	2%
Cable/Satellite/Internet	Much more likely	31%	26%	49%	44%	36%	33%	30%	27%	30%
	Somewhat more likely	18%	16%	16%	27%	15%	16%	20%	12%	24%
	Unchanged	46%	52%	31%	26%	41%	46%	45%	58%	42%
	Somewhat less likely	2%	2%	0%	2%	3%	1%	1%	2%	2%
	Much less likely	3%	3%	3%	2%	5%	3%	3%	2%	2%
Rent	Much more likely	41%	35%	65%	51%	45%	44%	43%	34%	39%
	Somewhat more likely	13%	11%	9%	22%	12%	13%	10%	9%	17%
	Unchanged	42%	49%	22%	24%	36%	38%	42%	55%	41%
	Somewhat less likely	1%	1%	0%	2%	2%	1%	3%	1%	0%
	Much less likely	3%	3%	4%	2%	5%	4%	3%	2%	3%

## About PERC

PERC is a non-profit organization dedicated to **unleashing the power of information** for world-wide economic development and asset building. Redefining the think tank model past simply research, our staff develops real-world applications and works with policy makers at all levels to bring about the change we seek. In keeping with this method, some of our scholars' accomplishments include:

- » The development of disaster recovery metrics in the aftermath of Hurricane Katrina to help development agencies track recovery and allocate resources;
- » The development of financial vulnerability indices for the World Bank to assess vulnerability to natural disaster and mitigate risk; and
- » Seeking common sense solutions to include up to 54 million Americans in the mainstream credit system, placing them outside the reach of high-price lenders.

PERC is philosophically committed to **market-based economic development**. As such, it only proposes and develops solutions that can withstand the rigors of the market. In other words, a solution is developed in direct response to an unmet need or market failure identified by PERC. The solution must have sufficient demand to be viable, and further must generate enough revenue to be self-sustaining after the incubation period. By demanding that solutions meet these criteria, PERC believes its efforts will have the maximum developmental impact and will be sustainable over time without the necessity of endless funding from development agencies, charitable or philanthropic organizations, or foundations.

PERC advances a new paradigm of economic development, called **information-led development (ILD)**. Recognizing that the quickest way for individuals to build their wealth is access to affordable credit – especially through owning a home or starting a small business – ILD concentrates on strengthening the financial services and credit infrastructure of a country in ways that can expand access for underserved consumers, such as advocating full-file and comprehensive credit reporting, while at the same time exploring innovative information solutions for credit scoring. PERC has been active on both fronts, advocating credit reporting reform in Australia, Brazil, China, Hong Kong, Japan, Kenya, New Zealand, Singapore, South Africa and for APEC as a whole. PERC has spear-headed global efforts to promote the inclusion of alternative data in credit files as a means of broadening and deepening access to affordable sources of mainstream credit. As part of this effort, PERC is active in developing radical experiments in credit scoring for developing nations—where information collection and data quality are low—using innovative data sets that could help lift many families around the world out of poverty.

Founded in 2002, PERC approaches each project with the expectation that a research deliverable will be subjected to intense scrutiny. As a testament to our success, our studies are often cited by high-level government officials years after their original release, and PERC scholars have been called to testify before governments all over the world. To find out more about PERC, and to explore our various projects, please visit our website at [www.infopolicy.org](http://www.infopolicy.org).

# About the Alternative Data Initiative

## The Problem

- » An estimated 35 to 54 million Americans have insufficient credit information to qualify for affordable mainstream credit.
- » The number of thin-file and no-file Americans may exceed 70 million, if immigrants are included.
- » Most outside the credit mainstream may only access credit from high-priced lenders including check-cashing services, payday lenders, and unscrupulous predatory lenders.
- » It is estimated that each year Americans spend \$4.2 billion on fees and charges for payday lenders, check cashing services, and predatory lenders.
- » An individual borrower could save \$40,000 to \$360,000 over the course of a career by opening a simple checking or savings account.

## PERC's Solution

- » Nearly all energy utility and telecoms firms report negative customer payment data (delinquencies and defaults) to credit bureaus, either directly or through collections agencies.
- » Under the current system, energy utility and telecoms customers are penalized for late payments, but are not rewarded for timely payments.
- » PERC promotes the full reporting of customer payment data—negative and positive data (timely payments and the amount paid)—by energy utility and telecoms firms to consumer reporting agencies (CRAs) as a way of helping millions of Americans quickly build a positive credit history and enable them to access affordable credit.

- » In 2004, PERC launched its Alternative Data Initiative (ADI) with the goals of (1) Exhorting energy utility and telecoms companies to fully report to CRAs; and (2) Moving the market by encouraging demand (use by lenders in underwriting) and supply (collection of data by CRAs).

## Timeline

### ADI Phase 1: Framing the Issue (January 2004—March 2005)

- » Testified before House Financial Services Committee.
- » Released “Giving Underserved Consumers Better Access to the Credit System.”

### ADI Phase 2: Making the Market (April 2005—January 2007)

- » Released “Give Credit Where Credit is Due” with Brookings UMI, measuring economic and social impacts of full payment reporting to credit bureaus.
- » Built broad coalition of supporters including lenders, credit bureaus, CRAs, and consumer advocates.
- » Extensive outreach with public and private sectors.

### ADI Phase 3: Building a Policy Consensus (February 2007—December 2008)

- » Survey of energy utility and telecoms firms building business case to report.
- » Study measuring impacts of having rental payment data and other public record data reported to CRAs.

### ADI Phase 4: The Last Mile (January 2009 - December 2010)

- » Extensive outreach with state lawmakers to remove any statutory/regulatory barriers to full payment reporting.
- » Outreach to top energy utility and telecoms industry executives to exhort to fully report payment data.



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