



***Submission to the Essential Services Commission***  
***Review of effectiveness of retail competition in gas and electricity***

**Joint submission from**  
**The Brotherhood of St Laurence and**  
**The Fitzroy and Carlton Community Credit Cooperative**

**April 2004**

**Summary**

We believe that access to utilities is essential to a basic standard of living and should be available to all. In this submission, we wish to focus on one aspect of vulnerability in the market for energy, which does not imply other areas are not important. We focus on a particular area of concern, being the collections processes of utility companies.

## **1. Organisation Background**

### ***1.1 The Brotherhood of St Laurence***

The Brotherhood of St Laurence was established during the Great Depression and is an independent organisation dedicated to broad service delivery. This includes getting people into work; assisting people to access affordable credit, affordable housing and quality lifelong education; caring for older people; helping families with early childhood programs and carrying out research and advocacy for change in service and government policies. The Brotherhood of St Laurence principally works with people who are on low incomes.

### ***1.2 The Fitzroy Carlton Community Credit Cooperative***

Fitzroy and Carlton Community Credit Cooperative was established in 1977 by a group of people who were dissatisfied with mainstream financial services (including staff of the Brotherhood of St Laurence). The cooperative has a member base of 3,500 and works primarily in the Northern and North-Western inner suburbs in Melbourne. Most members are on a low-income: over 75% are Centrelink recipients.

## **2. Vulnerability and disadvantage in the market for energy**

We do not believe that the current energy policy and regulatory framework adequately address vulnerability. In particular, we have found that there is a high incidence of unpaid bills listed on customers' credit records, which leads to disadvantage in other markets. We believe that more rigorous guidelines are needed to ensure the credit collection processes of energy companies do not harm vulnerable consumers. Currently, many consumers are making misinformed choices in their dealings with energy companies. This particularly occurs amongst consumers with low levels of financial literacy which leads to difficulty in understanding the credit reporting system. Without regulation, energy companies may be motivated to list small unpaid defaults on customers' credit records given there is only a small benefit in the short term of collecting monies rather than viewing the broader implications of their actions.

The Brotherhood of St Laurence is currently piloting a small loans program in partnership with Bendigo Bank. As such, we obtain permission from loan applicants to run a credit check. As a financial institution, Fitzroy Carlton Community Credit Cooperative runs a credit check on all loan applicants. The two organisations jointly manage a loans program for small business owners and we also run credit checks for these customers. Most of these customers are on low incomes.

We have found that many people on low-incomes have small (less than \$500) unpaid defaults from utility companies listed on their credit records. The main reason for this default is that they have moved house and not paid the final bill. Some customers also have shared living arrangements and have misunderstood

the trust they are giving to the other tenants in their house, if they move without changing the name on the bill. Many customers do not understand that non-payment of bills or failure to notify of a change in address could result in an item being listed on their credit records. Part of the reason for this includes low levels of financial literacy and a feeling of powerlessness in dealing with big business. Low-income consumers are more vulnerable to disruption by temporary life events, such as a relationship breakdown or rise in rental causing them to move house. They are thus more susceptible to not paying a final bill.

Some customers have been unable to negotiate reasonable payment terms with utility companies. It is inadequate if this can only be facilitated through a financial counsellor with their accompanying knowledge of rights, regulations and ability to advocate. Many consumers would not have the inclination to seek information or assess important documents, such as the privacy disclosure, without the assistance of a caseworker. As a result, consumers are unaware of the implications of non-payment of bills or failure to notify an address change.

The listing of defaults creates a significant barrier to the credit industry. The energy industry is regulated and retailers can only object to transfers if the customer has outstanding debts greater than \$200, but this differs from the banking and telecommunications industries. In assessing applications for credit, banks ordinarily use a computerised “credit-scoring” model. These models do not distinguish between a small default of say \$150 for an unpaid utility bill and a large default of say \$100,000 for a home loan – both items would usually lead to an automatic decline. Even if payment is subsequently negotiated for this utility bill, it will remain on the credit record as a paid default and “credit-scoring” models would still produce an automatic decline. Defaults listed by utility companies remain on the customer’s credit record for 5 years. We consider this a high price to pay for a small unpaid bill.

Fitzroy Carlton Community Credit Cooperative does not use an automated “credit-scoring” model. They are willing to consider loans for customers having an unpaid default to a utility company of less than \$500. They also provide assistance in developing payment plans for these items and recommend strategies to assist customers to budget for rent and bill payments. This policy has minimal impact on the cooperative’s default rates, which are around 1% per annum, and lower than mainstream banks. The Fitzroy Carlton Community Credit Cooperative provides around 1,000 loans per year, and estimate that around 400-500 (or 40-50%) of those loan customers have paid or unpaid bills from utility companies listed on their credit records.

In contrast, there are many fewer customers with defaults of credit contracts (such as credit cards, personal loans, home loans) listed on their credit records. Part of the reason for this is that low-income consumers cannot easily access mainstream consumer finance. However another aspect is that the steps banks take prior to sending details of unpaid defaults to a credit reporting agency appear more thorough than utility companies’. At the time of application for credit, banks require a work address and telephone

number, mobile phone number and contact details of a friend or relative not living with the applicant. These details can be used if the bank loses contact with a customer who has fallen behind in payments. Utility companies however leave the onus of contact wholly on the customer and it is up to the customer to notify of the forwarding address for the final bill. If a bill is unpaid, and the utility company receives the bill back as “return to sender”, it seems that the efforts of the utility company finish there. This seems to be particularly true when amounts are small and the company considers that the cost of following up is greater than the benefit of receiving these funds. This system is inadequate, as the cost for the customer in having an item on their credit record is considerably greater and they are unable to access the mainstream credit market.

### **3. Conclusion and recommendations**

The purpose of the credit reporting system is to provide information to assist lenders or other credit providers in their decision making process. Yet, the experience of the Fitzroy Carlton Community Credit Cooperative demonstrates that an unpaid utility bill is not an indication of loan default. Therefore, the listing of small, unpaid utility bills basically serves to punish the customer, rather than providing information to other organisations. Because of this, we believe processes for credit collection should be improved, or utility companies should not be allowed to use the credit reporting system for small amounts.

We recommend the following changes be considered:

- Utility companies are not allowed to list unpaid bills for amounts less than \$500 on the credit reporting system.
- At the time of connection, utility companies must collect alternative details to send bills (that is, name, address, telephone number of closest friend or relative not living with customer) so that there is a means for the customer to be contacted in case of an unpaid bill where an address is changed.
- If utility companies are to have access to the credit reporting system, the customer needs to understand this. At signing up, the customer should be provided with a privacy statement, which includes the credit reporting process. As with credit contracts, it would be preferable that customers acknowledge these terms and conditions.
- Utility companies should also mount a campaign to raise awareness that unpaid bills can be listed on credit records and that it is the customer’s responsibility to pay them, or to keep in touch with the utility provider.
- Payment plans, such as “Easi Pay” should continue to be promoted. These have a strong positive impact on the capacity of low-income consumer to break bills into more small manageable payments. These systems should be made more accessible and customers should not need to be in arrears or a crisis situation to use them.