

PART 2 OF A FOUR-PART SERIES

How Computers Help Target Buyers

Businesses screen and identify potential customers with information from credit-bureau databases



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ONE of the fastest-growing uses of computerized credit information today has nothing to do with banking, credit, employment, or insurance. That use is marketing. "Before long, it will account for one third of the credit bureaus' income," says Robert E. Smith, editor of *The Privacy Journal*, which monitors the credit-bureau industry.

Increasingly, credit bureaus are using their databases to generate mailing lists for direct-mail and telemarketing campaigns, a system called "target marketing." Advertisers use target marketing to select a group of individuals likely to buy their products, allowing them to spend more time and money on fewer prospects.

Using target marketing, an upscale jewelry store opening in a neighborhood mall can rent a mailing list of the families within a 10-mile-radius who have annual incomes in excess of \$100,000. Another example of target marketing is the unsolicited offers many people receive for "pre-approved" credit cards. To generate these mailing lists, companies like TRW, one of three major United States credit-reporting bureaus, use sophisticated models that look at a person's bill-paying habits to determine who would be a good credit risk. The practice, also called pre-screening, has revolutionized parts of the consumer banking industry.

"Banks tell us that 90 to 95 percent of their new accounts are opened on the basis of pre-screening," said Jean Noonan, associate director of the credit-practices division of the Federal Trade Commission (FTC), in an interview before a recent "Privacy in the '90s" conference in Washington. Since pre-screening may eventually become the only way a consumer is offered a credit card, it is important to ensure the accuracy of the information on which the offers are made, she says.

High potential for abuse

The drafters of the Fair Credit Reporting Act (FCRA), the federal law that regulates consumer reporting agencies, never anticipated target marketing and pre-screening. "It is a use that has been made possible because of technological advances since the act was passed," says Mr. Smith.

The practices are "probably not" an invasion of privacy, says the FTC's Noonan.

Nevertheless, she is troubled by arguments made by the credit-reporting industry in support of the practice.

"We are told that this information is extraordinarily useful to marketers," says Ms. Noonan. "[But] the value of the information is not where the debate should begin or end. The information that the FCRA covers is useful to lots of people."

Before the FCRA was passed, private investigators could use credit files to locate people; lawyers could use the files to determine whether the target of a lawsuit would have enough money to pay the settlement. These uses were halted by the FCRA. Today, says Noonan, even the Federal Bureau of Investigation cannot get a complete credit report.

Target marketing has a high potential for abuse: Lists of people who are good or bad credit risks are readily bought and sold. The FTC is investigating one company that marketed high-interest, high-risk loans to people who were in financial trouble and behind on loan payments.

COLLAGE BY GUY STU



PHOTO BY BRUCE ZANE

Even if the lists were restricted to individuals whose credit is good, problems would remain: "Take the scam artist who builds a list of elderly women living alone with equity in their homes, and tries to market a fraudulent home-equity loan," says Bonnie Guiton, special adviser for consumer affairs to President Bush.

To get more-detailed information about consumers, companies have started asking the consumers themselves. Many items like hair dryers and toaster ovens come with "product registration" cards that invite consumers to provide detailed personal profiles of their households, income, hobbies, and other interests. Much of this information is tabulated and resold by companies like National Demographics and Lifestyles in Denver.

"A major concern of mine is that consumers are uninformed," says Dr. Guiton. "In most cases, they don't even know that [information on them] is being collected."

Mary J. Culnan, an associate professor at Georgetown University in Washington, was surprised when she started getting catalogs in the mail for baby clothes. Then she remembered that she had bought a baby toy from a mail-order catalog for the child of a friend. "I realized that they were looking at what I ordered" and selling that information to third parties, she says.

Mailing lists for magazines and catalogs are frequently bought and sold by so-called "list brokers." Last year, says Roberta Baskin, a consumer reporter with WJLA-TV in Washington, D.C., one enterprising list broker sold the mailing list for a national weight-loss association to a chocolate company, whose "profits took a delicious turn upward."

Columbia professor Westin says that stories of such unethical use of information show what is wrong with today's laws: "We

need a right of punitive damages to be given to the companies that hold our consumer information, so they can sue for large sums anyone who uses misrepresentation to get access to the data, and makes improper use of it. No such right exists today."

With or without new laws, the trend is for companies to get even more-detailed information on consumers.

For advertisers, one of the hottest products this summer may well be MarketPlace, a desktop target-marketing system developed by Equifax and software giant Lotus Development Corporation. For \$695, the MarketPlace system comes with a coupon for a compact disc that contains the names of 120 million people in 80 million households across the United States. Included

for each person on the disk is name, address, age, gender, estimated annual income, marital status, and shopping habits. Advertisers simply type in the consumer profile that fits, and MarketPlace prints out mailing labels of people who match the profile.

An experimental program between Giant Food, a Washington, D.C.-based supermarket chain, and banking giant Citicorp invites consumers to receive discounts on selected items by presenting a "Reward America" card at the checkout counter. Every purchase that a consumer in the program makes is electronically recorded and tabulated in Citicorp's computers, says Gerald Saltzgaber, chief executive officer of Citicorp Point-of-Sale Information Services.

The program allows Citicorp to accurately measure consumer buying habits, as well offering highly targeted marketing services to advertisers. For example, the data in Citicorp's computer would allow a Pepsi distributor to send coupons to everybody in the program who had bought Coke in the last three months.

"When we started this, we knew we were treading in an area that had a lot of potential concerns to the consumer," says Mr. Saltzgaber.

To help allay those concerns, Giant Food and Citicorp have adopted a number of rules: "The entire purchase history of any individual will not be released to any third party. Pieces of it will be released, but it is obviously in Citicorp's interest not to release the entire history," says Odonna Mathews, Giant Food's vice president for consumer affairs.

Protection, uses of data questioned

Some privacy advocates wonder what might be done with the data if Citicorp changes its practices, or if other companies adopt similar programs but are not as sensitive to privacy issues. And some experts say that through the "old-boy network" information in Citicorp's computers might be made available unofficially to law-enforcement agencies or private investigators.

"What is going to be done with all of this data?" asks Georgetown's Dr. Culnan. "On a single day, the fact that I go into the New York Street Giant [store] is an inconsequential fact. But if you follow this data over time, you can learn a lot about people. . . . It's the sense that someone is filming you in the shower."

"It is crucial to see that privacy is not a luxury, that it is not something that is only given to certain groups of people," says Jan Lori Goldman, an attorney with the American Civil Liberties Union Project on Privacy and Technology. Yet consumers already have to pay extra for some forms of privacy: Telephone companies, for example, charge an extra fee for unlisted telephone numbers.

Other times, privacy requires special knowledge and an investment of time. Consumers can "opt out" of direct marketing by sending their name and address to the New York-based Direct Marketing Association, but few consumers know of the association's so-called "mail preference service."

Some experts have suggested turning the table and making marketers and database operators compensate consumers for the right to include their names on mailing lists and in databases. A database of people who had said that they wanted to receive direct marketing - presumably because they were going to read it - would have a "competitive advantage" over today's lists.

"I think that it is going to take some innovative companies to develop this," says Westin. "I don't think that it is going to become general without the force of law."

■ Part 1 appeared July 18. Next Wednesday, Aug. 1: a look at the misuses of workers' compensation, tenant, and medical records.