

THE POWER AND POTENTIAL OF HOME WARRANTY PROGRAMS

A Win for the Customer and for the Utility

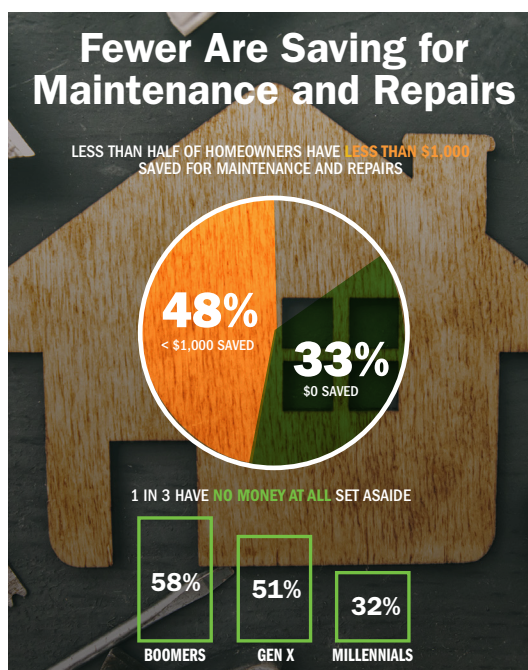
The COVID-19 pandemic has left millions of people across the United States on furlough, out of work entirely, or working from home. Many debt forgiveness programs that were put in place to help consumers weather the shock of quarantines and reduced economic activity may end soon.¹ These economic risks are compounded by the fact that most Americans lack quick access to cash to pay for emergency home repairs.

The economic downturn also has impacted utility revenues. Many utilities are searching for solutions that they can rapidly deploy to help replace at least some of that lost revenue.

These are challenging times for everyone, utilities included.

For many utilities, home warranty programs have already proven to be a boon, benefiting both the homeowner (through low monthly payments for a warranty that mitigates the potentially high cost of home repairs) and the utility (through significant revenue that can be used to fund internal programs like low-income home energy assistance programs and debt forgiveness initiatives).

Warranty service programs have been around since the late 1980s and are designed to protect homeowners and their budgets from the potentially high cost of unexpected home repairs. Many utilities already offer successful home warranty programs and report enhanced rates of customer satisfaction.



Liberty Mutual Study Insurance, New Study Reveals Americans are Putting off Essential Car and Home Upkeep Leaving Them Exposed to Headaches, May 2018.

As younger generations age, they become tenants and homeowners themselves. Therefore, it is important for warranty programs to provide enhanced coverage options that appeal to a much wider audience. These new programs are designed to provide extended coverage for our digital-centric lifestyles including virtual surge protection, repair and replacement protection for smart phones, tablets, computers and televisions.

“Just offering a home warranty has a ‘halo benefit’ for the utility,” says Matthew Lindner, chief marketing and customer experience officer for American Water Homeowner Services, which has worked with utilities across 42 states to protect homes and provide homeowners

peace of mind when it comes to major repairs. This “halo benefit” has not happened by accident. Rather, it has been the result of an efficient response to customer

1. NEADA.org, Summary of the State Utility Shut-off Moratorium Due to COVID-19, August 20, 2020

repair requests that helps demonstrate the utility's commitment to superior customer service.

American Water Homeowner Services has partnered with utilities for more than 25 years to offer warranty service programs that include a dedicated call center and a skilled group of in-house and third-party contractors who stand ready to provide repair and replacement services.

For example, through the first half of pandemic-challenged 2020, American Water Homeowner Services helped approximately 100,000 customers avoid more than \$45 million in unexpected home repairs.²

In addition:

- No less than 95% of customer-initiated claims have been determined to be eligible for coverage.³
- Over 90% of customer calls in partner-specific areas have been answered within 30 seconds.⁴
- To date in 2020, virtually all customer inquiries have been resolved within two business days in partner-specific areas.⁴
- Also in 2020, repairs to address the average claim have been scheduled within one business day.³

This sort of customer-focused response is especially welcome in uncertain times. Easing a customer's worry over an appliance or home system failure is good business.

"Uncertain economic times mean that customers are interested in managing whatever costs they can," explains Elysia Shulman, vice president of Client Success for American Water Homeowner Services. "Home warranty products like ours are tried and true."

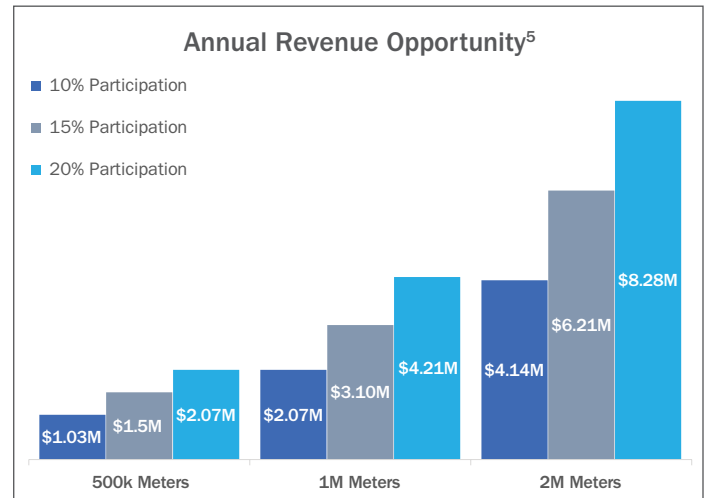
What's more, some utilities now face a revenue shortfall as an increased number of customers—through no fault of their own—find it tough to make monthly utility bill payments. An informal poll of utility regulators taken at the end of June 2020 by DEFG Group, a consumer-facing research and advisory firm, found that 9 out of 10 regulators were either "very concerned" or "extremely concerned" about the potential for increased bad debt once service shutoff moratoria expire.

Enhanced Revenue Streams

Even without the pandemic, most utilities have long recognized the importance of developing revenue sources outside of traditional monthly service billing.

"Historically, gas and electric utilities thrived on delivering energy commodities," says Jennifer Probst, director of Client Success at American Water Homeowner Services

As the following graphic shows, even relatively modest participation rates among customers of small utilities have resulted in sizable revenue for utilities. For example, a utility with 10% participation and 500,000 meter count could earn over \$1 million a year with a 15% revenue share.⁵



Utilities have gained more than just revenue when their customers have chosen to use an online marketplace. Uplight, a provider of end-use energy management services to utilities, found that customers who used a utility marketplace were 50% more likely to think of the provider as a trusted advisor. Equally positive, overall customer engagement was found to have risen by 13%.

Those findings were confirmed by a study done in May 2020 by Russell Research, a business strategy consulting firm, which interviewed customers of more than a dozen electric, natural gas and water utilities from all around the country. Among the insights from this market study was that a clear correlation exists between a customer's satisfaction with her utility provider and their involvement with a warranty program.

Increasing Customer Satisfaction

Simply put, customers who were enrolled in a warranty program reported the greatest satisfaction with their utility provider. Not surprisingly, customers who were unaware of the warranty program were less likely to be satisfied with their utility provider.

2. Based on 2020 internal data from Pivotal Home Solutions partner areas in IL, IN, OH, TN, FL, VA, GA, MA, PA, KY, MD.

3. Based on 2020 internal data for partners in the following geography: MD, VA, OH, PA, KY, IN.

4. Based on 2020 internal data from Pivotal Home Solutions partners in IN, MA.

5. Based on internal data from partner data in IL, OH, IN, TN, FL, VA, GA, MA, PA, KY, MD. Specific elements of agreement are variable from partner to partner (such as pricing and revenue share); these elements can affect a utility's revenue earnings.

Homeowners have subscribed to these programs for a variety of reasons, but perhaps the most important one has been to protect themselves from unexpected and costly repairs.

“Home ownership is the foundation of the American dream, until it goes wrong” with an unexpected repair, says Douglas Brand, vice president of American Water Homeowner Services.

Through a home warranty service, homeowners enjoy the convenience of 24-hour access to a network of reliable, local repair technicians. From the utility’s point of view, home warranty programs help to ensure that customer-owned service lines and appliances are properly maintained and inspected on a regular basis. This supports a mission-critical utility function, namely, ensuring safe and reliable service.

According to Chartwell, a research and information firm for the energy industry, around 30% of U.S. utilities currently offer a marketplace site. Through these sites, customers buy energy-efficient products like LED light bulbs, smart thermostats, appliances, electronics and even electric vehicle chargers. Research firm Uplight found that consumer interest in such sites has been remarkably high—fully 80% of customers said they were interested in using an online utility marketplace. What’s more, utility marketplaces have been an effective platform to initiate home warranty purchase decisions, with rates of adoption increasing from 9% to 26%, according to Uplight.

Through our nearly 30 years of experience as a utility-owned warranty provider, American Water Homeowner Services knows that anywhere from 20% to 45% of a utility’s customer base will choose to buy a home warranty. This range is based on our own partners’ experience.

Measuring the Impact

An analysis by market research firm J.D. Power found that awareness of and utilization of utility products and services increased overall consumer satisfaction with their utility by 70 points on a 1,000-point scale.

Steps to a Successful Offering

American Water Homeowner Services has found that partnership adoption rates increase when a number of best practices are followed.

First, a warranty program’s success depends on the utility’s willingness to promote it. Co-branding the program with the utility’s endorsement has proven to add significant value that helps to increase a customer’s satisfaction with her utility provider. American Water

Homeowner Services’ Douglas Brand explains that customers are likely to join a home warranty program and remain enrolled in it longer if the utility actively promotes the service.

In addition, including the warranty services as a line item on the utility bill has been shown to improve adoption rates and enhances customer convenience.

Second, personalized offerings that are based on a customer’s unique circumstances have proven to be critical. Consumers increasingly rely on their trusted brands to deliver tailored messages aimed at satisfying their specific needs at just the right time. Similarly, the “move call,” when a customer either starts or transfers utility service, offers another touchpoint between the company and its customer. This customer-initiated call has yielded consistent results as one of the most effective times to recommend home warranty offerings.

Warranty products can be easily explained over the phone, Brand says. Using the move call as an opportunity to offer the service aligns well with customer expectations for a single touchpoint when it comes to utility service.

Among the features that have helped to enhance customer satisfaction is the convenience of calling a toll free number 24x7x365 to schedule a technician, or using a mobile scheduling app. Customers also can track the whereabouts of their technician, eliminating the need to call to ask, “Where’s my plumber?”

To keep pace with increasing competition and customer demands for personalized services and offerings, utilities must become solution providers, not just energy providers. Partnering with a highly regarded home warranty partner allows utilities to become that trusted partner, increasing customer satisfaction, loyalty and retention, and generating a potentially significant revenue stream.

American Water Homeowner Services is ready to be your partner, with industry-leading home warranty programs that will not only improve your utility’s customer satisfaction rates but will add revenue to the bottom line.

To learn more about Home Warranty programs and the impact they can have on your utility, contact:

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