



Prepaid Calling Card Fraud: The Next Great Consumer Scam

***Presentation to the NARUC Summer
Meeting***

Tuesday, July 22, 2008



Some Prepaid Calling Card Companies Are Systematically Defrauding America's Hispanic Consumers

The Estimated Cost
to Consumers?

**Hundreds of Thousands of
Dollars Every Day**



An Attack on the Most Vulnerable

- Most Calling card consumers are from immigrant communities - predominantly from Latin America.
- Prepaid phone cards are their most cost-effective way to stay in touch with friends and family
- Most consumers are low income individuals purchasing \$2 and \$5 calling cards from neighborhood stores and bodegas



Industry Supply Chain

- **Carriers:** Carry and terminate domestic and international calls over their network (i.e., phone lines).
- **Service Providers:** Purchase network access from Carriers. Typically provide calling card platform, customer service, and the physical prepaid calling cards.
- **Distributors / Resellers:** Buy cards wholesale from Service Providers at a discount from face value, and sell at smaller discount to retailers and/or other distributors.
- **Retailers:** Buy cards from Distributors at discount for sale to consumers at face value.





How the Cards Work



- Step 1:** Number of minutes to particular destinations are advertised by poster at point of sale, by radio, television, and newspaper, and by voice prompts.
- Step 2:** Customer purchases card.
- Step 3:** Customer dials toll-free or local number, enters PIN, and hears dollar value remaining on card.
- Step 4:** After dialing destination number, electronic voice prompt tells customer how many minutes are available for the call dialed.





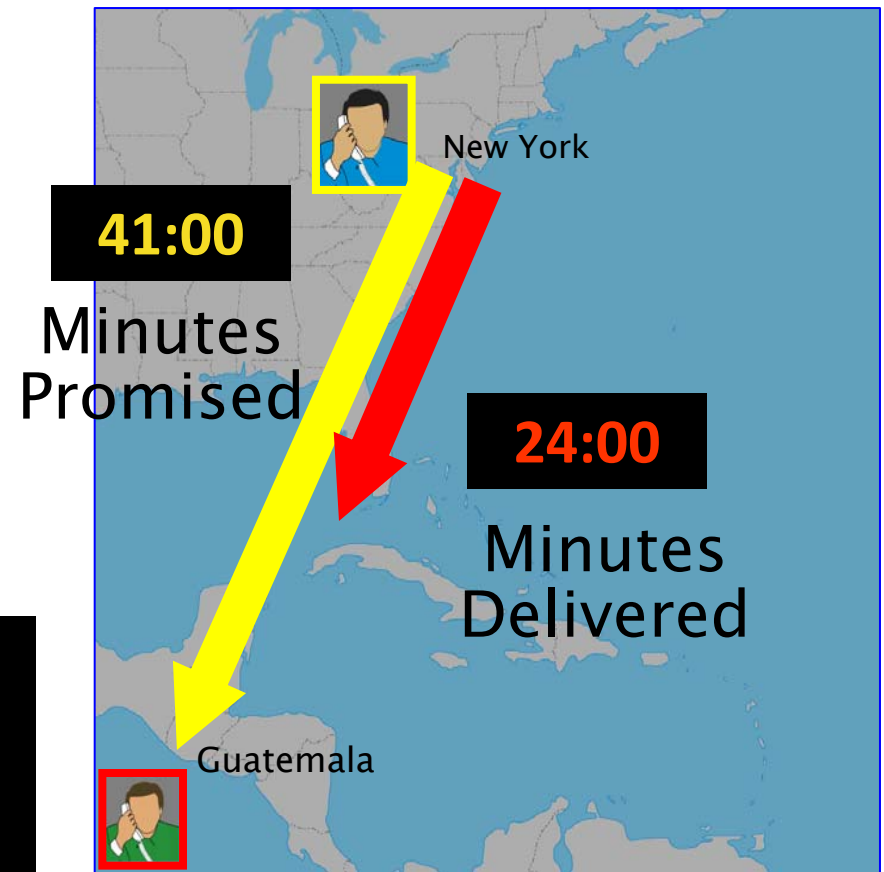
How The Fraud Works: One Example



Card's voice prompt: *"You have **forty-one** minutes subject to the terms on the back of this card."**

The call is disconnected well before the announced minutes have elapsed.

Amount of time actually delivered:
24 minutes
59% of total



* As of April, 2007

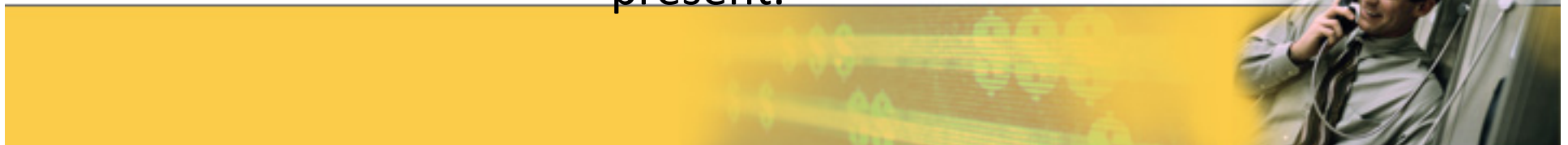




IDT Corporation



- Traded on the NYSE. Based in Newark, NJ
- Began operations in 1994.
- Has grown to become one of the largest providers of international prepaid calling cards
- Cards distributed throughout the country.
- Excellent quality and honest minutes
- After over 10 years of steady growth, IDT saw its revenues and market share take a sharp drop in late 2006 through to the present.






Testing: Promised vs. Actual Minutes



Tests were conducted in February 2007, by an independent investigator, The Accetta Group, LLC, retained by IDT Corp. The Accetta Group was founded by a former First Assistant Attorney General in Colorado, Anthony Accetta.

Independent Test Results	
Other Prepaid Calling Card Companies	
Average of 60% of promised minutes are actually delivered.	100% of promised minutes were delivered.





IDT Is Fighting To Protect Consumers **FRAUD**

- IDT filed suit in 2007 against companies that violated consumer protection laws. (*IDT Telecom, Inc. v. CVT Prepaid Solutions, Inc.*, 07-cv-01076 (D.N.J.))
- IDT is cooperating with state AGs and the FTC to bring enforcement actions against fraudulent companies.
- IDT supports federal legislation (S. 2998; H.R. 3402) to require greater disclosure by calling card providers with enforcement by the FTC.





In Ruling on IDT's Request for an Injunction, the Court Acknowledges the Problem:

- ▶ *“[T]his is an area of very unique pricing . . . and it is very disconcerting to the Court because . . . the people that primarily use these cards are people that don't have a lot of money. They're trying to usually reach out to their family members at home. And without question, there is an issue there that needs to be addressed.” **

* Transcript of the hearing held before Judge Susan B. Wigenton of the United States District Court for the District of New Jersey on May 9, 2007, for the case *IDT Telecom, Inc. v. CVT Prepaid Solutions, Inc.*, 07-cv-01076 (D.N.J.).





State Enforcement



- New Jersey enacted legislation (signed, Jan. 13, 2008)
- Texas AG, working with Texas PUC, files suit seeking an injunction against Next-G Communications (May 23, 2008)
- Florida AG reaches settlement agreement with 9 calling card companies, praises IDT (June 11, 2008)





FTC Enforcement



FTC Asks For And Receives Temporary Restraining Order From U.S. District Court In New Jersey Halting Prepaid Calling Card Scam (March 25 and 28, 2008)

- FTC complaint says a card distributed by Clifton Telecard Alliance (CTA) that advertised 30 minutes calling time to Egypt cut off the call in a little over 10 minutes. The FTC purchased 46 CTA cards in retail stores; none of the cards delivered the calling minutes advertised.

U.S. District Court in Florida Grants FTC's Second Request for Temporary Restraining Order (May 23, 2008)

- The Florida Federal Court issued a temporary restraining order halting the deceptive practices of five companies and their principals and appointed a monitor to ensure the defendants' compliance with the order. The agency also seeks a court order to require the defendants provide consumer redress or to give up their ill-gotten gains.





Federal Legislation



- H.R. 3402: Introduced by Rep. Engel (N.Y.) and 13 co-sponsors
- S. 2998: Introduced by Sen. Nelson (Florida) and 3 other co-sponsors
- Both bills give FTC authority over calling card telecom providers, not just distributors of calling cards.
- Both bills preserve State authority to enforce state and federal law.





Stopping the Fraud



The future ability of low-income consumers to make affordable international phone calls to their family members depends on restoring consumer confidence and honest competition in the prepaid calling card market.

