

**Testimony of :**

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**Introduction**

Thank you for the opportunity to talk with you today about research that my colleagues and I conducted on prepaid telephone cards. Prepaid phone cards are a convenient and inexpensive way to make telephone calls. Despite the potential benefits, consumers are often confused about, and ultimately dissatisfied with these cards. The increase in the immigrant population in the United States, especially Latino consumers, has led to the marketing of some cards specifically to the Spanish-speaking consumer.<sup>1,2</sup> There is evidence that consumers who use cards to call Spanish-speaking countries face much higher prices than expected.<sup>3</sup> This information was the impetus for the University of Georgia study of prepaid telephone cards.

I understand that H.R. 3402 seeks to “...ensure that all advertising is truthful, accurate, and reasonably discloses the terms and conditions of prepaid telephone calling cards...”<sup>4</sup> For the most part, H.R. 3402 addresses the current consumer problems with the cards; however, my remarks attempt to provide a few caveats with respect to truthful disclosure. Information disclosure is complex, because costs vary for reasons ranging from location called to whether the call is placed from a pay phone or to a cell phone. It is practically impossible to determine how many minutes a consumer will receive, because minute rounding and fees charged depend upon how the consumer uses the card.

**Problems with Disclosing Minutes Available**

Consumers may receive minutes as promised, but problems arise with fees. Fees are added costs which increase the per-minute cost, so disclosing that there is a fee does not solve the problem. Consider the following example of one card we encountered in our study:

A poster advertises 1.9¢ per minute for calls made with a specific card. The card cost \$5.00 so the consumer should receive 263 minutes. The fine print on the poster stated that there is a monthly maintenance fee of 49¢ and a connection fee of 69¢ per call. The connection fee results in a deduction of 36.316 minutes per call, and a deduction of 25.79 minutes each month for the

maintenance fee. We used the card twice over a period of five weeks and received 163 minutes, for a cost of 3.1¢ per minute. Deducting the connection fee twice and the maintenance fee once does equal 163 minutes so the disclosures are accurate. Most consumers would not do these calculations.<sup>5</sup>

My question is why are there fees at all? As long as there are fees, even disclosed ones, it is impossible to state the exact number of minutes the consumer will receive. A simpler solution would be for the providers to charge more for the cards and have no fees whatsoever. There are cards available that have no fees, with the exception of using the card at a pay phone.

### **Problems with Fees and other Stated Terms**

Almost all cards state that rates and fees are subject to change at any time. Expiration dates are not always given. Minute rounding may be as high as eight, and three is common.

Basically, there are three categories of charges: minute rounding, per-call fees and periodic fees.

Minute rounding is reasonable if the provider uses one minute rounding. There are many different names for per-call fees. Often cards advertise “no connection fee” and at the same time state that they have a post-call fee, hang-up fee, communication fee, service fee per call, and/or long-talking fee.<sup>6</sup> All these are per-call charges and many cards charge more than one of them. There should be only one term for a per-call fee. Having more than one term is very confusing and in most cases deceptive. One card that claims “No Connection!” [fee] in fine print states, “An increased rate may apply at some point during extended calls.” I would categorize this as a long-talking fee, but how does a consumer know when a call is “extended?” Elimination of per-call fees would solve these problems.

There is even more confusion with respect to periodic fees. Periodic fees may occur daily, weekly, semi-monthly, monthly, or a combination of periods. These fees may be called a tax, a maintenance fee, service fee, administrative fee, local company charge, or the card may just state something like “A 59¢ semi-monthly fee applies.”<sup>7</sup> Some cards assess several of these fees.

Though the fees may be disclosed, wording is often unclear, such as “maintenance fees may apply.” The consumer can’t know when or if a fee will be charged. If the amount of the fee is listed (79¢ for example), the number of minutes deducted must be calculated by the consumer.<sup>8</sup> With respect to fees, the fact that there is no standardization of terms, results in confusion at best and deception at worst. Only one term should be allowed for a periodic charge; however, the best solution to this problem would be the elimination of any kind of periodic fee.

### **Customer Service**

Our research found that calling customer service was not always helpful. We called the customer service number for 236 cards. For about one-half of these cards, customer service was available 24 hours a day; however, personnel could not always answer questions we asked. Some even gave incorrect information, such as telling us that there was no extra charge to use a

pay phone when there is. We were not able to talk with a customer service person for approximately 33% of the cards.<sup>9</sup> Mandating that customer service personnel provide information is a start, but enforcement would need to be in place to assure consumers that customer service can indeed provide necessary information.<sup>10</sup>

## **Two University of Georgia Studies**

I make the statements above as a result of findings from two studies. Problems with prepaid telephone cards surfaced from findings of a study of consumer fraud targeted to Hispanic immigrants. Participants in the study complained that they did not get the minutes they expected and that they could not get answers from calling the customer service number.<sup>11</sup> A study [Study 1] was undertaken to analyze information available prior to purchase of pre-paid phone cards and from customer service personnel, as well as to determine expected and actual cost per minute.<sup>12</sup> A second study [Study 2], funded by the Georgia Governor's Office of Consumer Affairs, was conducted to verify or disprove advertised claims with prepaid telephone cards.<sup>13</sup>

**Study 1:** The first study used 236 cards to collect information from customer service using a questionnaire developed by the researchers. All cards were targeted to a Spanish-speaking market and were under \$10. Twenty data collectors were recruited from the University of Georgia Hispanic Student Association. All the data collectors were fluent in both English and Spanish, had someone they could call in a Spanish-speaking country and were required to attend two training sessions. After talking with customer service, data collectors used the cards to call Spanish-speaking countries. They were instructed to use each card twice, ending the first call when they had talked one-half of the minutes stated as available. In a few cases, there were not enough minutes remaining to make a second call. Stop watches were used to record the times of the calls; then we calculated the expected cost per minute and actual cost per minute for each card. A key finding from the study is that the average expected cost per minute was 15¢ but the average actual cost was 28¢ per minute. Table 1 provides some of the findings from this study. The research methodology and complete results are available in the article by Marlowe and Rojo (2005) at the American Council on Consumer Interests web site.

**Study 2:** A second study, funded by the Georgia Governor's Office of Consumer Affairs, sought to verify or disprove advertised claims of minutes. I met with several individuals at the Federal Trade Commission in D. C. to discuss methodology for this study.<sup>14</sup> As a result, three different methodologies were used with each brand of card. Advertisements were sampled in the Athens, Georgia area and 11 different brands of cards with advertised claims were selected for the study. Three cards of each brand were purchased. These cards were all under \$25; some were targeted to a domestic market and others for international calls. Not all international cards were targeted to Spanish-speaking countries. Data collectors were instructed to use one brand of card three different ways: 1) use all minutes at once (avoiding multiple per-call charges), 2) use the card 10 times within a 1-2 week period (to get an idea of extensiveness of per-call charges or excessive minute rounding), and 3) use the card twice, with the second call made some time after the periodic fee period (to assess effect of periodic charges).

Findings of this study reveal that consumers are more likely to receive all the advertised minutes

if they use a card only once. Most calls cost the most per minute if the card was use calls were made 10 times. Table 2 provides advertised versus actual cost per minute data for the 11 brands of cards by calling method used. Note that five brands of cards did deliver on the advertised claim when the card was used once and conversation lasted until minutes expired. The AT&T card provided the minutes advertised (allowing for minute rounding with using the card 10 times) for all three methods. However, it is very interesting to note that the lowest priced cards were not the “name brands.” I cannot explain why Call N Carry, Digamé, Fenomenal, and CCI Georgia engage in deceptive advertising, because they have a lower actual cost product for Method 1 and two of these brands had low cost for all three methods. There is no need to overstate the costs.

Participants in the consumer fraud study of Hispanic immigrants made statements, such as (paraphrased) “you don’t get the minutes they say you do” and “the Wall Mart cards are not good.”<sup>15</sup> These kind of statements indicate that some consumers have figured out the market through repeated experience. Regulation might actually benefit those phone card providers who now engage in deceptive advertising by requiring accurate claims.

## **Conclusions**

Because accurate and complete information typically isn’t available, it is impossible for consumers to make informed decisions before using the cards.<sup>16</sup> Some of the prepaid phone card providers give accurate information, but others do not. Our research documents that information is often confusing, incomplete and even deceptive. Consumers who use all a card’s minutes for one call are likely to experience the lowest cost per minute. While the best-known carriers (Sprint, AT&T and Net2Phone) were truthful, they also charged more per minute than some of the deceptive phone card providers. Currently, the market is competitive and there are low-cost providers, but such information can only be gained by actually using the cards. And some cards are very expensive; per-call fees and high minute rounding are particularly problematic.

Legislation should help equalize the practices among card providers. However, careful wording of what is meant by truthful disclosure of minutes available is imperative if per-call and periodic fees are allowed. If fees are allowed, there must be standardization of terms and only one term for each kind of fee. The combination of a competitive market and savvy consumers suggests that efficiency gains should be possible if consumers have better information prior to purchase.

## References

- <sup>1</sup> Marlowe, Julia and Atilas, Jorge H. (2003). “Consumer Fraud and Latinos in Georgia: Improving the Marketplace,” Report to the American Association of Family and Consumer Sciences. Athens, GA: University of Georgia.
- <sup>2</sup> Budnitz, Mark E., Rojo, Martina, and Marlowe, Julia. (2006). “Deceptive Claims for Prepaid Telephone Cards and the Need for Regulation,” *Loyola Consumer Law Review*, Vol 19 (1): 1-42.
- <sup>3</sup> Marlowe, Julia and Atilas, Jorge H. (2003). Op. Cit.
- <sup>4</sup> House of Representatives. (2007). 11<sup>th</sup> Congress 1<sup>st</sup> Session. H. R. 3402.
- <sup>5</sup> Marlowe, Julia (2006). Investigation of Pre-Purchase Information on Prepaid Telephone Cards: Project Extension. Report Prepared for the Governor’s Office of Consumer Affairs. November 30. – Report Attached – refer to Table 6, p. 13.
- <sup>6</sup> Marlowe, Julia and Rojo, Martina (2005). “Consumer Problems with Prepaid Telephone Cards,” *Consumer Interests Annual*. Volume 51: 126-142.
- <sup>7</sup> Ibid.
- <sup>8</sup> See Table 6; Marlowe, Julia (2006). Op. Cit.
- <sup>9</sup> Marlowe, Julia and Rojo, Martina (2005). Op. Cit.
- <sup>10</sup> Budnitz, Mark E., Rojo, Martina, and Marlowe, Julia. (2006). Op. Cit.
- <sup>11</sup> Marlowe, Julia and Atilas, Jorge H. (2003). Op. Cit.
- <sup>12</sup> Marlowe, Julia and Rojo, Martina (2005). Op. Cit.
- <sup>13</sup> Marlowe, Julia (2006). Op. Cit.
- <sup>14</sup> Discussion with Jock Chung, Joel Brewer, Laura Koss, and Debbie Kelly at the Federal Trade Commission in Washington, D.C. March 2006.
- <sup>15</sup> Marlowe, Julia and Atilas, Jorge H. (2003). Op. Cit.
- <sup>16</sup> For background information on the theory of information search and experience goods, see, for example, Stigler, George J. (1961). “The Economics of Information,” *The Journal of Political Economy*, Vol. 69 (3): 213-225; & Nelson, Philip (1970). “Information and Consumer Behavior,” *The Journal of Political Economy*, 78 (2): 311-329.

Table 1: Means and Standard Deviation for Selected Variables

Variable	N <sup>a</sup>	Mean	Standard Deviation	Minimum	Maximum <sup>b</sup>
Initial # of minutes stated	233	88.86	71.05	5	487
Actual # of minutes	234	47.98	38.63	1	314
Expected average cost per minute <sup>c</sup>	234	\$ 0.15	0.20	0.01	1.43
Actual average cost per minute <sup>d</sup>	234	\$ 0.28	0.52	0.02	5.00

<sup>a</sup> For 2 cards, information was available from customer service, but it was not possible to place calls with the card. For one card, the initial number of minutes was not given.

<sup>b</sup> One card had 487 initial available minutes and was used to make 12 calls.

<sup>c</sup> Expected cost per minute was calculated by dividing the price of the card by the number of minutes stated as available.

<sup>d</sup> Actual cost per minute was calculated by dividing the price of the card by the number of minutes actually received from using the card.

Table 2: Advertised and Actual Cost per Minute of Prepaid Telephone Cards by Method Used

Brand <sup>a</sup>	Advertised cost per min.	Method 1: (once)	Method 2: (10 times)	Method 3: (twice)	City called
Call N Carry - long calls	1.9¢	2.2¢	5.35¢	3.1¢	Macon, GA
Digamé	1.4¢	2.4¢	4.89¢	2.4¢	Mexico City
Fenomenal	1.7¢	2.97¢	4.87¢	4.24¢	Xalapa, MEX
CCI Georgia	5¢	5¢	12.6¢	10¢	Xalapa, MEX
Kroger	6.9¢	6.9¢	7.66¢	6.1¢	Macon, GA
Silver Star	2.8¢	6.97¢	11.42¢	3.82¢	Xalapa, MEX
AT&T WalMart	7¢	7¢	7.19¢	7¢	Maryville, TN
Sprint	7.9¢	7.9¢	8.59¢	7.99¢	Atlanta, GA
Call N Carry- no connect fee	9.9¢	10¢	18.7¢	13.9¢	Macon, GA
Arriba Mexico	6.7¢	11.9¢	17.56¢	18.3¢	Xalapa, MEX
Net2Phone <sup>b</sup>	19¢	16.45¢	16.45¢	18.38¢	Gujarat, INDIA

<sup>a</sup> Brands are in order of lowest cost per minute for Method 1.

<sup>b</sup> When the card was used, there was a statement that a sale was underway and therefore additional minutes were available.