Calling Home -- and Losing Minutes

by Kristofer Rios
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Brooklyn resident Kathy McArdle started using prepaid calling cards a few years ago as an affordable way to keep in touch with her partner in Jamaica. "Neither of us have a landline, I can't afford two phones, and I'm never home to use a home phone," explains McArdle who is constantly on the move between work and taking her son to and from school.

Consumers like McArdle have made calling cards a multibillion dollar industry. Despite that, many have repeated problems with the cards.

"It was really frustrating," McArdle says. "I tried several different cards, but I always felt I was getting ripped off somehow." McArdle can recall a variety of cards she's used -- all of which she thinks have deceived her with unadvertised rates that forced her to ration the time she and her son could talk to his father.

Facts support her suspicions. A 2007 study by the Hispanic Institute, a nonprofit research group, revealed that on average calling cards deliver only 60 percent of advertised minutes. Companies often use poorly advertised or unadvertised fees and surcharges to fleece customers of the move between work and taking her son to and from school.

To address the problems in the industry, Sen. Bill Nelson of Florida and Rep. Eliot Engel of New York have proposed the "Calling Card Consumer Protection Act" (S. 562/H.R. 3402) to curb the misleading marketing practices of calling card services.

Marketing to Immigrants

Like McArdle, thousands of New Yorkers who have family members living in other countries rely on calling cards and so are disproportionately affected by the marketing schemes of prepaid calling card services. The cards are the only alternative to expensive long distance calling rates on the multibillion dollar industry.

The Context

Technology and telecommunications is economically vital to the success of New York's largest and most important industries including finance, healthcare, higher education, media and the telecommunications industry itself. According to New York's Economic Development Corporation (EDC), in 2003, telecom carriers, cable companies, Internet service providers and publishers were a $23 billion industry -- over three percent of the city's economy -- employing 43,000 people.

Yet the speed with which new technologies and tech-related industries have developed means that many policy issues are only now beginning to be addressed, such as how to protect consumer privacy online, ensure equal access to new technology, bring
landline and mobile phone services.

"I know about things like Skype that use computers to make calls, but I don’t have a computer at home, and while some companies offer overseas plans on landline phones, there’s nothing affordable for cell phones,” McArdle said.

Many calling card distributors cater to specific immigrant communities. While they advertise in multiple languages, they often do not provide details and client services in their customers’ native languages. Without adequate information, immigrant used the cards cannot make informed purchases and are unlikely to call customer service.

In 2005, the Bodega Association of the United States considered a lawsuit against the distributors of Grandes Ligas (Major League) phone cards for issuing phone cards that provided less minutes than advertised. The phone cards, with packaging that displayed prominent Latino baseball players, targeted Latinos. The lawsuit is still pending because an investigation into who was responsible for distributing the calling cards was still not complete.

The Fine Print

A number of hidden charges and other techniques make the cards far more expensive than they might initially seem. Weekly "maintenance" fees deplete minutes. Short expiration dates may find many customers completely out of minutes if they hold their cards for more than a week.

"Sometimes if I purchased a card and it said I had 30 minutes and I only talked for 10 minutes, the next time I used the card there might be no minutes on the card,” explains Alpha Jalloh. Jalloh is a Staten Island resident who used calling cards to stay in touch with family in Sierra Leone. Eventually, tired of losing the money, he gave up the calling cards and now swaps his cell phone’s Subscriber Identity Module, or SIM card, with a prepaid SIM card that offers cheaper rates for international calls.

Customers also lose money when the companies charge for chunks of time -- such as five minutes -- regardless of the actual length of the call. The companies set billing increments, the units they use to deduct minutes. If a company has one-minute billing increment on a 5 cent per minute card, it deducts 5 cents from a card whether the call lasts 30 second or one minute. With a five-minute billing increment, the same 30-second call would cost 25 cents.

"We consider it to be shady practice to have high billing increments because if you call and you get an answer machine or a wrong number, you get charged 25 cents,” says John Breyault of the National Consumers League.

Expanding Protections

The proposed federal Calling Card Consumer Protection Act will expand on those measures and assist states like Florida that rely on public service regulators to take action against calling card services. The legislation directly addresses the ways calling card services take advantage of consumers, requiring that companies provide all advertised minutes and clearly disclose all terms and conditions of the card on the packaging and at point of sale.

The bill also looks to curb practices that fleece customers out of their minutes. Specifically, the bill will prohibit companies from deducting anything but the per minute rate and the fully disclosed fees. It also stops calling cards from charging in high billing increments.

In addition to protecting consumers from unfair charges, the legislation seeks to make companies more transparent about the ways they advertise their fees to non-English speakers. If companies advertise in a language other than English, the bill requires clear disclosure of rates and charges in that language at the point of sale, on the calling card packaging and on the card’s website. The bill also requires that any customer service lines be available in multiple languages for consumers that do not speak English.

Playing Fair

Empire One Telecom is a Brooklyn-based company that provides a government services to the Internet, allow online trading of digital music, and tax e-commerce. While the Internet began as free-wheeling, governments are looking more and more to regulate it, and New York will be among the first places in the nation to feel the impact of these decisions.
number of communication services to consumers in Brooklyn, including prepaid calling card services. Empire One provides round-the-clock customer support in Mandarin and Cantonese because many of its customers are Chinese. During business hours the company provides service in six other languages, including Spanish, Vietnamese and Korean.

Keng Lim, manager of Empire One's prepaid calling card services, welcomes the proposed regulation because, he said, poor business practices of other calling card services affects his company's ability to participate in the market.

"We are unable to compete against other calling cards because they advertise lower rates," said Lim. "If customers simply look at what competitors advertise on their cards, then they appear to be a better bargain." According to Lim, Empire One calling cards do not have hidden charges and they provide all of the minutes they advertise.

Larger companies, such as IDT, the industry leader, say they share Empire One's concern with consumer confidence. "Fraud in the prepaid calling card industry ... undermines legitimate calling card companies like IDT," said Jim Couter, CEO of IDT in an emailed statement.

In 2007, consumers nationwide who felt mislead by poorly disclosed rates and charges filed a class action lawsuit against IDT Corp. charging it had not adequately disclosed rates and prices. IDT settled and changed its practices but immediately brought a lawsuit to compel its competitors to comply with the disclosure rules set in the settlement.

IDT estimated that its calling card revenues fell by more than 40 percent from 2006 to 2008 due to unfair competition. Couter believes that the proposed federal legislation would take a step toward addressing these issues. "IDT strongly supports vigorous government action to protect consumers from prepaid calling card fraud," said Couter.

Despite such comments by Couter and Lim, consumers advocate Breyault thinks that most companies in the industry will probably oppose the bill. "Whenever you regulate an industry it increases their cost," he explained.

Still, Breyault thinks the calling card legislation could help businesses as well as customers. If people don't trust calling cards in general, they're less likely to purchase cards, even from legitimate providers. "This bill would help create a baseline of consumer protection and give consumers a base level of confidence in prepaid calling cards," Breyault says.

An Educated Consumer...

The Prepaid Calling Card Consumer Protection Act is currently before the Senate Commerce, Science and Transportation Committee. In the meantime, Breyault recommends, "Read the disclosures before you buy the card, because if you do get stuck with a fraudulent card it is hard to recover your losses."

Most consumers who think they have been cheated by a calling card company try to call customer service. That's what McArdle did. "With some cards I would just feel so ripped off and I would call the customer service line. Generally they were unresponsive and would argue with me." And McArdle is one of the lucky customers who could find a representative who spoke her language.

In addition to generic consumer protection websites like fraud.org, the National Consumers League’s online fraud center, New Yorkers can turn to the New York City Department of Consumers Affairs. A spokesperson for department said that because telecommunications companies are regulated at the federal and state level, the city does not require calling card businesses to hold Department of Consumer Affairs licenses. Still, the agency does document and forward local complaints against calling card services to federal authorities. Consumers who think they have been scammed, they can file complaints by calling 311 or by going to the consumer affairs website.

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