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How Health Systems Can Protect Themselves Against the High Cost of Cramming

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Everything old is new again. Even with scams. Phone bill cramming, a practice by which scammers arrange to add small charges from third parties to phone bills and then collect the money, has been going on for years on landlines. Though most charges are less than $10, their cumulative effect could be costing your hospital and health system thousands of dollars. Now, thanks to the proliferation of smartphones for business use, the threat is rising on mobile phone bills, too.

According to the Senate Commerce Committee's findings, telephone companies place approximately 300 million third party charges on customers' bills annually, making third party billing a billion dollar industry. As hospitals and health systems continue to rely on mobile phones not only to facilitate communications with their care providers and staff, but to use the technology to deliver important information to patients, it's becoming necessary to understand the problem and take measures to protect the bottom line.

How It Started

Third party billing was a by-product of the Telecommunications Deregulation Act of 1996. To foster competition between start-up telecommunications companies and legacy service providers, the Deregulation Act built in a provision to include charges such as long distance usage on existing providers' invoices.

If a business chose to have its long distance services provided by a different company than its local service provider, the long distance company was able to process its charge through a third party billing company working in tandem with the local service provider. Long distance charges showed up as a line item on the monthly invoice.

On the surface, a streamlined invoice with multiple charges including Internet access, website hosting, E-fax services, toll free voicemail, etc., was particularly helpful to new providers who could use an existing invoicing platform and avoid the cost of developing a complete billing system. But for businesses with multiple employees and various locations, monthly bills easily grew to the size of a small book, requiring a tremendous amount of time to scour for inaccuracies. Scammers understood this and began to take advantage.

Cracking Down

It wasn't until 2010, when Senator John D. Rockefeller initiated a Commerce Committee investigation into these "Mystery Telephone Fees," on landlines, that the extent of the scamming was brought to light. The yearlong study of cramming revealed some key findings including the fact that over the past five years, telephone companies have placed more than $10 billion worth of third-party charges on their customers' landline telephone bills. Others were:

-A large percentage of these charges are unauthorized cramming charges.

-Telephone companies profit from cramming, generating well over $1 billion dollars in revenue by placing third-party charges on their customers' telephone bills.

-Cramming affects every segment of the landline telephone customer base including thousands of nonresidential telephone bills.

-Many third-party vendors are illegitimate and created solely to exploit third-party billing.

-Telephone companies are aware that cramming is a major problem with more than 500,000 customers contacting Qwest, Verizon and AT&T over the past five years to complain.

-These customers often reported negative experiences when seeking assistance to combat unauthorized third-party charges.

-The telephone companies' anti-cramming safeguards have largely failed because they inaccurately reported complaint statistics.

What Cramming Looks Like on Your Bills

Private individuals are most likely to be scammed when completing online surveys that offer a "gift" such as a pre-paid gas card or coupon for free groceries. The fine print will often include an authorization to subscribe to a billed service. To complete the process, the site will often require users to fill out personal information including their telephone number. Once they have that, automatic third party billing can begin.

Businesses are not immune. Any type of affirmative answer given to direct marketing or through a telemarketing call by any employee may result in "authorization" even if the employee does not have the authority to authorize new services.

Promotional checks generated to a company for a small amount of money and processed by accounts receivable can also invite scammers in. Often a "contract" is printed on the back of the small check that is activated when deposited. The contract authorizes the initiation of invoicing for some type of service offering that is automatically billed each month --until someone notices the charge and has it removed.

Likewise, scammers can acquire a business' phone number from a black market affiliate list, or send an email that begins charging anyone who replies "stop" or "unsubscribe."

How to Protect Yourself and Save Money

Senator Rockefeller eventually got four major carriers to agree to stop such charges on landline phones, though in some states it's taken longer for companies such as AT&T to discontinue third party billing. Unfortunately, the Fair Telephone Billing Act Rockefeller proposed was never signed into law. The tide of scamming continues.

In January, the Federal Trade Commission (FTC) asked a federal court to shut down a Montana-based operation that the agency alleged brought in more than $70 million, just by adding charges between $10 to $25 to phone bills across the nation. The operation has been going on since 2008, according to the FTC. The agency just filed its first case against mobile phone cramming this April.

The reason is simple: it's all too easy to slip charges onto an invoice and have them go undetected for months. The Federal Communications Commission's (FCC) Truth-in-Billing rules require telephone companies to provide clear, non-misleading, plain language in describing services for which you are being billed, according to the agency. The FTC's best advice: read your bill. Unfortunately, spotting the charges is complicated by several factors, not the least of which is that both real companies and scammers are practicing these shady business tactics.

Then, there's the fact that the third party billing companies that process the charges are not the ones actually providing the services. Careful observers will usually be a reference to the company originating the services, but if you don't understand the entire process it can be difficult to know how to investigate and resolve the issues.

Also, line items with innocent-sounding descriptions such as *Minimum Use Fee, Activation Fee, Voice Mail or Member Fee* can add thousands of dollars to a phone bill -- even with charges as low as $2 or $3 a month.

The key to stopping these charges is to designate a person, internally or externally, to review the phone bills each month to identify third party billings. What the professional telecom analysts have learned is that the next step is to first request credits for past third party charges for up to three years. Once the credits are obtained, then tell the carrier to "block" the third party biller from ever putting such charges on the bill again.

About the author

John Taylor is President of Tryon Clear View Group, LLP, an auditing firm with offices in Tryon, NC. Tryon Clear View Group specializes in cost reduction analyses for telecom, utilities,copiers, waste, package cost recovery and workers compensation.

Mr. Taylor was formerly with Ingram Entertainment as President and Chief Executive Officer. During his tenure at Ingram he helped to form it into the largest international video retail distributor in the world. Taylor left Ingram to expand a local, nine-store South Carolina video retailer, Moovies, into one that was nationwide with 300 locations. An entrepreneur at heart, John went on to form qServe Communications in 1998, a telecom tower management company.

Taylor is a business leader as well as a business educator. He graduated in 1976 with a BS from the University of North Carolina at Charlotte. In the same year he began working at Deloitte Haskins and Sells and was promoted to manager, working primarily in mergers and acquisitions. In 1978 John received his CPA certification. He also taught accounting at the University of North Carolina at Charlotte from 1978 to 1985.

Endnotes:

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