



ILD TELESERVICES SUBMISSION
TO
FEDERAL TRADE COMMISSION'S ANTI-CRAMMING HEARING

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1. OVERVIEW OF BILL TO PHONE SERVICES

Bill to phone is a longstanding and still viable and needed service to millions of Americans. With 30% of the American consumers not having access to credit cards and over 21 million consumers being “under-banked”, it is necessary to find alternative payment methods for goods and services. For some (such as inmates in correctional facilities), it may be the only payment mechanism available. For others, it is a direct and efficient payment mechanism, avoiding the potential high fees and interest costs imposed by other forms of payment. For instance, credit card penalty fees cost consumers \$20.5 billion in 2009, and the proposed caps on interchange (or swipe) fees charged to merchants could trigger banks to charge consumers more for other payment systems. The vast majority of the merchants seeking the ease of the bill to phone third party billing systems are for increasingly mainline services, such as telephony, prevention of identity theft, and broadband and internet services, and the consumers continue to find convenient a bill to phone billing option for such services.

Also, the billing aggregators and the Local Exchange Carriers (LECs) in the bill to phone industry are very stable with longstanding policies against charges for unauthorized or fraudulently induced services (termed "cramming"). Several industry anti-cramming procedures have been enhanced in recent years to put protocols in place to uncover cramming in its very early stages and to cease services for the Merchants engaging in such activities. (Please see information on the activities of ILD Teleservices, Inc. --the billing aggregator submitting this submission-- as to its procedures and anti-cramming initiatives). Indeed, other forms of payment for digital-based services have been found ripe for malfeasance: Ecommerce merchants lost \$3.3 billion to fraud in 2009 (or about 1.2% of lost revenue) for lack of verification or authorization for services, and the FTC estimates merchants lose 6X as much revenue from the fear of fraud than from actual fraud. The bill to phone payment system is in fact one in which potential fraud and cramming are subject to constant monitoring and self-policing by the established LECs and billing aggregators. Furthermore, the billing aggregators, LECs, and others employ several thousand persons with key roles in the general bill to phone industry.

We present below more information on the bill to phone industry including an overview of the merchant charge verification process, and additional steps that billing aggregator ILD Teleservices (as an industry leader) has taken to assure that consumer protections against cramming and other improper activities are in place and effective.

2. WHY BILL TO PHONE IS IMPORTANT

Alternatives to traditional credit card transactions are becoming more and more important for consumers. Consider these facts:

Consumers Need Payment Alternatives for Digital Content.

- Nearly 30% of American consumers said they didn't own a credit card in a February 2010 survey—a 10% jump from June 2009. (Source: [Scientific poll for CreditCards.com, conducted Feb. 5-7, 2010](#))
- 17 million American adults do not have a bank account, relying instead on check-cashing services. (Source: [The Wall Street Journal – August 18, 2010](#))
- 21 million Americans are considered “underbanked.” These consumers have a checking account but often use payday services and car title loans. (Source: [The Wall Street Journal – August 18, 2010](#))
- According to a Javelin report, only 35% of merchants offer the alternative payment methods that make ecommerce transactions possible for those without credit cards or banking services. (Source [Internet Retailer October 21, 2010](#)).

Credit Cards Cost Consumers.

- Credit card penalty fees cost consumers \$20.5 billion in 2009. (Source: [New York Times, September 2009](#))
- Proposed caps on interchange (or swipe) fees charged to merchants could trigger banks to make up for lost revenue by charging consumers more. For example, in June Bank of America will start charging some users a penalty interest rate of up to 30% if they make late payments. (Source: [CNN Money, May 9, 2011](#))
- The proposed caps have also spurred banks to consider capping debit card transactions at as little as \$50 or \$100, even if the transaction is run as credit. (Source: [CNN Money, May 9, 2011](#))

Fraud Costs Consumers.

- 11.1 million U.S. adults were victims of fraud in 2009—the highest level since 2003. (Source: [Javelin Strategy & Research, "Identity Fraud Survey Report," February 2010](#))
- Identity fraud victims are twice as likely as non-victims to change the way they shop and pay for purchases on ecommerce sites, according to Gartner research. (Source: [Information Week March 4, 2009](#))

Fraud Costs Ecommerce Merchants.

- Ecommerce merchants lost \$3.3 billion to fraud in 2009, translating into 1.2% of lost revenue. (Source: [CyberSource, January 18, 2011](#))
- The FTC estimates merchants lose 6x as much revenue from the fear of fraud than from actual fraud. (Source: [Ethoca, June 8, 2010](#))

Consider the Opinion of Consumers:

When paying for apps, Nielsen downloaders prefer to be billed by their provider

	% of recent downloaders
% of Nielsen recent downloaders who prefer to pay for apps by...	
Billing from their cell phone provider	34%
Credit card	29
PayPal	18
iTunes	12
Amazon 1-click	2
Google checkout	*
Other	5
% of Nielsen recent downloaders who say their preference is based on...^	
Convenience	80%
Security	43
Bill consolidation	37
Other	4

^ multiple response allowed

Source: The Nielsen App Playbook, December 2009. N=3,962 adults who downloaded an app in the 30 days prior to the survey.

Conclusion on Necessity of Bill to Phone Industry:

The American consumer is purchasing more and more goods and services online. Online purchases require a “non-cash” form of payment. With the explosion of identity theft and credit card fraud the American consumer is looking for a safer alternate way to pay. In addition, there are 30% of the American consumers that do not have credit cards and therefore they depend on alternate payment methods for these purchases.

3. TYPICAL MERCHANT AND CHARGE VERIFICATION PROCESS

Before accepting billings from a customer eligible for LEC billing (a "Merchant" or "Merchant Customer"), a billing aggregator is required to follow certain procedures required by the LECs, and in most cases, by the billing aggregator's more enhanced policies, to verify the status of the Merchant and its business plan in generating goods or services to be billed to consumers. Such procedures encompass:

- Background Investigations: The billing aggregator would conduct a background search on the Merchant Customer and usually its primary officers and owners. It would examine or collect data on the Merchant's product and/ or service, the marketing and sales plan for the product and/ or service, and other pertinent company information. It would carefully review all such materials to ensure compliance prior to submission for final review and approval by the Local Exchange Carriers.
- Verification: Once a Merchant has passed the background investigation and is approved by the LEC for billing, the Merchant Customer would be required to document all authorizations of charges. With respect to many such class of customers (including voice authorizations of Internet service providers), such authorization of charges must be forthcoming from an independent third-party verification service and such third-party verification service must be paid based on the number of recordings, and not by whether or not a consumer authorizes a transaction.
- Letter of Authorization: If a consumer signs up for Internet service through the internet site or certain other services, the Merchant is required to obtain authorization from the consumer (termed a Letter of Authorization, or "LOA") in the form of personal information including the telephone number, billing address, and date of birth or social security number, which is then authenticated vis-a-vis the personal information with the Local Exchange Carrier and Lexis-Nexis (a leading verification company) for required matches. The LOA is currently required to be placed on-line for all Merchants first using services this year.
- Methods to Receive Complaints: When a consumer has a question regarding the charges on their telephone bill billed by an aggregator, such consumer may either: (A) call a toll free number that is located on the bill page (termed a "primary inquiry"); the leading aggregators (such as ILD) require that its or the customer's call center be available to the consumer during expanded business hours and have prescribed call completion levels, or (B) assess an online website with easy customer resolution procedures.
- Resolution of Complaints: Often the complaints are resolved without need for further investigation. For others, with a billing telephone number, a billing aggregator such as ILD can promptly investigate a charge and then explain the charges to the consumer. For instance, ILD often credits consumers whose charges were in fact authorized, but are unhappy with those charges, to ensure satisfaction. If the charge was indeed not authorized, the billing aggregator will rectify the situation with the consumer and LEC and take action against the Merchant for billing the unauthorized charge.

- Ongoing Monitoring: A leading billing aggregator such as ILD would perform ongoing audit testing of the Merchant's LEC-approved marketing and sales processes and techniques to ensure unapproved methods are not being employed. The audit tests are completed on a quarterly basis (at a minimum) and include review of marketing process via the internet, telemarketing scripts, and any written documentation. The audit team purchases the product, uses the product and pulls random recordings of primary inquiry calls if the Merchant Customer provides the primary inquiry.
- Prescribed Compliance Levels: For all Merchants, there are prescribed thresholds as an additional measures against cramming. Generally, if greater than 1% of a Merchant's billed charges are alleged to constitute cramming charges for any month, the customer will receive an "out of compliance letter" and be required to issue an action plan to correct, with follow-up procedures. Please see ILD's procedures for more details on best practices.
- Automatic Probation for New Small Customers: As an additional front-end precaution, a leading billing aggregator such as ILD may impose a probation period for all billing customers with gross revenues of less than a prescribed amount. (For instance, ILD imposes a six-month probationary period for Merchants with less than \$10 million for the prior year.) During this time, the billing aggregator would handle all calls from the consumer and monitor the quantity, level (percent of inquiries and credit amounts to billed customers and billed amount) and type of complaints. If the Merchant exceeds prescribed thresholds or if consumers have excessive complaints about the sales process and charges, then the Merchant must prepare and submit an action plan to get the complaints to acceptable levels. If the action plan is not provided or the action plan does not address the issue, billing will cease for this Merchant as an ILD customer. This procedure allows early monitoring and some assurance to the clearinghouse that the Merchant will be able to responsibly handle inquiry calls.

The above are typical verification and anti-cramming processes. Again, please see certain enhanced anti-cramming practices undertaken by ILD as described in the next section of this submission.

4. ILD AND ITS LEADERSHIP ROLE IN CONSUMER PROTECTION

Who is ILD? ILD Corp. ("ILD" or the "Company") was founded in 1996 and has strategically grown into the parent company of a diverse collection of affiliated back-office support companies. The Company provides back office solutions to thousands of customers from the Fortune 500 to small and medium size companies in the United States and Canada. ILD maintains seven facilities in three US states. ILD companies include Intellicall Operator Services (IOS), ILD's RollCall Business Conferencing Solutions, its newest venture Social Strategy1, and most prominently in this submission, its affiliate ILD Teleservices which is a leading billing aggregator in the US and Canada. ILD Teleservices has played an instrumental role in the maturity of invoice processing and billing collections, through its interconnectivity with approximately 1,400 LECs. This LEC footprint enables service providers to reach virtually all residential and business LEC subscribers in the US and Canada.

ILD employs over 300 persons in the US. The Company's aim is to expand upon the strong customer relationships already established by striving to increase efficiencies and improve operating results for its customers in need of back office support. In addition, ILD continues to introduce new outsource processes and products to provide its customers and partners greater efficiency and profit potential. The primary focus is to accomplish this in a manner that blends ILD's customer focused input with its constant attention to both its platforms and people, all with a backdrop of best practices for consumer protection with focus on risk mitigation and security measures to limit the likelihood of unauthorized charges to consumers through ILD's diversified secure IP-based infrastructure based validation and authentication processes.

ILD's Consumer Protection Activities.

ILD takes its responsibility seriously regarding the protection of consumers from unauthorized charges. ILD has stringent policies and procedures to guard against cramming and we continually strive to improve them. We take every measure possible to ensure we are working with Merchants that do not engage in this practice, including background searches, review of Merchant's customer acquisition methods, and adherence to strict authorization verification procedures. ILD remains vigilant in mitigating unauthorized transactions, continually refining our processes to avert deceptive marketing or fraudulent activity, and we proactively participate in consumer forums to provide a clear path to resolution for consumers. As a result of stringent business practices and systematic authentication tools, we have terminated billing agreements with Merchant Customers found in violation of our policies.

As a direct response to consumer needs, ILD has greatly enhanced its infrastructure and operating platforms. It recently expanded its consumer protection processes by implementing strict sales authentication processes for every client billed through ILD and auditing the marketing and sales process by the Merchants. ILD has developed an automated process to authenticate every internet sales prior to allowing charges to be submitted to a consumer. This system requires the first name, last name, address, phone and personal data to be an exact match to the consumer information on record. Sales by phone require an independent third party to verify the sale and ensure the consumer understands the purchase prior to allowing the charge. In addition, ILD utilizes Social Media to monitor consumer sentiment, comments, and complaints of our Merchant customers.

ILD operates a state of the art call center for telephone resolution of any billing inquiry. It is staffed with bilingual trained operators dedicated to one call resolution. ILD monitors and trains its staff continuously through an extensive Quality Assurance program to ensure the best and most complete response to all inbound inquiries. It is open during business hours in all of the markets to which ILD Teleservices provides services.

Another example of ILD's focus on consumer protection is our development of the industries' first Self Help Center on ILD Teleservices' website. In an age where so much business is conducted on-line, ILD sought to offer additional consumer complaint services over and above a traditional call center. In response, ILD developed a site that enables consumers to manage their own inquiry process and initiate and settle disputes on-line 7 days a week, 24 hours a day. This site was developed in 2008 and launched in early 2009 in response to consumer demand for on-line resolution and transparency.

The ILDteleservices.com Self Help Center, (screen shots shown below) is designed expressly for consumers billed by ILD Merchant Customers. It is informative, intuitive and easy to use.

Typical Handling of Potential Cramming Complaints Received By ILD

Primary Inquiry Probation: When a consumer has a question regarding the charges on their telephone bill billed on behalf of ILD they can call a toll free number that is located on the bill page. When the consumer calls this toll free number the call is routed to ILD's Primary Inquiry Call Center. At this time the call may be routed to ILD's personnel or routed to the call center of its customer (if applicable). (Note: ILD requires that it handles all calls during a six-month probation period for all new billing customers with gross revenues of less than \$10 million for the prior year.)

Call Center Procedure for Cramming: All ILD Customer Service Representatives are trained to identify cramming complaints. If a customer calls and complains that they have "cramming" charges on their phone bill we immediately categorize the call as "alleged cramming". Alleged Cramming calls from ILD's Primary Inquiry Call Center are submitted to Regulatory for additional action. The investigation will examine the existing Letter of Authorization from the Merchant. The LOA is authenticated to the Billing Telephone Number Account holder. If the LOA matches and the consumer signed up for services, the call is marked as "Cramming Researched". If the LOA does not match and the consumer did not sign up for services, the call is marked as "Potentially Crammed".

Complaint Resolution: ILD provides two methods of consumer resolution: an online website with easy customer resolution and toll free numbers that ring to our Primary Inquiry Call Center. With a billing telephone number, ILD can quickly investigate a charge and explain the charges to the consumer. ILD often credits consumers whose charges were in fact authorized, but are unhappy with those charges, to ensure satisfaction. If the charge was not authorized, ILD will rectify the situation with the consumer and LEC and take action against the Merchant for billing the unauthorized charge. If a consumer has a question about their phone bill, they can call our Resolution Center at (800) 637-4009 or visit www.ildteleservices.com where a self-help resolution alternative is provided.

For products that are sold over the phone ILD requires a Third Party Verification (TPV) voice caps and ILD audits a minimum of 25% of these voice caps. If a customer fails the TPV audit (based on ILD's zero tolerance), ILD immediately block bills the account that failed and increases the percentage or number of audits for that Merchant.

ILD identifies potential cramming with reports from the Merchant, ILD's primary inquiry calls, reports from the LECs and PUC complaints. ILD then investigates whether the claims actually constitute cramming. If greater than 1% of BTN's billed are cramming (or potential cramming) charges for any month, ILD sends an "out of compliance letter" and requires the Merchant to issue an action plan to correct.

CUSTOMER REPORTING REQUIREMENTS

Merchant Customers are required to notify ILD of any enforcement actions by a state or federal agency within five (5) business days of receipt of such notification. Also, Merchant Customers are required to report monthly to ILD within five (5) business days after the end of each month regarding any cramming complaints. If there are none, the Merchant needs to report that result to ILD. Cramming is defined as a charge or service which the end customer asserts was not authorized or was based on deceptive or misleading conduct on the part of the Merchant. This allegation can be rebutted by the Merchant by providing ILD with authorization for the charges and with evidence that no deceptive or misleading conduct occurred. Absent mitigating circumstances, failure to report monthly to ILD will constitute grounds for discontinuing billing.

ONGOING MONITORING OF CUSTOMERS

ILD performs on-going audit testing of the Merchant's LEC-approved marketing and sales processes and techniques to ensure unapproved methods are not being employed. The audit tests are completed on a quarterly basis (at a minimum) and include review of marketing process via the internet, telemarketing scripts, and any written documentation. The audit team purchases the product, uses the product and pulls random recordings of primary inquiry calls if the Merchant customer provides the primary inquiry.

If the Merchant exceeds prescribed thresholds or if consumers have excessive complaints about the sales process and charges, ILD immediately contacts and demands an action plan to get the complaints to acceptable levels. If the action plan is not provided or the action plan does not address the issue, ILD will cease billing for the Merchant. After the applicable probation time, ILD will provide service to any consumer that calls twice within 48 hours. Based on the BTN entered by the consumer in our front end IVR system, the first call will be routed to the Merchant Customer's Primary Inquiry center. If the consumer calls back and enters the same BTN in our front end IVR system, ILD will route the call to our internal Primary Inquiry Center for alternate resolution to the consumer's issue.

OTHER REPORTS AND METRICS

Credits and Inquiries to Billed Amount and Billed Customers

ILD compiles a monthly report comparing the number of Credit Amount to Billed Amount and the number of Inquiries to Billed Customers. This report highlights any customer that falls outside of

the acceptable thresholds or if the customer's trend changes significantly. This report is used to issue the "Out of Compliance" letter and process.

Out of Compliance Process

If greater than 1% of BTN's billed are cramming charges for any month or if the customer's Inquiry ratio, Credit ratio, or PUC escalation ratio exceed ILD's thresholds, ILD will inform the customer via certified letter, and the following would result:

- If the customer does not provide a plan or a response within the 14 days, ILD ceases all future billing until a plan is received.
- If the customer provides a response but the plan does not contain significant changes, ILD only bills the Merchant Customer for existing consumers and rejects all new consumers.
- If the customer provides an action plan with significant changes, ILD places the customer on probation and continues to bill the Merchant Customer's records. If complaint levels remain outside acceptable levels, ILD will request a new action plan and may cease billing for new consumers or all billing.

An additional monthly charge will be applied for all customers during the period in which the thresholds are exceeded. If the 1% cramming limit or the inquiry and credit threshold is exceeded in three of any six month period, ILD automatically ceases billing for that customer in affected LEC regions. The six month period commences with the first month in which the 1% limit is exceeded.

STATISTICAL RESULTS

Based on the significant business changes and consumer advocacy processes ILD has implemented, consumer billing inquiries have dropped by 57.9% between June 2008 and March 2011. In addition, escalation complaints issued by consumers to the LECs have decreased 71.8% between the months of April 2010 to March 2011.

ONGOING INITIATIVES

- Technology Initiatives of ILD include:
 - Establishment of redundant link between ILD and secondary validation provider to supply provider diversity and eliminate risk of outage.
 - Use of Social Media to actively find negative mentions and potential issues with Merchants utilizing ILD billing services.
 - Billing to Mobile Phones with stringent authentication processes.
 - Developing enhancements to version 2 of self-help application, adjusting the user interface to make it more intuitive to the end user.

Based on the foregoing, ILD believes it is an industry leader in anti-cramming procedures, and that it and all billing aggregators and LECs are becoming more and more diligent in identifying and ceasing services to customers intent on cramming activities.

5. CONCLUSION BASED ON ILD'S EXPERIENCES

Bill to phone is a viable and needed service to millions of Americans. ILD is a billing aggregator which shares the concerns of LECs to provide billing services to this group but ensure consumer protections are in place to prevent cramming. ILD is an industry leader in consumer protection by being the first to implement an online real time consumer resolution website. Through ILD's sales, customer and LEC partnerships, the Company has proactively worked to protect the consumer by ensuring the charges that appear on a telephone bill are for services the consumer ordered, authorized and consumed.

As have most of its peers, ILD has enhanced its systems and processes to combat and reduce the potential for unauthorized charges. This has been demonstrated by ILD's screening and pre-qualification of new customers, changes to sales authentication, ongoing auditing and monitoring of clients. In addition, ILD continues to use technology to assist in providing excellent service for its customers and the consumer by implementing the on-line consumer resolution support website and the use of Social Media Monitoring. The results of easy to use on-line and call center resolution together with strict enforcement has dramatically improved consumer satisfaction as well as limited likelihood of unauthorized charges appearing on a phone bill. All of these changes have reduced the number of Billing Inquiries by 57.9% and reduced the escalated complaints by 71.8%.

Internet marketing did provide a new challenge to the billing industry; it realized it faced a new challenge of aggressive marketers seeking for ways around the systems put in place. However, the changes that have been implemented by ILD and other clearinghouses together with actions taken by the LECs have been overwhelmingly positive and proactive. The Alternate Payments industry realizes, just like the credit card industry, that it will be required to continually identify these issues and take immediate action to protect the consumer.

At this stage ILD is able to quickly identify and cease billing services for any Merchants that participate in cramming, and ILD is able to take immediate action to protect the consumer. At the same time ILD is able to provide a valuable billing alternative for consumers who choose the convenience to pay for services through their telephone bill.

Simply, bill to phone is a longstanding and needed service to millions of Americans. The industry employs several thousand persons in a challenged employment environment. The vast majority of the merchants that engage billing aggregators are seeking the ease of the bill to phone third party billing system for mainline services, such as telephony, prevention of identity theft, and broadband or internet services.