

TELECOMMUNICATIONS

A KANSAS CITY BUSINESS JOURNAL SPECIAL REPORT

■ Next week in FOCUS:

The Missouri General Assembly takes steps to press for more disclosure from insurers who buy life insurance policies from the terminally ill.

SLAMMING AND SCRAMMING

Small long-distance carriers set up, dupe customers, disappear

STORY BY ELIZABETH C. HOWARD, GRAPHIC BY JIM HINDS

Walter Jacobs, owner of Jacobs Management Co. in Overland Park, was surprised when he found a \$5 charge on a recent telephone bill along with this phrase: "As of November 9, you have selected AT&T as the long-distance carrier for...."

The surprise? Jacobs has been with AT&T since 1969. He was being charged to switch to a long-distance carrier that he already belonged to—or so he thought.

What happened to Jacobs is called *slamming*. That's when a long distance carrier switches the customer's service without proper authorization. The practice is usually misleading and, under some circumstances, illegal.

Since AT&T broke up in the mid-'80s, businesses and individuals have logged hundreds of

thousands of slamming complaints and paid millions of dollars in unnecessary charges.

Jacobs: "I looked at (the western Bell bill) extra careful and I see this 'Welcome to AT&T. You are now on an AT&T line,'



with a \$5 switching charge. Then I find that some company that calls itself...Network Services out of Philadelphia has sent me a (long-distance) bill."

Actually, the charge came from

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changing his long-distance carrier to a company that has bought space on the AT&T Network and resells it at competitive rates. Although he remained on an AT&T line, his billing would come from a different service, and his rates and fees and services would likely change.

To further confuse things, Jacobs received his new phone bill from a company called "AT&T Bill Manager Services," an unregulated division of AT&T that sells its billing service to customers leasing space on its lines.

Complaints pile up

The Federal Communication Commission has racked up more than 4,000 slamming complaints in the last two years alone and reports those numbers have been climbing since 1989.

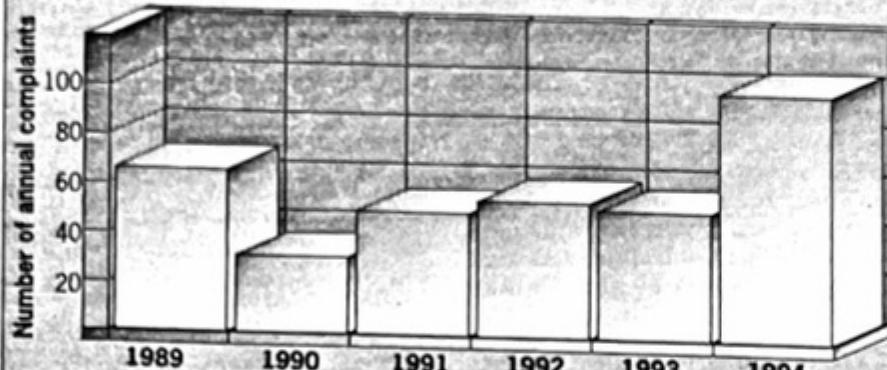
In Missouri, the Attorney General's office and the Missouri Public Service Commission together have reported nearly 150 complaints in the past year. And the Kansas Corporation Commission reports 54 complaints in 1994, a 66 percent increase from 1992's total of 36.

Southwestern Bell spokesman Larry Pfautsch said the local telephone company received almost 17,000 reports a month from customers in its five-state area. Customers call to say that their long-distance carrier has been switched without their apparent knowledge or permission, he said.

Not all take the form of complaints, but

MISSOURI SLAMMING

Except for a dip in 1990, slamming complaints recorded by the Missouri Public Service Commission during the past six years remained level from 1989 to 1994, when complaints nearly doubled 1993's total.



Source: Missouri Public Service Commission Consumer Services Department

Howard/Hinds — KCBU

most customers report having felt misled or deceived.

Doug Ommen, deputy chief counsel for consumer protection at the Missouri attorney general's office, said most complaints received are usually "the result of a renegade business (that) is running a phone room with sales people who start to switch customers even though the customers gave no authorization."

One man who has been on the inside gives a different perspective. Anthony Teresi, a former salesman and investor in Dallas-based PCA Telecommunications, thinks the problem often stems from companies that pop up overnight with the intention to milk the market over a matter of weeks for potential slamming victims.

"If they are not going to be around for very long," he said, "they just get what they can and run."

Teresi said that pay phones were an especially easy target. Ernie Rohr, owner of 18 convenience stores in the bimstate area, said he found out the hard way.

Rohr, who has at least one pay phone at each store, said that on at least six occasions a sales representative from Encore approached his store clerk about the pay phones.

"They came and they told the clerk on duty that in order to get revenue on the

pay phone you have to sign this thing," Rohr said. "Then they would call the main office and ask who the party was who was authorized to change the service. Then they'd just write in my name."

Opportunities overboard

Both Jacobs and Rohr said that although the charge was only \$5 for each

switch — charges they either didn't pay or eventually got back — the real loss was their time and energy.

"Most customers don't realize it until they receive their bill," said Karen Flaming, chief of telecommunications with the Kansas Corporation Commission.

"It is more the frustration that there was some kind of change made without their consent. More people are out time than money."

Slamming isn't just always a random change of a long distance carrier without permission or a shady salesperson.

Some carriers can mislead a customer into authorizing the switch. One of the most common is using an "inducement" — a check or contest entry that a customer signs — without reading the fine print.

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That fine print usually indicates that a person's signature authorizes a switch to a different carrier and that the switch would likely incur a fee to the customer.

"What (the companies) are doing is technically OK; it's not illegal, but they are not being entirely truthful," Flaming said.

Inducements, also called Letters of Agency (LOAs) are currently the main focus of the FCC's proposed rule making.

They are controversial because they combine an easy-to-see enticement — money or prizes — with a relatively hidden authorization. Current FCC rules do not require LOAs to be separate from promotional or inducement materials or that the forms be clearly marked as a LOA that authorizes a switch.

Kathie Kneff, the FCC's chief of enforcement and informal complaints, said that the commission has been watching complaint levels carefully over the past few years and has just completed collecting public comment for new pending rule making.

During the next few months, the committee will look over comments

and replies, then draw up proposals for the full commission to accept or modify.

"We felt it was important to address the issue because we had started seeing more complaints than in the past," Kneff said. "It will probably take us several months, (but) the commission is very concerned about this, and I don't see any great delays."

Local agencies are beginning to take a stand. The MPSC has submitted a report to the FCC, in conjunction with the Missouri Attorney General's office and the Office of Public Counsel, requesting a change in the rules. The report requests more stringent limitations on LOAs.

Southwestern Bell has also developed a way to fight back. Pfautsch said that any customer can obtain a form called a Primary Inter-Exchange Carrier (PIC) restriction form, which requires Southwestern Bell to have written authorization from the customer before changing a person's long distance carrier.

"We recommend you read everything you sign," he said, "even if it is just to enter a contest or a raffle. You may be authorizing a switch you don't want."

Elizabeth G. Howard writes about business in the Kansas City area.

SPRINT

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billion a year ago. The number of access lines grew by 4.8 percent.

The company's year-end financial results revealed that Sprint's cellular business turned in a strong showing in 1994.

brand into our distribution channels, a powerful driver in our second quarter results."

Despite these results, the company's stock price is languishing near \$30 per share. Unless the company manages to boost its share price it could run into problems trying to finalize its proposed alliance with France Telecom and Deutsche Telekom.

Under the original terms of the agree-