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> PREPARED REMARKS OF CFPB DIRECTOR RICHARD CORDRAY ON THE SPRINT AND VERIZON ENFORCEMENT ACTION

MAY 12 2015

Prepared Remarks of CFPB Director Richard Cordray on the Sprint and Verizon Enforcement Action

BY [RICHARD CORDRAY](#)

Thank you for joining us today. It is notable that we are amongst the nation's attorneys general to announce an action that has required quite a bit of federal and state coordination. Together, and alongside the FCC, we are taking action against Sprint and Verizon for illegally cramming consumers' bills with unauthorized third-party charges. In doing so, we have secured \$120 million in redress for harmed consumers and \$38 million in fines. The companies' flawed billing systems allowed unscrupulous merchants to add unauthorized charges to wireless bills, and consumers ended up paying over a hundred million dollars in such charges. Many of these consumers had no idea that third parties could even place charges on their bills.

We use our phones to do so much that they have become integral to our daily lives. We communicate with loved ones, carry out our work, find information, listen to music, and make a growing number of purchases. According to the Pew Research Center, more than 90 percent of Americans now own a mobile phone. When we use our wireless accounts to make purchases, carriers such as Verizon and Sprint act as payment processors. They place the charges for those purchases on our wireless bills instead of on a credit card or other form of payment.

In today's case, both companies were enrolling customers in third-party billing systems without their consent. That allowed scammers to cram illegitimate charges onto people's wireless bills. For almost a decade, until the end of 2013, nearly all wireless third-party billing involved premium text messages. These premium messages delivered things like ringtones, wallpaper, and horoscope text messages.

Sprint and Verizon outsourced the billing for these messages to vendors known as billing aggregators. But Sprint and Verizon did not keep a watchful eye on these vendors or the charges they were placing on wireless accounts. As a result, consumers were subjected to millions of unauthorized charges, including one-time fees ranging from \$0.99 to \$14.99 as well as monthly subscriptions that cost about \$9.99 per month.

Most consumers who faced these unauthorized charges were targeted online. Consumers clicked on ads that brought them to websites asking them to enter their cellphone numbers. Some merchants tricked consumers into providing their cellphone numbers to receive "free" digital content and then charged for it. Other merchants simply placed fabricated charges on people's bills without delivering any goods or even communicating with them.

Despite complaints from consumers and other red flags, the companies continued to outsource third-party billing to the aggregators and allowed the unauthorized charges to pile up on people's monthly cellphone bills. When consumers paid these illegal charges, Sprint and Verizon were able to take a 30 to 40 percent cut of the gross



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revenue. This was wrong. Part of our mission here at the Consumer Bureau is to make sure that consumers are treated fairly in the financial marketplace. Sprint and Verizon mistreated consumers egregiously by creating billing systems that invited illegal third-party charges, did little or nothing to root them out, and processed them in a highly irresponsible manner.

The companies took advantage of their customers and treated them unfairly in a number of ways. First, the companies allowed third parties to access their billing systems and failed to monitor those third parties. Such billing practices made it easy for scammers to attach the charges. On top of that, since the companies made a profit on every such charge, there was little incentive for the companies to put a stop to them.

Second, Sprint and Verizon automatically enrolled customers in their third-party billing systems without the customers' consent and did not require customers to opt-in to the service. Although Verizon and Sprint allowed consumers to block third-party charges, consumers had to make a specific request that they do so. Since many consumers were unaware that third parties could even place charges on their bills, they did not know to ask for such protection, making the blocking option of little use to consumers.

Third, both companies disregarded red flags showing that their third-party billing systems were breeding grounds for unauthorized charges. They continued to outsource this process to aggregators even after those very same companies were sued for cramming.

Fourth, Sprint and Verizon ignored or mishandled complaints about the unauthorized charges. They did not track customer complaints about the charges and thus lacked even the most basic fraud-alert mechanism.

Because consumers are increasingly using their phones for all sorts of financial activities, they need to be able to trust that their wireless carriers and other payment processors are keeping their accounts safe. Although wireless carriers generally ended premium message transactions at the end of 2013, third-party billing on mobile accounts continues through different platforms, like mobile wallets and direct carrier billing. Companies must have strong safeguards in place and they must take vigorous and proactive steps to protect consumers against fraud and abuse.

Customers should not be subjected to unauthorized charges and companies need to be held accountable. For these reasons, we have reached proposed consent orders requiring Verizon to pay \$70 million in redress and Sprint to pay \$50 million in redress. The companies would also have to make changes to their business practices to prevent these kinds of consumer harm in the future. The companies will also have to pay \$38 million in federal and state fines.

The proposed orders would require Verizon and Sprint to present third-party charges in a separate section of the consumer's bill that is clearly labeled. Consumers should be able to identify clearly which charges are from the carrier and which charges are from third parties. Verizon and Sprint would also have to ensure that consumers disputing third-party charges are directed to a customer service representative with access to at least twelve months of consumer billing statements. The representative must also offer consumers the option to block future third-party charges, and must provide consumers with a refund of any unauthorized charges unless the company can demonstrate the consumer is not eligible for a refund.

Finally, the companies would have to improve their customer-service training programs and get consent from consumers prior to third-party billing. These changes are important to protect consumers in the future and to hold the companies accountable. Other companies should take careful note and should review their payment processing practices accordingly.

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Our team and I would like to give a special thanks to our colleagues from the state attorney general offices as well as the Federal Communications Commission – a new and excellent partner for us at the Consumer Bureau – for their great help and for the deep commitment they have shown to protect consumers against cramming practices on their wireless phone bills. We have appreciated how well our teams have worked together to achieve these important results.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit www.consumerfinance.gov.



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