



Thank you for your invitation to speak to the Committee about the military and the prepaid card industry. My name is Rosemary Grace O'Brien. I have a Military Marketing practice located in New York City.

I would like to briefly summarize my background which qualifies me to speak with you today. My professional career is deeply rooted in telecommunications. It began back in 1981 with work performed for NY Telephone. It continued uninterrupted with major and on-going assignments from NYNEX, Southern New England Telephone, Southwestern Bell, and a handful of telecom start-ups made possible by divestiture in 1984. Eventually in 1997 I joined AT&T for a period of 7.5 years. That experience is most relevant to your agenda today.

My work at AT&T was as General Manager of their worldwide Military business. To be clear, not mission critical communications, rather my team and I had the responsibility of providing Personal Telecommunications Services—in-room phone service in barracks, dedicated public payphones on military installations in 18 countries, on larger U. S. Navy and Coast Guard ships, and in Forward-Deployed locations, such as Bosnia and Kuwait, and eventually Iraq and Afghanistan.

My job was to make sure Soldiers, Sailors, Airmen, Marines, and Coastguardsmen were aware of the special plans and programs AT&T built just for the military, how they could access them, and the best methods to pay for them. My mission was to be sure that servicemembers always had a way to call home, to reach family and friends no matter where they lived or served our country.

At its peak, the business comprised 11 “platforms” with prepaid cards representing just one of them. AT&T secured the right and obligation to provide these services through contracts it won in several competitive bidding processes conducted by the Military Exchanges. It spent millions of dollars of capital building out infrastructure, and millions more educating the military community through informative advertising, in-person briefings, and other methods to build awareness of all products and services.

You probably already know that servicemembers are intense communicators. They spend more on communications than the average American. Much more ... The ability to talk to loved ones is a critically important quality of life issue, to their sense of well-being and the peace of mind of their families. Let's face it, military life can be lonely, and dangerous. Separations from family and friends are especially difficult. So while it is still possible to write letters, and today, to send and receive emails, there is just no substitute for the human voice. Communications is essential and that fact will never change. That's the key reason why prepaid cards are so essential in the military.

The second reason, is equally as important, but completely practical. First, think back if you can, to when there were no prepaid cards or cell phones, how did you pay for a call when you were away from your home or office? Either you deposited change into the payphone, or if you were lucky enough to have home phone service, you could get a special calling card—a subscriber card-- that allowed you to charge payphone calls to your home phone bill. If you were desperate or didn't care what it cost, you paid with a credit card.

Well cash is impractical for long distance calls, especially from foreign countries. Credit cards are not an affordable option. Subscriber Calling cards are helpful, but they come with some limitations.

First you need to have a home phone to get one. Soldiers who live in tents, in barracks, on ships, or overseas, do not necessarily have a U. S. home phone.

Second, the cost of aggregating the call data related to your card, so the carrier can render and collect a bill, needs to be built into the cost of each call.

Third, a calling card does not have a mechanism that allows the user to understand how much he is spending, or has already spent this month.

Prepaid cards became popular in the military, and remain so today, because Prepaid Cards effectively address all of these issues. Anyone can buy a prepaid card. Prepaid cards makes calls cheaper than calling cards. And Prepaid cards enable the service member to budget himself.

In the military, service members mostly buy cards at their military exchanges. Troops have a fairly sophisticated understanding of how to use the card so that they get the most from it. For example, generally speaking, when a card is used to call back to the United States from a foreign country, multiple units, or minutes are deducted for each minute of talk time. No surprise, international calls are more expensive. Multiple minutes is a way to recover the true cost of the call. Troops know this. Servicemembers recognize that, whenever possible, they should use the Defense Secure Network when calling the U. S. from a foreign country, because this enables them to get a “free ride” back to the U. S., where a domestic operator helps them place a call and their minutes are deducted one for one, as if the call originated in the U. S.

The Military Exchanges recognized the need for Prepaid Cards and have done an excellent job of procuring cards for service members. That’s why the cards that the Exchanges sell have the lowest rates from the countries that military people call from the most—Iraq, Afghanistan, Germany, Italy, Japan, etc. And their high value cards offer a better rate to servicemembers than the big box retailers who dwarf them in size. I believe the cost of a payphone call from Iraq to the U. S. is about 16 per minute. I cannot make a call from one side of Manhattan to the other for that little money, using a card I bought at Sam’s Club or Wal-Mart, or another big box retailer.

Every retailer, when he buys the prepaid cards that will be sold in his store, considers his customer base; and as prepaid cards are typically custom-built, he builds his prepaid cards to satisfy his audience. And he sets the retail price for the cards he sells. That is sometimes where the trouble comes in. If a card that is built to be optimal(lowest) for calls from the U. S. to Mexico, is used to make a call from the U. S. to Korea, chances are good the call to Korea will be unexpectedly expensive. Or when a patriotic-minded American goes to his favorite big box retailer, buys a card made by a reputable carrier, and sends it to his grandson in Iraq, it is important to know that card, made by a reputable company will never offer as good a deal as the card that the Military Exchange sells to that soldier. And that soldier may complain to his wife about how little talk time he received from grandpa’s card compared to his Exchange card. And his wife, frustrated at her circumstances and missing her husband and the father of her children, may write you a letter complaining about how that reputable carrier is ripping off soldiers. But it is just not true...because it is likely that the card that grandpa sent was never meant for international inbound calls. But that does not stop them from writing their Congressman, or their local newspaper, or tv consumer advocate. I handled many of these complaints in my tenure with AT&T. Those kinds of stories should not ordinarily be a cause for overreaction on your part.

However, I do encourage you to look closely and carefully so you can distinguish *the needs* of the reputable carriers who do an excellent job of making full disclosure, from the bottom feeders in

the prepaid industry who have the ability to give the product or its maker a bad reputation. They prey on ignorance and inexperience, by deliberately tricking out their cards with inordinately short expiration dates, or come-on rates for one country with very high rates for all others, or very low-advertised rates that come with high, one-time surcharges. Their goal is to produce a product that allows them to enjoy very large, gross profits. I, for one, would support your carefully constructed plans to reign in prepaid chicanery, but would complain strongly about any BandAid attempts that do not fully consider the underlying elements of the prepaid business.

Thank you.

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