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Ex Parte

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Verizon Request for Declaratory Ruling, or, in the Alternative, for Partial Waiver,
Regarding the Handset Locking Rule for C Block Licensees, WT Docket No. 06-150*

Dear Ms. Dortch,

We write to address the National Telecommunications and Information Administration's (NTIA's) recent letter regarding the above-captioned matter.¹ As we have previously explained – and as the record here demonstrates – Verizon's petition seeks highly targeted relief to address the very real problem of identity theft and fraud. Our proposed limited 60-day anti-fraud locking period would better protect consumers with minimal impact on legitimate customers or device openness – a policy that we fully support.

NTIA recognizes that handset fraud is a serious problem that is causing significant harm to consumers. NTIA accordingly supports (at 2) Verizon's request for a partial waiver of the Commission's handset locking rule that applies to C Block licensees.² As Verizon explained, and as no party to this proceeding disputes, although increased openness and policies that favor unlocking benefit consumers, these changes have also had some unintended negative consequences. Handset fraud has increased substantially as the potential for profit from selling devices that offer a low cost of acquisition to the fraudster has increased. And NTIA acknowledges (at 3) that Verizon is "particularly susceptible to [this] fraud" because it is the

¹ See Letter from Douglas W. Kinkoph, Deputy Assistant Secretary for Communications and Information (Acting), NTIA, to Marlene Dortch, Secretary, FCC, WT Docket No. 06-150 (June 6, 2019).

² Although NTIA opposes Verizon's alternative request for a declaratory ruling, its arguments are misplaced for the reasons set forth in Verizon's petition and reply comments.

only major carrier unlocking devices at the time of purchase, and these unlocked handsets carry a higher value on the black market.

Although NTIA supports Verizon's petition for a partial waiver of the handset locking rule to combat this type of fraud, it suggests (at 3) that the Commission should "narrow the scope of a partial waiver in order to maximize continuing benefits to consumers." But Verizon's proposed temporary waiver was crafted to be as targeted as reasonably possible while still being effective and already strikes the appropriate balance. The additional limitations that NTIA asks the Commission to consider fail to appreciate that as soon as a device is unlocked, there is no mechanism to relock that device.³ It is therefore critical for Verizon to combat fraud on the front end. That is why Verizon has proposed a temporary 60-day locking period, which is the minimum amount of time needed to determine whether someone that obtains a handset is a legitimate customer.⁴

Although NTIA suggests (at 2) that the appropriate locking period "may be shorter than sixty days," it neither demonstrates that 60 days is unreasonable nor shows that a shorter period would be sufficient. Indeed, if maximal fraud protection were the only consideration, a longer period of 90 or 180 days would be even more effective, though Verizon has proposed a shorter 60-day period to achieve balance with the consumer benefits identified by NTIA.

A 60-day period is both the minimum necessary and appropriate for multiple reasons. First, a 60-day period allows sufficient time for Verizon to identify handset fraud through its billing and payment processes. Although a billing cycle is approximately 30 days, not all customers pay in a timely manner. Verizon needs additional time to distinguish between normal and legitimate late payments and lack of payment in cases of fraud.

Second, additional time also is required to identify fraudulent activity that occurs where payments are made using bank checks from accounts with insufficient funds or through unauthorized credit or debit card activity. For example, a significant type of fraud involves the use of a stolen credit or debit card to purchase or make an initial payment of a financed device. Although card issuers generally give cardholders up to 180 days to dispute charges, a 60-day waiver would at least provide cardholders with at least one (and possibly two) billing cycles to review their statements and dispute any fraudulent charges.⁵

³ There are also temporary unlocking services that some carriers offer, but the type of unlocking at issue here is permanent. *See, e.g.,* T-Mobile Support, *T-Mobile Device Unlock App*, <https://support.t-mobile.com/docs/DOC-14011> (last visited June 12, 2019) ("When a temporary unlock expires, you receive an expiration message."). Verizon cannot relock a phone once it has unlocked it.

⁴ *See* Declaration of Stephen Schwed ¶ 17, *attached to* Verizon Request for Declaratory Ruling, or, in the Alternative, for Partial Waiver, *Verizon Request for Declaratory Ruling, or, in the Alternative, for Partial Waiver, Regarding the Handset Locking Rule for C Block Licensees*, WT Docket No. 06-150 (filed Feb. 22, 2019) ("Schwed Decl.") ("This [verification and payment-clearing] process takes at least 60 days.").

⁵ The time to make payment after a billing cycle is usually 21 days, but 30 days is the typical grace period, which is influenced by the federal rule that prevents reporting of a late payment to

Third, a 60-day period is needed for Verizon to obtain sufficient information regarding potential customers that are acquired through Indirect Agents or National Retailers. A significant number of Verizon handsets are sold through such entities, and when such sales occur, little information is typically provided to Verizon. Specifically, Verizon lacks information regarding how a payment for a device was made or processed for these purchases. For example, in the ordinary course Verizon has no way to determine if a purchaser through one of these entities paid in full but through a card-not-present transaction (*i.e.*, where the credit card number is entered online or provided over the phone), which carries a greater risk of fraud. Thus contrary to what NTIA suggests (at 3), even in cases where a purchaser pays in full, there is good reason to wait before unlocking the phone to identify fraud. A period of less than 60 days will hamper Verizon's ability to do so.

NTIA suggests (at 4) that Verizon could expedite unlocking through the use of third-party verification entities and other tools. But Verizon has already implemented many such mechanisms, and continues to invest in them.⁶ In Verizon's experience, however, these tools, while important, do not go far enough in reducing fraud given the sophistication of many fraudsters. For example, as Verizon demonstrated, fraudsters are often able to pass third-party verification methods such as Knowledge Based Authentication or public records-based quizzes.⁷ The data for these verification tests can often be mined online, from social media sources and past large-scale data breaches, making them less efficacious tools as information on the Internet increases and fraudsters become more sophisticated.⁸

NTIA also suggests (at 3-4) that a narrower waiver would be appropriate in cases where an existing Verizon customer obtains a new handset. But contrary to what NTIA appears to assume, a considerable amount of fraud occurs through the accounts of existing legitimate customers. For example, fraud involving the interception or redirected delivery of new handsets affects new purchasers and existing customers alike. Excluding existing customers from the 60-day locking period would therefore increase the potential for fraud with no material offsetting benefits.

Finally, even though the Commission should adopt Verizon's proposed temporary 60-day waiver, Verizon will automatically unlock devices after 60 days, which will ensure that Verizon continues to have the most open and consumer-friendly policy in the industry – one that

credit bureaus until at least 30 days. *See* Gerri Detweiler, *How Late Can I Pay a Bill Before It Hurts My Credit?*, Credit.com (Oct. 16, 2018), <https://blog.credit.com/2018/10/how-late-can-i-pay-a-bill-before-it-hurts-my-credit-116805/>; Bev O'Shea, *How Does a Late Payment Affect Your Credit?*, NerdWallet (Apr. 25, 2019), <https://www.nerdwallet.com/blog/finance/late-bill-payment-reported/>.

⁶ *See* Schwed Decl. ¶¶ 13-16. Verizon's annual losses from handset fraud have gone up significantly in each of the last few years, including nearly \$190 million in 2018, up from approximately \$115 million in 2017. *Id.* ¶ 6.

⁷ Schwed Decl. ¶ 11.

⁸ *Id.*

appropriately balances the needs of the customer with the needs of the business. Although Verizon recognizes there may be unique or unusual circumstances that warrant unlocking a phone before the 60-day period expires, such situations are rare and generally do not apply to the vast majority of our customers. We therefore don't believe that any change to our proposed 60-day locking policy is warranted, or that the added complexity of specifying exceptions to this policy would provide offsetting consumer benefits. As we do today, Verizon will review any unique or unusual circumstances with the customer on a case-by-case basis, and will continue to focus on providing great customer service. Given the fierce competition in the wireless industry, Verizon has strong incentives to ensure that it meets the reasonable needs of its customers.

Sincerely,

A handwritten signature in black ink, appearing to read "William H. H." with a stylized flourish at the end.