



Communications Workers of America

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# OFFSHORING SECURITY

## How Overseas Call Centers Threaten U.S. Jobs, Consumer Privacy, and Data Security



## Introduction

Call centers are a valuable source of jobs in the United States, employing as many as four million Americans—nearly 4 percent of the U.S. workforce.<sup>1</sup> Call center workers take orders for goods and services, provide product support, answer consumers' questions, solicit charitable and political donations, and conduct telemarketing, debt collection, and market research. They work in a broad range of industries, including telecommunications, information technology (IT), banking, airlines, retail, insurance, government agencies, and public utilities.

Since the late 1990s, U.S. companies have exported hundreds of thousands<sup>2</sup> of call center jobs to India, the Philippines, Egypt, Mexico, Honduras, Panama, China, and other developing nations.<sup>3</sup> Call centers abroad are part of the enormous business process outsourcing (BPO) industry in which companies hire offshore contractors to provide business services ranging from “back office” functions such as accounting and data entry to “front office” functions such as IT support and customer service. Contractors may then subcontract the work to a third party either in their own country or in a third country.<sup>4</sup>

Because of intense competition from cheaper, less regulated foreign operators, when U.S. companies export American jobs, they also exert downward pressure on wages and working conditions at home.

U.S. corporations transfer business functions to developing countries because they can pay well-educated foreign workers a fraction of U.S. call center workers' wages and take advantage of often weak labor laws and limited or nonexistent industry oversight. Because of intense competition from cheaper, less regulated foreign operators, when U.S. companies export American jobs, they also exert downward pressure on wages and working conditions at home.<sup>5</sup>

To promote their interests abroad and at home, many U.S. firms join overseas trade associations that, among other things, lobby their own governments to limit regulations on the BPO industry. In the Philippines Citibank, FedEx, IBM, and Verizon are members of the

Business Processing Association of the Philippines (BPAP). India's IT and BPO industry association is NASSCOM, and its membership rolls include such high-profile U.S. companies as Bank of America, GE, MetLife, UnitedHealth Group, and Wells Fargo.<sup>6</sup> U.S. corporations operating abroad often maintain an atmosphere of secrecy regarding their operations and employees. Some require their foreign partners to sign nondisclosure contracts to keep data regarding numbers of jobs transferred overseas confidential. By lobbying foreign governments via trade associations and maintaining a tight control on their own industrial data, companies leverage their economic power to tap incentives and subsidies and lower wages and working conditions.<sup>7</sup>

This report examines the costs of offshoring for U.S. consumers and the impact on cities and towns that lose valuable jobs. We discuss the security risks of offshoring jobs to Asia, Latin America, and elsewhere—illustrated in particular by the case of the Philippines, which has emerged as the leading destination for offshored call center jobs.<sup>8</sup> Action by legislators at the state and federal level is essential because the consequences of offshoring are destructive in many ways, devastating individuals, communities, and the nation.

- When companies shut down call centers and export call center jobs, laid-off workers and their families join the ranks of the unemployed.
- Consumers' financial and medical data become vulnerable to theft and misuse by poorly regulated contractors overseas.
- Communities that subsidize call center expansion are devastated by the sudden loss of jobs and revenue.

Members of Congress from both parties have introduced The United States Call Center Worker and Consumer Protection Act of 2013 (H.R. 2909 and S. 1565) to encourage U.S. companies to keep call centers in the United States and to end federal rewards and incentives for offshoring.<sup>9</sup> Several state legislatures are considering similar legislation.<sup>10</sup>

**THE UNITED STATES CALL CENTER WORKER AND CONSUMER PROTECTION ACT OF 2013 (H.R. 2909 AND S. 1565)**

Moving call centers overseas has a damaging impact on the U.S. economy. The last thing the U.S. government should do is reward companies that outsource jobs.

—Senator Bob Casey (D-PA)

Outsourcing is a job killer that hampers our economic recovery, and we must take strong measures to discourage it. Only good corporate citizens who grow jobs in America deserve taxpayer support.

—Representative Tim Bishop (D-NY)

If you move call center jobs offshore, you shouldn't receive funding from the government. [The Act] protects both jobs and taxpayers.

—Representative David McKinley (R-WV)

The U.S. Call Center Worker and Consumer Protection Act will help safeguard consumers' data and keep more Americans employed in good, middle-class jobs by discouraging corporations from offshoring call centers. If passed, the Act would include the following provisions:

- The Secretary of Labor will maintain a publicly available list of all employers relocating call centers overseas and require disclosure of their physical locations, with penalties for not doing so.<sup>11</sup>
- Employers that move call centers offshore will be ineligible for federal grants and guaranteed loans. Employers that keep call centers in the United States will receive preference in federal contract awards.
- Employees overseas will be required to disclose their location when asked and transfer consumers who request it to a U.S.-based call center.

## Offshoring Our Future: A Global Race to the Bottom

In this new world of global competition, any task that can be digitized and does not require face-to-face contact can potentially be offshored.<sup>12</sup>

—Eva Paus, Economist  
Mt. Holyoke College

U.S. corporations are sending hundreds of thousands of jobs overseas in a relentless drive to lower labor and other business costs. One in-depth analysis of job losses in New York and New Jersey concluded that the two states lost more than 27,000 call center jobs from 2005 to 2010.<sup>13</sup> A 2013 study of “back office” support jobs estimated that within the next four years, North America and Europe will lose 3.7 million jobs, primarily as a result of offshoring.<sup>14</sup> Offshoring represents a classic “race to the bottom” that harms U.S. workers and the U.S. economy and, ultimately, lowers standards for call center workers everywhere.

### U.S. AND PHILIPPINES CALL CENTER WORKERS AVERAGE ANNUAL EARNINGS, 2012

Philippines	\$ 4,932
U.S.	\$33,110

Sources: U.S. Bureau of Labor Statistics; Philippines Department of Labor and Employment

There is no official data on the number of U.S. service sector jobs—including call center jobs—offshored since the 1990s, but some experts estimate that the economic impact of offshoring service jobs is even greater than the impact of offshoring manufacturing jobs.<sup>15</sup>

In the globalized economy, companies send call center and other back office service jobs offshore in order to take advantage of

- lower labor costs;
- fewer (or more lax) laws ensuring labor, health and safety, and environmental protections; and
- weak industry standards and fewer protections for consumers' data and privacy.

Offshoring not only lowers costs for companies that transfer jobs overseas but also allows those who keep operations in the United States to use the threat of offshoring to extract tax and other incentives from communities and keep workers' wages and benefits low.<sup>16</sup> A December 2012 *New York Times* investigation found that municipalities often provide corporations with massive incentive packages, including tax breaks and low-interest loans, to keep established firms from leaving or entice new firms to relocate:

*A portrait arises of mayors and governors who are desperate to create jobs, outmatched by multinational corporations and short on tools to fact-check what companies tell them. Many of the officials said they feared that companies would move jobs overseas if they did not get subsidies in the United States.*<sup>17</sup>

## Offshoring Jobs and Cheating Communities

Call centers are economic lifelines in many communities across the country. Local governments commit millions in tax dollars to fund incentives that lure companies, only to watch those companies offshore jobs a few years later, leaving devastated communities behind.

- Capital One Financial Corporation is expected to employ 2,200 new associates in a BPO facility in the Philippines, and in October 2013 it announced the development of a call center and customer service training program with a Philippine partner. The company's booming overseas business comes in the wake of announcements that it would lay off more than 300 employees in Oregon.<sup>18</sup>
- JPMorgan Chase closed an Albion, New York, call center in September 2013, laying off 400 workers. JPMorgan Chase operates call centers in the Philippines and India.<sup>19</sup>
- In July 2013, Hewlett-Packard shifted 500 call center jobs out of Conway, Arkansas, after accepting some \$43 million in state and local incentives. HP's call

center locations now include Costa Rica and India. The U.S. Department of Labor is currently investigating worker claims that jobs from Conway have been offshored.<sup>20</sup>

- In 2012, T-Mobile closed seven U.S. call centers—putting 3,300 employees out of work—after accepting \$61 million in state and local subsidies.<sup>21</sup> T-Mobile opted to shutter U.S. workplaces and move jobs to Honduras and the Philippines. In July 2012, the Communications Workers of America won Trade Adjustment Assistance benefits for these workers after documenting that their work had been offshored.<sup>22</sup>
- Wells Fargo followed a similar route the same year, laying off hundreds and moving operations to the Philippines, while workers in Florida, California, and Pennsylvania were left jobless. The banking giant, which received more than \$25 billion in federal funding through the Troubled Asset Relief Program during the darkest days of the recession, is tripling the number of its Filipino employees and has asked some U.S. employees to train their own replacements.<sup>23</sup>
- In 2012, Ohio lost more than 1,100 jobs when Bank of America announced the closing of a large mortgage customer service center in Cleveland, plus two smaller centers in Independence and Cincinnati. Bank of America later shut down additional centers in Upper St. Clair, Pennsylvania, and Fresno, California, laying off 700 workers. Bank of America currently operates call centers in Costa Rica and the Philippines, and investigations are underway by the Department of Labor on behalf of Fresno workers to determine whether their jobs were offshored.<sup>24</sup>
- Sykes, a company that handles support and technical calls, took millions of dollars in loans and tax breaks from small towns in Oregon and Florida, where it located new call centers. Just a few years later it relocated operations to Asia. Town leaders pleaded with the company, citing enormous investments of taxpayer money. But Sykes left anyway, and hundreds of workers lost their jobs.<sup>25</sup>

When a call center closes in a small or medium-size community, the result can be a significant blow to the local economy. Paychecks disappear. Retail businesses are shuttered. The devastation of communities as a result of offshoring service sector jobs leaves indelible scars. A report from the Federal Reserve Bank of Kansas City found that when jobs are lost due to offshoring, the results are likely to be permanent. Workers will rarely be recalled to similar positions within their companies. They will have to move to another state or perhaps change careers to find a new job. The report concluded that such workers will be unemployed longer than average and may experience greater long-term income loss.<sup>26</sup>

Some of the costs of offshoring are clearly visible. The suffering of workers and their families and the struggles of U.S. communities to stay afloat are documented above. Less visible, but equally devastating, are the costs to individual security when personal, financial, and medical data is offshored.

## Risky Calls: The Dangers of Offshoring Our Data

There is no assurance that privacy will be protected when personal data is transferred to offshore companies that are beyond the reach of U.S. law enforcement, and the federal government needs to wake up to the risks that this presents.<sup>27</sup>

—Rep. Edward J. Markey (D-MA)

When corporations offshore their call centers, they frequently transfer large volumes of personal information about customers, including highly sensitive data, such as bank records, medical histories, payroll and benefits information, social security numbers, and credit reports. In the digital age, a few numbers in the hands of the wrong person can ruin lives, and if those numbers are

in the hands of employees in countries beyond the reach of U.S. consumer protection laws, then civil and criminal prosecution can be difficult. Some evidence shows that offshoring also increases corporations' exposure to the loss of proprietary information, weakening those firms and the strategic economic position of the United States.<sup>28</sup>

## New U.S. and E.U. Regulations on the Horizon

Today, both the European Union and the United States are in the midst of debating new regulations to ensure data protection and privacy in a race to keep up with rapid technological change. The E.U. takes the most comprehensive approach, as it prepares to update a standard adopted in 1995. The proposed regulation will define personal data broadly to include anything that can identify an individual, including images, addresses, and passwords. The new E.U. standard, expected to go into effect by 2015, would cover all 27 member nations and would provide for penalties of up to 2 percent of a company's annual global revenue for failure to uphold the standards. Experts expect some variation among nations in terms of enforcement.<sup>29</sup>

The U.S. and E.U. systems are different, in that the U.S. approach relies on a mix of federal and state regulation. But U.S. officials argue that the approaches are fairly equal in terms of securing citizens' data.

At the federal level most U.S. data protection laws are tied to specific industries (rather than the blanket approach of the E.U. directives). Medical data security and patient privacy are guaranteed under the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and financial data security falls under the Gramm-Leach-Bliley Act of 1999 (GLB). The U.S. Commerce Department is now overseeing an effort to develop industry codes of conduct for emerging industries, such as application developers, that remain unregulated.<sup>30</sup>

State laws vary in terms of the additional expectations and regulations imposed on companies that control consumer data. Massachusetts and California are among the states with the most rigorous standards.<sup>31</sup>

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The Obama administration kicked off a new effort to update consumer privacy standards in February 2012 with the release of its proposed framework, *Consumer Data Privacy in a Networked World*.<sup>32</sup> The administration is seeking many of the same basic protections as in the draft European regulations and is enlisting Congressional support in both the Senate and House, as well as recruiting allies among consumer advocacy groups.<sup>33</sup>

## The Role of the FTC in Enforcing U.S. Laws

In October 2013, one industry expert argued that through its aggressive action against data breaches, the Federal Trade Commission (FTC) is now the country's "de facto Data Protection Authority."<sup>34</sup>

In the United States, the FTC has the power to investigate cases in which "unfair or deceptive acts or practices," such as fraud or identity theft, are perpetrated against consumers. The FTC can also prosecute U.S. companies that it finds are violating the law and impose significant fines. Recent high-profile cases have involved U.S. firms that use overseas call centers to perpetrate crimes:

- In February 2012, the FTC began pursuing a complaint against an elaborate debt collection scheme run by a California-based company, American Credit Crunchers, LLC. Using call centers in India, the scam placed 2.7 million calls to at least 600,000 U.S. consumers and collected more than \$5.2 million. Callers threatened to have children taken away if consumers did not pay debts they did not owe. According to one victim:

*The callers threatened me and claimed they would arrest me if I didn't pay them the alleged debt. One of the callers even contacted my neighbors and told me he was watching my house. The callers had a lot of personal information about me, including my work address. . . .*

*The calls scared me, and I was often shaking when I hung up the phone.*

Two mothers interviewed for the FTC complaint reported paying so much to scammers that they were unable to buy Christmas gifts for their families.<sup>35</sup>

- In what became known as the "scareware" case, in October 2012, the FTC shut down six deceptive tech support scams that had been operating from Indian and U.S. call centers. The callers contacted tens of thousands of consumers in the United States, Australia, Canada, and elsewhere, offering to remove nonexistent malware from their computers for fees ranging from \$49 to \$450.<sup>36</sup>
- In 2013, the FTC halted the business of Ideal Financial Solutions, pending an in-depth investigation of an operation that billed thousands of U.S. consumers for more than \$25 million without their consent. Ideal used call centers in the Philippines and El Salvador, as well as in the United States, to mislead consumers who called to protest the charges.<sup>37</sup>

While these high-profile cases demonstrate the U.S. government's power and scope to prosecute security breaches, significant gaps in enforcement remain when U.S. officials confront foreign call centers and other back office operations. U.S. law may protect data even when it crosses our borders, but if that data is lost or stolen in a foreign country, consumers face huge challenges. As one expert describes the situation:

*Rules on applicable law and jurisdiction with regard to data protection and privacy law are notoriously unclear, which can create problems in particular for individuals, who often may not be able to determine which law applies to the processing of their personal data, and to which national regulatory authorities they may turn if a problem arises.<sup>39</sup>*

Investigators seeking evidence in criminal or civil cases may have to rely on foreign authorities who lack experience in investigating and prosecuting data security breaches.

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According to a recent UN report on cybercrime, several developing countries do not admit electronic evidence, making prosecution of cybercrimes or any crime evidenced by electronic information unrealistic or impossible. In other countries, law enforcement officers, prosecutors, and judges have few or no basic IT skills or training in cybercrime investigations.<sup>40</sup>

## Threats to Personal Data Overseas

Saying they represented the local police department, the “Federal Department of Crime and Prevention,” or simply a “federal investigator,” the callers typically demanded more than \$300, and sometimes as much as \$2,000.<sup>41</sup>

—2012 Federal Trade Commission report on the case of American Credit Crunchers, LLC

**Identity theft is the nation’s fastest-growing crime, with ten million victims each year. Almost any personal information can be used for criminal purposes.**

Identity theft is the nation’s fastest-growing crime, with ten million victims each year.<sup>42</sup> Almost any personal information can be used for criminal purposes. Credit card numbers,

social security numbers, drivers’ licenses, other government identification numbers, and medical insurance numbers are valuable and require sophisticated safeguards. A broad array of personal data can also be misused, including information about racial and ethnic origins, health status, genetics, religious and moral beliefs, union affiliation, political views, and sexual orientation.

Consumers concerned about the security measures in place to protect their private financial, medical, or personal information may ask a number of key questions about the companies offshoring their data:

- Does the country have legislation in place that guarantees privacy and data security? What means exist to enforce those laws?

- Is the BPO industry in the destination country mature and stable enough to handle the complex data protection needs of all customers?
- What is the level of political stability in the offshoring destination?
- Is physical stability ensured, so that records are safe in case of earthquakes, floods, hurricanes, and acts of terrorism? Are there backup electricity generators and a good disaster recovery plan?

All too often, the answers to these questions reveal serious risks to U.S. consumers’ personal data.

When call centers that handle sensitive data are offshored the risks to consumers are heightened. Risks may arise due to geopolitical instability, weak industry standards, or even natural disasters. Some foreign governments engage in arbitrary and invasive practices that can affect U.S. consumers’ personal data. For example:

- Low labor costs and strong language skills have been drawing many call centers from Europe to Tunisia and Senegal in recent years.<sup>43</sup> In 2011, the Tunisian government injected malicious code into Facebook, Gmail, and Yahoo accounts, stealing personal passwords and monitoring online activities.<sup>44</sup> Companies with call centers in Tunisia must now seriously consider the risk of government meddling in their customers’ private data.
- Lately, Egypt has seen growth in the BPO and call center industry at an estimated 50 percent per year. Political unrest and invasive government practices caused many companies to fear the breakdown of law and order and seek alternative locations in 2011 and 2012.<sup>45</sup>
- A Duke University study of offshoring concluded that although India is likely to continue to draw offshored services, “it is faced with a set of challenges that include growing geopolitical risk,” including terrorism.<sup>46</sup>

Of course, security and privacy breaches can happen in the United States as well as overseas, but in a country with a weaker rule of law than the United States, civil and criminal prosecution is more difficult. U.S. companies that outsource work are responsible for security breaches, but may try to shift liability to their offshore partners. In that case, the problem for consumers is the difficulty of enforcing liability in countries with weak data protection laws.<sup>47</sup>

### Weak Data Protection Laws and Enforcement Worldwide

Few countries outside the United States and Europe have established strict regulations for all types of data—regulations that are essential to protect consumers who may unwittingly reveal a variety of personal details to call center workers. In fact, some countries lack any truly effective personal data protection frameworks. In an almost comical example of weak security standards abroad, in October 2013, the CEO of Global Outsourcing Limited in Jamaica said that “stapling the pockets” of employees is one of the measures his company uses to ensure that data will not be stolen or compromised at his call centers.

Unfortunately, if the enforcement apparatus for these laws is weak—or nonexistent, as it is now in the Philippines—consumers see no real benefits.

In many nations—including India and the Philippines—governments have recently enacted stricter data protection laws in an effort to meet those of the European Union, which is at the forefront of efforts to protect consumer privacy. These new laws clearly establish the rights of data holders, rules for data protection, and sanctions for violations.<sup>48</sup> Unfortunately, if the enforcement apparatus for these laws is weak—or nonexistent, as it is now in the Philippines—consumers see no real benefits.

### INDIA: STILL NOT “DATA SAFE”

For years, India’s attempts to become “data safe” and in compliance with E.U. standards for data protection have consistently failed. In 2013, the E.U. Justice Department’s study of India’s data protection regulations suggested that the country would not be in compliance until local laws were revised.<sup>49</sup>

Private companies and the Indian government downplay security risks for obvious reasons, but independent security analysts find that costs are often cut in security budgets. “We know this business is out of control,” Indian police sources told UK journalists. “The simple fact is the banks are worried that their customers will get scared and swap banks if they learn how easily and cheaply their confidential details are sold.”<sup>50</sup>

In 2011, the Indian government specifically omitted outsourcing companies from data privacy laws. *The Times of India* reported that the government gave in to pressure from the multi-billion-dollar BPO industry.<sup>51</sup>

In June 2013, an Indian commerce department official admitted that meeting E.U. standards would not happen quickly. “The recent communication from the E.U. Justice Department is worrying for us as it indicates that the European Union is not willing to offer us data secure status till we make changes in our systems. This could take a long time as it may also require legislative changes.”<sup>52</sup>

In order to bring into sharper focus some of the key risks of offshoring, we will look at the example of the Philippines, which in 2010 surpassed India as the nation with the largest number of outsourced call center operations.

## Offshoring in Focus: The Philippines

The Philippines is now the world's leading destination for the BPO industry, which is creating almost 100,000 jobs per year, for a total of 640,000 jobs in 2012.<sup>53</sup> With more than 400,000 employees, call centers dominate the country's BPO industry. Alfredo Ayala, former chair of the country's leading BPO industry trade association, said in 2012 that he hopes the nation will increase the number of workers in the industry to 1.3 million by 2016.<sup>54</sup>

The government of the Philippines is now investing enormous resources in infrastructure, offering multiple incentives to lure U.S. companies, and expects to train nearly a million more workers by 2016.<sup>55</sup> Many U.S. companies prefer Filipino workers over those in other developing nations. Not only are their wages much lower than those of U.S. workers, but their familiarity with U.S. culture and idioms makes them even more desirable as call center workers than their Indian and Latin American counterparts.

Sometimes described as “new sweatshops” of the information age, call centers throughout the Philippines run shifts from evening until dawn to correspond with U.S. time zones. Young Filipino men and women with a strong command of North American English answer calls. Attrition rates among call center workers in the Philippines are estimated at over 60 percent, usually attributed to the extreme stress, unusual schedule, and lack of advancement.<sup>56</sup>

The country's major source of call center contracts has traditionally been the United States, but companies in the United Kingdom, Japan, Australia, and New Zealand also have significant operations there. Work offshored to the Philippines covers a broad spectrum of services. In addition to inbound and outbound call centers supporting the telecommunications, technology, health, financial, and retail industries, Filipino workers provide IT analysis and design, engineering, animation, and medical information management.<sup>57</sup>

Currently, the Philippines is vying to become a leader in outsourced healthcare services—one of the fastest-growing sectors in the BPO industry.<sup>58</sup> Financial services are also moving rapidly to office parks on the islands, including call centers for four large banks—Bank of America, JPMorgan Chase, Wells Fargo, and Citigroup.<sup>59</sup>

### The Philippines' Shaky Security Framework

For decades, the Philippine government has encouraged growth in the BPO industry and has allowed firms to operate in a highly deregulated environment in special economic zones (SEZs). Under an act passed in 1995, any commercial building in which a call center is operating is classified as an SEZ and thereby qualified for tax breaks and other incentives. In effect, these incentives encourage companies to set up call centers in potentially insecure locations such as shopping malls.

The BPO trade association, BPAP, is working in concert with President Aquino to ensure that any new national legislation promotes the growth of BPO firms in the Philippines.<sup>60</sup> In what appeared to be a positive move toward better data protection, government and industry representatives worked together to develop the Data Privacy Act (DPA) of 2012, which restricted the processing of a variety of personal data, including race, ethnic origin, religious and political affiliations, and health, genetic, and financial data. The act also provided for the creation of the National Privacy Commission (NPC), an agency similar to the U.S. FTC, with the power to receive complaints, launch investigations, and facilitate the settlement of complaints about breaches of data security and privacy.

A year later, however, the NPC has not been formed, and the DPA itself has not been implemented. As discussed above, the Philippine government's primary policy focus has always been to provide a welcoming environment for the BPO industry and to aggressively seek foreign investment. This attitude has influenced the evolution of data protection and privacy laws and the stalled rollout of the DPA, NPC, and the mandated Department of Information and Communication Technology (DICT).

Perhaps even more troubling than the lack of implementation is the fact that the Data Privacy Act's provisions place accountability on individuals—not corporations. Employees are expected to adhere to the letter of the law in terms of privacy and security—but their employers' company policies and protocols for ensuring data protection are not scrutinized.

The DPA's provisions on data security would not apply to personal information processed in the Philippines *but originally collected from U.S. and other foreign countries*, because that information is—according to the DPA—already covered by foreign law. But this exemption renders U.S. companies operating in the Philippines immune from data protections and enforcement under the DPA, and appears to maintain the BPO industry's exemption from government regulation and enforcement. As Professor Nelson Celis, former president of the Philippine Computer Society, explained in a 2013 interview, “There is *no regulatory body for the [Philippine] BPO industry*. Well, there is BPAP, but it is not a regulatory body.”<sup>61</sup>

This gaping loophole should be of great concern to U.S. consumers. Here at home, virtually all U.S. states have adopted “data security breach notification” laws to alert individuals and local government officials of possible identity theft. Further, in some states, such as California, victims of breaches can sue for damages. Unfortunately though, once U.S. consumers' data leaves the country, legal protections become difficult, if not impossible, to enforce.<sup>62</sup>

### Philippine Call Centers: Vulnerable on Multiple Fronts

In the Philippines, there is evidence that some call center operations are unstable and poorly managed, leaving customers vulnerable if the centers suddenly shut down or eliminate large numbers of employees. In December 2012, Cebu City-based Direct Access Corporation closed, laying off 600 employees without notice, in violation of national labor laws. One employee suggested that “lots of call centers right now are not stable. They are the fly-by-night call centers, scams, right?”<sup>63</sup>

### RISKY LOCATIONS: MALLS, JAILS, AND FLOODPLAINS

Many outsourced firms in the Philippines are located in IT parks in major cities and are equipped with closed-circuit television cameras to monitor activities, creating relatively secure environments. But BPO firms are also found in riskier locations, such as malls, where there are more people and weak security.

In another sign Philippine centers may be less than ideal destinations for personal data, a local senator announced in 2012 that 200 inmates at the Cebu City Jail would be training for call center work.<sup>64</sup>

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Natural disasters can strike anywhere, at any time, but when companies' vital call centers are located thousands of miles across the globe, response time is multiplied and so are risks that data will be compromised, destroyed, or lost. In the Philippines, floods related to seasonal monsoons have disrupted service for corporations with outsourced operations there.<sup>65</sup> A 2012 report by the Institute of Development and Econometric Analysis (IDEA) revealed that 8 of 18 cities in the Philippines that host BPO sites—including Manila—are at high or very high risk of climate-related disasters, including tropical cyclones.<sup>66</sup>

### CYBERCRIME

A recent survey undertaken for technology giant EMC revealed that the leading cause of data loss in the Philippines is lack of security, in contrast to other nations, where damaged or corrupted data was the leading issue.<sup>67</sup> Cybercrime, including the problem of illegal call centers set up to steal bank account and credit card numbers, is a significant security challenge in the Philippines.

- In 2011, the FBI and Philippine police arrested four people who hacked into phone lines of various telecommunications companies—including AT&T—resulting in the loss of almost \$2 million. The hackers were paid for their work by the same Saudi Arabia-based terrorist group responsible for funding the 2008 terrorist attack in Mumbai, India.<sup>68</sup>
- In August 2012, more than 300 people were arrested in the Philippines for cybercrime, including credit card fraud and human trafficking. The suspects set up an illegal call center in a private home and from there called victims alleging that their bank accounts were under investigation for money laundering and terrorist activities and ordering them to deposit money into a different “safe” account.<sup>69</sup>
- In April 2013, Philippine authorities arrested a group of 16 Taiwanese suspects who operated a fraudulent call center in which they posed as bank staff offering to help replace stolen credit cards in order to transfer victims’ funds to other accounts.<sup>70</sup>

Clearly, the lack of effective legal and practical protections for consumer privacy and data security, the powerful BPO association’s drive to limit regulations on BPOs, and the Philippine government’s commitment to entice more U.S. companies to export call center jobs to the Philippines seriously compromises U.S. consumers’ privacy and data security.

## Conclusion

Shutting down call centers in the United States and moving them offshore is weakening the economic recovery, harming workers and communities, and putting U.S. consumers’ data at risk. The situation demands federal and state action.

At the federal level, Congress should pass The United States Call Center Worker and Consumer Protection Act of 2013, and President Obama should sign it as quickly as possible. The Act will encourage U.S. companies to keep call centers in the United States and will end federal incentives for offshoring. State legislatures must act too.

New federal and state laws regarding U.S. call center offshoring would protect consumers, workers, and communities. These laws would:

- Document the extent of offshoring, including gathering adequate data about employers that relocate call centers and where U.S. call center jobs are being offshored.
- Prevent the U.S. government from subsidizing the offshoring of good jobs by ending incentives like grants and loans to offshoring companies.
- Give consumers the right to request that their calls be transferred back to U.S. call centers, and require call center employees in offshored centers to do so.

With passage of these laws, consumers will be better informed about the companies that keep their private data within the United States and therefore under the umbrella of U.S. consumer protection laws and the oversight of the FTC.

Limiting offshoring of call centers will protect U.S. consumers’ privacy and the security of financial, medical, and other sensitive data and will keep good jobs at home.

## Endnotes

- <sup>1</sup> Call or contact centers may handle communications via email, live support software, fax, or telephone. For an excellent overview of the global call center industry, see David Holman, Rosemary Batt, and Ursula Hotgrew, *The Global Call Center Report: International Perspectives on Management and Employment* (GCCR) (Global Call Center Research Network, 2007), pp. 1-2 (<http://www.ilr.cornell.edu/globalcallcenter/upload/GCC-Intl-Rept-U.S.-Version.pdf>). The four million figure is based on data from the U.S. Bureau of Labor Statistics (BLS), Occupational Employment Statistics, calculated in May 2012 ([http://www.bls.gov/oes/oes\\_dl.htm](http://www.bls.gov/oes/oes_dl.htm)). According to the GCCR, in 2005 there were four million call center workers in 60,000 U.S. call centers, based on data from Dun & Bradstreet and *Call Center Magazine* (see GCCR, p. 49).
- <sup>2</sup> There are no reliable figures for the number of U.S. jobs offshored. However, several scholars have estimated the number of jobs *vulnerable* to offshoring. Perhaps the most frequently cited is a 2003 study that estimated more than 14 million jobs, or 11 percent of U.S. jobs in 2001, were vulnerable to offshoring. See Ashok Deo Bardhan and Cynthia A. Kroll, "The New Wave of Outsourcing," Fisher Center Research Report, University of California–Berkeley, Fall 2003. On a possible trend toward "insourcing," see Matthew Zeitlin, "Why Call Center Jobs are Coming Back," *The Daily Beast*, Aug. 28, 2012 (<http://www.thedailybeast.com/articles/2012/08/28/why-call-center-jobs-are-coming-back.html>).
- <sup>3</sup> For a list of countries competing with India for BPO contracts, see Kirtika Suneja, "Philippines, Canada Eat Into India's BPO Pie," *The Financial Express*, Jul. 30, 2013 (<http://www.financialexpress.com/news/philippines-canada-eat-into-india-s-bpo-pie/1148372>). On China's increasing role as a BPO destination country, see Sarah Fister Gale, "Survival of the Fittest," PM Network, Apr. 2008; "China Beats India's English Skills," *Sunday Telegraph* (Australia), Apr. 10, 2011; and Anil K. Joseph, "BPO: China Fast Catching Up with India," *Rediff.com*, Feb. 9, 2007 (<http://www.rediff.com/money/2007/feb/09bpo1.htm>).
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- <sup>8</sup> See Suneja, "Philippines, Canada Eat Into India's BPO Pie."
- <sup>9</sup> For the text of H.R. 2909, see (<http://www.govtrack.us/congress/bills/113/hr2909/text>); for S. 1565, see (<http://www.govtrack.us/congress/bills/113/s1565/text>).
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- <sup>13</sup> New York Department of Labor, "The Offshore Outsourcing of Information Technology Jobs in New York State," Sept. 2010, retrieved on Jun. 12, 2012 ([http://www.labor.ny.gov/stats/PDFs/Offshore\\_Outsourcing\\_ITJobs\\_NYS.pdf](http://www.labor.ny.gov/stats/PDFs/Offshore_Outsourcing_ITJobs_NYS.pdf)).
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<sup>59</sup> U.S. Banks that operate call centers in the Philippines include Bank of America, JPMorgan Chase, Wells Fargo, and Citigroup. Josh Harkinson, “3 Years After Taxpayer Bailout, Bank of America Ships Jobs Overseas,” *Mother Jones*, May 29, 2012 (<http://www.motherjones.com/politics/2012/05/bank-of-america-outsourcing-call-center-philippines>); Vikas Bajaj, “A New Capital of Call Centers,” *The New York Times*, Nov. 25, 2011 ([http://www.nytimes.com/2011/11/26/business/philippines-overtakes-india-as-hub-of-call-centers.html?\\_r=0](http://www.nytimes.com/2011/11/26/business/philippines-overtakes-india-as-hub-of-call-centers.html?_r=0)); Anil Sharma, “Wells Fargo to Expand Call Center Outsourcing Facility in the Philippines,” *TMCnet.com*, Mar. 12, 2012 (<http://technews.tmcnet.com/call-center-outsourcing/topics/call-center-outsourcing/articles/275750-wells-fargo-expand-call-center-outsourcing-facility-the.htm>); Michell Yun and Kathy Chu, “Philippines Passes India in Call Center Jobs,” *USAToday*, Jan. 9, 2011 ([http://usatoday30.usatoday.com/money/world/2011-01-10-callcenters10\\_CV\\_N.htm](http://usatoday30.usatoday.com/money/world/2011-01-10-callcenters10_CV_N.htm)).

<sup>60</sup> Members of BPAP include U.S. corporations Citibank, E-Trade, FedEx, IBM, Manpower, PriceWaterhouseCoopers, P&G, United Health Group, Verizon, and Wells Fargo. For a complete list of BPAP members, see the Member Directory (<http://www.bpap.org/member/member-directory>).

<sup>61</sup> Interview with Nelson Celis, Oct. 9, 2013. For the text of the Data Protection Act, see <http://www.gov.ph/2012/08/15/republic-act-no-10173/>. See also Cynthia Rich, et al., “The Changing Privacy Landscape in Asia,” *Privacy and Security Law Report*, Dec. 17, 2012 (<http://www.mofo.com/files/Uploads/Images/121217-The-Changing-Privacy-Landscape-in-Asia.pdf>).

<sup>62</sup> Bierce & Kenerson, P.C., “Federalizing Data Security Breach Rules,” *Outsourcing-Law.com*, Oct. 20, 2011 (<http://www.outsourcing-law.com/tag/identity-theft/>).

<sup>63</sup> Daniel Rudin, “Workers Find Ways: The BPO Worker,” *Rappler*, Apr. 17, 2013 (<http://www.rappler.com/business/26583-workers-find-ways-fly-by-night-bpo>).

<sup>64</sup> Marlen D. Limpag, “Inmates Undergo Call Center Training,” *BusinessWorld* online, Aug. 30, 2013 (<http://www.itmatters.com.ph/content.php?section=Nation&title=Inmates-undergo-call-center-training&id=75772>).

<sup>65</sup> “Manila Floods Have Far Reaching Impacts on Businesses around the Globe,” *Acclimatise*, Aug. 15, 2012 (<http://acclimatise.uk.com/index.php?id=3&sector=16&blog=316>); Greg Stiles, “SOU Students in Chile Rattled after Quake,” *Mail Tribune*, Feb. 28, 2010 (<http://www.mailtribune.com/apps/pbcs.dll/article?AID=/20100228/NEWS/2280326>). Also, BPO operations were temporarily shut down on October 16, 2013, after a major earthquake hit near the BPO hub Cebu City; see “Quake Forces Cebu Call Centers to Shut Down Temporarily,” *ABS-CBNnews.com*, Oct. 15, 2013 (<http://rp1.abs-cbnnews.com/business/10/15/13/quake-forces-cebu-call-centers-shut-down-temporarily>).

<sup>66</sup> “8 of 18 IT-BPO Cities at High to Very High Risk of Disaster—Think Tank,” *GMA NEWS*, Oct. 23, 2012 (<http://www.gmanetwork.com/news/story/279408/economy/business/8-of-18-it-bpo-cities-at-high-to-very-high-risk-of-disaster-think-tank>).

<sup>67</sup> Data loss is defined as the result of malicious intent, such as hacking, while data corruption is the deterioration or damage of computer data caused by hardware and/or software error. "Security Breach Is Top Cause of Data Loss in PH," Newsbytes, Jun. 22, 2012 (<http://newsbytes.ph/2012/06/22/security-breach-is-top-cause-of-data-loss-in-ph/>).

<sup>68</sup> Steven Musil, "Four Hack Suspects Linked to Terrorist Group," CNET, Nov. 27, 2011 ([http://news.cnet.com/8301-1009\\_3-57331688-83/four-hack-suspects-linked-to-terrorist-group/](http://news.cnet.com/8301-1009_3-57331688-83/four-hack-suspects-linked-to-terrorist-group/)). In March 2012, a call center worker requested what amounted to a bribe for reducing an Australian customer's charges; see "News: Pinay Call Center Agent Probed for Alleged Fraud," ContactCenterWorld, Mar. 26, 2012 (<http://www.contactcenterworld.com/view/contact-center-news/pinay-call-center-agent-probed-for-alleged-fraud.aspx>).

<sup>69</sup> Kristine Felisse Manguay and Marlon Ramos, "Cops Nab 357 Aliens for Online Fraud," Global Nation Inquirer, Aug. 24, 2012 (<http://globalnation.inquirer.net/47840/357-foreigners-tagged-in-cyber-fraud-arrested-in-police-raids>).

<sup>70</sup> Macon Ramos-Araneta, "NBI Nabs 16 in Online Fraud," Manila Standard Today, Apr. 3, 2013 (<http://manilastandardtoday.com/2013/04/03/nbi-nabs-16-in-online-fraud/>).

**CWA**

Communications Workers of America

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## OFFSHORING SECURITY: How Overseas Call Centers Threaten U.S. Jobs, Consumer Privacy, and Data Security

The Communications Workers of America (CWA) is the union for the Information Age, representing 700,000 workers in communications, media, airlines, manufacturing, and public service.

CWA is the Customer Service Union, representing 150,000 customer service workers employed at call centers in telecommunications, airline passenger services, the public sector, and the news media. CWA customer service members help customers with technology support, information requests, billing and service inquiries, and sales assistance.