EXPERT OPINION:

Control your exposure to credit risk

Simon Collins, the General Manager of Praesidium, WeDo Technologies' business consultancy division, has provided risk management consultancy to more than 100 telecom companies across the world over the last 12 years. Here he talks to VanillaPlus about tightening credit risk controls.

Simon Collins, Praesidium: See changing patterns of expenditure in real time.

VanillaPlus: It's sometimes said that telecom network operators – especially mobile network operators (MNOs) – have historically been weak in managing credit risk. Is this true and if so why?

Simon Collins: Telecom operators have been focused historically on the revenue stream long-term. The ability to pay and assess credit risk has been considered as a 'one-off' activity when the customer joins the network. This used to be a reasonable approach, especially if the services were limited in order to minimise any potential loss. In addition, telco thinking originally came from a fixed-line environment, where a physical line in to a fixed location could be controlled.

In a mobile telecom environment, this is not the case. While mobile operators were vigilant in the early days, they have all relaxed their controls to enable a large number of customers to join their networks – but with a greater level of risk. This was mostly acceptable when a large number of the services would be on their own networks and, therefore, the exposure to credit risk was not great. This scenario, however, is now changing because of the increase in the level of value-added services being offered. We are seeing – and this will increase substantially in the near future – a rise in credit risk exposure leading to greater bad debt losses.

Looking ahead, a rising number of value-added services (VAS) are being delivered to post-paid customers, which demands greater credit control, especially if MNOs expect customers to significantly increase their monthly spend. What are the challenges here for MNOs?

The key first change is that the value of the VAS is increasing – it is no longer a single low-value payment for a download. Now we are seeing significant values up to tens of euros.

We have recently been working with several MNOs and MVNOs, and it's clear that the real profit in the future will be from VAS, offering universal features across many network types, while basic services may be a part of a monthly fee.

Look at the use of the iPhone – data consumption is significantly higher than for other mobile device types, due to the easy-to-browse and download applications. But people are prepared to pay for this data, also for music and media, plus soft and hard goods, all of which can be expensive. Therefore, credit management and payment control are becoming vital disciplines within mobile operators. Operators are having to provide online verification for the services being offered in order to limit risk, but all transactions, if paid for by credit/debit card, will be considered as 'customer-not-present' and the operator will take the full risk. Therefore, credit control in real time will become a vital component of an operator's enterprise monitoring systems in the next generation telecoms network environment.

Legacy billing systems with collection management modules have been used in the past to manage credit. Does this approach protect operators from bad debt?

No, most operators do not have efficient debt collection systems. Their systems only kick in after the debt has occurred and, in general, this is a significant time after the activities – often 90 days plus, which is far too late and leaves a significant exposure for the operator. In addition, the collection modules are not a full end-to-end process system; they are only bolted onto the billing platform and do not oversee the whole process.

Some forward-thinking operators have realised they need an 'enterprise' credit management system, which actively predicts the credit

spending patterns of the customer and estimates the probability of non-payment based on the type and number of transactions. This is a separate activity to fraud control as the intent of the system is to assess the ability not-to-pay (which is bad debt) as opposed to not wanting-to-pay for fraud. Praesidium has supported numerous operators to successfully implement these types of systems.

Should operators integrate their credit and fraud management systems? What are the hazards of failing to integrate and, typically, what is the outcome of bespoke integration?

Integration of fraud and credit systems can be a useful approach in some operators, but it depends on their organisational structure, their billing model and their current systems. The operators' approach to credit and fraud needs to be analysed in order to fully understand the separate operations and to assess the potential benefits of integrating these activities. Praesidium has undertaken numerous credit/fraud operational reviews in order help operators to decide the optimum approach to be taken, both organisationally and from a system perspective.

In Praesidium's experience the specification of such integrated systems is complex and specialist expertise is required to ensure that the system is fully specified and ultimately successfully installed. There are often clear operational benefits to be gained from the integration of fraud and credit control, such as an improvement in case management processes used by analysis and better determination of the true fraud and credit risk. In today's tough economic climate, lower potential profit levels implies additional pressure on the operators to 'downsize' their organisations, especially management and support services, so the integration of groups like credit and fraud can yield significant benefits.

With data services evolving fast and a growing trend towards post-payment, what are the key disciplines that operators must follow to minimise their credit risk?

It will depend on the billing model for the specific operator. There will be a lot more 'all you can eat' tariffs that will include bundled 'on net' calls and even 'in country' calls as part of the monthly fixed tariff. The additional chargeable items will be for specific value-added services, often ones that make using the services easier, or facilities that allow seamless use of services across access networks, or the purchase of soft or hard non-telecoms goods.

The key to controlling exposure to credit risk is seeing changes in the pattern of expenditure in real-time and not waiting until the customer has spent a large amount of money and then either disappears or gets hit with 'bill shock' (where they didn't realise the full cost of the services they had used). There will need to be greater prediction of spending patterns, not only for telecom services, but also in other payment areas as spending patterns change.

Soon basic telecoms services will be seen as a utility and the real growth will be in value-added services and goods. The techniques that will be used in telecoms will be aligned with other industries, some of which have well defined credit management capabilities. Praesidium has, in fact, recently expanded its consultancy practice to address numerous other industries, including financial services, utilities and retail.

What are the key features and capabilities that operators should look for in a holistic credit risk management system?

No two operators' systems are the same and, therefore, a 'one-size-fits-all' approach is not feasible. However, there are numerous common aspects that should be taken into account during the system design phase:

- Common data collection and extraction of intelligence for the operator's and partners' data
- Ability to credit check, on the operator's own network and those of its agencies
- Predict patterns of expenditure in real time, and not wait for billing system to report after the event
- Good analytical tools and systems to assist the analyst in determining the likely outcome for the detected event
- Some automation to limit risk in the case of out-of-limit activity
- Controlling communication in the business of the cases reviewed and the actions taken, as they often have to move between different departments such as credit risk, bad debt and fraud
- A full understanding of the products and services and adequate monitoring from a revenue assurance perspective, as this can show errors in the credit process through changing patterns of revenue across the company. $

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