THE TYPICAL IMPACT OF COST CUTTING ON FRAUD AND REVENUE ASSURANCE

The industry is going through yet another period of cost cutting, and this inevitably leads to a reduction in headcount, budgets and resources. Unfortunately Fraud Management and Revenue Assurance often become unfortunate consequences of these cost cutting exercises when management elect to 'accept the risk' of fraud and revenue leakage. We often hear of budgets, fought for over many months of justifying the benefits of Fraud Management and Revenue Assurance tools, being cancelled to contribute to a budget savings figure. The situation is similar with resources. Most operators will agree that resources allocated to Fraud and Revenue Assurance have reduced over the past 5 years, and while some could argue that these reductions are in line with the implementation of automated Fraud and RA tools, this is certainly not always the case.

Management will often make a decision to 'accept the risk' in respect of fraud without the benefit of a formal risk assessment to clearly understand what that risk will be. The argument that 'our fraud losses have reduced and we can now afford to reduce the capability to manage that function' is not a sound one. No operator should be basing the development of their fraud management strategy solely around their own fraud experience over the past months or years, but must also consider industry trends and the likelihood of their fraud losses increasing if their capability to manage this function reduces. There is no argument within the industry that fraudster's will always find the weakest link and exploit that. If this weak link is an operator who has significantly reduced their fraud management capability, then the risk profile on which the management decision was made to cut costs and resources in this area has completely changed.

The writer has seen first-hand the impacts of insufficient tools and resources resulting from cost cutting exercises, for example over €3 million lost to one operator because of incorrect tariffing of prepay roamers which continued for 3 months without being discovered, and an IRS fraud which grew to €1.3 million because no-one was available to check NRTRDE records. Could Management who made the decision to cut resources within these two operators have anticipated these losses?

Fraud losses are estimated to account for between 1 and 3% of revenues for operators (CFCA) and Revenue Leakage between 3 and 11% of revenues (TM Forum). One would expect that a mature operator with effective Fraud and RA tools and resources would be able to manage their fraud losses at under 0.25% of revenues and their revenue leakage at less than 1%. If we look at a medium sized mobile operator with 2.5 million customers and annual revenues of €1 billion, these levels of fraud and RA losses would be €2.5m and €10m respectively. If a reduction in tools and resources resulted in these losses to growing to say 0.75% of revenues for fraud and 1.5% to Revenue Leakage, these losses have then expanded to €7.5m and €15m respectively. Maintaining (or implementing) the tools and resources required to keep fraud and RA losses low, or contracting these out to a 3rd party organisation, provide significantly more value to net revenues than the savings achieved from simply cutting costs in these areas.

Typically the Fraud Management and Revenue Assurance functions are built up over a number of years and it could be argued that Directors are failing in their duties to shareholders by reducing these groups effectiveness in a way that could take many months to recreate when the companies risk profile does change. It is no longer a requirement that you spend upwards of €1.5 million to implement an effective Fraud Management or Revenue Assurance System. There are systems available now at a fraction of this cost which will still provide adequate management of fraud or revenue risk. There are also industry experts in Fraud and RA available to provide an independent assessment of the minimum requirements necessary to manage these two revenue risk areas.

Cost reduction will often increase risk, and maintaining effective and well-resourced fraud and RA teams will ensure that the impact of this increased risk is kept to a minimum. The alternative strategy would be the contracting out of various internal business processes to a third party organization, or *outsourcing*. The concept being far from new in the modern economy – and indeed in the telecommunications sector in particular given its current cost-reduction agenda – may be the answer for Chief Financial Officer's seeking to bring down costs and mimimise business risk at the same time.

The extent to which the placing of Fraud Management and Revenue Assurance as strategic business functions in the hands of outside experts is showing evidence of becoming a successful competitive advantage and this requires further discussion.

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April 2013
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