

Global Market
Update No. 2

Current & Future Trends: The Telcos Issue



Welcome to the Second Edition of the Experian Decision Analytics Global Market Update

In this, the 2nd edition of the Experian Decision Analytics Global Market update, we have decided to focus on the issues associated with the Telecommunications industry.

Telcos (as we affectionately abbreviate them) have some specific industry challenges; most notably the high levels of churn and attrition which the industry faces, as well as the topical issue of “Bill shock”. However, they also face many of the issues encountered by lenders across all business sectors.

Credit losses may be relatively small, compared to other financial drivers, but they can still be significant, particularly for start-up companies and/or when expensive hardware, such as smart phones, are provided upfront (see “managing the risk during customer lifecycle”). When credit losses are inevitably materialised, many companies then select to use a debt collection agency (DCA) to minimise the impact of this. The selection of which DCA, when, for which customers, can have a major customer as well as financial, impact (the article on “Benefits of DCA optimisation” will reveal more).

Other areas of concern include the ever growing implications of fraud (refer to “UK fraud research” and “Combating subscription fraud”) and also using data to improve customer satisfaction (see “Customer satisfaction: Getting it right”). When referring to data, it is impossible (at least for us here in Experian) to not think about comprehensive credit reporting and the impact this is going to have on the Australian & New Zealand industry.

Overall, there is much that Experian Decision Analytics can do to support the Telcos industry; be that in working closely with companies of knowledge sharing forums (such as TRMA or ITFRA); providing insights of how other companies are addressing similar issues around the world and/or bringing global Telco consultants such as Phil Watson to the region to share ideas and insight.

We hope the articles here give you a flavour of the work we can help with, and currently do, for many Telco’s around the world. If you would like to know more about any of these initiatives, or how generally Experian decision Analytics can help your business, then contact your account manager who will be delighted to help.

Regards,



Nigel Butler, Director, Decision Analytics

Working closely with the Telco Industry

Experian has worked closely with the Telecommunications Risk Management Association (TRMA) for the past six years by participating on committees, speaking and/or sponsorship of conferences and submitting white papers and case studies.

Our strong relationship with TRMA resulted in the “Best in Class” Business Affiliate award for the fifth consecutive year, beating out Equifax, TransUnion, LexisNexis and more than 20 other service providers. We’ve also has launched our [Communications Industry Blog](#).

This blog is a forum for sharing relevant industry-specific content across four categories: Best Practices, Customer Lifecycle, News and Trends, and Regulatory Issues. We also have a dedicated website that is focused purely on Telco’s and contains case studies, press releases and various other Experian Telco documents.

<http://www.experian-da.com/industries/telecommunications.html>

<http://www.trmanet.org/>

<http://www.experian.com/blogs/communications-industry/>

UK fraud research

Telco fraud continues to be a major cause for concern. Our recent research has shown:

20 in every 10,000 applications for credit and other financial services made in 2010 were found to be fraudulent – an **11%** rise on 2009

The thrust of this is down to first-party fraud – up from 39 per cent in 2009 to **56%** in 2010 – where an individual paints a knowingly false portrait of their personal circumstances in an attempt to secure services

Fraud has not been immune to fallout from the recession and its aftermath. As pay freezes, job cuts and business closures hit people’s pockets hard in many parts of the country, so their perception of prosperity changes. This has fuelled aspects of fraud and changed its character, with a rise in first-party fraud from certain parts of society – e.g:

Liberal Opinions, young, professional people who have benefited from a university education

Upper Floor Living, typically young singles/living on limited incomes

Terraced Melting Pot, young people/few qualification/ working in relatively menial occupations

Best practice should not only be sharing ‘blacklist fraud data’ but also sharing application data across the industry to identify inconsistencies.

Working in partnership on behalf of our clients

We currently support over 90 of the largest global telco companies in over 60 of the countries we operate in.

To date we have worked closely with third party software and data providers to the mutual benefits of our clients and partners alike.

This has included working closely with organisations such as Adepra, Martin Dawes Systems, i-Sec Technologies, the Kessler Group, CSG International, Amdocs, Decision Solutions, Accertify, KPMG STL and T-Systems. We also support independent Telco Industry related bodies: ATFRA, TRMA, CIFAS, GSMA, and the UK Telco User Group to share involuntary churn.

Comprehensive Credit Reporting

Given the imminent move to comprehensive credit reporting (CCR) and data sharing in Australia and New Zealand, Experian is working closely to support our clients before, during and after this transition. For starters we will be holding a webinar to share our experience of data sharing in the telecommunications market: the data shared, the intelligence extracted from this data and the power it can add to decision making.

The webinar will be presented by our colleague Dr Paul Russell (Director of Analytical Solutions). Paul joined Experian in 1990 and has extensive experience of building predictive models for consumer and commercial sectors in the Telco and financial services markets.

In his current role Paul has the responsibility to develop innovative analytical methodology and solutions. During his career he has played a key role in the development of profitable automated decisioning solutions to address specific business issues in consumer and commercial lending.

In our experience in mature markets that have access to CCR, our clients have utilised scores using CCR in the following areas:

Scorecard Objective	New Business	Customer Mgmt	Prospect Screening
Creditworthiness	✓	✓	✓
Indebtedness & Affordability	✓	✓	✓
Insolvency		✓	
Collections	✓	✓	
Fraud Detection	✓	✓	
Identity Authentication	✓		
Cross-sell & Up-sell	✓	✓	
Company Failure: Ltd	✓	✓	✓
Company Failure: Non-Ltds	✓	✓	✓

Benefits from using CCR in scoring:
Telcos get a more accurate risk assessment

Improved risk assessment from a wider view of customer Telco behavior

Improved auto KYC processes introduced

Good customers can be rewarded for good behaviour e.g: access to a better offer

Bad/indifferent customers can have limit/service restrictions applied

Benefits of DCA optimisation

In the previous edition of this newsletter we highlighted the benefits of optimisation DCA case placement within the Telco space.

Given this is a very topical subject with our clients at present; we have summarised some of the quantified benefits our clients are getting based on utilising this approach.

See Fig. 1 below.

Used optimisation to lift prime DCA net returns by **12%**

Improving collection rates at each DCA within the same commission structure

Used optimisation to reduce call barring by **30%**

Increase of **10%** in net customer value through more effective agency assignment for customers

Overall customer recoveries increased from **20%** to **23%**

Increased level of re-connections, restarting the customer relationship/reducing overall churn.

Customer satisfaction: Getting it right

In a market with an ever increasing demand to provide subscribers with the best customer service, while still driving profits, maintaining ARPU and reducing churn, it can be extremely difficult to balance how to serve customers and exceed their expectations.

See Fig. 2 below.

One company that seems to be meeting this challenge head on and beating its competition in all aspects of CDI and NPS scores is Vodafone Portugal. They see differentiation key to competing successfully in a highly competitive market where 3 big players have market share and have two simple mantras for getting it right:

First: Get the basics right

Second: Delight the customer

How do they do this:

Since the beginning, Vodafone Portugal has created a culture of a company built to assist the customers.

Decisions are made every day, in every area of the company with very different objectives like cost saving, revenue increment, network efficiency, legal obligations... In the end, they all have impact on customers.

A financial algorithm has been created, calculating the Net Present Value for each Customer. It looks at customer history and also the potential future value. The algorithm runs every two months, allowing prioritisation and attribution of a scoring to the entire customer base, according to the value of the customer.

Customers are not aware of the scoring system or the differentiation on service level.

When contacting the call centre, a higher score customer gets the senior agents. When repairing a handset, in certain conditions, higher score customers can receive a new handset in substitution of the old one.

These are classed as invisible initiatives, but other more visible initiatives include:

Free umbrella giveaways in store to customers

Summer giveaways of cold water and branded inflatables on the beach.

Combating Subscription Fraud Attempts over remote channels

During 2009, the Communications Fraud Control Association estimated that the annual identity fraud constitutes between **2% - 3%** of revenues per company in the Telecom Sector.

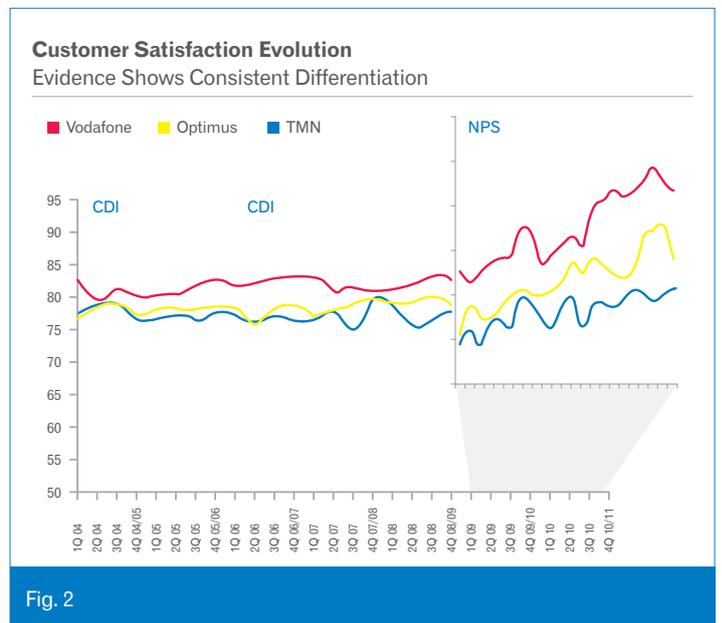
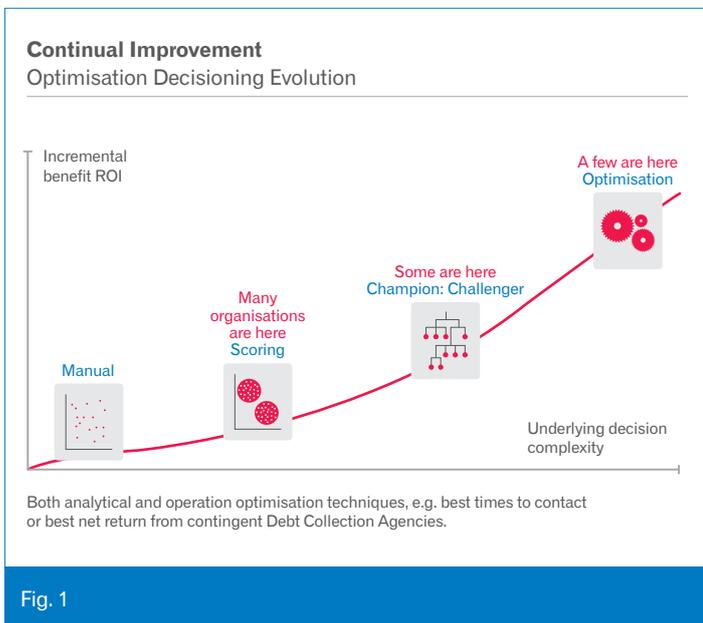
The identity theft resource centre informs that the main uses of stolen identities are:

59% are used to open a new credit account or loan in their name

29% are used to purchase mobile phone services.

Within Telecommunications channels non-face to face channels are easy targets for fraudsters. Orange Spain has implemented several key controls to reduce fraud in these channels. These include ID verification and validation checks as well as implementing a central database which is used for analysis across all applications across all sales channels. As a result of these changes Fraud reduced 68% year on year between 2010 and 2011.

It is known fraud "Blacklists" either shared between Companies or based on a company's own data will always add Value for Fraud detection. However, there is also significant value in looking at inconsistencies between applications and data which may not currently be on any "known blacklist". This information can also be enriched by incorporating data from other systems / sources such as address, email and phone number validation.



In addition, by sharing and matching this information at sector level they experienced a significant uplift in the detection of fraud at application stage.

By detecting the fraud at the application stage, it allows Orange to act upon logistic orders before handsets are delivered, issuing order cancellations directly to logistics systems and therefore significantly increasing fraud savings.

Managing risk during the customer life cycle

Yoigo, one relatively new Telco entrant in Spain, combated some of the challenges faced by a start up by implementing controls to better managing risk across the customer life cycle.

This has been done through a number of initiatives.

- 1 Checking and comparing information that a customer has supplied with other information in order to look for attempts of subscription fraud.
- 2 Using scoring models and bureau data and rules adapted to the market conditions. In this company the reject rate for applications sits between **22% – 30%** which makes it a lot more risk adverse than what we currently see in the Telco market in Australia.

3 Credit limits which are based on three separate counters (measured on money spent). These measures are premium numbers, roaming and international calls (which are grouped in to 3 different risk categories) and total consumption. In addition, they have implemented “intelligent preventing barring” which means calls are only allowed to visited countries and the home country.

4 By cleansing and validating addresses they have reduced invoice costs by more than **50%**. This is through minimising letter rejection and duplication costs.

5 By implementing behavioral based collections strategies. Using segmentation based on payment behavior teamed with an intelligent IVR based on segmentation they reduced collections costs by **10%** while achieving **70%** of collections with no human intervention.

6 Last, but not least, by using credit bureau data within collections. They use the data to predict debtor behavior, and to differentiate between real and ‘invented’ identity after the application approval stage.

Events

Our recent annual Global Telco conference in Istanbul, Turkey in June had over 90 senior Telco attendees, representing 33 companies from 18 countries.

Further details including the presentation by key industry subject matter experts can be found at: <http://www.experian.com.tr/en/telco-forum-2011/docs-from-event-59635.html>

Please contact one of your Experian team for the password details to access the site.

During September we were delighted to have Phil Watson visit Australia and New Zealand once again. During his visit he managed to catch up and discuss some of the work he has been doing globally with our various Telco clients.

In discussions with customers he was able to share some of his valuable insights, including how he worked with Vodacom South Africa to help them generate \$28million pa in business benefit. Feedback from Phil’s visit has been extremely positive and no doubt we’ll see Phil back again soon.

About Phil Watson

Phil is a credit professional with strong commercial acumen gained from 28 years experience in finance operations and credit management for UK blue chip companies.

Phil’s background includes 5 years in the banking sector as a branch manager, 8 years in credit cards managing collections and operations, 8 years at Orange UK (part of France Telecom) as Head of Credit Management and over 2 years at Hutchinson 3G Ltd as Director of Finance Operations and Credit Management.

Upcoming Global Events

Date:	Event:
September 22	Australian Consumer Finance Forum. Sydney
September 30, CEST 4pm	The PMP Implementation for Movistar Chile: Hosting Behavioural Scoring for Collections. GCP Knowledge Sharing Webinar
October 10 to 11	Identity and Fraud Forum 2011. Hertfordshire, England
November 2, CEST 4pm	Proactive vs Reactive Portfolio Management. GCP Knowledge Sharing Webinar
November 8, CEST 4pm November 9, CEST 8am	DCA Optimisation Case Study. GCP Knowledge Sharing Webinar
November 24 to 25	11th Annual International Credit Risk Forum. Berlin, Germany
December 13 to 14	Introduction of Scoring Technology to Support DCA Operation Webinar. GCP Knowledge Sharing Webinar

Experian Insights

Access the latest global knowledge and insights webinars at the following links:
www.experian.it/emea/competitive-edge-with-experian-webinars.html
www.experian.com/corporate/free-webinars.html

Access the 2011 Fraud Report: experian.co.uk/business-services/fraud-prevention.html

Identity and Fraud Forum and Credit Risk Summit 2011

Experian is holding its annual Identity and Fraud Forum and Credit Risk Summit from Monday 10 to Wednesday 12 October at The Grove, Hertfordshire. For invited guests the event is free to attend and is an opportunity to hear from industry thought-leaders, discuss challenges, explore solutions and discover new insights for you and your peers in an informative, networking environment.

The Experian International Credit Risk Forum is the leading, annual event which brings together global leaders, experts and decision makers across the financial industry. The global financial crisis has highlighted the need for rigorous risk management for economic growth; financial stability and the importance of adopting a single customer view in order to improve customer engagement, stay ahead of competition and succeed in spite of challenging market conditions.

Over 1500 C-level executives, VPs, Directors, Head of Retail, Head of Credit, managers and other risk professionals from over 35 countries worldwide have attended Experian international Forum over the last 10 years.

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