

Putting Revenue Assurance and Fraud Management into the Context of Enterprise Risk



Eric Priezkalns, Assistant Director, Risk Management & Controls, Qtel International

Before We Begin: Some Wise Words

“Risk comes from not knowing what you're doing.”

Warren Buffett

“I would rather have a good plan today than a perfect plan two weeks from now.”

General George Patton

Qtel Group



- Vision to be among the Top 20 Telecoms Companies in the World by 2020
- Diverse national operations
- GSM, fixed, entertainment, WiMax
- Operations in 17 countries
- Customer base of 60m and rapidly growing

Eric Priezkalns



- Responsible for risk management at Qtel Group
- 14 years experience in telecoms risk management and revenue assurance
- Author/editor of the TM Forum's Revenue Assurance Maturity Model
- Founder of talkRA.com

Contents

Examining the current state of play

- silo risk management versus enterprise risk management (ERM)

Telecoms industry guidance

- where RA and Fraud sits in the TM Forum's eTOM model

Joining the dots

- the consequences of evolving Corporate Governance expectations
- the new ISO 31000: 2009 standard

Why silos are no longer good enough

- the significance of ERM to investor relations and finance costs

Facing realities

- the gaps between theory and practice in the telecoms industry

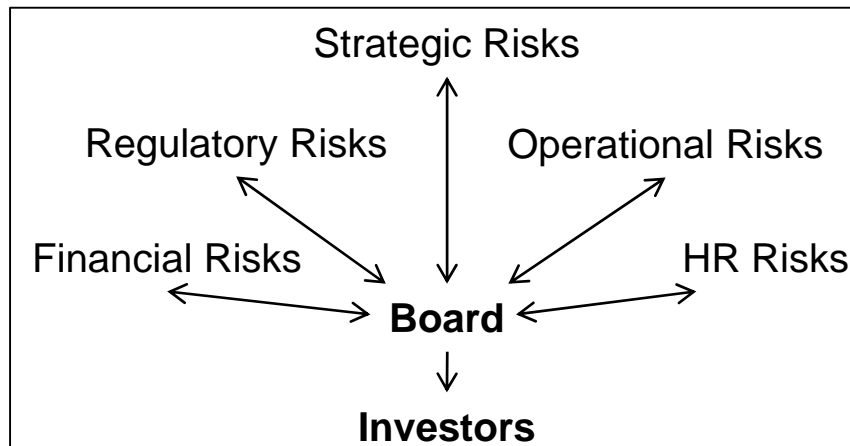
Changing expectations

- why senior RA and Fraud staff need to lead the charge towards joined-up assurance

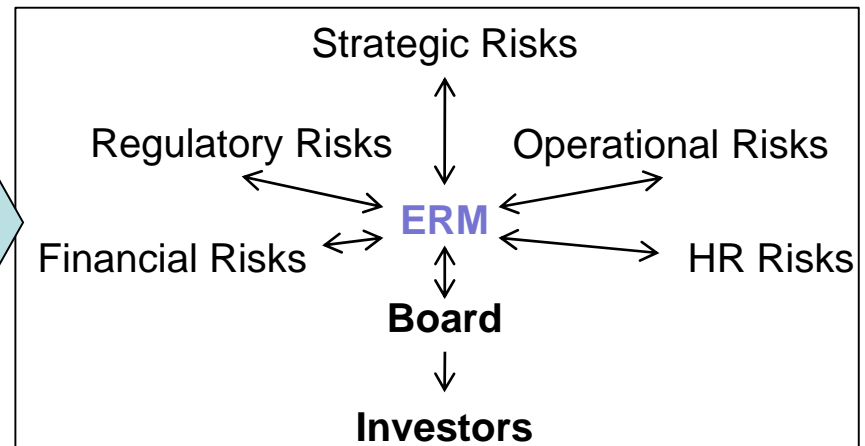
Silo Risk Management vs. Enterprise Risk Management

- Managing risk is not new; many aspects of business involve managing risk
- For good governance, Board determines risk appetite on behalf of investors
- Difficult for the Board to understand and measure risk *overall* if get information about strategic risk when discussing strategy, financial risk when discussing finances, regulatory risk when discussing regulation.... etc
- Large corporate failures means pressure for boards to have a *holistic* view of risk for the enterprise and to understand *connections* between risks

Risk Management in Silos



Enterprise Risk Management



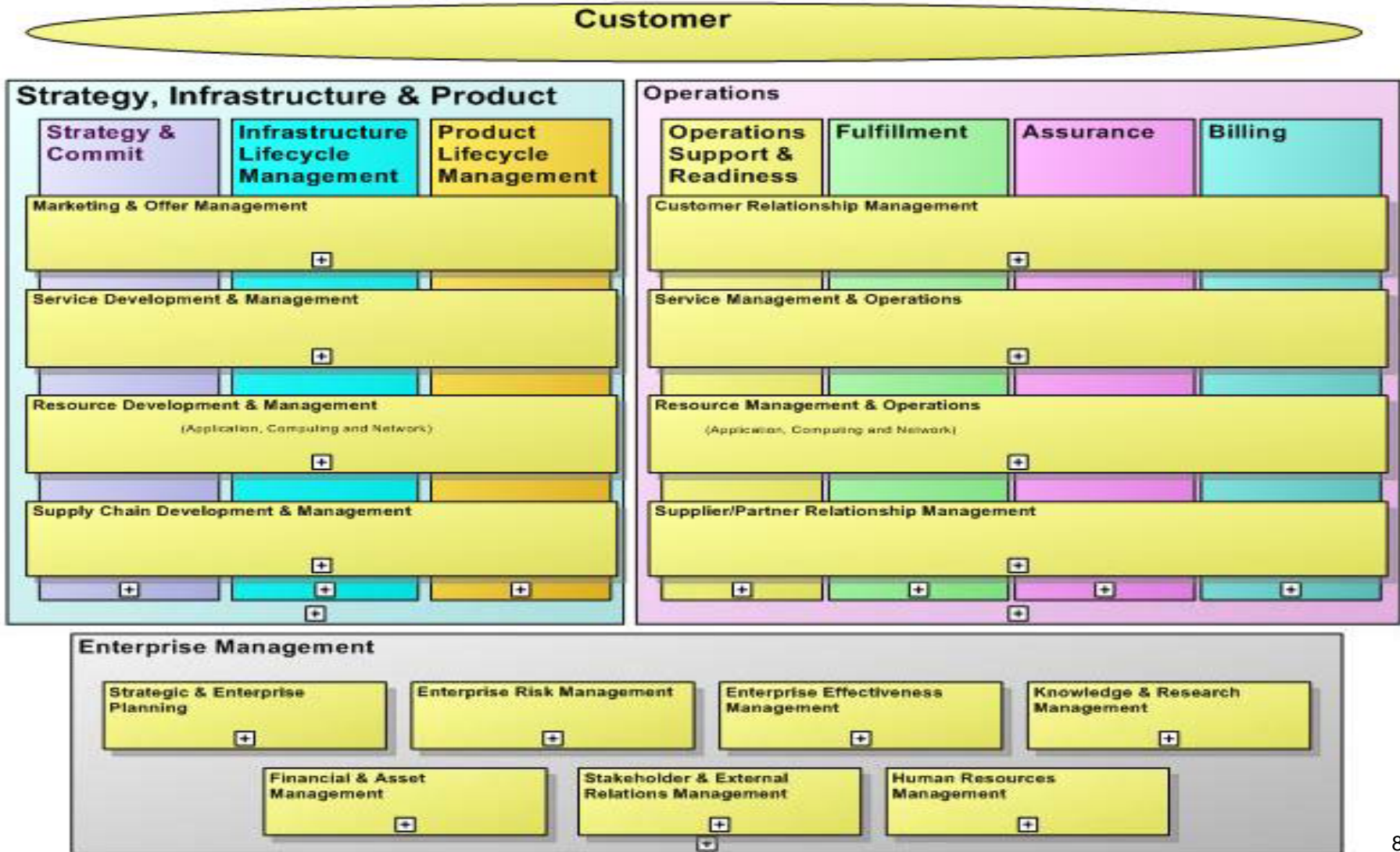
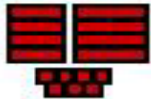
Advantages of Specialist Silo Risk Management

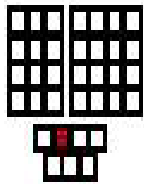
- Whatever your view on the ideal organizational relationship between RA and Fraud Management, they *ultimately* report to the same person
 - The same departmental head, the same finance director... the CEO?
- Both RA and Fraud Management are specialist silo risk management functions
 - The classification of fraud as a risk is uncontroversial
 - Revenue leakage is a risk too; atypical skew to high probability, low value risks
- Specialist silos for key risks can be very helpful
 - Address issues that nobody else in the business is addressing
 - Specialist staff and training
 - Specialist automation
 - If the risk is great enough, the cost of risk mitigation is less than the value saved

Disadvantages of Specialist Silo Risk Management

- CEOs have 2 ears at most...
 - Top-level sponsorship often vital for success of RA or Fraud Management
 - True of most risks: creates a lot of competition for executive sponsorship
- Career straightjacket
 - Limited opportunities to move up, difficult to move sideways
 - Rigid scope an obstacle to making best use of skills, talents and experience
 - A factor in the increasingly frequent allusions to 'business assurance'
- Gaps in managing risks
- Turf wars over managing risks
- Inconsistent reporting/quantification of risk from multiple silos
 - Both understatement and overstatement
 - A serious obstacle to correct prioritization and use of scarce resources

RA & Fraud in the Context of Risk





Industry Guidance – or lack of it?

- From the eTOM, both RA and Fraud Management sit within Enterprise Risk Management
- In practice, we can see this “ERM” grouping is very loose
 - As if the disciplines put together for want of knowing where else to group them
 - Only a thin abstract connection between them; in real life these functions work very differently, are independent of each other and usually report into very different parts of the business
- The disciplines included in the grouping reflect the preoccupations of people working in the industry and how the industry currently works
 - These are just the bits of risk management that does not have a better defined placed in the org e.g. regulatory affairs, credit management
 - Weakness of applying a cartesian projection to a universe with non-euclidean relationships between business goals and organizational entities

Evolving Corporate Governance Expectations

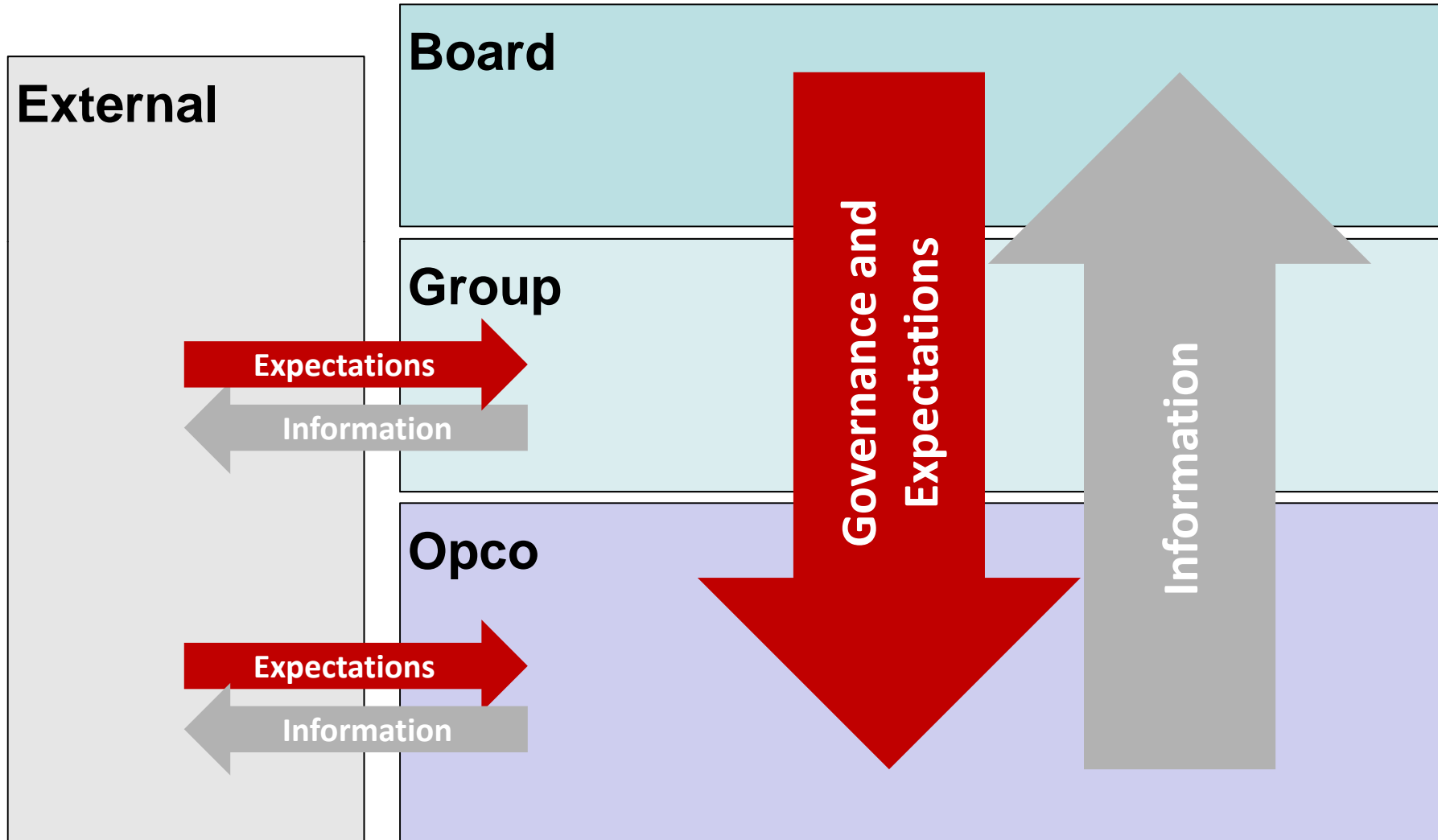
“The board should give appropriate disclosures and assurance regarding its risk management objectives, systems and activities. The board should disclose existing provisions for identifying and managing the effects of riskbearing activities. The board should report on internal control systems designed to mitigate risks. Such reporting should include risk identification mechanisms.”

The UN Conference on Trade and Development, Guidance on Good Practices in Corporate Governance Disclosure 2006

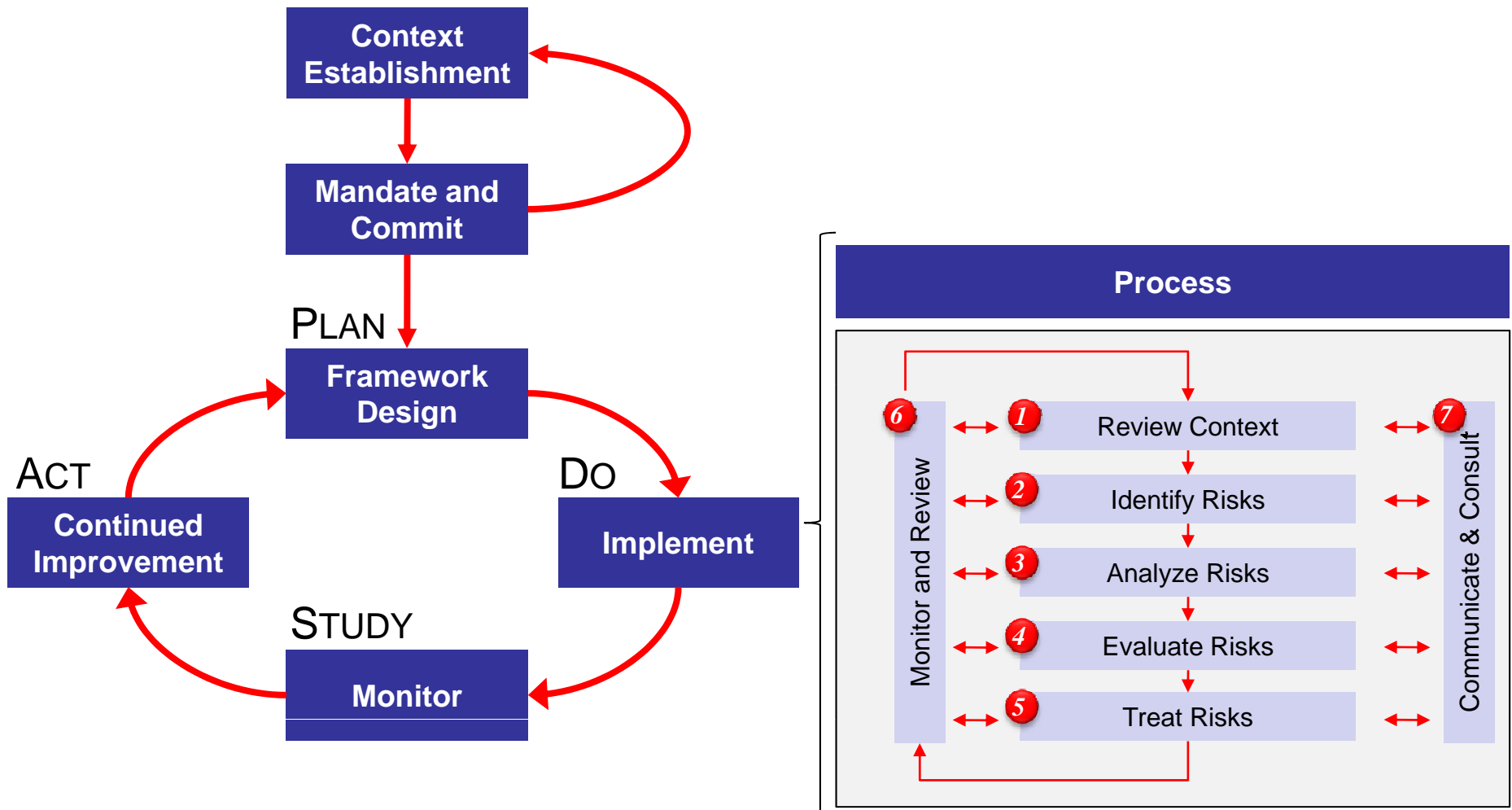
“The board should, at least annually, conduct a review of the effectiveness of the group’s system of internal controls and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems.”

UK Financial Reporting Council’s Combined Code on Corporate Governance 2008

Qtel & Risk: Authority flows down, information flows up



ISO 31000:2009 Enterprise Risk Management Standard



Why the RA and Fraud Management silos will change

- The same factors that drive revenue assurance to move towards business assurance are driving businesses to be more efficient and holistic in handling all kinds of risk
- RA and Fraud Management want to ensure their risks and results have a reporting line to the top
 - Faced with the choice of trying to maintain a separate, competitive, line of communication or having a guaranteed channel as part of enterprise risk management
 - Part of the purpose of ERM is to ensure consistency in information; the valuation and probability of leakages and risks will increasingly be determined across silos, not by silos
- As leakages are plugged and the number and value of issues declines, the business case shifts from the certainty of getting value from historical issues to the uncertainty of preventing future issues i.e. from issue management to risk management

Why Qtel Group is Integrating RA & Fraud with ERM

- Effective management of risk is a source of competitive advantage
 - More obvious when investing in higher-risk markets but true for all operations
- Reducing shocks/variability/unpredictability is an increasingly important influence on finance costs
 - Better risk management can lead to an improved credit rating and reduces the danger of a downgrade
 - For example, Standard & Poor's now explicitly covers ERM as part of their rating process
 - For Qtel Group, a downgrade would cost between USD200m-300m p.a.
- As revenue assurance shifts from reactive to preventative, the generic skill set of risk identification, analysis and mitigation is more applicable than a skill set suited to point-by-point detection of errors

Obstacles to Integrating RA & Fraud with ERM

- The 'joined up' assurance model does not exist – we have to develop it
 - Limited opportunities to learn from what other telcos are doing
 - Overuse of the words 'risk management' – applied to anything that handles any kind of risk, no matter how small a piece of the big picture
 - Have to synthesize approach by combining multiple disciplines
- Involves working with disparate people from disparate backgrounds with disparate skills
- Challenge to drive joined-up thinking in opcos, especially if they grow rapidly, face recruitment challenges and risk management maturity is low
- No easy sell to execs
 - Cannot rely on sense that 'everyone else is doing it'
 - Consultants can easily undermine the approach by pitching for small pieces of the integrated pie and hence causing confusion
- Analogy: where revenue assurance was ten years ago

Why RA & Fraud people should take a lead with joining-up assurance

- They have succeeded in the challenge to establish a new discipline before – they have relevant experience to do this
- It gives a meaning and context to expanding into ‘business assurance’ beyond it being simply ‘more’ than revenue assurance
- If they do not take a lead, risk management people, driven by corporate governance expectations, are likely to come at them from the other direction
 - Potential for culture clash or undoing some of the data-driven progress the new discipline of RA has made
- Efficient use and reuse of data is a key common factor of success in much of this
 - The skills to analyze data
 - The technology to obtain and explore data
- Realizing synergies gives a route to increased productivity and responsibility without expecting a commensurate increase in budget