Risk Management

Is Your Fraud Management Risky Business?

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Is Your Fraud Management Risky Business?

It's getting worse. Fraud cost communication service providers (CSPs) over $46.3 billion in revenue last year, according to the Communications Fraud Control Association's 2013 Global Fraud Loss Survey. That's 15 percent higher than the year before, thanks in part to the rise in wireless-related fraud. In fact, fraud is becoming more difficult to detect and stop, given added network complexity, smarter criminals and an explosion in business data.

Inaction isn't an option. In some cases, fraud losses can consume as much as 8 percent of a CSP's top-line revenue. In addition, CSPs find themselves more exposed to risk through rising equipment costs, larger credit lines for new customers and higher acquisition costs. The bottom line: CSPs must take fraud prevention seriously and make mitigating risk a top-level priority.

Assessing Your Risk: What to Avoid

Managing risk and preventing fraud, of course, are not new challenges. All CSPs have adopted some measure of risk management, often in concert with an internal fraud detection team. Yet the effectiveness of risk management can vary widely from business to business, depending on the approach. Some of the common pitfalls that plague risk management solutions today include:

- Outdated data with limited (or no) access to real-time customer data such as fraud reports and credit reports;
- A siloed approach to data collection/analysis that leads to poor customer visibility between departments and business units;
- Failing to take advantage of external data providers who can enhance and complete customer/market analysis;
- Leveraging analytical insights in the back office (e.g., fraud case selection) but not on the front lines (e.g., during the customer service experience);
- Mixed vendor solutions that result in finger-pointing when things go wrong.

Choosing the Right Solution: Key Questions to Ask

Today's CSPs have a variety of risk management solutions to choose from. These range from highly specialized, niche solutions from small companies to broader analytics platforms delivered by Fortune 500 companies. Selecting the right solution for your business can depend on numerous factors, including time-to-deployment, cost, functionality, ease-of-use and analytical strength. Beyond the solution itself, CSPs need to consider the solution vendor: Are they established? Do they have a strong local presence? Will they be able to support the solution with services and new features?

Below are some questions to consider when selecting a risk management solution:

- Does the vendor have experience with analytics and does their solution feature a powerful analytics engine?
- Does the solution support multiple dimensions of risk management including subscriber fraud management, sales performance management and sales channel/dealer risk management?
- Does the solution feature an easy-to-use graphical user interface that doesn't require a high level of technical sophistication to learn/use?
- Does the vendor have a sizable install base among communications service providers?
- Does the vendor have a proven track record and the long-term financial stability to support the solution for years to come?
- Will the solution integrate seamlessly with other analytics solutions that your business uses?
- Is the solution "open" enough to leverage data across your business and from external sources?
- How long will it take to implement and deploy the solution? 30 days? 60 days? 90 days?
- Can the solution vendor point to clear customer examples that set reasonable expectations for return on investment?

Best Practices for Risk Management

Over the years, best practices have emerged for risk management and fraud detection among CSPs. Following these practices can help CSPs reduce fraud, minimize risk and recover more bad debt from delinquent accounts:

LIFT

REVENUE 20% OR MORE

How? Leverage real-time analytics to personalize offers at the point of sale to subscribers in good standing.

1. Use real-time analytics to identify risk.

The point of sale is the best time to take action, whether it's recovering old debt or preventing a delinquent subscriber from incurring new debt. In some cases, the risk of repeat default among subscribers with bad credit is as high as 65 percent within 12 months of opening a new account, and the new debt incurred is typically higher than the old debt by 30% or more. On the other hand, using real-time analytics to personalize offers at the point of sale to subscribers in good standing can increase revenue by 20% or more.

2. Make sure your subscriber data is current.

Finding up-to-date financial data on new subscribers can be a challenge, as most CSPs don't report into the leading credit bureaus. It's essential that CSPs be vigilant in verifying new sales against their own customer financial data.

3. Don't spend money on data you don't need.

The most cost-efficient data is your own: the internal data captured in your own customer databases. CSPs should only look to external databases for additional information as a secondary measure. Employing a sequential risk management methodology that factors in cost can help CSPs realize ROI on their risk management systems sooner.

4. Continue to monitor new subscribers post sale.

At the point-of-sale, a limited set of data points are provided, such as name, address and phone. Continuing to monitor additional data post-sale and/or changes to the account information may raise a flag for review. Fraudulent users will also at times create a new account prior to abandoning an old account (referred to as a non-pay disconnect). It's a good idea therefore to monitor new accounts for the first few months in order to check for this type of fraudulent behavior.

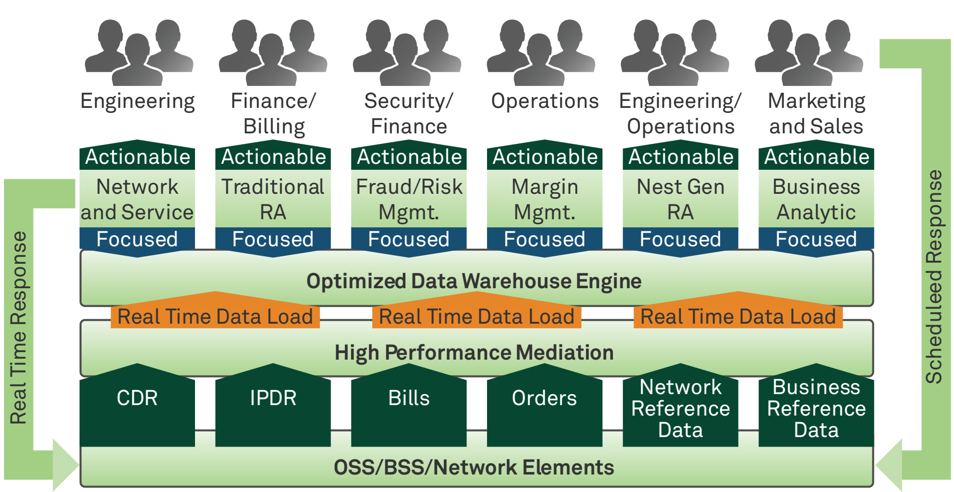
5. Use post-sales analytics to monitor risk management compliance.

Even the best risk management system can be undermined by irregular or incorrect application. Analyzing post-sales data can show CSPs where risk management procedures are being followed and where improvement is required.

Neustar Risk Management Services: A Better Approach to Risk Management

Historically, risk management solutions have been built around specific products implemented and managed at an organization level, with third-party data providers brought in to augment fraud detection and risk assessment. This approach typically limits the effectiveness because it uses a narrow and incidental view of risk management rather than viewing it across multiple business lines and over time.

Neustar's Risk Management Services represent the next generation of risk management: a single, scalable platform that combines real-time analytics at the point of sale. It offers post-sale historical analysis to optimize risk management workflows and create better predictive models. This two-pronged approach to risk management is unique in the industry, enabling CSPs to identify fraud sooner, manage risk at the point of entry, increase collections, reduce bad debt and generate more revenue through real-time offers.

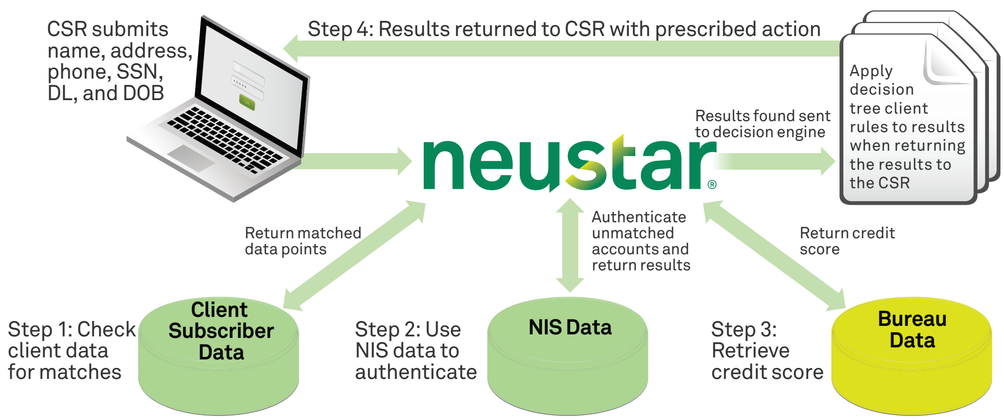


Subscriber Acquisition

Neustar Risk Management Services deliver real-time risk and fraud detection at the point of acquisition through the Neustar Enhanced Point of Sale (ePOS) module. This module enables customer service representatives to identify risk at the point of sale using internal and external subscriber information, high-risk patterns and customer behaviors.

The entire decision-making process is driven by Neustar's unique waterfall methodology, which selects steps in a logical order based on the least cost with the greatest reward (e.g., check internal database first, then third-party database, etc.). By detecting risk/fraud at the point of acquisition, Neustar's Risk Management Services help CSPs avoid losses associated with provisioning costs, equipment and future services that would occur from bringing on a subscriber that never pays for the service.

Example of Neustar's RMS Waterfall Methodology



Alert Details

		Subscriber Attribute	Score	Match Subscriber Attribute	Case Subscriber Value (New)
		Subscriber Name	60	Customer Name	KLEINSCHMIDT,CYNTHIA
		Spouse Name	0	Spouse Name	
		Roommate Name	0	Room Mate Name	
		Bill Address	100	Billing Address Line 1	4413 PLAZA DR APT 306
				Billing Address Line 2	
				Billing Address Line 3	
				Billing Address City	HOLIDAY
				Billing Address State	FL

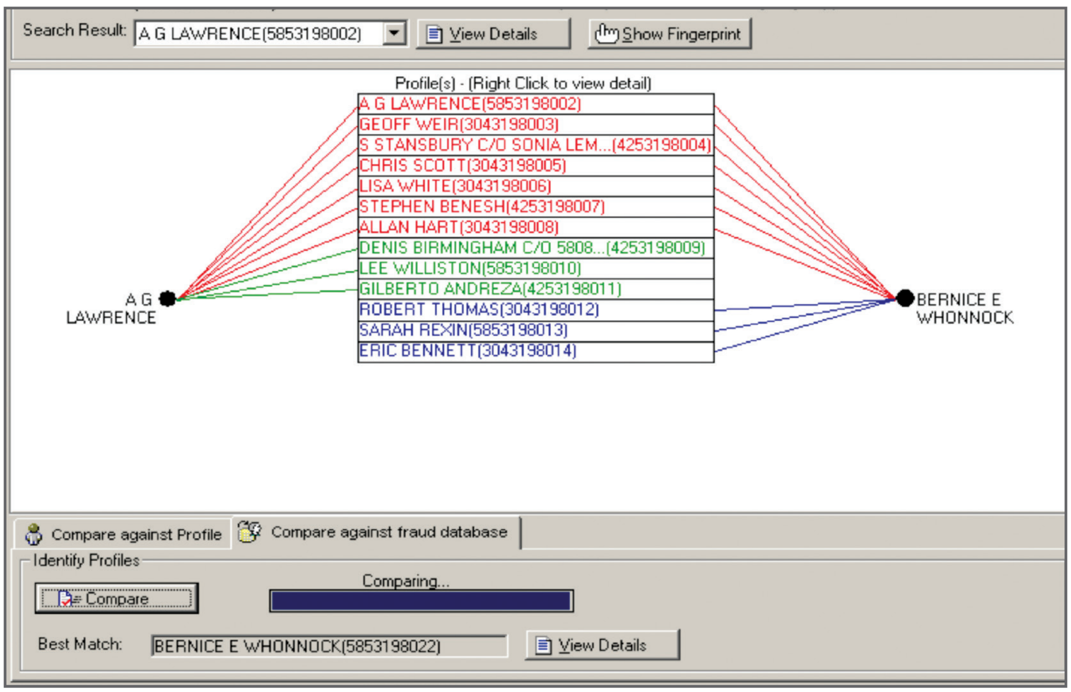
Work Environment Optimization

In the field of risk management, fraud response is just as important as fraud detection. Neustar's Risk Management Services provide tools and reports that give internal teams the ability to respond quickly and consistently to fraud cases. This includes a Workflow Manager tool to help risk management teams organize, prioritize and present cases for investigation. Dashboard and graphical reports are also provided to allow risk analysts to measure their performance and drill down into data for deeper insights.

What Does "Good" Risk Management Look Like?

Neustar's risk management solution delivers dramatic results to CSPs including increased revenue, reduced revenue loss and consistent compliance with risk management processes across business lines. Some of the benefits that CSPs can expect from this approach include:

- Higher revenue per user;
- Improved service as customer service representatives focus on helping "good" customers;
- Lower subscriber churn;
- Higher success rate for collections and lower recovery costs;
- Fewer incidences of identity theft;
- Deeper visibility of risk across all channels: voice, data, wireless, television, etc.;
- Faster, more accurate detection of fraud resulting in fewer fraud incidences and shorter durations.



Case Study: Cable Operator Saves $11M Annually in Bad Debt

In 2010, one of the nation's largest video, high-speed Internet and phone providers took steps to reduce bad debt and repeat offenders in its customer base. They selected Neustar's Risk Management Services (RMS) as their solution, following a successful trial in one of their regions.

Within a few months of implementation, Neustar's RMS solution was delivering a return on investment above the cost of the service. By year's end, bad debt savings had reached $11 million.

In addition, by canceling orders for service on those new customers identified with previous bad debt, the cable company's regions decreased customer churn by 13.5 percent. The North American cable company believes one of RMS' key benefits is the system's "fuzzy matching capability," which links new subscribers to former subscribers. The fuzzy logic is actually a robust algorithm designed to identify subscribers with similar names and addresses (e.g., Chuck and Charles).

In 2011, the North American cable company expanded Neustar's RMS to four additional regions in the Northeast and recovered over $2 million in prior bad debts while averting over $29 million in potential new debt.

> **"I would highly recommend Neustar's Risk Management solution to other organizations interested in reducing bad debt, averting losses and shrinking unpaid churn." –Director of Collections**

Why Neustar?

Neustar is a recognized leader in risk management and real-time analytics. Communications service providers and Fortune 500 companies trust Neustar to connect billions of endpoints across thousands of networks every day. With Risk Management Services from Neustar, service providers get a proven solution from a global leader:

- The only service that combines point-of-acquisition and historical analytics for a complete, two-pronged approach to risk management;
- Cloud-based service for lower cost of entry and faster implementation;
- Extensive experience in billing and back-office integration for CSPs;
- Trusted methodology based on best practices and hundreds of customer engagements;
- Deep, data-based insights into more than 40% of all U.S. households.

To learn more about Neustar's Risk Management Services

Call: 877.831.3984

Email: solutionsteam@neustar.biz

About Neustar

Neustar, Inc., (NYSE: NSR) is a trusted, neutral provider of real-time information and analysis to the Internet, telecommunications, entertainment, advertising and marketing industries throughout the world. Neustar applies its advanced, secure technologies in routing, addressing and authentication to its customers' data to help them identify new revenue opportunities and network efficiencies, and institute cybersecurity and fraud protection measures. More information is available at **www.neustar.biz**.

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