

Changing the Motivation for Managing Risk and Assurance

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WeDo Worldwide User Group

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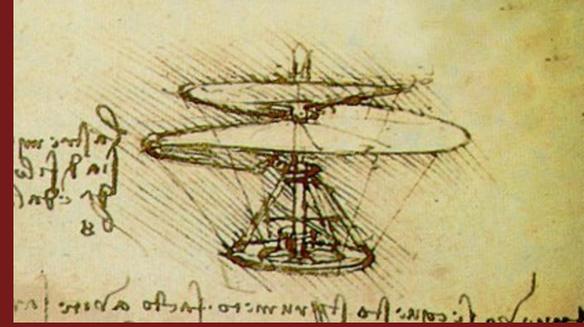
Who is Eric Priezkalns?

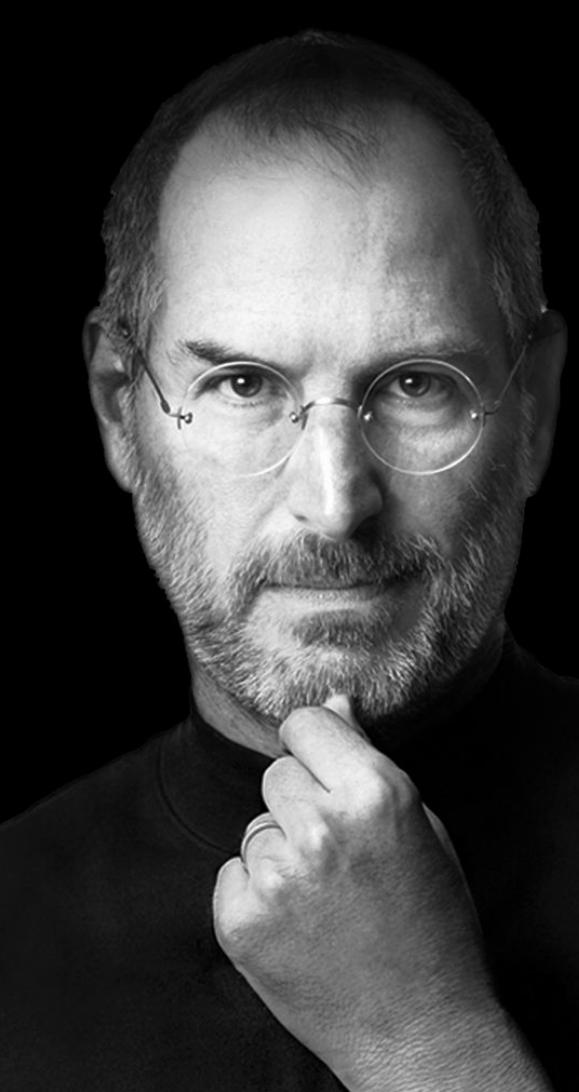
- Specialist in risk management and assurance
- Chartered accountant, trained at Deloitte London ERS
- Former Director of Risk Management for Qatar Telecom
- Also worked with: Cable & Wireless, T-Mobile, Worldcom...
- Author of *Revenue Assurance: Expert Opinions for Communications Providers*
- History of involvement in various industry bodies
 - TMF ERM team, Qatar NCIS, RAG
- Editor of Commsrisk.com
- But mostly retired!



Why Do They Invite Me?

- Crazy ideas
 - We have a design for doing risk management (or do we?)
 - But a 'design' is not really a design if the system on paper does not work in practice
 - We lack the tools and materials to implement the 'design' of risk management
 - They are: data, maths, stats, computing power etc
- Today I will discuss my craziest idea yet
 - Motivating a substantial increase in expenditure so we can obtain more tools and materials
- How to turn 'crazy' into the new normal?
 - Challenge accepted wisdom
 - Imagine a better alternative
 - Forge a team to make the alternative real





“If I were running Apple, I would milk the Macintosh for all it’s worth — and get busy on the next great thing. The PC wars are over. Done. Microsoft won a long time ago.”

“It will go down in history as a turning point for the music industry. This is landmark stuff. I can’t overestimate it!”

“Do you want to spend the rest of your life selling sugared water or do you want a chance to change the world?”

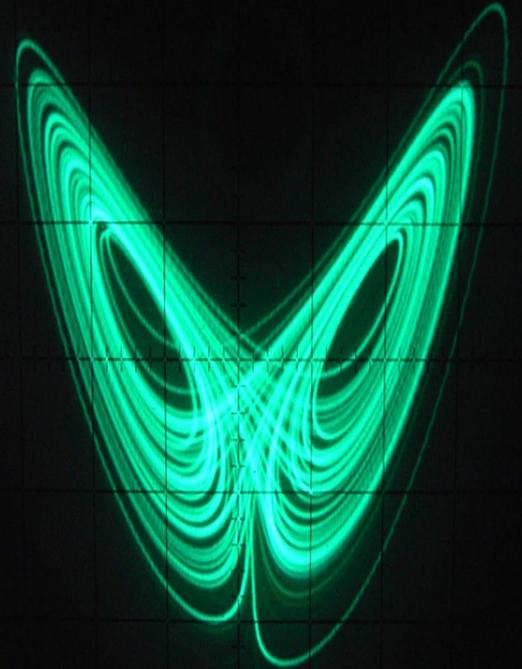
Steve Jobs

The 'X Percent' Wars Are Over (and We Lost)

- Common to motivate expenditure on RAFM by arguing that a certain percentage of revenues is being 'lost'
- Implied ratio of benefits to costs is sensational
 - RAFM investment should be a no-brainer
- Real investment much lower than should be the case *if execs believe the ratio*
- Paradox of 'putting yourself out of a job'
- Many problems with conventional wisdom
 - If 3 percent leakage gets you \$1mn budget, would 30 percent leakage get you \$10mn?
 - Not backed by good data, and repeating *opinion* will not make it true/convincing
 - Misunderstands the word 'revenue' - accountants do not treat *hypotheticals* as revenues
 - Focuses on the errors that go against telcos, ignores errors in their favour
 - The 'X' does not reliably represent real economic value - some leaks go straight to bottom line but others do not, if customer never intends to pay then cannot lose that revenue

A Turning Point in Thinking: The Butterfly Effect

- Other ways to understand why 'X%' fails
- X% loss is total of many errors
- We run complex systems so a small error in one part of the system can have unpredictable large impact elsewhere
- The maths/logic for situations like these is difficult for human beings to understand
- We all tend to know specific examples (from which we develop heuristics) but we do not present good and robust data and maths in general
- Is there a business domain where the butterfly effect is easier to see and supported by better data?





**We all have all seen
how Dr David Dao
was removed from
an overbooked
United Airlines flight**

**How many stories
have there been
about United and
overbooking since?**

Networks, Complexity, Operational Risk

- United Airlines screwed up their operational risk management
 - Probability of passengers not showing up/too many showing up
 - Should not have allowed too many customers to board
 - Poorly-designed compensation scheme, poorly applied in practice
 - Too little thought to risks when relying on physical force
 - Very poor executive responsive in immediate aftermath
- United carries 143 million passengers a year *but* social media means one terrible incident can be global news - a butterfly effect
- Customers are more informed, more powerful than ever before, because they can connect and act together like never before
- Telcos run those networks! Why do we behave like there can be no major consequences when an individual gets overcharged, hacked, or stolen from?

Never Mind Leakage, What About the Share Price?

TalkTalk



- In 2015, public announcement that 157k accounts hacked with 15k bank account details stolen.
- Share price drops 15% lower
- Later fined GBP£400k by UK ICO

MTN Group



- In 2015, public announcement of USD\$5B regulatory fine for not disconnecting SIMs.
- Share price drops 20% lower.

Vodafone

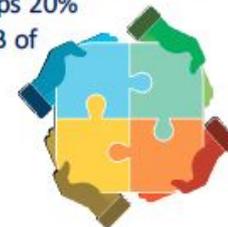


- In 2016, Vodafone fined GBP£4.6m by OFCOM for breaches of consumer protection rules.
- Kick starts a 15% drop in share price.

BT Group



- In 2017, public announcement of accounting irregularities in Italy.
- Share price drops 20%
- Losing GBP£10B of mkt cap



And What About the Headlines?

TalkTalk lost more than 100,000 customers after cyber attack

 **REUTERS**

Bell to pay \$11.82 million for unwanted premium text messaging charges 

THE FCC FINES COMCAST \$2.3M OVER BILLING PRACTICES—BUT IS THAT ENOUGH? 

Verizon Will Pay \$350 Million Less for Yahoo

The New York Times

T-Mobile US ‘incredibly angry’ at Experian over data breach

Fastweb founder taken into custody



Vodafone fined £4.6m by Ofcom for breaking customer rules 

BT shares plunge 20% as Italian accounting scandal deepens 

Etiihad Etisalat Co., the Saudi Arabian phone operator known as Mobily, suspended its chief executive officer after auditing errors prompted a stock market sell-off that erased about \$5 billion of its market value.

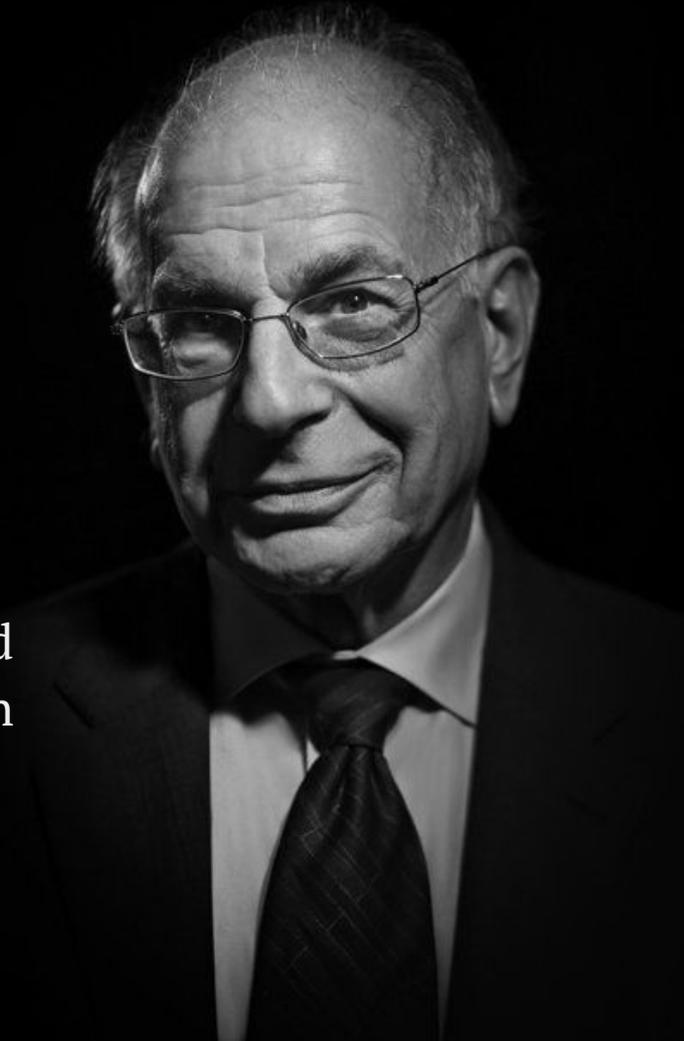


EE fined £2.7 million for overcharging tens of thousands of customers over mobile phone contracts 

BT scandal joins VW and Tesco in crosshairs of shareholder legal action specialists *The Telegraph*

Daniel Kahneman

- “...sadness, vigilance, suspicion, an analytic approach, and increased effort... go together.”
- “...when in a good mood, people become more intuitive and more creative but also less vigilant and more prone to logical errors.”
- Kahneman’s Prospect Theory shows that when choosing among several alternatives, people avoid losses and optimize for sure wins because the pain of losing is greater than the satisfaction of an equivalent gain



A Different Pitch

- What we call a ‘leakage’ is not what an executive *feels* as a loss
 - The emotion associated with loss only occurs when you receive less than expected
 - Execs were not originally expecting the X% you keep promising to add
- The priorities for telcos are changing
 - There are no more new customers
 - Loyalty matters more than growth - think of Apple’s brand loyalty
 - Positive customer feelings lead to increased sales to the same customer - telcos want to sell many more services to the same number of customers
- We should be vigilant and analytical about *protecting* customers
- Or we risk losing them
- Customers should never need to complain about a bill, never need fear fraud

No More Sugared Water: Changing Our Value Proposition

- For telcos, RAFM pros are in the right position to tackle operational risks
 - Make sure no David Dao-like examples of avoidable reputation damage and value destruction
 - We have (some) data, we have (some) skills, we have the closest relevant remit
- When customers suffer fraud, how much does the telco pay?
- How much spent on handling billing complaints that could be avoided?
- Will unhappy customers leave for another telco?
- Even if they remain, what are your chances of selling more to that customer?
- How do these numbers compare to your previous X%?
- Telcos being as bad as each other is a lousy sales pitch - ask the airlines!

What RAFM Pros Can Learn About Teamwork

- *Fear of loss* is strong but hard to sell a negative message when isolated
 - The easiest response to a lone person highlighting a risk is to ignore them
- Customers and shareholders also weak and isolated - until they act together
- When customers gang together they become strong
- When shareholders act together the company value can plummet!
- We must also act together
 - make the same arguments; reinforce through repetition
 - networking with each other, using every means to do so
 - turning bad news for one telco into reasons for investment in all

One Voice to Speak for All

- A guild of professionals
- Drive up investment in RAFM and management of risk in general
- Lobby boards and regulators
- Shareholder activism
- Seek common cause with customers
- Make the tough argument to prioritize value protection over quick wins
- Free to join, free to attend
- A global cycle of conferences
- We speak louder when we speak as one



RISK & ASSURANCE GROUP

<http://riskandassurancegroup.org>

Conclusions

- Global telecoms revenues will reach \$1.7 *trillion* in 2017; if the X% argument worked well then we should be millionaires by now
- Cannot significantly improve results by doing more of the same
- Psychology tells us it is difficult to explain the maths/logic of RAFM benefits
- Fear is a powerful motivator when tied to loss of something we already have, such as losing customers, reputation loss or a significant fall in share price
- Plenty of examples of telcos and other big companies suffering ‘epic fails’ due to poor operational risk management
- Social media and greater global interconnectedness means bad news travels like never before; but also gives us the chance to connect as professionals
- Telcos have to move towards cultivating and sustaining value and loyalty
- We can win this argument, but we must join forces and speak with one voice

**Again, you can't connect the dots looking forward;
you can only connect them looking backwards.
So you have to trust that the dots will somehow
connect in your future. You have to trust in something
— your gut, destiny, life, karma, whatever.
Because believing that the dots will connect down the
road will give you the confidence to follow your heart
even when it leads you off the well-worn path
and that will make all the difference.**

Steve Jobs