DISPUTE AND FRAUD IN TELECOM TRADING MARKET
2011
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BUYER BEWARE: FRAUD POSES SIGNIFICANT CHALLENGES FOR TELECOM TRADING MARKET

The telecom trading market is at a critical inflection point. Tremendous demand for services is causing a flood of new suppliers – all looking to make a quick profit. For buyers, this means an ever-increasing volume of services from which they can choose. But buyer and sellers must take caution. Fraud’s hitting the trading market – and companies need to take a long, hard look at vendor relationships before jumping into a new agreement.

This white paper will define the wholesale telecom market. It will also discuss dispute and fraud in the telecom trading market from both the buyer and supplier side, while providing recommendations for improving security.

A MARKET OPPORTUNITY

In 2011, the outlook for wholesale continues to be bright. Many analysts feel the worldwide telecom space is expected to grow more than 8% over the next year. According to industry analyst firm Perception Experiments Company, revenue is expected to hit $2 trillion by next year.

Industry analysts at InStat also estimate that revenues for VoIP in the US reached $3.8 billion in 2010: “In 2006, the US market for VoIP advanced dramatically adding close to four million households making the revenues grow quickly in the high-tech market.” This growth – in conjunction with the carriers’ desire to get high quality rates to international destinations at low prices – has created the VoIP commodities trade market.

But what exactly is wholesale telecom? While some operators deploy their own networks to deliver services, others opt to purchase wholesale products. By leveraging wholesale opportunities, carriers are able to offer a full array of voice services – including long distance, local and data services – without incurring the expense of maintaining their own infrastructures. Many find this a more effective method of quickly incorporating valuable mobile, voice and data services into their existing services and product mix.

And the model is working. At a recent conference held by the industry analysts at Ovum, the firm reported wholesale telecommunications continues to gain credibility as a viable business strategy:

“What is the future of wholesale telecommunications? Such was the question posed at a recent seminar delivered by Ovum…The picture painted by Ovum was a fairly positive one. The key message is that wholesale is no longer considered a dirty word and for the majority of carriers the wholesale telecommunications market has made (and is still making) the transition from being a ‘necessary evil’…to a thriving commercial opportunity.”

Industry analyst firm The Yankee Group also expects the market to flourish. While demand for core telco services is flattening, growth is now being driven by demand for next-generation telecommunications services. Cloud computing and services such as mobility and content services have sparked new revenue opportunities:
Says the report, “The worldwide telecom wholesale market is on the rebound, driven by such factors as ‘optimism around mobility, cloud computing, and content services…’ One survey [found] that 80% of wholesalers say they expect a healthy uptick in revenue over the next two years.”

But new market opportunities bring new risk. And both buyers and suppliers must pay close attention to potential fraud scenarios.

**THREAT OF FRAUD**

Telecommunications fraud continues to be a major problem plaguing the industry. A recent report estimates theft of services is growing at a rate of 12 percent each year, with carriers losing anywhere from $4 and $22 billion annually.

“According to telecom security firms, no sector of the industry is immune. Perpetrators, through fraudulent access to networks, can avoid paying for wireless service, steal and resell long-distance minutes to friends and strangers, or hijack a network device to send unsolicited commercial e-mail...or spam to unsuspecting end users.”

The same holds true for wholesale, and both buyers and suppliers are susceptible to significant losses from fraudulent activity. Whether it is suppliers claiming to be legitimate providers, or buyers refusing to pay for services, the issue is one that must be addressed. But what are the signs of fraud? How can you tell if you’re ripe for fraudulent activity?

**RED FLAGS: YOU’VE BEEN TAKEN**

On the supplier side, extending service “on credit” is a tricky proposition. Anytime a supplier extends credit to a buyer – allowing traffic prior to payment – they’re exposing themselves to risk. It’s important that - before agreeing to extend credit - suppliers take all precautions necessary to ensure payment.

One red flag is a buyer’s corporate e-mail address, or lack thereof. This could indicate a quick-start operation, with no business foundation. Under this model, buyers can quickly dismantle operations after service is delivered. Suppliers are then forced to write these transactions off as bad debt.

Yet another red flag is a buyer’s lack of references. Companies build their reputations on customer satisfaction, and grow by earning repeat business. Fraudulent buyers have no interest in repeat business or long-term success. Their only goal is to obtain as much free service as quickly as possible – closing up shop before they need to pay.

Finally, suppliers should be wary of buyers that wish to ramp-up too quickly. Recently, there have been more than a few high-profile cases where a buyer asks for services on a weekend or a holiday. This is a sure sign the operation may be a scam.

On the other side, it’s definitely “buyer beware.” With cost of entry into the wholesale telecommunications market extremely low, the risk to new carriers is almost zero. Potential suppliers need only set up a small
amount of inexpensive equipment to get started. But while cost remains low, the demand for minutes is by no means slowing down. Buyers across the globe are looking for more minutes at the lowest prices possible. The two are a potentially dangerous combination. With demand so high and point-of-entry so low, suppliers can very often dictate the terms. This is where extra caution must be taken.

Buyers must note when they’re asked for prepayment of services. By paying ahead of time, fraudulent suppliers have no incentive to deliver service, because the money’s already exchanged hands. Going one step further, perhaps one of the biggest signs of fraud is dramatically discounted prices. Because competition in the market is so fierce, suppliers often need only compete on price to win business. The lower the price, the more business they can win. But sometimes low prices are just too good to be true. A supplier perpetrating fraud wants to get new business quickly – with as many buyers signing on in a short timeframe. This enables them to quickly collect prepayment for services that were never intended to be delivered.

The threat is real, and both buyers and suppliers must take extra care to protect themselves from losses. But what measures can be taken to guard against fraud and what tools are available to keep them safe?

A FRAUD STRATEGY IS KEY

Governments around the world are well aware of the dangers associated with telecommunications fraud. While lawmakers continue to expand international efforts to protect both buyers and suppliers, legal actions against violators can only do so much as regulating new carriers is becoming increasingly difficult.

That’s why a fraud security strategy is so important. According to a recent blog by Equinox Information Systems: “As regulatory, financial and market forces shift, new opportunities are created. No industry demonstrates this point better than telecoms. Throughout the world changing dynamics are leading to unprecedented opportunities for new competitors to enter the market and for existing carriers to expand their product offerings. With each new opportunity, come new risks. These can be mitigated, however if carriers take care to address telecom fraud management issues within their corporate strategy.”

TEAMING UP OR “GETTING CONNECTED” WITH THE RIGHT PARTNER

At the heart of any fraud prevention strategy is a strong relationship with companies offering time-tested solutions that protect interests of both buyers and sellers. A partnership with a third-party global funds disbursement company, such as EMS Financial Services, is critical to safeguarding parties involved with necessary protection. These companies offer clearinghouses and disbursement services specifically designed to secure financial transactions between multiple telecom parties.

Companies such as EMS Financial Services act as a third-party intermediary – not only securing transactions, but offering complete financial security, transaction visibility and protection of confidential network relationships. An optimal vendor is one that allows users to easily setup, track and manage all of their telecom trading transactions in real-time from anywhere and at anytime via an online portal.
Leveraging such a vendor, each transaction between the customer, provider and/or reseller is setup as an individual account, where all commercial details are clearly defined between each party and disbursement of funds are executed in accordance to the terms of the contract and fulfillment of the required conditions. Additionally, this secure infrastructure provides comprehensive confidentiality and security to all parties involved. Multi-party contracts can be entered without risking circumvention of current or future contracts.

Of equal importance is the ability to conduct collections and resolve disputes. Many disputes are often caused by the lack of effective traffic monitoring. Usually, technical deficiencies are to blame for discrepancies in usage and billing. To avoid these inefficiencies, it’s important for traders to diligently monitor their traffic. More often than not, accurate monitoring can resolve issues even before an invoice is cut.

Companies such as EMS offer advanced solutions that deliver comprehensive billing, routing and traffic management. These solutions manage all facets of the wholesale telco environment, including automated mixed-cycle billing, rate management, route verification and advanced traffic analysis through hundreds of specialized reports and functions. Offering real-time performance and powerful analytics with regular and accurate reporting, solutions like EMS TrafficNet can handle more than 500 million calls each day and ensure that costs are calculated accurately. Real-time graphing and spatial analysis give instant access to call information and identifies trends to ensure margins and business operations are fully optimized. Additionally, EMS enables clients to upload all of their CDRs for instant processing.

While up to 98% of disputes are often resolved between buyer and supplier by talking to each other and resolving a disagreement over an invoice, sometimes, only a third-party can fully resolve disputes. Companies like EMS are neutral parties that follow International Arbitration Rules – including negotiation, mediation and arbitration. Every customer is bound by these terms of contract. As part of the resolution process, EMS explores all e-mails, CDRs and every communication between the two parties. The company then makes a judgment to resolve dispute.

**CLOSING THE BOOKS**

The outlook for the wholesale marketplace is bright – expected to reach more than $2 trillion in revenue next year. What was once considered a “necessary evil” is now becoming a shrewd business decision to effectively compete in the global market. But this market growth – combined with the low cost of entry – is creating significant challenges for both buyers and suppliers: The threat of fraud. To stay protected and remain successful, companies must fully integrate a security strategy into their business plans. This includes forming strategic relationships with the right vendor that can not only secure and manage global funds disbursement, but also provide core tools to effectively manage traffic, billing and routing to help avoid disputes between parties.

There’s a tremendous opportunity in the wholesale VoIP Trading. But buyers beware. Lack of planning can cost you your business – and a whole lot more.
About EMS Financial Services

As a leading global funds disbursement company, and the financial firm the telecom industry trusts, EMS Financial Services LLC was founded in 1999 and secures financial transactions between multiple telecom parties. With 1,000 active members, constituting one-third of the wholesale VoIP market, the company offers complete financial security and transaction visibility while protecting confidential network relationships. EMS delivers proven solutions that help global organizations to reduce costs and mitigate risks associated with VoIP trading.

Founded by pioneers in the Telecom industry, EMS is a global leader in secure telecom trading, escrow, and support services offering next-generation traffic management tools. Set up as an independent third-party entity providing services to meet the escrow and project management needs within the international telecommunications market, EMS provides security for both buyer and seller by holding and managing the funds and funding process ensuring that all parties to the project receive the services contracted. EMS’ robust, highly secure portal offers complete transactional visibility while protecting network relationships and funds. Acting as a private vault, the company provides back office functionality, a layer of confidentiality, and safeguards funds by utilizing the services of an FDIC-insured banking partner.

EMS services include:

❖ **Bridge and Credit Financing**
EMS offers its customers direct financing solutions to bridge the gap between supplier and client payment terms, designed to support customers in expanding and growing their businesses through increased corporate liquidity and financial capability.

❖ **TrafficNet Billing and CDR Reconcile**
EMS TrafficNet provides a comprehensive view of your entire network through multiple specialized reports and functions, backed by the unmatched reliability and performance of Oracle 11G. EMS TrafficNet will allow clients to upload all of their CDRs for instant processing, and manage their traffic through hundreds of reports and advanced features.

❖ **EMS ESCROW**
EMS members can easily setup, track and manage all of their telecom trading transactions in real-time from anywhere and anytime, using either our Online Portal or with the support of a private EMS Account Manager.

For further information on EMS visit www.emsfinancialservices.com or contact 877-367-9935.