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ITU-T

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Supplement 3

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SERIES D: GENERAL TARIFF PRINCIPLES

General tariff principles – Service and privilege telecommunications

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Time-scale for settlement of accounts for international telecommunication services

Prepayment guidelines

Recommendation ITU-T D.195 – Supplement 3

ITU-T

International Telecommunication Union

ITU-T D-SERIES RECOMMENDATIONS

GENERAL TARIFF PRINCIPLES

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Recommendation ITU-T D.195

Time-scale for settlement of accounts for international telecommunication services

Supplement 3

Prepayment guidelines

Summary

Supplement 3 to Recommendation ITU-T D.195 is intended to assist interested telecommunication operators in developing prepayment guidelines. Since an operator's decision to establish prepayment mechanisms is an internal commercial matter, the guidelines in the present supplement are voluntary and meant to be illustrative in nature. Their objective is to help operators formulate new (or update existing) prepayment guidelines according to their needs and to promote efficiency in account management.

History

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FOREWORD

The International Telecommunication Union (ITU) is the United Nations specialized agency in the field of telecommunications, information and communication technologies (ICTs). The ITU Telecommunication Standardization Sector (ITU-T) is a permanent organ of ITU. ITU-T is responsible for studying technical, operating and tariff questions and issuing Recommendations on them with a view to standardizing telecommunications on a worldwide basis.

The World Telecommunication Standardization Assembly (WTSA), which meets every four years, establishes the topics for study by the ITU-T study groups which, in turn, produce Recommendations on these topics.

The approval of ITU-T Recommendations is covered by the procedure laid down in WTSA Resolution 1.

In some areas of information technology which fall within ITU-T's purview, the necessary standards are prepared on a collaborative basis with ISO and IEC.

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1 Introduction

1.1 Objective and scope

The objective of this supplement is to assist interested telecommunication operators in developing prepayment guidelines. These guidelines are voluntary and illustrative. An operator's decision to establish prepayment mechanisms is an internal business matter, and the commercial terms between operators are mutually agreed.

1.2 Benefits of standardizing prepayment guidelines

The guidelines are envisioned to bring the following benefits to telecommunication operators:

- Help in formulating a set of guidelines (if none is yet in place) according to their needs, or in reviewing or enhancing their existing policy according to current prepayment policies;
- Ensuring efficiency in managing accounts.

1.3 What is a prepayment option?

Prepayment is an option to do business with a set of operators where the default risk is high and there is a huge opportunity for potential business. This option covers the activities undertaken by a seller in seeking prepayment for services to be provided to a customer, inclusive of restricting, suspending or disconnecting access to the service if the prepayment is exhausted and not replenished in time.

1.4 Key factors driving prepayment

The key factors driving prepayment are, but not limited to, the following:

- Directly tapping the source of traffic, like calling-card operators and/or traffic aggregators
- Risk appetite of the business owners
- Bargaining power of buyer and seller
- Tools and resources to handle prepayment customers
- Mutual support and cooperation between sales and settlements team
- Market intelligence.

1.5 Key objectives of prepayment

The key objectives of the prepayment option are, but not limited to, the following:

- Tapping the source of traffic and eliminating the middlemen
- Eliminating risk of default by small operators with potential business
- Maximizing sales and profits
- Trade-off in accounts receivable

- Reducing overall financial exposure in business
- Minimizing bad debt losses.

1.6 Prepayment principles

Sound prepayment principles revolve around the following:

- Strong presales and supporting agreements
  - All available sources of credit information must be tapped and utilized to obtain a proper estimation of the credit risk.
  - Agreements should state clearly the agreed process of controlling utilization, such as threshold limits, escalations, etc.
- Estimation
  - All variables related to estimating prepayment amounts should be worked out beforehand.
  - Variables include (but are not limited to):
    - engineered capacity
    - settlement rate
    - peak daily offered load of generated traffic
    - offered load of received traffic
    - lead time to obtain the payment credits
    - weekends, public and bank holidays
    - number of access lines
    - capacity per access line, e.g., 2 Mbit/s for E1 systems
    - anticipated changes to engineered capacity (for the purpose of accurate prepayment estimation, possible future modification of the engineered capacity should be taken into consideration).
- Enforcement
  - Providing customers with timely traffic and prepayment utilization reports as agreed
  - Respecting the agreed threshold and escalations levels
  - Accurate calculations, account updating and daily monitoring
  - Trending and mapping abnormal behaviours
  - Communication timing and full control of communication channels.
- Cooperation between sales and settlements team
  - Speedy and free-flowing communication between the teams
  - Sensing customer behaviour during follow-ups
  - Ready to take quick decisions in full coordination
  - Mutual understanding on response timings.

1.7 Core activities and key responsibilities

- Mapping prepayment terms in agreement with the customer
- Daily exposure monitoring
- Follow-up for further top-ups
- Periodical traffic declarations
- Timely and real time account updating

- Constant touch with customer on prepayment logistics
- Speedy resolution of billing disputes
- Market intelligence
- Management reporting (top management and internal customers within sales, billing and settlements, accounting, operations, etc.)
- Monitoring high value destinations.

1.8 Measurable goals

- Facility utilization by prepayment operators
- Incremental revenue
- Bad debt write-offs
- Number of days running without prepayment
- Accuracy in calculating daily usage and monitoring
- Market intelligence
- Days sales outstanding (DSO) levels.

2 Prepayment guidelines

2.1 A well-defined credit policy

A credit policy is a set of processes and procedures encompassing all the credit functions and activities of a business organization.

2.2 Policy on credit extension

The amount of risk a carrier or seller is ready to take depends on its market position. The market position should be the basis of the bargaining position.

2.3 Various prepayment thresholds

Getting the prepayment thresholds right is the key to the success of the prepayment option. Depending on the risk capacity, the seller or service provider needs to clearly define the following variables and their respective threshold:

- **Engineered capacity activation**: should be appropriate for the anticipated business; it is advised to avoid over-activation and under-utilization.
- **Floor prepayment**: should be defined on the basis of peak utilization per day/per E1. It should represent the danger level for monitoring and blocking if the customer reaches this level of prepayment.
- **Prepayment utilization**: should have various threshold levels and clearly stated actions for when threshold levels are reached: for example, notifications at 70%, escalation at 80%, and blocking at 95%.
- **Lead time in payment credit**: should be properly tested and defined to adapt to any payment-in-transit.
- **Possibility of return traffic**: the net utilization per day should be understood.
- **Periodic declarations**: should be properly agreed upon at the time of signing an agreement and adhered to for provisional declarations and actual billing periods.
- **Customer response time**: gives the debtor administration a space to table any concerns from its side concerning such issues as short-time cash flow issues, unaddressed pending disputes, etc.

It is always advisable that the various prepayment thresholds be clearly defined within the agreement so as to avoid any confusion at a later stage, stating the right to block with or without notice if utilization crosses 100% at any given point in time.

2.4 Prepayment options

Prepayment can be exercised with various options, depending on the buyer's risk appetite, bargaining power, payment capacity and financial health. Options include the following:

- Prepayment model: prepayment stock is applied directly against invoices raised directly and topped up as per thresholds and agreement.
- Cash deposit: the customer pays a cash deposit, which is never applied to invoices raised. Payment is made by the buyer as a normal post-payment case within the payment period. Cash deposit is normally the function of the payment period and average net utilization per day.
- ESCROW accounts: US and European operators also work with ESCROW accounts as an option for dealing with prepayment operators.

There are some other non-cash and less liquid options to work out on securitization, for example:

- Bank Guarantee: Instead of a cash deposit, a bank guarantee is furnished by the buyer from a banker acceptable to the service provider.
- Letter of Credit: It works in almost the same fashion as the bank guarantee.
- Combination: Depending on its financial situation, the service provider may dispose of different combinations of prepayment options and credit limits.

It is always advisable that the agreed options be defined within the agreement to avoid any confusion at a later stage, with examples of calculations of the amount for prepayment and the relationship with modifications to the engineered capacity.

A service provider may also work more conservatively, choosing the highest utilization as the basis for calculation of prepayment amounts.

2.5 Background workings for daily monitoring

The prepayment option requires continuous tracking, which is based on various background calculations and controls.

Net usage by the buyer is defined as follows:

Billed and booked net position/usage + **unbilled and unbooked net position/usage** = **Net usage**

Net usage is compared with available prepayments in terms of:

- % utilization
- multiplication factors.

In order to dispose of the most accurate and complete information to monitor prepayment-based operators, some factors to consider include:

- Accurate AR balances
- Accurate application requests for payments and credit notes
- Online payment entries and adjustments
- Timely rate uploads in billing systems
- Traffic extrapolation in the event of non-availability of traffic reports
- Latest communication with customer
- Handy access to online bank account

- Handy access to list of national public holidays for various countries
- Timely billing and settlements with customer
- Timely information on tentative net usage
- Timely resolution of any pending disputes
- Expected day and date of reaching different % thresholds
- Expected usage over the next seven days, etc.

NOTE – If a calculation is not supported by a software solution, particular attention should be given to the handling of data.

2.6 Effective communication system

In the prepayment option, effective monitoring requires that a very effective communication system be in place. Such a system may be supported by different available tools and logistics, including:

- E-mail and SMS alerts from automated billing system tracking net usage
- Easy access to an up-to-date list of single points of contact (SPOCs) for both parties
- Almost real-time access to communication between two parties
- Clear visibility of escalation matrix and logistics
- Clear visibility of blocking and unblocking logistics (including partial or full restriction on traffic exchange)
- Mobile devices that enable personnel to access corporate e-mail accounts or make phone calls when away from the office.

2.7 Internal decision making

The internal decision-making system should support faster decisions. Elements include:

- Sharing of information and report dissemination
- Guidelines for reporting to upper management (status and monitoring reports and other reporting requirements, etc.)
- Policies on sharing of credit information with other business units within the company (via reports or through linkage meetings)
- An approval mechanism for special cases
- Clearly-defined authorities to override policy decisions.

2.8 Continuous review of prepayment customers

- Customer usage behaviour
- Customer responsiveness
- Proactive payments
- Keep-in-touch habits
- Value addition in revenues
- Market intelligence
- Improvement in financial health.

The outcome of the reviews may include all or some of the following:

– Customer receives an upgrade of post-payment terms if adding good value, and business is restricted by an unsecured credit limit.

– Customer may continue with the same terms.

– Customer may reconsider whether or not to continue the business relationship. There may be additional resource constraints on the business for doing so.

2.9 Contents of the master agreement

- Statement of deposits and prepaid amounts
- Assurance of timely settlement
- Criteria for revising payment terms
- Role a parent company has to play in mitigating risk
- Billing cycles
- Statement of period within which disputes can be raised, validated, reviewed and resolved
- Statement of dispute resolution time-frames and escalation procedures
- Statement of penalties for late payments
- Traffic restriction clauses and logistics in case of non-payments
- Statement that in the event of disputed amounts, non-disputed amounts are payable and should not be held back until the question of disputed amounts is resolved
- Acceleration clause for non-payment upon due date of any instalment, as agreed in the payment plan
- Requirement for submission of annual financial statements (balance sheet, income statement, cash flow statement, etc.) and/or annual reports for a routine credit file updating
- Payment of toll and fixed charges should be treated separately
- Requirement for payment to be made via wire or bank transfer.

2.10 Advantages of prepayment option

- Eliminates collection risk
- Benefits cash flow
- Enables catering to small customers
- Enables tapping the traffic source
- Enhances revenue.

2.11 Disadvantages of prepayment option

- Strain on resources
- Business relationship may not be long-term
- Increased manual work
- The strain on resources may outweigh enhanced revenues.

2.12 Best practices for accounts receivable (AR), credit and collections management

- Eliminate barriers to payment
- Enhance automation of the remittance processing function
- Implement a formal dispute management process
- Address distressed and delinquent accounts with strategic proficiency
- Mobilize collections staff through specialization, performance goals and incentives.

2.12.1 Best practices in credit risk management (specifics)

- Set up a procedure for the regular monitoring of customer profiles
- Classify or segment existing and potential customers according to risk in order to customize credit and collection strategies
- Segment AR portfolio according to risk (high, medium or low) in order to identify priority receivables and modify collection tactics for each customer
- Obtain up-to-date customer data from a reputable credit information or rating agency
- Periodically review the terms of your credit and collection policies
- Always require that a customer fill out a credit application or customer information form; if the risk is unacceptable, deny credit
- Always provide the sales department and other internal customers with a monthly report showing the total balance and status of accounts receivable
- Reduce the customer's credit limit or shorten the payment terms when a customer's financial status gives rise to concern, or when a customer has demonstrated its inability to pay you or other trade creditors in a reasonable amount of time
- Clearly stipulate payment terms on invoices
- Drive for continuous improvement in the process of credit risk management
- Require payment via wire transfers.

2.12.2 Best practices in debt collection (specifics)

- Follow the established in-house credit and collection policies
- Classify existing and new customers according to risk and develop a follow-up system for past due accounts for each type and class. A specific timetable should be set in following up on past due balances
- Regularly track payment behaviour trends and schedule collections activity accordingly
- Establish a high level of professionalism among collections staff and encourage peak performance
- Develop an effective reporting tool for identifying low risk or high risk, marginal or problematic accounts
- Improve both debt collection and dispute resolution by reducing the cycle times of every process the credit department controls
- Discourage payment delinquencies by charging late payment penalties and enforcing them
- Establish collection targets. It should be remembered that such targets should not be measured in terms of the number of calls made but in terms of calls completed and payment commitments received
- Encourage collectors to report rather than to conceal collection problems. The sooner the immediate head is aware of a problem, the sooner the problem can be addressed and hopefully resolved
- If a customer asks for a payment moratorium or asks that a protracted payment plan be accepted, the following should be ensured before agreeing to the request:
  - Request and receive financial statements from the customer to help gauge the severity of the customer's financial problems
  - Ask whether the debtor made the request to all its creditors or just to selected creditors
  - Request a list of vendors that have already agreed to the proposal.

- Improve effectiveness in debt collection and in dispute resolution by shortening or eliminating grace periods
- After a broken payment commitment, the collector should insist that the debtor send payment by overnight delivery. This will deliver the serious message that demand for payment will be enforced
- As an inducement to a customer to sign a promissory note covering an extended payment plan, offer to waive the interest or finance charges that would otherwise accrue if the debtor signs the note
- Recognize that while it is unreasonable to expect a customer to pay a disputed balance, it is also unreasonable for customers not to pay the undisputed portion of the past due balance
- Reconcile payment problems as they occur. Do not allow them to pile up. If the problems are allowed to accumulate, reconciliation becomes even more difficult and time-consuming
- Shorten the open account terms and reduce the credit limit assigned
- Request that customers confirm their payment commitment in writing; this is an effective collection tool
- Be sure to conspicuously document when customers break payment commitments. Knowing which customers have a history of breaking commitments gives collectors an important tool and a vital advantage in negotiations
- Be polite and respectful but firm
- Flag accounts with irregular or erratic payment for more collection calls and more frequent credit file updates
- Flag new accounts for special attention so that they are quickly available for review if an account goes past due
- Respect commitments to customers
- Assign the more experienced personnel to larger or more challenging accounts
- Do not argue with customers
- Do not suggest an action that will not be carried out. If you state your intention to hold orders or to place an account for collection but do not follow through, you will have lost credibility
- If the customer is having a temporary problem, offer to work out a payment plan
- When appropriate, engage a mediator
- Take legal action only as a last resort.

2.13 Other considerations

- Make provision for bad debt
- Have an escalation process in place. Raise alerts as soon as the issue is defined and act immediately
- Leverage against other types of traffic.

3 A quick-step guide on prepayment

- A sale is not real until it is paid for
- Cultivate only potential business customers with enhanced revenues
- Make payment terms very clear in the agreement
- Make sure that the basics are right
- Open new accounts competently

- Invoice fast
- Monitor at least daily
- Maintain visibility on holiday calendars
- Maintain access to customer SPOC and escalation matrix
- Use proper and faster communication tools.

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