Bharti Airtel Limited response to Consultation Paper on Mobile Value Added Services

4.1 Whether the current provisions under various licenses (UASL, CMTS, Basic and ISP) are adequate to grow the MVAS market to the desired level? If not, what are the additional provisions that need to be addressed under the current licensing framework?

Bharti Airtel Response:

The existing definition of Value Added Services given in the UASL is sufficiently broad and adequate to cover the MVAS provided/ to be provided by 2G, 3G, IP multi-media system (IMS) and Next Generation Network (NGN). Also, the definition is flexible and allows the access service provider to innovate and launch new types of Value Added Services.

TRAI in paragraph 2.4 of Chapter – II titled 'Regulatory Framework for MVAS', of the present consultation paper has itself reiterated the fact that the scope of UAS License adequately incorporates the provisioning of MVAS by the licensees. The paragraph of the consultation paper is as follows:

"As per the Department of Telecommunications letters No.842- 336/2004-VAS/19 dated 17th September, 2004 (Annexure-I) and No.842-336/2004-VAS/22 dated 21st October, 2004 (Annexure-II) directed all Cellular Mobile Telephone Service Providers (including those migrated to UASL) should intimate the licensor about provision of any new service/facility along with details of provision made for lawful interception/monitoring of these facilities at least 15 days in advance before the introduction of these services/facilities. From this it is clear that the Cellular Mobile Telephone Service Providers are generally allowed to provide mobile value added services without any further licensing. However, prior intimation is required to be given to Licensor and also to TRAI."

As per our understanding, the existing definition of Value Added Services, as given in the UAS Licence Agreement is adequate to meet the existing as well as future growth requirements of MVAS and hence, the same may be maintained.

4.2 Is there a need to bring the Value Added Service Providers (VASPs) providing Mobile Value Added Services under the licensing regime?

And
4.3 If yes, do you agree that it should be in the category of the Unified Licence as recommended by this Authority in May 2010? In case of disagreement, please indicate the type of licence alongwith the rationale thereof.

Bharti Airtel Response:

It is highlighted that the present arrangement wherein the VAS provider provides services to telecom service operators, who in turn provide these services to their customers in addition to their telecom services, has worked well and resulted in the development and growth of the VAS market. Moreover, in a hyper competitive environment with 11-12 operators in each service area, every service provider is under pressure to deliver the best of services and offer new services/innovations to the customers. This is also evident from the fact that the market size of MVAS has grown by more than 400% in four years from 2006 to 2010 (Rs. 28 billion in 2006 end to Rs. 122.2 billion in 2010 end). Thus the present arrangement between TSPs and content providers has worked well.

We are also of the opinion that issues, if any, relating to VASP can be addressed by means other than licensing, as most of the value added services are provided on Voice, SMS, GPRS, WAP under the existing access provider licenses, thus there is no merit in having a separate license for provision of Value added Services.

The telecom licenses are granted under Indian Telegraph Act 1885, to provide, establish, maintain and work telegraph. Since, Value Added Service Providers neither provide nor establish/maintain work telegraph, a license under Indian Telegraph Act may not be a legally tenable option.

Also the National Telecom Policy, 1999 clearly defines the services for which licenses can be issued and there is no category of license envisaged in the National Telecom Policy, 1999 for mobile VAS companies.

The Authority vides Recommendations titled 'Recommendations on Growth of Value Added Services and Regulatory issues' in 2009 has also not favored the licensing of VAS companies. The relevant excerpt of the aforesaid Recommendations is as follows:

"Considering the above and since the content providers/ value added service providers were generally not in favor of licensing of value added service provider and keeping in view the level playing field issue raised by the service providers, the Authority is not in favor of creating a separate category of licence for value added services. The Authority is also not in favor of registration of Value Added Service Provider under the "Other Service Provider" category. The Authority, accordingly recommends that value added service may continue to be provided through mutual agreement between the telecom service provider and value added service provider/content provider."

Since, there has been no material change in the market conditions between 2009 and the present day, we are strongly of the view that there is no need to bring the VASPs under the licensing regime.

4.4 How do we ensure that the VAS providers get the due revenue share from the Telecom Service providers, so that the development of VAS takes place to its full potential? Is there a need to regulate revenue sharing model or should it be left to commercial negotiations between VAS providers and telecom service providers?

<u>**Bharti Airtel Response:**</u>

Firstly, contrary to the international telecom market, the Indian telecom market is characterized with the presence of 11-12 operators in each service area. Every telecom service provider is making sincere efforts to serve the market through innovative tariffs and other products / services. With a view to make their services distinctive, the telecom service provider's requirement to have quality VAS is very high. This, coupled with the monopolistic nature of the VAS content, gives the Value Added Service providers adequate negotiating power.

Secondly, value of the content depends on its copyrights; innovativeness, its proprietary nature and its market pull capability. The market of the content is regional and geography driven, and also depends on customers' taste and affordability. All these factors determine the revenue sharing arrangement between Telecom Service Providers (TSPs) and VASPs, which is a dynamic process or market driven. Thus, the relationship between VASPs and TSPs is a purely commercial arrangement for an operational activity and not an interconnection agreement. Therefore, we feel that TRAI should not involve itself into such activity.

Also, there is no precedent of revenue share regulation of VAS services by the regulator in any other global market.

We are, therefore, strongly of the view that TRAI should not regulate any revenue sharing arrangements and this should be left to market forces and commercial negotiations among the service providers and VAS content providers.

4.5 At the same time, how do we also ensure that the revenue share is a function of the innovation and utility involved in the concerned VAS? Should the revenue share be different for different categories of MVAS?

<u>Bharti Airtel Response:</u>

It is difficult to fix a uniform percentage of revenue share for various types of VAS, since each VAS differs in capability, capacity and market potential. Any attempt to regulate revenue share arrangements would lead to micro regulation as it would mean that each new service would have to be examined separately. This would not only interfere with the free play of market forces but would also result in delays which would kill the USP of the service. Therefore, if we attempt to regulate the commercial agreements, it might hamper the overall growth of the telecom industry. The mutual negotiations between telecom service providers and the VAS providers are based on the market potential of the VAS and the consideration to support innovations for market sustainability.

An apt example for this would be the reality shows run by the TV channels, which generate a lot of pull as a result of which much higher revenue share is paid to the media houses. Similarly there are examples of other VASPs also like Indiatimes who manage the SMS short code 58888, who are paid higher revenue shares as compared to the others due to the higher customer pull they generate by providing content which is more attractive and provides more value to the consumers.

Further, it is in the interest of telecom service provider that the VAS has a sustainable growth. Thus to encourage innovation, telecom service providers promote numerous VAS amongst their customers however, not all services meet the expectations of the customers and result into the desired profitability.

We would like to submit that Telecom Service Providers are providers of VAS and not resellers of VAS. Telecom service providers promote market, co-create and are involved in VAS innovations. If TRAI does the micro management and regulates the revenue share arrangements between Telecom Service providers and VASPs, then Telecom Service Providers might not contribute much towards VAS innovations.

4.6 Do you agree that the differences come up between the MIS figures of the operator and VAS provider? If yes, what measures are required to ensure reconciliation in MIS in a transparent manner?

<u>Bharti Airtel Response:</u>

We would like to mention that Bharti Airtel has in place a strong internal mechanism to ensure accuracy and reconciliation of MIS figures. We have transparent billing and MIS exchange process which is a day-to-day operational activity. We do not think that there are any major differences

between the MIS figures reflected in our records and those reflected in the records of the VAS provider. Nevertheless, MIS reconciliation is a normal business activity that Bharti Airtel undertakes as a matter of practice with its vendors /stakeholders, to ensure accurate reporting of MIS figures.

Moreover, adequate precautions are built into the agreements between operators and VASPs. And there is always an in built mechanism for reconciliation of usage details between two entities. Systems, methodologies and technologies for measurement could vary across platforms and hence such differences are routine.

Further, we would like to highlight that the Authority was also in agreement with our submissions and has stated the following in its Recommendations on VAS titled 'Recommendations on Growth of Value Added Services and Regulatory issues ' in February 2009:

"Telecom access service providers need to maintain transparency in billing for the purposes of settlement of revenue share with the value added service providers/ content providers i.e. sharing of usage details, download etc., including user base, in their management information system (MIS) in respect of value added services".

4.7 (i) Does existing framework for allocation of short codes for accessing MVAS require any modifications? Should short codes be allocated to telecom service providers and VAS providers independently? Will it be desirable to allot the short code centrally which is uniform across operators? If yes, suggest the changes required along with justification.
(ii) Should there be a fee to be paid for allotment of short code?

Bharti Airtel Response:

We believe that the existing regime wherein a short code is allocated by telecom operators within the framework of National Numbering Plan, as authorized by DoT, is working well and should be continued with.

In the present arrangement, short codes are allotted by telecom service providers depending upon their business arrangements with the Mobile value added service providers, and subsequently provisions are made in their network.

Central Allocation of Short Codes:
We believe that it is not desirable to allocate short codes centrally for uniform access across all operators as it will require DoT to identify all available MVAS, which may not be feasible because these services are constantly evolving on the basis customer preferences, habits and social needs.

Further, the telecom operators provide MVAS for commercial considerations only. Thus, central allocation of short codes will not spur growth of MVAS.

Also, short codes should be internal to the telecom service providers only and central allocation has no meaning.

By centrally allocating the short codes, DoT would exhaust the valuable resource on the existing MVAS, which over a period of time may lose their relevance to the operators, and these codes would not be available for new and futuristic MVAS.

Giving the telecom operators the freedom to allocate an easy to remember/fancy short code number, an innovative MVAS can be popularized and recalled quickly. It may also popularize social applications of MVAS. This may not be possible by central allocation and would not fit into the market strategy of the telecom service providers. The central allocation of short code would seriously put telecom service provider in a disadvantageous position in this regard.

Depending upon the commercial considerations, the telecom operators are also collaborating on short codes for services to be offered by them. This arrangement been working successfully,so does not require any central allocation.

Fee for allotment of Short Codes:
We submit that there should not be any fee chargeable for allotment of short codes for MVAS providers. Given the size of the telecom network in the country and number of telecom operators having a sizable market share, a number of entrepreneurs are constantly approaching the operators for provision of MVAS. Therefore, in order to optimally utilize the short codes available and to eliminate non serious players, there could be initial agreement for some monetary consideration. Also the commercial betweens between TSPS and VAS players should be left to the market forces.

4.8 Is there a need to provide open access to subscribers for MVAS of their choice? If yes, then do you agree with the approach provided in para 2.46 to provide open access? What other measures need to be taken to promote open access for MVAS? Suggest a suitable framework with justifications?

Bharti Airtel Response:

It is a good idea to provide open access to subscribers for MVAS of their choice, however, the same should be implemented as per the mutual agreement between the operators and without any regulation. The open access will add the following complexities:

a. The open access would require the revenue sharing agreements to be signed between originating and terminating operator for each MVAS provided through this mechanism. These agreements would include the cost of connectivity, cost of collocation etc. depending upon the type of bearer. Also, these agreement shall include billing, fault escalation, pricing and revenue sharing. This will be even more complex situation wherein revenue share agreement will have to be signed between the operators for each Value added services (VAS)

b. Network architecture and routing will become complex as short codes may clash with the operators. Even assuming that there is no clash in the short code, the routing of such calls in case of ICR / MNP shall be very complex.

c. All these complexities may adversely affect the Quality of Service .

d. The billing and charging of prepaid and postpaid customers will become very complex.

e. It is technically and commercially easier for VASPs to connect directly to Telecom Service Providers rather than providing VAS through an open access model, which will involve a number of technical and interconnect issues between Telecom service providers.

f. Moreover , in the open access approach , there will not be the free play of services as the content providers may find themselves blocked once they enter into contract with an operator. This would negatively impact the creative content creators because they would not have the flexibility of negotiating with multiple operators directly and hence this would limit their market size.

4.9 What measures are required to boost the growth of utility MVAS like m-commerce, m-health, m-education & m-governance etc. in India? Should the tariff for utility services provided by government agencies through MVAS platform be regulated?

<u>**Bharti Airtel Response:**</u>

We believe that the key to drive growth of utility MVAS like m-commerce, m-health, m-education & m-governance etc. in India is:
a) Low cost of access devices
b) Local language:
  * Content in vernacular language
  * Mobile equipment interoperability to support local language
c) Ease of use of the service
d) Feature driven handsets will also influence the uptake of these services (ex. A specific button for m-banking etc.)
e) Awareness among subscribers especially massive campaigns required in rural markets

<u>**M Commerce**</u>

We strongly recommend using mobile commerce (or M-Commerce) to increase the perceived utility of the mobile based public services. M-Commerce is using cellular technology for delivering banking and finance related public services to all users. This has the following advantages:

a) <u>Accessible to All:</u> The majority of Indian populations reside in areas that are not well-connected to banks and other financial institutions. This makes mobile phones the most suitable means of providing the common man with access to banking and financial services.

b) <u>Cashless Transactions</u>: As on date, majority of the payments are made by cash. Introduction of M-Commerce shall herald a wave of cashless transactions in the country.

c) <u>Security &Convenience</u>: Most people residing in rural areas do not have access to local banks nor do they have the means to avail storage facility in financial institutions. In such cases, they are forced to park all their funds with another individual for safe-keeping at a cost. With M-Commerce, the customer shall be able to store his cash in the prepaid mobile wallet system and use it securely.
   Additionally, with the advent of M-Commerce, the customers will no longer have to stand in long queues or need special effort to make regular payments. This branchless banking payment system will provide the customers the convenience to make payment, anytime and anywhere, using virtual cash through the phone.

d) <u>Improving Payment Efficiency</u>: M-Commerce will increase the payment efficiency as all payments are made through a secure gateway, electronically, which will reduce the use of paper,

significantly reduce cash-handling costs and efforts, and also provide electronic receipts for every payment made.

Factors Impeding the Growth of M-Commerce

The Reserve Bank of India (RBI) has recognized the importance of introducing M-Commerce, and as a first step, on 27th April 2009, has adopted the Policy Guidelines for Issuance and Operation of Pre-paid Payment Instruments in India (Policy Guidelines). In September, 2010, the central bank also allowed corporates with rural presence to work with banks as business correspondents to aid financial inclusion. These policy initiatives have and will provide significant impetus to enable the growth of mobile commerce in India.

However, to accelerate financial inclusion, there is a need to look beyond the current bank centered models which have thus far not been able to scale & prove viability. Allowing low value remittances by non-bank players will set the stage for change.

India is a cash economy with large migrant population. Remittance is a primary need for the customer. Lack of financial infrastructure has resulted in customer paying a premium for such a basic service. If 15 million subscribers added by the telecom industry per month, have a mobile wallet permitting remittance, within 3-5 years, a majority of our population will be connected to a payment network. This will fulfill their basic need viz. receiving funds from government or family members. Bringing more players to address that need on a low cost model will bring down the costs of P2P.

"Delivering financial service products on the transactional 'rails' laid by a mobile money service" will not only bring a significant proportion of cash into the ambits of banking, create a pre-banked segment but also provide cross-sell opportunities for banks w.r.t deposits, insurance, loans etc. Since interest can only be paid by banks, people with balances will always have an incentive to open a bank account. By extending credit to a subset of these users, banks will build a huge loan book. The banks will make far more money through savings and loans provided to a sub-section of the remitting population. Therefore, allowing low value remittances will pave the way forward for

This stand taken by the RBI will be in alignment with ensuring a regulatory framework which is in proportion to the risks undertaken. The success of telco led models has been demonstrated by various international mobile money deployments listed hereunder:

a) <u>M-Pesa in Kenya, Tanzania, South Africa and Afghanistan</u>: M-Pesa is a mobile-phone based money transfer service for Vodafone. Using the M-Pesa services, customers can use their mobile phones to transfer funds to other M- Pesa customers, to non-registered users and to users on other mobile networks. Customers can avail the M-Pesa services to pay bills, purchase mobile airtime credit, deposit money and receive withdrawals from their bank account, receive salary, government pensions, withdraw money from ATMs, disburse loans, and buy goods from merchants.

b) <u>Amaana in Pakistan</u>: Amaana was launched in Pakistan and provides for free open payment system. Customers are only charged on money withdrawals from the system.

c) <u>WING Cambodia in Cambodia</u>: WING Cambodia, launched in January 2009, is one of the most recent mobile payment services in the world and is the first USSD mobile money service launched in Asia Pacific. This service can be used for deposit and withdrawal of cash, airtime top-up,

person to person payments, and pass code enabled transfer of small amounts of money to non-WING customers.

d) <u>Smart Communications in Philippines</u>: Smart Communications launched in Philippines, enables the customers to transfer money from bank accounts by way of a one-way, person-to-person remittance. This is the world's first electronic cash card linked to a mobile phone.

We therefore strongly recommend that TRAI work closely with the RBI to permit **"low value remittances" for non-banking entities**, considering the appreciation and success that this application has garnered internationally.

M-Commerce Instrumental in Achieving E-Governance

For the reasons outlined above, we firmly believe that M-Commerce shall serve as favorable application and shall go a long way in making public services accessible to people residing in every nook and corner of the country. M-Commerce aims to service all the customer segments, however it is anticipated that the customers from the lower strata of the society stand to benefit the most, since they are the most excluded from formal banking channels and financial systems. Moreover, with increasing demand for M-Commerce applications and the ensuing revenues earned, it shall also prove to be beneficial for the Government in its pursuit for enablement of e-Governence via mobile technology. Linking payment instrument to a mobile phone will also provide government to route various government payments (social security, pension etc.) to the rightful owner without leakages and delays in the system.

M Governance

A matured m-governance environment would require transaction-oriented services to be provided to the residents. However, introduction of transactional services requires a step by step transformation from simple information based services over SMS to application based services using WAP/GPRS/3G etc. The main technologies for delivering services through mobile devices are as follows:

- SMS based services
- USSD based services
- Bluetooth based services
- WiFi/WiMax/WLan/GPRS/3G – Browser Based Access and Direct Upload
- LAN based Connectivity - Store and Upload

To reach a mature level of implementation and processes, m-Governance must be included in the ICT strategy of all Government departments and agencies. Appropriate business models for implementation must be formulated for mainstreaming m-governance in all Government departments and agencies for delivering public services through mobile devices.

Also there is a need for a Government led effort for the development of a common service delivery infrastructure, development of standards, data sharing, development of applications, and delivery mechanism for providing public services through mobile devices. This is also relevant due to data security and safety concerns and for accessing data for authentication through the Unique Identification Authority of India (UIDAI) database.

4.9.2 Should the tariff for utility services provided by government agencies through MVAS platform be regulated?

At present, the tariffs for utility services provided by government agencies through MVAS platform are under forbearance and we believe that the same should be allowed to continue. Free market forces should govern all such innovative utility MVAS applications. It is also suggested that the Authority should follow a light touch approach and should retain the tariff for utility services provided by government agencies through mobile value added services under forbearance.

We also recommend that the Government should endeavor to provide utility services at a minimum charge/no charge to the telecom operators. The Indian telecom market being extremely competitive with the presence of 11-12 operators in each service area, each of whom are making best efforts to serve the market through innovative tariffs and services, the tariff chargeable by telecom operators for access to the aforesaid utility services by the customers would automatically be minimal. This will ensure delivery of MVAS utility services to the public at the lowest cost.

4.10 Any other suggestions with reasons thereof for orderly growth of mobile value added services?

Bharti Airtel Response:

No comments.

Summary:

We believe that there should be light touch licensing and regulatory approach for the MVAS segment facilitating free play of market forces. Therefore, the Mobile value added services should not be brought under prescriptive licensing and regulatory provisions. This will enable the rapid development, evolution and growth of mobile Value Added Services and will also be in the best interest of consumers at large.

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