The GSMA welcomes the opportunity to provide input on the '*Consultation paper on the review of regulatory framework for the use of USSD for mobile financial services'* issued by TRAI on 2 August 2016.

The consultation considers the current regime for mandating access to the USSD channel for mobile banking services and the associated tariff ceiling prescribed in 2013 to meet the goals of financial inclusion. In particular, TRAI seeks to gather feedback on the appropriate methods for estimating the cost of USSD access for mobile banking and the appropriate tariff structure, and service parameters for USSD based mobile banking.

The stated policy objective is to create a more competitive market for USSD access to support financial inclusion, and the expansion of USSD based mobile banking to other financial services such as merchant payments. The GSMA is pleased to provide feedback in the spirit of bringing international experience into the discussion, for your consideration.

The GSMA enthusiastically shares the belief that mobile telephony is a powerful tool for delivering on the financial inclusion agenda. *Globally mobile telephony powers more than 270 mobile money services across 93 countries. Mobile money continues to deepen financial inclusion and is available in six out of seven markets where less that 20% of people have an account at a financial institution*.[1] While the government is keen to leverage the power of mobile for the delivery of financial services in India, the regulatory intervention on USSD based financial services (2013) has yet to bear fruit.

Just like technology and service neutrality, commercial model neutrality (i.e. flexibility to choose and deploy commercial models in the market) is fundamental to a market or service that is still developing and trying to find its feet, so that the market is able to identify the best possible sustainable business model in medium to long-run.

A regulatory intervention that (a) mandates access to the USSD channel to a commercial entity (a bank), (b) sets a ceiling price of that channel and (c) mandates that such price is to be charged only in a particular manner (i.e. to the end consumer of the operator only) on one hand has required significant investment from mobile operators, and on the other hand it also forecloses additional viable options which may hold equal or greater promise for the industry's development and consumers.

While we need to recognise that mobile operators have already invested in developing charging systems and processes in accordance with the extant Regulation, we also need to appreciate that the ability to calibrate price, structure (bilateral, retail or mix of these), and channel allows for more optimal outcome and therefore require greater flexibility.

Commercial arrangements include options such as revenue share, bilateral arrangements, charging the customers (which is currently the case), or a mix of these should be allowed to

[1] 2015 Mobile Money State of the Industry Report Available at http://www.gsma.com/mobilefordevelopment/programmes/mobile-money/industry-data-and-insights/sotir

play out evenly in the market. Flexibility to determine the appropriate commercial arrangements is essential to build a competitive market for access to the USSD channel where providers and consumers that see value in the channel can leverage it to expand outreach of financial services while providing TSPs with the revenue to maintain the channel.

Globally, no single commercial model for USSD access dominates, and even where USSD access is mandated, the regulator has often left the commercial arrangements to be reached by the TSP and financial service providers, stepping in only to mediate where a commercial arrangement cannot be reached.

There is a need to reconsider the premise for regulatory involvement in the market for USSD. First, the poor uptake of USSD banking services indicates a need to better understand client demand, bank supply of these services, and the changing technological landscape. *First, there is a lack of demand side market research and evidence* to confirm that low growth of accounts using the USSD channel stems from challenges to the affordability of USSD access. However, we do know that digital uptake is low across the banking sector: *98% of bank account users still transact at a bank counter, despite the number of digital options available*.[2]

Second, as mentioned in the consultation paper, financial service providers have yet to promote the use of the USSD based-services for their customers. *Greater understanding of the supply side drivers from the banks would be useful.* For example, though USSD remains the most common channel[3] for the provision of mobile money[4] globally, apps are now the 2nd most common channel. In India there were 185 million smart phone connections in mid-2015, with an additional half billion connections expected by 2020.[5] In this light, financial service providers may not prioritize USSD as a channel for access as low cost mobile broadband grows and 5G technology ushers out USSD.[6]

Lastly, ex-post regulatory intervention on USSD channel access should be reserved to address proven anti-competitive behaviour. To date operators in India have faced an un-level playing field in the provision of financial services, as they were only permitted to offer a limited functionality payments product under the prepaid payment issuer (PPI) license. As such, there is little commercial rationale in India for operators to block commercial access to USSD, and no competition justification for intervention on USSD.

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[2] Intermedia, Financial Inclusion Insights: India Quick Insights report FII tracker survey (January 2016) Available at http://finclusion.org/uploads/file/reports/2015%20InterMedia%20FII%20INDIA%20QuickSights%20Summary%20Report.pdf

[3] 2015 GSMA Mobile Money State of the Industry Report, Available at: http://www.gsma.com/mobilefordevelopment/programmes/mobile-money/industry-data-and-insights/sotir

[4] A subset of mobile banking

[5] GSMA Intelligence (2015) 'The Mobile Economy, India.' Available at https://www.gsmaintelligence.com/research/?file=4113a57d43a9e93968e7ed00123ba4b2&download

[6] The current specifications for 5G does not include the USSD channel, a challenge that will require a new approach for mobile financial services.

It should be noted that mandated access and pricing to the USSD channel has not proven to be a 'silver bullet' to promote financial inclusion as a policy objective. On the supply side, there is no guarantee that USSD access will be effectively used by traditional providers to tap into unbanked consumer segments.

From GSMA studies of successful mobile money deployments we know that delivery of these services to the unbanked require an unwavering strategic focus and investment to meet the needs of the unbanked and hinges on the development of a physical distribution/agent network to exchange cash into electronic value and vice versa.

In this context, there is a need to reconsider the current market intervention on USSD tariffs for mobile banking to allow commercial flexibility in the market that provides clients with valued service at reasonable terms.

We now provide our response to a select set of questions, with some international examples that we hope, will be useful for a holistic discussion.

Questions for discussion:

Q2: Which of the following methods is appropriate for prescribing the tariff for USSD-based mobile banking? (i) Cost-based tariff for outgoing USSD session for mobile banking or ; (ii) monthly (periodic) subscription fee for the use of USSD for mobile banking services; or (iii) Any other method?

Q3: What methodology should be used for estimating the cost per USSD session for mobile banking service?

Q4: If your response to Q2 is 'Any other Method', please provide full details of the method

Q6: Whether the present pricing model for USSD-based mobile banking in which consumers pay for the use of USSD should continue?

Q:7 In case your response to Q6 is in the negative, what should be alternative pricing models? Please provide justification in support of your response.

Answer: The GSMA believes that the commercial flexibility and competition in the nascent market for mobile banking including USSD as a bearer can deliver better outcomes for consumers.

As noted above, prescribing a tariff for USSD access for the banks remains premature in the Indian market, given the low levels of uptake under the current mandated access and tariff structure. In particular, because of the low levels of traffic on the USSD channel for mobile banking, there is little data to support a cost estimate. Furthermore, there is insufficient data/evidence based analysis to suggest that the price of USSD has acted as barrier to uptake.

Mandated access to the USSD channel need not be accompanied with a tariff ceiling or prescribed commercial model. Since question 1 indicates that TRAI is considering multiple charging methods, we recommend that no particular mechanism should be mandated. Rather, this flexibility should be given to the market players to work-out best possible arrangement for a win-win solutions.

Globally, we see a number of commercial arrangements emerge, largely negotiated between USSD providers (MNOs) and the banks or payments providers seeking access. These arrangements have come into being either entirely through commercial interest, or in some cases where the regulator has mandated or urged USSD access, but allowed for a multiplicity of commercial arrangements. Some arrangements which have been reached include:

- Charge fixed fee per transaction for any access (charged to customer or charged to financial service provider)
- Charge a revenue percentage share based on the fees of the transaction
- Charge a subscription fee to the payments provider based on tiers of usage

International experiences can provide useful insights: In Cambodia, Tanzania and South Africa, USSD channel access has been driven without regulatory intervention and a diversity of effective commercial arrangements have emerged to expand the reach of financial services.

In Cambodia[7], third party WING demonstrates that a commercially negotiated approach to USSD channel access can be very effective. Launched by ANZ Bank in in 2009 (and then acquired by Inter logistics in 2011) WING was the first mobile money business in the country before any regulatory guidelines had been developed.[8]

WING succeeded in obtaining access to the USSD gateway of each of the operators in Cambodia.[9] WING approached each operator offering technical assistance and, where necessary, a contribution to the costs of any system changes or investment required under a commercially-agreed approach.

The MNOs were open to co-operating in the hope of using WING as a useful payments channel for selling airtime. WING has proven to be a success, with US $4.5 billion in overall transaction volume in 2014 and an estimated 1.5 million customers in a country of 15 million inhabitants. Wing had one million over-the-counter customers and about 500,000 registered customers with average transactions (cards and mobile) of $110 in 2014.

In South Africa[10], MNOs provide USSD access to all third parties via the Wireless Applications Service Providers' Association (WASPA). The MNOs require that these third parties become a member of WASPA, which is a self-regulating body for mobile-based value-added service providers. Members of WASPA are entitled to USSD access from the MNOs at a non-discriminatory rate.

There is no centralized technical platform. These third parties include e-money issuers and other service providers. The USSD channel was already used commercially for the provision of a number of services like sale of airtime, ringtones, etc. South Africa is also one of the countries where aggregators and service providers are investing in and selling commercial access to USSD Gateways.

[7] Elements of this case study have been adapted from: http://www.youtheconomicopportunities.org/sites/default/files/uploads/resource/Lessons%20from%20WING%20Cambodia%20.pdf

[8] In 2010, the regulatory framework was overhauled, providing new formal regulations governing e-money issuance and outsourcing of payment services to non-banks. The Third Party Processors Guidelines allowed the outsourcing of bank payments functions to one or more third parties, including agents. In November 2014, Wing was granted a specialized bank license.[8]

[9] Elements of this case study have been adapted from: http://www.youtheconomicopportunities.org/sites/default/files/uploads/resource/Lessons%20from%20WING%20Cambodia%20.pdf

[10] CGAP Working Paper: *'Mobile Payments Infrastructure Access and Its Regulation: USSD.'* May 2014. Available at https://www.cgap.org/sites/default/files/Working-Paper-Mobile-Payments-Infrastructure-Access-and-Its-Regulation-May-2014.pdf

In Tanzania[11]**,** a competitive telecommunications market, MNOs have opened USSD to third parties, providing access to several financial service providers to consumers at no cost and providing a high level of transparency on the terms and conditions. The commercial arrangements were negotiated between the MNOs and the financial service providers, with the regulator involved in the dialogue.[12]

Even in markets (such as Bangladesh and Colombia) where access to the USSD channel has been mandated or highly encouraged a variety of commercial arrangements were allowed to emerge:

In Bangladesh, the fastest growing MFS provider is bKash, is a subsidiary of BRAC bank.[13] Although Bangladesh Bank (the central bank) approved more than 20 licences for banks and their subsidiaries to provide mobile money services, bKash still holds more than 80% of the market. bKash's undeniable success has been amplified by the financial services and communications regulatory environment.

Initially, bKash had an agreement to link its customers with only one of the four MNOs. bKash and other MFS providers requested access to the USSD channels of all the major MNOs, and both Bangladesh Bank and the telecommunications regulator actively encouraged mobile operators to provide access.

With this support, bKash was able to establish revenue-sharing agreements to access a USSD Gateway with all the big MNOs, giving bKash access to 98% of Bangladesh's mobile users. The commercial adopted through this discussion was a revenue share In exchange for USSD access MNOs typically receive 5-20% of fee revenues; however they are not driving the mobile money business.[14]

In addition, MNOs felt that the negotiations for USSD access took place under extreme pressure.[15] The growth of basic mobile payments and saving accounts since 2011 has been strong, reaching a penetration of 22% of adults using mobile money in 2014.

[11] Ibid.
[12] See: http://www.cgap.org/blog/tanzania-africa%E2%80%99s-other-mobile-money-juggernaut and http://www.cgap.org/blog/how-tanzania-established-mobile-money-interoperability
[13] According to the requirements introduced by the Guidelines on Mobile Financial Services in 2011, MFS need to be provided by a bank or a company that is classified as a bank subsidiary by the Central Bank. Within BRAC Group, BRAC Bank owns 51% of bKash.
[14] See http://www.cgap.org/blog/comparing-branchless-banking-bangladesh-and-pakistan. MNOs, however, have been displeased with the regulatory environment for MFS. MNOs want to offer MFS directly to customers rather than merely serving as a channel for bank customers.
[15] Gregory Chen and Stephen Rasmussen: "bKash Bangladesh: A Fast Start for Mobile Financial Services", CGAP Brief, July 2014.

In Colombia, an expanded regulatory intervention[16] was expected on USSD for mobile banking, but has not materialized to date and appears to be an example of where regulatory intervention is not the answer. To date, the telecommunications regulation has only stated that access to this channel should be guaranteed to third parties and the regulator has not set a ceiling price. This may be a reaction to the low demand for the USSD channel: Service providers in Colombia have largely depended on SIM toolkit in the past, and they are now focused on apps. This may also be the case in other environments where technologies are quickly evolving and are data-centric and versatile.

Though across most of these arrangements are negotiated at the bilateral level that does not preclude the financial service provider or the MNO from levying the tariff on the end user. The key is to allow providers flexibility to select the arrangement that will drive uptake, and financial service providers have often chosen to absorb the cost for clients.

Q9: Whether it would be appropriate to allow all variety of mobile payment services apart from the mobile banking services on the existing USSD aggregation platform. Please support your answer with justification.

Answer: The use of the NPCI USSD aggregation platform was conceded to meet the specific goals of USSD access under the conditions of the Mobile Banking Guidelines and the tariff ceiling, which mandated access to all banks. The use cases were selected because of their contribution to the policy goal of basic financial inclusion which was deemed to warrant this unique, non-commercial arrangement.

The addition of any new use cases such as merchant payments amounts to mandated interconnection for these new use cases, which are not justifiable on financial inclusion grounds. The international experience with mandated interconnection has been challenging in countries like Ghana and Jordan to date: The technical and commercial arrangements to operationalize these new payments streams are strictly business decisions as they require resources and careful attention to the level of market development for these services. The creation of a new multilateral scheme required commercial appetite from all relevant parties and a commercial negotiation that should not be mandated by the regulator. It risks undermining innovation and existing commercial initiatives to meet these new use cases.

We remain available to provide clarification on our feedback above.

[16] The 2014 Regulation on prices of bulk SMS sales has been subject to a complicated legal discussion, with the MNOs questioning whether the rules are applicable or not to the "financial inclusion" programs led by the banks. To date, its implementation has been very limited and its impact negligible