RELIANCE

CONSULTATION PAPER ON

ISSUES ARISING OUT OF PROVISIONING AND DELIVERY OF BASIC FINANCIAL SERVICES USING MOBILE PHONES IN THE CONTEXT OF PRICING OF SERVICES BY MOBILE SERVICE PROVIDERS

RCOM RESPONSE TO TRAI

PREFACE

1. Financial exclusion is one to biggest challenge which contributes to the stark socio-economic divide that exists in the country. The financial exclusion mainly restricts rural areas where accessibility is limited and the population density is substantially lower. However, the phenomenon is now also common in urban areas where some segment of the populace remains financially excluded due to constraints such as access timings and income potential.

2. The use of technology is obvious choice to drive the financial inclusion programs as it helps reduce the cost of operations without compromising on service and security. It is becoming increasingly clear that mobile is the only way forward. In India, the mobile market is burgeoning, achieving unprecedented penetration in rural, remote and urban areas. The financial inclusion has not been able to catch pace with mobile penetration but with supporting policies of the government reaching out to the unbanked citizens may now become a reality.

3. RBI has changed regulation and enabled banks to leverage a partner network to service customers. In this model, banks can tie-up with business correspondents in various areas to provide banking services. This regulation provides huge potential to provide banking services through vast telecom retail and infrastructure network. Telecom Service Providers (TSPs) will be working with Banks at multiple levels. They work as Business Correspondents as well as connectivity & communications provider of multiple banks. Many TSPs have already entered into agreements with major banks. The mobile banking market is working well with enough competition at banking and TSP level. When market is trustworthy, we believe, there should be minimal regulatory intervention.

4. Any requirement of prioritization and encryption of messages would entail additional investments. The quality of services should be as per SLAs between the TSPs and Banks and should not be covered under TRAI regulation. The additional investment on settingup of separate network may increase cost of deliver which may be a disincentive for adoption of mobile banking services.

RCOM COMMENTS ON ISSUES FOR CONSULTATION

1. **The customer would approach a Business Correspondent or its agent for opening of a non-frills account. Would there be any provisioning requirements at the service provider's end in any of the methods/options listed under para 2.9?**

a) A customer who has a mobile phone will be able to open a mobile linked no-frills account. For opening the mobile linked no-frills account, a customer can either visit the Business Correspondent (BC) or sub-agent of BC or directly visit the bank branch.

b) TSPs would be playing multiple roles in the mobile banking. Most TSPs would also become BCs. The customers would be given access to the account through mobiles for which provisioning requirement is likely to be at the TSPs end. TSPs would provision SMS, USSD, STK (would require issue of new SIM), or GPRS access based on the access required by the customer. In cases there is additional security requirement, the customers would also required to be provisioned with the right levels of security.

2. **Please correlate and comment on the recommended compensation for mobile service providers reproduced under para 2.3, with various options for carrying messages for financial services as described in para 2.9.**

3. **There may be requirements of prioritization and encryption of the messages exchanged for financial transactions. In your opinion what effect would these have on the provisioning and pricing of services?**

a) Any requirement of prioritization and encryption of financial services messages would require significant investments in technology requiring substantial CAPEX investments. The pricing model has to reflect the CAPEX and the OPEX. Also, the costs are different for different bearer channels like IVR which is expected to be a large contributor followed by STK, USSD, SMS. Over and above this, making channels secure would entail additional costs.

b) We suggest TRAI need not mandate setting up of separate infrastructure for prioritizing banking transactions as that will increase cost and may impede mobile banking growth. Service providers are already providing enough capacity for financial transactions and thus quality of service does not seem to be an inhibiting factor for mobile banking adoption and growth.

c) Service providers would expand capacities with large adoption of mobile banking services so that subscribers get good quality service. The mobile banking is at infancy stage and high costs in terms of mandated quality of service may impede service growth.

d) Any requirement of prioritization and encryption of messages would entail additional investments. Adding a layer of security that is compliant with bank security requirements would also require investments including CAPEX. The subscriber would also have to be provisioned for the appropriate Class of Service to satisfy the requirements which would incur administrative cost

e) TSPs will play multiple roles with multi-level agreements with Banks. TSPs have already entered into agreements with major banks in the country. It would not be appropriate to regulate one particular component like pricing of connectivity and communication when agreements have been entered into at various levels. The Authority would appreciate hat agreements at mulit-levels are entered as one composite package and not all items on standalone basis. Since the market is functioning well and TSPs have been able to enter into agreements, TRAI intervention at this stage for price and quality regulation is not suggested.

f) In our opinion, Re. 1 suggested by IMG would not adequately cover all the costs for priority deliver of message over IVR, SMS, STK, USSD etc. We suggest that it should be left to the TSP and the bank to arrive at a fair compensation mechanism.

4. Whether tariff for telecom services for providing basic financial services using mobile phone should be under forbearance or should be brought under regulation? If they should be regulated, whether a ceiling should be prescribed TRAI? Please explain your answer/suggestions.

a) TSPs would be entering into multi-role arrangements with banks which would include being the connectivity & communications provider as well as providing BC services. Given the nature of this arrangement, it would be best left to the TSPs and the banks to arrive at a fair compensation structure based on roles and costs undertaken by each. The competitive environment given that multiple banks and TSPs are present in this area would ensure that pricing always remains competitive and would be a fair reflection of the costs borne by the parties. Given these facts, **it is our opinion that tariff for telecom services for providing basic financial services using mobile phone should be under forbearance.**

5. Any other comments relating to provisioning and pricing of mobile services for financial transactions.

a) The number of access channels like SMS, USSD, WAP, STK etc available to the customer differs according to the customer's handset capabilities and the TSP's ability to offer multiple channels. It is suggested that all channels subject to security considerations should be allowed with **minimal regulatory obligations on quality and pricing** so as to ensure that no innovative solutions are stifled in the process.

b) Financial transactions permitted through different channels and related quality and pricing terms should allowed to negotiated and decided by individual banks and the respective TSPs. The banks and TSPs may decide the same based on their respective cost, business prospects, risk perceptions and mitigating steps adopted.