Pricing for Provision and Delivery of Basic Financial Services using Mobile Phones

VODAFONE – RESPONSE

INTRODUCTION

Banks and telecom operators are both currently investing substantial time and resource to develop innovative new relationships and new products and services which are likely to bring substantial benefits to the common man. Extending the reach of existing banking services via mobile networks, and enabling new banking services will drive major economic transformations which will drive efficiency, economic development and consumer benefit.

Our fundamental submission is that regulatory intervention in a new and rapidly developing market is not warranted and is unlikely to improve the rapid development of these services. The embryonic status of the market should lead towards a very cautious approach, lest intervention stifle innovation and reduce rather than enhance the availability of such valuable services.

We believe that TRAI may wish to periodically gather information regarding the development of this market, but at this stage there is no cause for regulatory intervention. The area in which TRAI should be most cautious is in imposing any kind of price regulation either on wholesale arrangements between banks and telecom operators or on retail arrangements between banks and/or telecom operators on the one hand and customers on the other, since regulated prices would deter investment in these services and shut off potential business models before the market has even had a chance to produce an efficient, competitive and optimal level of tariffs.

BACKGROUND

The Inter-Ministerial Group's (IMG) Report on delivery of basic financial services using mobile technology identifies the existing mobile communications infrastructure in the country to:

- Deliver financial services to the unbanked
- Harness the power and reach of the distribution network of telecom operators which are already capable of handling cash transactions.

Operators and banks are already working together to deliver such services and evolve models that are viable, easy to implement and sustainable in the long run. Mobile linked no-frills bank accounts, offer customers a simple, uncomplicated means to open an account, carry out transactions and transfer value/money.

We are pleased to submit our response to the queries raised by TRAI in its consultation paper as below:

1. **The customer would approach a Business Correspondent or its agent for opening of a no-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?**

   The business relationship between banks and telecom service providers is driven by mutual negotiations, understanding of the commercial imperatives and value derived by both.

   Mobile banking services being currently provided require the customer to use the operator's existing network to access a bank account – which is already operational or has been opened through the mobile operator's distribution channel.

   There can be other innovative relationships, like creation and distribution of e-money on mobile phones using existing infrastructure and service capabilities of operators. However, this does not require creation of any additional provisioning requirements or efforts. There can be other similar products in the market.

   It is possible that with rapid uptake of such services and increasing volumes as transactions increase there would be a need to augment network and processing capacity (like the SMSC or the GMSC) and that would require additional expenditure.

   But these would be more in the nature of routine network augmentation rather any special provisioning for offering the services.

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.**

   We would like to submit that this being a differentiated service opportunity and a new revenue stream for telecom service providers, almost every operator would be keen to offer such services that leverage their existing telecom network infrastructure and provide the opportunity for additional revenues.

   There are different pricing methodologies that could be adopted by the participants, among them:

   a. Revenue share between the bank and service providers
   b. Fixed cost / charge – with the residual to be recovered from customers

   Either of the above models or a combination would be adopted based on value being delivered, benefits to participants and the associated commercial considerations. Banks would be as interested in ensuring that more customers start using their services as would service providers in getting these subscribers to utilize their networks.

In a competitive market like ours, any commercial arrangement would be driven by considerations of affordability and possibility of adoption of services and based on prevailing arrangements with others.

There can be many more innovative models that would evolve in the market over time – and which would be impossible to predict. It is imperative therefore for the TRAI to stay away and not intervene in such a newly evolving market.

Thus we would submit that an attempt to define a price for an SMS used for updating a mobile bank account or to fix ceiling for any other activity using the mobile for operating an account would be counter-productive. It would not be able to account for the real value embedded in the service – that only a customer can perceive.

Further fixing price ceilings etc would serve to rule out innovation or other better alternatives.

The TRAI should follow a very light handed and distant approach for pricing of these and other kinds of new services. The preferred regulatory approach would be to allow products to drive their pricing – based on the customer's perceived value from it and the advantage it provides. Customers may be willing to pay for certain kinds of benefits – and fixing a price would be counter productive for other participants because it would rule out the incentive for innovation.

Banks and operators can evolve a new paradigm because it is in their interest to drive higher rates of adoption by customers.

Further, with the existing levels of high competition in the market, it is quite unlikely that any operator would be able to charge unreasonable rates – as customers will have a competitive choice of networks and banks to which they can switch if they do not feel that they are receiving value for money.

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?**

As submitted above, the technical capabilities and requirements are driven by the business model and the product on offer. There may be different requirements for different kinds of service. It is the product design, nature of services, capabilities on offer etc that would determine whether additional provisioning, encryption etc is required or not. Our experience so far has been that mostly services would not require any prioritization or additional provisioning – and could be provided on the existing infrastructure.

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.**

   As explained above, the tariffs for telecom services for providing basic financial services would generally be no different from those for the available basket of services in the market today.

   Competition would be the key determinant and the practice of tariff forebearance as currently followed by TRAI should continue.

   Further as already submitted above, these are new types of services and it is in the interest of banks and operators to keep charges at an efficient and competitive level – to ensure volumes and greater adoption.

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

   NA