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EBG Federation Response to TRAI CP on Review of Regulatory Framework for Use of USSD for Mobile Financial services

PREAMBLE

EBG Federation (EBG) fully supports the fact that Mobile Banking in India has great potential to provide banking facilities to people “anywhere” on account of easy adoptability, affordability and cost effectiveness compared to other delivery channels.

Today around 100 million rural households are away from the banking system and their estimated average banking requirement is about 2 lakhs pa per household, which translates into huge business (around 20 lakh crore) to the banking industry. Almost two times of the existing business of rural bank branches of the country. Nonetheless, understanding the nuances of rural consumer behavior, offering customized products, forging the right partnerships/ collaborations and developing the appropriate business models and organization structure is a prerequisite to tap the vast potential of rural India.

Hence, EBG is supportive of the Government initiatives for financial inclusion by extending all banking & financial services to the large hitherto unserved population of the country to unlock its growth potential. The ongoing Policy & Regulatory impetus for 'Financial inclusion' is highly praiseworthy.

Mobile telephony could be the most likely answer to the problems related to 'last mile' service delivery of financial services. The fact that there were about 103.43 crore mobile connections in the country of which 44.78 crore were in rural areas as on 31.04.2016, suggests that mobile telephony can be potentially leveraged to achieve the goal of financial inclusion. by providing and extending basic banking services at an affordable cost to the vast sections of rural people, disadvantaged and low income groups at times and locations convenient to them.

The Jan dhan-Aadhar-Mobile (JAM) linking a citizen's Bank Account Number & Mobile Number with the Aadhar Number has provided for a sufficiently robust and unified electronically verifiable KYC process, facilitating the Governments aim to better target & transfer financial resources to the poor. Other initiatives viz. permission to licensed banks to offer Mobile Banking services viz. to enable funds transfer from any account in any Bank to any other account of same/ any other bank on real time basis for low income, semi-literate citizens but those who are able to read simple, user-friendly menus and simple apps are also welcome. Rural Banking is now a large opportunity and could be captured by those who remove the current barriers of profitable scale.

EBG RESPONSES TO THE CONSULTATION PAPER

Q1: In your opinion, what should be the maximum number of stages per USSD session for mobile banking service: (i) Five (ii) Eight (iii) Unlimited (iv) Any other (please specify) Please provide justification in support of your response.

EBG RESPONSE

1. There may be merit in increasing the number of stages per USSD session so that the banks and agents may create a user friendly menu for USSD-based mobile banking as it would not only help improve the customer experience but also the success rate of mobile banking transactions, it seems that there may be a need to increase the number of



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stages per USSD session from its current ceiling of 5 to a higher number. However, any increase in number of steps should be commensurate with compensating the telecom service providers as well since it will lead to increased use of SDCCH channel. The number of steps per session may be reviewed in case there is a sudden upsurge in volumes.

This is because

- a) Current ceiling limit on the number of stages poses a challenge in creating a customer friendly menu for USSD based Mobile Banking resulting in input error or time delay and eventually leading to transaction decline.
- b) During the process of funds transfer, usually the customer ends up in-putting anything between 23-29 digits (IFSC code of 11 digits followed by Account Number of 12-18 digits) in a single stage as the other 4 stages are used for:
 - Selection of Bank
 - Selection of Type of Transaction
 - Entering amount of Money to be transferred
 - entering mPIN

In general, input error while entering both account number & IFSC code in one single stage, input error is quite frequent

- c) Propensity of Transaction decline in case of funds transfer is quite high.
- d) There is no limit on number of stages in other mobile money applications.
- e) As target population for USSD based mobile banking is semi-literate and is generally not adept in use of technology, the service needs to be made as simple & convenient as possible to improve its acceptance.

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 (or periodic) subscription fee for the use of USSD for mobile banking services; or (iii) Any other method

EBG RESPONSE

Cost based charging may be a preferable method over the monthly subscription-fee based model as in the second option it may be difficult to ascertain whether such a fee is higher or lower than the actual cost.

Optionally, banks or the banking agents could pay for the USSD transactions instead of the subscribers for the use of USSD based Mobile banking Services in a B2B model.

Though TRAI did not adopt this third option, opting rather for the B2C model in which the customer/ subscriber pays the USSD charges, EBG believes that if the Banks pay the cost for the USSD session directly to the Mobile Service Providers, then the price barrier, if any, for the consumers would be removed and the USSD-based mobile banking service would start gaining traction.

TRAI has been following the Principle of Forbearance of Tariffs since the year 2002, except in cases where competition has not been able to bring down the tariffs to cost oriented levels. While devising regulatory frameworks for telecom services, TRAI aimed at maintaining balance between the following twin objectives of:

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- a) Protecting the interests of consumers, thereby creating adequate choice & affordable services by promoting competition and efficiency in the market and
- b) Creating incentives for the Service Providers, thereby ensuring adequate ROI to stimulate orderly growth and innovation in the sector.

Competition is adequate in the market today, especially the retail market. Other markets the Regulator may be required to find other methods, but the principle of forbearance may be continued and market forces be allowed to drive the modus operandi between banks and TSPs.

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

EBG RESPONSE

The current ceiling tariff per USSD session at Re.1.50 per USSD session was fixed by TRAI through the 56th Amendment of the Telecom Tariff Order (TTO) in November, 2013. The rationale for fixing this ceiling tariff per USSD session was based on the fact that retail tariff for USSD based Mobile Banking at that point of time was in the range of Re.1 to Re. 1.50 per USSD session in USSD based Mobile Banking Solutions already then deployed and offered by SBI & ICICI in the country.

Tariff forbearance approach by TRAI:

The retail tariff for telecommunication services continues to be under forbearance since 2002. However, in case of mobile financial services, even though the TRAI has fixed a ceiling of Rs 1.5 per USSD session, the forbearance within this ceiling should continue on account of following factors:

- The volume of mobile banking transactions continues to be quite low. It was discussed during the various meetings that the banks have not been able to effectively promote the service and therefore, the volumes continue to be abysmally poor. The TSPs had upgraded the requisite billing system, IN and other IT systems to support provisioning of the banking services through USSD channel. The TSP's products were based on IVR or SMS channels only which were duly integrated with the billing systems. However, in order to aid the financial inclusion exercise, the billing capability was developed by TSP's to charge for USSD transactions. The Capex investments are not getting justified due to low volumes of USSD mobile transactions. Therefore, the tariff should continue to be under forbearance to provide flexibility to allow the service to nurture and evolve.
- The decision regarding fixation of tariff should be left to the operator and TRAI should avoid any micro-management. The operators should be allowed to fix the price based on their marketing acumen whether to charge tariff based on per session or to fix a monthly charge.
- For Mobile banking, SMS, IVR and data are not being regulated by TRAI and therefore, regulation of USSD charging by TRAI seems out of context and is a deviation from TRAI's own policy of forbearance allowed on other modes. Hence it is worth examining as to why only USSD has to be regulated. Apparently, the USSD tariff regulation is only meant for NPCI which has created the platform.
- Unlike B2B model, in B2C model, the risk lies with telecom operators. Hence, operators should be given freedom to fix the tariff so as to recover the costs since the service has been completely non remunerative for telecom operator since inception.



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

EBG RESPONSE

As stated in EBG response to Q2 above - Optionally, banks or the banking agents could pay for the USSD transactions instead of the subscribers for the use of USSD based Mobile banking Services in a B2B model.

Though TRAI did not adopt this third option, opting for the B2C model in which the customer/subscriber pays the USSD charges, EBG believes that if the Banks pay the cost for the USSD session directly to the Mobile Service Providers, then the price barrier which currently exists for the subscribers may be removed, greatly improving the off-take of USSD based Mobile Banking Services.

Q5: Whether it would be appropriate to mandate the service providers to levy charges for USSD session for mobile banking only if the customer is able to complete his/ her transaction? If yes, please describe the method to implement such an arrangement technically?

EBG RESPONSE

The fact that there is some physical utilisation of network resources which are utilised even in the case of unsuccessful USSD sessions, needs to be recognised while designing a suitable tariff methodology.

The USSD based transactions may not mature at the end of aggregator as well. For a transaction failure that is not attributable to TSP, it will not be fair to prescribe charges only for successful transactions, especially when it is not possible to detect the leg at which the transaction has failed. Further, during USSD transaction, use of telco's network via SDCCH channel is inevitable and hence the resources are used even in the case of failed transaction as well. Hence, on account of work done principle, TRAI should allow operators to charge both for successful and unsuccessful sessions.

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

EBG RESPONSE

EBG is of the opinion that the option for banks to directly pay the USSD transaction cost is the most suitable option as it does away with the burden of affordability on the poor and marginalised customers/ subscribers. Also in this case the cost of failed/ unsuccessful USSD sessions does not have to be borne by the customer.

Detailed response with justification has been provided in response to Q2 above

Q7: In case your response to the Q6 is in the negative, what should be alternative pricing models? Please provide justification in support of your response.

EBG RESPONSE

USSD push sessions will pose security concerns, since the operators will have to open https links towards NPCI. This may result in external elements causing interference and the operators'



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network would be vulnerable to spam. Hence, USSD push session is not recommended as a solution for failed transactions.

Q8: Keeping in view the concerns raised by the TSPs, whether there is a need for allowing USSD push sessions when customer-initiated USSD session is dropped due to some reason so that the customer can complete his/ her unfinished transaction? Please support your response with justifications.

EBG RESPONSE

When a customer experiences a drop in USSD session prior to completion of a transaction, he/she is put off because the tariff has already been levied upon him/ her for a failed transaction. Generally, the probability of repeat attempts by such customers to initiate another USSD session for completing the unfinished transactions is low. USSD push sessions, if allowed, will permit the aggregation platform provider to initiate a customer-terminating USSD session to customers with a failed transaction, so that they can complete their unfinished transactions improving transaction efficiency and reducing customer attrition.

Of course, this should not be done at the cost of compromising any security concerns that may be prevalent.

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(s)? Please support your response with justification.

EBG RESPONSE

At present only mobile banking transactions are permitted to be carried out on USSD aggregation platforms run by NPCI. The regulated NPCI arrangement had been agreed by TSPs only for a limited number of transactions and for the purposes of meeting the objective of financial inclusion. BIF is of the view that such platforms should be enabled as Unified USSD platforms which can support all types of Mobile Payment services viz. Merchant Payment, Utility Bill Payment, Mobile/ DTH recharge, etc. based on mutually agreed commercial arrangements between the Payment Aggregator Platforms viz. NPCI and the telecom service providers so that digital payment may be promoted in the country and vision of ' less cash ' can be achieved with the existing infrastructure.

However to enable this , the framework should be decided after prior consultations with the Mobile Service Providers and if deemed suitable, bilateral arrangements between the TSPs & the payment Aggregator on mutually agreed commercial terms may be permitted. However, it is absolutely imperative that the proposed framework must not ignore any issue which may have bearing on availability, affordability, Quality of Service, Security & privacy aspects of Mobile Financial Services.

Q10: Is there any other relevant issue which should be considered in the present consultation on the review of regulatory framework for the use of USSD for mobile financial services?

EBG RESPONSE

No.