Telecom Regulatory Authority of India
A-2/14, Safdarjung Enclave, New Delhi – 110 029

No. 409-11/2006-FN **Dated the 21st August, 2006.**

To

All Service Providers/ Stakeholders (Through Website)

Subject: TRAI's Consultation Paper No. 10/2006 dated 13th June 2006 on "Interconnection Usage Charges (IUC) for Short Message Service (SMS)" - Decision of the Authority

*****

As per Interconnection Usage Charges (IUC) Regulation dated 29th October, 2003, Termination and Carriage charges for Short Message Service (SMS) has not been specified by the Telecom Regulatory Authority of India (TRAI). The Authority has forborne in respect of IUC for SMS. This forbearance on IUC for SMS was not withdrawn by the Authority in the revised IUC of 2005 and 2006.

2. TRAI had issued a Consultation Paper No. 10/2006 dated 13th June 2006 on the issue of "Interconnect Usage Charges for Short Message Service (SMS)". Comments were received from various stakeholders on this and the issues raised were also deliberated upon in the Open House Discussion with the Stakeholders.

3. The Authority deliberated upon the various aspects of the subject matter including the international practices and has made the following decision:

(i) The forbearance on IUC for SMS should continue for the present.

(ii) It is felt that the charges of premium SMS are high and bear no relationship with the cost and nature of services rendered.

(iii) It is hoped that the telecom operators would voluntarily reduce the charges of premium SMS service and the Authority henceforth would closely monitor the trends.

(iv) The Authority further observes that the subscribers are not fully aware of premium SMS charges. The telecom operators will ensure either themselves or in arrangement with the content provider the following:

(a) Wide publicity to be provided for the tariff of the premium rate service.

(b) Premium SMS should be on short coded SMS numbers only.

(c) The Telecom Service provider should make necessary agreement/arrangement with the content providers that should include a clause making it mandatory on the part of content provider to widely publicise the tariff applicable for the premium service for better consumer awareness.

(d) The use of short coded SMS numbers should be in accordance with the directives of Department of Telecommunications (DoT) issued from time to time.

4. The detailed analysis leading to the above decisions is attached.

5. This issues with the approval of the Authority.

Yours faithfully,

(S.N. Gupta)
Pr. Advisor (FN)

Attachment

TRAI's analysis on Interconnection Usage Charges
for Short Message Service

Short Message Service (SMS) enables mobile subscribers to exchange text messages. This service is generally available on all mobile phones in circulation and adapts to all types of mobile networks. SMS call termination is in the nature of whole sale service offered by one operator to other in order to facilitate subscriber of the other operator to send SMS to the subscriber of receiving operator. This termination cost would have an impact on the prices paid by subscribers for sending SMS. SMS are transferred between networks on a store and forward basis and unlike voice calls are not interactive.

2. SMS in India is an emerging market. Though SMS termination is on forbearance, most of the operators have not imposed termination charges. The growth of SMS during FY 2006 has been 109 %. Approximately 25 billion SMS originated in FY 2006 compared to 12 billion in FY 2005. The use of SMS has increased which is evident from the fact that on an average a mobile subscriber has sent 41 SMS per month during FY 2006 as compared to 31 in FY 2005. The total revenue from SMS has also increased by 54% approximately at Rs.13 billion in FY 2006 as compared to Rs.8.3 billion in FY 2005. SMS revenues are estimated to constitute about 5 to 6 % of the total revenue accrued to telecom service operators in FY 2006.

3. The average prevalent tariff is approximately Re.1 for a local SMS, Rs.2 for national SMS and Rs.3 to Rs.5 for an international SMS. The premium SMS rates are generally in the range of Rs.3 to Rs.10. SMS is not a real substitute for mobile to mobile calls but has an impact on the terminating mobile network operator both in terms of volume of traffic as also the profitability. However, it has not put any competitive pressure as of now on the charges for voice termination.

4. The overwhelming opinion of the stakeholders and participants during the Open House Consultations was against disturbing the present regime of forbearance. Those who argued in favour of termination charges made the following points :-

(1) Globally termination charge is there both on voice calls and SMS traffic.

(2) Implementation of SMS Termination charges should be mandated as in several cases the bilateral negotiations have not been successful.

(3) It should be cost plus basis model. The reason behind the cost plus SMS termination charges are as following:-

i) Spam SMS: It would be deterrent for spam.

ii) Freebees: Off-net free SMS is not justified without any adequate payout to other operators.

iii) Quality of Service: Due to free SMS, there is an increase in volume of off net traffic consequently congesting the terminating operators' network.

5. The majority of operators opposed Regulation of termination charges for SMS highlighting the fact that it is a service which is still growing and Regulation could adversely impact its growth. They strongly favored the current regime under which most of them are following bill and keep system. The consumer groups also opposed Regulation of termination charges for SMS.

6. The view points were seriously deliberated and analysed within the Authority. The Authority considered the existing situation, the prevailing tariffs and other relevant likely developments and has come to conclusion that there is no justification for regulating the IUC for SMS at this point of time. At present the market for SMS is contested almost exclusively by the mobile operators, which

either operate bill and keep regime without any interconnection charges, or they have reciprocal charging regime and relatively balanced traffic flow. In such circumstances, the level of SMS termination charges makes little difference, as there is insignificant net interconnection payment between the mobile operators. Until there is a significant demand for third party usage of SMS probably through fixed mobile convergence services, from content provider or Internet to mobile messaging, the market forces appear to be effectively balancing. The service providers who have raised the demand for termination charges for SMS, did not produce evidence of any significant asymmetry in the flow of traffic of SMS across operators. The marginal imbalance in SMS traffic perhaps may not call for intervention by the Authority in terms of fixing SMS termination charges in view of the overwhelming arguments in favour of forbearance. Moreover there is no supplementary cost for the terminating and transiting traffic. Primary resources utilized for SMS i.e. the signaling channel (TS-16) are necessary provision for handling the signaling for the voice traffic and are used for SMS only during the period when it is not used for voice traffic signaling or any other service. The Authority will keep a close watch on the developments and flow of the traffic and will take action if required at any point of time.

7. The Authority has also noted that it is a store and forward kind of service and the resources utilized for termination and transit of SMS messages is primarily the signalling channel which is provided for handling the signalling for the voice traffic. In view of this, the terminating and transiting operator for handling this traffic from other operators do not incur any significant additional cost. The Authority further considered that whether there is any justification for regulating it and fix on "cost plus basis model". The Authority is of the opinion that no new cost parameter be adopted. Since IUC for voice calls is fixed on cost basis, the cost plus basis not be consistent with the existing approaches of IUC costing. Further, such a course of action may also lead to demand for other services for cost plus basis model which will not be consumer friendly.

8. The Authority also notes that SMS termination charge is not regulated in most of the countries. Although termination charge exist in many countries but it is mutually negotiated among the operators. As of now, the authority is of the view that the present system of bill and keep for SMS is practical and in benefit of consumers and does not involve any additional costs for operators.

9. A Regulator mandated termination charges would require installation / up-gradation of billing system for the inter-operator settlement which has implication for Capex of operators. Therefore, the cost of regulatory compliance may become highly disproportionate considering that the cost involved in the termination is insignificant. This extra cost of regulatory compliance could in turn be transferred to customers in the form of hike in SMS tariffs which is not desirable.

10. Further, the Authority also examined whether fixing the termination charge would be deterrent to the spam SMSs. The Authority is of the view that since a large proportion of SMSs are originated by the mobile subscribers, fixing cost plus basis model to stop the spam may not be an appropriate solution at this stage.

11. The Authority is concerned with the high & increasing premium SMS charges. It must be acknowledged that the subscriber does not often make his choice on the basis of SMS rates. Moreover, the awareness at the subscriber level is low as the charges are not so transparent. The subscriber in many respects is captive to operator. He is denied the real choice as he would be loath to changing operators just on account of SMS rates. Also the bundling of service may not highlight the tariff of an individual service. While the Authority refrains from making any Regulation at this stage it reserves its right to revisit the subject in case there are competition issues in the retail market and more importantly where the consumers interest are adversely affected.