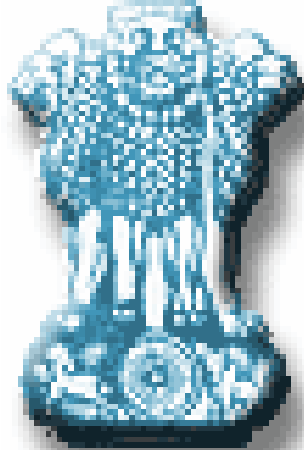


Study Paper No. 3/2006



सत्यमेव जयते

Telecom Regulatory Authority Of India

Study Paper

on

Analysis of Tariff schemes with Lifetime Validity

New Delhi

Date: 19/12/2006

A Study Paper on “Analysis of Tariff Schemes with Lifetime Validity”

Background

In the month of December 2005/January 2006 most of the Mobile Service Providers launched tariff schemes with lifetime validity. These schemes entitled the subscribers to receive incoming calls for an indefinite period (lifetime). Most of the service providers launched these schemes under prepaid platform. Couple of service providers (IDEA & MTNL) also extended the concept of lifetime validity with postpaid platform. Broad features of the tariff scheme offered by the service providers are listed in Annexure I.

2. Data/information specific to the tariff schemes with lifetime validity was sought from the service providers to ascertain the financial viability of these schemes. However, subsequently it was decided to undertake a consultation process for framing the regulatory policy on these schemes. After going through the consultation process, a tariff order (43rd Amendment) was issued outlining the policy on tariff schemes with lifetime validity (copy at Annexure II). In the 43rd Amendment, it was clarified that any tariff plan having lifetime validity shall continue to be available to the subscriber as long as the service provider is permitted to provide such telecom service under the current license or renewed license. Other salient features of the Tariff Order on lifetime validity schemes are as under: -

- (i) In the case of plans with lifetime validity or unlimited validity, the service provider shall also inform the subscribers of the month and year of expiry of his current license.
- (ii) Hike in any item of tariff during the specified validity period prohibited.

3. Certain apprehensions were expressed by some stakeholders regarding the viability of the scheme since the plans contained features that permit subscribers to continue receiving incoming only for as long as a period of 6 months. The basis of their apprehension was that in the Lifetime plans, the incoming traffic would be predominantly high and thus the business model which is crucially dependent upon the revenue arising out of Termination charges may not work given that the Termination charges had been specified at Re.0.30 per minute. Thus, it was felt that the viability of such schemes should be examined based on operators data on traffic/revenue etc.

4. During the consultation process, the service providers suggested that to assess the long-term viability of the tariff schemes at least a period of six months would be required. Therefore, the data was collected from the service providers for the period from Jan-06 to June-06.

5. By and large the required data has been received from the operators. Data analysis has been made based on the information provided by these operators.

Subscriber Analysis

Number of Subscribers in tariff schemes with lifetime validity as on 30th June 2006 are shown in the table given below.

Circle Category	Number of subscribers in Lifetime scheme (Millions)	%age of new enrollers	%age of migrated subscribers	%age of subscribers who recharge every month
Circle A	6.60	54%	46%	66%
Circle B	4.86	51%	49%	88%
Circle C	1.36	41%	59%	94%
Metros	3.28	46%	54%	62%
All India	16.10*	51%	49%	72%

* Statement at Annexure-III gives circle-wise/operator-wise number of Lifetime subscribers as on 30th June 2006.

- As of 30th June 2006 about 16 Million subscribers were in tariff schemes with lifetime validity in Mobile services. This accounts for 15% of the total Mobile subscribers, reported for end June, 2006 and constituted about 28% of the total additions in the mobile Subscriber base reported for the period January to June 2006.
- 41% of the lifetime subscribers are in circle A.
- 51% of lifetime subscribers are new enrollers and the rest are the existing subscribers who have migrated to the scheme.
- On an all India average 72% of the lifetime subscribers recharge every month.
- Churn of customers is also observed from lifetime plans. However, churn is seen only in respect of three circles and that too in respect of two operators.

Revenue Analysis

Average Revenue per User [ARPU]

(Rs. Per month)

Circle A	223
Circle B	219
Circle C	237
Metros	205
All India	218

- The lifetime schemes are providing an ARPU of Rs. 218 per month on an all India average. Detailed table showing circle-wise ARPU can be seen at Annexure – IV. ARPU in Lifetime schemes ranges between Rs. 136 to Rs. 321 per month.
- The revenue Composition of lifetime tariff schemes shows that a large proportion of revenue is contributed by outgoing calls and other services. This implies that from revenue proportion, Lifetime schemes are no different from the general tariff plans offered by mobile operators in the market.

Revenue composition

Circle Category	Incoming usage	Outgoing usage (including VAS)	Other sources (one-time charge, recharge fee etc.)
Circle A	20%	53%	27%
Circle B	16%	55%	28%
Circle C	21%	59%	19%
Metro	25%	61%	14%
All India	20%	56%	24%

Traffic Analysis

MOU per subscriber per month

	Total Minutes	Proportion of Outgoing Minutes	Proportion of Incoming Minutes
Circle A	266	20%	80%
Circle B	271	23%	77%
Circle C	317	22%	78%
Metros	269	20%	80%
All India	271	21%	79%

- Lifetime subscriber on an average makes 57 minutes of outgoing calls and receives incoming calls for 214 minutes per month.
- Highest usage is in Circle C (outgoing: 70 minutes and Incoming: 247 minutes)
- The ratio of incoming – outgoing traffic is 79:21, as against the generally observed traffic pattern of 60:40 in fully Mobile services in prepaid platform.

Revenue per minute (RPM)

[Total Revenue net of pass thru/total minutes (IC+OG)]

	RPM
Circle A	0.84
Circle B	0.81
Circle C	0.76
Metros	0.76
All India	0.80

- RPM for Lifetime schemes is Re. 0.80 which is higher compared with the RPM of Re. 0.77 for the full mobility service as a whole.

Conclusion

Traditionally, Indian Mobile operators have been following a tariff model with a fixed monthly fee and a variable charge depending upon the usage of the subscriber. The Lifetime scheme has been a departure from the traditional model without the former part. This resulted in a concern whether the tariff scheme is predatory in nature and could adversely affect the sector in the long run.

However it is seen that the Tariff schemes with lifetime validity are providing an ARPU of Rs. 218 per month, which is almost 2/3rd of the average ARPU (Rs. 324) for Mobile service. But with a few rare exceptions, scheme is offered in prepaid platform. Hence, it will be reasonable to compare the ARPU figures with that of prepaid. Average ARPU for prepaid is Rs. 261 per month and the difference is just 17%. Having said that, an ARPU of Rs. 218 appears to be quite reasonable.

RPM is also an accepted parameter to gauge the effective revenue realization by the operators. On an all India average revenue per minute (outgoing + incoming) for tariff schemes with lifetime validity is Rs. 0.80. This is slightly higher than the average for full mobility service (0.77). This in a sense also implies that the scheme is not that cost effective for subscribers as it prima facie appears to be.

The big picture emerging from the analysis based on empirical data is that the scheme has been very popular in the market. The scheme has been one of the driving forces responsible for the explosive growth of mobile subscribers, which is witnessed in the current year i.e. 2006. At the same time, service providers seem to have been getting a reasonable ARPU from the scheme despite the fact that the scheme was primarily targeted towards low usage and marginal customers. The scheme has

kept the tariff levels at Rs. 2 per minute for local calls and Rs. 3 per minute for domestic long distance calls, which are much above the call charges prevailing in the market under other plans. Thus any outgoing usage by the subscribers, will contribute directly to the ARPU of the service provider.

Broad Features of Life Time type tariff plans

- In the prepaid plans, the lifetime validity entails a subscriber to enjoy incoming calls for an indefinite period in lieu of an upfront payment. Whereas in the postpaid plans the lifetime concept implies that the subscriber availing these plans need not pay compulsory fixed charges like monthly rental.
- The upfront payment involved in the prepaid plans with lifetime validity is around Rs.1000/-. A talk time content in the range of Rs.25/- to Rs.100/- is also available for the subscribers.
- Most operators have extended full talk time in all subsequent recharges for such subscribers with lifetime validity. Few operators have made provision for choice of any other available tariff schemes by subscribers who opt for lifetime validity schemes.
- Call charges in these schemes are on a higher side. In general, local calls are charged at Rs.1.99 per minute and STD calls are charged at Rs.2.99 per minute.
- Some operators have prescribed minimum of one outgoing call or incoming call or a recharge to be effected in a period of 6 months as a precondition for continued connectivity. Some operators have mandated recharge within a period of six months for continuity of the lifetime scheme.
- Some of the Mobile operators have subsequently launched attractive schemes such as lower call charge for a fixed monthly rental as Top-up offers, which can be availed with lifetime tariff schemes. These schemes are generally meant to increase the outgoing usage of lifetime subscribers.

**Telecom Regulatory Authority of India
Notification**

New Delhi, the 21st day of March, 2006

No. 301-2/2006- Eco. — In exercise of the powers conferred upon it under sub-section (2) of section 11 read with section 11(1)(b)(i) of the Telecom Regulatory Authority of India Act, 1997, the Telecom Regulatory Authority of India (TRAI) hereby further amends the Telecommunication Tariff Order, 1999 as under, namely: -

1. Short title, extent and commencement: -

- (i) This Order shall be called “The Telecommunication Tariff (Forty third Amendment) Order, 2006” (3 of 2006).
- (ii) This Order shall come into force from the date of its publication in the Official Gazette.

2 Under Section III, in clause 6 (Flexibility and Packages) of the Telecommunication Tariff Order, 1999, hereinafter referred to as TTO, the contents of sub-clauses (v) to (vii) thereof shall be substituted by the following: -

- “(v) A tariff plan once offered by an Access Provider shall be available to a subscriber for a minimum period of SIX MONTHS from the date of enrolment of the subscriber to that tariff plan. However, any tariff plan presented, marketed or offered as valid for any prescribed period exceeding six months or as having lifetime or unlimited validity in lieu of an upfront payment shall continue to be available to the subscriber for the duration of the period as prescribed in the plan and in the case of lifetime or unlimited validity plans, as long as the Service Provider is permitted to provide such telecom service under the current license or renewed license. In the case of plans with lifetime validity or unlimited validity, the service provider shall also inform the subscribers of the month and year of expiry of his current license.
- (vi) The subscriber in the said tariff plan shall be free to choose any other tariff plan, even during the said SIX MONTHS period or the specified validity period. All requests for change of plan shall be accepted and implemented immediately or from the start of next billing cycle.
- (vii) For any tariff plan, the Access Provider shall be free to reduce tariffs at any time. However, no tariff item in a tariff plan shall be increased by the access provider -

- (a) In respect of tariff plans with prescribed periods of validity of more than six months including tariff plans with lifetime or unlimited validity and also involving an upfront payment to be made by the subscriber towards such validity period, during the entire period of validity specified in the tariff plan;
- (b) In respect of other tariff plans, within six months from the date of enrolment of the subscriber; and,
- (c) In the case of recharge coupons with a validity of more than six months under any tariff plan, during the entire period of validity of such recharge coupon.

3. General: -

In case of any doubt with regard to the interpretation of any provisions of this Order, the decision of the Authority shall be final.

This Order contains at Annexure A an Explanatory Memorandum which explains the reasons for this amendment to the TTO.

By Order
(M. Kannan)
Advisor(Eco)

Annexure-A
EXPLANATORY MEMORANDUM

In the month of December 2005/January 2006 most of the mobile operators launched tariff schemes with lifetime validity. These schemes entitled the subscribers to receive incoming calls for an indefinite period.

2. The Authority had undertaken a consultation process, which has since been concluded. The Consumer Organizations have emphasized the need for clarity on the term 'lifetime validity' since there is lot of confusion in the minds of subscribers. The Service Providers are almost unanimous in their view that 'lifetime' cannot exceed beyond the license period. However, few operators have suggested that the services under lifetime validity schemes can be extended beyond the current term provided the licenses are renewed.

3. The Authority has noted that no service provider has explicitly conveyed to the subscribers the specific year by which their current license expires. Many of the operators have also not given any indication to the effect that the lifetime schemes would be limited to their current license period. The impression in the minds of the common subscriber is that the scheme would have indefinite/unlimited validity without any restriction in terms of time. In order to maintain transparency for the subscribers it is necessary for the Service Providers to indicate the month and year of expiry of current license in all their promotional literature/advertisements.

4. The concept of lifetime validity may mean that there is no restriction in terms of time during which the talk time could be utilized and also that the subscriber would continue to get incoming calls for an indefinite period i.e. lifetime. Since these schemes are declared and marketed as having lifetime validity, and an upfront payment is taken from the subscriber on this ground, it is mandatory for the service providers to continue to extend the validity as long as they have the permission to provide telecom service under the current license or renewed license. This amendment to the TTO seeks to bring clarity to the obligation of the service providers to continue to provide such validity to subscribers of lifetime tariff schemes. In this context, the Authority recalled its Direction dated 16.9.2005 wherein it mandated all telecom service providers that no tariff plan shall be offered, presented, marketed and advertised in a manner that is likely to mislead the subscribers. The Authority continues to hold the view that titles of tariff plans which are of misleading nature or having the potential to mislead the subscribers will be considered as lacking in transparency. Further, the Authority also mandates that any tariff plan with a specified validity period shall continue to be available to the subscriber during the entire promised validity period.

5. As per the Telecommunication Tariff (31st Amendment) Order, 2004 notified on 7th July, 2004, no tariff item in a plan shall be increased at least for a period of six months from the date of enrolment of the subscriber to that plan. This amendment order also reiterates the right of a subscriber to choose any tariff plan at any time. These provisions are applicable for normal tariff plans offered by an operator. Because of the fact that operators have subsequently introduced tariff plans with specified longer period of validity including life time validity / unlimited validity, etc., it has become necessary to protect the interest of consumers against any hike in the tariff items during the period of validity of such plans particularly considering that such plans involve an upfront payment by the subscribers in lieu of longer period of validity. Since these schemes involve an upfront payment, the right of the subscriber to move to any other plan of his choice gets restricted to the extent that he has to forfeit the upfront payment made, unless appropriate exit options are provided. In this situation it is essential that the interests of subscribers are not adversely affected by any action of the service provider while the subscriber remains under any such tariff scheme.

6. One industry association has represented to the Authority that the provisions of TTO (31st Amendment) provides that the service providers are only required to ensure that no tariff item in a plan shall be increased at least for a period of six months from the enrolment of the subscriber to that plan. Therefore, they are of the view that it would be

incorrect, improper and undesirable on the part of the Authority to suggest that any tariff plan once introduced by the service providers can never be varied in any aspect. This industry association has urged the Authority to refrain from modifying the TTO (31st Amendment).

7. The Authority has considered the opinion of the industry association and is of the view that the life time tariff plans with its declared features were offered by various operators taking into account various factors. Further, it is important to realize that the cost of providing telecommunication services is on the decline and thus the apprehensions raised in this regard of a possible hike in cost of providing services in future are untenable. The Authority is also of the view that in event of the apprehensions pointed out by the industry association becoming true, the provisions of this Amendment can be reviewed.

8. The provisions of TTO envisages that any subscriber (including subscribers of lifetime packages) can move to any other plan on offer without having to pay migration charges. However, since the packages implemented by the operators do not provide for refund of the upfront payment in cases of exit, the flexibility available for the subscriber of such schemes to freely choose any plan gets restricted. Such restriction on flexibility for subscribers to freely choose any other plan offer also exists in cases where subscriber makes an upfront payment for a longer validity. The forfeiture of the upfront payment while moving to other plans can in some sense be interpreted as a barrier to exit. Subscribers of lifetime tariff packages and other schemes having longer validity deserve protection beyond the six months period envisaged in 31st Amendment for the reason that they make an upfront payment on the understanding of some basic considerations, which include the facility of incoming calls for an indefinite period, the call charges and other features presented to him at the time of subscription. The Authority is, therefore, of the view that there is a need to protect the interest of subscribers in case the tariff and other declared features of the tariff plans with longer validity period including lifetime plans are changed to the disadvantage of the subscribers during the promised validity period.

Number of subscribers in lifetime tariff schemes as on 30th June 2006

Service provider	Area of operation	Category	Number of subscribers in lifetime schemes
Bharti Airtel Ltd.	AP	A	515682
Bharat Sanchar Nigam Ltd.	AP	A	465143
Hutchison Essar South Ltd.	AP	A	89922
Idea Cellular Ltd.	AP	A	187468
Reliance Communications Ltd.	AP	A	272700
Tata Teleservices Ltd.	AP	A	24637
Bharti Airtel Ltd.	Gujarat	A	153716
Bharat Sanchar Nigam Ltd.	Gujarat	A	105784
Fascel Ltd.	Gujarat	A	391569
Idea Cellular Ltd.	Gujarat	A	196695
Reliance Communications Ltd.	Gujarat	A	113085
Tata Teleservices Ltd.	Gujarat	A	15415
Bharti Airtel Ltd.	Karnataka	A	838061
Bharat Sanchar Nigam Ltd.	Karnataka	A	433349
Hutchison Essar South Ltd.	Karnataka	A	72398
Reliance Communications Ltd.	Karnataka	A	178649
Spice Communications Pvt. Ltd.	Karnataka	A	30984
Tata Teleservices Ltd.	Karnataka	A	20443
Bharti Airtel Ltd.	MH	A	541434
Bharat Sanchar Nigam Ltd.	MH	A	130837
Hutchison Essar Cellular Ltd.	MH	A	67719
Idea Cellular Ltd.	MH	A	658791
Reliance Communications Ltd.	MH	A	235906
Aircel Ltd.	TN	A	155249
Bharti Airtel Ltd.	TN	A	100616
Hutchison Essar Cellular Ltd.	TN	A	21901
Reliance Communications Ltd.	TN	A	143775
Tata Teleservices Ltd.	TN	A	5663
Bharat Sanchar Nigam Ltd.	TN	A	430492
Bharti Airtel Ltd.	Haryana	B	66086
Bharat Sanchar Nigam Ltd.	Haryana	B	112195
Aircel Digilink India Ltd.	Haryana	B	56292
Idea Cellular Ltd.	Haryana	B	42665
Reliance Communications Ltd.	Haryana	B	24326
Tata Teleservices Ltd.	Haryana	B	9049
Bharti Airtel Ltd.	Kerala	B	94567
Bharat Sanchar Nigam Ltd.	Kerala	B	426872
Hutchison Essar Cellular Ltd.	Kerala	B	20392
Idea Cellular Ltd.	Kerala	B	114537
Reliance Communications Ltd.	Kerala	B	79922
Tata Teleservices Ltd.	Kerala	B	8982

Service provider	Area of operation	Category	Number of subscribers in lifetime schemes
Bharti Airtel Ltd.	MP	B	151940
Bharat Sanchar Nigam Ltd.	MP	B	32476
Idea Cellular Ltd.	MP	B	295867
Reliance Communications Ltd.	MP	B	156300
Tata Teleservices Ltd.	MP	B	13550
Bharti Airtel Ltd.	Punjab	B	160868
Bharat Sanchar Nigam Ltd.	Punjab	B	45928
HFCL Infotel Ltd.	Punjab	B	1755
Hutchison Essar South Ltd.	Punjab	B	15813
Reliance Communications Ltd.	Punjab	B	23550
Spice Communications Pvt. Ltd.	Punjab	B	75727
Tata Teleservices Ltd.	Punjab	B	14087
Bharti Airtel Ltd.	Rajasthan	B	236107
Bharat Sanchar Nigam Ltd.	Rajasthan	B	344628
Aircel Digilink India Ltd.	Rajasthan	B	80072
Reliance Communications Ltd.	Rajasthan	B	95278
Shyam Telelink Ltd.	Rajasthan	B	8719
Tata Teleservices Ltd.	Rajasthan	B	11566
Bharti Airtel Ltd.	UP(E)	B	117575
Bharat Sanchar Nigam Ltd.	UP(E)	B	296295
Aircel Digilink India Ltd.	UP(E)	B	241627
Reliance Communications Ltd.	UP(E)	B	102422
Tata Teleservices Ltd.	UP(E)	B	14628
Bharti Airtel Ltd.	UP(W)	B	127076
Bharat Sanchar Nigam Ltd.	UP(W)	B	188571
Hutchison Essar South Ltd.	UP(W)	B	144492
Idea Cellular Ltd.	UP(W)	B	179135
Reliance Communications Ltd.	UP(W)	B	85647
Tata Teleservices Ltd.	UP(W)	B	14742
Bharti Airtel Ltd.	WB	B	97026
Bharat Sanchar Nigam Ltd.	WB	B	166438
Dishnet Wireless Ltd.	WB	B	572
Hutchison Essar South Ltd.	WB	B	183889
Reliance Communications Ltd.	WB	B	43815
Tata Teleservices Ltd.	WB	B	10301
Bharti Airtel Ltd.	Assam	C	47919
Bharat Sanchar Nigam Ltd.	Assam	C	14675
Dishnet Wireless Ltd.	Assam	C	31561
Bharti Airtel Ltd.	Bihar	C	401605
Bharat Sanchar Nigam Ltd.	Bihar	C	151687
Reliance Communications Ltd.	Bihar	C	95010
Tata Teleservices Ltd.	Bihar	C	13217
Bharti Airtel Ltd.	HP	C	49416
Bharat Sanchar Nigam Ltd.	HP	C	53283
Reliance Communications Ltd.	HP	C	2951
Tata Teleservices Ltd.	HP	C	1804

Service provider	Area of operation	Category	Number of subscribers in lifetime schemes
Bharti Airtel Ltd.	J&K	C	16535
Bharat Sanchar Nigam Ltd.	J&K	C	106858
Dishnet Wireless Ltd.	J&K	C	1275
Bharat Sanchar Nigam Ltd.	Jharkhand	C	54130
Bharti Airtel Ltd.	NE	C	10247
Dishnet Wireless Ltd.	NE	C	24667
Bharat Sanchar Nigam Ltd.	NE	C	7999
Bharti Airtel Ltd.	Orissa	C	139849
Dishnet Wireless Ltd.	Orissa	C	332
Reliance Communications Ltd.	Orissa	C	28298
Tata Teleservices Ltd.	Orissa	C	6617
Bharat Sanchar Nigam Ltd.	Orissa	C	101233
Aircel Cellular Ltd.	Chennai	M	73071
Bharti Airtel Ltd.	Chennai	M	76761
Hutchison Essar South Ltd.	Chennai	M	8125
Reliance Communications Ltd.	Chennai	M	47311
Tata Teleservices Ltd.	Chennai	M	3258
Bharat Sanchar Nigam Ltd.	Chennai	M	70304
Bharti Airtel Ltd.	Delhi	M	397214
Hutchison Essar Mobile Services Ltd.	Delhi	M	215944
Idea Cellular Ltd.	Delhi	M	153912
Mahanagar Telephone Nigam Ltd.	Delhi	M	251060
Reliance Communications Ltd.	Delhi	M	166443
Tata Teleservices Ltd.	Delhi	M	47029
Bharti Airtel Ltd.	Kolkata	M	168079
Bharat Sanchar Nigam Ltd.	Kolkata	M	78882
Hutchison Telecom East Ltd.	Kolkata	M	228187
Reliance Communications Ltd.	Kolkata	M	105775
Tata Teleservices Ltd.	Kolkata	M	36801
Bharti Airtel Ltd.	Mumbai	M	354217
BPL Mobile Communications Ltd.	Mumbai	M	62822
Hutchison Essar Ltd.	Mumbai	M	275665
Mahanagar Telephone Nigam Ltd.	Mumbai	M	256472
Reliance Communications Ltd.	Mumbai	M	198295

Source: Reports submitted by Service Providers in compliance with the order issued by TRAI under Section 12(1)(a) of TRAI Act.

Circle-wise ARPU in Lifetime Tariff Schemes [Rs. Per month]

Circle Category	Circle	ARPU
A	AP	179
A	Gujarat	195
A	Karnataka	212
A	MH	304
A	TN	136
B	Haryana	226
B	Kerala	218
B	MP	321
B	Punjab	201
B	Rajasthan	197
B	UP(E)	151
B	UP(W)	241
B	WB	158
C	Assam	233
C	Bihar	232
C	HP	197
C	J&K	250
C	NE	242
C	Orissa	263
M	Chennai	182
M	Delhi	257
M	Kolkata	170
M	Mumbai	168
	All India	218