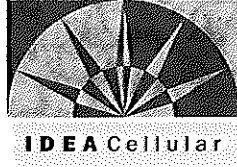


ADITYA BIRLA



04 October 2013

Sh. Manish Sinha,
Advisor (F&EA)
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhawan,
Jawaharlal Nehru Marg, (Old Minto Road)
New Delhi – 110002

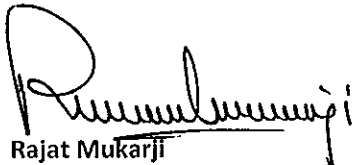
Subject: IDEA Cellular's response to TRAI's Consultation Paper on USSD Based Mobile Banking Services for Financial Inclusion

Dear Sir,

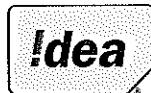
In response to the consultation paper on USSD Based Mobile Banking Services for Financial Inclusion, please find our comments as enclosed. These comments have also been sent through email at email ID manishsinha@trai.gov.in.

We are confident that the Authority will give due consideration to our comments before formalizing any guidelines in this issue.

Yours sincerely,
For IDEA Cellular Limited


Rajat Mukarji
Chief Corporate Affairs Officer

Encl.: as above



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Idea Cellular response to TRAI Consultation Paper on USSD-based Mobile Banking services for Financial Inclusion

Preamble

Idea Cellular appreciates the Government of India's (GoI's) initiatives for extending the reach of banking services via mobile networks. Idea Cellular also believes that the telecom sector is best-positioned to meet Reserve Bank of India (RBI) goals of financial inclusion through mobile banking services. Telecom over the years has emerged as a key driver of economic and social change in a developing country like India. Telecom operators can make composite packages for the unbanked, underprivileged customers covering their financial needs at an affordable cost, as a substitute to traditional banking or m-banking through banks.

As pointed out in the consultation paper, over 40% of households nationally and nearly 50% of rural households do not have a bank account. Banks have failed to reach out to these customers in rural and remote areas, who have mobiles but not bank accounts. Idea Cellular is of the view that telecom operators are the best-positioned to increase financial inclusion, which till date has not been successful in India. The telecom industry needs new revenue streams to continue investing in the growth of the sector to achieve the objectives of the National Telecom Policy (NTP) 2012. It is, therefore, imperative that a comprehensive review of the role of the telecom sector in financial inclusion is undertaken so that telecom operators can play a significantly larger role and thereby help achieve financial inclusion objectives of the government. To that extent, the consultation paper is welcome and timely and we are hopeful that the Authority takes a holistic view of the financial inclusion.

1. Telecom sector is the best-positioned to increase financial inclusion

- a. India has 873 million mobile phone users, of which 351 million are in rural areas, with a national teledensity of 71.1% and a rural teledensity of 41.1%.
- b. This compares to 1 bank branch per 22,000 population in rural India, clearly indicating the significant advantage of the telecom sector in the ability to access and provide financial inclusion to rural households.
- c. Approx 96% of mobility users are prepaid, who are served using state-of-the-art prepaid charging technology like Intelligent Network (IN) and electronic transaction technology like Virtual Top-Up system to manage their virtual balance on a regular basis. These technologies are time tested with a very high success rate and are highly risk free in terms of their delivery.
- d. At ~ 35 paise per minute, telecom tariffs in India are arguably the lowest in the world.
- e. Recharge denominations start from as low as Rs. 10, thereby enabling even those from the poorest sections of society to have access to mobile telephony.

- f. Even with prepaid Average Revenue Per User (ARPU) being as low as ~Rs. 90 (as per Mar 13 TRAI report on AGR of GSM subscribers), the telecom sector provides good quality of service to all customers.
- g. Know Your Customer (KYC) processes for subscriber verification are well-established in the mobile industry and these ensure that stringent security norms are followed. The industry is also well regulated by TRAI, an active body equivalent to the RBI for the telecommunications services industry.
- h. Idea Cellular itself has a distribution reach of 1.2 million retail outlets serviced by 25,000 distributors and 14,000+ contact centre agents serving our customers across 22 telecom circles covering 303,000 villages of rural India which has limited access to banking services. This reach far outstrips the combined Indian banking distribution network, either through branches, ATMs or collection centres.

2. However, the telecom sector is facing major challenges

- a. The Indian economy is currently growing at sub 5%, as against 8-9% growth of the last few years. Consumer inflation continues to be around 10%. The Current Account Deficit is at its highest in many years at 4.8% of GDP (FY 13), resulting in the rupee having depreciated by ~14% in 2013.
- b. The telecom sector in India has gone through a very challenging phase over the last few years, due to a combination of hyper-competition, significant increase in spectrum charges, continuing need to invest in new technologies, higher capital and operating expenses etc.
- c. There has been an exponential growth of Over The Top (OTT) service providers including Apple, Google, Microsoft, Yahoo, Facebook etc. especially on the messaging and voice calls platform through applications like Whatsapp, Skype, Viber and Facetime in the Indian market. These services which have a very high penetration in markets like Europe have already started impacting telecom revenue negatively. The same impact is becoming apparent for Indian operators with a resultant decline in SMS and voice revenues. Over the next 5 years, there is growing realization that SMS revenue will significantly erode in favour of rich, instant and free messenger services. As technology for Voice over IP (VOIP) stabilizes and proliferates, the mobility voice business model will be under severe threat.
- d. The OTT service providers are neither under license contract control nor under any regulation, due to which no regulator around the world has been able to regulate their proliferation.
- e. The results of the November 2012 and March 2013 spectrum auctions, operational consolidation of several operators by exiting unprofitable circles, significant reduction in inflow of foreign capital into the telecom industry are clear signs of an industry under pressure.
- f. NTP 2012 envisages broadband for all and deeper penetration of data services. While as an industry, operators are also aligned to this vision, this requires a further round of large investments to enable large scale availability and penetration.

- g. By our estimates, telecom sector in India has a debt in excess of over Rs. 2,00,000 crores. Given the tough environment the industry is operating under, further lending from either domestic or foreign investors is difficult to come by.
- h. It is therefore clear that for the telecom industry to continue investing in the sector, increase in operational cash flow is vital. For this, increases in sources of revenue as well as cost reduction are both important.
- i. TRAI in its recommendations of September 9, 2013 has emphasised the importance of having a clear spectrum roadmap through initiatives such as opening up of the E-GSM band, as well as ensuring fairness to all operators through uniform Spectrum Usage Charges (SUC). From an operator perspective, this would ensure availability of a vital resource without any artificial scarcity, thereby assisting the industry in addressing a key cost challenge. In addition, the telecom sector requires access to new revenue sources. Voice tariffs are already the lowest in the world. SMS and VAS revenues are sharply eroding. While data services are growing, it will take time before these become a significant revenue contributor. Therefore, the sector requires access to new revenue streams for its survival and growth. Mobile banking services could be one such revenue stream.
- j. The telecom industry is the best positioned to offer the highest quality of services for mobile banking at the lowest possible cost across the broadest width, thereby ensuring the possibility of multifold increase in the number of Indians having access to banking services. As mobile banking grows and customers start using these services, they will, in the long run, also become more sophisticated users of financial services, thereby benefiting the overall banking and financial services ecosystem. Telecom will then truly become an enabler of economic growth through financial inclusion.

3. Financial Inclusion has not been successful in India

- a. Despite best efforts of Department of Financial Services (DFS) and RBI for past several years, financial inclusion has largely been limited to urban households, resulting in nearly half of rural households having no access to banking services.
- b. Banks have not been able to create a viable model for opening and operating no-frills accounts. KYC requirements often cannot be met by those wanting to open accounts, and the process involved of visiting a bank branch is impractical for situations where no bank branches exist in the vicinity.
- c. The Business Correspondents (BC) channel envisaged as a partnership between the banking and telecom sectors to promote financial inclusion has also not been successful on a national basis. The customer cannot pay for supporting two large services sectors. The only model that works is that of regulated competition, wherein both sectors should be given equal opportunity to handle end to end mobile banking services, thereby ensuring the consumer is king and has a choice to decide whose services to use.

- d. Given low margins in serving low balance customers, combined with the cost structure of banks, banks have not been aggressive in promoting no frills accounts. Further, there has been very little growth in mobile banking transactions since they have been launched, indicating that banks have not taken steps to promote use of such services amongst their account holders.
4. **A comprehensive review of the role of the telecom sector in financial inclusion is needed**
- a. Idea Cellular recommends a comprehensive rethinking in terms of the role of telecom operators in increasing financial inclusion if the same is to be achieved on a large scale. Idea's recommendation is that the scope of the current consultation paper has to be significantly expanded to provide for a much deeper and wider role for the telecom sector in increasing financial inclusion, and not just be considered a "bearer" of transactions in the entire value chain.
- b. The new RBI Governor in his opening address has highlighted the importance of inclusive development. He has also highlighted a number of new initiatives, amongst which one is mobile payments, which in his own words could be a "game changer" for both financial institutions as well as mobile companies. Idea Cellular fully supports such innovative and forward-thinking practices.
- c. **Experience in several African and Asian countries suggests that telecom operators can truly revolutionise financial inclusion. The M-PESA example in Kenya, a mobile money ecosystem driven by telecom operators leveraging the twin advantages of their large subscriber base and huge distribution network, is one which Idea Cellular believes can be a game-changer in India. Two thirds of mobile users in Kenya use mobile money. In contrast, the bank-led mobile money model which does not utilize ecosystem and distribution network of Telcos that facilitated the growth of mobile banking in Kenya has been far less successful. For example, with such bank-led model in Nigeria (which we in India are trying to emulate), only 13% of subscribers are using the services two years after launch. Even more disheartening is that 93% of mobile money adopters are using the service in conjunction with an existing bank account, which defeats the purpose of financial inclusion as those without bank accounts are not being addressed.**

In India, RBI has provided two options to participate in mobile banking:

- Bank led model where a telecom company can play the role of Business Correspondent (BC) and distribute banking services through use of mobile technology platforms
- Semi closed wallet or prepaid instrument which is more of a payment instrument as it prohibits cash withdrawals

Both the above models are struggling to get traction. In the BC model, telecom operators are unable to scale due to limited compensation and lack of infrastructure, resources and

competence from the bank side to expedite KYC approvals and seamless transaction experience for the customers. Semi closed wallet has product restriction such as lack of cash withdrawals which makes it only a digital payment instrument.

- d. Increasing urbanisation and the large increase in migrant population are catalysts for person to person money transfers. A comprehensive regulatory structure which meets KYC requirements and promotes secure access to such services will enable true financial inclusion.
- e. Idea Cellular is of the view that financial inclusion can only be successful like mobile inclusion if services are provided through a wider distribution network like that of Telcos (as compared to banks), at a lowest possible cost to users. A model based on a user having to pay for every transaction will not be successful in India. Initial experience on USSD-based services provided by SBI Bank and ICICI Bank indicates very limited usage of these services. Therefore, Idea Cellular is of the view that charges for services need to be borne by banks (and become part of their overall cost structure for no-frills accounts, these costs would still be lower than their other modes), and should not be charged to users. Banks and telecom operators should be able to mutually agree on the terms of such services.
- f. Therefore, Idea Cellular is of the view that mere access to USSD is not going to create any impact in terms of financial inclusion. Financial inclusion can be achieved similar to success stories in African countries such as Kenya by only telecom companies through the following:
 - a. Use of technology - not just limited to USSD but also SIM tool Kit, SMS and Data channels, applications and whatever may be relevant in future.
 - b. Widespread distribution in rural areas. Idea Cellular reaches out to over 3,00,000 villages while the entire telecom industry reach is larger.
 - c. Consumer education and simple trust worthy transactions at affordable prices and offering consumers to do banking in the neighbourhood shops giving them superior convenience.
 - d. Telecom Industry can handhold customers through millions of retail outlets and hundreds of thousands of call centre agents when customers encounter problems at low price points because of its scale.
 - e. Safaricom in Kenya earns substantial part of its total revenue from its M-pesa mobile money initiative contributing significantly to financial inclusion of Kenya and at the same time providing an alternate revenue stream to telecom industry. This is the tested model India should emulate.

Issues for Consultation

With this introduction, we want to reiterate that telecom companies are in much better position to facilitate financial inclusion and they must be encouraged to take up financial inclusion agenda through favourable regulation and commensurate opportunity to provide financial inclusion profitably rather than limiting telecom industry to merely provide USSD bearer access to banks. USSD access provided to banks has not resulted in any transformation in the past based on Idea's experience. With this background we have provided responses to specific queries:

Q1: Do you agree that USSD is one of the most appropriate modes for mobile banking for financial inclusion? If not, which mode do you think is more appropriate? Please support your viewpoint with reasons.

IDEA's Response: -

- a. USSD is primarily the intra network mode and commercial use on a big scale is not tested.
- b. TRAI cannot force telecom service providers to provide a service in a particular mode to the customer. The technical arrangements and tariff thereof are under forbearance of TSP. The license does not mandate provision of service through USSD.
- c. In order to meet real time transactions, networking signalling channels need to be dedicated or optimized, billing platforms will need to be enhanced, storage for CDRs will need to be created, all of which will involve significant increase in both capex and opex. Additionally, call centres will need to be augmented to handle customer queries, resulting in additional manpower requirements and associated costs.
- d. QoS parameters defined by TRAI are too stringent. TRAI should do away with the same for 1-2 years till the mobile banking services really take off. It will be a non-starter or slow starter if these services are mandated with the stringent QoS parameters and penalties thereof. Besides, projections given by NPCI are abysmally low as to warrant significant investments to meet QoS. The objective should be to kick-start the service, allow it to proliferate and after it reaches a maturity level, then only QoS parameters should be deliberated.
- e. Idea's experience of dealing with banks on USSD has not been very satisfactory. Idea has provided access to USSD for ICICI Bank through the code *525# and State Bank of India through technology aggregators in the last three years. Despite having multi million customers ICICI Bank *525# has generated only 25000 transactions priced at Rs 1 per transaction and State Bank of India generated between 13000-19000 transactions per month.
- f. While USSD has certain advantages the success of financial inclusion needs to have many more components as explained above rather than mere access to USSD.

Q2: Do you agree that the Mobile Banking (Quality of Service) Regulations, 2012 should be amended for mandating every TSP, acting as bearer, to facilitate not only the banks but also the

agents of banks acting as the aggregation platform providers to use SMS, USSD and IVR to provide banking services to its customers? Please support your viewpoint with reasons.

IDEA's Response: -

- a. TSP's shouldn't be mandated. TSP and entities such as banks and its agents can arrive at commercials /SLAs on the basis of mutually agreed terms and conditions.
- b. There should not be any mandates on Quality of service on low predetermined prices as it will be unviable for TSP to provide SLAs at such a low cost.
- c. As has been explained earlier financial inclusion requires a whole new ecosystem and mere access to USSD will not solve the problem.

Q3: Do you agree that in case of USSD transactions for mobile banking, the TSPs should collect charges from their subscribers as they do in the case of SMS based and Application (App) based mobile banking? Please support your viewpoint with reasons.

IDEA's Response: -

- a. As this is a banking service, banks need to directly charge customers.
- b. Banks should actively promote the service. Telco's can charge the banks for the B2B services rendered. Earlier attempt as explained above for SBI & ICICI Bank to charge banking customers by Telco's through USSD platforms have failed to yield any tangible results as the banks were totally indifferent in creating awareness among their customers .
- c. Banks should have the ownership of this service; otherwise it will serve no purpose.
- d. The following impediments are envisaged in B2C charging for M Banking on USSD:
 - a. Having customers pay for the service will not be successful in the Indian context. If financial inclusion is the objective, the costs for offering such services should be borne by banks and not by customers.
 - b. Significant investments required by operators to create billing capability for such transactions, without corresponding return on investment.
 - c. Lack of clarity as to whether telecom service providers can bill for such transactions, as neither UASL nor mobile banking guidelines allow operators to charge for such services.
 - d. Liability of the transaction is with the banks; however, the customer will in all likelihood call the mobile operator as awareness of the bank which has no presence in the vicinity will be limited. This will result in significant increase in call centre load for operators. TRAI's argument that no such cases have yet been reported is due to no frills accounts not yet having taken off and therefore not based on empirical evidence of usage of these accounts.
 - e. NPCI is currently paying BSNL and MTNL for the mobile banking pilot that is running with them. Hence, precedence for a B2B charging model already exists. It is Idea Cellular's recommendation that this is the right model to be adopted instead of a B2C charging model.

Q4: Do you agree that the records for USSD transactions must be generated by the TSPs to provide an audit trail for amounts deducted from prepaid subscribers and bills raised to postpaid subscribers? Please support your view point with reasons.

IDEA's Response: - Any such action would require infrastructure resources which will increase the cost. Information on every session will need to be collated from the respective network and billing elements and a central repository maintained. Storage requirements of the repository will need to be defined based on number of sessions and the duration for which these records need to be maintained. This will entail additional hardware, software and maintenance costs for operators. If banks are willing to pay TSP for these additional costs then feasibility to provide such facility can be worked out.

Q5: Would it be appropriate to fix a ceiling of Rs. 1.50 per USSD session for mobile banking? Please support your viewpoint with reasons.

IDEA's Response: - As Telco's have to create capacity for this purpose at high cost and use network resources such as signalling as well as manage potential customers calling at the call centres it would be desirable to have bilateral discussions to arrive at commercials. The commercial structure ideally needs to include the following:

1. Minimum volume of transactions commitment by the banks / its agents
2. One time fee for setting up this facility and provisioning it across circles
3. Tariff based on volumes at different slab payable by the banking partner
4. Additional commercial for specific SLAs sought by the banks
5. Agreement between banks and telecom operators to ensure banks take responsibility of providing this service to its customers and will bear customer care costs of servicing its customers

However, if TRAI does desire to set a ceiling, Idea Cellular recommends a ceiling of Rs. 3 (three) per USSD session for mobile banking, subject to minimum transactions commitment, one time fee for setting up this facility and commercials linked to specific SLA requirements of banks.

Q6: In case your response to Q5 is in the negative, please suggest an alternative methodology to fix a ceiling tariff for USSD session for mobile banking. You may also support your viewpoint with a fully developed model with associated assumptions, if any.

IDEA's Response: The alternative methodology is as explained in response to Q 5 that the bank should pay B2B charges to Telco's on a per transaction basis on mutually agreed terms. It needs to aggressively promote the short codes to customers and may at its discretion recover such cost from its customers or offer it free.

Q7: Is there any other relevant issue which should be considered in the present consultation on the use of USSD as a bearer for mobile banking services?

IDEA's Response:-

Financial Inclusion has not been successful in India

- a. Despite best efforts of Department of Financial Services (DFS) and RBI for past several years, financial inclusion has largely been limited to urban households, resulting in nearly half of rural households having no access to banking services.
- b. Banks have not been able to create a viable model for opening and operating no-frills accounts. KYC requirements often cannot be met by those wanting to open accounts, and the process involved of visiting a bank branch is impractical for situations where no bank branches exist in the vicinity.
- c. The Business Correspondents (BC) channel envisaged as a partnership between the banking and telecom sectors to promote financial inclusion has also not been successful on a national basis. The customer cannot pay for supporting two large services sectors. The only model that works is that of regulated competition, wherein both sectors should be given equal opportunity to handle end to end mobile banking services, thereby ensuring the consumer is king and has a choice to decide whose services to use.
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- b. The new RBI Governor in his opening address has highlighted the importance of inclusive development. He has also highlighted a number of new initiatives, amongst which one is mobile payments, which in his own words could be a "game changer" for both financial institutions as well as mobile companies. Idea Cellular fully supports such innovative and forward-thinking practices.
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