Vodafone's Counter Comments to TRAI's Consultation Paper on the Review of Regulatory Framework for the use of USSD for Mobile Financial Services

Executive Summary:

We support the Government's objective of enabling financial inclusion for all citizens and we express our support on the need to facilitate subscribers to avail mobile USSD banking transactions successfully and with ease.

However, we disagree with the views of some stakeholders for achieving the above objectives, such as:

- The continuation of regulated B2C charging model with reduction and/or change in USSD retail pricing model
- The proposal for additional services/facilities such as merchant payments to be made available within the ambit of a regulatory mandated B2C regime
- Enabling USSD push notifications, etc.

We note that a number of stakeholders support our points on the value of allowing flexibility in the charging model and echo our contention that Banks under-promoting the service and preferring competing products such as Apps, etc., are some of the factors responsible for the low adoption rates of USSD-based mobile banking services.

We reiterate that present regulated B2C model needs to be reviewed to allow flexibility, including B2B /hybrid models to encourage adoption of USSD for mobile banking and financial services by consumers and to build sufficient incentives for both TSPs and Banks. It will also allow for a healthy price discovery system to play out and engender competition amongst the ecosystem of various players - TSP, Banks, aggregators, etc.

Lastly, price regulation should be used only if there is evidence/risk of market foreclosure. In the Indian context, the risk of foreclosure is very limited as TSPs have an interest in forging partnerships with banks to broaden the scope of potential cash inflows into mobile money services and, in the long term, to enable sophisticated services such as credit provision. Consequently, we believe that the focus of banking and telecom regulators should shift to ensuring an enabling regulatory environment for inclusive financial services, encompassing all channels, all models, etc.

Detailed Submissions:

1. At the outset, we reiterate that the reasons for limited USSD uptake are not the cost of the service but known limitations/constraints of USSD as a channel (such as those enumerated below) as well as a the propagation of 'advanced' channels :

a. Not a very consumer friendly channel experience (e.g. long IFSC code/MMID details required to be entered in small feature phone screens, non-availability of 'review' of details entered for transactions resulting into erroneous beneficiary details, etc.)

b. Frequent QoS issues experienced by consumers on account of issues/delays between NPCI's gateway and Banks' servers (as submitted in our response).

c. Present non-availability of vernacular UI (User Interface) for *99# service.

d. Increasing popularity and availability of better alternatives for consumers to access banking services which are far more convenient, interactive, feature rich and offer detailed information – such as, Phone banking, Internet banking, Mobile Applications, etc. This has been voiced by one Bank (leading national private bank), and many consumers and Fin-tech companies – some excerpts below :

   'The Banks have been promoting several other competing channels from 2013 like Mobile banking Apps, IMPS, net banking and now UPI which has cannibalized any potential uptick in USSD. These other channels have seen very good uptick for all concerned.'

   'The main issue with USSD browsers is they are all in English hence excludes semiliterate / illiterate masses. Government should make local language support for USSD browser a must for all the phones sold in India. Still for very illiterate users - Local voice enabled menus would make wonders'

   'Given the rapid growth of Smartphones in the country, driven primarily by launch of low cost models, mobile banking via applications or Mobile browsers are options, that must be, in our view explored further.'

e. Consumers have even opined that IVR based phone banking is far more convenient as it can be used even by illiterate people and in vernacular languages – this channel has not been properly exploited by Banks.

2. We disagree with the submissions made by NPCI, RBI and Banks that USSD retail price point needs to be reduced and/or charging model needs to be changed (from per session to per successful transaction) to encourage adoption of USSD channel by consumers, for reasons as enumerated in **Point 4(b & c)** below.

3. We also reiterate that the current mandated B2C pricing model is limiting innovation and competition to the detriment of consumers and for this reason we strongly believe that this model must give way to a de-regulated B2B model, to allow the TSPs and Banks to arrive at the optimal structure/model to encourage use of this channel by consumers.

We note that apart from TSPs and various associations, many Fin-tech/Tech companies, consumers/individuals and one Bank (leading national private bank) have voiced support for a deregulated B2B rather than the current B2C model which will benefit consumers. Some excerpts are:

> *'If the banks want to save cost and encourage Electronic banking, then they can absorb the cost of Banking USSD. It is better that banks bear for initial few numbers of transactions; for example cost for initial 10 or 20 transactions per month is beared by banks and more than that can be charged to customers.'*
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> *'If we look at all the successful MFS models across the world, one common denominator we could easily identify among all providers is that mobile financial service provider never passed the USSD costs onto the end users. Passing USSD costs onto the customer becomes an effective entry barrier for end user and detrimental to the financial inclusion agenda of the govt. of India.'*
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> *'An optimal cost sharing model between banks and customers should be created.'*

Also, many Banks themselves have requested for various mix of models such as fixed monthly subscription basis (akin to insta-SMS alert monthly packs offered by banks to their users) instead of the current mandated approach.

4. Without prejudice to our views as stated above, if the Authority still intends to continue the existing regime and revise the current price ceiling and/or impose additional requirements on TSPs, then the following needs to be taken into account by the Authority :

    a. **Changes to the USSD menu in terms of :**

        i. **Number of stages/transactions in a USSD session:** Unlimited number of stages/transactions is neither practical nor desirable. At least 3-4 banks have clearly mentioned that lesser number of stages in USSD menus are required to help ease the use of *99# service by consumers, as otherwise the possibility of timeout increases resulting in customer dissonance. Unlimited number of stages could also be prone to misuse in the market (especially by Agents/BCs) and one bank has even mentioned that unlimited number of transactions may generate too much unnecessary traffic towards Bank Systems making it vulnerable to overloads as well as hacking attacks. Excerpt from one bank is below :

        '*… The number of sessions in USSD should be as minimal as possible. More sessions will be cumbersome, and possibility of a timeout increases with increasing number of stages.'*

We reiterate that maximum 5 stages/transactions in a USSD session are sufficient, however, these can, at best, be increased to 8 to facilitate consumers to overcome the issues of incorrect entries of bank account numbers and IFSC codes. Such increase in the number of steps would also lead to a concomitant increase in the cost/tariff of the USSD services, which may also be kindly considered by the Authority.

ii. **Additions in USSD menu to facilitate merchant payments :** Unlike mature mobile money markets like Tanzania and Kenya, the market in India for USSD access is still in its infancy. We reiterate that market forces should be allowed to determine the approaches on such opportunities, rather than straight-jacketing the existing regulated B2C model on such opportunities, which may not yield the desired results as different business requirements/use cases would demand different access regimes/prices. Some banks (both private and public sector banks) have also raised this issue and clearly stated that achieving financial inclusion will require a flexible regulatory regime to drive innovation. . Excerpt from some banks are below:

'All variety of Mobile Banking Services may be allowed in future but as of now the focus should be on Mobile Banking Services. As a part of Financial Inclusion initiative, a large Customer base can be tapped with USSD platform whose main requirement is Basic Banking Services. For full fledged services Internet Banking Platform well as Mobile Banking Platform with better security and authentication facilities is already available.'

*'...*99# service will become confusing for the users. But this can be implemented in *99# application.'*

iii. **Enabling USSD push notifications:** We reiterate that USSD push notifications cannot be enabled by TSPs for Banks/NPCI on account of inherent security risks in enabling such connectivity. We note that two banks have also opined against it on account of consumer security/privacy and experience issues – excerpts below :

'... Since the data goes unencrypted, there may be cases of Fraud transactions.'

'While USSD Push sessions offer great facilities, they are actually not needed. The Mobile Phones are connected wirelessly and due to interferences or Network Handovers, connections may be dropped midway a transaction, leading to drop in sessions. Now the Customer may initiate multiple sessions for the same transaction while the previous Push sessions are stuck in Network. This may create some operational issues such as duplicate transactions being initiated from Customer. If a session fails, the Customer may initiate a Fresh transaction once again with no relation to the previous sessions. The same methodology is being used in Internet Banking transactions as well.'

b. **Charging model**: At the outset, we disagree with the views of NPCI and some banks on cost based tariff for USSD session and reiterate that cost based USSD tariffs cannot be mandated for 3rd party service related retail transactions i.e. costing methodology is not relevant for a 3rd party's service enabled by TSP to consumers. In any event, the cost of a USSD session is difficult to determine at present due to very low volumes for these services. We also do not agree with the proposals put forth by RBI, NPCI and some Banks w.r.t the varying price points for regulated cost based USSD tariff per USSD session/transaction or w.r.t monthly subscription packs. Also, the banks have not provided any adequate reasoning/basis for suggesting such price points, whether for USSD transaction/session based or for monthly subscription based models. As already submitted, we believe that the present ceiling tariff is reasonable and need not be reviewed. However, notwithstanding our contentions as stated above, if at all any retail prices for USSD on mandated B2C model are to be arrived at by the Regulator, then:

i. **These should only apply for USSD sessions based services and not for monthly subscription packs** which can be easily offered on the basis of B2B arrangement between Banks and TSPs.

ii. **Number of stages/ transactions and duration of USSD session will need to be considered** for setting duration based USSD retail tariffs. It is only logical and fair that by extending the number of steps or stages per USSD session, the length of average USSD session will get extended and this, in turn, should be reflected in the pricing of USSD session. In Kenya, one of the most successful mobile money markets, operators have estimated that USSD sessions typically last 180 seconds. Notwithstanding our contentions w.r.t regulated USSD retail rate, an average outgo per outgoing minute (blended rate) at the very least, should be used by the Authority since TSPs host USSD gateway centrally requiring long distance signalling network utilization, which can be multiplied by a factor of 180 seconds to arrive at the revised regulated USSD retail rate for a USSD session per customer. This would amount to say ~Rs. 0.50 * 180 seconds = Rs. 1.50/USSD session (i.e. existing regulated rate), whereas NPCI, RBI and Banks are proposing USSD transaction (which we understand to be 'session') based rates ranging between Rs. 0.20 to Rs. 0.50. It needs to be noted that with increase in number of stages, consumers may take more time per USSD session/transaction.

iii. **Both successful and failed USSD sessions will need to be considered** for setting USSD retail tariffs as there is no solution available with TSPs to determine the reason for drop/failure in USSD session – whether the session was terminated by consumer or dropped due to any other reason. One bank has suggested that TSPs should not charge customers for USSD sessions that have terminated due to technical/network related issues at TSPs' end. As mentioned above, TSPs do not have a mechanism to segregate technical/network related issues from customer behaviour issues or issues beyond the control of TSPs (akin to call drops) and hence, this suggestion is not technically feasible. Also, we disagree with the proposals made by RBI, NPCI and some banks that NPCI may pass on the flag in the transaction response basis which TSPs can decide to charge the customer or reverse the charges in case of a failed transaction. It is first submitted that TSPs cannot be expected to absorb the cost if the transaction fails/is aborted due to any reason such as customer abruptly terminating the session, customer's battery discharge, customer receiving a call, customer moving out of coverage area, timeout/error due to non-submission of option/incorrect submission by customer or response by bank, connectivity issues at NPCI's or Bank's end. Each and every session / transaction, irrespective of whether it is a success or a failure engages TSP's signalling resources and other core network elements. Moreover, presently TSPs' USSD gateways do not have the technical capability to implement charging based on NPCI's transaction flags. Thus technical development (at USSD gateway) along with billing development will need to be undertaken by TSP. It will also mean additional load on TSPs' billing systems (billing for each successful session per customer, instead of each USSD session regardless of success/failure alongwith reversals/credits) and addressing customer billing complaints incurring additional costs to TSPs.

iv. **Charging will need to be applied at the beginning of USSD session:** It is not possible for TSP to enable charging on 'post transaction flag update' basis as it may lead to bad-debts for TSPs since the USSD transaction/session would get enabled even though subscribers have low or negative core balance.

5. Other points we would like to raise are :

a. Suggestions by some Banks/other stakeholders such as SIM embedded menus for *99# service, cannot be mandated through regulations as these involve costs in development with SIM vendors. These can be explored only in a deregulated B2B model. Similarly, the suggestion of insertion of *99# in TSP's USSD self-service menus (*123#, *121# etc) have to explored only in a deregulated B2B model.

b. USSD is not functional in CDMA networks and has not been deployed by a pan India 4G LTE TSP that has commercially launched services nation-wide in September 2016, which creates a non-level playing field between existing TSPs.

c. It is clearly evident from the responses to the consultation paper that banks require additional facilities under USSD *99# services to enable consumer uptake of these services. It is reiterated that such additional facilities can best be served under a de-regulated B2B arrangement on the basis of mutual arrangements with banks since additional investments will be required by TSPs to enable such services.

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