



Telecom Regulatory Authority of India



Consultation Paper
on
Review of Processing Fee on Talk time Top-Up vouchers
and Charges for Premium Rate Services

3rd August, 2012

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Stakeholders are requested to send their comments preferably in electronic form by 18th August 2012 on email Id raj.pal@nic.in or eco@traigov.in. For any clarification/information, Shri Raj Pal, Advisor (F&EA) may be contacted at Tel.No.+91-11-23230752, Fax No.+91-11-23236650

Last date for receiving comments has been extended up to 3rd September, 2012, forenoon.

Review of Processing Fee on Talk time Top-Up vouchers and Charges for Premium Rate Services

INTRODUCTION

1. This paper seeks to solicit views of the stakeholders on the proposal to review the provisions of Telecommunication (Tariff) Order, 1999 regarding 'processing fee on top-up vouchers' and 'charges for premium rate calls and SMSs'. The ceiling tariff for processing fee is presently governed by the provisions of TTO 50th Amendment notified on 19.04.2012. Separately, the Authority had prescribed ceiling tariff for certain categories of Premium Rate Services vide TTO 51st Amendment notified on 20.04.2012. TRAI has looked into the manner in which these provisions were being implemented in the market. There have also been representations from stakeholders to take a relook at these provisions so as to make the tariff affordable, reasonable and implementable. National Telecom Policy 2012 has emphasized the need to enhance the ability of the poorer sections of the society, both in rural and urban areas, to benefit from technology. It is in this context that the Authority proposes to seek the comments of stakeholders to review the provisions relating to processing fee as well as tariff for Premium Rate Services.

REVIEW OF PROCESSING FEE ON TOP UP VOUCHERS

2. The ceiling on processing fee was specified by the Authority for the first time vide TTO 48th Amendment notified on 01.09.2008. As per this Order no fixed charges in the form of processing fee shall be levied on exclusive talktime top-ups except a nominal fee not exceeding Rs.2/- to meet the administrative cost or expenses. Prior to 48th Amendment service providers were levying processing fee in the range of Rs.3/- to Rs.95/-. The Authority wanted to bring the level of processing fee to a reasonable and justifiable level. It was also thought that such a step would help in enhancing the transparency for consumers.

Amendment to TTO (50th Amendment)

3. There were demands from the industry to increase the ceiling of processing fee from Rs.2/- to Rs.3/- citing, among other grounds, inflationary pressure and hike in the cost of providing service. The Authority considered their requests and undertook a consultation process seeking the views of stakeholders. Based on the inputs and suggestions received during the consultation process the Authority reviewed the provisions and notified a new scheme on processing fee vide TTO (50th Amendment). In the revised scheme implemented through the 50th Amendment the Authority increased the ceiling on processing fee to Rs.3/- in respect of top-up denominations of Rs.20/- and above, while retaining the ceiling of Rs.2/- in respect of top-ups below Rs.20/-.

Prevailing market practices on charging of processing fee

4. The Authority has looked at the manner in which the new provisions were being implemented in the market and observed the following practices:

- (i) Processing fee of Rs.2/- is charged on the Top up Voucher having MRP of Rs.10/- by all the service providers. For Top up Voucher having MRP Rs.20/- and above processing fee is generally Rs.3/-.
- (ii) For higher denomination Top up Vouchers, the service providers are even charging zero processing fee.
- (iii) There are several top-up vouchers of higher value providing monetary value equivalent to MRP, in which case the service provider, in addition to charging 'NIL' processing fee, also absorbs the Service Tax component.
- (iv) There are also top up vouchers available in certain higher denominations offering monetary value more than MRP of the Top up Vouchers.

- (v) The impact of fixed amount of Processing Fee is relatively more on top up vouchers of smaller denominations as compared to higher denomination top up vouchers. With multiple recharges, the subscribers recharging with smaller denomination top up vouchers end up paying substantially more processing fee in comparison to the subscribers recharging with high value top up vouchers.

Need for Review of Processing Fee on Top Up Vouchers

5. In practice, charging fixed amount of processing fee on smaller denomination top up vouchers is leading to higher burden on the subscribers who cannot afford to recharge their accounts with top up vouchers of higher denominations. Poorer subscribers, due to low paying capacity cannot afford to recharge their prepaid balances through large denominations top up vouchers. Thus, out of compulsion they recharge with small denominations. If a low usage subscriber during a particular period is required to recharge up to Rs.100/-, due to multiple recharges (in small denominations) he ends up paying more processing fee in comparison to those who recharge the same balance by using higher denominations top up vouchers.

6. The impact of processing fee on various denominations of top up vouchers under the existing structures is depicted in the Table-1 given below. As may be seen from the Table, the existing level of processing fee is 20% on a top up voucher of Rs.10/-, and this level goes on decreasing with increase in MRP of the top up voucher and becomes 0.3% on top up voucher of Rs.1000/-.

Table-1 : Existing Structure for charging of Processing Fee on Top up Vouchers

MRP	Service tax 12.36% [MRP*r/ (100+r)]	Processing fee	PF as % of MRP	Talk time (MRP-ST- PF)	Talk time as % of MRP
10	1.10	2	20.0	6.90	69.00
20	2.20	3	15.0	14.80	74.00
30	3.30	3	10.0	23.70	79.00
40	4.40	3	7.5	32.60	81.50
50	5.50	3	6.0	41.50	83.00
60	6.60	3	5.0	50.40	84.00
70	7.70	3	4.3	59.30	84.71
80	8.80	3	3.8	68.20	85.25
90	9.90	3	3.3	77.10	85.67
100	11.00	3	3.0	86.00	86.00
200	22.00	3	1.5	175.00	87.50
500	55.00	3	0.6	442.00	88.40
1000	110.00	3	0.3	887.00	88.70

7. The prevailing system of charging of processing fee is evidently regressive and against the principle of equity. It stands in the way of enhancement of ability of the poorer sections of the society to benefit from technology.

8. One inference that can be drawn is that fixed amount of processing fee on smaller denomination top up vouchers results in higher effective charge on a large number of low usage subscribers. This is a matter of concern. Since mandating of fixed processing fee on top up voucher in September 2008, number of wireless subscribers has increased from 298.84 million to 929.37 million in May, 2012. With the penetration of mobile telephony in semi-urban and rural areas, the new additions in the number of wireless subscribers are increasingly from lower income groups. Top up vouchers of MRP below Rs.20/- account for 50% of the total recharges, with top up Rs.10/- alone accounting for 30%.

Fixed Vs Ad valorem Processing Fee

9. Processing fee could be levied as a fixed amount or as a certain proportion of MRP of the top up voucher. There are arguments for and against each of these methodologies of charging processing fee. The fixed amount of processing fee is favoured from the point of view of transparency and simplicity. However, the impact of fixed amount of processing fee is unreasonably high on smaller denomination top up vouchers and it becomes lower with increasing MRP of the top up vouchers. The processing fee which is a reasonable proportion to the MRP is more equitable. However, the problem in this case is to determine a reasonable proportion to apply to the MRP. If the proportion is too low, the level of processing fee on very small top up vouchers is reduced to a very low level, making such vouchers unviable for SPs to offer. The processing fee then may not be sufficient to compensate the service providers towards administrative costs/expenses in the provision of top up vouchers. On the other hand, if the proportion is fixed at a higher level, the service providers will be over compensated on higher denomination vouchers beyond the actual cost involved in provision of such vouchers.

Option-1

10. Based on the above analysis and facts, **one option could be to mandate a tiered structure of processing fee as ceiling, combining elements of a fixed and proportionate charge:**

11. This would ensure that the level of processing fee while in proportion to MRP, at the same time would be reasonable and affordable across all denominations of top up vouchers. The impact of such a tiered structure of ceiling processing fee on vouchers of various denominations derived from the application of Rs.0.50 as fixed charge and a variable (proportionate) charge of 3% of MRP, is depicted in the Table 2.

Table 2: Tiered structure of levying processing fee

MRP	Service tax 12.36% [MRP*r/ (100+r)]	a+bx	PF	PF as % of MRP	Talk time (MRP-ST- PF)	Talk time as % of MRP
10	1.10	0.80	1	10.0	7.9	79.0
15	1.65	0.95	1	6.3	12.4	82.7
20	2.20	1.10	1	5.0	16.8	84.0
21	2.31	1.13	2	9.5	16.7	79.5
30	3.30	1.40	2	6.7	24.7	82.3
40	4.40	1.70	2	3.9	34.0	85.1
50	5.50	2.00	2	4.0	42.5	85.0
51	5.61	2.03	3	5.9	42.4	83.1
60	6.60	2.30	3	5.0	50.4	84.0
70	7.70	2.60	3	4.0	59.5	85.0
80	8.80	2.90	3	3.8	68.2	85.2
90	9.90	3.20	3	3.3	77.1	85.7
100	11.00	3.50	3	3.0	86.0	86.0
> 100	As applicable	Forbearance				

a= towards fixed cost (Rs. 0.5); b= Towards variable cost of distribution and retail (3% of MRP); x=MRP

12. On the above basis, the processing fee ceiling across four bands of MRP would be as summarized below:-

MRP (Rs.)	Processing Fee (Rs.)
0-20	1
>20-50	2
>50-100	3
>100	Forbearance

Option-2

13. As an alternative, with a view to achieve the objective of reasonable and affordable processing fee across all denominations, **processing fee could be mandated as ceiling ad valorem at ten per cent of MRP for top up vouchers having MRP up to rupees thirty. For top up vouchers of value greater than rupees thirty, the ceiling on processing fee would be rupees three only.**

14. Based on the above structure, the processing fee on top up vouchers would be as summarized below:

MRP (Rs.)	Processing Fee (Rs.)
10	1
20	2
30	3
> 30	3

15. A third approach could be to do away with the processing fee altogether. As per industry estimates, more than 80% of the recharges are done through electronic means. The cost of electronic recharge being lower than that of paper recharge as such recharges do not involve printing and handling costs, the weighted average costs of the recharges would exhibit a falling trend with increasing proportion of electronic recharges in total recharges.

16. The fact that currently several Top-Up Vouchers provide monetary value equal to MRP or even more than MRP in certain cases, gives a clear indication that service providers do not necessarily look at 'Processing Fee' as the sole medium for recovering costs of service.

Option-3

17. **In view of the above, it could be mandated that no amount, whether fixed fee or otherwise, other than applicable taxes shall be levied on any top up voucher exclusively meant for provision of talk time value.**

18. In other words, there would be zero processing fee on top up vouchers. This option may not adversely affect the revenue realization of the service providers, as the existing tariff regulatory regime allows flexibility to the service providers for determining tariff for various services and that the cost for provision of services including towards administering the top up vouchers can be recovered through various tariff items which are under forbearance.

REVIEW OF TARIFF FOR PREMIUM RATE SERVICES

19. Premium rate services (PRS) generally offer some form of content and include services like helpline services, competition, voting, ring tones, gaming etc. The services include both telecommunication services as well as non-telecommunication (“content”) services, which are both billed by the provider of the telecommunication service. Access to PRS is through special numbers and charges for such services are levied at rates higher than the rates applicable to the consumers as per his tariff plan. The revenue generated through the PRS is shared between the Telecom access provider and the content service provider.

20. In the context of concerns raised on the prevailing high rates and lack of transparency in the provision of Premium Rate Services, the Authority undertook a consultation process inter alia, to explore the possibility of prescribing regulatory measures to address these concerns. After considering the view points of stakeholders and the market practices followed by the service providers, the Authority issued Telecommunication Tariff Order (51st Amendment) on 20.04.2012 inter alia, specifying ceiling tariff for certain categories of PRS. As per this Order calls made and SMS sent to participate in contests and

competitions and to vote in television and radio programmes shall not be charged more than four times of the applicable local charges in the Tariff plan opted by the subscribers. In this Tariff Order the Authority had attempted to relate the charges for calls and SMS for PRS, to the rates available in the Tariff plan of the subscriber.

21. Two major Associations of service providers have represented to the Authority expressing serious difficulties in implementing the ceiling tariff as specified in the 51st Amendment. The difficulties are mainly because of relating the ceiling tariff for PRS to the tariff plan applicable to the subscriber. Their main submissions are:

- (i) There are number of tariff plans for the subscribers in a given service area resulting in several levels of local call/SMS rates at the pan India level. Therefore, configuring the billing systems to enable charging of PRS based on individual subscriber's tariff plan, which is dynamic in nature, will be extremely complex and challenging to implement.
- (ii) Currently the reconciliation of billing for the particular PRS is done on the total count basis at a standard rate between the service providers and the content providers. With the coming into effect of the 50th TTO Amendment, the reconciliation at the dynamic rates between the operators and the content providers would be extremely complex and challenging, wherein for even one operator, different set of customers would be charged at different rates. This situation may lead to multiple disputes.
- (iii) There are some content providers having codes common across operators, who are giving VAS services and also use the short code for contests/ TV programmes etc. In such a situation, it will be difficult to segregate the charging.
- (iv) If the ceiling for the PRS is dynamically configured on the tariff plan opted by each subscriber, the service would be offered to different subscribers at different price points which would amount to discrimination and lead to subscriber dissatisfaction.

- (v) Because of the dynamic system of charging, it will not be feasible to communicate the charges to the customer as required under provisions of TCPR, 2012.

22. Keeping in view the above facts, the association of the service providers have suggested for implementing a uniform ceiling rate of Rs.4 for all calls (per minute) and per SMS made for contests and competitions including for voting into TV and Radio shows, which is four times the prevailing base rate of Re.1 per SMS as well as per minute of voice call.

23. Separate representation has also been received from a company engaged in the development of integrated participation interactive content in the Indian Mobile Value Added Service market. They have claimed that substantial content is delivered to the mobile subscriber when they participate in various contests offered on TV, Internet, Radio or Print as the customers are able to listen to latest Bollywood/ Cricket News, Jokes, Songs, Music etc. According to them the share of revenue they get is only about 30% and with the ceiling tariff specified in the 51st Amendment, they will not be in a position to recover the cost involved in developing and delivering the content. They are also helping the consumers to make informed choice through several means including conveying the cost of participation (the per minute/ per SMS rate) through continuous scroll on video displays, 'pre call alert' in voice local regional language, Hindi and English.

24. The grounds and objectives for specifying the ceiling tariff for certain categories of PRS, have been clarified in the Explanatory Memorandum to the 51st Amendment. However, in the light of representations received, the matter is being reviewed with particular focus on implement-ability and on ensuring transparency. Tariff for Premium Rate Services, when related to the local call charges of the subscriber, gives rise to several problems both in terms of difficulty in implementation and ensuring transparency. There are quite a large number of tariff plans offered by different operators having different

Local Call Charges. The pulse rate applicable for local calls are also different for different plans and services. Charging for PRS have to be at a uniform pulse rate which is generally '60 seconds' and this would be part of the negotiated agreement between service providers and other parties involved in the provision of PRS.

25. Another difficulty is that the subscriber is not actually charged at a uniform single rate in his tariff plan on most of the occasions. This is due to the fact that the actual charges for local calls/ SMS would be different for peak/ off peak, on-net/ off-net and also depending on the special tariff packs (STVs) availed by him from time to time. Thus, in addition to the difficulty in implementation, the subscriber will also not have a clear idea on the level of the local call charges applicable for him at the time of availing the PRS.

26. Linking the charges for PRS to the local call rates may also make it difficult to implement the transparency measures which have been separately mandated. Thus, the broadcasters will not be able to communicate a single rate on their TV shows and radio programmes during the programme, since there is no uniform rate that can be so conveyed. The Telecom Consumer Protection Regulation, 2012 states "Every service provider providing or giving access to a Premium Rate Service shall ensure that the rate of such call is conveyed to the consumer through a voice alert prior to the materialization of the call...". Similarly, the TRAI Direction issued on 03.05.2005 requires the service providers to publish in all communications/ advertisements relating to Premium Rate Services, the pulse rate/ tariff for the service. When each subscriber is required to pay local call charges of his plan which again is of dynamic nature and not uniform, compliance of the above regulatory mandates would become difficult.

27. In view of the above, the Authority feels that the provisions of TTO 51st Amendment relating to tariff for PRS needs to be reviewed and revised. Accordingly, the following options are put up for consultation:

Option-1

Mandating a ceiling of Rs.3 per minute for calls and per SMS made to participate in contest and competition and to vote in television and radio programmes.

28. The local call charge in most of the base tariff plans is currently Re.1/- per minute. Similarly, local SMS charge is Re.1/- per SMS. Further, there are tariff plans offering calls and SMS at lower rates compared to the above mentioned base rate. As per the revenue and usage detail reported by the service providers to TRAI, for the quarter ending 31st March 2012, the average outgo per minute of GSM service and CDMA full mobility services works out to Rs.0.49 and Rs.0.47 respectively. If a ceiling for calls and SMS for participating in contest and competition and to vote in television and radio programmes is fixed at 4 times the base tariff i.e. at Rs.4 per minute for voice call and Rs.4 per SMS, it will mean that for many subscribers who have tariff plans with call rates and SMS rate lower than Re.1/- per minute for voice calls or Re.1/- per SMS, the ceiling will be more than four times their normal tariff. The ceiling tariff for calls and SMS for participating in contest and competition and to vote in television and radio programmes, could therefore be fixed at a level somewhere below Rs.4/-, say at Rs.3/-.

Option-2

29. Not mandating any ceiling tariff for calls and SMS made for participating in contest and competition and to vote in television and radio programmes i.e. bringing back the ceiling tariff for such calls and SMS under forbearance.

30. The Authority has notified the Telecom Consumer Protection Regulations, 2012. These Regulations have mandated improved transparency in the provision of PRS. The service providers are required to inform subscribers of the tariff for various PRS in a transparent manner. Further, there could be a case that the calls made for

participating in contest and competition and to vote in television and radio programmes cannot be put in the category of essential services. As tariff for calls and SMS in general is under forbearance, there may be a case for doing away with the ceiling tariff for calls and SMS meant for participating in contest and competition and voting in television and radio programmes under the principle of caveat emptor.

Issues for Consultation

- 1) Which one of the three options discussed under para nos.10-18 would be suitable for mandating levy of processing fee on top up vouchers?**
- 2) Should Authority fix a ceiling tariff of Rs.3 for calls and SMS meant for participating in contest and competition and to vote in television and radio programmes?**
- 3) Should the tariff for calls and SMS meant for participating in contest and competitions and to vote in television and radio programmes be forborne?**

Note: The stakeholders are requested to give full justification along with their response to each question.