

November 28, 2013

DUA
CONSULTING

Mr. Arvind Kumar
Advisor (NSL)
Telecom Regulatory Authority of India
Mahanagar Doorsanchar Bhavan
Jawahar Lal Nehru Marg
New Delhi 110 002

Dear Mr. Kumar

Please find enclosed a copy of our submission in response to the Consultation Paper Number 10/2013 on 'Revenue Sharing Arrangements for Calling Card Services'.

We are of the opinion that the introduction of calling cards would provide a powerful tool in the hands of the consumer to choose a cost effective long distance operator as well as create competition in the sector, as has been demonstrated elsewhere in the world.

Currently, the incoming outgoing ILD traffic ratio is 1:19 tilted towards incoming traffic. The high levels of incoming traffic clearly demonstrate that this is on account of VOIP telephony as well as calling cards. For 2012-13, the outgoing ILD traffic was approximately 4.6 billion. This number can easily go up to 9-10 billion, by a safe estimate, once the cost-effective calling cards are introduced.

The increase in outgoing ILD traffic will also imply that the access charge retention would go up significantly for access service providers. We suggest fixing a percentage of say, 10-15% of the access charge retention for the benefit of the calling card service provider.

The issues mentioned above are further elucidated in the submission, for your kind perusal and consideration.

Season's Greetings & Best Personal
Yours sincerely
Yours

[Signature]
28 Nov 2013

B.K. Syngal
Senior Principal

Encl: as above

DUA CONSULTING PRIVATE LIMITED

Registered Office: 301-303, Tolstoy House, 15 Tolstoy Marg, New Delhi - 110 001, India

Tel: 91-11-23359347 Fax: 91-11-23738450 E-mail: dua@duaconsulting.com

BANGALORE • CHANDIGARH • CHENNAI • GURGAON • HYDERABAD • MUMBAI • PUNE

Revenue Sharing Arrangements for Calling Card Services

Introduction- Calling Cards

A calling card is a service that allows you to make phone calls through a credit system (mostly prepaid, but in some cases it can be postpaid). It does not necessarily involve buying a card, though in many cases, the service does start with the purchase of a card. The card grants you credit to make phone calls. Long distance calling cards carry the advantage of allowing you to make international calls for much cheaper than with traditional calling methods.

For the purpose of access service licenses (fixed line and cellular), the country has been divided into 22 License Service Areas (LSA), which are mostly co-terminus with state boundaries with certain exceptions. The intra-LSA traffic including the long-distance calls originating and terminating within the boundaries of the LSA can be carried by Access Providers themselves.

However, this traffic can also be carried by NLDO with mutual agreement with the originating service provider. For carriage of inter-LSA traffic i.e. Long Distance traffic, originating in one LSA and terminating in another LSA, calls have to be routed through an NLDO. International Long Distance (ILD) traffic from fixed and mobile networks is routed through the network of an NLDO to the ILD operators (ILDO) gateways for onward transmission to international networks.

The introduction of calling cards would benefit consumers immensely by offering choices for choosing a NLD/ILD operator. In today's day and age, the consumer does not have a choice in this regard. The consumer is tied to his/her access service provider, some of who are not even integrated service providers. The inception of calling cards would provide a powerful tool in the hands of the consumer to choose a cost effective long distance operator as well as create competition in the sector, as has been demonstrated elsewhere in the world. A buyers' market ensures that customers get the maximum benefit. Of course, one must guard against its misuse through provisioning of additional intelligence networks.



Aspects to be Considered

Addressed below are the key points to be considered while considering the regime for regulating Calling Card Services –

1. Need for prescribing Access Charges- It is evident that despite certain efforts being made by the Regulator to implement Intelligent Network Regulations for Calling Cards, the access service providers haven't entered into mutual arrangements with the NLD/ILD operator, which is mutually beneficial to both parties. Till December 2012, most TSPs had not entered into interconnection agreements to provide calling cards as there were large variations in the rates at which some TSPs had entered into these agreements. This was a clear case of large integrated TSPs attempting to protect their turf in the NLD/ILD segment, and earn profits through high margins, as opposed to volumes. Some of the telecom service providers have been deliberately trying to stifle the calling card industry by keeping high access charges.

The access service providers have basically tried to indulge in a game of retention, where it seeks to assert its advantage in getting away with the kind of revenue sharing arrangements it enters into with the NLD/ILD operator and the margin it earns on an ISD call. The broad objective behind implementing efficient revenue sharing arrangements for Intelligent Network Based Calling Card services is to further amplify the role of telecom in enabling inclusive growth in India. National Long Distance (NLD) and International Long Distance (ILD) connectivity have already empowered millions of people in numerous ways and helped India find its rightful place in the global economy. However, there is much untapped potential in the NLD/ILD segment that can further transform the lives of consumers across the board. It is therefore an opportune moment for the TRAI to roll-out the second generation reforms it has been mulling over in this segment since 2008, and usher in a new wave of telecom driven growth.

Thus, a ceiling as to the access charges to be paid by the NLDO/ILDO to the access provider must be prescribed by the Regulator. It is imperative for the regulator to step in at this point, and clearly specify the access charges to be paid by the NLDO/ILDO to originating Access Providers and ensure all players have a level playing field from which they can enter the calling card business.



2. Competition & Choice- Going by precedence, giving the consumer greater choice has fostered better competition in all segments of the telecom sector. In the current prevailing regime, it is the Access Provider who decides for the subscriber which NLDO/ILDO will carry the call, according to mutual commercial agreements between them. Over the last 5 years, multiple stakeholders have opined that this traditional method of Carrier Selection is no longer relevant because of high implementation cost, poor cost-benefit outlook and technical and operational issues. Therefore, the regulator is quite right in its belief that NLDOs/ILDOs should be given direct access to consumers through calling cards.

3. Revenue Leakage- Today, if we have a telecom industry which sees annual revenue to the tune of Rs. 150, 000 crores (estimated), on the basis of information provided by the Authority in the Consultation Paper, the access service providers are earning revenue of Rs. 25,500 crores (estimated) from STD and ISD calls. The share of STD in this comes to around Rs. 22,500 crores whereas the share of ISD comes to around Rs. 3000 crores. This is based on the fact that the average share of revenue earned from a STD call and ISD call is about 15% and 2% respectively of total revenue earned by them as per the consultation document.

The moot question in this regard, is whether the Rs. 3000 crores in the ILD revenue includes only termination charges or does it include originating access charge as well. If it does include originating access charge, then in reality, the access providers are paying a 'blended' (i.e., diluted) termination charges of 20p per minute in effect, and not 40p per minute. In addition, if we account for the 2012-13 data on ILD traffic, the volume of outgoing minutes is approximately 400 crores. If we multiply with the margin of Rs. 4 per minute, which an access provider earns, it comes to around Rs. 1600 crores for 2012-13. Now, if calling cards were to be introduced into the picture, the volumes of the ILD traffic could double and result in a margin of Rs. 3200 crores for the access provider. The increase in this balance would be caused by certain amount of VoiP traffic as well as calling cards. The increase in outgoing ILD traffic also implies that the access charge retention would go up significantly. This is apart from a probable spike in the fixed percentage of revenue generated by the call being routed in the first place through the access service provider on the NLDO/ILDO's gateway. A call has to be taken by the service providers whether they are content with getting a blended reduced rate or getting much higher retention by increase in out going minutes.



4. Skewed ILD Traffic - Table 1 of the Paper clearly illustrates that as far as the ILD traffic is concerned, the ratio of incoming is to outgoing is hugely skewed in favour of the sheer volume of incoming traffic. (The incoming outgoing ILD traffic ratio is 1:19 tilted towards incoming traffic) The high levels of incoming traffic clearly demonstrate that this is on account of VOIP telephony as well as calling cards.

We believe that the introduction of calling cards would definitely increase the outgoing ILD traffic, by at least 2-3 times. For 2012-13, the outgoing ILD traffic was approximately 4.6 billion. This number can easily go up to 9-10 billion, by a safe estimate, once the cost-effective calling cards are introduced. This would also ensure that the present incoming outgoing ILD traffic ratio of 1:19 could come down significantly, to say, 1:9 (estimated).

5. International Best Practices- In the United States, the Federal Communications Commission promotes stability in the market for prepaid calling cards by mandating that calling card providers must pay interstate access charges on interexchange calls that originate and terminate in different states. Providers of prepaid calling cards that are menu-driven or use IP transport to offer telecommunications services are obligated to pay interstate access charges to carriers based on the location of the called and calling parties.

In United Kingdom (UK), the regulator Ofcom has a monitoring and enforcement programme in place in respect of the international calling card industry. Calling cards are generally sold in denominations of £5, £10 and £20 in the UK. Research conducted by Ofcom suggests that around 15% of the adult population in the UK uses calling cards. The regulatory framework of calling cards has been prepared with special focus on protection of consumer interests.

In Malaysia, as per data of 2011, ten million calling cards were sold with revenue of \$ 200,000 per day. Telekom Malaysia Berhad is one of the largest incumbent operators in Malaysia providing cost effective calling card services all over the world.

Conclusion

Today, the integrated service providers are afraid of competition and choice ensuing in the calling card business. We believe that on the basis of global experience, the telecommunications segment must open up in a competition wherein both incumbents and



new entrants can invest more, innovate and offer new services at lower prices. Whether it is calling card or any other business, there must be a choice afforded to the consumer, a level playing field in the market and lower tariffs overall. This will benefit consumers and ensure that all service providers make money on volume and service quality.

Issues for Consultation

In light of our views expressed hereinabove, our humble submission to the Regulator on the questions posed by the Regulator are as follows:

1. Whether the access charges to be paid by NLDOs/ ILDOs to access provider for calling cards should be prescribed both for NLD and ILD calls or for ILD calls only?

The inception of calling cards would provide a powerful tool in the hands of the consumer to choose a cost effective long distance operator as well as create competition in the sector, as has been demonstrated elsewhere in the world. A buyers' market ensures that the customer gets the maximum benefit.

Access charges to be paid by NLDOs/ ILDOs to access provider for calling cards should be prescribed for both for NLD and ILD calls.

Thus, a ceiling as to the access charges to be paid by the NLDO/ILDO to the access provider must be prescribed by the Regulator. It is imperative for the regulator to step in at this point, and clearly specify the access charges to be paid by the NLDO/ILDO to originating Access Providers and ensure all players have a level playing field from which they can enter the calling card business.

2. As the work done by the Access Provider is the same for NLD and ILD calls, should the originating access charges for NLD and ILD calls be the same or different?

Originating access charges for NLD and ILD calls should be the same as there isn't any special dispensation being provided by the access provider in routing a call through the calling card mechanism. The access provider



merely requires to perform a switching task to route the call through the calling card.

3. What method should be applied for prescribing originating access charge to the Access Provider? Please provide all details including data and calculation sheets, if any.

Table 1 of the Paper clearly illustrates that as far as the ILD traffic is concerned, the ratio of incoming is to outgoing is hugely skewed in favour of the sheer volume of incoming traffic. (The incoming outgoing ILD traffic ratio is 1:19 tilted towards incoming traffic) The high levels of incoming traffic clearly demonstrate that this is on account of VOIP telephony as well as calling cards.

It also does appear from the volume of the entire traffic, that the access providers are in effect paying termination charges of 20p per minute in effect, and not 40p per minute. According to our estimates there is a lot of bypass occurring which in effect results in a 'blended' termination charge which is coming to around about 25p per minute, vis-à-vis 40 paise per minute.

We believe that the introduction of calling cards would definitely increase the outgoing ILD traffic, by at least 2-3 times. For 2012-13, the outgoing ILD traffic was approximately 4.6 billion. This number can easily go up to 9-10 billion, by a safe estimate, once the cost-effective calling cards are introduced. This would also ensure that the present incoming outgoing ILD traffic ratio of 1:19 could come down significantly, to say, 1:9 (estimated).

The increase in outgoing ILD traffic also implies that the access charge retention would go up significantly. A method may be prescribed in this regard, of fixing a percentage of say, 10-15% of the access charge retention for the benefit of the calling card service provider. This is apart from a fixed percentage of revenue generated by the call being routed in the first place through the access service provider on the NLDO/ILDO's gateway.

4. Whether the access charges should be same for mobile and fixed line?

The access charges should be the same for mobile and fixed line. Although, in case of mobile it must also be noted that an element of airtime is involved, which is not the case for fixed line, but is chargeable and charged.

5. What are the issues that need to be addressed to ensure calling cards are also used when a subscriber is roaming?

The broad issue that needs to be kept in mind when a subscriber is on roaming, is that the subscriber should be roaming on the parent network.

6. What are the prevalent regulatory practices in other countries regarding access charges in case of calling cards?

In the United States, the Federal Communications Commission promotes stability in the market for prepaid calling cards by mandating that calling card providers must pay interstate access charges on interexchange calls that originate and terminate in different states. Providers of prepaid calling cards that are menu-driven or use IP transport to offer telecommunications services are obligated to pay interstate access charges to carriers based on the location of the called and calling parties.

In United Kingdom (UK), the regulator Ofcom has a monitoring and enforcement programme in place in respect of the international calling card industry. Calling cards are generally sold in denominations of £5, £10 and £20 in the UK. Research conducted by Ofcom suggests that around 15% of the adult population in the UK uses calling cards. The regulatory framework of calling cards has been prepared with special focus on protection of consumer interests.

In Malaysia, as per data of 2011, ten million calling cards were sold with revenue of \$ 200,000 per day. Telekom Malaysia Berhad is one of the




largest incumbent operators in Malaysia providing cost effective calling card services all over the world.

7. Any other relevant information related to subject along with all necessary details.

Today, if we have a telecom industry which sees annual revenue to the tune of Rs. 150, 000 crores (estimated), on the basis of information provided by the Authority in the Consultation Paper, the access service providers are earning revenue of Rs. 25,500 crores (estimated) from STD and ISD calls. The share of STD in this comes to around Rs. 22,500 crores whereas the share of ISD comes to around Rs. 3000 crores. This is based on the fact that the average share of revenue earned from a STD call and ISD call is about 15% and 2% respectively of total revenue earned by them.

The moot question in this regard, is whether the Rs. 3000 crores in the ILD revenue includes only termination charges or does it include originating access charge as well. Should this include access charge, then there is an element of leakage, why? That is because 76 billion minutes by itself should result in Rupees 3000 crore at 40 Paise per minute of termination charge. If it does include originating access charge, then in reality, the access providers are paying a 'blended' (i.e., diluted) termination charges of 20p per minute in effect, and not 40p per minute. In addition, if we account for the 2012-13 data on ILD traffic, the volume of outgoing minutes is approximately 400 crore. If we multiply with the retention margin of Rs. 4 per minute, which an access provider earns, it comes to around Rs. 1600 crores for 2012-13. Now, if calling cards were to be introduced into the picture, the volumes of the ILD traffic could double and result in a margin of Rs. 3200 crores for the access provider. The increase in this balance would be caused by certain amount of VoIP traffic as well as calling cards.


28 Nov 2013