



Why Licensing for VAS providers?

Overview – why licensing

All service providers who are part of the Mobile VAS value chain in India can be broadly classified into 2 groups: 1) content owners, platform providers and others who are engaged in enabling the VAS services of the Telcos (on-deck service providers) and 2) A new breed (off-deck service providers), of players who are willing to invest in the market to provide direct to consumer services. In order for the second group to succeed, they will need support from Telcos with regard to access to the telecom infrastructure. This requirement for an 'enabling role' of the Telco is in direct conflict with its own prominent role of being a VAS provider. This is the most important reason why licensing and regulation needs to be brought in, to allow the second group of entrepreneurs to flourish, very much like in the world of the Internet [Economides 2007].

In China too it has been suggested that in order to realize fair competition between value-added enterprises and basic telecom operators, and to prevent basic telecom operators from squeezing out the value-added enterprises, it will require standardizing the market behavior of the basic operators ["Promote" 2005]. An extensive review of the regulatory situation in China, is available in [Taylor 2007].

In the interactions resulting from the TRAI consultation paper on VAS, most of the discussions have focused on providers in Group 1 - the 'on-deck' services and service providers. This is an established model and, while not perfect, can continue to function with a few enhancements such as better MIS and reconciliation processes and better revenue share. Group 2, the 'off-deck' services and service providers have received very little attention and the inherent contradictions that are present in their functioning not addressed at all. This is the group of service providers who, Netcore believes, will drive innovation and who will benefit enormously from licensing and regulation.

With the trend towards integration of the communications industry and the media industry, operators and the media are all moving in the direction of restructuring to become VAS service providers, and as this occurs, the survival space for independent third-party VAS providers is becoming compressed. Government departments need to take full account of current industry restructuring trends and plan ahead of the industry chain, to coordinate development. Attention needs to be paid to the operators' position of strength in the industrial chain and the VAS enterprises' disadvantages. Guidance and

norms need to be provided and carried out in a timely way, so as to promote the health of the whole industry along with its orderly development.

Several areas of broad consensus already exist among Indian (non-telco) VAS providers, with respect to the services they require from Telcos. These include the following:

- Access to pre-integrated short codes and Voice portal numbers.
- Open access to their WAP portals from all GPRS plans
- Better MIS and short-cycle reconciliation procedures
- Standardization of access and Interconnection charges
- Role in pricing of services
- Permission to set up dedicated infrastructure (SMSC, MMSC etc.) as necessary

The differences, if any, pertain only with regard to the question of who should be licensed. The word license evokes worries about bureaucracy, controls and delay, all legitimate worries associated with a poorly set up, heavy-touch licensing regime. Netcore is not advocating this kind of regime at all. Netcore is advocating a regime where licensing and regulations is light-touch, perhaps even optional! The details of Netcore's proposal for the terms of licensing are outlined in **Annexure I**.

The world GSM association has recently launched 'GSMA Access' an initiative to provide a **standard API** to allow mobile operators to expose useful network information and capabilities to a Web application developers[GSMA access 2008]. It aims to **reduce the effort and time needed** to create applications and content that is **portable** across mobile operators. This is a step in the right direction, towards empowering application developers and ensuring faster access to new innovative services to consumers.

In many countries, there are many spontaneously formed trade associations, such as Internet Industry associations and SMS industry associations which play the role of promoting and supporting regulation in many aspects, e.g., offering guidelines to standardize VAS operators' market behavior, providing timely feedback on the development of industry trends, and addressing users' problems. The industry associations are expected to play an active role, and work together with the government **to maintain the value-added services market in good order**. In China, telecommunications information services, such as SMS, will operate under the conditions of the group's common **self-discipline** [China-anti-sms-apam, 2008]. In India too industry trade associations must play a greater role, to promote the establishment of enterprise self-discipline and to fully mobilize the effective resources and energies of enterprises.

Annotated References:

["Promote" 2005] *How to promote China's value-added telecom services market development.* Text in Chinese, translated by Prof.B. Zhang and summarized in their paper below [Taylor 2007].

[Taylor 2007] *Value added services policy reform in China: Lessons for – and from – the U.S. in managing an evolving market.* Prof.R. Taylor, Prof.B. Zhang and Siqi Chen, Telecom Policy Research Conference, September 28-30, 2007, Washington, DC.

This article summarizes the contents of several studies and important policy documents relating to the Chinese VAS industry (links to their Chinese texts available). The article strongly supports our thinking that regulation is required in order to ensure the healthy functioning of competition and collaboration in the VAS market. The article also considers the possibility of self-regulation of industry associations as an important measure to ensure that VAS markets are maintained in good order.

[Economides 2007] *'Net Neutrality', Non-discrimination and Digital Distribution of Content through the Internet.* Nicholas Economides, Telecom Policy Research Conference, September 28-30, 2007, Washington, DC.

This article describes how the 'net-neutrality' principle in pricing has resulted in considerable innovation and the rise of businesses such as Google, Yahoo, MSN and many other companies that do not own infrastructure. They were able to innovate at the 'edge' of the network and create many new applications and new ways to distribute content. Networks could not discriminate with respect to the identity of those receiving information packets, those sending them, the nature of the information packets and the function they performed, the content of the packets, the frequency of interactions, etc. The only discrimination that networks were allowed was their ability to price according to bandwidth used.

[China-anti-sms-spam, 2008]

http://www.marbridgeconsulting.com/marbridgedaily/2008-07-17/article/17920/isc_establishes_anti_sms_spam_alliance

ISC Establishes Anti-SMS Spam Alliance, Tencent Tech, 7/17/08:

A conference has just opened in Beijing to mark the establishment of the Internet Society of China (ISC)'s Anti-SMS Spam Alliance. 34 operators and wireless value-added service providers attended the conference and signed the "Self-Discipline Pact Concerning Spam SMS". Companies present included China Mobile (NYSE: CHL; 0941.HK), China Telecom (NYSE: CHA; 0728.HK), China Unicom (NYSE: CHU; 0762.HK; 600050.SH), China Netcom (NYSE: CN; 0906.HK), Tencent (0700.HK), Sina (Nasdaq: SINA) and Kongzhong (Nasdaq: KONG).

[GSMA Access, 2008]

<https://gsma.securespse.com/access/entry/default.aspx>

TRAI VAS PROVIDER AND OPERATOR LICENCE Note – Draft – July 29

Rationale

1. Value-Added Services should be driven by content, products and services, NOT the Pipe. As such, it is critical to create an environment where consumers can access any content and service, and not be limited to just the selections decided by the operator. Similarly, VAS providers should be able to reach out to any mobile consumer.
2. Create off-deck opportunities for VAS providers who are willing to invest in marketing to create their own services, thus widening the palette of options available to consumers. This will make the mobile more useful to consumers and result in widening and deepening the mobile industry. (Today, mobile operators, with a focus on acquiring new customers, are unable to focus on the multi-faceted features that the mobile comes with. Service providers, with an incentive to promote their own brands and services, can bridge this gap.)
3. Create a regime wherein the privacy of a consumer on the mobile is respected. The mobile is a very personal device. As such, anything that is sent to the mobile must have the mobile subscriber's permission. Creating a license regime will make service providers accountable and create a better user experience for the consumer.
- 4.

Licensee Rights

1. Access: Pre-integrated short code and voice portal number, and open access to WAP portal(s) run by the licensee
2. Billing Integration with operators: 15% max. revenue share payable to operator for billing access. Operator to make payment to Licensee within 30 days.
3. Inter-connectivity: Licensee will be granted access pan-India, across all operators.
4. Resources: Licensee can deploy specific equipment at Operators, subject to commercial agreement. These resources will also be inter-operable across all operators.
5. Dispute Redressal: Any dispute with operators will be addressed by TDSAT. During dispute redressal/hearing period, service will not be interrupted unless found to be violating Govt. of India norms.

Licensee Obligations

1. Monitoring and Security: Licensee will make available all assistance to enable monitoring by operators (and government security agencies) across all bearer channels (SMS, Voice, WAP, USSD). The same infrastructure used for monitoring of operators can be leveraged.

2. Logs / Records Maintenance: All transaction histories and user actions will need to be logged and maintained for a period of 3 years.
3. Inspection: Licensee will open up facilities for inspection as mandated by Licensing Agency.
4. Reporting: All services launched by Licensee will need to be reported to Licensing Agency.
5. Anti-Spam Pledge: Licensee will ensure that it will not indulge in spam directly or indirectly.

License Fees and Criteria

1. Annual fee of Rs 10 lakhs for the license, renewable every year
2. Net worth of Rs 25 lakhs