



Capital

**Comments on Consultation Paper on USSD-based Mobile Banking  
Services for Financial Inclusion**

## Comments on Consultation Paper on USSD-based Mobile Banking Services for Financial Inclusion

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Reliance Capital Ltd (RCAP) welcomes the opportunity to comment on issues concerning USSD-based Mobile Banking Services for Financial Inclusion. Being a financial sector participant, our comments are focused on the customer segments and acceptability of mobile services as a tool for inclusion.

The Government and the RBI have taken several initiatives to increase the coverage of formal financial services to the unbanked and under-banked. The RBI has taken various steps by encouraging the domestic scheduled commercial banks (SCBs), regional rural banks (RRBs) and other private banks to open branches in the rural, semi-urban areas and tier-2 to tier-6 centres subject to certain conditions.

The use of technology is an obvious choice to drive the financial inclusion programs as it helps reduce the cost of operations without compromising on service and security. The Indian Telecom sector, especially mobile phone services, has achieved an unprecedented penetration in rural, remote and urban areas. Mobile-led financial inclusion has huge potential. But at the same time, concerns of telecom service providers (TSPs) are also required to be addressed so that they can effectively devise their role to achieve the goal of financial inclusion.

The consultation paper prepared by the TRAI is therefore an important document laying down the road map for achieving financial inclusion through effective use of mobile technology.

Mobile banking is a bank based model where the TSPs only work as a communication link provider. The SLA between the banks and the TSPs drives the whole process and also takes care of the bank agents involved, if any, as well as the aggregation platform providers. It also draws the quality of service standards which the TSPs would offer to the banks for delivering the mobile banking services.

### **RCAP Comments on Issues for Consultation**

**Q.1 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 view point with reasons.**

1. Even though USSD as a platform is better suited for financial transactions (higher reach than WAP, mobile app and more secure than SMS), we believe that USSD should not be prescribed as the only platform to offer mobile banking services. Even though one of the cases in favour of USSD is the lower transaction costs, USSD is not supported by CDMA. CDMA is a very efficient technology and in widespread use in large segments in India. Hence it would not be appropriate to adopt a solution that does not work on CDMA, and to that extent, financial inclusion also will not be fully achieved.

Further, RBI in its guidelines for mobile banking has provided that:

*“...9.1 Banks offering mobile banking service must ensure that customers having mobile phones of any network operator are in a position to avail the service, i.e. should be network independent....”*

Thus, the mobile banking should be technology agnostic. Mandating a technology specific mobile banking mode will kill the sole objective of financial inclusion and also against the RBI guidelines that the mobile banking should be network independent

- USSD has an inconvenient user interface – with many clicks required to conclude a transaction – compared to this, IVR requires much less clicks / typing
- While USSD may work well for "one-way" transaction e.g. application of credit etc., it is not best suited for payment transactions, especially for physical payments, where mobile banking needs to compete against cash / plastic. It would be key for the mobile banking solution to be fast, convenient, intuitive
- There are new, emerging technologies now available e.g. SMS barcode, IVR etc. Therefore, it may not be ideal to bank just one existing technology platform (i.e. USSD). We should provide an opportunity for embracing technological innovation

**We believe that IVR would be an appropriate method for this purpose because of following distinct advantages over other modes:**

- The option to customize it in regional languages of hinterland India will allow mass adoption.
- An IVR solution backed with SMS functionality will offer security as well as ease of use.
- While it may be more expensive to operate than USSD alone, it is a proven technology as well as one that has gained acceptance among a large base.

We feel that the choice of technology should be left to the TSP and/or FI, provided basic concerns around security etc are satisfied

**Q.2: 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.**

TSPs should facilitate not just banks but also their agents to use SMS, USSD and IVR to provide banking services to their customers. This will truly provide the thrust to drive financial inclusion, as in a large number of cases the agents have the last mile reach / access. For operators, mobile banking does not usually represent an opportunity to serve a new market segment unlike the banks; instead, it allows them to cross-sell a new service to customers whom they already serve (i.e., their own subscribers) or compete for (the subscribers of other mobile network operators).

TRAI's proposal of 'mandating every TSP, acting as bearer, to facilitate not only the banks but also the agents of banks' may not be viable. We would like to mention that the mobile banking service is a **bank-based model** where bank made some of their services available through the use of a mobile device. The complete end-to-end ownership to provide financial services through mobile banking lies with the Banks as the TSPs only act as a communication channel provider.

The business arrangement in this case between the Banks and TSPs would be that of one business party contracting the services of another. As such detailed Service Level Arrangements (SLA) would be drawn and agreed mutually between both parties which would frame the acceptable delivery of service guidelines. These guidelines could be agreed to jointly (by Banks and TSPs) for providing service to both the banks as well as their agents. There is no requirement of mandating the TSPs to facilitate the agents of the banks as the SLA between the banks and TSPs may provide the same.

RBI in its mobile banking guidelines have laid down the responsibilities to offer mobile banking services stating norms related to technology and security standards, authentication, customer protection issues etc. to the banks only. A bank enters into an arrangement with a mobile operator to offer financial services either through text messaging or more elaborate smart phone applications. It is between the operator and the bank on what terms and conditions they want to build the operator-bank partnership to offer mobile banking services.

In view of this, we would request TRAI to not to mandate the TSPs to facilitate not only the banks but also the agents. In operator-bank partnerships, each entity has to have the trust to let the other do what they do best.

Mobile banking services require the development and maintenance of a transactional platform that creates individual accounts for customers and agents; processes movements of value between accounts; and interfaces with handsets, billers, and the core mobile platform. Both mobile operators and banks have extensive experience

operating transactional platforms. Banks stress the importance of integrity and robustness when it comes to core banking systems, while operators' first priority for their billing platforms is stability and speed when handling huge volumes of transactions.

Normally, banks and operators do not build their own mobile banking transaction platforms, because there are a host of third-party providers offering them in the marketplace. The role of the bank or the operator is usually therefore confined to selecting the vendor, providing business rules and other specifications, developing APIs (Application Programming Interface) for systems integration, and hosting and operating the platform. Given the complementary standards by which banks and operators evaluate transactional platforms, operators can consult with their bank (or vice versa) when selecting a technology solution to be sure that it meets the needs of each participant in the value chain.

In view of the above, we would like to submit that depending upon their business models, banks should be allowed to approach any aggregation platform providers. It should not be mandatory either in part of banks or in part of TSPs to engage only one aggregator platform providers for mobile banking.

**Q.3 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 based mobile banking? Please support your viewpoint with reasons.**

**Q.4: Do you agree that 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 viewpoints with reasons.**

The fact that needs clear comprehension is that this is a service offered by Banks to its customers. TSPs are the service providers to the Banks and works as a facilitator. As such, this is a Bank-led service and the Banks need to have complete responsibility for it.

The risk of all transactions and the customer service for these transactions can only be the responsibility of the banks. The banks need to propagate the use of the service and market it. The process flows for all transactions need to be defined and monitored by the Banks. The Banks need to ensure customer on-boarding, security of the transactions and management of AML and other risks.

It is only logical that the service provider, in this case the Banks, collect the charges for the services provided.

Banks in case of internet banking directly charge the consumer for each transaction and they themselves debit the amount from the consumers account for such transactions. The same procedure can be implemented for mobile banking as well. It will also avoid any disputes arising out of charges levied by TSP to the customer for 'incomplete' sessions as banks will charge the consumers only for the successful transactions (as they do in case of internet banking).

The sharing of fees between banks and the TSPs should be left to be decided by the parties mutually as per market forces.

**In view of the above, we suggest TRAI to not to mandate any particular pricing model and let the banks/TSPs decide which model they would like to implement to provide the mobile banking service to the consumers.**

**Q.5: Would it be appropriate to fix a ceiling of Rs. 1.50 per USSD session for mobile banking? Please support your viewpoint with reasons.**

**Q.6: In case your response to Q.5 is in the negative, please suggest an alternative methodology to fix a ceiling tariff for a USSD session for mobile banking. You may also support your viewpoint with a fully developed model with associated assumptions, if any.**

USSD transactions consist of multiple interactive messages between the consumer and the technology platform. Typically each transaction would involve exchange of 8-9 messages, each called a screen. Since a TSP cannot control the number of messages or screens, the cost of each session can vary irrespective of the transaction in such sessions is defined as 'successful' or 'unsuccessful' by the Banks. The tariff for USSD session is decided in the SLAs between the banks and the TSPs based on their mutual working model. **Hence, fixing a ceiling for each USSD session is not viable.**

We would like to further submit that the agenda of offering USSD based banking services is for Financial Inclusion, which has been defined as the mentioned five services only – cash deposit, cash withdrawal, balance enquiry, transfer of money from one mobile- linked account to another, and transfer of money to a mobile-linked account from a regular bank account. Thus tariff ceiling, if any, should be applicable only for these transactions identified as true Financial Inclusion.

**Q.7: 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?**

The stated agenda for offering mobile banking through USSD (or any other channel as may be decided) is clearly of Financial Inclusion. This objective is accepted by TSPs as

one of national progress and as such is supported by the TSPs. However, TSPs are also clear that banks should be allowed to offer only those services which have been clearly identified as constituting inclusion of the financially excluded masses. This platform should not be used to offer the entire range of commercial banking services under the ambit of Financial Inclusion. **The pricing and service delivery for the complete bouquet of financial offerings from the Banks would be governed by separate discussions between the TSPs and Banks.**

Security is one of the critical issues for successful adoption of mobile banking. The USSD sessions are unstructured and not secure due to open connection. RBI in its guidelines namely “Mobile Banking transactions in India - Operative Guidelines for Banks” have provided a set of operating guidelines for adoption of banks. These guidelines should be followed in all modes of mobile banking services to insure security issues like transaction limit (per transaction, daily, weekly, monthly), transaction velocity limit, fraud checks, AML checks etc.

**Security of the transaction is of prime importance and needs detailed deliberation before the process and communication method is finalized.**