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TELECOM REGULATORY AUTHORITY OF INDIA

**NOTIFICATION**

New Delhi, the 22<sup>nd</sup> November, 2016

No. 305-27/2010-QoS - In exercise of the powers conferred by section 36, read with sub-clauses (i) and (v) of clause (b) of sub-section (1) of section 11, of the Telecom Regulatory Authority of India Act, 1997 (24 of 1997), the Telecom Regulatory Authority of India hereby makes the following regulations, namely:-

THE MOBILE BANKING (QUALITY OF SERVICE) (SECOND AMENDMENT)  
REGULATIONS, 2016

( 7 OF 2016)

**CHAPTER I**

**Preliminary**

**1. Short title and commencement.** — (1) These regulations may be called the Mobile Banking (Quality of Service) (Second Amendment) Regulations, 2016;

(2) These regulations shall come into force from the date of their publication in the Official Gazette.

**2.** In regulation 2 of the Mobile Banking (Quality of Service) Regulations, 2012 (hereinafter referred to as the principal regulations),-----

(a) after clause (b), the following clause shall be inserted, namely:-

“(ba)” “authorised entity” means the entity authorised by Reserve Bank of India for delivery of banking and payment services”;

(b) after clause (q), the following clause shall be inserted, namely:-

“(qa)” “USSD based banking and payment services” means delivery of banking and payment services through mobile phones over USSD”.

**3.** In regulation 3 of the principal regulations, ----

(a) after sub-regulation (1), the following sub-regulation shall be inserted, namely:-

“(1a) Every Access Provider shall facilitate the authorised entity to provide USSD based banking and payment services to its customers and deliver the message within the time frame

specified in sub-regulation (5)”;

(b) in sub-regulation (4), for the word “five”, wherever it occur, the word “eight” shall be substituted.

(c) in sub-regulation (5), for the words “customer or the bank or its agent” the words “customer or the bank or its agent or authorised entity” and for the words “banking services”, the words “banking and USSD based banking and payment services” shall be substituted.

4. In regulation 4 of the principal regulations, in sub-regulation (1), for the words “m-banking messages” the words “m-banking and USSD based banking and payment services messages” shall be substituted.

5. In regulation 7 of the principal regulations, ----

(a) in sub-regulation (1), for the words “mobile banking messages”, the words “mobile banking and USSD based payment services messages” shall be substituted;

(b) for sub-regulation (2), the following sub-regulation shall be substituted, namely:----

“(2) In case the message generated by the customer or the bank or its agent or authorised entity in the process of m-banking transaction is not delivered due to any reason, the Access Provider shall immediately send an error message intimating the non-completion of the process to the customer or the bank or its agent or authorised entity, as the case may be.”;

(c) in sub-regulation (3), for the words “m-banking communication”, the words “m-banking or USSD based banking and payment services communication” shall be substituted;

**(Sudhir Gupta)**  
**Secretary**

Note.1 - Hindi version of the Mobile Banking (Quality of Service) (Second Amendment) Regulations, 2016 will follow.

Note.2 - The principal regulations were published in the Gazette of India, Extraordinary, Part III, Section 4 dated the 17<sup>th</sup> April, 2012 vide notification No.305-27/2011-QOS dated the 17<sup>th</sup> April, 2012.

Note.3 – The principal regulations were amended vide notification No. 305-27/2010-QoS and published in the Gazette of India, Extraordinary, Part III, Section 4 dated 26<sup>th</sup> November, 2013.

Note.4 – The Explanatory Memorandum explains the objects and reasons of the Mobile Banking (Quality of Service) (Second Amendment) Regulations, 2016.

## **Explanatory Memorandum**

1. The purpose of the present amendment to the Mobile Banking (Quality of Service) Regulations, 2012 is to lay down a revised framework for mobile banking transactions and USSD based mobile banking and payment services. The amendment prescribes a revised QoS Regulation for conducting a financial transaction including banking transaction through a mobile phone over USSD. This explanatory memorandum aims to provide the rationale for this regulatory action.
2. In addition, in its endeavour to encourage digital transactions and move towards 'less cash' society, Government of India (GOI) has announced a number of steps. In February 2016, GOI initiated a drive towards promotion of payments through cards and digital means. The Guidelines have, *inter-alia*, provide that the Department of Telecommunications/ Department of Financial Services/ RBI shall make a provision for a unified USSD platform which can support transactions across all payment mechanisms. Further, RBI Vision-2018 too seeks to encourage greater use of electronic payments by all sections of society so as to achieve a 'less-cash' society. The vision, *inter-alia*, seeks to orient policies for mobile banking for facilitating faster payment services by way of enhancing options for customer registration for mobile banking services, enabling wider access to mobile banking services in multiple languages for non-smartphone users and encouraging innovative mobile based payment solutions. In April, 2012, TRAI mandated that through the Mobile Banking (Quality of Service) Regulations, 2012 that every TSP shall facilitate the banks to use SMS, USSD and IVR to provide banking services to its customers and deliver the message generated by the bank or the customer in not more than two stage transmission of message in the case of SMS or in not more than two stage entry of options in the case of USSD and IVR. The Authority through the Mobile Banking (Quality of Service) (Amendment) Regulations, 2013 dated 26.12.2013, increased the maximum number of stages for completing a mobile banking transaction from two to five.
3. The various initiatives taken by the Government, RBI and TRAI did not lead to the desired result. In May 2016, only about 37 lakh mobile banking transaction attempts (over USSD channel) reached NPCI's platform (\*99#), out of which about 54% were successful. Also, during 2015, there were references to TRAI from Department of

Financial Services and RBI to consider following steps to increase the use of USSD based mobile banking financial services:

- Permit up-to 8 steps in one USSD session from the current limit of 5
  - Increase in session timer limitation
  - Reduce the ceiling tariff of Rs. 1.50 per USSD session for USSD-based mobile banking
  - Enable USSD push messages for dropped USSD sessions
  - Make provisions for a unified USSD platform-which can support transactions across all payment mechanism
4. A series of discussions/meetings were held with the relevant stakeholders' viz., NPCI, TSPs and DFS over a period of few months to reach a consensus on the above mentioned points that required regulatory intervention. However, no common ground could be reached and thus the Authority decided to hold a full-fledged public consultation exercise. A Consultation Paper on the "Review of regulatory framework for the use of USSD for mobile financial services" was issued on 02.08.2016 and placed in public domain on TRAI website and mygov platform of GOI. Stakeholders were invited to submit written comments by 14.09.2016 and counter-comments by 28.09.2016. The comments and the counter-comments received from the stakeholders were placed on TRAI's website- [www.traigov.in](http://www.traigov.in). An Open House Discussion (OHD) for the stakeholders was organized on 27.10.2016 at New Delhi. The issues raised in the CP and the views of the stakeholders thereupon on the issue of permitting up-to 8 steps in one USSD session from the current limit of 5 and making provisions for a unified USSD platform-which can support transactions across all payment mechanism were deliberated by the Authority and are being examined in the succeeding paragraphs.

#### **Adequacy of the present ceiling of five-stages for entry of options in a USSD session**

5. Majority of TSPs and their industry associations did not favour increasing the present ceiling of five-stage for entry options in a USSD session. They have stated that if number of stages is to be increased from 5 to 8 then the ceiling tariff should also be increased proportionately as increase in the number of stages will load their signalling infrastructure. It has also been contended that number of stages per session may require reconsideration and review in case there is a sudden surge in volumes. They have further

opined that any increase from the present 5 stages should be on the basis of mutual agreement between the banks and TSPs. Some TSPs however, are agreeable to increase the number of sessions from 5 to 8 as some transactions may require more than 5 stages.

6. Most of the banks including Reserve Bank of India (RBI) have supported increasing the number of steps to 8 and some have even proposed to have unlimited stages per USSD session. It has been contended by these banks that the current 5 stages per USSD session are not enough for certain transactions like fund transfer, which are prone to input errors and are time-consuming. On the other hand few banks have suggested to keep it at 5 stages only as increasing the stages may make the process cumbersome and user unfriendly.
7. Some organizations have also advocated for unlimited stages per USSD session as it would help in addressing the needs of that consumer group, which is characterized by lower levels of literacy and awareness. It has also been highlighted that USSD is used by a majority of large-scale mobile money deployments across the world. Most of the individual stakeholders have also supported either 8 stages or unlimited number of stages per USSD session for mobile banking services.
8. The Authority is aware of the fact that USSD based mobile banking services were meant to drive the agenda of financial inclusion targeting that section of the population that is semi-literate and not very adept at the use of technology. Thus, the inputting by the consumer has to be kept to the minimum as human intervention leads to errors. Interface with the consumer has to be through a simple, minimalistic menu high on functionality. At the same time, in current scenario the current ceiling of 5 stages per USSD session poses a major handicap in undertaking certain transactions where the input errors are bound to happen. The input errors lead to failed/unsuccessful transactions and such customers are less likely to use USSD based mobile service again based on their poor service experience. NPCI and the banks therefore have to constantly strive to improve the software features and design to create a more user friendly menu for such USSD based mobile banking services as it would help in improving the customer experience and also the success rate of mobile banking transactions. Notwithstanding these facts the Authority believes that at this inflection point there is merit in increasing the number of stages per USSD session for giving an impetus to this service. Eight is the ceiling on the

number of stages per USSD session and improvement in the software design can lead to further reduction in the stages for consumer convenience. Keeping this in mind, the Mobile Banking (Quality of Service) (Amendment) Regulations has been issued increasing the maximum number of stages for completing a mobile banking transaction from 5-8.

**Requirement of a Unified USSD platform which can support transaction across or payment platforms.**

9. At present, only mobile banking transactions are permitted to be carried out on USSD aggregation platforms of the National Unified USSD Platform operated by NPCI. In the consultation paper, question was raised on whether all variety of mobile payment services, including merchant payments, utility bill payments, mobile/ DTH recharges etc., should also be permitted on USSD aggregation platforms.
10. TSPs and their associations are of the view that only basic mobile banking should be allowed through USSD based platform as allowing other services would dilute focus as contemplated for providing basic financial services to the unbanked. It has further been stated that allowing other payment mechanism is beyond the purview of the goal of financial inclusion. It has also been argued that market forces should be allowed to determine the approaches on such opportunities rather than regulatory intervention as this may lead to suboptimal outcome. If payments beyond banking transactions are to be allowed through USSD platform then it should be a P2P decision between the TSPs and the aggregator platform. They are, therefore, of the view that inclusion of additional services should be on the basis of mutually negotiated arrangements between NPCI & TSPs.
11. On the other hand, other organizations are of the view that it is important to develop acceptance infrastructure and USSD aggregation platform being cashless/cardless can be used without card, merchant discount rate and internet and this would drive consumer behaviour to move to digital electronic payment via merchant acceptance and promotion. They have also suggested that important services like mobile recharge, utility bill payments, DTH payment, P2P money transfer should be allowed as they are the most popular payments by any category and would enhance the adoption of the USSD services.

12. Similarly, most of the banks including RBI have supported the inclusion of merchant payments, the Bharat Bill Payments System (BBPS) on the USSD platform. Banks have also requested for inclusion of Pre-Paid Instruments (PPIs) on the \*99# platform as they are important in the payment ecosystem. RBI has also requested that all entities that are governed under the Payments and Settlement Act, 2007 of RBI should be allowed to offer the services on \*99# interoperable USSD platform.
13. This question of allowing variety of mobile payment services, including merchant payments, utility bill payments, mobile/ DTH recharges etc. on NPCI USSD aggregation platform is particularly important in light of the importance of promoting digital payments as a critical part of the financial inclusion agenda. The G. Padmanabhan Committee<sup>1</sup> set up by the Reserve Bank of India (RBI) to study the Feasibility of Implementation of GIRO based Payment Systems had estimated that over 30,800 million bills amounting to Rs. 6223 billion are generated each year in the top 20 cities in the country. Cash and cheque payments continue to be predominant form of payment of these bills, although other forms of payments are also being accepted. Demirguc-Kunt *et al*<sup>2</sup>. note that "*digitizing payments like these would enable account holders to make the payments in a way that is easier, more affordable, and more secure*". The authors note that this can have the following advantages:
- It can improve the efficiency of making payments by increasing the speed of payments and by lowering the cost of disbursing and receiving them.
  - It can enhance the security of payments and thus reduce the incidence of crime associated with them.
  - It can increase the transparency of payments and thus reduce the likelihood of leakage between the sender and receiver.

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<sup>1</sup> Report of the Committee to Study the Feasibility of Implementation of Giro Based Payment System in India, 07 May 2013, <https://rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=701#R5>

<sup>2</sup> Asli Demirguc-Kunt, Leora Klapper, Dorothe Singer, Peter Van Oudheusden, The Global Findex Database 2014: Measuring Financial Inclusion around the World, World Bank Group, April 2015, <http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3>

14. It is well-understood that a less cash society is not only more financially inclusive but also is beneficial from the point of view of enhancing the national output. Management of cash is a significant operational expense for any financial institution. This cost item for the banks eventually becomes a cost item for the individual and in turn to the whole economy. Such cost items harm most to the poor and therefore, the goal of financial inclusion is inseparably linked with the vision of a less cash society. Thus, there is merit in moving towards a less-cash and more digital payment transaction society as is being promoted by the Government through its various guidelines and initiatives.
15. As per the Consultative Group to Assist the Poor (CGAP), at present, USSD is the best-available option to serve the payments needs of low-income customers, taking into account the factors of reach (compatibility with handsets), user experience, security, cost, and ease of deployment for the provider<sup>3</sup>.
16. Similarly, Bharat Bill Payment System (BBPS) an integrated and interoperable bill payment system to allow customers to pay a variety of bills in an efficient and convenient manner at a single point is being implemented by NPCI. It is expected to serve as an accessible bill payment system to the large segments of unbanked and under-banked population. It will also offer convenience to the billers. To begin with, only repetitive payments for everyday utility services such as electricity, water, gas, telephone and Direct-to-Home (DTH) have been covered within the scope of BBPS. Gradually, the scope would be expanded to include other types of repetitive payments, like school / university fees, municipal taxes etc. Allowing the use of USSD on the BBPS platform will ensure that users of basic phones, who do not have access to the Internet, are also able to participate in digital payments using this platform.
17. In view of the above, the Authority is of the view that usage of USSD channel should be allowed for offering payment services to all the authorized entities regulated under the Payments and Settlement Act, 2007 of RBI and payments being received on Bharat Bill Payment System (BBPS).

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<sup>3</sup> CGAP, Promoting Competition in Mobile Payments: The Role of USSD, CGAP, February 2015, <https://www.cgap.org/sites/default/files/Brief-The-Role-of-USSD-Feb-2015.pdf>