

# Telecom Services

## IMPACT ANALYSIS

### TRAI directive on mobile VAS

#### Summary

- Mobile service providers to obtain explicit consent from subscribers to activate VAS
- Directive to be negative for both mobile service providers and VAS players

#### Contents

##### Sections

Explicit subscriber consent mandatory for VAS activation	1
Impact on mobile service providers	1
Impact on VAS	1

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## TRAI directive on mobile VAS

CRISIL Research believes that the Telecom Regulatory Authority of India's (TRAI) order, directing mobile service providers to obtain explicit consent from subscribers to activate value added services (VAS) will adversely impact both the service providers as well as the VAS players. According to our estimates, a 10 per cent decline in VAS revenues per subscriber would lead to a 20-30 basis points (bps) reduction in the operating margins of service providers. For VAS players, a 10 per cent decline in the adoption of caller ring back tones (CRBT) would bring down the industry growth rate to 31-32 per cent in 2009-10 instead of our earlier projection of 37 per cent.

### ***Explicit subscriber consent mandatory for VAS activation***

In order to regulate the indiscriminate imposition of VAS by service providers and its manner of delivery to subscribers, TRAI, in its directive, issued on April 27, 2009, has directed all service providers to seek and obtain 'explicit consent' from subscribers, either through telephone, SMS, fax, e-mail, or through other electronic means, before activating VAS. Service providers have been asked to comply with this directive before June 10, 2009.

In its order, TRAI stated that it had been receiving several complaints from customers alleging accidental activation of CRBT through facilities such as the "Press \* to copy" feature (pressing the \* key on the mobile keypad to copy the ring back tone of the called number before the call is answered). Following these complaints, TRAI carried out a customer survey encompassing 22,009 respondents, of which 24 per cent of the subscribers claimed that VAS had been activated on their mobile phones without their explicit content. TRAI's move to regulate VAS is a culmination of this survey.

The telecom regulator has shown an inclination to impose regulations for the benefit of subscribers in the past as well. The best example of TRAI's pro-consumer regulatory initiative would be the implementation of the "Do Not Call Registry".

### ***Impact on mobile service providers***

VAS (excluding person-to-person SMS) currently accounts for around 5 per cent of the revenues of the Indian mobile service. Moreover, operating margins in this business are estimated to be 45-50 per cent, which is much higher than the margins earned in the voice business. CRISIL Research believes that the TRAI order would have a negative repercussion on service providers, at least in the short-term. According to our estimates, a 10 per cent decline in VAS revenues per subscriber would bring down operating margins to the tune of 20-30 bps. Assuming the decline in VAS adoption is more pronounced, such as a 25 per cent decline in revenues per subscriber, operating margins could fall by 50-60 bps.

### ***Impact on VAS players***

The impact of the order on the middlemen in the VAS value chain is likely to be more severe. We believe the TRAI directive, if implemented in its current form, would severely impact the adoption of CRBT, the most popular VAS application. CRBT alone accounts for 40-45 per cent of the estimated Rs 40 billion earned by mobile VAS operators in India in 2008-09.

In our Telecom Data Services Annual Review, dated March 2009, we projected mobile VAS revenues to grow by 37 per cent in 2009-10. If the CRBT uptake reduces by 10 per cent as a result of the TRAI directive, the industry growth rate would come down to 31-32 per cent.

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