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Emerging Economic,
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in a Fast-Changing Digital World

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REGIONAL
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VNO INDIAN EXPERIENCE CHALLENGES & OPPORTUNITIES

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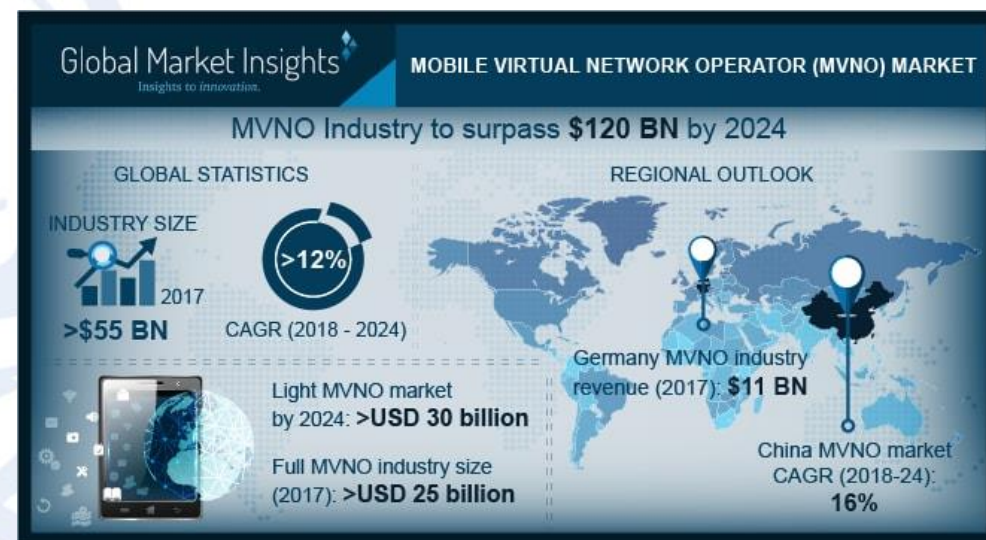
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Hosted by **CAICT**
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MVNO – GLOBAL MARKET

- Grew from USD 39.1 billion in 2014 to USD 55 billion in 2017 and USD 120 billion in 2024
- In 2014 MVNO market was projected to grow at a CAGR of 7.4% (2015 to 2023). Recent growth projections (GMI 160) are pegged at a CAGR of 12% (2018-2024)
- Ericsson Mobility Report – global growth in mobile traffic was 70% (end of Q1 2016 and Q1 of 2017) – mainly attributed to rapidly increasing use of smartphones.



Source: GMI 160: June 2018

MVNO ECOSYSTEM

GROWTH DRIVERS

- Growing demand for low-cost data and voice services – MVNO thin model - offer targeted products & brands and reduce the customer churn
- Growing number of mobile subscribers (5 billion unique subscribers in 2017) and increasing penetration of smartphones

CHALLENGES

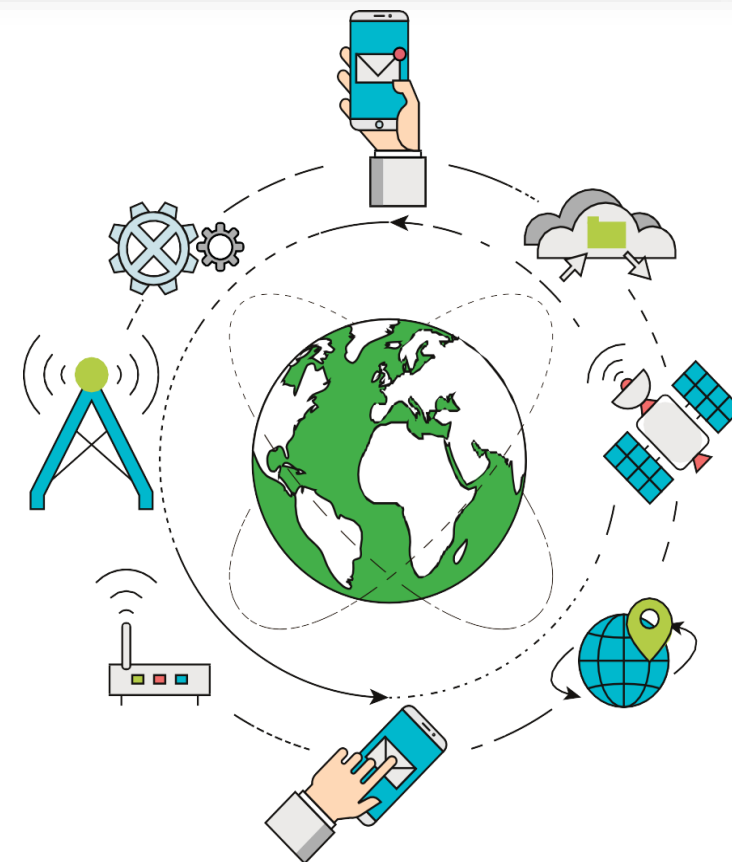
- Declining profit margins – costs are not declining as fast as revenues
- Demand for voice and SMS that are high revenue-generating segments is declining rapidly

STRATEGY

- Price and service differentiation are the key strategies adopted by the companies in the MVNO market.

INDIA'S VNO JOURNEY

- Three National Telecom Policies - (NTP)-1994, NTP-1999 and NTP-2012.
- NTP-2012 announced India's move to Unified License (UL) regime unleashing the benefits of convergence, spectrum liberalization, and facilitate delinking of licensing of networks from delivery of services. The first UL License was granted in 2013
- 2016 - India permitted sharing active and passive infrastructure, enabling the MNOs to optimally and efficiently utilize their networks and spectrum.
- 31st May, 2016 - Department of Telecommunication (DoT), issued guidelines for grant of UL VNO



SOURCE: DELOITTE

UL (VNO) LICENSE

- VNO can apply for a UL VNO (All services) which permits them to **offer all services** – Access (all India)/ Internet/NLD/ILD/ other specified services. Can apply for authorizations through the validity of the license
- VNOs can have multiple partner MNOs except in the case of access services or other services which require the customer to have a unique number and identity
- Non – Exclusive – No restriction on the total number of VNOs in a service area
- VNO can set up own access network equipment like BTS/BSC/RSU/LAN switches
(exception – VNOs cannot own/install gateway equipment interconnecting with the network of other MNOs)
- Liberal Foreign Holding Norms – Presently 100% FDI permitted (49% under automatic route)
- License issued for 10 years (Review after 3-4 years).

Mutual Agreements between MNO and VNO – No policy prescriptions!!

UL(VNO) - ELIGIBILITY

Light touch and liberal policy guidelines

- Indian Company registered under Co. Act 2013
- Minimum Net worth – Ranges from INR 100 million (All Services) to NIL (Access Services Authorization – INR 10 million)
(eg. for offering internet services no net worth requirement!!)
- Minimum Equity - Ranges from INR 100 million (All Services) to NIL
- Entry Fee – Ranges from INR 70.5 million to Rs .010 million
- License Fee – Revenue share basis

Policy Objective – Bridge the Digital Divide by enabling small players from providing rural access and reduce the large gap between the rural and urban teledensity.

THE INDUSTRY VERDICT ON THE POLICY

(Submissions to DoT for NTP 2018)

The Industry believes - VNOs are going to play a major role in the delivery of services in the next decade.

What works

- Comprehensive policy granting license for all services Fixed Line, Broadband, Fibre to Home
- Permission to VNO to set up infrastructure (especially the permission to import and install radio equipment - outsourcing opportunity for VNO)

Reality Check

- 120 licenses issued since May 2016 – large numbers are Access Category B providing DID facilities in niche urban locations
- Three granted UL(VNO) Access licenses - Adpay mobile, Plintron and Sify. The first two have tied up with BSNL (PSU with All India Footprint)
- NTT communications – Internet service Provider (All India) and ILD

Lot of ground to cover before VNOs take Off

THE INDUSTRY VERDICT ON THE POLICY

(Submissions to DoT for NTP 2018)

Industry Demands

- **Viability Gap Funding -Delivering of Mobile telephony and Broadband services to the rural and tribal areas**
Fund simple basic monthly subscription plan (with some allocation of free minutes, some SMS, and some data). Cost of the recurring monthly plan should be partially borne by the customer, and partially borne by the USO fund. (eg. Lifeline Programme of US)
- **Mandatory VNOs for the M&A in India to ensure fair competition and creation of monolithic environment**
*Globally, regulators mandate the TSPs to share network capacity (to the order of 20-40% of their total) compulsorily with MVNOs in order to maintain a competitive environment reduce the pricing control of MNOs
(Eg. - Austria – merger between Hutch and Orange - Hutch to earn 30% of annual revenue via wholesale business with at least 16 MVNOs. Ireland- Hutch and Telefonica Merger, Italy- Wind and Hutch Merger and Germany – acquisition of E-Plus by Telefónica – similar mandates were imposed)*
- **Lower the Telecom Levies**

INDIAN MARKET

THE OPPORTUNITY

- India is market to 20 percent of worlds 5 billion subscribers, 200 million smartphones (2nd in world) (social media, mobile banking and digital payments) and half a billion internet users. Will reach USD 1 trillion by 2025
- 4G rollout by incumbents and the greenfield MNO is increasing subscriber demand for superior choice and experience. MNOs are investing in more Direct-to-Consumer (D2C) business model - third party content and innovative applications are driving this growth
- The huge variations in teledensity across the rural and urban geographies (58 Vs 158) – multiple models for VNOs to experiment
- Customer acquisition and retention has become a major challenge for MNOs as they shift focus to tier 2 and 3 cities
- Easing of Spectrum Caps has made consolidation of fragmented spectrum easier

CHALLENGES

- Ongoing consolidation is not presently conducive to VNOs to find partners
- The falling tariffs will create challenges for traditional discounting/telecom model of VNOs increasing their gestation period
- As the market rapidly expands offering enhanced network connectivity with consistent QoS and ensuring SLAs will be a major concern
- Lack of open platforms -makes it cumbersome to integrate MVNO's equipment with MNO's infrastructure & third party integrations.

WAY FORWARD

The National Digital Communications Policy, 2018 seeks to unlock the transformative power of digital communications networks and lays for itself the following Strategic Objectives by 2022: (The policy is awaiting the final clearance and announcement)

- Broadband for All
- Creating 4 Million additional jobs in the Digital Communications sector
- Enhancing contribution of the Digital Communications sector to 8% of India's GDP from ~ 6% in 2017
- Propelling India to the Top 50 Nations in the ICT Development Index of ITU from 134 in 2017
- Enhancing India's contribution to Global Value Chains
- Ensuring Digital Sovereignty

The VNOs are an important part of this journey



謝謝

Xièxie nǐ de kuǎn dài!

Thank you for your hospitality!

*Padma Iyer Kaul
DDG LFA
DoT*

WAY FORWARD

- While India has embarked on one of the world's largest rural optic fibre roll-outs in the world, aiming to connect 600,000 of its villages to broadband through its flagship initiative called 'BharatNet'; the convergence of a cluster of revolutionary technologies including 5G, the cloud, IOT and data analytics, along with a growing start-up community, promise to accelerate and deepen its digital engagement, opening up a new horizon of opportunities. As the world prepares for what is increasingly being called as the fourth industrial revolution, India, and indeed every single sector of its economy, need to be readied to embrace this opportunity.
- Currently, India has approximately 1.5 million kilometres of OFC, and less than one-fourth of the towers are fibre-connected.

EXPECTATION

- With growing debt, managing the tightrope walk of Return-On-Investment (ROI) has become a major challenge for MNOs. To overcome the challenge, MNOs could look at MVNOs as partners and chose to work with them by opening under serviced customer segments—demography wise and some underutilized networks capacities and assets —geography wise. MNOs could monetize their underserved segments and underutilized assets. The entry points of an MVNO may be categorized in the following: Resource sharing: There are multiple circles and MNOs who have excess spectrum might be amenable to a partnership with either other MNOs or may choose to offload capacities to other resellers.
- Making way for resellers: MVNOs have proved to be a source of regular income for the MNOs based on their performance in global markets. MNOs who are in the process of defining two-sided business models with the intention to open up their assets and capabilities in the form of Application Programming Interface (APIs1) to support third party business entities need to have resellers who can work with various industry vertical players like banks, e-commerce companies, etc. Putting in place a wholesale pricing
- Entry of domestic industry vertical players as MVNOs: Various players,
- both domestic and international, who have been on the contours of the connectivity business, as well some established OTT players, DTH operators, broadband players, FMCG, Banks, larger retail enterprises, and larger content and media players, now have the opportunity to enter the main stream telecom services market as MVNOs.

EXPECTATION - Opportunities for MVNO players

- Opportunities for MVNO players
- Bespoke products for highly penetrated markets: Highly penetrated markets, like Delhi, Mumbai, and Chennai, may have customer segments that are "underserved" in specific aspects of their service experience. Such clusters can be targeted by an MVNO.
- Rural penetration: Rural India offers promising growth for data usage as there is low focus of existing players. This could offer potential opportunities for subscriber acquisition.
- Tier2 and Tier 3 cities: Tier 2 and Tier 3 cities are upcoming hubs of business and academic activities. A focused approach can create a formidable market for an entrant.
- M2M and cloud play: Specialized needs for Machine-to-Machine (M2M) and Internet of Things (IoT) may be targeted over the next two to three years to offer potential for rapid device additions and growth of connected devices.
- Digital India and Smart Cities: With the government's emphasis on creating smart cities, providing better rural access and connectivity, mobile is slowly enabling the enterprise segment. Key aspects such as mobile payments and IoT will take precedence in the near future, thereby creating opportunities for players to offer services for

EXPECTATION

In their initial days, MVNO players were segregated as 3G MVNO and 2G MVNO players. In some cases, fixed line incumbents used MVNO route to cater to mobile needs of their subscribers. The market has matured and come a long way since. Traditional voice and data services are not the sole business drivers for new age MVNOs.

New age MVNOs focus on niche/micro segments like migrant population, international roamers, short duration tourists, and business travelers. OTT players, broadband service providers, DTH providers and other non-telecom players with deep retail network are emerging as candidates for MVNO. Players with strong content base may see MVNO play as an

opportunity to offer subscribers value by alternate business model rather than conventional MNO portal with revenue share on premium content.

The MVNO players are neither required to meet any network roll out obligation and there is no limit on number of MVNO licenses to be issued for a service area. The end customer is oblivious to internal network details, and connects to brand attribute and service experience for the subscribed offerings. As such, early (MVNO) movers will have the advantage of forging the right alliances and establishing their brand ahead of the followers with right blend of customer offerings and experience

Recommendations for MVNOs in the Indian market

- The Indian telecom today presents opportunities to MVNOs willing to take risks and address specific gaps in the market.
- Strong brand image: Strong brand presence among the target audience that resonates with the services offerings would help the MVNO gain traction quickly.
- Partnerships: The choice of partner is critical to establishing presence in the country. Developing long and lasting relationship with the MNOs would be key. MVNOs entering the market would have to think beyond geography while selecting the partner.
- Focused acquisition: Developing strategies that are spot-on to target the desired customer niche, based on detailed customer behavior analysis and usage patterns would be key to acquire customers.
- Focus on customer experience: Focus on providing superior customer experience to niche and micro segment customers can clearly compliment the MNOs.
- Clear operational strategy: Deployment of international learnings to be executed by a strong local management team along with right control over OPEX could be a key differentiator.