

**M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON  
CHARGING FOR MOBILE PHONE SERVICES:  
MOBILE-PARTY-PAYS (“MPP”)  
VS CALLING-PARTY-PAYS (“CPP”)**

**22 March, 2002**

This paper is prepared in response to IDA's consultation document dated 11 January 2002 and represents M1's views on the subject matter. Unless otherwise noted, M1 makes no representation or warranty, expressed or implied, as to the accuracy of the information and data contained in this paper nor the suitability of the said information or data for any particular purpose otherwise than as stated above. M1 or any party associated with this paper or its content assumes no liability for any loss or damage resulting from the use or misuse of any information contained herein or any errors or omissions and shall not be held responsible for the validity of the information contained in any reference noted herein nor the misuse of information nor any adverse effects from use of any stated materials presented herein or the reliance thereon.

## **M1'S RESPONSE TO IDA'S CONSULTATION PAPER ON CHARGING FOR MOBILE PHONE SERVICES: MOBILE-PARTY-PAY ("MPP") VS CALLING-PARTY-PAY ("CPP")**

- 1 M1 welcomes the opportunity to submit our views and comments to IDA for its consideration in its policy decisions regarding the Mobile-Party-Pays (MPP) charging system versus the Calling-Party-Pays (CPP) charging system.
- 2 M1 has been providing cellular mobile and paging services to the Singapore market since 1 April 1997 and in August 2000, we launched our international telephone services. In April 2001, M1 also obtained the FBO Licence for the Provision of 3G mobile Communication System and Services and the 3G Spectrum Right.
- 3 When IDA first sought the industry's views on the issue of MPP charging system and CPP charging system in October 1999<sup>1</sup>, the majority of the industry, including M1, expressed objectively that changing the charging method from MPP to CPP would not necessarily benefit the market. Instead, the costs of any change would likely outweigh any potential benefits for both consumers and industry. IDA's eventual assessment in May 2000 was in line with the industry's feedback and the decision was to continue with the current MPP regime. The main driver for IDA's current review appears to be the concern that the current charging system may impact or hinder the growth, usage and proliferation of broadband wireless data services (2.5G and 3G) in Singapore.
- 4 M1's view is that under the current MPP regime, Singapore's telecommunication sector has experienced overall growth, and there continues to be no clear evidence that the CPP charging regime would enhance growth any further. As the cellular market continues to change and develop towards more sophisticated services such as data transmission, video downloads and m-commerce transactions, a move to a single charging method of CPP would not address the issue of growth and usage of mobile data services adequately. The reason is that the underlying charging principles for such services usually differ and such services may require innovative charging mechanism in order to help encourage take-up of the services. Therefore, M1 believes in the importance of looking into the various suitable ways of charging for such 2.5G and 3G services and adapting under the current stable regime, rather than in the evocation of a change to the CPP regime. Furthermore, we would like to highlight that there are other more important factors than the type of charging regime to be implemented, that will be the driving forces behind the growth and usage of mobile data services.

---

<sup>1</sup> Consultation document issued by IDA on 25 October 1999: 'Review of Fixed-Mobile Interconnection Regime'.

## GROWTH IN MOBILE TELECOMMUNICATIONS MARKET UNDER MPP REGIME

- 5 IDA's assessment of the CPP charging system in its decision paper issued on 3 May 2000 was that "CPP is neither necessary nor sufficient to boost the take-up of mobile phone and paging services." The proof of this point could be seen from the mobile penetration rate in Singapore. From just 56% in May 2000, the mobile penetration rate in Singapore<sup>2</sup> has increased to a high of over 72% in January 2002 under the current MPP regime. The mobile penetration rate in Hong Kong, another country that adopts the MPP charging system, was more than 80% in Jan 2002. Such high mobile penetration rates under the MPP regime goes to show that the main benefit usually linked to CPP - that is, expansion of the cellular market - could be achieved through other more significant means such as effective competition and overall affordability of mobile ownership.
- 6 The rapid growth experienced by Singapore's telecommunication market, specifically in the cellular sector, is evidence that the MPP regime is in no way a hindrance to market growth and expansion. There is also no evidence that usage per customer in Singapore has been constrained by MPP. This is the direct result of competition driving operators to offer their customers greater value-for-money and more innovative pricing, and these had happened within a MPP framework.

## IMPACT OF THE MOVE TO CPP CHARGING METHOD

- 7 One should note that there is no guarantee that a change to CPP charging system would stimulate further growth or even maintain the current growth level achieved through effective competition under the MPP regime. This point was highlighted correctly in IDA's decision paper that, "while a CPP system may increase the subscriber base for operators, an increase in the number of registered subscribers does not automatically translate into more calls being made as fixed-line users and other mobile phone subscribers may likely refrain from calling mobile phone subscribers unless necessary."
- 8 When viewed in isolation, the concept of free-incoming calls offered under the CPP regime is naturally attractive to consumers, as it would seem like their expenditure on mobile services can be halved. However, in reality, the implementation of CPP charging system does not have such a straightforward impact. A change to the CPP regime would mean changing the pricing structure of the whole market and consumers may not necessarily benefit just because they do not have to pay for in-coming calls. There are costs and risks to be weighed against the presumed benefit of free in-coming calls.

---

<sup>2</sup> Based on 'Infocomm Facts & Figures : Statistics for Telecom Services' published by IDA.

- 9 One of the most significant costs would be that of interconnect charges. Under the current MPP regime, mobile operators can recover most of the call termination costs by charging users directly for incoming call traffic. Therefore, fixed-to-mobile interconnect charges are not applicable. However, if we were to switch to CPP regime, the mobile operator would have to recover costs for terminating a fixed-to-mobile call on its network from the fixed-line operator, and the fixed line operator would in turn seek compensation from the fixed-line caller. The consumer would therefore face an increase in charges for his fixed-to-mobile calls. Besides an increase in the fixed-to-mobile call charges, a CPP regime could also lead to higher mobile-to-mobile call charges as the calling party's mobile operator would have to compensate the called party's operator for terminating access, in addition to incurring today's transit charge. Thus, switching from a MPP to CPP regime would necessitate a complete overhaul of tariff structures for both fixed and mobile operators in order to be sustainable. Such tariff changes could mean that the intended result of boosting mobile usage might not materialise as expected.
- 10 Consumers would have to be educated on the more complex charging principles that would result from a shift to the CPP charging system as outlined above. In particular, consumers would have to be educated on a new and unfamiliar concept of the differential tariff rates for different types of call made (for eg. fixed-to-fixed, fixed-to-mobile, mobile-to-mobile, etc). To add to complexity, there is also the possibility of differing interconnect rates as mobile operators negotiate the rates commercially based on their own cost considerations. As such, this could lead to a fixed-line caller being charged differently when calling a customer of Mobile Company A and a customer of Mobile Company B. This would create confusion among consumers as it would be difficult to identify number levels of different mobile operators.
- 11 Additional regulatory intervention would be required in a CPP regime, given the additional interconnect arrangements and the related issue of termination charges. Call termination can be deemed as a bottleneck service, as a single operator controls call termination for the destination network. There is therefore potential for market failure, unless IDA steps in to regulate fixed-to-mobile interconnect charges. Furthermore, there is the possible scenario that negotiating parties have no incentive to lower interconnect charges in cases where the fixed and mobile networks are affiliated companies. IDA would have to work towards ensuring that under a CPP regime, there are no unfair advantages for operators that offer both fixed line and mobile services. Having to regulate the market and mandate price levels in the CPP regime would not be a good substitute to the proven competitive pressures present under the current MPP regime.

## GROWTH OF MOBILE DATA COMMUNICATIONS UNDER MPP

- 12 In IDA's consultation paper, IDA highlighted its concerns that the existing MPP charging method may impact or hinder the growth, usage and proliferation of broadband wireless data services (2.5G & 3G) in Singapore if customers have to pay for every packet or call he initiates or receives. M1 views that the MPP charging system would not create such a barrier as seen through the success of Short Message Services (SMS), which is evidence of the growth trend in mobile data communications and serves as a precedence for how the pricing of data services can adapt to the current MPP regime.
- 13 Although SMS was introduced under the current MPP regime, mobile operators adapted to the market with regards to the charging method for SMS. For mobile-to-mobile SMS the charging method is based on CPP, whereby only the sender pays for the message sent. However, other types of SMS, such as Info-on-Demand SMS (eg. M1's Stock Trigger) are based on the MPP charging system, whereby the user is charged for each SMS he receives and charges vary according to the type of content received. A further variation is applied for "push" services whereby the customer is charged a monthly subscription, rather than based on usage. A single charging method for SMS as an overall service cannot be applied because different types of SMS-based services have different principles behind its charging method.
- 14 IDA should continue to be flexible in its policies and allow operators to respond to market forces and the effects of fair competition under the current regime, to determine the best charging method for the many various types of services that could be introduced in 2.5G and 3G networks. Therefore, the approach of implementing a single CPP regime may not contribute significantly to the growth of mobile data services because not all 2.5G / 3G services can be sustainable using a CPP charging system. Instead, there are other more important factors in the 2.5G / 3G business model that will encourage the take-up of mobile data services.
- 15 Having invested significant amounts into the development of 2.5G and 3G networks and services, it would make commercial sense for operators to push for the growth of mobile data services. Furthermore, with free market competitive forces in place, operators would be challenged to ensure certain levels of affordability for 2.5G and 3G services if it wants to succeed in the market. As in the case of growth in voice calls in the cellular market, it would be the overall affordability of mobile data services that would be a key driver for growth in mobile data communications, rather than the type of charging mechanism. One should also note the importance of other key drivers for the success of 2.5G and 3G services such as 3G market readiness and the introduction of innovative and compelling services that can encourage service adoption.

- 16 With regards to IDA's concerns that mobile customers could be 'unfairly' charged for 'push' type services under the MPP charging method, M1 would like to point out that it would not benefit operators to 'unfairly' charge mobile customers for such services, since this would lead to customer complaints and increase churn. As in the case of SMS, broadcast messages sent to customers are not likely to be chargeable and even for such non-chargeable messages, operators would be cautious about using these extensively, as service level competition is also important in our market. Operators could work towards allowing customers to opt out from possible 'e-advertising' services or implement a form of 'permission' marketing whereby customer consent is first obtained. M1 also believes in putting up safeguards and taking necessary actions against spam on mobile services as not only would it irritate our customers, it would also abuse our network capabilities.

#### IMPLICATIONS FOR 3G INTERCONNECT

- 17 The impact of a change to CPP regime on the growth and usage of mobile data services and applications cannot be meaningfully discussed without reference to the corresponding interconnect framework. However, evaluation of 3G interconnect arrangements is still at a very early stage and based on the development of innovative services, different types of novel interconnect arrangements may be necessary. Some of the types of interconnect arrangements being explored in the industry include direct interconnect between operators and interconnect via Internet. Furthermore, such future interconnect arrangements will involve players other than network operators, for example content and service providers. As such, it is our view that until the interconnect framework is more clearly defined, IDA should not revise the prevailing MPP regime based on the current understanding of interconnect for 2G services, but rather wait for more clarity on how interconnect in the 3G world will evolve.

#### CONCLUSION

- 18 M1 recommends that the current MPP framework should be retained as there are no compelling reasons to support a change in charging method to CPP. Likewise, there is also no need for the well-established FMI framework to be changed. This view is supported by the following:
- (a) The MPP regime has not hindered the growth of the overall telecommunication market in Singapore and instead, the Singapore market has flourished under the MPP regime, together with the impact of effective competition.

- (b) MPP shows no signs that it would hinder the growth of data mobile services as evidenced by the success of SMS. Growth of 2.5G and 3G would hinge on other more crucial factors like overall affordability of such services and the types of services offered to encourage adoption.
  - (c) Given the infancy stage of 3G interconnect discussions, there is no evidence that a CPP regime would definitely be a feasible system or necessarily contribute to the growth of data mobile services. It would be premature to implement such a change at this stage.
- 19 In summary, implementing CPP would serve no clear purpose in further enhancing the market, and instead risks the possible drawbacks of causing market failures in terms of competition, increasing the need for regulatory intervention and causing customer confusion.