



IAMAI

INTERNET & MOBILE ASSOCIATION OF INDIA

Annual Report 2007/08



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CHAIRMAN'S MESSAGE

Dear Members,

In the year 2008/09 IMAI enters its fifth year of existence. It would be fair for me to observe that in the last four years the association has gone through some moments of glory and many more moments of uncertainty. However, as someone who has been a part of the association since its inception, I can clearly see a strong shape emerging from what was four years back just an idea of a "few men". I would like to take up this opportunity to thank all those members who have consistently believed in the *raison d'être* for a separate association for the industry, the digital industry, stood by through its incubating process and have had an instinctive faith in its future.

The annual report is not, of course, the right platform to reminiscence! So let me turn straight to what we have been up to this year.

When I formally assumed office on a hot summer's day in Mumbai, the Executive Council members, Jaspreet Bindra, Upen Rai and I shared the following vision for the year ahead with the General Body:

- Increase the membership base since the strength of an association lies in its wider representation
- Strong interaction with government ensuring a constant dialogue with the government on issues affecting the industry
- Training and attracting youngsters to this relatively new industry
- Proactively reach out to mobile content and

service providers and make them an integral part of the association

It was very helpful that my predecessor, Anupam Mittal, had left behind a stable and action-oriented secretariat, fruitfully undertaken a membership drive and set up transparent and inclusive internal governance. Yet, for a small association with four full-time staff the work looked daunting.

However, as I demit office today, I can truthfully say that I am happy with the progress that we have made, and here is why.

At a very basic level,

- The membership was up from 42 to 67 a rise of 60 per cent.
- At a meeting of mobile value added services companies held at the IMAI office on 30 November 2008, IMAI was unanimously given the mandate to represent the mobile content and services industry
- Our proactive engagement with and representations to the departments of telecom and IT opened several doors and opportunities for dialogue with policy makers.
- We started a very aggressive outreach campaign to reach out to management and engineering colleges by presenting to them the opportunities in the digital world. Also, in a humble way we started training and certifying with the help of our members, students and executives in various digital marketing courses.

The critical aspect of work this year has been a judicious mix of scaling-up of what we have been doing and at the same time introducing new areas of work. In the area of awareness and networking opportunities, we have organized 8 large conferences as compared with 4 last year. But we have also reached out and supported 6 conferences organized by other bodies and

directly invested resources in 8 conferences and meets of engineering and management students. In engaging with the government, while we have been responsive to most of the regulations affecting industry most notably the IT Amendment Act 2006, we have been very aggressively and proactively taken up the case of mobile value added services companies and the issue of new payment systems with the relevant government departments and agencies. Similarly, while carrying on the market research on the important verticals of our industry, we have for the first time gone beyond just market research and mandated two papers, one on location based services and another on the enabling business environment for mobile value added companies. Finally, on the issue of internet penetration, while we have continued with our strong advocacy, we have also supplemented with practical and effective action as reflected in our recent tie up with Bharat Sanchar Nigam Limited.

Of course, some of the important issues, notably the credit recovery policy for publishers, could not be resolved this year as well. Some other issues such as our work with the department of information technology over internet penetration could not be definitely concluded this year and would be carried over this year. But in all such cases, I can assure members that there has not been any lack of effort. Sometimes evolving an internal consensus among members has been difficult given the complicated nature of the issue, at other times, especially where government agencies have been involved, things have not been in our control.

In carrying out my role as the Chairman, I have had the benefit working with an active governing council where the debates sometimes were as lively and hot as the food served afterwards. The members of the association have been proactively involved in many of the initiatives. I would especially like to mention the government relations committee under Rajan Mehra; the digital payments committee under Vishwas Patel and the members of the online publishers committee who have contributed generous

amounts of time and patience to their specific areas of work. Beyond strategy and ideation, the secretariat has been primarily active and responsible for implementation and here I much recognize the action oriented and sometimes subtly aggressive and persuasive role played by the president of the association and his team.

After being associated with IMAI for four years now, I am proud to say that it is one of the few associations that is run and managed by the members. We are, therefore, responsible for its successes as well as shortcomings.

In summation, I would like to offer three cheers to the association this year on account of 1. Aggressive engagement with government, 2. Inclusion of mobile content and services companies as an integral part of the association and 3. Active outreach among students and younger executives.

I am assured by the secretariat that the coming year is going to be more exciting and as a part of the newly elected governing council it would be my privilege to be a part of more exciting times ahead.

Warm regards,
J Murugavel



VICE CHAIRMAN'S MESSAGE

Dear Members,

I would like to take up this opportunity to highlight some of the key positives and some areas of concern for the industry.

Overall, the year has been very busy and abuzz with activities for most of us and that is partly due to new launches, new strategies and rejuvenation of existing business models, all buoyed up by a fundamental belief in the potential of the Indian digital market. Acquisitions, mergers and cross investments have finally arrived in Indian in the internet space signaling perhaps the consolidation of business. One of the basic differences this year has been that most of the new launches are from established media or technology businesses as opposed to one or two years back which saw a huge proliferation of "new" travel and social networking sites in India.

Hectic business activity generally signifies growth potential of a market which in case of India is also corroborated by the healthy growth of internet, e-commerce, mobile content and marketing, online advertising businesses. Of course, compared with the growth of mobile users, internet growth continues to be modest, but in absolute terms India is two or three of the remaining large economies where internet continues to grow at the rate of more than 30 per cent year on year.

One of the biggest successes has been the mobile content and services sector which marked its coming of age with the IPO of Onmobile Worldwide, one of our member companies. This

was a recognition of the untiring efforts of the leaders of this sector, and in the near future this success is going to be replicated by many more companies. Predictably, IMAI has been very active this year in organizing the mobile content and services industry and in taking up the cause of this industry with various government agencies. In addition to the mobile content and services providers, going ahead IMAI would also have to be aware that there are over 33 million people who use the internet through their mobile phones connecting them to our members would be an important challenge for IMAI.

One of the constraints to growth going forward is going to be regulatory issues as was exhibited over the very long and circuitous struggle over the IT Amendment Bill and the amount of time and resources IMAI expended in order to get things back on the track. Hopefully, the Bill would be passed in the Budget Session of the parliament and the new provisions would assist growth and innovation in the industry. The next big challenge would be to make the policy makers aware of the growing importance of the mobile vas industry and frame enabling policies for the sector. IMAI has picked up this challenge early and hopefully will see it through to its logical end. Most importantly, IMAI would need to work closely with the powers that be in order to incentivise e-commerce not only among the handful of online companies but among the vast majority of "offline companies".

On a more positive note, the association seems to be aware of most of the important issues facing the industry today and with the help and support of members and other patrons is geared to take up these challenges. The nature of these issues is such that efforts do not bear fruit immediately. It would, therefore, be prudent to be patience while chipping away at the block.

I wish all the members and the newly-elected governing council a great year ahead and ensure all of you my continued support to the cause.

Warm regards,
Jaspreet Bindra

FOREWORD

Dear Members,

On behalf of the association it is my privilege to present to you the annual report for the year 2007/08.

The Chairman's and Vice Chairman's messages and the Annual Report contain all the detail of what has been happening in the industry and your association in the year just gone by.

There is nothing much to add to those except to say that when I joined the association two years ago in 2006, I was very apprehensive about the fundamentals of the association. But the last two years have passed like a whirlwind and IMAI looks in better shape at least to the outsiders [for insiders it is more like a duck, all quite and composed above the water but paddling furiously under it!]. Support of members sometimes with their involvement, sometimes with their benign support, sometimes with a word of praise and of course, sometimes with a sharp word of criticism have been the main driving force behind the organization and inspired the secretariat.

As we enter the fifth year of the association and my third year here, I am once again a bit apprehensive. However, this time not about the

fundamentals of the association but about my own capabilities to manage an association which is growing quite alarmingly fast not only in terms of members and activities but also on terms of expectations of new members.

The support of members and their sense of ownership of the association that I have seen in the last two years make me believe that with the continued support of members, the secretariat will rise to the occasion and meet the challenges that are before us.

I would like to take up this opportunity to thank J Murugavel for his active and enthusiastic leadership, Jaspreet Bindra for his quite and understated support and Upen Rai for making a difference by his sheer presence. My colleagues Gaurav, Kalyan, Mehul, Aparna and Chitrita have worked very hard without losing their smiles and I am proud of them.

Hope you would find the annual report a correct and accurate rendering of the happenings of the year 2007/08.

Sincerely,

Subho Ray, President



RESEARCH

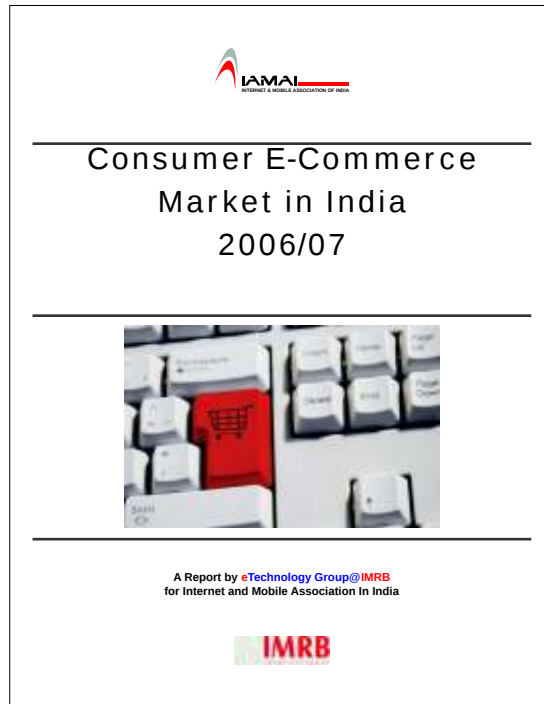


Market and consumer research has been a major forté of IMAI since the last four years. In keeping up the tradition, this year too we conducted in association with IMRB international four important market surveys. The now well-known I-Cube, which is an annual report jointly undertaken by IMRB and IMAI. This is a very popular and much waited annual survey now and has been well accepted by the industry, investors as well as the government as the benchmark survey of internet users. Among the main findings of the survey this year was the following:

- Cyber cafes continued to be the preferred point of access for most people, although its relative share had declined considerably.
- Surprisingly, emails continued to be the driving force behind internet adoption
- Online entertainment including online gaming emerged as one of the top three drivers of internet.

The consumer e-commerce survey this year was not new, but the methodology adopted was unique. The survey began by developing with the help of members an accepted definition of consumer ecommerce and basing the survey on that definition. One of the areas of concern that emerged out of the survey was that e-commerce was still at a very nascent stage in India and that consumers were still not very confident of online payments.

The search engine marketing survey and the online advertisement survey could not be completed on schedule due to lack of response and validation of data. We intend to complete and release these surveys by the end of May 2008.



work. The first was on location based services and the second on the policy environment required for the growth of the mobile content and services industry in India. Based on secondary research, the aim of these papers was to bring to attention the policy lacunae that currently exist in the areas of mobile VAS and broadband, international best practices and some industry recommendations to overcome the existing hurdles to growth. Both these studies were carried out by the Indicus Analyticus a reputed research agency based in Delhi. These advocacy papers would be widely distributed to ministers, bureaucrats and other stakeholders connected with policy making.

Last but not the least, IMAI in partnership with Ma Foi, carried out a pioneering survey and analysis of compensation and benefits in the internet and mobile content and services industry in India. The survey was based on data collected from smaller companies and tried to establish that these industry segments provided attractive opportunities to all levels of employees. We intend to carry out this survey annually to keep our members aware of the HR trends as well as to make younger persons aware of the opportunities in the digital industry.

In addition to these annual updates of market surveys, IMAI this year added to its portfolio of research by adding a few new areas of research.

For the first time, a supply side B2B research was carried out based on field research among small scale industries in 10 locations across India. The aim of the research was to map the demand for supply side B2B platforms in the country and also the demand for software, hardware and IT services among SMEs in India.

IMAI would carry out this research annually and in addition to covering the demand for supply side b2b services would also map in a better way the IT requirements of SMEs.

This year IMAI also published two important white papers which directly related to its advocacy



OUTREACH



One of the main challenges faced by the digital industry is the relative lack of trained personnel. It appears that the primary reasons for this are a) absence of proper training facilities and opportunities for this sector and b) general lack of awareness about the opportunities that the sector offers. It would require the happy convergence of several factors to address this issue satisfactorily. But IMAI this year took two new initiatives to address the issues. The first was the digital marketing training course which began with hesitant steps this year. Under it IMAI with the assistance of members conducted 2 courses in training and certifying 15 young executives so that they could deliver better value to their companies. This clearly is a long-term focus area for IMAI and we are planning to build on the foundations of this year's work. The programme can be effective if the number of courses is multiplied and students are brought under its ambit. IMAI plans to do just that in the coming year.

The second initiative, as mentioned, included reaching out to management and engineering students in their campuses. IMAI was very

proactive in organising lectures, essay competitions and discussion forum on digital medium in several premium educational institutions in the country.

The first of these was sponsoring a discussion on digital opportunities at the AIESEC National Conference in Agra. AIESEC is a well-recognised and active student body and a potential recruiting ground for many of our member companies. The discussion forum on opportunities in the Digital Medium was a good platform to reach out to this large body of students through some of our leading members. Manish Viz, Co- Founder and Chief Business Officer, Smile Interactive Technology Group and Vikas Java of Zoomtra.com were the speakers on behalf of IMAI.

From Agra, we went straight to IIM Indore for the first time on 21 September 2007. This was our first outreach campaign in an IIM. Mr Sanjeev Bikhchandani, Info Edge and Vibhas Mehta, Shaadi.com interacted with students on various opportunities in Digital World. More than 200 students attended the interaction. IMAI went to IIM Indore once again on 30 November 2007. This time it was to support their



annual management event IRIS 2007. Students from over 30 B Schools participated in the event. IAMAI organized a seminar during the event on Digital Marketing. Key speakers from the member companies, Manish Vij Quasar Media, Manish Agarwal Rediff.com, Vivek Bhargava Communicate 2 & Pavan Chandra Zenith Optimedia, supported the initiative.

Somaiya Management College in Mumbai is well recognized and it is here that we conducted our next outreach campaign. Vivek Bhargava of Communicate 2 interacted with students on the Opportunities in the Digital World. Nearly 150-200 students attended the interaction.

The annual festival at IIM Kozhikode is a great gathering and business networking opportunity. IAMAI marked its presence there in a very unique way. We were the sponsors for their national essay contest on "A Nation Online". Out of the forty essays submitted, three were given away cash awards by IAMAI with J Murugavel, IAMAI Chairman doing the honours. Some of the top essays are hosted on the IAMAI website and are a useful guide from young and fresh minds on what the internet is capable of doing, what is going to work and what is not going to work on the internet? Hitesh Oberoi, Info Edge, Sandeep

Shrivastava, Yahoo & Alok Mittal Canaan Partners were the key speakers at the function.

IAMAI was also one of the sponsors of the 11th Telecom Summit organized by the students of Symbiosis Institutes of Telecom Management, a well-known institute in Pune on 22 & 23 September 2007. Eapen Abraham, - Sify Ltd, Manoj Dawane, Mauj, Bruno Goveas Akamai Technologies, Arvind Rao OnMobile, Deepak Maheshwari Microsoft, A Govindraj IMI Mobile were the speakers. 250 students attended the Summit.

IAMAI also supported "Endeavour 2007: The Entrepreneurship Meet" organized by Symbiosis Institute of Management on 18 August 2007. Mr Ajit Balakrishnan Rediff.com and Mahesh Murthy, Pinstorm were the speakers. Around 250 students attended the conference.

Our last event in this series was sponsoring the annual event at Sinhgad College of Engineering called "Excelsior".

POLICY



This is perhaps the most important area of work for IMAI and also the most understated and one that is very difficult to quantify in terms of annual achievements. Most of the work consists of reaching out to relevant government agencies and building long-term relations with the view that IMAI is able to influence policy either proactively or sometimes reactively.

IT Amendment Bill 2006

One of the most engaging areas of work this year was the long and rather torturous engagement over the IT Amendment Bill 2006. As is well-known, the Bill on being presented to the Parliament towards the end of 2006 was immediately referred to the Parliamentary Standing Committee on Information Technology. The Standing Committee prepared its final report on the Bill by September 2007. The report, while positive aspect, had some recommendations that would negatively impact business and could be construed as a step backward, especially the comments of the Standing Committee on section 79, a critical section defining the exemptions from liability of intermediaries if accepted by the government, could have been discouraging for the industry.

The first step for IMAI members, led by the Government Relations committee was to analyse the report of the Standing Committee and prepare a well-thought out response to it. IMAI with contribution of leading members was able to prepare a common point of view on the Report and present it to the government. The outline of the IMAI response to the report of the Parliamentary Standing Committee is reproduced as appendix 1.

This was followed by a series of meeting and discussions with senior officers at the Department of Information Technology in order to convince the government and other stakeholders that the internet industry was a responsible industry and carried out a number of checks and measures to ensure the legality of the content on their website. It was also important to drive home the fact that to have full control over the content, especially user-generated content was not possible and most importantly, to impose unlimited and undefined liability on the intermediaries would be a business-stopping proposition.

Thanks to the opportunity of interaction given to IMAI members and due to the enlightened approach adopted by the government, many of

the rough edges of the parliamentary standing committee were smoothened.

At the time of writing the report the some of the crucial changes suggested by IMAI seem to have been accepted by the government. It appears that the original bill has been kept in tact [the original bill was drafted in consultation with the industry with the view to exempt intermediaries from any liability except under a few defined circumstances].

It is expected that the changed bill would be presented to the parliament sometime in April and enacted as a new law.

The passage of the IT Amendment Bill would in itself be a major victory for the industry since it has been in the process for the last four years.



Internet Penetration

More proactive but no less protracted has been IMAI's interaction with the government on the issue of internet penetration. In a first of its kind, the department of information technology in consultation with IMAI called for a meeting with IMAI members, senior officials of the department as well as representatives of other industry associations. The meeting was exclusively called to discuss ways and means of increasing internet penetration in India. The department also wanted to enlist the support of IMAI for the forthcoming Internet Governance Forum Meeting to be held in India this year [in December in Hyderabad].

IMAI has been mandated to prepare a draft five-year vision for internet penetration for consideration by the department of information technology. The department has also suggested that IMAI submit a plan to them regarding the nature and possibility of running an internet awareness campaign in schools across the country with the support of the ministry of human resource development and the local police. The details of the vision document as well the school awareness campaign would be submitted to the department of information technology by the end of this month after consultation with members.

Tie up with Bharat Sanchar Nigam Limited

Beyond advocacy and policy intervention, the Chairman this year had suggested a more practical and effective approach to the issue of internet adoption and driving traffic to the sites of member companies. One of the ways suggested was to tie up with BSNL and offer free products and services coupons to each of the new connections that BSNL provides to users. BSNL which provides an estimated 8,000 new broadband connections every day across India has been open to partnering with IMAI as a group and at the time of writing this report has suggested that we collate offers from all members and revert to them for a discussion on how to deliver the services offered by IMAI members. If successful this scheme will not only encourage consumers to be drawn towards internet but also help generate traffic for members.

Mobile Value Added Services

Unlike the initial and rather reactive interaction with the government over issues affecting the mobile content and services companies last year, this year IMAI with the active support and involvement of members, had a more planned and fruitful interaction with the government and the regulator. While the members representing this

segment has a wider agenda, so far as government interaction was concerned, the issue of registration/licensing with a view to be recognized as an industry and thus come under the regulatory ambit is of some importance to the industry. Towards this IMAI has had serious and engaging consultations with senior officials at TRAI as well as at the Department of Telecommunications. As a result of these interactions, IMAI has written to the Department of Telecommunications to look into the ways and means of recognizing this sector as an industry. While the issue will take sometime to be resolved, the first step in what could be a long journey has been taken.



International Corporation For Assigned Names And Numbers

IMAI had the opportunity to work closely with the ICANN this year. In August 2007 this year senior staff of ICANN including Paul Twomey, CEO, visited India. During the visit IMAI hosted Paul Twomey for a dinner interaction on 23 August in New Delhi. The interaction was attended by senior officials of the Department of Information Technology including the Secretary, Mr Jainder Singh, NASSCOM President, Kiran Karnik and many senior IMAI members. On the following day, IMAI in partnership with the Department of Information Technology and ICANN organized a seminar on Internet and Issues Impacting Policy in the Converging Environment. Paul Twomey was the main speaker at the seminar which was attended by over 100 delegates.



In the month of February 2008 ICANN organized their annual meeting in New Delhi. The meeting was attended by over 400 overseas and Indian delegates. IMAI supported the meeting as a sponsor and also organized a public session on Outreach to Indian Community. The IMAI stall at the meeting venue attracted several international visitors.

Pre-Budget Memorandum

Since last year we have started the practice of submitting pre budget memorandum to the government. This year the submissions focused on two issues a) the entire gamut of service tax and b) incentivising e-commerce through appropriate tax structure. IMAI was able to interact with the Secretary Department of Information Technology and the Secretary, Finance, Ministry of Finance. But there was no positive recommendation in the budget for the industry this year. While the issue of moratorium of service taxes specific to the digital industry is unlikely to be granted, the issue of simplifying and incentivising e-commerce is important from IMAI's perspective and we would continue to raise the issue at every available opportunity. A summary of the pre-budget memorandum is reproduced as appendix 2.

New Payment Systems

The Payment and Settlement Systems Act 2007 has brought all payments under the governance of the Reserve Bank of India. The IMAI Digital Payments Committee was active earlier in the year in understanding the bill and making a



limited representation to the parliamentary standing committee and the Ministry of Finance. But the committee got more pro-active once the bill became an Act of Parliament. Since then the Digital Payments Committee has prepared a white paper on the Act with the view to ensure that the guidelines prepared by the Reserve Bank of India on new payment systems allow enough room for innovations and encourages newer payment services to come up. Members of the IMAI committee have also been able to meet senior officials at the Bank to present the case for new payments. The executive summary of the white paper is reproduced in appendix 3.

In addition, IMAI is also a member of the mobile commerce committee set up with the Reserve Bank of India and the Department of Information Technology and has with the help of a member company submitted another paper specifically on mobile commerce to the Reserve Bank of India.

Connecting up with law enforcement authorities

For the first time and in a very limited way, IMAI experimented with acting as an interface between members and the law enforcement authorities. The Uttar Pradesh Police with the support of the Director General and the leadership of the DIG of Police Agra Range organized a unique networking conference in Agra. The conference was unique in its scale, almost all the senior police officers of Uttar Pradesh were present, as well as in its focus on cyber crimes and cyber security. IMAI along with a member company were the main sponsors of the conference. Much encouraged by the enthusiasm of the UP police, IMAI has decided to organise and participate in such programmes across the country in the year 2008/09



NETWORKING

Conferences and seminars are the marketplaces for ideas and ideation. They are structured and formal but serve the important functions of sharing ideas and building connections. It was last year that IMAI organized several large conferences to get the digital industry together and also to get recognized in the digital space. This year we were driven by the success of last year and as compared with 3 large and 3 mid-sized conferences last year, this year we were able to organise 9 large conference under the IMAI banner. These conferences, it may be noted, were separate from those that we organized in the educational institutions and those that we organized in partnership with other agencies.

Online Travel Conference

The online travel conference was held on 18 May 2007 in New Delhi in an attempt to capitalize on the busy travel season. This was the first time that such a programme was held in Delhi either by IMAI or by any other organization. The conference was attended by well over 200 delegates. The main sessions at the conference were on a) Changing face of Travel In India b) Hospitality and Business Travel: Online Strategy c) Travel Technology d) Payments and Security and



e) On How to Target, Engage, Fulfill the needs and retain online customer. Some of the key industry speakers were Deep Kalra, Founder & CEO, Makemytrip.com, Gautam Chadha, Chairman and CEO, JourneyMart, Himanshu Singh, Managing Director, Travelocity India, Suresh Kumar, President, Fortune Park Hotels India, Belson Coutinho, Head - eCommerce & Distribution, Jet Airways and Ashwin Damera, Chief Executive Officer, Travelguru.com, Harish Bahl, Chief Executive Officer, Zoomtra.com and Syiem Banshanbor, Travel Industry Manager, Akamai Technologies. The conference was supported by Akamai.

IMAI would be organizing at least one travel conference every year.





Star TV, Ashish Kashyap, Chief Executive Officer, MIH Internet, Avnish Bajaj, Founder Managing Partner, Matrix Partners, Jaspreet Bindra, Country Manager, Windows Live + MSN India, Mariam Mathew, Chief Operating Officer, Monorama Online, Ratish Nair, Chief Executive Officer, Interactive Avenues Marketing Solutions, Rehan Yar Khan, Founder, Flora 2000, Sanjeev Bikhchandani, Chief Executive Officer, Info Edge,

Enterprise Mobility Seminar

On 15 June 2007 IAMAI took its first hesitant steps towards organizing a half day seminar exclusively on mobile enterprise solutions supported by our member ACL Wireless. Some of the top industry representatives such as Atanu Mandal, President, ACL Wireless, Pankaj Sethi, President VAS & Enterprise Marketing Planning, Rajesh Jain, Managing Director, Netcore Solutions, S P Narayanan, Vice President Marketing, HDFC Bank, Rajiv Sehgal, National Head Value Added Services, Airtel Enterprise Services and Amitabh Pandey, Head, eBusiness, Thomas Cook spoke. The conference was attended by 100 delegates.

Sanjay Trehan, Chief Executive Officer, NDTV Convergence, Shailesh Rao, Managing Director, Google India, Tarun Bangari, Head Product Marketing (India), Akamai Technologies and Surya Mantha, Chief Executive Officer, Web18. The issues discussed at the conference were on

- a) Entrepreneurs Perspective: Challenging Current Wisdom
- b) Marketing Perspective: Reality Check
- c) Investor Perspective: Making Business Sense
- and c) Incumbent & Media Perspective: Threats and Opportunities.

The conference was supported by Microsoft.

Online Retail Conference

To highlight the problems faced by ecommerce IMAI organized a focused seminar on online retail at Chennai where IMAI had so far never marked its presence. The seminar deliberated on issues such as a) Online Retail - The Future in Indian Scenario b) Technology & Beyond Making the Right Choice and Leveraging the Same c) Online Payments Costs and Benefits of Alternative Payment Methods and d) Supply Chain Management Ground Realities with Murugavel Janakiraman, Chairman IMAI & CEO, Bhartamatrix Group, Sankarson Banerjee, Chief Executive Officer, Future Bazaar, V Sivaramakrishnan, President Portals, Sify Ltd, Dinesh Agarwal, Founder & Chief Executive Officer, Indiamart Intermesh, Satya Prabhakar, Founder & CEO, Sulekha, K Vaitheeswaran, Chief Operating Officer, India Plaza, Chetan Uberoy, Chief Technology Officer, Makemytrip.com, Vivek

Conference on Web 2.0

This was another first of its kind conference that IMAI organized this year and we were simply overwhelmed by the response. It was attended by a staggering 425 people and included such industry stalwarts as Ajay Vidyasagar, President,





Nayak, Chief Operating Officer, Avenues India, Navin Surya, Executive Director, ITZ Cash Card, Aditya Menon, Chief Information & Technology Officer, Obopay Mobile, Ajay Adiseshann, Chief Executive Officer, Paymate and Sanjay Aggarwal, General Manager (Operations), IRCTC, as speakers. The conference was attended by 175 delegates.

Digital Marketing Conference

Mumbai is traditionally the centre of marketing and advertisement, however, this year we decided to test the waters for online marketing in New Delhi. It reconfirmed our assumption that Delhi is competing neck to neck with Mumbai in the online marketing space. The seminar in Delhi covered issues such as a) Creativity b) Brand Building c) Media Planning and d) Impact on Small and Medium Businesses. and the lead speakers



were Arvind Rao, Chief Executive Officer & Co Founder, OnMobile, Chaya Brian Carvalho, Managing Director & CEO, BC Web Wise, Dinesh Wadhawan, MD and CEO, Times Internet Limited, Dinesh Agarwal, Founder & Chief Executive Officer, Indiamart Intermesh, Harish Bahl, Chief Executive Officer, Smile Interactive Technologies Group, Jaspreet Bindra, Country Manager, Windows Live + MSN, Kiran Gopinath, Chief Executive Officer, Ozone Media, Lloyd Mathias, Marketing Director, Motorola, Manish Vij, Co-Founder & Chief Business Officer, Smile Interactive Technologies Group, Milind Pathak, Co-CEO & Country Manager, Buongiorno (Hong Kong), Raj Nayak, Chief Executive Officer, NDTV Media, R Rajnish, Head, Microsoft Digital Advertising Solutions, India, R Sundar, President, Times Business Solutions, Sam Balsara, Chairman & Managing Director, Madison, Sidharth Rao, CEO & Co-founder, Webchutney, Vivek Bhargava, CEO, Communicate 2, Shashi Sinha, CEO, Lodestar and Shailesh Rao Managing Director, Google India.

The seminar was supported by Microsoft.

Digital Entertainment Conference

Yet another new initiative by IMAI, and once again an overwhelming response from the industry and this time in Mumbai. The conference was held on 2 November 2007 and covered topics on a) Movies b) Information and Sports c) Music and d) Gaming. Leading lights of the industry such as Rahul Bose, Film Actor, Jaspreet Bindra, Country Manager, Windows Live + MSN, Aditya Shastri, Chief Executive Officer, People Pictures, Jai





Maroo, Director, Shemaroo Entertainment Pvt Ltd, Rajesh Sawhney, President, Reliance Entertainment, Rajjat Barjatya, Managing Director, Rajshri Media, Shravan Shroff, Managing Director, Shringar Films, Sunil Nair, Chief Executive Officer, Nautanki TV, Tarun Bangari, Head Product Marketing, Akamai Technologies, Bruno Goveas, Head product Manager, Akamai Technologies, Manish Agarwal, Vice President - Marketing, Rediff.com, Pankaj Sethi, Vice President, VAS, Tata Teleservices, Saurjyesh Nath Bhaduri, General Manager, Reuters India Pvt Ltd, Sanjay Trehan, Chief Executive Officer, NDTV Convergence, Manoj Dawane, Chief Executive Officer, Mauj Telecom, Neeraj Roy, Managing Director & CEO, Hungama Mobile, Ranjan Patel, Chief Executive Officer, Onyx Mobile, Shamir Tondon, Music Director & Consultant, Alok Kejriwal, Chief Executive Officer, Games2Win, Rohit Sharma, Chief Operating Officer, Zapak Digital, Mohit Anand, Country Manager, Microsoft Xbox, Salil Bhargava, Chief Executive Officer, Jump Games, Vishal Gondal, Founder & Director, India Games, Venkat Mallik, Managing Director, Level up were the main speakers at the conference which was attended by 300 delegates. The conference was supported by Akamai Technologies.



India Gaming Summit

Organised with the support of our member, Zapak, this was the only b2b international conference on gaming held this year. International



speakers at the conference included Rajesh Sawhney, President, Reliance Entertainment, David Christensen, Sony Entertainment, Venkat Malik, CEO, LevelupGames, Rohit Sharma, COO, Zapak, John McClure, Intel Technology India and Desmond Lu, Shanda Interactive. The conference was held in Mumbai on 28 November and attended by 175 industry representatives mainly from the advertising fraternity.

India Digital Summit

The IDS continued to leave its mark as that special conference in the digital space. The special flavour this year was that all the keynote

speakers were from overseas and stalwarts in their various areas of the Digital industry. They included Shri Jainder Singh, Secretary, Department of Information Technology, Government of India, Murugavel Janakiraman, Chairman IMAI & Chief Executive Officer, Bhartamtrimony Group, Ramamurthy Sivakumar, Managing Director South Asia, Intel, Esther Dyson, Chairperson, EDventure Holdings (USA), K B Chandrashekhar, Exodus Communications, Mark Read, Director of Strategy, WPP & Chief Executive Officer, WPP Digital (UK), Tomihisa Kamada, Executive Vice President and Chief Technology Officer, Access Co. Ltd (Japan), Dan Neary, Vice President Emerging Markets, eBay (Singapore), Dylan Thwaites, Chief Executive Officer, Latitude (UK), Yat Siu, Founder & Chief Executive Officer, Outblaze (Hong Kong SAR), Shig Sando, Managing Director Global Business, iMode Do Co Mo (Japan) and Kyu-Nam Choi, President, Korea Game Industry Agency (Korea).

This year the IDS was held in New Delhi on 10 and 11 January in the middle of the exhibition and conference season but was able to attract around 600 people on two days.

Mobile VAS 2008



IMAI was proud to organise the largest conference in the mobile content and services space this year in the form of Mobile VAS 2008 in Mumbai on 4 March. The conference discussed issues such as a) Generating User awareness for VAS Offerings b) Mobile Positioning and Location



Based Services c) Mobile Commerce d) Enterprise Solution and Mobile Marketing and e) Mobile



GOVERNANCE

Governing Council

Following the statutory norms the IMAI governing council met four times this year and provided strategic directions on all areas of work. Two meetings of the council were held in New Delhi and one each in Mumbai and Chennai. The minutes of the meeting have been finalized and will be submitted to the Charities Commissioner Mumbai as required by law.



Committees

This year, IMAI had constituted the following committees to focus on specific issues:

Mobile Content and Services Group

The mobile content and services group was formed within IMAI earlier last year to address the issue of changes in shortcode numbering plan. This year the group crystallized with several large mobile and content companies joining as members and setting up some clear cut action points regarding especially interactions with the government over issues affecting the sector. This group worked actively in areas such as the STK issue, recognizing mobile content and services as an industry etc. By the end of the year the group was able to create and approve a strong work plan for 2008/09.



Online Publishers' Committee

This committee representing all the major online publishers has been functioning for two years. The most important focus of this group was to establish an acceptable credit policy and accreditation process between the publishers and agencies. This year, representatives of the committee lead by J Murugavel IMAI Chairman and Joy Basu, Chief Financial Officer, Rediff.com have had several rounds of meetings with AAAI, the association representing the full service agencies. Following these meeting AAAI proposed



an accreditation process. This was presented to the governing council. The council considered the proposals and suggested that a) it would be difficult for all member publishers to agree to a common credit policy in terms of credit days and b) the management of default and the recovery process was not in favour of IMAI in the proposals. IMAI secretariat was advised to look into an alternative method. An alternative method has been circulated among members and there feedback taken. This would be presented at the next governing council meeting.



Government Relations Committee

This committee spearheaded all interactions with government on all important issues such as the pre-budget recommendations and meetings, IMAI response to the parliamentary standing committees report on IT Amendment Bill 2006 and the subsequent interactions with the government on the issue and on issues and interactions related to internet penetration.



Online Payments Committee

This niche committee was active in spearheading the associations work in the area of online payments especially in formulating IMAI's response to the government over the Payment and Settlement Systems Bill and subsequently in preparing a white paper for submission to the Reserve Bank of India on possible guidelines under the Payment and Settlement Systems Act 2007.





Communications

With the focus being more on below the surface and consolidation this year, IMAI's interaction with the media was at a relatively lower level this year as compared with the previous years. This year we also concentrated on launching a completely new and much more interactive website of IMAI [www.iamai.in] and also created website for and upgraded the in-house online magazine Thinking Aloud! [www.thinkingaloud.in]

Secretariat

There was one addition to the four secretariat staff this year in the form of a telecom specialist to add to the growing work with the mobile content and services members. In addition, keeping our focus on government relations, towards the end of the financial year at the suggestion of the governing council, the secretary of the association started operating from the association's Delhi office.



APPENDICES

Appendix 1: IMAI Response to The Recommendations of the Parliamentary Standing Committee on Information Technology on the IT Amendment Bill 2006

1. Liability of Intermediaries: Section 79

The Rationale of the IT Amendment Bill: The association in principle agrees to the rationale with which the provisions of section 79 of the IT Amendment Bill 2006 were incorporated. These are as under:

- a) The purpose behind providing a wider definition to the term “intermediary” is to increase the scope of existing definition of Network Service Providers [NSPs] and thereby provide a broader connotation to the term Intermediary.
- b) This formulation will protect the internet companies, Internet Service Providers, Mobile telecom service providers, any other service providers, cyber cafes, etc. from the liability of a “Publisher” under Indian Penal Code.
- c) Further under the IT Act 2000, the onus is on the Network Service Provider to prove that he exercised ‘all due diligence’ ...whereas under the proposed Bill, the onus has been shifted on the government and its agencies to prove that no due diligence was exercised by the Intermediary.

Assumptions of the Standing Committee: The association feels that the Parliamentary Standing Committee in making strong recommendations against this section of the IT Amendment Bill 2006 made the following assumptions with regard to the intermediaries:

- Parliamentary Standing Committee Statement - that the IT Act 2000 holds

NSPs liable for all third party content.

- This assumption and interpretation are incorrect, as the current IT Act clearly states that an NSP ‘shall not be liable’. However the burden of proving the same is currently on the NSPs. Also the Notes on clauses to the current IT Amendment Bill clearly sets out the intent of the legislature in this regard by stating that section 79 was created to provide exemptions from liability for NSPs.
- Parliamentary Standing Committee Recommendations *The industry wanted to abdicate its responsibility for allegedly obscene and objectionable content, since they only work for commercial gains and hence will not take any due diligence initiatives unless mandated to do so.*
- In the association's view, this perception is not correct. The NSP's are of the firm opinion that creating, transmitting or distributing obscene and objectionable content, are harmful to society and public at large and also equally harmful to the Intermediaries' reputation, brand and businesses. Also, almost all Intermediaries have already put in place various technology aided measures and different types of automated security checks and ‘take down’ processes for prevention and detection of third party user generated content/information. However, given the open nature of the internet, the huge volumes of information passing through it in the form of data packets at any given second and the limitations of current technologies and Internet infrastructure, it is virtually impossible to either monitor, detect or block all third party content or information passing through the websites or platforms of the Intermediary in real time.
- Parliamentary Standing Committee's Assumption: *In its recommendations the Standing Committee appeared to question one of the key rationales for enacting a safe harbour for intermediaries. The Standing*

Committee considered it irrelevant that intermediaries may not know what their subscribers are doing on their networks, and thought it appropriate to oblige intermediaries to exercise all due diligence (including by monitoring their networks for any infringing activity) as a pre-requisite to qualifying for the proposed safe harbour.

- The association strongly disagrees with these recommendations and urges the Government to reject them. In the association's opinion, the Standing Committee's recommendations fail to acknowledge the critical link between the liability of intermediaries and the development of e-commerce. Intermediaries provide the means by which e-commerce can flourish, and unless their liability is appropriately curtailed, intermediaries are likely to take steps to minimise their exposure, which will, in turn, impact on the availability of the infrastructure upon which e-commerce relies.
 - The association also notes that the introduction of an obligation on intermediaries to monitor activity on their networks would be out-of-step with the approaches to intermediary liability that have been taken by India's major trading partners, including the United States of America and the European Union. Neither of these jurisdictions has enacted an obligation on intermediaries to monitor activity on their networks.
2. Contraventions of Serious Nature: Section 43
- The Standing Committee has suggested two changes:
- i. Clause 43.c to 43.i be made punishable offences
 - ii. The offences should be cognizable with punishment along with fine/penalty.
 - I. Ever since the introduction of this section it has hardly been used. This has resulted in the absence of any case law on the subject. If at all the offences under this provision have to be made punishable with imprisonment, it is important that the offence be made non-cognizable so that action may only be initiated after some amount of judicial scrutiny.
 - II. Furthermore the Standing Committee has suggested that the word penalty should be retained. We submit that the word "compensation" has been chosen instead of "penalty" as the person who has incurred loss has to first prove the actual damage/ loss suffered and also the actual quantum of loss suffered by him. The rationale is to compensate in relation to the actual loss suffered (of course subject to a maximum limit) whereas the penalty is a fixed quantum which does not consider the loss suffered and the quantum thereof.

Appendix 2: IMAI Pre Budget Memorandum

IMAI would like to make the following fiscal benefits for the rapid growth of online industry in India. It may be noted that the industry, since the export component is minimal, does not enjoy and fiscal benefits like the software and services and BPO industry.

We feel that since the online industry makes transactions transparent and efficient, helps employ a large number of non-specialised people and provides information, communication and commerce facilities for the domestic market at a minimal cost, the industry should be given some fiscal incentives for at least 5 years.

We, therefore, submit that the following proposal of IMAI is given due consideration by the Government of India.

1. Moratorium on Service Tax on Online Advertisement and Online Services [*Details of relevant service taxes in annexure 1*]

- These two service tax sections covers all types of internet/online “advertisements” such as banner ads online publishers like Rediff.com, Indiatimes.com, sify.com, Yahoo! India, MSN India etc], search [search engines like Google India and Yahoo India] and classifieds [bharatmatrimony.com, shaadi.com, Naukri.com].
- It is our experience that online advertisements are primarily by SMEs and individuals [for classified sites]. The larger companies too avail of this for customer acquisition but the lower cost and targeted reach and makes it the primary vehicle of advertising for SMEs and individual.
- For all Indian companies medium, large or small, advertising in overseas print and electronic medium is nearly impossible for the costs involved. But today all Indian companies: large or small have interest in accessing global markets. Internet advertising is the best vehicle for them. Since internet as a medium has global and universal reach unlike print and electronic which as local or at best national.
- The classified sites in India also offer individuals their basic services free unlike the print medium. For example, to host a cv on Naukri.com does not cost any money to an individual.
- It may also be noted that internet is not a medium which is directly recognized by the Directorate General of Audio Visual Publicity [Ministry of Communications]

for Government advertisement and is as such not a direct beneficiary of government advertisements unlike print and electronic media.

- The burden of service tax falls on the users of these services and makes the cost of these otherwise low cost services higher. It may be noted that the total industry size including search, banner and classified is not more than 700 crores, the quantum of service tax therefore is not more than 92 crores. Not a large sum for the government to forego, but a considerable sum for the industry to grow.

Recommendation: With the view to grow the industry faster, we therefore, humbly suggest that there be a moratorium of 5 years on the two specific service taxes mentioned in annexure 1.

2. Implementation of certain fiscal recommendations of TRAI made in 2004

- The Broadband Policy 2004 of the Department of Telecommunications had suggested that certain financial packages to accelerate penetration of internet in India
- Following the Broadband Policy 2004 TRAI in its recommendations of April 29 2004 suggested a set of fiscal measures for faster spread of internet in India.
- We would especially like to draw attention to section 5.5.7 of the TRAI recommendations: “*The Government of India should also recommend to all State Governments to waive sales tax on goods and services that are transacted through electronic mode (e-commerce) for the next 5 years up to limits to be prescribed by the Government. This recommendation should be then followed with legislation to ensure*

execution by the State Governments."
[complete fiscal recommendations of TRAI is annexure 2]

- It may be noted that in 1998, the Internet Tax Freedom Act was passed [it is still in force] to facilitate e-commerce. The original Act of 1998 is in annexure 3

Recommendations: with a view to encourage e-commerce, we humbly suggest that some of the TRAI recommendations appearing in annexure 2, especially 5.5.7 be considered for implementation along the lines of the Internet Tax Freedom Act 1998

Appendix 3: Discussion Paper on Payment & Settlement Systems Act 2007: Executive Summary

1. Payments Systems in India:

Payment Systems in India has come a long way from Cash based systems to Card based and in future moving towards virtual accounts and e-payments. Indian Payment Systems has been largely controlled and managed by its Central Bank, the 'Reserve Bank of India' and other Banks like in most of the countries. At the macro level the Payment Systems can be classified as follows:

- Traditional Payments Systems: some of the key examples of payment instruments which are basis of these systems are Cash, Bank Accounts like Saving/Current Accounts, Cheque, Demand Drafts, EFT, Credit Cards, ATM Cards, Debit Cards.
- Extension of Traditional Systems: Market Demand led by Information technology and innovation have seen the Traditional Payments Systems launching new services in form of Internet Banking, Mobile Banking, ECS, RTGS, NEFT, Store

Value Prepaid, Smart or Contact less Cards linked to Bank Accounts, No Frills Account. Most of these are extension of Traditional Payments Systems.

- New Payments Systems: Market Opportunities, Advancement of Technology and Innovation has resulted in new payments systems by non-traditional players launching new payments instruments like Internet Accounts, Internet or Mobile Wallets or Purse, Mobile Based Accounts, Internet or Mobile based remittance services, Prepaid Cards.

Globally services like Paypal, Obopay, Green Dot are mainstream and are already growing at an accelerated rate contributing a great deal to areas of Internet Commerce, Mobile Commerce, Financial Inclusion, International Remittance, Mobile Banking, Micro Transactions Processing delivering speed and economy to payer and payee at the same time ensuring appropriate level of safety and security. 'Committee on Payment and Settlement Systems of Bank For International Settlement' has published a report on Non-traditional and New Payment systems in their report on 'Survey of developments in electronic money and internet and mobile payments' in March 2004 covering about 90 plus countries across the globe. 'Financial Action Task Force: Groupe d'action financière' also published their report on Non Traditional and New Payments Systems titled 'REPORT ON NEW PAYMENT METHODS' dated '13 October 2006'. While the focus was primary the Risk Assessment and suggestions for Mitigating these Risks but it has also evaluated various Non-traditional and New Payments Systems across the globe [FATF has issued a draft topology report that acknowledges that alternative payment methods may be low risk, if proper processes for risk mitigation are in place (see FATF Report attached separately)].

'Department of Payments and Settlement' of Reserve Bank of India which was set up in Year 2005 with a view to Oversight on Payments and Settlement Systems in India has published various white papers and reports on Indian Payments System and Reserve Bank of India's vision for 'Safe, Secure, Sound and Efficient Payments and Settlement System' for the country.

2. The Payments and Settlement Systems Bill 2007

- Key Features of The Payment and Settlement Systems Bill 2007

The Government of India introduced 'The Payment and Settlement Systems Bill 2006' in Year 2006 to facilitate the Oversight of Payments and Settlement Systems in the Country by Reserve Bank of India. The Bill has been reviewed by Parliamentary Committee and introduced in Lok Sabha and Rajya Sabha of Parliament of India for approval. The Earlier Bill amended as Bill No. 50-C of 2007 and now called 'The Payment and Settlement Systems Bill 2007 (The Bill)' as passed by Lok Sabha on 26th November 2007 and became an Act.

The Act has 8 (eight) chapters and 38 (thirty eight) clauses and various sub clauses covering various matters like definitions, authority and its committee to regulate the payment systems in the country, authorization of payment systems in the country, regulation and supervision by the Reserve Banks of Payment System like they already do for Banks and certain other entities, rights and duties of a payment system, settlement of disputes, offences and penalties, miscellaneous dealing with matters like power of RBI to make rules etc and specifically exempting Stock

Exchanges and Clearing Corporations of Stock Exchanges. These chapter and clauses are designed:

“to provide for the regulation and supervision of payment systems in India and to designate the Reserve Bank of India as the authority for that purpose and for matters connected therewith or incidental thereto.”

- IMAI Members' Understanding of the Bill:

Based on the Historical Background of The Payment and Settlement Systems Bill 2007 our understanding is that the objective of RBI and BIS has been to have all Central Banks empowered for Oversight on Systemically Important Systems (SIPS) or at Best System of System Wide Importance (as mentioned in RBI report on Oversight of Payments System 2006-07), However the current Bill does not specify nor provide adequate classification to oversight the payment systems based on their Systemically Important criterion. This may not be the objective of the Reserve Bank and would bring all Non-traditional and New Payments System whether or not they are Systemically Important.

3. Payments and settlement Systems: Global Scenario

In most developed countries where the regulations are being provided for the Payments Systems these have been on the basis of the Risk. These possible risk categories have also been defined as Open Payment Systems, Closed Payment Systems and Semi Open/Close Systems. These systems have been classified based on risk parameters like Identification, Value Limits, Geography, Funding in, Funding out, Usage Limits, Currency Denomination.

Risk Parameters	Open-ended	Close-ended	Semi-Open/Close ended
Identification	Anonymous	Identity available in form of KYC	Basic KYC available directly or indirectly
Value Limits	Generally no limit	Specified limit	Limits May or may not be specified, but for specified usages
Geography	International Transactions	Clear Geographic usage mostly pure Domestic	May have Geographic Details but for specific usages within Geographic boundaries specified
Funding-in Options	All options including cash	primarily bank accounts or bank instruments	Pre specified and Bank instruments
Funding-out Options	Globally anywhere in all forms including ATM Cash withdrawals	Not possible or only in bank account	Possible but with additional formalities and for specified purposes
Usage Limits	No Limits	Prefixed annual and periodic limits	May or may not be specified but for specific usage only
Currency Denomination	Local currency but highly liquid like USD and easily convertible in other currencies	Only Local currency non liquid and non convertible	Local Currency but strong currency like USD, Euro

Most of the New Payment Systems and Branchless Banking Systems are also classified as following options which can again be in nature of Open, close or semi open/close:

- Prepaid Cards
- Internet Accounts/Wallet/Purse
- Mobile Accounts/Wallet/Purse

Remittance (Domestic or International)

New Payments Systems	Open-ended	Close-ended	Semi-Open/Close ended
Prepaid Cards	Bank Prepaid Cards with ATM withdrawal domestic as well as International	Limited Usage prepaid cards without Cash withdrawal Options	Prepaid Cards like No Frills Account Cards for branchless banking with KYC and pre-specified limits
Internet Accounts/ Wallets/ Purse	Internet Bank Accounts, Internet Virtual Accounts with Cash Withdrawal across the globe	Internet Accounts / Wallets/Purse for specific usages with no cash withdrawal	Internet Accounts / Wallets/Purse for specific usages with cash withdrawal in to specified bank accounts etc.
Mobile Accounts/ Wallets/ Purse	Mobile Banking Account with all features of traditional banking and cash	Mobile Accounts / Wallets/Purse for specific usages with no cash withdrawal	Mobile Accounts / Wallets/Purse for specific usages with cash withdrawal in to specified bank accounts etc.
Remittance	Across the globe; no limits	Pure Domestic	Domestic or International but with specified value for specific transaction and total during the year

In a few countries where 'New Payment Systems' are regulated the regulations are generally of three Levels i.e.;

Level I: Basic Registration and Information for the Central Banks to have direct access on the growth and information which may be required from time to time in their function as Monetary Authority. Such regulation is primary for the Payment Systems which are low risk and primary close ended systems.

Level II: At Level II certain Payment Systems may be regulated based on the different payment instrument and services they deliver in their respective country and they may have different requirement for different payment systems for different instrument they run. Some of them may require specific licensing subject to certain terms and conditions, some specific identity related

regulation like KYC, Certain limits on value of transactions or reporting in case of transactions above certain specified values.

Level III: Non-traditional or New Payment Systems which has elements of 'Systemically Important Systems' as specified by CSPP may be regulated at Level III which may be more close to current banking system compliances, however while regulating such payments systems only specific services and products that qualify as nature of 'Systemically Important' should be regulated as Level III and other services which are not of the same risk or criticality should be regulated at appropriate level.

Countries like Singapore and the European Union where New Payments systems are popular and have a high adoption rate have been able to provide adequate detailed guidelines to differentiate and

regulate the Payment Systems based on their 'Systemically Important' nature and 'Possible Risks'.

1. IMAI submissions on Payments and Settlement Systems Act 2007

The proposed Payments and Settlements Act is a document that is difficult to critique as it merely places the overall payment and settlements regime in India within the ambit of the Reserve Bank of India [RBI]. The RBI has not yet explicitly laid out its position on the various options that are likely to be available. But what is clear is that there is a need for a framework to be developed which clarifies the status of Non-traditional and New Payments Systems.

This paper, therefore, calls for building a framework that explicitly states what the regulatory system that oversees the Non-traditional and New Payment Systems should be like. It suggests certain important characteristics that ensure:

- (a) Stability
- (b) Innovation, entry and competition
- (c) Entry of small players into e-payment services
- (d) Secure and safe e-payment system

We are therefore able to answer some important questions that are not addressed adequately by the proposed Act. These issues will need to be decided by the regulator while framing the Rules and Guidelines for the Payments and Settlement Systems Bill:

1. Whether Non Systemically Important Payments Systems like Non-traditional Payments System and New Payments System fit into the definition of System Providers is not clear; but since the flexibility of defining such providers has been given to the RBI in the proposed bill, it will only become clear what route the RBI will take.
2. Should this segment that is at such a nascent stage of development be

regulated? Regulation will impose costs with little immediate benefits at this point and therefore some may prefer regulation to be delayed. However, if regulations ensure entry with safety and security, they will only accelerate the spread of the New payments systems. This should be a critical element for developing a legal framework for emerging transaction technologies.

3. Who should provide such services and who should not? The question of entry is important, as undue regulation will prevent entry and therefore competition from the non-bank sector. Here it is essential that all segments, not just the Banking sector, should be able to provide such payment system services. Moreover explicit mention should be made on facilitating the entry of small players.
4. How should issues of safety and security be addressed? Fears such as money laundering or use in illegal cross border trade are quite unfounded as there are other much easier means to undertake these tasks. However, as long as basic monitoring and reporting systems are being followed, these can be directly addressed. With electronic payments it would be easier to trace as well as well as identify both activities as well as persons indulging in such activities.

In conclusion, the Rules and Guidelines for the current bill should be framed to include broad principles that would be followed. The Regulator needs to specifically mention the broad vision that will then translate into broad principles related to entry, competition, innovation, equity and growth. The reason is, if the regulator focuses more on maintaining security and stability and not give enough weight to the fact that a growing and inclusive economy needs many different types of providers to meet the demands of the different types of potential users, the purpose of regulation would be diluted to a great

degree. The poor and rural users, the un-banked population, small groups, payment over the Internet, etc. all need to be facilitated and coverage growth needs to be accelerated.

In most of the countries the Regulation is for the specific product/service and in proportion to specific risk and the same is not on the entity or business. And in line with best global

practices RBI should provide for the Rules and Guidelines which is based on three tier principle and provide regulation in proportion to the risk associated with different type of Payment Systems especially New Payment Systems. Industry proposal at the macro level is as follows:

Open-ended New Payment Systems	Close-ended New Payment Systems	Semi-Open/Close ended New Payment Systems
Level III Regulation: Registration; Licensing; AML/CFT; Transaction Reporting; Capitalization; Fund Utilisation Norms	Level I Regulation: Registration and Authorization Only with time to time information sharing on need to know basis by regulator	Level II Regulation: Registration and Authorization, Specific Guidelines in terms of Value and Funding Limits and Reporting; Guidelines for utilizing Funds

- Technology vendors /Partners/service providers to Organizations/players who run Payment Systems should not be subject to RBI authorization as the compliance responsibility is on the Payment System Service Provider.
- RBI may at best provide technology guidelines /standards to be followed by all these vendors/partners to ensure security, safety and interoperability of system.

New and Nontraditional payments system may take mitigating steps which will help lower overall risk in the system:

- Service providers could implement ISO 27001 certification to ensure that the relevant controls are in place. While this is not mandatory it may be a recommended guideline.
- Service providers that deal with Card information in any way should adopt the Payment Card Industry DSS 1.1 certification (PCI compliance)
- Vulnerability and Penetration Testing by appointing widely recognized agencies.
- Concrete steps by Payment Service Providers should be taken to ensure privacy and confidentiality of customer data.







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