



## **A Public Consultation Document**

**on**

## **Licensing of Mobile Virtual Network Operators**

Issued by CITC on 24/02/1433H; 18/01/2012G



## Contents

1.	Introduction .....	1
2.	Scope of the public consultation.....	2
3.	Comments on the consultation documents .....	3
4.	Conceptual overview of MVNOS.....	4
5.	The need for MVNOs in Saudi Arabia.....	5
6.	Lessons for success from other mobile markets .....	7
7.	Reflecting the principles in Saudi Arabia's MVNO scheme.....	9
	Annex A: Draft MVNO Guidelines .....	12
	Annex B: Draft Request for Applications for Initial Licensing of MVNO Services .....	13

## 1. Introduction

- 1.1. Pursuant to the Telecommunications Act, the Telecommunications Bylaw and the Ordinance, the Communications and Information Technology Commission ("CITC") is authorized to regulate the Information and Communications Technology (ICT) sector in the Kingdom of Saudi Arabia ("the KSA").
- 1.2. Pursuing its goal of liberalizing the ICT sector in the KSA, CITC is in the process of developing and offering a new form of license for Mobile Virtual Network Operators ("MVNOs").
- 1.3. This Public Consultation concerns the way in which CITC will:
  - a) Define the regulatory context and principles to be incorporated into the MVNO scheme in Saudi Arabia;
  - b) Develop and offer a new form of license for Mobile Virtual Network Operators ("MVNOs");
  - c) Select the applicants that shall initially be granted MVNO licenses; and
  - d) Issue Guidelines in respect of the development of partnering agreements between MVNOs and mobile Facilities Based Host Providers ("Host FBPs").
- 1.4. CITC invites all members of the public, including private individuals, public organizations and commercial entities (together, the "Respondents") to participate in this Public Consultation process.

## 2. Scope of the public consultation

- 2.1. This public consultation is for the purpose of seeking comments from all stakeholders and members of the public who are interested to respond on the need, principles and the draft versions of the documents that together form the MVNO scheme. The documents are
  - Draft Guidelines for MVNO Agreements – Annex A.
  - Draft Request for Applications for initial MVNO Licenses (“RFA”) including the Draft MVNO License – Annex B.
- 2.2. Discussion and description of the eligibility criteria and selection criteria for MVNO licensees have been included in the RFA.
- 2.3. The ultimate aim of the Public Consultation process is to assist CITC to finalize the proposed constituent documents of the MVNO licensing scheme.

### 3. Comments on the consultation documents

- 3.1. This Public Consultation Documents including Annexes A and B are available on the CITC's website at <http://www.citc.gov.sa>.
- 3.2. Respondents who wish to express opinions on the Public Consultation Documents are invited to submit their comments in writing to CITC. All comments must be received by CITC no later than 10/04/1433H, corresponding to 03/03/2012G.
- 3.3. Comments filed in relation to the Public Consultation Documents must be submitted to one or more of the following addresses:

E-mail to: [mvno@citc.gov.sa](mailto:mvno@citc.gov.sa)

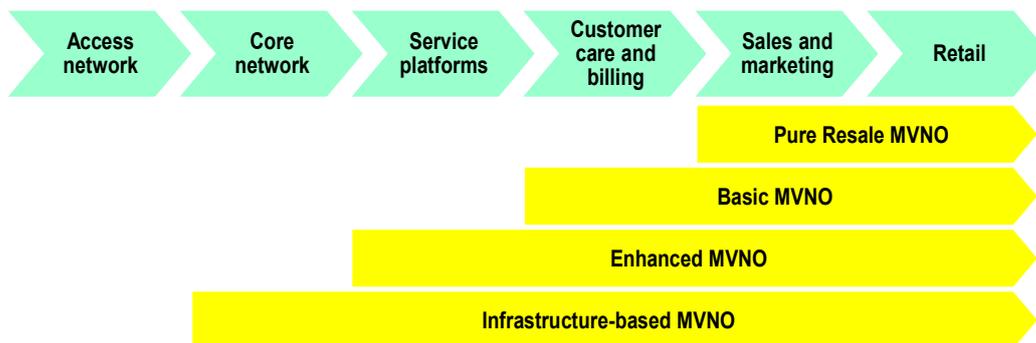
Delivery (hard and soft copies) by hand or by courier to:

**Office of the Governor,  
Communications and Information Technology Commission (CITC)  
King Fahad Road, P.O. Box 75606  
Riyadh 11588  
Kingdom of Saudi Arabia**
- 3.4. CITC welcomes all comments on the Public Consultation Documents. CITC particularly invites comments and responses to the specific numbered "Questions" set out in this Public Consultation Document and at the end of each of the Annexes (the "Consultation Questions"). CITC encourages Respondents to support all comments with relevant justification and analysis, data and information based on the current situation or on relevant experience from other countries to support their comments. CITC may give greater weight to comments supported by appropriate evidence. In providing their comments, Respondents are requested to indicate the number of the Consultation Question(s) to which each comment relates. Respondents are not required to comment on all Consultation Questions. CITC is under no obligation to adopt the comments of any Respondent.
- 3.5. Comments submitted by Respondents in relation to the Public Consultation Documents may be published on the CITC's website at <http://www.citc.gov.sa>. Claims of confidentiality will be determined by CITC in accordance with the Commission Statutes. Generally speaking, statements of opinion will not be regarded as confidential by CITC.

## 4. Conceptual overview of MVNOS

- 4.1. MVNOs are licensed service providers that buy mobile network capacity and use this capacity to offer their own mobile subscriptions and services to end-users. They are not sales agents for Host FBPs. The mobile end-users subscribing to the licensed MVNO are customers of the MVNO, not of the Host FBP. MVNOs are not assigned any radio frequency spectrum by the regulator and may not establish their own radio access network or transmission systems.
- 4.2. MVNOs take up a range of positions in the value chain, and may have one of a number of business models. These include for example:
- Pure resale MVNO – resells mobile airtime and connectivity using its own sales and marketing capability and brand;
  - Basic MVNO - in addition to a) above, offers billing and customer care services in addition to the airtime and connectivity procured from its Host FBP;
  - Enhanced MVNO – in addition to b) above, manages its own service platforms, allowing it to differentiate its service from that offered by its Host FBP;
  - Infrastructure-based MVNO – in addition to c) above, provides its own core network, consisting of a Mobile Switching Centre (MSC) and Home Location Registry (HLR) in addition to managing and billing end-users. It may also manage its own core transmission network to carry traffic.
- 4.3. Figure 1 describes the roles in the mobile value chain that are taken by these types of MVNO<sup>1</sup>.

**Figure 1: MVNO roles in the mobile value chain**



<sup>1</sup> The names used to label these categories are not specialised terms. They have been chosen to assist readers understand that there is a range of roles and functions that MVNOs may adopt in the provision of service to mobile end-users.

## 5. The need for MVNOs in Saudi Arabia

- 5.1. Demand for mobile services has grown in recent years. Mobile penetration reached 195% by mid-2011. This is one of the highest penetration rates in the world. The Saudi Arabian mobile market is competitive, with no dominant operator.
- 5.2. The mobile market is maturing, with the rate of mobile subscriber growth slowing following a period of rapid growth. The number of subscribers grew by 24% in 2009, following a five year period with a compound annual growth rate of over 40%, but growth in 2010 fell to 15%.
- 5.3. Mobile broadband has grown rapidly in recent years from under 500,000 subscribers at the end of 2008 to 2.9 million by the end of 2010. While mobile broadband penetration is comparable with other countries, the rapid growth rate experienced in the Kingdom would indicate that there is still an opportunity for further growth.
- 5.4. While the KSA mobile market demonstrates high levels of competition, with penetration of mobile voice services at world-leading levels. There remain issues to address:
  - a) The competitive retail market place offers choice to customers, but with only three service providers, there are fewer alternatives than might be expected for a market serving 27 million people;
  - b) A market survey<sup>2</sup> recently carried out for CITC shows relatively low consumer ratings for quality of customer care in mobile services;
  - c) Mobile call prices are competitive when compared with international benchmarks but mobile broadband prices were found to be high relative to international benchmarks for services with high bundled data volumes (more than 3GB) in recent CITC studies<sup>3</sup>; and
  - d) There may be room for further service innovation, whether in the tariff packages or applications offered to the many segments that make up the mobile market in Saudi Arabia.
- 5.5. The widespread use of mobile services and integration of mobile services into everyday life means that the impact of these gaps in supply is significant.
- 5.6. Accordingly, CITC is of the view that it is time to expand the wholesale and retail structure of the mobile services market by issuing new licenses to MVNOs. MVNO licensing has the potential to provide improved customer service, additional choice and innovative service packaging to the market and to further strengthen competition at the retail level.

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<sup>2</sup> CITC, The State of ICT Market Development in Saudi Arabia, 2010, available at:  
<http://www.citc.gov.sa/English/Reportsandstudies/Studies/Documents/PL-PM-015-E-The%20State%20of%20ICT%20Market%20Development%20in%20Saudi%20Arabia.pdf>

<sup>3</sup> *Ibid*

- 5.7. Some mature mobile markets have seen the creation of Mobile Virtual Network Aggregators (MVNAs). MVNAs act as intermediaries between network operators and MVNOs by offering a platform that can supply a variety of common services to MVNOs, reducing the number of interfaces required with Host FBPs, and reducing time to market for new MVNOs. Although MVNAs may emerge in Saudi Arabia over time, CITC's approach on transition to a vibrant MVNO market means that, for the time being, CITC does not expect to license MVNAs in this initial MVNO licensing process.

**Question 1:** To what extent do you think MVNO licensing has the potential to provide improved customer service, additional consumer choice and innovative service options to enrich and expand mobile market competition?

**Question 2:** Do you agree that it is appropriate to increase mobile service competition and increase mobile data penetration in Saudi Arabia through the licensing of MVNOs?

## 6. Lessons for success from other mobile markets

This section considers the reasons why MVNOs were introduced in other countries, how they have performed, and reasons behind their success. It then lays out principles for the implementation of MVNOs in Saudi Arabia based on experience from other countries.

### 6.1. Performance of MVNOs in other countries

- a) Many other countries have introduced MVNO license schemes with the aim of addressing the perceived limitations of facilities-based competition in their markets similar to those in KSA. These limitations include:
  - i) Customer service: Technically driven network operators sometimes lack focus on customer service. Significant technical expertise is devoted to coverage expansion and network technology while customer segmentation, consumer marketing and customer care come second. The result is that the level of customer service falls below those found in retail markets for other consumer products;
  - ii) Service innovation: Mature markets, particularly where supply is concentrated, can lack the innovation in service offerings including price and quality of service that smaller, more agile service-based operators provide;
  - iii) Market development: Some markets are not able to support additional facilities-based operators due to the high investment requirements and the decreasing returns available. Service-based operators have lower capital requirements and may be profitable with lower subscriber numbers and revenues;
  - iv) Spectrum limitations: Often spectrum availability is limited and where countries are unable to provide further spectrum, licensing further mobile network operators is not feasible;
  - v) Environment: The deployment of radio access networks increases the environmental impact and is increasingly challenging under tighter planning and permitting rules. Such factors discourage investment in new facilities-based networks.
- b) A successful MVNO takes a considered approach to marketing mobile services and uses its strengths to build its market share. Market entry strategies of successful MVNOs include:
  - i) Mobile broadband services bundled with hardware such as laptops, tablets or games devices to differentiate the service;
  - ii) Large retail stores cross-selling mobile services to their customers;
  - iii) Fixed line operators without a mobile license using an MVNO license to provide bundles to customers; and

- iv) Services targeting niche market segments. Ethnic groups are fertile segments for MVNOs. Other niches could include sports clubs and specific business sectors.
- c) There are benefits for both parties. While successful MVNOs will take some part of the mobile retail services market at the expense of existing mobile FBPs, their Host FBPs will secure new and valuable traffic over their own networks that will generate significant wholesale payments without incurring customer acquisition costs.
- d) All successful MVNOs share the ability to select their business models and operate autonomously in the market. Several MVNOs have been notably successful.

## 6.2. Principles for Saudi Arabia's MVNO scheme

- a) Taking advantage of the lessons from the experience of other countries, the principles that CITC considers to be important for success in Saudi Arabia include:
  - i) A MVNO should have recognised status and entitlements as a licensee;
  - ii) A staged implementation helps to avoid failure and maintains market stability;
  - iii) MVNOs should be subject to similar license terms and conditions to those of their host service providers to ensure fair competition is maintained across the industry;
  - iv) MVNOs should be permitted to operate a business model that makes sense to them and which engages their expertise and skills;
  - v) MVNO agreements (between the MVNO and its Host FBP(s)) should be commercially negotiated between the parties;
  - vi) A reasonable period should be provided for MVNO Agreements to be completed before considering any form of regulatory intervention; and
  - vii) Regulatory oversight is necessary to ensure a successful MVNO market.

**Question 3:** Do you agree that the principles outlined above should be incorporated into the MVNO scheme in Saudi Arabia?

**Question 4:** Please state any additional principles that you believe should form part of the MVNO scheme, indicating why you consider these principles to be important for Saudi Arabia.

## 7. Reflecting the principles in Saudi Arabia's MVNO scheme

- 7.1. The matters referred to in Section 6 are a broad distillation of international experience that CITC considers to be relevant to the success of the MVNO scheme in Saudi Arabia. These have been incorporated into the Draft Guidelines and Draft MVNO License in the Annexes to this document.
- 7.2. By way of a summary, CITC intends, subject to this consultation, to adopt the measures shown in Table 1 to give effect and expression to each of the principles stated in Section 6.

**Table 1 How important principles have been incorporated in the proposed KSA MVNO Scheme**

Item	Principle	Saudi Arabia MVNO Scheme
1	MVNO must have recognised status and entitlements as a licensee	CITC intends to offer a number of MVNO class licenses (Type A licenses). The MVNO license will be for a term sufficient to enable the licensee to develop a long-term business based on a suitable business model. CITC's preliminary view is that the license is for a period of 10 years. The MVNO license will establish the right of the licensee to seek access to the facilities and services of licensed Host FBPs that are required for the MVNO's business.
2.	Staged implementation	MVNO licenses are valuable authorisations to do business as mobile service providers in Saudi Arabia. In this initial licensing process, CITC intends to award up to three MVNO licenses and seeks to encourage licensing of strong and experienced competitors. CITC may issue further MVNO licenses when it considers the development of the market so warrants.
3	Similar license treatment between MVNO and Host FBP	While some Host FBP licence conditions will not be relevant to MVNOs, conditions that apply to behaviour at the retail level should generally apply equally to the MVNO and Host FBP. CITC intends to adopt a presumption of equal treatment with Host FBPs, unless a different treatment is reasonably justified.
4	MVNO determines its own business model	MVNOs may adopt a business model of their choice. However, a pure resale model, with limited MVNO control over customer care and billing, does not address CITC's objective of improving customer care. CITC therefore takes the view that this type of MVNO should not be permitted at this time.  CITC is also of the view that for this initial MVNO licensing process, each MVNO should be hosted by a single Host FBP and each Host FBP should only host one MVNO. CITC believes that this will facilitate the introduction of MVNOs and enhance their chances of success.
5	MVNO agreements should be negotiated in a reasonable time frame	CITC expects that the parties will negotiate in good faith and conclude, as expeditiously as possible, an agreement that provides for the provision of all necessary wholesale services on appropriate commercial terms, including as to price before submitting an application for an MVNO license. The Preliminary MVNO Agreement must be submitted as part of the application and the final MVNO Agreement is to be filed with CITC before



Item	Principle	Saudi Arabia MVNO Scheme
		<p>the issuance of the license. CITC requires that the service is launched within twelve months from the issuance of the license;</p> <p>The license award procedures in the RFA require the successful applicant to complete the requirements for the issuance of a license within 90 days of notification by CITC.</p> <p>CITC believes that MVNOs must be strong, independent competitors in the markets in which they operate if they are to have a beneficial impact. For this reason, MVNOs may not be majority owned or controlled by any Host FBP licensed by CITC.</p> <p>Due to the number of MVNO licenses which CITC intends to issue in this phase and to ensure fair competition and balance between operators, the Commission will not allow Host FBPs in this phase to host more than one MVNO. This will prevent an advantage being gained by any single Host FBP. CITC may issue fewer than the proposed number of licenses in this phase should one or more Host FBPs fail to reach an agreement with any Applicant.</p> <p>To ensure that each Host FBP participates in the new marketplace, and delivers competition in wholesale offerings, each Host FBP will be expected to offer wholesale terms to licensed MVNOs. The MVNOs will have the opportunity to select which Host FBP it wishes to negotiate with, based on the attractiveness of the wholesale offers and the proposed terms of the MVNO agreements. Every MVNO must contract with a different Host FBP. A Memorandum of Understanding concerning this agreement must be submitted with the MVNO license application.</p>
6	Preference for commercially negotiated outcomes within a framework of expected outcomes	<p>CITC expects Host FBPs and MVNOs to arrive at commercially negotiated MVNO Agreements. Should Host FBPs fail to agree with MVNOs to provide services on appropriate commercial terms, including price, and within a reasonable timeframe, CITC may choose to adopt further measures to encourage the introduction of MVNOs in accordance with CITC statutes.</p>
7	Regulatory oversight is necessary to enable a successful MVNO market	<p>CITC will support and encourage the success of MVNOs market. In addition to the measures established in the licensing process, CITC has prepared the attached Draft MVNO Guidelines to assist the parties in their negotiations.</p> <p>CITC intends to monitor the market and conduct a review, when appropriate, of the progress that has been made. This review may lead to changes should these be required in the light of experience to that point.</p>



**Question 5:** Do you agree that there should be a period between the initial award of up to three MVNO licenses and the award of additional MVNO licenses? If so, what period would you consider appropriate and why?

**Question 6:** Should MVNOs be subject to equal licensing terms, where appropriate, such as QoS and Terms of Service as the Host FBP? If not, which areas should be subject to different conditions? Please provide arguments and any evidence available to you in support of your view.

**Question 7:** Do you agree that each MVNO should be able to choose its own business model within the constraints described in this public consultation? If not, what constraints or limitations should or should not be imposed? Please provide arguments and any evidence available to you in support of your view.

**Question 8:** Do you agree that a license term of 10 years is appropriate? Please comment on whether the alternative license term of 5 years is sufficient.

**Question 9:** The number of licenses intended to be issued by the Commission in this initial phase is equal to the number of existing Mobile FBPs. Do you agree that, in this initial licensing process, each MVNO should be hosted by a single Mobile FBP and each Mobile FBP should host only one MVNO? Alternately, should hosting of more than one MVNO be permitted should this result in one or more Mobile FBPs hosting no MVNO? Please provide arguments and any evidence available to you in support of your view.

**Question 10:** Should the finalisation of agreements between MVNOs and Host FBPs be left entirely to commercial negotiation between the parties, or should other approaches be considered? Please provide arguments and any evidence available to you in support of your view.

## Annex A: Draft MVNO Guidelines

**Question A.1:** Please comment on the content of these Guidelines. Please state and justify any changes that you wish to propose. You may wish to cross-reference your answers to earlier answers if appropriate.

**Question A.2:** Do you consider that there are other principles that are not covered in the Guidelines and which should form part of the MVNO scheme? Please provide arguments and any evidence available to you in support of your view.

## Annex B: Draft Request for Applications for Initial Licensing of MVNO Services

**Question B.1:**

Do you agree with the content of the MVNO License? In particular what is your opinion of the proposals regarding:

- a) License fees;
- b) The terms proposed in relation to SIM cards;
- c) Preliminary MVNO Agreement;
- d) MVNO Ownership Arrangement Letter;
- e) Management Agreement; and
- f) Period permitted for MVNOs to launch commercial services.

Please provide arguments and any evidence available to you in support of your view. Cross-reference your answers to earlier answers if appropriate.

**Question B.2:** Please comment on the licensing process proposed for the selection of MVNO licensees.

**Question B.3:** Please comment on the evaluation criteria suggested for the evaluation of license applications