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# Summary paper: Commercial Model for Variable Recurring Payments – Wave 1

This is a companion paper to the public consultation on *The Commercial Model for Variable Recurring Payments – Wave 1* report prepared by Frontier Economics for OBL.

9 April 2025

Version 1

# Introduction

This paper is published alongside *The Commercial Model for Variable Recurring Payments - Wave 1,* the independent report on the Wave 1 commercial variable recurring payments (cVRPs) that has been produced for Open Banking Limited (OBL) by **Frontier Economics**. Here, we briefly explain the background to cVRPs, outline what the commercial model is and its purpose, and pose the questions we are seeking responses to in this consultation.

cVRPs are a pioneering new type of payment instruction that allow customers to safely connect authorised payment providers to their payment account to make automated payments on their behalf using open banking technology. These payments are only ever initiated by authorised payment providers with express customer consent, can be made at flexible intervals, and can vary in amount within pre-agreed limits. They are useful for automatically paying bills and invoices, or for consumers making payments directly from their account when buying goods or services from a website.

In the UK, we anticipate launching cVRPs in the second half of 2025 for a limited number of use cases. This limit will enable businesses and consumers to become familiar with how CVRPs work, and to allow for any required changes, based on lessons learned, before the expansion of use cases to ecommerce transactions in Wave 2.

In order to launch cVRPs in a consistent way, building trust and familiarity with consumers, the development of a commercial model is considered the most appropriate. The commercial model primarily provides the fee for access to premium APIs.

Premium APIs are APIs that account servicing payment service provider (ASPSP) cVRP participants provide to participants that are payment initiation service providers (PISPs), to enable customers to set up cVRP consents on their accounts. This, in turn, enables billers, merchants and other recipients to automate payments using those consents on behalf of the customer. The provision of a commercial model enables the cVRP 'scheme' to be sustainable through an exchange of value for the service provided. The commercial model is primarily the value set for the use of those premium APIs. However, we also include the 'scheme fee' which is the fee payable to the scheme operator that allows the operator to continue to undertake its operation.

### Building the commercial model

There are several options for how the commercial model is constructed. The Frontier report examines the trade-offs of many different options, ultimately looking at what commercial models drive the right incentives throughout the value chain. It then uses data from several prospective cVRP ASPSP participants to illustrate what fees their proposed model would generate.

The Wave 1 commercial model is only anticipated to launch cVRP as a live product in the UK market, and to attract new billers, merchants and other recipients.

It is widely accepted that for cVRP to be a successful and self-sustaining product that delivers benefits to a range of customers, the use cases will need to expand. This is often referred to as 'Wave 2' and, in most discussions, this relates to the expansion of cVRPs into e-commerce. However, the work that Frontier and OBL have been undertaking is specifically related to Wave 1.

The industry, under the stewardship of industry body UK Finance, has commissioned Deloitte to look at a future sustainable commercial model. At the time of publication, this work is ongoing, with Deloitte having completed the first of three phases of the work. The first phase is looking at the different conceptual models that could be used, as well as ways to narrow the options to a few specific models to take forward into the next phases where more work will be done to achieve the long-run sustainable model.

None of Frontier's work, nor this consultation, is intended to apply to the work on the long-run sustainable model. We do ask about the transition between the commercial models, however, to understand stakeholder views on how the VRP operator could best transition between the models and prices, as and when later waves are opened up.

**The results of the consultation will provide advice and guidance to the eventual cVRP operator about the price to adopt for the Wave 1 use cases of cVRP within the scheme rules and pricing schedule within the Multilateral Agreement (MLA).**

**The Frontier report is very detailed and provides explanations for all the work involved. As a standalone, it is not necessary to duplicate material here. The remainder of this document sets out the questions we would like your feedback on, then set out the next steps in the process.**

# Feedback

We would like to hear your thoughts on the following:

| Key questions |
|---|
| **Q1: Does the proposal for the commercial model outlined in Frontier's report adequately fit with the PSR and FCA pricing principles?** |
| **Q2: Does the proposal for the commercial model approach, in its current form, provide the best balance of the interests of participants being able to offer/use cVRPs without creating material barriers to inclusion or competition?** |
| **Q3: Does the proposed approach lead to proposed prices that allow ASPSPs to recover their expenses?** |
| **Q4: Does the proposed approach lead to proposed prices that are proportionate, objective and non-discriminatory?** |
| **Q5: Do you agree, or have any material concerns, about the assumptions and conclusions reached within the development of the approach to the proposed commercial model?** |
| **Q6: Do you think any of the commercial model price options would drive or prohibit the adoption of cVRPs by ASPSPs, PISPs, consumers, billers, merchants or other recipients under the Wave 1 use cases? Which of the pricing options would drive the right incentives through the value chain, as well as meeting the objective of consumer and business adoption?** |
| **Q7: Do you think any final price should be (a) a fixed multilateral price, (b) a price cap with bilateral negotiation allowed below that cap, or (c) a fall-back price for any situation where bilateral negotiated prices cannot be independently reached?**<br><br>**(Note: Frontier has reserved its position on the legal framework required to ensure compliance with applicable competition law and we are discussing with our legal advisers. If you have views on the most effective approach, please provide them.)** |

# Pricing principles - approach

Chapter 3 of the report covers six pricing principles shared by the PSR and FCA that have been used in undertaking the Wave 1 commercial model work. These are:

- The price proposed should broadly reflect relevant long-run costs.
- The price proposed should incentivise investment and innovation in cVRPs.
- The price proposed should incentivise cVRP adoption by consumers and businesses to help enable network effects.
- The price proposed should treat sending firms and PISPs fairly, without favouring or disadvantaging some against others.
- The price proposed should be transparent and simple to understand.
- The methodology underlying the price proposed should be transparent and clear.

We ask:

**Q1: Does the proposal for the commercial model outlined in Frontier's report adequately fit with the PSR and FCA pricing principles?**

# Pro-competition and accessibility to market participants of all sizes - approach

There are different contracting and distribution models through which cVRPs can be made available to customers, both to billers, merchants and other recipients, and also to those setting up cVRP consents. It is therefore important that the commercial model addresses the different contracting and distribution models.

We are implementing Wave 1 where the In-Scope Use Cases schedule sets out the following sectors/use cases:

- Regulated utility companies providing power, water, wi-fi, and some mobile phone contracts.
- Rail tickets, including Transport for London.
- Regulated financial service firms covered by the Financial Services Compensation Scheme (FSCS) or equivalent for payments between customers' accounts, or accounts of spouses, civil partners or dependents.
- The majority of e-money institutions.
- Central and local government.
- Regulated charities.
- Ecommerce transactions are excluded from Wave 1.

In light of these different contracting and distribution models and the Wave 1 sector use cases, we ask:

**Q2: Does the proposal for the commercial model approach, in its current form, provide the best balance of the interests of participants being able to offer/use cVRPs without creating material barriers to inclusion or competition?**

# Transparency and outcomes of the approach

To ensure that the approach is well-understood, and is, in broad terms, fair to all the participants that are part of the cVRP scheme, we want to ensure a level of transparency such that the outcome of the price is proportionate, objective and non-discriminatory to any of the parties.

In terms of the approach, it is setting a fee based on paying the API provider for the use of the cVRP API. For the API provider to be motivated to provide a high-quality API journey, the commercial model approach needs to ensure that suitable costs of API provision are recovered. However, recovery of costs on a timely basis needs to be balanced with a commercial competitive offering to billers, merchants and other recipients, alongside other non-financial benefits such as efficiency gains and better customer service.

We therefore ask:

**Q3: Does the proposed approach lead to proposed prices that allow ASPSPs to recover their expenses?**

**Q4: Does the proposed approach lead to proposed prices that are proportionate, objective and non-discriminatory?**

**Q5: Do you agree, or have any material concerns, about the assumptions and conclusions reached within the development of the approach to the proposed commercial model?**

# Wave 1 pricing

In Chapter 10 of the report, Frontier outlines the results of its preferred model based on data collected from six large ASPSPs, and information that we provided on prospective operating costs of the cVRP operator, alongside prospective projections of cVRP volumes.

From this modelling, Frontier has provided several price scenarios, where investment costs for ASPSPs are either recovered quickly or over a longer time period, or deferred to a future date, alongside similar decisions on price margins. In addition, whether all or some scheme fees are recovered on a similar basis.

In Table 1 (and also Table 27) of the report, Frontier expressly provides its different options; this is based on Wave 1 use cases only, but on the assumption that cVRP Wave 1 use cases are provided to the market for a period of at least 10 years. Within that 10 years are two periods, the adoption period (years 1-5) and the recovery period (years 5-10). They have provided pricing based on prices for both periods, such that over those periods all the various investment costs would be recovered.

So, for example, a lower cost in the adoption period because of deferred costs would have an associated higher cost in the recovery period. However, throughout the adoption and recovery period, volumes would grow, and new billers, merchants and other recipients accept cVRP payments and more payments are made.

It could be the case that there is less of a step jump between prices where additional volumes offset additional recoveries, but it also means that ASPSPs recover expenses at a slower rate.

| Scenario | Description | Adoption period price | Recovery period price |
|---|---|---|---|
| 1 | Recover all costs in the adoption period. | 11p | 5p |
| 2 | Delay upfront costs to the recovery period. | 8p | 6p |
| 3 | Delay upfront and ongoing fixed costs to the recovery period. | 6p | 6p |
| 4 | Delay upfront costs and scheme costs to the recovery period. | 6p | 6p |
| 5 | Delay upfront and ongoing fixed costs and scheme costs to the recovery period. | 4p | 7p |
| 6 | Delay upfront, ongoing fixed costs and margin, as well as scheme costs until the recovery period. | 3p | 7p |
| Frontier proposal | | 6-8p | ~6p |

On the basis of this analysis, we ask:

**Q6: Do you think any of the commercial model price options would drive or prohibit the adoption of cVRPs by ASPSPs, PISPs, consumers, billers, merchants or other recipients under the Wave 1 use cases? Which of the pricing options would drive the right incentives through the value chain, as well as meeting the objective of consumer and business adoption?**

In answering this question, we are also interested in views on the length of the adoption and recovery periods and what the optimal period is for recovering costs would be relative to incentivising billers, merchants and other recipients to adopt cVRP.

# Format of the price and adoption within the cVRP scheme and rulebook

The price proposed is a fixed fee per transaction. However, how that fee is used is also important. Within the scheme rules the price is expected to be set, but we would like to understand the role that the fee plays. For example, this could be a fixed multilateral price that all ASPSPs receive for any cVRP transactions with no negotiation on a bilateral basis. It could, however, be the maximum or fall-back price, where bilateral fees could be negotiated but not applied either above that level, or in the absence of a bilateral agreement then the price automatically applies.

**The report does look at the economic considerations of how elements of implementation may impact outcomes, however there are additional aspects of compliance with competition law. This relates to how the price is implemented within the MLA which will need to be considered after the fee has been derived and recommended.**

**Broadly, however, we are keen to understand the impact of implementing the price in different ways, especially on the operation of the cVRP scheme and the participants within it, and how that may incentivise parties and drive adoption.**

We ask:

**Q7: Do you think any final price should be (a) a fixed multilateral price, (b) a price cap with bilateral negotiation allowed below that cap, or (c) a fall-back price for any situation where bilateral negotiated prices cannot be independently reached?**

***(Note: Frontier has reserved its position on the legal framework required to ensure compliance with applicable competition law and we are discussing with our legal advisers. If you have views on the most effective approach, please provide them.)***

# Transition to later waves

The price given is just for the Wave 1 use cases running through the adoption and recovery period over a 10-year horizon. We previously discussed the move to later waves and a sustainable long-run price being developed to accommodate these. It is important that any biller, merchant or other recipient signs up knowing the stability of the fees they will be paying. If they believe there are potential changes that may increase prices over the short to medium-term, they may not be incentivised to provide cVRP options to their customers.

**While we are keen to understand how migration between prices could be achieved that provide stability for Wave 1 customers, we think that any change or migration in pricing is best evaluated when details of new pricing mechanisms are known. For that reason, we are not asking any questions at this initial stage, but we welcome input from any responders.**

# Next steps

| How to respond |
|---|
| **Please submit written responses before close of business on 16 May 2025 via email to: Consultation@Openbanking.org.uk**<br><br>**We will consider your comments when preparing our response to this consultation.**<br><br>**We reserve the right to make all non-confidential responses to this consultation available for public inspection.** |

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