Ordo

PSR Call for Views CP23/12:

Expanding Variable Recurring Payments

Ordo response

Submission to: a2a@psr.org.uk by 5pm 2 February 2024

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Introduction

What does Ordo do?

Ordo's fully hosted and customisable open banking-enabled payments managed services provide businesses – large and small – with low cost, highly secure, real-time and easy to use Request to Pay, e-commerce, Point of Sale/QR Code, invoice and contact centre payments direct from their customer's ASPSP accounts into their own ASPSP accounts for both single and variable recurring payments (VRP).

Businesses can access the Ordo managed service in a number of ways: though an Ordo Merchant Acquirer/PSP payments partner, such as Access Group's Pay360 platform, directly via Ordo's business level APIs, and for smaller businesses, through our integrations with QuickBooks, Sage, and Xero accounting software or via Ordo's web/app interfaces.

Ordo also uses open banking to enable refunds and secure customer pay outs as well as account validation services and has fully managed VRP enabled services live with several clients for sweeping, but which require no further build or development to be rolled out for variable recurring payments beyond sweeping. Our platform allows businesses to take advantage of the latest open banking technology with minimal development and integration effort.

Ordo's cloud-hosted managed service is fully white-labelled allowing business's own brand and look & feel to be incorporated into all customer interactions, giving a consistent customer experience but without the overhead of developing, ensuring regulatory compliance and keeping up to date their own open banking customer journey.

Who are Ordo?

Ordo was founded by the former management team of the UK's Faster Payment Scheme in 2018 to use Open Banking payments to provide businesses with a much-needed alternative to slow, high-cost card payments and insecure direct ASPSP payments. Ordo launched its VRP service for sweeping clients in 2023. Ordo is authorised by the Financial Conduct Authority as an Authorised Payments Institution to carry out Account Information Services and Payment Initiation Services (FRN 836070).

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We are pleased to see the PSR consulting on a proposed model for a phased approach to expanding the use of variable recurring payments ("VRP"), beyond the single use case of sweeping, to drive real competition to cards in the UK market with more choice of lower cost, better functionality payment services. It evidences the PSR's commitment to unlocking the potential of open banking, and will enable open banking providers, new innovative entrants to the market, being FinTechs like Ordo, to deploy value-added services that compete more effectively and completely with cards (especially card on file/continuous payment authority), providing benefits to businesses and consumers. Enabling VRP to be rolled out to regulated sectors is a critical step that will enable businesses to collect repeated payments in real time, with less friction where the customer consents, at lower cost than with cards and greater functionality than with direct debits.

Ordo sees this as a breakthrough opportunity for payments competition in the UK and fully supports the PSR's proposals.

Q1 – Do you think the pricing principles as published in June 2023 support the delivery of a sustainable commercial model for Phase 1? Please explain the reason for your answer.

Yes.

Third Party Providers ("TPPs") are the open banking service providers in the payments ecosystem, and *business serving* TPPs (as opposed to TPPs that are also Technical Service Providers ("TSPs"), who sell services to banks to help banks support their Open Banking obligations) need to be able to create sustainable future profits from the investments they have made and continue to make. It is business serving TPPs that bring innovative value propositions to market, not banks or TSPs providing services to banks. Therefore, it is business serving TPPs that need an environment that encourages investment, allowing business serving TPPs to continue to be economically sustainable. Business serving TPPs need a cost base that enables them to deliver compellingly priced VRP services to their business customers, and ultimately make an economic return on their VRP service investments. Incumbent banks, given their conflicting position as suppliers into the VRP market, competitors with the VRP market, and monopoly providers of VRP APIs to TPPs, should only be able to recover their truly incremental costs and be appropriately compensated for incremental risk only when there is such risk (which is not Phase 1 given the careful selection of target sectors). This is reflected in the pricing principles.

Q2 – Do you think that cross-industry coordination is necessary for Phase 1 and that an MLA is the appropriate vehicle to achieve this? If not, please explain what approach you think is more appropriate and why.

Yes.

An MLA should be helpful to ensure a competitive multi-PISP market with adequate bank coverage and equal treatment of all PISPs and ASPSPs is efficiently created. Only a market with multiple PISPs offering services and adequate bank coverage will be effective, and encourage adoption through the provision of a consistent, predictable and reliable service offering to the majority of PSUs in the UK.

Given the chosen, regulated, sectors for Phase 1 (Utilities, Financial Services and Government) and the fact that sweeping is already live today, this MLA should be limited to the minimum necessary additional

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elements for proper ecosystem coordination and therefore easier to come to agreement on content and wording.

However, given the banks conflicts of interest in this market, the regulator will need to oversee this process to ensure it does not become another way for banks to frustrate the expansion of VRP unnecessarily by slowing the process of MLA creation. [redacted]

In the event agreeing an MLA for Phase 1 within the timeline set out by the PSR becomes at risk, we envisage that the current structure for managing sweeping, i.e. no contracts, could be extended to VRP within the Phase 1 regulated sectors, effectively *sweeping+*. A long stop from the PSR of applying a simple extension of the sweeping operating model if the MLA is not agreed by planned launch at the start of Q3 2024 might incentivise all parties to quickly reach agreement on the minimum necessary terms.

In the early stages of MLA development, the PSR should review the proposed elements of the MLA and require the working group to justify why each element is either an essential requirement for a phase 1 MLA, or is of universal appeal to market participants that it can be included without any disagreement.

Q3 – Do you think Pay.UK is best placed to operate the MLA for Phase 1? Please explain your rationale and whom you think might be better placed if you disagree.

We agree this is a pragmatic answer given timing of the Future Entity work and the fact that the PSR regulates Pay.UK. [redacted]

We suggest that, if Pay.UK is the body that progresses Phase 1 VRP, the PSR should play an active role in the oversight of this preparation and roll out and also require Pay.UK to improve the [redacted] resourcing it applies to this new role. The PSR should also require Pay.UK to exploit the resource, experience and capability within OBL that already exists, effectively outsource services to OBL, subject to it continuing to be available in OBL.

Q4 – What do you think of our current view of the market structure and sending firms' position in it? What do you think we could do to mitigate risks or overcome misaligned incentives?

We agree.

The Call for Views outlines the economic reality. Not acknowledging this reality (that each bank has a bottleneck monopoly in VRP API provision and a conflict of interest in making VRP successful as they will be the main and direct competitor to VRP via their existing debit card services) and hoping that somehow the market will suddenly produce a competitive solution risks open banking failing in the UK altogether. The result of this will be, as the UK becomes ever more cashless, Visa, Mastercard and the banks dangerously dominating.

TPP Views Will Vary

Not all TPPs may have the same economic drivers as Ordo, a pure play Open Banking service provider to merchants, and these differences in market position and attitudes to the VRP market need to be appreciated when considering their views. Some TPPs generate a significant part of their business acting as Technical

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Service Providers (TSPs) and often provide services to, and due to the immaturity of the market, are likely to generate much of their core revenue from, banks/ASPSPs – these players may be reluctant to publicly support a position that could be seen as negative by their main customers. [redacted] another significant TPP, has already built a strong position providing direct debit based services to small businesses and generates significant revenue from this segment which is poorly served directly by banks. They may also look at the expansion of VRP as a competitive threat to their current market position and therefore not support actions which will promote this competition. In this sense, not all TPPs are alike nor have aligned interests; in fact, bank serving TPPs are more aligned to bank interests, which is not conducive to promoting further competition between bank payment systems (Card and Direct Debit) and VRP.

The misaligned incentives of banks and pure play TPPs are a product of fundamental market structure and economics. Banks' reluctance to provide services (VRP APIs) that can compete with and cannibalise their existing revenues is natural, and an expectation that Banks will quickly behave differently is naïve and not supported by bank actions over the last 24 months. Additionally, the banks' position as individual monopoly suppliers of VRP APIs means that a market-based price discovery mechanism can't operate and therefore a proxy, such as LRIC (long run incremental cost) is the only credible price generating mechanism for VRP API access. This is the only 'sustainable' and 'fair' price that banks can be allowed to charge given their natural market position and role as an existing competitor to VRP.

Some TPPs suggest that banks must see a positive business case for supplying VRP APIs before they act, and that if mandated by regulation they will simply treat this as a compliance duty and somehow provide API access less effectively than is needed for VRP to take off. Looking at these points:

- Given banks' current position as the main competitor to VRP via their provision of debit card and direct debit services we cannot see a situation where there can be positive business case for banks providing VRP APIs (i.e. there is no net cannibalisation of their revenues) and the resulting pricing of VRP services means that businesses will adopt them as better value than cards or direct debit.
- Even if there was magically a positive business case for banks providing VRP APIs the need for the bulk of large banks to provide API access at the same time to enable a credible customer proposition and the long demonstrated 'collective action' problem across UK banks seen for many years suggests that it would take many years before all the banks were aligned to provide a VRP service.
- Although imperfect, compliance requirements have driven UK Open Banking for single payments and AIS to be reasonably effective. As we regularly hear from banks of all sizes, unless there is a regulatory requirement for a product investment it is very difficult for banks' product teams to get development and commercial resources allocated to speculative new service developments.

[redacted].

Beyond Phase 1

The accurate market structure and misaligned incentives outlined in the PSR's consultation will not change for use cases beyond Phase 1 VRP. Consequently, whilst we support the 'VRP light' approach to roll out *some* VRP use cases beyond sweeping, urgent thought and direction must be given to make progress beyond Phase 1, to avoid 'beyond Phase 1' becoming the new 'beyond sweeping' and subject to untenable delay. It is only once business serving, pure play TPPs can provide businesses and consumers with the benefits of open banking for *all* payment types, including unrestricted VRP, that TPPs are more likely to become economically

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sustainable i.e. revenue and ultimately profit generating. A further delay that risks this end game being reached should not be tolerated.

As the JROC VRP functional sub-group concluded there were no material functional changes need to move to Phase 1, the only uncertainties we can see for moving beyond Phase 1 are those of consumer protection, liability for higher risk eCommerce, and access to reliable APIs for beyond Phase 1 merchants from the banks. The first two are challenges that are capable of resolution by cross industry coordination and building on the Phase 1 MLA; account access and this not being allowed to be delayed unduly by a combined (well-funded and well resourced) bank and bank serving TPP contingent, will still require regulatory intervention because there is a permanent conflict of interest.

Beyond Phase 1 pricing model

The SEPA Payment Accounts Access scheme (SPAA) will no doubt be considered for determining a pricing model for beyond Phase 1 VRP. We would caution against adopting the same method. To date, no banks have joined, despite potentially acquiring a new revenue line from TPPs. TPPs consider the proposed 'cost based' pricing far too high and to be substantially above legitimate bank costs and even cost plus a reasonable margin. Not only did this third-party cost analysis process incur a delay and high cost to run which favours banks, the cost gathering process is immediately being re-run.

We suggest that, for beyond Phase 1 VRP pricing, what liability and risk is incurred must be considered, who should sensibly carry that risk in the ecosystem, and if/how that should be compensated in wider (beyond Phase 1) VRP scenarios, rather than starting from listing additional costs to be covered. eCommerce attracts increased purchase risk which may generate increased customer care costs; these are as a result of a potentially higher risk merchant signed up by a TPP being a bad actor. Extra Customer care due to higher risk merchant issues are legitimate incremental costs which, if incurred, the supplying bank should be compensated for. Where open banking payment initiation is used, the PISP is in the best position to assess and manage merchant risk – the merchant is their customer. Consequently, liability for KYC-ing the merchant and for any fraud perpetrated by the merchant (e.g. APP fraud) should be with the PISP, not with a sending bank that has no relationship with the merchant. In this structure, there is no incremental cost to the bank because the bank is not carrying additional liability/risk, so the bank should not be compensated for the increased risk transaction. The bank could be paid a separate flat fee to cover customer care costs per disputed payment.

The beyond Phase 1 pricing does need to consider what degree of *purchase* protection needs to be included in this payment option, and which player should provide that *purchase* protection – specifically for non-fraudulent issues such as supplier business failure or contractual disputes. This is a significant policy question and needs to balance the degree of consumer purchase protection required and the costs to all consumers of that protection. While cards provide a high degree of consumer protection, other current alternative payment options like Direct Debit, Bank Transfer, Cheque and cash payments have much less, if any, and are still widely used and provide significant utility.

Q5 – Do you think there are relevant sending firm related costs we have not yet considered? If so, please provide evidence.

No.

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For Phase 1, we do not consider there are any other costs that are not entirely insignificant. Beyond Phase 1 will need to address the increased risk in, for example, eCommerce transactions, but this is not the case for Phase 1, and may not apply to a sending bank beyond phase 1 if the PISP takes full responsibility for the conduct, KYC-ing and liabilities of their merchant customers.

It has been suggested (and is covered in more detail in later questions on the cost/benefit analysis) that bank card revenues cannibalised by competition from VRP should be treated as a **cost to banks** that needs to be considered. While this is a legitimate approach for internal bank business case/investment decision-making, and is the reason why we cannot see bank's voluntarily supporting VRP beyond sweeping at a competitive price, this is not a legitimate cost for a sending firm to recover. This loss of revenue is due to increasing competition, it is not a bank cost that can or should be recovered from merchants via PISPs to 'compensate' banks for the increased competition from VRP that they have, to date, been able to block.

Q6 – Do you think allowing sending firms to charge for FPS related costs or removing the costs where possible is a better approach? Please explain why.

See answer to Q7 below.

Q7 – Our current preference is to remove FPS 'price per click' charges from sending firms for VRPs. Do you think this charge should be switched to the receiving side or recovered through wider Pay.UK charging, and why?

Answer to Qs 6 & 7

The central Faster Payments system is essentially an annual fixed cost that is recovered equally over all the transactions that flow through the system in a year, currently on each half (sent or received) transaction – for equity, and to promote fair competition between all participating institutions there are no discounts for larger volume or premiums for low usage. Within quite significant limits the total cost of the system to its participants (via Pay.UK) is insensitive to the number of transactions processed. Adding traffic to the FP system is unlikely to increase cost (volumes would have to unrealistically increase to incur further increases in the cost base). Therefore, there is no incremental cost of increased transactions going through FP. Increased traffic, due to the introduction of a greater number of open banking transactions, will actually reduce the unit cost of each faster payment and the cost to a bank of sending or receiving each faster payment.

On average, FP participants individually send and receive equal volumes of payments, and consequently, moving the cost of an FP transaction from sending bank to a receiving bank will not materially change overall participation costs. In simple terms faster payments are sent by consumers and received by businesses. Banks with more consumer focussed customer bases will generally send a little more faster payments and generally don't charge their consumer customers per payment sent. Banks with more business focussed customer bases will tend to receive a little more faster payments, and generally do charge their business customers for the receipt.

The receiving bank (and their customer) benefits the most from FP transactions. Given this factor, and that per payment pricing to consumers of sending a faster payment has been driven to zero by competition, and

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seems to act in the consumer's interest, we can see a logic for Pay.UK not charging a bank to send a VRP initiated faster payment. Indeed, there is a reasonably compelling case for extending this to all faster payments. This would reduce the invisible but real cross subsidy paid by consumer focussed banks to business focussed banks inherent in the current Pay.UK cost recovery model.

Note that when the Faster Payment Scheme launched in 2008 the scheme transaction charge was paid by the sending bank only. The charge was only later split between sender and receiver to address a 'free-rider' problem when a business only bank joined the scheme and was mostly a receiver of payments.

Assuming that Pay.UK does not charge for sending VRP faster payments, then we suggest that the simplest way of recovering this uncharged amount is by applying the total faster payments costs across all other transactions in the scheme. This can be done simply: the sending banks just report their annual VRP sent faster payments and the Scheme can adjust its cost recovery. We don't believe that it is necessary to specifically apply those uncollected charges to received VRP faster payments. In general terms, given that any bank can be the receiver of VRP faster payments (they don't need to support sending VRP), received VRP faster payments will spread across UK banks broadly in line with their share of overall faster payments, which is how overall costs are charged.

Finally, it is worth reiterating that overall, even if millions of new faster payments are generated by the successful adoption of beyond sweeping VRPs, the total central system cost of delivering all faster payments will not rise, and therefore the incremental central cost of faster payments to all banks will be zero. Any additional charge to an average bank for extra VRP faster payments will be offset by a reduced unit cost for their total faster payment usage. If banks are permitted to charge their sending faster payment costs to PISPs, PISPs will have to recover these costs from their merchants. This will result in a straight financial transfer from merchants to banks. Without these charges, banks are no worse off in terms of their faster payments costs, and merchants benefit from lower PISP costs which they can share with their end customers through lower overall prices.

Q8 – Do you think there are relevant OBL related costs we have not yet considered? If so, please provide evidence.

We do not think any material OBL costs are driven by VRP.

Q9 – what alternative commercial models could better deliver a sustainable commercial model for Phase 1 of VRPs without risking scalability, and why?

None.

The second option cited in the Call for Views, replicating lost card revenue for sending firms, is anti-competitive (in that it would represent price fixing that would prevent VRP being a cost competitor to card on file) and it is right this is not being progressed.

Regarding Pay.UK calculating a price for Phase 1 VRP: Pay.UK has no experience in calculating a price for third parties in a competitive market. Its only experience is in simple cost recovery of all its own centrally incurred costs across its participant institutions in a fair and equitable manner. We agree this should not be implemented.

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[redacted] the SPAA model of an independent third-party assessing costs and setting a price: We cannot see how this is achieved in a way which is not price fixing and consequently anti-competitive. Even if this were achievable, the SPAA process was delayed and expensive and such delay, expense, and necessary resource, which cannot be matched by FinTechs, will only advantage banks. SPAA has also been summarised by many FinTechs as resulting in a price which is 'too low for banks to be happy with, and too high for TPPs to make a business from'. Furthermore, at the time of writing, whilst we understand 2 TPPs have now joined; no banks have joined: even being able to charge has not created a commercial model whereby banks voluntarily participate. Costs are also being re-assessed to adjust for more accurate volumes, with the hope of bringing costs down, which will further disincentivise banks to participate. The SPAA cost analysis also provides for full recovery (over quite a short time) of all the investments needed to build the SPAA services. In the UK with VRP, these investments have already been made in response to the CMA's competition remedy by the CMA9 and as is clear in the PSR's pricing principles, these costs should not be recovered in future pricing.

What does a sustainable commercial model mean?

Given that the extension of VRP is about enhancing competition in payments, 'sustainable' does not mean that every customer and every supplier in the VRP value chain can be financially better off from the extension of VRP. If this competition is to be successful, the following commercial priorities must be achieved:

- Priority 1. The price of VRP services to businesses must represent significant enhanced value compared to the alternatives (card on file and direct debit from banks) for them to risk integrating and adopting the service for their customers.
- Priority 2. In the medium to long term PISPs providing these services need to be able to operate with a sufficiently low cost base that they can achieve priority 1 and make a long-term economic return on their investment in VRP services to meet the risk adjusted return requirements of their investors. Unless there is a clear prospect of this return, investors will not fund PISPs to build and distribute these services.
- Priority 3. Banks can expect to have their long run incremental costs of supporting VRP APIs covered, but not much more. If provision of VRP APIs was competitive (and PISPs had a choice of supplier) this is what market forces would drive pricing too.
- Banks cannot expect to recover revenues lost from card issuing fees and direct debit services they supply that are competed away by VRP services. Banks have no right to protect or retain these revenues if new competition provides better solutions for their customers.

Q10 – Do you think that a large number of consumers with accounts that support VRPs in Phase 1 will sufficiently incentivise PISPs and/or billers to invest in offering VPRs? If not, please explain why.

Yes.

Ordo has already invested in the development of a complete VRP service that supports sweeping and non-sweeping use cases. We have customers that are using our service for sweeping from the CMA6 (GB) banks, as this is enough coverage for them. We also have customers in utilities, finance and government that are ready to adopt as soon as VRP is opened up to their sectors. The CMA6 (GB) bank coverage is sufficient coverage for them to adopt VRP.

The CMA6 (GB) and soon CMA9 (UK) bank coverage is enough for VRP adoption. With 90 percent of banks providing VRP, over time, competitive pressure will bring non-CMA9 banks into the service as their customers realise that they cannot benefit from VRP unless they switch banks. Requiring the CMA9 to deliver VRP, bearing in mind this has already been required of the CMA9 for sweeping, is enough to reach critical mass.

To delay bringing to market the benefits of VRP Phase 1 for the sake of waiting for banks that collectively serve 10% of the current account market is not a fair, sensible or balanced way forward for society.

[redacted]. Accordingly, we do not think it plausible that a merchant/business would invest time and money in integrating and educating its customers on a new payment method which would reach around 15% of their customer base ([redacted] payers only). [redacted].

To be clear, none of our potential customers would have proceeded with a [redacted] payer only VRP offer on the grounds of end customer bank coverage, putting aside any other issues of cost [redacted].

Q11 – What number or share of consumer accounts do you think need to support VRPs in Phase 1 to incentivise sufficient PISP and/or biller investment to realise network effects? Please explain your rational.

Based upon our experience with live VRP sweeping customers and discussions with potential adopters of Phase 1 VRPs, CMA6 in England, Scotland and Wales, being 90%of the current account market.

The greater the number of accounts reached the better to build confidence in a still nascent market. If a payer attempts open banking and cannot find their bank, they will assume open banking and open banking providers (FinTechs) are at fault rather than their bank. And if fewer than the CMA6 were to be mandated, what would be the justification for leaving 1 or more of the CMA6 out? This would also weaken the VRP offering.

Some ecosystem participants may argue that, for example, TSB, Virgin Money and Starling ought to contribute to this ecosystem in terms of mandated access and cost, but as we demonstrate in answer to Q10 above and as has already been seen with open banking single payments, once the CMA6/9 are compelled to provide access to enable FinTechs to provide services, remaining banks are at a disadvantage if they do not follow; competitive forces will ensure they participate. To delay bringing to market the benefits of VRP Phase 1 for the sake of waiting for banks that collectively serve 10% of the current account market is not a fair, sensible or balanced way forward for society.

Current Account Switch Service (CASS)

Some ecosystem participants may argue that VRP not being reachable by CASS is a problem, particularly for beyond Phase 1. We would argue this functionality should be categorised as ‘nice to have’ rather than essential. Unfortunately, CASS is not widely used (around 1 million switches per year. For context, the population of London alone is nearly 8.8 million.) It is disproportionate to delay the benefits and cost savings to businesses and consumers, and competition to other payment schemes, to come to fruition because VRP cannot easily be included in another little used scheme. The alternative to VRP being automatically included in a current account switch can be managed, albeit not in an automated fashion. In reality, a bank will tell the PISP the customer has moved bank upon a VRP being attempted, the PISP will tell its customer, the

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merchant, and the merchant can contact its customer to rectify the payment mandate accurately from the beginning, negating the need for a lengthy correction period. The real time nature of VRP failure notification to merchants and the simple but secure mandate approval process for end customers means that the 'cost' of reapproving a new mandate is low, and the consumer benefit of checking that a mandate is still validly in place (which never happens with direct debits) probably fully offsets that 'cost'.

We would urge the PSR to investigate who may be raising this objection and consider their incentives, whether they are connected to the direct debit scheme, CASS, or the provision of direct debit supply chain services or similar.

Q12 – Should we mandate the CMA9 banks to participate in Phase 1 of VRPs? Please provide reasons for your answer.

Yes. This is essential.

Please also see answer to Q11.

Q13 – If we do not mandate the CMA9 banks, how do you think we can ensure a sufficiently large number of customer accounts will support Phase 1 to realise its full potential?

We do not think sufficient network effects will be achieved if, as a minimum, the CMA6 are not mandated to provide access.

The CMA6 and in theory the CMA9 should have already built and operate VRP to be in compliance with the CMA Retail Banking Order. Given this we see no justification or rationale for allowing any of these banks to prevent access to their existing live service to Phase 1 use cases. At this point we don't need more than the CMA6/9 for VRP to be successful and there is no rational for less than the CMA6/9.

Please see attached our spreadsheet showing material lack of engagement and progress in trying to voluntarily, commercially and bilaterally agree access with the CMA6 so we could provide a viable service for VRP beyond sweeping to our clients.

Some ecosystem participants may argue that more time needs to be given for a market to emerge or that a step was missed in not following the SPAA process of an independent third party assessing a cost. However, our and other TPPs' experience, and the delay and lack of bank sign up to SPAA, prove even the possibility of a commercial carrot is not enough incentive for banks to forego their card revenue which is their conflicting interest in granting PISP VRP access.

Q14 – What do you consider to be the main risks and costs of mandating participation in Phase 1? How could such risks and costs be mitigated?

We see no risk or material costs, when coupled with zero pricing, for the CMA6 who have already built sweeping to be mandated to provide VRP. It is simply a case of already live payment capability being rolled out to additional regulated safe sectors.

Regarding a risk of mandating participation distorting a market, our view is that there is no, and for all the reasons we have laid out cannot be a, competitive market in VRP API access to distort. This is practically evidenced by our spreadsheet attached detailing progress to date of being given access by banks at open market commercial rates, and our conversations with other PISPs who have received the same responses. Please also see our answer to Q13.

Finally, there is a risk, due to the conflict of interest position of the banks and the fact that VRPs will replace (some of) their card on file revenue, that the banks will seek to challenge the PSR mandating they provide VRP for Phase 1, or at the very least, delay matters as long as possible. Whilst there is a delay, the banks continue to receive card revenue funded by businesses and consumers and PISPs are prevented from being able to supply competitive services to the market. The longer any delay from bank challenge goes on, the higher the likelihood that PISPs are unable to build their businesses, satisfy their investors and then be forced to leave the market.

Q15 – Do you see advantages in any alternative models? If so, please describe the models and explain their advantages.

No.

We have been working on this issue for over two years and, given the fundamental economics of the situation can see no alternative model.

Unless the CMA6 are mandated to provide access to PISPs for VRP, open banking will fail in the UK. The last 5 years have proven that single and sweeping open banking payments are not useful and ubiquitous enough to compel businesses to wholesale change their payment methods. Broader VRP is key because it caters to what a business values most: recurring revenue, never more so than in a difficult economy and in a society where subscriptions are so prevalent. Once open banking closes the gap in the payment types it is capable of, namely broader VRP, businesses will be more interested in integrating open banking and risking converting their customer to a new payment method; it will be VRP that catalyses further open banking usage, with single open banking payments then following and finally becoming mainstream and a proper competitor to cards.

Some ecosystem participants may argue that, for example, TSB, Virgin Money and Starling ought to be contributing to this ecosystem in terms of access and cost, but as we demonstrate in answer to Q10 above and as has already been seen with open banking single payments, once the CMA6 are compelled to provide access to enable FinTechs to provide services, these remaining banks will be at a disadvantage if they do not follow and competitive forces will ensure they too participate. To delay bringing to market the benefits of VRP Phase 1 for the sake of waiting for banks that collectively serve around 10% of the current account market is not a fair, sensible or balanced way forward for society.

Q16 – Do you think there are additional risks associated with our proposed commercial model that we should consider? Do you have additional insight on how we best mitigate the risks identified, or any additional risks you may want us to consider?

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Although not well documented in the Blueprint, this model was extensively discussed at SWG, during the JROC VRP working group process and in bilateral conversations, and no further risks regarding the model were identified.

However, as this is a substituting market with growing competition, there will be ecosystem participants that lose in this model, and potentially progressing beyond Phase 1, namely, the banks, card schemes, and other existing payment providers. Consequently, some of these parties are likely to vigorously resist this approach. These participants are extremely well-funded and well-resourced and, in objecting to a model in which they will lose, can cause and absorbing extensive delays; delay itself which favours them, the incumbents. Merchant serving TPPs are not so well funded nor resourced to absorb cross industry committee work or delays, and this is a significant risk to VRP and open banking generally being successful.

Throughout the consultation the PSR refers to Phase 1 being live *by* Q3'24. *By* Q3'24 means 1 July 2024. Other ecosystem participants are already quoting the live date as 1 October 2024 and that this is unrealistic. The PSR needs to be ready to ensure this date does not slip, especially as the JROC functional sub-group found there were no material functional deficits to go live with Phase 1 VRP, that consumer protection issues are likely to be minimal given the safe nature of the regulated sectors chosen, and there are no billing engines to build.

For clarity, no changes are required to the Ordo VRP service to support Phase 1. Ordo can go live now with Phase 1 customers, all that is required is that CMA6 banks are prevented from restricting access to our non-sweeping customers. While an MLA is helpful, it is not essential, simply agreeing to operate as we do for sweeping VRP should be enough for Phase 1.

Q17 – Do you agree with our proposed list of use cases for inclusion in the cost benefit analysis? Please provide reasons for your response.

Not fully.

More use cases would be helpful for accuracy.

The utilities sector should include TelCo which has OFCOM as a regulator and customer care frameworks.

The government use case should include all central and local government where repeated payments are a model, including: TV licensing, DWP, DVLA and local councils – these departments and organisations all have well known repeated payment needs and problems which could be well served by VRP and should be included to give a fuller and more accurate picture of potential costs and benefits. Reducing costs to the public sector will allow more of their revenues to be used to provide services that benefit their citizens which, in a cost of living crisis, should be an imperative.

Q18 – Do you agree with these initial assumptions for the cost benefit analysis? Please provide reasons for your response.

Not fully.

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A crucial benefit is missing: VRP is a competitive and technologically advanced solution for collecting repeated payments. It is lower cost and quicker for businesses and should allow consumers to reap benefits of lower payment costs whilst being able to control their finances better. VRP is an all-round better way to collect repeated payment. It could therefore negate the need to incur the cost of replacing the central Bacs Direct Debit system in due course, and do so with multiple competitive solutions from different PISPs. Not only would it provide long term competition, but it would avoid the central and bank costs of DD system replacement.

Q19 – What do you think are the key benefits of VRPs for each of the components of the value chain: consumers, merchant, the PSO, PISPs and sending firms? How should or could these be measured?

Consumers: in terms of lower costs to cover - shorter business liquidity cycles and associated costs with potential savings, more agile personal liquidity cycles with lower associated costs and potential savings, lower/no costs in missed/bounced payments due to flexible and real-time VRP capability, lower indirect costs of calling customer service as consumers can be more flexible in managing finances which should lead to fewer customer call centre calls, covering lower compliance costs from no PCI-DSS adherence as the PISP as the regulated entity handles limited data and lower data and privacy costs as less data need be collected with open banking technology versus card, covering lower payment integration costs with API technology.

More generally - increased flexibility and control over finances, ability to dynamically and up to the second payment is made control payments, decreased risk of missed payments if consumer refuses DD or card on file payment, decreased risk of mistaken payment as consumer input of data negated at set up, decreased risk of fraud as PISP indelibly populates sending account title, decreased risk of fraud as repeated payments cannot be set up against someone else's account as for DD, set up within minutes meaning goods/services can be dispatched immediately rather than either a delay or additional payment being required, consumer friendly digital journey.

The mandate limits enabled by VRP also provide a significant consumer protection compared to Direct Debit. While the Direct Debit guarantee means that banks must refund DD payments to consumers taken in error, this process can take many weeks involving real pressure and time from consumers and leaving those consumers out of pocket for many weeks. At the time of writing, a BBC investigation has identified multiple cases where utility customers have been accidently billed for massive amounts of energy and caused significant distress to the payers and huge amounts of time and effort to resolve. These errors will be prevented by the mandate limits in VRP avoiding the need for guarantees and protecting consumers from even short term over payment, and the time and distress to rectify.

Merchant: in terms of lower costs to cover – lower cost of payment, shorter business liquidity cycles and associated costs with potential savings, lower indirect costs in reconciliation, lower costs in missed/bounced payments due to flexible and real-time VRP capability, lower indirect costs of customer service as consumers can be more flexible in managing finances which should lead to fewer customer call centre calls and cancelled payments, lower compliance costs from no PCI-DSS adherence as the PISP as the regulated entity handles limited data and lower data and privacy costs as less data need be collected with open banking technology versus card, and lower payment integration costs with API technology.

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Generally - automatic correct reconciliation, immediate set up, increased liquidity, greater security, lower compliance burden, certainty of payment, better customer service from customer centric digital journeys, ability to respond dynamically to customer.

PSO: negates the need to replace Bacs Direct Debit system in due course.

PISPs: richer proposition covering the payment type merchants are most interested in: recurring revenue, more attractive investment proposition

Sending firms: none, hence an irreconcilable conflict of interest

Q20 – What do you think are the key costs of VRPs for each of the components of the value chain: consumers, merchant, the PSO, PISPs and sending firms? How should or could these be measured?

The first bullet point in the Call for Views (Banks lost revenues from card payments) is not a cost, it is a product of competition. To the extent that it is part of the business case for VRP extension, the lost bank revenues should be considered as a benefit to merchants (and the UK economy) from lower prices for VRP compared to cards, and under no circumstances should the 'cost' of lost revenues be considered as a cost in the overall VRP business case.

Consumers: None, beyond covering merchant costs outlined below.

Merchant: Bank payment receipt charges.

PSO: Potential increase in skills and resourcing need/outsourcing to OBL costs.

PISPs: run of VRP services, cost of running a business to provide VRP services, attracting investment, cost of obtaining/retaining VRP customers, cost of helping VRP customers educate their own customers, cost of development to update/innovate VRP services.

Sending firms: API calls, additional material incremental cost is zero, long run incremental cost is the FP charge if retained and if the overall fixed nature of FP system costs is ignored.

Q21 – How do you think our proposals might affect people with protected characteristics? what approach might better serve their interests?

Lower income people often have protected characteristics. The model proposed allows PISPs to offer VRP with the benefits outlined in answer to Q19 above. This would help people who often have protected characteristics.

Q22 – Do you think our current policy proposals pose any risks to the scalability of VRPs and open banking beyond Phase 1? If so, please explain why.

Unless enacted quickly, there will be no Phase 1, nor then a beyond Phase 1, as FinTechs do not have deep enough pockets nor degree of resourcing to absorb the length of delays, cross industry work and engagement of expensive external advisors banks will attempt.

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Please also see our answer to Q14 above.

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