

## Unlocking the potential of Open Banking

### The regulatory drivers

#### Variable Recurring Payments – Phase 1 Q3'24

June 2024

The UK's economic payments regulator is planning regulatory intervention by Autumn 2024, and the proposal is spot on.

Are you ready?

In December 2023, the economic regulator for payments (the Payment Systems Regulator, or the "PSR") published its [proposal](#) for unlocking the next phase of a low cost, secure payment technology, called Open Banking. The next phase of Open Banking is specifically to expand so-called 'Variable Recurring Payments', or 'VRP'.

Ordo has been hugely involved in devising the proposed regulatory framework. We're pleased to say that the cross-industry regulatory plan is that VRP will be rolled out to Utilities, Financial Services, and Central and Local Government in Q3 this year.

If you want to know more, grab your popcorn, and read on for a walk through the regulatory story to date. It's set to bring competition and benefits to the payments and compassionate collections arena.

#### Summary

##### *Open Banking Payments today*

Lower cost, secure Open Banking technology is live today. It can be used for making [single ad hoc payments](#), like top-ups, paying electronic or paper bills and making payments over the phone via contact centres, for example. Open Banking is also live for a certain type of repeated payment, called [Variable Recurring Payments](#), or 'VRP'. The repeated payments, or VRP, use case that's available now is for transferring money between accounts in the same the name: moving money from your current account into your savings account, or paying off your credit card from money in your current account. This specific use case for VRP has been nicknamed '*sweeping*' or '*me-to-me*' payments.

##### *Open Banking Account Information today*

Open Banking can also be used, with customer consent, to gain insights into a customer's financial situation. This financial insight is used to help people juggle their finances, make their money work better and harder for them, and improve their financial wellbeing.

## *The next phase of Open Banking – expanding VRP beyond Sweeping*

For Open Banking to be a success, and to enable it to compete with card payments in the UK, a final stage of Open Banking needs to be unlocked: *all* types of VRP, not just Sweeping payments between accounts in the same name, need to be possible via Open Banking. To put it another way, we need to be able to pay all our bills using Open Banking, including the repeated bills via VRP.

After consideration of multiple options and nearly three years of information gathering, engagement and consulting, the regulator has proposed a model which includes:

1. Open Banking VRP be first expanded to already regulated and low risk sectors with consumer protection frameworks in place, namely: Utilities, Financial Services and Local and Central Government; and
2. the 9 largest banks<sup>1</sup> in the UK and Northern Ireland, who have already built VRP, be mandated to participate.

This is lined up for Q3 this year.

## **Statistics**

### *VRP alive, kicking and in demand – Moneyline*

Whilst VRP is new for utilities, it's already live for some financial companies. We've already seen, for one of our clients, [Moneyline](#), following a small VRP pilot with us, that:

- 93% of customers found it easier to make payments using VRP,
- 80% recommend VRP,
- 75% asked to move to VRP, and
- 67% were less worried about money when using VRP.

### *The need for money management technology – ONS & Mind data*

The Office for National Statistics and Mind data in 2023 showed:

- more people needed credit,

---

<sup>1</sup> AIB Group (UK) plc trading as First Trust Bank in Northern Ireland, Bank of Ireland (UK) plc, Barclays Bank plc, HSBC Group, Lloyds Banking Group plc, Nationwide Building Society, Northern Bank Limited, trading as Danske Bank, NatWest Group plc, Santander UK plc

- fewer people were saving, leading to
- lower feelings of wellbeing and a lot of anxiety<sup>2</sup>,
- nearly a third of people were worried about bills, and
- 37% of anxious people felt ashamed<sup>3</sup>.

Organisations can differentiate themselves by demonstrating understanding with struggling customers whilst managing collections, and by employing intelligent, lower cost solutions that not only help their customers, but also save them time and money, and reduce their debt book.

### *Open Banking Limited, the central orchestrator*

The Open Banking ecosystem is managed in the centre by a non-for-profit body that Ordo is heavily engaged with, [Open Banking Limited](#). They hold the ecosystem to account and ensure regulated parties are behaving well and adhering to centrally monitored standards, meaning paying customers receive a consistent and reliable service. They collect data and analytics across the ecosystem, for the good of the UK. They've counted:

- As of April this year – nearly 10 million users of Open Banking,
- Around 1 million new users of Open Banking every month,
- Average API up time – 99.76%,
- Successful API calls – 99.51%, and
- API response time – 372 milliseconds<sup>4</sup>.

We [talked](#) about VRP with Open Banking Limited and Lord Holmes at Credit Week, in June 2024. We all agreed that expanding VRP beyond Sweeping into Utilities would have a raft of benefits, both for organisations showing understanding whilst collecting money, and their paying customers.

### **What was the original catalyst for Open Banking?**

In [2014](#), the UK's competition regulator, the Competition and Markets Authority (the "CMA"), began a review into the consumer and SME banking market. After multiple investigations, it concluded that ***it was likely that competition was being prevented, restricted and/or distorted by the banks***. The result of this was that consumers were likely suffering (and paying) as a consequence of anti-competitive bank behaviour and practices.

In 2018, the EU's [2<sup>nd</sup> Payment Services Directive](#) ("PSD2") came into force in the UK by way of the [Payment Services Regulations 2017](#). This legislation provided for new types of FCA authorised and regulated fintechs, like Ordo, to offer Open Banking services.

To remedy the CMA's lack of banking competition findings, the CMA made a compulsory [Order](#) on the banks effectively imposing an implementation plan for Open Banking as provided for in PSD2. This bank mandate

---

<sup>2</sup>

<https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/howarefinancialpressuresaffectingpeopleingreatbritain/2023-02-22>

<sup>3</sup> <https://www.mentalhealth.org.uk/about-us/news/financial-strain-driving-uks-anxiety>

<sup>4</sup> <https://www.openbanking.org.uk>

enabled FCA regulated fintechs, like Ordo, to safely and securely connect to the banks and provide innovative, lower cost, and secure Open Banking services to consumers, organisations and businesses<sup>5</sup>.

## Why did the CMA enforce the implementation of PSD2?

Many market studies have shown the usage of cheques and cash dramatically reducing in the UK. The corollary of this is that card payments are significantly and consistently rising, a trend accelerated by COVID. Provision of card payments is enabled by the duopoly of Visa and Mastercard. As the UK becomes ever more cashless, the dominance of Visa and Mastercard, and their card issuers, the banks, become ever more powerful.

The UK is unique in that it does not have an effective competing payment method to cards. This has allowed card fees to rise without the corresponding increase in value for users. The original CMA market investigation concluding there was a distortion of the market proved that competition in payments and banking services in the UK was ineffective.

This ineffective competition to cards continues today, as the recent [PSR cards investigation](#) once again concluded. This time, the PSR has said the remedy is greater competition between payment methods...cue Open Banking and the PSR's proposal and support for expanded VRP to compete with cards.

Open Banking solutions disintermediate the banks and card schemes. In doing so, Open Banking transfers the value that would have gone to banks and card schemes to consumers, organisations and businesses. Fintechs cost and charge much less than banks and the Visa and Mastercard duopoly. The value transfer shows up in the benefits below for the UK's organisations, businesses and the ultimate paying consumer.

## What are the benefits of Open Banking?

The [benefits of Open Banking](#) for consumers and organisations, are:

### *Consumers:*

- i) Instant money transfer – enabling accurate financial management and improved cash flow,
- ii) More control – providing dynamic, flexible and controllable finances,
- iii) Enhanced security – reducing fraud and mistaken payments,
- iv) Indirect cost saving – saving money,
- v) Smooth payment journey – providing convenience and efficiency,
- vi) Financial insights – enabling richer and quicker financial decisions and money management.

### *Organisations:*

- i) Sympathetic collections – giving consumers the control they crave, whilst digitising and streamlining payment journeys, fostering goodwill,
- ii) Greater insights – greater customer understanding, enabling empathic and tailored customer solutions,

---

<sup>5</sup> <https://www.gov.uk/cma-cases/review-of-banking-for-small-and-medium-sized-businesses-smes-in-the-uk#core-documents>

- iii) Instant money transfer – boosting liquidity,
- iv) Lower cost – saving money,
- v) Automatic reconciliation – better services and indirect cost savings,
- vi) Enhanced security – reducing fraud and mistaken payments,
- vii) Reduced regulatory burden – as less data is collected less data has to be securely stored whereby easing compliance with GDPR and making card scheme regulatory requirements irrelevant; minimal data is stored by Ordo freeing up business capacity, and
- viii) Easy to integrate – convenient, efficient and low cost.

## **Why are the Regulators, and today's Government and Opposition, backing Open Banking?**

With card payments dominant in the UK despite their proven non-competitive prices, Government, Regulators and the Opposition have all confirmed their commitment to a payment alternative. That payments alternative is the API (application programming interface) digital and cloud native technology, Open Banking; it's fit, and designed, for the modern day, not the 1960s when cards and direct debits were introduced.

Open Banking payments, combined with data insights where relevant, technologically transforms collections from a difficult process, into an efficient and convenient digital solution with which to empower your customers. It will also give a boost to your customer goodwill and clearly demonstrate to your regulator that you're putting your customers first.

There is such widespread Regulatory and Government backing for Open Banking, many of the major UK competition regulators have joined together to ensure it's a success. The CMA, the FCA, the PSR and HM Treasury have formed a body called the Joint Regulatory Oversight Committee ('JROC'), to ensure a cohesive regulatory plan is adopted and implemented. The PSR, as part of JROC, is leading on the VRP work, and is proposing the model to proceed with a Phase 1 of expanded VRP being rolled out to Utilities, this Autumn.

## **Conclusion**

Cards and direct debits were convenient and revolutionary in 1960.

In 2024, there is alternative technology: it's more interoperable and interconnectable with complementing services, lower cost and quicker than traditional (some would say old fashioned!) methods. Where direct debit and cards are not fulfilling all an organisation's and customers' needs, there's a simple, swift and secure option in Open Banking and VRP.

It has cross-Regulatory, Government and Opposition backing. Talk to us if you want to ensure you're ready to confirm to your customers and your regulator that you're putting your customers first, and keeping costs as low as possible whilst still innovating and showing compassion.

## **Reference**

Talk to [Shiona](#), CEO of Moneyline, if you want a reference for Ordo.