

Response to the VRP Working Group's blueprint for non-sweeping VRPs

Joint Regulatory Oversight Committee

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1 Executive Summary

- 1.1** The [Joint Regulatory Oversight Committee \(JROC\) report](#), published in April 2023, recommended a series of actions and phases to realise the potential of open banking. As a core component of these recommendations, expanding the use of variable recurring payments (VRPs) is a key stepping stone to enabling wider use of open banking-initiated payments, and ultimately to increasing competition in retail payments.
- 1.2** VRPs have the potential to deliver important benefits to payers and billers compared to existing payment methods such as Direct Debit and card on file, including greater flexibility in setting up and managing mandates and faster processing. Currently the CMA's open banking Order only mandates that VRPs be offered to support 'sweeping' services – that is, payments from a customer's account (for example, their current account) to another account also owned by the same customer (for example, a savings account). The [Strategic Working Group's February 2023 report](#) showed significant support from across the ecosystem to extend VRPs into 'non sweeping' use cases. The Committee concluded in April that expanding VRPs beyond sweeping would be an important step in defining a sustainable commercial model for other open banking services beyond the scope of the current CMA Order.
- 1.3** The Committee set out an action for the industry to come together to draft a blueprint for rolling out non-sweeping VRPs, including a path to scalability by Q3 2023. To enable this, an industry-led VRP Working Group was stood up in June 2023 to gather input from the wider open banking ecosystem and develop a blueprint for a phased rollout of non-sweeping VRPs beginning in the third quarter of 2024.
- 1.4** The Working Group presented [its findings](#), which are published today, to the Committee in October 2023. This document sets out the Committee's response to the blueprint, which is being published by the PSR and the FCA in their capacity as co-chairs of the Committee.

2 Findings from the VRPWG blueprint

- 2.1** The VRPWG met eight times between June and October to agree the core use cases that would be developed as part of a Phase 1 launch of non-sweeping VRPs by the third quarter of 2024, and to discuss the outputs of three subgroups that were created to develop thinking in the areas of functional capability, consumer protection, and a commercial model. The subgroups involved representatives from over 30 organisations representing all parts of the ecosystem, including account servicing payment service providers (ASPSPs, such as banks), third-party providers (TPPs, such as open banking payment initiation service providers – PISPs), payment system operators, standards bodies, and end-user business and consumer representatives. The Working Group additionally stood up a separate business panel to allow potential business users, and their representatives, to provide feedback as the blueprint was developed. A roundtable with consumer organisations was also held to capture feedback on the blueprint's key themes. The resulting blueprint contains over 65 actions that, in the view of the Working Group, would be needed to enable the first phase of VRP services, as well as those that would be needed to support wider services in future.
- 2.2** The Working Group identified three core VRP use cases that could be considered for an initial rollout – subsequently referred to in this report as Phase 1. These use cases are regulated utilities, regulated financial services, and payments to central and local government. The blueprint details the requirements, next steps, and owners needed to deliver and support their rollout. These use cases were selected because there are existing protections for users through sectoral regulation and outside the payment system. Payments to regulated financial services bear a strong similarity to the sweeping me-to-me transfers already being offered by the market. These use cases were understood to be less complex to implement and require less additional protection. Payment to e-commerce merchants was identified as a further stretch use case. Given the likely additional enhancements and changes that would be required, this use case was judged as a longer-term ambition.
- 2.3** The blueprint concluded that existing capabilities that support sweeping transfers over Faster Payments are largely sufficient to cover an initial rollout of non-sweeping VRPs. However, a number of enhancements to these capabilities were recommended to meet wider consumer and business needs. This includes the creation of a formal dispute-resolution mechanism for when something goes wrong with a payment. There were diverging views about how a commercial model and participation could be unlocked. Members of the group also held different views on the need for regulatory intervention to enable the delivery of VRPs in those use cases by the third quarter of 2024.

3 Our response to the blueprint findings

- 3.1** We would like to thank all the participants in the Working Group, its subgroups, and everyone who committed their considerable expertise, time and effort to help create the blueprint.
- 3.2** We agree that existing **functional capabilities** are largely sufficient for the initial rollout of VRPs as they bear strong similarities with current open banking transactions, which have consistently grown in value and volume over recent years. The Working Group identified several enhancements to existing capabilities that would be required to support the three initial use cases, as well as further enhancements that would be important in future to further use cases.
- 3.3** The enhancements are intended to cover eight key gaps:
- payment reference information
 - mandate amendments
 - payment certainty
 - software statements
 - VRP limits, retries and errors
 - dispute handling and refunds
 - consents, access dashboards and payer notifications
 - fraud handling
- 3.4** We largely agree with the actions and sequencing set out in the blueprint, and propose that a Functional Implementation Group be established to take forward the actions identified in the blueprint (see Chapter 4). Where relevant, we expect the implementation group to take into account the analysis and conclusions reached by OBL and Pay.UK under the existing JROC workstreams set up to further develop open banking services.
- 3.5** With regard to **consumer protection**, the Working Group identified actions intended to address four key gaps:
- payment errors
 - liability for bad actors (including monitoring and enforcement)
 - biller insolvency
 - regulatory framework to support risk management
- 3.6** We note the Working Group's broad agreement within the blueprint that the three 'core' use cases would be lower risk and therefore would be suitable candidates for the rollout of Phase 1 from a consumer protection perspective. In line with the [PSR's policy statement](#)

[on consumer protection](#) published in October 2021, we will continue to monitor the level of protection for open banking payments.

- 3.7** We agree with the Working Group's recommendation to establish a formal dispute resolution framework given its current informality, which relies on goodwill and existing contacts to resolve issues. We propose that a Dispute Resolution Implementation Group is established to take forward the development of a dispute resolution framework (see Chapter 4).
- 3.8** The PSR and the FCA will continue to support Pay.UK, OBL and Faster Payments participants in reducing potential harm by improving prevention and compensation measures. We will continue to monitor changes in Faster Payments volumes, the level of payment risk, the update of specific uses for Faster Payments, and the level of protection offered for different types of payment. If it looks likely that Faster Payments risk levels will rise beyond a level that consumers could reasonably be expected to carry, we may need to consider whether further regulatory action is needed to protect consumers and businesses.
- 3.9** With regard to a commercial model, on evidence currently available to us, we consider there is a need for a multilateral agreement between PISPs and sending firms for Phase 1 VRP to enable easier market access to participants and limit the cost and inefficiencies from bilateral arrangements. The Working Group's discussions demonstrated that there are widely different views held by market participants on how an appropriate price should be reached. To seek further views and evidence on these two topics, and any potential use of regulatory powers, the PSR and the Committee have published [a call for views that focuses on the commercial model for Phase 1 VRPs](#).

4 Next steps

4.1 The Committee is targeting a Phase 1 rollout of non-sweeping VRPs by the third quarter of 2024. This exercise supports industry's earlier recommendations (through the Strategic Working Group) that introducing VRP services will help scale open banking at pace and will allow us to learn lessons on how a multilateral agreement or rulebook could be established for other non-Order APIs.¹ Our ambition for this is still the fourth quarter 2025. We will seek views from stakeholders during Phase 1 in order to gather evidence to support our future policy making.

Implementation groups

4.2 The Committee is calling for two implementation groups to be created:

- A Functional Implementation Group: co-chaired by OBL and Pay.UK, to deliver recommended changes to functional capabilities; and
- A Dispute Resolution Implementation Group: chaired by Pay.UK, to develop and implement a dispute resolution mechanism. We believe that Pay.UK is best placed to chair this group. As the existing payment system operator (PSO), it has the capabilities, working closely with OBL to deliver the Phase 1 dispute resolution actions in the timescale required. This is a practical choice and should not be seen as determinative of any future decision on who would operate future open banking payment systems.

4.3 While we agree that existing regulation and legislation already broadly identify who bears liability when something goes wrong in a payment journey, the JROC supports the establishment of a formal dispute resolution framework to provide clarity and consistency to VRP Phase 1 participants, merchants, service providers, and consumers.

4.4 In many cases, individual actions address themes that will cut across areas of responsibility for both implementation groups. We expect that both groups will work closely together to ensure a consistent approach. We expect that the work currently being undertaken by UK Finance on standardised model clauses will be considered by the implementation groups.

4.5 The functions that we expect the implementation groups to carry out are set out below:

- By Q1 2024, create and agree a delivery plan with guidance and support from regulators to carry out and complete Phase 1 actions by Q3 2024.
- Engage with and manage the participation of relevant ecosystem parties as required to ensure actions are implemented on time.
- Establish working practices to ensure that actions and themes that cut across both groups are addressed in an aligned fashion.
- Create Phase 1 participation minimum requirements and an on-boarding process.

¹ Competition and Markets Authority's Order – The Retail Banking Market Investigation Order 2017

- On-board Phase 1 participants.
- Identify and work with the PSR, the FCA and the JROC to understand and mitigate risks and resolve any challenges.
- Work with the PSR and the FCA to design a data collection framework to capture key information, in order to monitor uptake and issues, and to support future work that enables VRP services to scale beyond the initial use cases.

4.6 The PSR and the FCA will monitor the delivery plans and the overall progress toward the launch of Phase 1. The JROC will be able to use information captured during this implementation stage and will consult if necessary on further enhancements or regulatory intervention as required, to resolve any outstanding issues.

4.7 In order to progress the VRP Phase 1 commercial model, the PSR is consulting separately to seek stakeholder input on:

- the possible need for a multilateral agreement that binds PISPs and sending firms in a central set of rules
- the range of possible interventions on the price sending firms can charge PISPs for non-sweeping VRPs in the use cases proposed for Phase 1
- a possible use of PSR powers to require participation by (some) sending firms in a central rule set for VRPs

4.8 As co-chairs of the Committee, the FCA and PSR will use the evidence gathered through the consultation to further develop policy thinking and publish updated proposals later in 2024, including setting out how we will look to measure the success of Phase 1.

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