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Sent by email

Dear Daniel

VRPs for Sweeping Definition – Alternative Forms of Credit that Closely Compete with Overdrafts

I am writing to you to obtain further clarification from the CMA as to their policy intent around what are "alternative forms of credit that closely compete with overdrafts" as described in the CMA's letter of 14 March 2022 ("**the Letter**") which provided clarification of the definition of Variable Recurring Payments for Sweeping ("**VRPs for Sweeping**").

In July 2021, the CMA mandated the use of VRPs as the mechanism for implementing sweeping under item A10 of the Roadmap. The Letter clarifies that the CMA can only mandate access under the Order for use cases that constitute sweeping as envisaged by the Retail Banking Market Investigation Final Report ("**the Final Report**") and which address the adverse effects on competition and associated consumer detriment identified in the Final Report. The Letter sets out the CMA's view on use cases which are within the scope of sweeping and fall within item A10 of the Roadmap made under Article 10.5 and amended under Article 10.6 of the CMA's Retail Banking Market Investigation Order 2017 ("**the Order**"). Open Banking Limited ("**OBL**") provided guidance in Q&As following questions received about the clarifications in the Letter.

OBL has recently been engaging at working level with the CMA on the definition of VRPs for Sweeping. As background to this, some PISPs have informed OBL that they disagree with its interpretation, contained in its Q&A document, of the CMA's Letter. A workshop hosted by OBL with CMA9 ASPSPs and PISPs has further highlighted the divergence in views.

I therefore believe it is important for the CMA to provide clarity of its policy intent, and I have set out below my recommendation, based on the Order, the Final Report and the Letter.

As a next step, I would like to understand your views on my recommendation and any further considerations that you have.

Background

The Letter confirms that the following use cases (amongst others) are clearly within the scope of sweeping under the Order and fall within the Roadmap:

1. Sweeping to destination accounts which are used for unbundling overdrafts from a current account and other alternative forms of credit that closely compete with overdrafts.
2. Sweeping to destination accounts which are used for loan repayments (excluding mortgages and other secured loans) as part of a service that provides alternative forms of credit to an overdraft.
3. Sweeping to a credit card account.

The Letter also states that, amongst other things, sweeping to make e-commerce purchases of goods or services is clearly outside the scope of the Order and the Roadmap.

Within the Final Report, the CMA provides a view on the substitutability of overdrafts and loans for personal current account customers and small and medium sized enterprises (SMEs).

For personal current account customers, the Report[1] states that "Personal loans and payday loans are unlikely to act as substitutes for overdrafts due to the inherent differences in their main

[1] Final Report paragraph 4.30.

characteristics and usage" and that "evidence from the CMA's payday lending market investigation confirms that there is only limited substitutability between overdrafts and payday loans, which is also supported by banks' responses."

For SMEs, the Report[2] states that "a business loan may be a substitute for an overdraft" and that business overdraft facilities "are granted for a one-year period, meaning that businesses have to re-apply for an overdraft facility each year and pay arrangement fees".

OBL's guidance in its Q&As notes that some Consumer Credit Act agreements would meet the definition of sweeping, but others would not. A question in the Q&As refers specifically to business loans, and states that the validity of a business loan as a sweeping destination account will depend on the nature of the proposition, and that it would need to be an alternative to an overdraft to qualify. The Q&As state that hire purchase and personal contract purchase agreements are unlikely to be considered sweeping as "they are facilitating a purchase (which is explicitly ruled out) and it would be difficult to argue that these agreements provide a credible alternative to an overdraft, as an overdraft provides a line of credit with no formal repayment schedule".

When PISPs have asked OBL's view on whether a proposition would fall within the scope of the Order, OBL has used this logic to provide a view that any loan that has a formal repayment schedule, without a revolving credit facility would be unlikely to be a valid destination account for VRPs for Sweeping.

However, PISPs have raised concerns that this is overly restrictive. As an example, it rules out using VRPs for Sweeping to repay most (if not all) loans, even though PISPs consider certain loans do provide competitive alternatives to using overdrafts and some customers do use loans to unbundle overdrafts from their current accounts.

OBL agreed to host a workshop with CMA9 ASPSPs and PISPs to explore this issue and to see if consensus could be reached on the characteristics of in-scope use cases in this area.

<u>Participant Workshop</u>

A workshop was held on 13 June 2025 attended by 13 external participants, representing five PISPs and five CMA9 firms. Written statements were subsequently received from two CMA9 firms and two PISPs.

All attendees agreed that additional clarity on this aspect of the definition would be helpful, and that this should be as unambiguous as possible. Broadly, PISPs would like certainty on what is permissible under sweeping, while CMA9 firms have raised the challenges of monitoring use cases without a clear definition.

However, differing views regarding interpretation of the CMA's policy intent were raised. CMA9 firms' interpretation requires that "alternative forms of credit that closely compete with overdrafts" must share similar characteristics with overdrafts - particularly the revolving credit nature of overdrafts that allow additional borrowing (usually up to a threshold) without new applications. They expressed concern about a definition that encompasses products which do not share comparable features, which they believe would exceed the scope of the Order. PISPs, by contrast, interpret the definition more broadly, encompassing products that meet similar customer needs and enable customers to cut the cost of borrowing, including repayments to any regulated unsecured loan (unless otherwise ruled out, such as borrowing to directly facilitate the purchase of goods or services).

Both groups agreed that defining a set of in-scope use-case characteristics, such as customer segment, loan amount and repayment term would be overly complex and difficult to monitor.

Two opposing options remain:

1. Option 1, supported by CMA9 firms, allowing sweeping only to credit products that have similar characteristics to an overdraft (i.e. a revolving credit facility with no fixed repayment schedule).
2. Option 2, supported by PISPs, based on achieving comparable outcomes allowing sweeping to all unsecured lending (unless directly linked to a purchase).

<u>Recommendation</u>

I am guided by the principle that the CMA can only mandate access for use cases that constitute sweeping as envisaged by the Final Report and which address the adverse effects on competition and associated consumer detriment identified therein. For personal current account customers, personal loans and payday loans have been identified in the Final Report as being unlikely to act as a substitute for an overdraft, or to have limited substitutability. For SMEs, there appears to be stronger evidence that business loans may act as an alternative to an overdraft, although, unlike overdrafts, these loans do not have a revolving credit facility and have a fixed repayment schedule.

[2] Final Report paragraphs 4.57 and 4.66.

However, in all cases, I accept that substitutability is not universal and, on this basis, I would be unable to support the broader definition put forward by PISPs. I am also minded to agree with CMA9 firms that it will be virtually impossible for them to distinguish between out of scope and in-scope loans.

I therefore recommend that access to VRPs for Sweeping to repay credit may only be mandated for both personal current account customers and SMEs where the destination credit account has similar characteristics to an overdraft – specifically, having a revolving credit facility with no fixed repayment schedule. This recommendation is in line with the existing OBL Q&A guidance on sweeping to repay an agreement under the Consumer Credit Act.

I would welcome the CMA's response to this recommendation and any further clarification of its policy intent in relation to this aspect of the definition of VRPs for Sweeping.

Finally, I recognise that, whether or not considered sweeping, there is demand for VRPs to repay unsecured lending. However, VRPs to unsecured credit products are not included in the scope of cVRP Wave 1, so there is currently no alternative route for use cases falling outside the sweeping definition. While the scope of cVRP is a matter for the Transitional MLA Operator (**"the TMO"**) when established, I have asked the OBL team to provide to the new operator relevant information to consider whether the scope should include unsecured credit products. I have also asked the OBL team to facilitate a discussion on expanding the scope to include unsecured lending with the cVRP funders in advance of the establishment of the cVRP operator to feed into this consideration.

I propose not enforcing this recommendation until a decision has been made by the TMO regarding provision under cVRP, to help ensure the orderly management of any existing consents. I also remind ASPSPs that they may not unilaterally refuse sweeping access to a PISP or for a particular use case without first raising a dispute with OBL.

Subject to your response, OBL will review and update its Q&A document in due course.

Yours sincerely

Marion King
Chair and Trustee, Open Banking Ltd