

Next steps for commercial variable recurring payments

OBL recently concluded two public consultations, one on the proposed Multilateral Agreement (MLA) for commercial variable recurring payments (cVRPs), the other on the commercial model that will underpin the cVRP ecosystem.

We summarise the industry's feedback on these two consultations, highlight common themes and concerns, and set out the necessary next steps to deliver this UK payment innovation at pace.

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24 July 2025

Introduction

Following the two consultations on the commercial Variable Recurring Payments (cVRP) Multilateral Agreement (MLA) and the report on the cVRP commercial model prepared by independent consultancy Frontier Economics, we have aggregated the responses in this summary document.



Consultation timelines

Consultation	Open	Closed
CVRP MLA	30 January 2025	28 February 2025
Commercial model	9 April 2025	16 May 2025

We received responses to both consultations from a broad range of stakeholder groups both within and adjacent to the financial services industry.

Rationale for combined response

We have combined the responses as several participants noted interdependencies between the MLA and commercial model. As such, we have taken responses together to support the development of an MLA that will be proposed for adoption by the Operator, which is proposed to be called **UK Payments Initiative Ltd**, later in 2025.

Outcome

The feedback contained in this document will be reflected in the draft MLA that will be recommended to UK Payments Initiative Ltd when it is established.

This response comprises three parts:

- **Part 1 covers the MLA consultation questions and summaries of responses**
- **Part 2 summarises feedback from the commercial model consultation**
- **Part 3 summarises changes to the MLA based on those responses.**

We also outline the plan for next steps.

Executive summary

We received 23 responses to the consultation on the Multilateral Agreement (MLA) and 22 responses to the consultation on the commercial model, of which 15 responded to both consultations.

MLA

The broad majority of respondents agreed that:

- the MLA met the needs of users – fostering and enhancing inclusion and increasing competition;
- it provides flexibility to enable different types of market participants to offer/use cVRPs;
- it provides the Operator with adequate tools to manage Participant compliance;
- it provides requirements within the cVRP design for adequate protections to customers (relative to the Wave 1 risks);
- the rules and requirements in the MLA are adequate to ensure a competitive and attractive product for beneficiaries such as billers and merchants;
- and that the key aim of the MLA to build consistency in approach for the benefit of Participants, customers and beneficiaries is achieved.

In addition, respondents provided feedback that helped further the development and formulation of the MLA. This included considerations regarding additional use cases and purchase protection under e-commerce scenarios.

A few respondents noted that they were unable to be completely sure that the MLA could address the points in the question while the commercial model was unknown. We hope this has been helped by the publication of the Frontier report which we also consulted on and provide feedback on below.

In addition to feedback received on the questions we posed, several respondents provided further helpful ancillary feedback on specific areas of the draft MLA.

The next stage in the development of the MLA is that several changes have been provided to [Addleshaw Goddard](#), our legal advisers on the MLA, to address in the final ‘recommended’ version. After the recommended version has been drafted, we will provide this to the board of the MLA Operator (subsequently referred to as ‘the Operator’) to take forward.

We anticipate the Operator will undertake its own due diligence on the MLA, as well as completing sections of the MLA that relate specifically to its risk tolerances based on liabilities and pricing. It will then have the opportunity to adopt the MLA as the contract and rules for the operation of the cVRP system.

Commercial model

We published the Frontier report and asked respondents to feedback on several questions relating to the principles and formulation of the model for cVRP, the alignment with the outcomes we wanted to achieve, and how the commercial model should be implemented.

Feedback was largely positive and acknowledged that Frontier had made good progress in proposing a model and a range of prices. Respondents thought that the formulation of the price was positive and that it was helpful to base the price on the cost of development and supply. However, some respondents noted that there was significant variability in the costs that ASPSPs proposed and suggested that more could be done to minimise the variances.

ASPSPs were broadly supportive of the mechanism to regain costs, including interest, and a margin, but some argued that the proposed cost recovery periods were too long and introduced risks. They argued for a fee at the higher end of the range.

Conversely, PISP participants argued that a transaction of, for example, £50-£75, in comparison with alternative fees, was too high compared with some of the likely use cases, such as breaking bills down into frequent, manageable payments. They argued that development costs should be minimal because of existing

API endpoints. On a practical level, beneficiaries such as billers and merchants needed to be incentivised to adopt cVRP, which argued for a lower price overall. At least one ASPSP also agreed that a lower price was needed initially to establish a market.

Some respondents noted case law with respect to interchange or access fees. This was superseded by a judgement relating to multilateral interchange fees (MIFs) in July 2025¹. They asked that consideration be given to how the proposed formulation and implementation of the commercial model fitted with competition law (the Competition Act 1998 (CA98)) ahead of finalising and implementing the fee model.

We are now giving further consideration to the CA98 aspects of the fee model. That analysis, along with a proposed range of prices, will be provided to the Operator, once established, to decide on the final fee model and the method of implementation.

¹ See the judgement [here](#).

Part 1. The MLA consultation

We published the draft MLA which is a combination of documents that comprise the Participation Agreement, the Rulebook and the Schedules to the Rulebook. We did not provide any associated guidance documents or the technical handbooks. These intra-industry documents are being produced separately.

The Rulebook

Within the MLA, the Rulebook is a detailed set of rights, obligations and rules that all Participants, and the Operator, need to adhere to. It:

- Establishes a framework for the operation and implementation of cVRPs within specified use cases, ensuring consistency and clarity across Participants.
- Outlines eligibility criteria for Participants and the role of the Operator in maintaining, developing and administering the MLA.
- Specifies technical and operational requirements for Participants.
- Details the process for managing disputes related to cVRP transactions.
- Defines the responsibilities of Participants in their relationship with payers and billers, including information disclosures, consent management and handling of complaints.
- Covers liability, the process for addressing incidents and breaches of the Rulebook.
- Sets out terms relating to the suspension and termination of participation, including exit provisions.

Guiding design principles

A set of guiding design principles were developed to support the work undertaken on cVRPs. These are detailed below:

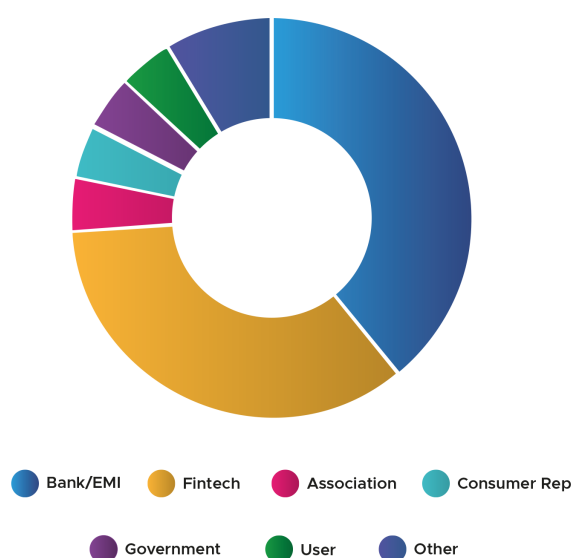
- Promotes competition
- Is accessible to market participants of all sizes
- Helps manage liability between Participants in ASPSP and PISP roles and disputes by incorporating an effective issue resolution system
- Ensures a high-quality and consistent customer experience
- Ensures rights and interests of consumers are safeguarded adequately
- Ensures the rights and interests of all Participants are safeguarded adequately
- Drives conformance to standards.

With this in mind, we asked a series of six questions to ensure that the MLA achieved the objectives and initial design principles.

Respondents

A total of 23 organisations or individuals responded to the consultation, which represented a range of different stakeholders.

Response by sector



Most responses received were from fintechs such as third party providers (TPPs), technical service providers (TSPs) and banks/electronic money institutions (EMIs). Trade associations, consumer representatives, government departments and user representatives also responded.

We feel the balance of different stakeholder groups responding has contributed to a very well-balanced set of considerations that we have proposed to take forward.

Summary of responses

1. Do you agree that the MLA enhances and fosters inclusion and increased competition? Please provide reasons for your answer.

Overall, most respondents agreed that the MLA enhances and fosters inclusion and increased competition in the payments space.

Multiple respondents noted that understanding the scope and proposals for the commercial model is critical to their ability to fully assess the suitability of cVRPs as a viable and competitive payment method, when compared with existing payment methods like Direct Debit and card payments.

We received a broad spectrum of feedback on how additional use cases would be introduced over time. As stated previously, this will be further developed and determined by the Operator. We expect the Operator to consult widely with industry, including all participants, before introducing any additional use cases, in line with procedures in the Rulebook.

We received several comments regarding the length of the Rulebook and whether the MLA provides sufficient flexibility for Participants in their preparation for, and offering of, the service. While we understand these comments, we believe the MLA has been designed to balance the need for a robust set of requirements while reducing barriers to entry for Participants.

We also received feedback regarding additional technical requirements, with some concerns raised about these being needed prior to Day 1 of Wave 1. We have previously discussed with the working group that an implementation period would be offered for Participants to enable technical uplift for certain elements such as TRIs and payment status and error messaging. These requirements will not be mandated for Day 1, but will be required before any expansion into higher risk use cases.

2. Do you agree that the MLA provides flexibility to foster different market Participants being able to offer / use cVRPs? Please provide reasons for your answer.

Feedback was broadly supportive, with several respondents agreeing that the MLA provides flexibility to foster different market Participants being able to offer and use cVRPs. Multiple respondents also noted that this was dependent on the outcomes of the commercial model.

One respondent indicated that the prescribed use cases in scope for Wave 1 might limit the uptake of cVRPs, highlighting the need to expand into additional use cases to drive greater adoption in the future. Multiple respondents raised concerns regarding language related to TSPs and their role participating in cVRP. This is currently being re-visited to ensure clarity of the requirements in models which include TSPs.

We also received feedback that the requirements were not proportionate and overly burdensome for what is needed for lower risk use cases.

Overall, the approach we have taken is to mitigate risks and provide clarity via the contractual framework and rulebook. The alternative approach suggested is an even more narrow set of rules which could be silent on several areas or provide less detail; on balance this would leave grey areas where there would be no rules and no contractual agreements, limiting participant and Operators' ability to act. It would also lead to a difference in expectations between participants.

We also note that, while the cVRP rules do not include the payment clearing and settlement layer, the equivalent rule documents in debit card and Direct Debit product offerings are generally more detailed and much longer than the MLA. In terms of the lower risk, we note that purchase protections are not currently included in the MLA but that we anticipate their inclusion the expansion of future use cases.

There were also concerns regarding technical change periods, MI requirements and the ability to introduce additional use cases in the future. We have since made refinements to the MI requirements. We have discussed with potential participants ways in which the MLA could be changed to allow for the expansion of Wave 2 use cases; most proposals have been rejected with industry taking its own approach to agreeing the way in which Wave 2 is expected to be delivered.

We also note that this is the MLA for Wave 1 and there are significant changes expected for the use case expansion that will need to be aligned which we will not deal with at this initial stage e.g., purchase protections. We are also considering the feedback on technical change timeframes against those required under legislation, to ensure we are aligned with minimum periods.

One respondent raised concerns regarding the Operator's ability to report to competent authorities on certain matters. We note that this obligation relates only to issues arising in relation to the MLA and not Participants' obligations to report to authorities as a regulated entity. In reality, we expect both to be required, as an Operator will have a bird's eye view of how the system is operated and the Participant will have its specific view of how it interacts with the system.

We also received concerns that the wording relating to the automatic forwarding-on of payments would inadvertently exclude certain use cases which would otherwise be in scope for Wave 1. This wording was introduced with the intent to close a potential loophole that cVRP Wave 1 could be used for e-commerce transactions. The wording will be revised to ensure that appropriate Wave 1 use cases will not be affected.

3. Do you agree the MLA provides the Operator with adequate tools to manage Participant compliance? Please provide reasons for your answer.

Feedback was broadly supportive that the MLA provides the Operator with adequate tools to manage Participant compliance. We heard again that the dependence on the commercial model is key to ensuring the sustainability of the product.

One respondent raised concerns that the enforcement mechanisms available to the Operator seem weaker than desirable. We believe the enforcement mechanisms available to the Operator in Wave 1 are reasonable and proportionate when considering the nature and risk profile of the use cases that are in scope for Wave 1.

This approach balances the need for strong Operator powers, while also incentivising Participants to join the scheme and start offering the service. We anticipate that the Operator may consider stronger enforcement powers for future waves if it considers them necessary to ensure greater compliance.

The same respondent also stated that the requirement for pre-notification to users for all cVRP payments should not apply to all use cases. However, we believe this is important to ensure consistency of user experience and to support consumer knowledge and adoption of a new payment method.

One respondent noted support of previous MLA wording which outlined more expedient measures to stop out-of-scope use cases. We heard previously from respondents that there should be flexibility to assess instances that may or may not be in scope - some instances may not be clear cut. We expect the Operator will develop guidance materials which could help to better clarify use cases that fall within the scope of Wave 1.

The same respondent also suggested an addition to the MLA to require Payment Initiation Provider (PIP) forecasting, noting that this would assist the Operator when undertaking financial planning. This may also assist the Operator when considering potential MLA changes, particularly when considering additional use cases, and forecasting the volumes of potential disputes. So long as this requirement does not require significant uplift in resourcing or become overly burdensome on PIPs, we are considering adding this requirement to the MLA. This would be on the basis that any forecasts provided to the Operator would be aggregated to retain Participant confidentiality.

Multiple respondents raised concerns with the Operator's powers under the MLA to require independent audits of Participant compliance. We note that third party audits are a last resort in circumstances where the Operator concludes that the self-assessment undertaken by a Participant is not robust enough to show it has substantially complied with its obligations under the MLA. For example, through the course of its dealings with Participants, the Operator may become aware of information or practices which are inconsistent with the self-

assessment outcomes expected by the Operator. In such cases, we believe this clause is appropriate to grant the Operator powers to commission a third party assessor to review Participant compliance independently.

Multiple respondents suggested that centralised infrastructure may benefit the sharing of information to the Operator to effectively monitor compliance effectively. While this may be useful in the future, and may be considered by the Operator, after consulting with Participants, we consider this would be costly and challenging to deliver in readiness for the launch of Wave 1.

One respondent indicated that if eligibility requirements change, existing Participants should be able to continue their participation for a certain period. The MLA does contain an existing 'grandfathering' right in relation to existing eligibility requirements. However, we think it would be sensible that this is not indefinite and should be limited to a period of 12 months. Beyond that point, it will be for the Operator to assess whether any waivers are appropriate.

4. Do you agree that the information provided to customers and other elements of the cVRP design provides adequate protections to customers? Please provide reasons for your answer.

There are broadly two schools of thought when it comes to consumer protection.

The first proposes that, at least for Wave 1, using existing protections such as education, messaging and dashboards make sense; we also note the lack of unity in the market with respect to cash, cheque, card and Direct Debit products, which call into question the need for a unified set of consumer protections at this stage.

The second signals a desire to offer the equivalent of full debit card chargeback because they think that cVRPs should be able to compete effectively with cards, which requires a similar consumer protection model. The argument for chargebacks does not distinguish between Wave 1 and later waves, although one respondent did express the view that imposing it later may be confusing for consumers.

In terms of messaging requirements to consumers, which include explaining what cVRP is, the implications of using cVRP, and pre-notifications when regular bills/payments will be paid using cVRP, some respondents (mostly ASPSPs), think it is a benefit and will address consumer challenges. Some, however, have argued that it will be restrictive, and lead to customer dropout, so would want to create more choice and guidance around whether messaging exists at all.

Three respondents argued against the requirement for any messaging being on an enduring basis. We agree that some messaging should be time limited while cVRP is a new product, but as a mature product the same level of customer information would be unnecessary. We are unable to say when cVRPs will achieve scale and maturity, so do not think it is appropriate to timebox consumer education within the MLA. We do anticipate that the Operator will use the MLA change mechanisms to adapt some of these requirements when there is more evidence about the usefulness of customer messaging as cVRP matures.

On the disputes provisions, feedback mostly focused on the fact that excessive dispute levels within the MLA were too high and should be revisited. These levels are used to trigger concerns about a particular participant which has a potential issue with a customer, or with its controls. One respondent also questioned the process to ensure that all disputes will be measured when being assessed against excessive dispute levels. This was based on wording around allowing bilateral contact/discussions on disputes outside of the dispute system. This means that some disputes would not be measured centrally. Since the consultation, we have done additional work on how disputes are to be undertaken between participants, exploring the use of bilateral models without including some form of central tracking.

Previously, we had proposed a period where, if a cVRP consent had not been made to make a payment, that the consent would be declared dormant and removed, unless the customer asked for the consent to remain in place. One respondent supported a 13-month dormancy period, to address this, although there was additional support for this in response to other questions.

Respondents were generally in favour of customer-facing dashboards but questioned how they would be managed. This focused primarily on the consent dashboards required from end billers or PISPs, where customers may not have previously seen a consent dashboard. Consumers are generally more familiar with dashboards provided by ASPSPs' - access dashboards. The dashboard requirements, and how they should be managed, are set out in the Open Banking Standard. If there are specific use cases where a consent dashboard makes less sense compared to others, then a PIP may want to seek a waiver.

One respondent used the opportunity to question the use cases for rail tickets and charities. The cVRP working group has closed off this policy decision and is not a topic that we propose to re-open prior to the establishment of the new Operator.

5. Do you agree the rules and requirements in the MLA are adequate to ensure a competitive and attractive product for beneficiaries such as billers and merchants? Please provide reasons for your answer.

Several respondents noted an inability to understand if it will be competitive because the pricing and commercial model are unknown, citing the fact that it needs to be commercially appealing to both merchants and consumers. Consideration of pricing was conducted through the commercial model work by Frontier Economics, which compared different pricing structures against alternative products and services; however, this was published after the MLA consultation.

Some responses are critical of certain aspects of the MLA, such as the requirement to have a consent dashboard, which makes it more costly for PIPs and/or billers. This is discussed in Question 4.

One respondent was concerned with aspects of the **MLA change management procedures** and proposed a different approach to the proposal to consult just the participants in the process, instead expanding the process to include biller/merchant and customer end-users as well. They also questioned change timelines and whether all Participants need to move to changes in the MLA because the only other approach is a delayed exit. We have considered feedback on this, and note that changes impact directly on Participants, so that, as a minimum, they need to be consulted as originally intended.

However, the MLA does not preclude the Operator expanding the consultation, or polling views from specific stakeholder groups. The Operator will want to do this at times, to ensure proposed changes meet user-needs. We believe it is better if the Operator takes additional input and engagement on a case-by-case basis. We also want to reduce consultation fatigue, which may arise if there was a requirement to consult stakeholders for every change.

One respondent queried the lack of rules regarding refunds/reversals. The MLA does not currently single out refunds and reversals which are largely a post-payment initiation issue. These would likely be covered by payment system rules and legislation such as the Payment Service Regulations (dependent on the specific issue). Some issues may manifest themselves as a dispute and be managed through that process.

One respondent queried why consents should expire. This can either be because the consent is set up with a finite lifespan, or because of the 13-month revocation period discussed earlier, although consents will expire if an account is closed. The view here is primarily of long running consents that can endure, unless a customer cancels that consent. It is not the case that legislation and regulation have been satisfied that consents endure in some of open banking services where customers have been required to periodically re-consent. With cVRPs there is an enhanced risk of fraud or error for inactive consents that could unexpectedly be initiated after a long period of time.

Finally, there was a question relating to the **borders of sweeping**, and why use cases such as loan repayments that were not sweeping under the CMA Order were not included under cVRP. The sectors and use cases are based on the regulatory protection set out by the Financial Services Compensation Scheme (FSCS). Any financial services outside of this could still be covered by the Financial Ombudsmen (FOS) but we note some uncertainty in reforms. We would like to discuss the topic of sweeping-like use cases and services covered by FOS further, particularly if future decisions are taken on the sweeping definition.

6. Do you agree that the key aim of the MLA to build consistency in approach for the benefit of Participants, customers and beneficiaries is achieved? If not, can you provide specific examples where this is not achieved and reasons for your answer.

Respondents largely agreed that the MLA will build consistency in approach, with some caveats, which broadly focus on the ASPSP side and the lack of any specific standards they need to meet in providing a consistent journey. In response it is not clear whether there are inconsistent journeys, or, if there are, whether this would be detrimental to the cVRP service. Part of the evidence for what works well, and what could be improved or

enhanced, will be built through running live transactions in Wave 1. This will allow the Operator and participants to make changes ahead of expanding use cases under Wave 2.

One respondent disagreed that it would bring consistency, precisely because ASPSP screens are inconsistent and consumers are going to face different journeys, even with the same product and PISP.

One respondent noted that consumers need a universal name and trustmark to help ensure that their experience is similar across different Participants.

Some respondents noted specific issues they had with the MLA: again, one respondent mentioned pre-notification periods on technical changes and specifically pre-notification periods for reporting non-breaking changes. Different respondents raised this in previous responses. As outlined previously, we are happy to review these and their alignment with legislation such as the PSRs 2017.

Many respondents had issues with the dispute process as outlined in the MLA. Respondents suggested the lack of a unified approach to all disputes and the lack of detail on liabilities within the disputes provisions. The requirement not to use personal data such as customers name, account details when detailing the dispute was seen by some as impracticable. We are currently reviewing the provision of the dispute system.

Some respondents cited the lack of a commercial model as well as details on the settlement process, as well as how refunds are processed and any associated credit risks. We noted some pushback on the levels of disputes triggering a potential default, suggesting they may be too high and warranted review. Questions were raised about whether all the technical requirements were needed for Day 1, or for Wave 1 overall, with pushback on the consent dashboard requirement. There was also disagreement on the addition of 'grandfathering' clauses.

Finally, some respondents suggested that cVRP would only work if there is a strong Operator monitoring which upholds the rules to ensure that Participants are acting in the best interests of the system. Without this, there may be flexibility and deviation from the key aspects of the MLA that are needed to enable the required consistency in approach for a successful roll-out.

B. Commercial model

We commissioned independent economic consultancy [Frontier Economics](#) to design the potential commercial model for Wave 1 cVRPs. As with the MLA, Wave 1 will focus on low-risk use cases such as payments to:

- utility and rail companies
- regulated financial firms
- e-money institutions
- government bodies and
- charities.

[Frontier's report](#), published in April 2025, developed a commercial model approach alongside the application of that model on data provided by a subset of ASPSPs and forecasts of volumes.

Pricing options

The report provided a series of options in terms of the final price based on the amount of monies recovered over different time periods, as well as scheme fees to fund the Operator of the system and fees on the underlying payment system. **Frontier ultimately proposed a fixed price per transaction at between 3p-11p, with a proposal that a market could be established in the range of 6p-8p.**

Table 1: Pricing proposals from Frontier's report

Scenario	Description	Period 1: Adoption period price (Year 1-5)	Period 2: Recovery period price (Year 6-10)
1	Recover all costs in period 1	11p	5p
2	Delay recovery of upfront investment costs to period 2	8p	6p
3	Delay recovery of upfront investment and ongoing fixed costs to period 2	6p	6p
4	Delay recovery of upfront and scheme fee costs to period 2	6p	6p
5	Delay recovery of upfront, scheme fee and ongoing fixed costs to period 2	4p	7p
6	Delay recovery of upfront, scheme fee, ongoing fixed costs and margin to period 2	3p	7p

Source: *Frontier analysis.*

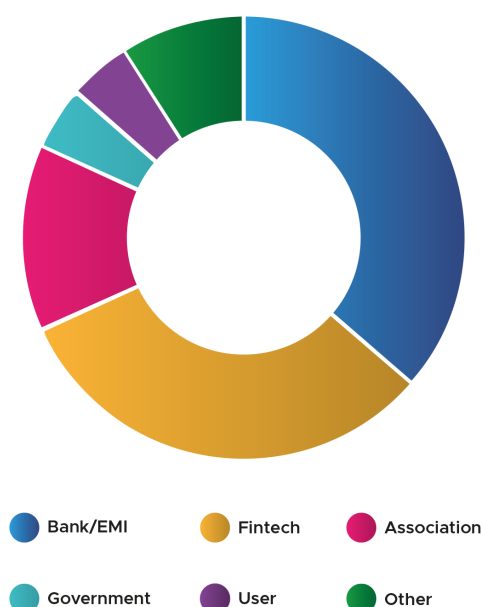
Note: *Results presented to the nearest pence which means some prices in period 2 appear the same across scenarios but do vary slightly.*

Frontier undertook this work was undertaken independently of OBL, and we were keen to understand stakeholders' views on the model and its application to provide pricing options. We therefore published the full report and invited stakeholders to respond to a series of seven questions.

Respondents

We received 22 responses to the consultation. In some cases, industry representatives responded on behalf of several members.

Response by sector



As with the MLA consultation, we received most responses from either ASPSPs (referred to as Banks/EMIs), and TPPs and TSPs (referred to as Fintechs), with additional responses from trade associations and Government.

Of the respondents, 15 responded to both the MLA and commercial model consultations, which represents a little under three-quarters of respondents to each consultation.

As with the MLA consultation, we are happy that the broad representation we received provided positive and constructive feedback, as well as proposals on the way forward.

Summary of responses

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

For background, we provided Frontier with a set of pricing principles established by the Payment Systems Regulator (PSR) and the Financial Conduct Authority (FCA). These are included in the Frontier report and include:

- ensuring that the price reflects long run costs,
- incentivises investment and innovation,
- promotes adoption by consumers and businesses,
- treats all participants fairly, and
- is transparent and easy to understand, with a clear and transparent underlying methodology.

Respondents broadly agreed that Frontier's work fits with these principles, but there is some disagreement on the nature of the first principle, where some respondents have argued that the *price should not be on the long run costs basis*, but instead on the value derived.

Some ASPSPs also disagreed that the approach taken met the second principle on incentivising investment, largely arguing that a 5-year+ return will not incentivise ASPSPs to invest. One ASPSP argued that the 10% margin included is too low to meet this principle.

More broadly, there were views as to the validity of these principles, since they were developed by the PSR and FCA without consultation. We note that they were very similar to principles previously published by both regulators.

Respondents also questioned whether there was sufficient transparency on the data that Frontier had been given, and on the calculations in the report, to be able to say that it reflects long run costs and incentivises investment. The data transparency point was raised in responses to several questions, and we address this when summarising the relevant responses.

One respondent provided a detailed critique on each principle in relation to [the work] and report, which we do not cover here. However, the main issues are consistent with the issues raised on whether the model adequately reflects long run costs and incentivises investment.

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?

There was general agreement that the Frontier work does balance different Participant needs, and that the simplicity of one price for all Participants and use cases is beneficial for the adoption of cVRPs.

However, some Participants suggested that there may be disparity between the size of PISP and their investment profile, where larger PISPs may be able to discount prices for merchants to drive adoption, potentially below cost. It is not seen as possible for smaller PISPs to operate at such slim margins. This could make smaller PISPs uncompetitive compared with larger ones.

Respondents raised more general concerns about the stability of customer pricing and would be uncomfortable where initial low pricing is introduced which is later increased when there are no changes in the commercial model pricing. This would lead to concerns that any very low margin, or even below cost pricing, would need to be reversed (i.e., prices increased). They argue that this could damage the profile of cVRP adoption.

One PISP is largely investor funded and noted that investors will be looking for a return, so need an economic model that would be competitive with other payment products but one which is also sustainable and able to derive value.

In our view, irrespective of the merits of the points raised, it will be very difficult, and outside any realistic remit for the Operator to intervene in the commercial arrangements of PISPs and their customers.

Several respondents noted that there are two exercises underway:

- the Frontier work for Wave 1
- the Deloitte work for Wave 2.

Responses highlighted the need to consider the difficulty of moving to a different price at a later date. One respondent noted that no other payment product would have a commercial model that kept different pricing based on the waves / use cases. Respondents did not think multiple prices would work in practice.

For Wave 2, a group of UK Finance members engaged consultancy firm Deloitte to undertake analysis for a sustainable, long-term cVRP price², which will include e-commerce use cases. A minority of respondents requested that the Frontier Wave 1 and Deloitte Wave 2 exercises were combined. This is difficult given the Wave 1 price consultation had already been established and is based on the launch price. However, there are aspects of the work that have been progressing in parallel.

Respondents also raised the issue of **interchange fees and competition law**, suggesting it was difficult to assess whether the price would be effective and competitive until they could understand whether it was lawful. They provided helpful background on this issue.

Another respondent suggested that the Operator should continuously analyse whether the rules and the pricing were achieving the desired outcomes and undertake emergency changes where any issues or gaps were identified.

Finally, respondents noted the importance of large merchants signing up as they provide the substantial share of the volume. Even a small number of large merchants offering cVRPs will help to build scale faster. One of these respondents suggested that incentives are given to large billers via tiered charging / volume discounting to incentivise this.

On the last point about discounting, none of the work is proposing to have a different access price relating to the size of the merchant and the volumes it processes. Therefore, we assume any volume discounting would be a function of the PISP margin, or, dependent on what is permitted under the MLA, whether bilateral prices could be negotiated.

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

Respondents broadly posed two arguments:

1. **That some of the pricing proposals will not incentivise ASPSPs to join and invest.** There were multiple reasons for this but common themes included the fact that the costs used are specific to cVRP, and that shared costs should also be included; that the costs relating to fraud should also be included; that the payback period was too long; that the anticipated volumes are too high or too uncertain, resulting in a lack of confidence that payback would be achieved as planned.
2. **That investment costs were overstated** given that, at least for the CMA9, pre-existing APIs were being used similar to those in use today, no new standards are being used, and there are few additional investment costs; or that some investment was being driven by the ASPSPs' choice.

Some respondents, including some ASPSPs, noted that the costs from ASPSPs varied considerably and needed refining. Some suggested they would be willing to take part in a project to refine the estimates.

One respondent noted the uncertainty of the success of cVRPs in a landscape that is seeing innovation through other initiatives such as central bank digital currencies (CBDCs) and the Regulated Liability Network (RLN).

² See this [report](#) which gives the initial findings of the Deloitte work.

These are being delivered over a similar time-frame to the launch and scale of cVRPs, which could negatively impact the use of cVRPs, the future sustainability of the system, and the path to recover investments.

It is currently unclear whether there will be a UK CBDC, and any timings, or whether it would be widely used for retail transactions. RLN is also another development that is uncertain, as well as its use in clearing versus the settlement of retail use cases. It is difficult to mitigate for unknown developments in retail payments innovation; however, we do not see this as a reason to delay cVRPs. The sooner they launch, and Wave 2 use cases drive widespread availability, the greater the likelihood of getting scale to pay back investment costs. This argument is about speed to market and expedited expansion rather than a concern about future innovation. We remain supportive of both a fast launch and expedited expansion, based on industry agreement and co-operation.

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

Many respondents agreed that the proposed model does lead to costs that are proportionate, objective and non-discriminatory, citing the way the model has constructed a single fee for all which is based on the cost to supply.

Some respondents, mostly ASPSPs, disagreed citing whether the actual costs of investment are being captured correctly and whether there are additional costs (e.g., dealing with disputes and any subsequent reimbursement). In addition, respondents noted that the period over which costs are recovered, and the risks of volumes falling below forecasts are arguments against the proportionality of the proposed approach.

In some cases, respondents indicated that they were not close enough to the calculation of costs, so were unable to understand whether they were proportionate or not.

One respondent noted that 'on-us' transactions had the same fee but with lower processing costs and argued against on-us levied fees as disproportionate.

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?

Respondents raised several queries about the assumptions in the model, some of which have been covered in previous questions (e.g., transparency of the investment figures, margins; on-us transactions, competition law risks etc).

Additional issues raised for the first time (or in more detail than previously) were:

- a) **Volume forecasts and whether Frontier's approach is appropriate** - some respondents arguing that sweeping transactions were not an appropriate comparator because it is provided free, instead of on a commercial basis, and that cVRP volumes will be lower;
- b) **The total addressable market in Wave 1 is too constrained to incentivise ASPSPs**, so the fee has to be higher [than a steady state]; but a higher fee will entail lower user adoption;
- c) **Comparable EU schemes show the costs excluding the payment system fees**, for example, they should exclude the Faster Payment System (FPS) transactional fee;
- d) **The cost that a merchant/biller pays for inbound FPS charges can be high and anecdotal evidence shows that it is much higher than demonstrated in the report.** This means some PISP models are untenable. PISPs that have their own EMI licence can achieve lower customer charges but are typically indirect FPS members, so are paying much higher FPS charges than the fees used in the model;
- e) **The additional costs associated with PISP technical builds are not included;**

f) How customer pricing will be competitive over varying payment values which are under and over the break-even point, compared with other payment types. This is important because the customer will want the benefits of cVRPs but will be largely price-insensitive to the payment mechanism (e.g., consumer accounts do not usually charge for payments), and in addition the merchant/biller is unable to differentiate payment types based on transaction values.

Therefore, neither the consumer nor biller may be in control of average transaction values which makes it difficult to compare fees.

Also, some of the benefits of cVRP are that it allows a large one-off fee to be split into regular payments. This suits both the customer, who can smooth their spending, and the biller/merchant who may have uncertainty about if and when a large bill is paid, so can also smooth out its income distribution. The flipside of this is that the proposed cVRP fee would make it more advantageous to use cVRP for the large one-off fees than a series of lower value transactions.

These are valid points, although we are unsure how to address many of them in practice. On the volume forecasts, Frontier tried more than one approach including examining adoption rates for the in-scope use cases. Previous work by the cVRP Working Group used sweeping as a benchmark. When the two different types of forecasts were compared, they looked very similar. While this gives some confidence that the forecasts are reasonable, they are still forecasts and subject to error. This point has been raised by some respondents in relation to other questions.

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?

Some respondents argued that incentives to ASPSPs have already been shown as risky given the relatively long payback period (e.g., 10 years with some uncertainties in the volumes that would be achieved).

They argue that a shorter payback period would be preferable to remove the risks associated with deferring payback which, in turn, poses a risk to receiving those funds. However, several respondents acknowledge that a shorter payback period means a higher price which is unlikely to incentivise merchant/biller take-up. This suggests payback would be delayed anyway or not happen at all.

Some ASPSP respondents proposed a pragmatic approach to fee-setting that can be sustained for merchants, build confidence that the fee won't successively increase, and earning payback (e.g., an ASPSP respondent indicated it would be happy with a 10-year recovery period), and a low but sustainable fee approach. We presume this is based on driving more sustainable scale and therefore ensuring payback which, if successful, could be earlier than 10 years.

Some PISPs argued for a lower initial price with various reasoned arguments: firstly, that open banking single immediate payment (SIPs) are significantly below the range of the proposed fee, suggesting that it will be difficult to attract existing SIP merchants into cVRPs. They also suggest a higher access fee will make it very difficult for PISPs to include their own fees.

Another PISP suggested that it is unusual to include a margin with a new product and the initial 'start-up' phase would be to start with a lower price in order to build up the portfolio of billers and merchants). They argued that margins would be more common for more mature businesses and the equivalent would be to introduce them at some point in the 'scale-up' phase.

A PISP also commented anecdotally that some bilateral VRP fees in the market are relatively low compared with some options, suggesting that ASPSPs can offer cVRPs at relatively low fees.

[Note: we are unaware of the terms of any bilateral commercial arrangements, and are unable to comment on what those costs are covering].

One respondent noted that creating a Wave 1 price could set expectations for Wave 2 and beyond, where the proposed costs may end up being 'sticky', and in some scenarios would be too high to attract e-commerce

billers/merchants. Consequently, consideration needs to be given to how Wave 2 would be implemented, and if it is one fee for all Wave 1 and Wave 2 use cases, how that fee would be introduced in line with the assumptions under the Wave 1 pricing proposals.

One respondent suggested we test out likely adoption with participants, another respondent suggested they had tested out the option with several current and prospective customers, suggesting that billers wanted a lower fee than alternative methods. They were also seriously concerned about the economics of low average transaction values.

Another ASPSP suggested it would be open to lower fees for lower value transactions, although it would ideally avoid tiering.

Overall, respondents agreed with the fixed fee approach, and the methods of setting a fee by reference to underpinning assumptions rather than just choosing a value.

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?

Most respondents proposed that a fixed multilateral price would be sensible to achieve the objectives of Wave 1, and some respondents agreed with Frontier that other alternatives would lead to the same outcome but would be more complex to deliver.

One respondent suggested that larger merchants with higher volumes would prefer a bilateral negotiated approach in order to benefit from scale discounts.

We note that the preferences are subject to the lawfulness of implementing the price under competition law.

Additional common themes

The consultation highlighted the following common themes.

Considerations of competition law considerations

Access / interchange fees and competition law

Several respondents noted the current position with litigation on multilateral interchange fees and the risks to implementing the price in the MLA and its operation. There are areas of consideration relating to competition law within multilateral interchange fees (MIFs) and how these apply for an MLA access fee. The issues raised are being analysed by legal advisors and an industry group for Wave 1 and 2.

We still anticipate that the cVRP MLA will go live with a Wave 1 price with the Operator responsible for making the decision on the final price.

Consumer (purchase) protections

In some responses, consumer protection has been mentioned in relation to Wave 1 pricing, but this is not part of either the Frontier report or Wave 1 plans. It is, instead, applicable to Wave 2.

However, we acknowledge that for steady-state pricing consumer protection, and any potential liabilities between cVRP participants that arise, it is an important factor in pricing decisions.

We understand that discussions are ongoing within the Wave 2 pricing work, and that the final price proposals are likely to be accompanied by proposals for consumer protections, alongside other elements of this package.

This will need to consider any migration between prices and, as above, the implications for competition law. This will be a matter for the FCA or Operator approximately 12 months after Wave 1 goes live.

Next steps for the MLA and commercial model

Based on the feedback, there are several policy refinements in the MLA that we are proposing to make to the next iteration of the MLA. There are additional items such as clarifications, tone of voice and drafting, and related items that will also happen based on some of the very specific feedback we received. Those changes will be passed on to the legal team at Addleshaw Goddard that will undertake the final drafting.

UK Payments Initiative Ltd

Since we consulted on the MLA, OBL has facilitated the collaboration between 32 industry funders, which have set up an independent Operator. We expect this to be called UK Payments Initiative Ltd (UKPI), and its main purpose is to operate the cVRP system.

Founding Funders Forum

Decisions are taken by the Founding Funders Forum (FFF), which is a single purpose forum dedicated to the creation of UKPI. Once UKPI is set up, it will take decisions relating to the policies and the delivery of the cVRP product.

After incorporation of UKPI, the MLA that has been drafted in consultation with the industry will be recommended to UKPI. We anticipate that UKPI will undertake its own assessment of the MLA documents, as well as addressing areas specific to the Operator, such as the position on liability of the Operator to Participants and vice versa. Depending on the outcome, either the MLA will be adopted, or the Operator will make further adjustments.

The MLA will need to contain the commercial model pricing set out in the Frontier report, assuming that the few use cases in scope for Wave 1 are compliant with applicable law. As a result of this process, we will provide UKPI with the Frontier report and a more in-depth assessment of the feedback from stakeholders.

Decision on fees

We will also provide a proposal that the eventual fee is chosen – subject to applicable law - from the approaches outlined in the report. The proposal would be consistent with it being 3p-6p, and not greater than 6p, while the market is established. Pricing may change under the expansion of later use cases with associated changes to purchase protections, liabilities and scale.

The original policy intention remains to enable ASPSPs and PISPs to sign up to the MLA during 2025.

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