APPENDIX 4c i

Open Banking

Sweeping Evaluation Consultation Paper

A consultation on item A10 on the Revised Roadmap to meet the objectives and requirements of the CMA Order

Date: 20th January 2021

Disclaimer: The contents of document do not constitute legal advice. Whilst the Sweeping Evaluation Consultation Paper has been drafted with regard to relevant regulatory provisions and best practice, it is not a complete list of the regulatory or legal obligations that apply to Participants. Participants are responsible for their own compliance with all regulations and laws that apply to them, including without limitation, PSRs, PSD2, GDPR, consumer protection laws and anti-money laundering regulations.

Sweeping Evaluation Consultation

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1. Executive summary

There are now well over two million individual consumers and businesses using open banking-enabled products and services. Based on this adoption measure, the CMA's open banking remedy, which is designed to increase competition within the retail banking market, has already begun to deliver considerable success. However, the CMA was keen for the open banking remedy to deliver products that directly compete with components of the personal and business current account, and believed that simple, automated, mechanisms for moving funds between these components would support this.

The CMA refers to this mechanism for automated funds movement as "sweeping" within its Retail Banking Market Investigation Report[1]. In this document, we refer to organisations that provide services that deliver such automated funds movement as Sweeping Services Providers ("SSPs"). Sweeping requires an SSP to monitor the Payment Service User's ("PSU") payment account and make payments between accounts when agreed triggers occur, such as balance thresholds being met. An SSP will need to have the relevant regulatory permission to act as an Account Information Services Provider ("AISP") in order to perform the initial analysis of the account information. Depending on the payment mechanism that is affecting the sweep, the SSP may need to have the relevant regulatory authority to also act as a Payment Initiation Service Provider ("PISP").

Sweeping services are already available, to a limited extent, in the U.K. market. This Evaluation seeks to establish whether the payment mechanisms currently available, for example Direct Debit and card payments, are sufficient and, if not, whether Variable Recurring Payments (VRPs), a payment mechanism that enables payments to be set up via a PISP and subsequently initiated without the need for authentication for each individual payment, would be a more suitable alternative. If VRPs are determined to be a more suitable way to enable sweeping services, this Evaluation will also consider if requiring the implementation of VRPs for sweeping by the CMA9 is an effective and proportionate requirement under the CMA Order.

We have provisionally concluded that the lack of sweeping service provision is due to the shortcomings of current payment mechanisms, which do not provide users with the levels of transparency or control they require, or are not easy to use; and when combined with other factors such as cost, create obstacles to SSPs developing products for the market. We have also provisionally concluded that VRPs, designed and implemented in the manner we propose, would not only remove these obstacles, but could also provide a clear and appropriate consumer protection regime that limits potential consumer detriment.

If the CMA were to require the CMA9 to implement VRPs for sweeping, we need to demonstrate that such a requirement is both proportionate and effective. We also need to successfully address the question of end user detriment, such that users of VRP-enabled sweeping services are at least as well protected from harm as if they had used sweeping services enabled by existing payment mechanisms. We believe the analysis in this document addresses the issues of proportionality, effectiveness and potential end-user detriment comprehensively, and as a result shows that there is a strong case for including VRPs for Sweeping as a requirement of the CMA9 under the Order. However, we recognise that there is still more work to do and we welcome views on our proposals, in order to determine OBIE's final recommendations to the Trustee.

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[1] https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf

2. Introduction

The purpose of the Sweeping Evaluation Consultation Paper is to determine the appropriate mechanism for delivering sweeping from a range of alternatives, including Variable Recurring Payments (VRPs), the development of which is covered under Roadmap item A2(b)(i). If VRPs are determined to be the most appropriate mechanism, this Evaluation will also consider whether to recommend that the CMA9 providers are mandated to implement Sweeping Access under the Order. Such a recommendation would need to include an assessment of its effectiveness and proportionality.

"Sweeping Access" is defined as non-discriminatory access to the VRP APIs to UK-regulated Payment Initiation Services Providers (PISPs) for the purpose of conducting sweeping. The provision of Sweeping Access shall not be dependent on the existence of a contractual relationship between the PISPs and the CMA9 providers. When submitting a VRP Consent Set Up to the CMA9 provider, the PISP needs to indicate the purpose of the VRP to enable it to identify Sweeping Access.

In its Notice of 8th April, 2020, the CMA agreed that "as a potential method for the implementation of sweeping ... VRPs are within the scope of the Order." The CMA noted that its Final Report following its Retail Banking Market Investigation expressly referred to sweeping on a number of occasions, in each case supportive of its adoption and remarking on the positive change it can bring to customers within the retail banking industry.

Whilst the VRP Proposition Consultation Paper will consider the regulatory positioning of VRPs in general, and address the issue of consumer protection for a VRP Standard outside of the Order, this Evaluation will consider consumer protection from the perspective of VRPs as a potentially mandatory requirement to deliver Sweeping under the Order.

3. Sweeping

3.1 Definition of sweeping

The proposed definition of sweeping has been updated based on feedback received through the initial consultation process

The CMA's report, accompanying their Retail Banking Market Investigation Order 2017 (the CMA Order) sets out an expectation that the development of open APIs will enable 'sweeping' functionality allowing customers to authorise the movement of funds between two accounts in their name, to help them avoid overdraft charges or to benefit from higher interest payments.

Sweeping is generic term for the regular movement of funds between accounts. For the purpose of the CMA Order we are proposing the following definition:

- The source account needs to a PCA or BCA.[2]
- The destination account is any account into which a domestic payment can be made by the debtor bank's direct channel.[3]
- Both accounts are UK sterling accounts.
- The payment can be an unattended payment, not requiring any interaction by or presence of the PSU at the time of making the payment[4]
- The transaction is between two accounts in the name of the same PSU.

[2] BCA and PCA accounts which require multi-authorisation for payment initiation are specifically excluded

[3] For example, savings accounts, building society savings accounts using a roll number, or personal credit card accounts are valid destination accounts.

[4] It should be noted that some sweeping propositions might require the customer to be present.

Table 1: Potential Sweeping Use Cases

	Use case description and benefits	Source account	Destination account
Money Management	Sweeping funds into another current account. This will allow customers to benefit from the new account features rates or fees without having to switch current account	Current Account	Current account
	Sweeping funds into different pots to enable customers to budget more effectively	Current Account	Payment Account or E-money account
Savings Solutions	Sweeping funds into a savings account to enable customers to reach their savings goals sooner or maximise the interest they get on their savings	Current Account	Savings account
	Sweeping funds into an e-money account used for savings pooling[5]. This will allow customers to maximise the interest on their savings without having to open accounts at a range of different institutions	Current Account	E-money account
	Sweeping funds into a regulated investment product held in the name of the PSU to support the development of savings and investment habits	Current Account	Investment account
	Sweeping excess funds into a regulated pension to maximise income in retirement	Current Account	Pension
Lowering the costs of Borrowing	Sweeping excess funds into a loan account to repay a loan more quickly and so reduce the cost of debt	Current Account	Loan account
	Sweeping excess funds into mortgage account to repay a loan more quickly and so reduce the cost of debt	Current Account	Mortgage account
	Sweeping funds into an overdrawn current account	Savings Account[6]	Current account
	Sweeping funds into an overdrawn current account	Decoupled overdraft account	Current account
	Sweeping positive balances from a current account into a decouple overdraft account to minimise the cost of borrowing	Current account	Decoupled overdraft account

3.2 Benefits of sweeping

As demonstrated in Table 1, sweeping could enable the development of a range of innovative propositions that will benefit customers.

[5] An example of using e-money to offer a pooled savings product is. https://www.hl.co.uk/investment-services/active-savingspool savings

[6] The savings account will need to be API accessible and enable payments to be made from the account. Not all savings accounts would meet this criterion.

In October 2019, the Centre for Economics and Business Research ("CEBR") carried out a survey which identified that savers were losing out on £7bn by failing to switch from the big banks to smaller rivals[7]. In September 2018, Citizens Advice submitted a super-complaint to the Competition and Markets Authority (CMA) about the Loyalty Penalty[8] and Cash Savings was one of the markets included in this complaint. Both these reports suggest that there is a need to make it easier for consumers to manage their savings balances and sweeping is one way to achieve that aim. In 2018 analysis from EY indicated that there were potential interest earnings of up to £1.3bn per annum by enabling solutions to help consumers switch to instant access savings products with better rates, sweeping is a key capability to enable this.

The FCA work on Overdrafts[9] found that fees paid for unarranged overdrafts were regularly 10 times as high as fees for payday loans. To address this the FCA published new rules on overdraft pricing[10] in June 2019. In January 2020, the FCA wrote to banks to ask them to explain how they reached their overdraft rates, and having reviewed the evidence obtained then chose not to open a formal investigation at this stage. The FCA also concluded that they expect other forms of credit to "create more competitive pressure on overdraft charges as consumers respond to the pricing changes and greater transparency"[11]. We believe that Sweeping is a key capability to increase the level of competition with overdrafts as it enables the overdraft to be decoupled from the current account by being offered by a different provider.

Current accounts

Brand	Overdraft Rate[12]
First Trust Bank (AIB)	14.6%[13]
Bank of Ireland	33.31%
Barclays	35%
Danske Bank	32.74%[14]
HSBC	39.9%
Lloyds	39.9%
Monzo	29%

Brand	Overdraft Rate
Nationwide	39.9%
Natwest	39.49%
Santander	39.94%
Starling	15%
TSB	39.9%
Virgin	18.29%

The customer risks section has been removed from this part of the document and consolidated into the Consumer protection Section

[7] https://www.independent.co.uk/news/business/news/savings-accounts-interest-rates-big-banks-deposits-cebr-a8936971.html
[8]https://assets.publishing.service.gov.uk/media/5c194665e5274a4685bfbafa/response_to_super_complaint_pdf.pdf
[9] https://www.fca.org.uk/publications/policy-statements/ps19-25-overdraft-pricing-remedies-competition
[10] https://www.fca.org.uk/publications/policy-statements/ps19-16-high-credit-review-overdrafts
[11] https://www.fca.org.uk/news/statements/fca-gives-update-banks-overdraft-pricing-decisions-and-plans-support-consumers
[12] Representative overdraft rate taken from company websites, October 2020
[13] Rate from 16th Nov 2020
[14] Rate from 1 Jan 2021

4. Evaluation of payment methods

The assessment criteria have been updated following feedback received through the consultation process

4.1 Evaluation Approach

In order to offer sweeping, an SSP has to carry out two distinct tasks:

1. Access the customer's payment account information in order to assess whether it is in their interests to move funds; and
2. Initiate a payment to enable the transfer of funds from the payment account to the destination account.

Task 1 can be completed using open banking AIS services to assess the customer's account information in order to formulate a decision on whether funds need to be moved. We expect SSPs to develop proprietary solutions for the calculation of the funds to be transferred. Therefore, we need to evaluate what payment method is able to support Task 2.

Several different payment methods could be used to execute sweeping services such as Direct Debits, card-based continuous payment authority, PISP initiated open banking Single Immediate Payments("SIPs") and Variable Recurring Payments (VRPs).

We have evaluated the suitability of the different payment methods against the following criteria:

Table 3: Assessment Criteria

Criteria	Description
Unattended	Does the payment method require the customer to be present for each transaction to be initiated? Requiring customer to initiate each transaction provides a material obstacle to support the development of sweeping.
Transparency and Control	Does the payment method impact the ability of the SSP to provide the customer with transparency of the payments or the capability to control the sweeping service?
Immediacy of Transaction	Is there any delay between the instruction to make a payment and the payment being sent (debited from the sending account)? Is there any delay between the payment being sent and the payment being received (ie funds credited to the customer's destination account)?
Cost to the SSP	Do the costs to the SSP of the different payment methods impact the ability of the SSP to be able to offer a viable service to consumers?
Customer Protection	Does the payment method offer the PSU any protection against poor customer outcomes?

Each payment method will be assessed against these criteria and rated as per table 4 to enable a comparison to be made:

Table 4: Key for criteria assessment

Assessment	Rating
Strongly supports the evaluation criteria	✓✓
Supports the evaluation criteria	✓
Neither supports not subtracts from the evaluation criteria	---
Detracts from the evaluation criteria	✗
Strongly detracts from the assessment criteria	✗✗

4.2 Evaluation of Direct Debits

4.2.1 Definition:

A Direct Debit ("DD") is an instruction from a payer to their ASPSP. It authorises an organisation to collect various amounts from the payer's account. The organisation has to provide notice to the customer of the amounts and dates of collection.[15]

4.2.2 Unattended:

Once set up Direct Debits can provide a low friction method for the transfer of funds. As this is a payee-initiated transaction, which will be made provided it is within the Direct debit mandate, the customer is by definition not required to be present.

4.2.3 Transparency and Control:

The obligation that customers are notified of the amount and date when the funds are to be collected provides an additional protection as it ensures this is part of the SSP's proposition. DDs can also be cancelled at the ASPSP or at the DD PSP so this also provides the customer with an additional level of control.

4.2.4 Immediacy of Transaction:

Direct Debits use the BACS system which operates on a 3 working day cycle. In this system a payment request is made on Working Day 1, and the funds are debited and credited on Working Day 3. This means that any sweeping instruction would have to be made 3 days before the funds are transferred, and even longer if the working days straddle a weekend or a bank holiday. We believe that this delay significantly undermines the ability of a SSP to develop appropriate propositions as the SSP would have to accurately forecast a customer's spending habits and any variance from that forecast could result in customer detriment (lost interest, higher cost of borrowing, or declined transactions). The delay may also make it difficult for a customer to understand their financial position as there could be ring-fenced funds within the source account depending on the time in the BACS cycle. As described in the 'No Unnecessary Obstacles' section above, Direct Debits are paid into the SSP's account and then the SSP would have to initiate an additional transaction to the consumer's destination account, this will add further delay before the funds are received. BACS payments are received in bulk so the SSP is likely to need to carry out some reconciliation calculations before initiating the transfer of funds into the customer's account, potentially adding further delay.

[15] https://www.directdebit.co.uk/DirectDebitExplained/Pages/WhatIsDirectDebit.aspx

4.2.5 Cost to the SSP:

In order to assess the costs to the Sweeping Service Provider it is important to breakdown the transaction flow. (See Figure 1).

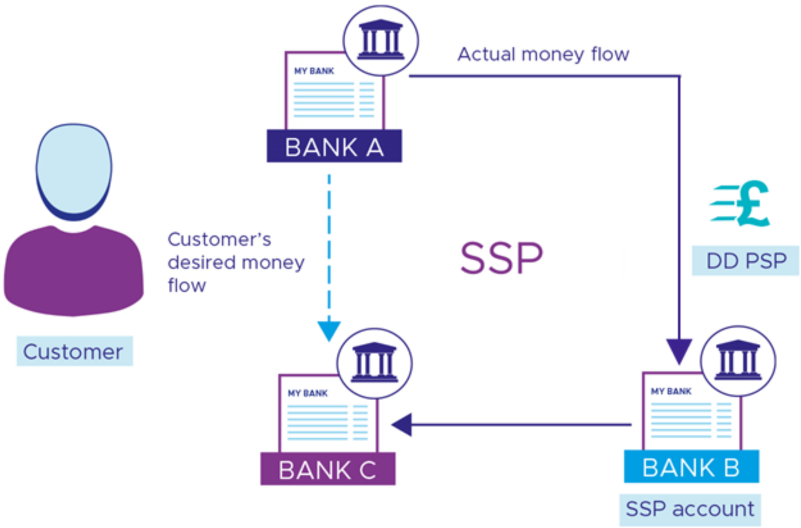

Figure 1

In this example the customer wishes to sweep funds from Bank A to Bank C. We have assumed that the proposition from the DD service provider results in the DD being deposited directly into the SSP's bank account, rather than an additional step where funds are transferred to the DD PSP's account before being transferred to the SSP's account. The transaction process flow is outlined below:

- The SSP contracts with a DD PSP to be able to offer a Direct Debit service
- Customer sets up the service with the SSP, including setting up a DD mandate
- The SSP alerts the customer to sweeping transaction
- Funds moved from Bank A (consumer's account) to Bank B (SSP's account) on Working Day 3
- On receipt of funds and after reconciliation calculations the SSP sends funds to Bank C (consumer's account), via Faster Payments

The cost to the SSP for funds transfer consists of:

a. Service cost of DD PSP
b. Cost of receiving the BACS deposit. (As SSP is a corporate customer they are likely to be charged for receiving funds).
c. Cost of sending funds via Faster Payments. (As SSP is a corporate customer they are likely to be charged for sending funds).

The service cost of the DD PSP will vary and will be dependent on volume; some providers offer a monthly fee with a fixed cost per direct debit of 20p. Other providers offer no monthly fee but a variable cost of 1% of the transaction (minimum 20p).[16] Larger users of Direct Debits (e.g. utility

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[16] https://www.merchantsavvy.co.uk/direct-debit-recurring-payments/

companies) will have much lower costs, potentially less than a penny per transaction, and are a result of agreement between the corporate bank customer and its provider.

If SSPs were charged rates of 1% for a Direct Debit it would be difficult to offer a commercially viable sweeping proposition:

- If a decoupled overdraft facility offered a customer a saving of 15% on overdraft rates it would have to be used for 27 days per month, for the benefit to outweigh the cost of moving funds
- If a linked savings product offered an additional interest of 2% funds, it would take c. 6 months before the additional interest earned outweighed the cost of moving funds

4.2.6 Customer Protections

Direct Debits can only be used by organisations that have been through a vetting process, but are not regulated payments providers. A Direct Debit mandate needs to be set up by a BACS approved organisation, however, creation of a Direct Debit mandate does not require Strong Customer Authentication. The Direct Debit Guarantee Scheme provides customer protection against payments made in error:

> "The Direct Debit Guarantee applies to all Direct Debits. It protects you in the rare event that there is an error in the payment of your Direct Debit, for instance if a payment is taken on the incorrect date, or the wrong amount is collected. It cannot be used to address contractual disputes between you and the billing organisation."[17]

Whilst the preventative controls on the setting up of Direct Debits are more limited, the Direct Debit Guarantee scheme provides a mechanism to seek redress and so can be considered to have appropriate customer protections.

As with all payments under the PSRs, PSUs also benefit from the legal protections afforded under the PSRs as they would be entitled to a refund (and if applicable the additional funds to restore their account state it would have been had the unauthorised transactions not taken place) provided the requirements are met. [18]

The customer can also refer their complaint to the Financial Ombudsman Service if they are not happy with how their current account provider dealt with their complaint.

[17] https://www.directdebit.co.uk/DirectDebitExplained/pages/directdebitguarantee.aspx
[18] PSRs.Regulation 76

4.2.7 Rating

Based on the analysis above we have given the following ratings for Direct Debits as a payment mechanism to support sweeping:

Table 5: Evaluation of Direct Debits to support sweeping propositions

	Unattended	Transparency & Control	Immediacy of transaction	Cost to the SSP	Consumer Protections
Direct debit assessment	✓	✓	✗✗	✗	✓✓

4.3 Evaluation of Continuous Payment Authority on debit cards

4.3.1 Definition:

A continuous payment authority (CPA) is a type of recurring payment where a customer gives permission for a company (known in the card payments community as a "merchant") to take money from their account on the recurring basis using the customer's payment card details. The merchant does not need to give any notice of the amount or date of the transaction, provided that it is in line with the agreement concluded with the customer. The CPA mandate is held by the company who can initiate a transaction at their discretion. The company may inform the customer before a transaction is initiated but this is not common practice.

4.3.2 Unattended:

Once set up, a CPA provides a low friction method for the transfer of funds. The customer does not need to take any action for the transfer to take place and so CPAs clearly meet this objective

4.3.3 Transparency and Control:

CPAs as a mechanism for recurring payments offer customers limited levels of control or transparency. They offer merchants a convenient way to set up recurring transactions but the customer cannot see what recurring payment authorities they have set up, as the mandate is held by the merchant. Whilst customers have a legal right to cancel any CPAs at their ASPSP, as contemplated by PSRs, Reg. 67(3) this is in practice difficult as customer may not necessarily know what CPAs they have set up. Despite the limited levels of control and transparency offered by CPA's nothing in their design will stop the SSP from developing a proposition that provides appropriate levels of transparency and control for its customers.

4.3.4 Immediacy of Transaction:

Card payments are designed to provide merchants quickly and conveniently with high levels of certainty of payment. When initiating a transaction, an authorisation request is sent to the issuing bank and a response provided, typically in less than a second. A merchant will, as a result, know in almost real time whether a payment has been authorised or not, enabling them to give the goods or services to their customer with confidence. However, the merchant does not receive the funds immediately. Typically, merchant acquirers settle with the card schemes every working day (transactions that take place before a cut off time will settle the same day, transactions after the cut off time will settle on the next working day). The merchant acquirer would usually only be in a position to instruct funds to be sent to the merchant after funds had been received and reconciled, typically the day after receipt at best. These funds may be sent by Faster Payments or BACS, and if BACS were used this would add further delay in settlement as BACS operates on a three working day cycle. Depending on the nature of the contract between the merchant acquirer and the SSP there may be further delays to settlement. Many acquirers operate delayed settlement and hold onto some or all of the funds for a period of time. This can be to address risk of chargebacks or to provided operating efficiencies, e.g. consolidating settlements to weekly settlement. Typically, larger merchants are in a stronger negotiating position and receive more favourable terms than smaller merchants.

When considering sweeping, the source account will be debited almost immediately on receipt of the payment instruction but the SSP would receive funds at best the next day but probably several days later. This mismatch in the debiting of funds to the customer's source account and the receipt of the funds at the SSP could cause customer confusion if they see funds being removed from one account but not credited to the destination account. To address this concern the SSP could choose to fund the destination account immediately as they have certainty over the payment, however, this would increase costs to the SSP. Given the timing of the settlement of CPA transactions we do not believe CPAs meet the 'Immediacy of Transaction' criteria.

4.3.5 Cost to the SSP:

In order to assess the costs to the Sweeping Service Provider it is important to breakdown the transaction flow. (See Figure 2).

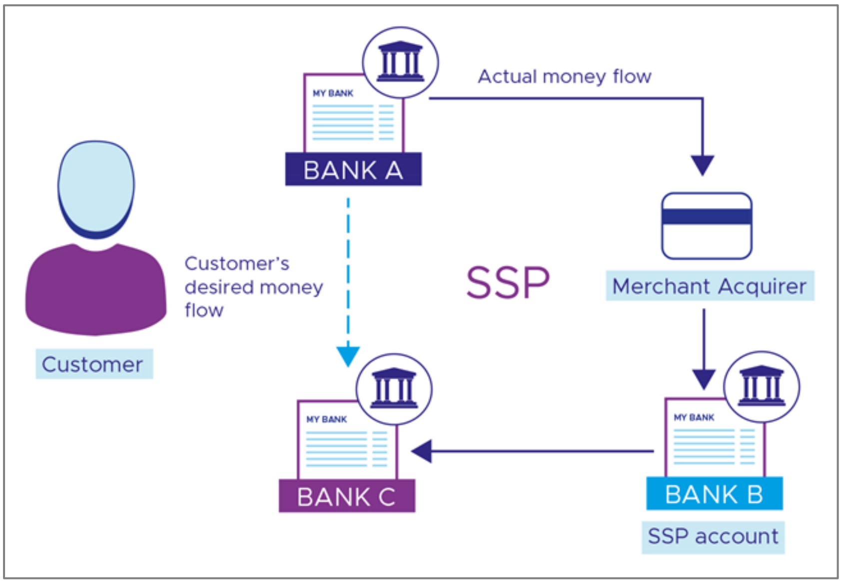

Figure 2.

In this example the customer wishes to sweep funds from Bank A to Bank C, and the transaction process flow is outlined below:

- The SSP contracts with a merchant acquirer to enable them to accept card payments
- Customer sets up the service with the SSP, including providing them with card details and authorising a CPA
- SSP instructs the merchant acquirer to request funds from Bank A to enable the sweep

- Merchant acquirer sends an authorisation request to Bank A
- Bank A responds and confirms payment
- Merchant acquirer settles with card schemes
- Merchant acquirer sends funds to SSP (at account held at Bank B), timescale determined by their contract
- SSP sends funds to Bank C, via Faster Payments.

The cost to the SSP for funds transfer consists of:

a. Merchant Service Charge (MSC) from the merchant acquirer. The Payment Services Regulator, in their market review of card-acquiring services[19] stated that MSC has three core components; interchange which is paid to the card issuer, scheme fees which are paid to the card scheme (e.g Visa or Mastercard) and acquirer net revenue which is the funds retained from the MSC to cover costs and margin; and
b. Bank charges for receiving the payment from the merchant acquirer (As an SSP is a corporate customer they may be charged for receiving funds); and
c. Bank charges for sending funds via Faster Payments. (As an SSP is a corporate customer they are likely to be charged for sending funds).

The MSC varies significantly. The PSR stated that the smallest merchants pay on average approximately 1.75% of transaction value, whereas larger merchants, who are processing more than £50m per year in card transactions pay on average approximately 0.4% of transaction value.

Based on this pricing structure, card payments are likely to cost an SSP more than DD payments and so for many use cases will hinder the development of economically viable sweeping propositions. (See decoupled overdraft example in section 4.2.5).

If SSPs were charged rates of 1% for a Direct Debit it would be difficult to offer a commercially viable sweeping proposition:

- If a decoupled overdraft facility offered a customer a saving of 15% on overdraft rates it would 46 days, i.e. c.1.5 months, before the interest savings outweighed the cost of moving funds.
- If a linked savings product offered an additional interest of 2% funds, it would take c. 6 months before the additional interest earned outweighed the cost of moving funds

[19] https://www.psr.org.uk/psr-focus/market-reviews/card-acquiring-services-market-review

4.3.6 Customer Protections

Organisations offering Continuous Payment Authorities need to be approved by the payment scheme (e.g. Visa or Mastercard) and adhere by the obligations of those schemes including carrying out due diligence on the payee institution. Setting up of a Continuous Payment Authority requires the application of strong customer authentication if the customer is involved in the initiation of the payment via their bank or the merchant (payee). However, subsequent payments will not require further strong customer authentication. PSUs are entitled to a refund for payments initiated using CPA in instances where the transaction amount was not known in advance and exceeds the reasonable expectations of the customer[20]. Further, if the customer claims that the transaction was unauthorised (i.e. they did not provide their consent), they would be entitled to a refund (and if applicable the additional funds to restore their account state it would have been had the unauthorised transactions not taken place) provided the requirements are met from their ASPSP.[21]

The customer can also refer their complaint to the Financial Ombudsman Service if they are not happy with their current account provider dealt with their complaint.

It should be noted that chargebacks are the are scheme rules relating to the obligations on card issuers and merchant acquirers. They enable liability for disputed transactions to be transferred from the issuing bank to the merchant acquirer. They merchant acquirer will typically transfer this risk onto the funds receiver. Protections arising from the non-delivery of goods or services are not applicable in Sweeping and so not considered further here.

There are few controls around the setting up of CPAs but the PSRs provide an appropriate method for customers to seek redress. As the mechanism for redress is not as well publicised as the Direct Debit Guarantee Scheme and there is limited visibility of mandates this protection regime cannot be considered as robust as that of Direct Debits.

4.3.7 Rating

Based on the analysis above we have given the following ratings for CPAs as a payment mechanism to support sweeping:

Table 6: Evaluation of CPAs for Sweeping

	Unattended	Transparency & Control	Immediacy of transaction	Cost to the SSP	Consumer Protections
CPA assessment	✓	✗ ✗	✗	✗✗	✓

4.4 Evaluation of Open Banking Single Immediate Payments ("SIP")

[20] PSRs, Regulation 79
[21] PSRs, Regulation 76

4.4.1 Definition:

An open banking SIP is defined as a payment order, which is submitted by the PISP, with the PSU's explicit consent to their ASPSP. Once the ASPSP has authenticated the PSU, and the payment order is initiated by the PISP, it will be executed by the ASPSP, usually via the Faster Payments network. SIPs cannot be revoked by the PSU once the payment order has been initiated and accordingly are commonly referred to as "fire and forget" payments.

4.4.2 Unattended:

ASPSPs are required to perform SCA for all electronic payments initiated remotely, which will include PISP payments, unless an available exemption is applied. The PSU would be required to be present for each PISP payments in order to authenticate at the ASPSP. Payments cannot be sent automatically by the PISP without specific intervention from the customer. Therefore SIPs clearly do not meet this criterion.

4.4.3 Transparency and Control:

The Open Banking consent model provides transparency to the customer for each payment order initiated on their behalf. This is firstly supported at the consent step by the PISP, who will provide the customer with all the relevant payment order criteria to ensure the customer is fully aware of the parameters of the payment. Once the customer has given their explicit consent to the PISP, they will be taken to the domain of their ASPSP, where they will be shown the amount and payee as part the authentication process. Finally, once authentication is complete, they will be taken to the domain of the PISP, where the PISP will confirm the payment has been initiated and display the payment order details. Providing the payment information at each interval of the customer journey ensures the customer is kept informed through every step of the PISP journey.

4.4.4 Immediacy of Transaction:

Open banking SIPs usually operate on the Faster Payments system and so offer customers near real time payments. The source account is debited immediately on instruction and the funds received in the destination account usually a few seconds later. Funds have to be received within 2 hours, but that length of delay is unusual. An open banking SIP is sent directly to the recipient's account; there is no intermediary account adding delay and risk to the transfer. By leveraging the Faster Payments network, open banking SIPs meet the objective of Immediacy of Transactions.

4.4.5 Cost to the SSP:

In order to assess the costs to the Sweeping Service Provider it is important to breakdown the transaction flow. (See Figure 3).

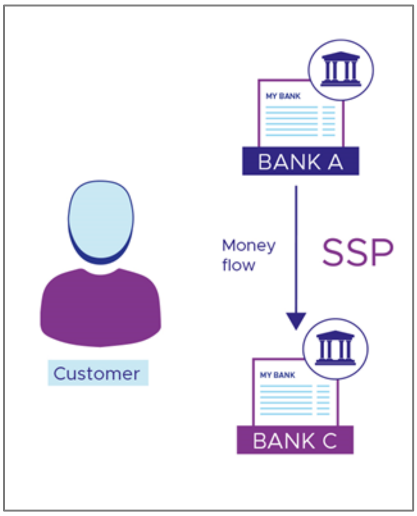

Figure 3.

The transaction flow for open banking SIPs is much simpler than other funding instruments as there is no intermediary account.

In this example the customer wishes to sweep funds from Bank A to Bank C, and the transaction process flow is outlined below:

- Customer sets up the service with the SSP, which enables the SSP to access and assess their account information
- In order to make a payment, the SSP will notify the customer of all the relevant payment order criteria and obtain their explicit consent for that payment. They will then redirect to the domain of their ASPSP for authentication. Upon successful, authentication, the PISP would be able to initiate the payment order to sweep the funds.
- Bank A sends funds to Bank C, via Faster Payments.

There are no costs to the SSP for the funds transfer. SSP costs will only be driven by the provision of the other elements of the sweeping service such as determining when to initiate the sweep and for how much, developing the customer interface and any other operating costs. If the SSP were to offer a savings product, they would have to bear the costs of funds being deposited into that account, but we consider that to be part of the savings proposition rather than the sweeping proposition.

4.4.6 Customer Protections

PISPs offering SIPs are regulated firms whose activity is authorised by the FCA.

As regulated financial institutions, PISPs have an obligation to control risks relating to their specific activities including a duty of care to customers. PISP activities are directly supervised by regulators under guidelines such as the FCA's Principles for Business which provides assurances on conduct to market that these PISP activities must include appropriate consumers protections.

SIPs initiated via a PISP require authentication by the PSU at their ASPSP. SIPs are also subject to the same legislative protections under the Payment Service Regulations as other payment mechanisms for unauthorised payments. SIPS therefore benefit from preventative controls as well as the legislative protections and so clearly meet this assessment criterion.

4.4.7 Rating

Based on the analysis above we have given following ratings for open banking SIPs as a payment mechanism to support sweeping.

Table 7: Evaluation of open banking SIPs for Sweeping

	Unattended	Transparency & Control	Immediacy of transaction	Cost to the SSP	Consumer Protections
Open Banking SIP assessment	✗✗	✓✓	✓✓	✓✓	✓✓

4.5 Evaluation of Variable Recurring Payments

4.5.1 Definition:

VRPs are defined as a series of payments initiated by a PISP using a long-held consent ("VRP Consent"), where:

a. the VRP Consent must be authorised by the Payment Service User ("PSU") and Strong Customer Authentication ("SCA") must be applied at their ASPSP ("VRP Consent Setup"), however each individual payment instructed ("VRP Payment") using the VRP Consent does not require SCA of the PSU by the ASPSP
b. the timing or amount of each payment need not be fixed during the VRP Consent Setup but is instead subject to the constraints of certain parameters ("VRP Consent Parameter(s)"), agreed between the PISP and the PSU, which are enforced by the ASPSP; and
c. the VRP Consent Parameter(s) are included within the VRP Consent and are therefore subject to SCA of the PSU by the ASPSP as part of the VRP Consent Setup.

We would propose that, if the CMA9 were to be required to implement VRPs for Sweeping, there would be an additional requirement for the access dashboard to be enhanced so that customers are able to 'view' and 'revoke' VRP permissions. Additionally, we would recommend that SSPs using VRPs implement an enhanced consent dashboard that includes the capability for customers to view and revoke VRP Consents.

4.5.2 Unattended:

Once a VRP Consent Set Up has been successfully completed, subsequent payments can be initiated automatically by the SSP, within the VRP Consent Parameters, enabling an SSP to develop a sweeping proposition with limited friction for the consumer, provided they are relying on an available exemption. When setting up the VRP, the ASPSP must also inform the PSU that the payee specified by the Consent Parameters will be added to their Trusted Beneficiary list as part of the authentication journey. When the PISP initiates a subsequent VRP Payment, the ASPSP will apply the trusted beneficiary exemption.

We recognise there may be instances where an ASPSP may require SCA, even if the payment being made is to a trusted beneficiary, for example, suspicious of fraud. However, it is expected that the ASPSP would only do so in exceptional circumstances with an objective approach and in line with the proportionality requirements of the PSRs.

This clearly meets the criterion.

4.5.3 Transparency and Control:

When a VRP Consent is set up the customer has to approve the VRP Consent Parameters at their ASPSP by the application of SCA. These VRP Consent Parameters will be visible to the customer on dashboards provided by the SSP and the ASPSP. The customer can cancel the VRP at these dashboards. This provides an additional level of transparency and control compared to other recurring payment methods

4.5.4 Immediacy of Transaction:

VRP Payments that are initiated via Faster Payments provide customers with near real time payments. The sending account is debited immediately on instruction and the funds received in the recipient account usually a few seconds later. Funds have to be received within two hours, but that length of delay is unusual. A Faster Payment is sent directly to the recipients account, there is no intermediary account adding delay and risk to the transfer. By leveraging the Faster Payments network VRPs clearly meet the objective of Immediacy of Transactions.

4.5.5 Cost to the SSP:

In order to assess the costs to the Sweeping Service Provider it is important to breakdown the transaction flow. (See Figure 4).

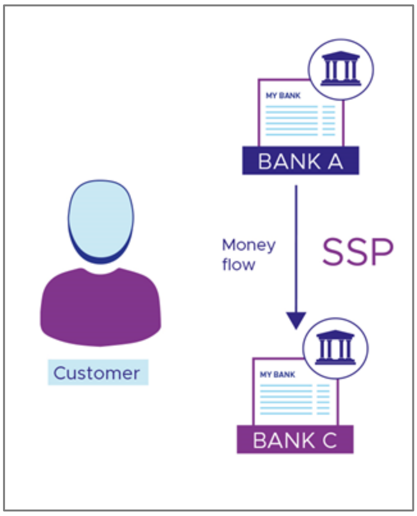

Figure 4.

The transaction flow for VRPs follows the same simple process as Open Banking SIPs as there is no intermediary account.

In this example the customer wishes to sweep funds from Bank A to Bank C, and the transaction process flow is outlined below:

- Customer sets up the service with the SSP which has two distinct steps:
  (a) enabling the SSP to access and assess their account information by granting their explicit consent for an AIS service
  (b) enabling the SSP to sweep funds on their behalf – VRP Consent Set Up (obtaining the customer's explicit consent within the VRP Consent Parameters. They will then be taken to the domain of their ASPSP for authentication).
- The PISP initiates the subsequent payments within the applicable consent parameters.
- Bank A sends funds to Bank C, via Faster Payments.

There are no costs to the SSP for the funds transfer. SSP costs will only be driven by the provision of the other elements of the sweeping service such as determining when to initiate the sweep and for how much, developing the customer interface and any other operating costs. If the SSP were to offer a savings product, they would have to bear the costs of funds being deposited into that account, but we consider that to be part of the savings proposition rather than the sweeping proposition.

4.5.6 Customer Protections

VRP is a regulated PISP activity.

PISPs offering VRPs are regulated firms whose activity is authorised by the FCA.

As regulated financial institutions, PISPs have an obligation to control risks relating to their specific activities including a duty of care to customers. PISP activities are directly supervised by FCA. Guidelines such as the FCA's Principles for Business provide assurances on conduct to market that these PISP activities must include appropriate consumers protections.

The consent parameters provide clarity to the PSU on the limits of any sweeping transaction and so the likelihood of there being an unauthorised transaction due to the transaction being beyond what a PSU could reasonably expect is reduced compared to Continuous Payment Authority transactions.

VRPs are also subject to the same legislative protections under the Payment Service Regulations as other payment mechanisms. Therefore, in the unlikely event that there was a defective or unauthorised payment there is an obligation to provide the customer with redress.

Further detail on the risk factors, risk control mechanisms, and consumer protection framework for VRP are detailed in the VRP Proposition Paper.

4.5.7 Rating

Based on the analysis above we have given following ratings for VRPs as a payment mechanism to support sweeping.

Table 8: Evaluation of VRPs for Sweeping

	Unattended	Transparency & Control	Immediacy of transaction	Cost to the SSP	Consumer Protections

VRP assessment	✓	✓✓	✓✓	✓✓	✓✓

4.6 Summary of evaluation of different payment methods

Some respondents to the Consultation Process suggested that other payment mechanisms could be considered:

Request to Pay	Pay.UK have published technical specifications for Request to Pay (RtP). RtP provides a flexible mechanism for collecting and making payments by facilitating a dialogue between both parties, but does not initiate the payment. Therefore, it does not provide a separate payment mechanism to be considered as a way to deliver Sweeping.
NPA Direct Request	Direct request is a proposed proposition as part of the New Payments Architecture. This will enable a Direct Debit type service to be delivered over an instant push payment infrastructure and offers additional functionality over Direct Debits. The Direct Request payment initiation shares many similarities with VRPs, and if VRPs are implemented we would expect ASPSPs to leverage what they have already developed to minimise future build costs. A key difference between VRPs and Direct Request is the concept of a centralised mandated management capability. This could be developed for VRPs but is considered to be a matter for ASPSPs to consider themselves as it resides in the competitive space. There is no agreed plan to deliver Direct Request nor any target dates and so it is not considered to be a viable alternative payment mechanism at the present time.
Standing Orders	Standing orders require SCA at set up, however, subsequent payments within that standing order do not require SCA provided that the amount and they payee remain the same. Further work underway with the Respondent who proposed this mechanism to consider how Standing Orders could be used, but the requirement to offer a variable amount is difficult to overcome as any change to the amount will require SCA.

A new section is required reviewing the business models of existing sweeping providers and the use and or limitations of existing payment mechanisms, meetings with providers are currently scheduled to take place. For completeness this section will be completed when all these interviews have concluded.

A new section is required considering the costs to ASPSPs on the development of VRPs. An impact assessment from the CMA9 has been requested and this section will be completed when the impact assessments have been received and concluded.

Table 9: Summary Evaluation of payment methods to support sweeping

	Unattended	Transparency & Control	Immediacy of transaction	Cost to the SSP	Consumer Protections
Direct debit assessment	✓	✓	✗✗	✗	✓✓
CPA assessment	✓	- ✗✗	✗	✗✗	✓
Open Banking SIP assessment	✗✗	✓✓	✓✓	✓✓	✓✓
VRP assessment	✓	✓✓	✓✓	✓✓	✓✓

We do not consider that Direct Debits are a suitable payment method to support sweeping for the following reasons:

- The three working days processing cycle would undermine many sweeping propositions; and
- The payment flow from the customer's source account to the SSP's account and back to the customer's destination account creates unnecessary risk and potential further delay to the payment transaction; and
- The costs of operating Direct Debits are likely to be prohibitive to new entrants offering sweeping services.

We do not consider that Continuous Payment Authority on cards are a suitable payment method to support sweeping for the following reasons:

- The costs for accepting cards is likely to undermine the economic feasibility of provision of sweeping services. The charging structure for card acceptance ensures that there is a minimum price for this service, irrespective of volume; and
- The delay in settlement with card transactions is likely to undermine the development of viable sweeping propositions; and
- The payment flow from the customer's source account to the merchant acquirer to the SSP's account and back to the customer's destination account creates unnecessary risk and potential further delay to the payment transaction.

We do not consider that open banking SIPs are a suitable payment method to support sweeping because they do not facilitate the automatic movement of funds. To ensure the security of the payment instruction the ASPSP has to authenticate the PSU for every transaction meaning the customer would have to be present in the transaction flow for every sweeping transaction. This adds friction to the customer journey and represents an unnecessary obstacle in the development of compelling automated sweeping propositions. We are not aware of any SSP planning to use open banking SIPs as a payment mechanism to facilitate sweeping.

The only payment method identified which is suitable to support the broad range of use cases of sweeping is VRPs, because:

- For most use cases, near real time movement of funds is vital for the consumer proposition and VRPs are the only automatic payment initiation service that can send payments over Faster Payments; and

- The cost model for sweeping VRP APIs ensures economic viability for a range of use cases. It should be noted that non-sweeping VRP APIs will be Premium APIs and so may incur costs to the VRP provider; and
- The payment flow does not add any operational risks as funds flow directly between the customer's accounts and there is no intermediary.

5. VRP for Sweeping Customer Protection

If Sweeping Access is mandated under the Order it is important to ensure that introduction of this new capability has appropriate customer protections and these are outlined below.

Sweeping is only offered by Regulated Firms:
A SSP using VRPs will have to have regulatory permissions to act as both an AISP and a PISP. As a regulated firm the SSP must adhere to the FCA's principles for business[22] which are shown in the table below.

Table 10: Principles for business that regulated firms must adhere to

Principle	Description
1. Integrity	A firm must conduct its business with integrity.
2. Skill, care and diligence	A firm must conduct its business with due skill, care and diligence.
3. Management and control	A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
4. Financial prudence	A firm must maintain adequate financial resources.
5. Market conduct	A firm must observe proper standards of market conduct.
6. Customers' interests	A firm must pay due regard to the interests of its customers and treat them fairly.
7. Communications with clients	A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
8. Conflicts of interest	A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
9. Customers: relationships of trust	A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.
10. Clients' assets	A firm must arrange adequate protection for clients' assets when it is responsible for them.
11. Relations with regulators	A firm must deal with its regulators in an open and cooperative way, and must disclose to the appropriate regulator appropriately anything relating to the firm of which that regulator would reasonably expect notice.

Complaints process with escalation to the Financial Ombudsman Service:
A SSP is required to have a documented and fair complaints process. If a customer is not happy with how their complaint is dealt with, they are able to refer the complaint to the Financial Ombudsman Service. This independent review of complaints provides customers with an additional layer of protection if the services they received do not meet their expectations.

[22] https://www.fca.org.uk/about/principles-good-regulation

Regulatory Protections:
The Payment Services Regulations provide legal protections for customers. If there is an Unauthorised Transaction, the customer will be recompensed so their account will be put in the position it would have been in if there was not an unauthorised transaction (PSR Reg 76). If a transaction was late or did not happen, a Defective Transaction, the customer will be recompensed so their account will be put in the position it would have been in if there had not been a Defective Transaction (PSR Reg 93).

TPPs are considered 'obliged entities'' in the context of money laundering and terrorist financing regulations. The EBA has produced draft guidelines, which describe the relevant requirements on both AISPs and PISPs that may vary depending on the type of services they provide. While the draft guidelines suggest, that in most cases simplified customer due diligence may be sufficient, in instance, where the SSP has an ongoing relationship with the customer, they would need conduct an impact assessment to identify any additional risk their business model may present to ensure that they can prevent money laundering and terrorist financing. Once the EBA Guidelines are finalised OBIE will consider their application in the context of sweeping.

Design Protections:
The design of VRPs provides consumers with higher levels of transparency and control than any other recurring payment method:

- The customer has to explicitly confirm the VRP Consent Parameters, ensuring that the customer sets the limits and bounds for the recurring payment authority. Specific VRP Consent Parameters are mandated when used for sweeping providing the following protections:
  - Destination account is fixed as Payee Account Name and Payee Account Identification details are mandated for Sweeping
  - A limit on the value of the individual VRP Payments
  - A limit on the maximum cumulative amount per time window
- The VRP Consent Parameters will be visible in dashboards at the ASPSP and, we recommend, at the SSP. This means that the customer will always be able to see their active VRP Consents and the VRP Consent Parameters of each one.
- The customer can cancel the VRP Consent any time either at the ASPSP (via the Access Dashboard) or, we propose, at the SSP (via the Consent Dashboard)

Sweeping is low risk:
Sweeping itself is a low risk transaction, as it is limited to payments between accounts belonging to the same customer. This means that there is no counterparty risk. The customer is in control of both the sending and receiving accounts. For Sweeping all parties in the transaction, the provider of the source account, the provider of sweeping services and the provider of the destination account are regulated firms providing services to the PSU. If there is a dispute with the SSP then as outlined previously the customer has a right to escalate their complaint to the FOS if they are unsatisfied with how the SSP dealt with their complaint. This contrasts favourably with paying for goods and services where customer may have a complaint against the service provider and there is no guarantee of independent arbitration.

The following table below describes how the current customer protection framework works to prevent poor customer outcomes:

Table 11: Examples of potential poor customer outcomes and relevant controls

<table>
<tr><th colspan="2">Potential Poor Customer Outcome</th><th>Controls in place to address these</th></tr>
<tr><td colspan="3">Potential poor customer outcomes for Sweeping irrespective of payment method</td></tr>
<tr><td>1.</td><td>Customer does not recognise a transaction on their current account statement</td><td>• PSU complains to the ASPSP. ASPSP follows internal complaints process and if finds in customers favour refunds money to the PSU. ASPSP has a right of recourse against the PISP. Onus is with the PISP to prove they were not at fault, failing which they must compensate the ASPSP. (This model works for both fraud and other disputed transactions)
• If customer is not satisfied with the complaint resolution, they can refer the complaint to the FOS for independent consideration.</td></tr>
<tr><td>2.</td><td>More money than expected is moved from the PCA/BCA.</td><td>• The VRP consent parameters set limits on the amount of money to be transferred reducing the likelihood of an unexpected amount. This is reinforced because the PISP must ensure that the VRP Consent Parameters are set sufficiently narrow so that it can reasonably be said that the amount had been notified to the PISP by the payer.
• If the transactions falls outside of the VRP Consent parameters the transaction is unauthorised and so the PSU is eligible for a refund
• As the PSU will have a contract with the SSP they can complain directly to the SSP. If the PSU is not satisfied with how their complaint was dealt with they can take their complaint to the FOS.</td></tr>
<tr><td>3.</td><td>Incorrect amount of money was transferred resulting in consumer detriment. (e.g. if too much money was transferred the customer may incur overdraft fees or may not have sufficient funds to pay essential bills)</td><td>• There is a commercial imperative on the SSP to correctly calculate the amount of money to transfer
• The SSP (acting as an AISP and a PISP) needs to meet their SYSC obligations to have appropriate controls
• Customer raises a complaint with the SSP (as PSU has to have a contract with SSP for a sweeping service), and if not satisfied can go to the FOS due to detriment as a result of the account information service. (FCA AD 8.215)</td></tr>
<tr><td>4.</td><td>Money swept into an account that offers worse value than the current account</td><td>• There is a commercial imperative on the SSP to develop propositions that offer good value to customers correctly calculate the amount of money to transfer
• The SSP, as a regulated firm (with AIS and PIS permissions) needs to conduct their business including adhering to the principles of business including ensuring that they Treat Customers Fairly</td></tr>
<tr><td>5.</td><td>Customer falls for an APP scam</td><td>The consultation report produced as part of item A2(d) of the Revised Roadmap highlights that the lack of availability of Confirmation of Payee (CoP) for PISP transactions introduces a risk of APP scam. However, this risk is reduced for VRPs for Sweeping because:
1. the PISP needs to attest that destination account is in the same name; and</td></tr>
</table>

		2. once the VRP Consent has been created subsequent transactions are initiated by the PISP (within the constraints of the contract of the sweeping service and the VRP Consent Parameters), rather than the PSU. • It should be noted that any developments to CoP and the CRM code as part of Roadmap Item A2(d) will cover VRPs as applicable for all PIS transactions.
Potential poor customer outcomes specific to the use of VRPs for Sweeping		
6.	PSU cancels VRP Access at the ASPSP and a subsequent transaction takes place within the VRP Consent Parameters	• As VRP Access was cancelled via ASPSP customer likely to complain to their ASPSP. Customer will be refunded as this is an unauthorised transaction and ASPSP will have a claim on the PSP • If PSU is not satisfied with the complaint resolution, they can refer the complaint to the FOS for independent consideration
7.	PSU cancels VRP Consent at the SSP and a subsequent transaction takes place within the previous VRP Consent Parameters	• As VRP Consent was cancelled at the SSP the PSU is likely to complain to their SSP. The SSP will have to follow their complaints process and the PSU must be refunded as this is an unauthorised transaction • PSU is not satisfied with the complaint resolution, they can refer the complaint to the FOS for independent consideration
8.	Dashboards out of sync	• The capability for the TPP to get real time status updates is available via aggregated polling, this is available for AIS and is part of the standard for VRPs
9.	Having been set up and successfully running for some time a VRP transaction fails.	• It will be the responsibility of the SSP to manage the relationship with their customer for sweeping services. The VRP standard includes a range of error codes if a VRP fails which will allow the PISP to manage the interactions with the PSU.

The feedback from the initial consultation highlighted specific conduct concerns relating to VRP and Sweeping activity, these include:

- A company offering a decoupled revolving credit facility which uses Sweeping to move money between a current account and the credit facility as an alternative to an overdraft would not have to offer the same protections required on providers of overdrafts (notifications, pricing, repeat use)
- A company offering a decoupled revolving credit facility which uses sweeping to move money between a current account and the credit facility may use VRPs to aggressively collect funds.
- A company offering a credit facility may use AIS to determine when is the best time (day or even time on a particular day) to seek repayment of the debt and then use VRP to collect funds at the time that best suits the lender

These risks are conduct risks associated with lending activity rather than the payment activity itself. Lending regulation that applies to payments is, generally, payment method agnostic and therefore includes VRP.

6. Other risks arising from the potential use of VRPs for Sweeping

6.1 Misuse of Sweeping Access

If Sweeping Access is mandated, then it is important to consider what assurances there are that the transaction is sweeping.

The SSP (in their role as a PISP) is required, under Sweeping Access, to attest that the transaction is Sweeping. The SSP will have a ranges of options to validate that the transaction meets the definition of Sweeping which could include:

- Using AIS to verify name and address of the source and destination accounts match
- Customer confirms the amount of a micro deposit in the destination account to indicate that the customer has ownership over the destination account.

As the SSP, as a regulated firm under the supervision of the FCA, will be attesting that the transaction is Sweeping, there is a high level of assurance that the transaction is conducted in line with the definition of Sweeping.

It is noted that using Confirmation of Payee (CoP), to verify destination account name is another potential mechanism PISPs could employ, which would likely be even more efficient than the example mechanisms above. This is, however, dependent on the SSP having access to the CoP service, Revised Roadmap item A2(d). Whilst a CoP method would likely represent a benefit to PISPs, it is not a requirement for delivery of sweeping since feasible methods (such as those listed above) are already available.

6.2 Other Potential Risks

Risks due to increased competition from sweeping:
Sweeping, by design, will make it easier for money to be withdrawn from zero notice accounts, this may have implications for the funding of banks, and a number of scenarios are considered below:

> **Increase in competition led outflows.**
> We believe that this is a desired outcome from the introduction of APIs to enable sweeping. The development and uptake of sweeping propositions is likely to be gradual and so banks should be able to adapt to the evolving market. The proposed definition of sweeping is limited to domestic transactions, ensuring that balances remain within the UK banking system. A useful analogue to consider would be the introduction of instant access savings accounts by the supermarkets in 1997. This introduced new competition into the savings markets but did not lead to a funding crisis for established lenders.
>
> **Impact on liquidity ratios**.
> Banks will have to hold more shorter maturity assets/capital to offset shorter duration deposits.   This is an appropriate prudential safeguard. The move towards shorter duration deposits will be gradual as the market develops. Historically the market has adapted to the changes brought about by increased competition for example the introduction of higher interest internet only savings accounts.

<u>Risk due to increased volume within Faster Payments</u>:
It is expected that Sweeping via VRP will increase the volume of Faster Payments transactions. However, this growth is unlikely to be a significant risk to the resilience of the Faster Payments network for a number of reasons:

- There is significant capacity in the Faster Payments system already; and
- Growth in transactions will be gradual, enabling appropriate activities to be undertaken if the resilience of the network is at risk; and
- Transactions as a result of sweeping will occur throughout the day on many days each month. The Faster Payments system already manages a significant peak in volume on the first working day each month as a result processing Standing Orders. (There is a peak in standing orders on the first day of each month and Faster Payments are processed early in the morning every working day requiring this peak in volume to be processed within a limited window).

The OBIE are seeking a meeting with the PRA and the Bank of England to confirm our position that any potential increase in Funding Risk or on the resilience of Faster Payments can be managed within the existing regulatory oversight framework

7. Conclusion

Sweeping can deliver significant benefits to UK consumers and small businesses, and so there is real value in creating the enablers so the market can develop innovative solutions to meet customer needs.

We do not believe that existing payment mechanisms such as Direct Debits, Continuous Payment Authority on debit cards, or open banking SIPs can effectively support a broad range of sweeping propositions as the payment method needs to be automatic, timely and cost effective. We do believe that VRPs can provide an effective payment mechanism to enable sweeping propositions to flourish as it delivers payments which are automatic, timely and cost effective. We would welcome feedback as to whether respondents agree with this consideration or whether there are alternative ways to deliver sweeping as required by the Order.

The existing regulatory framework provides a robust protection framework as all regulated companies involved in payments need to adhere to the FCA's principles for business. The Payment Services Regulations provide legal protections to customers. In addition, VRPs are a recurring payment which provide customers with additional levels of transparency and control through the dashboards at ASPSPs (Access Dashboards) and SSPs (Consent Dashboards). The dashboards will need to show the customer the VRP Consent Parameters providing the customer visibility of the bounds of their payment mandate and the customer can cancel the VRP at either the Access Dashboard or the Consent Dashboard.