



VRP – Variable Recurring Payment

Moving Open Banking to the Next Stage



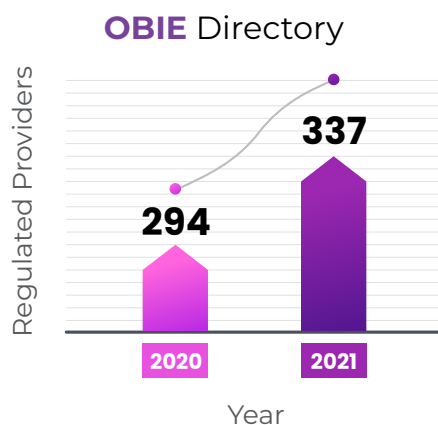
Table of Contents

1. Introduction	03
2. Direct Debits	04
3. What are Variable Recurring Payments?	06
3.1 SWEEPING VRPs	08
3.2 Commercial VRPs	09
4. Customer Benefits of VRPs	10
5. Merchant Benefits of VRPs	11
6. Bank Benefits of VRPs	12
7. Conclusion	13
References	13
Glossary	13



1. Introduction

Open Banking has already opened the floodgates of innovation and customer centric products. In the UK, there were **5 million users** at the **end of 2021** actively benefitting from the open banking offerings, as per **Open Banking Implementation Entity (OBIE)**. From budgeting tips to customized investment advice, open banking has enabled customers like never before.



At the end of **2021**,
cumulatively over

26.6m open banking
payments had been made.

An increase of more than

500% in **12 months**.

ECOSYSTEM Numbers (December 2021)

337

Regulated Providers

92

Account Providers

245

Third Party Providers

124

regulated entities with at least one proposition live with customers

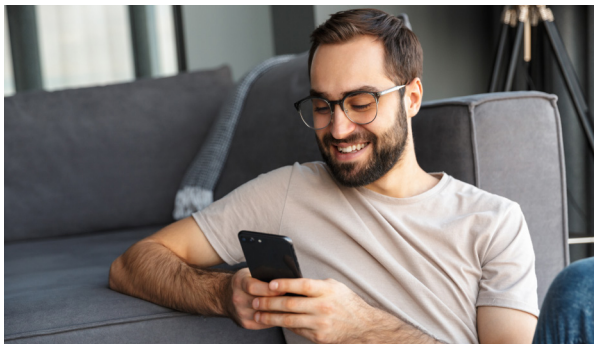
Source: www.openbanking.org.uk



While the Open Banking party had just started, OBIE upped the ante with a consultation phase on **Variable Recurring Payments and Sweeping** in **Feb of 2022** and in **Jul 2022**, the UK Competition and Markets Authority (CMA) had mandated the **nine biggest UK banks to implement VRP APIs** to enable customers' money movement. It may be prudent to understand VRPs and its variants to fully understand the tectonic shift this move will bring to the payments landscape. But first, a look at the humble Debit Debit Payment instruction

2. Direct Debit

Direct Debit is an instrument where businesses collect payments from the same customer on a recurring basis, for the same amount from their Bank Accounts, without explicit permission for every payment.

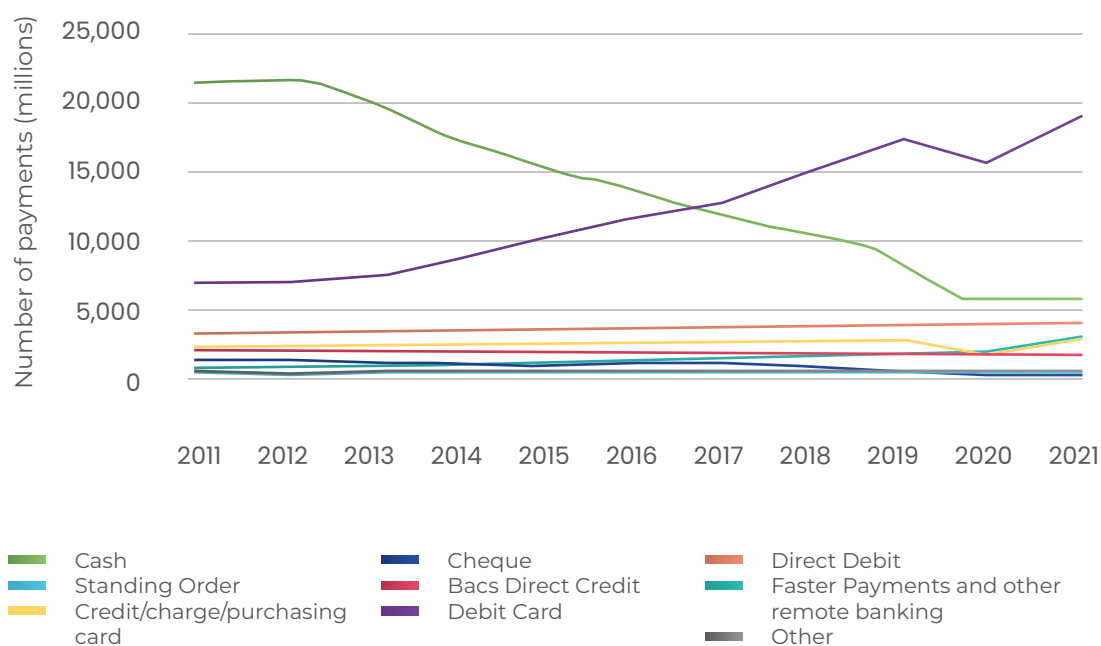


Source: UKF Payment Markets Summary 2022





While Direct Debit is a familiar, long established and widely trusted method for paying regular bills, and is used by nine out of ten UK consumers, it takes about 3 days to settle as uses the BACS (Bankers Automated Clearing Services) clearing and settlement system. Consumer's appetite for direct debits remains muted, as is evident from the payment volume figures through the last decade.



Source: UKF Payment Markets Summary 2022

A different variant of Direct Debit is **continuous payment authority (CPA)** – a type of recurring payment that a merchant makes using customers' debit or credit card details stored on file. The amount on these payments can be changed by the merchant without getting explicit consent from the customer. Both Direct Debit and CPA requires card-on-file payments that contain sensitive customer financial data and is vulnerable to security breaches and fraud.



3. What are Variable Recurring Payments?

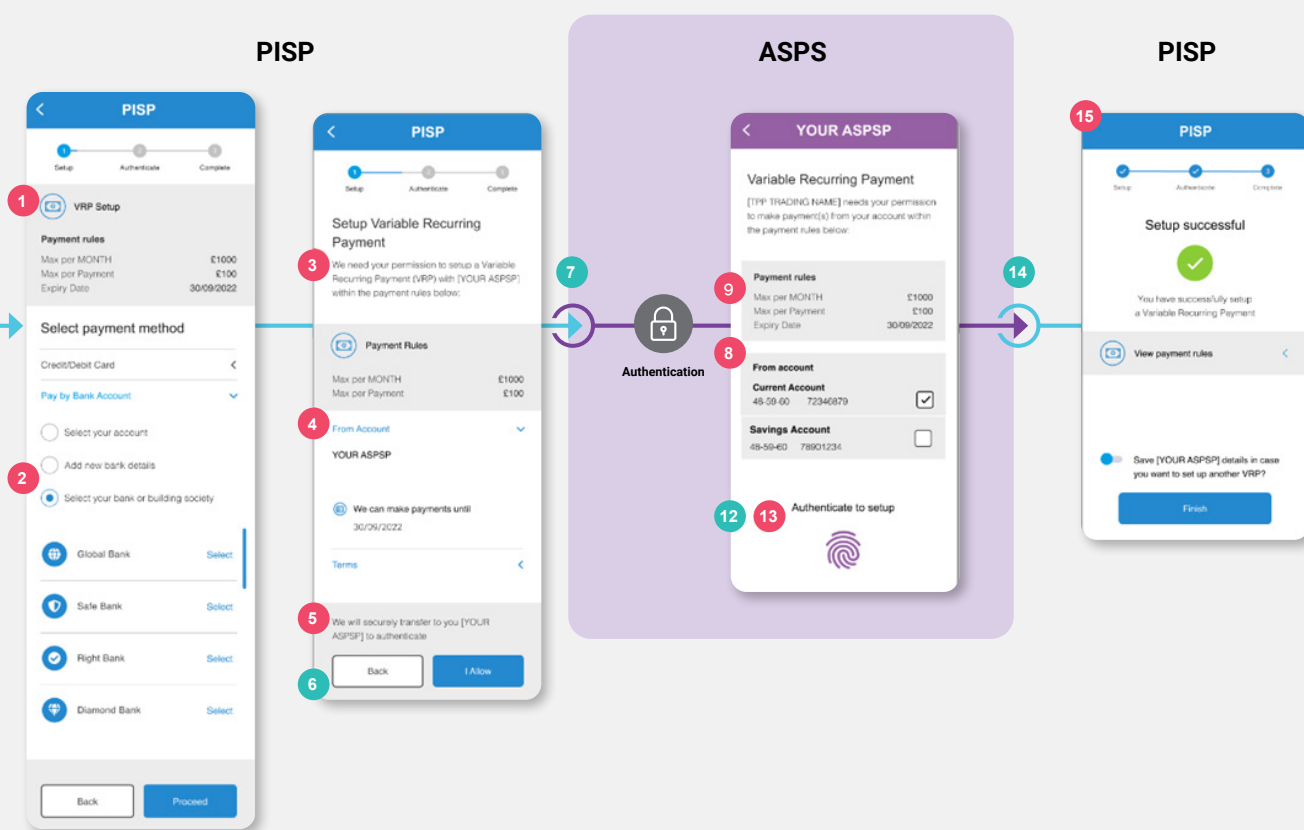
A VRP allows customers to safely connect authorised payments service providers (PSP) to their bank account. Providers can then make a series of payments on the customer's behalf within agreed parameters, offering more control and transparency than existing alternatives. Customers can set to choose the frequency of payment, max amount per payment, total maximum amount, and end date as part of the VRP consent process, as against giving a business their card details and losing control of how much and how long they can be billed.

	Direct Debit	CPA	VRP
 Transparency	You have visibility of the mandate and the last amount taken.	You can't see details , only the transactions that appear on your statement.	Mandate and payment parameters are visible in your banking app . The payment parameters limit the amount that can be taken and also allow an end date for the mandate to be set.
 Security	Involves sharing a sort code and account number in an uncontrolled environment.	Involves sharing all card details on a debit or credit card.	Must set up via a secure consent journey . It has to be online and through your bank .
 Flexibility	Takes place on the same day (or nearest working day) every month and if the timing or amount changes, the payee has to be notified in writing (unless waived in terms and conditions).	A company is given permission to take funds from your debit or credit card on a flexible basis .	A set of parameters is agreed and a flexible payment can be made within those agreed boundaries.

Source: [Openbanking.org.uk](https://openbanking.org.uk)



At the heart of **VRP is the secure consent system** that is set up through secure bank infrastructure using Strong Customer Authentication. Setting up VRPs doesn't require sensitive information shared with any party other than the bank. A sample customer journey using a TPP to setup a VRP Consent is shown below.



Source: OBIE Customer Experience Guidelines

VRP is truly ground-breaking, as it enables entirely new use cases, enabling frictionless finance for customers. To better appreciate the use cases for VRPs, we would have to understand the variants of VRPs, namely Sweeping VRPs and Commercial VRPs. As of Q3-22, Sweeping VRPs are mandated while commercial VRPs are in a consulting phase.

3.1 SWEEPING VRPs

Sweeping is a generic term for the **automatic movement of funds between accounts**, also known as me-to-me payments. OBIE's definition of Sweeping VRPs is limited to the movement of a customer's own funds between accounts owned by them. This enables a new breed of TPP - sweeping service providers (SSPs). All SSPs using VRPs would typically be conducting a combination of Account Information Services ("AIS") and Payment Initiation Services ("PIS") activities.

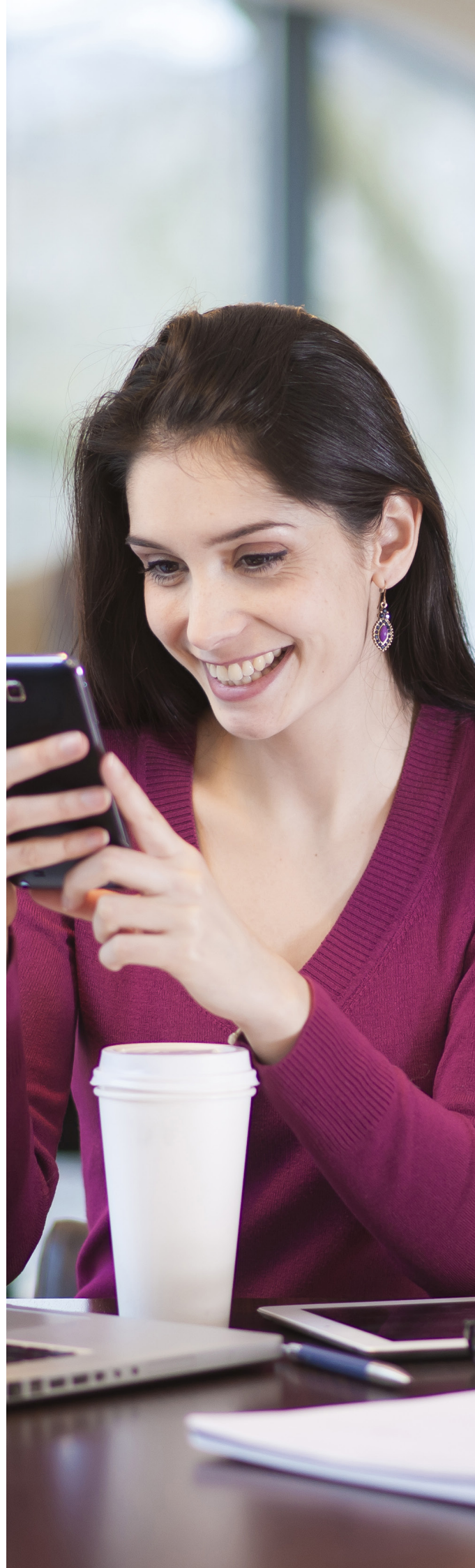
USER CASES

Personal Finance Management

Customers having accounts across banks can authorize **automatic movement of spare change to a savings account**, on a regular basis, which then has the potential to make savings a habit.

Smart Overdrafts

Customers could be transferring money into an account to prevent dipping into an overdraft therefore avoiding fees. Also is the possibility of overdraft being provided by an external line of credit possibly with **lower fees** or **lower rates of interest**, as against being provided by the customers current account provider.





3.2 Commercial VRPs

Commercial VRPs allow users to **move money to third-party accounts** or **pay for goods and services via open banking rails**. Banks are not mandated to support commercial VRP, however as a longer-term contender to replace direct debits and credit cards, commercial VRPs are eliciting a wider response from the industry. Unlike card payments that involve steep interchange, processing fees and chargebacks, merchants and companies can benefit from the lower costs and increased speed of settlement with VRPs. Customers can set up any number of recurring payments by creating multiple VRP mandates that are linked to specific merchants. VRPs enable users to know precisely what, how and when they are paying for, with easy provision to revoke such consent.

USER CASES

Buy Now Pay Later 3.x

Customers can **buy a product** or **service online**, **pay for the goods/ services after being satisfied** with the product/ service delivery. Reduces reconciliation between merchant payments and refunds.

Subscription Payments

A new **subscription service** customers can **set up subscription payments** such that it expires after **6 months** so as not to get caught in a subscription trap.

Embedded Payments

A **ride hailing service subscriber** could avoid **storing card details** on file and instead authorize a **VRP** with an upper limit of **£40**. Whenever a ride is completed, payment is automatically made from the customer account to the ride hailing service.





4. Customer Benefits of VRPs

Reduced Bank Fees

Up to 20 million consumers and 1 million SMEs could save up to £300-£600 million each year in overdraft fees^[1] by automatically moving money from positive balance accounts to accounts getting into overdraft. Consumers can avoid payment declined or insufficient balance fees associated with directed debits.



Increased Financial Resilience

By enabling a small amount of money to be moved from checking to savings account, up to 11 million retail consumers could start a saving habit, who otherwise may be living pay check to pay check. Similarly £100 billion pounds tied up in the UK's business current accounts^[1] could start earning interest, which otherwise would be idling.



Increased Security & Control

Customer's do not have to provide card details to merchant sites/subscription sites, which are prone to data breaches. Ability amend or cancel VRP consent anytime gives customer better control over their finances.



Reduced Payment Touchpoints

From different credit card, pre-paid cards, wallets to choose from, customers can use one of their bank accounts as a primary source, thereby eliminating the need to store, retrieve and enter multiple payment instrument details.





5. Merchant Benefits of VRPs



Lower Transaction Costs

Bypassing card networks enables **merchants avoid steep scheme related fees**. By avoiding manual intervention in correcting payment errors leads to redeploying human assets in mission critical flows, further reducing transaction costs.



Higher Conversion Rates

As per the Optimizing Subscription Payments report from PYMNTS, Subscription providers lose **27 percent** of customers affected by declined payments either owing to insufficient balance or incorrect payment details. Debit and Credit card inevitably expire, get lost, or stolen, leading to payment failures. By embracing VRPs businesses can reduce this loss and improve customer conversion rates.



Better Cashflow Management

VRPs enable near real time money movement directly from customer bank accounts, allowing merchants to benefit from instant access to funds, predictable and better cashflow management.



6. Bank Benefits of VRPs



Deepen Customer Relationship

With credit cards and fintech e-wallets eating away at the Bank Accounts, VRPs intend to put back bank accounts at the centre of the payment value chain, thereby reinvigorating the relationship of the bank with the customer and staying relevant.



Reduce Fraud

VRP uses open banking payments and does not store customer credentials by integrating SCA in the payment landscape. This protects banks from most types of fraud.



Reduced Payment Costs

Banks are freed of the indemnity claims usually associated with Direct Debit, thereby freeing up valuable human intervention and associated remediation costs.





7. Conclusion

VRPs combine the low cost of Direct Debit, with the speed and flexibility of cards. Overall VRPs open up the playing field for much wider participation, reducing costs for both customers, merchants and banks, while at the same time offering innovative products and services. **2023 is expected** to be an **exciting year** for **Open Banking** in general and **VRPs** in particular.

References

[1] - www.openbanking.org.uk - Variable Recurring Payments. What are they and how can they help SMEs

Glossary

ASPSP - Account Servicing Payment Service Provider

API - Application Programming Interface

AISP - Account Information Service Provider

CMA - Competition and Markets Authority

OBIE - Open Banking Implementation Entity

PISP - Payment Initiation Services Provider

SCA - Strong Customer Authentication

TPP - Third Party Provider

VRP – Variable Recurring Payment





About the Author



Prabhakar V

Payments Practice Lead
Aspire Systems

Prabhakar leads the Payment Practice at Aspire. He is a management consultant, specializing in strategic payment transformations. With over 20 years of Payments experience in managing some of the key payment initiatives like SEPA, BACS/CHAPS and RTP across the globe, he is working with Aspire's strategic partners in exploring new frontiers in the rapidly evolving Payment landscape.

Aspire Systems can help you leverage the full potential of open banking in general and VRPs in particular. Please reach out to Prabhakar.samy@aspresys.com to know more.



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For more info contact: info@aspresys.com or visit www.aspiresys.com

USA

+ 1 630 368 0970

SINGAPORE

+65 3163 3050

INDIA

+91 44 6740 4000

UK

+44 203 170 6115

NETHERLANDS

+ 31 (0)30 800 92 16

POLAND

+48 58 732 77 71

MEXICO

+52 222 980 0115