

Open Banking Limited consultation on the Frontier Economics report on the proposals for the commercial model for Wave 1 commercial Variable Repeat Payments (cVRP).

Recognising that the Frontier Economics proposals are an important starting point for the evolution of Open Banking payments and that the Wave 1 MLA Operator (or TMO as it's known), once established, will have to consider and further refine the Wave 1 commercial model in a very limited timescale, the EMA intends to offer only key observations on the methodology at this stage. The objective being to support the rapid agreement of a workable and fair model for Wave 1, but acknowledging that there are still areas for considerable debate regarding the longer term sustainable commercial model for future phases of VRP rollout, and open banking payments in general.

We have not made comments on the specific price range that Frontier Economics Report recommends because we believe this will be further refined by the TMO and Wave 1 participants.

EMA responses

Question 1

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

Broadly, we believe that the proposal does fit the PSR and FCA pricing principles. However, we note that in order to achieve full transparency to the market, the methodology used to determine the price points proposed should be fully exposed in the final model agreed by the new MLA Operator. For instance, we would welcome the inclusion of more information on:

- a) the profile of the ASPSPs providing data which underpins the cost recovery figures used to generate the proposed pricing, to provide visibility of the market coverage,
- b) the specific components of the capital and operating costs that have been provided by ASPSPs as input to the modelling methodology,
- c) full details of the methodology and rationale used to arrive at the ASPSP mark-up value (or margin), including sources of data and whether any sensitivity analysis was performed. Basing the calculation of margin on limited publicly available information from a small sample of PSPs does not fully clarify whether the margin does represent the perceived value of providing the service by ASPSPs, or is within the market's willingness to pay.

[Note for comparison in defining the pricing model for the EPC SPAA scheme, a business value model (as determined by supply and demand side of the market) was used to determine the mark-up component of the default fee].

- d) the sensitivity analysis performed to determine whether the proposed pricing is suitable for all participants and will drive forward Wave 1.

Question 2

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?

The EMA appreciates that the proposed commercial model is an important stake in the ground which could enable the new MLA Operator to finalise a pricing framework for Wave 1. However, we note elements of the analysis such as limited time to collect quantitative cost data from ASPSPs, absence of consideration of PISP and biller investment costs, nor input from potential billers on the possible uptake during the Wave 1 cost recovery period, leads us to be unable to conclude yet whether the proposed model provides a fair and balanced approach.

We note that separating the Wave 1 and Wave 2 pricing models could, if not carefully managed, lead to inherent barriers to early adoption, particularly for smaller ASPSPs and PISPs, because the complexity of implementing pricing models based on industry/use case, increases uncertainty and may affect the willingness of the market to invest in building and operating cVRP.

Question 3

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

No comment

Question 4

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

We cannot determine whether the proposed prices are proportionate, objective and non-discriminatory given the points noted in our response to question 1 regarding the ASPSP cost data gathered to underpin the model which seems to have been estimated by a relatively limited sample size of ASPSPs. In addition, the investment costs for PISPs and billers has also not been considered, and limited sensitivity analysis with PISPs and billers has been conducted.

Question 5

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?

In general, we agree with the assumptions and conclusions drawn by Frontier Economics, but as discussed above, and given the time constraints for developing the Wave 1 model, we consider that some elements should be examined in more detail by the new MLA Operator, namely:

- **ASPSP cost components** - the inclusion of scheme fees and Faster Payment (FPS) transaction fees in the cost-recovery component of the model results in a recommended price range which appears higher than the seemingly equivalent fees in other similar schemes (such as EPC SPAA Scheme, and GiroAPI). We appreciate that these elements of the fees are covered separately in those schemes, so a direct comparison at this stage is misleading. However, in order to arrive at a price point which will incentivise take-up in

Wave I, the new MLA Operator should consider how these elements are represented in the model. Particularly because the FPS fees may also be under-review during the cost recovery period due to strategic review of Pay.UK. The inherent impact that FPS pricing has on the potential for cVRP to succeed has to be factored in to the evaluation.

- **‘On-us’ transactions** – we also note that analysis of ‘on-us’ transactions has not been included in the Report i.e. where the transaction does not touch the FPS system as the biller’s account (receiving incoming cVRP) is with the same ASPSP as the payer. Without evaluation of the possible volumes of Wave I cVRP transactions which may fall into this category of transaction, it is difficult to assess conclude that including the FPS transaction fee recovery component in the fee in these cases is proportionate.
- **Cost recovery period** - a 10-year time horizon for cost recovery period (regardless of whether initial cost recovery is deferred) for innovative product launches seems quite long. The 10-year time-span seems more appropriate for the comprehensive rollout of cVRP across a variety of use cases, rather than a limited Wave I launch.
- **ASPSP margin** – as discussed under question 1, the rationale for 10% margin should be clearer based on actual expectations of the Wave I participants.
- **Addressable market and volume assumptions** – requires further data inputs, and validation by participating Wave I PISPs and billers in order to support the assumptions in the model.

Question 6

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 I 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?

As discussed previously, the biller’s willingness to adopt cVRP is central to Wave I adoption and we consider that further examination of the investment costs for the demand side of the market (PISPs and billers) is required to confirm that the price point will incentivise both sides of the market to participate in Wave I.

Question 7

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?

We acknowledge that the new MLA Operator may have to implement the pricing in the most pragmatic way possible which will be acceptable to the committed Wave I participants so that the commercial model does not impede momentum. However, we note that if a fixed multilateral price model (option a)) is adopted then it may be more readily extensible for future rollout waves and provide a clear pathway to a sustainable commercial model. Whereas option b) or c) may preclude smaller PISPs from participating in Wave I as their ability to negotiate viable bilateral pricing could be limited for the Wave I use cases, and this could set a high-risk precedent for future Waves.

We note that the consultation recognises the commercial model will need to be subject to further work on competition law compliance. We have not addressed this in our response, but agree that any model – particularly one that involves multi-laterally agreed prices – must be fully compliant with applicable competition laws to be viable and we welcome visibility of OBL and the new operator’s progress in this regard.

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