Unboxing VRPs with Moneybox

A guide to a new era of digital payments in the U.K.

+1.4M

Between March 2023 and March 2024, VRP transactions increased from under 60K to over 1.4M.[1]

Introduction

Managing our finances has evolved dramatically in recent years. Today, we instantly transfer money, invest in stocks, and track our spending with the tap of a screen. Yet direct debits—with their rigid structures—remain the norm.

Variable Recurring Payments (VRPs) aim to change this. These consumer-controlled recurring payments represent everything we've come to expect in digital finance: greater flexibility for consumers, lower costs for businesses, and improved security for all. VRPs enable consumers to authorise recurring payments between themselves and a recipient, much like recurring 'card on file' capabilities in the credit and debit card world.

Until now, however, VRPs have only been possible between accounts held by the same person. This is expected to change in late 2024 with the rollout of an initial phase of non-sweeping VRPs, which would enable consumers to automatically transfer variable amounts to an account held by another entity within a limited set of use cases. These include regulated utilities, government services, and regulated financial services.

This report will take a closer look at VRPs in all their forms, the challenges and benefits they represent, and the open banking technology recommended to support their implementation. It will also look at how Moneybox, one of the U.K.'s leading fintech companies, is starting to use VRPs to stay one step ahead.

1 Open Banking Ltd.

Contents

Two types of VRPs

Recurring payments are most often associated with Direct Debits, characterised by fixed amounts and rigid schedules. VRPs offer a more flexible approach: similar to Payment Initiation, they're enabled by open banking technology and allow consumers to set up instant, recurring payment schedules with agreed limits and dates.

The consumer can authorise variable payments to be made from their account and/or limit or end consent at any time—meaning greater control over their finances. This is perfect for paying utility bills and for stopping payments to expired subscriptions, for example.

There are two main types of VRPs: sweeping and non-sweeping (also known as commercial). Currently, only the former are widely available in the U.K.

Sweeping VRPs automatically transfer funds of variable amounts between two accounts held by the same person. This is often referred to as a me-to-me transaction. In 2021, the Competition and Markets Authority (CMA) mandated nine U.K. banks to implement an open banking API to enable sweeping VRPs. These are useful for things like:

- **Intelligent savings and overdraft schemes**
  VRPs can be used to automatically move excess funds from one account to another, empowering consumers to take advantage of better interest rates, or avoid overdraft fees.

- **Smart loan and credit repayments**
  VRPs can also be used to automatically pay off an outstanding overdraft or pay down a credit card balance, by sweeping money from an account with a positive balance.

- **Automated financial goals**
  Similarly, VRPs can be used to automatically transfer funds from a financial account to a fintech app or service to help achieve set financial goals.

Non-sweeping VRPs allow consumers to automatically transfer variable amounts from their account to one held by another entity. Financial regulators in the U.K. have agreed to plans for a mandated Phase 1 rollout of this type of VRP by the third quarter of 2024. This rollout will be limited in its scope to the following use cases only:

- **Regulated utilities,** covering payments for things like gas, electricity, and telecoms.

- **Government services,** covering payments for things like council tax.

- **Regulated financial services,** covering payments for things like mortgages and loans.

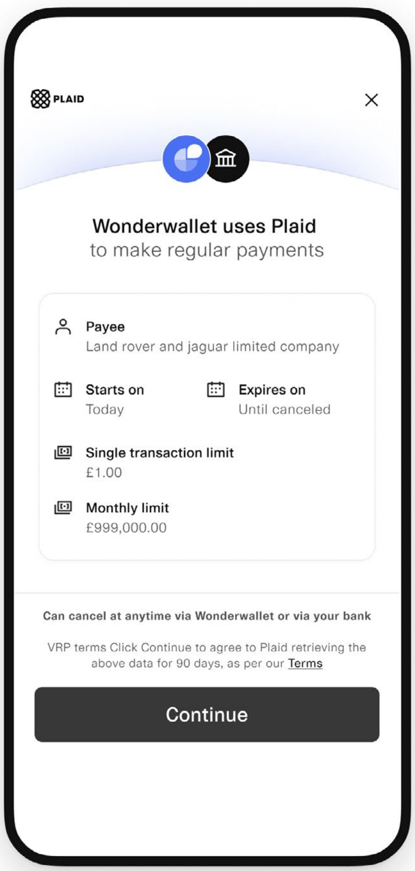
Non-sweeping VRPs that go beyond these use cases to more broadly include payments to any business (often referred to as **commercial VRPs**) have the potential to be mandated further down the road. These would be useful for things like:

- **Subscriptions**
  Because consumers control the consent parameters, VRPs would be ideal for avoiding the dreaded "set it and forget it" subscription scenario, in which a consumer must seek a refund for a subscription that was supposed to have ended.

- **One-click payments**
  VRPs could be used by e-commerce platforms like Amazon and other types of apps and services to offer one-click purchases, allowing their customers to pre-authorise payments within agreed limits.

Straight out of the box: Setting up a VRP

In line with consumer expectations, setting up a VRP is fast and easy.



For marketing purposes only.
Final screens may vary.

1. **Getting started**
   The consumer opens up the app or service they want to use.

2. **Consent**
   The consumer reviews or specifies the parameters for the recurring payments. This includes determining the maximum payment amount, frequency, and duration of the VRP. They then consent to the terms and select their bank.

3. **Authorisation**
   The consumer is redirected to their banking app or website, where they securely authenticate their account by logging in. They then review the payment parameters via their banking interface and authorise the series of VRPs.

4. **Payment**
   Once set up, an authorised payment initiation service provider (PISP), such as Plaid, can initiate payments on the consumer's behalf within the agreed parameters—and with no further consumer action required.

5. **Review and management**
   The consumer can view and manage all their recurring payments through the app, via their bank or service's PISP. In the event they need to adjust a recurring payment's parameters, the existing consent will need to be cancelled and a new consent set up.

6. **Confirmation**
   After each payment is made, the consumer receives a confirmation from their bank, the app or service, or the PISP.

Challenges and opportunities

VRPs have the potential to revolutionise the payments landscape in the U.K., as their recent growth attests: Between March 2023 and March 2024, VRP use jumped from under 60K transactions to over 1.4M[1]. However, broader adoption faces several hurdles—most notably, the regulatory expansion of commercial VRPs beyond the limited scope of Phase 1, in order to keep pace with consumer needs.

At the same time, banks and other account servicing payment service providers (ASPSP) must ensure that VRPs integrate smoothly with existing systems while maintaining high security and operational standards. This challenge, however, can be facilitated by partnering with open banking experts such as Plaid, who offer secure, customer-friendly solutions.

Beyond these initial regulatory and operational considerations, it will take time for the market to move away from familiar tools and habits—namely, the use of Direct Debit and Card-on-File. Such a shift will require educating merchants and consumers about the advantages and functionalities of VRPs.

For consumers, these include:

- **Instant payment processing:** VRPs use the Faster Payments service. This speeds up transactions, allowing payments to be received in near real time. It also significantly decreases the likelihood of payment failures, ensuring smoother transactions.

- **Reduced friction:** For recurring transactions, VRPs eliminate the need for consumers to authenticate every payment, simplifying the process for regular purchases or subscriptions. And because the service links directly to their bank account, there is no need to update details of lost, stolen, or expired cards.

- **Greater control and security:** Payment terms, amounts, and time frames are set and controlled by the consumer and can be managed directly from their banking app for enhanced transparency. VRPs also incorporate Strong Customer Authentication (SCA), significantly minimising the risk of fraudulent transactions.

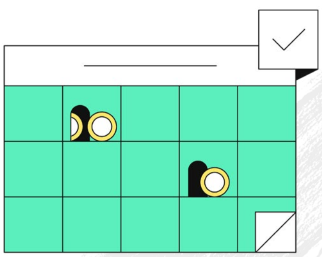
Businesses, too, have much to gain from VRP adoption in the long term:

- **Increased profitability:** By leveraging open banking payments, VRPs bypass traditional card networks, enabling businesses to avoid high fees. Our research shows that commercial VRPs could save U.K. businesses over £1.5 billion annually in payment processing fees. Moreover, payments made through VRPs typically settle instantly, which improves a company's cash flow management.

- **Competitive edge:** Most banks still rely on Direct Debits for recurring payments—a technology created in the 1960s. VRPs appeal to tech-savvy consumers and represent customer-centric innovation that sets today's financial institutions apart. Plaid research shows that, when selecting their banking provider, 76% of consumers prioritise connectivity between their bank and the digital apps and services they use.

- **Stronger security:** Built on the principles of open banking, VRPs incorporate strong customer authentication and consent mechanisms, reducing the risk of costly fraudulent transactions.

- **Reduced administrative burden:** By automating transactions, VRPs streamline the recurring payment process and minimise errors, limiting the need for administrative follow-up. Saved resources can instead be invested in growing a company's core business.



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PLAID × moneybox

A case study: Moneybox

Moneybox uses Plaid VRP to maintain its competitive edge.

Moneybox's investment, savings, home-buying, and retirement products have been reshaping the financial landscape across the U.K. for years, helping people build wealth with greater confidence, no matter their starting point. Now supporting a community of more than 1.3 million people with £7 million in AUA, one contributor to its success has been unlocking instant bank deposits at cheaper rates for their customers. In fact, since partnering with Plaid in 2021, the company has been able to expand payment choice beyond recurring Direct Debits with use of open banking account top-ups increasing by over 100% year-over-year.

Moneybox's Payday Boost feature makes it possible for customers to add to their savings and investments via a monthly subscription. However, the five-day settlement period for Direct Debits means that customer savings don't actually arrive in their accounts until after payday.

Moneybox's customers really value the feature, but Direct Debits limit the extent to which it can help them manage their monthly savings with the immediacy and ease they would like. That's why Moneybox turned to Plaid VRP to take Payday Boost to the next level.

Moneybox and Plaid are currently partnering to build and test the ability for customers to make recurring payments following a one-time authentication. This would mean Moneybox customers can make a contribution towards their savings goal—and see their money settle in their chosen account the very same day they get paid rather than waiting the five days for a Direct Debit.

The implementation of VRPs could also, as an example, include the ability to automatically:

- move excess funds from their current account into a Moneybox savings or investment accounts whenever their balance exceeds a specified amount.
- allocate excess funds to a designated account, such as a Lifetime ISA, for anyone saving towards a deposit for their first home.
- transfer surplus funds into their Cash ISA, if they want to embed consistent saving behaviours without manual intervention to make the most of their tax-free ISA allowance each year.

100%

Plaid has helped Moneybox increase the volume of open banking account top ups by over 100% year-over-year.

Now powered by VRP, this new iteration of Payday Boost is already available to Moneybox employees for testing and soon will be in the hands of its customers.

As Jay Swanston, the company's Chief Platform Officer, explained:

> *"Plaid has been a pivotal partner to Moneybox, enhancing customers' choices of payments, which has led to 100% year-over-year transaction growth. We now look forward to building upon this success and keeping the momentum going with VRP."*
>
> *—Jay Swanston, Moneybox CPO*

In fact, the partnership is helping Moneybox position itself to reap the full advantages of commercial VRPs the day they become available—and further strengthen their competitive edge.

Most banks still rely on Direct Debits for recurring payments—a technology created in the 1960s.

Embracing the revolution: The future of VRPs

While sweeping VRPs have slowly begun to redefine the mechanics of recurring payments in the U.K., commercial VRPs have the potential to truly revolutionise the way money moves between consumers and businesses. Their ultimate arrival will also unlock significant new opportunities for strategic partnerships between VRP providers, fintech companies, and financial institutions—fueling the development of other innovative payment technologies.

As the shift gathers momentum, leading financial institutions and other early adopters are embracing the opportunity and using VRPs to position themselves at the forefront of digital payments. But doing so requires the right partner.

Plaid powers VRPs for businesses and financial institutions through technology centred around the 'three C's'—control, consent, and choice—and covers the entire payment lifecycle. Plaid's technology is an extension of our payments solution, which powers both one-off and recurring transactions.

Contact us today to unlock the full potential of VRP for you and your customers.

Plaid powers the digital finance solutions that enable millions of people to live healthier financial lives. Trusted by thousands of the world's leading companies and connected to thousands of financial institutions across the U.S., Canada, U.K., and Europe, Plaid's mission is to unlock financial freedom for everyone.

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