

Principles for commercial frameworks for premium APIs

Joint Regulatory Oversight Committee

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1 Overview

Executive summary

- 1.1** As set out in the Joint Regulatory Oversight Committee (JROC) roadmap for open banking, the development of premium application programming interfaces (APIs) will be part of the next stage of open banking. For these to be offered at scale, there needs to be a sustainable, safe, commercial model that results in account-servicing payment service providers (ASPSPs) and third-party providers (TPPs) agreeing prices that:
- offer fair value
 - are transparent and promote competition
 - take into consideration the need to protect consumers and firms from harm, including the effects of cyber and financial crime
- 1.2** The following five high-level principles set out our expectations of fees charged by all ASPSPs to TPPs to provide premium APIs. Industry needs to use these principles to agree commercial models for premium APIs that are sustainable, safe and scalable.
- 1.3** Fees and charges should:
- broadly reflect relevant long-run costs of providing premium APIs (Principle 1)
 - incentivise investment and innovation in premium APIs (Principle 2)
 - incentivise take-up of open banking by consumers and businesses and use of network effects (Principle 3)
 - treat TPPs fairly (Principle 4)
 - be transparent (Principle 5)
- 1.4** These principles should be used as a guide to making progress, piloting commercial models and testing new premium APIs.
- 1.5** The non-sweeping variable recurring payments (VRP) working group, chaired by the Payment Systems Regulator (PSR), will bring stakeholders together to propose a workable model. The working group will also consider to what extent these principles may need to develop in relation to different types of premium APIs.

Introduction

- 1.6** Open banking has a continuing role in promoting greater competition and innovation for the benefit of consumers, businesses and the wider economy, as well as maintaining the UK's international competitiveness and leadership in the field. The UK fintech sector is successfully leveraging open banking technology, contributing to the UK leadership in innovation and providing tangible benefits to consumers and businesses.
- 1.7** Regulation and effective oversight, including the requirement for the largest banks and building societies (CMA 9)¹ to build a standardised API, developed by the Open Banking Implementation Entity (OBIE), has helped promote interoperability and consistent user experience. This has led to sustained growth in the provision of open banking-enabled products and services by TPPs and ASPSPs, and contributed to establishing the UK's international leadership in open banking. Today in the UK, over seven million consumers and businesses, of which 750,000 are small and medium-sized enterprises, use innovative, open banking-enabled products and services to better manage their money and to make payments. The number of open banking payments has more than doubled to over 68 million in 2022 (from 25 million in 2021). Since May 2022, there have been over a billion successful API calls a month.
- 1.8** While significant progress has been made, the JROC, co-chaired by the Financial Conduct Authority (FCA) and the PSR, highlighted in its April 2023 report² that more needs to be done to deliver the full benefits of open banking and maintain the UK's international leadership. The next stage of open banking will require the development of premium APIs. These are APIs that offer new products and services beyond those which have been developed through the regulatory requirements and funding arrangements of the Retail Banking Market Investigation Order 2017 (CMA Order) and the payment services regulations. For these to be offered at scale there needs to be a sustainable, safe, commercial model through which ASPSPs and TPPs agree prices that offer fair value, are transparent and promote competition, taking into consideration the need to protect consumers and firms from harm, including the effects of cyber and financial crime.
- 1.9** In indicating their ambitions to develop premium APIs, many ecosystem participants have emphasised that this needs to be done fairly, considering market power dynamics and cost, as well as the impact on adoption, competition and competitiveness. A number of stakeholders have also expressed concerns that ASPSPs' monopoly position for access to their consumers' accounts could limit the development of premium APIs on sustainable commercial terms and therefore limit the development of open banking more generally.

1 The nine largest banks and building societies in Great Britain and Northern Ireland, based on the volume of personal and business current accounts.

2 Joint Regulatory Oversight Committee, *Recommendations for the next phase of open banking in the UK* (April 2023): www.gov.uk/government/publications/recommendations-for-the-next-phase-of-open-banking-in-the-uk

The wider context

- 1.10** This paper is one of 29 commitments on the JROC open banking roadmap published in April 2023. That report identified that promoting premium APIs, using Variable Recurring Payments (VRPs) as a pilot, is one of five key themes pivotal to the success of developing open banking over the next two years.
- 1.11** This paper identifies five high-level principles that sets our expectations on fees charged by all ASPSPs to TPPs to provide premium APIs. Adherence to these principles should help ensure the foundation of a sustainable, safe, commercial model that results in prices that are fair value, transparent and promote competition, taking into consideration the need to protect consumers and firms from harm, including the effects of cyber and financial crime.
- 1.12** Industry participants now need to agree commercial models for premium APIs that are sustainable, safe and scalable. These principles should be used as a guide to making progress on developing these commercial frameworks, piloting commercial models and testing new premium APIs. Premium APIs will need to facilitate all types of open banking-enabled products and services.
- 1.13** The PSR-chaired non-sweeping VRP working group will bring stakeholders together to propose a workable model. The working group will also consider to what extent these principles may need to develop in relation to different types of premium APIs.

2 Why we think pricing principles are necessary

- 2.1** Our focus for this paper is on open banking products and services for which ASPSPs can charge TPPs. The principles in this paper are not intended to cover pricing that may be charged for other services in the open banking value chain, including prices that TPPs charge their customers.
- 2.2** Premium APIs should be underpinned by a sustainable, safe, commercial model that results in prices that are fair value, transparent and promote competition. We consider this will further support long-term investment, innovation and competition in open banking and significantly contribute to the JROC's objective to move to a sustainable economic model for open banking to continue its growth.
- 2.3** Submissions received through the strategic working group set up by the JROC, as well as broader discussions with stakeholders, have revealed concerns that ASPSPs – who are gatekeepers of access to a customer's account and associated data – may be able to use this market power to charge a higher price to those who want to access the data. TPPs, who need to access customer data to provide their services, must use the ASPSP servicing that customer. This is often referred to as a 'bottleneck monopoly'. This could place a TPP in a relatively weak bargaining position in relation to negotiating fees and charges placed upon it to access the customer's account by the customer's ASPSP. ASPSPs may exploit this position to charge a price above what could be considered fair value. This could, in turn, disincentivise TPPs from developing new products and services that rely on chargeable access to consumer accounts. It could also result in businesses and consumers paying inflated prices for the end products.
- 2.4** While ASPSPs should be able to charge for access for products and services that fall outside of the open banking regulatory requirements, this charging should be done in a way that also ensures fair value, is transparent and promotes competition and innovation. The fee or charge applied for accessing customer accounts should be reasonable and provide fair value for the service received by the TPPs as well as taking into consideration the need to protect consumers and firms from harm, including the effects of cyber and financial crime. Such fair value will be measured by the overall benefits the TPP can expect to receive from its customers.
- 2.5** The pricing principles set out in this paper are intended to help mitigate the risks and achieve a balanced position, incentivising ASPSPs to develop and facilitate premium APIs while ensuring TPPs can get access at fair value and that open banking can develop further.
- 2.6** We recognise that these principles are high level and that further detail will be needed when implementing them in specific use cases. Establishing these outcome-based expectations is a first step towards open banking moving to a sustainable framework. We expect that further details and aspects of the implementation of the principles will be worked through by industry as commercial models are developed, including in the forum created by the PSR-chaired non-sweeping VRP working group.

- 2.7** Delivery of a sustainable, safe, commercial model for premium APIs, which is in line with the principles in this paper, is an important step in establishing a commercial footing for open banking. It feeds into the broader programme of work towards building commercial arrangements that are fair and proportionate for a multitude of new open banking products and services with an open banking future entity assuming a central role in the ecosystem, as set out in the JROC roadmap for open banking.
- 2.8** If multilateral commercial models are used for some premium APIs, these pricing principles should be used in guiding discussions on establishing such multilateral commercial models. Under a multilateral model, all TPPs would pay the same fee for access to the same premium APIs. This could be more cost-efficient than TPPs and ASPSPs negotiating multiple bilateral agreements. There may, however, be scope for bilateral negotiations where this will be mutually beneficial – for example, for additional services and where it is not anti-competitive. Our expectation is that a centralised body, such as the OBIE or Pay.UK, would play a central role in establishing any multilateral commercial models if those are used for premium APIs.
- 2.9** We encourage all open banking ecosystem participants to engage with these principles and use them as a tool to guide discussions and agreements on commercial models for premium APIs. We note that in discussing a commercial model, industry participants should consider their obligations under the Competition Act 1998 (CA98), in particular any risks around anti-competitive information exchange and the potential to abuse any market power through participation in industry discussions around the principles.
- 2.10** A successful outcome for this work would be the functioning and take-up of a safe, commercial framework for premium APIs. This would help achieve the other success measures as set out in the JROC open banking roadmap, namely:
- greater innovation, lower prices or costs, and improved quality of services (including safety) through competitive pressure being exerted across the sector
 - growth of the ecosystem (including the number of products and services offered)
 - the increased use of and reliance on open banking by consumers and businesses
 - the significant increase in total number of active users, and the overall growing investment in open banking
 - low number of incidents and issues (including fraud), the way in which those are resolved, and the scale of any resulting consumer loss
- 2.11** Following the publication of these principles alongside other planned activities under the premium API theme – such as the non-sweeping VRP working group, the testing of the non-sweeping VRP commercial model and broader premium API testing – we will consider whether further actions are needed, including regulatory actions. Should it become apparent that market participants are unable to agree a commercial model, or a commercial model fails to meet our expectations as set out in these principles, the FCA and PSR will consider whether further action may be needed, including rules for commercial frameworks for premium APIs or a centralisation of such a framework.

3 Principles for commercial frameworks for premium APIs

- 3.1** Based on the objective that we are seeking to achieve, namely a sustainable, safe commercial model that results in prices that are fair value, transparent and promote competition, we have identified five pricing principles for premium APIs. These are consistent with the spirit of the fair value and transparent pricing principle under the FCA's Consumer Duty.
- 3.2** This paper aims to support our objective this year to encourage industry participants to develop and pilot commercial models for premium APIs and to do so in a way that ensures open banking continues to grow in a sustainable manner and that there is protection from cyber and financial crime.
- 3.3** These principles should be considered together, rather than individually. There will likely be trade-offs between the different principles, and it may not be possible to meet them all simultaneously while also achieving a safe, commercial model that is pragmatic and can be relatively easily implemented. These principles should be considered as an aid for discussions on longer-term commercial models and charging for premium APIs. Where there are disagreements, we anticipate these principles could also be useful in providing a basis on which to discuss and resolve differences.
- 3.4** We acknowledge that ASPSPs may have complex business models and provide a variety of products and services across different markets. The commercial model and charging considerations for premium APIs may be dependent on the commercial models for ASPSPs' wider businesses. For example, demand for one product or service provided by an ASPSP could derive from open banking products and lead to premium API costs being absorbed by the wider banking business.
- 3.5** Nevertheless, all fees and charges need to support our overall objectives of a sustainable, safe, commercial model with prices that are fair value, transparent and promote competition. We expect ASPSPs not to discourage the adoption of open banking for the sake of their wider commercial business.
- 3.6** Pricing of premium APIs is subject to all applicable competition laws. Nothing in these principles should be interpreted as releasing account providers or any other undertakings concerned from complying with CA98.

Principle 1: Broadly reflect relevant long-run costs of providing premium APIs

- 3.7** To ensure that the model for premium APIs is safe and commercially sustainable, charges for premium API access need to broadly recover directly attributable and efficiently incurred economic costs. We expect ASPSPs to consider which categories of costs are directly attributable to the provision of premium APIs.
- 3.8** The charges should ensure fair value for TPPs. This means that premium API prices should not recover more than directly attributable and efficiently incurred costs, nor allow for higher-than-competitive returns.
- 3.9** In the long run, prices may reflect a reasonable level of internal, firm-specific costs incurred by each ASPSP that are directly relevant to premium APIs (such as processing costs). For example, for payments it may include direct costs of executing payment transactions resulting from charges by other parties (such as Pay.UK).
- 3.10** Our expectation is that only costs attributable to the provision of the premium API and its associated services in question are included. Costs of other services provided by ASPSPs in their wider business – for example, free-if-in-credit banking – should not be recovered through premium API prices. Similarly, wider costs of doing business that are not specific to premium APIs should not be included, nor should costs that ASPSPs have to incur to meet wider regulatory requirements, including the Payment Services Regulations.
- 3.11** Premium API access charges should be broadly cost-reflective over the long run but not necessarily at any given point in time. ASPSPs should not expect to recover all their fixed costs and investment in the short run. As is expanded on in Principle 3, the charges do not necessarily need to recover all fixed costs from the outset, as the initial high charges may prevent the take-up of premium APIs. Instead ASPSPs should delay recovery of the bulk of relevant fixed costs, using techniques like amortisation where applicable, once open banking volumes grow to a sufficient scale and can be spread across a larger customer base.
- 3.12** In other words, the charge or fee must be reasonable when compared with the benefits offered to TPPs and should not reflect any market power the ASPSP may have or other distortions in the market.

Principle 2: Incentivise investment and innovation in premium APIs

- 3.13** The level of charges for premium APIs should enable the ASPSP to earn a return over the long run that compensates them for the risk associated with any investment and innovation, and reward them for innovations and associated investment that bring benefits to end users. This will help ensure that open banking is sustainable and continues to expand its range of services and the number of users. However, charges should also ensure that TPPs are equally incentivised to continue to invest and innovate, and should not prevent investments and innovation that would benefit businesses and customers. We expect adherence to Principle 1 will help achieve this.

- 3.14** The way prices are structured can also incentivise innovation and investment and should be considered as part of any commercial model. For example, prices could be set for a specific period of time to provide more certainty in revenue for the ASPSP and certainty in costs for the TPP.

Principle 3: Incentivise take-up of open banking by consumers and businesses and make use of network effects

- 3.15** Pricing can be an important tool for promoting further adoption and use of open banking, through both the level and structure of prices. Encouraging the widespread adoption of open banking across customers and businesses will be crucial to maximising its benefits.

- 3.16** The value of open banking depends on there being multiple users and providers, both using open banking services and enabling the use of open banking. This is often referred to as network effects. This means the success and benefit of open banking is dependent on increasing the number of customers and businesses (including retailers) using open banking services.

- 3.17** We have identified the following considerations to incentivise take-up on open banking through premium APIs:

- **Widespread adoption:** The long-term success of open banking needs to grow demand from all parties that use open banking services, including businesses, merchants and customers. This may be especially important where open banking needs to compete with alternatives, such as for open banking payments or firm-specific screen-scraping technology. At the extreme, this may justify charging nothing for some premium APIs in the short to medium term to build mass demand, make open banking competitive and maximise its benefits.
- **Profiling of cost recovery:** Provision of premium APIs may involve incurring substantial fixed costs upfront. ASPSPs may choose not to recover any relevant fixed costs through pricing initially (that is, to set premium API prices low initially) and to recover them instead over the medium or longer term as take-up of premium APIs increases and ASPSPs are able to make use of economies of scale.
- **Tiered pricing and volume discounts:** ASPSPs should consider the advantages and disadvantages of volume-based tiered pricing to increase take-up of premium APIs. This could take the form of volume discounts to TPPs with large transaction volumes, or who provide multiple services using different premium APIs. Alternatively, account providers could give discounts to TPPs with smaller volumes to help them expand and compete. Each ASPSP should consider its individual market position or power and any implications that this may have for its pricing policy.
- **Fixed fee versus percentage-based pricing:** Similarly to the above, fixed fees or percentage-based (ad valorem) pricing could appeal to different types of products, use cases and TPP business models. TPPs with large volumes or values of transactions may find a fixed fee more attractive. Percentage-based pricing may appeal to TPPs with smaller volumes or values of transactions.

- 3.18** Regulators will review these considerations in the future when there is widespread adoption of open banking and it is operating at scale.

Principle 4: Treat TPPs fairly

- 3.19** Although we want to encourage take-up of premium APIs and open banking, we do not want this to be done in a way that gives certain TPPs unfair competitive advantages over others and that may ultimately harm merchants and customers by limiting competition in the sector.
- 3.20** Premium API charges should be set to treat all TPPs fairly, without favouring or disadvantaging some against others. Any pricing that unfairly discourages entry and growth of TPPs or investment in open banking should not be taking place. This includes preferential pricing where an ASPSP charges a different price to its own integrated TPP than other competing TPPs.
- 3.21** As discussed in paragraph 2.8, it may be the case that, for efficiency reasons and to reduce barriers to new entrants, all TPPs should pay the same price for access to data or to initiate payments. This will mean no TPP is at a disadvantage for access to a premium API.
- 3.22** However, there may also be rational and objective economic reasons why different TPPs pay different prices, and why prices may vary for access to different data or services provided by the access provider, that ultimately benefit customers and businesses. Prices may differ due to:
- differences in underlying costs of supplying certain TPPs versus others
 - differences in costs of providing different services
 - the need to recover costs in the least distorting way to maximise the use of open banking services
- 3.23** We would also expect that where there are existing contracts between ASPSPs and TPPs, that these TPPs are not unfairly disadvantaged under any new commercial arrangement that emerges from the pricing principles set out in this paper.

Principle 5: Transparent fees and charges

- 3.24** Transparency and simplicity of pricing is important for ensuring a level playing field and incentivising the take-up of premium APIs and open banking. If the pricing of premium APIs can be accessed by prospective TPPs from ASPSPs and is clear, this provides certainty about the costs involved and helps TPPs to make a decision about whether to invest. This is most relevant for any bilateral negotiations, as the use of multilateral agreements discussed in paragraph 2.8 would address any uncertainty about fees and charges.
- 3.25** Another important element of transparency is for account providers to demonstrate that they have complied with the principles in setting the premium API prices. We would encourage views from the industry on how this can be done through the forum created by the PSR-chaired non-sweeping VRP working group.

4 Conclusion

- 4.1** This paper sets out our expectations on ASPSPs and TPPs when developing a sustainable, safe, commercial model for pricing of premium APIs that results in prices that are fair value, transparent and promote competition as well as taking into consideration the need to protect consumers and firms from harm, including the effects of cyber and financial crime.
- 4.2** It aims to support our objective this year to encourage industry participants to develop and pilot commercial models for premium APIs in a way that ensures open banking continues to grow in a sustainable manner.
- 4.3** These principles should be used as a guide to make progress on the activities under the JROC roadmap theme *Promoting additional services, using non-sweeping variable recurring payments (VRP) as a pilot* (that is, premium APIs). This includes the non-sweeping VRP working group, which is being set up as a pilot for other premium APIs. This group aims to, among other things, develop a proposal for a sustainable commercial model for VRP. We expect this paper to support the working group and we look forward to seeing their output. More broadly, we call on industry to use the guiding principles in this paper. If you wish to discuss this paper and related issues further and share your thoughts, we welcome as always comments and views via jroc@fca.org.uk and we will consider them in the VRP working group.
- 4.4** Once progress has been made on premium APIs and other related areas, we will consider options and next steps in relation to premium APIs and commercial models. If industry participants are unable to reach agreement, or if there are concerns that any agreed commercial model will not meet the objectives outlined in this paper, we will consider whether further actions are needed, including regulatory actions.

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