



Bacs Direct Credit

An introduction to the service



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An introduction to the service

The payments solution for maximum business efficiency

Bacs Direct Credit is a system which enables businesses, large and small, to make payments by electronic transfer directly into bank or building society accounts. It's simple, secure, and reliable, and it dramatically reduces the time and costs associated with traditional methods of payment processing.

Bacs Direct Credit is increasingly used for all types of business payments, most commonly for paying salaries and wages to employees and regular payments to suppliers, both of which are covered in more detail below. However, there are a wide variety of other applications, where Bacs Direct Credit is the most cost effective solution, some of which are specific to a particular industry sector, for example pensions, employee expenses, insurance settlements, dividends and refunds.

The benefits

The benefits of Bacs Direct Credit are available to businesses of all sizes.

Saves time and administration costs

Preparing, checking and collating cheques with the relevant remittance advice is a time consuming task. With Bacs Direct Credit the creation and authorisation of a payment file is a simple and inexpensive process.

Improved cashflow management

Make your money work for you up to the last minute by knowing exactly when funds will leave your account.

Direct cost savings

With Bacs Direct Credit the use of cheques is eliminated, removing the cost of cheque stationery and reducing postage costs, or if cash is used the security risks and costs associated with the collection or delivery of cash, and with storing it on the premises.

Cut down on reconciliation

Bacs Direct Credit generates just a single debit from your account on a specified date, eliminating the need to track individual payments.

Better payment terms

When used to pay suppliers you may be able to negotiate more favourable payment terms by paying more efficiently.

Paying employees

Most organisations benefit from paying salaries or wages by Bacs Direct Credit – in fact over 90% of the UK workforce is paid this way. Independent research has shown that paying employees by cash or cheque can be up to six times more expensive than paying by Bacs Direct Credit.

Bacs Direct Credit not only benefits you, but also benefits your employees:

- By contrast with cheques, Bacs Direct Credit gives the employee cleared funds guaranteed to be available on pay day. No risk of postal delay. No need to wait for cheques to be cleared through the banking system
- By contrast with cash, there is no threat to employees from payroll robbery, or the loss or theft of wage packets
- By contrast with other methods, there is no need for employees to collect or pay in wages or salaries. Their money is automatically credited to their account on known dates, even when they are sick, on holiday or on shift work outside normal hours
- Employees who open bank or building society accounts in order to receive their pay direct, may find it easier to budget for savings and expenses. For example, essential bills can be paid automatically, often by instalments, and sometimes with discounts, using Direct Debit.

When you decide to introduce Bacs Direct Credit, it is important to secure the understanding and goodwill of your employees. In smaller businesses and organisations, it might be appropriate to conduct an initial briefing, explaining how Bacs Direct Credit works, and its benefits to both company and employees. This would establish the nature of any doubts and anxieties, and help to formulate plans to overcome them. In particular, advice should be provided to any employees who may need to open a bank or building society account. In this way, employees will be fully prepared for the move by the time your system is ready to go live.

A key part of this process will be the collection of bank or building society sort codes and account numbers for each employee which is required when submitting your payment data.

Supplier payments Making payments

When you have introduced Bacs Direct Credit for salaries and wages, it's a simple step to use the same method for paying the essential costs of running your business – rates, rent, electricity, etc. – and other regular suppliers. Bacs Direct Credit offers similar benefits in all of these areas.

The process is simple. You will need the consent and cooperation of your suppliers, and you should aim to convert as many of your payments as possible to obtain the maximum benefits. Following is a checklist based on the experience of businesses which have already switched to Bacs Direct Credit.

1. Talk to your bank, even if you already use Direct Credit, as it is advisable to separate supplier payments from other payment types.
2. Analyse each supplier payment, its frequency and type. In most organisations there are usually three categories of supplier payments:
 - Ongoing commitments. These include rent, rates, VAT and utility services
 - Payments to regular suppliers
 - Ad hoc payments.

3. Decide on your conversion strategy as it may not be appropriate to switch everyone to Bacs Direct Credit at the same time. Therefore you may wish to introduce it in stages to smooth the conversion. The greatest benefit will be obtained from converting those suppliers who are paid most frequently and account for the majority of invoices settled.
4. Decide on your method of communication. To pay by Bacs Direct Credit, you need your suppliers bank sort code and account number. In some cases, you may decide on a personalised approach when collating bank details or a more general method such as mailshot.
5. Brief your staff and discuss the impact of transferring to Bacs Direct Credit. You may require additional resources for entering bank details into your system.
6. Make it easy for suppliers to respond to your request for bank details. Provide a simple form to ensure that all essential information is captured and properly authorised. Follow up suppliers who have not responded. A sample letter can be downloaded from: <http://www.bacs.co.uk/paymedirectletters>

Receiving payments

As we have seen, Bacs Direct Credit offers significant benefits to both customers and suppliers. As a supplier yourself, you will also wish to encourage your own customers to pay you this way.

Bacs Direct Credit payments are easy to arrange. Simply contact the organisation making the payment to check that they are able to initiate direct payments and supply them with the following information:

- the name(s) on the account
- your bank or building society account number
- the branch sort code of your bank.

It is also a good idea to put your sort code and account number on all your invoices – and print 'Pay Me Direct' alongside.

Using Bacs Direct Credit

How it works

To make a Bacs Direct Credit payment, the minimum information you require is the sort code and account number of the payee's bank or building society account.

You submit your payment data, which include the above information plus the amount of each payment, via a bureau or direct access depending on which method you choose (see below).

The data is sorted into payments to each of the banks and then transmitted to each institution. This data is downloaded into their computer systems and applied to the relevant customers' accounts and debited to yours.

The entire process is simple and efficient – and it takes less than three days from start to finish.

Bacs processing cycle

Input – day 1

Input day is the latest day a business user/bureau may submit a payment file to Bacs for a processing cycle. Payment files must be transmitted to Bacs between 07.00 and 22.30.

Processing – day 2

Files are delivered to the recipient banks which then process each payment.

Entry – day 3

Payments are simultaneously credited to the recipients' accounts and debited from your account.

As the payer, you remain in control of the process at all times. You decide when each payment will be made. You can submit Bacs Direct Credit payment instructions up to 30 days in advance of the payment date. You can also recall payments after the payment information has been submitted, provided your bank is notified prior to a specific cut off time.

Accessing the service

To make Bacs Direct Credit payments, there are two different methods for submitting your payment data to the Bacs service. The most suitable one for you will depend on the needs and resources of your business.

Indirect access

This is via a bank or bureau and is often the most suitable method for smaller businesses or those with a limited number of payments. Banks and bureaux can accept data by fax, telephone, post, or electronically. Additional services such as preparation of payrolls and payslips may also be provided. Your bank will be able to provide details of bureau services which best suit your needs.

Direct access

Direct submission of your payments file can be faster and cheaper than using a bureau where you will be processing a high volume of payments. Access is via Bacstel-IP, based on internet protocol and using the latest PKI technologies. You will need a PC with internet access and a USB or serial port, plus Bacs approved software.

For more information on accessing the service visit www.bacs.co.uk/business, or speak to your bank.

Improving your processes

To ensure Bacs Direct Credit benefits you and the person you are paying, it is essential that the correct sort code and account number is used for all payments. The banking industry has developed various methods to help improve the accuracy of payment data.

Screening Service (pre-submission)

- **Industry Sort Code Directory (ISCD)**– A data file of valid bank and building society sort codes which are regularly updated and can be incorporated in payment systems. All Bacs approved software packages incorporate this validation.
- **Account number validation tables (modulus checking)** – Available for download from the VocaLink website or incorporated in payment software packages, confirms the account number quoted is valid for the accompanying sort code. (However, they do not verify that the account is correct for the named beneficiary).
- **Crediting and debiting building society accounts** – This guide helps service users address Bacs Direct Credit and Direct Debit payments to building society and former building society accounts with non-standard account details.

Contact your sponsoring bank if you wish to use these screening services.

Information services (post submission)

- **Advice of Wrong Account for Automated Credit Service (AWACS)** – If a bank receives a payment with account details that it cannot recognise, it will attempt to identify the account by examination of all other details supplied. If successful, it will apply the payment, and then promptly generate an automated advice, informing the service user of the correct details to be used for future payments. This information is available electronically.
- **Automated Return of Unapplied Credit Service (ARUCS)** – If the correct account cannot be identified, or the payment cannot be applied for any reason, the funds will be returned immediately to the originating bank account. The service user will receive an advice via Bacstel-IP that the payment has not been made, and why. The advice will include the payee reference, where that has been supplied.

How to start

When you decide to introduce Bacs Direct Credit, the first thing to do is to consult your bank who will advise you on the most appropriate and cost effective method for your business, and the facilities you may require. They will also provide you with all the procedural information you will need before authorising you to use Bacs Direct Credit.

www.bacs.co.uk/businesses

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