

## Research insights into why some people don't use Direct Debit

### Overview

Bacs is supporting the government initiative to improve access and use of basic financial products amongst the socially excluded. For Bacs this means targeting the 6.7m people in GB who have a bank account (and therefore the ability to set up Direct Debits) but don't currently use Direct Debits at all.

In order to support this government initiative and to better understand why some people do not currently use Direct Debits, Bacs conducted a comprehensive qualitative research programme to understand why.

The research was conducted by an independent market research agency in accordance with the Market Research Society code of conduct. Interviewing consisted of four focus groups, two in Manchester and two in London, and 12 in-depth interviews across various UK locations. Job seekers, people on low incomes and both young and older working people were interviewed during June 2007.

### Main Findings

- People are aware of Direct Debits – most of the middle aged non-users have even used them in the past but have since stopped using them for a variety of reasons
- But people in this research were unaware of the Direct Debit Guarantee and the benefits it can bring. After further exploration these benefits were deemed quite attractive by respondents
- Non-users know about Direct Debit and can outline many of the benefits such as convenience, saving time, money and less hassle. They know people who use and advocate Direct Debits
- However, we found that for particularly those who are older and who are on limited incomes or are job-seekers, Direct Debits have less appeal owing to several perceptions and feelings, some driven by experience, and some by hearsay, including:
  - The fear of losing control of their bank account / balance
  - The assumption that companies can dip into your account and take money “whenever they want”
  - They don't trust themselves to save enough money or have the required funds by the Direct Debit collection date
  - Concerns over bank charges if they miss a Direct Debit payment which they believe is in the region of £30 to £35. Such fines would cause 'havoc and chaos' to their budgeting
  - Many have concerns about banks and originators making mistakes and this has led to a lack of trust. Examples include taking out too much money or on the wrong date by Direct Debit. There are also some misgivings about utilities charging for goods and services up front.



## Control

- Control is the word and concept virtually all respondents use to explain why non Direct Debit users manage and pay bills the way they do
- Direct Debits can appeal if they are seen to enhance control of finances not threaten this and show that the customer is in control of the situation – not the bank or the originator.

*"Direct Debits are not flexible enough. Sometimes it pays me to pay a bill two days later than they would take a Direct Debit"*

*"I pay by cheque so I can wait for the red bill to come in ... my husband is self employed and I don't know what he's going to get and where it's going ... some months are tougher than others"*

## Use of other payment methods

- Companies offer numerous ways to pay bills and people such as those on very limited incomes or job seekers in particular have each found an approach that works for them
- The lowest income groups use prepayment cards and cash only and budget by the week. They top their cards up weekly using cash at a convenient Pay Point

*"If I've got a spare tenner in the bank I just spend it because I'm hopeless at saving. So when I get paid I bung a spare tenner on the card"*

- They keep to a very tight budget and a large bill will put major strain on them
- They feel the "pay as you go" approach suits their needs and behaviour
- The idea of a quarterly or even monthly bill is scary to these people because they are unable to save. They watch every penny and an unexpected outlay of £2 can really make the difference between going overdrawn or being in the black
- Paying by cash is seen as 'closure' for those on low income

*"I like to get all the bills out the way and know how much I've got left and with a cheque you have to wait and sometimes you can overlap and get confused. With cash it's done and dusted"*

- Virtually everyone is aware that they pay more by using their current payment option instead of Direct Debit but the extra cost does not overcome the concerns about Direct Debits and the fear of losing control
- Cheques are also used by these groups rather than Direct Debit because they can control when money goes out; they have a record via the stub and can sort everything out at home.
- The differences were stark between people of different age, level of income, regularity of income and cash versus non-cash income.



## Differences in attitudes and behaviour towards finances and Direct Debits



### Younger working people

- They were less cynical about Direct Debit because they had not had a negative experience themselves ... although they had heard about bank penalties and problems getting money back if things go wrong
- Where they were cynical it was more about the originators than the banks
- They were more receptive to the idea of a large annual discount than other groups.

### Older Working / Non-Working People

- Typically, half had actually used Direct Debits but stopped because of bank charges or mistakes that were not refunded (or only after a struggle)
- They were far more set against returning to Direct Debits
- They vehemently disliked having to pay charges for missed Direct Debits that could seriously affect their ability to pay for 'feeding their family' or 'impact on paying other bills'.

### Level of income

- Very low income people mainly use "pay as you go" prepayment cards and the system works very well for them
- They are aware that they are paying more as a result but are frightened of accumulating bills because one large bill will cause weeks of problems.

### Cash income

- Those who are paid in cash find it most convenient to pay their bills in cash
- It is actually an inconvenience for them to put the cash into the banking system in order to use non-cash payment methods.

## And finally

The younger and working non Direct Debit audiences are more receptive to using Direct Debit in the future and should a number of their present concerns be overcome, then Direct Debit might well be a payment method that they will use in the future.

Possible ways to overcome their concerns are as follows:

- Allow customers to choose a date for payment to minimise the chances of charges and text them reminders
- Clearly communicate any discounts that can be enjoyed through paying by Direct Debit and how they can be achieved
- Clearly communicate the Direct Debit guarantee and the real benefits that Direct Debit users enjoy.