

# DIRECT DEBIT

Product Enhancement Update  
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Anne Pieckielon,  
Director of Product and Strategy



OVER 90% OF CONSUMERS WITH BANK ACCOUNTS HAVE AT LEAST ONE DIRECT DEBIT. IT'S THE MOST COMMON PAYMENT METHOD FOR FINANCIAL COMMITMENTS AMONG CONSUMERS.



## BACKGROUND

Direct Debit is an integral part of the UK economy and a highly effective product. Over 90% of consumers with bank accounts have at least one Direct Debit and it is the most common payment method for financial commitments among consumers. While its usage has never been higher, Bacs is committed to ensuring this trusted, market-leading product meets the future needs of millions of consumers and thousands of businesses alike.

Bacs wants to ensure that Direct Debit remains fit-for-purpose and relevant, and we have undertaken a huge amount of work to look at how the product could be refreshed or improved, without undermining the elements that have made it so effective and attractive.

For this reason we conducted detailed research in 2016 into Direct Debit to help us understand customer payment needs and business challenges today and in the future. We wanted to establish where Direct Debit was functioning well and where there may be potential for change to enhance it still further. Our findings revealed that some opportunities for product enhancements may exist and helped us to identify several concepts that we have, in turn, engaged in testing directly with the Direct Debit community in 2017.

Given the huge importance of Direct Debit, and the complex interplay between the multiple parties involved, any potential changes need to be carefully considered. The goal throughout is to ensure that Direct Debit is as effective, inclusive and accessible as possible.

For this reason we are testing the impact of any potential changes. These tests allow us to collect insight from interested parties on the concepts identified ahead of bringing forward specific proposals for change.

## GUIDING PRINCIPLES

This Direct Debit programme has been run with two fundamental principles in mind:

1. To ensure that the wide range of Direct Debit users can see clear and material benefits from any changes that may be implemented.
2. To ensure that any new concepts do not have any unintended consequences which could emerge if the changes were implemented in isolation.

## AREAS IDENTIFIED FOR TESTING

Our research identified several opportunities for product enhancements. And, in doing so, we have looked at how to best address some of the issues flagged by the Payments Strategy Forum. The result of this work has been to identify – and subsequently to test – six concepts, exploring interest in them across the wide range of users of Direct Debit and investigating their viability. These concepts look to address four key themes that our work has identified, namely: security, flexibility, control and the nature of the Direct Debit Guarantee.

Some of these concepts have been tested practically through a series of pilots, which are still underway, and others have been tested on the public through a Call for Input that ran earlier in 2017.

Some of the concepts being tested have been met with degrees of uncertainty and nervousness from users. This serves to reinforce the overarching finding from the research workstream that took place in 2016 which reaffirmed the strengths of Direct Debit and which underlined its attractiveness to a wide range of customers and service user organisations.

To reflect the above, any changes would only be introduced once concerns were addressed. Bacs is also committed to ensuring that any potential changes to Direct Debit bring lasting benefits and improvements to the wide range of service users, and that avoids simply transferring some of the benefits of Direct Debit from one group to another.

THE REVIEWS THAT BACS HAS CARRIED OUT ON DIRECT DEBIT HAVE DEMONSTRATED THAT THE PRODUCT IS ROBUST, LIKED AND TRUSTED.



## THE SIX CONCEPTS

1. **Payment flexibility:** exploring the benefit to collecting organisations and consumers of offering greater flexibility in terms of frequency and date of payments.
2. **Pre-authorised collection:** exploring the benefit of equipping customers with greater control of individual Direct Debit collections.
3. **Restricted guarantee:** exploring the benefit of a new debit collection product with a restricted guarantee and whether it would be attractive to SMEs and the B2B market.
4. **Facilities management:** investigating ways to improve SME access by working with the Facilities management community to ensure the market is competitive and open.
5. **Account verification:** testing methods of account verification to provide greater security and confidence that both ends of the payment transaction are who they claim to be.
6. **Notification of lodgement of a Direct Debit instruction:** testing the impact of payment service providers notifying their customers when a Direct Debit instruction is lodged on their bank account to ensure that they have the information they need when they want it.

## CONCLUSION

The reviews that Bacs has carried out on Direct Debit have demonstrated that the product is robust, liked and trusted. However, detailed understanding is less strong. This means that support for the product is more brittle than might be thought.

Richard Thomas, Chair of the [Electronic Payments Affiliates Interest Group \(EPAIG\)](#), commented on the concept testing approach: *"Bacs has regularly engaged with EPAIG on the development of the Direct Debit concept testing to address real areas of need for our participants. We are keen for the positive results from this testing to be progressed and delivered into the Direct Debit Scheme."*

Where concepts have proven to be successful, changes have already been made which have provided benefits to the ecosystem.

The next stage of developing potential new products and improvements needs to build on this work. Further product improvements requires a deep understanding of end user needs based upon robust research to provide evidence to support implementation. All of which would then need to be underpinned with a clear communications plan outlining why the changes are being made, grounded in the benefits and protections for the consumer, over those of Bacs and its stakeholders.

IT IS CLEAR THAT DIRECT DEBIT IS AN IMPORTANT PART OF THE UK ECONOMY AND ITS SUCCESS IS CONTINGENT ON A COMPLEX INTERPLAY OF USER PRIORITIES.



## NEXT STEPS

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It is clear that Direct Debit is such an important part of the UK economy and its success is contingent on a complex interplay of user priorities. Introducing any changes without detailed testing and comprehensive stakeholder engagement could destabilise the core product and potentially lead to reduced consumer and collector take-up. For these reasons, we have outlined a series of next steps across the concepts and these include:

1. Working with partners to secure feedback and metrics on the proposed changes.
2. Quantifying benefits and risks to the many users of Direct Debit.
3. Promoting the benefits of the potential changes to encourage wider market support.
4. Engaging Bacs' network to identify market opportunities on best practice.
5. Undertaking a series of workshops with service users and stakeholders to better understand their perspectives on potential for new products and their implementation considerations.
6. Developing product requirements to feed into the requirements of the New Payments Architecture and the New Payments Systems Operator.
7. Translating successful changes into the approved Bacs Guide & Rules.
8. Running a wider programme of trials with member banks to identify the least intrusive, and most beneficial, customer interaction mechanisms.

**Bacs Payment Schemes Limited**

2 Thomas More Square  
London E1W 1YN

public.affairs@bacs.co.uk

**Bacs.co.uk**

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