

THE LITTLE BACS GUIDE TO **DIRECT DEBIT**

The essential guide for users or
potential users of Direct Debit

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WHAT IS DIRECT DEBIT?

Direct Debit is a simple, safe and swift way for organisations to electronically collect payments from their customers (both business customers and consumers) directly from their payment service provider (PSP) account.

A Direct Debit Instruction (DDI) is an authority from a customer to their PSP giving a named organisation permission to collect varying amounts from their PSP account on variable dates that they have agreed.

Organisations become a user (known as a service user) of the Bacs Payment System enabling them to collect Direct Debits directly themselves, or they may choose to use a third party (a Bacs Approved Bureau or a facilities management (FM) provider) to do so on their behalf.

In order for an organisation to be permitted to collect Direct Debits directly themselves they must undergo a strict financial vetting process and they are also required to comply with the Service Users Guide and Rules to the Direct Debit Scheme. This is important for both maintaining the integrity of the Bacs Payment System and ensuring a consistent and reliable level of customer service.

If your organisation does not operate Direct Debit and wishes to do so, in the first instance speak to your sponsoring PSP.

There are three options to accessing Direct Debit:

1. Becoming a direct submitter
2. Becoming an indirect submitter (using an approved bureau)
3. Using a third party supplier (an FM provider)



BENEFITS OF DIRECT DEBIT TO YOUR ORGANISATION

Direct Debit can make your organisation's payment collections more efficient, manageable and cost effective.

This is why so many UK organisations of all sizes choose Direct Debit as their preferred method for collecting regular payments from both businesses and consumers.

- **Increased savings** – Direct Debit is cheaper than a cheque and safer than cash
- **Certainty of payment** – you control the date funds are received into your organisation's account
- **Improved cashflow control** – you get cleared funds into your organisation's account on a known date
- **Time consuming reconciliation reduced** – only errors and non-payments, when a collection is returned unpaid, are notified so reconciliation can be carried out by exception
- **Versatile** – you can collect variable amounts on regular or irregular dates
- **Simple to set up** – enabling your customers to pay you by Direct Debit is easy and involves just a few simple steps
- **Secure and reliable** – each time you collect payments from your customers you receive a report that tells you the total number and value of the Direct Debits processed for your organisation. You are also informed if there are any amended or rejected records

BENEFITS OF DIRECT DEBIT TO YOUR CUSTOMERS

- **Simple and convenient** – once a Direct Debit is set up there is nothing further your customers need to do
- **Helps budgeting** – giving your customers the opportunity to spread the cost of goods and services will help them budget their money and offering them the chance to make payment on a choice of days will also help them to tie it in with their cashflow, for example, making payment just after their salary is received
- **Offers peace of mind** – your customers will have reassurance that they won't miss any bill payments or have any penalty payments for late or forgotten bills or postal delays
- **Sometimes cheaper** – some organisations offer their customers discounts on goods and services if they pay by Direct Debit
- **The Direct Debit Guarantee** – ensures that, in the unlikely event of an error being made in the payment of your customers Direct Debit they will receive a full refund from their PSP

HOW IT WORKS – SETTING UP A DIRECT DEBIT

Regardless of how your payments are processed the same information will be required from your customer in order to set up a Direct Debit:

- The name(s) of the account holder(s)
- The name and address of the customer's PSP
- The customer's PSP account number and sort code.

There is a specially designed form that requests this information and enables your customer to authorise payments to be made. This is known as a Direct Debit Instruction (DDI).

HOW IT WORKS – THE COLLECTION DATE

When a DDI is completed you agree with your customer which date the payment will be collected from their account. This is known as the collection date.

HOW IT WORKS – THE ADVANCE NOTICE

Direct Debit allows your organisation to collect variable amounts from your customer. Every time there is a change to either the

- Amount, or,
- Collection date

you must notify your customer before the amount is collected. This is known as advance notice.

The way in which you communicate advance notice to your customer (for example, by letter, email or an advice on their bill / statement) and the period of time that you communicate this to them before the payment is collected will be notified when the Direct Debit is set up.

DIRECT DEBIT INSTRUCTIONS

- DDIs contain standard information and must follow a pre-determined design and wording. Consistently recognisable presentation of DDIs is vital to increase the take-up of Direct Debit by your customers and to make it easier and more efficient for everyone involved in the payment process
- The standard DDI has been designed to make it easy for your customer to complete - and for you and your PSP to process each payment electronically
- A range of ten different versions of the standard DDI template, each available in a number of formats can all be downloaded from www.bacs.co.uk
- All DDIs must contain all of the wording and all of the information should be in the same order as shown in the downloadable template files
- Full guidelines for producing DDIs are also available on www.bacs.co.uk
- You must ensure all literature used by your organisation is approved by your sponsoring PSP in advance of it being used

HOW IT WORKS – SETTING UP DDIS TO COLLECT PAYMENTS FROM YOUR CUSTOMERS

There are 3 ways service users can set up DDIS to collect payments from their customers:

- Non-AUDDIS
- AUDDIS
- Paperless Direct Debit

Non-AUDDIS	<ul style="list-style-type: none">• Supply your customer with a paper DDI• Your customer completes, signs and returns the paper DDI to you• You check and record the details supplied on the DDI• You forward the completed DDI to the customers PSP
AUDDIS *	The automated Direct Debit Instruction Service (AUDDIS) is an enhancement of Direct Debit which improves the processing of DDIS by enabling the completed paper DDI to be sent to customer's PSP electronically
Paperless Direct Debit	Paperless Direct Debit enables you to sign-up your customers at the point of sale, for example, over the telephone or the internet without the need for a paper DDI

*All new service users that submit payments direct to the Bacs Payment System must use AUDDIS

Advantages of AUDDIS

- Reduced set-up costs
- Reduced time between the PSP receiving and accepting the DDI and the collection of the first payment
- A better quality of service due to reduced processing delays and fewer manual steps
- A reduction in re-keying errors, improving the quality of the service

Advantages of Paperless Direct Debit

- Customer PSP details are taken much more accurately, eliminating later administrative problems
- Much of the paperwork and postage associated with setting up Direct Debits is dispensed with
- The collection process may begin earlier

HOW IT WORKS – THE COLLECTION PROCESS

When your organisation collects payments from your customers you, or your bureau or FM provider on your behalf, creates an electronic data file containing details of all the customers from which you wish to collect money, along with their account details, the amounts to be collected from each account, the date on which you wish the file to be processed, plus details of your account to be credited. The file is sent to the Bacs Payment System via an Internet Protocol (IP) connection.

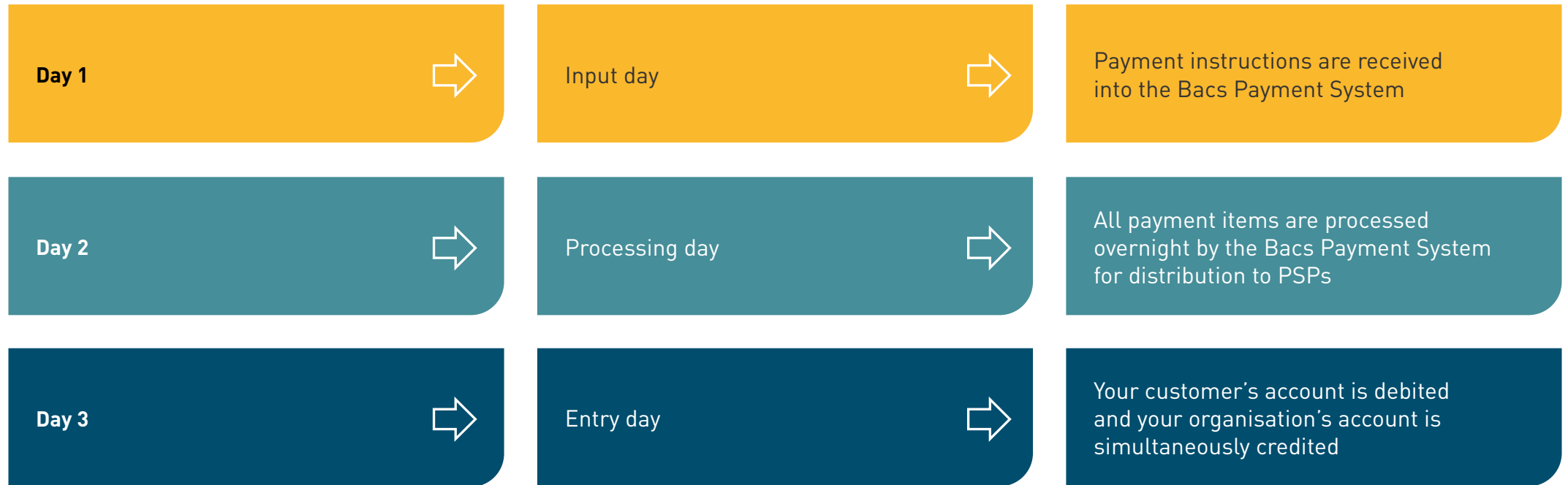
A number of security and validation checks are made to confirm the data is correct before it is distributed to PSPs for action.

Confirmation is provided that the file has been processed (either via a report on the Payment Services Website (PSW) or through the Bacstel-IP software package) depending upon how your organisation, or the bureau or FM provider acting on your behalf, accesses the Bacs Payment System.

The confirmation report details the total number and value of the Direct Debits processed. It will also list any amended or rejected records which failed validation and could not be processed.

HOW IT WORKS – THE PAYMENT PROCESS

The file enters the Direct Debit 3 day payment cycle:



No money leaves the customer's account until day 3 (entry day) and the debit appears on the customer's PSP statement on that day

HOW IT WORKS – AMENDMENTS AND CANCELLATIONS

Your customer may change or cancel a Direct Debit at any time simply by advising either their PSP or you.

If they notify their PSP they will let you know by sending you an Automated Direct Debit Amendment and Cancellation Service (ADDACS) advice. You must act on the advice immediately or you may be liable for any errors.

HOW IT WORKS – THE DIRECT DEBIT GUARANTEE

The Direct Debit Guarantee gives your customers the complete reassurance of being protected by a number of safeguards, including an immediate money back guarantee from their PSP if money is debited from their account in error.

The Guarantee also ensures they receive advance notice from your organisation at the start of the Direct Debit agreement and if the date, amount or frequency of the Direct Debit changes. This gives your customer the opportunity to query the change if necessary and also to ensure funds are available in their account. With Direct Debit the customer always remains in control.

In addition your customer has the right to cancel a Direct Debit at any time by writing to or telephoning their PSP or your organisation. If the customer continues to accept the goods and services provided by your organisation after a Direct Debit has been cancelled they must arrange with you to make payment for these by an alternative payment method.

In the event of an error with a Direct Debit the customer's PSP refunds them under the terms of the Direct Debit Guarantee and if the error is caused by something your organisation has / has not done, the PSP reclaims that amount back from you. The refund is immediate and the customer is not required to prove anything. However if a customer receives a refund that they are not entitled to they will be required to pay it back.

AND DON'T FORGET BACS DIRECT CREDIT

Direct Debit has long been recognised as a simple and cost-effective way to collect payments from your customers.

Bacs Direct Credit can also save you time and money. It enables you to make electronic payments directly into PSP accounts and can be used to pay both businesses and individuals, so consider using it to pay your suppliers for goods and services received and to pay salaries and wages to your employees.

Further information

www.bacs.co.uk ➞

www.bacs.co.uk/sugr ➞



Bacs is owned and operated by leading retail payments authority Pay.UK, the company responsible for Faster Payments and cheques, as well as related services such as mobile app Paym, the Current Account Switch Service, and many others.

For further information visit www.wearepay.uk

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