

Direct Debit Collections

What is a Direct Debit?





A BEGINNERS GUIDE

Direct Debit is the most efficient way for many small and large businesses to collect payments from their customers. Once set up and authorised by the customer, the Direct Debit system allows firms to draw payments directly from the bank accounts of their customers. The result is that your business is in full control of how much money you collect, and when.

Currently in the UK, approximately 60,000 organisations of every size use Direct Debit to collect a broad range of payments from their customers. This can include everything from membership subscriptions and charitable donations, to utility bills or regular business-to-business (B2B) payments. In 2015 alone, 6 billion transactions took place using the Direct Debit system, with a total transaction value of £4.6 trillion.

A VERSATILE METHOD OF RECEIVING PAYMENTS

One of the major benefits of the Direct Debit system is just how widely it can be used. Direct Debit can improve the payment systems of a broad range of businesses:

Receive fixed subscription or membership payments

The low costs associated with the Direct Debit system make it extremely well suited to businesses that collect weekly or monthly fixed payments for subscriptions and memberships.

Invoice customers based on usage

Direct Debit is perfect for companies that send regular and variable bills to customers depending on their usage. Once the Direct Debit has been set up, utility bills, mobile phone bills and council tax payments can be made quickly and easily, removing the worries associated with late payments or accounts in arrears.

Offer customers flexible payment terms

Businesses with ongoing customer accounts can use the Direct Debit system to offer a flexible payment system, which allows customers to pay in instalments or clear their account with one simple payment.

Receive one-off payments

Direct Debit is a convenient, affordable and safe method of collecting one-off payments. The customer protection provided by the Direct Debit Guarantee makes it the safest payment system in the UK.

WHAT ARE THE ADVANTAGES OF DIRECT DEBIT PAYMENTS FOR BUSINESSES?

There are a number of advantages associated with collecting Direct Debit payments for businesses. This includes:

1. Control

Late payments are the scourge of the UK economy, with 85 percent of small and medium-sized businesses being forced to wait beyond their invoice terms for money that is rightfully theirs. Late payments are one of the primary causes of corporate insolvencies. The impact on cash flow can be devastating, particularly for smaller businesses. There is also the additional expense and time associated with chasing late payers. By introducing a Direct Debit payment system, businesses can regain control of their payments and manage their cash flow more effectively.

2. Automation

If you are dealing with variable payment amounts, Direct Debit allows you to take payments directly from a customer's account without any action on their behalf. Alternatively, if you are collecting regular fixed payments, once the Direct Debit has been set up the whole system will handle itself.

3. Cost

Direct Debit is not only the safest way for a customer to make a payment; it is also a very cost effective method of collecting the money you are owed.

At London & Zurich, we charge a flat rate fee with no hidden charges.

4. Flexibility

While standing orders offer a fixed sum payment option, Direct Debits give businesses the flexibility and freedom to collect payments of variable amounts as and when they arise, without having to seek authorisation from the customer. This allows you to increase prices or charge variable amounts relating to usage without any additional expense or administrative work.

HOW DOES THE BACS SYSTEM OPERATE?

BACS, formerly known as the Bankers' Automated Clearing System, is the electronic system used for processing certain financial transactions in the UK. Direct Debits are direct deposits made using this system.

The benefits associated with the BACS payment system include:

- **Availability – Anyone with a UK bank account can pay by BACS. This includes UK businesses.**
- **Retention – There are no card expiry dates associated with the BACS system, so there's no need to collect new payment details when a debit or credit card expires.**
- **Low cost – BACS payments are made directly between the banks so you can avoid the UK's expensive credit and debit card networks.**

The one drawback of the BACS system is that the payments will not be cleared and in your account instantly, which could make them unsuitable for a small proportion of UK businesses.

HOW LONG DO DIRECT DEBIT PAYMENTS TAKE?

Unlike credit or debit card transactions, Direct Debit payments do not clear instantly. It will generally take at least three days before the cleared funds are in your business account. This may make Direct Debit payments unsuitable for product purchases which require immediate dispatch.

Once the payment demand has been submitted to the bank, the payment will then be processed using the three-day BACS cycle. If the Direct Debit has already been set up and authorised, payment will be collected two working days after the submission has been made. In almost all cases, the payment is confirmed three days after the submission.

If the Direct Debit is yet to be created, payment will be collected five days after the submission has been made. In almost all cases, payment will be confirmed three working days after the submission.



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WHAT ARE THE DRAWBACKS OF DIRECT DEBIT PAYMENTS?

While there a wide range of benefits associated with the Direct Debit system, there are also some instances where it will not represent the best option for your business.

Advance notice – In the majority of cases, you will have to notify the customer before you submit a payment for collection by Direct Debit. The typical notice required is ten days; however, this can be reduced by way of an agreement with the customer and your bank. There are two exceptions when advance notice is not required.

This includes:

- **Instances when a customer authorises a payment to be taken immediately. Authorisation of this kind can only be given for one payment at a time.**
- **When a fixed payment schedule has been set up and the customer is aware of the date each payment will be made and the amount to be collected. For example, if council tax payments are prearranged so that £60 is taken on the 15th of every month.**
- **Transactions can be charged back – The Direct Debit Guarantee entitles customers to a full and immediate refund of disputed transactions, and this can leave your business vulnerable to disputes or fraud.**
- **They're not well suited to high-value goods – Fraudsters may take advantage of the protections provided by the Direct Debit Guarantee to charge back the payments for high-value items**
- **You must inform customers of changes – You must inform customers, at least ten days prior to collection, if the amount, frequency or date of the payment is changing; failure to do so may result in chargeback disputes.**

HOW DO YOU COLLECT DIRECT DEBIT PAYMENTS?

Once the Direct Debit has been set up and authorised by the customer, you will be able to collect payments from the customer at any time providing you follow this simple three-point Direct Debit payment process.

- **Step 1: As mentioned above, all customers must be given advance notice of the payment date and the amount that's due to be collected, unless you have an express agreement with the customer and your bank.**
- **Step 2: Once the advance notice period is over you can charge the customer by simply submitting a payment request to your bank via the BACS system. The payment will then clear in 3-5 days.**
- **Step 3: If there are any problems with the payment being processed, you will receive a message notifying you of the failure. You should then speak to the customer to resolve the issue before resubmitting the payment for collection.**

HOW DOES THE LONDON & ZURICH DIRECT DEBIT SYSTEM WORK?

The London & Zurich Direct Debit payment system is designed to make the whole process quick, simple and seamless, allowing you to spend less time worrying about your payments and more time focusing on growing your business.

To use our paperless, web-based Direct Debit system, simply provide us with the customer's payment details along with the date of the payment and the amount you would like us to collect. We then submit the payment request to the BACS system and debit the customer's account on the requested date. The funds are then collected into our secure account, before being paid into your nominated account four working days later.

Our system allows you to see the outcome of every transaction and provides you with further details about the transactions completed and those that failed. This helps you to manage any credit control issues that arise promptly.

SET UP ANY KIND OF COLLECTION

Our intuitive online system makes it easy to set up any type of payment and manage a wide range of payment profiles. We have experience and expertise in a wide range of industry sectors, working with businesses with handfuls of clients to those with thousands of regular payments to process. This allows us to tailor our services to meet the specific needs of your business, whether you're a utilities company collecting variable amounts from your customers, or a fixed fee subscription service.

If a customer cancels their Direct Debit or a payment collection fails, we will inform you instantly, providing you with the information you need to make timely cash flow decisions. As well as benefiting from a flexible, low cost payment system, you can also rest assured that your customers are using a safe, secure payment system, which is backed by the Direct Debit Guarantee.



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