

Beginners Guide to Rules of the Direct Debit Scheme





You've taken the step to use Direct Debit for your business, but now, you need to understand all of the finer points of the service, including the Scheme Rules for Businesses. This Guide will walk you through the key rules of the scheme and how they affect your business.

WHAT IS THE PURPOSE OF DIRECT DEBIT SCHEME RULES?

The Direct Debit Scheme Rules govern how businesses actively use the Direct Debit service, from paying salaries, to settling invoices from suppliers. When making payments or collections are made via Direct Debit, you will have a relationship with your bank or building society, which 'sponsors' you to use these services, the rules in place will ensure that all parties and organisations involved will be fully compliant to the scheme. If you have any questions or queries regarding the rules, your sponsoring bank or building society will be able to assist, or you can contact BACS themselves.

WHAT ARE THE KEY RULES?

The rules of the Direct Debit scheme cover the entire service and process, from becoming a user to managing paper and paperless Direct Debits. The entire list of rules can be found here, but we will cover many of the key rules that will affect you.

When setting up a Direct Debit, a business must adhere to the following:

- **With effect from 1st January 2008, it is mandatory for all new service users that submit DDIs direct to BACS to use AUDDIS.**
- **The service user must submit all documentation it intends to use in its Direct Debit operations, to its sponsor, for prior approval.**

At the point of set up, the sponsor will provide information to the service user on how and where to access its rules. Having set up a Direct Debit, a Direct Debit Instruction will be set up.

- **The Direct Debit Instruction (DDI) is the method by which service users obtain the payer's authority and account details to debit his/her account. The design of the DDI must follow the prescribed format and be agreed by the sponsor.**

- **The Direct Debit Guarantee must be issued to the payer with the DDI or the advance notice.**

Upon completion of the Direct Debit Instruction, the following rules apply.

- **Once the completed DDI has been returned by the payer, the service user must ensure that all relevant information is recorded before lodging it with the payer's bank.**
- **Upon receipt, the payer's bank will either accept or reject the DDI. If rejected the DDI is returned to the service user.**

In the process whereby the service user collects Direct Debits from its payers, two specific rules apply.

- **Service users are responsible for ensuring the payments collected using the Scheme can legally be demanded and collected in this way, without contravening consumer protection or other legislation.**
- **Direct Debit is the method of collecting payments and the banks are not responsible for any underlying contract between the service user and the payer.**

BECOMING A DIRECT DEBIT SERVICE USER

When an organisation is looking to join the scheme, it will need to contact its bank, who will be able to advise them of the steps involved in becoming a service user. The bank will need to consider any application to sponsor an organisation as a Direct Debit service user.

- **The service user must submit all documentation it intends to use in its Direct Debit operations to its sponsor for prior approval.**

Consideration for a sponsorship will take into account contractual capacity, financial standing and the quality of its administrative control.

A service user must have a UK sterling bank account. Service users looking to use an overseas/non UK based central processing centre for the administration of Direct Debit Indemnity Claims must provide a UK telephone number for queries relating to the submission of paper indemnity claims.

A service user must complete an indemnity with its sponsor. A service user which is an overseas registered company, or which has its principal place of business overseas, must provide legal opinion that the indemnity would be enforceable under the overseas jurisdiction and/or provide proof of adequate assets within the UK jurisdiction.



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Many other rules exist regarding your setup as a Direct Debit User, and once you are setup, it is time to move onto the Direct Debit Instruction (DDI), which is the method by which service users obtain the payer's authority to debit their account.

It is important that the DDI provides all the necessary information to enable collection by Direct Debit and that the payer is provided with a clear understanding that they have been given their authority to debit their account. There is a standard format for the DDI that has been designed to make it easy for the payer to complete and to ensure that all the details necessary to set up the DDI are obtained.

The design of all DDIs must be approved in writing from the service user's sponsor before the DDIs can be issued by the service user. The reverse of a DDI must not set out information that might be taken to be part of the instruction. Where it is intended that additional information for Payers should be printed on the reverse of the DDI, the sponsor's approval in writing must first be obtained.

The Direct Debit Instruction MUST contain the following information:

- **The service user's name and address**
- **Direct Debit logo**
- **Service user's SUN**
- **The heading 'Instruction to your bank or building society to pay by Direct Debit'**
- **The name and full postal address of the bank or building society where the payer's account is held**
- **The name(s) of account holder(s)**
- **The payer's branch sort code**
- **The payer's bank or building society account number**
- **The service user's reference**

- **Payer's instruction to debit his or her account including reference to the Direct Debit safeguards under the Direct Debit Guarantee, signature(s) and date.**

These are only a few of the key rules that exist in the setup of Direct Debit Instructions, and all must be followed.

If you have any specific questions regarding any rules in the Direct Debit scheme, and how these might affect your business, get in touch with the London & Zurich team today. There are rules regarding Advance Notice, Completion and Lodgement of the Direct Debit Instruction, Paperless Direct Debit and a number of other relevant subjects.

SET UP ANY KIND OF COLLECTION

Our intuitive online system makes it easy to set up any type of collection and manage a wide range of collection profiles. We have experience and expertise in a wide range of industry sectors. We work with companies of all sizes to meet the specific needs of your business, whether you're a utilities company collecting variable amounts from your customers, or a fixed 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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