

Direct Debit Choices

Standing Order vs Direct Debit





Standing orders and Direct Debits are often confused because as two automatic payment methods, they do share a number of similarities. However, there are also a number of crucial differences between the two systems that can have important implications for your business.

Broadly speaking, standing orders and Direct Debits appear to do the same thing i.e. act as a method of allowing you to collect payments from customers' accounts on a given date. However, it is not until we dig a little deeper that we can really distinguish the subtle but significant differences.

WHAT IS A STANDING ORDER?

A standing order is a method of setting up a regular, fixed payment from your bank account. A standing order can be set up for a particular frequency i.e. the 5th of each month and for a certain amount of time, such as the next 12 months. The customer is responsible for setting up the standing order and dictating how much will be paid.

A standing order can be set up by completing a standing order form, which the customer must then give to their bank. Alternatively, the standing order can be set up in branch, online or over the phone.

If a customer does not have the necessary money in their account to make the standing order payment when it arises, they may set up a buffer which allows them to creep into what is effectively an interest-free overdraft to allow the payment to go through. If this buffer is exceeded, it is likely that the customer's bank or building society will not allow the payment to go through. Alternatively, the bank may allow the standing order to go through, but push the customer into an unauthorised overdraft, the result of which can be expensive additional charges.

WHAT IS A DIRECT DEBIT?

A Direct Debit provides customers with a regular way to pay variable payments or fixed monthly fees from their current account. Direct Debits are commonly used to pay utility bills, council tax and gym memberships.

To set up a Direct Debit, the customer must fill in a Direct Debit mandate form with the organisation they wish to pay. The money is then collected by the company according to the customer's instructions.

If the company wants to change the Direct Debit, either to alter the payment date or the amount due, they must inform the individual in question by giving advance notice of ten days. If the customer has insufficient funds in their account to make the Direct Debit payment, they may be offered a buffer zone by their bank with no interest charged. Alternatively, the company in question may make another attempt to collect the money at a later date.

WHAT ARE THE DIFFERENCES BETWEEN A STANDING ORDER AND A DIRECT DEBIT?

Now we have a basic understanding of the two automated payment types, let's compare the two to help determine which payment collection method is best for your business.

Who is responsible for making the payment?

Standing order

It is the customers' responsibility to give an instruction to pay your business a fixed sum at a regular interval, whether it's a weekly, monthly or annual payment.

Direct Debit

On the other hand, Direct Debit payments offer far greater flexibility, allowing the business to collect variable amounts, or change the date or the amount of the payment without asking for further authorisation. However, ten days advance notice must be provided.

Who has ultimate control of the payment?

Standing order

The control very much lies with the customer. Not only do they set up the standing order and determine the size and frequency of the payment, but they can also cancel or change the payment details whenever they see fit. They do not have to notify the recipient when they do so.

Direct Debit

Once the Direct Debit has been set up and authorised by the customer, the merchant has full control over the payments. You are free to vary the amount and the frequency of your collections (as long as you give the customer advance notification) and will be notified by the Direct Debit provider whenever a payment fails. You will also be told why the payment has failed, which can help to improve a business' credit control process.

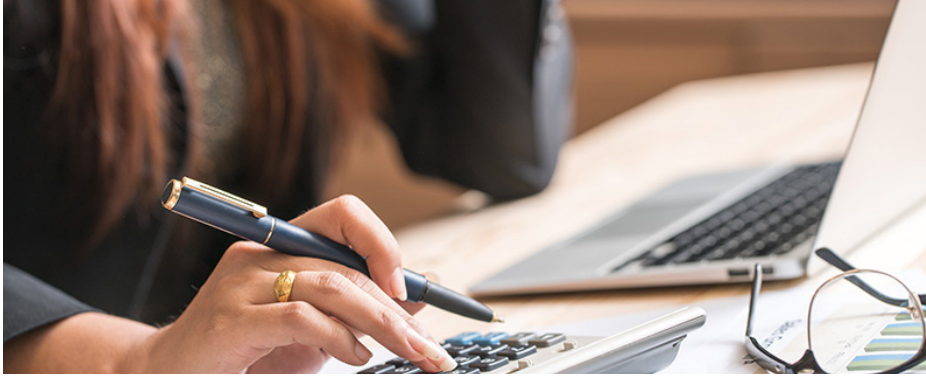
How are standing orders and Direct Debits set up?

Standing order

A standing order can be set up entirely independently by the customer with no need for a third-party provider to be involved. Any business collecting payments by standing order is reliant on its customers entirely, and this can put the business at risk of an unavoidable cash flow crisis.

Direct Debit

Setting up a Direct Debit requires the authorisation of the customer. Once the mandate has been completed, the merchant has full control over the sum and the date of the payments. This provides the company with the added security of a predetermined level of income.



“The failure rates of Direct Debit payments are typically less than one percent.”

What are the costs?

Standing order

A standing order can be collected for free, although depending on your bank, there may be some additional charges.

Direct Debit

Depending on your Direct Debit provider, you should expect to pay a fixed fee to collect a Direct Debit payment or a percentage of the total transaction amount. This can be considerably more cost-effective than the credit and debit card networks such as MasterCard and Visa.

What are the failure rates?

Standing order

If a standing order is cancelled or the customer does not have sufficient money to make the payment, you will not receive a notification to inform you of the payment failure. It is down to your payment systems to pick up the failure. You'll then need to chase the customer for payment.

Direct Debit

The failure rates of Direct Debit payments are typically less than one percent. If a payment failure does occur, London & Zurich will inform you of the failure and tell you why this failure occurred. You can then contact the customer and resubmit the payment when you wish to do so.

How flexible are the payments?

Standing order

This method of payment is very inflexible, as any changes made to the timing or the payment amount will require the old standing order to be cancelled and a new one set up. The customer will have to perform this task themselves, which could cost you money if they are unwilling to do so.

Direct Debit

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What are the risks of late payment?

Standing order

The risks associated with late payments are relatively high with a standing order because many businesses are simply unable to persuade their customers to set up the standing order in time. Once the standing order has been set up, the risk level falls considerably.

Direct Debit

Late payments are much more unlikely with a Direct Debit because you can change the dates of the payments yourself and collect the money when it falls due. London & Zurich will also inform you when a customer cancels a Direct Debit.

How much administration is required?

Standing order

There is generally a high level of administration work associated with collecting standing order payments. Not only do you have to check business accounts regularly to see whether payments have been made, but you will also have to manually update your accounts. There are also no notifications if a payment fails.

Direct Debit

The administration with this kind of payment is minimal. The London & Zurich system will automatically submit the payments on your behalf and update all your accounts so you can see which payments have been made. There are also notifications which inform you of a failed payment.

What level of customer protection does each payment type provide?

Standing order

There is absolutely no protection for the customer once the payment has been made. However, this can benefit the business due to the reduced level of customer comeback.

Direct Debit

Direct Debit payments are backed by the Direct Debit Guarantee. This ensures customers receive an immediate refund from their bank if an incorrect payment is made.

IS A DIRECT DEBT OR STANDING ORDER BETTER SUITED TO YOUR BUSINESS?

Both of these automated payment methods have their place. The appropriateness of each depends on factors such as the size of your business and the type of payment you typically receive.

Generally speaking, a standing order is best suited to very small businesses with less than 30 customers. It also helps if the business has a close relationship with its customers, as a degree of trust is required in their ability to maintain the standing order.

If you do operate a standing order, you will benefit from a payment system which can be entirely free, and which puts the onus on the customer to do the work. However, it will require a significant amount of work to administer the payments and update your accounts. There's also no way of knowing if a payment has failed.

Standing orders are best suited to regular, fixed payments like monthly subscriptions of gym memberships. If you collect payments that vary in their frequency and amount, such as credit card or utility bills, the likelihood is that a Direct Debit system is a better fit for your business.

A Direct Debit is often a better option for larger businesses with more than 30 customers. Once the payment has been set up and authorised, you will be notified of any collection failures which can significantly reduce administration time and help to tighten up your credit control and payment processes, ultimately improving cash flow.

There is also less emphasis on trust in a Direct Debit system. Once the Direct Debit mandate has been completed, you are responsible for collecting the payment, which can completely remove the cash flow problems associated with late payments. You can also adjust the frequency and the payment amount whenever it's required, as long as you give the customer advance notice.

Directs debits are equally well suited to making fixed, regular payments, but they really come into their own when collecting variable payment amounts on fixed or indeterminate dates. This flexibility is one of the Direct Debits greatest strengths.

HOW CAN WE HELP?

If Direct Debit sounds like the right payment system for your business, take a look at the Direct Debit services available from London & Zurich to see how we can make your payment process more flexible, affordable and easier to manage. For more information, please get in touch.



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