

# Why make payments using Direct Debits?

Structured, secure and flexible payments in an evolving payment sector.



## Introduction

The payments industry is currently going through a period of monumental change. A cashless payment system is now becoming more dominant due in large part, to the rapid advancement of technology in the last ten years. As a result, new providers, platforms and payment applications incorporating cloud technology have sprung up and richly diversified the payment options available to consumers. Whilst this transformation initially begun in the retail sector, the demand for the same level of convenience in B2B payments and transactional banking is now also getting stronger.

This evolving attitude to payments has been further compounded by the global events of the last year and the devastating impact of COVID-19. Gartner reports that the pandemic has irreversibly and forever changed the way that consumers think about their payment options. According to Visa's Back to Business study, 78% of global consumers have adjusted the way they make payments due to increased concerns about safety. In light of these technological and attitudinal shifts, it seems like a good time to consider where payments taken by Direct Debit might fit into the post-pandemic payments landscape.

Directly prior to COVID-19, Pay UK, the independent payment system operator responsible for the Bacs Payment System (Bacs) which processes Direct Debits and Direct Credits, reported record payment volumes and values. In 2019, a staggering 4.5 billion Direct Debits were processed by Bacs, a 3% increase on the 4.4 billion processed in 2018 and its highest total ever recorded. Whilst it might be expected that processing figures would drop sharply in 2020, a year with ten months blighted by the pandemic, it is interesting to learn that 4.5 billion Direct Debits were also processed in 2020 by Bacs.

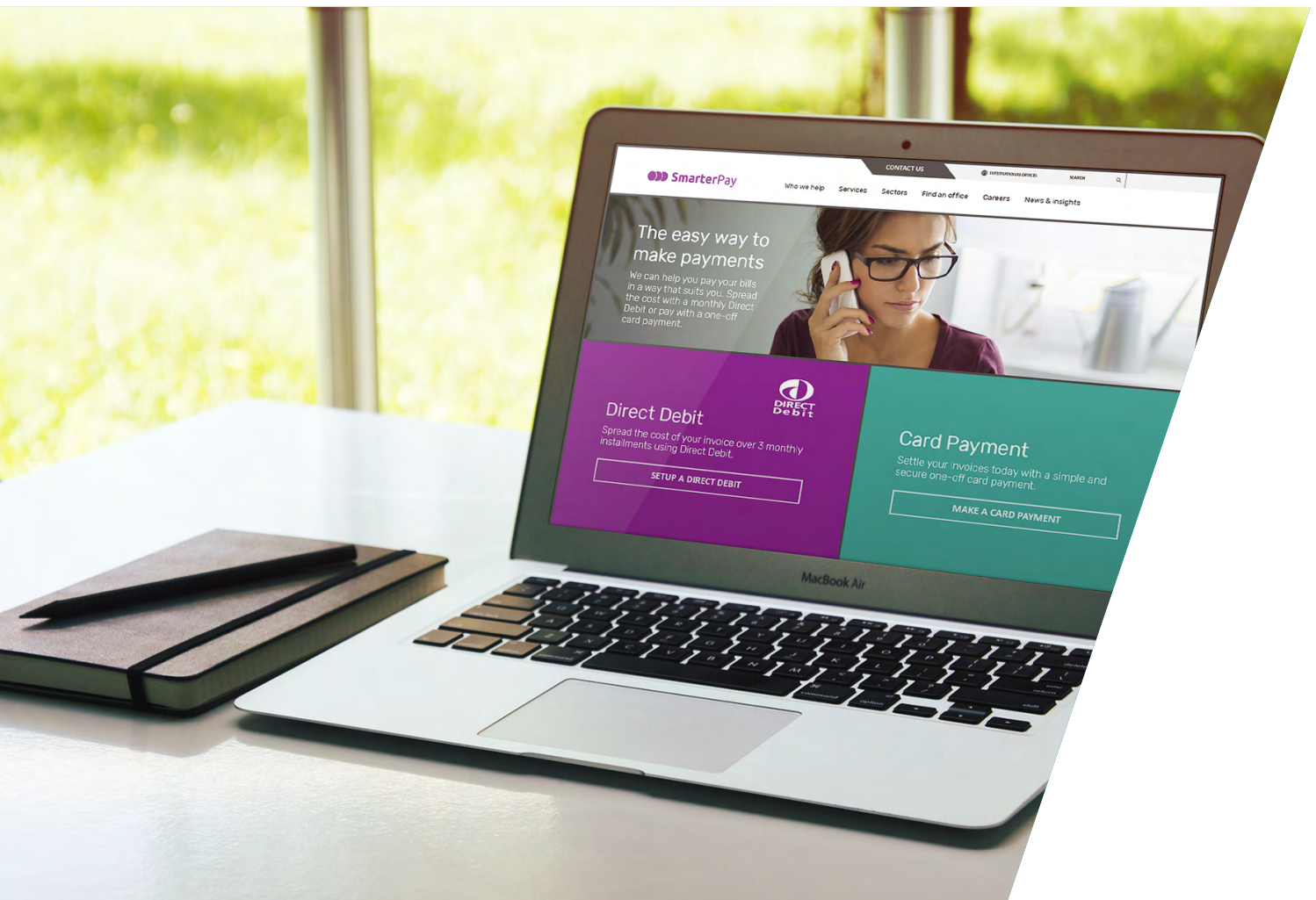
So, what is it that makes payment by Direct Debit so appealing to consumers and businesses, especially in the current climate? The rest of this paper seeks to try and answer this question, first outlining what Bacs payments and Direct Debits are, what they are used for and the advantages that come with their usage. The final part of the paper will examine the flexibility of Direct Debits and conclude with the practical ways in which payments can be structured to suit businesses of all shapes and sizes.

# Bacs and automated business payments

Bacs (Bankers' Automated Clearing Services) is the organisation with responsibility for the schemes behind the clearing and settlement of UK automated payment methods Direct Debit and Bacs Direct Credit, as well as the provision of managed services for third parties.

Automated business payments are instructions sent from one party to a bank or building society to either take or make, a payment to or from another party. Easy to arrange and highly cost effective, Direct Debit and Direct Credit payments can be set up as a one-off payment or recurring payments, which can be particularly useful for paying suppliers and other bills. The use of automated payments can bestow several key business benefits including:

- ✓ Streamlining of business processes
- ✓ Enhancement of profitability
- ✓ Reduction of manual business costs
- ✓ Real-time visibility of payments
- ✓ Improved cashflow



# Direct Debits and their advantages

Direct Debits are instructions from a customer to their bank or building society that authorises a service user to collect specified amounts of money from their bank account. In typical circumstances, a standing authorisation is set up between the payer and payee and a payment instruction is submitted to the payer's bank or building society. The payment is then issued on the specified date and the Direct Debit is recorded on a statement issued to the payer. Sign up to Direct Debits can be paperless and all Direct Debits are covered by the Direct Debit Guarantee, making it one of the safest payment types in the UK in terms of protection from fraud.

In the past, payment by Direct Debit has been largely associated with larger business entities but with cloud-based Bureau submissions dramatically simplifying the process, smaller businesses can also take advantage of Direct Debit payments. A practical and efficient way for businesses to collect customer payments, using Direct Debits carries several benefits including:

- ✔ Straightforward setup - The simple setup process makes Bacs payments quick and easy.
- ✔ Big cost savings - Time consuming manual reconciliations are reduced or eliminated completely.
- ✔ Certainty of payments - Amounts due from customers are credited directly to a specified account.
- ✔ Security and reliability - Highly secure built-in safeguards protect all parties during each transaction.
- ✔ Greater financial control - Knowing when funds will be credited and cleared ensures more accurate cash flow management.
- ✔ Direct Debit guarantee - Advance charge notices and an immediate money-back guarantee makes transactions risk-free.



# Methods of making Direct Debit payments

More often than not, Direct Debits are typically used for recurring payments or taking regular payments like subscriptions, memberships, utility bills or charitable donations, but they can also be used for one-off payments as well. One of the main attractions of Direct Debits is that they are an incredibly flexible payment option, enabling daily, weekly, monthly, quarterly, annually, one-off, fixed term contract or ongoing payments. There are three main variations of the paperless signup process that can be used to setup Direct Debits:



## Payment or Upload Links

In this instance, an email link is provided to the customer which can securely upload a signed Direct Debit mandate form and so the customer could setup a Direct Debit without having to directly interact with the recipient. Using a link to transfer the mandate over to them, this fully secure transfer method protects and preserves their data and ensures that it will not be intercepted.

## Webpage Sign-ups

This process revolves around a convenient online interactive signup that works around the customer so they can sign-up online, at their leisure, without the hassle of opening times. Customers can sign up anytime and anywhere as long as they have a web browser to translate page and the internet connection to load it up. Typically, sign-up occurs on a designated webpage and is part of the checkout process during membership signup. Customers can simply select the Direct Debit option and follow the prompts to setup the Direct Debit.

## Sign-Up at the Point of Order

This use of this option depends on how customers will be asked to place an order. If the order is online, it can be made part of the order process and the Direct Debit mandate can be completed as part of the checkout process. Alternatively, if the customer is being billed regularly, a link could be included on their electronic invoice to signup for Direct Debits.



# About SmarterPay

SmarterPay are an independent payments company based in the UK that specialise in payment processing, integration and reconciliation. We have been delivering Bacs-related services since 2005 and are a member of Open Banking and a registered G-Cloud Supplier on the government's Digital Marketplace. We provide Bacs approved software, Bacs approved Bureau services and payment solutions for Direct Debits/Credits and card payments, all of which can be integrated to ERP/CRM or accounting system using our API.

Our services perfectly compliment any sales cycle and include:

- ✓ Direct Debits (end-to-end fully integrated payments)
- ✓ Single or recurring card payments
- ✓ Bacs file processing (Direct Debits, payroll and purchase ledger)
- ✓ API integration
- ✓ Payment Links

As a private, family-owned company without investors or venture capitalists to satisfy, we can prioritise meeting your requirements, which is why we set our pricing to be sustainable, short and long term, but more importantly, to be fair.

## Find out more

For more information about making payments using Bacs Direct Debits and how SmarterPay can assist, please get in touch with one of our payment specialists on:

**Phone:** +44 01482 240886

**Email:** [info@smarterpay.com](mailto:info@smarterpay.com)

### References

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