

## Direct debits

A direct debit gives someone permission to take funds directly from your bank account. A typical example is when you arrange a direct debit with your power or telecommunications company so your monthly bill is automatically paid from your account.

To set up a direct debit, you complete a direct debit authority with the company (known as a direct debit initiator), which allows the company to take payments from your account. The company will tell your bank you have given it authority to pay your bill by direct debit.

You should be wary of any business that asks you to sign a blank direct debit form or more than one such form. If you do this, the business can submit a new direct debit authority after you have cancelled your existing one.

A direct debit is not the same as an automatic payment, which is an instruction from you to your bank to make a regular payment of a fixed amount from your account to someone else's, either for a specified period or indefinitely.

A direct debit allows the direct debit initiator to submit a specific amount to be debited from your account on each occasion. The amount can be different each time, and this is why some people find it a handy way to pay the likes of telephone and power bills, which vary from month to month.

### Lack of funds

Sometimes customers don't have enough money in an account to pay a direct debit. It is up to the bank to decide whether to allow the payment. A bank may treat it as a request for an overdraft and allow the transaction, or it may dishonour it. As with some other forms of payment, direct debits have to go through the clearance system and can be dishonoured.

See our guides:

- [Overdrafts](#)
- [Payment processing](#).

### How to contact us

## Cancelling a direct debit

You can do this at any time, through your bank or the direct debit initiator. The bank must cancel the direct debit when you tell it to do so, but it will also ask you to notify the direct debit initiator. This is a precaution to prevent the initiator unintentionally continuing to send direct debit instructions to your bank.

If you cancel a direct debit authority but keep using the initiator's services, you will have to pay in some other way. Direct debits are merely a method of collecting payments. Banks are not responsible for the underlying contract between you and the initiator.

Importantly, if your direct debit is from a credit card, the expiry of that credit card does not necessarily remove the direct debit authority, and you may still be charged.

## Failure to cancel a direct debit authority

If your bank fails to cancel a direct debit authority and you suffer a direct financial loss as a result, you may be entitled to compensation. This could include a refund for overdraft fees or penalty interest resulting from the unauthorised direct debits. Your bank may also have to credit funds debited without authority, unless you benefitted in some way from the payments (such as if you continued to use power from your power company, in which case you have received a benefit from the direct debit payment, even though it was not authorised).

## Case 1: Bank cleared over unauthorised transaction

Miss J's account was accidentally direct debited by XYZ Ltd, with whom she had no connection. She contacted her bank, which advised her to contact the company. She did so, and the debits were reversed the same day.

Miss J complained to the bank about the direct debit system as a whole. She also complained about how her bank handled the problem and her complaint, and came to us.

We could not look into her general complaint about the system, but we looked into whether the bank responded appropriately when told of the mistaken payment. We decided the bank had not breached any obligation or duty to her because the bank had not made the error. This was probably a mistake with the account number made by XYZ Ltd or one of its customers.

We noted that banks ask customers to notify them of unauthorised transactions within a certain time, usually a month or two, and they will investigate. They will reimburse unauthorised transactions unless the customer continued using the initiator's service without paying in some other way.

## How to contact us

We found the bank could have communicated better with Miss J, but her experience did not meet the threshold to recommend compensation for stress and inconvenience. We did not, therefore, uphold her complaint.

## Case 2: Bank advice about cancellation wrong

Mr A opened a bank account and authorised monthly direct debit payments in order to repay a loan with a finance company. After some months of incident-free payments, the account was closed and then reopened several weeks later. The bank could not explain why this happened.

Mr A did not know about the closure or reopening. When the account was reopened the direct debit was not reloaded on to the account. As a result, Mr A missed two payments to the finance company and incurred debt collection costs.

Mr A contacted the bank and asked why the direct debit payments had not been made. He later said he had also asked the bank to cancel the direct debit, but, according to the bank, he asked for the direct debit to be reinstated, which it did.

The following month's direct debit was paid, but a cheque put into the account was dishonoured and the account went into unauthorised overdraft. Mr A changed his address around this time, but did not notify the bank. Bank statements and letters about the unarranged overdraft did not reach him. After failed attempts to contact him, the bank closed the account and referred the debt to a debt collection agency.

After receiving a letter from the collection agency, Mr A contacted the bank and asked for an explanation of the debt. When he said he had cancelled the direct debit, the bank replied that the customer could not cancel direct debits. Rather, the company holding the direct debit authority had to do it.

We noted that a customer had the right to instruct his or her bank to cancel a direct debit. The bank had given him incorrect advice, raising the possibility Mr A had indeed asked for the direct debit to be cancelled.

We found it was possible Mr A had tried to cancel the direct debit. We concluded the best way to resolve matters would be for the bank to write off the debt, and for Mr A to not pursue repayment of the collection costs. The complaint was settled on this basis.

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