

# Direct debits

Direct debiting is a safe, convenient way to pay regular bills. Care is needed, however, in correctly setting up and cancelling direct debit authorities.

A direct debit authority gives an individual or company 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 form from the company (which is then called a direct debit initiator). The company will tell your bank you have given it authority to pay your bill by direct debit. It must give you at least 10 days' notice before debiting the first payment.

Companies with approval to take funds directly from your account fall into three types:

- Non-preferred initiators: These companies must send the signed direct debit authority form to your bank before they can take any payments. Your bank will then manually load the direct debit authority to your account.
- Preferred initiators: These companies don't have to send the signed authority form to your bank before taking a payment. Instead, the direct debit authority is electronically loaded to your bank account by the bank's system when the first payment is requested. Preferred initiators are generally well-known organisations such as other banks, insurers and telecommunication providers.
- Paperless initiators: These are preferred initiators with approval to also set up direct debit payments over the phone or via the internet without requiring your written signature to authorise such payments. After arranging this with you by phone or internet, the direct debit authority will be electronically loaded to your bank account when the first payment is requested.

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.

Most everyday bank accounts allow a direct debit to be set up, but some account types do not. Check with your bank if you are unsure whether your account allows direct debits, and whether a fee for establishment will be charged.

# Lack of funds

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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.

## Canceling 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.

If you cancel a direct debit and then want to reinstate it, you will probably have to complete a signed direct debit form. Preferred initiators cannot request a direct debit again electronically within nine months of your cancelling the authority, to ensure they have your permission.

## Failing to cancel a direct debit

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). We can also require the bank to cancel the direct debit authority, if it has not already done so.

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