

CASH ★ WARS



Friend or Foe?

Getting Direct Debit on your side.

When it's managed and monitored appropriately, paying and being paid by Direct Debit works better all round. Little wonder, then, that as a preferred payment method for businesses and consumers, it's forecast to achieve upwards of 20% volume growth, from £3.3 billion in 2011 to £3.9 billion in 2015, to around £4.3 billion in 2025.

(Source: www.paymentsuk.org.uk)

But to operate effectively, it requires administrative accuracy, and as Direct Debit volumes rise, the number of failed transactions increases. Direct Debit payments can be rejected for a number of reasons: there could be a data capture or onboarding error, invalid bank account details or insufficient funds, or the account might not support them.

In addition, for Paperless Direct Debit and Automated Direct Debit Instructions, banks are increasing their requirements for Direct Debit originators to comply with Know Your Customer (KYC) checks at the point of sign-up. KYC policies are becoming increasingly important globally to prevent identity theft, financial fraud, money laundering and terrorist financing.



20%

On average 10% of new Direct Debit Instructions fail due to inaccurate or bogus data being submitted through Bacs. For some organisations, the failure rate is as high as 20%.

(Source: KPMG Report)



The risks of manual payment collection

Direct Debit represents a major advancement over manual collection methods, with the resource time involved making calls, drafting and mailing letters. Without automation, debts are likely to mount up, cash flow concerns intensify, the use of ungainly spreadsheets increases and staff morale decreases. Customer relationships can suffer, with lost revenue as a result of defections to the competition. Non-compliance with scheme regulations or financial legislation can lead to reputational damage and legal action. And, of course, the effect on cash flow needs to be factored in, with delays in payments undermining financial management and planning.

Why it pays to get Direct Debit right

To prevent wasted time spent dealing with indemnity claims and failed collections, it's vital to ensure that the bank account, and account holder details are validated and verified at the point of sign-up.

With the right details and processes, funds are guaranteed to arrive on the agreed day automatically, and debtors days are reduced. For Receivable departments, the focus can be on investigating real rejections and unpaids, along with other higher value tasks, rather than addressing failures due to manual data capture errors. For customers, offering alternate payment options makes it easier and more convenient to pay.

Automated, paperless Direct Debits help to streamline systems for straight through processing. This increases business profitability by reducing operational costs and cutting out time-consuming processes. Repeat processing, re-keying and checking data at sign up are all simplified at each stage of payments processing as a result. In addition, customer loyalty and repeat purchasing is increased as organisations use automated systems to remove the administrative hurdles. It reduces drop-off rates at point of purchase and renewal, improving the overall customer experience.

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A rejected Direct Debit costs up to £50 per transaction. For an organisation handling just 1,000 transactions a year, this could amount to as much as £10,000 annually.

(Source: Bacs 2013)



Key benefits

Direct Debits

- Increased control with the certainty of getting paid on time, for better visibility of cash and forecasting.
- Automated, regular collections reduce complexity and cost, eliminating the use of spreadsheets and manual administration overheads.
- Upfront bank account validation and verification at source can prevent as many as 70% of collection failures.

(Source: Bottomline Financial Decision Makers survey 2013)

Going paperless

- Paperless Direct Debits (PDD) reduce the amount of data rekeying and paper handling.
- PDDs also reduce the time for the bank to receive and process the Direct Debit Instruction as you don't need a customer's physical signature before you submit. This could reduce the gap between signup and first collection to as little as 5 days, bank permitting.

Be courageous, find out how to improve your Direct Debit collections.

Download our 7 steps infographic.