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Guide to Direct Debit

Everything you need to make the right decision for your organisation.

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Introduction

For membership organisations, associations, and unions, Direct Debits are essential to financial stability.

Choosing the right solution for your organisation is never an easy task – there are lots of varied offerings out there, which all behave in significantly different ways.

The solution you choose can lead you to a path of digital acceleration or hinder your evolution.

We'll explore key things to consider including costs, connecting with your CRM, security, and international payments.
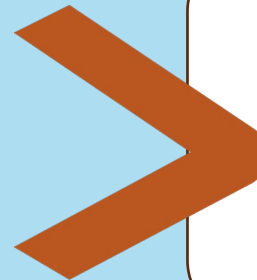
This guide is designed to help you make an informed decision when selecting and implementing a Direct Debit solution.

Contents

1. Costs

As the industry doesn't compare the costs of one supplier against the other with a simple per-transaction cost, here are **3 basic types of cost to help you**:

1. A simple per transaction cost – easy to understand but may work out expensive on high volumes:
    Number of transactions x cost per transaction = Total annual cost

2. A percentage of the transaction amount, capped at a max cost per transaction - this is good for lower volume, high value transactions because of the cap.
    Average transaction x % cost per transaction = Average cost per transaction (uncapped)
    or
    Number of transactions x Average cost per transaction (uncapped) = Total Annual Cost (uncapped)

3. A set amount based on a range of transaction volumes per month/year – this can be great for very high volumes (over 20,000 per month) but may come at a technical cost (see API Integrations).

The first type is obviously the easiest to calculate, but the second and third can be dramatically cheaper depending on your volumes.

So, before you start comparing, it is good to **work out your average monthly volume of transactions, and your average transaction value**, as well as what you estimate these figures will grow to in 5 years' time. Then you can start putting costs into a spreadsheet and comparing.

We highly recommend creating a spreadsheet that converts average monthly volumes and amounts into costs.

If your Direct Debit volumes vary greatly from month to month, then **a set monthly fee** may not be most economical for you. This can happen if you have a large volume of renewals in any one month.

All Direct Debit providers do enterprise licensing when it comes to high volumes (i.e. they will negotiate). **The higher the volumes of transactions, the better your ability to negotiate** around their list prices. You could start negotiating at 5 – 10,000 transactions per month.

Hidden Costs

1. Bank Charges

Most traditional Direct Debit suppliers work in conjunction with your bank, and so there are going to be bank charges on top of what the supplier will list. Each bank has different charging structures, so it is important to know from your bank what their fees will be, normally an added per-transaction fee, so this should be added to the fees in your spreadsheet.

Some banks charge additionally per Bankers' Automated Clearing System (BACS) file uploaded or sometimes downloaded – so this may depend on how you're doing your CRM integration (see <u>Connect your</u> <u>CRM to your BACs solution</u> section). Some Direct Debit providers, like <u>GoCardless</u>, act as the bank as well as the BACS provider, and hence their charges are all-in and include the bank charges.

Whoever is providing your CRM integration may charge partner fees on top of what is listed by the DD provider. Some DD providers do a profit share of the existing fees with their integration partners, some allow partners to put their fee on top of what the provider charges.

2. Staff costs

Direct Debit processing can take up a tremendous amount of **staff time**. This should be incorporated into your cost's matrix as the percentage of a full-time employee salary.

For example, if their salary is £30,000 and they spend 25% of their time doing admin, the real cost is £7,500.

These costs are not insignificant; but with technology, **they can be completely or partially removed**, depending on which supplier you choose.

Tasks might include:

- data entry (if you aren't paperless)
- preparing the submission files for mandates and payments and uploading them to BACs
- downloading files into your CRM
- interpreting failure codes and manually managing failures
- preparing and submitting retry files and associated downloads
- creating communication letters and emails around Direct Debits
- creating and running reports.

Look for suppliers that will facilitate you going paperless easily (see Go Paperless section) and **automate** communications, retries, submissions and downloads – these will impact your staff costs most significantly.

Key takeaways

1. Work out your average monthly volume of transactions and your average transaction value. This will help you compare the type of cost that will work for you.

2. Look out for bank charges and partner fees.

3. Work out the cost of the employee's time spent doing direct debit processes and look for a supplier who can help you remove these costs.

2. Bureau or direct BACS Submitter?

Mandates are a written instruction from a customer to a bank that allows the bank to perform certain actions on their behalf.

To submit mandates and payments directly to BACS, an organisation needs a unique BACS Service User Number (SUN) so that banks can identify where the requests have come from.

To get a SUN requires some bureaucratic wrangling and takes time and effort!

Alternatively, you can piggy-back off a Direct Debit bureau's SUN. These bureaus can submit mandates and payments on your behalf.

This option is only really preferred if you are a smaller organisation with low volumes of Direct Debit.

Having your own SUN is preferred if you have higher volumes of Direct Debits – it's normally cheaper and allows your own company name to appear on your member's bank statements (which makes them happy).

Or…Look out for Direct Debit providers that can offer a **combination of these two** if you are a growing organisation or just want to test a provider first.

It's very quick and easy to get started with a bureau service as there is no legal rigmarole to go through to get a SUN. This may be a good way to test the waters with a new provider.

Also, you can check how easy the process is to change from their bureau service to their direct submission service at a later stage.

Key takeaway

1. Having your own BACS SUN is preferred if you have higher volumes of Direct Debits.
2. Smaller volumes can use a Direct Debit bureau's SUN.

3. Go paperless

Build your own website's mandate creation page

- can be costly

- takes significant commitment to be compliant (your bank will need to inspect and validate the page)

- will need updating as regulations change

- will need to hook this up to a modulus checking (bank account validation) service and, optionally, to address validation software too (e.g. AFD).

Use a hosted mandate signup page from your DD provider

- hosted by the DD supplier

- always up to date and compliant

- will contain modulus and address validation

- mobile friendly.

Look out for:

- supplier forms that you can brand and that fit well into your membership sign-up flow.

- Hosted payment pages to handle sensitive customer data (bank account details), so you simply get a token or ID back from the DD supplier referencing the mandate.

Don't forget

1. Data Security

It's preferable to **NOT** hold bank account details from your members or supporters – they would ideally need to be encrypted and have access control to be GDPR compliant.

2. Communication

Every time a new mandate is set up, a change is made to someone's payment schedule or amount, a BACS-compliant email needs to be sent out.

Look out for DD providers that can automatically send out email communications for you that are always compliant, even if regulations change.

Alternately, look for functionality in your CRM that will easily allow you to create and adjust compliant, responsive templates and schedule them to be sent out at the correct times.

3. Edge cases

There will be some that need paper-based communication, and these will need to be dealt with as edge cases.

If your organisation is taking mandates over the phone, you'll need to follow compliant scripts containing certain questions.

Look out for DD suppliers that can help you with these scripts. Remember, you can't use the public signup forms for staff-driven signups – you will need another staff specific form (sometimes called MOTO – mail-order-telephone-order, although this is normally a credit card specific term).

This form would normally connect with the Application Programming Interface (API) of your DD supplier in a slightly different way to public forms – it has specialist anti-fraud detection on it.

Key takeaways

1. Using a hosted mandate page from your Direct Debit Provider is preferred. They are updated, hold sensitive information and are fully compliant.

2. Emails about mandates needs to be compliant and, ideally, automated.

4. Global payments

When considering a DD supplier, you should think about the various types of Direct Debit payments that need to be accepted (Yes, there are more than one!)

Many DD suppliers now offer European SEPA and Swedish Giropay on top of the UK BACS Direct Debit scheme – which is great if you have **European** members. Some providers also have links with platforms, like **Wise**, to minimise the foreign currency conversion charges back to a UK bank account.

You may want to consider **broader membership bases** in the US (ACH), and Australia, New Zealand (BECS) or South Africa or Canada. There are providers that will allow you to take money from any of these schemes all using the same integration and API, and all into one UK bank account.

There are certain card gateway providers, that are venturing into the world of BACs and SEPA, like **Stripe or GlobalPayments**. However, these should be used with caution as they tend to offer more functionality around the recurring plans model than the ad-hoc payments (see Recurring Plans vs Ad-hoc Payments section).

There is a new BACS-like scheme called **Faster Payments** which allows members to check-out instantly using bank details instead of a credit/debit card (using the underlying Open Banking protocols). Some DD providers are including this with their payment schemes – and some even allow fallback to regular DD if this fails.

This is a massive challenge, not only to existing Direct Debits (since it is immediate), but also to existing card payments (since the fees are potentially far lower).

Key takeaways

If you need to take payments from global currencies, look for a supplier who can:

- minimise the conversion charges

- integrate with your UK bank account.

5. Connect your CRM with your BACS

API Integration

This method submits mandates and payments directly and can receive files (often packaged together in what are called webhooks) back into your CRM automatically.

If you are thinking of going paperless, this is by far the preferred method of integration. **It will save your staff a huge amount of time.**

The best, modern API's are called REST APIs and can send/receive data in JSON format (a human-readable format for storing and transmitting data). This is by far the best API to integrate with.

REST API is intuitive, easier to use, faster and scalable. There's also less of a security overhead – it's easier to keep the API safe. Older APIs, which will consume more developer time, are SOAP or XML-based.

The key thing to look for in a provider is whether there is online documentation of the API (with code samples) with versioning. By providing comprehensive documentation, you can understand and be in full control of the integration.

Code samples allow you to get started quickly without having to configure your integration from scratch each time. Versioning means that any changes or updates to the API are documented fully so that instructions are always up to date.

The documentation should cover mandate submissions, modulus checking, payment submissions, payment plan submissions, but also crucially that can send notifications back to you when there are changes to mandates, or payments made/failed.

Ask a provider the following questions:

1. Can you submit payments in batches, or do they need to be one by one?

2. Can you send an ad-hoc single payment against a mandate as well as a payment plan (recurring plan) against a mandate?

3. Does your DD Provider's API have a simple to understand model with unique ID's for customers, mandates and payments?

4. Is there a level of reporting you can do against these inside your DD provider's system?

The best DD provider APIs will have:

- ✓ file upload/download as a backup
- ✓ support you submitting ad-hoc payments
- ✓ no charge for file submission (only for payments made)
- ✓ the option to take payments on any designated day.

What about your CRM's API?

Are there tools inside your CRM that can push data to a DD-provider's API, on a schedule?

This may have already been written as a Direct Debit solution inside of your CRM, but if not, someone will need to build this.

Consider whether your CRM can receive packages (usually in something called JSON webhooks) coming back from a DD provider, containing payment and mandate updates.

These packages will need to be unpacked and processed against membership subscriptions in your CRM.

File Upload/Download

This is the old-school way of pushing payments out of your CRM. Once or twice a month, your staff need to create a file for new or changed mandates and new payments, export them and then upload them securely to your BACS provider.

About two weeks later they need to download a file of all failed and changed mandates and successful and failed payments from BACS and then upload them to the CRM system and process them. Hugely time consuming!

In addition, the BACS files are full of complex codes which need to be translated into plain English before anyone can understand them.

Hazards of file submission

Time, time, time.

It takes a lot of staff time to complete these processes. There's a lot of waiting time before you know whether your payments have been taken or failed. Time is precious and key in managing member service expectations.

You will likely be limited to two or four collections in a month when you do the file submissions.

Key takeaways

- API integration is the preferred method over File upload/download

- The integration submits mandates and payments and receives files back into your CRM automatically.

- Look for online documentation of the API.

6. Testing

Testing Direct Debits is always notoriously difficult, but there are a few questions to ask and considerations that can make this easier:

1. Sandbox

A sandbox is a testing environment for software. Does your DD provider provide a free sandbox you can connect to your CRM? Can you test out various scenarios that will result in mandate and payment creations and cancellations?

2. Testing actions in the DD Provider

Does it provide test file creation or test webhook creations that emulate actions like a payment succeeding or failing or a mandate being cancelled from the side of the member's bank? Can these be pushed easily to your CRM and their progress tracked?

3. Bulk-testing

The place where Direct Debits tend to fall over is when you are doing bulk processing. How easy is it to create a batch of 1,000 test mandates (with test bank account details) in a sandbox? How easy is it to test payments against all these mandates at once and see the reaction in your CRM system? Can it cope with the response?

Key takeaways

- Ensure you carry out testing using the three techniques mentioned.

- In particular, test how easy it is to complete bulk payments.

7. Migration

If you need to migrate to a new system, you'll need to ask what's the process?

First, if you already have a BACS Service User Number (SUN), you may be able to keep it. You may need a new one, particularly if you are moving to a bureau and are going to piggy-back off their SUN. In this case, you need to get a bulk-change-deed in place which legally allows you to move from one system to another.
This process could take you 6-12 weeks.

Second, you are going to want to be able to download your mandate details (customer ID, bank account and sort code) from your current CRM or DD supplier in a csv format, so you can upload it to the new system. Check whether your new DD provider can give you an Excel template to populate to make this task easier. This will need to happen on the bulk change date stipulated in the bulk-change-deed.

Finally, check that you can then download the new mandate IDs (not the bank details, you never want to touch those ever again for data protection reasons), along with the legacy contact or member ID. This last part is crucial to be able to match up the mandate IDs to contacts in your CRM.

Don't forget to factor in part-paid invoices, for those monthly instalments that are only part way through the annual membership year. You will need to have a schedule of all outstanding payments and ensure the new DD system allows for manual uploads.

Key takeaways

- If you need to use a different SUN you will need a bulk-change deed, which can take 6-12 weeks.

- You will need to move your mandate details to your new system so, check if your new DD provider can give you a template to make this easier.

8. Recurring plans vs Ad-hoc payments

These are the two main ways of providing payment information to your DD Supplier.

Recurring means that you tell the supplier to start taking a set amount each month (or quarter etc.) until you tell them to stop.

This is similar in nature to a regular subscription plan, like Netflix, so is often called '**the Netflix model**'. This type of model suits charities or the simplest membership organisations.

However, for most membership organisations, amounts are likely to **vary month by month or year by year**. For example, if the organisation puts up membership prices, or if an individual misses a single payment and wants to pay double next month.

In these scenarios, what we want is for the CRM system to be the master in determining a schedule of **ad-hoc payments** for each member.

What will be sent across to the DD provider each month will be a list of ad-hoc payments of varying amounts against each mandate.

It's important that your DD provider can do both. Using only the 'Netflix model' will mean starting and stopping plans so frequently that the data management will become a nightmare quite quickly.

Key takeaways

- Your DD supplier should be able to handle both recurring plans and ad-hoc member payments.

9. Reducing Failures and their cost

Direct Debit Failures cost organisations money because it's not an immediate payment method.

The longer the wait to receive notification of payment, the greater the financial implications can be - particularly if you are providing member services during this wait.

Some Direct Debit providers have cut through the traditional red tape of the DD process and shortened payment cycles to as little as 3-4 days after payment submission.

If you can leverage this in your integration, you could save your organisation considerable time and money.

However, be aware that if it is a new mandate submission along with the first payment, it's going to take longer (maybe 6-7 days), and you are also going to need to factor in bank holidays and weekends into your cycle as most billing cycles are based on working days.

Knowing whether a mandate is valid or not before you try to take a payment against it is crucial.

If you have real time integration that notifies your CRM system as soon as a mandate's status is changed – this is going to immediately reduce failed payments.

Consider whether your DD provider can offer automated retries if a payment fails the first time.

Key takeaways

- A real-time integration will notify your CRM as soon as a mandate's status is changed.

10. Reporting and Insights

Direct Debits generate a shedload of data!

Having the correct tools to gather insight on this data can give your organisation a handle on trends, spot errors before they cause damage, and help to manage bulk processes more effectively.

The **first thing** to get to grips with is all the complex coding of the BACS system. If your DD provider turns this into **plain English** for you, then reporting can become a whole lot easier.

For example, an Automated Return of Unpaid Direct Debit (ARUDD) code of 1 refers to the fact that a mandate was cancelled by the payer.

It's important to get this plain English data through the API into the CRM system, so you can put your CRMs advanced reporting tools to work creating **meaningful dashboards, alerts and reports**.

If you have automated processes with API pushes and pulls going on, you are going to need to visualise what's happening in a real-time dashboard. This should look at:

Mandate dashboards
- o New ones submitted by month
- o Mandate failures by month and by reason.

Payment dashboards
- o Payment submissions by month (year on year so you can see this year's trends vs last two years' trends)
- o Payment failures by reason and by date.
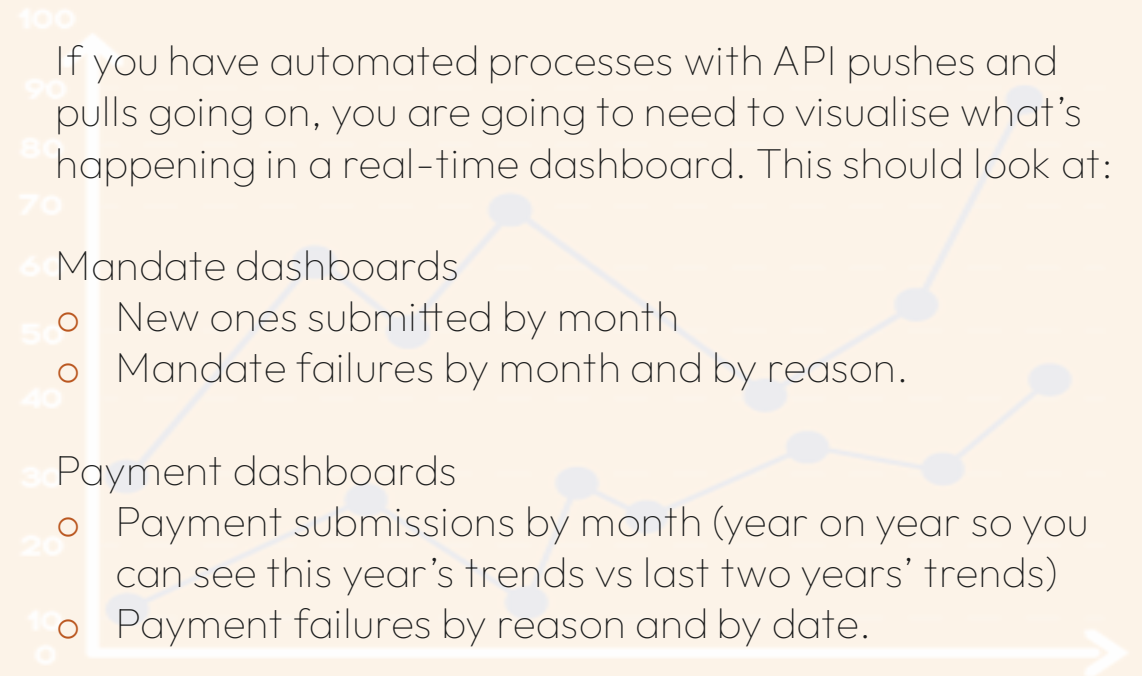
Automated responses for failures can also be done using the automation tools in your CRM.

For example, sending an automated email if a member's payment fails because of insufficient funds that suggest you will add the amount to next month's deduction. These can be done if the failure reasons are clearly written against the payments in the CRM.
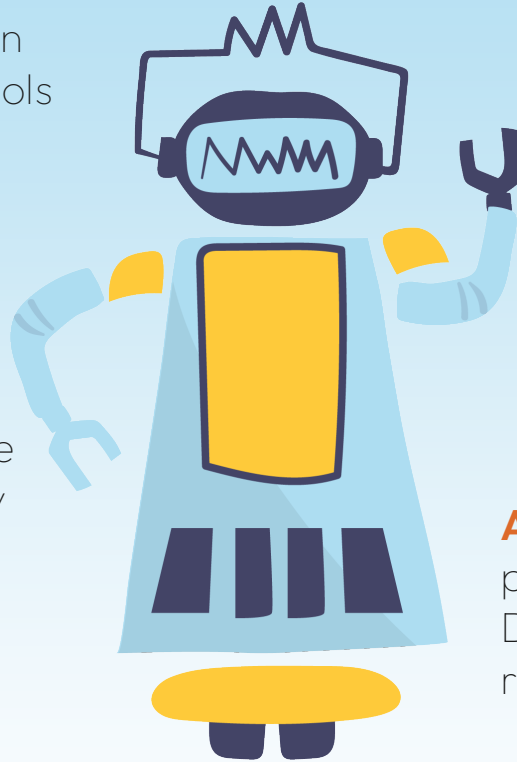
Artificial intelligence is now being put onto payments by some of the more progressive DD suppliers to increase payment success rates and decrease any fraudulent activities.

Look out for the ability to automatically retry failed payments at a time when funds are most likely to be in the members account, or the ability to predict future failures.

Key takeaway

- Your provider should turn complex coding of the BACS system to plain English so you can create useful dashboards, alerts and reports.

Conclusion

The most important thing when comparing the options available is to choose a solution that works best for your organisation.

Remember:

1 Your members want to be assured that:
- their data is being handled securely
- they are informed of changes
- it's a straightforward process to set up a Direct Debit.

2 The aim of any solution should be to:
- save your staff time
- simplify processes
- reduce costs
- help future-proof your organisation.

3 Having your solution integrated with your CRM means you can:
- see a complete view of your members
- see updates on payments and direct debits so you can take actions to reduce payment failures
- support the member experience.

Zentso can help

Zentso helps membership organisations, associations and unions to get strategic value from data and tech, and to continuously evolve and be more successful.

Speak to us if you are looking for a Direct Debit solution, we have years of experience and can guide you through the process.
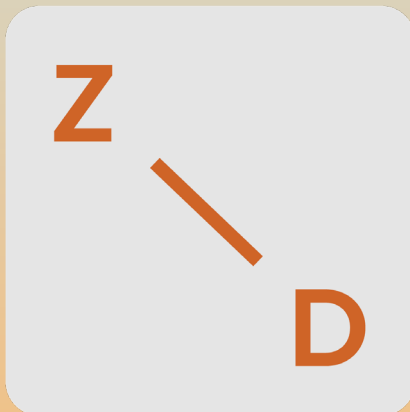
ZenDebit, brought to you by Zentso, is the most efficient and popular way to manage your Direct Debits. Automate processes and see successful and failed transactions in real-time.

About Jyoti

Jyoti is Co-Founder and Chief Revenue Officer of Zentso. He has worked in the NFP sector for over 25 years and is passionate about holistic thinking – both for organisations and individuals.

If you want to be challenged on your tech strategy or on your plant-based diet – ask Jyoti.

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