GOCARDLESS

Direct Debit

A comprehensive user guide to Direct Debit in the UK

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Chapter 1 — What is Direct Debit?

What is Direct Debit?

Direct Debit is an automated payment method that allows merchants to pull payment directly from their customers' bank accounts.

The system has two key features, from which almost everything else follows:

1. **Direct Debit is pull based** - once given a mandate by their customer, it is the merchant who initiates Direct Debit payments. The customer doesn't need to lift a finger.

2. **Direct Debit payments are bank-to-bank** - there are no card networks involved in the Direct Debit scheme. All communications happen directly between the banks.

Direct Debit is pull based

With Direct Debit, it is the merchant who initiates payment collection. This "pull based" nature has considerable benefits:

- **Cash flow.** Direct Debit puts the merchant in control of when they are paid, and can reduce the number of late payments they receive.

- **Automation.** The entire collection process can be automated, reducing admin for both the merchant and their customer.

- **Flexibility.** Unlike standing orders, Direct Debit allows the payment amount and frequency to be varied, keeping the merchant in control.

The pull based nature of Direct Debit also necessitates strong customer protection. This is provided by the Direct Debit Guarantee.

Direct Debit payments are bank-to-bank

Direct Debit operates through the Bacs clearing scheme, rather than through the card networks. This has significant benefits when taking payments on an ongoing basis:

- **Low cost.** Since Direct Debit payments are not routed through the UK's expensive card networks, they are extremely cheap.

- **High retention.** Churn due to card expiry is completely eliminated, so Direct Debit relationships last longer than ongoing card payments.

- **Anyone can pay**. Anyone with a UK bank account can pay by Direct Debit, including any UK business.

Using the UK's bank-to-bank infrastructure, rather than the card networks, also has a disadvantage: <u>Direct Debit payments are not instant</u>.

Use cases for Direct Debit

The level of control Direct Debit gives merchants, makes it perfectly suited to recurring payments and invoicing. Its 3 day payment cycle makes it less suited for payments where instant clearing is required.

Direct Debit is great for...

- **Regular payments** such as subscriptions. Retention rates are exceptionally high, as churn due to card expiry is completely eliminated. An example would be membership organisations (gocardless.com/stories/rock-choir/).

- **Invoicing** for services where instant payment is not required. Examples are digital agencies (gocardless.com/stories/randw-media/) and accountants (gocardless.com/stories/kinder-pocock/)

- **Account customers** who have an ongoing relationship with the merchant. Direct Debit automates the collection process and lets customers simplify the way they pay. Wholesalers (gocardless.com/stories/has-bean-coffee/) are a good example.

Direct Debit isn't so good for...

- **Transactions which need immediate clearing**, such as e-commerce. Direct Debit payments are not instant - see our timings guide for more info.

- **Liquid assets and high value goods**, such as cars or currency. The Direct Debit Guarantee could make these a target for fraudsters.

Direct Debit payments through GoCardless

Our simple online interface makes it cheaper and easier to use Direct Debit than ever before:

- **Online businesses**: We are the leader in online Direct Debit, with a simple API (developer.gocardless.com) that integrates with your website & CRM. This automates the manual processes associated with other providers.

- **Invoicing:** GoCardless integrates with all the major billing software, including Sage, Xero, QuickBooks, FreeAgent and KashFlow (gocardless.com/partners/), to reconcile your Direct Debit payments automatically.

- **Small businesses:** <u>Set up online in under 5 minutes</u> (<u>gocardless.com/features/</u>) with our simple online interface.

To find out more about collecting Direct Debits with GoCardless visit <u>our website</u> (<u>gocardless.com</u>).

Chapter 2 — Getting access to Direct Debit

Accessing Direct Debit

In this chapter, we walk you through options for accessing the Direct Debit Scheme, so you can find the best fit for your business.

There are three main methods for accessing Direct Debit: going directly through your bank, through a Direct Debit bureau, or using GoCardless.

Direct access

With the direct access method, large organisations wishing to manage their Direct Debit collections in-house can become 'direct submitters' or 'Direct Debit originators'. This ensures the lowest transaction fees possible, but the system is complicated and requires significant resources to manage.

To become a direct submitter, you must apply for a Service User Number (SUN) from your bank. The bank assesses your application according to your business's ability to meet the Direct Debit scheme requirements.

It's worth keeping in mind that applying for direct submitter status can be a long process, often taking months. What's more, the banks are unlikely to approve many small businesses because their turnover is too small. Some banks require £1m turnover for the business to even be considered.

Once approved for a SUN, a direct submitter must build the technical expertise in-house to collect, store and submit correct payment information to Bacs. This requires in-depth Direct Debit expertise, as well as Bacs approved Direct Debit management software (bacs.co.uk/services/bacsapprovedservices/pages/approvedsoftware.aspx).

Direct Debit management software is necessary if you want to use the direct access method. It's also useful for consolidating various payment types into one tool. Full-featured packages, such as Bottomline, offer integration with other systems, along with the ability to take payments using a range of Direct Debit schemes, including SEPA and Bacs.

Using the direct access method is not cheap, costing around £15,000 in setup costs and ongoing maintenance charges. There are also transaction fees to consider, along with the costs of Direct Debit management software packages - an unavoidable part of the direct access method.

For large organisations with high payment volumes, the relatively low transaction fees of direct access may outweigh the high overhead costs of setup and management. But for businesses that don't have the resources or the desire to go down the direct submitter route, there's also the option of accessing Direct Debit through a bureau.

Traditional Direct Debit bureaus

If you use a traditional bureau, you'll collect Direct Debit mandates yourself. But instead of submitting payment details directly to Bacs, you'll need to upload or email an Excel file to your bureau.

The bureau handles the Bacs submission on your behalf and emails you with details of any failed payments. When handling your Direct Debit payments, bureaus can either use a SUN specially appointed for you, or their own SUN. Here are more details on what each method involves.

- Using a specially appointed SUN: The bureau sets up an SUN for you, which is a good option if you want your business name to show up on customer bank statements.

- Using the bureau's SUN: The bureau submits and manage payments on your behalf. This option is useful if you want to start taking payments more quickly, and don't mind the bureau's name appearing on customer bank statements.

Traditional bureaus typically withhold approximately 5-20% of the value of each collection to cover any future indemnity claims.

Direct Debit bureaus typically charge for some or all of the following: setup, monthly usage, per transaction, per submission and per mandate. They may also charge penalties for failed payments.

Traditional Direct Debit bureaus can handle some of the manual processes on behalf of your business. But bureaus often come with opaque costs, lack of flexibility and may still require significant amounts of admin.

A new solution that addresses these concerns is needed, which is where GoCardless comes in.

GoCardless: Direct Debit for the digital age

As a dedicated online Direct Debit provider, GoCardless manages the whole payment collection process for you.

GoCardless hooks into your existing business processes, via pre-built integrations with popular accounting and billing software, or via our flexible API for more tailored integrations. There's also the option to manage your payments through a simple online dashboard.

With GoCardless, you can do away with cumbersome paper mandates and get your customers to set up Direct Debit payments online. As soon as a mandate is in place you can start collecting one-off or recurring payments from your customers automatically.

GoCardless charges a simple transaction fee (gocardless.com/pricing/) of just 1% (maximum £2), with no setup fees or hidden charges. All funds are paid out after three working days and there's no limit on the number of transactions you can make.

What's more, the GoCardless Plus plan offers merchants their own SUN, to maintain brand consistency on customer bank statements.Here's a handy comparison chart so you can see the different methods side by side:

	Direct Access	Traditional bureaus	GoCardless
Signup method	Via your bank	Various providers	GoCardless (gocardless.com/).
Application timeline	3-6 months	4-8 weeks	Instant online sign-up (gocardless.com/merchants/new).
Set-up costs	£15,000+ per year	Yes	None
Direct Debit offering	Paper, phone, online	Paper, phone, online	Online as default, plus paper and phone available on Pro plan
Admin	3+ employees	1-3 employees	< 4 hours a week
Fees	Software licensing fees, monthly fees, transaction fees, new mandate fees	Setup costs, monthly fees, transaction fees, new mandate fees, penalty fees	Simple transaction fee (gocardless.com/pricing) only for successful payments
Failed payment fees	Bank fees apply	Yes	None
Chargeback fees	Bank fees apply	Yes	None
Tech requirements	Manual payment management software	Typically no API	Simple, flexible API (developer.gocardless.com)
Restrictions	Bond with sponsor bank (£100k+)	Withhold % of funds. £800 max transaction	None

Type of business	Corporates managing payments in-house	Smaller businesses needing paper-based Direct Debit	Any size of business needing online Direct Debit
International Direct Debit offered?	No	Usually just UK, sometimes UK and Eurozone	Yes, including the UK, Eurozone, Sweden - and with more to come.

Using GoCardless for accessing Direct Debit

As the above summary table shows, GoCardless offers advantages over other methods of accessing Direct Debit. You can sign up online and start taking payments immediately, avoiding hefty setup times of weeks, or even months, that come with other methods.

Setting up GoCardless is free of charge, with a simple per transaction fee once you start taking payments. There are no new mandate fees, penalty fees or any other hidden charges.

If you want your business name to appear on customer bank statements, the new GoCardless Plus plan (gocardless.com/blog/introducing-gocardless-plus/) plan offers this for just an extra £50 per month.

For businesses already using billing and accounting software, GoCardless offers integrations (gocardless.com/partners/) with the most popular packages, including Xero, QuickBooks, Zuora and Sage.

What's more, if your business needs more flexibility, you can use the GoCardless API (gocardless.com/developers/) to create your own tailored integration.

Service User Numbers

Service User Numbers, or SUNs, identify each Direct Debit originator. You will need an SUN to submit directly to Bacs, but not to submit indirectly.

This guide explains how Service User Numbers are used when collecting payment by Direct Debit. You may also want to read our guide to getting access to Direct Debit.

What is a Service User Number?

A Service User Number is a unique identifier for organisations collecting payment by Direct Debit. All communications with Bacs, the clearing service for Direct Debit, use this ID, and it is stored to create a record of the transaction.

Banks use the SUN to look up the name to display on the payer's bank statement, and to find other details about the originator. If the payment is later charged back by the customer, the SUN on the payment is used to identify the originator who is liable for the chargeback. In both cases, details are looked up from a database managed by Bacs.

Owning a Service User Number is a requirement to submit directly to Bacs, but merchants without a SUN can still submit indirectly using a third party's SUN.

Getting a Service User Number

Service User Numbers are issued by Bacs to organisations sponsored by its members (bacs.co.uk/About/Pages/BacsMembers.aspx) — the UK's major banks. Each bank has its own application process for sponsorship, but all look for the following key requirements:

- **Management expertise** to enforce the Direct Debit scheme rules, minimise submission errors and maintain the reputation of the scheme.
- **Financial reserves** to refund any indemnity claims under the Direct Debit Guarantee. Generally these reserves must be placed in a surety bond.
- **Contractual capacity** to indemnify the sponsor bank against any refunds under the Direct Debit Guarantee.

Sponsorship decisions are ultimately at each bank's discretion. In most cases, a SUN will be granted if the above are satisfied, but additional requirements may also be imposed. A common example is the requirement to obtain regulatory approval.

Using a third party's SUN

Organisations which don't own a Service User Number can still submit to Bacs through a third party. This is known as submitting indirectly.

Indirect submissions are still attached to a Service User Number, but the SUN is owned by a third party. This may take one of two forms:

- **Facilities management** through a Direct Debit bureau. The bureau sets up a SUN for each of its merchants, but owns all of these SUNs itself. The name on each SUN takes the form "Bureau re Client" and payments are collected into the bureau's client monies account.
- **Collection through a payments institution** regulated under the Payments Service Directive. A payments institution collects payment under their own name using a single SUN. These payments are then paid out to its clients.

In both cases, the only requirement to become an indirect submitter is to find a Service User willing to make submissions on your behalf. It is this third party who has to satisfy Bacs' requirements.

More details of third parties who can help organisations submit indirectly are available in getting access to Direct Debit.

Service User Numbers and GoCardless

We use a single Service User Number to collect on behalf of all merchants using our GoCardless Standard package. This model means there are no up-front costs or admin to start collecting payment by Direct Debit. Since all payments are collected under a single SUN there are also scale benefits, which we pass on to our customers.

Merchants using GoCardless Plus or GoCardless Pro are given their own Service User Number. This means only the merchant's name appears on customers' bank statements when payments are collected.

GoCardless is regulated as a payments institution by the FCA, and has a contractual relationship with each payer since they complete our online payment pages (gocardless.com/example-checkout/).

Find out more about collecting Direct Debits with GoCardless

Chapter 3 – How does the Direct Debit scheme work?

Direct Debit mandates

Before you can collect payment by Direct Debit, your customer must issue you with a mandate. This mandate is called a 'Direct Debit Instruction', or DDI, although it is commonly referred to as a 'Direct Debit mandate'.

This guide will walk you through the rules around setting up and managing Direct Debit mandates or Instructions. You may also want to read our guides to getting access to Direct Debit and taking payments or download our Direct Debit mandate template (gocardless.com/guides/examples/direct-debit-mandate-template.docx).

What is a Direct Debit mandate?

A Direct Debit Instruction is an authorisation from your customer to collect future payments.

The details of each authorisation are standardised:

1. **All future payments are authorised** so you can collect any amount at any time from your customer.

2. **Your customer must be notified** of each payment before it is collected. See our guide to taking payments by Direct Debit.

3. **All payments are covered by the Direct Debit Guarantee** which protects customers from payments taken in error. See the Direct Debit Guarantee.

In many cases, your customer will have a specific schedule of payments in mind, such as a fixed subscription, when they authorise a DDI to you. The notification requirements of a DDI and the Direct Debit Guarantee help protect them from any other payments taken in error or fraudulently.

How to set up a Direct Debit Instruction

To create a Direct Debit Instruction, your customer must complete a DDI form. Generally, this is done in one of three ways:

1. **Paper** — a paper Direct Debit Instruction form, like this mandate form (gocardless.com/guides/examples/mandate.pdf), can be completed by your customer and returned to you.

2. **Telephone** — your customer's details can be collected over the phone, using a bank-approved script.

3. **Online** — your customer's details can be collected online, using bank-approved payment pages.

Paper Direct Debits

The layout and content of paper Direct Debit Instruction forms are strictly controlled by the Direct Debit scheme rules. The Service User Guide provides full details of these requirements, and is available from your bank. You can also see an example example mandate form (gocardless.com/guides/examples/mandate.pdf).

Once a paper mandate form has been completed and returned to you, its details need to be submitted to the banks (see below). The paper mandate form should be retained as proof that your customer has authorised a Direct Debit.

To save you the work, we've made a template Direct Debit mandate for you to complete. This template should be a good starting place for you, however, you will need to get the form approved by your sponsor bank before using it. We suggest working closely with your sponsor bank to ensure that your Direct Debit mandate form complies with the Direct Debit scheme requirements.

Download the Direct Debit mandate template (gocardless.com/guides/examples/direct-debit-mandate-template.docx).

Paperless Direct Debits

Telephone and online Direct Debits are known as 'Paperless Direct Debits'. Creating Direct Debit Instructions in this way requires special approval from your bank, who need to sign off on all information presented to your customers.

Once payment information and approval have been collected from your customer it must be submitted to the banks electronically (see below). There is no physical copy of the mandate to retain, which can make proving authorisation harder if it is later disputed.

Submitting a Direct Debit Instruction to the banks

Once your customer has completed a Direct Debit Instruction, it needs to be submitted to the banks. This informs your customer's bank of the DDI, and allows you to collect payments against it in future.

Submissions to the banking system are made through Bacs, the clearing service for Direct Debit. You must create a file containing details of each DDI and transfer it to Bacs. More details on the submission process are available later in this guide.

Once submitted to the banks, the Direct Debit Instruction will be active within a couple of working days (see Timings). Once active you can start taking payments against it.

If anything goes wrong during the DDI setup process, you'll be alerted by a message from Bacs (see the AUDDIS section in Messages from the Banks)

Managing your Direct Debit mandates

Once a Direct Debit Instruction is set up, you can cancel it by submitting a cancellation message to the banks. Your customer can also cancel it through their bank.

You will receive a message from Bacs whenever there are changes to your Direct Debit mandates (for example, if a payer cancels their Direct Debit mandate). For full details on how these messages are received, and their meanings, see the ADDACS section of Messages from the Banks.

Direct Debit mandates through GoCardless

GoCardless provides an optimised experience for your customers to create new DDIs online:

- **Customer setup flow** is optimised, with simple online payment pages (gocardless.com/example-checkout/).
- **Submitting mandates** to Bacs is handled on your behalf.
- **DDI management** is automated in response to messages from Bacs.

Taking payments by Direct Debit

Once you have a Direct Debit Instruction set up with your customer, you can collect Direct Debit payments from them at any time. To do so you just need to notify your customer and submit the payment to Bacs correctly.

This guide will walk you through notifying your customer, submitting a payment to Bacs and the response messages you will receive.

Notifying your customer of payments

Before you can collect a Direct Debit payment from a customer, you must give them 'Advance Notice'. Essentially, the scheme rules require that your customer is informed of each payment before it leaves their account.

For regular payments of a fixed amount, a single payment notification containing details of the frequency and amount can be issued. On the other hand if your payments vary, either in frequency or amount, advance notice is required before each one and must contain the payment date and amount.

Notices given in writing or electronically should be as clear as possible, and must be signed off by your sponsor bank.

There is one exception to the advance notice requirement: if your customer explicitly requests that a specific payment is taken immediately then advance notice is not required for that debit. For example, your customer may request that a single payment is taken from them as soon as possible, waiving the need for advance notice.

Submitting payment requests to the banks

Payment requests are submitted to the banks through Bacs. Each request is routed to your sponsor bank and your customer's bank. On the day the payment is due, your bank credits your account, while your customer's bank debits theirs. The two banks then settle-up between themselves.

Submissions to Bacs happen through secure, Bacs approved software. See more detail on the submission process.

Post-submission

Once submitted it takes several working days to know if a payment has succeeded or failed. Full details of the timings for Direct Debit payments are in the timings section of this guide.

If a payment is successful your account will simply be credited. If, on the other hand, a payment fails, Bacs will send a message detailing the failure. For full details on how these messages are received, and their meanings, see the ARUDD section in Messages from the Banks.

Indemnity claims

The Direct Debit Guarantee allows customers to request a refund for Direct Debits taken from their account at any time. Whilst in practice only 0.2% of payments receive such refund requests, it's important to understand the process. See the Direct Debit Guarantee for more information.

Merchants are notified of refund requests via a message from Bacs (see the DDICA section in Messages from the Banks). The amount refunded to the customer is then reclaimed from the merchant automatically 14 working days later.

Taking Direct Debit payments through GoCardless

GoCardless processes Direct Debit payments on your behalf, including:

- **Notifying customers:** GoCardless sends customers a bank-approved advance notice of each payment.
- **Submitting payment requests:** GoCardless handles all submissions to Bacs on your behalf.
- **Collecting as fast as possible:** GoCardless has optimised the Direct Debit collection process to collect funds as fast as possible.

Find out more about collecting Direct Debits with GoCardless

The Direct Debit Guarantee

The Direct Debit Guarantee protects customers from payments taken in error. In the case of any incorrect or fraudulent payments, the payer is entitled to a full and immediate refund from their bank.

The Direct Debit Guarantee (or the "Direct Debit Indemnity") is the Direct Debit scheme's customer protection. The Guarantee protects customers against payments made in error or fraudulently, making Direct Debit the UK's safest payment method. The full text of the Direct Debit Guarantee is available below.

This chapter describes the protection your customers receive, your obligations under the Direct Debit Guarantee, and how to dispute an invalid refund claim.

The Direct Debit Guarantee rules

The Direct Debit Guarantee

- This Guarantee is offered by all banks and building societies that accept instructions to pay Direct Debits.

- If there are any changes to the amount, date or interval of your Direct Debit GoCardless will notify you 3 working days in advance of your account being debited or as otherwise agreed. If you request GoCardless to collect a payment, confirmation of the amount and date will be given to you at the time of the request.

- If an error is made in the payment of your Direct Debit, by GoCardless or your bank or building society, you are entitled to a full and immediate refund of the amount paid from your bank or building society – If you receive a refund you are not entitled to, you must pay it back when GoCardless asks you to.

- You can cancel a Direct Debit at any time by simply contacting your bank or building society. Written confirmation may be required. Please also notify us.

The Direct Debit Guarantee protects customers in three ways:

1. **Notifications** — customers must be notified in advance of each payment. Failure to follow notification requirements may result in a merchant being barred from the scheme. This is typically 10 working days before a payment is taken, but a shorter notice period can be agreed. See our guide to taking payments for more details.

2. **Refunds** — customers are entitled to a full and immediate refund of any payment that has been taken in error.

3. **Cancellations** — customers can cancel a Direct Debit mandate at any time by contacting their bank. For more information see our guide to cancelling Direct Debit mandates (gocardless.com/guides/posts/cancelling-direct-debit/).

Each of the above protections are enforced by the banks and so form an intrinsic part of the Direct Debit scheme. Refunds and cancellations are processed by the payer's bank without prior discussion with the merchant.

The indemnity claim process

Under the Direct Debit Guarantee, the rules around refunds are particularly strong. A customer can request a refund (known as an "indemnity claim") for any payment, and provided the bank agrees with the validity of their indemnity claim, the customer will receive an immediate refund. Further, there is no time limit on when indemnity claims can be made.

To raise an indemnity claim, a customer must notify their bank that they believe there has been an error. This "error" is defined broadly, and includes any dispute about the amount taken or the date it was taken.

The customer's bank will generally accept the word of the payer, and if they do will immediately credit them with a full refund. They will then notify the merchant of the indemnity claim via a DDICA message with a reason code, available through Bacs. The amount refunded to the customer will be reclaimed from the merchant automatically 14 working days later.

How to challenge a Direct Debit Guarantee indemnity claim

Indemnity claims can be challenged prior to settlement if the paying bank makes one of the following mistakes:

- The indemnity claim has been directed to the wrong service user

- The same indemnity claim has been submitted more than once

- The reference was not included or was incorrect

- The amount of the indemnity claim does not correspond to the payment made

- The indemnity claim was preceded by an ARUDD (Advice of Unpaid Direct Debit) for the same collection

If one of the above apply, you may be able to challenge the indemnity claim.

Contact details for the challenge process are provided on the BACS website (bacs.co.uk/

Resources/BanksCentralContacts/Pages/BanksCentralContacts.aspx) but you will need to log onto the password protected area of the site. Once you are logged in additional links will appear in the left hand navigational menu below the "DDIC" tab.

How to dispute an indemnity claim

Merchants may not agree that an indemnity claim should be upheld. Within the Direct Debit scheme there is limited scope for appeal, but fraudulent indemnity claims can be dealt with in the courts.

The only grounds to dispute an indemnity claim within the Direct Debit scheme itself are:

1. The customer's bank has made an error in raising the indemnity claim. For example, the customer's bank may have mistakenly sent the same indemnity claim twice.

2. The customer's bank failed to inform the merchant after the customer's mandate was cancelled, and then allowed payment to be taken under the cancelled mandate. In this case the customer's bank are liable for the indemnity claim, as they are responsible for it.

3. The customer claims they never signed a Direct Debit Instruction, but the merchant can produce a signed paper DDI, which the customer then accepts.

Such counterclaims must be submitted to your sponsor bank within 14 working days of an indemnity claim being settled. Any counterclaims made after this deadline will be automatically rejected.

To make a counterclaim under the Direct Debit scheme you will need to provide your sponsor bank with the following details:

1. The date and amount of the indemnity claim

2. Your bank account details, SUN and reference number

3. A copy of the indemnity claim

If the claim succeeds, it can take another 120 days for the funds to be refunded to you.

Given the limited scope for appeals within the Direct Debit scheme, most disputes happen outside of it. The Direct Debit Guarantee does not impact any contractual agreements between a merchant and their customer, and fraudulently charging back a Direct Debit payment is a criminal offence, covered by the 2006 Fraud Act.

The Direct Debit Guarantee in practice

In practice, less than 0.2% of all Direct Debit payments are refunded via the Direct Debit Guarantee. This rate, however, varies significantly depending on business type, as does the severity of the indemnity claim.

The risk of indemnity claims under the Direct Debit Guarantee is particularly high for businesses selling:

- **High value goods** such as cars, where the merchant stands to lose a lot from a single fraudulent indemnity claim.
- **Liquid assets** such as currency or loans, which could be a target for fraudulent indemnity claims.
- **Services likely to see indemnity claims**, such as gambling and payday loan services.

The risk of facing an indemnity claim can be minimised by:

- **Giving proper advance notice.** If customers are provided the required advance notice they will be able to raise any issues or cancel the payment before it is made. For more information see our guide to advance notice (gocardless.com/guides/posts/advance-notice/).
- **Providing good customer service.** Clear contact information and good, easy to reach customer service will encourage customers to bring any complaints to you before seeking a refund from their bank.
- **Promptly processing cancellation requests.** Direct Debit Instruction cancellation requests should be processed immediately to avoid attempting payments on a cancelled mandate.
- **Following the Direct Debit scheme rules.** Make sure you and your provider precisely follow the Direct Debit scheme rules - including any updates.

The Direct Debit Guarantee in action at GoCardless

GoCardless helps you manage indemnity claims. If a claim is made by one of your customers we will notify you immediately. We will then work with you and your customer to understand the reason, and retake the payment if appropriate.

The GoCardless processes are designed to minimise the risk of an indemnity claim and to make sure you always abide by the Direct Debit Guarantee and the Direct Debit scheme rules.

These include:

- **Invoices sent in advance for you.** Under the GoCardless terms and conditions customers agree to a three day notice period. GoCardless automatically notifies your customers via email 3 working days in advance of a payment.
- **Provide clear contact information and good customer service.** GoCardless offers a first stop for customer support helping you to manage any indemnity claims from your customers.
- **Follow the Direct Debit scheme rules.** GoCardless keeps up to date with all Direct Debit scheme rules. We precisely follow the rules and help you do the same.

Find out more about collecting Direct Debit payments with GoCardless.

Direct Debit timings

Unlike card transactions, Direct Debit is not an instant payment method. Payments take at least 3 working days to clear, and in most cases advance notice must be given to the payer before the payment process can be initiated.

This guide details the timings for Direct Debit, and how you can optimise them.

Advance notice

Except for the cases below, you must notify your customer before submitting a payment to be collected by Direct Debit. By default, the amount of advance notice required is 10 working days, although this can be reduced through agreements with your customer and with your bank.

Notable exceptions to this rule are:

- **Explicitly authorised payments**, where a customer authorises a specific payment to be taken immediately. This authorisation can only apply to a single payment at a time.

- **Fixed payment schedules**, where a customer has already been notified of the date and amount of each payment (for example, they were informed that £10 would be collected from them on the 1st of every month).

See our guide to taking payments for more details.

Timings after payment submission

Once submitted to the banks, Direct Debit payments are processed using the Bacs three day cycle. Because of the specifics of how Direct Debit works they can only be considered successful if no failure report is received several days later.

Full details of the optimised collection time is provided below, but in summary:

- If a Direct Debit mandate is already in place, payment is collected two working days after submission, can be considered 99% confirmed 3 working days after submission, and 100% confirmed after four working days.

- If a Direct Debit mandate (gocardless.com/direct-debit/mandates/) needs to be created, payment is collected four working days after submission, can be considered 99% confirmed five working days after submission, and 100% confirmed after six working days.

The key to understanding both payment timings is the Bacs three day cycle.

The Bacs three day cycle

All Direct Debit processes operate using the Bacs three day cycle. Designed in the 1970s, the cycle specifies the timescales on which banks must respond to input from each other.


- **Working day 0 (submission):** A message (e.g., a payment request) is submitted to Bacs between 7:00am and 10:30pm. Bacs then distribute this request to the relevant parties overnight.
- **Working day 1 (processing):** Having received the message at 6:00am, the relevant parties prepare to respond. For example, your customer's bank would prepare to debit their account.
- **Working day 2 (action):** All parties take the action required. For example, your customer's bank would debit their account, whilst your bank would simultaneously credit yours.

The Bacs three day cycle is used for collecting payment by Direct Debit, setting up new Direct Debit Instructions, and for notifying the merchant of any payment failures. Chaining several three day cycles together gives the optimal timeline for collecting a payment by Direct Debit.

Collecting payment against an existing mandate

A single Bacs processing cycle is used to collect a payment against an existing Direct Debit Instruction. Collection therefore takes two working days:
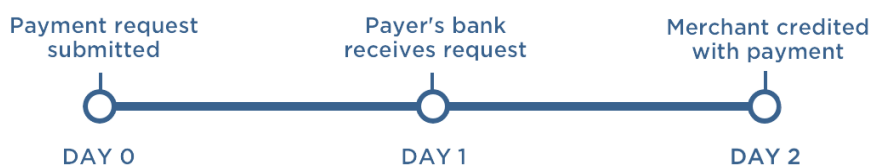
However, it is important to understand what happens when a payment fails. Because of the way Direct Debit works, even payments which have failed will be credited to your account on day 2. If your customer's bank thinks the payment should not have happened (if the customer's account was overdrawn, for example) they will notify your bank to get the payment reversed. Failure

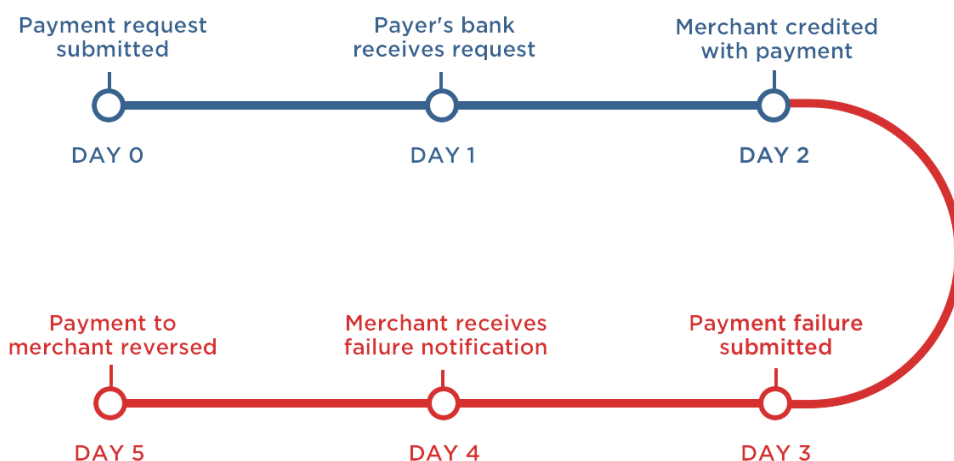notifications are sent via an additional Bacs three day cycle, and generally the customer's bank will submit this notification on working day 2 (the day the payment was due):
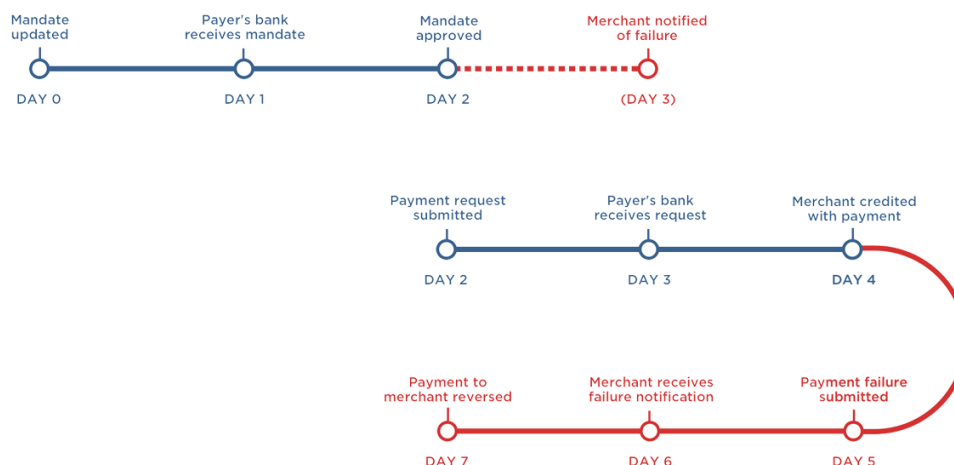
Payment request submitted — DAY 0

Payer's bank receives request — DAY 1

Merchant credited with payment / Payment failure submitted — DAY 2

Merchant receives failure notification — DAY 3

Payment to merchant reversed — DAY 4
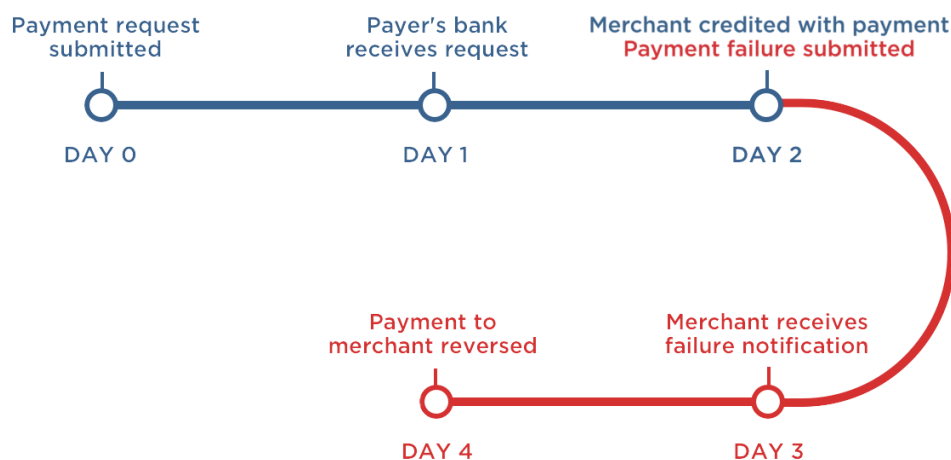
However, in around 1% of cases the notification is only submitted the following day. In this case it is received by the merchant's bank 4 workings days after payment submission:

Payment request submitted — DAY 0

Payer's bank receives request — DAY 1

Merchant credited with payment — DAY 2

Payment failure submitted — DAY 3

Merchant receives failure notification — DAY 4

Payment to merchant reversed — DAY 5

If a failure notification is received, the payment will be automatically reversed. As a result, a payment cannot be considered complete until there is no receipt of failure notification on day 4.

Collecting payment when no mandate exists

If you don't already have a mandate with your customer, one needs to be set up before payment can be collected. This adds an additional Bacs processing cycle. Taking into account the 1% of cases where failure notifications are submitted a day late, collection through confirmation takes six working days:

gocardless.com

As indicated above, payment requests can be submitted as soon as a mandate has been approved, on day 2. Submitting a payment request before this (for example on working day 0), is explicitly disallowed by the scheme.

Non-working days and optimising timings

Bacs provide a definitive list of working days for the Direct Debit system (bacs.co.uk/Resources/Pages/ProcessingCalendars.aspx). Submissions to the banks cannot be made on non-working days, and the banks themselves will not process any Bacs messages on non-working days.

While the banks may not work on non-working days, it is possible to receive messages they previously sent you. For example, payment failure reports distributed overnight on a Friday are available to download on a Saturday morning.

Payment timings with GoCardless

GoCardless process all Direct Debit payments according to the fully optimised timetable above. This means that payments will reach your account after 5 working days, or 6 days if no mandate exists.

To find out more about collecting Direct Debits with GoCardless visit GoCardless.com.

Submitting DDIs and payment requests to the bank

In the Direct Debit scheme, all communications with the banking system go through the Bacs clearing service. Therefore, submitting and receiving messages from Bacs is essential to collecting payments by Direct Debit.

To collect Direct Debit payments, any new mandate or payment requests must be submitted through Bacs. This guide details how to submit new DDIs and payment requests to Bacs. For details on receiving update messages, see Receiving messages from Bacs.

What is Bacs?

Bacs is a UK payment system used to transfer payments directly from one bank account to another. Bacs stands for Bankers' Automated Clearing Services. For further details on Bacs see our guide to Bacs and Bacs payments (gocardless.com/guides/posts/bacs-payments/).

Submissions to Bacs happen through secure, Bacs approved software.

What is Bacs Approved Software?

Bacs Approved Software is software which Bacs have assessed to meet certain standards for quality. For further details see our guide to Bacstel-IP and Bacs Approved Software (gocardless.com/guides/posts/bacstel-ip/).

The submission process

New Direct Debit Instructions and payment requests are submitted to Bacs by uploading an 'input file'. The contents of this file depend on the submission, but the process is always the same:

1. An input file is created with the required structure, details of which are provided below. Separate files are required for DDI and payment request submissions.

2. The file is uploaded using Bacs approved software (bacs.co.uk/Bacs/SoftwareSuppliers/ ApprovedSoftware/Pages/Index.aspx), which helps ensure the security of the Direct Debit system.

3. Bacs generate an 'input report' and send it to the submitter to confirm receipt of the file and its contents.

4. Once successfully submitted, the contents of the Input File are processed over a three day cycle (see Timings).

Generally, you'll use Bacs approved software to create the input file itself, but it's useful to understand its structure. An example input file for submitting DDIs is available here (https://gocardless.com/guides/examples/Input-DDIs.html), and one for payment requests is here (gocardless.com/guides/examples/Input-payments.html). The key to understanding the entries in both files is:

Note that a file containing DDIs must not contain payment requests.

You may also have noticed that the payment request file contains an extra 'CONTRA' line - all the other lines specify an amount that must be debited from your customer's bank, while this line specifies how much must be credited to your account.

Submitting Direct Debit Instructions

The transaction codes for submitting DDI actions to Bacs are relatively straightforward, as there are only two actions a service user can take: creation and cancellation. A different transaction code is used for each:

Code	Use case
0N	Create a new DDI, or re-instate a DDI which has been cancelled
0C	Cancel an existing DDI

For more details on setting up DDIs, see Direct Debit mandates

Code	Bacs reason	More details
3	Account transferred to a new bank or building society	Includes new bank details, to which you will need to send a new DDI.
C	Account transferred to a new bank or building society	Includes new bank details. There is no need to send a new DDI, but you should update your records.
E	Instruction amended	Your customer has changed the name or other details on their DDI, and you should update your records. No need to submit a new DDI.
R	Instruction re-instated	A cancelled DDI has been re-instated by your customer's bank.

Submitting Direct Debit payments

The transaction codes for submitting payment requests are slightly more complicated, as they

Code	Bacs reason	More details
0	Refer to payer	The payer's bank wasn't in a position to pay the Direct Debit. Generally this is due to insufficient funds. You should contact your customer and arrange to re-try taking the payment.

depend on previous payment requests:

Code	Use case
01	The first collection under a DDI. This code is also used after any transfers, reinstatements, or amendments to a DDI (e.g., after a payer updates their details)
17	Standard collections under a DDI. Use this for all regular payments
18	Retries of failed payments. Bacs best practice is NOT to use this code, unless your customer has cancelled their DDI since the failure. Instead you should submit a new payment request with the same transaction code used for the failed payment
19	Final Direct Debit collections. The paying bank will mark your customer's DDI as expired after this payment

For more details on taking Direct Debit payments, see taking payments by Direct Debit.

Code	Bacs reason	More details
8	Amount not yet due	Usually caused by submission of a payment before a DDI is fully set up (less than 2 working days after submission - see timings) (gocardless.com/direct-debit/timings/). This may also be raised if you attempt to take a payment before the date your customer was notified of.
9	Presentation overdue	You attempted to collect a payment more than 3 working days after the date you notified your customer of.
A	Service user differs	Your details don't match the details on the customer's DDI.

Submitting to Bacs through GoCardless

GoCardless provides a simple but powerful user interface for creating DDIs and payment

Code	Bacs reason	More details
4	Advance notice disputed	Your customer has disputed having been notified of this Direct Debit.
7	Amount differs	Your customer has disputed that the amount taken differs from the amount they were notified of.

requests. We then create and submit all messages to Bacs for you.

Find out more about collecting Direct Debit payments with GoCardless

How to handle Direct Debit reports and messages from the banks

In Direct Debit, all communications with the banking system go through the Bacs clearing service. Submitting and receiving messages from Bacs is therefore essential to collecting payments by Direct Debit.

This guide details how to receive updates from Bacs. Updates could include a notification about payment failures, Direct Debit indemnity claims, or changes in your DDIs. In this article, we'll discuss each of message types in order.

You may also be interested in our guides to taking payments and submitting payments to Bacs.

Receiving messages from Bacs

Each working day, if the banking system has messages for you, Bacs will make new reports available to you at 6am. These can either be downloaded manually from the Bacs payment services site (paymentservices.bacs.co.uk/) or processed by your Direct Debit software.

Each report is for a separate notification type, and contains a line for each event of that type. The different reports and their reason codes are described below.

Direct Debit Instruction notifications

Notifications about your Direct Debit Instructions are received as AUDDIS (gocardless.com/direct-debit/receiving-messages/#auddis-messages) (Automated Direct Debit Instruction Service) or ADDACS (gocardless.com/direct-debit/receiving-messages/#addacs-messages) (Automated Direct Debit Amendment and Cancellation Service) messages.

AUDDIS messages

AUDDIS messages relate to the DDI setup process, and cancellations initiated by the merchant. If there have been any problems with the setup or cancellation you'll receive an AUDDIS message.

Generally, AUDDIS messages are generated by your customer's bank, and are received three working days after a DDI is submitted (see Timings for more information). In some cases, however,

Bacs will identify problems with your submission before passing it to your customer's bank, and trigger an AUDDIS message immediately. For examples, see this AUDDIS file from a bank (gocardless.com/guides/examples/AUDDIS-bank.html) and this AUDDIS file from Bacs (gocardless.com/guides/examples/AUDDIS-bacs.html).

AUDDIS messages can be received for a number of reasons. These can be grouped into the below.

Errors in the bank account details you provided:

Code	Bacs reason	More details
2	Payer deceased	You have attempted to set up a DDI on the account of someone who is deceased. Extremely rare.
3	Account transferred	You have attempted to set up a DDI on a customer's old bank details. You will need to submit a new DDI using their new details.
5	No account	The account number your payer used doesn't match any bank accounts at the branch identified by their sort code.
B	Account closed	You tried to set up a DDI on a closed account.
C	Account transferred	Like 3, but with new account details provided, so you can update your DDI. No need to resubmit.
L	Incorrect payer's account details	The sort code and account number your customer provided failed a publicly available "modulus check" to test if they could possibly be valid. You can perform these checks yourself before submitting to Bacs.

Errors in the rest of the DDI, or the way you submitted it:

These codes should never appear for an optimised Direct Debit process.

Code	Bacs reason	More details
7	DDI amount not zero	The "amount" on any DDI submission should be zero, as all DDIs are for an unlimited amount.
I	Payer reference is not unique	The reference field on the DDI you submitted was already being used for another DDI you have with this customer.
M	Transaction code / user status incompatible	Only an issue when converting from standing orders to Direct Debits.
O	Invalid reference	The reference field on the DDI didn't comply with AUDDIS rules, e.g., because it used special characters.
P	Payer's name not present	You didn't include a name for the payer on the DDI.
Q	Service user's name blank	You didn't include your business name on the DDI.

Direct Debit Instructions cannot be set up on the requested account:

Code	Bacs reason	More details
F	Invalid account type	The account belongs to a type of accounts which can't have DDIs set up on them. For example, some savings accounts do not allow Direct Debits.
G	Bank will not accept Direct Debits on account	Direct Debits are disabled for this specific account, for example because the customer has requested this from their bank.
N	Transaction disallowed at payer's branch	Direct Debits can't be collected from this sort code. For example, this sort code may be reserved for savings accounts.

Errors cancelling a DDI:

Code	Bacs reason	More details
1	Instruction cancelled by payer	Usually received when cancelling a DDI that has already been cancelled. Exceptionally, may be sent when the customer cancels their DDI shortly after setup, and the bank incorrectly sends an AUDDIS message instead of an ADDACS message.
6	No instruction	There was no Direct Debit Instruction to cancel matching the details you submitted.
H	Instruction has expired	The Direct Debit Instruction you requested to cancel had already expired.
K	Instruction cancelled by paying bank	Similar to 1, but the original cancellation was triggered by the paying bank.

ADDACS messages

ADDACS messages relate to amendments or cancellations of DDIs that are made by your customers. They are not avoidable, as all ADDACS reports are triggered by your customers, but some require you to take specific action.

An example ADDACS report is available here (gocardless.com/guides/examples/ADDACS.html)

ADDACS messages can be grouped into those relating to cancellations, and those relating to amendments, as below.

The DDI has been cancelled:

Code	Bacs reason	More details
0	Instruction cancelled - refer to payer	Catch-all for cancelled instructions.
1	Instruction cancelled by payer	Your customer's bank cancelled their DDI at their request.
2	Payer deceased	
B	Account closed	Your customer closed their bank account, which has cancelled your DDI with them.
D	Advance notice disputed	Your customer has notified their bank that they dispute the amount of notice specified on their DDI. Further payments should not be collected until the dispute is resolved.

The DDI has been amended:

Payment request notifications

Notifications about payment requests you've submitted are received as ARUDD (Automated Return of Unpaid Direct Debit) or DDICA (Direct Debit Indemnity Claim Advice) messages.

ARUDD messages

For successful payment requests you won't receive any notification from Bacs at all. If, on the other hand, your payment fails, you'll receive an ARUDD message with a reason code describing the failure.

You can view an example ARUDD message here (gocardless.com/guides/examples/ARUDD.html).

Many of the reasons for payment failure can be easily avoided. Below is a comprehensive list of all failure reasons, with details of how to avoid them.

Insufficient funds:

Once optimised, this should be 90% of the ARUDD messages you receive.

Mandate no longer up-to-date:

These failures are largely avoidable by regularly processing ADDACS reports. They cannot be entirely eliminated, however, due to the time lag between payment submission and collection:

Code	Bacs reason	More details

1	Instruction cancelled	You tried to collect payment against a cancelled DDI.
2	Payer deceased	Your customer's DDI will also have been cancelled.
3	Account transferred	Your customer's DDI has been transferred to a new bank account, and you submitted payment to the old account.
5	No account (OR wrong account type)	The paying bank didn't recognise the account number you submitted. It's likely that no DDI is set up.
6	No instruction	Your customer doesn't have a DDI set up with you. In rare cases, this may be due to a small bank requiring additional time to set up a Direct Debit.
B	Account closed	Your customer's DDI has been cancelled as they've closed their bank account.

Mistakes in payment request submission:

These should never appear for an optimised Direct Debit process.

Customer disputes payment:

DDICA messages

If an indemnity claim is raised against one of your payments you'll receive a DDICA (Direct Debit Indemnity Claim Advice) report from Bacs. For more information about indemnity claims, see the Direct Debit Guarantee.

You can see an example DDICA report here (gocardless.com/guides/examples/DDICA.html).

The reasons for indemnity claims can be grouped into three distinct areas.

- Problems with a specific payment collection
- Payments collected after a mandate has been cancelled
- Payer disputes having set up a mandate

There is also a reason code for indemnity claims raised at the merchant's request. This is the safest way to refund a payment taken by Direct Debit, as it ensures a subsequent indemnity claim cannot be raised (which would cause the refund to be paid twice).

Input reports

Every time you submit payments or DDIs to Bacs, you'll receive an Input Report summarising your submission. This provides a useful check that you've submitted the details that you think you have. The report that Bacs send you is the definitive version of what they have received.

Receiving messages with GoCardless

GoCardless receives, interprets and actions all messages from Bacs on your behalf. Where necessary, we will notify you immediately and work with you and your customers to resolve any issues.

Find out more about collecting Direct Debit payments with GoCardless

Transferring Direct Debit mandates - the bulk change process

The bulk change process is a simple way to transfer your existing Direct Debit mandates over to another provider

In this guide, we'll walk you through the process of transferring your Direct Debit mandates to another Direct Debit provider. We'll also address some of the most frequently asked questions about the bulk change process.

Direct Debit mandates can be updated to reflect changes in merchant name, reference, or Service User Number (SUN). Combining these changes is a simple way to transfer mandates between providers.

What is bulk change and how does it work?

Bulk change is the process for updating Direct Debit mandates. It allows the merchant name, reference and SUN on a mandate to be changed, as long as:

- Customers are notified of the change (although they don't need to take any action)

- The new SUN owner agrees (if relevant) and so does their sponsor bank

- The old SUN owner agrees (if relevant) and can assist in the transfer

How do I transfer my Direct Debit mandates to GoCardless?

GoCardless has managed the entire transfer process for merchants such as Boost Capital (gocardless.com/stories/boost-capital/) and SLM Connect (gocardless.com/stories/slm-connect/). We've processed over 250 bulk changes, and will work with you to handle the whole process without causing any disturbance to your customers. Your existing customers won't need to take any action whatsoever, and we offer our whole transfer process service free of charge.

I want to switch to GoCardless from my current Direct Debit provider. Do I need to get authorisation from them?

Yes, you'll need to get their agreement before proceeding.

Do I need to notify my customers?

Yes, you need to inform them of the change in writing, using bank-approved wording. An example letter is available here (gocardless.com/guides/examples/customer-notification.pdf). Customers don't need to opt-in or set up new mandates, as their original authorisation to you as the merchant is sufficient.

How long does the process take?

Timelines are the same for each type of mandate. However, in reality, the actual timeline may differ based on various parties involved, for example one bureau may be slower than another at processing paperwork.

Here's an example of the timeline for changing the SUN:

4+ WEEKS BEFORE
Inform new and old SUN owners of the change. The sponsor banks for each SUN must then agree to the change.

3 WEEKS BEFORE
Complete and submit two forms to the sponsor bank of the new SUN owner:

1. The Bulk Change Deed (gocardless.com/guides/examples/bulk-change-deed.pdf) transfers liability for indemnity claims to the new SUN owner

2. The Notification of Change Form (gocardless.com/guides/examples/notification-of-change-form.pdf) informs the new SUN owner's sponsor bank of the size and date of the change.

0-3 WEEKS BEFORE
Notify payers of the change in writing using bank-approved wording. An example letter to payers is available here (gocardless.com/guides/examples/customer-

notification.pdf).

2 WORKING DAYS BEFORE

Submit final payments under old SUN.

CHANGE DATE

Process the change. Bulk changes are processed by cancelling the original mandates at the same time as creating new ones.

3 WORKING DAYS AFTER

Payments can be submitted using the new SUN from this day onwards.

How do I transfer mandates between Direct Debit providers?

Since the bulk change process allows the SUN field to be updated, it also allows mandates to be transferred between Direct Debit providers. The SUN field simply needs updating to that of the new provider. The following transfers are possible:

- **Your own SUN --> Third party provider**

- **Third party provider --> Third party provider**

- **Third party provider --> Your own SUN**

Transfers follow the same timeline as any other bulk change, and no input is required from your customers.

Can I continue to collect payments from my customers during the bulk change process?

Yes, you can. GoCardless will handle the whole process so that your customers remain completely undisturbed.

Will I need to set up my payments again?

Yes, exactly the same way as before, whether using the GoCardless dashboard, via our API or with a partner integration. Contact our customer support (support.gocardless.com/hc/en-us/requests/new) for further help.

Chapter 4 – Bacs compliance

Guide to creating online payment pages

Term	Meaning	More details
ADDACS messages	Automated Direct Debit Amendment and Cancellation messages notify Service Users of amendments and cancellations made by their customers to their DDIs.	Receiving messages from Bacs (gocardless.com/direct-debit/receiving-messages/)
Advance Notice	Notice that must be given, under the Scheme rules, to customers of each payment before it leaves their account.	Taking payments (gocardless.com/direct-debit/payments/)
ARUDD messages	Automated Return of Unpaid Direct Debits messages notify Service Users of any unpaid Direct Debits.	Receiving messages from Bacs (gocardless.com/direct-debit/receiving-messages/)
AUDDIS	The AUtomated Direct Debit Instruction Service, through which all new direct Service Users must now submit requests to Bacs.	Submitting to the banks (gocardless.com/direct-debit/submitting/)
AUDDIS messages	AUtomated Direct Debit Instruction Service messages notify Service Users of issues setting up or cancelling a Direct Debit Instruction.	Receiving messages from Bacs (gocardless.com/direct-debit/receiving-messages/)
Bacs	The clearing system that administers the Direct Debit scheme - all Direct Debit communications go through Bacs. Originally an acronym for "Bankers' Automated Clearing Services", you will sometimes see Bacs written as BACS.	What is Direct Debit? (gocardless.com/direct-debit/introduction/)

Term	Meaning	More details
Bacs payment cycle	All communications through Bacs operate on the Bacs three working day cycle. See timings (gocardless.com/direct-debit/timings/) for more information.	Payment timings (gocardless.com/direct-debit/timings/)
Bacstel-IP	The secure internet-based service provided by Bacs for communications between Service Users and Bacs.	Submitting to the banks (gocardless.com/direct-debit/submitting/)
Bacstel-IP software	A Bacs approved software package must be used to communicate over Bacstel-IP.	Submitting to the banks (gocardless.com/direct-debit/submitting/)
Bureau	An organisation that submits Direct Debit requests to Bacs on behalf of a 3rd party. A list of approved bureaux is published by Bacs (bacs.co.uk/services/bacsapprovedservices/pages/approvedbureaux.aspx).	Getting Access to Direct Debit (gocardless.com/direct-debit/access/)
Counter claim	The claim raised by a Service User to dispute an indemnity claim from a customer. Counter claims must be made within 14 days of an indemnity claim being settled.	Direct Debit Guarantee (gocardless.com/direct-debit/guarantee/)
DDICA messages	Direct Debit Indemnity Claim Advice messages notify Service Users of indemnity claims from their customers.	Receiving messages from Bacs (gocardless.com/direct-debit/receiving-messages/)
Direct Debit Guarantee	The guarantee given on all payments made by Direct Debit.	Direct Debit Guarantee (gocardless.com/direct-debit/guarantee/)
Direct Debit Instruction	An authorisation from your customer to collect future payments automatically. To set up a DDI your customers must complete a standardised form.	Direct Debit Mandates (gocardless.com/direct-debit/mandates/)

Term	Meaning	More details
Direct Debit Instruction form	A paper form that customers must complete to authorise a Direct Debit Instruction to you. You can see an example here. (gocardless.com/guides/examples/mandate.pdf).	Direct Debit Mandates (gocardless.com/direct-debit/mandates/)
Direct Debit Mandate	Alternative name for a Direct Debit Instruction.	Direct Debit Mandates (gocardless.com/direct-debit/mandates/)
Due date	The date a payment is due to be debited from a payer's account.	Direct Debit Mandates (gocardless.com/direct-debit/mandates/)
Facilities Management	A service provided by a Bureau in which they submit payments to Bacs on behalf of a merchant under a Service User Number attached to a bank account owned by the bureau.	Getting Access to Direct Debit (gocardless.com/direct-debit/access/)
Indemnity Claim	A request for a refund under the Direct Debit Guarantee. Claims are assessed by the Payer's bank and funds are then recouped from the Service User automatically.	Direct Debit Guarantee (gocardless.com/direct-debit/guarantee/)
Input file	A file, in a standardised format, submitted to Bacs by Service Users to lodge new Direct Debit Instruction and payment requests.	Submitting to the banks (gocardless.com/direct-debit/submitting/)
Input report	Every time a Service User submits payments or DDIs to Bacs, they receive an Input Report summarising the submission.	Receiving messages from Bacs (gocardless.com/direct-debit/receiving-messages)

Term	Meaning	More details
Managed Administration	A service provided by a Bureau in which they submit payments to Bacs on your behalf, under your own Service User Number.	Getting Access to Direct Debit (gocardless.com/direct-debit/access/)
Paperless Direct Debit	Process for authorising a Direct Debit Instruction over the phone or online, instead of with a paper form.	Direct Debit Mandates (gocardless.com/direct-debit/mandates/)
Paying bank	The bank or building society at which a customer's DDI is lodged.	Taking payments (gocardless.com/direct-debit/payments/)
SEPA Direct Debit	A single Direct Debit Scheme which applies across the whole Single European Payments Area (gocardless.com/guides/sepa/what-is-sepa/).	SEPA Direct Debit guide (gocardless.com/guides/sepa/)
Service User	An organisation approved by a sponsor bank to submit Direct Debit requests to Bacs.	Getting Access to Direct Debit (gocardless.com/direct-debit/access/)
Service User Number (SUN)	A 6 digit unique identifier issued to every Service User.	Getting Access to Direct Debit (gocardless.com/direct-debit/access/)
Sponsor Bank	A bank that enables you to access the Direct Debit Scheme and provides you with a Service User Number.	Getting Access to Direct Debit (gocardless.com/direct-debit/access/)

We walk you through the compliance requirements for offering UK Direct Debit payments on your website.

Term	Meaning	More details
Unpaid Direct Debits	Payments which could not be collected from the customer's account, for a variety of reasons, including insufficient funds.	Receiving messages from Bacs (gocardless.com/direct-debit/receiving-messages/)
Working Days	Submissions to Bacs can only occur on working days, which exclude weekends and bank holidays. Bacs provide a definitive list of working days for the Direct Debit system. (bacs.co.uk/Pages/PageNotFound.aspx?requestUrl=http://www.bacs.co.uk/Bacs/Businesses/Resources/Pages/ProcessingCalendar.aspx).	Payment timings (gocardless.com/direct-debit/timings/)

The Direct Debit scheme rules allow customers to enter into a Direct Debit agreement with you online. But before going ahead with taking payments, it's important to be aware of the scheme's strict requirements for the content and formatting of online payment pages.

In this guide, we'll show you how to create perfect (and fully compliant) payment pages for use with your customers. This guide uses the GoCardless payment pages as an example. You can view them in full here (pay-sandbox.gocardless.com/AL000000AKFPFF).

To create fully compliant payment pages for your customers, there are a number of things you'll need to put into place, to ensure security is kept tight. Here's the short version for quick reference. Keep reading and we'll explain each step in more detail:

- Host your payment pages with HTTPS

- Collect the account holder's name, account number and sort code

- Confirm that the user is authorised to set up Direct Debit payments

- Display the customer's bank details back to them before submission

- Include a copy of the Direct Debit Guarantee

- Show a payment confirmation screen

Host your payment pages with HTTPS

Why is this important?

It ensures customer details are transmitted securely.

How do I do it?

By configuring your website to only accept secure (SSL) connections, just as shown in the below image:

Collect the account holder's name, account number and sort code

Why is this important?

The bank needs this data to set up a mandate.

How do I do it?

By collecting this information on a payment page.

Important: You explicitly need to ask for 'Account Name' when you collect the Account Number and Sort Code; simply collecting 'Name' at a different part of the flow isn't enough.

Confirm that the user is authorised to set up Direct Debit payments

Why is this important?

You need to make sure the person signing up is doing so with their own bank account. Online Direct Debits can only be used for single signatory accounts. For dual signatory accounts you need to provide the option of requesting a paper mandate.

How do I do it?

By adding a checkbox confirming that the person is authorised to set up a Direct Debit payment. Here's some official wording to help you out. You can add this text to your confirmation checkbox: "I confirm that I am the account holder and am authorised to set up Direct Debit payments on this account."

Display the customer's bank details back to them before submission

Why is this important?

It allows the customer to check their details were typed correctly.

How do I do it?

By displaying a final confirmation before the form actually submits.

Provide your own address, phone number and email

Why is this important?

It makes it easy for customers to contact you with any queries

How do I do it?

Add a snippet of text on the page

Include a copy of the Direct Debit Guarantee

Why is this important?

It helps to reassure the customer that they are fully protected.

How do I do it?

By including or linking to the full text of the Direct Debit Guarantee on the payment page. You also need to include a Direct Debit logo where the Guarantee is displayed.

Show a payment confirmation screen

Why is this important?

It lets the customer know that a Direct Debit was set up correctly.

How do I do it?

By showing details of the newly created mandate.

The confirmation page must include the following:

- Confirmation that the Direct Debit payment has been set up.

- The name that will appear on the customer's bank statement, e.g. "The name on your bank statement will be [your name]".

- A note that the customer will receive an email within three business days confirming that the Direct Debit payment has been set up.

Using payment pages with GoCardless

GoCardless offers off-the-shelf payment pages that are fully compliant. What's more, they can be customised with your own business name and logo.

Alternatively, if you want to design and host your own payment pages, you can do so using GoCardless Pro with our API. We'll work with you to build compliant payment pages and give final sign off once they're ready.

Find out more (gocardless.com) about collecting Direct Debit payments with GoCardless.

How to send Direct Debit notifications

Learn how to design and send compliant UK Direct Debit notifications.

The UK Direct Debit scheme has strict requirements for sending notifications to customers. For you as a merchant, it's important to understand exactly what kind of notifications you need to send, and how to handle them. Our guide will walk you through the process, helping you design fully compliant customer notifications which your sponsor bank can sign off quickly. (Alternatively, if you plan to use GoCardless as your direct debit provider, we can send fully compliant emails on your behalf).

Direct Debit notifications fall into two categories, which can be sent together:

- Mandate setup confirmation

- Payment notifications (also known as 'advance notice')

Mandate setup confirmation

A mandate setup confirmation tells your customer that their Direct Debit mandate has been set up correctly. You must send it within three working days of the customer signing up or incorporate it into the customer's first payment notification. You can send the mandate setup confirmation by email or post.

To be compliant, a mandate confirmation must include the following information:

- The heading 'Important: Confirmation of the setup of your Direct Debit to [Merchant]', alongside a Direct Debit logo

- The payer's redacted bank details, the mandate reference and the name on the SUN

- The Direct Debit Guarantee, with a Direct Debit logo, or a link to it

- The address and phone number of the merchant

The below image shows an example mandate setup confirmation email, which includes all of the above details:

Important: confirmation of the setup of your Direct Debit Instruction to GoCardless.

This is to confirm that we've set up a Direct Debit with you.

Payments will be debited from your Royal Bank of Scotland account ending ******66, and will appear on your bank statement as **GOCARDLESS** with the reference **GOCARDLESS-MAGICREF.** We will notify you by email 3 days in advance of each payment.

If any of the above details are incorrect, please call us on 0207 183 8674 or email us at help@gocardless.com.

View the Direct Debit Guarantee

Payment notifications

A payment notification tells your customer when they can expect a single payment or stream of regular payments to leave their account. Just like mandate confirmations, payment notifications are mandatory in UK Direct Debit. You can send them by email or post.

To be compliant, a payment notification must include the following information:

- How much notice will be given for future payments (if this is the first notification)

- The amount, reference and date of the collection(s)

- The address and phone number of the merchant

The below image shows an example payment notification email, which includes all of the above details:

DIRECT Debit

GoCardless is charging you £10.99

We will debit your Royal Bank of Scotland account ending ******54 by Direct Debit on or shortly after **June 19, 2017**.

This payment will appear on your bank statement as **GOCARDLESS**, ref: MAGICREF. We will notify you by email 3 days in advance of each further payment.

If there is an issue with this payment please contact us at help@gocardless.com or on 0207 183 8674.

View the Direct Debit Guarantee.

For subscription payments, where the frequency and amount remain the same, you can send a single payment notification email to cover the entire subscription. Here's an example:

DIRECT Debit

A subscription of £10.99, monthly until January 19, 2017 has been set up to GoCardless.

The first regular payment for this subscription will be debited from your Royal Bank of Scotland account ending ******53 via Direct Debit on or shortly after **June 19, 2017**. The last payment will be taken on **January 19, 2018**.

Payments for this subscription will appear on your bank statement as **GOCARDLESS**, ref: MAGICREF.

If there is an issue with this payment please contact us at help@gocardless.com or on 0207 183 8674.

View the Direct Debit Guarantee.

Customer notifications and GoCardless

GoCardless offers fully compliant emails that can be sent on your behalf. Alternatively, if you want to send your own emails, you can do this using GoCardless Pro with our API (gocardless.com/pricing/). We'll work with you to make sure your emails comply with Direct Debit scheme rules, and give you final approval on behalf of our sponsor bank.

Find out more (gocardless.com) about collecting Direct Debit payments with GoCardless

Glossary of UK Direct Debit terms