

# What's the difference between Direct Debit and standing order?



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# Standing order & Direct Debit

Standing orders and Direct Debit are two of the most common methods used for taking regular payments. They are often confused because they do accomplish broadly the same thing – letting you collect money from a customer's account on a set date, however, there are some subtle but crucial differences between the two.

Direct Debit and Standing Order are both automatic payment methods:

- ✓ A standing order is an instruction your customer gives to their bank to pay you a fixed amount at regular intervals whether this is weekly, monthly, quarterly or yearly.
- ✓ With Direct Debit, your customer authorises you to collect money directly from their bank account whenever a payment is due. Direct Debit payments can vary in frequency and amount.

You control a Direct Debit.

Customers control a standing order

- ✓ A standing order is set up by customers. They choose the amount and frequency, and can change or cancel it without notifying you.
- ✓ In contrast, you have full control over the payments you take by Direct Debit. You decide how much and how often you collect from customers. You can vary the amount and frequency of collections without further authorisation from the customer and are notified automatically by the Direct Debit system of any cancellations or failures.



# Standing order vs Direct Debit

	Standing order	Direct Debit
Set-up	<b>No provider needed.</b> Your customer controls the set up. You are dependent on them. This is unfeasible if you have > 25 customers.	<b>Bank/provider needed.</b> You control the set up and the amount and date of payments.
Cost per payment	<b>Ostensibly free.</b> You may incur a small charge from your bank for each payment.	<b>Low.</b> Expect to pay 20 - 40p or 1%, depending on your provider.
Failure rates & notifications	<b>Vary by industry.</b> No notifications. It can take more than a month to find out about failures then you'll need to chase the customer to set up another payment.	<b>Very Low.</b> < 1% with GoCardless. Automatic notification. You are notified automatically of failures and can re-submit the payment when you want to.
Flexibility of payments	<b>Fixed payments at regular intervals only.</b> If you need to amend the amount or date of a payment, the standing order will need to be cancelled and a new one set up. You will need to convince customers to change the standing orders themselves.	<b>High.</b> You can collect variable amounts or change the amount or date of payments without asking customers for further authorisation.
Risk of late payments	<b>Medium - high.</b> Once set up, low risk, but many businesses struggle to get customers to set up their standing order quickly, or to amend it as required.	<b>Low.</b> You can charge customers when a payment is due.
Admin required	<b>High.</b> <ul style="list-style-type: none"> <li>• Check bank statement daily to see what payments</li> <li>• No notification when a payment fails</li> <li>• Manually update your accounts</li> </ul>	<b>Very low.</b> <ul style="list-style-type: none"> <li>• Automatically submit 1000s of payments at once</li> <li>• Automatically update your accounts</li> <li>• Instant notifications when payments fail</li> <li>• Easily track payments without checking bank statements</li> </ul>
Customer protection	<b>Low.</b> No customer protection once payments are made. This gives merchants greater protection.	<b>High.</b> Immediate refunds from your bank in the event of an incorrect payment.

# Should I use standing order or Direct Debit?

Which is the right option for you depends on three key things: Your organisation size, customer base and payments.



## Is it scalable?

If you have less than 25 customers, standing order may be a good option for you. Standing orders are great for smaller organisations or clubs with close relationships with their members.

However, if you have more than 25 customers Direct Debit is probably a better option for you. With a standing order, you will always need to check your bank account when a payment is due, to find out whether a payment has actually been set up or if a payment has failed. On the other hand, with Direct Debit you set up the payments, giving you more visibility and control. What's more, you'll be notified of any failures straight away so you'll always know when you have and haven't been paid without needing to trawl through your accounts.



## Can you rely on your customers?

If you have less than 25 customers who you can trust to set up and maintain a standing order when asked then this could be a great option as your customer does all the hard work for you.

However, if you aren't sure whether you can trust your customers to set up or maintain a standing order then Direct Debit could be a better option for you.



## How do you bill your customers?

Both Direct Debit and standing order are great for regular, fixed payments like rent, retainer fees or subscriptions.

However, standing order isn't great for paying bills with variable amounts or frequencies such as utility bills, ad hoc invoices or paying back credit. It's not ideal, either, in the case of regular, fixed payments where you may wish to increase fees in the future or include additional one-off payments. Conversely, one of the greatest benefits of Direct Debit is its flexibility. You are in control so you can adjust the amount or frequency of payments whenever you need to (as long as you give your customer the required advance notice).

# Accountants recommend GoCardless for Direct Debit

Businesses looking to set up Direct Debit payment collection have the option of going to a bureau, however accountants recommend the leading provider, GoCardless.

Over 30,000 businesses worldwide trust GoCardless to manage and process their Direct Debit payments.

GoCardless manages the entire payment collection process on your behalf, including payment notifications to your customers.

Also, It's simple and free to set up, with no minimum commitment. Their pricing is transparent and low, especially compared to Direct Debit bureaus and credit card network charges.

1% per transaction

Max £2 Min 20p

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no monthly fee

If you'd like to find out more about how Direct Debit can help you get paid on time, visit [gocardless.com](https://gocardless.com) or speak to your accountant.