



**CODE COMPLIANCE MONITORING COMMITTEE
(the CCMC)**

Guidance Note No. 10

Direct Debits

The CCMC is an independent Code compliance monitoring body established under clause 36 of the Code of Banking Practice (the Code).

The CCMC oversees the compliance of subscribing banks with their Code obligations by:

- a. independently monitoring compliance with the Code
- b. investigating code breach allegations; and
- c. monitoring any aspects of the Code that are referred by the Australian Bankers Association (the ABA).

This Guidance Note has two purposes:

- a. to indicate the CCMC's likely approach when it considers potential breaches of the "direct debit" obligations under clause 21 of the Code, and
- b. to share the CCMC's view of good industry practice, which in some cases may extend beyond the strict requirements of the Code.

When considering whether a code subscriber has complied with the provisions of the Code, the CCMC will also have regard to the key commitments made by that bank to act fairly, reasonably and ethically in the provision of services to its customers and to comply with all relevant laws.

It is important to understand that the CCMC considers all matters on the basis of their individual circumstances and this document is not intended to anticipate all possible issues that might come before the CCMC.

Guidance Notes are subject to change by the CCMC and this document reflects the CCMC's views as at the date of its publication.

Any reference to "bank" in this Guidance Note means a bank which subscribes to the Code. Any reference to the "Code" is a reference to the 2013 version of the Code, unless otherwise stated. Any reference to a "consumer" or "customer" means an individual or small business that is either a customer or potential customer of a bank.

For more information about the CCMC, please visit its website: (www.ccmc.org.au).

Introduction

1. A direct debit request is an authority given in writing by a consumer to a merchant or service provider to debit payments from their account, to another specified account, usually at regular intervals or on specified occasions. These “debits” are processed through the Bulk Electronic Clearing System (BECS)¹.
2. Consumers and small businesses can maintain control over their direct debits using their rights outlined in the Code².
3. The purpose of this Guidance Note is to indicate the CCMC’s approach to the direct debit obligations under the Code and in particular the obligations to process requests to cancel a direct debit and complaints about unauthorised or irregular payments.
4. The ability to cancel direct debits at their bank is an important safeguard for consumers. The failure of banks to accept or act on notice of a direct debit cancellation request or complaint may cause loss, including the imposition of fees on the consumer’s account.
5. Direct debit obligations under the Code are straightforward. The CCMC will apply them strictly.

Code obligations

6. Under the Code, banks are required to take and promptly process:
 - 6.1 a request to cancel a direct debit when it relates to a “banking service”³, and
 - 6.2 a complaint that a direct debit was unauthorised or otherwise irregular.
7. Banks are also required to not direct or suggest that consumers should first raise any such request or complaint directly with the merchant or service provider.

Exclusions

8. The obligations under the Code related to direct debits only apply to payments processed through BECS and must be linked to a transaction account number.
9. Recurring payment arrangements using credit card accounts or scheme debit cards are not direct debits as defined in the Code.
10. The process for cancelling or disputing a card payment is covered by the chargebacks obligations under clause 22 of the Code⁴.
11. Banks should ensure that their staff are aware of the differences between these payment types, understand the terminology used to describe these different requests in the Code and assist consumers to understand the different procedures they may need to follow when requesting a cancellation or disputing a payment made using a debit or credit card.

¹ The Bulk Electronic Clearance System framework is administered by the Australian Payments Clearing Association Ltd and relates to the transfer of funds between bank accounts.

² Direct debit obligations can be found under clauses 19 and 21 of the 2004 and 2013 versions of the Code respectively.

³ “Banking service” is defined in the Code.

⁴ Refer to CCMC Guidance Note 11.

Good industry practice

12. The CCMC has identified some good industry practice in the course of its Code monitoring and compliance investigation functions that illustrates how direct debits obligations can be effectively applied in practice.
13. These principles may assist the banks to:
 - 13.1 benchmark their current practice
 - 13.2 enhance their ability to meet their commitments to promote better informed decisions about their banking services
 - 13.3 enhance effective disclosure of information when discharging their direct debit obligations, and
 - 13.4 comply with the key commitments obligation under the Code, including acting fairly, reasonably and ethically in the provision of banking services.

Policy and procedure

14. The BECS procedures set out the steps banks should follow when dealing with direct debit cancellations and claims that a direct debit is unauthorised or irregular. Code obligations are more likely to be met when these processes are embedded in the bank's procedures.
15. A bank's policies and procedures should be able to permanently cancel a direct debit rather than just effect a "temporary stop".

Requests to cancel a direct debit

16. Banks should allow consumers to request a direct debit cancellation using telephone banking, internet banking and branch networks.

Other matters

17. Banks should also ensure that:
 - 17.1 their staff understand their key obligations and processes required to process direct debit cancellations, regardless of the terminology used by the bank to refer to direct debits
 - 17.2 information about the cancellation of direct debits is easy to read and accessible
 - 17.3 information and resources provided to staff clearly describe how consumers can request a cancellation of a direct debit, dispute a transaction and recover unauthorised direct debits. This information should also include the most appropriate course of action for a consumer to take given their circumstances
 - 17.4 they provide clear guidance to consumers about the cancellation of direct debits, in accordance with their key commitment to provide effective disclosure of information⁵, and
 - 17.5 they make specific reference to clause 21 of the Code when providing direct debit cancellation information.

Monitoring compliance with Code obligations

18. In assessing compliance with the Code's obligations, the CCMC will assess a bank's

⁵ Clause 3.1 of the Code (2013 version).

monitoring and assurance program and expects that program to include reference to the effective handling of direct debit cancellations and the prompt processing of complaints about unauthorised and irregular transactions.

19. Banks are encouraged to conduct their own shadow shopping exercises from time to time to determine whether staff follow correct procedures and provide accurate information to consumers in relation to direct debit cancellations.

Staff training

20. It is the CCMC's view that:
 - 20.1 where complaints and monitoring have identified knowledge and skills gaps in relation to processing direct debit cancellations, additional training should be provided to staff members, and
 - 20.2 an example of staff training may include making staff aware of the impact of providing incorrect advice in relation to direct debits, particularly upon customers in financial difficulty.