

# **Code Compliance Monitoring Committee**

## **Direct Debits**

A review into the operation of clause 19  
of the Code of Banking Practice.

**June 2009**

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## Purpose and Scope

### What was the purpose of the review?

- To assess the policy and procedures in relation to the cancelling of direct debit requests as defined in Code of Banking Practice (clause 19); and
- To test the customer experience against the expectations set by policy and the Code.

### What was in scope?

- Code Subscribers<sup>1</sup> (“the Banks”);
- Direct Debit Requests (“direct debits”);
- Requests to process a direct debit cancellation;
- Transaction Accounts;
- Call Centres;
- Retail Branches; and
- Capital City locations across Australia.

### What did we consider to be out of scope?

- Processing of complaints about unauthorised or irregular direct debits;
- Credit Card Accounts;
- Debit Card (scheme) Transactions;
- Regional, remote or rural branches; and
- Compliance with the Australian Payments Clearing Association (APCA) Bulk Electronic Clearing System (BECS) rules.

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<sup>1</sup> Rabo Bank Australia was excluded from the review as they have only become Code Subscribers within the last 12 months. A list of Code Subscribing banks can be found at [www.codecompliance.org/codes.html](http://www.codecompliance.org/codes.html).

## Executive Summary

The nature of banking in Australia is steadily moving away from paper and cash, with a preference for more convenient methods of conducting and managing financial transactions.

With the advent of more sophisticated systems, electronic payments has moved from managing routine transactions such as cash withdrawals and deposits at ATMs and purchasing of goods and services through EFTPOS to larger transactions which are now linked into a customer's main transaction account, such as payrolls, mortgage settlements and electronic transfers.

The "direct entry" form of banking (that is the crediting and debiting directly into and from bank accounts) appears to be increasingly valued by consumers and business with both direct credits and direct debits having grown significantly over the past 5 years.<sup>2</sup>

In 2008 the average number of direct debit transactions per business day exceeded two million with the average value per business day exceeding \$17 billion (AUD).<sup>3</sup>

The growth of these types of transactions has been attributed to convenience and confidence.<sup>4</sup>

One of the ways that consumers and small business can maintain control over the direct entry system for direct debits is the ability under the Code of Banking Practice (clause 19) to cancel bank direct debits at their own Bank rather than through the business or service provider.

In February 2008, the Code Compliance Monitoring Committee (CCMC) commenced a review into clause 19 of the Code of Banking Practice (the Code) to identify how Code subscribing Banks managed their promise to consumers and small business regarding the ability to cancel direct debits via the Bank.

The aim of the review was to identify whether:

- Banks have adequate policy and procedures to ensure they comply with the requirements of the Code; (cl.19) and
- Banks receive and process cancellation requests for direct debits without first referring customers to the business or service provider.

What the review found was that while appropriate policies and procedures were documented, 8 out of 10 of our "shadow" shoppers, received incorrect or partially incorrect information.<sup>5</sup>

The results did not meet the CCMC expectations of what would be reasonable considering the strong commitments expressed in the Code.

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<sup>2</sup> APCA Annual review 2008 (p.23)

<sup>3</sup> APAC Annual review 2008 (p.23)

<sup>4</sup> APCA Annual Review 2008 (p7&20)

<sup>5</sup> Refer to Industry Results - Total National Average (p14) of this report

## **What is the significance of direct debits?**

According to the APCA 2008 Annual report, the direct entry system has shown significant growth over the past four to five years.

In 2008 the processing of direct debits exceeded cheques, with an average of over two million direct debit payments processed each business day.

Both direct credits and direct debits are considered by APCA to be the “quiet workhorse of the payments system”.<sup>6</sup> The value of direct debit payments has continued to perform, with significant year-on-year annual growth over the past five years.

In 2008, the average value of processed direct debits per business day was \$17 billion (AUD).<sup>7</sup>

Given the significant volumes and values associated with the direct entry payments system, the operation of the Code with respect to Clause 19 is considered by both the CCMC and APCA to be an important consumer protection.

## **What should Banks do when a customer wants to cancel a direct debit?**

Essentially, under the Code, the Banks have committed to take and promptly process:

- a request to cancel a direct debit when it relates to a “banking service”<sup>8</sup>, that is not a credit card account; and
- a complaint that a direct debit was unauthorised or irregular.

The Banks have also committed to not directing or suggesting to customers that they should first raise any such request or complaint directly with the business or service provider.

It is considered good practice and common courtesy to notify the business or service provider of the cancellation and, where appropriate, Banks may suggest that the customer also contact the merchant or service provider.

However, there are some circumstances where this may not be practical or appropriate, particularly where there may be suspected merchant fraud or unresolved disputes between the parties, or where the merchant is not contactable. In addition, direct debits can be used for recovering fees and charges that are not

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<sup>6</sup> APCA Annual Review 2008 (p 23)

<sup>7</sup> Ibid, (p.23)

<sup>8</sup> “Banking service” means any financial service or product provided by the Bank in Australia to individual and small business customers: (a) including any financial service or product provided by the Bank whether supplied directly or through an intermediary; and (b) in the case of a financial service or product provided by another party and distributed by the Bank, extends only to the Bank’s distribution or supply of the service or product to the individual and/or small business customers and not to the service or product itself.

necessarily part of the original service agreement, or are fees and charges that have not been adequately disclosed. In such circumstances, contact with the merchant may not be practical.

In these and other circumstances, the ability to cancel direct debit requests at the Bank offers an important consumer protection.

### **How does a direct debit work?**

#### **Direct debits**

Businesses use direct debits to collect funds from their customers' accounts for the value of, for example, insurance premiums, utility bills, membership fees and repayment of debt. The customer will give a Direct Debit Request (DDR) authority for a business (known as the Debit User) to draw funds out of the customer's account with a financial institution. The DDR will typically cover regular, recurring payments. Once the DDR is established, the Debit User initiates payment under the authority through its own financial institution. Currently, there are more than 16,000 Debit Users in Australia.

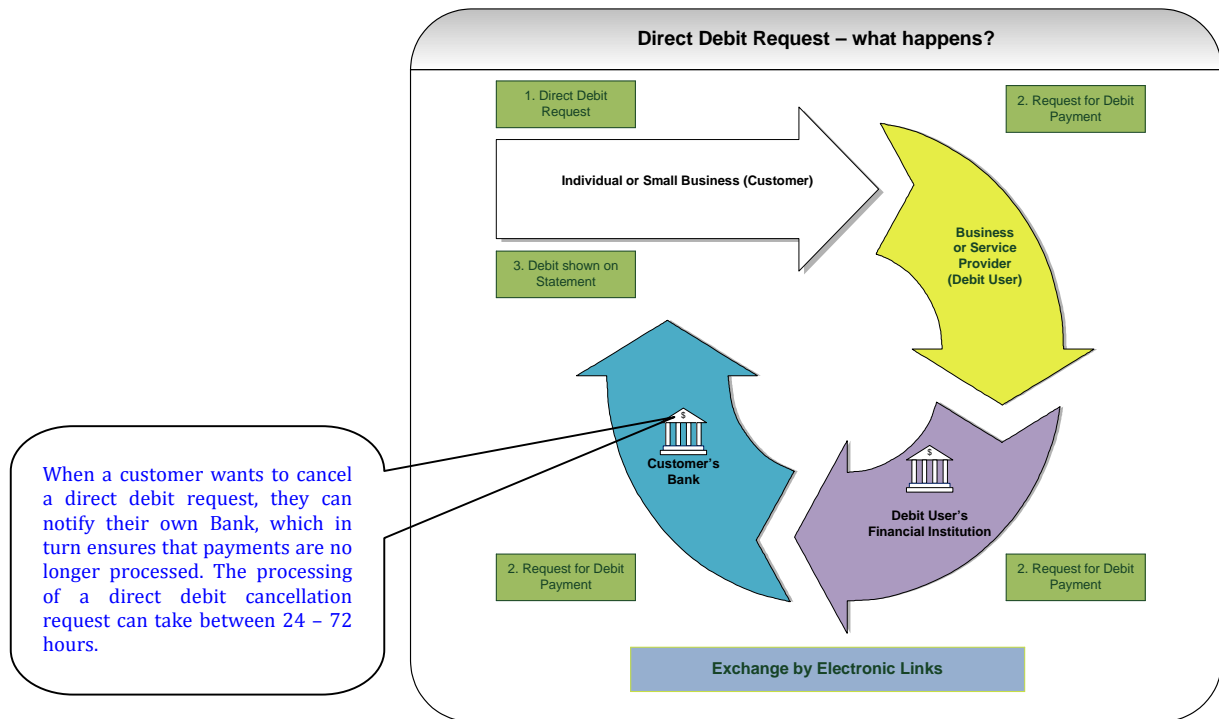
(APCA Annual Report 2008)

Direct debit requests are convenient and provide confidence to businesses and customers that payments for things such as electricity and gas, loan payments, club and gym memberships, hire purchases, rent and so forth, are made at the right time for the correct amount.

When trying to understand how a direct debit request works, it helps to consider the role of a direct debit request.

A direct debit request gives someone else, a business or service provider, permission to request payments from the customer's Bank for an amount of money from the customer's account.

Once a direct debit request has been received by the customer's Bank, the payments will continue until the Bank is requested to stop. The Code ensures that the customer has the ability to make that request direct to the Bank.



**Table 1 - Identifies how a direct debit works.<sup>9</sup>**

### **The reason for the review**

Historically the number of complaints received by the CCMC in relation to direct debits has not been significant. However, the CCMC was alerted to concerns about direct debits from financial counsellors attending a Counsellor Forum in November 2008, who stated that Banks failing to cancel direct debit requests for their clients was a major concern. Similar concerns were also raised in the consumer submissions to the review of the Code of Banking Practice.

When we approached the Banks for information on complaints regarding direct debits requests and unauthorised transactions arising from direct debits, the information we received provided little insight as to whether there were any problems.

In addition, discussions with the Financial Ombudsman Service identified there were some complaints; however there was nothing to indicate that there may have been a systemic problem.

In the absence of any meaningful data to support the view that the Banks were meeting their commitments, the case studies we received from the counsellors provided a new perspective into a potential problem.

<sup>9</sup> Modified from the table that appears in the APCA Annual Review 2008 p.7 and the APCA Direct Entry Fact Sheet, Nov 2008.

### **Case Study**

A Financial Counsellor relies on the ability to cancel direct debits as a means of assisting clients, who are in financial difficulty, to gain better control over their finances.

The Counsellor advises clients that they can cancel direct debits on their account by attending the local branch and requesting that the branch stop the direct debits. The clients are also advised to notify the merchant concerned.

Due to the bank's constant referral of the client to the merchant and or refusal to process the cancellation request, the Counsellor has resorted to printing out clause 19 of the Code and sending a copy with each client when they visit the Bank.

Despite this measure, the referral to the merchant and or the refusal to process the cancellation has still persisted.

Where there is no money in the account, the client has been charged a dishonour fee by the bank.

As a result of the weakened economy and the increasing concerns for those experiencing hardship, more people have turned to financial counsellors for support and guidance on managing budgets and debt. This has resulted in more "voice of the customer" examples that suggest that the process allowing customers to cancel direct debits at a Bank is failing.

It was clear, from the information we received from the Banks when compared with the case studies we received from the Financial Counsellors, that there was a gap between policy expectations and customer experiences.

### **What we found**

This themed review identified that when we compared the Code commitments and Bank policy with the "customer experience" that our "shoppers" received there appeared to be a significant and systemic problem with over 80% of our "shoppers" receiving advice that was not what the Banks had committed to provide.

## **Our Objective**

The objective of the themed review was to assess:

- The policy and procedures in relation to the cancelling of direct debits requests as defined in Code of Banking Practice (clause 19); and
- The customer experience against the expectations set by policy and the Code.

The scope of the review was divided into two phases:

- Data gathering and assessment of policy and procedures; and
- Social and market research to assess compliance.

### **Data gathering and assessment of policy and procedures**

The CCMC surveyed all the Banks that have subscribed to the Code and received information that identified how the Banks:

- Received a direct debit request from a customer - telephone, internet, and branch network;
- Cancelled a direct debit request;
- Received and managed a disputed transaction;
- Informed their customers about direct debits and whether there were any fees for processing a cancellation;
- Identified complaints they had received in relation to the direct debit requests;
- Trained their staff ; and
- Monitored whether the policies, procedures and training in relation to direct debits provided the right outcomes for customers.

This information was assessed against the requirements of the Code and provided guidance for the second part of the review.

### **Social and market research to assess compliance**

The use of “shadow” shoppers to assess the “customer experience” is a technique that has been used effectively across a number of industries. The technique is used by Banks and industry regulators and provides additional insights into the application of policy and procedures.

The CCMC undertook this research to further explore the concerns that had been voiced by financial counsellors, which indicated that there was something not quite right when it came to cancelling a direct debit.

The CCMC engaged the services of an accredited market and social research organisation to undertake a shadow shopping exercise across the Banks who provided debit transaction accounts<sup>10</sup>.

The review involved a total of 106 contacts focusing on the customer call centres for each of the Banks and a sample of branches located in Sydney, Melbourne, Brisbane, Adelaide and Perth.

The results are not intended to be representative of industry practices across the call centre or branch networks, however in aggregate the results strongly indicate that a problem exists.

### **Call centres**

All call centres were contacted using the same scenario based inquiry.

There were 24 contacts across the call centres with each call centre receiving two calls. The sample size was selected to provide an initial assessment of the responses and was based on the assumption that call centre scripting would provide more consistent outcomes.

The scenario that we selected related to a customer inquiry concerning a decision to cancel a direct debit from the Banks' mainstream bank account and a question of how to proceed.

Where possible, additional information was obtained in relation to fees and the time it would take for the cancellation to take effect.

### **Retail branch networks**

The same scenario was used consistently across the whole sample of branch visits, based on an inquiry to cancel a direct debit that was set up to meet the monthly commitments of a membership. As for the call centres, additional information was collated regarding time for processing and whether any fees were applicable.

There were 82 branch visits with a consistent sample size for the four major Banks and an equal but lesser sample size for the others. The sample sizes were selected to provide an initial assessment of whether correct information was provided when advising customers on how to cancel a direct debit from the Bank's mainstream bank account.

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<sup>10</sup> One Bank that subscribes to the Code does not provide a "transaction account" for the purposes of this review.

## **Our Findings and Conclusions**

### **Data gathering and assessment of policy and procedures**

This review identified that all Banks had policies and/or procedures in place that would provide customers with the desired results, required by Clause 19.1(a) of the Code of Banking Practice.

We have provided feedback to all the Banks in relation to our findings of this phase of the review.

Our feedback to the Banks included the following observations

- There appeared to be a good understanding of the requirements of the Code with regards to direct debits.
- The policy and procedures reflected the Code commitments regarding the cancellation of direct debit requests, although some processes did not provide a permanent cancellation and were characterised as “temporary stops”.
- The policies incorporate APCA’s BECS<sup>11</sup> procedures which are the basis for processing direct debit cancellations.
- The readability of, and access to, information regarding the operation and cancellation of direct debits varied across the Banks. In a number of cases direct debit information on websites was difficult to locate.
- The ability to cancel direct debits varied across the Banks. Some Banks allowed customers to cancel using telephone banking, internet banking and the branch networks. A number of subscribers limited cancellation to branch networks only after the completion of an application form.
- The number of days to process a direct debit varied across the Banks from 24 hours to 3 days.
- A number of Banks have to cancel all direct debits that relate to one business or service provider. For example, some banks are unable to cancel a direct debit for one service, say a pay TV subscription, while maintaining another direct debit for a mobile phone from the same business or service provider. Any “stop payment” would in effect stop all direct debits in place between the business or service provider and the customer.
- All Banks charged a penalty fee if the account was overdrawn by a direct debit, regardless of whether it was in the process of being cancelled.

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<sup>11</sup> All subscribing Banks are participating members of APCA and are subject to APCA’s BECS procedures. The BECS procedures set out the steps Banks should follow when dealing with direct debit cancellations and claims that a direct debit is unauthorized or irregular.

- A number of Banks charge a “cancellation fee” for processing direct debit cancellations. The fee ranged from \$10 to \$15.
- All Banks provide knowledge based training to relevant staff in relation to the Code of Banking Practice.
- The data on complaints did not provide any insights in relation to clause 19 or potential breaches of the Code.

### **Social and market research to assess compliance**

This phase consisted of a field assessment of the Banks compliance with the Code’s direct debit cancellation obligations, using a social research technique referred to as “shadow” or “mystery” shopping.

The methodology for both call centres and branches involved a general enquiry regarding the cancellation of a direct debit request. The researchers also gathered additional information in relation to:

- fees;
- time to effect; and
- general observations regarding service standards.

The results were classified into three possible outcomes:

- **Compliant** - meets the expectations of the Code and Bank Policy;
- **Non Compliant (Partial)** - recommends that the cancellation should be lodged with the merchant first and if there was a problem the customer should return to the Bank to cancel; or
- **Non Compliant (Full)** - Bank cannot accept cancellation and the cancellation can only be lodged with the merchant.

Overall we identified that the Banks failed to meet the required outcomes in 8 out of 10 “shadow” shopper contacts. <sup>12</sup>

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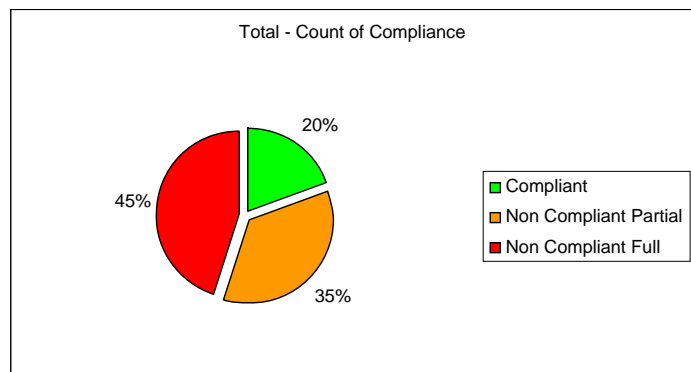
<sup>12</sup> The total number of responses that were either non compliant (full) or non compliant (partial) was 85 out of a total sample size of 106

## Industry results

The national result, with aggregated results across the States, Call Centres and Branch Networks identified that 8 out of every 10 “customers” received incorrect or inadequate advice in relation to the cancellation of a direct debit request.

### Total result:

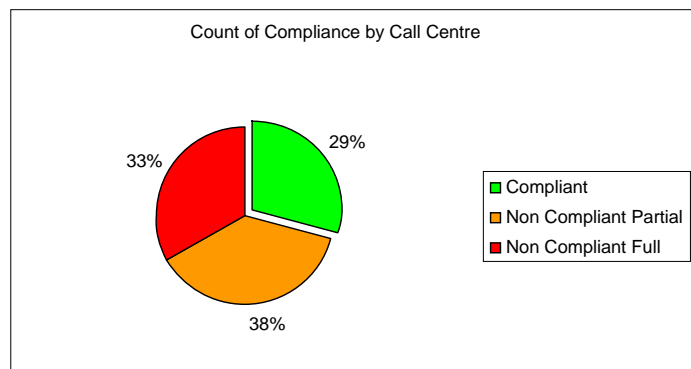
Across 106 contacts, an average of 8 out of 10 “customers” received incorrect or inadequate advice in relation to the cancellation of a direct debit request.



The break down across the two distribution channels identified that:

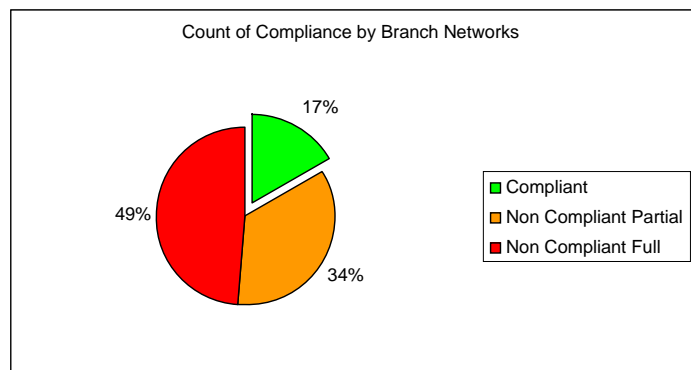
### Call centres:

An average of 7 out of 10 “customers” contacting a Bank Call Centre received incorrect or inadequate advice in relation to the cancellation of a direct debit request.



### Branch networks:

On average 8 “customers” out of 10 visiting Bank branches in Melbourne, Sydney, Brisbane, Adelaide and Perth received incorrect or inadequate advice in relation to the cancellation of direct debits request.



## **The Industry Response - Banks**

The CCMC has met with all of the Banks involved in the review and to date we have been pleased with the way the Banks have received the results and responded to our concerns.

The CCMC and the Banks have agreed that the outcome we wish to achieve is to improve consumer and small business confidence in the use and cancellation of direct debits requests.

As a result, the Banks have undertaken a range of activities to identify why the problems have occurred.

In order to address the problem the Banks have considered and implemented a range of initiatives that include:

- Forming a dedicated project team with senior business sponsorship to identify and address any issues relating to the review;
- Immediate communication to staff and additional training if required to address any knowledge and skills gaps in the call centre and branch networks in relation to receipt and processing of cancellations and complaints regarding direct debits;
- Subsequent communications and training for other branch and dispute resolutions staff, in respect of the Code and Clause 19;
- Redesigning of the process and documentation used to receive and process direct debit request cancellations to make it easier for staff;
- Ensuring that there is enough information for staff to understand the key obligations and process required to process cancellations;
- Increasing staff awareness regarding the impact of incorrect advice, particularly upon customers in hardship situations;
- Improving information and resources to provide staff and customers with a clear understanding of how customers can dispute a transaction and recover unauthorized direct debits.;
- Enhancing the monitoring and assurance programs to ensure the effectiveness of
  - the direct debits policy and procedural framework
  - communications
  - training
  - dispute resolution
- Ensuring that the monitoring program forms part of the Bank's overall monitoring of Code compliance;

- Ensuring that the overall assurance program in relation to the Code is subject to oversight by independent areas such as Risk or Audit;
- Reviewing business, governance and risk processes to ensure that relevant policies, procedures and systems meet the requirements of the Code and where possible are simple for staff and customers;
- Providing access to information that provides clear guidance in relation to the use of the direct entry payments system, including direct debits and charge backs for credit cards;
- Reviewing where customers have incurred a penalty fee as a result of an unauthorized direct debit payment and considering whether it is appropriate for the fee to be reimbursed.

## **The Industry Response – APCA**

The CCMC has engaged with APCA in relation to the outcomes of this review.

APCA has welcomed the opportunity to improve compliance with both the BECS Procedures and the Code of Banking Practice and has already undertaken a number of steps including:

- APCA has briefed the BECS Management Committee (“MC”) (which is responsible for the APCA’S Bulk Electronic Clearing System, covering direct debits) and the MC has reviewed the existing procedures to ensure that they are sufficient and clear on the requirements for APCA members;
- The MC has resolved to increase awareness and education in the industry and among DDR users, to ensure that the requirements operate as intended;
- The BECS Participants (which includes the Banks) are being instructed by APCA to ensure, as soon as practicable, that their customer facing staff (call centre and branch staff) are educated in the relevant sections of the BECS Procedures. This includes the requirement that a customer’s financial institution must accept a customer’s DDR cancellation instruction and pass it to the merchant’s financial institution, and that the merchant’s financial institution must pass the instruction to the merchant and also accept no further debits from that merchant to the customer’s account;
- BECS Participants who sponsor merchants to use DDRs are being instructed to ensure that their merchants DDR Service Agreements detail the procedure available to the customer to cancel DDRs, and advise the customer that a cancellation request may be directed to either the merchant or to the customers’ own financial institution;
- APCA’s guidelines for “Establishing DDRs Electronically or by Telephone” are being updated to reinforce the ability for customers to cancel a DDR by instructing either the merchant or their own financial institution. The updated document will be published on the APCA website and also be re-issued to BECS participants;
- APCA is reviewing existing templates to ensure they are adequate and current. APCA anticipates a benefit in providing a standard form for the provisions of DDR Service Agreements that detail the rights of the customer to cancel the DDR directly with their financial institution; and
- APCA is in the process of producing a customer education brochure for use by financial institutions to inform their customers about the use of DDRs and customers associated rights and responsibilities.

## **Related Issues**

### **Fees**

In a number of instances where a fee was being charged for the cancellation of a direct debit, staff deliberately directed customers to the merchant in an effort to help customers avoid the fee.

The decision to charge a fee is a commercial one for the Banks to determine. Where a fee is charged the CCMC believes that it should be “reasonable” and should not undermine the commitments made by the Banks in the Code.

### **DDR Service Agreements**

During the themed review, it was noted that some business and service providers advise customers that direct debits must only be cancelled through advice to them.

Whilst outside the scope of the CCMC responsibilities, advice of this issue has been provided to APCA who oversee the BECS Rules.

The BECS Rules require sponsoring Banks (including Banks which subscribe to the Code) to manage the ongoing conduct of the business or service provider and ensure they comply with the Banks’ requirements.

APCA has stated that there is a due diligence requirement when Banks sponsor businesses or service providers to access the direct entry system (direct debits) which includes an approval process for the direct debit request application.<sup>13</sup>

The CCMC notes that the initiatives undertaken by APCA should address this issue and we would expect that Code Subscribers would review their obligations with respect to the BECS Rules and their process for sponsoring users of the direct entry payments system.

### **Scheme Cards – debit and credit**

In discussion with a number of the Banks it was noted that there was a potential for confusion for both staff and customers arising from the different processes when dealing with transaction accounts and scheme debit and credit cards.

For example, where a direct debit has been authorized on a scheme debit card, there exist two potential conflicting processes when cancelling a transaction.

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<sup>13</sup> APCA [Direct Entry Fact Sheet Nov 2008](#) found at [www.apca.com.au](http://www.apca.com.au)

The process required to be followed will depend on whether the underlying account number has been provided (clause 19 applies) or whether the debit scheme card number has been provided (clause 20<sup>14</sup> applies).

The CCMC notes that the initiatives of both APCA and the Banks should assist in raising awareness of the different processes and Bank procedures relating to direct debits and charge backs.

### **Review of the Code of Banking Practice - Final Report**

In 2008 a review of the Code of Banking Practice was undertaken. The review invited submissions from all stakeholders, following which an issues paper was published.

In relation to the submissions, the reviewer noted in the Issues Paper<sup>15</sup> :

1. *Clause 19 places an obligation on subscribing banks to take and process promptly instructions from customers to cancel a direct debit request and to deal promptly with complaints that a direct debit was unauthorized or otherwise irregular. The Review was told by consumer advocates and financial counsellors that these provisions of the code are not always adhered to. They reported that people are still being forced to go to the debit user despite the fact that the Code states:*

*"We will not direct or suggest that you should first raise any such request or complaint directly with the debit user (but we may suggest that you also contact the debit user)."*

2. *Consumer representatives expressed concern that some banks are forcing customers into direct debit situations and charging dishonour fees if the direct debit payments take them into arrears in their account. Some consumer representatives advocated that banks should get rid of direct debits altogether because of the potentially adverse impact on customers who are experiencing financial difficulties.*
3. *The ABA pointed out the distinction between the cancellation of a direct debit payment and changes to direct debit payments. The ABA notes that banks are able to process a "cancellation" of a direct debit authority. However a "change" in a direct debit payment requires the customer to communicate with the holder (the merchant) of the Direct Debit Request (DDR). As explained by the ABA, the DDR is primarily an arrangement between the customer and the debit user as to the amount and frequency of the direct debit. Customers seeking to make changes to their payment arrangement need to be referred back to the debit user, who initiated the entry to the customer's account, as they need to maintain records of all changes under the authority they hold".*

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<sup>14</sup> Clause 20 relates to the use of Charge Backs when resolving a disputed transaction and states that Banks will, in relation to a credit card transaction: (a) claim a chargeback right where one exists and the customer has disputed the transaction with the Bank within the required time frame; (b) claim the chargeback for the most appropriate reason; (c) not accept a refusal of a chargeback by a merchant's financial institution unless it is consistent with the relevant card scheme rules; and (d) include general information about chargeback's with credit card statements at least once every 12 months.

<sup>15</sup> The Review of Code of Banking Practice Issues Paper was published in May 2008.

In the Final Report<sup>16</sup> regarding the Code review, the Reviewer made the following recommendations in relation to direct debits – clause 19.

1. *That clause 19 of the Code be expanded to include reference to a variation of direct debit arrangement as distinct from cancellation of direct debit payments along the following lines:*
  - a) *We will take, by telephone or in writing, and promptly process your:*
    - instruction to cancel a direct debit request relevant to a banking service we provide to you; and*
    - complaint that a direct debit was unauthorised or otherwise irregular,*
  - b) *We will not direct or suggest that you should first raise any such request or complaint directly with the debit user (but we may suggest that you also contact the debit user).*
  - c) *Where you wish to change the terms of a direct debit arrangement with a merchant, as distinct from seeking to cancel a direct debit facility, you will need to contact the merchant directly to make the change.*
2. *That staff are trained in the provisions of Clause 19 including:*
  - a) *the distinction between cancellation of direct debits and changes to the terms of direct debit arrangements; and*
  - b) *the need to process cancellation requests and complaints promptly in order to avoid the possibility of the customer's banking facility becoming overdrawn and incurring exception fees due to the continuing payment of the direct debit facility.*

At this time there has not been a formal response from the ABA or the Banks in relation to the Code Review and the recommendations made with respect to direct debits.

The CCMC acknowledges that there may be some confusion regarding the request for a payment variation of a direct debit as opposed to a request to cancel, however we do not believe that this issue is reflected in the results of this review.

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<sup>16</sup> Review of the Code of Banking Practice - Final Report was published in Dec 2008. A copy of the Final Report is available at [www.reviewbankcode2.com.au](http://www.reviewbankcode2.com.au).

## **Measure of Success and Next Steps**

In order to assess the effectiveness of this review and the responses of the Banks, the CCMC and the Banks consider the following to be the key areas that should be measured:

- Improved consumer and small business confidence in cancelling direct debit requests on the appropriate account via their Bank;
- Improved confidence amongst financial counsellors regarding the cancellation of direct debits for transaction accounts.

The CCMC will be reviewing the steps taken by the Banks and sharing where appropriate, any insights so that the industry can improve, collectively.

In addition the CCMC is in discussions with both Consumer Affairs Victoria and APCA in an effort to ensure that the ability to cancel direct debits at the Bank is better understood by Banks, consumers, businesses and service providers.

In order to assess whether there has been any improvement with respect to clause 19, we intend to conduct further shadow shopping exercises, within the next 6 months, to monitor and measure whether there has been any effective change.

The CCMC will continue to liaise with financial counsellors to monitor whether there is any reduction in the complaints raised by their clients.

As part of our role in investigating any alleged breaches of the Code, we will continue to receive and investigate any allegations of breaches with respect to clause 19 and any other aspect of the Code.

### **Contacting the CCMC:**

If you believe that a Bank has breached the Code of Banking Practice, and they have subscribed to the Code, then you can:

1. Telephone the FOS General Enquiries on 1300 780 808
2. Write to the CCMC care of:  
CEO  
CCMC  
P.O. Box 14240  
Melbourne City Mail Centre  
Melbourne VIC 8001
3. Lodge a complaint via our online complaint form at [www.codecompliance.org](http://www.codecompliance.org)

### **If you have a general enquiry?**

You can contact us in writing or directly, using the address and telephone details outlined above.

You can also email your inquiry to us at [info@codecompliance.org](mailto:info@codecompliance.org)

### **If you want to pass on some feedback?**

Please give us your feedback. You can call us on 1300 780 808 between 9am and 5pm (Melbourne time) or use our email address [info@codecompliance.org](mailto:info@codecompliance.org).

### **If you want to know more about the Code of Banking Practice?**

If you want to know more about the Code, please see our website. Alternatively, you can also view the Code and other information about the Code (including Code membership) at the Australian Bankers Association website at [www.bankers.asn.au](http://www.bankers.asn.au).

## **APPENDIX**

### **Extract from the Code of Banking Practice**

#### Clause 19

19.1 We will take and promptly process your

a) instruction to cancel a direct debit request relevant to a banking service we provide to you; and

b) complaint that a direct debit was unauthorised or irregular,

and will not direct or suggest that you should first raise any such request or complaint directly with the debit user (but we may suggest that you also contact the debit use.

19.2 Clause 19.1 does not apply to a payment service relating to a credit card account.

### **Summary of relevant sections of the BECS procedures**

#### Cancellation of direct debits

Clause 7.12(h) of the BECS procedures requires a customer's bank (Ledger FI) to:

1. Accept an instruction in writing, or in any such form as it determines, from a customer to cancel a direct debit;
2. Act on that instruction by promptly forwarding a cancellation request to the debit user's bank (Sponsor); and
3. Ensure, as far as practicable, that no further debits under the relevant debit authority are posted to the customer's account.

#### Unauthorised or irregular direct debits

Clause 7.8 sets out the claim procedures for Ledger FIs and Sponsors to follow when a complaint is received from their customer that a direct debit is unauthorised or irregular:

1. When a customer approaches the Ledger FI, the bank must, after determining that the claim appears valid, obtain a customer claim form from the customer;
2. The Ledger FI must then forward the claim and claim request to the debit user's Sponsor, demanding payment;
3. The Sponsor must forward the claim to the debit user and require the debit user to provide evidence to support its authority to effect the direct debit;

4. The Sponsor must then respond to the Ledger FI in respect of the claim:
  - a) In the case of disputed debits no older than 12 months, within 5 business days; and
  - b) in the case of all other disputed debits, within one month.
5. The Ledger FI must inform the customer of the Sponsor's response within one business day of the expiry of the period for the Sponsor's response;
6. If the Sponsor accepts the claim, or fails to respond within the specified time, the Ledger FI may refund the customer and draw on the Sponsor's claims account;
7. If the Sponsor refuses the claim, for example because the debit user claims it was authorised, and the customer still wishes to dispute the debit, the Ledger FI will again write to the Sponsor;
8. The Sponsor and Ledger FI must "use reasonable endeavours to resolve the dispute"; and
9. There is an option for an unresolved matter to be referred to a Management Committee constituted under the BECS regulations.