

NIGERIA DIRECT DEBIT SCHEME

Revised Version 0.2

NIGERIA DIRECT DEBIT SCHEME

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Chapter 1

INTRODUCTION

1. Direct Debit has been operated in Nigeria in paper form in the form of “Debit Notes” originated by payer’s bank using the Nigeria Clearing House infrastructure. The Automated Clearing House was implemented in 2002 and the Nigerian version of the Domestic Funds Transfer introduced to the market as NEFT (NIBSS Electronic Funds Transfer). NIBSS (Nigeria Inter Bank Settlement System) owns and manages the physical infrastructure for clearing of cheques and paperless clearing instruments in Nigeria

ACH Direct Debit (DD) as a product was formally introduced to the Nigerian Clearing System by the Nigeria InterBank Settlement System (NIBSS) in January 2006. It was introduced as a variant of NEFT (NIBSS Electronic Funds Transfer) and operated by participating banks under the aegis of the Nigeria bankers clearing house. Also, other market participants in the payments environment such as Interswitch have also introduced variants of Direct Debit products which run-off their switching infrastructure but with ultimate settlement between the banks passing through NIBSS.

There are currently no general rules specific to Direct Debit as a payment mechanism in the Nigeria market. What exist are corporate rules developed to guide the participants in the relevant switch on the various products that run off this switch, and the general rules for the clearing house. This underlies its relative low acceptability in the market as there are no clearly articulated and documented rules that guide and bind market participants, and thus grow the confidence of the user to accept and use the product.

2. The ACH Debit is a cash-less form of financial settlement which facilitates “regular in nature” payments. It permits an Originator to collect amounts due from a Payer at the Payer’s Bank by initiating Direct Debit Transfer on a bank account nominated in a Direct Debit Mandate. Banks are not responsible for any underlying contract as it is solely a method of collecting payments. It also provides an efficient platform for Originators to draw funds from their account across banks in an efficient manner. In an environment where bank customers have multi-bank relationships, it provides the right platform for optimal management of liquidity across banking relationships.
3. Organisations or individuals that regularly or periodically receive large volumes of payments may benefit immensely from the scheme.
4. An organisation wishing to join the Scheme will typically contact the appropriate service division of its Originator’s bank. The organisation is expected to satisfy the requirements of the bank before admittance.

The development of a Code of Conduct for Bill Payment is one of the initiatives arising from the CBN Vision 2020 for the Financial System on Payments. The implementation of this initiative provides the background to development of these rules, Nigeria Direct Debit Rules.

We have adopted some of the content from the Direct Debit Rules of other countries such as Kenya, SEPA , UK due to similarity in operating environment and need to adopt best practices.

Definitions

1. *Direct Debit Transfer*
A Direct Debit Transfer is a payment prepared in an Electronic Funds Transfer format, in this case, the NEFT Data Transfer format or any other format prescribed by the relevant service provider.

These Rules refer to a Direct Debit Transfer as a Transfer.
2. *Direct Debit Mandate*
This is a written authority given by a Payer to the Payer's Bank, to make payments from an identified bank account at the request of, and to the account of, an Originator. The authority is given by the Payer to the Payer's Bank with a copy to the Originator. However, in the event that the written authority is given to the Originator, who in turn presents to the Payer's Bank, it is required that the Payer's Bank duly confirm authenticity from the Payer through its normal process for confirmations.

These Rules refer to a Direct Debit Mandate as an Authority.
3. *Variable Direct Debit Mandate*
This authority allows variable amounts to be debited from a Payer's bank account. It is used for regular payments that cannot be forecast in advance and for amounts that change periodically (monthly, quarterly, annually, etc.). An Originator must provide an Advance Notice to a Payer, of the amounts and dates of payment, in sufficient time for any queries to be raised before payment. A new Authority must be variable and, in practice, the vast majority of existing Authorities are in variable format.
4. *Advance Notice*
This is the notice that must be given by an Originator to a Payer who has signed a Variable Direct Debit Mandate. At least 14 calendar days' notice must be given, in respect of the date and or amount to be debited.
5. *Direct Debit Indemnity*
A Direct Debit Indemnity, referred to in these Rules as an Indemnity, protects a Payer should an incorrect amount be debited, a debit occur earlier than specified or in error. Should a Payer query a payment as given, the Payer's Bank must, on request, make an immediate refund to the Payer's bank account. This covers situations where an Originator may not have given the required Advance Notice regarding a change of amount or date.
6. *Debit Order/Debit transaction* – means a mandated payment instruction from a user to a bank to collect money from a client e.g. insurance premium, hire purchase, rentals. This definition does not exclude a situation where a user initiates such an instruction for its own account, or for other variable amount subject to compliance with the conditions stipulated herein.

Participants and Their Roles

1. Originator or Biller

An originator or Biller is an organisation that is able to make a Direct Debit Transfer. A Direct Debit Indemnity binds an Originator to collect only amounts that have been authorised by a payer on or after a specified date, notified in advance.

2. Originator's Bank (also known as Creditor Bank)

The Originator maintains a bank account with the bank that presents the debit instruction to clearing. An Originator must use the services of a bank to introduce Direct Debit Transfers to the Clearing House. The Originator must satisfy a bank's internal requirements to be allowed access to the Direct Debit Scheme.

3. Payer

A payer is the party whose bank account is to be debited as instructed in a Direct Debit Mandate, typically a customer of an originator or has an existing financial relationship with an originator.

4. Payer's Bank (also known as Debtor Bank)

This is the bank where the payer maintains an account.

5. Payment Service Provider (PSP)

A PSP is a payment service company that is able to accept Direct Debit Transfers from Originators/Billers, for processing through the Automated Clearing House. The funding aspect of all Direct Debit Transfers must be processed through Originator's Bank and the Payer's Bank.

Criteria for Entry into the Direct Debit Scheme

Originating Bank

- ♦ Must be a member of the Automated Clearing House and integrated with a Payment Service Scheme that accepts direct debit transfers for processing. The Payment Service Scheme must have been duly licensed by the Central Bank to carry out payment / switching services.
- ♦ It must hold an account for the originator to receive proceeds of the Direct debit transfer.
- ♦ Originating Banks must comply with the file specification and standards established by NIBSS or the relevant payment service scheme for electronic file delivery.
- ♦ Must have systems in place to automatically trigger issuance of direct debit instructions on due date. This is to ensure that installed processes are efficient enough to meet the expectation of users for settling recurring obligations using this scheme.

Payer's Bank

- ♦ Must be a member of the Automated Clearing House and integrated with a Payment Service Scheme that accepts direct debit transfers for processing. The Payment Service Scheme must have been duly licensed by the Central Bank to carry out payment / switching services.
- ♦ It must hold an account for the payer from which payment will be issued in line with the Direct Debit Authority.
- ♦ Must hold a valid Direct Debit Authority executed in line with the payer's mandate with the bank.

Automated Clearing House / Payment Service Providers.

- ♦ The process and participation criteria for the Direct Debit Scheme is guided by the Nigeria Bankers' clearing House Rules and the Guidelines on Transaction Switching Services.

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Originators/Billers

- ♦ Originators shall execute the Direct Debit Indemnity with any bank that originates its transaction.
- ♦ Every originator will be assigned a Unique Identification Number by its sponsor bank. The identifier shall be unique to each biller or originator and shall be used irrespective of the bank originating the transactions. The Unique Identifier facilitates the process for automated mandate confirmation of Direct Debit Authority. See Chapter 5 Item 8.

Rights and Obligations of all Participants

A *Originator*

1. It is pertinent that an Originator must first obtain an Authority from a Payer before initiating a Transfer on the Payer's bank account.

An Originator must be prepared to accept any Indemnity claim from a Payer, arising from an amendment and or a limitation clause inserted by the Payer before lodgement.

2. On receipt of a Payer's signed Authority, an Originator becomes entirely responsible for collecting payments due under that Authority, via a Transfer. An Originator cannot require the Payer's Bank to settle by any other means.

3. An Originator must:-

- a. initiate a Transfer strictly within the terms of the Authority
- b. initiate a Transfer within the terms of any Advance Notice given to a Payer

The data on a Transfer must conform to that advised in the Authority.

An Originator's identity quoted on a Transfer, if any, must be the same as that quoted in the Authority.

4. Per adventure an Originator decides to vary the terms of a fixed amount Authority, a Payer must provide a new Authority incorporating a cancellation clause.

5. It is expected that an Originator should seek the advice of the Originator's Bank before making any changes to:-

- a. the name or constitution of the Originator
- b. information quoted on an Authority

The Originator's Bank may require an Originator to give notice of such a change to a Payer and/or a Payer's Bank.

6. It is pertinent for the Originator to note that a Payer can cancel an Authority without reference; for instance, the appointment of a liquidator or receiver may involve statutory publicity, which by implication infers that a Payer has provided constructive notice.

7. If a fixed amount Authority exists for a payment that has not yet been settled by a specified date and payment is outstanding, then an Originator's Bank is prohibited from collecting arrears via a Transfer. The prohibition does not extend to the re-presentation of an individual unpaid Transfer or in situations where the Originator has adequately notified the Payer.

8. If an Originator is notified that an Authority is cancelled or amended, the Originator must alter his records immediately, in order to ensure that:-

- a. a Transfer is not initiated after receipt of such notice of cancellation

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- b. all Transfers initiated in the future incorporate the amendment so notified, in the case of amendment.

Rights and Obligations of all Participants

- Note a. For ease of reference, it is recommended that an Originator retains documentation received from a Payer's Bank. This is important as the absence of evidence could prejudice a successful counter-claim against a Payer's Bank.
- b. It is recommended that an Originator ensures that payments made under separate Authorities are not merged as this could lead to difficulties when a Payer wishes to cancel an Authority (not all authorities).

- 9. It is the responsibility of an Originator's Bank to ensure that an Originator strictly adheres to the requirements of the Scheme.

Only Banks that are members of the Nigeria Clearing House shall act as Originators Banks. The moment a bank ceases to be a member of the Clearing House, related Originators shall appoint other Banks in the clearing house with whom they either have account or choose to open account with.

- 10. It is the responsibility of the Originator's Bank to give information, advice and guidance on all aspects of the Scheme to an Originator.

B *Payer*

- 1. The initiation of a Transfer must be strictly within the terms of the Mandate and any Advance Notice to which a Payer is entitled.
- 2. A Payer is at liberty to cancel a Mandate at any time by advising the Payer's bank in writing and with a copy to the Originator. The Originator will duly advise his bank on receipt of the notice of cancellation. It is not the Originator Bank's responsibility for accepting a cancellation of an Authority. Therefore, the Payer must raise a claim against the Originator through his bank per adventure a payment gets through after cancellation, and the Originator must pay promptly.

It is possible that a notice of cancellation is received by the Payer's bank and Originator, but not be able to act on it before the next due date of payment. Adequate notice must be given by the payer to avoid such situations. For recurrent items where collected is made in advance of service provided, this risk is well mitigated.

C *Payer's Bank*

- 1. A Payer's Bank shall accept Transfers originated under an Authority on the understanding that it is not responsible for verifying or checking that:-
 - a. an Authority exists
 - b. payments conform to the terms of the Authority
 - c. any purpose or condition of payment expressed in that Authority is fulfilled
- 2. Depending on the nature of the account, which could be deposit account or any other type of account that might be subject to notice of withdrawal, a Payer's Bank may decline to accept instructions to charge Transfers to such accounts.

Admission of Originators

1. Originators, while acting as such, must recognise that a trust is being bestowed on them by banks, with extensive power, which must be exercised in strict accordance with the requirements stipulated in these Rules.
2. A prospective Originator must be a customer of a bank whose responsibility it would be to support the application. An Originator may hold accounts with several banks
3. In making an assessment, an Originator's Bank shall have regard to an applicant's contractual capacity, credit risk, financial standing and quality of administrative control.
4. As a condition of participation in the Scheme, a prospective Originator must execute an Indemnity, obtained from the Originator's Bank.
5. A prospective Originator's application must stand on its own merits. An Originator's Bank shall not accept any third-party support for the liability assumed under an Indemnity. In this context, a third-party relationship does not exist between a parent and an associated or subsidiary company.
6. The decision on sponsorship shall not be influenced by the existence or availability of any private insurance cover an Originator may choose to obtain to cover his Indemnity liability. The assignment of such cover in favour of banks is neither practicable nor acceptable.
7. After execution, an Originator must return the signed Indemnity and other accompanying documents deemed necessary by the Originator to the Originator's Bank.
8. The Originator's Bank shall use its discretion in accepting an Originator to the scheme. However, the Nigeria Clearing House management shall also act as arbiter, if warranted, in future. This will provide a forum for banks to share information. The fate of a prospective Originator shall rest with the Originator's Bank. The Originator's Bank, in communicating a determination to a prospective Originator, shall not refer to the Nigeria Clearing House.
9. After the approval of an application, an Originator's Bank shall allocate the Originator with a unique Originator's Identification Number for quoting on all Transfers. The Unique Identifier will be the Originator's RC Number or Tax Identification number (TIN), to be captured as Payment Reference. Where the Originator provides more than one service and seeks to differentiate them, a Service Code will be assigned and associated with the Identifier in the form – RC Number or TIN /---. The Unique Identifier, and where relevant, the Service Code must be indicated on all mandates and billing instructions emanating from the Originator.
10. The lodgement of a signed Indemnity with an Originator's Bank must be notified to other banks, together with an advice of the Originator's Identification Number issued, through the Nigeria Clearing House.
11. The allocation of an Originator's Identification Number may be made exceptionally in advance of lodgement of the Indemnity when such a number is required for testing automated procedures.

Scope and Benefits of the Scheme

A *Originator*

1. The scheme ensures that the Originator shall no longer have to employ a comprehensive reconciliation process to check the receipt of expected payments. It is recommended that, an Originator maintains a separate bank account in which Transfers are collected. This will effectively ease reconciliation.
2. The Scheme provides the only means recognised by banks where, at the discretion of an Originator, a Payer could authorise payments from a bank account of amounts which are variable by time and or amount, until further notice.
3. For an Originator whose payments are subject to changes in amount, a variable Authority is available, thereby avoiding the need to issue new instructions whenever amounts change.
4. It also ensures that the Originator is able to manage and control cash flow by exception and with greater certainty, by attending to unpaid Transfers. The information on unpaid transfers will also be readily available.
5. An Originator shall be able to take advantage of electronic file formats to update internal systems and records.

B *Payer*

1. Provided by the Scheme is a simple, safe and convenient banking service that enables a Payer to settle accounts as and when they fall due.
2. Further provisions by the Scheme are:-
 - a. the elimination of cheques
 - b. the discontinuation of visits and queues to cash offices or banks
 - c. the relief from worries about overlooking payment dates
 - d. a quick and easy resolution to queries at the Payer's Bank, including an immediate refund for payments made, if transactions are in dispute
 - e. an Originator, the ability to merge several payments into one transaction, by using a variable Authority, provided a Payer consents
 - f. a Payer, through a variable Authority, the avoidance of the need to issue a fresh Authority each time a payment amount changes

Business and Operational Rules

- 1 Direct Debit as a form of financial settlement facilitates settlement of "regular in nature" payments. It is an instruction from a customer to their bank authorising an organisation to collect funds from their account".
- 2 The process typically involves four parties - A service provider (Originator), service provider's bank (Originator's bank), a subscriber (Payer) to the service provider and the subscriber's bank (Payer's bank). Direct Debit also provides a viable option for bank customers who intend to pull funds from their account with one bank to another.
- 3 **Direct Debit transactions are of 2 types:**
 - Fixed Direct Debit: allows fixed amounts to be debited from a payer's bank account.
 - Variable Direct Debit: allows variable amounts to be debited from a Payer's bank account. Typically used for payments where amounts cannot be predetermined in advance. In this instance, there is need for the service provider to intimate the subscriber (payer) of the invoice amount well before the debit is sent to his/her bank.
4. The Direct Debit mandate will clearly state whether it is fixed or variable
5. Every Originator must be assigned with a unique identification number by the Originator's bank. This number will be unique to the originator and will be used for all direct debit transaction originated as a result of mandates executed in favour of the originator, irrespective of the bank transacting. The unique Originator's Identification Number must be recorded in electronic funds transfer file and must be quoted on all transfers.
6. A direct debit instruction is issued subject to the rules of the clearing house on returned items. An item that is dishonoured must be returned within the local clearing cycle in operation. Currently, local cheques clear in T+3. The clearing house shall not accept paper vouchers under these rules
7. However, irrespective of (6), a payer shall obtain immediate reimbursement for instructions that are issued in error or not in conformity with the terms of the mandate or fraudulently issued and identified after the instruction has been honoured.
8. The Originator's bank shall submit transfer details to the clearing house at least 3 working days before payment due date.
9. An originator shall submit transfer details to the Originator's Bank in accordance with the electronic file format defined in the Nigeria Clearing House Rules.
10. If the Payer's Bank cannot pay a Transfer for any reason, the Payer's Bank shall return that debit to the Originator's Bank within the clearing period allowed under the Clearing House Rules. The Originator's Bank shall advise the Originator of the unpaid item.
11. These Rules are subject to the settlement finality rules applicable to the Nigeria Banker's Clearing House.

UNPAID DIRECT DEBIT TRANSFERS

1. As noted above, a Payer's Bank may return a Transfer unpaid
2. A Transfer must be paid or returned unpaid within the same clearing cycle applicable to local cheques subject to the Nigeria Banker's Clearing House rules

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3. Representation should only occur when an Originator reasonably assumes that a Payer shall meet the conditions necessary for payment.
4. The authority of an Originator to effect re-presentation does not arise from the existence of a debt owed by a Payer to the Originator. An Originator's Bank may represent an unpaid item only once and for the same amount that was originally dishonoured.
5. If a re-presented Transfer is dishonoured an Originator must make other arrangements directly with a Payer to collect the amount due.

ADVANCE NOTICE

1. An Originator must give an Advance Notice to a Payer on a variable Authority, before :-
 - a. the first payment
 - b. changes to :-
 - i. the amount on the Transfer
 - ii. the due date of the Transfer

An Advance Notice is also required for the payment of :-

- c. an initial un-stated amount
- d. an amount subject to a limitation clause

An Originator may advise changes known in advance in a schedule.

An Advance Notice must be in writing.

Where appropriate, an Advance Notice should indicate :-

- e. that an Originator shall not send a subsequent Advance Notice if the amount on the Transfer changes solely because of an alteration in the applicable statutory rate
- f. the amount initially advised shall be subject to a subsequent discount, mutually negotiated and agreed

For example An invoice used as an Advance Notice may indicate :-

The total shown will be charged to your bank account by direct debit on or just after _____ .

2. Where the Originator is a national official body, for example a Government department that is collecting variable statutory amounts payable, the Originator must consult the Originator's Bank on the form of Advance Notice required. Such an Originator is exempted from issuing individual Advance Notices for changes in the amount payable, after a Payer receives an Advance Notice of the first payment, provided that :-
 - a. the amount payable is specifically identifiable in statute or subordinate legislation duly passed by the National Assembly
 - b. the Payer is required to pay the statutory amount, if not by Transfer, then by some other means
 - c. the variable Authority signed by the Payer states that if the statutory amount payable changes, then the Originator shall provide full publicity without individual Advance Notices

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- d. the Originator's Bank is satisfied that the Originator shall provide full publicity on changes in the statutory amount payable, in sufficient time before Transfers are initiated, in case a Payer wishes to cancel an Authority.
 - e. the Originator shall not issue individual Advance Notices and all literature shall clearly state this
3. In all cases, an Advance Notice, or the publicity referred to here-before, must allow sufficient time for a Payer to raise a query, countermand a single payment or, cancel the Transfer. Where the amount or due date is certain, an Originator shall issue an Advance Notice not less than 14 days from the due date. In the absence of any specific agreement between an Originator and a Payer, this period shall be the minimum requirement. The Advance Notice could be in writing or electronic as agreed between the Originator and Payer.

Note Should a club or professional institution make a change to the rate of subscription or the date of payment, then each member must receive a separate notice of the change. An announcement of the change in a professional journal or other publication is not adequate, although a separate letter, giving advice of the change, may accompany an individually addressed journal or publication.

Exceptionally, a written Advance Notice may not be required when a direct action by a Payer requires an Originator to initiate a specific Transfer on Payer's bank account. This action must provide sufficient information to determine the amount and date of Transfer. An Originator must obtain authority from the Originator's Bank before establishing an arrangement dispensing with an Advance Notice. There are a number of possibilities giving rise to this:-

- a. when an Originator is required to debit a Payer's bank account following a withdrawal of cash from an automated teller machine under the control of the Originator
- b. when there is a written request by a Payer to an Originator
- c. when there is a request by a Payer to an Originator by means other than in writing but providing an audit trail.

The Direct Debit Mandate

A General

- 1. A Direct Debit Mandate is not and should not be misconstrued as evidence of any contract between an Originator and a Payer's Bank.
- 2. When requiring a Payer to complete a Mandate, the Originator should provide a separate letter and/or leaflet, showing the essential features of the Scheme. The letter and/or leaflet should provide in concise manner the essential features of the scheme and highlight the key aspect and mechanism that guarantees protection for the Payer. A sample format is included in the Appendix.
- 3. Before publishing such information to a Payer, an Originator must obtain the approval of the Originator's Bank.

In all cases an Originator must:-

- a. confirm that a Payer shall obtain immediate reimbursement from the Originator, in case of an erroneous initiation of a Transfer
- b. give a categorical assurance that Transfers shall conform strictly to the terms of the Mandate and the conditions governing payments between the parties concerned

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- c. explain the reasons for the use of a variable Mandate, and give details of the Advance Notice a Payer will receive
- d. include any additional information appropriate to the individual circumstances of the Originator
- e. advise a Payer that an Mandate may be cancelled at any time by notifying the Originator accordingly

B *Types of Direct Debit Mandate*

1. There are two distinct types of Authorities:-

- a. Variable Direct Debit Mandate
 - i. suitable for all payments, particularly if amounts are liable to change, and must be used when it is intended to merge payments
 - ii. the Originator must give an Advance Notice to the Payer of amounts and dates of debiting

b. Fixed Amount Direct Debit Mandate

This is suitable when amounts remain constant for the life of the Mandate.

- 2. If a Payer has a query regarding the authenticity of a Transfer applied to the Payer's account, the Payer's Bank must return the transfer to the Originator's bank within the clearing period, and shall refer the Payer immediately to the Originator.
- 3. The Payer's Bank may decline to accept Mandate instructions to charge Transfers to certain types of accounts, such as deposit and savings accounts, which are subject generally to notice of withdrawal.

AMENDMENT TO A DIRECT DEBIT MANDATE

1. A Payer's Bank shall advise an Originator promptly of all technical changes concerning:-

- a. the Payer's Bank
- b. a Payer's bank account

It is recognised that cases can arise where an Originator shall receive a notice advising of an amendment or cancellation but will be unable to act on it before the next due date of payment.

2. Amendments may arise:-

- a. because a Payer's bank account is transferred to another branch of the same bank
- b. because a Payer's bank account is transferred to another bank

In this case, a Payer shall be required to obtain a new Mandate. A Payer's previous bank should return as unpaid transfers, Transfers received after a change has occurred.

- c. because a Payer authorises, in writing, material alterations to an Mandate, such as :-
 - i. the account name

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- ii. the account number
- iii. the due date of payment
- iv. the frequency of payment
- v. the amount

Note Whilst not a permanent amendment to an Mandate, a Payer may dispute an Advance Notice and countermand the single payment advised.

3. A Payer's Bank shall use a Mandate Amendment Advice form to notify an Originator of the changes.

When produced by automated means the form may display the relevant information only. An Originator may also receive Advice of new sorting codes and or account details from banks. If one Originator is required to make numerous amendments, for example arising out of a closure or merger of branches, then a list giving details of all amendments to be made may be provided, provided the Originator does not object.

4. On receipt of an Advice, an Originator must amend records accordingly.
5. The transfer of a Payer from one Originator to another can only be authorised by the Payer concerned. The authorisation must be in the form of a new Mandate.
6. A Payer should advise an Originator directly of any amendments made to a Mandate.

The recommended formats and text for Direct Debit Mandates are included in the Appendix.

CONTROL MECHANISMS AND CONSUMER PROTECTION

General

These rules are developed with the key objective of ensuring that all participants in the scheme are protected and that their roles and processes are clearly articulated and understood by all stakeholders. To further ensure that users are confident that their interest is protected, further control mechanisms are recommended as best practices to achieve this objective. These recommendations leverage on existing technology already in deployment in the industry and should drive competition and product differentiation among players:

- 1 All Payers' Banks are required to have the facility for transaction notification via sms and/or email. The Payer must be duly notified via either of these media of the debit passed into their accounts within the clearing cycle. Payers should encourage their banks to provide this service as a matter of course to meet the need for prompt and adequate transaction information. However, the inability of the Payer's Bank to meet this requirement will not invalidate the Transfer instructions that comply with the Mandate of the Payer.
- 2 Controlled Direct Debit is a feature of mobile banking that has been implemented in other climes to provide the payer with more control over debits to their accounts that are subject of Direct Debit Mandates. The Transfer instruction is transmitted and can only become effective subject to the authorisation of the Payer on his mobile phone.
- 3 A major challenge with the Direct Debit process is the ability to keep a track of valid Direct Debit mandates on record. It is critical that Debit Mandates are held as electronic records for ease of updates, tracking, monitoring, and direct debit auto-verification. This should be implemented by Payer Bank's to improve the efficiency and effectiveness of the Direct Debit process.
- 4 A Payer must give the Payer's bank adequate notice of cancellation of a Direct Debit Mandate. A minimum period of 14 days is recommended to enable all parties to the scheme to be adequately notified and records updated.
- 5 Disputes arising from Direct Debit transaction will be resolved under the aegis of the Clearing House in line with these rules.
- 6 A Unique Identifier will be assigned to Originators by their sponsoring banks which certifies that the market participant is subject to these rules. The Unique Identifier to be derived from Originators RC Number and relevant Product Service Code e.g. 12346/01.

CONTROL REQUIREMENTS FOR PARTICIPATION IN THE SCHEME.

- ♦ All banks participating in this scheme shall have facilities for transaction notification via sms and/or email. The Payer must be duly notified via either of these media of the debit/credit passed into their account within the subsisting clearing cycle.
- ♦ In order to ensure ease of access to mandate instructions, banks are required to have facilities for holding Direct Debit Authority in electronic form. This is to ensure efficiency in the processing of debit request received from clearing.
- ♦ A minimum of 14 days notice of cancellation must be given by the Payer to his bank. This is to enable all parties to the scheme to be adequately notified and records updated.

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- ♦ Each originator will be sponsored by a bank. The Sponsor bank will assign a Unique Identifier to the originator for use irrespective of the bank originating the transaction. The clearing house will be duly notified of all registrations within 48hrs.
- ♦ It is expected that the Payers' Bank would go through its normal confirmation process (as in Cheque Confirmation) upon receipt of a Direct Debit Authority to verify its authenticity.
- ♦ A "Kite Mark" or logo will be implemented for the scheme to be displayed on the Debit mandates form accompanying invoices and subscription forms issued by Certified originators to subscribers for their products/services. This mark represents a mark of "service quality" and "process integrity" for the scheme.
- ♦ The Nigeria Bankers Clearing House shall monitor the operation of the Scheme to ensure that all participants achieve and maintain the required standards of documentation and procedure.
- ♦ **AUDIT TRAILS:** The following records must be maintained and accorded the same retention period as for Cheques by the participating Banks:
 - The executed Direct Debit mandate
 - The executed Direct Debit Indemnity
 - Full transaction history records of instructions transmitted to clearing.
 - Full transaction history records of all returned items.

Chapter 9

THE DIRECT DEBIT INDEMNITY

1. Every Originator must execute the prescribed form of Indemnity provided by an Originator's Bank.
2. An Originator shall not be permitted to, single-handedly, make amendments to the standard text. An Originator's Bank may, with discretion, and the agreement of other participating banks, require certain additions or deletions to be made to text when particular circumstances or the status of an Originator indicate that certain contingencies are not covered.
3. An Originator shall undertake to effect settlement of Indemnity claims with Payers' Banks immediately and in any case within 5 working days of the date of the claim.
4. An Originator's Bank, after having accepted its cover, shall give written notice of the termination of an Indemnity.
5. An Originator should note the following:-
 - a. time there is a continuing liability in respect of Transfers initiated before receipt of a written notice of termination by a Payer's Bank
 - b. amount the liability of an Originator arises not only in respect of Transfers initiated in error or not at all, and will be limited to the amount under consideration plus interest charged at NIBOR or any such benchmark applicable for lending in the market.

Claims under the Indemnity

1. An Originator shall undertake to indemnify banks against any loss arising from Transfers.
2. The liability under this Indemnity shall be limited to a period of one year.
3. There is no limit on the amount on an Indemnity liability.

This is because of errors of commission and omission.
4. An Originator must honour an Indemnity claim immediately and in any case within 5 working days.
5. An Originator wishing to make a counter-claim on a Payer's Bank should seek guidance from the Originator's Bank. The Originator's Bank should assist an Originator in lodging the counter-claim with the Payer's Bank concerned.
6. A Payer's Bank shall not claim on an Indemnity to recover funds paid in error. The Payer's Bank may request an Originator for a full or partial refund of funds, in writing. This should not include a request for consequential loss. Any recovery shall be at the discretion of an Originator. An Originator doubting the validity of a claim should seek the advice of the Originator's Bank.

Note The essential principle of the Scheme is the right of a Payer to seek and obtain an immediate refund of payments made in error from and by an Originator.

NIGERIA DIRECT DEBIT SCHEME

On establishing that an Originator was at fault, a Payer's Bank shall assist a Payer in lodging an Indemnity claim with the Originator's bank.

Chapter 10

COMPLIANCE WITH RULES, PENALTIES, and ARBITRATION

1. Each of the participants in this scheme shall conform to the requirements for admission into the scheme and all the criteria laid down for participation in the Nigeria Clearing House and the provisions of these rules.
2. Each Originator is required to have executed the Direct Debit Indemnity with an Originating Bank as sponsor. The relevant Originating Bank shall duly advise all banks after the execution of the agreement.
3. Each participant shall comply with the specification and standards established by the relevant payment service provider for electronic files delivered to the ACH.

PENALTIES

1. The Nigeria Banker's Clearing House may require an Originator to withdraw from the scheme if in their opinion their activities constitute an abuse of the scheme.
2. All participants in the scheme shall be subject to the rules of the Nigeria Banker's Clearing House and penalties imposed in line with its rule for breach of the rules.

RESOLUTION AND ARBITRATION MECHANISMS.

- ♦ Any dispute between participating Banks in the Direct Debit scheme shall be referred to the CBN for adjudication. The decision of the CBN shall be binding on all parties.
- ♦ Refer to Chapter 9 – Direct Debit Indemnity

WITHDRAWAL OF AN ORIGINATOR

1. An Originator may withdraw from the Scheme either voluntarily or compulsorily.

2. Voluntary Withdrawal

An Originator must plan very carefully, in close consultation with the Originator's Bank, the following actions:

- a. the cancellation of existing Instructions
- b. the progressive replacement of the direct debiting method of payment by some other method

Note: Should an Originator wish to revert to payment by standing order, Payer's must submit new standing order mandates.

An Originator withdrawing voluntarily from the scheme should prudently consider establishing a contingency reserve for meeting:-

- any claims which may arise in respect of unpaid Transfers
- any Indemnity liability which may arise subsequent to withdrawal or termination of liability in respect of Transfers initiated prior to either of these events

3. Compulsory Withdrawal

An Originator's Bank may require the withdrawal of an Originator from the Scheme if :-

- a. in their opinion, Transfers are carried out either in a manner which constitutes an abuse of the Scheme or is without due regard to the interests of Payers.
- b. there is evidence that an Originator is deliberately ignoring standards and procedures detailed in these Rules
- c. the contractual capacity of the Originator is terminated by legal process, for example, by bankruptcy, liquidation or the appointment of a receiver

Note In extreme cases it may be necessary for an Originator's Bank to insist on the withdrawal of an Originator at short notice, notwithstanding the disruption which may occur. However, an Originator's Bank shall make every effort to give sufficient notice to enable an Originator make alternative arrangements. In this context, an Originator's Bank shall not assume an obligation in giving notice. More particularly, an Originator's Bank shall not accept liability under any circumstances for any loss that an Originator may suffer as a result of withdrawal from the Scheme.

NIGERIA DIRECT DEBIT SCHEME

Chapter 12

MONITORING BY BANKS

1. The Nigeria Banker's Clearing House shall monitor operations of the Scheme to ensure that all Originators achieve and maintain the required standards of documentation and procedure.
2. An essential feature of the monitoring process shall be a selective random audit, from time to time, of Transfers received by banks and the respective Instructions held by Originators.
3. The audit shall take place after a day's clearing session and, in the next day's clearing session, Transfers that had earlier failed to conform to significant terms of the respective Instructions shall be unpaid.
4. In this context, significant terms of an Instruction shall include :-
 - a. the amount
 - b. the due date
 - c. the Payer's identity; that is, the name, number of the account and Sort Code to be debited
 - d. The Originator's Unique Identifier under Payment Reference.
5. An Originator's Bank shall advise an Originator accordingly, should an audit reveal that there is an unacceptable level of error or substantial deviation from standard procedure. Further, should there be no subsequent improvement that Originator may be required to withdraw from the Scheme.
6. The monitoring of Transfers shall assist customers using the Scheme. Failure by the Nigeria Clearing House to carry out random audits shall not affect the validity of any claim under the Indemnity.

NIGERIA DIRECT DEBIT SCHEME

APPENDIX 1

FORM OF DIRECT DEBIT MANDATE (FIXED AMOUNTS)

Date [•]

FROM [Insert Name of Payer]

Creditor's RC Number or TIN/Service Code

Identifier:

[Insert Address of Payer]

TO: [Insert Name of Bank]

[Insert Address of Bank]

CC: [Insert Name of Creditor]

[Insert Address of Creditor]

Dear Sirs,

MY AGREEMENT [insert details of the underlying commercial transaction between the Creditor and the Payer] dated [•]

The details of my/our bank account are as follows:-

Bank:	
Address of Bank Branch:	
Account Number:	
Sort Code:	
Phone Number	
Email Address	

I/We hereby request, instruct and authorise you to debit my/our account in accordance with any Direct Debit Instruction issued and delivered to you by the *Creditor* the sum of _____ (*amount in words*), necessary for payment of the monthly instalment due in respect of the above-mentioned agreement) on the _____ day of each and every month commencing on _____ and continuing (*state the period for which the underlying contractual arrangement exists for*). All such debits from my/our account by you in accordance with any Direct Debit Instruction issued and delivered to you by the *Creditor* shall be treated as though they have been signed by me/us personally.

The amounts are FIXED and may be debited on _____ of each month. I/We understand that the *Creditor* may change the amount and dates only after giving me/us prior notice and subject execution of this mandate in its variable form.

I/We understand that the withdrawals hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each withdrawal will be printed on my bank statement and/or an accompanying voucher.

I/We agree that bank charges will apply as appropriate.

NIGERIA DIRECT DEBIT SCHEME

This Mandate may be cancelled by me/us by giving both you and the Creditor twenty (20) Business Days notice in writing, sent by prepaid registered post, or delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the *Creditor*.

I/We understand that if any Direct Debit Instruction is paid which breaches the terms of this Mandate, you shall not be liable to us in any way or manner whatsoever, whether under contract, tort or negligence and that our recourse shall be limited to the *Creditor*..

Signed at _____ on this _____ day of _____ 20 _____

[SIGNATURE AS PER ACCOUNT MANDATE]

for and on behalf of: [*Insert name of Payer*]

In the presence of:

Name: _____

Address: _____

Occupation: _____

Signature: _____

NIGERIA DIRECT DEBIT SCHEME

APPENDIX 2

FORM OF DIRECT DEBIT MANDATE (VARIABLE AMOUNTS)

FROM [Insert Name of Payer] Date [•]
Identifier: [Insert Address of Payer] Creditor's RC Number or TIN /Service Code

TO: [Insert Name of Bank]
[Insert Address of Bank]

CC: [Insert Name of Creditor]
[Insert Address of Creditor]

Dear Sirs,

MY AGREEMENT [insert details of the underlying commercial transaction between the Creditor and the Payer] dated [•]

The details of my/our bank account are as follows:-

Bank:	
Address of Bank Branch:	
Account Number:	
Sort Code:	
Phone Number	
Email Address	

I/We hereby request, instruct and authorise you to debit my/our account in accordance with any Direct Debit Instruction issued and delivered to you by the *Creditor* for such amounts necessary for monthly/quarterly/semi-annual payments due in respect of the above-mentioned agreement on the _____ day of each and every month/quarter/half-year commencing on _____ and continuing (*state the period for which the underlying contractual arrangement exists for*). All such debits from my/our account by you in accordance with any Direct Debit Instruction issued and delivered to you by the *Creditor* shall be treated as though they have been signed by me/us personally.

The amounts are variable but for a maximum amount of -----, and may be debited on various dates. I/We understand that the *Creditor* may change the amount and dates only after giving me/us prior notice.

I/We understand that the withdrawals hereby authorised will be processed by electronic funds transfer, and I/we also understand that details of each withdrawal will be printed on my bank statement and/or an accompanying voucher.

I/We agree that bank charges will apply as appropriate.

NIGERIA DIRECT DEBIT SCHEME

This Mandate may be cancelled by me/us by giving both you and the Creditor twenty (20) Business Days notice in writing, sent by prepaid registered post, or delivered to the addresses stated above, but I/we understand that I/we shall not be entitled to any refund of amounts which may have already been withdrawn while this Mandate was in force if such amounts were legally owing to the *Creditor*.

I/We understand that if any Direct Debit Instruction is paid which breaches the terms of this Mandate, you shall not be liable to us in any way or manner whatsoever, whether under contract, tort or negligence and that our recourse shall be limited to the *Creditor*..

Signed at _____ on this _____ day of _____ 20 _____

[SIGNATURE AS PER ACCOUNT MANDATE]

for and on behalf of: *[Insert name of Payer]*

In the presence of:

Name: _____

Address: _____

Occupation: _____

Signature: _____

NIGERIA DIRECT DEBIT SCHEME

FORM OF INDEMNITY

To: [Originator's Bank]
[Originator's Address]

Dear Sirs,

1. **IN CONSIDERATION** of you severally accepting instructions from time to time from _____ (hereinafter called the "**Creditor**") or from an agent of the Creditor to debit the account of the Payer with the amounts specified on instruments drawn in paper form or in automated input form written in accordance with the Direct Debit Agreement dated [•] between _____, we hereby warrant that the Payer on whose account a debit is drawn will have signed a Direct Debit Mandate, and we shall keep you indemnified upon your first demand against all actions, losses, damages, claims, demands costs and expenses (including legal costs, fees and expenses on a full indemnity basis) howsoever arising, which you may incur or sustain directly or indirectly from such debiting or failure to debit and without our requiring proof of our agreement to the validity of such demand we shall forthwith pay the amount.
2. We authorise you to admit compromise or reject any claims made upon you without reference to or authority from the Creditor. Furthermore, with respect to any claims or demand for the refund of any money received by you on our behalf pursuant to any debit and transfer made on our behalf in accordance with the [Direct Debit Agreement] [direct debit arrangements between ourselves and the Payer], you are hereby authorised and are at liberty to comply with such demands and claims and without any further reference or authorisation from us, you may debit our account and transfer such funds to the account of the Payer.
3. You are not required to verify or check that instructions given to you have been given and remain in force in respect of any debit and transfer made at the request of the Creditor.
4. You are not required to verify or check that any purpose of payment stated in the Direct Debit Mandate signed by the Payer is fulfilled or is observed.
5. This Direct Debit Indemnity is to be in addition to and is not to prejudice or be prejudiced by any other Direct Debit Indemnity which has been or may now or hereafter be executed by us in connection with the Direct Debit Agreement, and shall be binding on us as continuing security notwithstanding any payments from time to time made to you or any settlement of account or disability, incapacity, insolvency that may affect us or any other thing whatsoever.
6. You are to be at liberty without thereby affecting your rights hereunder at any time and from time to time at your absolute discretion to release, discharge, compound with or otherwise vary or agree the liability under this Direct Debit Indemnity or make any other arrangements with us.
7. This Direct Debit Indemnity shall be enforceable notwithstanding any change in your name or any change in the constitution of the bank, its successors or assigns or by its amalgamation with any other bank or banks.
8. This Direct Debit Indemnity shall be governed by and construed in accordance with the laws of the Federal Republic of Nigeria.

NIGERIA DIRECT DEBIT SCHEME

Signed By: _____

for and on behalf of: *[Insert name of Creditor]* pursuant to a resolution of the Board of Directors of the Creditor a certified copy of which is annexed hereto

In the presence of:

Name: _____

Address: _____

Occupation: _____

Signature: _____

APPENDIX 4
LETTER TO PAYER

NIGERIA DIRECT DEBIT SCHEME

DIRECT DEBIT

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Your rights

Direct Debit is one of the safest ways of paying your bills. Organisations using the Direct Debit Scheme go through a careful vetting process before they are authorised to participate in the scheme, and are closely monitored by the banking industry.

The Direct Debit Scheme protects you and your money by means of the rules that drive the Direct Debit Scheme.

This protection provided under the scheme is offered by all banks that take part in the Direct Debit Scheme. The efficiency and security of the Scheme is monitored and protected by your own bank.

Your Protection under the Scheme

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- ◆ If the amounts to be paid (in the case of a Fixed Mandate) or the payment dates change, the organisation collecting the payment will notify you normally 14 working days in advance of your account being debited or as otherwise agreed
- ◆ If an error is made by the organisation or your bank, you are guaranteed a full and immediate refund from your bank of the amount paid
- ◆ You can cancel a Direct Debit at any time by contacting your bank. You are also required to notify the organisation concerned. Your cancellation of a Direct Debit mandate is subject to a minimum notice period of twenty working days.