

## **FREQUENTLY ASKED QUESTIONS ON THE OPERATION OF DIRECT DEBIT SCHEME**

### **1. What is direct debit?**

Pre-authorized debit on the payer's bank account initiated by the payee.

### **2. What is a mandate?**

A mandate is an instruction from a customer to the customer's bank authorizing an organization (typically called biller) to collect funds from the customer's account.

### **3. What types of mandate can a customer give?**

A mandate can either be fixed or variable in nature. A fixed mandate allows the biller/organization deduct a fixed amount whilst a variable mandate allows variable amount be deducted from the customer's account by the biller/organization.

### **4. How long is a mandate valid for?**

A mandate remains valid except cancelled by a counter-mandate or unless a validity period stated has elapsed.

### **5. Who are the stakeholders involved in a direct debit transaction?**

The stakeholders for a direct debit transaction include:

- **Payer** (also known as **subscriber** or **customer**) : The individual or corporate entity that has provided a mandate to pay for goods/services via direct debit from his/her or their bank account
- **Payee** (also known as **Biller** or **Originator**): The organization providing services to a customer and whose services will be paid for by direct debit
- **Payee's Bank**: The (Originator's/Biller's) bank that sends the direct debit instruction through clearing on behalf of the Payee.
- **Payer's Bank**: The (Subscriber's/customer's) bank that receives the direct debit instruction from the Payee's bank to debit the account of the Payer in line with the direct debit mandate.

### **6. What are the benefits to billers of accepting direct debit payments over other known means of settling financial obligations?**

Accepting direct debit payments avails the Biller/corporate organization the following benefits:

- Lower administration costs for processing payments, receivables or collections from customers
- Simpler reconciliation process for checking payments against outstanding bills
- Allows for payments of a varying nature - the Biller is availed the opportunity to accept fixed and/or variable mandates
- Higher likelihood of receiving payments for Biller's services as at when due

- Better cash flow management
- Visibility of unpaid items. The information can be used proactively by the Biller to trigger a debt recovery process, if required
- Opportunity to leverage electronic files to update internal systems and records.
- Availability of electronic reports of successful and unsuccessful payments
- Provides relevant business intelligence and helps promote customer segmentation

## **7. What are the benefits to the customer/consumer for using direct debit payments to settle financial obligations?**

A customer who subscribes to settling financial obligations via direct debit is availed the following benefits:

- Opportunity to settle bills/payments for services in a simple, safe and convenient manner
- Significant reduction to service disruption/outage/disconnection as a result of non-payment of bills. Access to service is guaranteed as long as the nominated accounts are funded on the specified date
- Relief from worries/penalties resultant from overlooking payment dates
- Accumulation of consumer credit rating score, resulting in enjoyment of benefits in the financial system.
- Enjoyment of discounted rates from billers when direct debit option to settle payment is utilized
- Significant reduction of travel time to a payment outlet/channel
- Elimination of continuous visits and queues to cash offices or banks
- Fast and easy resolution process to queries at the Payer's Bank, including an immediate refund for payments made, if transactions are in dispute.

## **8. What is the difference between a direct debit and a standing order payment?**

A **standing order** is a direct credit or payment (for a fixed amount) that is set up to pay an individual or organization at pre-defined time period. The payment can be a one off or recurring payment.

A **direct debit** payment is an instruction in the form of a mandate giving permission to a company/biller to take funds from the Payer's account at predefined period. The amounts to be paid can either be fixed or variable in nature.

<b>Direct debit</b>	<b>Standing order</b>
- Amounts to be paid can either be fixed or variable	- Amounts to be paid is a fixed amount
- Payments are usually recurring in nature and over a specified time period	- Payments can be one- off or recurring in nature and over a specified time period
- Mandate/instruction is given to either the biller or payer's bank or both	- Mandate is always given to the payer's bank

- A debit transfer instruction	- A credit transfer instruction
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**9. How do I get confirmation report and notification of any unpaid or cancelled direct debit?**

The non-receipt of a notification of debit and subsequent follow-up from the biller would imply that the item has been returned unpaid.

**10. Can I just go to my bank to set up a direct debit facility?**

A direct debit facility can be set up at the payer's bank or with the biller by executing/completing a mandate form that will be set up on any of the payment service providers system your biller's bank has subscribed too.

**11. If I change banks, what do I do about my direct debit mandate with the previous bank?**

In the event there is a change of bank where your (payer's) account is domiciled, you will be required to complete a new mandate form. You may be required to cancel the previous mandate at least 2 weeks before the next payment is due as it may be necessary for the bank to suspend any pending transactions in order to prevent a debit from an inactive account.

**12. How long does it take to be set up with a direct debit payment facility?**

Once a mandate form is completed, the direct debit guidelines issued by the Central Bank of Nigeria mandates the bank to authorize and set up the mandate within 10 working days.

**13. Can any organization subscribe to receive payments via direct debit?**

Yes, any organization can receive payments via direct debit by subscribing to solutions provided by their financial institutions. The financial institutions leverage on the infrastructure of service providers to provide direct debit as a service.

**14. How long does it take for payments being debited from a customer's account to reach the billers account?**

Funds will be debited on the date provided (or next business day if public holiday or weekend) on the mandate by the customer and credited to the biller's account within T+2 working days or the subsisting clearing period.

**15. Is the payer's account safe from fraud since the biller's bank has access to debit the payer's account?**

Yes, the payer's account is safe from fraud as your (payer's bank) can only authorize the amount indicated on your mandate for payment. Your bank would be required to confirm the authenticity of the mandate issued on receipt before activating the mandate. In addition, the payer is protected by a direct debit indemnity against incorrect debits or debits earlier than stipulated in the mandate and other forms of erroneous debits.

**16. What information do I provide to my bank in order to cancel a direct debit instruction?**

A written instruction to the payer's bank and the biller at least 14 days before the next payment is due is required in order to cancel a mandate.

**17. Can I cancel a direct debit instruction?**

Yes. You can cancel a Direct Debit at any time by contacting your bank and providing a written instruction. You should also notify the biller of the decision to cancel the mandate. The cancellation of a Direct Debit mandate is subject to a minimum notice period of 14 working days.

**18. What happens if a mistake is made in the instruction to debit my account and the biller's account is credited with a wrong amount?**

If an error is made by the organization or your bank, you are guaranteed a full and immediate refund from your bank of the amount paid that is not in conformity with the terms of your mandate.

If the amounts to be paid or the payment dates change, the organization collecting the payment will notify you normally 14 working days in advance of your account being debited or as otherwise agreed

**19. Can an individual be an originator/biller?**

Yes. Originators/billers include insurance or finance companies, local authorities, utilities, and anyone or entity who receives regular recurring payments. Payers can be consumers, businesses, or any other legal entity.

**20. If a direct debit transfer is unpaid and is not returned within the clearing cycle applicable to local cheques subject to the Nigeria Bankers Clearinghouse Rules, is a penalty going to be paid?**

Unpaid direct debit items are required to be returned within the clearing cycle applicable to local clearing cheques except in situations where the instruction was sent in error, that is, not consistent with the terms of the direct debit mandate. Where a direct debit item is returned outside the clearing period for reasons other than an error, applicable penalties will be imposed as prescribed by the Central Bank.

**21. Does a bank have to seek my approval for all direct debit deductions?**

Direct debit deductions will be initiated automatically when the bill is due for payment during each billing cycle. All direct debit deductions are based on the authorization (direct debit mandate) given by payer and the billing information provided by the biller, the bank will not seek approval for each and every direct debit deduction made.

If there is any question or disagreement with any deductions made, the bank should be contacted immediately.

**22. What if my account does not have sufficient funds to cover the direct debit deduction on the specified payment date?**

The direct debit payment will result to a failed transaction due to insufficient funds. You will be required to settle the obligation via other means. The penalty for “unfunded accounts” as prescribed by the Central Bank of Nigeria will also apply. Such penalty includes reduction in your consumer credit rating, and denial of certain services by your bank.

**23. How will I know if my bill has been paid?**

Details of the payment made will be reflected in your account statements. You will also get email/sms notifications for payments made.

**24. Can I choose the date the Direct Debit is executed?**

Direct debit would be executed on the date indicated in the mandate or next business day where this falls on a weekend/public holiday.

**25. Where can I get more information about Direct Debits**

You can enquire from your bank, or access the approved ‘Guidelines on Nigeria Direct Debit Scheme’ on the Central Bank of Nigeria’s web-site [www.cbn.gov.ng](http://www.cbn.gov.ng)