



DIRECT DEBITS INQUIRY FOLLOW UP REPORT

May 2012

ABOUT THE CCMC

The CCMC monitors compliance with the Code of Banking Practice ('the Code') and investigates alleged breaches of the Code.

The CCMC has a compliance program that reflects the objectives of the Code comprising three core activities namely: monitoring, investigating and influencing.

The CCMC's influencing role involves conducting inquiries solely for the purposes of monitoring compliance into a particular requirement or requirements of the Code.

The CCMC is able to use a range of investigative and monitoring techniques when conducting these inquiries including:

- requests for information from subscribing banks
- compliance visits to subscribing banks premises, and
- market research activities such as mystery or shadow shopping, surveys and forums.

The CCMC can also engage external experts to provide additional assistance.

The findings of these inquiries are provided to all participating banks to influence and encourage positive changes in industry practices and promote industry improvements.

The final reports do not identify individual banks or consumers and after a period of consultation, they may be publicly available, via the CCMC website.

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BACKGROUND

In 2008, the CCMC conducted an Inquiry into how well subscribing banks complied with clause 19 of the Code of Banking Practice (the Code) in managing their promise to consumers and small business regarding the ability to cancel direct debits via the bank. A full copy of the Inquiry report can be found on the CCMC website.

The Inquiry identified that while banks had documented policies and procedures regarding direct debits, eight out of ten 'shadow shopping' conversations with banks resulted in incorrect or partially incorrect information being provided.

As a result of this Inquiry, the CCMC committed to undertaking follow up 'shadow shopping' exercises to determine whether subscribing banks had made any improvements in respect of the information provided about direct debits.

WHAT WE DID

The CCMC undertook 'shadow shopping' exercises in September 2010 and May 2011 as a follow up to its original 2008 Inquiry. Each of these exercises were conducted by making two separate calls to the contact centres of subscribing banks who allow direct debits on accounts.

During each call we made a general enquiry regarding the cancellation of a direct debit request ("DDR"). In conducting the mystery shopping exercise, the CCMC contacted the bank to enquire about cancelling a DDR in respect of a mobile phone contract.

The calls also allowed us to gather additional information in relation to:

- Fees charged;
- time the DDR cancellation would take to effect; and
- general observations regarding service standards.

The results of each shadow shopping exercise were then classified into three possible outcomes:

- Compliant – meets the expectations of the Code;
- Non-Compliant (Partial) – bank staff recommended that the cancellation should be lodged with the merchant first and if there was a problem then the customer should return to the Bank to cancel, or
- Non-Compliant (Full) – Bank staff advised that the bank cannot accept cancellation and the cancellation can only be lodged with the business or merchant.

The key determinant of full non compliance was whether the shadow shopper was being directed to make the request for the cancellation of the direct debit directly with the debit user (service provider or merchant), which is in contravention of Clause 19.1 of the Code.

Compliance with Clause 19.1 was determined as follows:

Example of responses provided	Compliance with Clause 20.1
Yes , you can cancel the direct debit facility with us; however, you should also contact your mobile service provider.	Fully compliant
No , you should go to your mobile service provider first and only if you have difficulties there, you can contact us to cancel your direct debit facility with us.	Partially compliant

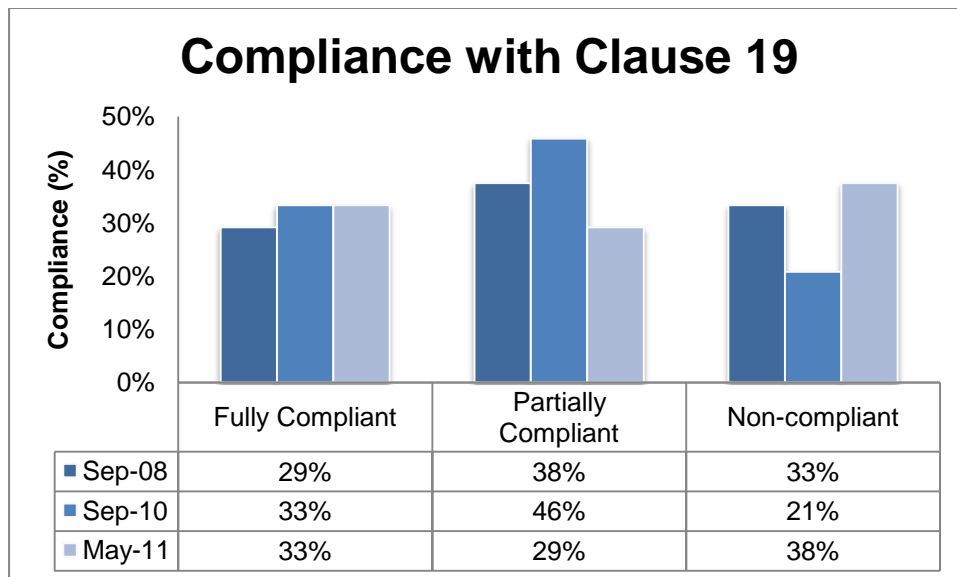
No, you have to go to your mobile service provider to cancel your direct debit.

Non-compliant

WHAT WE FOUND

Figure 1 illustrates the results of the shadow shopping exercises in 2008, 2010 and 2011.

Figure 1 Results of shadow shopping



The results of the 2010 and 2011 exercises were disappointing and fell short of the CCMC's expectations. Figure 1 highlights that the level of compliance with Clause 19 has increased only marginally, while the level of non compliance has also increased over the period from the first Inquiry.

In conducting the Inquiry, the CCMC also observed the following:

- one bank was fully compliant in the responses to all calls made in 2010 and 2011;
- one bank was non compliant in the responses to all calls made in 2010 and 2011;
- three banks charge a fee, ranging from \$10 to \$15, for cancelling a direct debit; and
- only one bank, at the time the shadow shopping was carried out, provided the option for the direct debit to be cancelled using online banking.

CONCLUSIONS

The ability for customers to cancel direct debits at their bank is a powerful safeguard for customers, especially for those who are in financial difficulty. Failure for banks to accept or act on notice of a direct debit cancellation request may cause members who are already in financial trouble to be further impacted when exception and penalty fees are imposed on the account.

The CCMC is concerned that the level of compliance with clause 19 of the Code has not improved since the original inquiry report was published in 2009. The increased proportion of non compliant responses over the period demonstrates that banks must be conscientious in

providing training and information to staff in respect of direct debits. Banks must also have in place sufficient quality assurance and monitoring to identify and correct areas of non compliance.

The CCMC will continue to monitor banks' performance with regard to their compliance with Clause 19 of the Code.

RECOMMENDATIONS

The CCMC discussed the results of this Inquiry with banks during the onsite visits in August 2011 and made the following recommendations:

- immediately communicating to staff members and providing additional training if required to address any knowledge and skill gaps in call centres and branch networks regarding stopping direct debits;
- ensuring that there is appropriate information available for staff to understand their key obligations and to be able to correctly process cancellations;
- increasing staff awareness regarding the impact of incorrect advice, particularly upon customers who are in hardship situations;
- improving the information and resources available to both staff and customers about how they can dispute a transaction and recover unauthorised direct debits; and
- banks should conducting their own shadow shopping exercise.

FOLLOW UP

In addition to the discussions held with banks in 2011, the CCMC provided banks with guidelines in respect of conducting a shadow shopping exercise in October 2011.

The 2011/12 Annual Compliance Statement, issued to banks for completion in April 2012, asks the banks what steps they have taken as a result of this Inquiry. The responses to this, along with other key information, may prompt the CCMC to conduct further investigations in this area.

CONTACT US

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