



BCCC
Banking Code
Compliance Committee

BCCC **compliance** **update:** **Cancellation of** **direct debits**

September 2021

A decorative graphic in the bottom right corner consisting of a semi-circular area filled with parallel diagonal lines in a light grey color, set against the orange background.

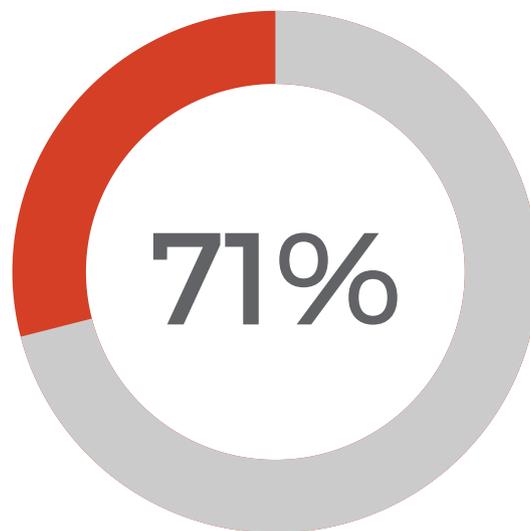
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Summary

In March 2021, the Banking Code Compliance Committee (BCCC) conducted a mystery shopping exercise into subscribing banks' (banks) compliance with their obligation under the Banking Code of Practice (the Code) to cancel direct debits on request.

Overall, the results showed an improvement on previous BCCC mystery shopping exercises, with 71% of interactions indicating a bank would comply. In November 2018, the industry compliance rate was 44%.



While increases in some bank's individual compliance rates are a positive development, when compared to historically low rates a result of only 71% is still a significant cause for concern.

The BCCC acknowledges the actions taken by several banks to improve their compliance performance. However, there is some way to go for individual banks and the industry as a whole to meet the BCCC's expectations.

All banks should consider the additional steps they can take to ensure compliance with the direct debits' obligations. This report highlights good practice initiatives and recommendations that have been adopted by some banks (see pages 9 and 10 of this report for further information).

What is a direct debit?

When a customer sets up a direct debit, they allow a merchant or service provider to withdraw money from the customer's transaction account into a merchant's account at set times. For example, to pay bills or make repayments. These payments are processed through the Bulk Electronic Clearing System (BECS), a framework administered by the Australian Payments Network.

A direct debit is different to a recurring payment. The direct debit obligations in the Code apply only to payments set up using a BSB and account number. They do not apply to recurring payments from a debit or credit card.

The direct debit obligation

Under Chapter 34 of the Code, banks must promptly process a customer's request to cancel a direct debit. The bank must not ask or suggest that the customer first raise the cancellation request with the merchant. However, the bank can suggest that the customer also contact the merchant or service provider to inform them that the direct debit has been cancelled.

This protection also appeared in previous versions of the Code.

Why is it important?

The direct debit obligation in the Code is important because it gives customers control over their finances. This is particularly important for customers who are experiencing financial difficulty.

It is also important that customers can approach the bank to cancel their direct debits as some customers, including those experiencing vulnerability or accessibility issues, may find it difficult or may not be able to contact the merchant that is debiting the account.

History of poor compliance

The BCCC and its predecessor committee, the Code Compliance Monitoring Committee (CCMC), have been monitoring banks' compliance with the direct debit obligations since 2008. The CCMC published three reports (in 2009, 2012 and 2017) which all made recommendations for how banks could improve their rates of compliance with these obligations.

In 2008, only 20% of contacts with bank staff members were considered to be indicative of compliant conduct. In 2010, this figure had risen to 36%. In 2011, it had dropped to 33%. In 2017, 46% of contacts were considered compliant. In March 2018, compliance was at 56%.

The CCMC undertook further mystery shopping in November 2018, with the results - a compliance rate of 44% - published in the BCCC's 2018-19 Annual Report.¹ Due to this decrease in compliance, some banks were required to develop and implement a remediation plan within six months to improve rates of compliance with the direct debit obligations. The BCCC committed to further direct debits' monitoring to test whether banks' efforts to improve Code compliance had been successful. A mystery shopping exercise was originally scheduled for 2020, but was deferred due to the COVID-19 pandemic.

2021 mystery shopping results

The BCCC undertook the mystery shopping exercise in March 2021. Across 378 mystery shopping surveys, 269 responses were deemed to be compliant and 109 were non-compliant – for an overall compliance rate of 71%. The compliance rate was consistent for both branches and call centres. **Chart 1** provides a breakdown of how this compares with previous results.

¹ The 2018-19 Annual Report included a compliance rate of 39% for November 2018. The compliance rate of 44% for November 2018 has been calculated by excluding the results where it was not possible to determine bank compliance or non-compliance from the staff member's response.

Chart 1: Industry compliance rates – 2008 to 2021

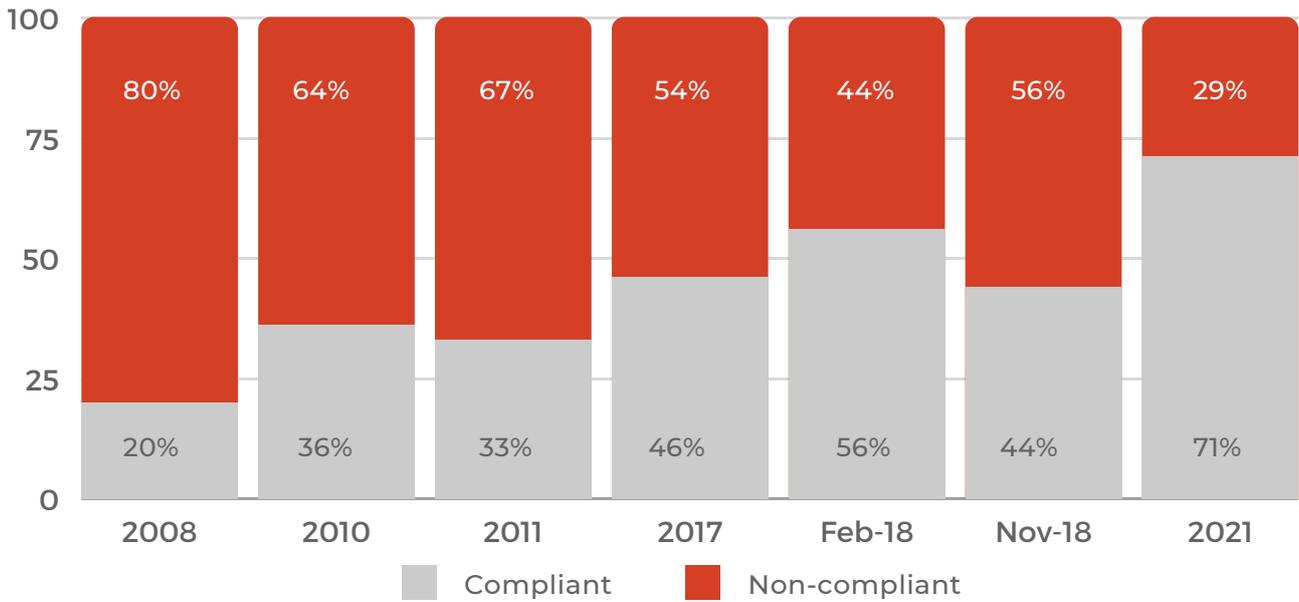


Table 1 below provides further details of how well each bank performed in the mystery shopping exercise.

Table 1: Benchmarking banks' compliance - 2021

Bank	Compliant	Non-compliant	Sample size
Bank A	100%	0%	10
Bank B	100%	0%	2
Bank C	100%	0%	2
Major Bank 1	90%	10%	61
Bank D	87%	13%	38
Bank E	77%	23%	13
Bank F	71%	29%	7
Major Bank 2	69%	31%	55
Major Bank 3	68%	32%	62
Bank G	67%	33%	3
Bank H	67%	33%	6
Bank I	67%	33%	3
Major Bank 4	61%	39%	74
Bank J	57%	43%	7
Bank K	50%	50%	12
Bank L	50%	50%	2
Bank M	46%	54%	13
Bank N	33%	67%	3
Bank O	20%	80%	5
Total	71%	29%	378

Further information about the BCCC's mystery shopping exercise can be found in Appendix 1.

Best practice compliant responses

The better responses from staff members stated that a bank could cancel a direct debit, and then went on to explain the difference between a direct debit and recurring payment - noting that the bank could not cancel recurring payments. Good practice responses also tended to notice that the desire to cancel a direct debit to 'ease some of the pressure' may be indicative of some kind of financial hardship and offered referrals to the bank's hardship team.

Recurring responses indicative of non-compliance

The most common response indicative of non-compliance on behalf of the bank was the staff member stating that the direct debit should be cancelled with the merchant.

The second common response indicative of non-compliance was the staff member stating that the bank could cancel a direct debit but that the customer should contact the merchant first.

The third most recurring response was that the bank could cancel a direct debit, but it was better (or easier or faster) to cancel it via the merchant. Chapter 34 of the Code does not permit a bank to suggest to the customer that it is better or easier for them to contact the merchant because the effect is likely the same as suggesting they should contact the merchant first.

The data collected throughout this mystery shop also suggests that some bank staff members still do not understand the nuance between a direct debit and a recurring payment. If bank staff members do not understand the difference, then it is likely that customers may also believe that a recurring payment is a direct debit, when that is not the case.

Further, some staff members' responses suggested that direct debits set up by the bank for payments such as mortgage repayments could be cancelled, but those 'set up' by a merchant or third-party service provider could not be cancelled.

The wording in Chapter 34 clearly envisions a scenario where the customer has a direct debit with a third-party service provider or merchant, and not just with the bank. The failure of staff to understand that the bank has a clear obligation to cancel direct debits with a merchant after the customer requests it, is clearly indicative of non-compliance with the Code.

Website information

In the CCMC's 2017 report, the first recommendation to banks was that they should add clear, simple customer guidance on direct debit cancellation on their websites.

A review of the information available on bank websites shows that the information available varies in quality. Three subscribing banks appear to have little or no information available about direct debits, or their cancellation. If this information is available on these banks' websites, the BCCC has been unable to locate it.

National Australia Bank (NAB) has very useful information about the cancellation of direct debits available on its [website](#) - see also **Appendix 2**.

This website includes:

- an explanation of the difference between a direct debit and a recurring payment
- the steps required to cancel the direct debit with the bank, such as what information is required
- a statement that direct debits can be cancelled online, in the branch, or over the phone, and
- an explanation that the cancellation of a direct debit does not cancel the obligations a customer may have to a merchant.

The BCCC believes the information available on NAB's website is a good example of the sort of information that should be available on all banks' websites for customers.

If branch or contact centre staff do not know the answer to a query regarding direct debits, the BCCC is of the view that the staff member should have easy access to the correct information - either by an internal information system or by quickly searching the bank's own website.

In the example NAB's website, if a staff member was unclear of the correct answer to a query about the cancellation of direct debits, should the staff member view the website, the correct information would be readily available to them.

Improving banks' compliance

In 2017, the CCMC made seven recommendations about what banks could do to improve their rates of compliance with direct debit obligations. The recommendations focused on:

- improvements to guidance on websites
- staff training and communications, and
- banks' monitoring activities, including mystery shopping activities.

After the previous mystery shopping exercises, the BCCC asked certain banks to report on what actions they would take to improve their rates of compliance. The BCCC considers the following actions taken by some banks are examples of good industry practice and are likely to lead to improved compliance.

Internet banking

- Implement functionality to allow customers to cancel direct debits online.

Website development

- Update existing direct debit cancellation forms to increase user accessibility.
- Enhance search functions about direct debits and recurring payments.
- Publish customer guidance about the difference between a direct debit and recurring payments.
- Upload a direct debit guide to provide customers with information about direct debit cancellations and requests for direct debit lists.

Communication to Staff

- Update existing induction training programs to include instructions for the handling of direct debits.
- Send quarterly reminders to contact centre staff to reinforce the correct process for cancelling direct debits.
- Incorporate a message in the bank's internal newsletter to emphasise the process for cancellation of direct debits.
- Provide all staff with an easy to follow "suggested customer conversation" for requests to cancel a direct debit.

Training

- Conduct compulsory team 'huddles' on a monthly basis. These team huddles periodically address:
 - direct debit requests and how to cancel them, and
 - role play of scenarios of financial difficulty and direct debit cancellation requests.
- Assess risk training requirements quarterly.
- Conduct role-play scenarios for staff to familiarise themselves with the Code's direct debit obligations.
- Track staff members involvement in direct debits training through the bank's learning and development team.

Mystery shopping

- Perform mystery shopping calls every month.
- Conduct a knowledge test of two team members within a branch every month.

Complaints Monitoring / Quality Assurance

- Use speech analytics tools to identify and monitor calls where a customer has requested to cancel a direct debit.
- Conduct Quality Assurance on targeted direct debit calls.

Other Initiatives and Monitoring

- Centralise all direct debit cancellation requests to a specialised team. Each team member has a sample of calls reviewed monthly to ensure they are meeting the requirements of the Code's direct debit obligations.
- Conduct regular monthly meetings to review the bank's progress and implementation of its action plan.

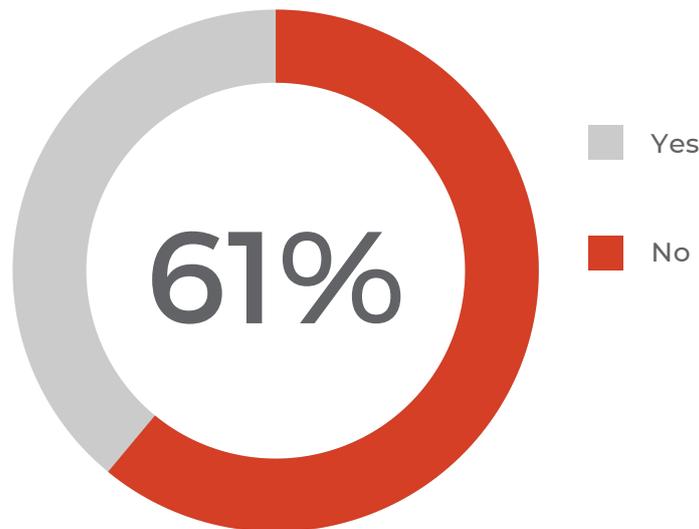
Other observations

Identifying financial difficulty

The scenario described by the mystery shopper hinted at the customer experiencing financial difficulty. For example, a suggestion that the customer was 'under pressure' or 'struggling' to pay their bills. It is the BCCC's view that a customer wishing to cancel their direct debits may be indicative of a customer experiencing financial difficulty.

The BCCC is concerned that in 61% of interactions, staff members did not appear to recognise that the customer may be experiencing financial difficulty. In 39% of interactions, financial difficulty was mentioned by the staff member and/or further information was provided about how the bank may assist.

Chart 2: Did the staff member recognise financial difficulty?



Privacy

The mystery shopping involved asking questions on behalf of a family member. A number of staff members were concerned about protecting the privacy of their customers and stated that they could not provide information about a customer's account. Staff members who went further and did not provide any information about the cancellation of direct debits were excluded from the overall results on the basis that it was not possible to determine if the response was compliant or non-compliant as the issue was not addressed.

Power of Attorney/Representatives

Many staff members in their responses (both compliant and non-compliant) offered information about how the customer could appoint a representative to act on their behalf, suggesting that staff members were alive to the possibility that they were dealing with a customer experiencing vulnerability.

On the phone/in the branch

In the mystery shopping exercise, the focus was on whether the staff member said the bank could or could not cancel the direct debit. Many of the responses however suggested that the direct debit could be cancelled in a certain way only - only over the phone, or only in the branch. As this was not the focus of this mystery shop, the BCCC did not determine that these responses were non-compliant. However, it is the BCCC's view that banks should assist customers at the point of contact without placing further barriers in their way to cancel direct debits.

Next steps

The BCCC will be writing to all banks and providing their individual results and feedback.

Banks whose results could be improved should refer to the recommendations and good practice initiatives listed in this report and take appropriate action.

The BCCC will follow up with banks about the actions they have taken to improve compliance and continue to periodically monitor banks' compliance with the direct debits obligations.

We will also be working with the ABA to develop a forum where banks can share knowledge on how they have improved their practices.

Appendix 1

Mystery shopping sample, scenario and compliance assessment

A total of 436 mystery shops/surveys were conducted, across bank branches and phone calls to banks' contact centres.

58 of these visits or calls have been excluded from the results either because:

- the branch was closed, or
- it was not possible to determine bank compliance or non-compliance from the staff member's response.

The sample size and distribution were decided with reference to the Australian Prudential Regulation Authority's (APRA) points of presence data and monthly authorised deposit-taking institution statistics.³ The BCCC also took banks' past performance into account when considering the number of branch visits.

Mystery shoppers attended bank branches or called banks' contact centres. They posed the following scenario to staff members, stating that they were enquiring on behalf of a family member (for example, an aunt or uncle, mother or father) that is having trouble keeping up with their bills, and that they want to cancel some of their direct debits. The mystery shopper asked whether the customer can cancel some of their direct debits if they contact their bank.

Compliant responses:

A response was deemed compliant if the overall impression received from the staff member was:

1. Yes, the bank can cancel the direct debit, or
2. Yes, the bank can cancel the direct debit; however it may also be a good idea to contact the merchant, or
3. The bank cannot cancel the arrangement between you and the merchant; however it can block the payments.

³ APRA, <https://www.apra.gov.au/authorised-deposit-taking-institutions-points-of-presence-statistics> and <https://www.apra.gov.au/monthly-authorized-deposit-taking-institution-statistics>

In the third type of response above, the staff member's understanding may be that the bank cannot cancel any existing arrangement or relationship between the customer and the merchant, but it can stop payments from coming out of the customer's account. Ultimately, the purpose of Chapter 34 is to stop payments from coming out of the customer's account, therefore these responses were also deemed to be compliant for the purposes of this exercise.

Non-compliant responses:

A response was deemed non-compliant if the overall advice from the staff member was:

- 1.No, the bank cannot cancel direct debits, or
- 2.No, only the merchant can cancel direct debits, or
- 3.Yes, the bank can cancel direct debits, but it is better/easier/quicker if you contact the merchant.

Appendix 2

National Australia Bank - website content⁴

Personal home > Bank accounts > Manage your accounts and debit cards > Cancelling direct debits

CANCELLING DIRECT DEBITS

We've got an easy guide to help you cancel direct debits.

CHECK IF IT'S A DIRECT DEBIT OR RECURRING PAYMENT

Before you cancel a regular payment, you need to check what type of regular payment you've set up – either a recurring payment or direct debit. The main difference between the two is where the money is drawn from.

Recurring Payment

A recurring payment will have been set up from your credit card or debit card. If you set up a recurring payment, you'll need to contact the merchant directly to cancel this type of payment.

Direct Debit

A direct debit will have been set up from one of your bank accounts such as a savings or transaction account. If you need to cancel a direct debit, we can help you with this. We've listed the steps.

GET YOUR PAYMENT AND MERCHANT DETAILS READY

To submit a cancellation request, we'll need the following details of the direct debit:

- full account name
- BSB
- account number
- merchant name
- merchant ID
- lodgement reference number
- date of last debit
- payment amount

You can find these details on your latest account statement that shows the direct debit. If you can't find a paper or electronic statement in your inbox, you can [login to Internet Banking](#) and request a statement.

⁴National Australia Bank website, <https://www.nab.com.au/personal/accounts/manage-your-account/cancel-direct-debits>, 3 September 2021

REQUEST TO CANCEL YOUR DIRECT DEBIT

Once you have your details ready, you can request cancellation of your direct debit. You can do this online, over the phone, or by visiting a branch.

Online

To submit the online [Direct Debit Cancellation Request](#), you'll need to enter your NAB Internet Banking sign on details so we can authenticate you for security purposes.

If you haven't done so already, you can [register for NAB Internet Banking](#).

Once you've registered for Internet Banking and have the sign on details, you can submit the [Direct Debit Cancellation Request](#). After you've submitted the request we'll block the direct debit within 2 business days. We'll let the merchant know that the direct debit has been cancelled, and we'll also confirm our cancellation of your direct debits with you via email.

If you have a joint account, it's best if you give us a call to request cancellation of these direct debits. Please also call us if you have direct debits which cover more than one service from the same merchant (e.g. multiple insurance policies from the one provider).

Over the phone

If you're having trouble submitting the online cancellation form, or it's a complicated request, [give us a call](#) to cancel your direct debit.

Visit us in a branch

You can visit us in a branch or at a business banking centre to cancel a direct debit. You'll need to fill out and submit the direct debit cancellation form to us when you're in the branch. To make the process faster you can print and fill out the [direct debit cancellation form \(PDF, 220KB\)](#), at home and bring it with you.

IMPORTANT THINGS TO REMEMBER WHEN CANCELLING A DIRECT DEBIT

Cancelling your direct debit does not cancel your contract with the merchant. If you still have a valid contract with a merchant and you've cancelled a direct debit, you'll need to make alternate payment arrangements with them. Or if you no longer require their services, you'll have to cancel your agreement with them where possible.

If you're trying to cancel a direct debit for a NAB Home Loan, NAB Personal Loan, NAB Credit Card or NAB Business Lending facility, the easiest thing to do is to call us with the relevant details.

If you have a direct debit coming from a joint account (which requires all account holders to sign or authorise), you'll need all account holders to cancel the direct debit. Joint account holders can do this together over the phone or by coming into a branch.

We'll process an online direct debit cancellation request within 2 business days. If your next direct debit is due in the next 2 business days, call us or come in to a branch to escalate cancelling your direct debit before it applies to your account.