



## **UK Bacs Direct Debit Scheme**

### **A Success Story**

*DG Internal Market – Hearing on Business Model for SEPA DD*

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Jonathan Maltman,

Senior Manager – Industry Management

Global Payments, Barclays Corporate

## UK Bacs DD scheme – A Success Story

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### Background:

Bacs DD scheme recently celebrated its 40<sup>th</sup> birthday.

It is one of the world's largest ACH's and most adults in the UK know about and use DD's.

- Total numbers of DD's processed in 2009 was 3.132 billion: a new record;
- There has been >40% growth in last ten years although annual growth has slowed to 2.5% recently – considered good for a mature product in a time of economic contraction.

### The scheme operates successfully without an Interchange fee because:

- It was designed >40 years ago to provide an alternative payment option to cheques, where there had never been any concept of interchange.
- The MIF concept was not introduced for DDs as the UK banks did not want any obstacles to the take up of the new DD service and the reduction in cheque usage.
- To promote the use of DD, the UK scheme provides a very strong unlimited guarantee to debtors; much stronger than current PSD obligations, and indemnified by creditors.
- The growth in DDs coincided with the introduction of 'free, if in credit' banking to UK retail customers. Consequently, the UK DD scheme members have sought to outsource many responsibilities and associated costs onto corporate creditors.

## UK Bacs DD scheme – A Success Story [2]

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### **The scheme operates successfully without an Interchange fee because:**

- In return, and in agreement with their 'retail' clients, these corporate creditors gain much greater control and certainty over their collection of cash flows, and are able to offer discounts to incentivise their clients to sign up to DD's, in preference to other forms of payment.
- Most creditors consider these costs and responsibilities, including indemnifying the guarantee, to be worthwhile in terms of the additional control and certainty of debtor collection compared to other payment methods.
- As a result, acceptance of DD's has grown strongly in UK ( with an average 15m items per day; & circa 55m items on a peak days).
- And as a long established scheme, the scheme has been able to amortise its cost of infrastructure development over a longer period than more recently established CT schemes, e.g. Faster Payments Service.
- Consequently, the unit cost of operating the DD scheme is circa 1cent/penny and lower than most other payment forms e.g. CT's.

## UK Bacs DD scheme – A Success Story [3]

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### Other Factors:

There may be other factors that account for a difference in approach, such as sector concentration.

- UK payments sector is concentrated in fewer banks than many similar sized markets, e.g. Germany, France, Spain, where there is a much greater mutual and cooperative savings bank sector than UK. As a consequence . . .
- We can speculate that in general, UK banks may have a more balanced ‘book’ of payers (debtors) and collectors (creditors), with the consequence that the net cost/benefit of MIF is marginal and does not justify its operation.
- Bacs Scheme and its members remember the experience of another UK scheme, in early 1990’s, when one of their members disputed and then refused to pay the agreed MIF. The arrangement fell into disrepute because it could not be enforced, and the scheme company voluntarily dissolved it soon afterwards.

### Summary:

- Bacs has never seriously considered a MIF even in its early years, and its subsequent success does not encourage the scheme members to do so now.
- The UK DD scheme has created a virtuous circle that benefits banks, corporate creditors and retail debtors, without resorting to the use of MIF.