

Direct debits

Many Australians choose the convenience of a direct debit arrangement to make purchases and pay bills on a regular or recurring basis. The process involved in setting up and cancelling direct debits can seem confusing because there are different things you need to do depending on if the direct debit is from your deposit account or from a credit or debit card. This fact sheet is designed to help you understand the difference.

What is a direct debit?

A direct debit is an amount of money you authorise a merchant, such as a retailer or a service provider, to deduct from your deposit account to pay for goods or services.

You can also make a direct debit using a credit or debit card¹. This is commonly known as a recurring payment.

A direct debit is a convenient, safe and reliable way to make your payments. Your ability to set up or cancel a direct debit may involve interaction with the merchant, not just your financial institution.

You can set up a direct debit to:

- Pay a fixed or variable amount, such as your phone and utility bills, insurance policy, gym membership, or a charity donation.
- Make a payment on a regular recurring basis, such as on the same day every week, fortnight, month or year.

Why set up a direct debit?

Advantages	Disadvantages
You won't inadvertently miss a payment for regular or recurring bills.	If you don't pay attention to your other expenses, you could go over your credit limit or overdraw your account, and you might find it difficult to manage your financial commitments. If you're in financial hardship, a direct debit makes it more difficult for you to prioritise spending your money on essentials.
You can take advantage of interest-free days when you use a credit card.	If you exceed your credit limit or overdraw your account, your direct debit might be refused. If this happens, you may have to pay additional fees or interest to your bank or credit card issuer. If the payment is delayed or missed because of insufficient funds, you may also have to pay fees or other charges to the merchant.
You can better manage your spending and budget by having all your direct debits deducted from a single account.	Resolving disputes or problems with bills could be complicated because the money has already been deducted from your account or the payment processed.

¹ A credit or debit card will have a scheme logo on the card, such as Visa, MasterCard or American Express.



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How do you set up a direct debit?

Deposit account

A direct debit on your deposit account means money will be automatically deducted from the account you have with a bank or other authorised deposit-taking institution. When you set up this type of direct debit, you provide the merchant with the name of your bank and account details, including the BSB and account number. This type of direct debit is processed by your *bank*.

Credit or debit card

When you set up this type of direct debit, you provide the merchant with the following:

- Card number (typically a 16 digit number)
- The expiry date, and
- The security code (if required).

This type of direct debit is processed through the *card schemes' networks*.

Tip: To ensure there is no misunderstanding between you and the merchant when setting up any direct debit arrangement, be clear about the amount to be debited and when the payment will occur.

For example, you may consider setting an explicit end date for the arrangement. Being clear upfront will help you manage your expenses.

You should also make sure you receive a confirmation in writing from the merchant that a direct debit has been set up, changed or cancelled.



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How do you cancel a direct debit?

You can generally cancel a direct debit at any time and for any reason, however, the rules are different for cancelling a direct debit on your deposit account or a credit or debit card.

It is important to note that:

- Cancelling a direct debit arrangement will not affect your liability to pay the merchant and you may need to make alternative arrangements for the payment.
- Before you cancel a direct debit arrangement, you should make sure you don't owe the merchant any money. If you do, pay the amount owing or set up an alternative payment method, such as cash, BPAY, direct transfer or cheque. If you can't afford to pay the merchant, or you have a dispute with the merchant, you should seek advice, for example from the Office of Fair Trading in your state or territory or a professional financial counsellor.
- Once the direct debit arrangement has been cancelled, check your account statement to make sure no more direct debits have been deducted from your account.

Deposit account

Your bank can cancel a direct debit arrangement on your behalf.

If you ask your bank to process a cancellation request on a direct debit arrangement or dispute a transaction on your account, your bank will take prompt action to respond to your instruction.

Your bank may also suggest you contact the merchant as you may have an ongoing payment obligation with them. This is a good idea to make sure there are no outstanding payments and the direct debit arrangement is noted as cancelled. It is important to note that your bank will act on your request to cancel the arrangement even if you haven't contacted the merchant.

If the bank does not agree to cancel your direct debit arrangement on your deposit account, you can make a complaint to the bank. If you're not satisfied with your bank's response, you can make a complaint to the Financial Ombudsman Service (**FOS**). To contact FOS, call 1800 367 287 or visit its website: www.fos.org.au.

Credit or debit card

Unlike deposit accounts, these payments are processed through the card schemes' networks, such as Visa, MasterCard or American Express, and in accordance with rules set by those schemes and operated globally. Because of this, banks may not be able to cancel the direct debit arrangement and you will need to contact the merchant which you set up the arrangement with.

You should provide the merchant with clear instructions to stop the direct debit arrangement. Write a letter of cancellation to the merchant (see sample letter at the end of this fact sheet). Keep a copy of this letter for your records. You may wish to follow up with the merchant to see if they have received this request and confirm when they will action it.



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What if the direct debit isn't cancelled?

If a direct debit arrangement isn't cancelled despite your request and another amount is deducted from your account or card, contact your bank immediately and tell them what has happened.

If required, you can provide your bank with a copy of the cancellation request you sent the merchant. If you're asked to send information to your bank, make sure you get a confirmation that they've received it. Keep a copy of this confirmation for your records.

If the direct debit transaction is unauthorised, you can ask for a 'chargeback'. A chargeback is where your bank reverses all (or part of) the amount of an unauthorised or disputed transaction back to a merchant's bank in accordance with the applicable card scheme rules.

If you're still not satisfied with your bank's response, you can make a complaint to FOS.

If you have an ongoing issue with the merchant, consider raising the matter with the Office of Fair Trading in your state or territory. The Australian Government provides information on fair trading laws and fair trading offices on its website: www.business.gov.au/.

If your contract is in relation to a consumer loan, telecommunications service, or energy or water supply, you may be able to use a free dispute resolution service. If you're in financial hardship, you may be entitled to apply to have your payments varied. For more information about dispute resolution or a referral to a free financial counsellor, call 1800 007 007.

Did you know?

- Time limits apply to reversing transactions, so regularly check your statements carefully and take immediate action if you believe there is an unauthorised transaction on your account or card.
- If you want to cancel your credit or debit card altogether, you need to contact your bank or credit card provider and ask them to close your account – cutting up the card and throwing it away will not close the account, or stop any direct debit arrangements.

Tip: You can only cancel your credit card if you don't have an outstanding balance. If you've got an outstanding balance but want to stop using your credit card, ask your bank if they'll put a "stop" on your credit card account so you can't use the card, but you can pay off the outstanding balance. You should make sure you've put in place an alternative payment method for the direct debits because these will be declined.

If you need help paying off the outstanding balance, ask to speak to the financial hardship team in your bank. For more information about financial hardship and the contact details of the banks' financial hardship teams, go to the ABA's Doing it Tough website: www.doingittough.info

If you've got contractual liabilities to a merchant and aren't able to meet those obligations, you may want to speak to a financial counsellor on 1800 007 007.



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Summary

Setting up a direct debit

Deposit accounts	Credit and debit cards
Be clear about the amount to be debited and when the debit will occur.	
Provide the merchant with your bank details including your BSB number and account number.	Provide the merchant with your card number and expiry date, and if required the security code.

Cancelling a direct debit

Deposit accounts	Credit and debit cards
You may still owe money to the merchant. Pay the amount owing, set up an alternative payment arrangement or seek advice about your options by contacting a financial counsellor on 1800 007 077.	
Contact your <i>bank</i> : They will process your cancellation request on your behalf.	Contact the <i>merchant</i> : Provide clear instructions to the merchant to stop the direct debit arrangement. If you have difficulty, contact your bank or credit card provider for assistance.

Don't forget to take a look at your bank statement to check if the direct debit transactions have stopped. If the direct debit continues, contact your bank immediately and tell them what has happened.



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Sample letter – cancelling a direct debit on a credit or debit card

John Citizen
123 Australia Street
SYDNEY NSW 2000

Merchant name
987 Common Street
SYDNEY NSW 2000

Insert date

Dear Sir/Madam

Re: Cancelling direct debit for John Citizen, customer reference number #0987654321

With immediate effect, please stop deducting money from my credit [or debit] card account. My account details are provided below.

Credit card/debit card

Financial institution: ABC Bank
Cardholder name: John Citizen
Card type: MasterCard
Card number: 9898 7432 1200 0236
Expiry date: 09/15

Please ensure you update your records to reflect this change as soon as possible. If you have any questions about this request, please do not hesitate to contact me on 02 7254 0000. Thank you for your assistance.

Yours sincerely,

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John Citizen