

DIRECT DEBIT: AN ALTERNATIVE TO SIMPLIFY RECURRING PAYMENTS

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Abstract: *Direct debit payments are typically used by consumers to pay for their repetitive and regular payments, such as rents, mortgages, energy bills, telephone bills and magazine subscriptions, etc. Under the SDD, bank customers would, for the first time, be able to arrange to pay their bills by direct debit to and from bank accounts in any of the 31 European countries participating in SEPA. In November 2009, the European Payments Council (EPC) has launched the SEPA Direct Debit which does not differ significantly between The National schemes respectively and this allows a creditor, (vendor of goods or services) to collect funds from the debtors (consumers or customers) on condition of existing a signed MANDATE, granted by the creditor, to his debtor. In this paper we aim to highlight the features and the advantages of this payment instrument and the degree of his use at national and international level.*

Key words: *direct debit instrument, recurrent payments, SEPA direct debit scheme*

1. INTRODUCTION

Direct debit is in terms of utility consumers/user a convenient way of making regular payments called recurrent and repetitive, and in terms of utility providers, it is an effective method which can recover the value of water, gas, electricity and telecommunications bills, etc. Economic globalization and increased financial flows on the developing information and telecommunications technologies require continuously searching and adopting new ways and instruments of payment, fast and secure, among them the electronic payment instruments takes an important place. (Negruş & Toma 2005). Romania is still pretty much behind from other European Union countries on the penetration of direct debit.

This paper aims to present the development in the recent years of this payment instrument in Romania and the benefit and the major advantages offered by this new electronic banking instrument. The aim and the objective of the study are to identify and clarify the direct debit's place in the banking industry from Romania.

2. WHAT ARE RECURRING PAYMENTS?

Any person, both physical and legal needs permanently and without interruption some utilities such as electricity, water, gas, telephone, sanitation. Utility or providers of such services must provide the indispensable necessities of civilized life, permanently and constantly. But in turn, providers, to continue providing such products and services, need to regularly collect the value of the supplied products and their work. In other words, regular flow of supplies of goods and services requires regular payments. These repetitive and regular payments are defined by the European Payments Council (EPC) recurring payments. Recurring payments are those periodic payments such as utility bills, insurance premiums, purchases paid in instalments, for different subscriptions to magazines or

periodicals and personal taxes by individuals, etc., which is done regularly to due dates or deadlines established by the parties. Recurring payments are scheduled or regular planned payments.

3. WHAT IS DIRECT DEBIT AND WHICH ARE THE CHARACTERISTICS OF ITS PARTICULAR USE

Interbank direct debit is a fast, flexible and effective alternative to the traditional methods of payment by money order, checks and promissory notes and it is a settlement of bills by direct debit business between companies. This system ensures an effective financial accounting business banking customers and a substantial reduction of administrative costs of collection and reconciliation processes claims. The solution by direct debit settlement also provides clear evidence of receipts and rejections, in account of which it can be programmed the exact cash flow, it provides automated reconciliation, saving time and flexibility in payments.

Direct debit is "a way to pay a sum of money agreed between the payer and payee, which consists on the payer's account debited pre-authorized paying agency under the provisions of the direct debit mandate at the request of the beneficiary, and appropriate credit into the beneficiary account commitment to the institution based on collecting direct debit, this payment method does not require prior authorization by the payer of each direct debit instructions drawn on his account.

A direct debit represents a transfer initiated by the receiver via his/her bank. Direct debits are often used for recurring payments, such as for utilities. They require a pre-authorization ("mandate") by the payer. Direct debits are also used for one-off payments. There, the payer authorises an individual payment. (Steingold 2008). In November 2009, the European Payments Council (EPC) has launched the SEPA Direct Debit which does not differ significantly between The National schemes respectively and this allows a creditor, (vendor of goods or services) to collect funds from the debtors (consumers or customers) on condition of existing a signed MANDATE, granted by the creditor, to his debtor.

The peculiarity is that both need to own an account to the credit institution in one of the different countries. The credit institution of a direct debit transaction executing must attend, and to join officially at the SDD scheme. SDD can be used either for a single recurring payment (one-off) or for collections of principles by direct debit. SDS scheme is applied for unlimited transactions in euro only. SEPA Direct Debit for the first time allows consumers to pay by direct debit border principles in all SEPA countries. This is a major innovation, especially during periods of increased citizen mobility. This scheme is particularly useful for persons working outside the country borders but have to pay invoices in the country of origin or for those who borrow houses for vacation for a long period to pay the rent, or to subscribe to foreign newspapers magazines having now the possibility of making cover

payments for subscriptions. Meanwhile, SEPA Direct Debit can be used internally and on. As the existent national systems by direct debit, this provides a convenient means for consumers to pay their bills without manual and cumbersome, while allowing an easy flow of the reconciliation statements.

4. THE ANALISE OF DIRECT DEBIT

According to data published by the European Central Bank, during 2005 -2008, Germany is the leader of the top, having a real net advance regarding number and value of transactions from France, Spain, UK and Nederland.

Romanian's position in this top is insignificant compared with developed countries in Europe, having a value of 1, 79 milliard Euro generated by only 7 million transactions in 2008, compared to almost 80 million transactions done in Germany that represent a value of 11303.022 billion Euro. But, comparing with East European countries (Poland, Bulgaria and Hungary) which are in the same SEPA implementation phase, Romania has a better position in this top, revealed in table 1.

As can be seen in table 1, in a period in which the emphasis is on efficiency, fairness and responsibility in making payments, direct debit has a reduce importance relative to others payment instruments. So, in terms of number of transactions DD has a share of just 10% in Euro Zone and 6.3% in whole EU in 2008. Per capita, these transactions have a insignificant value comparing with European level, between 2005-2008, taking a dramatically value decreased from 0.42% in 2005 to 0.08% in 2008 and also a severe number of transactions decreased from 0.96% in 2005 to 0.12% in 2008.

Paradoxically, these instruments use start to drop rapidly since the moment of adopting the electronic processing system. In terms of value, Romania has a 1.1% share of EU in 2005 and only 0.1% in 2008. In terms of number of transactions, the share was 1.2% in 2005 and 0.4% in 2008. The value of direct debit transactions held a 11.27% share of GDP in 2005, a share that fall down to 1.31% in 2008. In the same year, in Romania, the direct debit instruments had a share of just 1% from the entirely value of transactions and a share of 7.28% from the total number of transactions done by this payment system. In Germany, half of the total number of transactions in 2008 was based on direct debit instruments.

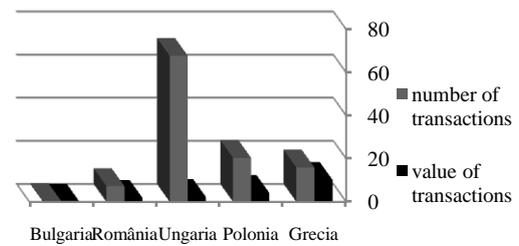


Fig. 1. The direct debit utilization in Romania in 2008 comparative with other European countries

5. CONCLUSION

The reasons why more customers adopt this way of payment are: reducing the number of accounts opened at several banks, carrying fees and charges; reducing the stress for paying these bills at deadlines; saving a lot of time by avoiding queues at pay offices. The direct debit is used particularly for small value payment. Immediately after launch of the SEPA DD, in 2607 banks representing about 70% of volume Au Pair SEPA Payment pair joined the new scheme, of which, in 2366 banks au pair offered both SDS SDS Core and B2B Services.

Although this service is available in Romanian banking market since 2005, the banks didn't rush to promote this service but at European level, there is a growing interest in launching rapidly this direct debit cross-border service. According to the official Transfond information, less then they send in the system DD orders. Most of these 17 specified banks only allowed the sureness suppliers to debit (to access) the payers accounts. Therefore, the number of customers using the services is very low. As can be seen in data from the European Central Bank, throughout the period under study Romania had the lowest relative importance of only 0.10% of total amount of payment instruments. But, neither in Europe eighth in Romania situation is hardly cheerful. Also the French Banks have to set back from registering in the SEPA at the official start date of the DD implementing. The National Committee of France SEPA extended this deadline with 1 year, till November 2010, due to implementation delays caused by the Payment Services Directive regulation adopted in the national law, but also for further investigation and clarification concerning the economics aspects derived from the interchange fees and issues. Many reasons stand these theses. "The fact that the consumers hold back from using the new system could be one of the causes. Than, changing the existing mandate contracts whit others could be a very difficult operation. For example, in Germany, the largest direct debit markets in Europe, there are 600 million mandates which have to be changed with new mandate contracts signed again the customers, operation that involves huge costs for companies, but also time" Dumitru, (2010). In Romania activation service is free, however, the banks are establishing theirs different level of the commission required by the direct debit transaction, ignoring EU rules.

6. REFERENCES

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| country | Value (billions Euro) | | | | increase | | | relative importance(val) | | | |
|----------------|------------------------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------------------|--------------|-------------|-------------|
| | 2005 | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 | 2005 | 2006 | 2007 | 2008 |
| Bulgaria | 0.37 | 0.39 | 0.32 | 0.24 | -0.21 | 27.29 | -29.8 | 0.51 | 0.42 | 0.28 | 0.17 |
| France | 907 | 981 | 1,021 | 1,054 | 6.37 | 1.24 | 2.07 | 5.25 | 4.52 | 4.56 | 4.51 |
| Germany | 3,371 | 3,665 | 11,608 | 11,331 | 7.25 | 107.12 | -3.49 | 9.58 | 10.14 | 15.13 | 15.36 |
| Greece | 6.03 | 6.95 | 8.01 | 10.16 | 11.64 | 10.93 | 24.11 | 0.46 | 0.56 | 0.65 | 0.90 |
| Hungary | 1.50 | 5.85 | 4.39 | 2.25 | 290.08 | 33.52 | -50.48 | 0.17 | 0.31 | 0.28 | 0.14 |
| Netherlands | 231 | 254 | 270 | 301 | 8.25 | 4.68 | 9.32 | 4.17 | 4.19 | 4.31 | 4.85 |
| Poland | 2.12 | 2.60 | 3.33 | 4.19 | 17.57 | 19.05 | 13.19 | 0.40 | 0.42 | 0.44 | 0.47 |
| Romania | 0.899 | 0.958 | 2.39 | 1.79 | 0.05 | 77.92 | -22.0 | 0.97 | 0.82 | 0.16 | 0.10 |
| Spain | 1,074 | 647 | 930 | 860 | -41.31 | 37.85 | -89 | 0.47 | 6.18 | 7.33 | 6.73 |
| United Kingdom | 1,166 | 1,239 | 1,291 | 1,175 | 2.92 | 2.45 | 2.72 | 0.96 | 0.90 | 0.82 | 1.10 |
| EU total | 7,977 | 8,240 | 16,639 | 16,321 | | 95.49 | -3.96 | 3.66 | 3.39 | 5.37 | 6.30 |
| country | Nr of transaction (millions) | | | | increase | | | relative importance(nr) | | | |
| | 2005 | 2006 | 2007 | 2008 | 2006 | 2007 | 2008 | 2005 | 2006 | 2007 | 2008 |
| Bulgaria | 1.10 | 1.20 | 0.76 | 0.40 | 8.62 | -36.76 | 16.90 | 1.82 | 1.60 | 1.22 | 0.58 |
| France | 2,513 | 2,737 | 2,910 | 3,024 | 8.92 | 6.32 | 3.91 | 17.67 | 8.32 | 18.82 | 19.02 |
| Germany | 6,662 | 7,363 | 7,271 | 7,982 | 10.53 | -1.25 | 9.78 | 41.92 | 2.78 | 48.86 | 50.00 |
| Greece | 14.96 | 16.35 | 17.87 | 15.90 | 9.29 | 9.29 | 1.00 | 10.86 | 11.18 | 11.10 | 9.48 |
| Hungary | 59.79 | 74.60 | 78.33 | 67.74 | 24.77 | 5.01 | -13.52 | 9.22 | 9.34 | 10.01 | 8.29 |
| Netherlands | 1,059 | 1,139 | 1,177 | 1,226 | 7.52 | 3.33 | 4.13 | 27.25 | 7.00 | 26.37 | 25.77 |
| Poland | 11.09 | 14.54 | 18.20 | 20.36 | 31.10 | 25.11 | 11.86 | 1.03 | 1.13 | 1.20 | 1.17 |
| Romania | 2074 | 2410 | 1601 | 728 | 1620 | -33.5 | 54.54 | 10.31 | 10.32 | 4.79 | 2.65 |
| Spain | 2,182 | 2,103 | 2,222 | 2,309 | 3.60 | 5.67 | 3.90 | 46.34 | 4.66 | 43.36 | 42.87 |
| United Kingdom | 2,722 | 2,858 | 2,963 | 3,077 | 4.98 | 3.70 | 3.83 | 19.56 | 9.82 | 19.91 | 20.16 |
| EU total | 17,301 | 18,496 | 19,084 | 20,314 | 4.18 | 3.04 | 6.45 | 25.09 | 25.25 | 25.61 | 25.99 |

Tab.1. The situation of the number and the value of transactions for direct debit instruments