

## THE DIRECT FACTS ON DIRECT ENTRY

**Businesses and consumers make about 20 million non-cash payments in Australia each business day; a third of these are made by Direct Entry.**

### WHAT IS “DIRECT ENTRY”?

Direct entry is a convenient, safe and reliable way to send and receive payments. It is an electronic payment system typically used by businesses to send or collect regular payments from large numbers of their employees or customers. Payments collected from customers’ banking accounts in this way are known as “direct debits” and payments sent to customers’ banking accounts are known as “direct credits”.

### IMPORTANT QUESTIONS AND ANSWERS ABOUT “DIRECT CREDITS”

Direct credits are widely used by businesses to credit their employees’ accounts with salary payments and by government departments for regular payments such as Centrelink allowances. Other common examples are dividend and interest payments. In recent years, direct credit is also being used to provide widespread access to internet-based (sometimes called “Pay Anyone”) and phone-based banking services. Businesses initiating direct credits are known as Credit Users.

### HOW DOES A BUSINESS BECOME A CREDIT USER?

Before a business can start sending payments, its financial institution will need to assign it with a unique User Identification number. The financial institution will advise the business on the

terms and conditions and requirements of the particular direct credit product best suited to the business, including important security requirements. Many financial institutions also allow smaller businesses to process direct credit payments using the financial institution’s generic User Identification number. This means that all internet banking customers for a particular financial institution will share the same User Identification number.

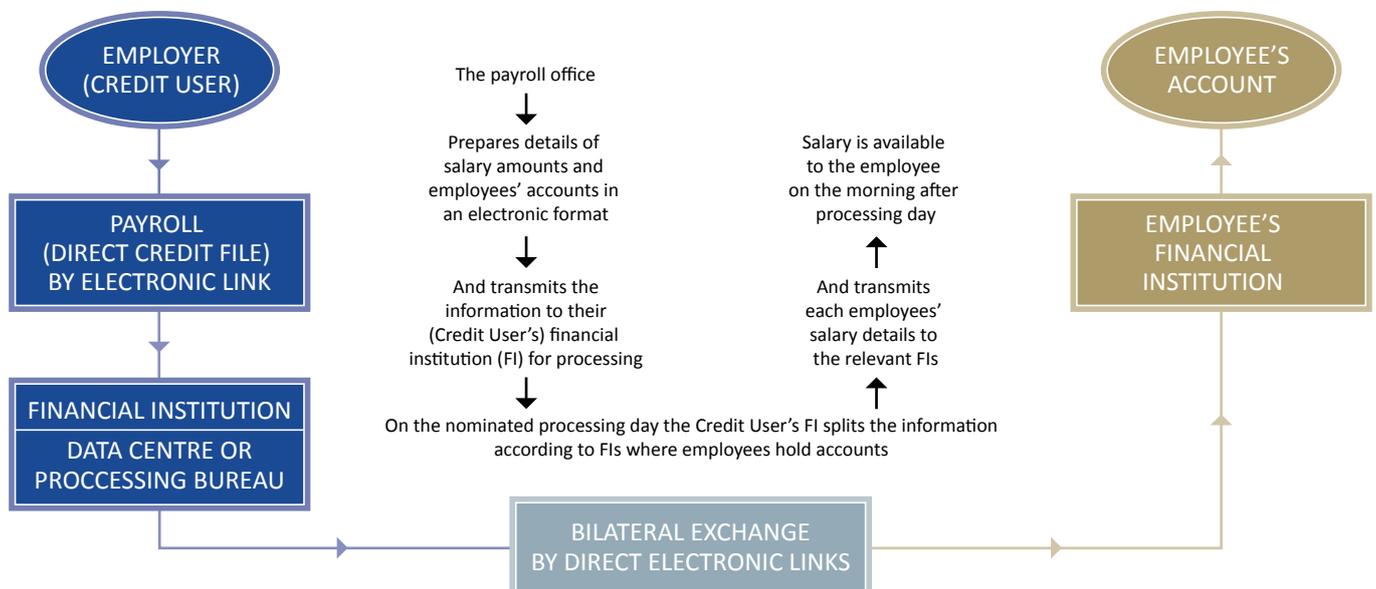
Financial institutions and other providers offer a range of products, such as internet banking channels, that businesses can use to send payments. Financial institutions are able to provide the best advice on the product most suited to a particular business’ size and needs.

### HOW ARE DIRECT CREDITS PROCESSED?

Once the business is set-up as a Credit User, the process for direct credit is simple as can be seen in the diagram below. It illustrates the flow of a direct credit salary payment.

Businesses with high volumes of payments need to create a direct credit file that is to a specific file format. The file can be produced by the business itself, or by a processing bureau. As long as the file is received by the business’ financial institution’s processing cut-off time, funds will be available into the payees’ accounts no later than 9.00am the next business day.

Payments are processed by the account number details only, ie the BSB number and account number. Financial Institutions with “unique account numbers” may disregard the BSB, and process payments by account number only. While a business may include the payee’s name in the payment, it will not be used to process the payment. Particular care must be taken to provide the correct BSB and account numbers or the payment may be made to an incorrect recipient, and it may not be possible to recover an incorrect payment.



## DIRECT ENTRY (continued)

### IMPORTANT QUESTIONS AND ANSWERS ABOUT “DIRECT DEBITS”

Direct debit is a popular way for businesses to receive payment for regular bills and services. Businesses use the direct debit system to collect funds from their customers’ accounts for the value of, for example, insurance premiums, utility bills and repayment of debt. The direct debiting of an account is carried out under a Direct Debit Request (DDR) authority given by the customer. Businesses initiating direct debits are known as Debit Users.

#### HOW DOES A BUSINESS BECOME A DEBIT USER?

To be able to collect payments from customers’ accounts, a business must first apply to its financial institution for sponsorship. The financial institution will assess the business’ financial strength, integrity and reliability before approving it as a Debit User.

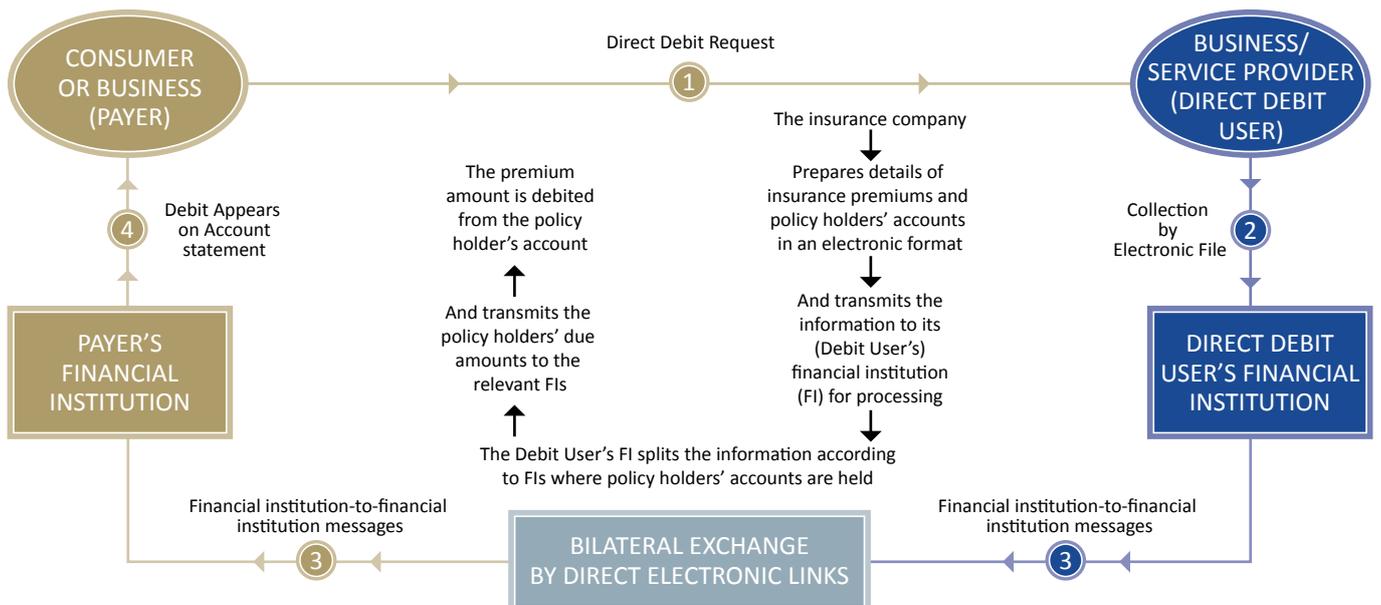
As part of the approval process, the financial institution will review the business’ proposed DDR and Service Agreement for customers. It will also advise the business on the fraud controls and customer identification processes it should have in place appropriate to the level of risk in their business.

For certain low risk collections, such as utility bill payments, the financial institution may also let the business accept DDRs over the internet or by telephone – however, even where a written signature is not required, the business must still take steps to ensure the identity of the customer providing the DDR.

Once the business has been approved as a Debit User, the sponsoring financial institution will assign the business with a unique User Identification Number so that it can start initiating direct debit files. As a Debit User, a business must adhere to certain rules and regulations. For example, it must keep a record of all the DDRs it has received from its customers and each DDR must be kept for a period of seven years after the date the last direct debit was made. If a Debit User wants to change a customer’s direct debit arrangements, for example, to reflect a recent price increase, it must give the customer at least 14 days notice. A Debit User is also under obligation to act promptly if a customer wants to cancel, or amend, a DDR.

#### HOW ARE DIRECT DEBITS PROCESSED?

The steps involved in the processing of direct debits are shown in the following diagram illustrating the flow of an insurance premium payment.



Disclaimer: The material in this brochure is provided for general information purposes only. There may be some variations in practices depending on your financial institution.