



# Electronic Direct Debit

A disruptor that delivers cost savings

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## Electronic Direct Debit: A disruptor that delivers cost savings

Innovations in payment and collection solutions seek to address the pain points faced by corporate, commercial and retail customers. Digital technologies embrace customers' expectations and facilitate solutions that deliver cost savings. Such solutions are also simpler, more efficient, more secure and, given the current climate, contactless and therefore safer.

The Electronic Direct Debit Service, or eDDS, a virtually paperless initiative introduced by First Abu Dhabi Bank for its merchant clients and their customers, ticks all these boxes.

### Putting the customer in control

The expectations of commercial banking clients are shaped by the 'anywhere, anytime digital access' that we have come to enjoy in other aspects of our lives. The most effective payment solutions enable greater control for finance departments, providing a quick dashboard on liquidity positions and reconciliation, leading to better business decisions.

For small merchants and large corporates alike, a solution such as direct debit means doing away with the time, effort and cost of sending out bills, collecting payments and pursuing overdue payments. It also gives companies clarity on when payments will be credited to their account, thus affording better management of cash flow. Direct Debit is the best collection method used for services such as subscriptions, invoicing for services where instant payment is not required (marketing agencies, accountancy companies etc.) or for customers with an on-going relationship with the merchant.

### A preferred global solution

Worldwide, direct debit has emerged as the preferred method for collecting regular payments, such as subscriptions and invoicing for services where instant payment is not required, especially for customers who have an ongoing relationship with the merchant. A study in Europe has shown that more than %40 of consumers have at least once saved their payment credentials online to avoid having to re-enter them for future purchases.

In the UK, direct debit is the preferred payment method for over %50 of bill payers, with 9 out of 10 people with a bank account having at least one direct debit activated. The number of transactions processed via direct debit each year over the past 10 years up to 2019 has increased from 2.9 million to 4.1 billion per year. Clearly, direct debit is globally perceived as efficient, safe and secure.

## Direct Debit Service in UAE

According to Gulf Today (12 July 2020), “The value of funds collected through the UAE Direct Debit system (UAEDDS) of the Central Bank of the UAE (CBUAE) rose by 7 per cent to Dhs61 billion in 2019 from Dhs57 billion in 2018, according to figures released by the Central Bank of the UAE.

The statistics noted the increase in the funds settled through the UAE Direct Debit system was matched with a similar surge in executed transactions from 13.4 million in 2018 to 16 million at the end of 2019.” Even though these are impression numbers, the uptick of Direct Debit has been slower than expected.

This is primarily due to three main reasons:

1. Prevalence of using cheques for bill collection by merchants, which is driven by the legal protections offered by cheques. Until recently, a payer could be criminally liable with potential jail sentence if a cheque was returned for many reasons, including insufficient funds. This provided a level of risk mitigation to the merchants. Thus, it is common to see extensive use of cheques in UAE, including post-dated cheques which are used as a guarantee of future payments. However, recent regulations have eliminated or reduced the penalty for bouncing a cheque to a fine instead of potential jail sentence. As such, the built-in protection offered by cheques is no longer available.
2. The second reason why DDS did not pick up as expected is because payers feel they don't have any control over when the debits hit their accounts. For example, if a payer wants to delay a payment or to cancel a payment, it requires a payer to contact the biller and submit a paper request, which the biller has to approve and send to their bank, which requires processing at their end. All this may take several days to process, which is not good if a payer does not have funds in their account and they need to stop the payment right now. Because of this, most payers prefer to pay by other means because they have more control over when the payment hits their account.
3. The third reason is that the entire process is manual and paper intensive, requiring payers to fill out the DDS mandate forms and sign in ink. The merchants collect these forms, verify the content and submit them to their respective banks.

## Digital is the way forward

Government and regulatory initiatives in the UAE have paved the way for quick and secure automated payments, while the COVID19- pandemic has resulted in a dramatic acceleration of the growth trajectory of digital payments. Research shows that all forms of electronic payments have grown exponentially in 2020.

The adoption of new payment technologies has also accelerated and continues to grow. With banks providing the solutioning, corporate and SME customers are expected to reap the rewards in the form of cost savings.

## FAB eDDS

The eDDS portal introduced by FAB is a fully digital solution which eliminates paper and manual processes where the payer account is also with FAB. Payers simply log into the eDDS portal and self-register with a few clicks. Billers access these mandates and approve them on the portal. If the payer authenticates using UAEPass and has an account with FAB, the mandate gets approved and no further action is required by the payers. For Payers who do not authenticate using UAEPass but have accounts with FAB, they approve the mandates via SMS. If the payer's account is with another institution, the normal DDS process is followed currently. However, FAB is working with other banks and the Central Bank of the UAE to make this fully automated.

“eDDS is part of the overall strategy to go completely paperless and completely digital,” said Mike Nagavalli, FAB Head of Channels & Innovation in Global Transactions Banking (GTB). “With eDDS we have made the process fully automated end-to-end and fully self-serviced. Payers self-register by selecting the merchants on the portal. Payers also have a historical view of all their DDS mandates and the payments statuses in one place.”

Payers may also request cancellations or request delayed debit online, without a need to visit the merchant and filling out forms. With FAB eDDS this entire process is fully automated and can be completed within a few minutes (for payers who have accounts with FAB). This provides the payers more control over their account activity.

eDDS results in significant cost savings to merchants, as it eliminates the administrative cost of managing the paper mandates. In addition, the portal provides full visibility to the merchants of all their mandates and payment history in one place.

By providing an easy-to-use and convenient way to digitally manage the mandates and collections, and providing full visibility and control to both merchants and payers, FAB eDDS aims to reduce or eliminate friction in using a Direct Debit Service, and we hope to see significant uptick in DDS usage in the coming years.