

Joint Response from the eight banks addressed by the Competition Commission Inquiry concerning origination of Direct Debit transfers

Terms of reference for a study into and report on the resolution of issues arising from the origination of Direct Debits on the transfer of SME bank accounts

1. Introduction

These terms of reference have been prepared to meet the Competition Commission's requirements for the banks to:

- investigate potential measures to facilitate the transfer of SMEs' Direct Debit arrangements from one bank to another;
- assist in resolving the problem of delays in such transfers arising from the need for originators to amend their records;
- publish a report on progress in doing so within twelve months of the publication of the Competition Commission's report.

In view of the progress made since the information was collated and considered by the Competition Commission, and following discussions with the OFT, the terms of reference in this study are slightly different in form from those in the other studies being undertaken by the banks.

2. Objectives of the Study

This study and its resulting report will cover the following:

- Background to the current transfer service in relation to Direct Debits:
 - description of the Direct Debit scheme (to include the parties involved, ie banks' originators and SMEs, and their contractual relationships and spans of control);
 - focus of inter bank actions and developments to date;
 - description of the transfer process and timescales;
 - operation of the current service (including volumes, growth in usage etc);
 - existing methods of Direct Debit originator management;
 - description of work undertaken by banks in this area since the end of the Competition Commission Inquiry (ie the conclusion of the taking of evidence by the Competition Commission);
 - planned future initiatives.
- Issues for investigation:
 - identification of the problems arising in relation to the origination of Direct Debits on the transfer of SME bank accounts including volumes, trends and causes;
 - consideration and explanation of the potential impact on SMEs of any problems identified and investigation of any potential mitigating actions within the banks' control;
 - identification of management information for the monitoring of performance on an on-going basis.

- Consideration and, where appropriate, cost/benefit evaluation of possible initiatives within the control of the named banks including:
 - the proposals suggested by the Competition Commission;
 - any other proposals, eg possible acceleration of processes, use of a disputes process against non-conforming originators or process automation;
 - evaluation of originator feedback and any relevant action plans.
- Conclusions and recommendations.
- Annexes to include:
 - confidential or market sensitive information of a relevant or supportive nature;
 - further detail of Direct Debit payment flows;
 - background and details of BACS Limited (derived from information in the public domain and to include relevant statistics).

3. Methodology

- Working group to be set up, with representation from all named banks, ensuring appropriate levels of authority are involved.
- The working group will appoint a chairman.
- Project milestones to be set and monitored by the working group.
- A draft report to be produced by the working group and circulated to the named banks.
- The use of consultants is not proposed at this stage, but support may be sought from BACS Limited and any other third parties which the banks may consider to be helpful.
- The banks will, where appropriate, provide updates to the OFT on the progress of the project and supply working papers where these are required to assist the OFT to understand technical issues addressed by the study.
- The OFT will be shown copies of final drafts of the report prior to publication.
- Publication and circulation of the final report and its content to be discussed and agreed with the OFT, with any confidential information being removed before publication.
- To the extent that any bank or banks disagree with any views or conclusions set out in the report, the report will record that such disagreement exists and will set out the reasons for such disagreement.
- Flowcharts and tables to be used where suitable to facilitate descriptions.