



CUSTOMER OWNED BANKING
CODE COMPLIANCE COMMITTEE

Direct Debit Follow Up Own Motion Inquiry

A follow up review of customer owned banking institutions' compliance with direct debit obligations under section 20.1 of the Customer Owned Banking Code of Practice.

September 2017

The Code

The Customer Owned Banking Code of Practice ([the Code](#)) was developed by the Customer Owned Banking Association ([COBA](#)) and commenced operation on 1 January 2014. The Code replaces the 2010 Mutual Banking Code of Practice.

The Code has been revised to accommodate changes the Australian Securities and Investments Commission ([ASIC](#)) made to [Regulatory Guide 221](#) *Facilitating digital financial services disclosures* and the *e-Payments Code*. The revised Code has been effective from 1 July 2016.

Through the Code, 67 subscribing¹ credit unions, mutual banks and mutual building societies voluntarily commit to fair and responsible customer owned banking. The Code contains ten key promises stating that these institutions will:

- be fair and ethical in dealings with customers (including small businesses)
- focus on customers in their service delivery
- give customers clear information about products and services
- be responsible lenders
- deliver high customer service and standards
- deal fairly with any complaints
- recognise their customers' rights as owners of the institution
- comply with legal and industry obligations
- recognise their impact on the wider community, and
- support and promote the Code of Practice.

The Committee

The Code Compliance Committee ([the Committee](#)) is an independent compliance monitoring body established under the Code and the Code Compliance Committee Charter (the Charter). It comprises an independent chair, a person representing the interests of the customer owned banking sector and a person representing the interests of consumers and communities. The Code and Charter entrust the Committee with a number of functions and responsibilities, including to:

- conduct 'Own Motion' inquiries into compliance with aspects of the Code, and
- provide advice to COBA on training and other activities necessary to assist subscribers to meet their Code requirements.

Definitions

For ease of reference when reading this report:

- 'the Code' means the 2016 Code unless otherwise stated
- 'consumer/customer' includes individuals or small businesses that are members or customers of Code subscribers, and
- 'institution' means a customer owned banking institution that subscribes to the Code.

¹ Number of Code subscribers as at June 2017.

CONTENTS

EXECUTIVE SUMMARY	4
Background to the inquiry	4
Inquiry aims and approach	4
Findings and recommendations.....	4
INTRODUCTION	7
The Code obligations.....	7
Background to the inquiry	8
About this inquiry.....	8
POLICY AND PROCEDURE	10
Forms and other cancellation methods	10
Alignment of policy and procedure.....	11
Time to process requests	11
CUSTOMER INFORMATION	12
Website information and search	12
Information provided by staff	13
COMPLIANCE MONITORING	15
Customer complaints.....	15
Compliance review	15
Shadow shopping.....	16
APPENDIX 1: Online questionnaire	18
APPENDIX 2: Sample direct debit compliance assessment checklist	19
Example direct debit compliance assessment questionnaire	19
APPENDIX 3: Questionnaire results	22

EXECUTIVE SUMMARY

Under section 20.1 of the Customer Owned Banking Code of Practice (the Code), institutions are required to stop a direct debit arrangement linked to a member's transaction account upon the member's request – and to do so promptly.

Background to the inquiry

In May 2017, the Customer Owned Banking Code Compliance Committee (the Committee) conducted an own motion inquiry into institutions' compliance with these important obligations. This inquiry followed two earlier Committee inquiries dealing with the same obligations. Conducted in 2010 and 2012, these inquiries had disappointing results: the Committee found, through shadow shopping and a desktop review, that many institutions were giving customers incorrect or inadequate advice about direct debit cancellation, particularly via their call centres.

In publishing the results of its 2012 inquiry, the Committee developed detailed guidance for institutions on how to comply with the Code's requirements on direct debit cancellation. This guidance included a set of recommendations covering forms, disclosure documents, staff training and compliance monitoring, as well as a Compliance Checklist.

Inquiry aims and approach

The 2017 inquiry revisited these issues, assessing whether institutions had adopted the Committee's 2012 recommendations and whether compliance had improved. To do this, the Committee developed an online questionnaire, completed by 66 institutions, and audited 17 large institutions' website content and search functionality.

Findings and recommendations

The inquiry found that while there appears to have been some improvement, compliance with the Code's section 20.1 requirements is still patchy, and only a minority of institutions are achieving best practice performance. Given that direct debit cancellation has been a Committee focus for some time, and that industry and consumer advocates alike recognise the issue, this finding is disappointing. With the aim of identifying and promoting good industry practice, the Committee has made six recommendations for improvements to policy and procedures, customer information and compliance monitoring.

Policies and procedures

Questionnaire responses suggest that institutions have a range of procedural approaches to direct debit cancellation. While a majority (77%) have a form that customers may use to cancel a direct debit, they often also accept requests by other means such as in writing or over the phone. Whatever the cancellation procedure, almost all institutions reported that it aligned with their direct debit cancellation policy and with Code requirements.

While only a minority of institutions measure processing time for direct debit cancellation requests, all stated that by their nature such cancellations are processed promptly, typically on the same day.

Customer information

Through this inquiry, the Committee wanted to examine whether compliance with direct debit obligations had improved. While the Committee did not directly test compliance of oral advice to customers, an audit of 17 large institutions' website information indicated that there are still problems with the written advice provided online. One-third of the institutions included in the audit still used wording that was either unclear or, in one case, incorrect and non-compliant. These results suggest no improvement since 2012, when the Committee's wider desktop review of 43 institutions' websites found that 70% provided correct information and 11% offered incorrect or unclear instructions.

Most institutions are also lagging behind best practice with regard to the availability and accessibility of online information about direct debit cancellation. Some do not provide such information and, where they do, it is rarely easily discoverable via keyword searches.

Institutions reported that to ensure staff offer correct information, they provide training to staff on stopping direct debits and complement this training with documented policies, procedures, scripts and forms, as well as ongoing supervision and monitoring. Although all institutions described staff training and monitoring approaches, responses elsewhere in the questionnaire demonstrated that in some cases, staff are still giving customers incorrect information.

Compliance monitoring

Although not all institutions are able to separately identify complaints about direct debit cancellation, those that do are receiving very low complaint numbers. However, institutions that have undertaken more proactive compliance monitoring activities have often uncovered and rectified compliance issues. This suggests that complaint monitoring is not, on its own, sufficient to identify and rectify non-compliance. Low complaint numbers are unlikely to be a good indicator of breaches because even if customers are given incorrect information, they will not be aware of this unless they seek advice elsewhere.

A central aim of the inquiry was to assess whether institutions had adopted the Committee's 2012 recommendations for improvements to compliance and monitoring. Only 52% of institutions have conducted a compliance review using the Committee's 2012 Compliance Checklist. For most of these institutions, the review was a valuable process that highlighted compliance problems or best practice improvements to be made.

Additionally, less than one in ten institutions have used shadow shopping to test call centre or branch performance on direct debit cancellation. Again, institutions that did undertake internal shadow shopping often uncovered compliance issues. The Committee's previous direct debit work has shown that while written policies and procedures are typically compliant, oral advice is

where most compliance issues occur. This underscores the value of shadow shopping as a monitoring tool. It is therefore disappointing that very few institutions have taken up the Committee's shadow shopping recommendation.

Recommendation 1

The Committee encourages institutions to develop and adopt best practice direct debit cancellation procedures that:

- are simple and efficient for customers – this may mean taking requests over the phone, including some form of written confirmation to the customer, and/or providing an easy-to-understand online form
- incorporate appropriate safeguards.

Recommendation 2

The Committee encourages institutions to periodically review direct debit cancellation procedures, scripts and website information to ensure that they align with institution policy and Code obligations.

Recommendation 3

The Committee encourages all institutions to make available on their websites compliant customer information about the direct debit cancellation which is clear and simple. To ensure that this information can be easily found and used by customers, it should be accessible via simple and logical page navigation and keyword search.

Recommendation 4

The Committee encourages all institutions to ensure that their complaints reporting system clearly identifies any customer complaints concerning direct debit cancellation.

Recommendation 5

The Committee encourages institutions that have not yet conducted a review using the Committee's Compliance Checklist (or a similar approach) to do so promptly.

Recommendation 6

The Committee encourages institutions to periodically test compliance with direct debit cancellation obligations using a shadow shopping process. Where shadow shopping is impractical because the institution is small, an alternative approach (such as a random quiz) should be used to test staff knowledge.

INTRODUCTION

For customers, the ability to cancel direct debits via their institution is a powerful safeguard. Where an institution fails to accept or act on a customer's direct debit cancellation request, the customer may continue to be charged for goods or services they do not want and fees may be imposed on the account – something that is particularly detrimental for customers in financial difficulty.

It can be difficult for consumers to cancel direct debits directly with merchants². Recognising this, the Code requires institutions to cancel members' direct debits upon request, and to do so promptly. In May 2017, the Committee conducted an own motion inquiry into institutions' compliance with these Code obligations.

The Code obligations

Under section 20.1 of the Code, institutions are required to take and promptly process a request to cancel a direct debit. Institutions cannot direct or suggest that consumers first raise the request or complaint directly with the merchant or service provider:

We will act promptly to cancel a direct debit facility linked to your transaction account if you ask us to do so, and we will give you an estimate of how long cancellation will take. We will not tell you to try and cancel the facility with the biller or other direct debit user first (but we may suggest that you also contact the direct debit user).

The Customer Owned Banking Association (COBA) provides additional guidance in relation to the cancellation of direct debits:

Your institution must allow a customer to cancel a direct debit on their transaction account directly with your institution. It must not direct, or suggest, that the customer should first raise the cancellation request directly with the merchant. However it would generally be accepted as good practice to suggest that a customer contact the merchant to advise of the cancellation of the DDR in order to avoid any fees the merchant may charge for a rejected DDR.³

In addition to the Code requirements, [the Bulk Electronic Clearing System \(BECS\) procedures and regulations](#) for recurring direct entry payment instructions also apply. Clause 7.12(h) of the BECS procedures requires an institution to:

- accept an instruction in writing, or in any such form as it determines, from a customer to cancel a direct debit
- act on that instruction by promptly forwarding a cancellation request to the debit user's bank (Sponsor), and
- ensure, as far as practicable, that no further debits under the relevant debit authority are posted to the customer's account.

² See [Joint Consumer Representative Submission to the Australian Bankers' Association Inc 'Independent Review of the Code of Banking Practice 2016', September 2016](#)

³ See *Customer Owned Banking Code of Practice Compliance Manual*, June 2016, p. 96.

Background to the inquiry

The Committee conducted two previous inquiries into customer owned banking institutions' compliance with these direct debit obligations.

2010 inquiry

In 2010, the Committee conducted two shadow shopping exercises to assess the extent to which institutions were complying with section 20.1 of the Code. The shadow shopping covered 33 institutions, and involved making a general enquiry with call centre or branch staff regarding the cancellation of a direct debit.

The Committee found a high level of non-compliance. In August 2010, seven out of ten participating institutions provided incorrect or inadequate advice at their call centre level. In November 2010, compliance had improved only slightly: 60% of the institutions surveyed earlier were still providing incorrect or inadequate information.

In its March 2011 [report⁴](#), the Committee recommended that all institutions ensure that staff were adequately trained and fully comprehend both the Code obligations and the BECS rules.

2012 follow-up inquiry

In March and April 2012, the Committee conducted a follow-up inquiry into compliance with section 20.1 of the Code. A total of 44 institutions participated in the follow-up, which involved a shadow shopping exercise similar to the 2010 inquiry, as well as a desktop review of institutions' disclosure documents and associated website content.

The Committee found that most (70%) institutions' disclosure documents provided correct information about the cancellation process of a direct debit. However, there was little to no improvement in the oral advice, which remained non-compliant for 60% of participating institutions.

The Committee's June 2012 [report⁵](#) included a sample direct debit Compliance Checklist intended to assist institutions in their application of the direct debit arrangements obligations under the Code. The checklist is reproduced in [Appendix 2](#).

About this inquiry

In recent years, institutions have been self-reporting minimal breaches of the direct debit cancellation obligations. In 2015–16, there were three self-reported breaches of section 20.1, a substantial decrease from 15 breaches in 2012–13. However, it was unclear to the Committee whether the reduced breach numbers reflected an improvement in compliance performance or a lack of monitoring by institutions in this area. In light of this uncertainty and of the disappointing findings of the Committee's first two inquiries, the Committee resolved to conduct a small follow-up inquiry.

⁴ See <http://www.cobccc.org.au/uploads/2011/03/MBCOP-Clause-20-Direct-Debits-Full-Report-Mar-2011.pdf>

⁵ See <http://www.cobccc.org.au/uploads/2012/06/DirectDebitReport-June-2012.pdf>

Aims

The aims of this inquiry were to:

- examine whether compliance with direct debit obligations had improved
- assess whether institutions had adopted the Committee's 2012 recommendations
- examine whether institutions had appropriate quality assurance and monitoring to identify and correct areas of non-compliance, and
- identify and promote good industry practices in stopping direct debits.

Methodology

Information for the inquiry was collected using an online questionnaire (at [Appendix 1](#)) during May 2017. All 66⁶ institutions completed the questionnaire. **Table 1** shows the participating institutions by size measured by \$ amount in assets and number of active members.

Table 1: Size of institution

		Size of institution (measured by number of active members)					TOTAL
		Up to 10,000	Between 10,000 and 50,000	Between 50,000 and 100,000	Between 100,000 and 200,00	Over 200,000	
Size of institution (measured by \$ amount in assets)	Micro <\$200m	21	5	-	-	-	26
	Small \$200m to \$500m	2	8	-	-	-	10
	Medium \$500m to \$1b	-	12	1	-	-	13
	Large >\$1b	-	2	6	4	5	17
	TOTAL	23	27	7	4	5	66

Complementing the questionnaire, the Committee also audited the websites of the 17 large (above \$1b in assets) institutions. This audit assessed the information provided about the direct debit cancellation process and tested whether this information was accessible via simple keyword searches.

⁶ One Code Subscriber did not complete the questionnaire in time for the data to be included in this report.

POLICY AND PROCEDURE

To comply with the Code's direct debit cancellation obligations, institutions are required to have a documented and compliant policy that sees direct debits cancelled promptly upon the member's request.

Forms and other cancellation methods

The Committee's 2012 inquiry report recommended that institutions consider developing a form that members could use to stop a direct debit arrangement. Responding to the 2017 follow-up questionnaire, a majority of institutions (77%) reported that they have a form that customers can use to request a direct debit cancellation.

Among this group, however, many institutions also accept direct debit cancellation requests in other ways. Sixteen institutions explicitly noted that while a form is available, they accept cancellations by other means, typically over the phone and/or by written request. Some commented that these other methods are preferred, either for reasons of customer convenience – being able to take and act on customer instructions immediately when they call – or for reasons of customer understanding. As one institution commented:

Taking a member's instruction over the phone or in-store is the encouraged/preferred option as we can ensure (through questioning/confirming) the member has a clear understanding of exactly what the process will achieve.

Among the 23% of institutions who do not use a form, some offered similar reasoning, stating that a form is not used because 'the process is a simple one' and a form would 'hamper efficiency' for customers. All institutions without a form described an alternative process, such as accepting written requests or oral authorisation over the phone or in a branch, or a combination of these. Some institutions specifically noted that identification checks are performed before such requests are processed.

The Committee recognises that compliance with the Code's obligations can be achieved with a range of different procedures, which may or may not include use of a customer form. The Committee supports institutions' efforts to make the cancellation process as simple and efficient as possible for customers while incorporating steps to confirm customer identity, ensure that the correct debit is cancelled and reinforce customer understanding. The Committee believes that a best practice direct debit cancellation process will include some form of written confirmation to the customer.

Recommendation 1

The Committee encourages institutions to develop and adopt best practice direct debit cancellation procedures that:

- are simple and efficient for customers – this may mean taking requests over the phone, including some form of written confirmation to the customer, and/or providing an easy-to-understand online form
- incorporate appropriate safeguards.

Alignment of policy and procedure

Institutions were asked whether their form or procedure accurately reflects their policy on direct debit cancellation. The vast majority of institutions (97%) reported that their form or procedure is in alignment with policy.

Only two institutions identified some misalignment between their policy and the procedure for enacting it; both reported that action was being taken to correct these inconsistencies. One institution noted that its procedure does not include a timeframe for processing the request. The other was in the process of implementing a standard form and reviewing staff training to ensure consistency and Code compliance.

Recommendation 2

The Committee encourages institutions to periodically review direct debit cancellation procedures, scripts and website information to ensure alignment with institution policy and Code obligations.

Time to process requests

Under the Code, institutions are required to ‘act promptly’ to process members’ direct debit cancellation requests. Institutions were asked whether they measure the processing turnaround time for direct debit cancellation requests. Although only three in ten (30%) measure turnaround time (with larger institutions more likely to do so), almost all institutions said that by their nature, direct debit cancellation requests are processed and take effect promptly – typically immediately or on the same day.

CUSTOMER INFORMATION

As well as being bound by the direct debit cancellation requirements set out in section 20.1, institutions that subscribe to the Code make a general commitment to providing clear and accessible information about their products and services, and to ensuring that their staff are well-trained to apply the Code in practice.

Website information and search

Following its 2012 inquiry, the Committee encouraged institutions to make accurate information about direct debit cancellation available on their websites. It also recommended that institutions make this information easily accessible by testing website links and ensuring that keyword searches led customers to the relevant cancellation information. These website checks were also included in the Compliance Checklist the Committee developed to assist institutions (at [Appendix 2](#)). While providing this information and search functionality is not a compliance requirement, the Committee views it as an element of best practice in direct debit cancellation.

For the current inquiry, institutions were asked whether their website search function (if available) responds to simple keyword searches for direct debit cancellation information. Disappointingly, only 39% of institutions reported that their websites achieve this. Perhaps unsurprisingly, large institutions with assets of more than \$1b were most likely to report that they have a responsive keyword search function that directs customers to appropriate information, with 59% answering yes to this question.

Institutions that responded positively to this question commented that such a search leads to either a direct debit cancellation form, specific information about cancellation (such as a 'How do I cancel a direct debit?' page) or a general document, such as Terms and Conditions, that contains the cancellation information.

While this is not a Code requirement, given the problems arising for customers (including low Code compliance) it would not be best practice to expect a customer to read through terms and conditions to find out how to cancel a direct debit.

Around half of the institutions (48%) said that the keyword search function does not lead to relevant information. For some, this is because information about cancelling a direct debit is not offered on the website. For others, however, the information is available but not accessible via the search function. For example, some institutions said that the information is contained in PDF brochures or documents, the contents of which are not included in website keyword searches. Positively, most of these institutions described the steps that would be taken to make this information available online and/or ensure that it appeared in search results. A minority of the micro and small sized institutions (12%) reported that their websites do not offer a search function.

Audit

As well as asking institutions about their website content and navigation, the Committee reviewed the websites of the 17 large (above \$1b in assets) institutions to assess the information they provide about how to cancel a direct debit.

Where a search function was available, this review included a check of whether simple keyword searches on direct debit provided results.

This audit found that of the 17 websites reviewed, one contained non-compliant information, stating that a customer had to contact the biller first to cancel a direct debit before contacting the institution. A further four websites had information that was only partly compliant and needed improvement – for example, because it was written in unclear language likely to lead to confusion.

Only six websites responded clearly and accurately when testing the search function. The findings of this audit show no improvement from 2012, when the Committee’s desktop audit of 43 websites (and associated information) found that 70% were providing correct information of direct debit cancellation, while 11% provided incorrect information and two institutions had no relevant information online.

While information we found to be unclear may have been technically correct, it is important that the information provided to customers is as clear as possible. While the COBA guidance suggests that it is good practice to include that a customer also contact the merchant, it is worth considering separating this information from the information about how to cancel – even if it is just in a separate sentence.

Wording such as ‘we will cancel a direct debit on request’ may be clearer than ‘you may cancel a direct debit with us’.

The results of this year’s audit do not meet the Committee’s expectations. After two previous inquiries on this issue and detailed guidance on how to meet the Code’s requirements, the Committee is disappointed to find that some of the well-resourced institutions are still falling short of both best practice and the Code’s baseline requirements.

Recommendation 3

The Committee encourages all institutions to make available on their websites compliant customer information about the direct debit cancellation which is clear and simple. To ensure that this information can be easily found and used by customers, it should be accessible via simple and logical page navigation and keyword search.

Information provided by institutions

The Committee’s past inquiries on direct debit cancellation found that institutions’ written information tended to be more compliant than information provided orally by staff. In 2012, 70% of the disclosure documents the Committee reviewed were compliant, while fully compliant oral advice was given in just 39% of cases.

This underscores the importance of an institutional focus on staff knowledge, training and monitoring – especially given the above finding that most institutions’ written information is not easy to locate on their websites.

This year, the Committee did not directly test the compliance of oral information with shadow shopping. However, the inquiry questionnaire asked institutions how they ensure that staff are aware of direct debit cancellation processes and obligations, and provide accurate information about direct debit cancellation to customers.

Almost all institutions reported that direct debit cancellation procedures and compliance requirements are covered in online and/or face-to-face staff training. Several institutions referenced COBA's training modules on Direct Debit and on Code obligations. Training is delivered to staff at induction with refreshers at regular intervals, often yearly or every two years. Some institutions also referenced on-the-job supervision, coaching and feedback.

Staff training is complemented with documented policies, procedures, scripts and forms, which many institutions make available on their intranets. Additionally, some institutions provide staff with ad hoc or scheduled reminders of direct debit processes and requirements in email communications or staff meetings. To identify gaps in staff knowledge, some institutions quiz staff on direct debit and other requirements, either at random or in association with refresher training.

Institutions also described their processes for monitoring the information that frontline staff give to customers. Most commonly, institutions reported that regular 'real time' or 'hindsight' call monitoring is conducted either by supervisors or quality assurance staff.

Several smaller institutions described less formal monitoring systems noting that, within a small office, managers and other staff hear all customer calls and are able to identify and correct any misinformation. A few institutions reported that they review forms or electronic records to ensure that they are completed correctly.

And finally, to identify and follow up any issues that have occurred, some institutions said that they actively monitor customer complaints (internal and external), other customer feedback and incident event registers.

COMPLIANCE MONITORING

As well as putting in place compliant procedures and providing clear and accurate information to customers, institutions should have robust processes for monitoring their compliance with the Code's direct debit cancellation requirements.

Customer complaints

For institutions, customer complaints are one important source of information about potential compliance problems and areas for operational improvement. The results of the Committee's follow-up questionnaire suggest that direct debit cancellation is not a major source of customer complaints. Most institutions reported that they received no complaints about delayed or missed direct debit cancellations during the past three years.

Among those able to report on the number of complaints received, the mean was around 1.5 complaints over the three-year period. The highest number of complaints recorded by a single large institution was 22.

While acknowledging this low level of complaints, the Committee notes that a lack of complaints is not evidence of compliance. Customers given incorrect advice about direct debit cancellation processes may never realise that the information provided was not accurate. And even where they do, the detriment experienced is likely to be time, effort and frustration, rather than substantial financial loss, which may leave customers less inclined to lodge a complaint. For these reasons, the Committee believes that complaint monitoring should be complemented with more proactive compliance and monitoring efforts.

Recommendation 4

The Committee encourages all institutions to ensure that their complaints reporting system clearly identifies any customer complaints concerning direct debit cancellation.

Compliance review

Following the 2012 inquiry, the Committee developed a sample questionnaire to assist institutions to assess and improve their compliance with the Code's direct debit requirements (at [Appendix 2](#)). This year, institutions were asked whether they had conducted a compliance review using this questionnaire.

Just over half of the respondents (52%) reported that their institution had undertaken such a review. Following the review, around a quarter (24%) of these institutions uncovered no issues in their review, but the majority (76%) made a range of improvements to procedures, staff training and customer information.

Six institutions made procedural changes, such as updating or clarifying their procedure to match the findings of the 2012 inquiry, or moving the procedure to a new platform.

Several institutions identified issues with staff knowledge and training. To address such issues, institutions made changes to the delivery, content or frequency of training. One created a new staff training document while another consolidated direct debit cancellation information on its intranet to make it easier for staff to find.

As a result of this review, some institutions identified improvements to be made to customer information. Three had no relevant, accessible information on their websites, while another offered a form but no other information. Another three institutions created or made changes to a customer form, and one updated its processes to provide a receipt to customers confirming the cancellation.

The remaining 48% of institutions had not conducted a review using the Committee's compliance checklist. The largest institutions (with over \$1b in assets) were least likely to have conducted such a review, with just 35% having done so.

Some institutions were unsure whether a review had been conducted and were unaware of the checklist. Others reported that they intended to undertake a review in future. Some of the micro institutions saw no need for a review as they had no staff changes. Some of the larger institutions stated that they were already confident of their compliance, in one case, because the institution had been assessed as fully compliant in the Committee's previous inquiry.

While close to half of institutions had not conducted a review with the Committee's checklist, many described alternative steps that they had taken to increase compliance. Several implemented staff training and reminders or checked and updated processes, procedures or forms. Some conducted a review but without referring to the Committee's checklist. And finally, some institutions reported that the issues were already covered by other regular processes such as internal audits, incident reporting, complaints analysis or general Code compliance assessment.

Recommendation 5

The Committee encourages institutions that have not yet conducted a review using the Committee's Compliance Checklist (or a similar approach) to do so promptly.

Shadow shopping

As part of its 2010 and 2012 inquiries, the Committee used shadow shopping to assess whether institutions' call centres were offering compliant advice about stopping direct debit arrangements. Each shadow shopping exercise found that only between 30% and 40% of participating institutions provided fully compliant oral advice.⁷

⁷ *Mutual Banking Code of Practice: Stopping a Direct Debit Arrangement – A follow-up review to the initial review completed on Mutuals' compliance with Section 20.1 of the Mutual Banking Code of Practice published in March 2011, June 2012, p. 4.*

In 2012, the Committee recommended that from time to time, institutions should conduct their own internal shadow shopping to test compliance with section 20.1 of the Code.

The Committee's 2017 follow-up questionnaire assessed whether institutions had implemented this recommendation. Disappointingly, very few institutions – just 6% – had tested their own compliance with shadow shopping.

Institutions with fewer assets and smaller memberships were less likely to have conducted a shadow shopping exercise. Several commented that their small size made shadow shopping impractical or unnecessary with measures such as direct supervision, training and/or random quizzes being more appropriate for their context.

Of those institutions that had conducted shadow shopping, three were satisfied with their compliance. A fourth institution, however, found that customers were mostly being given incorrect information. As a result, this institution reviewed and updated its procedure, proposed an update to call coaching, made changes to team leader and manager training and communication and re-communicated its procedure including developing a new Frequently Asked Questions document.

Recommendation 6

The Committee encourages institutions to periodically test compliance with direct debit cancellation obligations using a shadow shopping process. Where shadow shopping is impractical because the institution is small, an alternative approach (such as a random quiz) should be used to test staff knowledge.

APPENDIX 1: Online questionnaire

1. Have you implemented a direct debit compliance review program utilising the Committee's sample questionnaire published in 2012 (see App 2)?
 - a. YES - what issues were identified and how were they addressed?
 - b. NO - please provide reasons and any alternative steps taken to ensure compliance with the Code's direct debit obligations.
2. Do you have a standard form for customers to complete when requesting to stop or cancellation of a direct debit arrangement?
 - a. YES – please comment.
 - b. NO - please explain your procedure in detail.
3. Does your direct debit cancellation form (if applicable) and/or direct debit cancellation procedures accurately reflect your policy/procedure for the cancellation of direct debits?
 - a. YES – please comment.
 - b. NO – please comment on if you have any plans to update these documents.
4. Does your website search function (if available) respond to simple keyword searches on direct debit cancellations?
 - a. YES - what pages or information do the results link to?
 - b. NO - please explain why this is the case and whether you plan to address this.
5. How do you ensure staff are aware of the key Code obligations and processes required to stop or cancel a direct debit facility?
6. How do you ensure staff provide accurate information regarding direct debits?
7. Have you undertaken any internal shadow shopping to test compliance?
 - a. YES - what was the outcome?
 - b. NO - please describe how you monitor staff's compliance with section 20.1 of the Code.
8. How many complaints or disputes did you receive regarding delayed or missed direct debit cancellations over the past three years?
9. Do you have internal measurements in place (such as workflow measurement systems or other internal record keeping) that may measure the turnaround time for processing direct debit cancellation requests?
 - a. YES - what is your average turnaround time?
 - b. NO – please comment

APPENDIX 2: Sample direct debit compliance assessment checklist

This sample checklist aims to assist institutions in their application of the direct debit arrangements obligations under the Customer Owned Banking Code of Practice.

- Develop a **direct debit compliance assessment questionnaire** (see example below).
- Develop standard form for customers to complete when requesting to stop or cancel a direct debit arrangement.
- Review direct debit information included in the disclosure documents.
- Test search function (if available on website) to check if simple keyword searches on direct debit provide results.
- Test hyperlinks on the website to check if they are working and link to the correct documents.
- Ensure appropriate information is available for staff to understand the institution's key obligations and processes required to stop or cancel a direct debit facility linked to a transaction account.
- Increase staff awareness regarding the impact of incorrect advice, particularly upon customers experiencing financial hardship.
- Conduct own shadow shopping to test compliance.

Example direct debit compliance assessment questionnaire

Visibility and accessibility of information

1. What information is provided to customers about different direct debits and cancelling direct debits?
2. If customers are provided with information about direct debits, please advise how this is achieved (such as phone, letter, email) and how often information is provided to customers?

3. Are customer facing staff provided with scripts or FAQs to assist with inquiries regarding direct debits?

Policy and processes for stopping or cancelling a direct debit

4. Does a customer have the option of cancelling only one payment (suspension), rather than cancelling the direct debit authority?
5. If so, what is the process for this?
6. Does the customer need to complete a cancellation form?
7. If answered 'Yes' to 2, how can this form be provided to the customer, such as letter, email?
8. What information does a customer need to provide to the institution for cancellation?
9. How much notice does the institution require for cancellation?
10. In what circumstances are customers advised to contact the debit user?
11. What is the institution's internal process for cancelling a direct debit?
12. Does the process vary according to whether the customer:
 13. Has previously cancelled a direct debit to this user
 14. Has a history of dishonoured direct debits, either with the same debit user or different debit users
 15. Has other direct debits with the same debit user that the customer does not wish to cancel.
16. How long does it take for the cancellation to come in to affect?
17. Is the customer given receipt for the cancellation?
18. If there a fee for cancellation?
19. Is the cancellation permanent?
20. Does the institution have any formal or informal limits on the number of times a customer can cancel a direct debit?
21. Is a customer able to reactivate a direct debit directly with the institution?

22. What institution fees apply to direct debits and how are customers notified of these fees?
23. Do these fees vary according to the type of account?

Monitoring and compliance assessment

24. How does the institution ensure that any subsequent request by the debit user under the cancelled direct debit authority is refused?

Staff training

25. What training do staff receive for cancelling Direct Debits?
26. Which staff receive Training?
27. What information or resources are available to staff about the cancellation of a direct debit?
28. Is it stand alone training or embedded in the content of other training modules?

Documentation

29. What policies and procedures relate to compliance with Section 20 of the Code?
30. Which training programs relate to compliance of Section 20 of the Code?
31. Does the institution publish any information about Section 20 of the Code either for staff or the customers, including copies of information available online?

APPENDIX 3: Questionnaire results

Active members	Up to 10,000	Between 10,000 and 50,000	Between 50,000 and 100,000	Between 100,000 and 200,000	Over 200,000	TOTAL
<i>Q1: Have you implemented a direct debit compliance review program utilising the Committee's sample questionnaire published in 2012?</i>						
Yes	14	14	3	-	3	34
No	9	13	4	4	2	32
<i>Q2: Do you have a standard form for customers to complete when requesting to stop or cancellation of a direct debit arrangement?</i>						
Yes	17	22	6	3	3	51
No	6	5	1	1	2	15
<i>Q3: Does your direct debit cancellation form (if applicable) and/or direct debit cancellation procedures accurately reflect your policy/procedure for the cancellation of direct debits?</i>						
Yes	23	27	7	3	4	64
No	-	-	-	1	1	2
<i>Q4: Does your website search function (if available) respond to simple keyword searches on direct debit cancellations?</i>						
Yes	6	10	4	2	4	26
No	13	13	3	2	1	32
Not available	4	4	-	-	-	8
<i>Q7: Have you undertaken any internal shadow shopping to test compliance?</i>						
Yes	-	1	2	-	1	4
No	23	26	5	4	4	62
<i>Q9: Do you have internal measurements in place (such as workflow measurement systems or other internal record keeping) that may measure the turnaround time for processing direct debit cancellation requests?</i>						
Yes	4	10	2	-	4	20
No	19	17	5	4	1	46