



CUSTOMER OWNED BANKING  
CODE COMPLIANCE COMMITTEE

# Compliance with direct debit cancellation obligations disappointing

*A follow-up own motion inquiry by the Customer  
Owned Banking Code Compliance Committee*

**March 2019**

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# Executive summary

**Section 20.1 of the Customer Owned Banking Code of Practice (the Code) gives customers the right to ask their institution to cancel a direct debit and requires the institution to action such a request promptly. This is an important safeguard that helps customers – especially those in financial difficulty – to maintain control of their finances.**

## Background

Non-compliance with this important obligation has been a long-standing concern of the Committee. The Committee first highlighted the issue in [2010](#), while follow-up research in [2012](#) and [2017](#) revealed that compliance had improved only slightly. Non-compliance remains an ongoing issue.

In light of these trends, the Committee has conducted additional follow-up research. This research included shadow shopping, a review of institutions' websites and a compliance questionnaire. The questionnaire was included with the 2018 Annual Compliance Statement (ACS) and assessed the impact and implementation of the Committee's previous recommendations.

## Non-compliance remains unacceptably high

The results of the Committee's 2018 follow-up show that although there has been some further improvement, non-compliance is still unacceptably high. Customer service representatives gave a compliant response to an enquiry in only 57% of calls. At the same time, institutions' online information needs improvement and was found to be readily accessible on just 38% of websites.

Previous Committee recommendations have only been partially implemented by institutions, and the changes that have been made do not seem to have led to significant or lasting compliance improvements. Staff training appears to have been implemented and processes put in place, yet this is not reflected in daily practice.

## Fixing institutions' direct debit practices

The Committee now wants to see a sustainable and permanent fix to this long-standing issue. Should problems persist, the Committee will consider using its powers to apply sanctions and name the institutions involved in its Annual Report. In the meantime, the Committee has made fresh recommendations to support compliance and good practice.

### Recommendation 1

Add clear, simple customer guidance on direct debit cancellation to institutions' websites. This guidance should be easy to find via search functions and explain the difference between

recurring payments set up with a credit or debit card versus direct debits set up using a BSB and account number.

## **Recommendation 2**

Explore and implement ways to allow customers to cancel direct debits through their existing online banking services at **no** cost.

## **Recommendation 3**

Ensure that all frontline staff are aware of the direct debit Code obligations by:

- providing Code-related and operational training programs to both new and existing staff
- providing easily accessible quick reference guides and cancellation processes
- sharing the Committee's reports and findings
- updating and reminding staff through newsletters, emails, intranet news items or team meetings
- increasing staff awareness of the impact of providing incorrect information, especially for customers in financial difficulty.

All staff should be required to undertake refresher training on the bank's obligations at least once a year.

## **Recommendation 4**

Ensure that monitoring, quality assurance and audit staff are aware of the Code obligations so that they can identify non-compliance. Any non-compliance identified should be raised with the staff concerned and reported to the Committee as part of the Annual Compliance Statement.

# Background

**Each month across Australia, consumers authorise more than 50 million direct debit transactions. Customers sometimes choose to cancel these direct debit arrangements, and when they do, the Code requires customer owned banking institutions to accept and promptly process cancellation requests.**

## An important safeguard

By setting up a direct debit, a customer allows a merchant or service provider to withdraw money from the customer's transaction account into a merchant account at set times – for example, to pay bills or make repayments. These debits are processed through the Bulk Electronic Clearing System (BECS), a framework administered by the Australian Payments Clearing Association.

It can be difficult for consumers to cancel direct debits directly with merchants. As a result, the ability to cancel direct debits via the institution is a powerful safeguard that gives customers control over their finances.

For customers in financial difficulty, cancelling a direct debit can be a crucial assistance strategy: one that allows them to prioritise basic living expenses, such as rent and food. Customers often lack knowledge of financial products and services and are not aware that institutions are obliged to cancel a direct debit.<sup>1</sup> It is crucial, therefore, that institutions provide the correct information when customers enquire about cancelling a direct debit.

Conversely, where an institution provides inaccurate guidance or fails to accept or act on a customer's direct debit cancellation request, the losses to customers can include:

overdrawing an account, causing additional fees and charges to be imposed by both the bank and the merchant; transactions being dishonoured, which can also result in fees and leave consumers at risk of other collection measures; or loss of funds, which may have needed to be prioritised for other purposes.<sup>2</sup>

Such impacts are particularly detrimental for customers in financial difficulty.

## The Code obligations

The Code recognises the importance of this safeguard, and under section 20.1, institutions are required to take and promptly process a request to cancel a direct debit.

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<sup>1</sup> Fitzsimmons, Caitlin, 10 November 2017, '[Banks are failing in their obligations to cancel direct debits](#)', *Sydney Morning Herald*.

<sup>2</sup> Care Inc, CHOICE, Consumer Credit Law Centre South Australia et al, September 2016, '[Joint Consumer Representative Submission to the Australian Bankers' Association Inc. Independent Review of the Code of Banking Practice 2016](#)'.

*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](#)) has elaborated on the Code standard with additional guidance, stating that while institutions may suggest that the customer **also** contact the merchant to advise them of the change, institutions cannot direct consumers to first make the request to the merchant or service provider:

*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 to contact the merchant to advise of the cancellation of the direct debit facility in order to avoid any fees the merchant may charge for a rejected direct debit facility.<sup>3</sup>*

In addition to the Code requirements, [the 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)
- ensure, as far as practicable, that no further debits under the relevant debit authority are posted to the customer's account.

### **Direct debits vs recurring credit or debit card payments**

Under the Code, direct debits are different from recurring credit or debit card payments. The direct debit obligations in the Code apply only to payments set up using a BSB and account number, and not to those that use the customer's 16-digit credit or debit card number.

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<sup>3</sup> Customer Owned Banking Association, June 2016, *Customer Owned Banking Code of Practice Compliance Manual*, p. 96.

## A history of compliance issues

The Committee conducted two previous inquiries into institutions' compliance with the Code's direct debit obligations.

### 2010 inquiry uncovers high non-compliance in branches and call centres

In 2010, the Committee conducted two shadow shopping exercises to assess the extent to which institutions were complying with section 20.1.<sup>4</sup> The shadow shopping covered 33 institutions and involved making a general enquiry with call centre or branch staff about cancelling 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 the 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 report, the Committee recommended that all institutions ensure that staff are adequately trained and fully comprehended both the Code obligations and the BECS rules.

### 2012 follow-up indicates little or no improvement

In March and April 2012, the Committee conducted a follow-up inquiry into direct debits compliance.<sup>5</sup> The follow-up involved 44 institutions in 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. 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 report 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](#).

### 2017 follow-up highlights problems with written information

A further follow-up in 2017<sup>6</sup> confirmed that while there appeared to have been some improvement, compliance with section 20.1 remained patchy, with only a minority of subscribing

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<sup>4</sup> Code Compliance Committee Mutuels, March 2011, [Direct Debits: Shadow Shopping Exercise](#).

<sup>5</sup> Code Compliance Committee Mutuels, June 2012, [Mutual Banking Code of Practice: Stopping a Direct Debit Arrangement](#).

<sup>6</sup> Customer Owned Banking Code Compliance Committee, September 2017, [Direct Debit Follow Up Own Motion Inquiry](#).

institutions achieving best practice standards. An audit of 17 large institutions' websites indicated that there were still problems with the written advice provided to customers 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. Online direct debit cancellation information was rarely easily discoverable via keyword searches.

As a result of the findings of this inquiry, the Committee made six recommendations for improvements to policy and procedures, customer information and compliance monitoring.



# Assessing current compliance

In light of the evidence of ongoing compliance issues, the Committee decided to investigate current practice with a follow-up to its earlier research. Through shadow shopping, a website review and analysis of data received as part of its 2018 ACS, the Committee assessed whether compliance had improved.

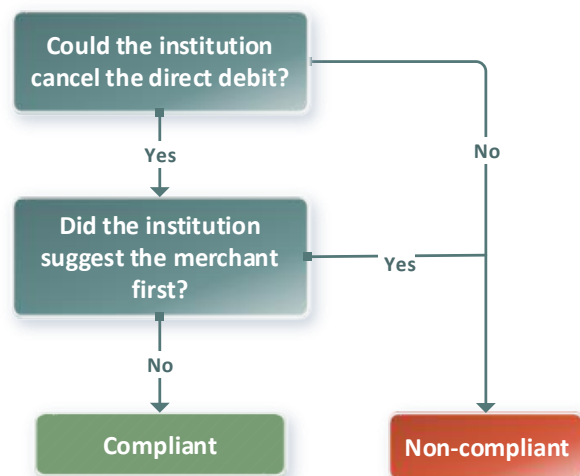
## Call centre advice

The Committee conducted a shadow shopping exercise encompassing 64 institutions. A caller contacted each institution's contact centre stating that they were enquiring on behalf of another person about whether they could cancel a direct debit with a merchant, such as a gym. In line with what might be expected of the average consumer, the caller presented as having little understanding of how to cancel a direct debit.

Staff responses were noted and assessed for compliance with the Code (**Figure 1**). A response was considered compliant where the staff member stated that the institution could cancel the direct debit **and** did not suggest that the customer contact the merchant first. Conversely, in a non-compliant response the staff member stated that either:

- the institution could not cancel the direct debit
- the direct debit could only be cancelled with the merchant
- the cancellation should be lodged with the merchant first, with the customer returning to the institution if there was a problem.<sup>7</sup>

**Figure 1. Compliance assessment process**



In order to accurately assess compliance overall, each institution was contacted twice. While 64 institutions were contacted, one large institution was excluded from the exercise due to call wait

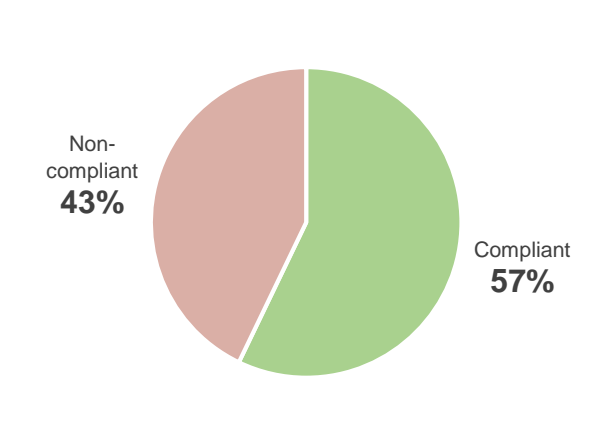
<sup>7</sup> Note that in earlier years, such responses were labelled 'partially compliant'. However, these responses do not meet the Code's requirements and are now identified as 'non-compliant'.

times that exceeded 60 minutes on a number of occasions, which was later confirmed as a service issue due to a system upgrade.

## Compliance rates

Results of the shadow shopping show that direct debit cancellation remains a compliance issue, with only 57% of responses meeting the compliance criteria (**Chart 1**). In 15% of cases, the caller was directed to first contact the merchant, and return to the institution if there were any issues. One institution advised the shopper that it was 'possible' to cancel a direct debit, which does not meet the compliance criteria. **Table 1** sets out examples of compliant and non-compliant responses.

**Chart 1. Response compliance**



**Table 1. Examples of compliant and non-compliant responses**

Compliant responses
<i>The customer service representative advised that the cancellation can be processed, and it would be best to also let the third party know as well. There also may be a fee if the merchant continues to take money.</i>
<i>The customer service representative asked how the direct debit was set up and suggested the vendor would be the safer option, as some merchants have multiple merchant IDs. However, the representative was happy to cancel the direct debit over the phone and requested an email that can be sent later for future reference.</i>

## Non-compliant responses

*The customer service representative advised that all the institution does is process, and while they can cancel, the direct debit would not be 100% cancelled. It is best to contact the merchant unless it is a periodical payment.*

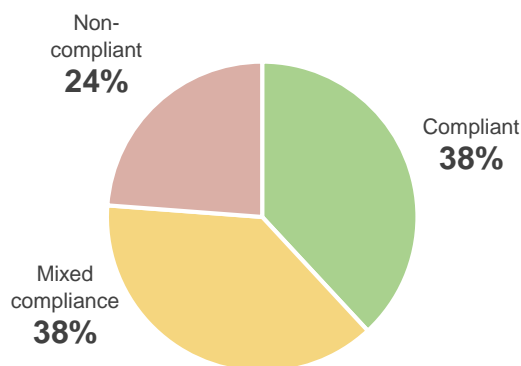
*The customer service representative suggested that the customer go to the merchant first as the agreement is between the account holder and the merchant. The institution can only put a stop on it.*

*The customer service representative advised that the institution can cancel the direct debit, however, if it is cancelled and the merchant takes money out, the account holder will be in arrears. The account holder does not need to contact anyone except for the merchant. The customer service representative described their own experience successfully cancelling a direct debit with a gym, rather than going through an institution.*

These results represent only a slight improvement from previous years. Earlier shadow shopping exercises found that between 30% and 40% of participating institutions provided fully compliant advice.<sup>8</sup>

Staff within the same institution often provided inconsistent advice. Although some 57% of responses were compliant, only 38% of institutions were consistently compliant, providing a compliant response in both rounds of the shadow shopping exercise (**Chart 2**). A further 38% of institutions provided a compliant response in one round but not the other, while around one-quarter of institutions (24%) provided two non-compliant responses.

**Chart 2. Institutional compliance**



<sup>8</sup> Customer Owned Banking Code Compliance Committee, September 2017, [Direct Debit Follow Up Own Motion Inquiry](#).

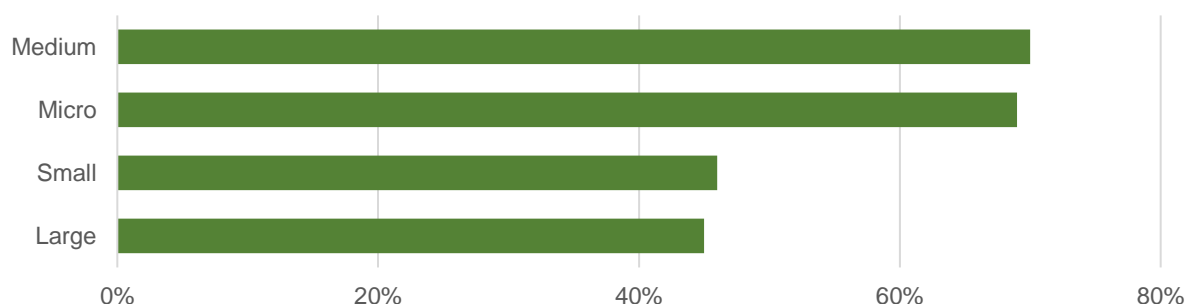
When comparing round one and round two responses, 54% of institutions provided inconsistent responses. **Table 1** provides examples of inconsistent responses. This inconsistency points to training issues.

**Table 1. Examples of inconsistent responses**

First round	Second round
The cancellation can be processed over the phone if the person who requests the direct debit can be verified.	The first step is to contact the merchant to cease the direct debits, and then call the institution.
The first step is to contact the merchant to cease the direct debits, and then call the institution.	The direct debit can be cancelled directly with the institution. There is no fee and the cancellation will be effective in 24 hours.

There was a relationship between the size of the institution<sup>9</sup> and its rate of compliance (**Chart 3**). Medium and micro organisations had the highest rate of compliance, at 70% and 69% respectively. Although large organisations had previously advised that they were confident in their compliance,<sup>10</sup> only 45% of large institution responses were compliant. Small organisations also underperformed, with a 46% compliance rate.

**Chart 3. Compliant response rate by institution size**



### Cancellation timeframes

Where a customer service representative gave a compliant response about whether a direct debit could be cancelled, the caller asked how long the cancellation would take (**Chart 4**). In all but one instance, the customer service representative was able to provide an estimate of when

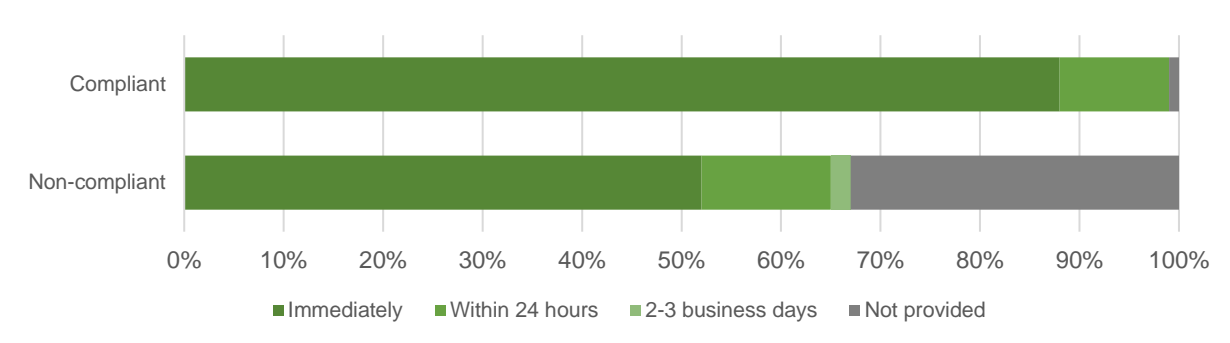
<sup>9</sup> The sizes are categorised by their assets as follows: Micro institution = under \$200m; Small institution: = between \$200m and \$500m; Medium institution = between \$500m and \$1b; Large institution = over \$1b.

<sup>10</sup> Customer Owned Banking Code Compliance Committee, September 2017, [Direct Debit Follow Up Own Motion Inquiry](#).

the cancellation would be completed – most often immediately (88% of responses) or within 24 hours (11% of responses). In the remaining case, the customer service representative advised that they were unable to disclose any information unless the other party was on the phone, and also noted that they were unfamiliar with the process, having only completed cancellations for recurring credit card rather than direct debit payments.

Even where customer service representatives’ advice about cancellation was non-compliant, they typically (in 67% of such responses) still provided information about how long a cancellation would take (**Chart 4**). Generally, where this information was provided at all, the customer service representative advised that cancellation would be immediate.

**Chart 4. Timeframe advice by compliance result**



### Cancellation methods and cost

Institutions described a range of cancellation methods, including:

- over the phone, after verifying the customer’s identity
- through internet banking<sup>11</sup>
- in writing, including by fax or email
- at branches.

Two institutions advised that they charged a cancellation fee (\$5 at one institution and \$12.50 at the other). The Committee considers this to be poor practice: customers should not have to pay to cancel a direct debit.

### Clear communication to customers

Some institutions used the words ‘blocking a direct debit’ rather than ‘cancelling a direct debit’ when the caller clearly asked for ‘cancellation’ of the direct debit facility. The Committee believes this leads to confusion and does not align with the wording used in the Code.

The Committee asks institutions to review their procedures and staff training and amend them to

<sup>11</sup> Shadow shopping in 2011 found that this option was not available.

use the word 'cancellation' when communicating with customers. If applicable, 'Block' should only be used internally to describe the actual cancellation process.

## **Personal information**

Customers should be able to make general enquiries without providing any personal information. In many cases, however, customer service representatives suggested that they would need to look at the member's account in order to give advice. In 13% of responses, the customer service representative asked for details, such as full name or address, in order to pull up the individual's profile on-screen. One customer service representative advised the caller to provide details of the member so that it could have the documentation ready for collection at the branch.

Personal information is not necessary for the provision of general advice. Institutions should be able to answer a customer's question about direct debit cancellation without requesting or insisting that the customer provides an account number or other personal information.

## **Professionalism**

There were some examples of unprofessional behaviour by a customer service representative. One institution's customer service representative had an unprofessional and dismissive manner in both rounds of shadow shopping calls. The representative refused to provide general information and demanded the member's details. A customer service representative at another institution questioned the shopper as to whether there was a reason the customer was wishing to cancel the direct debit. Customers should not have to justify or explain a request to cancel a direct debit.

## **Website information**

The Committee reviewed the websites of 64 institutions. The review considered, firstly, whether the information presented on the website (including in documents such as Product Disclosure Statements and Terms & Conditions) was compliant, in that it:

- clearly stated the customer's ability to cancel directly with the institution
- offered clear instructions on how to cancel
- explicitly states that the institution accepts and actions customers' requests to stop or cancel the direct debit on the transaction account directly with the institution.

The information was considered to meet a good practice standard if it also suggested – but only as a secondary option – that the customer should also contact the merchant to advise of the cancellation and to avoid any fees the merchant may charge for a rejected direct debit.

The Committee's review found that fewer than one-quarter of websites (14, or 22%) had compliant information that fully met the Committee's expectations. Large institutions performed better, with half setting out compliant information. Most websites (43 or 67%) contained information that while technically compliant, needed improvement. Seven institutions were non-

compliant. The Committee has followed up with these institutions, which have rectified or are in the process of rectifying the issues.

The Committee was disappointed to see some institutions position cancellation via the merchant or the institution as equal, as in the following examples:

*To cancel your direct debit arrangement, you can contact either the biller or us.*

*If you wish to stop a direct debit, you can contact the supplier directly to request a cancellation or you can request us to contact the supplier.*

While these statements are technically compliant, they do not meet the Committee's expectations.

## **Accessibility**

The Committee also considered how readily accessible the information was by checking whether a search of the website responded to key phrases such as 'direct debits', 'cancel direct debits' and 'stop direct debits'. Disappointingly, the search functions on 39 institutions' websites (61%) did not provide relevant and conclusive information. One institution's website has no search function. These results are concerning as a website search may be the first strategy used by an uninformed consumer seeking information.

## **Implementation of previous recommendations**

As part of the 2018 ACS, institutions were asked about whether they had acted on the Committee's 2017 recommendations on direct debit compliance (listed in [Appendix 1](#)). The yes/no questions allowed room for comment and were completed by 64 institutions. Overall, responses were disappointing.

## **Reviewing procedures and information**

In 2017 the Committee recommended that institutions review their direct debit cancellation procedures and information to ensure that they were simple and efficient for customers and incorporated appropriate safeguards.

More than three-quarters of institutions (77% or 49 institutions) said that they had acted on this recommendation, with medium (90% or 9 institutions) and large institutions (86% or 18 institutions) most likely to report they had conducted such a review. Examples included:

- reviewed process, website and T&Cs and staff refresher training, taking the Committee's recommendations into account
- established guidance notes for staff and on website
- reviewed the direct debit cancellation form
- reaffirmed bank's approach to correctly processing direct debit cancellation requests
- review as part of internal risk management system.

Some 19% of institutions said that they had not conducted a review. In some cases, institutions reported that this was due to timing, with a review having been conducted more than 12 months ago or being currently underway. Others referred to related activities. For example, one institution said that while there had not been a specific direct debit review, it had reviewed breach management more generally. One small institution – in which a single person has oversight of direct debit cancellations – said that while no review was undertaken, the issue was discussed at staff meetings.

## **Reviewing complaint and Code breach reporting**

Another of the Committee's 2017 recommendations was that institutions review their complaints and Code breach reporting systems to ensure that they clearly identify complaints and Code breaches to do with direct debit cancellation.

Around three-quarters of institutions (73%) said that they had conducted such a review. Some institutions noted that the system was reviewed regularly (ranging from quarterly to annually). One institution reported that it was using monthly complaint monitoring to identify Code breaches early. Another described how staff had been made aware of the institution's expectations and reporting processes.

Among the 23% of institutions that had not conducted a review, comments often suggested a lack of understanding of why such reviews are necessary and beneficial. For example, one institution commented that a review was unnecessary because it did not receive any complaints. However, such a lack of complaints is a good reason to review the system to ensure that it is in fact capturing any complaints or breaches that occur. Conversely, one institution indicated that a review was unnecessary because the system already identified breaches. While this is positive, all systems, even those that already comply with a basic standard, should be reviewed regularly to ensure that they are still functioning and to identify improvements. One institution reported that Code breach reporting was being done manually at the end of the assessment. However, this approach leaves too much room for human error: code breach reporting should be built into the system.

Some institutions, however, acknowledged a need for a review. For instance, one institution said that it was considering a future review. Another acknowledged that it was not identifying whether complaints also reflected Code breaches and stated that this would be addressed in a future review.

## **Testing staff knowledge**

Finally, the Committee in 2017 recommended that institutions test staff knowledge of the direct debit cancellation obligations, either through shadow shopping or another approach, such as a random quiz.

Disappointingly, only around half of institutions (55%) reported that they had tested staff knowledge in the previous 12 months. This had been done in a range of ways by different



institutions, such as via a training module, compliance audits, or quizzes. Two large institutions confirmed that they had conducted their own mystery shopping.

However, some 42% of institutions said that they had not tested staff knowledge. Concerningly, this group included 8 large institutions. As these large institutions have the resources to undertake such testing; their failure to do so suggests a lack of priority placed on this issue. Generally, those institutions that had not tested staff knowledge suggested that they did not consider testing necessary because existing procedures, training and communications were adequate.

# Improving compliance

Poor compliance with the Code's direct debit obligations has been on the agenda for quite some time: it is almost a decade since the Committee published the unsatisfactory results of its first shadow shopping exercise. Despite the Committee's earlier recommendations and institutions' efforts to address the issue, results of the Committee's follow-up research reveal that progress has been very limited. The Committee is now determined to see real and sustained improvement.

## Recommendations

The Committee now wants to see substantial, permanent improvement to institutions' compliance with these important obligations. It has made four new recommendations for compliance improvement:

### Recommendation 1

Add clear, simple customer guidance on direct debit cancellation to institutions' websites. This guidance should be easy to find via search functions and explain the difference between recurring payments set up with a credit or debit card versus direct debits set up using a BSB and account number.

### Recommendation 2

Explore and implement ways to allow customers to cancel direct debits through their existing online banking services at **no** cost.

### Recommendation 3

Ensure that all frontline staff are aware of the direct debit Code obligations by:

- providing Code-related and operational training programs to both new and existing staff
- providing easily accessible quick reference guides and cancellation processes
- sharing the Committee's reports and findings
- updating and reminding staff through newsletters, emails, intranet news items or team meetings
- increasing staff awareness of the impact of providing incorrect information, especially for customers in financial difficulty.

All staff should be required to undertake refresher training on the bank's obligations at least once a year.

## **Recommendation 4**

Ensure that monitoring, quality assurance and audit staff are aware of the Code obligations so that they can highlight non-compliance. Any non-compliance identified should be raised with the staff concerned and reported to the Committee as part of the Annual Compliance Statement.

### **A new approach**

However, it is apparent that in addition to the recommendations above, new strategies are needed. These strategies must be practical, supported by industry, and informed by the challenges that have hindered improvement to date.

The Committee therefore asks institutions to elaborate on the challenges to compliance. It will also engage with COBA, seeking its input on compliance challenges and how COBA and the Committee might assist institutions to improve.

### **Addressing confusion between direct debits and recurring credit card payments**

One barrier to improved compliance appears to be the confusion between direct debits and recurring credit and debit card payments. Although these transactions are similar from a customer perspective, they are processed differently and attract different Code obligations. This confusion applies to some institution staff.

### **Providing guidance**

In light of evidence that staff training on direct debit obligations is still inadequate, the Committee will address this issue with COBA and GRC Solutions, to provide support and guidance to institutions regarding online customer information and quick reference guides for staff. These guides should explain the differences between direct debits and recurring credit card payments and what customers can and cannot do to cancel each type of payment.

### **Breach investigations**

Based on the high level of non-compliance, the Committee has raised 43 individual breach investigation cases for all non-compliance instances, including seven regarding the website review and 36 concerning the shadow shop exercise. All concerned institutions have been contacted with their individual results and asked to provide a response, including details of any rectification and training action undertaken. The result of these investigations will be published on a de-identified basis in the Committee's next Annual Compliance Report.

Institutions are also required to self-report any identified breaches in their next Annual Compliance Statement.

## Strengthening the Committee's monitoring approach

Recognising that the recommended compliance initiatives may have only a limited or short-term effect, the Committee believes that it must also revise its approach to compliance monitoring. With intensified ongoing monitoring, the Committee will keep the recommendations in this report front-of-mind for institutions and encourage continued efforts to improve compliance.

The Committee asks institutions to report annually on their efforts to enhance compliance and the effect of those efforts. The Committee will continue this monitoring until it is satisfied that compliance has permanently improved to an adequate level. The Committee will also consider conducting periodic, ad-hoc and small-scale shadow shopping exercises to test institutions' compliance. Drawing on the results of these monitoring activities, the Committee will publicly report on institutions' progress each year.

Where the Committee identifies ongoing non-compliance and an institution has not taken reasonable steps to implement the recommendations made in this report, the Committee will consider further action it can take to encourage improvement. Should problems persist, the Committee will consider using its powers to apply sanctions and name the institutions involved in its Annual Report.

# Appendix 1: 2017 Recommendations

## ***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.

## Appendix 2: 2012 Checklist

The following checklist and questions are samples designed to assist institutions in developing their own compliance assessment and not a substitute for legal or compliance advice.

Action item	Conducted by	Date of review	Completed
Develop a direct debit compliance assessment questionnaire.			
Develop standard form for members 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 members experiencing financial hardship.			
Conduct own shadow shopping to test compliance.			

# Appendix 3: Online questionnaire

## Direct Debit arrangements<sup>12</sup>

In September 2017, the Committee published its findings regarding a follow up review of customer owned banking institutions' compliance with direct debit obligations under section 20.1 of the Code.

A copy of the report can be found [here](#)<sup>13</sup>.

### 6. The following questions relate to the recommendations issued by the Committee.

6.1 Did you **review** your institution's direct debit cancellation **procedures and information** to customers within the past 12 months to ensure that they are simple and efficient for customers and incorporate appropriate safeguards?

*[Please select ONE only and provide comment]*

- Yes, please comment
- No, please comment
- Other, please comment

6.2 Did you **review** your institution's **complaints and Code breach reporting** system within the past 12 months to ensure that it clearly identifies any customer complaints and/or Code breaches concerning direct debit cancellation?

*[Please select ONE only and provide comment]*

- Yes, please comment
- No, please comment
- Other, please comment

6.3 Have you **tested staff knowledge** regarding compliance with direct debit cancellation obligations within the past 12 months using a shadow shopping process or another alternative approach (such as a random quiz)?

*[Please select ONE only and provide comment]*

- Yes, please comment
- No, please comment
- Other, please comment

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<sup>12</sup> Included as Section F in the 2018 Annual Compliance Statement

<sup>13</sup> See <http://www.cobccc.org.au/uploads/2017/09/COB-OMI-Direct-Debit-Follow-Up-Sep2017.pdf>

## Appendix 4: Questionnaire results

\$ amount in assets	Under \$200m	Between \$200m and \$500m	Between \$500m and \$1b	Over \$1b	TOTAL
<i>Q6.1: Did you <b>review</b> your institution's direct debit cancellation <b>procedures and information</b> to customers within the past 12 months to ensure that they are simple and efficient for customers and incorporate appropriate safeguards?</i>					
Yes	13	9	9	18	49
No	6	2	1	3	12
Other	2	1	-	-	3
<i>Q6.2: Did you <b>review</b> your institution's <b>complaints and Code breach reporting</b> system within the past 12 months to ensure that it clearly identifies any customer complaints and/or Code breaches concerning direct debit cancellation?</i>					
Yes	15	9	7	16	47
No	5	3	2	5	15
Other	1	-	1	-	2
<i>Q6.3: Have you <b>tested staff knowledge</b> regarding compliance with direct debit cancellation obligations within the past 12 months using a shadow shopping process or another alternative approach (such as a random quiz)?</i>					
Yes	13	4	5	13	35
No	7	7	5	8	27
Other	1	1	-	-	2



## Appendix 5: Website review results

\$ amount in assets	Under \$200m	Between \$200m and \$500m	Between \$500m and \$1b	Over \$1b	TOTAL
<b>Review of information available to customers via the website (e.g. Product Disclosure Statement, Terms &amp; Conditions, Financial Services Guide)</b>					
Compliant	0	1	3	10	14
Improvement needed	22	7	4	10	43
Non-compliant	2	1	3	1	7
<b>Search function response to phrases such as 'direct debits', 'cancel direct debits' and 'stop direct debits'</b>					
Satisfactory response	9	5	1	9	24
No response	14	4	9	12	39
No search function	1	0	0	0	1

### Compliance categories

<b>Fully Compliant</b>	<ul style="list-style-type: none"> <li>information readily accessible and visible</li> <li>clear information about the ability to cancel directly with the institution</li> <li>clear instructions how to cancel</li> </ul>
<b>Improvement needed</b>	<ul style="list-style-type: none"> <li>information only partially accessible and visible</li> <li>direct cancellation with institution only advised as second option</li> <li>unclear language</li> <li>unclear instructions on how to cancel</li> </ul>
<b>Non-compliant</b>	<ul style="list-style-type: none"> <li>incorrect information (eg customer advised to lodge cancellation request with merchant)</li> </ul>

## Appendix 6: Shadow shop results

\$ amount in assets	Under \$200m	Between \$200m and \$500m	Between \$500m and \$1b	Over \$1b	TOTAL
<i>Use of a template enquiry script about the process to stop or cancel a direct debit linked to a customer's transaction account. Additional information such as fees, timeframe for the cancellation to take effect, general customer experience and service standards were noted.</i>					
Compliant	16	7	5	9	37
Non-compliant	5	5	5	11	26
Unable to undertake shadow shop	-	-	-	1	1

**The following script was used:**

*"I have a general enquiry. My mum has a direct debit to pay for her 'gym membership', and I just wanted to know how I can stop the direct debit?"*

### Compliance categories

#### Compliant

- Institution accepts customer's request to stop or cancel the direct debit on the transaction account directly with the institution.
- As a good practice, institution also suggests that the customer contacts the merchant to advise of the cancellation to avoid any fees the merchant may charge for a rejected direct debit.

#### Non-compliant

- Institution does not accept the stop or cancellation request and advises the customer that it could only be lodged with the merchant.
- Institution recommends that the stop or cancellation should be lodged with the merchant first and if there is was problem, the customer could return to the institution to stop or cancel the direct debit.
- Institution directs the customer to the merchant for cancellation and advises the customer that the institution can only stop or cancel the direct debit after the institution has lodged it with the merchant

## Appendix 7: Participating institutions

By \$ amount in assets	NSW	NT	QLD	SA	TAS	VIC	WA	Total
<i>By number of active members</i>								
<b>Large institutions (over \$1b)</b>	<b>11</b>	<b>-</b>	<b>3</b>	<b>3</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>21</b>
<i>Over 200,000</i>	2	-	2	1	-	-	-	5
<i>Between 100,000 and 200,000</i>	1	-	-	-	-	2	-	3
<i>Between 50,000 and 100,000</i>	5	-	1	-	-	1	1	8
<i>Between 10,000 and 50,000</i>	3	-	-	2	-	-	-	5
<b>Medium institutions (\$500m to \$1b)</b>	<b>6</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>10</b>
<i>Between 10,000 and 50,000</i>	6	-	2	-	1	1	-	10
<b>Small institutions (\$200m to \$500m)</b>	<b>6</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>-</b>	<b>12</b>
<i>Between 50,000 and 100,000</i>	-	-	1	-	-	-	-	1
<i>Between 10,000 and 50,000</i>	5	-	2	-	-	2	-	9
<i>Up to 10,000</i>	1	-	-	-	-	1	-	2
<b>Micro institutions (up to \$200m)</b>	<b>10</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>21</b>
<i>Between 10,000 and 50,000</i>	2	-	-	-	-	2	-	4
<i>Up to 10,000</i>	8	1	1	2	-	5	-	17
<b>Total</b>	<b>33</b>	<b>1</b>	<b>9</b>	<b>5</b>	<b>1</b>	<b>14</b>	<b>1</b>	<b>64</b>

# Appendix 8: About the Code and the Committee

## 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, 64 subscribing<sup>14</sup> credit unions, mutual banks and mutual building societies voluntarily commit to fair and responsible customer owned banking.

## 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 purpose of the Committee is to encourage and promote customer owned banking institutions to meet customer and community needs and expectations.

To achieve this, the Committee will:

- monitor Code compliance and share good practice
- engage with stakeholders and analyse the external financial services' environment, and
- ensure efficient and effective operations.

For more information about the Code and the Committee, please visit [www.cobccc.org.au](http://www.cobccc.org.au).

### Customer Owned Banking Code Compliance Committee

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Phone: 1800 931 678 (please ask for 'Code Compliance')

[www.cobccc.org.au](http://www.cobccc.org.au)

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<sup>14</sup> Number of Code subscribers as at June 2018.