Streamlining Payment Collection through Direct Debit Instructions in Nigeria

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Introduction

Recurring payment transactions are a common feature of everyday e-commerce (Recurring payment is a payment model where the customers or users authorize service providers to pull funds from their accounts automatically at regular intervals for goods and services, such as video-on-demand, gym membership, utility bills, Software as a Service (SaaS), provided to them on an ongoing basis). Direct Debit Instruction (DDI) provides a system for facilitating recurring payments.

To promote, foster, and regulate an effective direct debit instruction system in Nigeria, the Central Bank of Nigeria (**CBN**) introduced the Revised Guidelines for Direct Debit Scheme in Nigeria in 2018 (the "**Guidelines**"). The Guidelines represent an improvement over previous regulations on direct debit, accommodating the multiple channels through which a customer or user can initiate a direct debit option such as online platforms.

In today's #TMTThursday series, we delved into how direct debit instruction works in Nigeria, focusing on the key players involved, and the procedural steps of the direct debit process.

How does the Direct Debit Instruction Work?

DDI is a cashless method of financial settlement. It allows service providers (the "**Biller(s)**") to collect payments directly from customers (the "**Payer(s)**") through their bank accounts. This process operates under a mandate granted by the Payer to the Biller, authorizing withdrawals for recurring transactions.

Under the Guidelines, direct debit can occur in two forms: fixed DDI mandate and variable DDI mandate. Each mandate is required to specify whether the direct debit transaction is for the withdrawal of fixed or variable amounts.

Fixed Direct Debit Instruction

It enables the debit of fixed amounts from a Payer's account in accordance with the Payer's mandate.

Variable Direct Debit Instruction

It enables the debit of variable amounts from a Payer's account up to the maximum amount stated in the Payer's Mandate. This is applicable where payable amounts cannot be predetermined in advance. In this instance, the Biller shall notify the Payer of the invoice amount before the debit is sent to the Payer's bank.

Key Parties in the Direct Debit Payment Arrangement

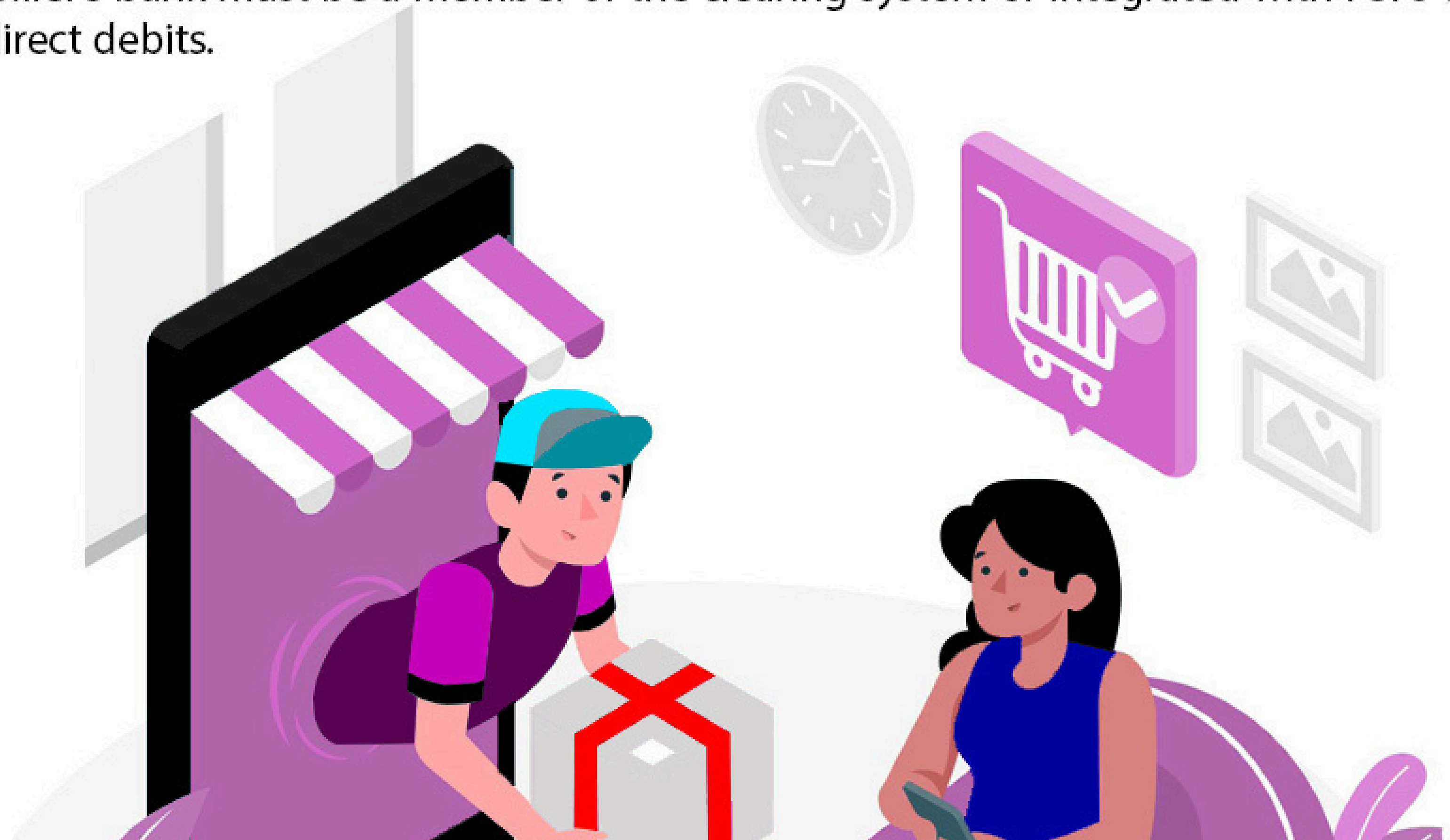
Direct debit payment arrangement involves five parties responsible for facilitating the deduction of payments directly from the Payer's account to the Biller:

a. Biller

A biller is an entity authorized by the appropriate regulatory body to provide goods and services that require recurring payments. The Biller may obtain the Payer's mandate either electronically or in paper form and must be authenticated by the Payer's bank before initiating the debit. Once mandated, the Biller assumes responsibility for collecting payments via direct debit and ensures compliance with the mandate's terms and conditions.

b. Biller's Bank

The Biller's bank is where the Biller's designated account for receiving direct debit proceeds is domiciled. This bank provides the Biller with comprehensive information, advice, and guidance on all aspects of the direct debit payment arrangement. The Guidelines mandate that the Biller's bank must be a member of the clearing system or integrated with PSPs that process direct debits.



c. Payer

The Payer, whether an individual or business entity, authorizes the Biller to debit their bank account under the terms specified in the mandate. According to the Guidelines, the Payer must execute a mandate either physically (in writing) or electronically to participate in the direct debit arrangement.

d. Payer's Bank

The Payer's bank is where the Payer's designated direct debit account is held. This bank is responsible for obtaining the Payer's authorization, either in paper or electronic form, before activating a direct debit mandate on the Payer's account. The authorization requests of the Payer must be processed within three business days as provided under the Guidelines.

e. PSPs

PSPs are financial institutions licensed by the CBN to provide direct debit services. They act as intermediaries between Billers and Payer's banks, ensuring smooth transaction processing and adherence to regulatory requirements. PSPs execute direct debits according to the instructions outlined in the mandate and provide comprehensive guidance and support to Billers regarding the direct debit scheme.

These parties collaborate to facilitate efficient and secure direct debit transactions in Nigeria, adhering strictly to regulatory frameworks and ensuring transparency throughout the payment process.

Steps Involved in the Direct Debit Payment Arrangement

a. Mandate Authorization

The Payer is required to complete a mandate form, granting the Biller permission to debit their account. This authorization can be provided electronically or through a physical form.

b. Transaction Initiation

The Biller submits transaction requests to their PSPs, specifying the amount, payer details, and payment due date.

c. Processing

The PSP processes the transaction request and forwards it to the Payer's bank for debit from the payer's account.

d. Notification

The Payer's bank informs the Payers about the upcoming debit transaction, providing details as required.

e. Debit

On the agreed-upon date, funds are deducted from the payer's account and transferred to the biller’s account.

f. Reconciliation and Reporting

PSPs furnish reconciliation reports to the biller, outlining transaction statuses and any exceptional cases that may require attention.

Conclusion

The direct debit payment arrangement in Nigeria represents a significant leap forward in the realm of financial transactions, offering unparalleled convenience and efficiency to both businesses and consumers. Looking ahead, the direct debit payment arrangement is poised for continued growth, driven by advancements in digital payments and increasing consumer confidence in automated financial solutions. As awareness spreads and technological infrastructure improves, the arrangement promises to further streamline financial operations, enhance cash flow management, and foster economic efficiency across various sectors in Nigeria.