INSIGHTS PAPER

DEBIT WHERE IT'S DUE

Making direct debit work for your business

THE POWER OF DIRECT DEBIT

Since its introduction in the 1960s, direct debit has become the go-to process for recurring payments. Automatically withdrawing funds from customers' accounts, typically on a monthly basis, has proved to be an easier and more reliable way of making fixed payments than bill pay, card payments and digital wallets.

In the European Economic Area, direct debit is already responsible for powering more than 21.6 billion transactions a year, including over 10.1 billion in Germany, over 4.9 billion in France[1] and over 4.8 billion in the U.K.[2] Overall, the value of direct debits in the euro area alone rose by 27.1% to €4.8 trillion in 2023.[3]

But as an ever more popular payment method, direct debit's growth is unlikely to stop there.

In the digital age, the rise of subscription services has increased synergy between payment mechanisms and business models, with direct debit in a central role. The ability to make regular direct debit payments aligns perfectly with the recurring payment structure of subscriptions – and benefits businesses and customers alike.

For customers, paying by direct debit removes the friction of manual payments for each billing cycle and makes outgoings or overhead more predictable.

And for businesses, direct debit streamlines payment processes with timely, automated transactions, lowers administrative burden and helps reduce late or missed payments. In turn, that helps consistently improve cash flow and support financial planning, resource allocation and strategic growth.

Advances in technology and new ways of doing business have helped change the way we pay for goods and services – making direct debit an integral part of everyday life. But as more subscription services require customers to sign up for direct debits, the direct debit process itself has undergone its own transformation.

The question is, can your firm's payment processes keep up – and help you harness the full power of direct debit?

The faster direct debit payment cycle

Until not so long ago, the direct debit cycle, from initiation to settlement, took several days. So, if the money left your customer's account on day one, it wouldn't hit your firm's account until day three, four or even later. In between, it sat in a float – a kind of banking limbo.

With the superfast processing abilities of digital technology and the advent of instant payment schemes, floats are no longer necessary. Within certain limits, a direct debit payment in Europe and the U.K. can now work just like an instant payment, taking no more than two hours, and usually seconds, to cross directly from one account to another.

Driving this acceleration is ISO 20022, the international XML standard for financial messages that already powers instant payments. ISO 20022 isn't new, but banks are now adopting it for more and more payment processes – direct debits included. In fact, under new regulatory rules, financial institutions need to adopt ISO 20022 as the de facto format for payments by November 2025.

This is great news for businesses, but it also raises the stakes for payment processing. Get your direct debit processes right and you could speed up a high proportion of your cash inflows by at least a day or two. Get them wrong and you've lost an opportunity to improve working capital and increase competitive advantage.

[1] *European Payments Council, SEPA payment statistics, 2022*
[2] *Pay.UK, BACS processing statistics, 2023*
[3] *European Central Bank, payments statistics, 2023*

WHY DIRECT DEBIT ADDS UP FOR YOUR INDUSTRY

Some firms are more reliant than others on direct debits for cash flow and working capital. For these types of businesses, smooth, highly automated direct debit payments are an important source of revenue, so it's critical to tightly control the underlying payment process.

Insurance

Traditionally, insurance policyholders paid for their premiums annually. But today, there's an ever-growing preference to spread the yearly cost over monthly direct debit instalments, which provide a steady revenue stream for insurance providers.

More insurers are moving to a subscription model, too, offering health, auto, home and life plans that are easier to understand, modify and cancel than annual policies. Integrating direct debit with this model further improves not only accessibility, flexibility and convenience but also retention rates and customer satisfaction.

So, whether customers are spreading premium payments or subscribing to a service, direct debit is now a driving force of cash inflows for insurance companies. And for larger organizations with multiple regional entities, gaining control of these now much faster transactions is more important than ever.

With countless B2C and B2B payouts to make daily, often via instant payment rails, insurers must strike a careful balance to maintain liquidity. When cash outflows outweigh inflows, firms may need to draw down on costly credit lines, which reduces profit margins.

All the more reason, then, for a centralized treasury and finance team to collect premiums and subscriptions as efficiently as possible. With smooth, timely and accurate processing, direct debits look increasingly attractive.

Utilities

Utility providers collect high frequencies of direct debits from customers, on a monthly or quarterly basis. In a well-controlled process, the faster direct debit collection cycle can therefore hugely increase the productivity of firms' accounts receivable teams – and reduce daily sales outstanding (DSO) without additional headcount, while improving working capital.

Although much of their business is B2C, these firms' cash outflows go mainly to the B2B suppliers and franchises that help run and maintain their network. As a result, there are much lower volumes of payments going out than coming in.

But clearly, the same cash flow principles apply to utilities as to insurers. So, they are just as focused on ensuring regular payments and making sure customers don't default.

Rises in inflation have increased the cost of servicing debt, so optimal levels of liquidity are a priority. In practice, that means not only avoiding deficits but also making sure any surplus cash is invested in overnight funds, as the opportunity to earn interest has increased.

Telecommunications

Telcos typically offer not only individual B2C packages but also large B2B contracts that require regular payments in vast amounts from corporate customers.

Over time, there has been an increase in the amount firms can collect by direct debit. In the U.K., for example, depending on the authorizing bank, the limits can be as high as £1 million per transaction. This makes direct debit a viable way to collect larger B2B payments, further boosting its appeal.

Now, through direct debit, telcos can take advantage of regular B2B payment inflows, just as they do with their B2C customer base. This in turn helps them reduce DSO, minimize churn and make more accurate cash flow forecasts.

Clearly, telcos must credit-check companies before they set up automated direct debts, just as they do with consumers. And they'll need to verify bank details and match them to business entity names too; a process that modern technology now helps expedite.

By making these checks and balances part of a centrally-controlled process, telco treasurers have the opportunity to accelerate their cash inflows and considerably improve both liquidity and working capital with direct debits.

Technology, media, retail – and beyond

From SaaS providers like Google, Amazon Web Services and Microsoft to streaming platforms such as Spotify and Netflix, modern businesses have redefined how we consume technology and media. Their subscription services are less about ownership than access, with direct debit often holding the key to admission and continued use.

Other sectors are now getting in on the act, with retailers and even automotive manufacturers offering subscriptions to goods and services. Regular direct debits are a critical success factor in these business models – funding continuous product improvement with stable revenue and cementing long-term customer relationships.

HOW TO GET MORE FROM DIRECT DEBIT PAYMENTS

Although designed to make life easier for businesses and their customers, direct debit comes with its own set of processing challenges and complexities. Ease these pain points and you can unlock the full potential of direct debit for your business.

1. High volumes

When you derive the bulk of your revenue from recurring payments, you'll probably process large numbers of direct debits every day, even if you're not a huge global company. More importantly, you may need to manage especially high volumes at peak times like the middle and end of the month, when billing cycles typically run.

A telco, for example, can process as many as 300 million transactions a year – and more than 15 million on the busiest days. It's critical, then, to consider scalability when you're choosing a solution provider.

2. Electronification and integration

Direct debit processing in Europe has seen a big leap forward from paper mandates to electronic signatures, which must now be seamlessly incorporated into payment cycles.

Most recently, request-to-pay schemes have added even more layers of possibility to electronic payment flows, with options for not only payment and non-payment but also partial payments and payment extensions. Your firm's ability to link these options to payment methods like direct debits is key to cash flow and customer care.

Managing direct debits also involves multiple systems, including accounting software and ERP solutions. Connecting direct debit processes with this ecosystem can be challenging and require ongoing support. Plus, many corporations run aging billing systems that can't always handle the specifics of direct debit processing.

3. Regional silos

Multi-entity corporations tend to manage direct debit processing at the operational entity level. With this siloed approach, corporate treasuries and finance teams will struggle to get a complete view of direct debit cash flows or control the processes that underpin them.

Today, it's more vital than ever to centralize workflows, control connectivity and resolve exceptions in a timely, consistent manner.

4. Varying formats

Compounding the complexity of direct debit processing is the fact that different banks, countries and ERP systems may present the payment data in slightly different ways. Just a stray comma or a missing hyphen could prevent one system from recognizing a direct debit generated by another and stop a payment in its tracks.

With the introduction of ISO 20022, the financial services industry is mandated to simplify and standardize payment formats. With end-to-end automation as the ultimate goal, there should be fewer errors or breaks in processes.

However, as companies will rarely run 100% on direct debits, it's important to take advantage of prebuilt format libraries.

5. Regulatory requirements

To process direct debits, you need to comply with a number of rules and regulations. These vary by region but all focus primarily on consumer protection and financial security.

In the EU, the SEPA Direct Debit Scheme ensures uniformity in cross-border transactions, with clear customer authorization requirements. In the U.S., the ACH network, overseen by NACHA, sets standards for secure and efficient processing.

Both of these frameworks demand transparency in transactions, requiring businesses to provide clear terms and conditions, meet strict dispute resolution protocols, notify customers of any changes to payment amounts – and give them the right to cancel direct debits altogether.

Furthermore, when SWIFT MT formats give way to the ISO 20022 standard in November 2025, there will be even greater consolidation of the message protocols being used on a global basis.

6. Multistep workflow

In combination, the regulatory and processing requirements of direct debits result in a number of steps (or "statuses") your systems need to go through to receive each payment.

From accepting direct debit files, checking for duplicates, verifying active mandates and enriching payment data to initiating payments, signoff, release and reconciliation, each status of the workflow is dependent on what comes before.

In other words, a lot can go wrong with a direct debit if you're not on top of the process. And for optimal cash flow, you can't afford to miss any opportunities to collect your payments on time.

Direct debit processing, the modern way

Today, the best, most reliable way to process direct debits throughout your enterprise – and solve all of the above challenges – is with FIS® Payment Hub.

As a modern, digital solution, Payment Hub allows you to efficiently move through the direct debit workflow for faster straight-through processing. And through automated reconciliation, it also provides instant alerts to exceptions.

In the world of direct debit, common exception types include refunds of both authorized and unauthorized collections, rejects, returns and reversals. Each has its own code that Payment Hub will recognize, flag up and process appropriately, so that collection processes complete accurately.

Above all, Payment Hub allows you to consolidate your various payment formats – as well as manage all of your direct debits – and standardize workflows in a single solution. Consequently, you'll not only improve speed and efficiency but also ensure a consistent approach to payment processing across all your business entities.

This complete picture of all your payments leads to greater control and visibility across the enterprise – and all without extra resources.

Plus, as a cloud-native microservice, Payment Hub's direct debit workflow scales elastically to the number of transactions you need to process. So, you'll always be able to manage peak volumes without overstretching your resources.

Isn't it time you processed direct debits the modern way?

HARNESS THE FULL POWER OF DIRECT DEBIT WITH FIS PAYMENT HUB

FIS Payment Hub helps your entire business automate, streamline and control the processing of direct debits, collect high volumes of regular payments with confidence and accuracy, and accelerate your cash inflows for less cost and risk.

GET IN TOUCH TO FIND OUT MORE.

About FIS

FIS is a financial technology company providing solutions to financial institutions, businesses, and developers. We unlock financial technology to the world across the money lifecycle underpinning the world's financial system. Our people are dedicated to advancing the way the world pays, banks and invests, by helping our clients to confidently run, grow, and protect their businesses. Our expertise comes from decades of experience helping financial institutions and businesses of all sizes adapt to meet the needs of their customers by harnessing where reliability meets innovation in financial technology. Headquartered in Jacksonville, Florida, FIS is a member of the Fortune 500® and the Standard & Poor's 500® Index. To learn more, visit FISglobal.com. Follow FIS on LinkedIn, Facebook and X.

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