

This response relates primarily to the imposition of Non-direct debit charge.

I respond from a position of professional involvement in the computer processing of payments, cash, cheque, bank credit, standing order, and direct debit. Before retiring as Principle Computer Officer, I worked for many years as a computer development officer in a large local authority. I was closely involved in cash posting systems, from General Rating in the 1970s to Poll Tax to Council Tax and Business Rates. Direct debits were an integrated part of both the Poll Tax system and its replacement Council Tax.

2.35 Impact on low income consumers. Not only are those on low incomes less likely to have a bank account but for those that do have a bank account there is a much greater risk in allowing direct debit. Should the funds not be there to meet a direct debit they will face not only a failed payment charge from the supplier but a charge from the bank for rejecting the direct debit and writing to tell them about it. This can be substantial and is a further reason for low income users being more likely to incur non-direct debit charges. Low income customers cannot afford the luxury of a current account with a buffer of spare cash for when the direct debits come in.

3.43 You say many low income consumers would lose out from the rebalancing. While this is literally true it is simplistic. If the rebalancing were done fairly and not used as an excuse for an overall rise, the rise in DD charges would be much less than the fall in Non DD charges as there are many more people paying by DD. Also if it were spread over the overall costs rather than the rental the effect on those attempting to economise would be even less. So while a slight majority of low income consumers may pay more the total amount paid by all low income consumers would be less. It should also be remembered that the number of low income consumers who pay by direct debit is heavily skewed by the financial pressure on them to accept direct debit. Not least in the case of BT, by the fact that the Monthly Payment Plan requires payment by direct debit.

3.49 "In fact many pensioners refused to believe that BT would consider a charge like this." This is part of the problem. Many older people still think of BT as the responsible arm of the public services it was years ago. They accept BT at face value and don't see the many scams it operates.

3.52 "Using the Post Office was attractive to many younger people as it was a transparent means of managing their finances. For many of the pensioners, this was how it had always been done." Not only do many low income people not trust banks but banks do not welcome them. When my authority proposed to pay housing benefit by cheque our bank forced us to think again. They did not want the great unbanked coming into their branch to cash their cheques and drive out the "nice middle class" profitable customers. We understood and accepted their concern and paid housing benefit by Post Office Giro.

3.72 "Consumers feel strongly that non-DD charges are unjustified and unfair. They either do not understand why these charges exist at all, or do not understand why they are as high as they are. They feel additional charges for

paying by cash or cheque penalise low income consumers who can least afford the extra amount.” It is not just additional charges for cash and cheque there are the same level of additional charge for paying by bank credit or internet banking which clearly do not have the same cash handling overhead. The real problem is the charge is seen as a penalty designed to force people to open their bank account to the supplier. This is an insult; I can’t be trusted to pay my debts. They are demanding access to my purse which second only in privacy terms to my sex. Someone poking around in my purse makes me feel defiled.

3.79 “In general we have found that charges can be largely accounted for by the suppliers’ own cost allocation figures. This involves a degree of supplier discretion as to what cost categories it is relevant to include. Both the level of costs incurred and the categories of costs included varied by supplier. This provides some explanation as to the variation in levels of non-DD charges observed.”

I read this as meaning the accountant has made it cost as much as the manager wanted it to cost. Allocate the costs to the areas you want to appear expensive.

3.80 An important factor here is the separation of Direct Debit and the grouping of all other payment methods together. If I separated all bank direct credits (Standing orders, direct credit using bank giro credit attached to the bill, and internet bank transfer) I could make a good case for these being even less costly than direct debit. Direct debit requires the supplier to maintain a record of customers bank account details, to produce files of debits for transmission to BACS, deal with failed debits. Processing direct credits requires only the automated processing of the direct credits received from the bank and the investigation of that minute number where the customer account number has been quoted incorrectly. When working on Council Tax my authority had no difficulty in processing direct credits automatically. The failure rate was lower than that of direct debits. Investigating failed Direct Debits, Changing bank account details, and answering queries was a far greater task relative to numbers than dealing with problems surrounding direct credits. This may have been in part because at that time many of our council tax payers were new to direct debit however it does give the lie to the claim that direct debit is significantly more cost effective than all other payment methods.

The claim that non Direct Debit customers are significantly more likely to be bad debtors is disingenuous. I am sure the companies can manufacture figures to show that bad debts are not recorded against accounts with DD method of payment but this means little.

- Any person getting into financial difficulties should as a first step cancel all direct debits so as to control all payments carefully and to avoid the bank charges and failed payment charges which result when a direct debit is rejected. So by the time they become a bad debtor they are no longer a DD payer.
- Any account where DD have been rejected more than once is likely to be removed from DD by the supplier even if the customer does not cancel his DD.

Any attempt to group customers as potential bad debtors and so place on them the burden of the bad debts of others is grossly unfair. It would be illegal

to do it on the basis that there were more women bad debtors than men bad debtors. It would be illegal to do it on the basis that there were more bad debtors in a particular ethnic group or religion. To do so on the basis of a choice to keep their bank account secure is equally invidious.

3.82 “In summary: in general suppliers use non-DD charges to recoup the additional costs they consider are incurred to service this group of consumers;”

I would say suppliers use non-DD charges to dragoon customers into their preferred method of payment.

The question then arises why do companies want customers to pay by direct debit?

Lower cost and simpler administration is the answer suppliers would give but this would not explain their objection to direct credit as explained above. I would suggest there is a less reputable and anti-competitive reason.

Companies know that customers taking positive action to pay their bill, whether by cash, cheque or direct credit are likely to look carefully at the detail of their bill. They are likely to notice the level of particular charges and to assess whether another option or another supplier would be less costly. Customers paying by direct debit are far more likely to simply note it's the phone bill again. Stick it on the side as it will be paid automatically. This leads to many DD customers not choosing their best options or not changing suppliers. This is, I would suggest, a major reason why companies of all types want customers to pay by direct debit.

3.84 “However, Ofcom does not believe it is appropriate to prevent suppliers from levying such charges as there are clearly additional costs involved in processing non-DD payments. There are good reasons for suppliers to seek to recover these costs from those who cause them to be incurred.”

If it is right for suppliers to recover the costs from those that cause them then it should be for each and every method of payment separately. It is not right to lump all non-DD payment methods together. Cash handling is more expensive than cheque which is in turn more expensive than direct credit.

Utility companies, gas, electric, phone and water operate in a privileged environment where customers have very limited options and competition, though real, is limited and distorted. While in a large and open market it is reasonable for companies to offer goods with restrictive options such as payment by DD only as there will be plenty of other alternatives, in the distorted market of utility suppliers with complex long term contracts customer choice is too constrained to allow a free market to determine these sort of restrictive options. Companies should be required to accept all forms of legal payment and any extra charges should be specific to proven extra cost for that payment method and be subject to strict audit. Charges designed to restrict customers choice and railroad them into Direct Debit like BT's non-DD surcharge should be disallowed.

Attempts to justify such charges by claiming they are a payment processing fee for a service provided by a different company (BT Payment Services Limited) are an artificial construct and cannot justify this absurd charge. Like any company BT have a legal duty to keep proper accounts including customer accounts. They have the legal duty to post payments to these accounts. If they choose to use an agent to perform these tasks for them they are acting as agents for BT not as agents for the customer.

It is the responsibility of BT to pay their agents not for the agent to charge the customer for the work they do for BT.

3.102 “We believe it is possible for consumers to take non-DD charges into account in their decision making, provided they are presented in a clear form”. But in BT’s case these charges were imposed on existing customers in a unilateral change of contract terms that disadvantaged the customer. I had a contract with BT which had no Non-DD surcharge. At some point they sneaked in a DD discount which did not affect my terms but did give advantages to one group of customers. Then last year they unilaterally changed the basis of my contract saying that if I didn’t change to DD I had to pay their agent (BT Payment Services Limited) for handling my internet payment. Initially they said this was the additional cost of handling my payment then they said this was partly to pay the cost of bad debts which were due to people like me who wouldn’t pay by DD. This is hardly something I could take into account when I joined BT.

3.104 “However where non-DD charges are not so obvious (and so not part of the headline price and essential bargain) competitive pressure will not act to constrain charges,” This is the case with non DD charges. All the companies advertise their lowest charges. Finding the other additions such as start up, Termination, or payment method charges can be difficult and very time consuming search on the internet, A particular problem for those not on broadband.

I just looked at BT offer on Phone services. It states – “If you’re currently with another provider for your line, calls or have cable, you could soon be enjoying free Weekend calls² – you only pay our standard line rental of £10.50 a month (with Direct Debit and paper-free billing)”. However there is no mention of the amount of the charge for non-DD. To get this I had to wade through screens of obscure terms and conditions where it was hidden the Terms and Conditions of a separate agreement with BT Payment Services Limited. This hardly leaves it as part of the Headline Price.

3.106 “Ofcom accepts that direct debit is a cheap way of automatically collecting payment.”

Internet banking properly administered is no dearer and can be cheaper see above. Any extra charges should be separate and fair for each method of payment not DD and NON-DD.

3.108. I agree with this.

3.110. Again this element if applied should be costed and applied to each method of payment separately. To remove this cost from DD payers while not separately looking at say debit to credit card accounts is clearly unfair.

3.115.” however, where prices are obvious (and so do form part of the headline price and the essential bargain) it is competition - not Ofcom - which will determine what the level of the charges are.”

Competition cannot do this if virtually all the companies collude if trying to force DD as method of payment. The separate charge where it exists cannot be a major decision factor unless other service levels and charges are substantially similar. Unlikely with a small cohort of providers.

3.119.” all marketing information should make the fact that an additional charge applies for payment methods other than direct debit, together with the level of that charge, immediately and easily apparent to consumers. We will consider this requirement is met where charges for direct debit and non-DD customers are

given equal prominence, otherwise we will consider on a case by case basis; and”
This sounds fine at first site but this cannot provide competition on these prices unless competitors prices are equally transparent and for similar services.

One further matter relates to Termination Charges. In the Orange Broadband agreement there is a clause:

11.12 Where BT or another Network Operator notifies us that you have requested them to transfer the Service(s) we may treat that as 30 days notice from you to terminate this Agreement. In those circumstances the Service(s) may cease straight away (in accordance with industry migration processes). You will have to pay any outstanding Charges including up to the end of the 30 day period or to the end of any applicable Minimum Period (whichever is the longer).

This results in a customer being charged for the service for at least 30 days usually more after the service is transferred to another supplier. BT may delay notifying the former operator for a considerable time after the service is transferred.

It may be said that the customer should give the supplier 30 days notice however the advice given on using a MAC code to transfer a broadband service is that you cannot tell the current supplier to terminate the service or the MAC code cannot be operated. You must issue the MAC code to the new supplier and wait for them to transfer the service. Even if you notify the former supplier at that point you end up paying for a double service for 30 days. This cost inhibits competition by adding to the cost of switching.