

## **Dealing with incoming BACS payments.**

Whilst we would all encourage the use of electronic means for making payments there are often reconciliation issues for the beneficiary. I have attached below some facts & figures together with best practices that you can utilise to make full use of current technology.

### **The background.**

Incoming BACS payments come from 3 main sources;

- 1. Your customers own BACS system (Direct Credit)**
- 2. Standing Orders**
- 3. Internet banking**

**Item 1** is likely to be used by mid to large businesses.

**Item 2** by a mixture of all customers

**Item 3** by individuals and small businesses

The banking industry is currently unable to accurately differentiate between **Items 2 & 3** for statistical purposes as the payment cycle is the same. The payer is debited on **working day 1** with the beneficiary normally receiving the monies on **working day 3**.

This differs with **Item 1** where debiting and crediting takes place **on the same day i.e. working day 3**. However, the payments need to be input 2 working days in advance of the payment date.

In view of the faster payments initiative in 2008 some banks now offer a 'same day' service for BACS payments with debiting and crediting taking place on Day 1.

This service will be rolled out to corporate customers (at a cost) in mid 2009. See my newsletter faster BACS payments.

**Remember also that your customer is likely to use one of these methods, rather than say accepting a Direct Debit, because they feel more 'in control' of the transaction.** If you want to encourage DD usage then you must be flexible regarding payment options.

### **The volumes.**

In the 7 years from 2000 to 2007 Direct Credits rose by about 21% from 885m to 1076m. This excludes Government payments. A significant proportion of this is likely to relate to internet payments

**It is therefore important to have a strategy for dealing with these internet payments.**

### **The payment.**

There are 3 key elements to the payment that you will be interested in;

- 📁 **The amount.** This will be obvious from your bank statement.
- 📄 **The sender.** This will appear in BACS Field 9 and is automatically shown on your bank statement.
- 📄 **The reference or invoice number.** This will appear in BACS Field 10 and is not automatically shown on your bank statement.
- 📄 **You should ask your bankers for 'two line narrative' on your bank statement which will then include 'field 10'.**

### **Communication with your customers.**

You cannot prevent your customers paying you directly into your bank account especially if you are attaching a bank giro credit as a possible payment solution. If you are encouraging payment by this method you should set a few 'ground rules'.

- 📁 Explain exactly what information you require including;
- 📄 The correct sort code and account number.
- 📄 The reference number or invoice number. You should state the 'make up' of this number i.e 2 alpha + 8 numeric and also indicate where on the bill or invoice this reference appears.
- 📄 Advise customers of your time scales for receipt of payments.
- 📄 Highlight any changes in your reference numbers or invoice giving your customer sufficient time to make any amendments.
- ⌚ Advise your customers **very clearly** that if they do not quote the correct details you cannot guarantee to apply the funds to their account.
- 📄 For business payments ensure that your customers send a remittance advice to a named person or position in your company.

### **Reconciliation.**

You should aim to identify payments immediately they are credited to your bank account. You should therefore consider an electronic link to your bank appropriate for the number of payments you expect to receive.

If you still cannot apply the payment speak to your bank as they may have more information regarding the payment.

If you need further help or advice then please contact me on;

📞 **01935 873843**  
✉️ [info@mintoconsultancy.co.uk](mailto:info@mintoconsultancy.co.uk)