

# Direct Debit- Meaning, Features & Advantages



## What is direct debit?

- Direct debit is a type of facility provided by the banks to make life easy for their customer.
- In direct debit, the payee has right to withdraw the fund due for payment from the account of the payer.
- It is a facility in which the payee withdraws the amount from the payer's account, the payer has instructed the bank to allow the payee directly withdraw the amount from the account.
- Direct debit is a simple and more convenient to both the parties for smooth transactions.
- Direct Debit is a financial activity in which one person withdraws funds from another person's bank account. Formally, the person who directly draws the funds ("the payee") instructs his or her bank

to collect (i.e., debit) an amount directly from another's ("the payer's") bank account designated by the payer and pay those funds into a bank account designated by the payee.

- A Direct Debit gives authority to someone to collect payments from your account when they are due.
- Once authorised, the organisation can automatically transfer payments from payer's to account to the payee's account.

## Meaning

Direct debit is a facility of payment by which the payee authorise their customer to draw the due fund directly from the bank account.

## Points to remember:

- It is also called pre-authorised debit, pre-authorised or Direct withdrawal payment.
- It is used for recurring payment i.e. various types of bills, credit card payments.
- It is also used for online transactions, the point of sale or mail order transactions.
- The payer can stop the transaction anytime by instructing bank.
- In direct debit, the payment varies from time to time.
- In direct debit, the frequency of payment changed from time to time.
- The administration fees are low.
- It is a fast process.
- On the failure of payment, the payee directly gets a notification.
- It is complex by nature.

## Advantages:

- You don't have to worry about remembering payment. So, it saves time and effort.
- No penalty for late payment.
- It is safe and secure.
- Some organisations give benefit by paying direct debit.
- If the bank has by mistake credited in someone else's account, the bank will pay back in your account.

## Disadvantages:

- The payee has to maintain a track record of direct debit payment.

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