

BACS: Very smart!

Why BACS provides the best
payment solution for UK SMEs

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The term 'BACS' has become synonymous with 'electronic payment', but what is the reality behind the name?

The great virtue of BACS is its total reliability. While PAYE in real time has brought BACS to everyone's attention, no one could accuse BACS of being too fashionable. BACS isn't the latest Vivienne Westwood, Alexander McQueen, Stella McCartney label catwalk creation; rather it's a Savile Row suit, utterly reliable, predictable and a global standard of quality. You choose the cloth and BACS will cut it accordingly. BACS is so big and successful - its economic significance is recognised in statute - that like good restaurant service we take it for granted. Annually BACS handles some 2.9 billion transactions, with a value of £4.3 trillion, almost 3 times UK GDP. The reasons why it's so often overlooked and why it offers the most sophisticated payment platform to UK business are worth a proper look. BACS is not quite what it seems.

All in the name

One of the reasons why awareness of BACS and its capabilities is not greater arises simply as a matter of definition. BACS's very success has seen it pass into language as an acronym for an electronic payment. To refer to a payment you are going to make by "BACS" is to indicate that it will be made electronically. Internet banking payments are all "BACS" payments even though technically this is not entirely correct. What BACS actually refers to is the clearance and payment mechanism for all

payment transactions between UK bank accounts, the network on which the banks themselves rely as well as individual consumers and businesses. The banks' own internet platforms, which are the banks' own creations, provide a user experience individual to the bank and simply provide the means for customers to instruct their bank – but for the bank to execute those same customer transactions, it has itself to pass them to the BACS network for clearance and settlement. For example, the payment reference field on all bank internet banking transactions shows more characters than it actually supports because the banks are constrained by the underlying BACS payment reference field which is 18 alpha numeric characters only.

Is it a "Hoover" or a vacuum cleaner?
Successful brands always become generic



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What is different therefore about BACS as a payment network is that it operates as a uniform standard that is independent of individual banks, subject to a much higher level of security and validates the origination of credit and debit payments as well as their settlement. At a practical level a business customer can access BACS directly without having to rely on its own bank to pass their instructions to BACS, giving a much higher level of control over its collections and payments.

BACS or "BACS"?

It is the uniformity of BACS standards that makes it so powerful; something the banks themselves don't always view favourably. The banks' preference for their own internet banking applications is understandable because it aids their customer retention. Where customers invest in integrating their systems directly with their bank's individual internet banking interface it is much harder for those customers to move their business to another bank without significant disruption to their internal business systems. Not so with BACS. Access to BACS doesn't change regardless of the customer's sponsoring bank.

In fact, since 2011, following the Vickers' banking reforms the unique BACS Service User Numbers that identify businesses that access BACS directly instead of relying exclusively on their banks for payment services, are – just like mobile phone numbers – completely portable, and can be transferred from one bank to another. Internet banking applications are just not interchangeable between banks in the same easy way.

So how does one access BACS directly and how to know if it's true BACS or "BACS"? Helpfully, the answer to both questions is the same. If a business has a 6 numerical digit BACS Service User Number or 'SUN' then it has the necessary permissions to submit its payment transactions directly to the BACS network and, by the same token, if there isn't a SUN, whatever you might have been told to the contrary, it isn't BACS, but some other "BACS" service. There are no exceptions.

The provisioning of a BACS SUN is always via the applicant's sponsoring bank, whether this is an individual wanting to pay their nanny via BACS or a business wanting to run its own payments and collections (by Direct Debit) via BACS, the process is the same. The customer has to apply via their bank for the allocation of a SUN, which is what uniquely identifies the customer and their funding (in the case of credit payments) or receiving bank account (for debit collections) and the application process for all the UK clearers is managed via the customer's bank relationship manager who has discretion as to the cost of an SUN application.

Direct versus indirect?

So far so good. This is where it starts to get interesting. Business BACS users can elect either to make credit payments via BACS or debit collections (Direct Debits) or both and in conjunction they must decide whether they wish to take responsibility themselves for submitting their own transactions directly to BACS or do so indirectly via an intermediary (such as CreDec). The former (debit or credit authorisation, or both) is subject to bank approval, the latter - how best to submit transactions - is a matter of customer choice. Generally speaking the costs of a business submitting their own transactions to BACS, requiring an investment in software, training and security infrastructure, makes direct access uneconomic for businesses that do not have very

The perception that BACS is expensive is incorrect - indirect access models can provide low cost solutions to businesses of all sizes

significant transaction volume. The indirect access model (via a partner like CreDec) however is accessible and cost effective for even the smallest SME businesses with negligible transaction items and volume.

Time and cost

The most distinctive feature of BACS payment services is that they operate on a 3 day payment cycle. Since 1 January 2012 when immediate (Faster Payments Service) became the default payment mechanism for UK payment instructions, unless instructed otherwise, electronic payments have become identical to cash payments. Hit the 'pay' button and it's gone! There is no means of cancelling or recalling the payment. Whereas the 3 day BACS cycle means that – while it shouldn't be relied on – items can be withdrawn up to day 2 of the cycle. Unlike Faster Payments, which check on the cleared balance necessary to fund the transaction at the time it is instructed, all BACS 3 day credit payments are guaranteed by the sponsoring bank even if on day 3, there are insufficient funds to cover the transaction in full. It's one of the reasons why the initial allocation of an SUN requires the specific sponsorship of the customer's bank.

And what about cost? The access model aside, the only usage costs are the bank charges the customer's bank imposes for settling each credit/debit item through the customer's account, which while subject to a different tariff are broadly identical to the equivalent bank charges raised via internet banking. In other words the usage charges for BACS transactions are cost neutral.

When the additional BACS access charges are taken into account (CreDec's access charges are lower than the banks charge the customer to clear each item), the additional protections, security and control afforded to customers become highly cost effective. For example, the cost of [RTI BACS hash](#) protected salary payments via BACS direct credit pales into insignificance when compared with HMRC's £100 penalty for each infraction of PAYE RTI reporting rules. The convenience of fully automated payments to accounts payable and the certainty of accounts receivable crediting your bank account on a known date, similarly deliver cost savings far in excess of the limited BACS access charges to secure them. Crucially, indirect access to BACS is a competitive market – ensuring the indirect access cost model remains low – which in turn ensures SMEs don't have to invest in their own BACS access infrastructure. In effect, businesses can access lower overall payment costs via BACS without the requirement to change their business bank.

Security assured

These commercial and business advantages are further enhanced by a much higher level of security and management information than is available from the banks' own internet banking based payment solutions. This is because, uniquely, BACS doesn't just audit users; it audits every individual transaction, so that the origination of payments, who instructed them and the date and time of their origination is also recorded and reported. It compares favourably with internet banking where perimeter access is secured but not the origination of transactions once inside. BACS delivers an audit trail, end to end, for the origination of every single item, its payment or collection and a set of management reporting for all payment activity, credits and debits, which is simply not available from the banks' own platforms.

The danger of course of being too fashionable – in payments as in everything else - is that leading edge fashions fade the fastest. BACS continues to deliver, effortlessly, the single most comprehensive domestic payment platform for UK business: PAYE salary payments with RTI hashes, automated accounts payable payments and automated direct debit collections at a lower cost than the banks charge to clear these items in or out of the bank account funding or receiving them. And that's the point: BACS is bi-directional, supporting the entire credit and debit activity of a UK business that alternative payment solutions just can't get close to.

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