

## **Industry Best Practice for Financial Institutions:**

### **Account Number Formats**

This industry best practice has been prepared to encourage the use of standard format account numbers and assist financial institutions that use non-standard format account numbers. It encourages practices that reduce the effort and cost that non-standard format account numbers can cause.

It is intended to be read by those in financial institutions who:

- Influence policy on their customers' account number formats;
- Develop communication strategies regarding customer account numbers;
- Manage external relationships with Bacs or other payment schemes.

### Definition of a Standard Format Account Number:

- a. A 6-digit sort code, which is published in the Industry Sorting Code Directory (ISCD) and Extended Industry Sorting Code Directory (EISCD); and
- b. An 8-digit account number, which can be used to identify its customers' account; and
- c. An account number constructed to support a modulus check. The modulus check algorithm is published in VocaLink's database, enabling payment initiators to perform checks. (See Appendix 1)

### Payment Initiator

For the purpose of this best practice, payment initiators are defined as a company, group of companies or charity etc. which initiate payment instructions, either as credits or Direct Debits.

**Note:** All three features need to be met for an account number to comply with the standard format.

This best practice applies to any customer account from which payments can be made and accepted inwards. These may include savings and loan accounts as well as those designed for use as payment accounts. This does not apply to accounts that can only be debited or credited by using internal transfers within the financial institution.

# Impact of Non-Standard Format Account Numbers

Problems may be encountered when a customer with a non-standard format account number is providing details of their account, for example, to set up a new Direct Debit or to arrange for the payment of state benefits into their account.

Incorrect account details can be provided, which result in payment failures, leading to:

- Damage to the relationship between the account holder and the payment initiator;
- Reluctance by some account holders to continue to use automated payments, preferring instead to use cheques or cash;
- Additional costs incurred to investigate and resolve failed payments;
- Delays in funds being received, which can be particularly significant where:
  - Direct Credits are used to pay state benefits;
  - Large-value payments are being made;
  - The commencement of a new service is dependent on the first payment being made under a Direct Debit instruction.

Some payment initiators invest in additional validation systems to try to prevent erroneous account numbers from being captured. This requires investment in time and resources. They can also take additional time to help the account holder determine the correct information that needs to be provided.

# Overview of Recommendations

## Section 3

Financial institutions that provide customers with non-standard format account numbers are encouraged to review their policies and procedures against the following recommended best practice:

**Recommendation 1:** When upgrading systems, adopt the standard format.

Or

**Recommendation 2:** Masking the account number.

In cases where short-term adoption of recommendations 1 or 2 is not appropriate, some or all of the others may apply:

**Recommendation 3:** Deriving a standard format account number from a customer's internal customer reference.

**Recommendation 4:** Publishing the modulus check.

**Recommendation 5:** Publishing the customer reference format when using collection accounts.

### Recommendation 1:

#### When upgrading systems, adopt the standard format:

Financial institutions are encouraged to use the standard format for their customers' account numbers.

Financial institutions that currently do not use the standard format for their customers' account numbers should take advantage of opportunities when upgrading their systems and procedures to comply with the standard format.

There can be a substantial cost to adapt systems and procedures to change the format for account numbers. Therefore, it is unlikely that changes will be introduced only to overcome the problems that are associated with the use of non-standard format account numbers. However, financial institutions may be able to take advantage of system enhancements, upgrades or replacements to move to standard account number formats so as to enhance their own efficiency and improve their customer service.

### Recommendation 2:

#### Masking the account number:

Changes to the format of account numbers need to be carefully managed to avoid customer confusion and a resulting increase in payment errors.

As an alternative to changing account numbers to the standard format, the financial institution can implement a 'masking' solution i.e.:

- The financial institution continues to use the non-standard format number for its internal processes;
- The account holder is issued with a new account number in the standard format, to be used for all payment instructions; and
- The financial institution implements a mapping system, to enable it to convert between the internal and external account numbers.

This only alleviates problems caused by non-standard format account numbers if all transactions and communications between the financial institution and the account holder use **only** the external account number. Experience from financial institutions that have changed account numbers indicates that it can take a significant period of time before customers become familiar with a new number. It is therefore essential to use all opportunities to reinforce its use. Customers should not be expected to be familiar with their internal number.

### Recommendation 3:

**Recommendation 3 is predominantly for institutions that use account numbers that can be converted to the standard format.**

Where a financial institution decides to defer implementation of either of the first two recommendations, the following is recommended best practice for those account numbers that can be converted to a 6-digit sort code and 8-digit account number.

#### Deriving a standard format account number from a customer's internal customer reference:

Some financial institutions use a customer reference for their internal processing from which a standard format account number can be derived for use in payment instructions.

- The financial institution should use the external, standard format version of the account number in all communications with its customers and payment initiators, and only use the internal reference number in its internal processes;
- The financial institution should not expect its customers, or payment initiators, to derive the standard format account number from the reference number;
- The external, standard format version of the account number should support modulus checking and the algorithm should be published in VocaLink's database. (See Appendix 1)

There are several formats that are used by financial institutions for internal customer references from which a standard format account number can be derived. The simplest example is to add leading zeros to a shorter account number to make it up to eight digits. Others can involve taking part of the customer reference and combining it with a separate sorting code.

Feedback indicates that problems arise unless the account holder is fully aware of the external, standard format account number and can easily find this information (e.g. from an account statement).

**Recommendation 4:**

**Recommendation 4 is predominantly for institutions that use account numbers that support a modulus check.**

The following is recommended best practice for those account numbers that can be modulus-checked, although the rules to perform this check are not currently listed in VocaLink's database.

**Publishing the modulus check:**

If the account number can be modulus checked, the financial institution should publish the sorting code, modulus algorithm and weighting table in VocaLink's database.

Modulus checks enable many errors that arise during data capture to be identified. Payment initiators can therefore resolve errors before submitting their payment instructions.

For further information on modulus checking and VocaLink's database, please see Appendix 1.

**Recommendation 5:**

**Recommendation 5 is predominantly for financial institutions that use collection accounts.**

Where a financial institution decides to defer implementation of either of the first two recommendations, the following is recommended best practice for those account numbers that **cannot** be converted to a 6-digit sort code and 8-digit account number.

**Publishing the customer reference format when using collection accounts:**

If a financial institution uses a collection account to which payments are sent, then originators of payment instructions have to include a customer reference (e.g. account number, roll number, etc) as well as the collection account's sorting code and account number. The financial institution should:

- Publish (through Bacs, if appropriate – see Appendix 2) the format of the customer reference and any validation rules that can be applied to it by originators of payment instructions;
- Ensure that its customers have easy access to the customer reference information and the collection account's details to use in a payment instruction.

## Recommendation 5: Cont.

The best practice concerns only customer references that identify customers' own accounts within a financial institution. Customer accounts, such as billing references for utility bills, which are not held by financial institutions, are not covered.

The collection account's sorting code and account number do not identify the individual account holder to which the payment instruction relates. The additional customer reference has to be supplied as well. Financial institutions use a variety of formats for the customer reference and these cannot be modulus checked. Therefore, it is helpful for payment initiators to know, at a minimum, the format that each financial institution uses.

It is equally important to ensure that customers are familiar with the information that they need to provide to payment initiators. This includes both the collection account sorting code and account number, and the customer's unique reference. The financial institution should ensure that this information is readily available to the customer and its location should be clearly explained, for example, on statements, in account-opening welcome packs, on pre-printed credit slips, on their websites and via helpdesks.

## Section 4 Cont.

### Appendix 1

For further information on modulus checking and VocaLink's database, please refer to [www.vocalink.com](http://www.vocalink.com)

### Appendix 2

Ensure details are included in the Bacs Guide: Crediting and debiting building society accounts - service user's guide. This guide is published annually by Bacs to assist Bacs service users to complete payment instructions correctly. For further information on the guide, and to arrange for details of your financial institution to be included in the guide, please visit [www.sortingcodes.co.uk](http://www.sortingcodes.co.uk) or email [bpsl@bacs.co.uk](mailto:bpsl@bacs.co.uk)

### **Periodic review by the financial institution of its use of non-standard format account numbers.**

The review should include:

- a. Any opportunities to move towards the use of standard format account numbers;**
- b. The extent to which these industry best practices are being followed.**

The financial institution should ensure that its customers understand the account number to be provided to payment initiators and also make this information readily available to them. The review should focus on how effectively this is being done.

Financial institutions that offer services to agency banks are encouraged to use this industry best practice to support their customers' consideration of account number formats and related practices. For example, it could be included as an agenda item in regular business reviews and influence the design of services that are offered to potential agency banks.