

PAYMENT SYSTEM VISION 2020 PROJECT
A Project Of The Central Bank Of Nigeria
CHEQUES AND ACH WORKING GROUP(CAWG)

NIGERIA UNIFORM BANK ACCOUNT NUMBER (NUBAN) PROPOSAL

1. INTRODUCTION

The Bankers Clearing House has witnessed an upsurge in the volume of ACH (automated direct credits) cleared through the system since February, 2009. This resulted from the directive of the Federal Government to the effect that all Ministries, Departments and Agencies of the Federal Government should replace all forms of cheque payments with electronic payments as from January 01, 2009.

As the ACH volume increased, so have complaints of banks and bank customers resulting from the incidents of abuse of the clearing system. Such of the complaints include:

- a) Delayed presentment of customers instructions in the clearing house
- b) Delayed application of inward ACH items by some banks
- c) Late Return of unapplied inward ACH items
- d) Application of inward ACH items to wrong accounts
- e) Bank customers quote account numbers wrongly

CAWG observed that many of these complaints are traceable to the non-uniform structure of bank account numbers among Nigerian banks. For instance most ACH beneficiaries quote their bank account numbers wrongly while providing such account numbers to their employers, in preparation for electronic means of salary payment. When this happens, both the employer and the presenting bank would not be able to validate such accounts before presenting such payment instructions through the Automated Clearing House.

A uniform account number structure scheme would enable both the employer and the presenting bank to validate account numbers and this would greatly reduce:

- a) The volume of items returned unapplied due to wrong account numbers;
- b) The incidence of posting to wrong account numbers, by the receiving bank;
- c) The incidence of delayed presentment of outward ACH items. Presently, most banks use days to cross-check, validate and correct account numbers before presenting ACH items through the Automated Clearing House;
- d) The incidence of delayed application of inward ACH items. Most banks expend a lot of energy and time to correct account numbers before uploading inward items just because their core banking applications work with too long bank account numbers.

We are of the opinion that if the Nigeria banking industry implements a Uniform Bank Account Number scheme, then many of the electronic payment problems we currently experience would be resolved and banks would experience reduced cost of operations and increased efficiency of ACH processing.

2. BEST PRACTICE

In the course of our study and deliberations, CAWG discovered that Uniform Bank Account Number scheme is best practice. For instance, the UK Payments Council published 'Industry Best Practice for Financial Institutions: Account Number Formats' on June 20, 2009. UK banks are required to implement the scheme. An extract from the document follows:

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.

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.

Also, we noted the ISO 13616-1 (Financial Services – International Bank Account Number IBAN) published by the International Organization for Standardisation (ISO) on 01/03/2007. This particular standard states that:

The use of electronic communication media and services internationally for the cross-border transmission of information and payment and payment-related transactions between financial institutions, as well as between financial institutions and their customers, continues to increase. In order to facilitate automated processes in support of straight through processing (STP) in this environment, ISO 13616 has been developed by ISO/TC 68/SC 7 as a means by which financial institutions and their customers can exchange, through interindustry electronic data interchange (EDI), customer account identification details in a machine-readable form. It also makes provision for validation of the information provided.

3. NUBAN ACCOUNT FORMAT

The proposed NUBAN is a 10-digit Bank Account Number format, with the following structure:

- 999999999 - Account Serial Number
- 9 - A Check Digit constructed to support a modulus check, which enables the presenting bank to perform checks. The Check Digit is derived from an algorithm that operates on a combination of the 3-digit CBN-assigned Bank Code and the 9-digit Account Serial Number.

Every bank is required to create and maintain a NUBAN code for every customer account (current, savings, etc) in its customer records database, and the NUBAN code should be the only Account Number to be used at all interfaces with a bank customer. **We expect every bank to maintain their present Account Numbers and use them for their internal operations only as from the effective date of NUBAN, but every such account number would have to be mapped to a NUBAN code as an Alternate Account Number.**

The bank customer should be provided with only the NUBAN code which he/she would use as a means of account identity at every interaction with the bank. The onus lies on the bank to map such NUBAN code supplied by the customer to the relevant internal account number within the bank's technology system.

A 10-digit account number is simple and can easily be managed by bank customers. NUBAN frees bank customers from the risk of quoting account numbers wrongly – a risk that is higher with account numbers of longer digits.

COMPLIANCE WITH WAMI PAYMENT SYSTEM STANDARDS

We note that a 10-digit NUBAN will make Nigeria fully comply with the 10-digit Account Number structure required by the West Africa Monetary Institute towards the economic integration of ECOWAS countries.

IMPACT OF NUBAN ON MICR CHEQUES

The Nigeria MICR Cheque Standards already prescribes a 10-digit account number in the MICR codeline of all cheques. This shows clearly that NUBAN is compliant with the Nigeria Cheque Standard, so banks will not have to change the physical features of the cheque, now or in the future. However banks would have to change the structure of the 10-digit account number in the codeline. NUBAN actually helps to streamline the account number of all other account types (Savings Account, etc.) to the 10-digit format which Current Accounts have enjoyed over the years.

4. USAGE OF NUBAN IN ACH OPERATIONS

The NUBAN shall be used in ACH operations as follows:

- a) Every payer shall obtain the 3-digit Bank Code and a 10-digit NUBAN code from the payee whenever ACH payments are to be set up;
- b) The Payer's bank shall ensure that all payee accounts supplied by the payer conform to NUBAN standards. The Payer shall validate the check digit (10th digit) of the NUBAN code of every electronic payment instruction, and only instructions with valid NUBAN codes shall be presented in the Automated Clearing House;
- c) The Receiving (Payee) Bank shall upload inward ACH payments based only on the NUBAN codes of each payment instruction; such upload program/software shall validate the check digit (10th digit) of the NUBAN code in the upload process. All inward items with invalid NUBAN codes shall be returned unapplied, and the receiving bank shall not make any manual effort to correct such records.
- d) The Account Number field in the MICR codeline of cheques shall contain only the NUBAN code.

5. PROPOSED IMPLEMENTATION STRATEGY

CAWG held consultations with three (3) major providers of Core Banking Applications in the Nigeria banking system to ascertain the feasibility of NUBAN and the feasible implementation modalities.

Based on the technical advice obtained, we recommend a period of six (6) months for banks to fully implement NUBAN.

6. CONCLUSION

Our studies have shown that our ACH experiences and issues in Nigeria are not different from the experiences of other countries with even more advanced electronic payment systems (see references). These countries have implemented or are implementing a uniform bank account number schemes at the national/international levels to resolve their respective ACH issues. We strongly believe that NUBAN will help resolve our present ACH issues in Nigeria in like manner.

ACH's volume is growing rapidly at the moment and we have reason to believe that more volume will come in the coming months, so we need to ensure that the ACH payment system is operated efficiently and with minimal abuse by everyone along the ACH value chain, within the shortest time possible. This is the only way the current momentum of electronic payment adoption could be sustained and increased, to the overall benefit of the Nigerian economy.

7. REFERENCES

- a) UK Payments Council, 'Industry Best Practice for Financial Institutions: Account Number Formats', June 20, 2009.
- b) ISO, 'ISO 13616-1 (Financial Services – International bank Account Number IBAN)' March 1, 2007.
- c) WAMI Payments System Standards

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