



White paper on use of IBAN in commercial payments

(Version 2.0, October 2014)

Note: Relevant regulations and any applicable legislation take precedence over the guidance notes issued by this body. These guidelines represent an industry's best effort to assist peers in the interpretation and implementation of the relevant topic(s). The PMPG - or any of its members - cannot be held responsible for any error in these guidelines or any consequence thereof.

1 Introduction

The Payments Market Practice Group (PMPG) is an independent body of payments subject matter experts from Asia Pacific, Europe and North America. The mission of the PMPG is to:

- take stock of payments market practices across regions,
- discuss, explain, and document market practice issues, including possible commercial impact,
- recommend market practices, covering end-to-end transactions,
- propose best practice, business responsibilities and rules, message flows, consistent implementation of ISO messaging standards and exception definitions,
- ensure publication of recommended best practices,
- recommend payments market practices in response to changing compliance requirements

The PMPG provides a truly global forum to drive better market practices which, together with correct use of standards, will help in achieving full STP and improved customer service.

2 What is an IBAN?

IBAN stands for International Bank Account Number. It is the ISO 13616 international standard for numbering bank accounts. Initially established in the European Union, it has been implemented by all SEPA (Single Euro Payments Area) countries and also in many other countries (for more details, please refer to section 8 of this document). In these countries, IBANs are assigned as the default account number to most customer accounts, irrespective of their currency. The IBAN facilitates the exchange of account identification and the End-to-End processing of payment instructions, since it reduces the risk of transcription errors due to the standardized structure and embedded check digits which allows a validation at source. Furthermore, the IBAN allows to identify the financial institution & country where the account is held which facilitates automated routing of the payment.

Note: This whitepaper will use the term "IBAN country" as a reference to all countries or communities that have adopted the IBAN standard as the primary & preferred (but not necessarily mandatory) identifier to define an account number.

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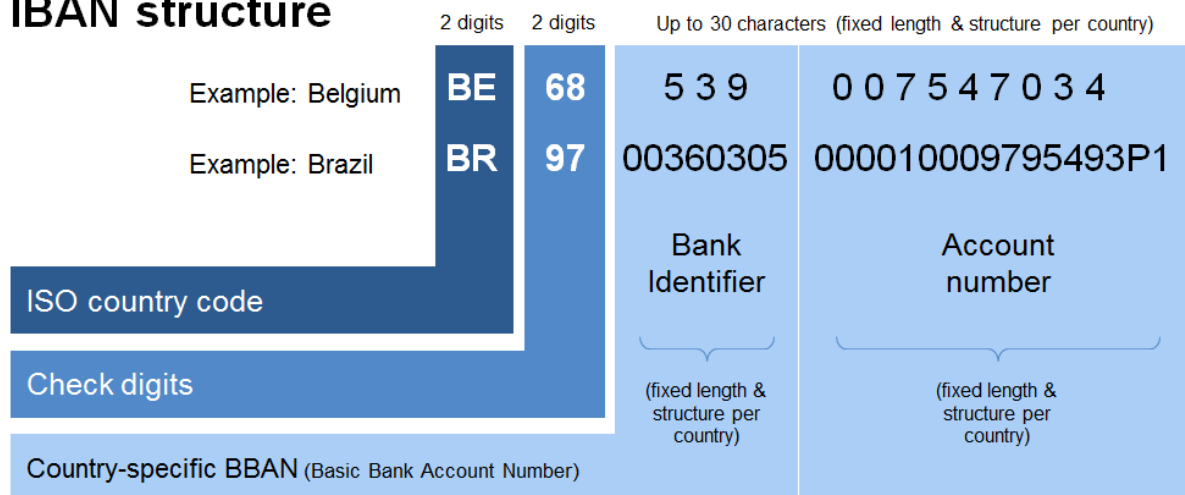
The IBAN is an **account number**. It is not a proprietary customer identification, invoice identification, deal identification, transaction identification etc...

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3 Structure of an IBAN

A country defines a uniform IBAN standard which is known to banks and providers of payment systems in other countries and which can be used when the data is captured to electronically check the key elements needed to decide the route a payment should take.

IBAN structure



The check digits are calculated using the method MOD-97-10 as per ISO/IEC 7064:2003 (click [here](#) for more information).

When printed on paper, the IBAN is split into blocks of four characters to ease readability. When transmitted electronically, the IBAN should not contain any spaces or other special characters.

Examples:

IBAN electronic format:

Belgium: BE68539007547034
Brazil: BR9700360305000010009795493P1

IBAN print format:

Belgium: BE68 5390 0754 7034
Brazil: BR97 0036 0305 0000 1000 9795 493P 1

In cases where the beneficiary customer does not provide an IBAN, it is technically possible and acceptable to generate the IBAN based on the national account number, account holding financial institution & country code.

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The IBAN allows formal validation at the entry of a payment thanks to the standardized format and check digit. The formal validation of the IBAN (check sum, structure, length, validation of bank identifier) should be part of all good payment software.

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4 Advantages of using IBAN for banks, corporations and individuals

The IBAN **simplifies** cross-border transactions by

- Assigning a unique account number format across the participating countries
- Providing a uniform appearance of the account number
- Making it easier to identify the country¹ and banking relationship of the account holder

The IBAN provides a **level of assurance** to trading partners

- That the account number can be validated at the entry of a payment thanks to the standardized format and check digit included with the IBAN
- That it can be validated against national and international payment directories

The IBAN helps to **lower transaction cost** by

- Allowing accounting and payment systems vendors to automate validation processes
- Reducing errors & investigations by allowing validation at source
- Supporting a higher level of automation in payment processing & routing

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An IBAN is used to identify customer accounts. An IBAN is not used to identify financial institution accounts in financial institution transfers.

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5 Why is the IBAN so important?

SEPA Credit Transfer and the SEPA Direct Debit

With the creation of the Single Euro Payments Area³ (SEPA), the IBAN has become the mandatory customer account identifier for all national and cross-border euro payments in the EU/EEA countries and Monaco, San Marino and Switzerland⁴. The IBAN has replaced the former national account number in the SEPA countries. Cross-border and national SEPA Credit Transfers and SEPA Direct Debits to any entity (individual or otherwise) require the IBAN of the ordering customer and the IBAN of the beneficiary customer to be correctly stated in the instruction.

Furthermore, with the implementation of the EU Regulation 260/2012 (SEPA Regulation), the rules for provision of the BIC have changed for payments being exchanged via SEPA schemes

¹ In certain countries (e.g. French Republic or United Kingdom), the country needs to be derived from the BIC of the Financial Institution holding the account identified by the IBAN and not from the IBAN itself

² With a few exceptions: the IBAN is used for financial institution accounts in Luxembourg and Israel.

³ Click [here](#) to access the European Payments Council's *An introduction to SEPA* video.

⁴ Click [here](#) for a complete list of SEPA countries.

in the SEPA Area. For SEPA Credit Transfers a PSP shall not require the originator to indicate the BIC of the beneficiary bank, but to base the routing on the IBAN. This is known as the 'IBAN Only Rule', and effective since February 2014 for national payments within the Eurozone countries, respectively effective after February 2016 for cross-border payments within SEPA (note – within the Interbank space, BICs will continue to be required and be mandatory on payment messages).

Commercial payments (MT103)

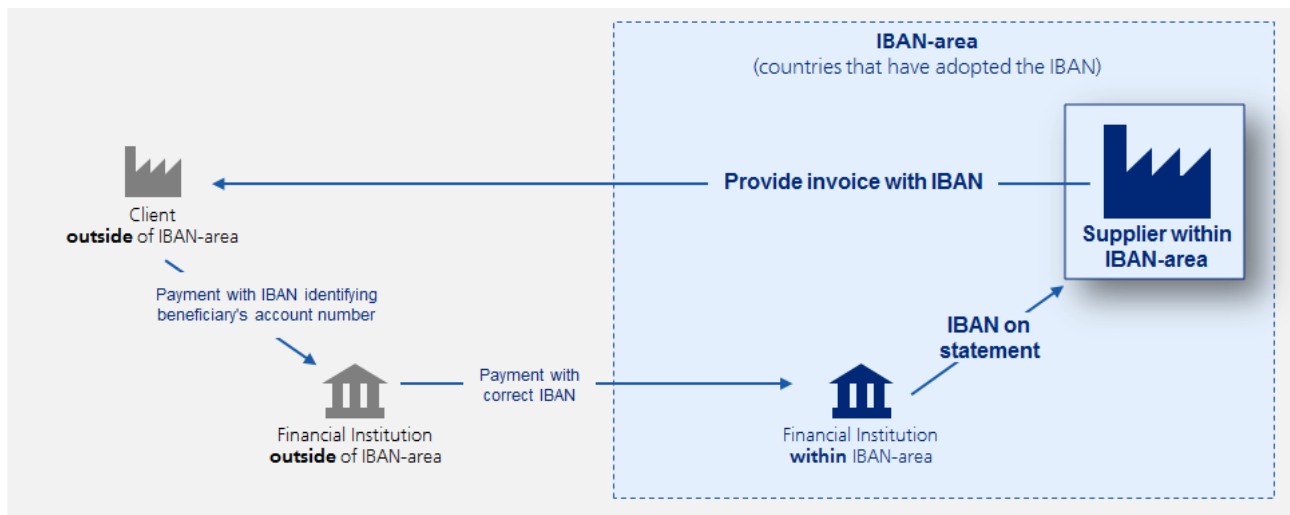
Besides the SEPA region, an increasing number of countries have been or are in the progress of implementing the IBAN and defining it as mandatory when identifying a customer account number. Missing or invalid IBANs on commercial payments to these countries may cause rejections or in some situations repairs which might ultimately result in higher transaction costs or delayed payment. There has been a joint effort by all parties, banks and corporations, to increase awareness around the use of the IBAN, so that efficiency in the execution of international payment transactions can be maximized.

6 Use of the IBAN

Role of suppliers located within an IBAN-country ⁵

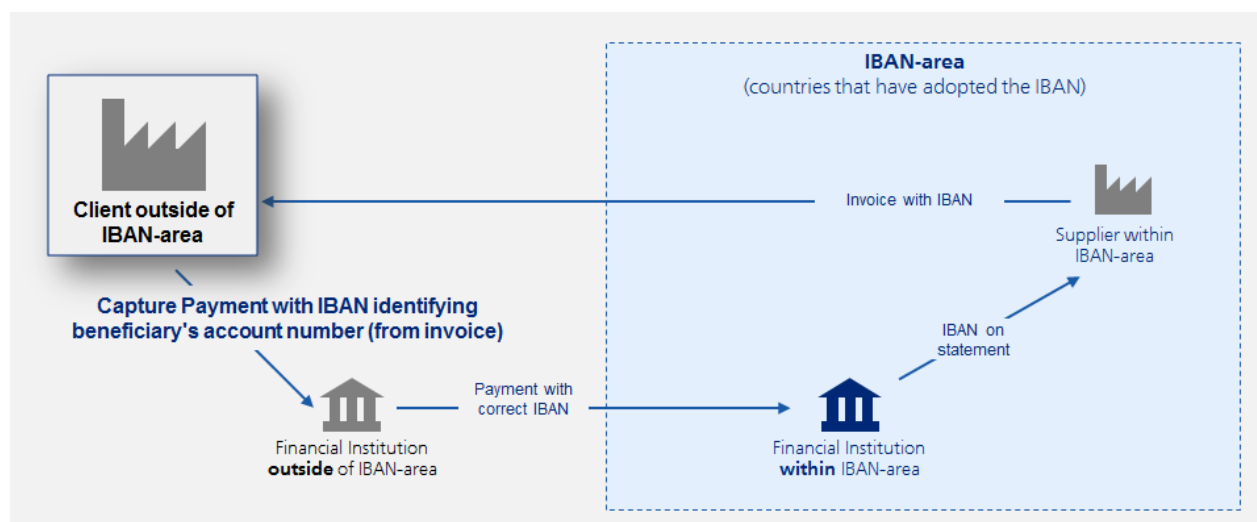
- You have received an IBAN from your bank, for each of your accounts. You will find it on your bank account statement
- You must clearly provide this IBAN to your counterparties, preceded by the four letter code 'IBAN' and preferably provide also the BIC (Business Identifier Code) of your payment service provider on all your invoices
- Note that parties domiciled in a non-IBAN country, to which you are providing goods and/or services, may have no knowledge of what an IBAN is. When they still find your national account number on your invoice, they will continue to direct payments to this account number, as they have done for years. Whilst the IBAN has become mandatory for payments into certain countries (e.g. SEPA), the recommendation is to remove your national account number from these invoices, or inform your client or trading counterparty that, going forward, you prefer it to use the IBAN as this will accelerate the payment and lower the cost for all parties
- Not all countries in the world have adopted the IBAN. Therefore, your payments going to countries where the IBAN is not implemented might not require an IBAN to identify the beneficiary customer account.

⁵ The term "IBAN-country" refers to countries that have adopted the IBAN as the preferred format (in certain countries even as the mandatory and only acceptable format) to identify customer accounts.



Role of clients located outside of an IBAN-country

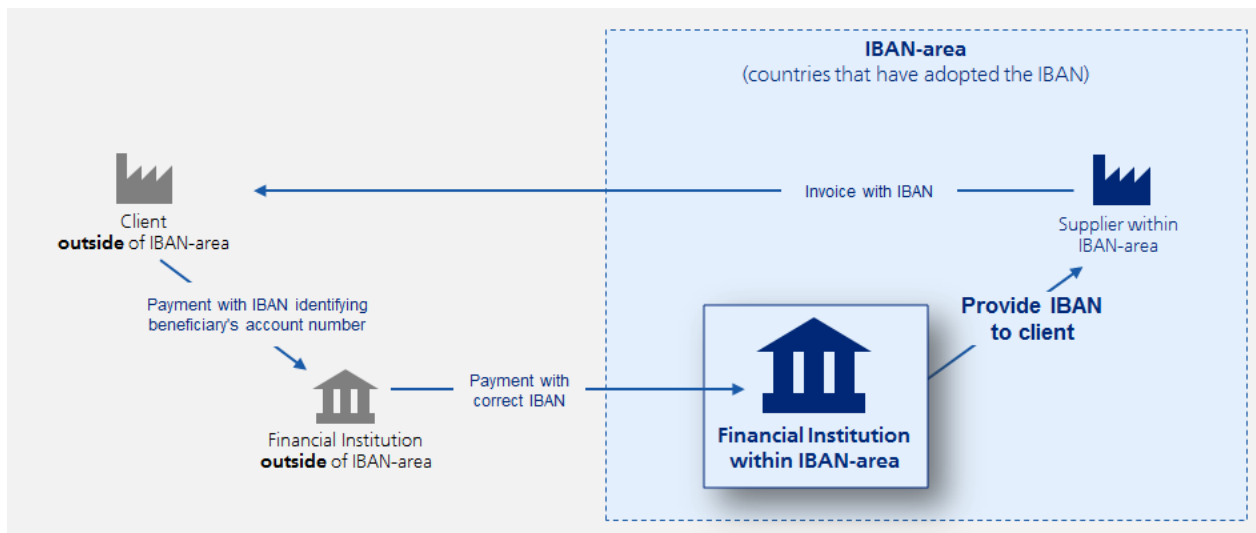
- The IBAN, preceded by the four letter code 'IBAN', is present on the invoice, together with the BIC (Business Identifier Code) of the related payment service provider
- Provide this IBAN as the beneficiary's account number in the payment instruction to your bank. The four letter code 'IBAN' should NOT be mentioned. The IBAN is not an identifier additional to the account number, it **is** the account number. Also provide the BIC to identify the account servicing institution
- The IBAN replaces the commonly known account number and is to be treated in exactly the same way
- Use of the IBAN instead of the national account number may result in faster and more efficient execution of the payment
- Your country may not have adopted the IBAN for your own bank accounts. Therefore, you might not be able to provide an IBAN to your trading partner for payments to you



7 Role of financial institutions

Role of financial institutions within an IBAN-country

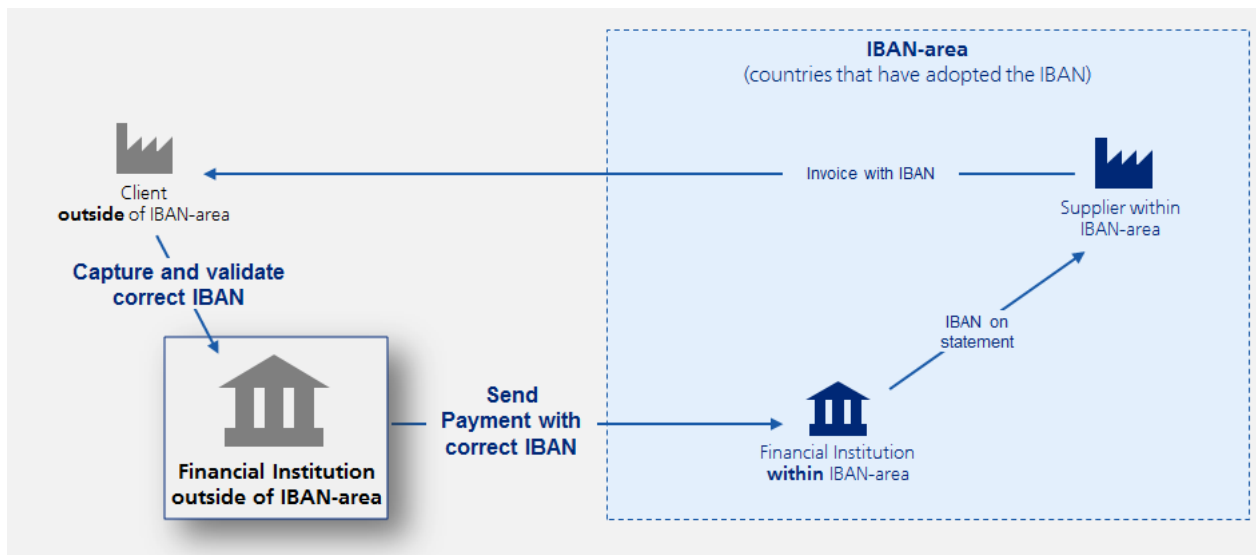
- Your customers should be informed about the importance of the correct use of the IBAN on their outgoing invoices
- You may deal with banks who are not aware of what an IBAN is. In this circumstance if you receive a payment with an incorrectly formatted IBAN or no IBAN, you may want to contact the originating bank. It will be up to the originating bank to ask their customer, the buyer, for a correct IBAN. They will find the IBAN on the invoice from their European supplier
- When receiving payment instructions for your customer, a valid IBAN may⁶ be present as the account number for the beneficiary customer (e.g. account number line in field 59 of the MT103; or the field "Creditor Account" in the pacs.008). If so, no other account number for the beneficiary should be present in any other field



Role of financial institutions outside of an IBAN-country

- The IBAN must be treated as a normal customer account number
- When capturing IBANs from your customers in your electronic banking applications, the validation of the check digit is extremely important. The sooner incorrect IBANs can be detected, the easier it is to correct them
- Your corporate customers should be informed about the importance of the correct use of the IBAN on their incoming invoices
- When receiving payment instructions from your customer for a supplier within the IBAN-area, a valid IBAN should be present as the account number for the beneficiary customer (i.e. account number line in field 59 of the MT103). If so, no other account number for the beneficiary should be present in any other field

⁶ In many IBAN-countries, the IBAN has become mandatory to identify a customer account number.



8 Useful links and more information

A copy of the ISO 13616 IBAN standard can be obtained through www.iso.org. SWIFT is assigned as registration authority (RA) for the IBAN. As RA, SWIFT publishes the [IBAN Registry](#) (in PDF and .txt format). This registry contains the technical specification of the national IBAN formats of those countries that adopted the IBAN. The IBAN Registry is available on www.swift.com (free of charge).

Several organizations provide tools that allow validation of the check digit within an IBAN and control the plausibility of an IBAN. One example is the UN/CEFACT TBG5 [IBAN validator](#).

Numerous financial institutions and bankers' associations publish detailed information on how IBANs can help with the automatic and efficient processing of international payment transactions.

The European Payments Council has published a video [The IBAN – Your new best friend](#) with subtitles in the European Union languages. Further information can be found under the following links:

www.IFSAOnline.org

http://ec.europa.eu/internal_market/payments/crossborder/index_en.htm

http://en.wikipedia.org/wiki/International_Bank_Account_Number

The ECB has made available on its website a list of national authorities in SEPA countries that issue bank identifiers used in IBANs:

<http://www.ecb.europa.eu/paym/retpaym/paymint/sepa/html/index.en.html>

This and other PMPG information is available on their website: www.pmpg.info

The PMPG can be contacted through the PMPG secretariat: info@pmpg.info