

P E R S P E C T I V E

## Bank Account Number Portability - A Perspective



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## 1. Background

Trust and service form the bedrock of the relationship between a bank and a customer. Besides these, other factors like pricing and convenience influence the customer's choice of banking service provider.

It is observed that customers are increasingly banking with multiple institutions for various reasons, ranging from deterioration in service extended by their current main bank to a change in professional and personal life circumstances.

While the majority of customers prefer to associate with a single bank so that they can leverage the relationship value to secure better pricing, and also for sheer convenience, they are forced to use multiple providers to satisfy their needs.

Against this backdrop, a facility, which allows customers to retain their existing bank account numbers when they change their bank, would make the switch easier. This is the principle underlying Bank Account Number Portability (BANP).

This thought paper is an attempt to understand BANP as a technology, its significance, business implications, implementation challenges etc. While BANP is a reality in some countries around the world, it is yet to catch up in others.

### Switching banks versus maintaining multiple banking relationships - Options available to customers

Customers switch banks not only when they feel that service has worsened or the bank's pricing policy lacks transparency, but also when there is a change in personal and professional circumstances, such as a change of residence or salary account. At other times, they switch banks in order to avail of better leveraging opportunities and promotional offers or a wider channel selection.

The switch can happen in two ways – by moving a current banking relationship to a new bank or starting a new relationship with it.

While customers have a wide selection of banks today, they must weigh the pros and cons of an alternative banking relationship with each institution before making a choice.

### 1.1 Change of bank

When customers terminate an existing banking relationship to open a new one with another bank, they need to consider the following:

- The process of replacing / updating in-bound and out-bound payment mandates issued to Banks / Financial Institutions / Government Departments/ Mutual Funds etc.
- The financial cost of terminating the relationship, which multiplies when bundled products held with the current bank need to be broken. But, most customers are not aware of the real cost of their existing banking relationships, and are therefore not in a position to compare costs correctly while switching.

### 1.2 Multiple Banking relationship

Rather than terminate their existing relationship, some customers prefer to start a new one at another bank especially when they have secured attractive terms on a bundled product, are unable to arrive at the cost of an isolated product offering, or when the cost of terminating the relationship is high.

Due to the above reasons, even after entering into a new relationship, customers hold on to their old banking relationships despite being dissatisfied with them, till such time that all obligations are discharged. The hassle of switching is a compounding factor.

Clearly, it is not optimal for customers to manage multiple relationships. If BANP becomes available, it will be much easier for customers to move their business to another bank.

## 2. Portability of services in Banks

Portability of services in banking refers to the extension of services to the customers of other banks. As ATM/POS networks grew, banks offered this facility – albeit limited – to improve convenience, and reduce the dependence of customers on the network of their main bank. Currently, a few services, such as balance enquiry, cash withdrawal, POS payments through ATMS and EDC machines, are portable. Portability of services differs from bank account number portability in that it involves extending a service without owning an account. Portability of banking services can be compared to the agreement between network operators to allow the other’s “roaming” customers to use their network.

## 3. Bank Account Number Portability (BANP) - Need of the moment

A mature service industry empowers customers to change service providers without inconvenience or loss; the goal should be to accord banking customers the same privilege through bank account number portability. Doing so will also boost competition in retail financial services markets and force banking players to continuously improve performance.

In some countries like India, regulators are expected to allow banks the freedom to determine the interest rate on savings accounts. If banks take this as an opportunity to roll out an array of structured saving products for different customer segments, it might create another point of differentiation and motivate customers to switch banks.

That being said, any measure to induce competition through switching will not be effective unless it is hassle free for customers.

## 4. BANP- How does it work?

The principle requirement of processing transactions with bank account number portability is to be able to identify the account number and the bank owning the account. Efforts have been made (especially in European & North American countries) to standardize the allocation of unique account numbers as a combination of bank and

branch code so that the account number itself indicates the bank and branch that own the account. This has made processing of payment transactions easy, as there is no need to specify the beneficiary bank details every time a payment instruction is processed. On the flip side, as the account number reflects the original bank and branch, any subsequent change requires a new account number reflecting the new bank and branch. The other problem is that this system will not work in countries where there is no standard pattern of account numbering and since it would take huge effort to regenerate / map all the existing numbers with the global standard pattern, it is unlikely that these countries would adopt it.

But in countries with standardized account numbering, the implementation of BANP calls for maintaining an up-to-date, centralized database of all bank account numbers and making it available to all banking institutions. A suitable clearing house agency must be entrusted with the management of this database, including attending to porting and de-porting requests from member banks.

In vast countries, such as India, the database could be partitioned by service/geographic areas, as defined by the regulator and scope of BANP implementation.

All the member banks would be required to have a local database - a real time replica of the central database (updated at a pre-determined frequency) - of ported bank account numbers to initiate porting and de-porting requests and to receive associated messages. Banks could also use the local database for internal queries/ operations, and therefore not have to rely on the central database.

The clearing house shall facilitate exchange of porting messages among participating banks, validate these messages, and notify all ported numbers and their associated routing information to the banks. Consequent to this, banks would have to either update or open the ported accounts in their Core Banking Solutions depending upon their role as old or new serving banks respectively.

#### 4.1 The stake holders involved in the process

**Customer:** The customer enjoying the banking relationship

**Donor Bank:** The first bank of the customer

**New Serving Bank:** The bank, which will serve the customer consequent to the porting request

**Old serving Bank:** The customer's bank prior to the porting request. For the first porting request, the donor and the old serving bank are obviously the same. They become different for subsequent porting requests.

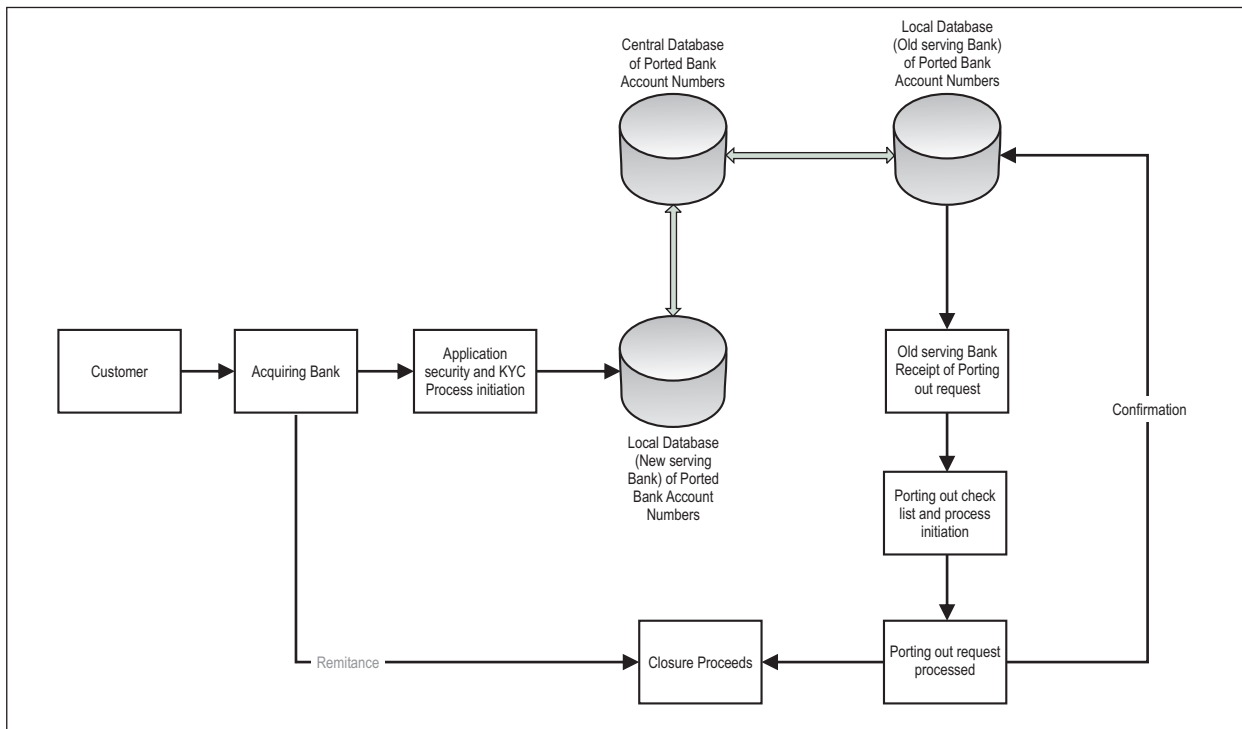
**Clearing House:** The agency, which owns the central database of ported bank account numbers, handles porting requests from member banks and advises them of porting results.

#### 4.2 BANP process flow

The customer initiates the bank account number portability service process with the new acquiring bank (In case the BANP request is initiated with the old serving bank, it might create some

hurdles in order to retain the customer). The new acquiring bank, after scrutinizing the application and ensuring KYC process compliance, initiates a porting request through its local database interface with the central database of bank account numbers. The new acquiring bank must check that there is no duplication of account numbers, because it is quite possible that different banks in different geographies have assigned the same number. The clearing agency, which owns the central database of ported bank account numbers, sends a porting out request to the old serving bank along with the customer's details. The old serving bank, after going through its closure checklist (to check for pending instruments, dues outstanding, if any, cancellation of ATM/ Debit card, interest calculation till date etc.,) closes/ marks the account as a 'ported out account' and remits the proceeds to the new acquiring bank with porting confirmation to the clearing agency.

The BANP process is outlined in the diagram below:



## 5. BANP impact on business processes

The most common debit instruments that customers use to raise a withdrawal demand are the ATM/Debit card and the cheque. Both are issued by the bank and are non-transferable. If the acquiring bank has to reissue a debit card and cheques to the customer, it would create administrative and procedural hurdles for all concerned. Ideally, the new bank must be able to process withdrawal demands raised by the customer using debit instruments issued by the old serving banker.

Business processes pertaining to certain banking transactions need to be changed in order to support seamless customer service after BANP implementation. We examine herewith the possible changes in business processes for across the counter and ATM/Debit card/payment transactions.

Proposed changes to business processes after the implementation of BANP:

### 5.1 Across the counter transactions

Major changes are not envisaged for business processes pertaining to across the counter transactions. Core banking solutions would need to identify the ported in and ported out account numbers. Most core banking solutions enable banks to classify accounts based on their status codes, which are bank definable.

### 5.2 Clearing transactions

Clearing is one of the operations, which will be impacted the most as a result of BANP implementation. The clearing process can be handled in any of the following ways:

- Extinguishing all unused cheque books and cheques already issued but not presented for payment before BANP takes effect, and treating cheques presented after BANP takes effect in the same way as inward cheques of a closed account. This appears to be impractical considering that customers would have issued a

number of Post Dated Cheques to service their loans.

- A framework wherein a presenting bank identifies the cheques drawn on ported account numbers from the outward lot, using the local database of ported numbers, and re-directs the demand to the new acquiring bank.
- In case of inbound and outbound electronic clearing settlements, payment mandates on ported account numbers are identified and the mandates re-directed to their respective new acquiring banks. Suitable interfaces (online or batch) to local ported account number databases - depending upon whether the payment system is of net or gross settlement type - are required.

### 5.3 ATM and Point of Sale Transactions

The ATM/Debit card is a common instrument of electronic payment and withdrawal. The card is the property of the issuing bank and is nontransferable. Once an account is ported to another bank, the customer has to apply to it for a new ATM/Debit card. To continue operations with the old ATM/Debit card would necessitate change of business processes at the payment switch level to redirect requests to the new serving bank, which would involve huge effort.

## 6. Bank Account Number Portability- Trends in global markets

Bank account number portability is already in place in regions such as Europe and Australia in different forms. In the United States, every bank account number indicates the bank and pin code of the branch owning the account. However, the mechanism to handle subsequent bank switches is still not in place. The account number has to be updated in all the direct debit obligations for routing payment requests to the new bank.

Europe has made significant progress in the implementation of customer mobility solutions. However, the methodology and framework differ across European countries.

Sweden has the 'Bankgiro' system, which is more of a number portability system than a bank account number portability system. A Bankgiro number – which is similar to an IBAN number – connects the bank and its account numbers. Customers need only mention their Bankgiro number for payment mandates, and the beneficiary bank directs the credit to the connected account.

In Sweden, while the Bankgiro number is portable, the underlying account number is not. So, when a customer switches his bank, he can retain the same Bankgiro number, but needs to open a fresh account with the new bank and link the Bankgiro number with the new account.

Although the Bankgiro works well in a country, which transacts mainly using electronic payments rather than physical instruments, it comes with some limitations.

The system can only be used for crediting (as opposed to debiting) accounts that are linked to only one payment system. Also, the Bankgiro system is currently only offered to corporate clients.

Other European countries also have customer mobility, although they use different methodologies and have achieved different levels of progress.

In the United Kingdom, BACS is a nonprofit membership based industry body owned by 15 banks, responsible for clearing and settlement of automated payments. It serves as the re-router of direct debits for ported accounts.

The old serving bank provides the new one with information on the customer's standing and debit mandate orders within three working days of receiving the request from the latter. The new serving bank then provides the same information to the customer for confirmation and activates all previous standing and debit orders. Now, the customer may close the account with the old bank. BACS then redirects all the customer's debit orders to the new bank. Although BACS does not provide true account number

portability, it enables the customer's debit orders to be serviced by the new bank.

In Europe, although portability of account numbers is yet to be achieved, it already exists for debit mandates, thereby freeing the customer of the hassle of closing mandates at the old bank and re-opening the mat the new one.

However, countries that still have a huge number of transactions happening over paper based clearing systems, must extend the above mechanism to cater to their clearing and settlements.

## 7. Prerequisites, business challenges for BANP

Before BANP is made available to customers, it is very important that the banking sector gear itself for its challenges and inherent risk-reward matrix. Some of the prerequisites of BANP implementation are outlined hereunder:

- Since many customers switch banks for convenience of location and transparent pricing, banks must neutralize these factors by offering efficient delivery channel services and better pricing information. They must equip themselves with adequate IT infrastructure to augment the capabilities of delivery channels and pricing engines.
- While on the subject of pricing transparency, it is very difficult for customers to ascertain the price of individual products that make up a product bundle. It is therefore necessary to regulate price disclosure by different banks, or set up an industry body that publishes the accurate price of various products.
- Some global payment types require accounts to be numbered according to IBAN standards. The impact of BANP on these payment systems needs to be studied.
- Banks must prepare to make changes to their Core Banking Solutions/ Legacy

Systems in order to support account number porting.

- The rollout of a centralized transactional banking platform is essential for BANP to work.
- Banking regulations may require changes, especially in the area of negotiable instruments (to cover situations when the drawee bank is different from the payee bank for cheques issued prior to a porting request).
- Payment settlement processes with respect to channels may also need changes.
- Few customers might switch banks repeatedly to escape the net of Anti Money Laundering regulation. In their eagerness to attract new customers, banks must not overlook due diligence at the time of onboarding. Accordingly, AML and Know Your Customer (KYC) regulations must provide clear directives on how to spot genuine switchers from those with vested motives.

#### Business Benefits

- BANP is expected to stimulate competition among banks and offer a potential upside to those maintaining consistency in customer service and transparency in pricing.
- It will provide an easy way to acquire profitable customers and let go of unprofitable accounts.
- It will give banks an opportunity to increase their share in saturated markets.

#### 7.1 Challenges

- BANP will enhance competition among banks to acquire customers and therefore increase the cost of acquisition and service.
- BANP could drive customers of banks with inadequate service and marketing to relatively stronger banks. Smaller and weaker banks will have

to focus on customer segmentation and product offerings to retain their customer base.

- With deregulation of savings account interest rates round the corner, banks will be forced to hike yields and absorb the higher overall cost of funds.
- Banks will need to provide for heavy initial investment and service costs to set up BANP IT infrastructure. They will also need to train staff on the changed business processes.
- There will be concerns around IT security and confidentiality of client information since the central database of ported numbers will be available to all member banks. Accordingly, appropriate access rights need to be defined.

#### 8. Conclusion

Banking experts across the globe are of the view that customer mobility will enhance competition in the retail banking space. Bank account number portability encourages banks to be more focused on customer service and most importantly, transparent in pricing. The customer should be free to choose a bank for its product, notwithstanding a pre-existing bundled product relationship with another bank. There is also a need for an efficient industry body, which compels banks to provide accurate information on pricing so that the customer can make a sound financial judgment before switching a banking relationship.

#### 9. References

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