

Routing Number Issue Overview

Remittance Coalition & X9 C2 Work Effort

The Routing Number

The American Bankers Association (ABA) devised the routing number in 1910 to identify the specific financial institution responsible for a payment of a negotiable instrument. The ABA Routing Number Administrative Board administers the policy and procedures associated with routing numbers. Accuity is the official registrar for the routing number and assigns routing numbers in accordance with the ABA Routing Number Administrative Board Routing Number Policy.

The routing number is sometimes called an ABA number, transit routing number or routing transit number. For purposes of this work effort, it shall be referred to simply as routing number (RN).

The RN identifies the financial institution responsible to pay or receive payment for a check or electronic transaction (e.g., wire transfer, ACH debit or credit, book-entry security, or similar transactions) and provides a reference to a designated presentment point for a transaction.

A regular RN may be issued to any financial institution eligible to maintain an account at a Federal Reserve Bank, a unit of the U.S. federal government, or a unit of a state government. Electronic Transaction Identifiers (ETIs) are special purpose routing numbers designated for use as electronic addresses of organizations that process payments on behalf of financial institutions. ETIs may be assigned by Accuity upon confirmation by a Federal Reserve Bank (FRB).

There are approximately 26,895 active RNs assigned currently; 98% of financial institutions maintain one RN.

Multiple Routing Numbers

All financial institutions eligible for a regular RN are entitled to at least one RN. A financial institution may hold multiple RNs for a single presentment point and may be assigned additional RNs for different presentment points.

For many institutions, holding multiple RNs provides an operational benefit to better manage payment processing and support risk management processes. Institutions eligible for multiple RNs may operationally designate certain products or business lines to specific RNs, for example, control disbursement products. Controls can then be placed on accepting payments that do not comply with internal designations, for example, rejecting incoming international payments by RNs established for domestic ACH transactions.

Institutions that outsource processing of ACH and/or wire processing would in some cases use an ETI of the payment processor as the RN for wire transfers or ACH payments.

Routing Number Problem Statement

Because financial institutions use multiple RNs and restrict acceptance of certain types of transactions to specific RNs, it is necessary to know the correct RN when changing the payment method.

For example, a corporation's bank and account number used for check payments may not be correct for ACH payments. A corporation attempting to convert their business-to-business payments from check to electronic must contact their trading partner to determine the correct RN and bank account. In some cases, the trading partner may be unaware that their bank uses an alternate RN for electronic payments.

Use of an incorrect RN results in the misrouting of transactions, rejections, or failure of electronic payment processing. These risk factors demonstrate the commercial consequences of multiple RNs that may not be understood by companies and individuals.

ABA Routing Number Administrative Board

A representative of the RNAB and Accuity clarified that

- It is not the role of the RNAB to define how a financial institution uses RNs it is assigned
- Changes to the policy in 2012 will allow each financial institution up to five separate RNs without the need to come before the RNAB for a policy exemption (the current policy allows two RNs).

Out of Scope

- **Retirement of routing numbers and associated issues.** Financial institutions may request the retirement of RNs when a financial institution is no longer eligible for a RN or has no further need for the RN. Although retired RNs are removed from electronic payment networks, a customer may retain a checkbook and legitimately use the outdated checks printed with a retired RN. Such checks would be processed by the Federal Reserve and presented to the surviving financial institution.
- **Other Financial Institution Identifiers & IBANs.** ABA RNs are not the only identifier used to identify financial institutions. Institutions connected to the SWIFT network are assigned a SWIFT identifier (BIC) that is included in a SWIFT message. CHIPS assigns a CHIPS identifier to all institutions connected to the CHIPS network. Internationally, many countries have adopted the International Bank Account Number (IBAN) standard, registering IBAN constructs that define the financial institution and bank account numbering schemes in use. For certain SEPA transactions, an IBAN is required.

Description of X9C Work Effort

Workgroup C2 will analyze the RN problem that results in misrouting of transactions, rejections, or failure of electronic payment processing and develop recommendations that facilitate a corporation being able to convert paper check payments written or received to electronic payments and supported by the automatic reconciliation of remittance information and payment data.

Stakeholders

Bankers, corporate treasury, and accounting practitioners, software suppliers, payment processors

Recommended Solution

Based on information from the ABA RNAB and Accuity, the RNAB will not provide solutions to problems related to the restriction of RNs by payment types. Therefore the recommendation to address the problem is:

- Provide corporate treasury with training and education to ensure that they consult with their financial institution before sharing routing number and account information with trading partners when they convert from paper checks to electronic payments

A secure directory of corporate bank RN and account information to facilitate B2B payments would assist in identifying a correct RN, but corporate treasury training and education would be necessary whether or not a secure directory was available. Thus, the recommendation is to provide training and education and, if other considerations become important, to pursue a directory.