METHODOLOGICAL GUIDELINES ON THE INTERNATIONAL BANK ACCOUNT NUMBER (IBAN)

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I. Introduction

The paper provides in-depth information on the nature, advantages of the international bank account number (IBAN), relevant international practice, the IBAN structure applied in Azerbaijan and steps of transition to the IBAN, as well as procedures for calculation and validation of IBAN check digits.

II. The goal of application of the IBAN

IBAN – is a bank account number created under the ISO 13616[1] set by the European Committee for Banking Standards (ECBS) and the International Organization for Standardization (ISO) provided by financial institutions to customers.

The goal of application of the IBAN to bank accounts in Azerbaijan is to unify bank accounts in banks, the national operator of postal communication that provides postal – financial services, the State Treasury Agency under the Ministry of Finance (hereinafter – financial institutions) based upon international standards.

III. Advantages of the IBAN

Advantages of application of the IBAN to bank account numbers are as follows:

1) Minimization of operational risks (human errors);
2) High STP ratios;
3) Low processing related operational cost;
4) Minimization of the risk of loss of funds;
5) Acceleration of delivery of payments to end-users.

IV. International practice

Currently 77 countries use the IBAN:

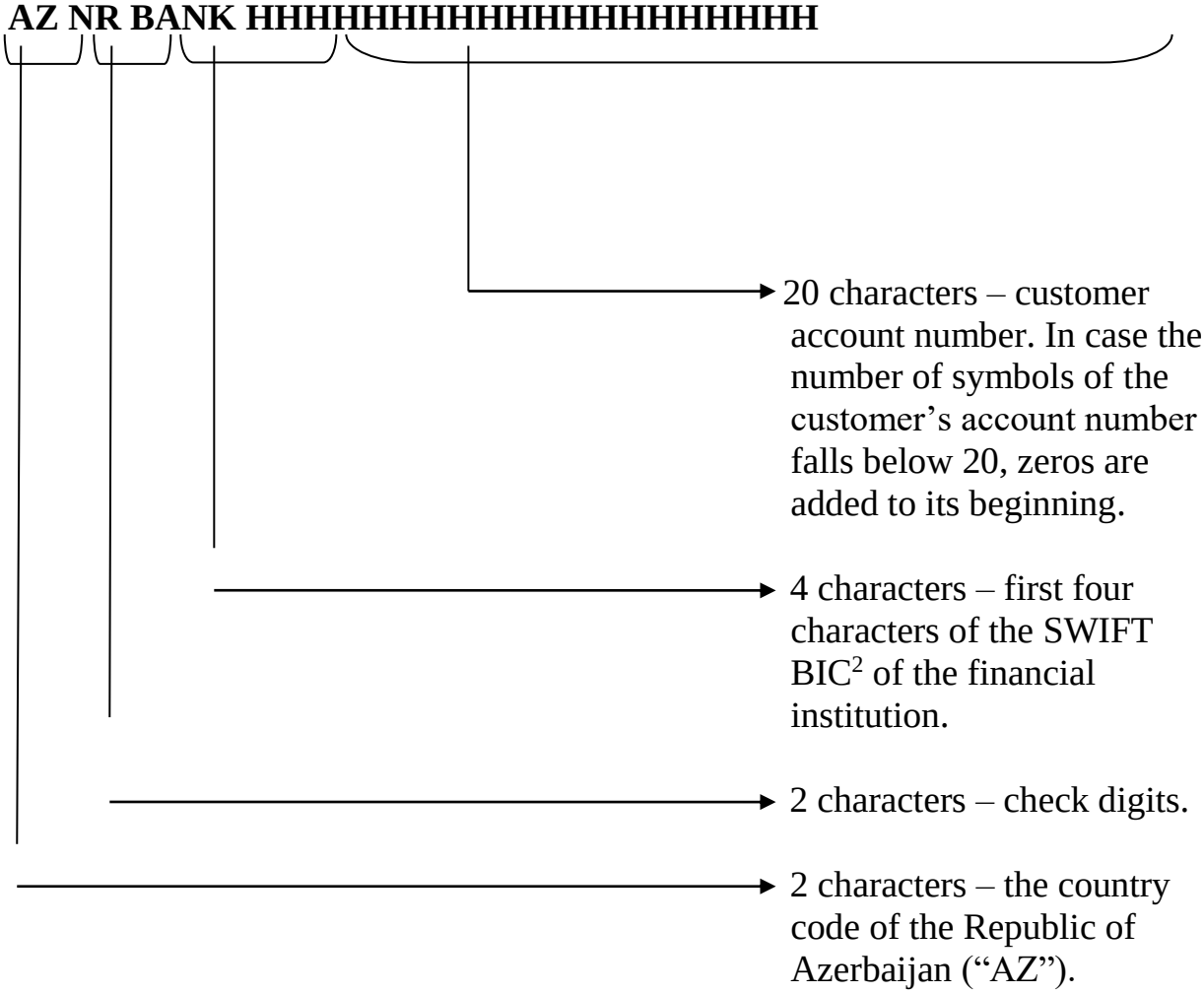
a) All EU countries;
b) Other countries – Norway, Iceland, Turkey, Saudi Arabia etc.;

[1] International Standard İSO 13616-2, Financial services — International bank account number (IBAN)

c) CIS countries – Azerbaijan, Georgia, Kazakhstan.

V. The IBAN structure applied in Azerbaijan

The IBAN structure consisting of 28 alphanumeric characters in Azerbaijan is as follows:



Financial institutions assign customer account numbers independently.

VI. Accounts with the IBAN in Azerbaijan

The IBAN is applied to all accounts involved in domestic and international interbank settlements. Financial institutions may apply the IBAN to their other accounts depending on their internal policies.

[2] The identification number issued to financial institutions by the Society for Worldwide Interbank Financial Telecommunications (SWIFT).

VII. Calculation and validation of IBAN's check digits

1. How to calculate IBAN's control digits

Initial step:

According to ISO 7064[3], to calculate IBAN's check digits with the MOD 97-10 method, the country code of the Republic of Azerbaijan ("AZ") is followed by two zeros ("00"), first four characters of the financial institution's SWIFT BIC and 20-character customer account number:

Sample: AZ00 NABZ 0000 0000 1370 1000 2944

Step 1

The IBAN's first four characters consisting of the country code and two zeros are put to its right:

Outcome: NABZ 0000 0000 1370 1000 2944 AZ**00**

Step 2

According to ISO 13616, under the 'Compliance table', letters used in the IBAN structure are replaced with numbers:

Outcome: 231011350000000013701000294410 35**00**

Compliance table

A = 10	**G = 16**	**M = 22**	**S = 28**	**Y = 34**
B = 11	**H = 17**	**N = 23**	**T = 29**	**Z = 35**
C = 12	**I = 18**	**O = 24**	**U = 30**	
D = 13	**J = 19**	**P = 25**	**V = 31**	
E = 14	**K = 20**	**Q = 26**	**W = 32**	
F = 15	**L = 21**	**R = 27**	**X = 33**	

[3] International Standard ISO/IEC 7064, Information technology — Security techniques — Check character systems

Step 3

According to ISO 7064, the outcome of Step 2 generated using the MOD 97-10 method is divided by 97 and the resulting balance is subtracted from 98. If the result is a single digit, zero is added to the beginning of the digit. The result of the given sample is AZ**84** NABZ 0000 00 00 1370 1000 2944, i.e. control digits equal to 84 and the IBAN is taken as follows:

Outcome: AZ84 NABZ 0000 0000 1370 1000 2944

2. How to validate IBAN's check digits

Initial step:

To validate IBAN's check digits under ISO 7064 with the MOD 97-10 method, as a preparatory step, empty spaces in the IBAN structure are deleted and initially, it is validated whether it starts with the characters "AZ" and its length is 28 characters:

Sample: the AZ84 NABZ 0000 0000 1370 1000 2944 IBAN format is switched to the AZ84NABZ00000000137010002944 format.

Step 1

First four characters of the IBAN (the country code and check digits) are put to its right:

Outcome: NABZ00000000137010002944AZ**84**

Step 2

Letters in the IBAN structure are replaced with numbers under the 'Compliance table':

Outcome: 2310113500000000137010002944103**84**

Step 3

The remainder generated by dividing the outcome of Step 2 by 97 (MOD 97-10 method) must equal to one. Otherwise, check digits are not correct.