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Joint Statement from Administrators of Iowa Code Chapter 527
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Compliance with Iowa Code Chapter 527

TO: IOWA-CHARTERED FINANCIAL INSTITUTIONS

Pursuant to Iowa Code section 527.2(2), the Superintendent of Banking and the Superintendent of Credit Unions are the joint administrators (“Administrators”) of Iowa’s Electronic Funds Act, Iowa Code chapter 527 (“Act”), which governs electronic funds transfers (“EFT”) in Iowa. The Administrators have received inquiries from several depository institutions regarding the applicability of the Act and the steps necessary to ensure compliance with the Act, particularly the Act’s requirements regarding routing EFT transactions and issuing access cards. The Administrators have therefore prepared this non-exhaustive summary of the scope and applicability of the Act.

1. GENERAL ROUTING REQUIREMENTS

The Act broadly governs EFT transactions in Iowa, and Iowa Code section 527.8 establishes the routing requirements for these transactions. Iowa Code section 527.8(1) requires all satellite terminals (i.e., ATMs or point-of-sale terminals) in Iowa to be “directly connected to either of the following: (1) [a] central routing unit approved pursuant to this chapter [or] (2) [a] data processing center which is directly connected to a central routing unit approved pursuant to this chapter.” Subsection 527.8(b) further requires that “[i]f a data processing center which is directly connected to a satellite terminal located in this state does not authorize or reject a transaction originated at that terminal, the transaction shall be immediately transmitted . . . to a central routing unit approved pursuant to this chapter” unless certain exceptions apply.

In short, the Act provides that all satellite terminals in Iowa must be connected to either a data processing center (“DPC”) or a central routing unit (“CRU”) approved by the Administrators. If a transaction is sent to a DPC and the DPC cannot authorize or reject the transaction, the DPC must route the transaction directly to an approved CRU. SHAZAM, Inc. is currently the only approved CRU. DPCs do not require prior authorization from the Administrators, and various firms serve as DPCs for Iowa financial institutions. Iowa financial institutions that establish satellite terminals in Iowa must therefore ensure that these terminals will route transactions to SHAZAM, Inc., the only approved CRU, whenever the financial institution’s chosen DPC is unable to authorize or reject a transaction.

2. ISSUING DEBIT CARDS TO IOWA CUSTOMERS

One of the Act's core principles is to ensure interoperability, thereby guaranteeing that an access card issued by a financial institution with an Iowa location to an Iowa customer will work at any ATM or point-of-sale terminal established in Iowa. The Administrators have long held that this requires card issuing financial institutions to ensure that access cards issued to Iowa customers are configured so that card transactions will route as required by the Act. Iowa financial institutions therefore must coordinate with SHAZAM, Inc., the only approved CRU, to ensure that the CRU may correctly receive and route EFT transactions involving access cards issued to Iowa customers.

3. SCOPE AND APPLICABILITY OF CHAPTER 527

The Act does not necessarily apply to all EFT transactions in Iowa. The Act defines a "customer asset account" as an account that a financial institution maintains "at a business location or office located in" Iowa. See Iowa Code section 527.2(6). The Act therefore applies only to access cards that enable access to accounts maintained at locations in Iowa. Iowa Code section 527.2(10) also provides that "limited-function terminal[s]," which are not operated in a manner to accept an electronic personal identifier (e.g., a PIN associated with a debit card), are not subject to the Act's routing requirements. Additionally, the administrative rules adopted by the Administrators to implement the Act, define a "transaction" as "each separate, identifiable financial function as authorized by Iowa Code chapter 527, performed at a satellite terminal . . . by a cardholder properly using an access device and an electronic personal identifier at the satellite terminal." See Iowa Administrative Rule 187-10.2; 189-24.2 (emphasis added).¹ The routing and other requirements of the Act therefore apply only to PIN-based EFT transactions. The Act does not require payments initiated through non-PIN based processes (e.g., tokenization or tap and go contactless payments) to route via SHAZAM, Inc., the only approved CRU.

Finally, a series of federal court cases has narrowed the applicability of the Act. Following these decisions, the Act's routing requirements do not apply to federally-chartered financial institutions or to Iowa-chartered financial institutions that obtain EFT services from federally-chartered financial institutions.

¹ The Act defines an "access device" to mean "a card, code, or other mechanism, or any combination thereof, that may be used by a customer for the purpose of initiating a transaction by means of a satellite terminal which will affect a customer asset account." Iowa Code section 527.2(1). The Act also defines an "electronic personal identifier" to mean "a personal and confidential code or other security mechanism which has been designated by a financial institution issuing an access device to a customer to serve as a supplemental means of access to a customer's account that may be used by the customer in conjunction with an access device for the purpose of initiating a transaction by means of a satellite terminal." Iowa Code section 527.2(8).