Annual Report 2009

The development of
Dutch payment products

Prelude to the European payment system

Contents

‘Currence’ is not an existing English word, but combines associations with ‘currency’ (in the sense of ‘money’) and ‘current’ (in the sense of both ‘present’ and ‘flow’) to suggest contemporary monetary flows. ‘Currence’ therefore stands for efficient, state-of-the-art electronic payment systems. As part of the word ‘concurrence’, it has connotations of co-operation. ‘Currence’ is also related to the term for ‘competition’ in several European languages, which is appropriate, given that one of Currence’s main objectives is to foster competition.

Currence profile

Currence is the owner of the Dutch uniform payment products PIN (debit card plus PIN code), Chipknip (electronic purse), Incasso (direct debit), Acceptgiro (giro collection forms) and iDEAL (online payments).

Currence's aim is to facilitate competition and increase transparency in uniform payment systems in the Netherlands, while maintaining high standards of quality, efficiency and security of the uniform payment products.

In dialogue with all interested parties, Currence sets objective rules for its payment products. It issues licences and certificates to established players in the market and new market entrants that comply with these rules and wish to offer Currence payment products in the market or to provide support services. To ensure the quality and security of its products, Currence supervises market parties' compliance with the rules and regulations. It also works closely with all interested parties to prevent fraud. Currence provides public information and brand promotion, based partly on market surveys, and positions its payment products as secure, convenient and efficient.

The payments market is a dynamic one. The pace of internationalisation and technological development is rapid and the new Dutch market model also allows potential new market entrants and innovative applications. Changing markets and customer requirements are what inform policy and the further development of Currence payment products.

Currence is an autonomous organisation with governance that ensures its independence. Currence was formed in 2005 as a result of an initiative by eight Dutch banks, prompted in part by the recommendations of the Wellink Commission in 2002 to promote greater transparency and competition in payments. The formation of Currence created a new market model in Dutch payments, in which product ownership and regulation are separated from transaction processing.

"Currence is owner of the uniform Dutch payment products. In its year of incorporation, 2005, Currence acquired the ownership of the PIN, Chipknip, Acceptgiro and Incasso products, iDEAL was added to the portfolio in 2006."

Organisation and key figures 2009

'There were 1.946 billion (+ 10.8%) PIN transactions in 2009'

Organisation and key figures 2009

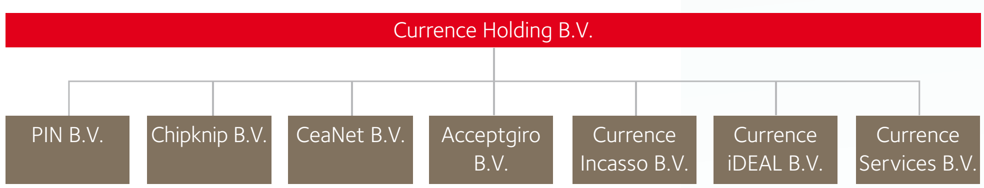
Board members

Executive Board:
Drs Piet M. Mallekoote

Supervisory Board:

Name	Born	Function	Appointed	Steps down
Drs Jaap Koning, Chairman	1943	Former Director of DNB	2005	2013
Udo Groen	1964	Board of ProRail NV	2006	2010
Drs Cees J. Beuving	1951	Former CEO of Fortis Bank Netherlands	2007	2011

Currence Holding B.V. and subsidiaries



Key figures

Number of transactions of payment products 2006 – 2009
(in millions)

	2006	2007	2008	2009	
PIN	1,451	1,588	1,756	1,946	(+ 10.8%)
Chipknip	164	175	176	177	(+ 0.5%)
Incasso	1,139	1,177	1,226	1,272	(+ 3.8%)
Acceptgiro	174	169	172	162	(– 5.6%)
iDEAL	4	15	28	45	(+ 62.9%)
Total	2,932	3,124	3,358	3,602	

PIN and Chipknip Licensees and Certificate Holders

Institutions	2008	2009
PIN Licensees	30	25
Chipknip Licensees	27	23
Acquiring Processor PIN	2	2
Acquiring Processor Chipknip	1	1
Issuing Processor PIN	3	3
Issuing Processor Chipknip	3	3
PIN Terminal Suppliers	10	10
Chipknip Terminal Suppliers	14	14
PIN Data Communications Providers	22	25
Chipknip Data Communications Providers	21	24
Card Suppliers, Personalisers and Destroyers	6	6
Acceptant Payment Service Providers PIN	8	8
Acceptant Payment Service Providers Chipknip	–	2
Switch	1	1
Clearing House	1	1

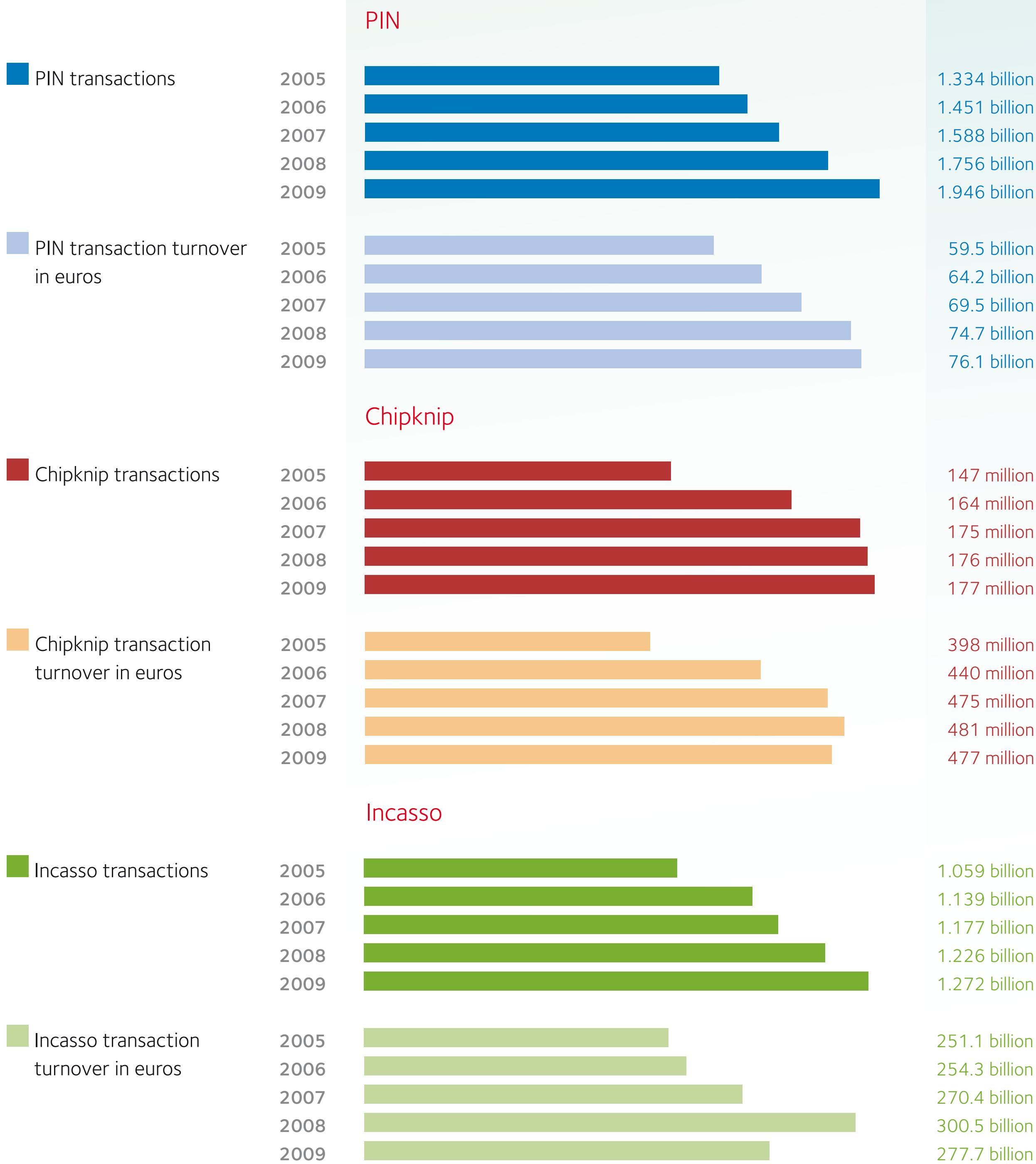
Acceptgiro and Incasso Licensees and Certificate Holders

Institutions	2008	2009
Acceptgiro Licensees	41	39
Incasso Licensees	53	50
Acceptgiro Debit Processors	6	4
Incasso Debit Processors	2	2
Acceptgiro Credit Processors	3	3
Incasso Credit Processors	2	2
Acceptgiro Clearing Houses	2	2
Incasso Clearing Houses	1	1
Acceptgiro Printers	45	45
Acceptgiro Service Bureaus	365	376

iDEAL Licensees and Certificate Holders

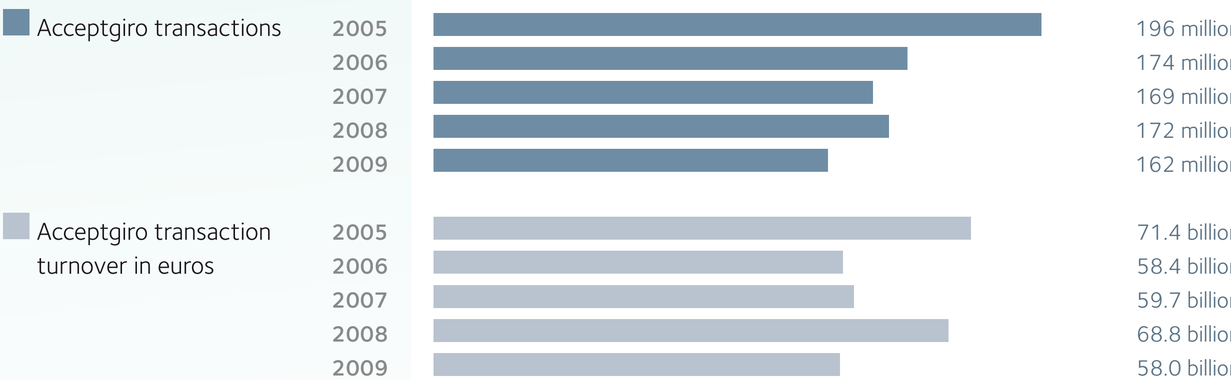
Institutions	2008	2009
iDEAL Licensees	6	8
iDEAL Certificate Holders	–	15

Organisation and key figures 2009



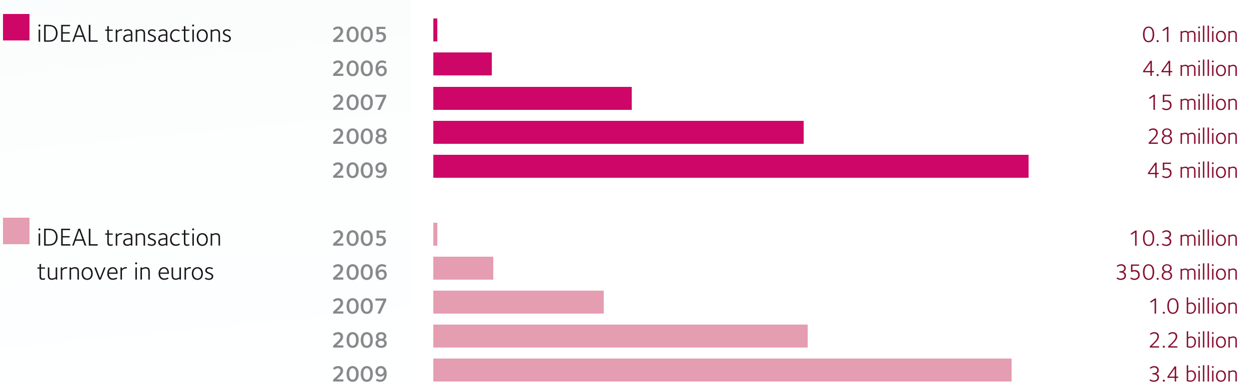
Note: 2005 based on Currence estimates

Acceptgiro



Note: 2005 based on Currence estimates

iDEAL



Note: 2005 based on Currence estimates

Annual Report

Statement from the Supervisory Board

Procedure

The Supervisory Board advises the Executive Board and monitors its policy in the interest of the company and the individual payment-product companies. The Supervisory Board takes account of the interests of all stakeholders in this regard. The Supervisory Board endorses the importance of the continuous development of Currence and its autonomous role in the market model.

The Supervisory Board met on five occasions in 2009. During its meetings, the Supervisory Board paid special attention to the future of Currence products, specifically in the light of the developments surrounding SEPA (Single Euro Payments Area). The Supervisory Board met again this year, in the absence of the Executive Board, to review its own performance in 2009, as well as that of the Executive Board.

In 2009, Currence expanded its position both as product owner and as service provider for the payment system sector, by setting up a project management office for the introduction of the chip technology for electronic payments (EMV) in the Netherlands, among other projects.

In the coming years, some of the national payment products will gradually be replaced by European payment products. Also in this context, the Supervisory Board endorses the aim of Currence, the banks and the Dutch Banking Association [Nederlandse Vereniging van Banken – NVB] to accomplish a more efficiently organised payment structure in the Netherlands, possibly bundling the knowledge and skills of Currence and part of the NVB. Discussions on this matter commenced early this year.

The Supervisory Board would like to express its appreciation for the performance of the Executive Board and staff.

Currence Annual Account

We hereby present to the General Shareholders Meeting the company's Annual Report and Account for the financial year 1 January 2009 to 31 December 2009 inclusive.

The Annual Account was prepared by the Executive Board and, once audited by KPMG Accountants N.V., discussed by us with the Executive Board.

We ask the General Stakeholders Meeting to adopt the Annual Account in accordance with the Executive Board's proposal.

In accordance with the Executive Board's proposal and on the basis of the provisions of the Articles of Association, we recommend that the result after tax (excluding participating interests amounting to € 10,000) be placed at the disposal of the company for allocation to the other reserves.

A further proposal to the General Shareholders Meeting is that the dividend of € 2,664,000 distributed by the product-specific companies be added to the relevant dividend reserves and subsequently paid out. It was also proposed to the General Shareholders Meeting that a portion of the liquid assets of PIN B.V. (€ 5,000,000), originating from the depreciation of the trademark rights that they had introduced at one time, should be disbursed to the shareholders.

We request that the shareholders ratify the Executive Board's conduct of the company's affairs, as well as the supervision exercised by our Board during 2009.

Amsterdam, 20 April 2010

On behalf of the Supervisory Board,
Jaap Koning, Chairman

Report from the Executive Board

In 2009, Dutch consumers paid by PIN on a very large scale, with the number of PIN payments reaching a record of nearly two billion in 2009. Smaller amounts are increasingly paid by PIN as opposed to cash. The PIN brand is expected to disappear at the end of 2011, when all electronic payments will be made with the chip on the debit card. The number of iDEAL payments rose spectacularly again in 2009. The success of iDEAL has not gone unnoticed abroad, although this did not lead any banks in other countries to adopt the system in 2009.

European developments

European Directive uniform legal basis for SEPA.

The harmonisation of payment systems in Europe was again high on the agenda in 2009. The European Directive on Payment Services coming into force on 1 November was an important step towards the harmonisation of payment systems in Europe. This directive, which is embedded in the national legislation of all European countries, creates a harmonised legal framework for consumer protection, market transparency and access to the payment market. In this context, a new category of payment service providers was introduced that, subject to certain conditions, may offer payment products and services on the market, thereby promoting competition.

The harmonisation of payment systems to a Single Euro Payments Area (SEPA) will eventually result in the replacement of nearly all national payment products by European versions. This will enable fast and efficient payments throughout the euro area.

SEPA operational, but...

The European banking community had already introduced SEPA Credit Transfer in 2008. Most banks in Europe have provided this product from the start, although the actual use of it remained very limited in 2009. At the end of 2009, 6% of all credit transfers in the euro area were completed using the SEPA Credit Transfer (end 2008: 2%). As of November 2009, the SEPA direct debit is available as payment product enabling both national and cross-border direct debits. On the grounds of a European Regulation, it has been determined that banks that currently provide direct debit products must be able to process SEPA direct debits from their accounts by 1 November 2010.

...replacement of national products by European ones is slow...

Dutch banks will increasingly provide European payment products, at present in addition to the national products. In the long term, the national products will be completely replaced by the European alternatives. The migration will demand considerable adjustments from all parties, in legal, operational and often commercial respects. The fruits of this migration will be reaped only in the long term, as a result of the economies of scale generated by a harmonised European payment landscape. A final date for national products could make the positive effects of the SEPA migration become visible sooner. However, determining the (socially) optimum length of the dual period, during which both products are in use, is complex. On the one hand, the end users must experience sufficient market incentives and have enough time

...as there is no end date.

to implement the necessary modifications. On the other hand, the migration must not be delayed for too long. In that case, the harmonisation of European payments would be at risk of becoming a dead letter, while the costs for banks and businesses would rise, due to the double systems. This would eventually damage the payment systems in several ways. In this respect, the European Parliament recently adopted a resolution calling on the European Commission to provide clarity soon about a final date.

No European card brand yet.

In terms of card transactions, the market players made little progress towards realising the ambitions of the European authorities to set up a European payment brand in addition to the established international ones. Increases in the number of large European banks opting for an international payment brand will make it more difficult to realise a critical mass for a European initiative. Some progress has been made with regard to the standardisation of payment chain components. However, there is still a long way to go before market players will be able to change providers or equipment within European infrastructures without making additional investments. In relative terms, the most progress seems to be occurring in the certification of payment terminals according to European security requirements, whereby a terminal, once certified, can also be used in other countries. It seems that the differences between the functional capabilities of the various terminals will persist for the time being, connected to local applications.

Different views on online payments for online purchases.

European developments in the field of online payment for online purchases were disappointing. European banks, associated in the European Payment Council, have adopted the objective to develop an interoperability framework for 'e-Payments', which aims to interconnect several e-payment systems in different SEPA countries. The European Central Bank and the European umbrella organisation of web retailers fear that this will result in a patchwork of systems for online payment for online purchases. They have expressed their preference in this respect for a single uniform European system, naming iDEAL as an example. It was not possible to settle this debate in 2009.

National developments

The European developments set out above did not yet have any visible effects on the use of the national payment products. In 2009, consumers once again paid by PIN on a very large scale. With a growth of nearly 11%, nearly two billion PIN payments were effected in 2009 – an absolute record. Once again, the use of iDEAL grew spectacularly, reaching a new milestone of 45 million transactions (2008: 28 million). The annual growth trend of approximately 4% for Incasso (direct debit) continued, whereas payment by Acceptgiro, following a brief revival in 2008, declined further (- 6%). The use of the electronic purse (Chipknip) remained fairly stable.

Transactions using the Dutch PIN brand will not be around for much longer. In line with European agreements to halt skimming, it is essential that the magnetic strip on the debit cards currently used for PIN payments be replaced by a chip as soon as possible. In this context, Currence amended the PIN regulations at the end of 2008 to accelerate the implementation of the EMV chip technology. In the course of 2009, individual licensees (together comprising a large majority) informed the Currence management that they would be switching to EMV only for international payment brands and not for the PIN brand. In this respect, they each decided that they would cancel their PIN licence the moment they implemented EMV. Although the option of co-branding (displaying the national logo on the debit card in combination with an international logo for cross-border payments) was long considered a serious (interim) solution, pending more choices between established European payment brands, the banks made a different decision at the beginning of 2009, for strategic reasons. The future viability of PIN will consequently cease. The full switchover of the Dutch infrastructure to EMV, which will apparently take place by the end of 2011 at the latest, will thus mark the end of PIN.

PIN discontinued as of 2012.

Nothing to this effect was yet noticeable in 2009, as the magnetic strip on the debit card is still widely used for PIN payments. Because of the advertising campaign involving the slogan 'Small amount? Use your PIN card!' [Klein bedrag? PINnen mag!], which encourages customers to use their PIN card to pay for smaller purchases as well, the number of electronic payments of less than ten euros rose significantly. For several years, electronic payments have therefore increasingly replaced cash payments. Rough calculations indicate that some 500 million cash payments were replaced by PIN transactions in the past five years. As the social cost of cash payments is considerably higher than the cost of electronic payments, this substitution generates social cost savings of approximately 50 million euros a year (as compared to 2004). This does not actually equate to a cost reduction in absolute terms, as the costs of other factors increase annually.

Replacing cash by PIN will save € 50 million a year.

iDEAL extremely successful...

There was another spectacular increase in the number of iDEAL transactions. In its short existence, the market share of the competing banks that use iDEAL has risen to approximately 50%. More than 15,000 web retailers offer iDEAL as a method of payment, and 53% of consumers prefer to pay for their online purchases with iDEAL. The brand recognition of iDEAL continued to rise in 2009 and is now high. There are no such systems in any other countries, with the exception of Germany and Austria, and the number of transactions effected in these countries is significantly lower. In the year under review, however, the increased international interest in iDEAL as an example of successful innovation in online payments unfortunately did not lead to any concrete commitments from foreign banks to implement iDEAL. Meanwhile, developments are emerging in other countries, where non-bank parties are attracting an increasing market share, with all its consequences for the banks.

...held innovative example in Europe.

Preventive measures limit skimming fraud to € 36 million.

In 2009, much attention was again devoted to preventing and combating fraud caused by debit card skimming. Unfortunately, and despite many efforts to do so, Currence and its licensees were unable to make significant reductions in the number of ATMs and POS terminals where debit cards were skimmed; this number was only marginally lower in 2009 than it had been in 2008 (about 900). An approximately equal number was intercepted in time, thanks to the alertness of the retailers and consumers. Several tens of thousands of account holders were confronted with the effects of skimming and were reimbursed by their banks. This involved a total sum of approximately 36 million euros (2008: 31 million). Preventive measures, including extra protection of the terminals and timely blocking of skimmed cards, helped to keep this amount relatively limited. Consultations and close collaboration among all parties concerned, along with information campaigns for both retailers and consumers helped raise awareness regarding skimming. Despite concerns about skimming, public confidence in PIN transactions remained high. There seems to be a flywheel effect in the race between criminals and the parties involved in PIN transactions, whereby criminals apparently invest the profits of skimming in increasingly complex technology, which, once installed in the terminals, is sometimes very difficult to discern and/or only after a period of time. The losses incurred consequently rise with each incident. Several consultations with the Ministry of Justice regarding a more intensive exchange of information with foreign anti-fraud authorities resulted in a promise in April 2010 to set up a central point for more targeted investigations and international cooperation between investigation services. Priority and speed are of the essence, as skimming involves a great deal of money, which, once in criminal hands, leads to other socially undesirable appropriation elsewhere.

Future of Currence

Market players positive about the role of Currence.

Collaboration still needed, despite discontinuation of national payment products.

In 2010, Currence has been established for five years. After a period in which all parties had to get accustomed to the new structure, the Dutch payment system has become more transparent. With the establishment of Currence, a relatively calm situation was created, with room for effective consultations between licensees and certificate holders and other stakeholders. The tasks assigned to Currence by the shareholders were approached as effectively and efficiently as possible, which has contributed to further efficiency and security of payment systems in the Netherlands. The transparent regulations that have been introduced have cultivated a climate of open admission of new parties into the market for Dutch collective payment products. The stakeholders expressed appreciation for the neutral, autonomous role that Currence played in the market model. Times are changing, and Currence must change with them. By phasing out PIN and, in the longer term, also other national payment products, the initially basis for founding Currence – the ownership and management of the national collective payment products – will cease to exist. However, there will continue to be a need for cooperation in (collective) payment systems in the Netherlands in the coming period, perhaps more than ever before during the coming period of transition to SEPA. This is because the SEPA payment products will also require local collaboration that is currently necessary for the domestic products in local markets. In this respect, Currence is liaising with the banks and the Dutch Banking Association to develop a vision regarding the future organisation of payment systems in the Netherlands and the appropriate governance.

Results

The consolidated financial statements of Currence contain the financial data of Currence Holding B.V. and its group companies. Currence has a limited profit motive, aimed at continuity within the framework of competition law. During the year under review, Currence recorded a net profit of € 3.950 million. The consolidated balance sheet total amounted to € 38.011 million and shareholder's equity as at 31 December 2009 was € 32.365 million.

Amsterdam, 20 April 2010

Piet M. Mallekoote
CEO

Currence products

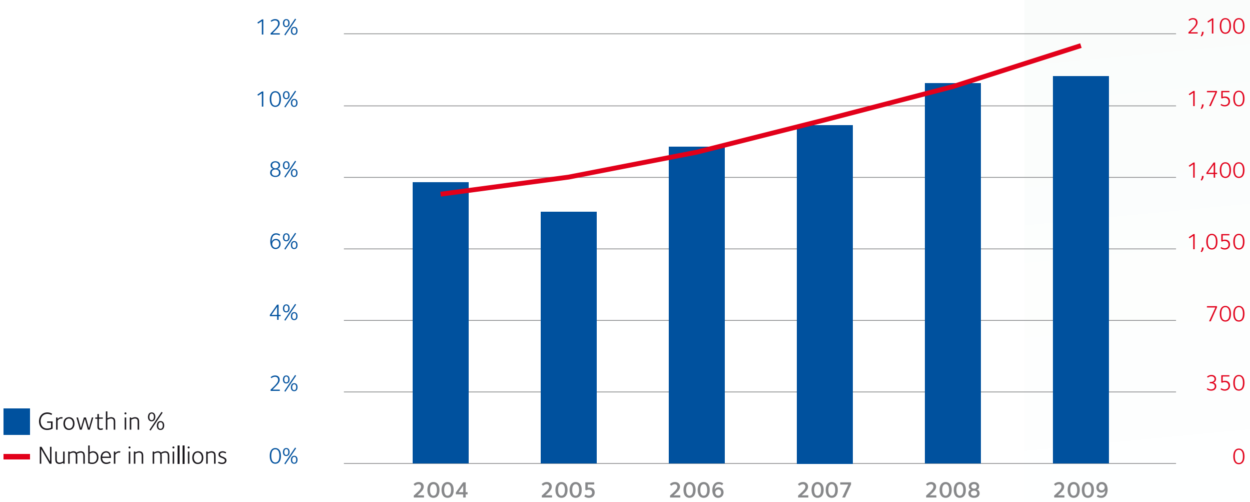
PIN

PIN and the market

New record for PIN transactions.

In 2009, the number of PIN transactions rose by 10.6% to nearly two billion (1,946 million; Figure 1). This is the strongest increase since 2002. This is remarkable in the light of the challenging economic climate. As a result of the credit crisis, retail turnover fell sharply in 2009 (-5 %; 2008: + 3%), while turnover that was paid by PIN transaction, conversely, continued to rise significantly. More PIN transactions were processed in the Netherlands in 2009 than ever before.

Figure 1
PIN transactions

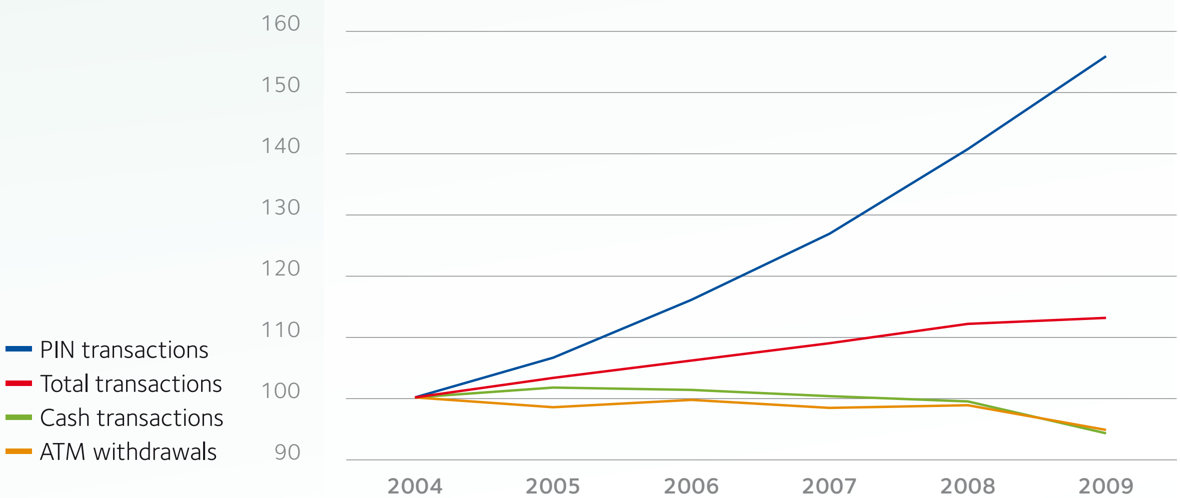


Fewer cash payments and withdrawals...

In contrast to the further rise in the volume of electronic transactions in 2009, there was a fall in the number of cash transactions. In recent years, the number of cash transactions had fallen slightly but in 2009, for the first time, the downward trend intensified (Figure 2). Cash withdrawals from ATMs by consumers, used mostly for shop purchases, also fell for the first time in 2009. Thanks to these developments, payment transactions were more efficient in 2009.

In 2009, the number of PIN transactions rose significantly in supermarkets, non-food retail (including chemists), food and specialist shops, as well as in the corporate catering and leisure sectors. On average, the number of PIN transactions in these four sectors rose by 17%. This accounted for 83% of the total increase in the number of PIN transactions (9 percentage points of 10.8%). There were also more PIN transactions in the parking sector (+53% in 2009), in which most electronic payments are still made using Chipknip. Other forms of payment (for example payments using mobile phones) are also gaining increasing acceptance in this sector, although the volumes concerned are still relatively modest. The number of PIN transactions to pay for furniture and consumer durables hardly rose at all, due to the (sharp downward) trend in turnover in these sectors.

Figure 2
Use of PIN and cash
Number of payments; index (2004=100)



Source: DNB and Currence

...thanks to collective 'Small amount? Use your PIN card!' campaign.

In addition to an analysis of the growth in electronic payments to retail sectors, an analysis of consumer payment behaviour is also needed. This is particularly important in the context of the 'Small amount? Use your PIN card!' campaign. The objective of the campaign, launched in the summer of 2007, is to bring about a change in consumer payment behaviour regarding small amounts. Up to now, most of these transactions have been in cash. Research has revealed that most retailers could save considerably on their overall transaction costs if more of their customers were to pay electronically. Also from a societal perspective – if all the costs of the total payment chain are taken into account – replacing cash payments by electronic payments would be conducive to our prosperity. For retailers, another contributing factor is that electronic transactions reduce the risk of (armed) robberies. For this campaign, Currence is working closely with both the banks and the Foundation to Encourage Efficient Payment [Stichting Bevorderen Efficiënt Betalen or SBEB], which was established by banks and point-of-sale institutions to promote safe and efficient point-of-sale transactions. This association helps merchants encourage the use of debit cards, while Currence focuses on the consumer-directed campaign.

'Small amount? Use your PIN card!' big success...

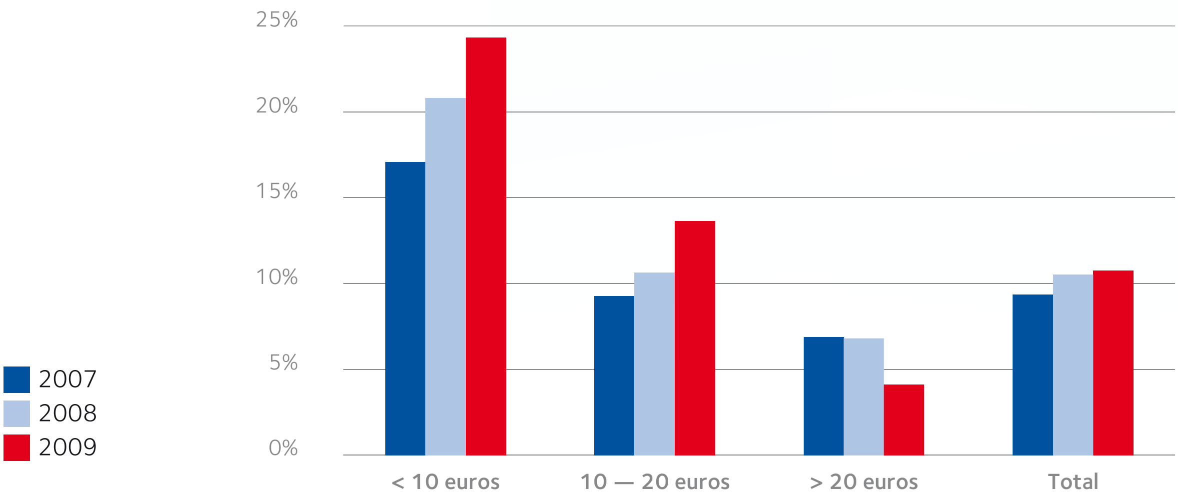
...surcharge notices almost a thing of the past.

In 2009, the campaign was expanded from all supermarkets, which had visibly supported the campaign since the last quarter of 2008, to all other sectors of retail trade. With the assistance of Currence, several towns also took the initiative to promote PIN transactions in their local shops. For example, in Almere, this resulted in a substantial rise in the number of PIN transactions and a reduction in the number of robberies. In 2009, the Dutch Food Retail Association [Centraal Bureau Levensmiddelen – CBL] even revealed plans in this context seeking to realise cashless supermarkets by 2014. In practice, it emerged that merchants who actually encourage their customers to pay by debit card (by asking them if they would like to pay by debit card or even rewarding them for doing so) were most successful in replacing cash payments by PIN transactions in their shops (see also the 2008 annual report, which examined the concept of 'joint communication' in more detail). Situational factors also often play a decisive part in promoting electronic transactions, including the availability of sufficiently visible and accessible POS terminals and the discontinuation of the practice of charging for PIN transactions for smaller amounts. In 2009, the campaign had resulted in a reduction in the number of surcharge notices in small and medium enterprises (SMEs), from 24% several years ago to 8% in the year under review (with no surcharge notices in chain stores). Partly in response to an incentive scheme set up by the SBEB, merchants invested in 10,000 extra POS terminals in 2009. At the end of 2009, there were more than 244,000 POS terminals in use (+ 4%).

Figure 3

Further increase of PIN transactions, especially for small amounts

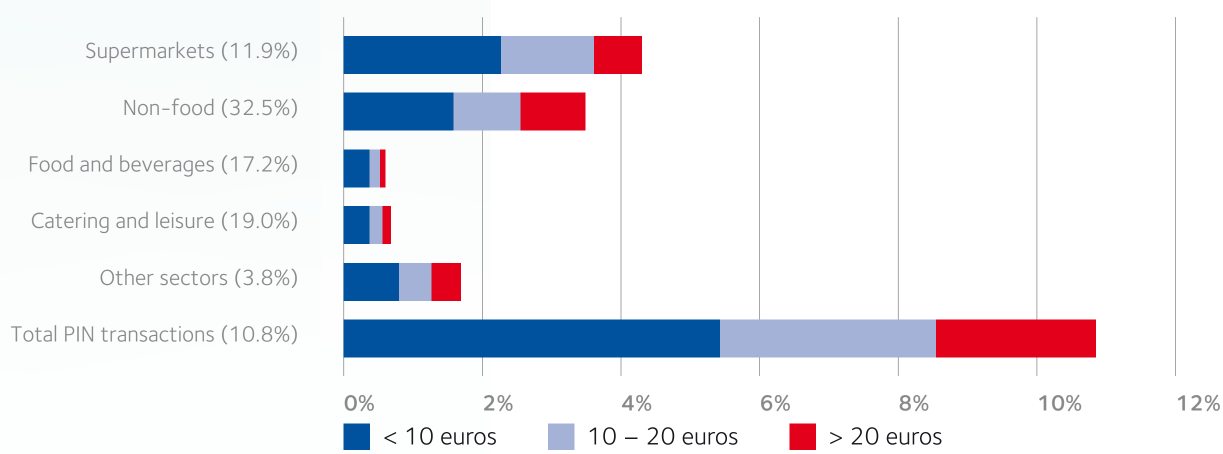
Number of PIN transactions, growth as percentages per year



Strong growth in number of PIN transactions under € 10.

In response to this campaign, the number of PIN transactions below ten euros rose in 2009 by nearly 25% (figure 3). These transactions currently make up a quarter of all PIN transactions. Another significant aspect of this development is that it accounted for half of the total growth of the number of PIN transactions in 2009 (5.5 percentage points of 10.8%). The rise in the number of PIN transactions for amounts of between ten and twenty euros made up approximately one third (over three percentage points) of the total growth (figure 4). As a result of this development, the average amount of a PIN transaction has fallen to 39 euros. Seven years ago, this amount was more than 47 euros.

Figure 4
Contribution to growth of PIN transactions
2009; 1.946 billion



Note: The figure shows the contribution of the various sectors to the total growth, which add up to a total growth of 10.8%. In brackets: the growth of the sector in 2009 compared to 2008.

Growth of PIN transactions will continue in coming years...

...but will not replace cash altogether.

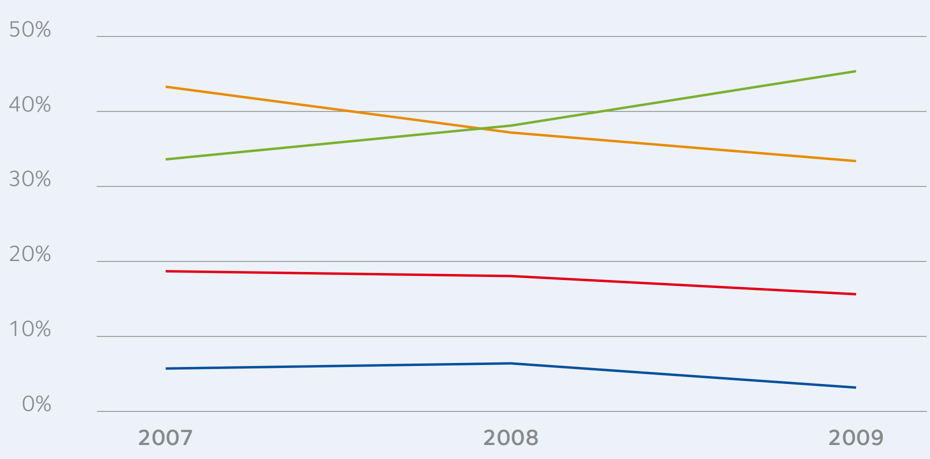
It can be concluded that the 'Small amount? Use your PIN card!' campaign has led to a significant change in customer payment behaviour. These changes have led to a reduction in societal costs, which continue to increase in other contexts. Calculations reveal that there is still a potential for nearly two billion low-value cash transactions that could conceivably be replaced by electronic transactions. Whilst the replacement of cash transactions by electronic transactions is predicted for the coming years (accompanied by strong continued growth in the number of PIN transactions), it is not expected that all cash transactions will be replaced by electronic transactions within the space of a few years. Further replacement, however, will contribute to ongoing reductions in the cost of financial transactions and to improved security in shops.

Changing payment behaviour

Since the 1990s, consumers have been advised to pay using the payment products cash, Chipknip or PIN. With PIN transactions becoming more efficient Currence, together with banks and point-of-sale institutions, launched their 'Small amount? Use your PIN card!' campaign and took a new course. This campaign is aimed at persuading those consumers with an objectively positive attitude towards PIN transactions to use their debit card more often, specifically for smaller amounts. There are four target groups: At one end of the spectrum are the avid debit card payers and at the other end the avid cash payers. In between are the selective debit card payers and the selective cash payers. The Currence campaign is primarily aimed at persuading selective debit card payers to become avid debit card payers. The diagram below shows that this has been successful, as a quarter of the selective debit card payers have actually changed their payment behaviour and are now avid debit card payers. This group now makes up approximately half the consumers. This change in consumer behaviour is expected to continue in the future. This is partly because retailers are doing a great deal to encourage PIN transactions, as is evident from the fact that notices of a surcharge for small amounts have (practically) disappeared.

Growth of avid debit card payers continues

As percentages of total number of consumers



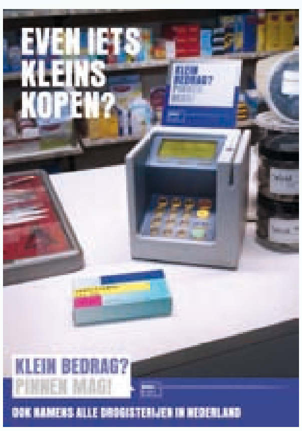
- Avid debit card payers
- Selective debit card payers
- Selective cash payers
- Avid cash payers

Regulations and certification

Improved insight into disturbances thanks to CONNECT...

The rise in the number of electronic transactions imposes high demands on the robustness of the payment chain. Although it was established in 2009 that the underlying infrastructure of this chain is extremely stable, disruptions somewhere in the chain cannot always be avoided. This is understandable, considering that the payment chain for card transactions involves many different parties (banks, processors, data communication providers, terminal and cash register

...valued by market players.



suppliers; see Table 1 for a summary of all parties involved). Following a number of disruptions during a payment-terminal software change at the end of 2008, as a result of which a number of payment terminals were temporarily down, Currence took various initiatives, in consultation with the parties involved. One such initiative was the set-up in 2009 of a central, automated disturbance report system: CONNECT. The objective of this system is the immediate notification of identified disruptions to enable solutions to be sought more quickly and directly, and to inform system participants of (the nature of) the disturbance. (Larger) chain stores can also connect to the system. As an independent party, Currence controls the system, which is not restricted to PIN transactions; it is also open to other brands of cards (including credit cards). Regulations for the system were drawn up last year, including objective conditions for access. Following a pilot in 2009, the system became operational on January 2010. Market response to the rollout of CONNECT has been positive and a great deal of support has been received from SBEB.

Table 1:
Certified institutions, equipment and infrastructure for PIN

Category	2008	2009	How many joined in 2009
PIN licensees			-
PIN certificate holders	53	56	3
			How many certified in 2009
Types of payment terminal		41	1
- number of which are EMV	*16*	*16*[1]	*1*
Recertification	2	2	-
Recertification for partial certifications[2]	17	13	-
Data communication networks	36	39[3]	5

1 The certificate for one terminal expired in 2009 and was not renewed.
2 This concerns the recertification of security software or security hardware of existing terminals.
3 Including two cancellations.

Payment chain more robust thanks to certification of cash register links.

Another initiative taken by Currence in 2009 in the context of a more robust payment chain is the certification of payment terminal resellers (suppliers who sell payment terminals, often in combination with linked cash register systems). In line with their risk profile, the threshold for certification has been kept low. The certified parties concerned are obliged to conduct a thorough test of the cash registers that are often linked to the payment terminals before they are introduced into the market. A similar certification system already exists for payment terminals. All parties concerned were consulted before these regulations came into force. One question that stemmed from this consultation was whether there should be a single (uniform) standard for cash register links or not. This could replace the present, often varying links. Also at the request of SBEB, Currence is examining the possibilities in this respect.

Rise in electronic transactions

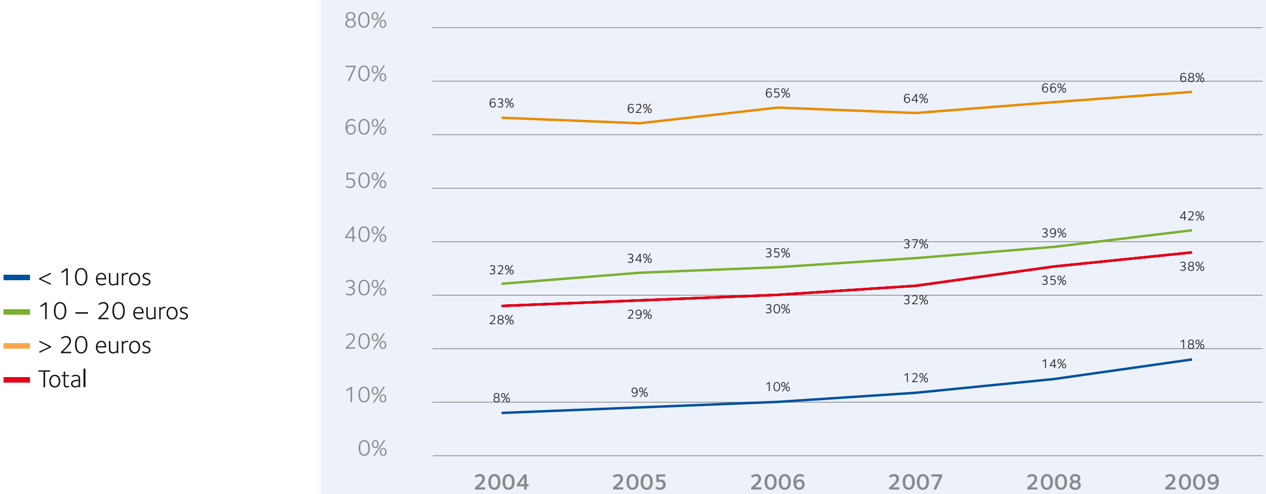
In recent years, the share of PIN transactions in the total number of point-of-sale transactions has continued to rise. This was 28% in 2008. In 2009, this increased by a third to reach 38%. The share of other means of electronic payment, including Chipknip, also rose, although it remained minor at 5%. By contrast, the share of cash transactions fell considerably (from 67% in 2005 to 57% in 2009). The strongest rise in PIN transactions was for transactions of less than ten euros. Nonetheless, more than 75% of these amounts continue to be paid in cash. The growth potential for PIN transactions is consequently considerable.

Over the past five years, cash transactions to the value of more than 500 million euros were replaced by PIN transactions (a quarter of the current volume). This generated cumulative economic savings of more than 50 million euros (compared to 2004), a large part of which went to businesses.

The increase in electronic transactions is expected to continue in the years ahead and surpass the share of cash transactions. Further savings on the costs of financial transactions (rising due to other factors) are also in the offing. More PIN payments would therefore help curb the costs of financial transactions.

Share of PIN payments

As percentages of the number of transactions



In 2009, a small number of amendments were made to the regulations for PIN in response to requirements of the market. The regulations were also amended to comply with the European Directive on Payment Services, also including the admission of payment institutions to the PIN system as licensees.

Risk analysis leads to theme audits of market players.

Currence is responsible for monitoring compliance with the PIN regulations, and as such conducted several theme audits among market players in 2009 on the basis of a risk analysis. The parties took the ensuing recommendations to heart and Currence will monitor the implementation closely.

At the end of 2009, there were 25 registered PIN licensees (2008: 30; Table 1), with 56 certificate holders providing support services in the PIN payment chain. The number of types of point-of-sale terminals for which Currence issued three-year safety certificates fell from 54 to 41. This coincided with the phasing out of several older types of payment terminals, which were still in use until recently. In the year under review, five new data communication networks were certified. Two suppliers cancelled their agreements, due to a merger with another certified supplier. In all, 25 data communication suppliers collectively provide 39 certified networks for the transfer of PIN transactions, most of which support the TCP/IP protocol.

A summary of all certified licensees and certificate holders, point-of-sale terminals and data communication networks is available on the Currence website (www.currence.nl).

Fraud prevention

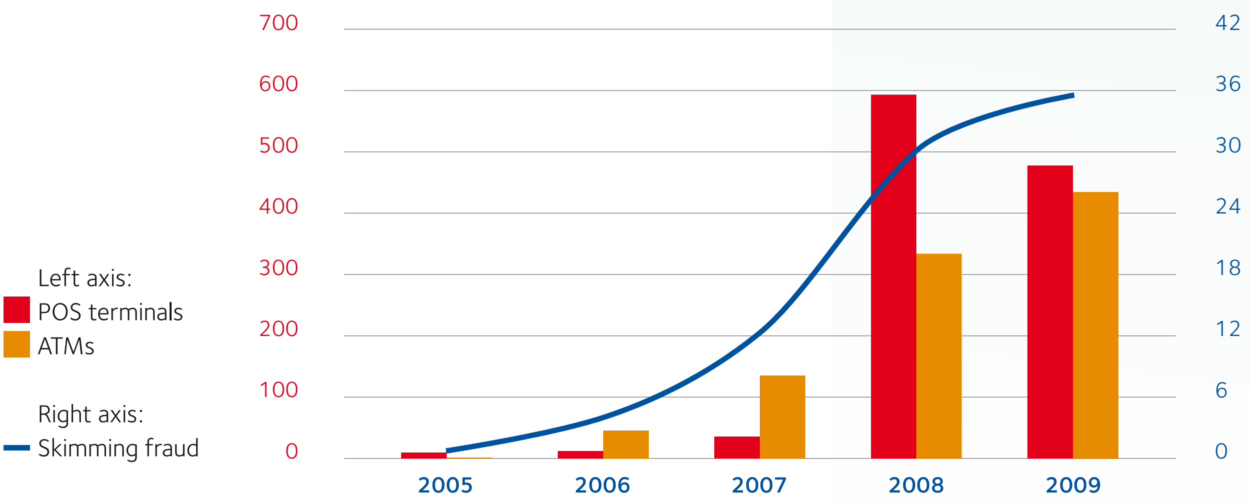
Together with the banks and all other parties in the payment chain, Currence focused a great deal of attention on preventing and combating fraud in 2009. Despite the measures adopted, criminals once again caused substantial damage by stealing debit card data. In addition to the financial loss that fraud can cause, fraud can also harm public confidence in financial transaction systems. Market research in 2009 revealed that this is still high.

Confidence in PIN not affected by skimming.

Illustrative of the fraud battle in 2009 were the increasingly ingenious fraud techniques. An analysis conducted by Currence of identified fraud techniques seems to indicate that the criminals are more frequently investing the profits of skimming in increasingly advanced technological equipment, resulting in an intensified fight against fraud. This means that adequate investment in knowledge and research by Currence and the banks remains essential in order to be able to continue to adopt effective anti-fraud measures.

Criminals invest in increasingly sophisticated technology.

Figure 5
Debit card skimming
Year ends: in numbers; fraud in millions of euros



Note: the chart shows the number of terminals in which debit cards have been skimmed (left axis) and the amount of money involved (right axis).

Skimming of POS terminals down 20%.

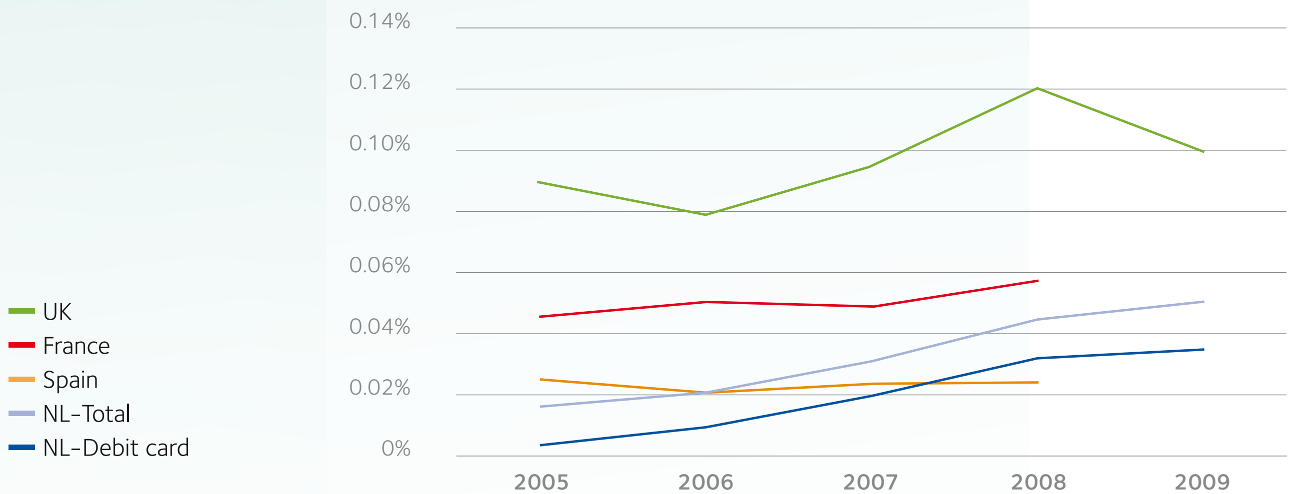
Fraud losses small from international perspective.

In 2009, the losses incurred as a result of skimmed debit cards rose further to a total of more than 36 million euros (2008: 31 million, Figure 5). Partly due to a number of preventive measures, the number of successful attacks on point-of-sale terminals fell by 20% in 2009, but remains high nevertheless. The number of attacks on ATMs, on the other hand, rose.
As a result of other forms of fraud, besides debit card skimming (including card theft), the total loss incurred due to card fraud amounted to 43 million euros.
Although fraud damage has now reached substantial levels, it remains low in international terms. The lack of transparency with regard to fraud makes it is difficult to compare statistics with fraud statistics in other countries. The information available from countries that do publish fraud statistics reveal that the level of fraud, especially in France and the United Kingdom, is higher than in the Netherlands. It also shows an upward trend, with a break in this trend in the UK in 2009 (Figure 6). In the majority of cases, the fraud in these countries was actually caused by the improper use of data stolen from debit and credit cards used for online purchases (card not present) fraud. Unlike credit cards, Dutch bank cards cannot be used to pay for online purchases, as is already known, and iDEAL was developed for that purpose. The fraud in Spain has stabilised in recent years and was consequently lower than in the Netherlands. As a percentage of the turnover generated through debit card transactions, the total fraud in the Netherlands amounted to over 0.03%. Including credit card fraud, it was nearly 0.05%.

Figure 6

Debit card fraud in a number of countries

In percentages of the (debit) card turnover



Note: The figure shows the fraud as percentages of the turnover paid for by card. As the statistics for other countries include credit cards, comparable statistics have also been incorporated for the Netherlands.

(Preventive) measures together with merchants have impact on fraud.

In the year under review, Currence, in close consultation with the banks and other stakeholders, gave further shape to its coordinating role in measures to prevent and combat fraud on point-of-sale terminals (fraud on ATMs is a focus area of the Dutch Banking Association; NVB). In this context, Currence has initiated (wide-scale) consultation with suppliers and owners of point-of-sale terminals in order to develop more targeted preventive measures. In addition, various merchants with point-of-sale terminals in their stores have themselves taken initiatives to improve fraud prevention. Several merchants have made their own solutions available to colleagues, enabling them to take swifter action. Currence assisted as much as possible. These actions had an impact on fraud. In 2009, one type of point-of-sale terminal in particular was the target of skimming. In consultation with the parties involved, Currence therefore had several tens of thousands of these terminals placed under seal. Skimming of these terminals has since decreased, and criminals have turned their focus to unmanned petrol stations and the application of more sophisticated technology. This is illustrative of the fight against skimming fraud. In consultation with the parties involved, prevention has also been intensified in this respect.

Effectively combating skimming fraud calls for good collaboration between all parties involved. In view of the fact that the domain in which cash is withdrawn with skimmed cards (usually foreign ATMs) differs from that in which the cards were skimmed (Dutch ATMs or POS terminals), Currence collaborates closely in this area with the NVB and the international payment brands MasterCard and Visa. Operational activities in terms of collectively reporting bank-card fraud and maintaining contact with the police have been contracted out to Equens on behalf of the NVB (ATMs) and Currence (POS terminals). Equens acts on behalf of and under the responsibility of these organisations. The aforementioned consultation was one of the factors leading to the decision in 2009 that the parties involved should exchange restricted information on skimming more promptly so that the debit cards concerned could be (preventively) cancelled sooner. This could prevent substantial financial losses, although the affected consumer would be inconvenienced for a few days until the bank has issued a new card and, when applicable, refunded the money.

Faster exchange of information between parties concerned limits damage.

Information on skimming raises public awareness.

In 2009, it also became evident that the continuous anti-skimming campaign was beginning to pay off. Consumer and merchant awareness of measures they should observe have increased considerably in the last few years. The ensuing behaviour displayed by the public and businesses has since been able to avoid many cases of skimming fraud.

In the year under review, frequent consultation with the Ministry of Justice sought to place higher priority on tracing the culprits and more emphasis was consequently placed on the international coordination of the identification and prosecution of criminals. The National Forum on the Payment System (MOB), which is chaired by DNB [De Nederlandsche Bank – the Dutch central bank], also called the attention of the Ministry of Justice to this. With the exception of one pilot project, however, there were no concrete undertakings until April 2010.

Skimming much more difficult thanks to the introduction of the EMV chip.

It may be concluded that skimming will continue to demand attention in the years ahead. The introduction of EMV chip technology will make skimming much more difficult but will not eliminate it altogether as long as magnetic strips are still used on cards elsewhere in the world. Targeted measures will nevertheless restrict these residual risks. Together with all other parties involved, Currence will continue to devote efforts to minimising fraud. More decisive support from the police and the public prosecutor could be a tremendous help.

From magnetic strip to chip: the end of PIN

Several years ago, banks in Europe agreed to base the infrastructure for card transactions on EMV chip technology. EMV is an international standard in which the chip on the debit card replaces the function of the magnetic stripe. This contributes to more secure payment transactions, as the chip is much harder to copy than the magnetic strip. Parties in the Netherlands have already prepared for these changes in recent years. Because the EMV technology is already incorporated in all new point-of-sale terminals and debit cards, there will be no need to replace them when the transition actually takes place. At the end of 2008, the regulations for PIN were amended to facilitate the transition to EMV for the PIN brand. In line with European agreements, these rules and regulations will enable PIN transactions using the EMV chip as of 2011.

PIN to be discontinued.

During the first few months of 2009, however, the majority of the (individual) licensees informed Currence that, in the long term, they would opt for international payment brands only (primarily Maestro and V-Pay). The migration to EMV was considered a logical moment to replace the PIN brand by these international brands. In response to this development, the Executive Board established that there was insufficient support among licensees to migrate the PIN payment infrastructure to EMV. The implementation of EMV in the Netherlands will therefore mark the end of PIN.

Further Agreement alleviates retailers' worries about higher charges.

In May, the banks and collective point-of-sale institutions concluded a 'Further Agreement' to the Payment System Covenant agreed between the parties in 2005. The agreements made in this covenant included a collective effort to accelerate the implementation of EMV. Under this agreement, the switch to EMV will be completed by the end of 2011 at the latest. The agreement also states that the charges for debit card transactions (regardless of the brand with which they occur) will not exceed the PIN charges effective on 1 January 2009 for a period of five years. This part of the agreement was to alleviate the worries of retailers that the implementation of international payment brands would result in a rise of the charges.

PIN transactions and data communication

Point-of-sale terminals are connected to processors through several different types of data communication networks. All of these networks are always certified by Currence to guarantee high levels of security and availability. Half of these point-of-sale terminals are currently linked to (certified) networks that use TCP/IP (Internet) protocol. This warrants fast transactions. More than 80% of all PIN transactions are currently transferred using these networks. However, the data communication for 37% of the terminals (approximately 90,000) is still transferred using the outdated telephone network (that transfers 10% of all transactions). This network is slow and, for various reasons, will ultimately be phased out. Transactions (including EMV transactions) proceed most smoothly along high-speed networks, and they should therefore be transferred using a fast (TCP/IP) network connection. At the request of market players (in particular, the SME segment), Currence is currently examining the possibility of data communication using open (uncertified) Internet connections in order to promote the migration from the telephone network to TCP/IP broadband networks. The market rates for these options are lower than they are for certified networks. The rationale is to maintain the same level of security that is offered by certified networks. This could lower the threshold for use, as some SME merchants apparently attach less importance to high levels of network availability. The choice between price and (extra) guaranteed availability would thus lie with the individual business.

Various networks can be used for PIN transactions

Numbers as percentages

Type of network	Connected terminals	Payments transferred	Primarily used in:
TCP/IP	50	82	Chain stores
Telephone	37	10	SME
Mobile	9	1	Catering and travelling trade
X.25	4	7	Chain stores
Totaal	100	100	

Currence establishes EMV project office...

After concluding this agreement, the banks set up a project to prepare the national implementation of EMV. They asked Currence to undertake the project management and coordination. This project involves many parties from the payment chain, including end users (such as all umbrella groups for point-of-sale institutions and consumer organisations). An EMV Coordination Group has been set up under the chairmanship of the CEO of Currence to ensure that all activities are effectively coordinated between the parties concerned.

...with the aim of swift, smooth transition to EMV for all payment terminals and cards.

In addition to the issue of new (EMV) debit cards and modification of the authorisation and processing systems by banks and processors, the replacement of point-of-sale terminals is another important aspect of the project. Full migration to EMV will be possible only after all merchants have replaced their point-of-sale terminals with EMV compatible terminals. Over the past few years, many merchants already replaced their outdated terminal with an EMV compatible terminal when their security certificate expired. In 2009, there was a further increase in the number of EMV compatible terminals, now 200,000. The suppliers had yet to provide the appropriate (EMV) software for approximately one third of these terminals (Figure 7). In the coming years, the security certificate will expire for the remaining 40,000 terminals that are not yet compatible with EMV. Merchants with terminals for which the certificates are due to expire after 2011 will be eligible for compensation by the SBEB for lost depreciation. This applies to approximately 20,000 terminals. At the end of 2009, over 78% of all debit cards were equipped with EMV chips. The remaining cards will be replaced in 2010.
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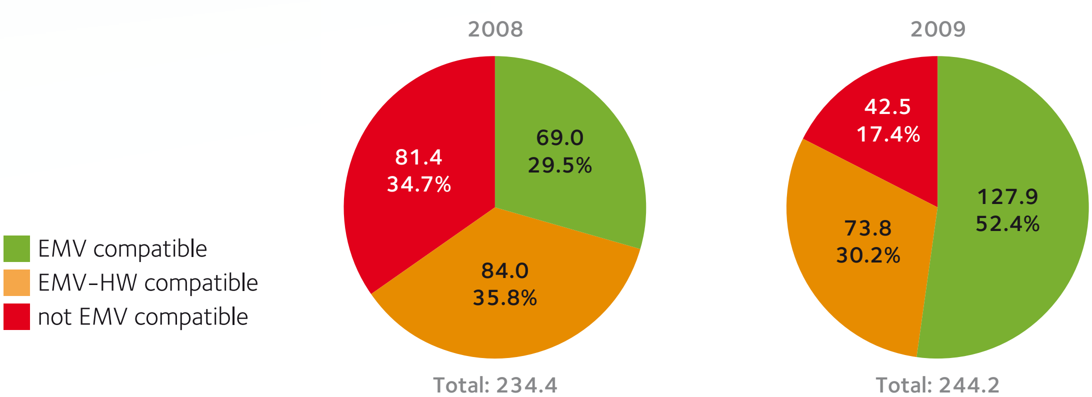
Figure 7
EMV point-of-sale terminals
Year ends; POS terminals in thousands; percentage shares



Note: HW compatible = the terminal hardware is EMV compatible but the EMV-compatible software has yet to be installed. In a terminal that is not EMV compatible, both the hardware and the software have to be replaced.

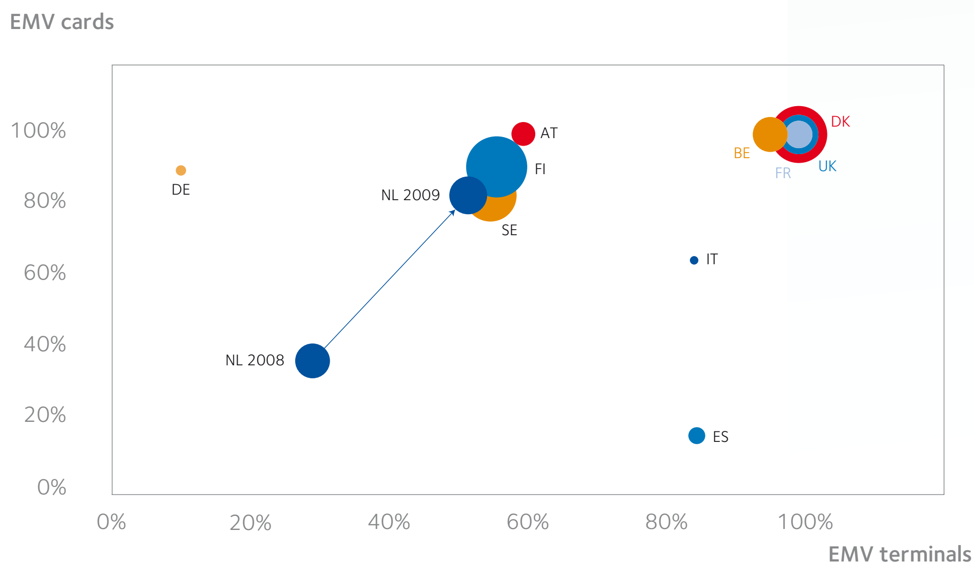
Migration to international payment brands complicates EMV migration.

Another aspect of the project is the transition from PIN to the international brands, which will coincide with the introduction of EMV. This requires all merchants to obtain agreements that enable them to accept payments from these international brands. This product migration, which is separate to technical migration to EMV, complicates the introduction of EMV even further. For reasons of continuity, the progress of this part of the project is monitored closely because PIN transactions will no longer be possible from 2012.

EMV pilots to start in second quarter of 2010.

Payments using the debit card chip are expected to commence beginning in the second quarter of 2010. The implementation scenario provides for introduction in one or more large chain stores, after which the number of locations accepting payments via the chip will quickly expand. This is expected to be possible in many places by late 2010/early 2011, and everywhere by the end of 2011. EMV has already been implemented in several other European countries (figure 8). The figure also shows the progress of preparations in the Netherlands.

Figure 8
EMV in Europe
End of 2009



Note: The size of the ball indicates the number of debit card transactions per capita.
Source: EPC and Currence

European developments

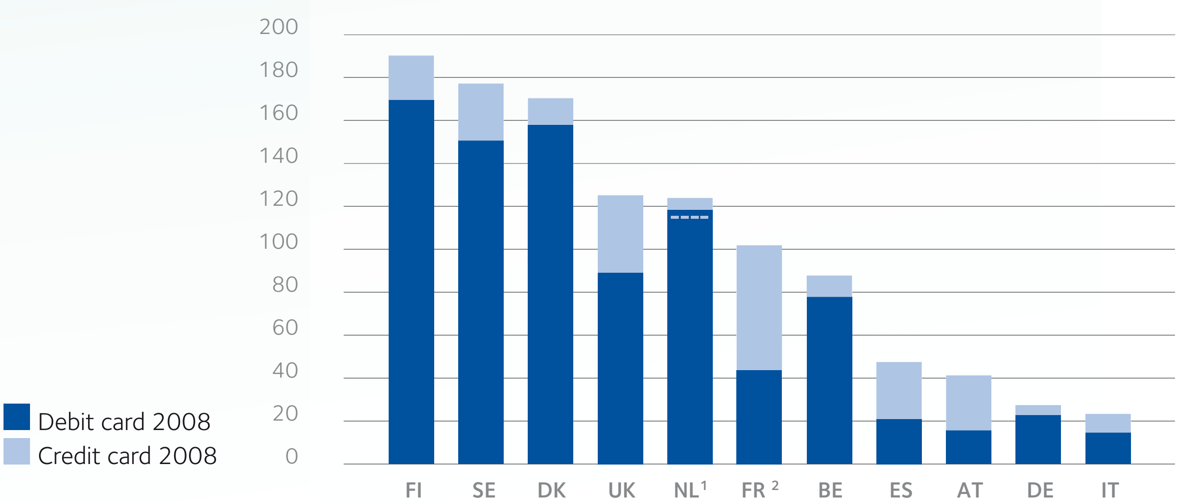
In 2009, the European market for card payments remained fragmented. The use of debit cards in different countries also continued to vary greatly (Figure 9). Whereas Dutch banks have decided to replace the national PIN brand with international payment brands, the banks in most other European countries will continue to use their own national brands, at least for the time being. By also adding an international brand to the debit card they will enable their customers to make cross-border payments (known as 'co-branding' the card, as currently occurs in the Netherlands).

Foreign banks initially keep national brands.

Figure 9

Card transactions in Europe

2008; number per capita per year



[1] NL relates to 2009 (---- relates to total 2008)
[2] Debit card/credit card ratio for France based on calculations
Source: ECB Statistical Data Warehouse and Currence

In recent years, the European Commission (EC) and the European Central Bank (ECB) have expressed concern about the lack of a European alternative for the existing international payment brands (Maestro and V-Pay). In their opinion, a possible duopoly of these brands could hinder the desired level of competition for the European market. They have therefore called for the development of a third, European, payment scheme that could be widely used in Europe. A European brand would also create a European identity in terms of card payments; a counterpart for the (originally) American brands MasterCard (Maestro) and Visa (although V-Pay, with its own governance, is Europe oriented). Several years ago, various market players subsequently announced three initiatives: Euro Alliance of Payments Schemes (EAPS),

European alternatives for Maestro and V-Pay appear not to take off.

Payfair and Monnet. By means of mutual collaboration between (six) existing national brands, EAPS aims to become a European network of interoperable brands. With over one million transactions in 2009, EAPS's mutual exchange volume was still modest. Payfair, an initiative evolving from the retail sector, launched a pilot in Belgium in 2009 and hopes to soon gain a foothold in other countries as well (including the Netherlands) as SEPA payment brand. Monnet, an alternative backed by French and some large German banks presented its plans and ambitions in 2009. According to reports, these plans include the market launch of Monnet in 2011. Although modest progress was made in 2009, there appears to be insufficient potential critical mass as yet for a new pan-European brand to really get off the ground. It should be noted that most banks already have a (technical and commercial) relationship with the established international payment brands. The willingness of banks to invest – without clear perspectives – in a new European payment brand is hence very slight, especially in the current economic climate.

European debit card landscape remains still fragmented.

In terms of the established international payment brands, a uniform European market for card transactions also does not yet seem likely. MasterCard and Visa do not promote their respective brands (Maestro and V-Pay) in all European countries. For example, in northern Europe and the United Kingdom, most debit cards incorporate the brands MasterCard Debit and Visa Debit. One difference between these brands and Maestro/V-Pay is the 'charge-back' facility, as they are settled through credit card processes. The only difference between the Maestro/ V-pay debit cards and those issued under the credit-card brands involves the timing with which the payment is debited from the cardholder's account. However, these brands have lower acceptance levels in other European countries. Partly for this reason, SEPA's objective of enabling all cardholders to use their debit cards for transactions with any (SEPA) point-of-sale terminal in Europe still seems a distant prospect.

Little progress in seperation of scheme and processing...

Less fragmentation would benefit competition and help reduce costs, due in part to economies of scale. Potential economies of scale relate primarily to processing procedures, the costs of which are mostly fixed. Empirical research reveals that the cost elasticity of transaction processing is approximately 0.3. In other words, doubling the number of transactions in one system would lead to a thirty per cent increase in costs (implying a substantial cost reduction per transaction). To be able to take maximum advantage of this in Europe, it is important for the banks to be able to purchase their transaction processing separately and not be bound by a payment product's 'tie-ins' with processing. As a result of this unbundling and strict separation of brand and processing activities, banks can choose a European processor on the grounds of price and quality, regardless of the payment brand used. It is estimated that approximately a quarter of all card transactions are processed by competing European processors. The remainder continue to be processed by national, brand-related processing companies. Further European consolidation could lead to an increase in economies of scale and, therefore, cost reduction. The consolidation of debit card processors initiated a number of years ago, continued in 2009.

Potential and economies of scale consequently not yet achieved.

Standardisation time consuming but steadily progressing.

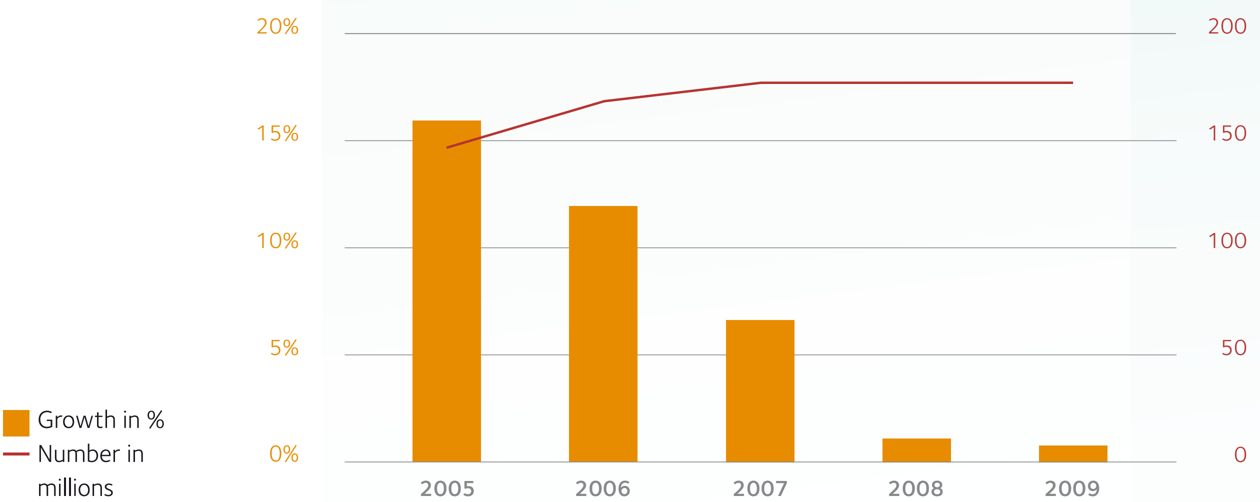
A sufficient degree of standardisation is crucial to achieving an integrated market for card transactions. Standardisation boosts competition and helps realise economies of scale. The European Payments Council (EPC), the policy-making and decision-making body of the European banks, plays an important part in this respect. The SEPA Cards Framework (SCF) was produced for this purpose in 2006 and expanded in keeping with developments in 2009. The EPC incorporated the guiding principles for card payments standards in the so-called SEPA Cards Standardisation Volume ('the Volume'). These standards relate to the various interfaces in the payment chain, such as those between the debit card chip and the point-of-sale terminal, and between the point-of-sale terminal and the processor's systems. The focus is on the standardisation of security and certification requirements for point-of-sale terminals. In practice, the different types of POS terminal often have to be separately certified for each payment product. This is because the national requirements and related procedures vary in this respect. The aim is to have a single European passport that will serve as European standard for all SEPA payment brands. This could also generate substantial savings. Elaborating on the work already done during the last few years, representatives of national and international payment brands made further progress in 2009 in compiling these European certification requirements and a certification methodology. As owner of the PIN brand, Currence is closely involved with this process. In essence, these European requirements are not new; they are a harmonisation of the requirements that currently apply in the various countries. The requirements and methodology are expected to be published in 2010.

With the objective of defining standards that would be supported by all interested parties involved, the EPC set up a representative body of stakeholders in 2009 (the Cards Stakeholders Group – CSG). Besides banks, members of the CSG include representatives of the payment brands, merchants, point-of-sale terminal suppliers and processors. Draft standards are submitted to this body for consultation. In 2009, the CSG devoted much attention to discussing the aforementioned volume and the revision thereof. This process of coordination, between all stakeholders involved, seems to be fruitful but takes time and patience. The standards will not be implemented until they have been consolidated. Considering the number of stakeholders and the diversity of payment structures and interests, that will not prove an easy task. There is reason for optimism, nevertheless.

Chipknip

In 2009, there was a marginal increase in the number of Chipknip transactions (+ 0.5%). There were 177 million Chipknip transactions (Figure 10). This growth continued in the catering and retail sectors, with usage stabilising or declining in use in other sectors. The growth of the Chipknip reached its peak some time ago. Its use has stabilised since 2007.

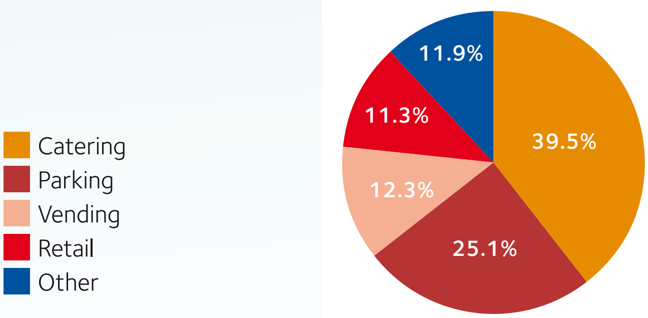
Figure 10
Chipknip transactions



Chipknip predominantly used to pay for parking, vending and catering.

As in previous years, Chipknip was used mostly in 2009 to pay for parking, vending and corporate catering, also referred to as the ParVenCa segment (Figure 11). Since it was first introduced in 1996, Chipknip usage has shown a heavy concentration in this segment. The original objective of reducing cash payment of point-of-sale transactions with a new payment product aimed specifically at small amounts was not achieved. The number of cash transactions consequently continued to rise until the 'Small amount? Use your PIN card!' campaign, which proved a turning point. The sharp decrease in the cost of data communication and the economies of scale of PIN transactions made PIN a cost-efficient alternative. For several years now, Currence and the Chipknip licensees have consequently positioned Chipknip as a payment product only in the ParVenCa segment.

Figure 11
Origin of Chipknip transactions
2009; percentage shares



Total 177 million

In 2009, Chipknip remained a popular payment product in the corporate catering sector, with the growth rising by 3.5% to 70 million transactions. This amounts to 40% of the total number of transactions. However, the number of transactions fell in the parking (-2%) and vending (-20%) sectors. Contributing factors include the increasing presentation and use of PIN as a means of payment in these segments, and the increasing acceptance of mobile payment in the parking segment. Despite the aforementioned positioning, the number of Chipknip transactions in the retail sector continued to rise in 2009, by nearly 7%. Accounting for 11% of the total number of transactions, half the Chipknip terminals are installed in the retail segment (2008: 60%). This number fell by 6,000 in 2009 to 44,000. This is correlated to some of the banks' policy to convert existing combined contracts for both PIN and Chipknip to a single contract for debit card transactions only. This will enhance the future convenience of EMV card transactions. The total number of Chipknip terminals fell in 2009 by more than 7% to 82,000.

Consumers loaded their Chipknip cards more than 27 million times, with an average load amount of 19 euros. The number of times consumers loaded their Chipknip rose by 5%, due in part to the issuance of new bankcards. In such cases, they unloaded the balance of their old card and reloaded the Chipknip on the new card. Approximately six payments were made from each load in 2009, with an average amount of 2.71 euros (2008: 2.74 euros).

No successor for Chipknip as yet.

In 2009, Currence and the licensees identified the market requirements with respect to Chipknip and a possible successor. It was established that PIN transactions are a good alternative in many cases but that this did not yet meet the requirement in all situations. No further steps will be taken until the results are known of the broader research in which the banks are currently examining ways to substantially reduce the number of cash transactions and address low-value payments. This is expected to be in the course of 2010.

Effective since November, the Chipknip regulations were amended to comply with the European Directive on Payment Services. The issues addressed by these amendments included access options available to payment institutions and the national nature of Chipknip (in order to retaining the maximum load amount of 500 euros without system modifications). At the end of 2009, there were 23 registered Chipknip licensees (2008: 27) and 52 certificate holders (2008: 47).

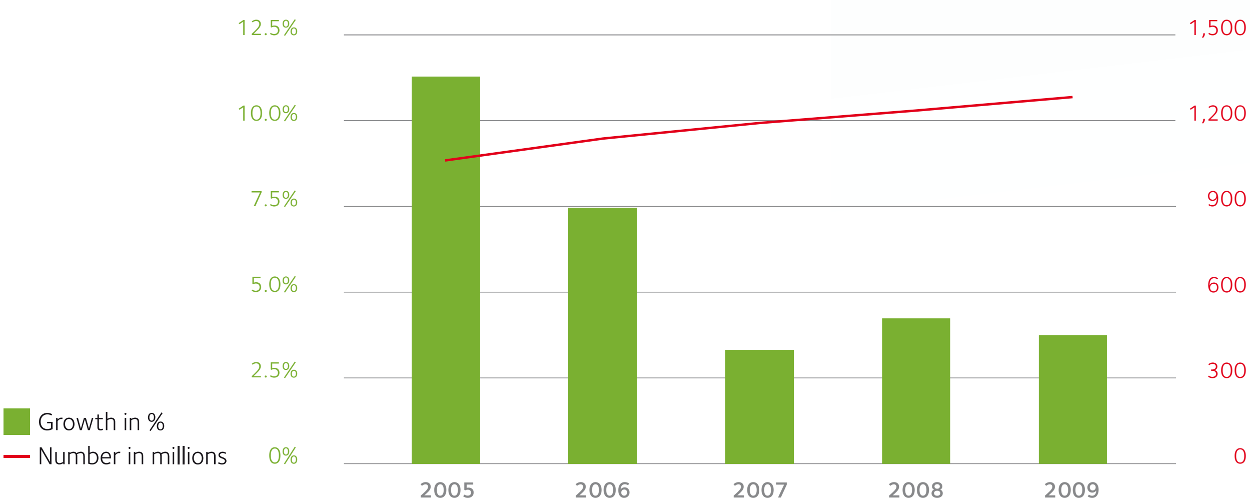
Direct debits (Incasso)

Replacement of less efficient means of payment leads to continued growth of Incasso.

Incasso and the market

In 2009, the number of payments using the Incasso (direct debit) product rose by 3.8% to 1.27 billion. This was in line with previous years, when the growth fluctuated between 3 and 4% (figure 12). This growth trend is fuelled by the ongoing process of replacing less efficient methods of payment by direct debit. Another contributory factor is the number of households that prefer to pay (some of) their recurring (living and other) expenses by means of direct debit. The growth is further boosted by the fact that payees increasingly offer consumers the option of paying in more instalments via Incasso, as a result of which they are better able to spread their costs out over the year.

Figure 12
Incasso transactions

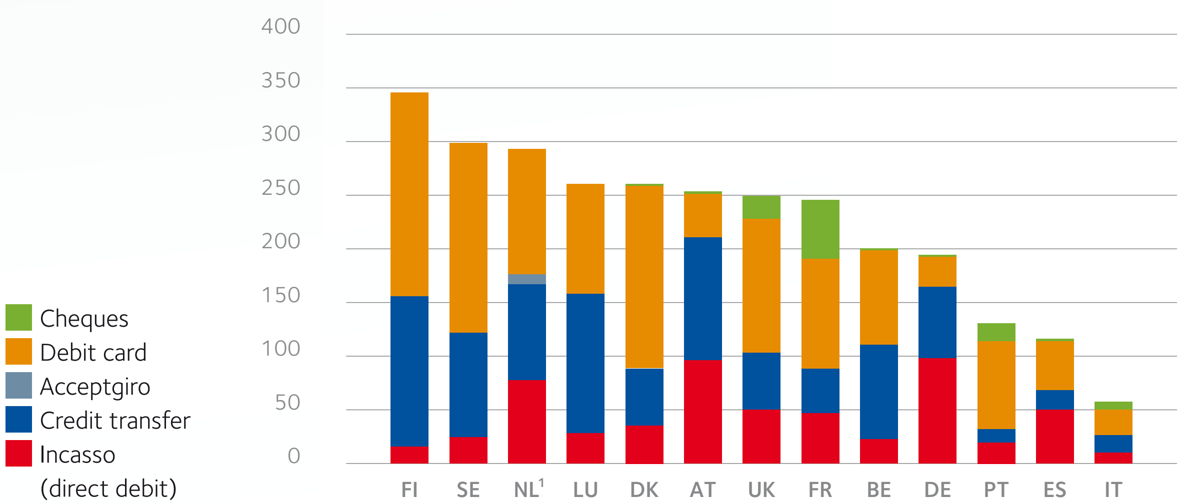


Compared to other European countries, Incasso is used intensively in the Netherlands (figure 13). As the level of use of a payment product is correlated to the use of other payment products, the figure also shows the total number of card and giro payments. The graph shows that, after Finland and Sweden, the Netherlands reported the highest number of payments (card payments and credit transfers) per capita. This also reflects the efficient payment behaviour in those countries in which where, fewer cash payments are made, relative to other European countries. In terms of Incasso payments, the Netherlands is among the leaders, together with Germany and Austria (77 payments per capita per year). The relatively more intensive use of direct debit payments in Germany (nearly a hundred payments) can be explained by the fact that some card payments are processed by means of direct debit. In the Netherlands, there is no such link because PIN payments are debited directly from the account. Direct debits are used least in Finland and in Italy. In the United Kingdom, France and Portugal, the use of direct debits (and credit transfers) is modest, partly due to the fact that payments are often still made by cheque in those countries.

Figure 13

Payment transactions in Europe

2008; number per capita per year



[1] NL relates to 2009

Source: ECB Statistical Datawarehouse

There are several variants of the Incasso product that originate from specific requirements of market players. The differences between these variants concern the term to which the mandate relates (recurrent or one-off direct debits), the way in which the mandate was given (in writing/by telephone), and the refund period (the period within which the payer is entitled to claim for a refund of a direct debit transaction).

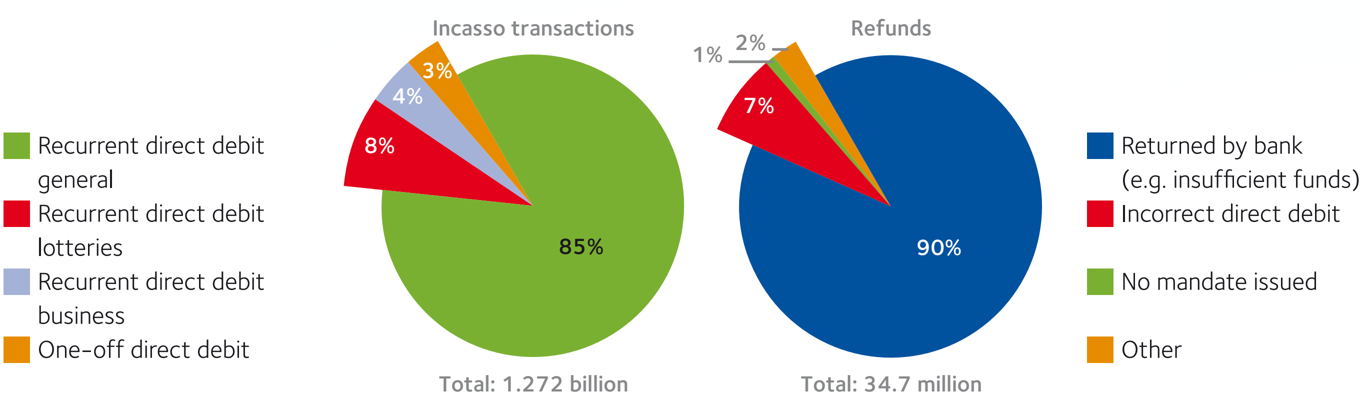
Recurrent direct debit most used.

On the basis of these differences, various different types of direct debit transactions have developed during the last decades. Most relate to companies directly debiting consumers, based on the consumer issuing a recurrent (written) mandate (85%; figure 14). Approximately 8% of the direct debit transactions relate to payment for participation in lotteries. Direct debit transactions are not often used for one-off payments. The same applies to direct debit transactions for specific business use (4%).

Few direct debits without valid mandate.

In 2009, 2.7% of all direct debit transactions were refunded (2008: 2.4%). In 90% of these cases, the transactions were returned by the bank because the payer's current account had insufficient funds or would exceed its overdraft limit at the time of the transaction (Figure 14). In 2009, the number of refunds claimed as incorrect by the debtor as being incorrect was the same as in 2008; approximately 7% of all refunds (less than 0.2% of the total number of direct debit transactions). One in every hundred of these cases (0.002%, equivalent to one in every 50,000 direct debit transactions) concerned a transaction for which the debtor had not issued a written mandate. In such situations, the payer has the right to obtain a refund, even after the refund period. To exercise this refund right after the refund period, payers must submit a claim to their bank within 13 months after the debit date of the disputed transaction. The bank will then send an Incorrect (unauthorised) Direct Debit Report [Melding Onterechte Incasso – MOI] to the payee's bank, which will then investigate the matter. If the payee cannot provide a written mandate, the amount in question is refunded. The rules governing direct debit transactions stipulate that complaints to this effect must be dealt with within 13 working days of receipt. An Incorrect Direct Debit Report is not required for reversal requests submitted within the refund period. In such situations, payers need only request their banks to reverse the direct debit transaction. Many banks (licensees) actually offer this facility through their websites.

Figure 14
Direct debit transactions and refunds
2009; percentage shares

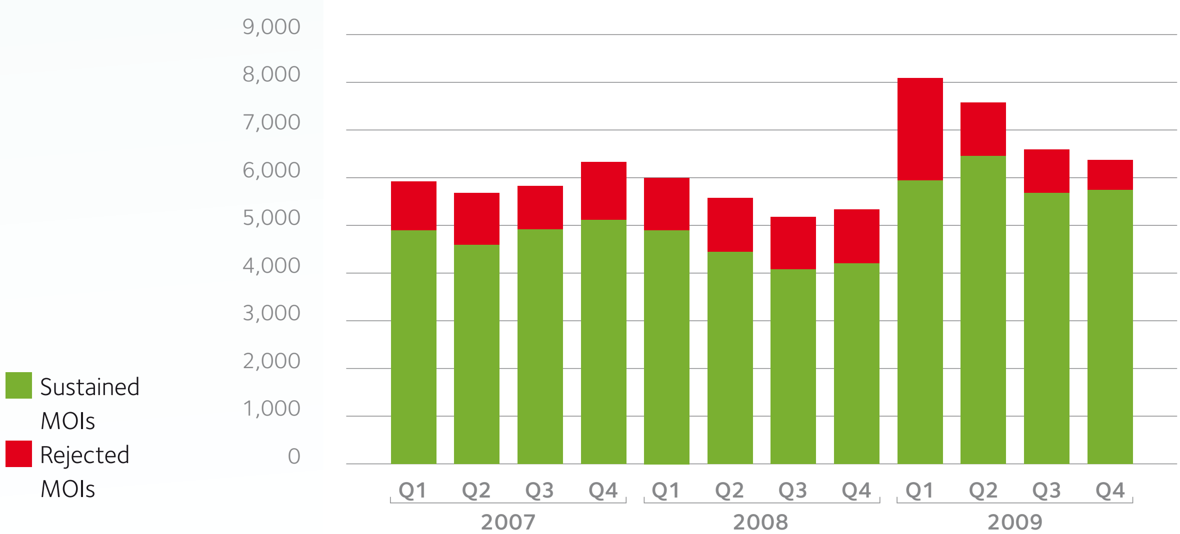


More Incorrect Direct Debit Reports...

...due partly to critical approach of consumers.

In 2009, approximately 28,000 incorrect direct debits were reported, more than in previous years (figure 15). There are no evident reasons for this. Perhaps consumers have become more aware of the possibility of reporting incorrect direct debits. In 90% of the cases, the claims were sustained and the amounts refunded. Where banks dispute the correctness of a direct debit transaction with one another, they can submit an appeal to the Incorrect Direct Debit Report Disputes Committee. The committee issues binding recommendations to licensees (banks) on resolving these disputes. No appeals were submitted to this committee in 2009.

Figure 15
Incorrect Direct Debit Reports (MOIs)
Numbers



Regulations and certification

The Incasso Regulations provide a system of fraud prevention measures. Some of these measures relate to checks that banks conduct as soon as the direct debit transactions are submitted to the bank. These checks are largely based on limits agreed between the bank and the payee in the Incasso contract (such as a maximum amount per direct debit transaction and a maximum number of direct debit transactions per batch). During the past few years, most contracts already imposed limits. In 2009, at the request of Currence, the banks also included limits in the remaining contracts, thus improving fraud prevention. Based on the banks' reports to Currence, there were practically no incidences of direct debit fraud in 2009. There were several cases of attempted fraud, which could be stopped in time, thanks to the preventive measures in place.

Although Incasso is frequently used to pay for online purchases, the requirement for the debtor to issue a written mandate is often not met. As a result, payers can have their banks refund such direct debit transactions at any time in the ensuing thirteen months. Web retailers who have not requested the customer's signature are therefore knowingly at risk and cannot be sure of payment until after the incorrect direct debit refund period has expired.

Internet mandate invalid...

With a view to current market requirements and the fact that consumers are well protected by this (illegal) form of direct debit, a blind eye has been turned on the practice until now. Currence nevertheless feels the practice should be brought to a halt. In this respect, Currence has been cooperating with licensees to investigate the possibility of developing a digital mandate specifically for internet use. From this, it was concluded that it was preferable to maintain the specifications for an electronic mandate, currently under development within the SEPA Direct Debit; SDD (the so-called European Direct Debit). This will take some time to realise, however.

...and awaiting European standard.

In 2009, the Incasso Regulations were amended in compliance with the European Directive on Payment Services (see below).

At the end of 2009, there were 50 Incasso licensees (2008:53). Two small banks cancelled their licences, and two banks merged into one institution. As in 2008, there were five registered certificate holders.

Payment Services Directive

PSD offers consumer significant improvements.

The European Payment Services Directive (PSD) was implemented in the Netherlands effective from 1 November 2009. In respect of Incasso, the Directive particularly relates to the (more favourable) product terms and conditions for consumers, therefore improving customer protection. The most important changes for Incasso concern:

- The period within which payers are entitled to payment refunds: This has been extended from thirty calendar days to eight weeks (56 calendar days).
- The period within which an appeal can be made under the Incorrect Direct Debit Report procedure (MOI): This has been extended from twelve to thirteen months from the date of debit.
- The implementation of the possibility for payers to refuse direct debit payments by instructing their banks accordingly at any time up to one working day prior to the date on which their account is due to be debited. The bank then has the responsibility to ensure that the transaction in question is not executed.

Currence reduces number of Incasso variants.

Currence has amended its Rules and Regulations in accordance with the new legislation, effective from 1 November 2009. The Incasso contracts between payee and bank have also been amended accordingly and consumers have been informed of the amendments to the PSD (of which the scope is much broader than Incasso alone). Currence also seized the opportunity to reduce the number of Incasso variants to the most common ones. The differences between mandates issued by telephone and in writing have also been removed. This leads to a simplification of the product range, thus contributing to the clarity (table 2).

Table 2

Incasso variants and payer's right of refund

Variant	Refund period of Incasso before 1-11-2009	Refund period of Incasso after 1-11-2009	Refund period of SDD
Recurrent direct debit (general)	30 calendar days	8 weeks	8 weeks
Recurrent direct debit for lotteries	None ☎ 5 working days[1]	None	No variant available (yet)
One-off direct debit[2]	None ☎ 30 calendar days[1]	None	8 weeks
Recurrent direct debit for business	5 working days	5 working days	None

[1] For mandates issued by telephone

[2] There is no right of refund for the 'auction direct debit'

Incasso and Europe

As of last November, when the PSD came into force, European banks can offer their customers the possibility of making collections and payments with SEPA Direct Debit; SDD (the so-called European Direct Debit). This new, uniform product for the whole of Europe facilitates both domestic and cross-border collection and payment. The SDD therefore means a significant improvement for internationally oriented businesses and consumers. It can also lead to economies of scale in processing, thus stimulating competition on the European payment market. Following an ample transition period, eventually the SDD will replace the existing national Incasso transactions.

SDD will eventually replace Dutch Incasso.

In September 2009, once it had been approved by the European Parliament, the European Council adopted a Regulation. This requires banks to be able to collect SDD from the accounts of their clients by 1 November 2010. The Dutch banks are expected to be ready for this by mid-2010. As soon as banks are able to process the direct debits, businesses will be able to collect payments from their customers using the SDD.

Banks able to process SDD by 1 November 2010.

The EPC has formulated standards and guidelines for the SDD. The two basic variants of this are the recurrent direct debit and the one-off direct debit, both with an eight-week right of refund (table 2). In the course of 2010, a variant will also become available that is specifically designed for the B2B community, without refund right for the payer.

As the Netherlands has a wider range of Incasso products than the EPC had originally anticipated, the Dutch banks have submitted a proposal to the EPC to also include several other variants commonly used in the Netherlands (recurrent direct debit for lotteries and one-off direct debit, both without refund right). The EPC has since decided to develop a direct debit variant without refund right that can be used for both one-off and recurrent direct debits. As Table 2 shows, a recurrent direct debit without refund right currently exists in the Netherlands only for lotteries. Further details concerning the conditions for using any such variant of the SDD will become clear in the course of 2010.

The differences between the current Incasso and the SDD are limited. Therefore, other than the changes by virtue of the Payment Services Directive, there will be few functional changes to the product for Dutch consumers, apart from the wider geographic reach. Payees must adjust their systems and customer account records in compliance with the new standards and send direct debit collections, including mandate-related information, to their banks sooner. As part of its risk management, the debtor's bank may (but is not obliged to, in accordance with the European Rulebook) actively check this information in advance through such means as first offering it to the debtor for verification (see below for the Netherlands). This is an improvement in terms of security. In addition, all banks and processors must obviously have modified their systems in accordance with the SDD before it can be introduced to the market. In addition to the necessary investment, the lead-time is also substantial.

Implementation of SDD demands concerted effort from all parties...

A possible obstacle to the introduction of the SDD was the uncertainty of whether the existing mandates issued by consumers for national direct debit (Incasso) transactions would also be able to be used for the SDD transactions. It has been established that this will not be a problem for the most commonly used mandate in the Netherlands, the recurrent direct debit (general).

...but current Mandates remain valid for SDD.

As set out above, an extensive risk management system has been implemented for the Dutch Incasso. During the European consultations, the Dutch banks asked for a similar form of risk mitigation to be implemented for the SDD. A number of principles for risk management have since been incorporated in the rules governing SDD. Their implementation will be left to individual banks, however, (or collectively per country). The expectation is that Dutch banks will agree to continue to apply the rules implemented in the Currence Rules and Regulations for the current Incasso as well as for the SDD. In this context, the mechanism enabling consumers to block all or particular payees (including those from abroad) will be continued for the SDD. Furthermore, the Dutch banks intend to offer their customers a so-called alerting service. Consumers will then receive notification (by text message, email or through the Internet banking system) prior to a one-off direct debit or the first payment of a recurrent direct debit transaction. The method of notification may vary per bank. The Dutch banks offering the option of (selective) blocks and alerting service meets the requirements of the Dutch Consumers' Association.

Prior notification of direct debit for consumer with alerting service.

Over the next few years, the SDD will be gradually implemented and replace the current Incasso. One subject of international consultation and discussion during the past year involved whether a date should be set for the termination of national products. A specific final date would encourage migration to European products and thus limit the costs of double systems. This discussion has yet to be concluded. Meanwhile, the European Parliament has adopted a resolution requesting the European Commission to issue details regarding the closing date as soon as possible.

Final date for replacement by European product not yet known.

Currence has no control over the SDD, the applicable rules and regulations and the risk prevention measures to be taken by Dutch banks, because the SDD is not a Currence product.

Incasso or Acceptgiro?

A survey revealed that, on a scale from one to ten, Dutch consumers gave the product Incasso an average of 7.7 and Acceptgiro a 7.5. Only 7% of the consumers gave both products less than a 6. Despite these similar ratings, however, consumer preference for either product varies considerably depending on the use. Consumers prefer to use Incasso for recurrent payments, but clearly prefer Acceptgiro for single payments (see table). For recurrent payments, the convenience and certainty automatic direct debits preferable to Acceptgiro. For single payments, consumers like to determine the time of payment themselves in order to keep track and control, and prefer to use Acceptgiro. As many as 28% of the consumers said they always preferred to use Acceptgiro. Actual consumer behaviour varies from these preferences, however. In practice, only 2% always pay by Acceptgiro and 26% of the consumers therefore do not follow their preference. This is partly due to situational factors, such as price differences (discount or charge) or not being able to pay by Acceptgiro. In practice, 89% of the consumers use both products and 9% always use Incasso.

Consumer preference for Incasso and Acceptgiro

	Incasso	Acceptgiro
Product preference for:		
– recurrent payment	61%	.
– single payment	.	61%
– always Incasso	11%	.
– always Acceptgiro	.	28%
Actual use:		
– both	89%	89%
– Incasso only	9%	.
– Acceptgiro only	.	2%

As shown in the chart below, both products are in wide use. Incasso is used mostly to pay for financial services (mortgages, savings, health insurance) and is widely used to pay for utilities (electricity, gas, water and telephone). Acceptgiro is used relatively often to pay government authorities (taxes, fines, etc.).

Origin of Incasso and Acceptgiro transactions

2009; percentage shares of the total number of transactions

Total Incasso transactions: 1.27 billion

Total Acceptgiro transactions: 162 million

Note: Distributions are based on the 'Top 1000' largest collectors.

acceptgiro

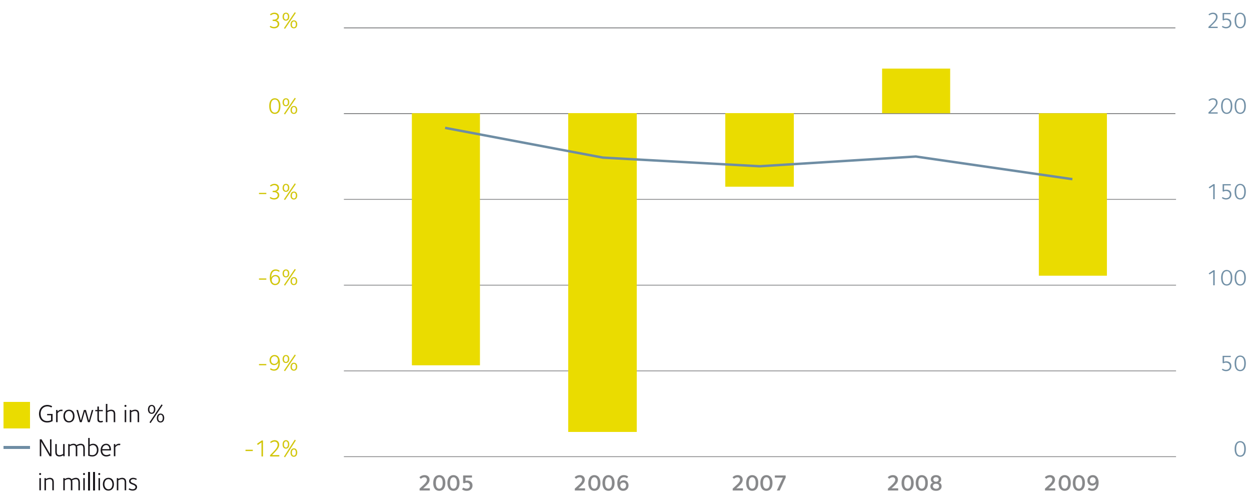
Acceptgiro

Acceptgiro transactions increasingly effected online.

After the brief revival in 2008, the downward trend in the number of Acceptgiro transactions processed continued in 2009, falling by 5.6% to 162 million (Figure 16). The number of Acceptgiro transactions that consumers effected through online banking continued to rise in 2009. Seventy per cent of all Acceptgiro transactions are currently processed through online banking (representing a 50% increase since 2005). Not all banks actually classify Acceptgiro transactions submitted through online banking as Acceptgiro transactions. Some classify them as credit transfers, as a result of which they are not included in Acceptgiro statistics. Looking past that, the number of payments initiated on the basis of an Acceptgiro form is substantially higher than aforementioned 162 million, and there is no evidence of a downward trend in the use of Acceptgiro (Figure 17). Despite the downward trend set out above, Acceptgiro pre-printed credit transfers therefore continue to play an important part in the payment system. However, there is also evidence of a move towards more efficient methods of payment (Incasso, iDEAL).

Figure 16

Processed Acceptgiro transactions



Consumers value simplicity and convenience of Acceptgiro.

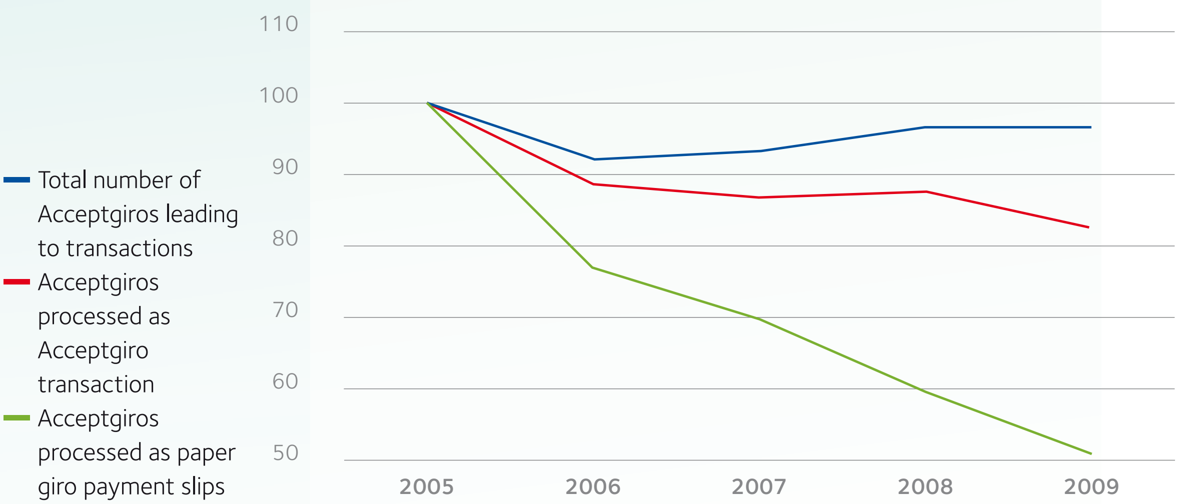
Digitalisation could curb costs of payment systems.

In 2009, 30% of all Acceptgiro transactions were submitted as paper Acceptgiro forms by payers to their bank. A survey revealed that approximately 40% of the consumers receiving these paper Acceptgiro forms do not have access to online banking. Nearly 60% do, but have a clear preference for using paper Acceptgiro forms. One of the reasons given for this is that fewer actions are required since there is no need to type the details into their online banking environment. They also say it is easier to submit several (paper) Acceptgiro transactions at once (faster, less effort). Encouraging the use of digital invoices, which can be processed directly and without additional actions in the online banking environment, would result in further reductions in the paper flow. The same applies at the sending end. Sending out paper invoices with an Acceptgiro form is still common practice for a large number of companies. An increase in the use of digital invoices, aimed at both consumers (digital invoice) and businesses ('e-invoicing'), could help reduce economic costs substantially in this respect. Market players have taken initiative in this respect during the past few years. Several banks now offer their customers the option of receiving digital invoices in their online banking environments. The government and representative business organisations have agreed that businesses will send at least 10% of their invoices to government bodies digitally in 2010. The target is for this to be 80% by 2014.

Figure 17

Acceptgiro transactions

Year ends, index figures (2005=100)



Note: The difference between the number of Acceptgiro forms that led to payment, and the number processed as Acceptgiro transaction relates to Acceptgiro forms processed as ordinary credit transfer. Due to differences in the 2005 starting levels, no absolute differences can be derived from this chart.

Acceptgiro adjusted to European requirements.

Despite the expectation that the number of payment orders processed as Acceptgiro transactions will continue to fall in the coming years, the market demand for this product is also predicted to remain for some time. In 2009, Currence consequently decided, on the grounds of market consultation and dialogue with its licensees, to modify Acceptgiro to comply with European requirements. A project has been set up for this, closely involving banks and end users.

At the end of 2009, there were 39 Acceptgiro licensees (2008: 41); the number of certificate holders fell by 2 to 9. The number of printing offices with which Currence has a contract to print Acceptgiro forms remained unchanged compared to 2008: 45. The number of service bureaus with a contract to print Acceptgiro forms rose by 11 to 376.

iDEAL

iDEAL and the market

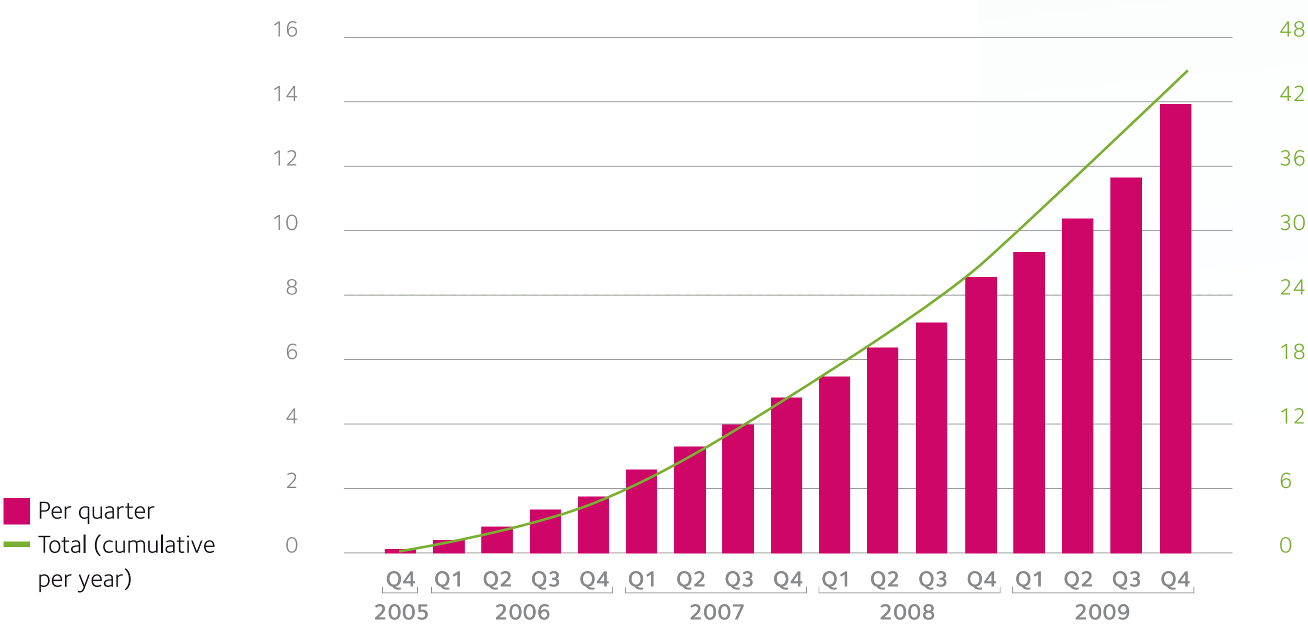
iDEAL growing spectacularly, replacing inefficient payment methods.

Use of iDEAL continued to grow substantially in 2009. The number of transactions rose by 63% to 45 million (Figure 18), and the turnover paid for by iDEAL transaction reached nearly 3.4 billion euros (2008: 2.1 billion euros). The market share of iDEAL has continued to grow as a result. The popularity of iDEAL among Dutch consumers rose again in 2009. Of the consumers buying online 53% now prefer iDEAL as payment method (2008: 42%), followed by 21% preferring to use Acceptgiro (Figure 19). In addition to having a clear preference for iDEAL, ever more consumers also actually pay by means of iDEAL transaction. In 2009, 47% of the consumers said they had paid for their last online purchase by iDEAL transaction, which is considerably more than in previous years (figure 20). This graph also shows that the rise of iDEAL was particularly at the expense of less efficient, off-line payment methods such as Acceptgiro and credit transfers. Consequently, iDEAL was again, by far, the most popular method of online payment in 2009.

Figure 18

iDEAL transactions

Numbers in millions

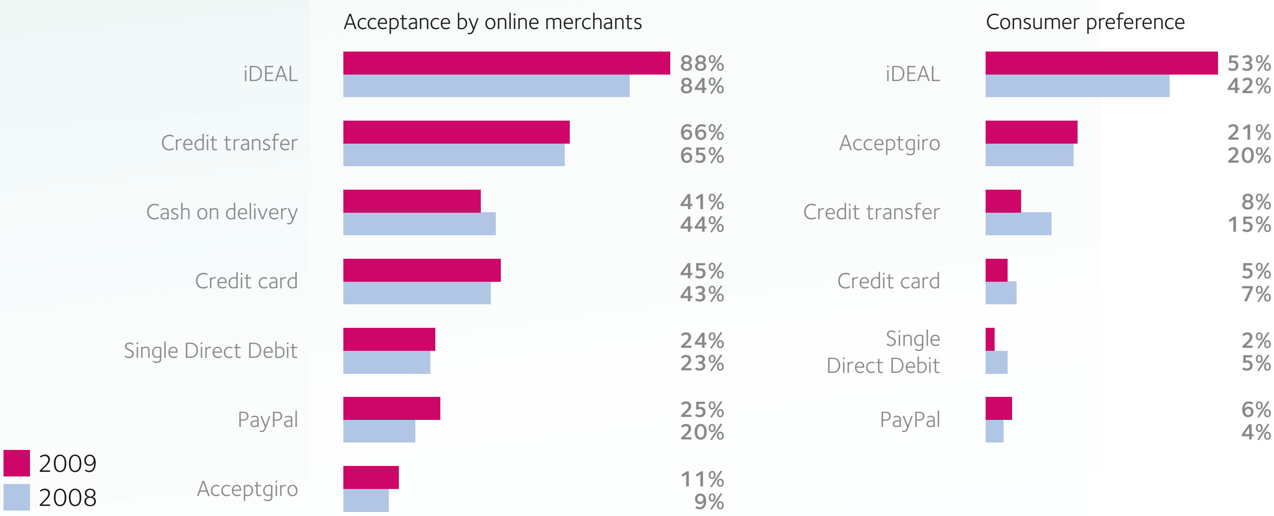


More banks provide iDEAL, 25% more webstores accept iDEAL...

In 2009, the possibilities for paying by iDEAL transaction also continued to rise. The number of web shops offering iDEAL as payment method rose from 12,000 in 2008 to over 15,000 in 2009. Of the 'top 1000' web shops 88% offer iDEAL (figure 19). The number of banks offering their customers iDEAL also continued to rise in 2009. Friesland Bank, Royal Bank of Scotland (RBS), SNS Regiobank and ASN Bank have become licensees, as a result of which practically every Dutch consumer with access to online banking services can use iDEAL. In the course of 2010, Triodos Bank and Van Lanschot are also expected to become licensees.

...consumer preference for iDEAL growing rapidly.

Figure 19
Payment methods for online shopping
2009



Source: Blauw Research

iDEAL also often used for non-traditional e-commerce.

iDEAL is also being used increasingly as payment method outside the scope of traditional ‘e-commerce’, for such transactions as council fees and transport passes, licences and deeds. iDEAL is also popular for loading ‘e-wallets’. This is the credit in a digital wallet, which is used to pay for mostly small amounts with low-level security, in situations where an iDEAL transaction would be too complex or costly (such as small downloads or playing online games).

The success of iDEAL is attributable to a number of factors. The concept of simple, convenient and, above all, safe online payments has a tremendous appeal to consumers, while merchants greatly value the real-time guaranteed payment. Another key factor for success is the collaboration between the parties involved in creating iDEAL. The banks that developed iDEAL had a common objective and took the interests and wishes of online merchants and consumers into account. Furthermore, the product was launched to the market with the support of the home-shopping sector. Currence is responsible for the ownership of the standards and product management, while (collective) marketing communication has boosted its use. Partly due to this, iDEAL was able to secure a leading position in the online payment market within three years and it would now be impossible to imagine Dutch e-commerce without iDEAL. This was

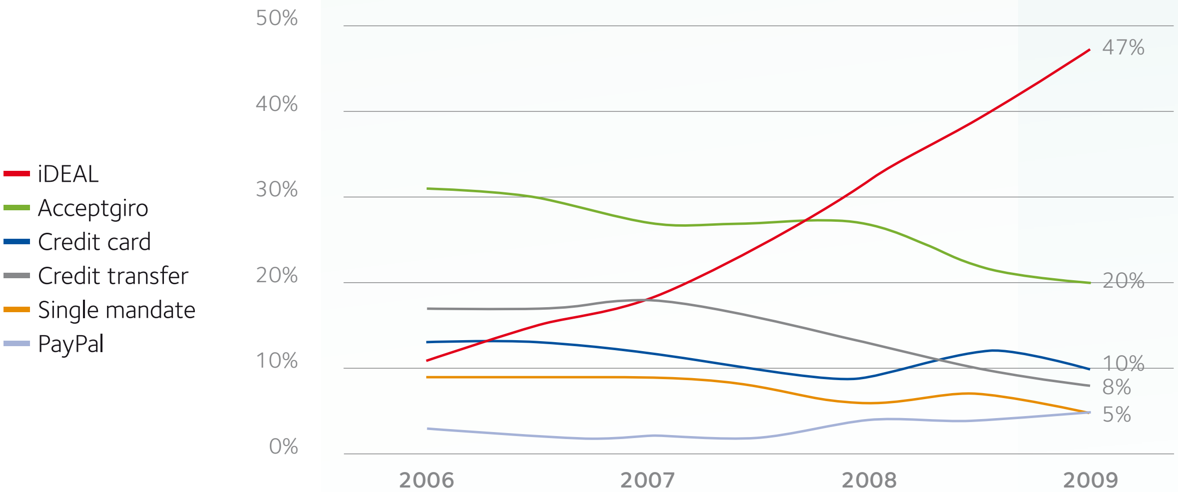
iDEAL strongest financial brand in the Netherlands.

underlined by the fact that iDEAL emerged as strongest financial brand in a survey conducted by the European Institute for Brand Management to establish the brand Dutch consumers find most indispensable.

Figure 20

Payment method used for last online purchase

As percentages of number of online purchases



Source: Blauw Research

Regulations and certification

High and constant availability of iDEAL is increasingly important, as it is used more and more. Although iDEAL, as a system, has never been completely unavailable, a bank in the system may be temporarily out of use, due to malfunctions, maintenance or similar reasons. This will then affect only the customers of that specific bank while most of the iDEAL transactions will function properly. Thanks to a new release of the iDEAL standard and improved internal procedures for many of the banks, the availability of the system as a whole improved in 2009. Improved rules and procedures regarding operational agreements between banks were also helpful. To improve market players' knowledge of unavailability, a central unavailability reporting system was set up in 2009. Up-to-date information on (acute) unavailability of and scheduled maintenance to the systems will consequently be visible in real time to all connected parties. This reporting system meets a significant need among market players.

Central reporting system for unavailability of iDEAL is operational.

In 2009, the Rules and Regulations were expanded to include the role of Collecting Payments Service Providers (CPSPs), a role for which eligible market players can be certified. These service providers act as 'collectors' on behalf of payees (online merchants) receiving payment through iDEAL and usually also other payment methods. Payees consequently need conclude

iDEAL scheme roles expanded to include Collecting PSPs.

a contract with one party only and integrate their web shop only once to be able to offer a whole range of payment methods. The CPSP receives the money from the payer and forwards it to the payee. Since the start of iDEAL, these CPSPs have occupied a prominent place in offering iDEAL (approximately half of all iDEAL accepting merchants work with a CPSP). This was also the reason for including this category of service providers as a fully-fledged, recognised party in the iDEAL scheme roles. A secondary factor was that CPSPs had, until then, come under the responsibility of acquiring banks. This did not yield sufficient clarity and transparency. This was partly because most CPSPs had concluded contracts with several banks, and it was consequently unclear which bank has final responsibility for the CPSP. On the other hand, compliance with the regulations was monitored by a party that is also commercial interest. This could lead to undesirable situations. Separating the roles of the two parties avoids this. In the new situation CPSPs, as certificate holders, will retain a contractual relationship with the licensee, who will formally act as (primary) commercial provider of iDEAL to online merchants and CPSPs. Thus far, licensees are only banks.

CPSPs wishing to join must demonstrably comply with the regulations, as evident from a successful audit. Existing market players already providing these services will be eligible for dispensation for a maximum period of twelve months. The requirements must be met within this period. At the end of the year under review, fifteen parties had signed a certificate agreement and another ten were preparing to do the same. As from the summer of 2010, only certified parties will be able to operate as CPSP.

In view of the nature of their work, CPSPs are payment institutions within the meaning of the European Directive on Payment Services, which came into force on 1 November 2009. Among other things, this entails mandatory entry in the register that DNB keeps pursuant to the Financial Supervision Act, the FSA Register. As of 1 November, it is also possible for payment institutions to become an iDEAL licensee. No party from this category has yet applied for such, however.

Currence periodically conducts integral risk analyses in respect of its products. In this context, Currence asked an external party to conduct an end-to-end risk analysis of iDEAL in 2009. The results of this analysis revealed no risks other than those previously recognised when iDEAL was first set up. Several recommendations were made nonetheless, regarding uniform compliance with regulations by licensees and acceptance policy of new online merchants. Currence will incorporate these recommendations in the iDEAL regulations and procedures. DNB has an oversight task in respect of payment products and, as such, reviewed iDEAL again in 2009, as it had in previous years. DNB concluded that in the year under review all outstanding points from the previous review were fully complied with and that iDEAL therefore complied with all the required standards.

At the end of 2008, there were eight registered iDEAL licensees. Three banks joined and, as a result of integration, two banks converted their licences to a single licence.

iDEAL and Europe

Little progress in harmonisation of online payment for online purchases.

The success of iDEAL is not matched anywhere else in Europe. Germany (giropay) and Austria (eps) do have similar systems to iDEAL, but the number of transactions processed with these systems is substantially lower than with iDEAL. In a number of other countries, banks offer so-called mono-bank solutions, which work on a similar principle. However, they require online merchants to agree contracts with all individual banks and to integrate all the solutions into their website. These applications, which are also in use in the Nordic countries, have not yet been able to match the success of iDEAL.

European online merchants want single European payment solution and hold iDEAL as an example.

For example, last year at international congresses and similar events, Currence and the shareholders of iDEAL again offered iDEAL as a successful example of an efficient and secure online payment method available to other communities. There were also targeted promotional activities, and in the press and professional literature, iDEAL was frequently mentioned as an example of successful innovation. iDEAL has consequently become well known internationally and is the subject of study in several countries.

Collaboration with other parties to support transactions for worldwide e-commerce.

iDEAL could prove to be a good option for banks in other countries. It is a proven concept, efficient, safe and user-friendly. For these and other reasons, iDEAL is widely appreciated by users. For banks, iDEAL is an innovation with which they can strengthen customer relations and, with low implementation costs, the existing infrastructure can be used more intensively. This increases the competition with other payment methods (some of which are much less secure), while keeping the funds in the banks' current accounts. Despite these advantages and the international interest in iDEAL, it must be noted that other countries have not yet taken concrete steps towards embracing iDEAL. Currence has amended the iDEAL standard to comply with the SEPA requirements by aligning it with on the SEPA Credit Transfer. This will enable iDEAL to be used throughout the euro area once the appropriate market players have implemented this SEPA release.

Since 2008, the European Payments Council (EPC) has been working on a framework for interoperability of the various online banking payment methods. The EPC does not aim to develop a unique European payment method, rather to connect similar (national and regional) payment methods. The intended 'e-Payments Framework' should define guiding principles and preconditions for this. In view of the large differences between the various participating countries and the related background differences in terms of knowledge and experience with online banking payment methods, the realisation of this Framework is a complex and time-consuming affair. This is one of the reasons why the delivery of the framework has been delayed. Currence is not actually a member of the EPC's banking working group but does support the Dutch banking representatives with their work on this.

Last year, both the European E-commerce and Mail Order Trade Association (EMOTA) and the European Central Bank proposed a single integrated European online banking based payment solution, such as iDEAL. Underlying motive for this is that they fear an interoperability approach would lead to a patchwork of systems, leading to high costs and operational inefficiencies. They have therefore called (on the EPC) to give priority to the development of one (unique) European solution. Currence and its shareholders also invited foreign banks to participate in iDEAL.

So as not to be restricted to the euro area and, in the medium term, to be ready to support a worldwide e-commerce development, the International Council of Payments Network Operators (ICPNO) was established in 2008. Together with parties resembling iDEAL, from the US, Canada and Germany, among others, Currence is developing a wide-scale interoperability model; wide-scale in terms of both geographical reach and issues addressed. In 2009, it was decided that iDEAL and the German giropay would elaborate on this interoperability model. It is not warranted, though, that this model is not in conflict with the aforementioned e-Payments Framework.

Time will tell whether all these developments converge to the ideal solution.

Explanation of the structure, organisation and governance of the company

Structure

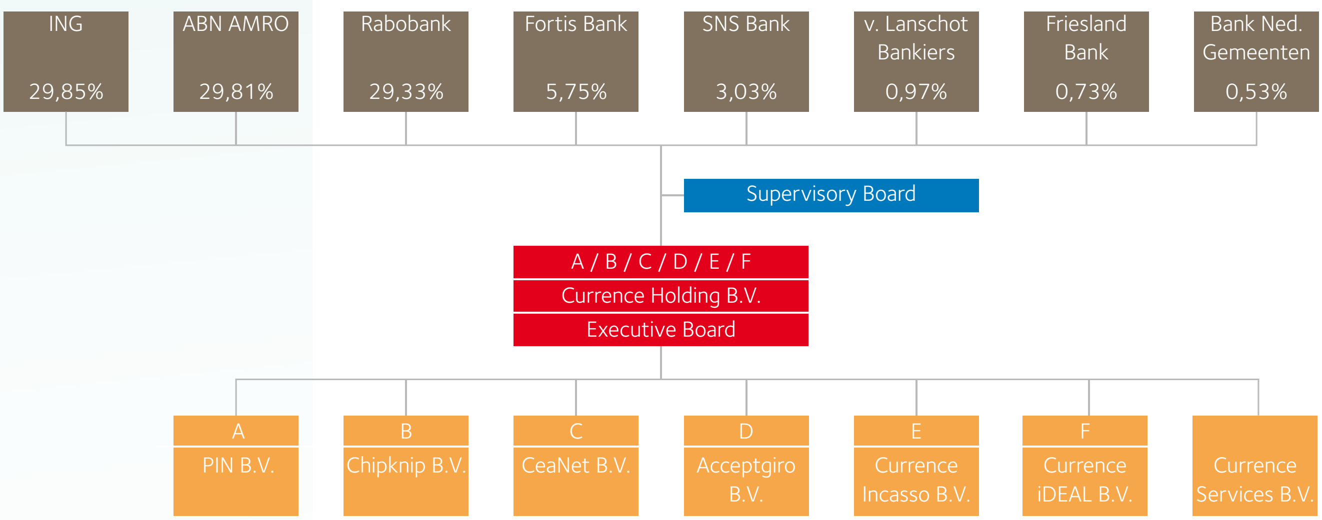
Structure of the company

At the time of its establishment, Currence was given a special structure in order to achieve maximum transparency and flexibility. Currence Holding B.V. has various subsidiaries, in the form of product-specific private limited liability companies (B.V.s). Currence Holding B.V. has issued 'lettered' shares to its shareholders (shares A to F), each type of share relating to a specific product-specific companies.

This structure has a number of advantages for Currence. It allows the policy on the uniform payments system and the overall external profile of the company to become more firmly embedded, while leaving enough scope for individual shareholders' interests and their accompanying rights and obligations to be differentiated for specific products. A shareholder need not invest in all the product-specific companies, and the interest of shareholders can vary from one product-specific company to another. In contrast to other product-specific companies, letter shares in Currence iDEAL B.V. are held by three banks (ING, ABN AMRO and Rabobank).

In order to facilitate access for new shareholders, conditions have been imposed with which both new and existing shareholders must comply, creating a transparent market situation for all parties. A non-bank that plays a role in a particular payment product, for instance, may also be an investor in a product-specific company. The non-bank may then become a shareholder of Currence Holding B.V., accepting financial risks only for the specific product concerned and having shareholder rights to vote on the long-term policy for that product only. This structure allows different parties to invest in payment innovation.

Legal structure



Each payment product is operated by a separate company. The product-specific companies own the rights to the brands and logos, copyrights and other (intellectual) property rights. This also means that these companies are the contracting parties of the licensees and certificate holders and are responsible for issuing licences and certificates and for the related compliance procedures. The product-specific companies also have specific financial rights and obligations.

Organisation

Nature of the organisation

Currence is a professional, knowledge-driven organisation in a dynamic environment. It is therefore vitally important that Currence has the right people and that staff knowledge and experience levels remain consistently high. Currence pays considerable attention to these aspects.

At the end of 2009, Currence had 26 employees, as well as several temporary staff.

Management of the organisation

For its internal management, Currence has established an annual Planning and Control cycle, in which the objectives formulated by the Executive Board are differentiated into departmental plans and subsequently into individual plans for the staff.

In order to provide insight into both the risks associated with the operations and the control of the extent to which the above objectives are realised, Currence produces quarterly and other reports. These reports serve to assess the achievement of the intended objectives and to adjust the business plans as required. If necessary, attention is also paid to sickness absence. In addition, the development of the budget and any associated risks are analysed and assessed every quarter. These internal risk management and control systems worked effectively during the year under review.

DNB oversees the regulation of Currence and its products as part of its duty to promote security and efficiency in the payment system. In 2007, DNB performed initial checks to assess the extent to which Currence Holding B.V. and iDEAL complied with the agreed standards. It was found that Currence Holding B.V. fully complied with all the standards, while iDEAL complied with most of them. On the grounds of its assessment in 2009, DNB concluded that iDEAL now also complies with all the standards. In 2009, DNB assessed PIN against the new European oversight framework for card payments. PIN was found to comply with all five standards of this framework.

Corporate Governance

Corporate Governance Code
Currence attaches great value to good corporate governance and largely complies with the Corporate Governance Code. A number of the Code's principles and best-practice provisions are not applicable to Currence as it is an unlisted company of a limited size.

Independent governance
Operating independently is a prerequisite to Currence being able to fulfil its mission and perform well. The governance structure of Currence ensures its independence. The Executive Board operates independently. Market players cannot influence management decisions concerning the admission of new players to the market (competitors or otherwise). Nor may they exert any influence that would lead to the unfair exclusion of (potential) market players or impede innovation.

The independent Supervisory Board advises and supervises the Executive Board. It acts in the interests of the company and its subsidiaries, also taking the shareholders' interests into account.

As the shareholders themselves operate in the payments market, and with a view to the requirements of free competition, they have no powers regarding the commercial policy of Currence, the admission to the market or the Rules and Regulations and product changes, other than their statutory powers. The General Meeting of Shareholders has specific approval authority in exceptional cases only, where product modifications would entail radical changes, and consequently investments, in the payments infrastructure.

The independence of Currence is further ensured by the independent possibility of appeal to the Netherlands Arbitration Institute (NAI). Licensees, certificate holders and applicants for admission to the market can appeal to this institute against decisions or sanctions by Currence. No appeals have yet been filed.

Further to its informal approval expressed on 19 April 2005, the Netherlands Competition Authority (NMa) has issued a positive assessment of the governance of Currence in relation to the competition requirements.

With its independent governance, Currence fulfils a unique role in Europe that has proved its worth for the operation and management of the uniform payment systems market.

Such a role will also continue to be important following the introduction of SEPA, when cooperation and joint agreements will continue to be required for a smoothly operating payment system.

Furthermore, the intricacy and complexity of the payment chain are likely to increase due to the wider range of options. A neutral party with oversight and expertise can help significantly in preventing problems from occurring and solving any that do.

Role for market players

Currence consults market players prior to any decision-making on changes to products and/or rules and regulations, since these changes have a direct impact on the business operations of its stakeholders, in particular licensees and certificate holders. Market consultations and a structural dialogue with stakeholders in the payment chain relating to its products are vital to the effective operation of Currence. This is warranted in part by advisory bodies, made up of licensees and groups of certificate holders, which represent the clients of Currence. Currence also maintains regular contact with umbrella groups, industry associations and consumer organisations.