**Dutch Payments** 



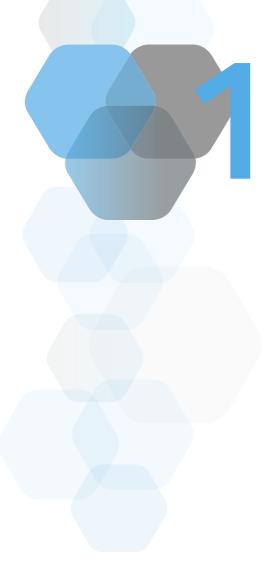
**Association** 

# Annual Report 2012



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## **Profile**

The Dutch Payments Association [Betaalvereniging Nederland] organises the collective tasks in the national payment system for its members. Members are providers of payment services on the Dutch market: banks, payment institutions and electronic money institutions. The collective tasks of the members relate to payments infrastructure, standards and common product features, aimed at achieving an optimally effective, secure, reliable and efficient payment system.

The payment system is of great social importance. Hence, transparency, openness and accessibility are important principles.

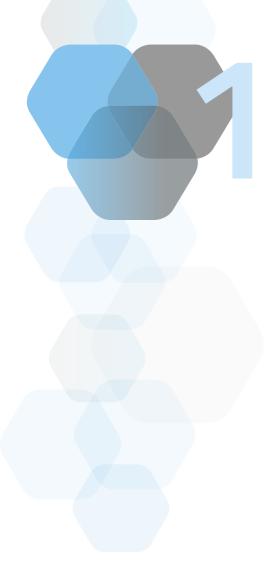
Active cooperation with end user representatives is essential for an efficient and secure payment system. Consequently, the Payments Association devotes much attention to stakeholder management.

#### Our mission

The Dutch Payments Association (hereinafter Payments Association) aims to achieve an optimally effective, secure, reliable and socially efficient payment system. To this end, the Payments Association provides services (collective tasks) that serve the common interest of its members and supervises these collective tasks.

Important prerequisites for successfully executing our tasks are:

- Transparency;
- Openness;
- · Accessibility, and
- · Quality.



The Payments Association considers it extremely important to actively involve representatives of end users – i.e. entrepreneurs and consumers – in its activities. In doing so, the Payments Association gives substance to the social character of the payment system.

#### Our vision on the payment system

Each day, millions of transactions are effected efficiently, securely and quickly in the Netherlands. The payment system is an indispensable pivot of the economy, has many stakeholders and is of great social significance. In that sense, the payment system has a utility function.

The large number of parties involved, the high quality requirements and the large volume of transactions make the payment system an extremely complex market. Consequently, all relevant parties have to be involved and their interests taken into consideration to achieve an effective, secure, reliable and socially efficient payment system.

With the creation of the Single Euro Payments Area (SEPA), standards and payment products are increasingly being established at a European level rather than at a national level. Moreover, European legislation gives new players (payment institutions in particular) more opportunities for entering the payment market. Even though the payment market is becoming international, national collaboration with regard to collective and non-competitive matters remains extremely important. This is particularly important in terms of further improving the high quality level of the payment system and retaining the social advantages achieved thus far, as well as expanding these further where possible.

#### The Payments Association as 'director' of the collective tasks within the payment system

The Dutch Payments Association fulfils a large number of collective, non-competitive tasks within the Dutch payment system. In this context, the Payments Association cooperates closely with its members and periodically consults them regarding (new) developments and activities. In addition, end user representatives are consulted proactively.



The Payments Association's tasks include:

#### Product management

In its capacity of product manager, the association focuses on establishing, managing and adjusting common product characteristics, standards and rules. The (further) development and implementation of new collective services, (international) products and standards initiated by the members or based on foreign best practices also comes under this task.

#### Change management

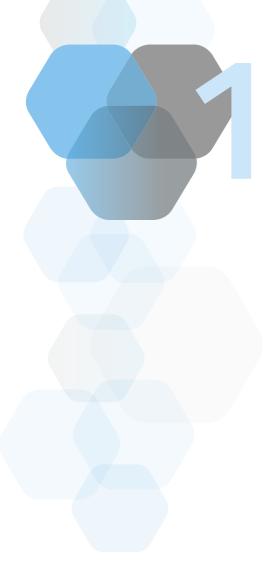
The association ensures that national and international requirements and developments with regard to the payment infrastructure, standards and product characteristics are translated to the national payment system and is responsible for the implementation thereof.

#### Quality assurance

The association formulates security requirements for the payment system and certifies, among other things, market parties within the payment chain. The association also supervises compliance with rules and regulations, to guarantee the security and reliability of the payment system and, where possible, to improve on this.

#### Fraud prevention

The association orchestrates fraud prevention within the entire payment chain, drafts and analyses fraud statistics and formulates prevention policy. In addition, the association coordinates the implementation of measures designed to prevent fraud. In the field of security of the payment system the association works closely with other organisations, including Currence, the Dutch Banking Association [NVB] and the National Forum on the Payment System [MOB].



#### Payment system expertise

The association keeps track of external developments that are of interest to its members and other stakeholders. It consults (potential) players on the payment market, external standardisation institutions and researchers. If useful and desired, the Payments Association collaborates with external parties and conducts research that contributes to increasing the effectiveness, security, reliability and social efficiency of the payment system.

#### Information

The association communicates its positions to the public, coordinates collective information campaigns regarding its activities and takes on a representative role with respect to the media.



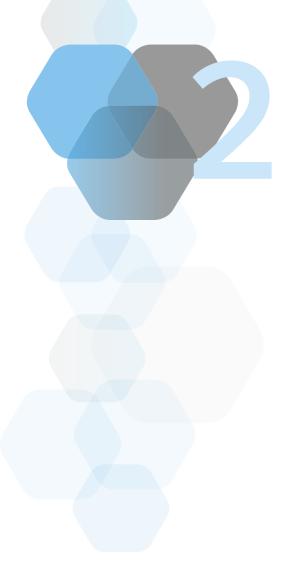
# Report from the Board of Directors

It is with great pleasure that I present to you the first annual report of the Dutch Payments Association [Betaalvereniging Nederland]. This annual report covers the combined fiscal year 2011/2012. The release of the first annual report represents the conclusion of the establishment phase of the Payments Association.

#### Background

In 2010, the Payment System Committee of the Dutch Banking Association [Nederlandse Vereniging van Banken; NVB] and Currence concluded that a reassessment of the structure of the Dutch payment system was unavoidable, given the developments taking place within the payment system. These developments include the internationalisation of the payment system – with national products being replaced by European standards (SEPA), the more open and dynamic market structure generated by the arrival of non-bank payment institutions (and similar entities) and the increasing need for stakeholder management and supply chain management. Specifically, these developments are diminishing the role of Currence as owner of the national payment products. For example, with the introduction of EMV technology, the Dutch product PIN was replaced by the international products Maestro and V PAY. In addition, with the advent of payment institutions, it is no longer considered desirable for the NVB, as the organisation representing the interests of the banks, to fulfil collective tasks for the payment system. Taking this into consideration, the parties involved have decided to investigate how a neutral organisation could best be established for the investment of collective tasks in the payment system in the Netherlands.

The creation of a new payment organisation was investigated in 2010 and 2011, under the direction of a steering committee composed of representatives from banks, the NVB and Currence, and with De Nederlandsche Bank (DNB) participating as an observer.



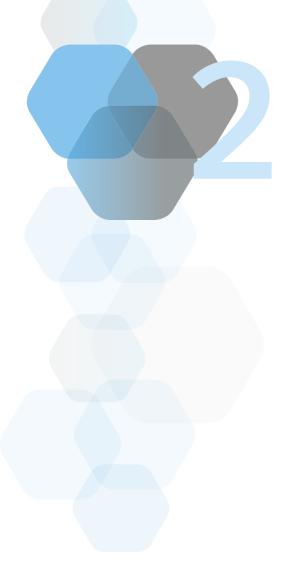
This investigation considered job responsibilities, governance and funding, as well as the structure of the organisation. Because the demand side of the payment system is also important, the results of the study were discussed with the members of the National Forum on the Payment System [Maatschappelijk Overleg Betalingsverkeer; MOB]. The suggestions that they made have been incorporated into the final report. The Dutch Payments Association was founded on 29 November 2011, in the knowledge that a central investment and direction of the national collective tasks, combined with clear and unambiguous governance, would contribute to the effectiveness, efficiency, security and reliability of the national payment system.

#### **Board of Directors**

As specified in the statutes, the Board of Directors of the Payments Association has nine members: The board consists of three independent members, including the chairman, and six members who are affiliated with members of the Payments Association. The <u>section on Board and Management</u> provides additional information on the composition of the Board.

The Board met seven times during the reporting period: twice in 2011 and five times in 2012. During the initial meetings, focus was on the establishment of the association and the structure of the organisation, as well as the annual plan and budget for 2012. In subsequent meetings, additional attention was paid to substantive topics, including the prevention of skimming at unattended POS terminals, the introduction of SEPA and regulations in the area of certification.

In the summer of 2012, the Board asked the members of the Advisory Board and the working groups about their first experiences with the Payments Association. This action was taken in order to verify whether the association is on the right track. The Board subsequently decided in late 2012 to conduct a more formal review of the functioning of the Payments Association, including the division of tasks with other organisations. This evaluation is currently in progress. The Board also decided to conduct a self–evaluation as a follow–up to the evaluation of the association itself.



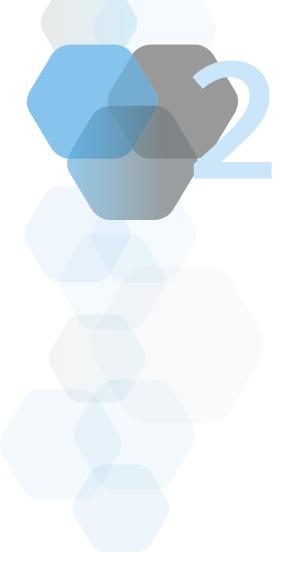
#### **Activities**

The Payments Association has three objectives: to promote an efficient and effective payment system, to ensure the security and reliability of the payment system and to promote a clear, common vision regarding the payment system. In the <u>Profile section</u>, we provide a detailed explanation of our mission and vision for the payment system.

For a more detailed description of the activities of the Payments Association in the past period, I refer to the Activities section.

At the end of this year, the Payments Association will be relocating to the Symphony building, which is also in Amsterdam. The Payments Association will occupy a floor from the NVB, which will result in significant cost reductions for both organisations.

The Payments Association has been active for about 18 months. The Board looks back on this period with satisfaction. Already the Payments Association is acquiring a public face, and it has realised results in enhancing the efficiency of the payment system, through measures including new product applications. The stability of the payment chain for electronic payments has become more robust as well, and active efforts have been made to reduce skimming and to facilitate the SEPA implementation. Members have responded positively to our request for their experiences with the Payments Association. External parties have since found their way to the Payments Association, partly via our website <a href="www.betaalvereniging.nl">www.betaalvereniging.nl</a>, which, provides clear and accessible information for many.



The payment system is changing rapidly. Products, standards and practices that have been used to satisfaction for years, are disappearing. They are being replaced by European variants, some of which have quite different characteristics. This is placing considerable demands on both the supply and demand sides of the payment system. Moreover, these changes are taking place at a time when the economy is clearly less favourable and in which people are viewing the financial sector more critically than before. The Payments Association is faced with the challenge of contributing to a sustainably efficient and secure payment system under circumstances that are not always easy.

Amsterdam, 16 May 2013

On behalf of the Board of Directors,

Henk Brouwer, Chairman



# Activities of the Payments Association in 2012

Promoting the efficiency of the payment system

#### Debit card payments

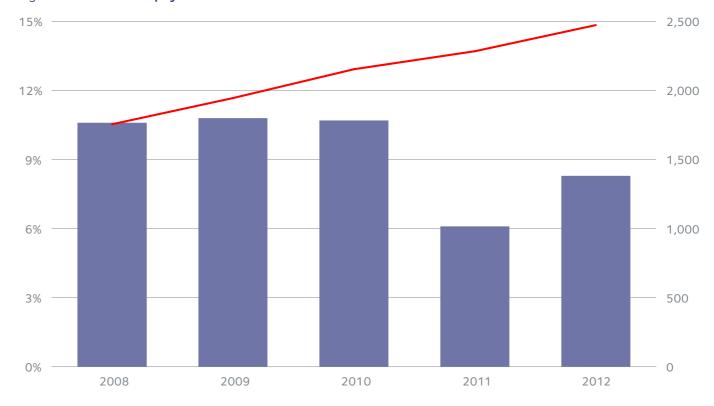
Members of the Payments Association offer their debit card payment services to corporate and private clients. The Payments Association coordinates and directs collective agreements for its members in areas including the debit card payment infrastructure, and is responsible for internal and external communications relating to debit card payments.

In 2012, debit card payments by the public increased by 8.3% compared to the previous year. In all, 2.474 billion debit card payments were made. The growth was accelerated in comparison to 2011, when it reached 6.1% (Figure 1).

Again strong growth in number of debit card payments.



Figure 1 - **Debit card payments** 



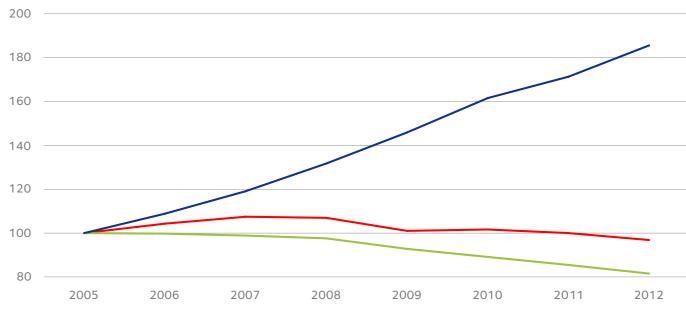


Debit card payments

Retail sales (volume)Cash payments

This is a remarkably good score in light of the deteriorating economic situation in 2012, which was accompanied by a decline in retail sales (Figure 2).

Figure 2 - Use of debit cards, cash and volume developments in the retail sector Index figures (2005=100)



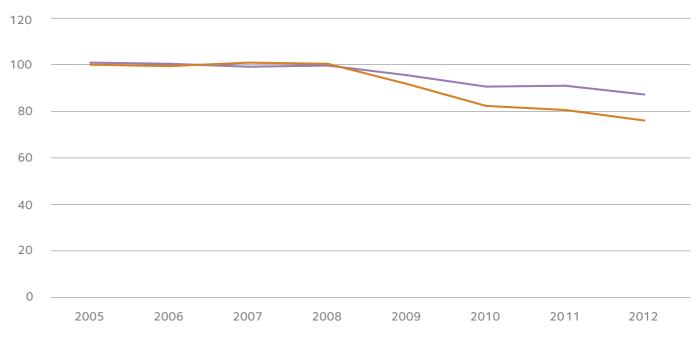
Source: DNB



The growth in debit card payments was mirrored by a further reduction in the use of cash: the number of cash payments decreased further in 2012. In line with this development, the number and amount of cash withdrawals at ATMs decreased as well (by 4.2% and 5.6%, respectively). In the past five years, the number of withdrawals from ATMs has decreased by almost 13%. The amount per withdrawal has decreased by approximately one fourth (Figure 3).

Figure 3 - Use of debit cards: developments in withdrawals

Index figures (2005=100)



Source: DNB



40% of all debit card payments take place in supermarkets.

Sharp increase in debit card payments for small amounts.

The growth in debit card payments was primarily driven by the supermarkets, where nearly 40% of all debit card payments take place. The number of debit card payments in supermarkets increased by almost 16%. This means that about three quarters (six percentage points) of the 8.3% growth in debit card payments came from the supermarket sector. The intensive promotion of debit card payment in this industry has contributed to this development. For example, the number of 'debit card payment only' checkouts in supermarkets tripled in 2012 (increasing to 1500). In addition to increasing the efficiency of the payment process, this greatly enhances security in stores.

Again in 2012, consumers made more frequent use of their debit cards for small amounts. The number of debit card payments for amounts under  $\in$  10 increased by more than 16% (Figure 4). Within this category, the number of debit card payments with a maximum value of  $\in$  2.50 showed the sharpest increase (25%). Debit card payments amounting to less than  $\in$  10 accounted for 60% of the overall growth in electronic payments in 2012. As a result, the average amount of debit card payments decreased further to  $\in$  34. Five years ago, this still was almost  $\in$  44. The total value of debit card payments in 2012 amounted to more than  $\in$  84 billion.



Figure 4 - Debit card payments continue to increase, especially for small amounts Number of payments; growth as percentages per year



A large number of promotional activities for debit card payments took place in 2012, largely under the direction of the Foundation to Encourage Efficient Payments [Stichting Bevorderen Efficient Betalen; SBEB]. The Payments Association participated in several of these activities on behalf of its members. One important joint activity of the Foundation, banks, supermarkets, international card organisations and the Payments Association involved the development and execution of a new national mass-media campaign promoting debit card payments, based on the slogan "Pinnen, ja graag" [Pay using your debit card? Yes, please]. This campaign will be launched in 2013.



New service for debit card refunds to be made possible.

The Payments Association distributes materials promoting debit card payment to businesses. In addition to the usual range of promotional materials, some materials are available with the message that only debit card payments are accepted. This will allow merchants to provide clear identification for their 'debit card payment only' checkouts, thereby increasing the efficiency of the payment process. These materials have been particularly popular in the supermarket sector.

In 2012, the European Central Bank (ECB) and De Nederlandsche Bank (DNB) published the results of their studies of the social costs of the payment system. This study revealed that, in the Netherlands, these costs were amongst the lowest in Europe, due to the strong emphasis on encouraging electronic payment at checkout.

#### Debit card payment refunds

Under the direction of the Payments Association, the members reached consensus on a framework for the development of debit card refunds, in consultation with merchants from the target group. This service will enable merchants to provide refunds credited to the debit card for the return of goods purchased in their stores. Currently it is necessary for businesses to keep cash on hand to refund their customers in the case of returns. The ability to make debit card refunds is a long-held desire of businesses in several sectors, including fashion and clothing. This alignment will soon make it possible for debit card refunds to work in the same way for users everywhere, regardless of the bank offering this service.

In the coming period, members of the Payments Association will decide whether and when they are going to offer this service to their commercial customers. The service will become familiar to cardholders, because it will work the same everywhere and be available to all cardholders wherever it is offered.



Pilot for paying by debit card without pincode in parking sector.

#### Quick and easy payment at parking ticket machines

In 2012, a trial was started involving a simpler way of paying for parking tickets. Developments in the payment infrastructure and the regulations of the international card organisations MasterCard and Visa Europe have recently made it possible for cardholders to pay for parking tickets using their debit cards but without entering a pincode. In addition to accelerating and simplifying the checkout process, this method impedes the interception of pincodes by third parties. This will help to prevent the skimming of debit card information at parking ticket machines (see box). The first pilot was held in The Hague. In this experiment, the Payments Association coordinated the participation of the card-issuing banks. This ensured clear communication to all users, regardless of which bank they used.

In addition, the Payments Association conducted a study of the experiences of customers who had used the new payment method at the parking facility. The results indicated that these users had a particular need for clear user instructions concerning any changes in the operations of parking or payment terminals.

It is expected that the application of this payment method (which is specifically available for parking and toll payments) will increase in 2013. This method of payment also offers an excellent replacement option for parking ticket machines that still accept the Chipknip (electronic purse) as a payment method.



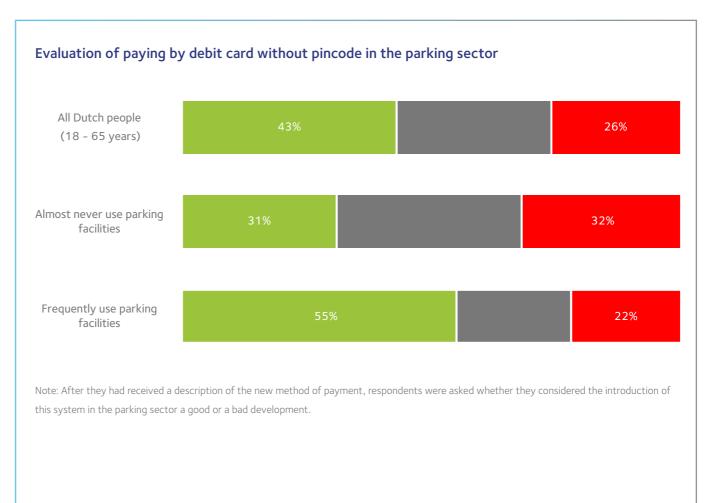
#### Parking facility customers positive about easy and secure payment in the parking sector

One of the initiatives designed to counteract skimming at unattended payment terminals involves the introduction of payment by debit card without entering a pincode, specifically in the parking sector. According to a study conducted by the Payments Association, many people in the Netherlands (43%) consider this new payment method for the parking sector a good development. About a quarter of the respondents were less positive. Most of these respondents were people who prefer to pay in cash.

Parking facility customers were significantly more positive about the new payment method than respondents who did not use parking facilities. This makes sense, as the method eliminates the risk of skimming for parking facility customers. People who do not use parking facilities do not suffer from skimming, but they may be confronted with some negative consequences of the new payment method. This is because the method increases the possibility of abuse in case of loss or theft of debit cards, as they can then be used in the parking sector without a pincode.

The study also reveals that information about the new payment method helps to increase support. This result was confirmed in the first pilot in The Hague: parking facility customers who had heard or read about the method before using it were more positive about it than were those who were encountering it for the first time (16% positive versus 35% negative).







#### **FINBOX**

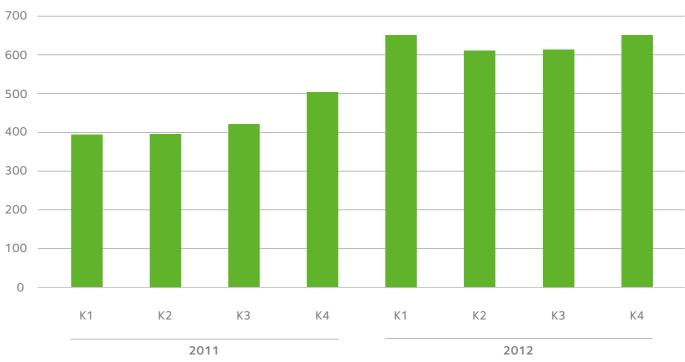
FiNBOX is a standard for the electronic exchange of documents, which can be linked to payments ('electronic bill presentment and payment'; EBPP). This standard was developed by banks and service providers who specialise in the transmission of documents. With this method, the receipt of documents takes place within the recipient's internet banking environment. This provides a safe and reliable way of receiving financial information. FiNBOX is well positioned as a digital replacement channel for the Acceptgiro, as well as offering the further reduction of paper flows. In addition to invoices, payslips, insurance policies and other financial documents have since been transmitted to receivers with FiNBOX.

In early 2012, a public campaign was organised to draw attention to the product, under the title, 'FiNBOX: Your financial inbox within Internet banking.' As a result of this campaign, the number of companies using FiNBOX has increased by a quarter, and the number of private customers has increased by about 40%. In absolute numbers, however, usage remains quite modest. In 2012, 2.5 million documents were transmitted with FiNBOX (Figure 5).



Figure 5 - Number of documents transmitted by FiNBOX

Numbers x 1000



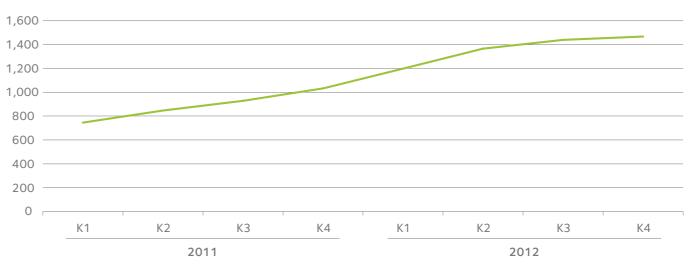


Consequently, in late 2012, a study was launched in order to determine which further steps could be taken in order to further encourage usage, thereby transforming FiNBOX into a truly successful application. In light of the ultimate discontinuation of the Acceptgiro, there is considerable potential in terms of documents that could be transmitted to consumers efficiently and paper–free using FiNBOX. And, if desirable, it would also be possible for them to pay these with the push of a button.

The number of subscriptions that consumers have taken for the receipt of documents in FiNBOX has risen to approximately 1.5 million (Figure 6).

Figure 6 - Number of FiNBOX subscriptions

Numbers x 1000



Note: A subscription is a stream of documents from a company/organisation that is connected to FiNBOX to a consumer.



#### **Electronic Mandates**

For several years, merchants and consumers have been calling for the possibility of issuing electronic Mandates (e-Mandates) for direct debit payments. The processing of the current paper-based mandates is labour intensive, and it will become even more intensive with the introduction of the SEPA Direct Debit. In addition, direct debit is increasingly being offered as a payment option for Internet purchases, without a signed authorisation form being required. For such direct debits, payees run a risk that the payer will reverse the direct debit within 13 months. Banks have acknowledged the end users' desire for a digital mandate. However, given the upcoming replacement of the national direct debit product with the SEPA Direct Debit, it was not considered appropriate to make further investments in a product scheduled to be discontinued in the short term.

With the publication of the SEPA Regulation in the first quarter of 2012, the requirements imposed on the SEPA Direct Debit became clear. Immediately thereafter, the members of the Payments Association called for the development and implementation of e-Mandates. To this end, a project was started at the Payments Association involving also relevant groups of end users. This project is based on the iDEAL payment method, which will be adjusted in order to allow consumers to issue valid mandates to their creditors easily, quickly and securely.

The specifications, which have been coordinated with all stakeholders, will be completed in the first half of 2013. The implementation plan for realising this service will also be completed in 2013. Given the current SEPA programme, which will run until 2014, it will not be possible to introduce it to the market collectively before 2015.



CONNECT ensures quick communications about disruptions in the payment chain.

No major disruptions to debit card payments in 2012.

#### Stability of the payment chain

#### Improved communication in case of disruptions

A debit card payment involves online authentication and authorisation of the payment during the transaction. A debit card payment is possible only if all of the underlying systems (the so-called 'payment chain') are available. The actual availability of the payment chain in our country is higher than in its neighbouring countries. Mainly because, unlike in other countries, the vast majority of POS terminals in the Netherlands are linked to certified data communication connections.

Nevertheless, occasional disruptions do occur. In order to minimise the consequences of disruptions, the signalling and information system CONNECT was developed in 2009. Parties in the payment chain use CONNECT to notify each other about disruptions. The system has two objectives. First, it allows the location of the chain disruption to be identified more quickly, thus allowing the disturbance to be resolved sooner. Second, it provides a clear method of notifying the market about the nature and duration of the disruption.

In 2012, the procedures for using CONNECT were tightened, resulting in improvements in the timely reporting of disruptions. Hence actions can be taken more quickly. Furthermore, an escalation procedure was established in late 2011. Amongst other effects, the procedure specifies that the Payments Association will organise a teleconference with most of those involved within 30 minutes after a major disruption has been reported. No major disruptions occurred in 2012, partly due to a continuous focus on preventing disruptions on the part of all parties involved. This also means that in 2012 no events occurred that required the escalation procedure (2011: four times).

The number of stakeholders participating in CONNECT has increased to 46 (2011: 28). This growth was almost exclusively due to the Payments Association's requirement for certified data communication providers to participate. This requirement took effect in late 2012. As a result all parties with an operational responsibility in the settlement of debit card transactions are connected to CONNECT. Because discipline in reporting clearly has improved, communication in the event of disruptions can be considered to have been optimised. About 30 retail chains receive information from CONNECT.



In 2012 participants entered 82 reports into the system (2011: 42), 24 of which involved disruptions (2011:15). In ten cases, the disruptions led to at least the partial failure of the payment chain. Most of these cases involved disruptions to the open internet connections. All disruptions were temporary, and they had only a limited impact on the payment system. The other reports involved planned maintenance.

The number of disruption reports in CONNECT was higher in 2012 than it had been in 2011. It is important to note, however, that reporting discipline has improved, resulting in more disruptions being reported in CONNECT. Moreover, the Payments Association identified several smaller disruptions itself, and these would not have been reported in the past. The number of reports issued by data communication providers (11) greatly exceeded the number reported in 2011 (3). In this regard, it is important to note that the disruptions that data communication providers encounter within their networks occure more individually or localy. Given their nature, they are less suited to being reported in CONNECT. The availability of the payment chain on an annual basis improved in 2012, relative to 2011.

#### Greater reliability within the payment chain

One important link in the payment chain is formed by the data communication connection between the terminal and transaction processor. In practice, domains of the processors, which process the transactions, achieve an availability of 99.99%. The availability of the data communication connection is about 99.8%. The unavailability of the data communication connection thus exceeds that of the processors by a factor of twenty. These network services thus largely determine the reliability and stability of the payment chain. The National Forum on the Payment System [Maatschappelijk Overleg Betalingsverkeer; MOB] has also been devoting considerable recent attention to the stability of the payment chain in general, and to the quality of the network services in particular. In 2012, the Payments Association held several presentations in the MOB, and the role of data communication providers in the payment chain was also discussed. It was concluded that this role has potential for improvement. The Payments Association initiated a number of improvements in this respect in 2012.



services...

... lead to increased availability. Because several businesses had, since 2007, linked their POS terminals to open Internet connections (which have lower availability), the *average* quality of the network services (weighted by number of transactions) has decreased since that time (Figure 7: green line). This undesirable development is also one of the reasons that made the Payments Association take initiatives to halt this trend in 2012. Improvements are being sought primarily in strengthening the requirements for certified network services and in providing more powerful incentives for their use.

For example, all existing contracts between Currence and data communication providers have been transferred to the Payments Association, under stricter requirements. In addition, quality reports have been made mandatory, data communication providers must participate in CONNECT and parties have been requested to deliver networks of higher quality. These initiatives have also involved close contact with the Radiocommunications Agency<sup>1</sup>, in order to coordinate the method of supervision.

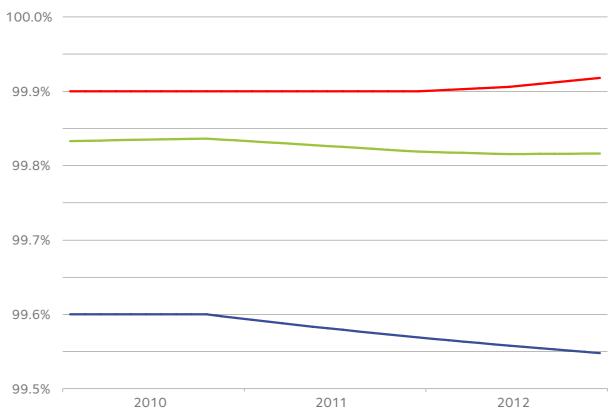
<sup>&</sup>lt;sup>1</sup> The Radiocommunications Agency is part of the Ministry of Economic Affairs. Public-service data communication providers have a duty of care to their clients and a duty to report to the Agency in the event of large-scale disruptions to the network service.



- Managed networks (75% of all transactions)
- All networks through which debit card transactions are processed
- Other networks (telephony, mobile, open Internet (25% of all transactions)

#### Figure 7 - Availability of data communication networks

In percentages, weighted across transaction totals





Under this influence, the availability of certified networks had increased to 99.92% at the end of 2012 (red line), and the decline in the availability of all networks (green line) nearly came to a standstill in 2012 (average 99.82% at the end of 2012). Further promotion of the use of networks certified by the Payments Association and the discouragement of using open, non-certified networks by merchants are expected to lead to a continued increase in the upward trend. Each merchant obviously retains the possibility of opting for cheaper networks of lower quality (e.g. mobile or open Internet). The Payments Association will nevertheless be further promoting the use of managed networks, in close coordination with the Foundation to Encourage Efficient Payment and other umbrella organisations. At the end of 2012, approximately 93% of all debit card payments were processed through certified networks, which have a higher availability by definition.

In its plenary session late 2012, the MOB expressed confidence that the initiated actions would lead to further improvements in the stability of the payment chain.

In addition, Equens implemented system improvements on the processing side in 2012, thereby solidifying robustness within the system.

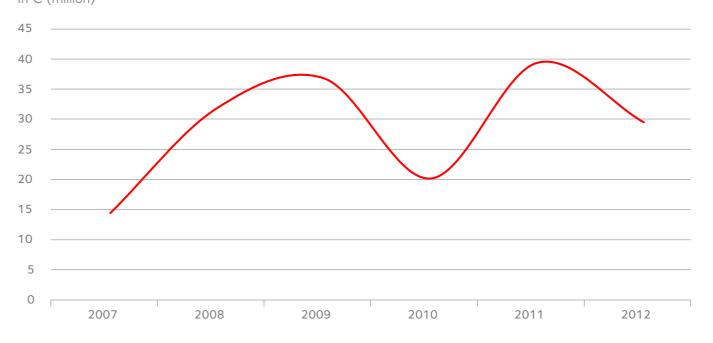
Several alternative payment methods (e.g. cash, direct debit) are available in case the payment chain should become unavailable due to disruptions. At the request of market participants, the Payments Association conducted an investigation into an electronic alternative, known as the deferred debit card payment. After the implementation of this system, it would be possible for POS terminals to process debit card payments even when the payment chain is unavailable due to disruptions. The impact analysis for the introduction of this service was completed in 2012. A decision about the implementation will be taken in 2013.



#### **Debit card fraud**

With the 2011 introduction of the Maestro and V PAY products, which are based on EMV chip technology, the market expected that skimming fraud would be extinct. These expectations have been realised with regard to payments in stores: skimming no longer occurred in 2012. In other segments, the situation is more complex. In 2012, damages from skimming fell sharply to € 29 million (Figure 8), 2011: 39 million).

Figure 8 - **Development of skimming fraud** In € (million)





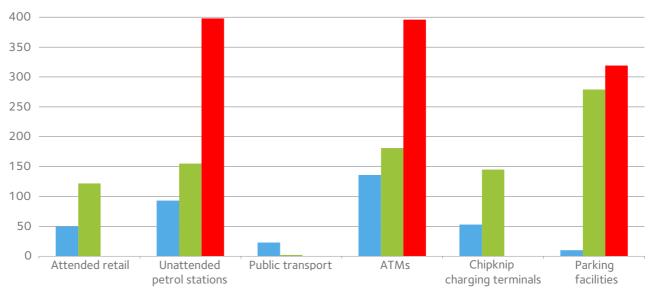
2010

2011

2012

The number of skimming attacks nevertheless rose to a record high of 1113 (Figure 9). Skimming attacks were concentrated in three segments: unattended petrol stations, ATMs and parking facilities. These segments have in common that the debit card must be fully inserted into the card reader in order to process a payment. Despite the use of EMV chip technology, this makes it possible for skimmers to copy magnetic data and to obtain the accompanying pincode. The data are then used to withdraw money in countries where the payment infrastructure is not yet equipped for payments and cash withdrawals using the chip on the debit card. This form of skimming will remain lucrative for criminals as long as not all countries have implemented the EMV chip technology.

Figure 9 - Distribution of total skimming attacks by sector





Measures prevent skimming at unattended petrol stations, while...

... banks also take anti-skimming measures on other fronts.

Skimming no longer exists in retail environments (attended retail), where the introduction of EMV chip technology has eliminated the necessity of fully inserting the debit card into the card reader. In previous years, skimming was relatively common in this market segment, leading to considerable annoyance amongst consumers and to considerable damage for banks. Preventative measures have eliminated skimming in public transport and at Chipknip charging terminals. For Chipknip charging terminals, the measures consisted of securing 700 terminals at which many charging transactions take place, by installing anti-skimming devices. After the installation of these devices, skimming no longer took place at these charging terminals. As a result, skimming practices moved to other sectors.

In addition to ATMs, POS terminals at unattended petrol stations and in the parking sector were targeted more frequently by skimmers in 2012 than they had been in previous years. In 2012, the Payments Association took the initiative to collaborate with relevant market participants to develop plans aimed at reducing skimming at unattended petrol stations and payment terminals in parking facilities. Measures have since been prepared that involve preventing the installation of skimming devices on POS terminals at unattended petrol stations. These measures will be implemented in 2013, and they are expected to generate a sharp decrease in the number of attacks in this segment.

In the parking sector, the previously mentioned pilot project that allows consumers to pay without entering a pincode was launched in The Hague in 2012. Unless a pincode is entered, skimming is pointless. This payment option is expected to be offered more widely in 2013. In addition, banks are constantly adapting the security of ATMs to counteract the latest attack techniques of criminals.

On other fronts as well, banks are taking substantial and costly measures to prevent damage due to skimming. For example, all major banks have blocked the use of debit cards outside Europe (cards can be unblocked at the request of the customer), and they are continuously improving their fraud-detection systems. Despite all of these measures, however, it is still possible to capture personal data through skimming, thus necessitating the implementation of preventative measures at POS terminals as well.



The cooperation between public and private organisations in the detection and apprehension of criminals was intensified further in 2012, thereby leading to several arrests. This directly resulted in a decline in the number of skimming attacks in the parking sector and related skimming fraud.

The decrease in incidents of debit-card-related fraud in the Netherlands has taken place in Europe. In mid-2012, the European Central Bank (ECB) released a report visualising various aspects of debit-card-related fraud from 32 countries. Although fraud has been declining steadily since 2007, the pace of this decline fluctuates widely between countries, as is the case in the Netherlands.

#### Standardisation of the payment system

Standards are indispensable to the success and efficiency of the payment system. The coordination of existing national standards to form a single European standard has eliminated barriers to accession and competition. This creates the right conditions for a cost-efficient European payment system.

On behalf of its members, the Payments Association is involved in various European standardisation initiatives, relating to both card payments and the giro-based payment system.

The international card organisations MasterCard and Visa are playing an important role with regard to standards involving payments with debit cards. In addition to these organisations, several partnerships between banks are active in Europe, with each bank having its own payment brand and its own associated national standards. For several years, the ECB and the European Commission (EC) have been calling for these European payments system providers to increase the coordination of their standards. Several years ago, the European banks that are united in the European Payments Council (EPC) actively took on this task, initiating a variety of activities, including the establishment of a consultative body (the 'Cards Stakeholders Group'). This consultative body, in which banks, debit card organisations, retailers, terminal providers and data processors are represented, is in charge of the European standardisation process. The results are recorded in the *Volume Book of Requirements* (hereafter referred to as the Volume).

Harmonisation of standards is progressing.



Payments Association translates European standards ...

...into national guidelines.

The past year was marked by a new, more detailed plan for this Volume, in which operational and security standards are elaborated in separate sections. Another section is devoted to the creation of a uniform European process for certifying the payment infrastructure (including the POS terminals), replacing the current (and varying) national certifications. For purposes of consultation, this new version of the Volume will be submitted to market participants in the second half of 2013.

On behalf of its members, the Payments Association is an active participant in various expert teams that are preparing these new standards. This also ensures that, when it comes to the process of defining the standards, the Netherlands can contribute its input in advance, and it allows for the timely anticipation of their introduction onto the market. This was the case with the security requirements for POS terminals, for example. The Dutch security requirements for terminals expired with the discontinuation of the PIN brand (effective from the beginning of 2012). The Payments Association has therefore introduced regulations relating to the connection of POS terminals for its members. This establishes the applicability of the future-proof European security requirements, in anticipation of European developments. To this end, new contracts have been signed with all terminal providers. For as long as necessary, the Payments Association will continue to act as the national certification body for POS terminals for the Dutch market. A European certification process is expected to be in place by 2015. During the reporting year, the Payments Association certified six terminals according to the new regulations.

With regard to the giro-based payment system, the services that the Payments Association provides to its members include the translation of European standards into 'implementation guidelines for giro-based payment products'. The aim is for these to define a basic set of guidelines which companies can use to exchange payment orders and bank statements with every Dutch bank. No such guidelines exist at European level. The definition of these guidelines for the Dutch market benefits the efficiency and stability of the Dutch payment system. The Payments Association also ensures that new insights from Dutch practice and from European bodies are translated into functional and technical standards. This will continuously meet the needs of the European market.



Payments Association facilitates interbank SEPA migration.

**SEPA migration complex** for all parties.

#### Towards a European payment system

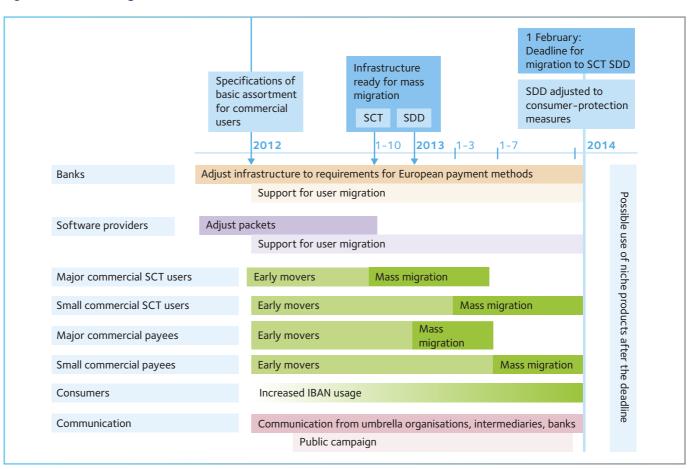
In 2012, banks assigned the highest priority to the final preparations for the introduction of the SEPA Credit Transfer and the SEPA Direct Debit. The EC published the SEPA Regulation on 30 March 2012. Among other specifications, these regulations stipulate that, by 1 February 2014, all national credit transfers should be replaced by SEPA Credit Transfers, and all national direct debits should be replaced by SEPA Direct Debits. To ensure a smooth and timely transition to the European payment products in the Netherlands, cooperation and coordination is required among all parties involved in the payment system. To this end, the MOB, chaired by DNB, established the National Forum for the SEPA Migration (NFS) in 2011. Within the NFS, agreements are being made regarding the transition to the European payment system in the Netherlands. In this context, the NFS published the SEPA Migration Plan in 2012 (Figure 10).

The Payments Association participates in the NFS and facilitates the interbank SEPA Steering Committee, which was established specifically for the SEPA migration. This Steering Committee is preparing the banking migration and, in the context of the NFS, it is engaging in consultation with representatives of end users regarding the progress of the migration, cross-sector problems and the preparation of mass-media communications.

The essence of the SEPA programme involves the transition to the use of European standards by all banks in the Euro zone. The most important standards in this regard are the international standard for account numbers (IBAN, which consists of 18 digits in the Netherlands) and a standard for the delivery of payment and direct debit orders by commercial users (the ISO20022XML standard). The changes that will accompany the transition to these standards make the SEPA migration into a complex project. That is because not only banks will be required to adapt their systems. All companies will be required to implement significant changes to the software of their IT systems and their administration systems.



Figure 10 - SEPA Migration Plan for the Netherlands



Source: National SEPA Migration Plan, NFS February 2012



SEPA migration requires effective interaction between all parties involved.

Banks support end users as much as possible in SEPA migration.

Furthermore, the actual migration will require banks and companies to interact effectively with each other at the right time. One example will be the moment at which the banking systems are transferred to the European payment products. At that time, companies must also have completed their preparations for the SEPA migration. Otherwise they will run the risk of having their banks report back payments based on the European standards, which they might not yet be able to process. This is most likely to occur during the transition phase, in which national and SEPA Credit Transfer and Direct Debits will co-exist. The national migration plan contains arrangements in this regard that are intended to ensure that the migration proceeds as smoothly as possible

In general, consumers will experience a lesser degree of complexity. During the migration phase, they will receive more frequent requests from their creditors to use the IBAN. Banks will support their customers as much as possible in this process. For example, they will be converting the address books of their private Internet-banking customers into IBANs. In addition, a conversion service will be offered with which anyone can convert a Dutch bank account number into an IBAN (<a href="https://www.overopiban.nl">www.overopiban.nl</a>). In future the recognition of IBAN will be extended as banks include the IBAN on debit cards. The banks will also be making a paper-based IBAN transfer form available, and the IBAN Acceptgiro will be available starting from 1 July 2013.

The aim of a single, unified euro-payments zone is to enable businesses and consumers to pay and receive funds from a single bank account throughout the entire Euro zone. It will also eliminate important barriers and offer cost benefits for international companies and consumers conducting business across borders. Nevertheless, the transition to European standards and products will also mean that the working methods, procedures and practices that have been developed in recent years will be subject to change. It will allow little or no space for specific national applications. This is a counterpart to the European-wide use of payment products. One example is that of the recurrent direct debit for lotteries, developed specifically for the Dutch market by the banks in the past. In the case of this kind of direct debit, the payer has no right to reversal. The SEPA Direct Debit does not include such a variant.



SEPA leads to change in national market models.

Sense of urgency required for SEPA migration.

In the case of the standard SEPA Direct Debit, both the continuous and the one-off forms of direct debit provide the payer with the right to reversal for a period of eight weeks. Despite the efforts of Dutch banks and the Payments Association within the European consultation body, no support has as yet been developed for the European-wide implementation of such non-reversible variants. The conclusion must therefore be that, as of 1 February 2014, non-reversible direct debits will no longer exist.

Another consequence of SEPA is that national market models will be changing. This is because, after the transition to European standards, banks will no longer be restricted to outsourcing the processing of their payments exclusively to national organisations. It will allow them the option of doing so to institutions located in other European countries. For the Netherlands, this will mean among others that the central, direct delivery of mass payment orders on behalf of all banks can no longer be taken for granted. In the past, Equens had developed this service for companies and service providers. Companies and service providers will have to respond to this change promptly, thereby making significant adjustments to their processes, IT systems and administration. Each bank will be supporting its own commercial customers in this regard.

In 2012, important steps were taken in order to increase awareness regarding the impact of SEPA amongst commercial and private users of the payment system. In this regard, the NFS organised a mass-media information campaign in May, focusing on increasing awareness regarding IBAN amongst consumers. This campaign was highly successful, given the results that have since been measured. In the course of 2012, the NFS concluded that a sense of urgency was lacking in part of the commercial sector with regard to the SEPA migration. Particularly among small and medium enterprises, many businesses had been delaying the SEPA adjustments to their administrative processes. This could create a large cluster of companies wishing to migrate in the second half of 2013, and needing assistance from banks and/or software vendors in the process. There is concern that this support capacity will not be sufficient to meet the demand.



Payments Association providing latest product information and technical documentation.

SEPA migration dynamics approach climax in 2013.

In order to increase awareness amongst businesses, in October 2012 the NFS launched a campaign based on the message "Companies must act now in order to be ready for IBAN on time." An online tool – the 'IBAN Impact Check' – was also launched as a part of this autumn campaign. This tool helps organisations to get a clear overview of what has changed for them and which actions they need to take.

In 2012, the Payments Association has made every possible effort to contribute to the transition to SEPA. In addition to supporting the banking migration with regard to common aspects involving infrastructure and product characteristics, considerable attention has been paid to proper information facilities regarding SEPA. Supplementary to the NFS, the Payments Association provides payment service providers and other market participants with general product information and technical documentation. These resources are available through the website of the Payments Association (<a href="www.betaalvereniging.nl">www.betaalvereniging.nl</a>). Banks provide their own customers with information about SEPA (including the migration dates), based on the information that they have received from the Payments Association or otherwise. The Payments Association has also given presentations about SEPA at numerous meetings. For the smaller members of the Payments Association, separate meetings have been organised and periodic newsletters have been published containing the most important recent information about SEPA. The Payments Association is also cooperating closely with representatives of groups of end users in order to identify shared solutions for problems that have emerged. Examples include the best way of implementing consumer-protection measures for the SEPA Direct Debit, the organisation of the SEPA Direct Debit for businesses, the expiration of the short action numbers, telephone banking in the SEPA era and the joint approach to e-Mandates (see above).

In the course of 2013, the dynamics surrounding the actual migration to the European payment products will be approaching a climax. In late 2012, usage of the SEPA Credit Transfer in the Netherlands was still modest (Figure 11).

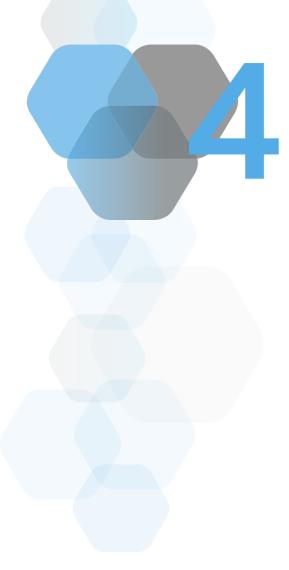


Figure 11 - SEPA Credit Transfers in the Netherlands

As a percentage of the total number of transfers



The SEPA Direct Debit was hardly used at all. Despite delays experienced by various parties due to the SEPA migration plan that was established in 2012, the thorough collective preparations are intended to minimise the period of the actual migration and to ensure that it proceeds as smoothly as possible. This is necessary because during the migration the continuity of the payment system may not be compromised in any way.



# **Board and management**

As specified in the statutes, the Board of Directors of the Payments Association has nine members: The board consists of three independent members, including the chairman, and six members who are affiliated with members of the Payments Association. Banks with a market share of more than 10% can each nominate a Board member. Members with a market share of less than 10% are together entitled to nominate a maximum of three members. Upon the establishment of the Payments Association, it was agreed that three seats would be allocated to medium-sized banks, smaller banks and payment institutions and electronic money institutions (EMIs).

The three independent Board members are as follows:

- Henk Brouwer (1946), former Director of DNB, Chairman
- Henk van den Broek (1952), former Board member of Retail Netherlands, Vice Chairman
- Mijntje Lückerath (1968), Professor of Corporate Governance at Nyenrode Business University

Members of the Board of Directors on behalf of the banks:

- · Bart Schlatmann (1969), COO of ING Netherlands, Treasurer
- Ineke Bussemaker (1958), Director of the Rabobank Payment and Savings Department
- Frans van der Horst (1959), Senior Managing Director of ABN AMRO Bank
- Bart de Ruigh (1956), COO of SNS Bank, on behalf of the medium-sized banks
- Thomas de With (1967), Managing Director of Deutsche Bank Netherlands, on behalf of the smaller banks One seat on the Board is still available for payment institutions and EMIs.

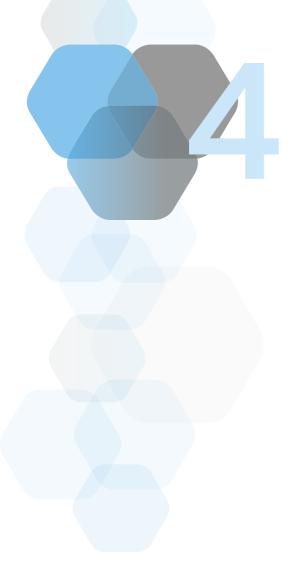
The three independent members have a unique position within the Board of Directors. The governance of the Payments Association is focused on open, objective and clear rules, which are no more stringent than necessary.



This governance guarantees free market access and affords the possibility of an independent appeal. This means that the independent Board Members have a collective power of veto in adopting and amending rules with regard to standards and the policy and procedures relating to certification and supervision. The independent Board Members also have a majority in an Appeals Committee that is charged with the arbitration of disputes with the Payments Association.

The independent Board Members are appointed on the grounds of a binding nomination by the Selection and Appointment Committee. The other members are appointed on the grounds of a binding nomination by one or more members. Each member with a market share of more than 10% is entitled to nominate a Board Member.

The nominations and appointments take place in accordance with the Board Directors' profile.



The Board of the Payments Association has several Board committees:

Audit Committee	
Chairman	Schlatmann
Member	Van der Horst
Member	De Ruigh
Remuneration Committee	
Chairman, appointed on the recommendation of the banks	Bussemaker
Member, appointed on the recommendation of the banks	De With
Member, independent member	Lückerath
Selection and Appointment Committee	
Chairman, Chairman of the Board of Directors	Brouwer
Member, appointed on the recommendation of the banks	De Ruigh
Member, independent member	Lückerath
Appeals Committee	
Chairman, Chairman of the Board of Directors	Brouwer
Member, appointed on the recommendation of the banks	Van der Horst
Member, independent member	Van den Broek

Representatives of the DNB and the Dutch Banking Association attend meetings of the Board as observers.

Piet Mallekoote (1954) is the CEO of the Payments Association.



### Governance

The Payments Association is a small and efficient organisation, which focuses on unburdening its members and has an associative structure.

The Association comprises several organs:

#### General Member Assembly (GMA):

Parties on the supply side of the Dutch market, which focus on corporate or private end users, can become members of the Payments Association. They fund the Association and can take part in the GMA. The primary duties of the GMA concern strategy and the approval of the annual accounts.

#### **Board of Directors**

The Board of Directors takes substantive decisions on important issues, establishes policy frameworks and advises the Executive Board. Other important duties of the Board of Directors include determining the annual plan and budget, monitoring the quality of implementation for the tasks of the Payments Association and appointing and discharging the Executive Board.

#### **Executive Board**

The Executive Board is responsible for the operational organisation and for the day-to-day business. The duties of the Executive Board include formulating policy proposals, taking decisions regarding the admission of new members, developing the certification policy and monitoring compliance with regulations.

#### **Advisory Council**

The Advisory Council, which consists of representatives of the members, provides solicited and unsolicited advice to the Executive Board with regard to the policies and activities of the Payments Association.



#### **Working Groups**

Tactical and operational policy preparation takes place in working groups, in collaboration with specialists from the supply side. The working groups can advise the Executive Board, both upon request and on its own initiative. The most significant working groups are:

- SEPA: Euro payments throughout Europe
- Giro (various forms of giro payment, such as bank transfers)
- Debit cards (debit card payments and POS terminals)
- Security (safety and fraud prevention)

Other working groups are active in the legal field and in the area of communication and information.

#### Stakeholder Forums

Proactive Stakeholder Management is an important task of the Payments Association. In the interest of a transparent process of consultation and information, the Payments Association has established a Forum for debit cards and a Giro Forum. In addition, frequent bilateral consultations are held with non-bank stakeholders.

#### **Appeals Board**

An independent Appeals Board makes it possible to appeal against decisions regarding acceptance and certification when parties are unable to reach agreement with the Executive Board, the Board of Directors and finally with the Appeals Committee of the Board.

#### The focus of the Payments Association is on cooperation.

On behalf of its members, the Payments Association engages in active consultation with representatives of end users and other stakeholders. The Payments Association also cooperates closely with a number of Dutch organisations whose task is related to the payment system. For example, the Payments Association participates in the National Forum on the Payment System [Maatschappelijk Overleg Betalingsverkeer; MOB]. This forum is chaired by the DNB, which focuses on improving the efficiency of the Dutch payment system.



It also engages in periodic consultation with the Dutch Banking Association, which as a sector organisation represents the interests of its members and fulfils a number of policy-oriented duties within the payment system in this context, including duties related to secure banking and counteracting cybercrime. Finally, the Association maintains a close relationship with Currence, the owner of the current national payment products. As a consequence of the formation of the single European payments market, a number of these products will be phased out, and the remaining collective tasks involving infrastructure, standards and product characteristics will be transferred to the Payments Association.

#### Implementing organisation

Currence Services BV is charged with the implementation of the activities of the Payments Association. In addition to the duties that it performs for the Payments Associations, Currence performs activities for its product corporations. Significant efficiency advantages are achieved due to the high degree of similarity between these activities and the fact that many of the tasks will eventually be transferred from Currence to the Payments Association.

At the end of 2012, Currence Services B.V. employed 34 people (31 FTEs). Furthermore the Payments Association employed several temporary, specialised staff. Most of the employees perform at least some activities for the Payments Association. Converted to FTEs, about half of the FTEs are currently working for the Payments Association. As the national payment products of Currence are phased out, the tasks of the Payments Association will increase.



### List of members

At the end of 2012, the Dutch Payments Association has 43 members. Together, they represent 99.5% of the supply side of the market.

- ABN AMRO Bank
- Achmea Retail Bank
- AEGON Bank
- Amsterdam Trade Bank
- ASN Bank
- ASR Bank
- Bank Insinger de Beaufort
- Bank Nederlandse Gemeenten
- Bank of America
- Bank of Scotland
- Banque Chaabi du Maroc
- Bank of Tokyo-Mitsubishi UFJ
- BNP Paribas
- Citco Bank
- Citibank
- Commerzbank
- Credit Europe Bank
- Delta Lloyd Bank
- Deutsche Bank
- DHB Bank
- Friesland Bank
- GarantiBank International

- GE Artesia Bank
- Handelsbanken
- HSBC Bank
- ING Bank
- InterEGI
- KAS BANK
- KBC Bank
- LeasePlan Bank
- Van Lanschot Bankiers
- Lombard Odier
- Mizuho Corporate Bank
- Nederlandse Waterschapsbank
- NIBC Bank
- Rabobank
- RegioBank
- Royal Bank of Scotland
- SNS Bank
- Société Générale
- Staalbankiers
- Triodos Bank
- UBS Bank