



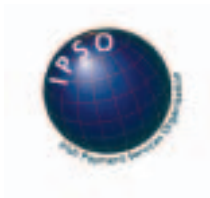
Annual Review 2002-2003

vision



IPSO will lead the development of the Irish payments industry, providing strategic and operational direction in a commercial and professional manner.

mission



To deliver viable payment and related services needs of stakeholders by providing a robust framework for the successful provision of MTS products.

core values

At IPSO, we value:

- Customer Service, meeting the needs of all stakeholders;
- Quality and a commercial focus in everything we do;
- Integrity and Impartiality in all our actions;
- Growth and development of our staff;
- Productivity and a will to improve;
- Professionalism at all times.



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Chairman's Foreword



Tracy O'Rourke

I am delighted to introduce this Annual Review of IPSO's activities following my appointment as Chairman at the beginning of 2003.

Context

The emerging European landscape heralds a new dawn for the Irish Payments Industry. The Euro, which became a physical currency on 1st January 2002, is only the first step in a multiplicity of changes that will ultimately transform the way business is conducted across Europe. National boundaries are being eliminated and replaced with domestic pricing, process and clearing cycles across the Eurozone, turning a patchwork of systems into an integrated whole. These changes are happening at an unprecedented pace, with the full commitment of the banking industry across Europe, under the auspices of the European Payments Council.

The significant reform underway poses substantial opportunity and many demanding challenges for the Irish payments industry and for the broader Irish community, with implications for Government, Corporate Ireland, small businesses and consumers. The desired end state for Ireland is an efficient and effective payments infrastructure, with access for all citizens and a predominance of electronic payments. This will provide a platform for both national competitiveness and social inclusion.

The Irish payments industry is working to achieve a blueprint vision by 2006:

- Every citizen with a payment account which accepts and allows payments to be made electronically
- All Government payments electrified
- All business payments, including salary payments, electrified
- A plastic card in every pocket, with Chip & PIN functionality
- A reduced dependence on cash
- A Single Euro Payments Area



Progress

I am very encouraged by the progress made by the Company in the current year in taking forward its Strategic Plan, particularly in the areas of Governance, Risk Management and Control, Communications, the CHIP & PIN Migration Programme, and in its positioning and response to the Euro payments agenda. These are described in some detail later in this Review. The work of the Card Fraud Forum also deserves special mention as progress around tactical fraud prevention has been remarkable.

Notwithstanding recent momentum, the reality is that Ireland is lagging significantly behind our European counterparts. We remain among the highest users of cash and cheques in the Eurozone and we face a major challenge to bring ourselves into line with more efficient economies. We have the necessary technology and our electronic payments infrastructure stands comparison with the best in Europe. The issue is primarily around usage, with little more than 60% of the population using regular payment accounts for their daily transactions. This represents a significant drag on the efficiency and effectiveness of Irish business and limits access to services, industry and commerce with a resultant direct adverse impact on national competitiveness.

IPSO and its members have a critical role to play in developing a world class infrastructure in Ireland, both in terms of supply and usage. Inefficiencies must be driven out of the system while at the same time the product and service offering to end customers must be enhanced. Government also has a crucial role to play as both champion and intelligent user of payment services.

The Government decision to significantly increase stamp duties on payment cards in the December 2002 Budget has had a very negative impact and runs directly counter to its own aspirations for a more efficient payments system and universal access to banking. It adds to the problem of cash predominance in Ireland and renders Ireland non-competitive in a European context.

It is hoped that dialogue with Government may generate a more cohesive approach to furthering a National Payments Strategy that will serve both the interests of national competitiveness and fiscal requirements. Real success depends on Irish business and the community at large embracing the changes that are necessary. IPSO will act as a proactive catalyst and facilitator and ensure that the interests of all relevant stakeholders are met, both business and consumer.

Going Forward

My aspirations for the Company for the year ahead are ambitious. We must

- continue to build on the robust risk and control infrastructure that is in place and protect the strong reputation of the Irish payments industry
- proactively lead Ireland's response to the European payments agenda towards a Single Euro Payments Area
- progress the shared ambition to achieve access to payment channels and facilities for all citizens - with every Irish citizen ultimately owning and using a payment card
- migrate increasing numbers of transactions from paper to electronic and cash to card
- develop partnering relationships across the multitude of stakeholders and industry groups to ensure their interests are addressed
- successfully deliver on an aggressive Chip & PIN timetable.

IPSO will adopt an increasingly proactive stance, building on the foundation stones that have been laid and bringing Ireland to the forefront within a new modern Single Euro Payments Area. I look forward to the exciting challenges ahead and am confident that IPSO, its Chief Executive, management team and executive board will deliver continued successes in the year ahead.

Tracy O'Rourke
Chairman

Chief Executive's Foreword



Stewart MacKinnon

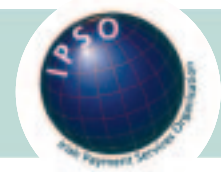
During the past year IPSO has continued to forge ahead with its significant work programme delivering on our objectives in a timely fashion.

The sheer scale of the activities undertaken by IPSO, the Clearing Companies, and payment schemes reflects the increasing importance of our role and the significant contribution made by payment systems as key elements of the national economic infrastructure.

A large degree of the accelerated and concentrated activity within IPSO has been generated by the European Payments Council (EPC) and its strong focus on developing a European payments strategy for the Single Euro Payment Area. The EPC has set itself very challenging targets and the reforms, described later in this Review, require to be tackled urgently and aggressively by IPSO and its Members if we are to achieve our vision of creating a world class payments infrastructure in Ireland.

Governance

Turning to the Company's deliverables, the review of IPSO's governance arrangements which commenced last year is now nearing completion. The key deliverable is the implementation of a new "best of breed" governance model to support the discharge of IPSO's role against the background of a paradigm shift in the industry and its operating environment. The key objectives of the Review were:



- to provide extra focus, clarity and transparency of IPSO's role and responsibilities and its relationship with the Clearing Companies in the changing environment.
- to improve decision-taking and the effectiveness of IPSO.
- to allow greater involvement in IPSO of the industry's key stakeholders.
- to establish a number of key principles underpinning how IPSO is funded and its costs are allocated across various payment industry activities.
- to anticipate changes in the style of regulation and its impact on the structure, conduct and performance of the industry.
- to continue to ensure that access to the payments industry is fair, reasonable and non-discriminatory.

The main changes arising from the review are:

- The appointment to the IPSO Board of two independent, Non-Executive Directors who have no relationship with the banking or payments industry. This is intended to facilitate a wider perspective, to promote transparency in IPSO's activities, and to reflect the broader involvement of other stakeholders in the payments' business.
- A new category of membership of IPSO to be known as Affiliate Membership open to institutions, both banks and non-banks, who can demonstrate that they have an interest or role in the payments value chain. The concept will be tested in the first instance through the creation of a Common Interest Group under the Chip & PIN Migration Steering Group and will be open to institutions who meet certain broadly based criteria. The

benefit of IPSO creating this new category of membership will be to enhance the end-to-end payment processes and payment development plans by encouraging and facilitating greater communication and dialogue between IPSO members, other banks and service providers, solutions suppliers etc.

- The terms of office of Directors and Chairmen of Companies to be set at two year terms in line with best practice principles.
- The amalgamation, for efficiency reasons, of the Debit Paper Clearing Co Ltd and Credit Paper Clearing Co Ltd into the Irish Paper Clearing Company Limited.
- The introduction of a simpler, transparent and more flexible funding structure for IPSO, to be reviewed every three years. This includes a decision to allocate IPSO costs directly to where they arise and thus where benefits accrue; and, in addition, the introduction of a minimum fee.
- The Rules for Membership of the Clearing Companies to be reviewed at regular intervals to ensure that they remain, fair, open and non-discriminatory.
- The creation of a Memorandum of Understanding defining the roles and responsibilities of IPSO and its precise inter-relationships with the autonomous Clearing Companies under the IPSO umbrella.

The way ahead

I believe that these developments are a positive step forward. The clear recognition by the Board that the industry has many stakeholders, not just banks, is pragmatic and inclusive. The family of stakeholders includes the Government, the regulatory agencies and end user customers. Greater

communication with these stakeholders is critical if the many reforms required in Irish payment systems are to be implemented and their commitment to a common vision is to be brokered. IPSO will facilitate that process in what is a fast changing environment. Cooperation on non-competitive payment system issues amongst the banks, through IPSO as independent facilitator of change, is an essential element for efficient payment systems of the future. Without such cooperation, there will be piecemeal technical progress in the payments platform. Ireland will, as noted in the Chairman's foreword, continue to lag behind its European neighbours as the only economy with legacy systems of cash and paper based payments.

The changing paradigm implies a new context which demands a new approach by the regulatory authorities in order to support and promote the efficiencies derived from collaboration without jeopardising the benefits classically associated with a competitive market.

The key starting point is the development by Government of an appropriate engagement model with IPSO and other stakeholders to agree the shared vision and strategic road map for the future. Hopefully, this will lead to rapid and tangible progress in developing a dynamic electronic payments market in Ireland.

I would like to thank the IPSO Board and other senior executives in member banks for their positive support in what has been a very busy year. I also thank the Directors and Chairmen of the Clearing Company Boards for their hard work and help on delivering corporate objectives. Finally, I pay tribute to all IPSO staff for their professionalism and dedication.

Stewart MacKinnon
Chief Executive

Membership

Irish Payment Services Organisation Ltd

AIB Bank
Bank of Ireland
Central Bank & Financial Services Authority of Ireland
EBS Building Society
First Active plc
BNP Paribas*
National Irish Bank Ltd
permanent tsb
Ulster Bank Ireland Ltd

Irish Retail Electronic Payments Clearing Company Ltd

AIB Bank
Bank of Ireland
BNP Paribas*
National Irish Bank Ltd
permanent tsb
Ulster Bank Ireland Ltd

Irish Paper Clearing Company Ltd

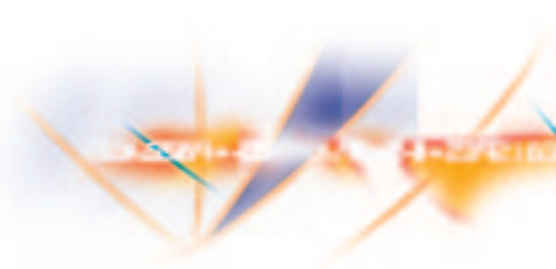
AIB Bank
Bank of Ireland
Central Bank & Financial Services Authority of Ireland
BNP Paribas*
National Irish Bank Ltd
permanent tsb
Ulster Bank Ireland Ltd

*BNP Paribas - Dublin Branch act as Clearing Agent for the following banks

ABN AMRO Bank N.V
Bank Brussels Lambert, Dublin Branch
Bank of America N.A
Barclays Bank plc., Dublin Branch
Citibank International plc
HSBC Bank plc
Bank of Scotland (Ireland) Ltd

Laser Card Services Ltd

AIB Bank
Bank of Ireland
EBS Building Society
First Active plc
National Irish Bank Ltd
permanent tsb
Ulster Bank Ireland Ltd



Irish Realtime Interbank Settlement Company Ltd

ABN AMRO Bank N.V.	First Active plc
ACC Bank plc	HSBC Bank plc
AIB Bank	IIB Bank Ltd
Anglo Irish Banking Corporation plc	Investec Bank UK Ltd
Bank of America NA	Irish Nationwide Building Society
Bank of Ireland	National Irish Bank Ltd
Bank of Scotland (Ireland) Ltd	National Treasury Management Agency
BNP Paribas	permanent tsb
Central Bank & Financial Services Authority of Ireland	Rabobank Ireland plc
Citibank International plc	Ulster Bank Ireland Ltd
EBS Building Society	

IPSO Board

Tracy O'Rourke (Chairman), Commercial Director - Operations and Payments	-	Bank of Ireland
Pete Sayers, Head of National Payments Strategy	-	AIB Bank
Sean O'Keeffe, Operations Manager	-	BNP Paribas
Paul O'Brien, Deputy Head, Payments & Securities Settlements Dept. Policy and Oversight Division	-	Central Bank and Financial Services Authority of Ireland
Martin Walsh, Head of Mutuality Development	-	EBS Building Society
Brian Murphy, Head of IT Support Services	-	First Active plc
Andrew Douglas, Head of Constitutional and Industry Relations National Australia Group	-	National Irish Bank Ltd
Niall O'Grady, General Manager, Marketing and Electronic Channels	-	permanent tsb
Paul Molumby, Head of Payment Operations	-	Ulster Bank Ireland Ltd
Stewart MacKinnon, Director & Chief Executive	-	Irish Payment Services Organisation Ltd



The Role of IPSO

IPSO is the umbrella body for payment services for financial institutions in Ireland. The Company provides strategic leadership and technical support to the payments industry in Ireland, facilitates consultation among participants, represents the payments industry at national and international levels and facilitates consistency and unity of purpose amongst the Clearing Companies and Payment Schemes. It was set up in June 1997.

There are currently four Clearing Companies and Payment Schemes operating under the IPSO umbrella which are wholly autonomous companies responsible for their own decision-taking, access criteria, operating rules, funding and development. Each Company has its own Board of Directors.

Clearing Companies/Payment Schemes

Irish Paper Clearing Company Ltd. * (page 16)

Irish Retail Electronic Payments Clearing Company Ltd.* (page 14)

Irish Realtime Interbank Settlement Company Ltd.* (page 10)

Payment Schemes

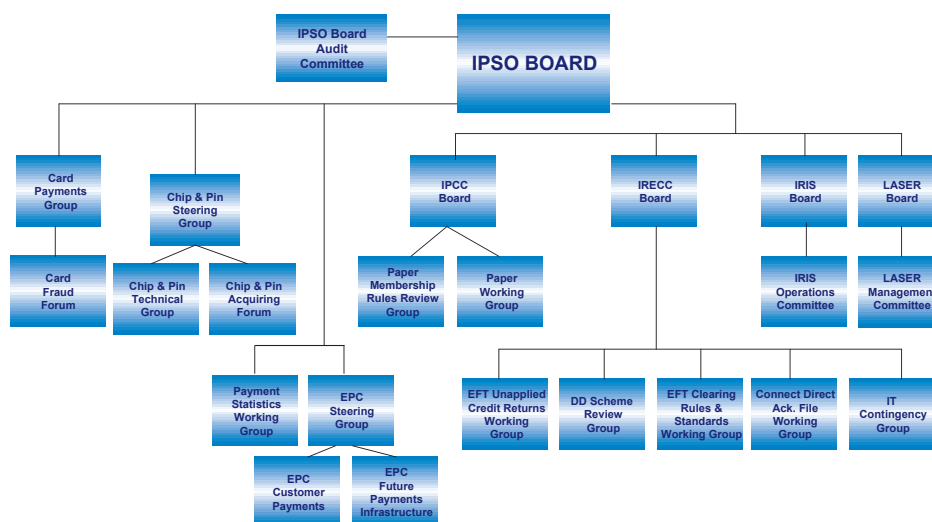
Laser Card Services Ltd. (page 18)

The Clearing Companies* are regulated by the Central Bank & Financial Services Authority of Ireland.

Each Member of a Clearing Company or Payment Scheme, as designated by IPSO, has a right to Membership of IPSO and to representation on the IPSO Board.

The prime focus of IPSO is on pan-industry activities, as opposed to scheme specific issues which are the responsibility of individual Clearing Companies and Payment Schemes.

IPSO Corporate Structure





IPSO is responsible for ensuring:

- The orderly and planned development of the payments industry.
- The maintenance of a high level of integrity and timely improvement in the efficiency of payment systems.
- The development of cost efficient and competitive payment systems.
- The facilitation of a competitive market, meeting the needs and requirements of stakeholders.
- The provision of a balanced response to key public policy issues.

The IPSO role includes:

- Providing strategic leadership and direction to the payments industry as a whole, including the impact of technology, regulation, European and international developments and communicating strategic guidance to the individual arms of the industry.
- Developing best practice guidelines for Payment Schemes and Clearing Companies on issues such as constitution, rules, entry criteria, accountability, risk management etc.

- Facilitating the establishment by the Clearing Companies and Payment Schemes of appropriate legal, security and audit frameworks - including security guidelines, fraud control initiatives, data protection, systemic risk controls, regulation etc.
- Articulating the common voice of the payments industry on issues with industry wide impact to regulators, Government, media, European bodies etc. This will include ensuring that opinion formers, regulators etc are assisted in understanding the payments industry and that public debate on payment issues is well informed.
- Providing central programme management of key industry initiatives, such as Chip and PIN migration, fraud prevention etc.
- Facilitating the sharing of non-competitive information about the payments industry, including the compilation and provision on a non-specific basis of research, statistics, publications etc.
- Managing pan-industry issues such as systemic risk, security exposure, crisis management etc.

- Providing consultancy services to Members, Clearing Companies, Payment Schemes and Special Interest Groups.
- Monitoring and promoting payments industry standards development and interoperability.
- Facilitating innovation and assisting in the design of future payment systems development.

With the approval of all Member Institutions and the Central Bank & Financial Services Authority of Ireland, the Chief Executive of IPSO has been appointed a non-voting Director of IPSO and of each of the Clearing Companies and Payment Schemes under the IPSO umbrella. This is to ensure consistency and unity of purpose across the industry, that cross-clearing and pan-industry issues are appropriately co-ordinated and implemented and to enable the IPSO Chief Executive advise and offer guidance to Boards on IPSO policy, industry strategy and related matters. The IPSO Chief Executive's role at Clearing Company/Payment Scheme Board meetings is to assist, guide and advise the various Boards.



The Irish Realtime Interbank Settlement Company Ltd



Martin James

IRIS

The Irish Realtime Interbank Settlement Company Limited (IRIS) was incorporated in May 1995 to allow IRIS members purchase and establish a real-time gross settlement system (RTGS) to facilitate real-time gross settlement in Irish pounds in Ireland. This RTGS system became fully operational in March 1997 and is now the RTGS system for the settlement of euro.

The main objective of IRIS is to provide its membership, currently comprising 21 members, with an efficient, risk-free and reliable real-time gross settlement payment system for domestic euro settlement. The criteria for membership of IRIS is open and transparent and includes the following:

- Each Member must have a settlement account at the Central Bank & Financial Services Authority of Ireland to allow them participate as a Member in the RTGS/TARGET system.
- Each Member must have the appropriate technical capability including adequate contingency arrangements so as not to hinder the smooth operation of the RTGS/TARGET system.
- Each Member of the RTGS system must have a SWIFT Bank Identifier Code (BIC).
- Each Member must be a shareholder in IRIS and pay the appropriate entry costs and on-going transaction and transmission fees and charges.



The following chart provides information on the RTGS/TARGET payment flows over the past three years.

RTGS/TARGET Payment flows in Ireland:				
Year	Total Volume	Total Value	Daily Avg. Volume	Daily Avg. Value
Year 2002				
Domestic	314k	€3,088 bn	1,231	€12.1 bn
TARGET	268k	€1,798 bn	1,052	€7.0 bn
Total	582k	€4,886 bn	2,283	€19.1 bn
Year 2001				
Domestic	307k	€3,010 bn	1,204	€11.8 bn
TARGET	237k	€1,537 bn	933	€6.1 bn
Total	544k	€4,547 bn	2,137	€17.9 bn
Year 2000				
Domestic	295k	€2,407 bn	1,157	€9.5 bn
TARGET	190k	€1,406 bn	748	€5.5 bn
Total	485k	€3,813 bn	1,905	€15.0 bn

The RTGS system is managed and operated by the Central Bank & Financial Services Authority of Ireland and is interlinked with the TARGET System - the Trans-European Automated Real-time Gross settlement Express Transfer system. TARGET is the European real-time gross settlement system for the euro which commenced operations on 4th January 1999. TARGET consists of 15 national real-time gross settlement (RTGS) systems and the payment mechanism of the European Central Bank. All these systems are interlinked so as to provide an EU-wide uniform platform for the processing of cross-border euro payments.

Volumes and values over the RTGS/TARGET system in Ireland continued to increase during the year; growth in overall volumes increased by 7%, while the aggregate value processed increased by 7.5%. The system processed over 582,000 transactions (314,000 domestic, 268,000 cross-border) with a value of €4,886 billion (€3,088 billion domestic, €1,798 billion cross-border) in 2002.

Developments during the past year

The benefits of last year's hardware upgrade continue to be evident particularly through increased capacity, performance and time saving associated with system start up and shut down. As a consequence of this, the IRIS Board eliminated the minimum limit for transacting domestic customer payments over the RTGS/TARGET system from March 2003. This means that there is no longer a minimum limit on the amount that can be processed via TARGET in relation to domestic and cross-border payments. Initial payment figures reveal that the elimination of this minimum limit has increased the volume of payments being processed as a number of banks make greater use of



The Irish Realtime Interbank Settlement Company Ltd

the domestic system. Volumes continue to be monitored to ensure adequate system capacity is available.

The Operating and Service Level Agreement between the Central Bank & Financial Services Authority of Ireland and IRIS was reviewed during the year and signed-off in October 2002. Similarly, the Operating Rules of IRIS were updated in April 2003 and are with the Central Bank & Financial Services Authority of Ireland for approval. In addition, IRIS conducted a risk review of its end-to-end process and recommended actions are currently being followed up.

The IRIS Board conducted a strategic review of IRIS at the end of 2002 and reached the conclusion that while most of the developments and threats lie outside the control of IRIS, continued monitoring of developments should take place. The development of a TARGET2 system will have far-reaching implications for the future of the domestic RTGS system; the move by banks to Continuous Linked Settlement (CLS) for the settlement of euro foreign exchange could have a significant effect in reducing volumes within the RTGS/TARGET system in 2004; rationalisation and convergence within the Single Euro Payment Area (SEPA), and the threat that larger global players will pool their euro liquidity and perform RTGS operations elsewhere, are seen as significant threats with major implications for banks' shareholding in IRIS. Contra to this, the elimination of the minimum limit for domestic payments will increase volumes through the system.

IRIS is also conducting a review of its shareholding arrangements and considering how the holdings of share capital by the various members might

be re-aligned so as to reflect more closely the current volumes of business or transactions within IRIS.

IRIS is considering enhancing its current Participant Workstation which is used by member banks to monitor payment flows as a new TARGET Browser Participant Workstation for the SWIFTNet Option is now available. This browser workstation builds upon the existing workstation in use in Ireland by IRIS members, offering the reduced maintenance advantages of a SWIFTNet browser-based system and additional functionality.

Contingency

Off-site contingency planning continues to be an operational priority for IRIS, and significant progress is being made with regard to finding a "best practice" contingency solution. A decision has been made on the way forward and enhanced off-site contingency will be installed shortly.

TARGET in Europe

According to the European Central Bank (ECB) in its Annual Report 2002, the TARGET system functioned smoothly and successfully in 2002 with a double-digit business increase in terms of both volume and value. During the year under review, the Governing Council of the ECB took strategic decisions regarding the future of TARGET and the connection of accession countries to the system. TARGET2 will be designed following consultation with its users.

In 2002 TARGET processed, in terms of value, almost 85% of the total turnover of large-value payments in euro (compared with almost 75% in 2001). In 2002, TARGET had 1,560 direct participants, 2,328 indirect participants and the number of banks and branches

addressable worldwide numbered approximately 40,000.

In 2002 TARGET processed a daily average of 253,016 payments (both cross-border and domestic payments) with a total value of €1,552 Billion. This equals an increase relative to 2001 of 20% in terms of volume and 19% in terms of value. Out of the total TARGET traffic in 2002, cross-border traffic represented 31% in terms of value, compared with 39% in 2001, and remained 21% in terms of volume. Of the TARGET cross-border traffic, 96% in terms of value and 54% in terms of volume were interbank payments, the remainder being cross-border customer payments. The average value of a cross-border interbank payment was €15.9 million, compared with €17.7 million in 2001, and the average value of a cross-border customer payment was €0.8 million, compared with €1.0 million in 2001.

TARGET2

On 24th October 2002, the Governing Council of the ECB took a strategic decision on the direction of the next generation of the TARGET system (TARGET2). According to the ECB, the main objective of the Eurosystem is to ensure that TARGET evolves towards a system that: (i) better meets customers' needs by providing an extensively harmonized service level; (ii) guarantees cost efficiency; and (iii) is prepared for swift adaptation to future developments, including the enlargement of the EU and the Eurosystem. At the same time, the National Central Banks will remain responsible for the accounts of and business relations with credit institutions.

TARGET2, which is not expected to



become operational before the second half of this decade, will be a multiple-platform system, consisting of individual platforms and one "shareable platform". The latter will be an IT platform shared by a number of central banks which have voluntarily abandoned their individual platforms. The ECB issued a public consultation on TARGET 2 -principles and structure on 16th December 2002. IPSO responded to this via the TARGET Working Group. Further information on this is available on www.ecb.int

1st May TARGET Holiday

The 1st May TARGET holiday passed without incident in Ireland with value given to customers on 1st May by a once-off settlement of the interbank clearings early on the morning of 2nd May 2002.

The net bilateral positions between banks regarding deferred settlement of the clearings were subject to deferred settlement interest claims above a de-minimus threshold.

TARGET Working Group

IPSO sits on this Group which is made up of mostly market representatives from the three European Credit Sector Associations (ECSAs) who meet to discuss TARGET and other payments issues so that the market can speak with a single voice to the Eurosystem of the European Central Bank and the National Central Banks. A representative from the European Central Bank attends all meetings of this Group. The following items are among the activities of this Group:

- Formulation of a European banking industry response to the European Central Bank on their public consultation on TARGET2: Principles and Structure, issued on 16 December 2002.
- Continue to monitor progress in relation to TARGET 2.
- Review of new TARGET Compensation Scheme approved by the Governing Council of the ECB in March 2003. The new compensation scheme is based on existing market practices and aims to offer compensation to users for certain damages in the event of a TARGET malfunction.
- Review of the current European Interbank Compensation Guidelines in light of the revision to the TARGET Compensation Scheme.
- Attend a number of joint meetings with the TARGET Management Working Group of the ECB to discuss operational and business issues relevant to the TARGET system at European level.
- Provide response to the ECB on its public consultation "Measures to Improve the Collateral Framework of the Euro System" (June 2003).



Irish Retail Electronic Payments Clearing Company Ltd



Paula Gray

IRECC

The Irish Retail Electronic Payments Clearing Company Ltd was established in June 1997 to create, maintain and operate an electronic funds transfer payment, clearing and settlement system for domestic low-value electronic payments. The Company is responsible for the inter-bank clearing of electronic items between banks and other financial institutions. Each member is responsible for running its own electronic funds transfer (EFT) system, which enables credits and debits to be originated and paid through any bank/branch within the state.

IRECC is responsible for the development and imposition of the clearing rules and for the administration of the Direct Debit Scheme. It is also responsible for the daily settlement with the Central Bank & Financial Services Authority of Ireland. In 2002, 171.5 million items were processed through the inter-bank electronic clearing system. Through its active participation with the Paper Clearing Company on strategic development matters, IRECC is pro-active in promoting a wider usage of electronic payment methods as an alternative to paper based payments.

Direct Debit Scheme - Originator Plus

The Direct Debit Scheme introduced a paperless version of the direct debit product on 1st September 2002, called Originator Plus (OP). Initially, one originator went live on 15th September and was monitored for two months before the scheme was opened up to other originators. The Originator Plus scheme is designed to enable high volume originators, such as utilities and insurance companies, sign up their customers for Direct Debit collections by telephone, or face-to-face without the customer having to sign a paper direct debit instruction. In order to sign up customers using OP, an originator must first be a member of the Direct Debit Scheme.



The originator must obtain from the customer details of his/her bank account, following a suggested script, contained in the "Guide to the Originator Plus Scheme". In cases where the originator opts to continue to have paper direct debit instructions signed, the Originator Plus scheme facilitates the retention of the instruction by the originator for audit purposes. The Originator Plus Rules are in addition to the existing Direct Debit Scheme Rules.

The Originator Plus Scheme provides a number of benefits to banks, originators and their customers by reducing the volume of paper work prepared and by quickening the sign up process.

Direct Debit Scheme Review

The IRECC Board has decided to carry out an extensive review and overhaul of the Direct Debit Scheme which will see detailed work commencing on the Membership Rules and Originator's Guide. Terms of Reference have yet to be agreed but the work will commence over the coming months and will take into account all aspects of the Scheme. The results are intended to bring about a general improvement in the operation of the scheme and help to promote this product as a more efficient means of collecting payments by originators from their customers in place of cheques or cash.

Electronic Clearing Cycle

In late 2002 the IRECC Board held two Workshops to examine the feasibility of shortening the electronic payment clearing cycle, which currently takes, and for many years has taken, three days to complete. A number of proposals have been drawn up which address the needs of all stakeholders involved. These proposals have highlighted a number of issues which

need to be carefully considered and work is continuing in these areas. The momentum of the project will continue as the issue is seen by the Board as the key strategic imperative of the Company.

Unapplied Credits

As online banking becomes more widely used, through payment of salaries and suppliers, the instance of unapplied credits will increase. At present there is no industry standard for the automated return of these unapplied credits which result in an increase in workload throughout the branch network. During the course of the year a paper was drafted and a Working Group has been set up to agree requirements. This work will be completed over the coming months.

EFT Clearing Rules and Standards

The IRECC Board are continually making changes in members' systems in order to improve operations and enhance services available to their customers. Some of these changes require amendments to the rules and inter-bank standards. A full review of the Clearing Rules and industry Standards in relation to electronic payments is about to commence. This will be a lengthy process but it is envisaged that it will be completed by end 2003.

Strategic Development

In the past few years an increasing number of customers are moving from paper based payments to electronic means through their use of the internet and direct debit/credit products. As mentioned in the Paper Clearing section of this Review, the Paper and Electronic Boards have met jointly in recent months, in conjunction with IPSO, and are looking at short-term and long-term options in which to further develop and introduce new electronic payment

initiatives. The IRECC Board are keen to develop these initiatives in order that domestic electronic payment systems in Ireland will be viewed as models of excellence in comparison with their European counterparts.

Risk Assessment

During 2002 and at the request of the IPSO Board Audit Committee the Directors of IRECC completed a detailed risk assessment of the end to end inter-bank electronic clearing process. The purpose of the review was to identify and address potential risks in the electronic clearing process, to ensure that major risks are controlled and that IRECC is fully compliant with the overall IPSO risk management policy. A risk register is maintained by the Company and reviewed on an on-going basis. It was agreed that the risk assessment would be undertaken annually to include new and emerging risks under the following headings:

- Operational Risk
- Site Access and Contingency
- Physical and Logical Security
- Financial Risk
- Environmental/Industrial Risk
- Reputational Risk

The Board is about to undertake the risk assessment for 2003.

Irish Paper Clearing Company Ltd

IPCC

The Irish Paper Clearing Company Ltd was created following a merger of the Irish Paper Credit Clearing Company Ltd and the Irish Paper Debit Clearing Company Ltd in December 2002.

The purpose and functions of the company remain the same as those before the merger took place, which was to maintain and operate a payment, clearing and settlement system for domestic paper debits and credits. The Company is responsible for the Inter-bank paper clearing mechanisms, which enable paper credits and debits to be exchanged between all financial institutions within the state, and is responsible for the imposition of rules and standards and the upkeep and updating of those rules and standards. In 2002, approximately 171 million items were processed through the domestic paper clearing system.

Postal Money Orders

On 1st October 2003 An Post introduced MICR encoded Postal Money Orders which has lowered the cost to banks of processing these items. Older un-encoded items have now been eliminated from the system.

A project is underway to investigate the cost of introducing the same four field encoding on other Post Office paper instruments.

Standards

The Paper Working Group is about to undertake a detailed revision of IPSO Standard 3, which provides specifications for printing of cheques, claims for unpaid vouchers and bankers' payments. This will have implications for Printers in the design and printing of these vouchers and they will be consulted in the process of the review. Simultaneously, the Working Group will revisit earlier proposals for the introduction of a Cheque Printer Accreditation Scheme for the Irish market. This will ensure that cheques and other paper financial instruments are produced in accordance with the highest levels of security and will assist in the elimination of counterfeit fraud.





Risk Assessment

During 2002 and at the request of the IPSO Board Audit Committee the Directors of IPCC completed a detailed risk assessment of the end to end inter-bank paper clearing process. The purpose of the review was to identify and address potential risks in the paper clearing process, to ensure that major risks are controlled and that IPCC is fully compliant with the overall IPSO risk management policy. A risk register is maintained by the Company and reviewed on an on-going basis. It was agreed that the risk assessment would be undertaken annually to include new and emerging risks under the following headings:

- Operational Risk
- Site Access and Contingency
- Physical and Logical Security
- Financial Risk
- Environmental/Industrial Risk
- Reputational Risk

The Board is currently undertaking the risk assessment for 2003.

Strategic Development

During the year under review, the Board of Directors of IPCC and IRECC had two joint strategy sessions in order to discuss how they might be able to work together to achieve common objectives. If a migration from paper to electronic methods of payments is to be achieved, stakeholders need to understand the benefits of electronic payment options. Existing electronic products will be looked at, gaps identified and supplemented with new electronic products. The shared vision is that Irish stakeholders will understand the benefits to them of electronic payment options and use them as a predominant method of payment and as their first choice of payment. "Stakeholders" include banks, the Government, customers and the general public. The reforms facing domestic payment systems, especially from Europe, will be demanding and will require behavioural, organisational and structural changes within the Clearing Companies.

Clearing Rules

A legal review of the Clearing Rules took place in 2001. Over the course of the next few months a review of the Clearing Rules, from an operational perspective, will take place. All member banks will be involved in the process and will assist in highlighting areas that need updating.

Membership Criteria

The IPCC Board has embarked on a fundamental review of the rules for membership of the Company. This project is being undertaken with a view to ensuring the existing membership criteria remain open, transparent and non-discriminatory and meet best of breed standards.

Laser Card Services Ltd

Laser Scheme Mission Statement

The Laser Scheme is committed to delivering maximum value to its members and their customers, based on consistency, quality and efficiency

Laser Progress

Laser has sustained a phenomenal success rate, which was reflected in the last year by peak record transaction and card base growth.

Despite the introduction of stamp duty in the December 2002 Budget and a slow down in economic growth the Laser card base is currently expanding at almost 16% year on year; a growth rate which surpasses any the Scheme has experienced since its infancy.

There were 55 million Laser transactions processed in 2002, amounting to €3.3 billion in retail sales. The Scheme engaged in a number of marketing activities prior to the Euro changeover which pushed transaction value figures up by a 30% increase on 2001 and this growth remained constant throughout 2002 despite a reduction in marketing spend.

Research by Omnibus conducted in February 2003 indicates that Laser brand awareness exceeds that of MasterCard in Ireland and is second only to Visa.



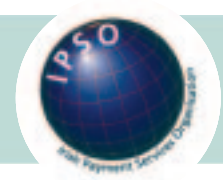
Una Dillon

Laser Facts & Figures

Year	Cardholder Growth	Value of Retail Sales	Avg Number of Transactions per card per year	Outlets Accepting Laser	Transaction Volume
2003 (projected)	1,169,000	€4.2 billion	59	37,000	70 million
2002	1,044,000	€3.3 billion	53	32,000	55 million
2001	902,000	€2.5 billion	51	26,500	43 million
2000	798,000	€1.8 billion	45	22,000	34 million
1999	701,000	€1.3 billion	36	17,000	25 million
1998	588,000	€862 million	28	14,500	17 million
1997	431,000	€443 million	20	9,500	9 million
1996	185,000	€38 million	4	4,500	1 million

Average Transaction Amount – €60

Average Number of Transactions per Month – 4.6 million



Laser Strategic Direction

In the last year, the main driving forces for Laser were:

- Chip & PIN Migration
- Internationalisation
- E-Commerce
- Developing relationships with external working groups

Chip & PIN Migration

During the year, IPSO initiated technical development and project plans to enable a smooth migration to Chip and PIN within the payments industry under the auspices of the IPSO Chip and PIN Steering Group.

Laser has liaised with the Steering Group and is working in line with the industry plans within Ireland and in conjunction with the EMV standard across Europe.

A review of the overall Laser Scheme Rules and Regulations is currently taking place to facilitate the Chip migration. Some specific areas of review include Chargebacks, Interchange policy and Authorisation Strategy.

A Laser Technical Group has been carrying out all of the technical changes required to facilitate a smooth migration and Laser is on target to hit the EMV goal date.

Internationalisation

During the year, the International Schemes approached the Laser Scheme and provided proposals for the Laser Scheme to align or co-brand with them.

A number of the Laser Scheme members have already co-branded their Laser cards with International Schemes.



Jennifer Chamberlaine

E-Commerce

There has been a huge increase in the number of Internet transactions taking place in Ireland. According to latest research, 25% of the population have Internet access at work and 46% have access at home and online consumer spending is expected to reach €152 billion by 2006 within Europe.

To ensure that Laser cardholders have the option of using their Laser card to procure goods/services on the Internet, the Laser Scheme has engaged with a number of companies who provide an online secure service and the scheme has been discussing the best possible options to improve the service and provide a secure product for end user customers.

Developing external relationships

The Laser Scheme has developed a close relationship with IPSO's Card Payments Group (CPG) and through its involvement with the CPG keeps up to date on all new legal and regulatory issues concerning the Irish market.

The Laser Scheme is working closely with the IPSO Card Fraud Forum and is carrying out an overall fraud review of domestic debit card fraud trends. The

Scheme is looking at issues such as Identity fraud, and the absence of common security standards for e-commerce.

Laser fraud volumes remain at a minimum across the card spectrum and the Scheme aims to retain that low fraud figure. Laser has issued guidelines to its customers over the year and has initiated anti-fraud campaigns to help the continuing battle against fraudsters.

New membership

First Active plc joined the Laser Scheme this year as an associate member, to support the launch of their Current Account Mortgage (CAM).

Laser Scheme members are Allied Irish Bank (AIB), Bank of Ireland, Ulster Bank Ireland Ltd., National Irish Bank Ltd. and permanent tsb and associate members, EBS Building Society and First Active plc.



Strategic Development

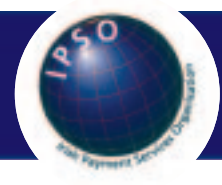


Barry O' Mahony

National Payments Plan

IPSO continues its attempts to modernise the payments landscape in Ireland. A discussion paper on Universal Account was submitted to Government by IPSO in June 2002 setting out a possible format for the delivery of electronic payment capability to the significant portion of the population (almost 40%) not holding a payment account. To date a response has not been received to this submission as the Government is constrained by the EC's position on the awarding of the social welfare distribution contract to An Post. The Government intends to challenge the EC on this and will not be in a position to achieve significant progress on a Universal Account until this matter is resolved by the European Court of Justice.

In the meantime, however, a study was commissioned by the Information Society Commission on behalf of Government looking into electronic payments in Ireland. The study, which was undertaken by Accenture, has been completed and is being considered by Government at the time of writing this Review. IPSO met with Accenture on a number of occasions during their preparation of this report and has had an opportunity to view and comment on the preliminary conclusions and recommendations. The broad thrust of the recommendations and the overall direction of the Report are consistent with the objectives of IPSO as previously articulated by the Company on a number of occasions to Government.



A Government response to the study, including the identification of the point of responsibility for progressing matters, is awaited. It is hoped that the clarification of a Government position on this will help to avoid the conflicting behaviours of different sections of government, as was evidenced by the Department of Finance's position on stamp duty on cards. While recognising the need to generate revenue, this form of taxation on technological progress runs counter to the aspirations of other departments to achieve greater efficiencies in the payments and disbursements arena. IPSO has proposed that it sits down with Government to agree a shared vision and a strategic road map, including the specific and practical steps that require to be taken.

Strategic Working Groups

Much effort was put into the activities of the three Strategic Working Groups set up by IPSO during 2002. A clear message to emerge from them was the need for a holistic approach to the development of a future payments infrastructure, consistent with the vision that the Company hopes will emerge from a National Payments Strategy. The Government's response to the Accenture Report will be a key element of that. Another factor of critical influence that has emerged over the last year is the European Payments Council, referred to elsewhere in this Annual Review. The drive towards a Single Euro Payments Area (SEPA) will to a large extent determine the direction we need to take in Ireland.

In light of these developments, the work of the Strategic Working Groups has been subsumed into the EPC mirror groups established by IPSO to deal with the activity emerging from Europe.



Future Payment Systems Development

IPSO's role is to guide the industry forward in terms of future payment systems development, identifying requirements for future payment schemes and promoting advanced payment mechanisms.

Mobile payments

More people in Ireland hold mobile phones than payment accounts. With increased computing power within the phone, 3G infrastructures, and improved screen design, the mobile phone is likely to become the mechanism of choice for many remote purchases/payments in the future, and may also extend to person-to-person payments, point-of-sale payments, and micropayments.

Many of the Dublin city-centre parking meters are currently enabled for mobile phone payments for registered customers involved in a trial.

Internationally, there is a number of groupings of banks, telecom operators, software and handset manufacturers attempting to progress various potential solutions, but at this point there is no dominant standard.

In May 2001, the ECBS noted that there was a need to bring together the European banking industry to discuss and construct a set of industry requirements in relation to the development of mobile payments.

IPSO has been monitoring these developments, as part of its role to guide the Irish industry forward in terms of future payment systems development. IPSO has attended a number of meetings where the future of mobile payments was discussed, and commented on the ECBS document 'Inputs to the EU Blueprint Mobile Payments' from an Irish banking perspective in March 2003.

IPSO will continue to monitor the development of mobile payments.

Electronic Commerce

Electronic Commerce is a generic term covering a wide range of technologies which attempt to provide end-to-end fulfilment of commercial transactions of which payment is a significant portion. Certain technologies have achieved acceptance in more than one country. Within the Eurozone it is necessary that a common standard should apply. IPSO will monitor and participate in such discussions as they progress.

Risk Management & Oversight



The second risk review process is currently underway across the companies under the IPSO umbrella. This work is being conducted under the auspices of the IPSO Board Audit Committee. As happened last year, each company will review their end-to-end operations, update their Risk Register as appropriate, and advise the Audit Committee of the outcome of the risk assessment process.

It is encouraging that all involved in the risk assessment process within the various companies have confirmed the need to maintain vigilance to ensure that risks involved in payment systems are adequately managed and understood. In engaging with the various industry stakeholders, it is clear that they should not be left with any impression that risks, in payment systems, can be underestimated or ignored.

A growing focus of the current reviews has been on the risks and problems of major suppliers to the payments industry and also on the crucial need to ensure anti-terrorist measures are in place. Crisis management and business continuity arrangements are continually reviewed. Work also continues in the drafting with the Central Bank & Financial Services Authority of Ireland of a Payment Obligation Agreement and other measures to limit settlement risk in the retail clearings. The volumes and values passing through the Clearings on a daily basis demonstrate why IPSO's paramount objective is to promote the integrity, availability, control and soundness of payment systems on an ongoing basis.

The review process of the payment schemes has been continuing. This work is intended to ensure that rules for membership of the clearing companies continue to remain open, fair, and transparent. While this exercise is being undertaken as part of the policy

of "best of breed" governance within IPSO it must be pointed out that there has not been any request for membership of the paper and electronic clearing companies since inception of these companies. A new member has joined the Laser scheme, and the work associated with their entry is currently being finalised.

During the year, IPSO has been cementing its relationship with the Central Bank and Financial Services Authority of Ireland. This has included quarterly review meetings with the Head of Payments and Securities Settlements Department, and the participation by the Bank at both Director and oversight levels in a number of the companies. The development of this relationship is intended to support the Bank in the performance of its duties and ensure that the payments industry is adequately informed on areas such as regulation, legislation and oversight.

Chip and PIN Ireland



Aoife Keogh

The plastic card industry in Ireland is currently undergoing dramatic change. Over the next three years, all credit and debit cards will move away from a magnetic stripe technology, using a signature, to a Chip (or smartcard) technology, using a Personal Identification Number (PIN). This is a more secure card payment system, which will help reduce card fraud.

IPSO is managing the introduction of Chip & PIN in Ireland, and as such is leading the co-ordination of Ireland's response to an international card payments development.

Escalating Levels of Fraud

Chip & PIN is primarily being driven by escalating levels of fraud - it tackles two serious types of crime, counterfeiting and the use of lost or stolen cards. The scale of fraud, which is highly international in nature, has increased dramatically over the last few years due to high levels of organised card crime and increases in the number and usage of plastic cards. Criminals often use card fraud as a way of raising revenue to fund other crime.

A European Initiative

To combat fraud, the main card schemes, Visa and MasterCard, have produced a set of technical specifications called EMV for the card payments infrastructure, which has become an international standard. In addition, the Laser Scheme has produced technical specifications, which comply with EMV. EMV requires Chip technology to operate.

France has been using a domestic Chip-based PIN system for several years. Their experience has proven that Chip & PIN significantly reduces counterfeit fraud, and that it is acceptable to cardholders and merchants.

The UK is currently leading the development of the Chip & PIN Programme. The UK's first Chip & PIN transaction commenced in Spring 2003 with a public trial in Northampton. A full national roll-out will follow on directly from the trial. IPSO has received the benefit of support from the experiences of the UK migration to Chip & PIN and we extend our thanks to both APACS and the Chip and PIN Programme Management Organisation (PMO) for assistance received.



Chip & PIN Ireland

Chip & PIN Ireland has made significant progress over the last year. A separate brand/ identity was developed and a website was created (www.chipandpin.ie). The website has a "member only" secure area for confidential documents and other member communication.

To date, Chip & PIN Ireland has set up a number of working groups to advance the key areas of work. These groups include a Technical Support Group, an Acquiring Forum, a Testing Group and a PIN Management Group. Over the

lifetime of the project, it is envisaged that new groups will be established.

While there is significant work taking place, much of this is behind the scenes and there will be no immediate impact on the cardholder. For example, at present, retailer equipment is being upgraded or replaced, and the issuance of Chip cards has commenced. However, for the time being, cardholders are asked to continue to use their plastic cards in the same way that they always have. The big change will occur in mid - 2004 when the Irish town trial

will begin and cardholders are asked to enter their PIN at point of sale.

A national communications campaign will be launched by IPSO to promote awareness and inform and educate retailers and consumers. Training and customer education are key elements of Chip & PIN Ireland.



IPSO Card Services



IPSO Card Services

In April 2002, IPSO Card Services (IPSO CS) was established.

For the last twelve months, IPSO CS has focussed on developing the Card Payments Group as the senior level decision-making forum on non-competitive strategic card issues and on fraud prevention initiatives. The collection and collation of fraud MI on the Irish cards market has been undertaken with the intention of publishing an overall figure showing fraud trends in Ireland over the past 12 months.

IPSO CS has also been monitoring Irish and European legal and regulatory issues and seeking industry views and decisions on these matters.

Card Payments Group

The Card Payments Group (CPG) was set up under the auspices of IPSO CS to explore, inter alia, potential improvements in security and other issues affecting the use of payment cards. The CPG is comprised of senior executives from the card issuers in Ireland and includes representatives from IPSO. The inaugural meeting of the Card Payments Group took place in August 2002.

The group has initiated open discussion on non-competitive issues such as threats to security, surcharging by merchants, stamp duty etc. This has included issues facing the industry such as the real and growing threat of card fraud. The group resolves these matters through work carried out by IPSO CS and the Card Fraud Forum.

The CPG examines the impact of legal and regulatory developments on the card payments industry and looks at opportunities for development in the card payments world. The group has endeavoured to provide a single voice for the payment cards industry through IPSO and to keep regulators, Government and the general public informed on issues concerning card payments.

Card Fraud Forum

In accordance with the objectives of IPSO Card Services and the requirements of the Card Payments Group, the Card Fraud Forum (CFF) was initiated in August 2002 with its inaugural meeting held the same month. The CFF discusses and carries out Fraud prevention initiatives as requested by the CPG. The main aim of the group is to



share information among members so that the whole group is fully informed at all times on current fraudulent activities in Ireland, specifically Card Fraud.

The Card Fraud Forum consists of the senior fraud representatives from the acquiring and issuing financial institutions in Ireland. In addition there are representatives from the Garda National Bureau of Fraud Investigation and the Police Service of Northern Ireland. Visiting interest groups regularly attend the CFF meetings, (e.g. MasterCard/Visa Fraud Departments) and give presentations on their own initiatives and anti-fraud products, etc.

The CFF initiates and implements tactical schemes, ensuring that the anti-fraud message is current. IPSO CS collates Fraud MI from the CFF members with the intention of providing the latest industry fraud trends to the general public and the media.

It examines future threats for the industry and reviews the possibility of migration following the introduction of Chip & PIN in other countries.

The IPSO Card Fraud Forum has representatives on the EU Commission's Fraud Prevention Expert Group and this enables the Forum to keep abreast of fraudulent activities throughout Europe.

Since its foundation, the CFF has been involved in a number of Retailer/Consumer Marketing projects. For example, a presentation was given to the IHA (Irish Hardware Association) in November last on Fraud and on what the industry is doing to combat rising fraud.

Using shared data, IPSO CS launched an information campaign, targeting the most fraud-prone shopping centres in Ireland at the key expenditure/fraud period at Christmas time. The campaign included telephone discussions with shopping centre managers and was followed up with a Direct Marketing package to each of their merchants containing information about the harmful effects of card fraud and simple, yet effective, loss-prevention techniques.

IPSO CS will be exhibiting a stand at the Forecourt Trade Show in the RDS this year, and is providing fraud packs to interested parties there

including anti-fraud initiatives and introducing our new CFF Fraud Prevention Task Force-SafeCard. Organisers expect more than 45,000 retailers to attend the show and IPSO Card Services will be providing posters, stickers and other fraud information packs to those retailers.

Plans for the Christmas Campaign 2003 are already underway this year. IPSO CS intends to carry out retailer training sessions prior to the Christmas Shopping period, in conjunction with the Irish acquirers.



Mark Magnier

IPSO Card Services



SafeCard, recently launched by IPSO Card Services, is a task force charged with helping to combat rising card fraud levels in Ireland. **SafeCard** operates under the direction of the Card Fraud Forum which consists of representatives from Irish card issuers and acquirers, the PSNI and the Garda Síochána.

SafeCard is engaging in a series of campaigns to educate merchants and consumers about the harmful effects of card fraud and provides simple, yet effective, loss-prevention techniques. Thanks to **SafeCard**, more than 40,000 Point of Sale retailers and 3 million cardholders in Ireland have access to fraud prevention training material and guidance documents.

There is a section on the **SafeCard** website (www.SafeCard.ie) for retailers, for cardholders, IPSO members and for the press. Readers can download publications on PDF, etc.

Connections to other sites such as Garda Fraud Bureau, and other fraud related sites are available on www.SafeCard.ie.

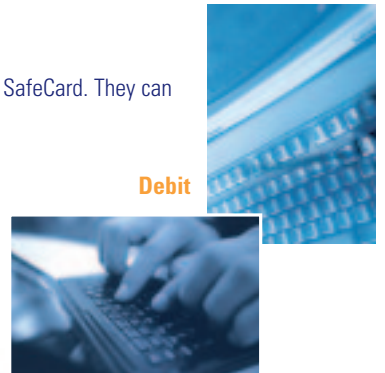
On the website, **Cardholders** can read about the social impacts of fraud, view top tips for fraud prevention in the areas of Card Not Present transactions, Counterfeit cards, ATM fraud and general fraud prevention measures. They can also view top tips on card fraud prevention when holidaying abroad. They can access telephone numbers for reporting lost and stolen cards or for times when fraud is suspected.

Retailers can read about the impacts of card fraud on merchants and the importance of the retailer's role in card fraud prevention. They can download training material and presentations and access telephone numbers to authorisation centres, PSNI, Gardai, SafeCard etc.

The media can view and download press releases and view SafeCard team contact details.

IPSO Members can read about developments in the Card Payments Group, the Card Fraud Forum and SafeCard. They can view recent fraud MI Trend updates, minutes to meetings and relevant news items.

Debit





Debit Cards

There are now in excess of 1.16 million debit cards in circulation in Ireland, which accounted for 55 million transactions in 2002 equating to €3.3 billion in retail sales. It is expected that transaction volume on debit cards will top 70 million by end 2003.

Credit Cards

There are now 1.82 million credit cards in issue in Ireland. In 2002 approximately 60 million transactions took place on credit cards at Irish retailers worth an estimated value of €5.8 billion.

ATMs in Ireland

The five main retail banks in the Republic of Ireland all operate proprietary ATM networks, from which their customers can typically affect cash withdrawals, balance enquiries and PIN change. In addition to this, each of the banks has reciprocity agreements in place to enable their customers to effect cash withdrawals from ATMs

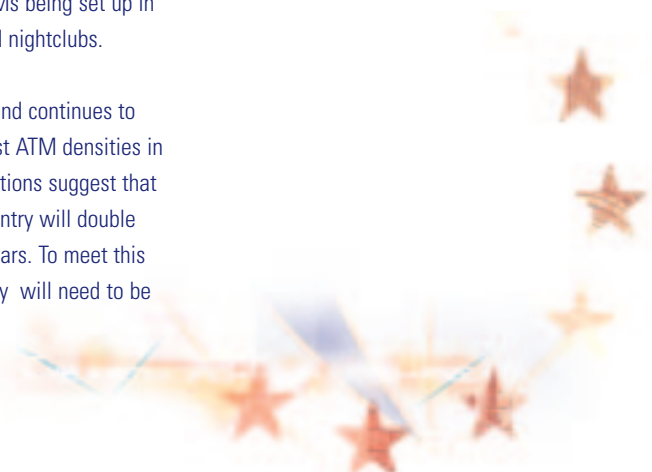
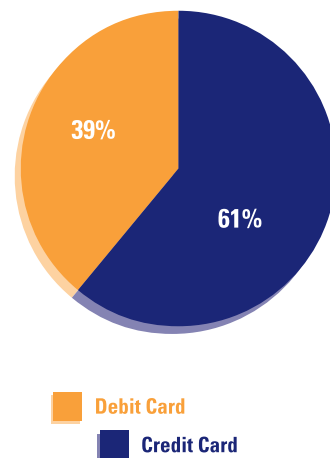
owned by other banks. These reciprocity agreements are on a bi-lateral basis. A number of banks also accept international credit cards (i.e.- VISA, Mastercard) on their ATMs.

At present, there are over 1,400 ATMs in Ireland. In 2002, the volume of ATM transactions was 147 million, representing a total value of 15 billion euro (based on IPSO 2002 figures).

During the period 1996-2000, the number of ATMs grew at a rate of nearly 25%. One of the main areas of growth in recent years is the increase in 'convenience ATMs', and Ireland has witnessed further ATMs being set up in pubs, small shops and nightclubs.

Despite this rise, Ireland continues to have one of the lowest ATM densities in Europe. Future projections suggest that ATM usage in the country will double over the next three years. To meet this demand, ATM capacity will need to be increased.

Numbers of Cards in Circulation in Ireland



IPSO Card Services would like to take this opportunity to give special thanks to APACS for their invaluable support and assistance throughout the year in developing fraud prevention, strategic plans and tactical initiatives. We would like to thank the staff of APACS and CardWatch for their continued involvement in the CFF.

Payments Industry

Statistical Database



Susie Farrelly

Payments Systems Database

It has been recognized for some time that an improved database of payments statistics is necessary for longer-term management of payment strategies. To facilitate this, IPSO established a Payment Statistics Committee.

Collection and assembly of Payment System Statistics is not a trivial task. Many payments travel through complex paths in the process of clearing. Certain types of payments may involve multiple payment instruments. It is necessary to ensure that individual payments are not counted multiple times. Certain account types may have multiple authorized signatories or multiple cards.

In parallel with the IPSO development, the Central Bank & Financial Services Authority of Ireland, and the European Central Bank are reviewing the range and types of payment statistics to be collected at international level to facilitate international comparisons.

As we go to print, the first outputs from the new IPSO statistical database have come to hand. An initial selection is reproduced herewith. It is intended that future issues of the IPSO annual report should carry more extensive analysis, with year-on-year comparisons.

Statistical Information - Some comments

The statistics shown bring the Irish payments environment into sharper focus.

Cash is a dominant payment instrument for point of sale consumer payments. While most cash is paid out through ATM's, there is also a substantial payout of bulk cash as well as over-the-counter cash. Cash and cards together form the bulk of point-of-sale payments, since the volume of cheques presented at retail points of sale has declined substantially.

The dominance of cash as a payment instrument is illustrated by the fact that ATM withdrawals are substantially greater than the total of debit card and credit card transactions. Although the number of paper transactions has declined - particularly in the personal sector, there is still a very large number of paper transactions in non-personal sectors. The deployment of online systems and increased usage of Direct Debit and EFT should reduce the volume of paper processing in forthcoming years.



The Irish Payments Industry in 2002

Customers and services

Number of Accounts End-year 2002	Active & Inactive	
■ Enabled Payment Accounts ¹	5.2m	Excl credit cards
■ Restricted Payment Accounts ²	1.2m	

Access to accounts

ATM Machines	1,412	
Payment Cards		
■ Cards with ATM function	3.4m	Excl credit cards
■ Cards with Laser (debit) function	1.0m	
■ Cards with Cheque Guarantee	0.9m	
Credit Cards	1.8m	
Number of Accounts with phone or online access		
■ Phone Access	Registered	Activated
	0.9m	0.4m
■ Online Access	1.4m	0.7m

Key Transactions

	Number of Transactions (Millions)	Value of payments €bn
ATM Cash Withdrawals	148.9	15.7
Paper Transactions		
■ Cheques and other paper debits	125.4	1,015.5
■ Lodgements, Giros, and other paper credits	<u>45.6</u>	<u>740.1</u>
Total Paper Transactions	171.0	1755.6
Card Initiated Payments		
■ Debit Card payments	55.0	3.3
■ Credit Card payments	<u>60.0</u>	<u>5.8</u>
Total Card Payments	115.0	9.1
Automated payments (Direct Debit, EFT, Standing Order, Online)		
■ Automated Debit Payments	88.3	167.8
■ Automated Credit Payments	<u>83.2</u>	<u>222.3</u>
Total Automated Transactions	171.5	390.1

Notes

¹ Enabled payment accounts are capable of accepting payment through a variety of mechanisms, and of some making payments other than in cash

² Funds in restricted payment accounts can only be withdrawn in cash

Standards & SWIFT

European Standards

IPSO sits on the Technical Steering Group of the European Committee for Banking Standards (ECBS). In line with significant changes within the European banking industry, including the introduction of the Single Euro Payment Area and the establishment of the European Payments Council (EPC), the ECBS is undergoing some internal change. In mid-2003, the current Executive Committee will be replaced by a new Board closely linked to the EPC. In addition, the EPC will provide the strategic framework in which the ECBS will develop the required payment-related standards.

One of the highest priorities of the ECBS over the last year has been the implementation of the International Bank Account Number (IBAN) as the cornerstone to straight-through-processing of cross-border payments. The ECBS sees the continued monitoring of the use of IBAN and the development of implementation guidelines of different standards as key towards the promotion of straight-through-processing within SEPA.

The following are among the work items of the ECBS for 2003:

- The ECBS will continue to work with SWIFT to develop an implementation guide for the electronic Payment Initiator (ePI) standard which is a set of minimum data that is required to initiate a payment based on the SWIFT message models.
- A second version of the European Electronic Banking Standards Framework will be developed in 2003 depending on the availability of SWIFT-XML-messages.
- Development of security guidelines for electronic banking.
- Working group on mobile payments will produce implementation guidelines for the requirement of the banking community outlined in a technical report entitled "Businesses and Functional Requirements for Mobile Payments" which was published in March 2003.
- Development of a common model on electronic trust through which banks will be able to handle trusted services.

International Bank Account Number (IBAN)

The EC Regulation on cross-border payments in euro, adopted on 19th December 2001, encourages the use of the IBAN of the beneficiary and the Bank Identifier Code (BIC) of the beneficiary's bank in cross-border payments denominated in euro. It also imposes additional requirements with effect from 1st July 2003, including the requirement that institutions indicate on statements of account of each customer, or in an annex thereto, the customer's IBAN and the institution's BIC.

When used in conjunction with the BIC, IBAN will improve the efficiency and reduce charges for cross-border payments in euro, made within the EU, to corresponding domestic levels.



During the course of the last year, IPSO responded to many queries from the general public, companies and banks in relation to IBAN. It is important to note that only the account holding bank can generate and provide to its customer the correct IBAN. If an incorrect IBAN is used in cross-border payment instructions, the sender runs the risk of wrong payment, delayed payment and higher processing charges. Information on IBAN can be obtained from the IPSO website, the ECBS website (www.ecbs.org) and individual banks.

NSAI

IPSO liaises with the National Standards Authority of Ireland on the standardisation work of ISO Committees on banking and payment related topics covered under TC68.

IPSO has in the past adopted a reactive role in relation to standards development but this stance is currently under review.

The Society for Worldwide Interbank Financial Telecommunication (SWIFT)

SWIFT is an industry owned cooperative supplying secure messaging services and interface software to over 7,000 financial institutions in 198 countries. It provides messaging services to banks, broker-dealers and investment managers, as well as to market infrastructures in payments, treasury, securities and trade.

SWIFT is a worldwide community of financial institutions whose purpose is to be the leader in communications solutions enabling interoperability between its members, their market infrastructures and their end-user communities.

At a local level, there are two SWIFT Groups in Ireland which are facilitated by IPSO, namely, the National Member Group and the National User Group. These Groups meet on a quarterly basis to discuss current issues including the following:

- Compliance of Users with Admission Criteria.
- European SWIFT Alliance Group meetings.
- SWIFT Board papers.
- Migration to SWIFTNet FIN.
- Migration to MT103 messages
- SWIFT Education and Training.

Standards Upgrade 2002

The ISO 15002 migration was successful and SWIFT announced that 94% of securities message traffic had migrated to ISO 15022 by the 16 November 2002 deadline.

Governance /Compliance Working Group

A newly formed working group was recently established to review the overall structure, governance, and approach of the Irish National Member Group to the admission of SWIFT users and the ongoing monitoring of SWIFT user compliance with SWIFT rules. This review will allow the National Member Group to benchmark itself against "best practice" from the European SWIFT Alliance member countries.

MT103 migration progress update

The MT 100 customer message type will be removed from the FIN network with the 2003 Standards Release effective 15th November. This message type is replaced by the MT 103 which became available for general use on 18 November 2000. The migration progress of SWIFT users in Ireland is being monitored by SWIFT.

SWIFTNet FIN Migration

SWIFT is moving from its traditional X.25-based store-and-forward messaging service through FIN to SWIFTNet, an IP-based communications solution. With SWIFTNet, they have added interactive capabilities to provide a comprehensive and integrated set of managed messaging services designed to support the business activities of their users. The introduction of FIN over SWIFTNet, known as SWIFTNet FIN, extends the single window benefits to the entire SWIFT community and at the same time avoids any obsolescence issues linked to X.25-based technologies. A SWIFTNet Fin Migration roadshow took place in Dublin in May to help the Irish user community plan to meet their migration window which is scheduled for 1st March to 26th March 2004.

STEP2

STEP2, the embryo of the PE-ACH (Pan European Automated Clearing House) commenced operations on 27 April 2003, and will extend to include all EU countries (except Ireland) by end 2003. Participation in STEP2 is dependent upon prior installation of SWIFTNet FIN as described above, and accordingly, no Irish-based bank can be a direct participant in STEP2 until after March 2004. No Irish bank has committed to STEP2 at the time of publication of this Review.

European SWIFT Alliance Group (ESA)

Ireland is represented on the ESA, which comprises 21 countries, by the Chairmen of the National Member and User Groups.

European Payments Landscape

IPSO continues to play an active role in European Affairs through, inter alia, its association with the European Banking Federation in Brussels. Activity in a European context over the past year was dominated by the European Payments Council on which IPSO is represented.

Ireland in the European Context

It must be clearly understood that in many respects, the Irish payments landscape, taken as a whole, lags behind peer countries in the Eurozone, and significantly behind the best, on many key measures of progress.

Accordingly, Ireland has a greater challenge than others in the short-term future, in moving towards the reform aspirations of EPC (see below), but also has a greater potential benefit to be achieved from those reforms.

The reforms required may be divided into two categories:-

- Reforms of cross-border systems, to satisfy the progress towards the integrated vision of SEPA.
- Efficiency reforms. Inefficiency creates extra costs in the banks, regardless of whether that inefficiency is caused by customers making inefficient payment choices or by process inefficiency. Inefficiency of payments impacts the overall competitiveness of the economy. Particular examples in this context relate to the high usage of cash and cheques in Ireland.

Both categories of reform must be tackled aggressively and urgently if Ireland is to regain its traditional position.

European Payments Council (EPC)

The European Payments Council was established in June 2002 at the initiative of the European banking industry. EPC will provide the European banking and payment industry, with the strategic orientation and the guidance necessary to build the Single Euro Payment Area (SEPA) and ultimately lead the industry towards efficient, profitable and well-accepted European payment systems. The SEPA strategy aspires to the virtual removal of all national payment borders within the Eurozone, creating a position whereby money moves as easily and efficiently between say Dublin and Munich, Madrid or Milan as it does between say Dublin and Mullingar. While the prime focus is initially on cross-border credit transfers, the EPC has established a range of taskforces to seek to undertake broad reform in all appropriate aspects of the payment business, both local and cross-border.



Tom Conlon



The 50 members of the EPC are drawn from a selection of banks representing all types of European banks including commercial banks, savings banks and co-operative banks and from selected banking and payment associations.

In the 12 months from its first meeting in June 2002, the EPC has set a fast pace which has impressed the industry and regulators alike. Among the highlights are:-

- The establishment of the Pan-European Automated Clearing House (PE-ACH) to provide lower-cost cross-border electronic payments in Euro within Europe. The PE-ACH commenced live operations on 28 April 2003. The Irish banking system will connect to PE-ACH in 2004 when SWIFTNet FIN is implemented in Ireland. The longer-term plan is that PE-ACH could become the clearing system for all electronic payments in euro.
- The establishment of standards and procedures for cross-border payments to enable compliance with Regulation 2560/2001/EU, which requires standardised numbering systems, clearing cycles, transparency, and reduced pricing for cross-border credit transfers in euro up to €12,500.
- The creation of Credeuro and Interbank Convention on Payments (ICP) Conventions: The IPSO Board has recommended market acceptance and adoption of both conventions by its member banks.
- Design of future infrastructures and systems for electronic debit transactions including direct debit, which will lead to the launch of the Pan-European Direct Debit (P€DD).
- Reviews, proposals, and initiatives in the areas of card payments, cash, e-payments and m-payments

IPSO has established an EPC Steering Group, and a number of sub-groups including a Customer Payments Strategy Group and an Infrastructure Working Group to mirror and implement the work of the EPC and its work groups within that structure.

Payment Systems Committee

IPSO represents the Irish payments industry on a number of the European Banking Federation's Payment Committees/Working Groups including the Payment Systems Committee (PSC). The EPC, in which the European Credit Sector Associations (ECSAs) have a strong stake, is recognised as the primary body representing the European banking industry in payments matters and the senior interlocutory body for the authorities of the EU, whether Commission, ECB or European Parliament. The main purpose of the PSC is to support and complement the work done by the EPC in its effort to create and effectively implement the SEPA and to inform the national banking communities on the progress of the EPC.

Regulation of Cross-Border Payments in Euro

The EC Regulation 2560/2001 on cross-border payments in euro stipulated that, from 1st July 2003, all electronic payment transactions of €12,500 or less, within the EU, must be charged at the same rate as the equivalent domestic transaction. The Regulation became effective for ATM and point-of-sale transactions from 1 July 2002 with resultant reduction in cross-border transactions.

In practice, the regulation forced many banks to entirely re-design their processes for dealing with cross-border transactions, leading to new levels of automation and the establishment of new routes and new infrastructures.

The Regulation obliges a supplier who accepts payment by credit transfer to state his IBAN and the BIC of his institution on all cross-border invoicing of goods and services within the EU. This is in the interest of customers, as it avoids the possibility of additional transaction charges in relation to payments.

The impact of the Regulation continued to dominate discussion during the last year, particularly the requirement to provide IBANs and BICs on statements of each customer or in an annex thereto.

A new legislation framework for the single payment area in the internal market

The European Commission published responses received following the publication of its working document in May 2002 on a legislative framework for the single payment area. IPSO responded to this consultation via the European Banking Federation and the Department of Finance. A formal Commission Communication will issue in Summer 2003 regarding possible forthcoming legislation on retail payment services in the Internal Market.

Other Initiatives

IPSO also participates on the Payments Systems Market Group of the European Commission which gives advice to the Commission on issues relating to retail payments and to facilitate a reciprocal exchange of information on legislative and non-legislative initiatives with the field of payments in Europe. Recent topics covered include the Implementation of Regulation 2560/2001 on cross-border payments in euro; a New Legal Framework for a single payment area in the Internal Market and SEPA.

The Industry Voice



Tracy O'Rourke & Stewart MacKinnon

Communications

During the past year, IPSO pressed ahead with its Communications Plan and Networking Strategy to ensure that key stakeholders in the payments business have a proper understanding of the payments industry and the role of IPSO.

Detailed briefings have taken place with Government Ministers, Senior Civil Servants, political advisors and regulatory bodies to ensure that key opinion formers are fully aware of IPSO's role and objectives. IPSO mobilised a concerted lobbying exercise, following the announcement of the increase in stamp duties on payment cards in the December 2002 Budget. Whilst the exercise was singularly unsuccessful in having the Minister for Finance alter his decision, the lobbying process did engender strong support for IPSO's case and acceptance of the harmful effects of the tax on the wider economy. Efforts are continuing to have the concept of the tax accepted as a major fiscal distortion and barrier to the Single Euro Payment Area.

IPSO handled many calls from the general public, media, businesses and the members themselves enquiring about various aspects of IPSO's work and the payment industry generally.

Chip & PIN, plastic card fraud and clearing cycles and value dating stimulated the greatest media interest and remain major issues.

As regards information to members, IPSO recently introduced a Strategic Newsletter, which highlights the key issues for the payments business in a succinct format. The Newsletter is intended for decision takers in member institutions, directly or indirectly concerned with payments developments at a time of increased change. It will issue every two months.



Website

The IPSO web-site was reviewed and updated during the year. There were a number of changes made due to the restructuring of the Paper Clearing Companies, new Working Groups being set up and a few staff changes.

The Chip & PIN Project has made great strides in the past year and, in this regard, a separate site, www.chipandpin.ie has been set up with links into the IPSO site. A further initiative to counter card fraud also resulted in a separate site, www.safecard.ie being set up. The Laser Card site was also updated and can be accessed through the IPSO site or directly at www.lasercard.ie

The IPSO site is updated on an ongoing basis, with news items continually

being added. During the year under review IPSO received many queries from students, the general public and media personnel.

A large proportion of these queries emanated from them having accessed the IPSO web-site.

Sort Code Data

At present, the Irish sort code data is only available in book or PDF form. Over the past number of months IPSO has been working on a number of electronic means of accessing the sort code information. Development of the web-site is underway and we hope to have available shortly the following sort code data:

- an excel database of sort code and bank branch information;
- a sort code and related information, quick search facility.

These additional modules of the sort code data are due to be launched in August 2003.

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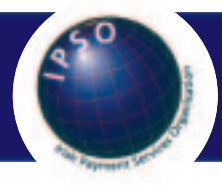
Chief Executive	- Stewart MacKinnon
Senior Manager - Policy & Projects	- Barry O'Mahony
Senior Manager - European & Retail Payments Strategies	- Tom Conlon
Corporate Affairs Manager	- Paula Gray
Wholesale Payments Manager	- Martin James
Laser Scheme Manager	- Una Dillon

Support Staff

Chip & PIN Programme Co-ordinator	- Aoife Keogh
PA to CEO	- Susie Farrelly
Laser Card Marketing Executive	- Jennifer Chamberlaine
Card Services Executive	- Mark Magnier

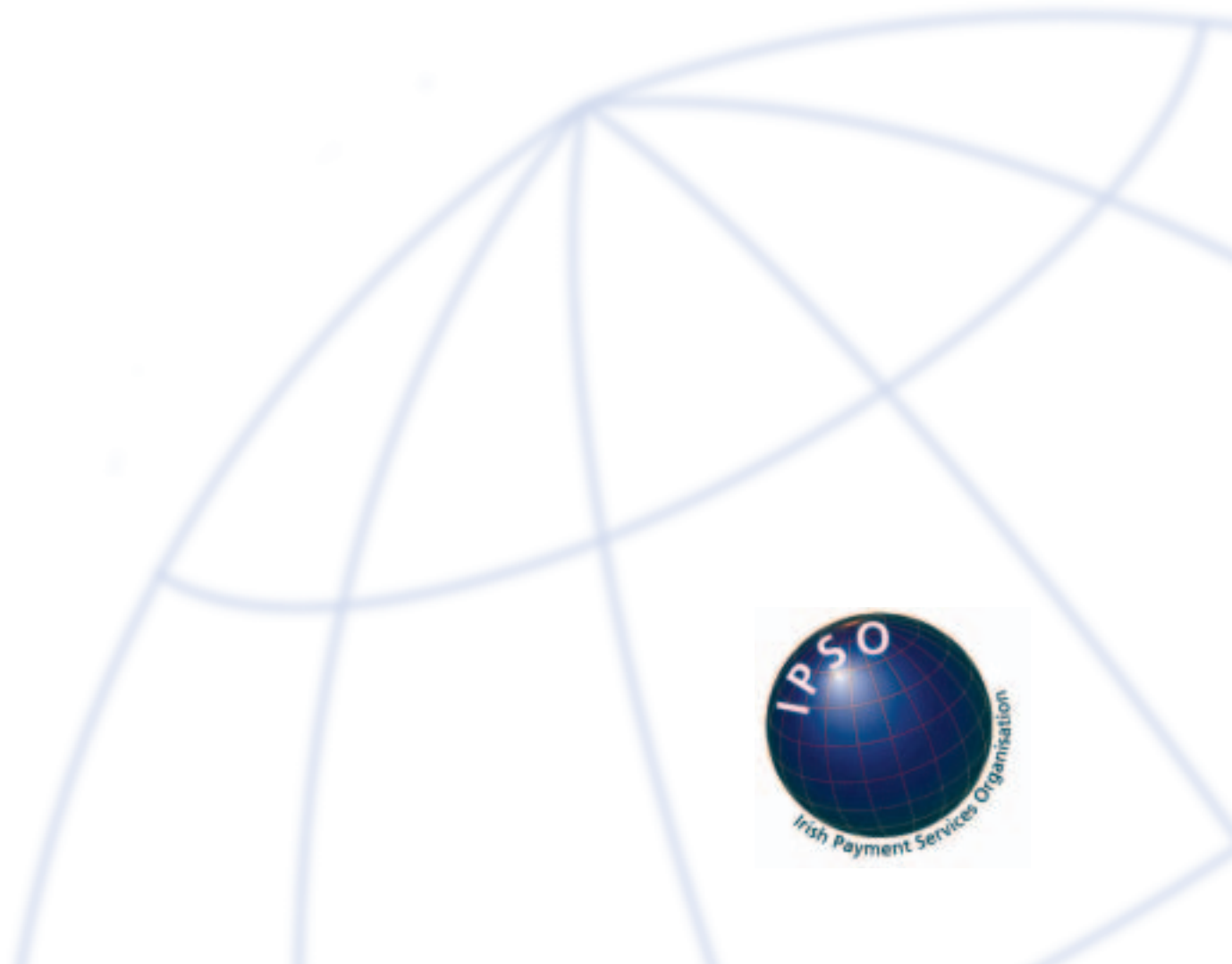
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