



Annual **Review** 2001/2002





Vision

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



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



Pete Sayers



I am delighted to launch and introduce this Annual Review of IPSO's activities.

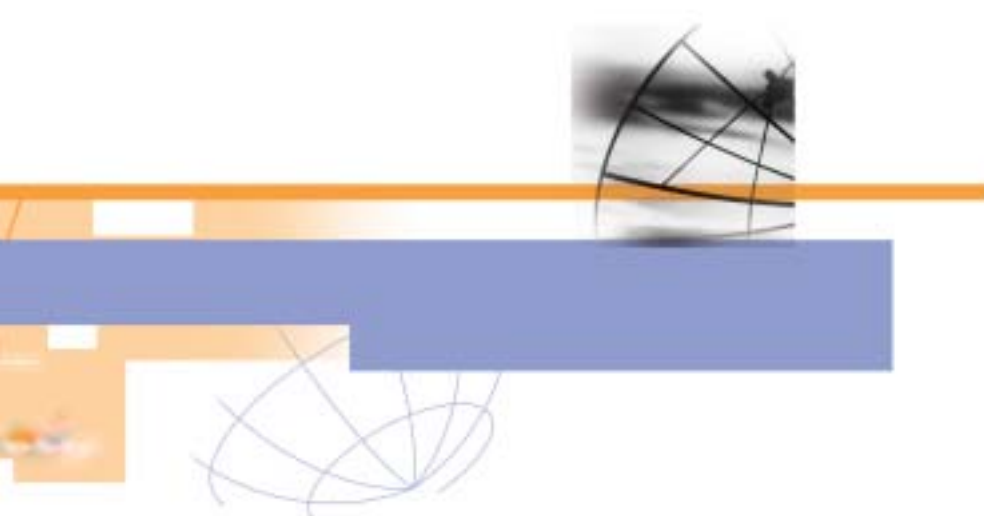
IPSO has been engaged in a major strategic planning exercise over the past year with the aim of leading the transformation and modernisation of the Irish payments industry. The recruitment of Stewart MacKinnon as Chief Executive was the first step in the company driving forward its ambitious objectives. The IPSO Board has signed-off on a five year Strategic Plan for the company, which articulates a clear and unambiguous strategic direction for the industry to 2006. Taken collectively, the list of the Plan's deliverables presents a daunting yet achievable work programme for IPSO and its members.

The future of the Irish payments industry is as exhilarating as it is uncertain. There will be as many opportunities as threats for the participants in this arena over the next five years and beyond. To exploit the opportunities, the participants will have to display strategic agility and both competitive and co-operative determination if they are to survive and thrive in the rapidly changing payments environment.

In terms of our payments infrastructure, Ireland is lagging behind its European counterparts. The Irish payment landscape continues to be dominated by high cost payment channels and instruments, specifically cheques and cash, while countries such as Finland and Belgium have successfully moved from paper-based payments to a comprehensive electronic payments environment.

To remain competitive, the Irish payments industry and individual players must drive costs and inefficiencies out of the payments business, whilst at the same time enhance the service and product offerings to our end-user customers.

The vision of IPSO is to create a world class payments infrastructure in Ireland. IPSO is guiding this development to ensure that the industry is transformed in an orderly and planned way. To achieve our goal, and at the same time meet public policy objectives, the IPSO Board has unanimously agreed, within IPSO's Strategic Plan, a shared vision of the end game of the National Payments Plan (NPP), the policy approach and the action steps to take us there. This vision and the key dimensions of the plan now fall under the ownership of the NPP Steering



Group, reporting to the IPSO Board, to deliver the 'desired end state of the payments industry in 2006' by a process of engagement with key stakeholders. The support and wholehearted commitment of all members is critical to the successful delivery of the plan. We also need to build and foster a strong cohesive coalition with Government, government agencies and other partners as stakeholders in the business. The Government has a critical role both to champion the NPP and to demonstrate its commitment as an intelligent user of electronic payment services. Discussions in this respect have begun between IPSO and the Government's E-Payments Strategy Group, and dialogue will be on-going.

The decision of the IPSO Board late last year to set up three strategic working groups to look at cash, ATMs and paper processing (reported upon in this review) marked a watershed in industry consideration of non-competitive payment systems infrastructural issues. Each working group, which was chaired and facilitated by an IPSO Director, demonstrated a real spirit of fruitful endeavour; their outputs have been refreshing and instructive and will greatly assist the Board in its deliberations on the design and development of Ireland's future payment systems infrastructure. The work of these groups has also set a proven, tested and trusted structure for efficient inter-bank co-operation on non-competitive infrastructural issues, which can and will be built on by IPSO.

The Irish payments industry of 2006 will be vastly different from what we know today - I look forward to the exciting, but challenging times that lie ahead of us. I am confident of the abilities of members and the Chief Executive and staff of IPSO to deliver success.



Stewart MacKinnon

Chief Executive's Foreword

I joined IPSO in March 2001 as Chief Executive. My key initial task, undertaken with the full support of the IPSO Board, was to carry out a due diligence review of the Company. The findings indicated a number of actions required to revamp IPSO, its processes and its procedures to create a vibrant, innovative and commercially focussed company. It was only by getting the fundamentals right that IPSO could put in place, and successfully deliver, practical business strategies to meet members' needs and requirements, add value to their businesses and lead and facilitate the rejuvenation and transformation of the Irish payments industry.

The depth and breadth of our activities reflect the increasing importance of IPSO's role and the significant contribution which payment systems make to the national economic infrastructure.

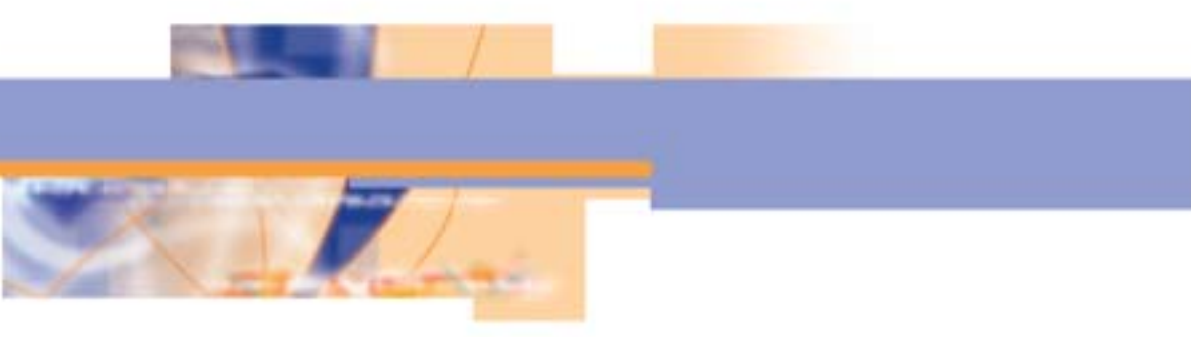
As noted by the Chairman, our work programme is stretching, with some 65 deliverables over the life of the Strategic Plan, many of them front-end loaded in our Operating Plan this year. This should not deflect IPSO from its principal objective which is to ensure the integrity, availability, cohesion and soundness of payment systems on an on-going basis. During the last year all clearings and payment schemes operating under the IPSO umbrella continued to operate soundly, reliably and effectively, with both volumes and values handled on a daily basis showing significant growth. Plastic card transactions, in particular, recorded another year of strong growth.

Three recent developments are evidence of the progress being achieved by IPSO in support of its objectives and which are likely to have far reaching impact for the

payments industry and its stakeholders in Ireland.

The first, was the unanimous decision of IPSO members to support a programme of PIN authorisation of credit and debit card transactions at retail outlets in Ireland using the security of the CHIP Card. This will be introduced on a phased basis over the next three years and will be operational during 2005. Individual members are currently working closely with their retailer customers to address infrastructure requirements. The public announcement of this hugely significant change, which will impact every cardholder in Ireland, was made by IPSO in early May. It represents a major step in fighting card fraud and a definite turning point in the battle against payment card crime.





The second, is the development by the IPSO Board of a shared vision of what has become known as the National Payments Plan (NPP). Whilst clarity of objectives is important, clarity of the means to achieve those objectives is critical and by implication, more problematic. A number of key action steps are currently being discussed with Government to deliver the NPP. The sequence, pace and timing of the range of initiatives which are required to deliver the vision will determine what targets and milestones are essential. The path ahead and the issues which require to be addressed and managed will not be without their challenges. Co-operation and commitment are clearly key. The priority initiative will be the development of the Universal Account.

Finally, the decision by the Board during the year to undertake a major review of the structure and governance of IPSO recognised both the rapidly changing payments

environment and the need to continue to ensure that principles of good governance and best practice are implemented to support the discharge of the company's role and responsibilities. A number of changes to the structure, funding and organisation of IPSO have been agreed by the Board and these will be implemented progressively and incrementally.

This is a very important time for IPSO, characterised by deep and profound change. Not only is the company undergoing considerable internal change, but is also making significant strides as a credible, respected payments industry body in advancing major programmes of work which have both public profile and high external interest. Our reputation and the importance of the payments industry to the general economy is now being demonstrated to, and realised by, politicians, media and other key opinion formers.

I thank the Chairman, the IPSO Board, and other senior executives in member institutions, for the positive support and guidance which I have received since taking up my appointment. I also wish to pay tribute to member bank representatives who sit on the Clearing Company Boards and our committees and working groups. They have all helped, in no small way, to foster IPSO's transformation and development and to deliver our achievements in the past year.

I also wish to record my appreciation to IPSO staff for their hard work and commitment in what has been a difficult year. Their dedication and enthusiasm has ensured that a quality service has been continuously delivered to our members.

Stewart MacKinnon
Chief Executive

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Membership

IRISH PAYMENT SERVICES ORGANISATION LTD

AIB Bank
Bank of Ireland
Barclays Bank plc
Central Bank 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 CREDIT CLEARING COMPANY LTD

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

IRISH PAPER DEBIT CLEARING COMPANY LTD

AIB Bank
Bank of Ireland
Central Bank 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.
Banque Bruxelles Lambert, Dublin Branch
Bank of America N.A.
Barclays Bank plc
Citibank International plc
HSBC Bank plc



IRISH REALTIME INTERBANK SETTLEMENT COMPANY LTD.

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

LASER CARD SERVICES LTD.

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



IPSO BOARD

Pete Sayers (Chairman), Head of National Payments Strategy
Tracy O'Rourke, Head of Retail Payments
Michael Collopy, Corporate Manager
Sean O'Keefe, Operations Manager
Paul O'Brien - Deputy Head, Payments & Securities Settlement Dept
Martin Walsh, Head of Mutuality Development
Brian Murphy, Head of IT Support Services
Andrew Douglas, Head of Payments Great Britain & Ireland, National Australia Group
Donal Doran, Deputy General Manager
Paul Molumby, Head of Payment Operations
Stewart MacKinnon, Director & Chief Executive

- AIB Bank
- Bank of Ireland
- Barclays Bank plc
- BNP Paribas
- Central Bank of Ireland
- EBS Building Society
- First Active plc
- National Irish Bank Ltd
- permanent tsb
- Ulster Bank Ireland Ltd
- Irish Payment Services Organisation Ltd

The Role of IPSO



Paula Gray

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 five 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 Realtime Interbank Settlement Company Ltd* (page 10)

Irish Retail Electronic Payment Clearing Company Ltd* (page 14)

Irish Paper Credit Clearing Company Ltd* (page 16)

Irish Paper Debit Clearing Company Ltd* (page 16)

Laser Card Services Ltd (page 18)

The Clearing Companies* are regulated by the Central Bank 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 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 need for 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.



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- 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, 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.

A number of senior industry groups also operate under the umbrella of IPSO:

National Payments Plan
Steering Group (page 20)

Cash Strategy Working Group
(page 21)

ATM Strategy Working Group
(page 21)

Paper Processing Strategy
Working Group (page 21)

CHIP & PIN Migration
Programme Steering Group
(page 26)

The Irish Realtime Interbank Settlement Company Ltd



Martin James



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 22 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 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 **RTGS System** is managed and operated by the Central Bank 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

RTGS/TARGET PAYMENT FLOWS IN IRELAND:

	Total Volume	Total Value	Daily Avg. Volume	Daily Avg. Value
		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	€5.5bn
Total	485k	€3,813 bn	1,905	€15.0 bn
		Year 1999		
Domestic	276k	€2,525 bn	1,065	€9.7 bn
TARGET	147k	€1,069 bn	569	€4.1 bn
Total	423k	€3,594 bn	1,634	€13.8 bn

these systems are interlinked so as to provide an EU-wide uniform platform for the processing of cross-border euro payments.

In 2001, the RTGS/TARGET system in Ireland processed over 544,000 transactions (307,000 domestic, 237,000 cross-border) with a value of €4,547 billion (€3,010 billion domestic, €1,537 billion cross-border).

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

SYSTEM HARDWARE UPGRADE

As a result of the steady increases in payment volumes in Ireland it was necessary to upgrade the hardware

that runs the RTGS/TARGET system this year. This hardware upgrade went into live operation on 25th March 2002 following the completion of successful mandatory testing of the new hardware. The benefits of this upgrade are already evident particularly through increased capacity, performance and time saving associated with system start up and shut down. This has led to a decision by the IRIS Board to reduce the minimum limit for transacting domestic customer payments from €25,000 to €10,000. This limit will be reviewed in the coming months when a clearer picture on volume increases and system performance will be available. The objective of the IRIS Board is to eliminate this minimum limit on a gradual basis.

CONTINGENCY

The events of September 11, 2001 have identified important vulnerabilities, highlighted the need for improvements and co-ordinated action and strengthened the worldwide banking community's resolve to address any exposure/risk to their individual core businesses. At a local level this is also true in the case of IRIS members where, increasingly, business continuity management has become an integral part of service level agreements to banks' customers. To this end, issues in relation to enhancing general contingency arrangements for the RTGS/TARGET system are currently being examined.



The operating and service level agreement between the Central Bank of Ireland and IRIS was reviewed this year and some proposed changes to the operating rules of IRIS are being considered.

TARGET IN EUROPE

According to the European Central Bank in its TARGET Annual Report 2001, the TARGET system as a whole, processed a daily average of 211,000 transactions worth almost €1,300 billion. TARGET remained the preferred system for the settlement of high-value payments in euro, and its market share in terms of value increased to 75% of the total turnover of large-value payments in the euro area. TARGET is also extensively used for the settlement of relatively low value commercial payments, and 63% of all payments in TARGET are less than or equal to €50,000.

With regard to market coverage, TARGET had more than 1,560 direct participants in 2001 and the European Central Bank estimates the number of indirect participants at over 5,000. More than 37,000 banks (including branches and subsidiaries) are addressable via TARGET.

EURO CHANGEOVER (AMOUNTS) ACT 2001

The purpose of this Act was, in necessary cases, to replace Irish pound amounts that are set down in law with convenient amounts in euro with effect from 1 January 2002.

Section 5 of the Act amends the Central Bank Act, 1989 by substituting a new Section 135 for the existing Section 135. The new section defers, until the next business day, the giving of value by banks in respect of transactions that fall due for processing by them on a public holiday or on a day when the TARGET interbank settlement system is closed by decision of the European Central Bank. Such deferral already happens in respect of public holidays; and indeed, most of the TARGET closed days already correspond with Irish public holidays with the exception of 1st May where Ireland's public holiday always falls on the first Monday in May. The Act also provided for the decision by the ECB to close the TARGET system on 31st December 2001 in order to safeguard the smooth conversion of retail payment systems and internal bank systems to the euro.

TARGET CALENDAR

In 2002, the European Central Bank's long term TARGET calendar of six closed days (including 1st May) in addition to Saturdays and Sundays came into effect. The definition of TARGET closing days determines the value dates of the euro in the financial markets. On TARGET closing days no interbank settlement can be made in euro, no standing facilities are available at the national central banks and the euro overnight index average (EONIA) is not published. Furthermore, the correspondent central banking model (CCBM) for the cross-border use of collateral is also closed on these days. TARGET as a whole, including all the national real-time gross settlement (RTGS) systems, is closed.

1ST MAY

The implications of this calendar were experienced in Ireland on 1st May 2002 as a result of the non-availability of the RTGS/TARGET system on a normal working day in Ireland. Credit institutions were obliged to amend their services accordingly. However, with the willingness of the participants in the clearings and the Central Bank, the parties worked to





achieve a limited deferral of settlement, and thus ensured that value would be given to customers on 1st May by a once-off settlement of the interbank clearings early on the morning of 2nd May 2002. The alternative would have been to defer settlement until close of business on 2nd May 2002.

The net bilateral positions regarding deferred settlement were subject to deferred settlement interest claims above a de-minimus threshold. The concept of claiming interest for the deferred settlement may apply again in similar circumstances in the future.

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 via the European Central Bank and the National Central Banks and the supervisory authorities. A representative from the European Central Bank (ECB) attends all meetings of this Group.

The following items are among the current activities of this Group:

- Improved TARGET Compensation Scheme - currently with the ECB.
- TARGET holiday calendar - derogation for Greece - approved by the ECB.
- Operational & business issues including standardisation and contingency.
- Information flows between this group and the TARGET management working group of the ECB.

The Irish Retail Electronic Payments Clearing Company Ltd



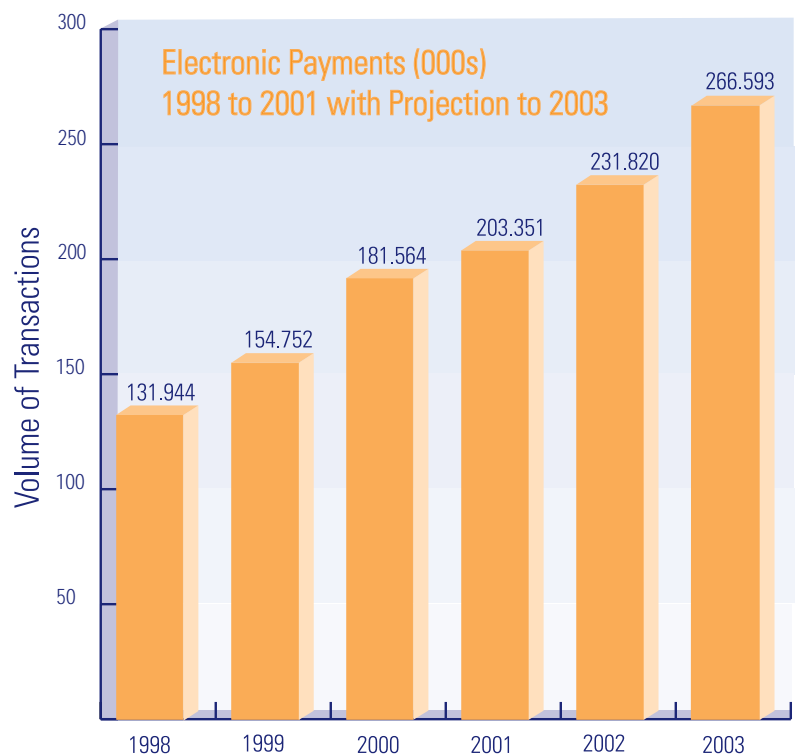
John Kelly

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The Irish Retail Electronic Payments Clearing Company (IRECC) manages the electronic funds transfer payment, clearing and settlement system for domestic, bulk low value electronic payments. The Company is responsible for the inter-bank clearing of electronic items between banks and other financial institutions. Each bank is responsible for running its own electronic funds transfer system (EFT), which enables credits and debits to be originated and paid through any bank/branch within Ireland. IRECC is responsible for the development and application of the Credit and Debit Electronic Clearing Rules and for the administration of the Direct Debit scheme.

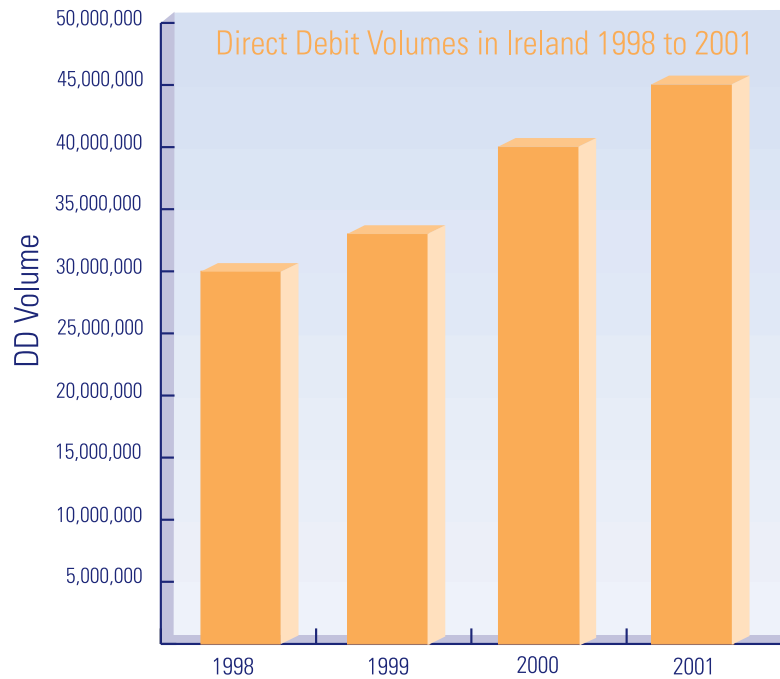
The graph shows the growth of electronic payments since 1998 with a projection to 2003. IRECC, as part of its strategic plan, will endeavour to continue this growth, by actively promoting the usage of electronic payment methods as an alternative to paper.



DIRECT DEBIT SCHEME

Direct Debit volumes have continued to grow with figures for 2001 showing a 15% increase on the previous year.

There is, however, a need from a number of business sectors, particularly utilities and insurance companies, for a paperless version of direct debit. IPSO and the IRECC Board are developing a concept, which will improve the processing of instructions from customers in the Direct Debit Scheme. It will generate savings for both originators and banks, and will considerably reduce the administration associated with the set up of Direct Debits. It will also contribute to reducing the amount of paper that is currently directed to bank branches.



DIRECT DEBIT SCHEME RULES

An updated set of Direct Debit Scheme rules were developed, agreed and circulated throughout the members' branch network in September 2001. The new scheme rules comprise:

- the main Direct Debit scheme rules manual;
- a quick reference guide.

ELECTRONIC CLEARING CYCLE

In line with our European counterparts, IRECC is currently undertaking an investigation into ways to reduce the length of the electronic clearing cycle from its current timeframe of 3 days. This is a strategic goal of the company. It is expected that a high level plan identifying options will be completed later this year.

UNAPPLIED CREDITS

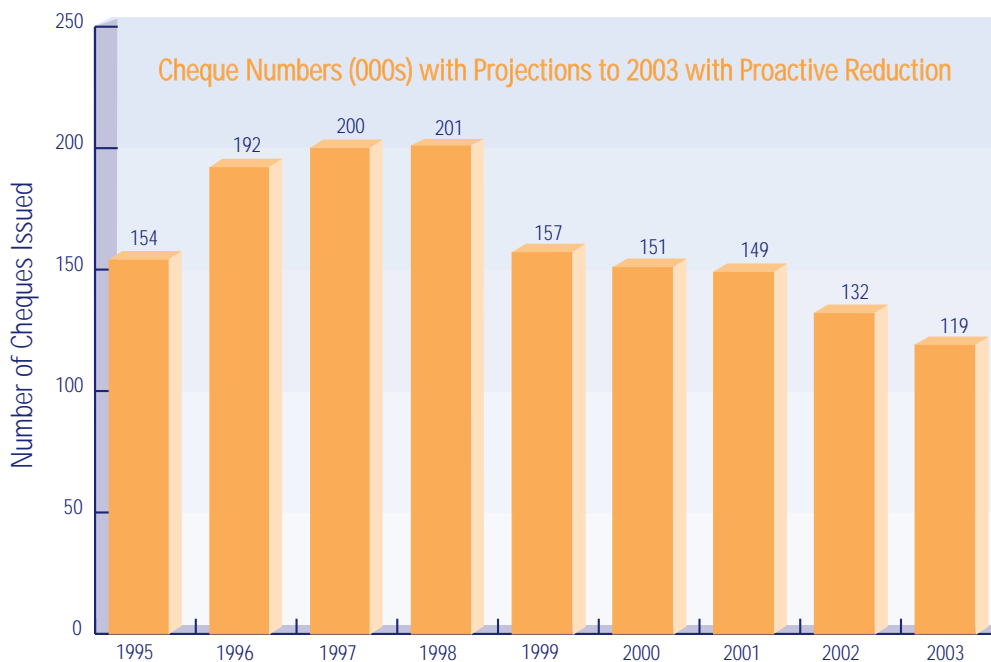
Work is currently being progressed on an initiative to automate the return of unapplied credits. This should see the

workload in branches being significantly reduced by enabling unapplied credits to be returned in the same way as direct debits.

NEW BUSINESS OPPORTUNITIES

The company is working closely with IPSO to identify new business opportunities to increase traffic and develop IRECC's services. It is also working closely with the Board of the Paper Clearing Companies on a plan to encourage large volume cheque issuers and receivers to move over to using electronic media.

The Irish Paper Credit / Debit Clearing Companies Ltd



IRISH PAPER CREDIT AND DEBIT CLEARING COMPANIES LTD

The Paper Debit and Credit Clearing Companies manage the cheque and credit clearing systems.

Cheque volumes overall are declining as the Companies see a gradual move towards more cost effective electronic alternatives. As cheque numbers continue to fall, and as a consequence unit costs rise, one of the challenges

for the paper companies over the next few years will be to identify ways to re-engineer the processes to make them more cost effective and efficient.

PAPER VOLUMES

The above graph shows the reducing trend in paper volumes since 1999 with a forward projection to 2003. IPSO has an aspiration to see that this trend increases throughout the next 5 years.

THE EURO

The transition to euro was the major project for the inter-bank clearings in 2001. Overall, the transition went very smoothly, with little adverse impact on Inter-bank clearings. The successful implementation of the euro was due in no small measure to the robust preparation, including extensive contingency plans, by all banks, Clearing Companies and Payment Schemes. In respect of the Paper Clearings, paper pollution and



defacement levels were much lower than was anticipated, and this was attributed to the marketing campaign in Member branches, which was undertaken by IPSO in early December 2001. Media campaigns also contributed greatly to raising public awareness of the issue.

The Irish punt clearings ceased operation on June 28th 2002, at which point, legacy cheques and credits were no longer acceptable over bank counters. Drafts in legacy currency will continue to be accepted indefinitely.

ELIMINATION OF PAPER DIRECT DEBITS

Paper Direct Debits were eliminated from the clearing process on 1st January 2002 as part of the transition to, and introduction of, the euro. These items had, since their inception, caused difficulties for the Inter-bank clearings and were error-prone.

POSTAL MONEY ORDERS

For many years Postal Money Orders (PMOs) have been produced on non-standard paper, which did not contain MICR encoding. IPSO has initiated a project to standardize all An Post instruments that enter the Inter-bank clearings. Samples of the new instruments are currently going through the approval process. When complete, all future PMOs will contain three field MICR encoding.

CHEQUE PRINTER ACCREDITATION SCHEME

The Paper Companies are currently investigating the merits of introducing a Cheque Printer Accreditation Scheme, similar to that operated in the U.K., and to be based on best standard and objectively justifiable criteria. Such a Scheme would ensure that cheques and other paper financial instruments are produced in accordance with the highest levels of security.

Printer accreditation is also a well respected mark of quality.

The Paper Board will also be looking at, and making recommendations to, its individual Members about introducing other fraud detection methods to combat counterfeit fraud and to identify alterations to account and payee details on cheques.

INTER-BANK EXCHANGES

September 2001 saw both the physical and value exchanges, previously operated by IPSO, relocate to the Central Bank of Ireland. The value exchange migrated on September 7th with the physical exchange following one week later. A training programme was developed and implemented by IPSO for Central Bank staff prior to the relocation. Both migrations were completed on schedule and without any adverse impact on service.

CLEARING RULES

A full legal review of the Paper Debit and Credit Clearing Rules took place during 2001. The revised rules were produced and circulated to all members in July of that year. A condensed version was also circulated throughout the members' branch networks.

SERVICE LEVEL AGREEMENTS

The Paper Board is considering the implementation of service level agreements which will set targets to improve performance, to minimise errors in the clearing process, and to reduce adverse impact on end user customers.

PAPER COMPANIES' AMALGAMATION

The Paper Debit and Credit Clearing Companies are currently considering whether to amalgamate the two companies, given the similar board members, rules and subject matter composition of the two companies. A cost/benefit analysis is being undertaken to identify and quantify implications/impact, and as overseer of payment systems, the Central Bank of Ireland is being consulted.

Laser Card Services Ltd



Grainne O'Reilly



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Laser Card Services Ltd was established in 1996 by the leading financial institutions to maintain and operate a debit card payment scheme in Ireland. Laser Card Services Ltd manages the marketing, administration, legal, financial, product development and strategic elements of the Laser Scheme.

Laser has experienced superb growth in its relatively short life. Card issuance is continuing to grow by 13% a year bringing the total cardbase close to the million mark. In addition, transaction volumes consistently exceed 3.7 million a month resulting in a growth rate of 30% on 2001 figures. Laser expects to handle over 50 million transactions by the end of 2002, which will equate to €3 billion in retail sales.

Laser, which was designed as an electronic version of the paper cheque,

is quicker, cheaper and more convenient to the consumer than its paper counterpart, while at the same time offering superior benefits to retailers. Growth in the Irish economy during the recent 'celtic tiger' years resulted in an increase in the volume of commercial cheques. However, the volume of cheques in total (i.e. commercial and personal) has declined in recent years to circa 150m in 2001. This suggests that the popularity and wide use of Laser has contributed to the decline in the volume of personal cheques as Laser transactions reached over 75m over the last two years. The main retail sectors where Laser usage has overtaken cheque usage are grocery/supermarkets, clothing, and household.

PRODUCT OFFERING

A Laser Card is a debit card linked to customers' current accounts held in each of the seven member financial

institutions: ACC Bank, AIB Bank, Bank of Ireland, EBS Building Society, National Irish Bank, permanent tsb and Ulster Bank Ireland Ltd. When a customer pays for goods and services with their Laser card, the money is debited from his/her account, generally within a couple of days. Customers can also use the Laser Cashback facility in selected retail outlets to obtain up to €100 cash back. Laser can also be used via mail/telephone order and on the Internet.

PRESENCE

Laser Cards can be used in over 30,000 retail outlets in Ireland. The Laser Scheme infrastructure does not extend outside of Ireland but some cards can be used in conjunction with Maestro, which enables the cards to be used at point-of-sale terminals abroad.



Jennifer Chamberlaine

THE EURO

Laser enjoyed a smooth transition to the euro after months of preparation and a comprehensive marketing, advertising and PR campaign. Many Laser Card Scheme records have been broken in the last few months as figures show that the number of retailers accepting Laser, the number of cardholders and quarter one sales figures have never been so high. The greatest number of Laser transactions, 12.9 million, for any three consecutive months in the history of the Laser Scheme occurred during the euro changeover period, in December 2001 and January and February 2002 when banks and building societies processed €770 million in retail sales.

Major marketing, advertising and information campaigns were put in place prior to the euro changeover to ensure as many cardholders as possible availed of the convenient way to shop with Laser during this potentially confusing time. Projected growth of 18% in transaction volumes after the euro changeover, was far surpassed when first quarter growth figures averaged at 30% on the same period in 2001.

CHIP & PIN

In line with the IPSO Chip & PIN migration programme, (see page 26), Laser cards will also be moving away from the signature verification and magnetic stripe authorisation process to a CHIP and PIN environment.

STRATEGIC DIRECTION

In the past year, the Laser Scheme has been involved in an intensive strategic assessment of the future requirements of its members and the markets they service in the light of a number of developments in the environment including the National Payments Plan and the advent of the euro. The Laser Board is currently engaged in a review of the strategic direction of the Scheme. This includes the opportunities and threats and the incremental advantages, if any, that aligning with an international card scheme would offer to members and the Laser Scheme over co-branding with an international scheme.

LASER FACTS AND FIGURES

Year	Cardbase	Value of Retail Sales	Outlets Accepting Laser	Transaction Volume
2002 (projected)	984,000	€2.9 bn	32,000	51 m
2001	902,000	€2.5 bn	26,500	43 m
2000	798,000	€1.8 bn	22,000	34 m
1999	701,000	€1.3 bn	17,000	25 m
1998	588,000	€862 m	14,500	17 m
1997	431,000	€433 m	9,500	8 m
1996	185,000	€38 m	4,500	1 m
Average Transaction Amount				€57
Average Number of Transactions per Month ('02 to date)				4.1m



Barry O'Mahony

Strategic Development

NATIONAL PAYMENTS PLAN

Ireland lags significantly behind the rest of Europe in usage of modern electronic payment systems. For several reasons, progress to date on developing a National Payments Strategy to achieve widespread electronic payments in Ireland has been slow. It was thus decided during the course of the year by the IPSO Board that efforts should be renewed and a cohesive, co-ordinated national approach is the best way to resolve obstacles to change.

The National Payments Plan (NPP) developed by IPSO is currently being driven by the NPP Steering Group which reports to the IPSO Board. An Post is a member of the Steering Group. At the heart of the Plan are two core inter-dependent objectives:

- The modernisation and efficiency of existing payment systems.
- Provision of basic access for all citizens to this modern infrastructure so that they can receive and make payments efficiently.

As only some 60% of the Irish population have accounts to which they can make and receive payment, the concept of the Universal Account has been developed by IPSO, An Post and the participant banks who believe a joint solution to the problem is essential. It is thus one of the priority initiatives being examined under the National Payments Plan. The Universal Account is about providing access to the Irish payments infrastructure so that all citizens have choice as to the means to receive and make payments electronically.

Fundamentally, basic access means providing individuals with an electronic point of sale mechanism. Typically, this is a card based product linked to an account.

Delivery of the Universal Account, and indeed the NPP, will be a complex and national exercise of huge scale and considerable complexity. The Government is a key stakeholder but whilst as yet has formally to become involved in discussions, is aware of the exploratory research, discussions and activities of the NPP Steering Group. Dialogue so far among An Post, IPSO and the participant banks

has concentrated on the basic account solution, how it might be delivered and the required linkages between participant players and electronic delivery channels.

Providing access to all citizens fundamentally means providing 1.2 million individuals with basic "payments" access. The exercise will also involve enabling in excess of 100 million Government and business paper payments to individuals to be made electronically and the setting up of a national programme to deliver the objectives.

The Government's role will be critical. It will be required to lead, communicate and drive the change process inherent in the National Payments Plan, specifically:

- to lead by example by becoming an intelligent user of electronic payment systems for its own payment disbursements,
- to communicate change to Irish business and consumers and encourage take-up,



- to use policy, where necessary, to drive and speed up the change, for example, mandating all payments to individuals to be made electronically, so as to effect the change in the shortest, but most practical timeframe,
- to present a common strategy and consistent approach throughout Government on all NPP matters.

At the time of writing, the next steps in delivering the Universal Account concept are being progressed. This involves engaging with Government and reaching broad agreement on the Universal Account model concept, the respective role of the participants and where the initiative sits within the overall plan and the co-dependency agenda. Milestones and high delivery timelines will then be put in place. This will allow the process of engagement of other stakeholders to take place.

STRATEGIC WORKING GROUPS

In November 2001, at its strategy conference, the IPSO Board set up working groups, chaired by IPSO Directors, to explore, at a high level, three key areas of activity, being paper processing, cash management, and the ATM network. The objective of these working groups is to establish if there are any improvements that can be made in the non-competitive infrastructure aspects of these functions.

While the reduction of paper remains a major strategic objective, the industry has an obligation to handle the existing paper-based activity in the most efficient and cost effective manner, in particular so as to be able to minimize the cost of these services to the ultimate customers. The working group is exploring avenues to achieve this and is looking at international comparisons to establish if there is a more appropriate model for Ireland.



Aoife Keogh

Cash management is an extremely expensive activity, utilising enormous resources of members. The process is complex, largely manual and repetitive involving, in addition, a major investment in security. A review of cash sourcing, processing and distribution is underway with a view to identifying potential for more efficiently meeting the cash needs of members' customers and the country at large.

The ATM network has emerged over the past twenty years in a somewhat ad hoc manner. The industry is frequently criticised for the manner in which ATMs are deployed. A working group is exploring whether there is a model which will improve deployment without inhibiting competition.

Risk Management & Oversight

RISK MANAGEMENT & OVERSIGHT



A paramount objective of IPSO is to promote the integrity, availability, control and soundness of Payment Systems on an on-going basis. The IPSO Board, via its Audit Committee, endeavours to ensure that Clearing Companies/Payment Systems operating under the IPSO umbrella have legally robust rules and constitutions, employ adequate risk policies and control measures and subscribe to best practice principles as prescribed by IPSO and regulatory bodies, both at home and abroad.

This 'second pair of eyes' role does not remove the responsibility of individual Clearing Companies and Payment Schemes from ensuring their compliance with laws, regulations, policy and guidelines. The IPSO oversight role is designed to

complement, but not duplicate, the Central Bank's statutory role as regulator and overseer of payments systems in Ireland.

Over the past year, the IPSO Board Audit Committee has focused on a review of the risks that exist across all payment systems in Ireland. On behalf of the IPSO Board, the Audit Committee monitors the risk management process and the compliance of the Clearing Companies and Payment Schemes with the IPSO risk management policy, and the supporting Guidelines developed for risk assessment. This policy has been adopted by all Clearing Companies and Payment Schemes.

Each Clearing Company and Payment Scheme is required to confirm to the IPSO Board Audit Committee each year that:

- An end-to-end risk assessment review has been conducted by the Company/Scheme.
- The Clearing Company or Payment Scheme Board is satisfied that all risks have been identified and are being properly managed.
- Any major risks identified during the review have been entered into the Company's/Scheme's risk register, where these risks are on-going.
- Adequate systems exist within the Company/Scheme for the management of risk and the review process will be conducted annually.
- Completion of the annual risk assessment process has been recorded in the minutes of a meeting of the Board of the Company/Scheme.



Risk assessments of the end-to-end clearing process have been carried out in the past year by all Clearing Companies and Payment Schemes. The outcome of these exercises is currently being addressed by the Audit Committee.

PAYMENT SCHEME REVIEW

As part of the risk review process, IPSO has also requested each Clearing Company and Payment Scheme to check that its rules and operational documentation:

- Clearly identifies risks and liabilities,
- Is legally and commercially robust, and is managed for integrity and efficiency,
- Sets out fair, open and transparent entry criteria.

To assist the objectives of that review, IPSO prepared and circulated to each Clearing Company and Payment

Scheme a detailed checklist of questions for the review covering: membership criteria, risk issues, scheme governance, key suppliers, and timing and finality issues. In line with the requirements of the BIS Core Principles, each Clearing Company and Payment Scheme has been asked to ensure that its clearing or operational Rules include performance SLAs. Each Clearing Company and Payment Scheme is also addressing whether there is a need for financial penalties on institutions who breach SLAs.

LIAISON WITH CENTRAL BANK OF IRELAND

The Central Bank of Ireland is a member of IPSO and as such it attends the meetings of the IPSO Board and the Boards of the Clearing Companies. In addition to the operational staff representing the Central Bank as a payment systems participant, oversight personnel also attend meetings of the Clearing Company

Boards to give the Central Bank a degree of independence from an oversight/risk management perspective.

The Central Bank is currently conducting its own independent risk assessment of the Clearing Companies. This process involves a review against the 'Core Principles for Systemically Important Payment Systems', published by the Bank for International Settlements.

The Chief Executive of IPSO and the Head of the Payments & Securities Settlements Department of the Central Bank and their management teams have regular, structured liaison on the key issues impacting IPSO and the Clearing Companies, on the activities of the Central Bank and on issues such as payment systems developments in Europe, including regulation, legislation and oversight.

Standards & SWIFT

EUROPEAN STANDARDS

IPSO sits on the Technical Steering Group of the European Committee for Banking Standards (ECBS) which is currently developing a European electronic banking standards framework. The first edition of this framework has been published and it is anticipated that this will provide the foundation stone for interoperable projects across the Euro zone, and the rest of Europe. ECBS is also working on the development of messaging standards for the electronic payment initiator (ePi), which are compatible with Electronic Bill Presentment and Payment (EBPP) concepts.

The ECBS is considering the standardisation requirements to support mobile payments.

APACS

IPSO maintains close liaison with APACS which is IPSO's equivalent organisation within the U.K. IPSO has

been able to access the experience and expertise of APACS as required in a number of areas, including standards and security matters. Their kind assistance is much appreciated.

INTERNATIONAL BANK ACCOUNT NUMBER (IBAN)

The IBAN was developed by the ECBS. It standardises the identification of bank account numbers and it is the standard for the beneficiary bank account number in cross-border payments within the EU. When used in conjunction with the Bank Identifier Code (BIC) it will improve the efficiency of cross-border payments. The BIC, also known as the SWIFT Address Code, identifies a bank and is defined in ISO Standard 9363.

IPSO coordinated the implementation of IBAN in Ireland and dispatched IBAN brochures concerning the use of IBAN and BIC to various banks for distribution to their customers in 2001. Banks started to distribute IBAN's to

selected customers in the last quarter of 2001 and are now IBAN-compliant, which includes the validation of IBANs in outgoing cross-border payments. While IBANs are available to all customers, it is left to each bank to decide to whom they issue IBANs. The recently introduced EC Regulation on cross-border payments in euro has enshrined the use of IBAN and BIC into cross-border payments and imposes additional requirements with effect from 1 July 2003, including the requirement that institutions shall indicate on statements of account of each customer, or in an annex thereto, the customer's IBAN and the institution's BIC.

NSAI

IPSO liaises with the National Standards Authority of Ireland on the standardisation work of ISO committees on banking and payment related topics.





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 co-operative supplying secure messaging services and interface software to over 7,000 financial institutions in 197 countries. It provides messaging services to banks, broker-dealers and investment managers, as well as to market infrastructures in payments, treasury, securities and trade.

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.
- ISO 15022 Securities Standards Migration.
- Migration to SWIFTNet FIN.
- MT103 messages.
- SWIFT education and training.

The National Member Group revised the constitution of the national SWIFT member group this year and an updated version of the SWIFT admission criteria for Republic of Ireland is currently being finalised.

The following SWIFT developments will form a major part of the National SWIFT agenda over the next few years.

- ISO 15022 Securities Standards Migration - 16 November 2002,
- SWIFTNet FIN migration - Ireland's window is from 01 March 2004 to 26 March 2004,
- MT103 Migration. The MT100 will be removed from the FIN network with the 2003 standards release.

The European SWIFT Alliance Group met in Dublin in September 2001 and was attended by representatives from the national and user groups and the Chairman and CEO of SWIFT.

Card Developments

CHIP & PIN MIGRATION PROGRAMME

On May 3rd, 2002 IPSO announced the launch of the Irish CHIP & PIN Migration Programme. This is a major programme for IPSO, and will be the second largest banking industry project undertaken, after the launch of the euro in January 2002.

In a bid to combat increasing levels of credit card fraud, particularly in Europe, the international card schemes developed a new technology platform and standard (EMV) which will require the move to CHIP technology in credit and debit cards. This will replace magnetic stripe, as the means by which a card is authenticated. It has also been decided to move to Personal Identification Number (PIN) as the means by which the identity of the cardholder can be verified.

During the course of the next three years, the banks, working with their retailer/merchant customers, will be developing the infrastructure required to support these changes, and card issuers will be sending their cardholders chip-compatible cards.

ATM networks will also need to be upgraded to accept chip cards.

As the 1.5 million credit cards, 900,000 debit cards, 45,000 point-of-sale terminals, and 1,200 ATMs are being chip enabled, a major programme of cardholder awareness will be launched. This will support the behavioural changes required of cardholders when they will start to be asked to key in a PIN instead of signing a paper receipt.

IPSO CARD SERVICES

As part of the IPSO Strategic Plan, the company is currently in the process of setting up a card services role within IPSO, similar but on a much smaller scale to the one operating in the UK under APACS. IPSO Card Services aims to meet a significant gap in IPSO activities by developing policy on strategic issues relating to the cards industry. This role is being scoped and developed in consultation with members to establish where it can add real value to its members' businesses.

At present in Ireland there are many non-competitive, strategic card

payment issues that require to be managed, specifically; legal and regulatory issues (such as the regulation on cross-border payments), cardholder and retailer education, aspects of major industry projects (such as the CHIP and PIN programme and the National Payments Plan) and most importantly plastic card fraud.

Fraud migration from the UK and Europe presents a threat to Ireland as these countries move over to CHIP and PIN technology in the coming years. IPSO is currently exploring initiatives (aside from the CHIP and PIN programme) to contain both domestic and cross-border fraud. One such initiative is to work with other countries' payment organisations in developing a shared cross-border fraud database.

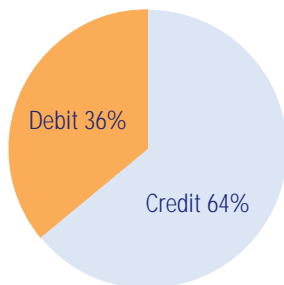
Plastic cards are the most heavily used non-cash payment method in Ireland, with around 2.5 million cards in circulation (not including ATM cards). In most European countries the debit card is the major card issued, but since Ireland did not have a debit card until 1996, credit cards dominate.





David Quigley

Share of Payment Cards in Ireland



CREDIT CARDS

There are currently approximately 1.6 million credit cards in issue in Ireland. In the year ended 31st December 2000, credit cards were used for some 69 million transactions with an estimated value of €5.1 billion. It is estimated that 25% of the adult population in Ireland now possesses a credit card.

DEBIT CARDS

There are in excess of 900,000 debit cards in issue in Ireland, which at year-end 31st December 2001 accounted for 43 million transactions with an estimated value of €2.5 billion. It is expected that transaction volumes will top 50m by end 2002.

ATMS

The use of ATMs has grown substantially since their introduction in Ireland during the early 1980s. There are currently around 3.2million ATM cards in issue and around 1,200 ATMs in service throughout the country. There were an estimated 167million transactions on the Republic of Ireland ATM network for the year 2000. The total value of these transactions was in excess of €11 billion. ATM transaction volumes are expected to reach 188 million by the year-end 2003. ATM services have expanded beyond cash withdrawal to include PIN change, express lodgement, balance-checking and mobile phone top-up.

ATM GROUP

During 2001 the IPSO ATM Group was formed for the purposes of providing a forum to debate key developments and non-competitive payments issues of mutual concern to those providing ATM services in Ireland. Its responsibilities in the area of fraud prevention are to consider ways of maintaining the integrity of ATM

systems, such as security up-grades to preserve the integrity of networks and infrastructure. It monitors the incidence of, and trends in, ATM fraud, and provides a facility to communicate with the cardholder population on fraud issues by the most cost effective means, i.e. media briefing etc.

It is planned that the Group will provide industry responses to legal/regulatory issues and promote industry and regulatory compliance. It will be responsible for identifying and collecting MIS as required and ensuring its reliability. As part of its on-going work it intends to put forward common operational procedures and to review these regularly for good practice. The overarching requirement of the Group is to promote high quality, consistent service to customers at all times.

The Group is awaiting the outcome of the strategic study on ATM's (referred to on page 21), in order to add to/develop further its role and responsibilities.



European Affairs

EUROPEAN PAYMENTS LANDSCAPE

IPSO plays an active role in European affairs through, inter alia, its association with the European Banking Federation in Brussels. Over the past year there has been considerable activity and change in the European payments landscape including the following:

- the successful introduction of the euro
- the continued efforts by the European Commission in relation to the availability of low cost options for making cross-border payments, the proper functioning of the 'internal market' and confidence in the euro.
- the European banking industry's white paper on the creation of a Single European Payment Area (SEPA) by 2010 at the latest.
- a new legislative framework for the Single Payment Area in the Internal Market.

REGULATION OF CROSS-BORDER PAYMENTS IN EURO

The main points contained in this Regulation, which was adopted by the European Council on 19 December 2001 are:

- to fix prices for cross-border payments in euro at the same levels as those applied to corresponding domestic euro transactions in member states,
- applies to euro amounts up to €12,500,
- becomes effective from 1 July 2002 for electronic payment transactions - cards and cash withdrawals - and becomes effective from 1 July 2003 for cross-border credit transfers,
- imposes rules for transparency of charges and fees in relation to cross-border payments and foreign exchange activity in euro,
- requires banks to indicate IBAN and BIC codes on customer statements from 1 July 2003.





OTHER INITIATIVES

IPSO represents the Irish payments industry on a number of the European Banking Federation's payment committees/working groups including the Payment Systems Steering Group (PSSG), the PSSG Fiduciary Working Group and the European Payments Committee which has been recently established to provide strategic orientation and guidance necessary to build SEPA.

The Chief Executive of IPSO has recently accepted an invitation to sit on the European Payments 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 within the field of payments in Europe.

IPSO is considering the contents of the European Commission's working document 'A new Legislative Framework for the Single Payment Area in the Internal Market'. This document is likely to dominate the focus of work for some time to come.

During the year, the company prepared a comprehensive paper on European payment systems developments which

has been well received by members and other interested parties.

IPSO was consulted and liaised with the Department of Finance in relation to the implementation into Irish law of the EC Directives on e-Money and e-Money issuers.

The lessons learned from the euro changeover in Ireland have been shared by IPSO with second wave countries' payment associations, banks and solution suppliers who have found our experience invaluable to their own euro preparatory work.



Payments Industry Statistical Database




Susie Farrelly



PAYMENTS MARKET STATISTICS

During 2001, it was recognised and acknowledged that statistical information in relation to the payments industry was both incomplete and unreliable. This was of particular concern, given that Government, Central Bank of Ireland, the European Central Bank, media and other organisations rely heavily on payment industry statistics for a variety of different needs and purposes.

IPSO therefore decided to set up a working party to review the processes and structures in place for the collection, assembly and distribution of statistics for the core elements of the payments industry. Following research and dialogue between the various parties - banks, Central Bank, IPSO, Irish Bankers' Federation - an agreement has now been reached, as follows:



Review 2001/2002

Revised definitions of payments accounts and payments instruments have been developed for statistical purposes, based upon international definitions adapted where appropriate to the local situation.

Collection of statistics will be carried out by IPSO on a quarterly basis, immediately after the end of each quarter and publication will take place as soon as possible thereafter - this replaces existing processes whereby information is collected annually up to one year in arrears and published typically 18 months in arrears.

IPSO will assemble the statistics and manage the overall process

- this will replace existing processes managed by the Central Bank of Ireland,

- statistics will be collected on an electronic template, replacing existing paper processes,
- statistics collected will be aggregated, and thus will be non bank or institution specific.

A questionnaire for quarter 1, 2002 has been dispatched to banks and arrangements are being put in place to ensure a smooth transition and continuity of the statistical series.

All questionnaires received by IPSO will be held and received in confidence by IPSO.

The robust industry statistics which will become available will provide a solid base

- to identify problems and opportunities,

- to monitor industry trends for the future,
- to monitor the progress of these trends,
- to ensure that public debate on payment issues has a sound statistical base.

The IPSO statistical database will be added to over time by addressing market place requirements.





The Industry Voice

COMMUNICATIONS

With the re-vamp and relaunch of IPSO in 2001, it was decided that the company should engage in a communications programme to ensure that key stakeholders in the payments business have a proper understanding of the payments industry and the role of IPSO. This would also serve to ensure that on issues of public interest, any public debate arising thereon would at least be well informed.

The principal task in the past year has been to demonstrate to key opinion formers through a process of face to face communication that IPSO is a dynamic organisation committed to enhancing and developing the Irish payments industry.

IPSO's target audience, where the need is greatest to foster effective working relationships, has included regulators, opinion formers,

politicians, the media, as well as the internal audience of senior executives in the banks. Detailed briefings have taken place with Government Ministers, senior civil servants, political advisors, and regulatory bodies to ensure that these parties are fully aware of IPSO's role and objectives. In particular, the Company has highlighted the critical importance of co-operation amongst banks on non-competitive, infrastructural issues.

The Chief Executive also made a presentation on 13 February 2002 to the Joint Oireachtas Committee on Finance and the Public Service to confirm the role and responsibilities of IPSO and to correct public misconceptions about a number of high profile payment industry issues, including clearing cycles, access criteria to payment systems and competition in the market place.

Media briefings and interviews with key journalists in the national dailies, Sunday newspapers and business magazines have also taken place to set the context of industry projects and to define the role and strategic objectives of IPSO. Whilst the volume of columns inches is not the objective, several interviews and feature articles have appeared in publications.

The evidence suggests that IPSO's image, profile and credibility has increased significantly.

IPSO received many calls from the general public and from the media for information/reaction to issues and the company is being increasingly seen as the authoritative point of contact for the industry. In that regard, the company met with all the major consultancies during the year and the key solution suppliers/service providers to the industry, who play a significant role in the payments' value chain.





WEBSITE

IPSO launched its website in January 2002. Work carried out on the development of the site took place over the preceding three months. The content of the site is informative on both the role and functional aspect of IPSO's activities. It is regularly updated with news items and publications. The site has been well received by IPSO's members who have additional access to a restricted, secure area. Feedback from external sources has also been very positive.

SORT CODES

IPSO is responsible for managing the issue and control of sorting code numbers. Sort codes enable payments to be directed accurately to their destination accounts in the daily clearings.

The industry sort code book, which is produced annually, was issued in April 2002. The book provides information on the sort code numbers allocated to individual branches of banks. It also contains the telephone number, fax number and address of each branch.

Up to 2001 this information was only available in hard copy. For 2002, the information is also available in PDF format, with a quick-find application.

Details of how to purchase the book and the PDF file are available from the IPSO website.



Stewart MacKinnon & Pete Sayers



Electronic Commerce

Payments will develop further and faster in the next few years than they have in the past decade, as we adapt to the world of the Internet and Mobile communications. Many businesses, markets and trading communities now use many aspects of e-Commerce on a daily basis. With these new types of channels emerging, new payment opportunities will arise, as the existing payment systems will struggle to meet the new payment requirements created by the Internet and business to business and consumer to business electronic commerce.

In particular, an electronic solution to the problem of low value consumer to consumer payments will represent a quantum leap for the industry.

IPSO's role is to guide the industry forward in terms of future payment systems development, identify requirements for future payment schemes and promote advanced payment mechanisms. At present, IPSO is monitoring the development of the e-Purse and m-Payments.



e-PURSE

The e-Purse takes the form of digital cash or a stored value card and represents the electronic equivalent of bank notes. It is predominantly for low value transactions or micro-payments.

So far, it has performed poorly. In Europe, the penetration and usage rates are below the initial projections. However, if developed well, in theory, the e-Purse could enhance transactional efficiency, could provide services to the 'underserved' segment of the Irish population and would reduce cash and cheque handling costs for merchants, telcos and transport operators.

m-PAYMENTS

m-Payments mean that the mobile phone can be used as a payment instrument in the physical world. A payment capability is embedded in the phone, which supports both physical face-to-face transactions, extending the e-purse proposition to the mobile phone, and remote transactions.

Mobile payments are still in their infancy with certain issues hindering their development. The main issue, as is the case for e-Payments, is strict security requirements, which include customer authentication, confidentiality and integrity. Another issue that must be addressed to ensure consumer take-up is ease of use, value for money and convenience of m-Payments. Finally, the development of a mature m-Payments infrastructure must be resolved over time and fragmentation in the market, through some form of non-competitive co-operation between all of the industry players.

FUTURE PAYMENTS INDUSTRY

The development of schemes such as e-Purse cards and mobile payments are still in the early stages. However they are part of a much broader shift towards electronic payments. There is a concerted effort to reduce, if not eliminate, paper payments, and to manage cash more effectively. This will move us towards a new payments landscape, which will be comprehensively electronic. E-Payments and m-Payments will sit alongside a number of alternative payment mechanisms and be part of a generic framework to support advanced payment mechanisms.



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