

# IO

De Nederlandsche Bank

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*Oversight of payment  
and settlement systems 2010*

*March 2011*

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## I. Introduction

This oversight report accounts for the activities of De Nederlandsche Bank (DNB) on the oversight of payment and settlement systems. The Committee on Payment and Settlement Systems (CPSS) sets standards for the transparency of the oversight function of central banks as described in the 2005 CPSS report on oversight: *Central banks should set out publicly their oversight policies, including the policy requirements or standards for systems and the criteria for determining which systems these apply to* (see [www.bis.org/publ/cpss68.pdf](http://www.bis.org/publ/cpss68.pdf)). DNB ensures that it meets this requirement effectively by publishing the assessment criteria and the results of its assessments.

This report describes the degree to which payment and settlement systems in the Netherlands comply with national and international oversight standards. The results are based on oversight activities performed by DNB in 2010, where relevant in conjunction with the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten* / AFM) and foreign regulatory authorities. DNB has published a summary of its oversight activities in its Annual Report since the 2006 reporting year. From 2011, the results of the oversight are presented in this separate publication.

Chapter 2 describes the purpose of oversight and the methods used. It also gives a list of oversight subjects on which oversight was carried out in 2010. Chapters 3 to 5 inclusive discuss the three main oversight categories: large-value payments, securities settlement systems and retail payment systems and products.

All in all, compliance with international oversight standards in the Netherlands can be described as good. The closing date of this report is 15 March 2011.

## 2. Oversight: purpose and methods

Oversight is a form of supervision aimed at increasing the security and efficiency of payment and settlement systems. For DNB this encompasses all payment systems, payment products and securities settlement systems that are relevant for the Netherlands. Oversight is intended to mitigate the risks in Dutch payments and to prevent that systemic risks emanate from the relevant payment and settlement systems. Oversight of payments is a task that DNB performs both pursuant to Section 4(2) of the Dutch Bank Act 1998 and the Treaty on the Functioning of the European Union (Article 127(2)), which charges DNB and the ESCB with ensuring the smooth operation of payment systems. Oversight of securities settlement system is based on Section 5:30(e) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht* / Wft) and the derived licences for operating a market or trading platform. This oversight is carried out jointly with the AFM.

DNB exercises oversight of all institutions, systems and products that are of significance for Dutch wholesale and retail payments. The oversight of securities settlement systems in principle encompasses oversight of all institutions and systems providing securities clearing and settlement services that are relevant for the Netherlands. DNB is jointly responsible for oversight of international systems. Table 2.1 summarises the national and international oversight arrangements in which DNB participates.

**Table 2.1 National and international oversight arrangements 2010**

Oversight subject	Lead overseer/regulator	Other overseers/regulators
<b>Interbank large value payments</b>		
TARGET <sub>2</sub>	ECB	Euro system national central banks
TARGET <sub>2</sub> .NL	DNB	
EURO <sub>1</sub>	ECB	Euro system national central banks
CLS	Federal Reserve	G10 central banks and other central banks of the 17 currencies concerned
SWIFT	National Bank of Belgium (NBB)	Other G10 central banks
<b>Securities clearing and settlement</b>		
LCH.Clearnet SA	Rotating presidency regulators from Euronext countries	AFM, DNB and regulators from Belgium, France and Portugal
LCH.Clearnet Group Ltd	Autorité de Contrôle Prudenciel (ACP)	AFM, DNB and regulators from Belgium, France, Portugal and the UK
EMCF	AFM and DNB	FSA and regulators from Denmark, Finland, Hungary, Iceland and Sweden
Euroclear SA	NBB and Belgian Banking, Finance and Insurance Commission (CBFA)	AFM, DNB and regulators from Finland, France, Ireland, the UK and Sweden
Euroclear NL	AFM and DNB	
Euroclear ESES	NBB and CBFA	FM, DNB and regulators from France
EuroCCP	Financial Services Authority (FSA)	AFM and DNB
ECC	BaFin	Bundesbank, AFM and DNB
<b>Retail payments</b>		
Equens (CSS, CSM and Switch)	DNB	
VISA Europe (VISA and V Pay)	ECB	Euro system national central banks
MasterCard Europe (MasterCard and Maestro)	NBB	Other euro system national central banks and ECB
Currence (Chipknip, Acceptgiro, PIN, Incasso, iDEAL)	DNB	
NVB (Spoedopdracht)	DNB	
UPSS	DNB	

Oversight takes the form of assessments and regular oversight activities. Assessments are carried out when a new system or product is introduced or undergoes a major change. The oversight subject is fully assessed against all standards that apply for that system or product (see summary in Table 2.2).

Partial assessments are also possible, for example in the event of changes to a product or system. Regular oversight consists inter alia of monitoring on the basis of reports as well as periodic interviews with the management and auditors concerned. Progress in implementing recommendations is monitored, as are proposed developments or changes to the product or system.

**Table 2.2 Applicable oversight standards**

Oversight subject	Applicable standards in 2010
<b>Interbank large-value payments</b>	
TARGET2, TARGET2.NL, EURO1, CLS	Core Principles for Systemically Important Payment Systems (BIS, 2001)
SWIFT	High Level Expectations (NBB, 2007)
<b>Securities clearing and settlement</b>	
LCH.Clearnet SA, LCH.Clearnet Group Ltd., EMCF, EuroCCP, ECC, Euroclear SA, Euroclear NL, Euroclear ESES	Recommendations for securities settlement systems and recommendations for central counterparties in the European Union (ESCB & CESR, 2009)
<b>Retail payments</b>	
Equens CSS, Equens CSM, Equens Switch	Terms of reference for the oversight assessment of euro systemically and prominently important payment systems against the core principles (ECB, 2007)
VISA, V Pay, MasterCard, Maestro, PIN	Oversight Framework for Card Payment Schemes (ECB, 2008)
Currence Chipknip	None (not yet available)
Currence Acceptgiro	Oversight Framework for Credit Transfer Schemes (ECB, 2010)
Currence Incasso	Oversight Framework for Direct Debit Schemes (ECB, 2010)
Currence iDEAL	Recommendations for payment products (Aanbevelingen voor betaalproducten) (DNB, 2006)
NVB (Spoedopdracht), UPSS	None (light oversight regime)

The results of assessments are presented in a table that shows the extent to which the product or system meets the standards at the time of the assessment. The scoring system used is in line with international standards and is as follows:

#### Tabel Legend

Colour	Meaning	Explanation
	Observed	Meets all requirements
	Broadly observed	There are minor shortcomings, which have a limited impact on the security and efficiency of the system
	Partly observed	There are serious shortcomings for which measures are being taken in the short term
	Not observed	There are serious shortcomings for which no measures are planned in the short term
	Not applicable	
	Not assessed	Initial assessment against this standard has not yet taken place

The table is updated annually to indicate the current level of compliance or show where changes have been observed. This updating is based on information from the regular oversight and any follow-up assessments. The table therefore describes the level of compliance of each product or system with all standards, even if a full assessment has not been carried out in the past year.

A system or product that is partially (orange block) or not (red block) compliant with one or more of the standards should in principle be barred until the shortcomings have been resolved. However, there are two situations in which a system or product which is partially compliant or non-compliant can still continue to operate. The first situation relates to systems that are not or not yet of material importance but require a licence before they can become operational; this licence may be issued so that the system can be initiated. The decision to allow a system to start in such cases depends on several factors, including the type of standard that is not observed and how fast the system is expected to grow. One condition is that if the system becomes more significant, it must comply with the standard and the shortcoming must thus be resolved.

The second – currently theoretical – situation in which a system may be permitted to start or continue operating despite serious shortcomings is where DNB has no powers to force discontinuation of the activities and the system continues despite DNB objections. Such a situation could arise in areas where DNB has no formal enforcement framework and where informal instruments such as moral suasion have no effect. No such situations have arisen in recent years, despite the lack of formal enforcement frameworks for both large-value and retail payment systems and products. For the moment, the main oversight objectives are achieved using informal instruments. Clearly, however, this offers no guarantee that oversight will be effective in all cases in the future without a formal enforcement framework. A bill formalising the supervision of financial settlement services has been in preparation for some years, and it is important that it is passed into law quickly. This would create the opportunity to impose sanctions, giving teeth to the oversight of settlement systems.

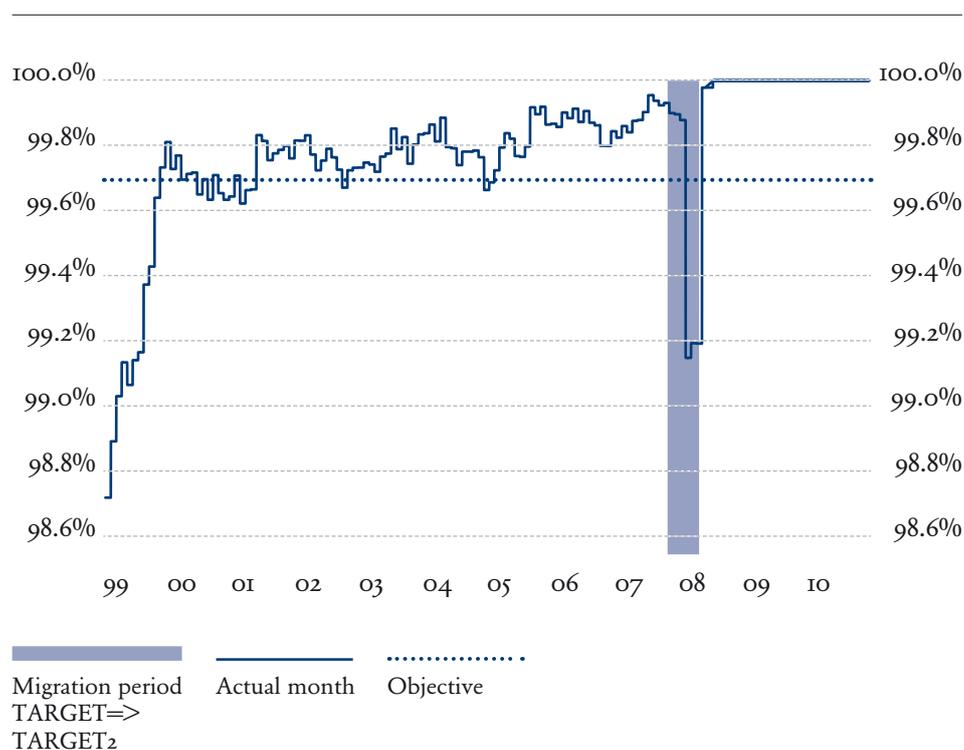
### 3. Assessment results: large-value payments

#### TARGET<sub>2</sub>

TARGET<sub>2</sub> (T<sub>2</sub>) is the main system for interbank payments in euros, and has been in use in Europe since 2008. Legally it comprises a collection of payment systems operated by the 17 national central banks (NCBs) in the euro area, plus the European Central Bank and the central banks of a number of other European countries (Bulgaria, Denmark, Latvia, Lithuania and Poland). The Dutch system is designated TARGET<sub>2</sub>.NL. Transactions are processed on a common platform; this task has been formally outsourced to the NCBs of Germany, Italy and France, which have built and operate this platform. TARGET<sub>2</sub> has proved a great success, especially against the backdrop of the financial crisis. It is a more efficient and above all a more reliable payment system than its predecessor TARGET, which merely linked the national systems. The availability of TARGET<sub>2</sub> is much higher than that of TARGET, and in fact has been 100% since the end of 2008 (see Figure 3.1).

**Figure 3.1 Availability of TARGET and TARGET<sub>2</sub>**

Three-month progressive averages



Source: ECB

Supervision of the common payment platform is done on a cooperative basis, with the ECB as lead overseer. DNB plays an active role in this process, partly because Dutch banks are among the most intensive users of T2. An oversight assessment of TARGET2 was carried out in 2009 to test its compliance with the Core Principles; the conclusion was that TARGET2 complies with all Core Principles. The assessment of business continuity of TARGET2 was completed in 2010 and it was found that TARGET2 complies with all standards, with just a few minor points being addressed in the regular oversight meetings with the T2 operator. The annual new release of T2 was also assessed. The main change was that T2 can now be accessed via the Internet. More than with earlier releases, the operator devoted particular attention to an adequate testing structure for this new release. The assessment was carried out jointly by the ECB, BdI and DNB and was approved by the Executive Board of the ECB. The conclusion was that TARGET2 continues to meet all relevant Core Principles (table 3.1).

**Table 3.1 Oversight assessment of TARGET2**

Core Principles for Systemically Important Payment Systems	2009	2010
	Legal basis	Observed
Understanding of financial risks	Observed	Observed
Management of financial risks	Observed	Observed
Prompt final settlement	Observed	Observed
Settlement in multilateral netting systems	Not applicable	Not applicable
Settlement assets	Observed	Observed
Security and operational reliability	Observed	Observed
Efficiency	Observed	Observed
Access criteria	Observed	Observed
Governance	Observed	Observed

## EURO1

EURO1 is a large-value payment system for cross-border and domestic transactions in euros between banks in the European Union. It is managed by EBA Clearing Company, which was founded by the Euro Banking Association. EURO1 was launched on the introduction of the euro and developed to provide an efficient, secure and profitable infrastructure for large interbank payments. Today, there are 66 participating banks, including the Dutch banks ABN AMRO Bank NV, ING Bank NV and Rabobank Nederland. Oversight takes place on a cooperative basis, with the ECB as lead overseer.

Assessment of EURO1 against the business continuity framework was completed in 2010. The conclusion was that EURO1 largely complies with these oversight standards, with recommendations being formulated for a limited number of relatively minor points.

EURO1 settles transactions at the end of the day in TARGET2. The procedure was modified in 2010. An oversight assessment was performed on this transition and oversight concluded that EURO1 still observes the relevant Core Principles. The EURO1 settlement process in TARGET2 continued uninterrupted after the migration. The availability of EURO1 was 100% in all months of 2010.

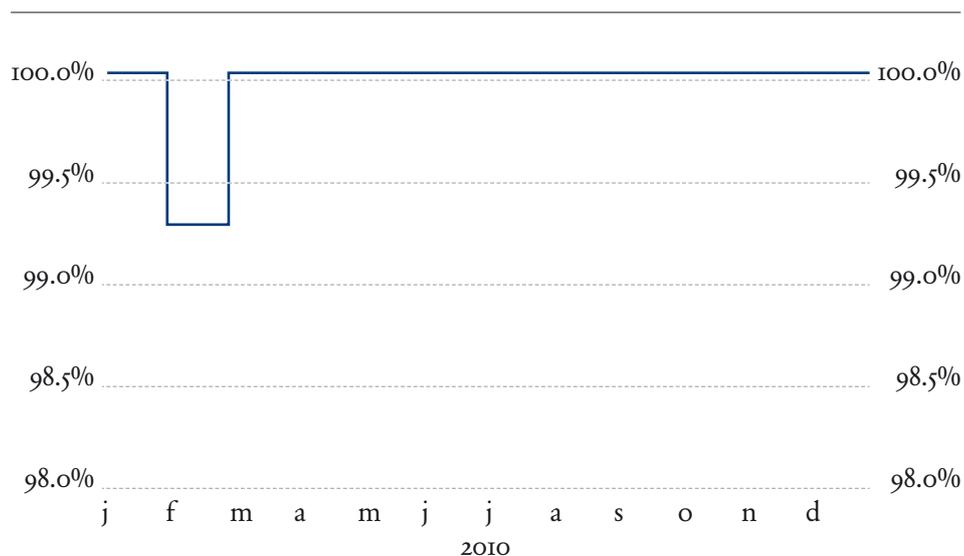
## 4. Assessment results: securities settlement systems

### LCH. Clearnet SA

LCH.Clearnet SA is the Central Counterparty (CCP) for transactions executed on the Euronext stock and derivatives exchanges, including Euronext Amsterdam. It also acts as the central counterparty for OTC bond and repo transactions. A major development in 2010 was the cancellation by NYSE Euronext of the share and derivatives clearing contract with effect from the end of 2012. Plans have since also been announced for the merger of NYSE Euronext and Deutsche Börse. This could lead to radical changes in the clearing of shares traded on Euronext Amsterdam. The availability of LCH Clearnet SA's systems averaged 99.9% in 2010 (Figure 4.1).

**Figure 4.1 Availability of LCH.Clearnet SA**

Monthly averages



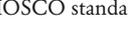
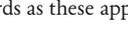
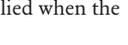
Source: LCH.Clearnet SA

In 2010, DNB and the AFM assessed several new projects in conjunction with the lead overseer ACP and other LCH.Clearnet SA regulators. A new share clearing system (UCS) was taken into use in December, and earlier in the year LCH Clearnet SA also started clearing credit default swaps.

Regulators use the international recommendations for CCPs when assessing the legal, operational, financial and organisational risks of new projects. LCH Clearnet SA is fully compliant with 14 of the 15 CPSS-IOSCO recommendations for CCPs (see Table 4.1), with the recommendation on operational reliability being the only point on which observance was not complete. On the advice of the regulators, LCH Clearnet SA has made a number of improvements in its operational systems since 2005, thereby largely eliminating the shortcomings observed by the regulators at that time.

**Table 4.1 Oversight assessment of LCH Clearnet SA**

 Observed	 Not observed
 Broadly observed	 Not applicable
 Partly observed	 Not assessed

Recommendations for Central Counterparties	2008	2009	2010 <sup>1</sup>
Legal risk			
Participation requirements			
Management of credit risks			
Collateral requirements			
Financial resources			
Default procedures			
Custody and investment risks			
Operational risk			
Money settlements			
Physical deliveries			
Risks in links between CCPs			
Efficiency			
Governance			
Transparency			
Regulation and oversight			

<sup>1</sup> The assessment of LCH.Clearnet SA was based on the CPSS-IOSCO standards as these applied when the assessment began.

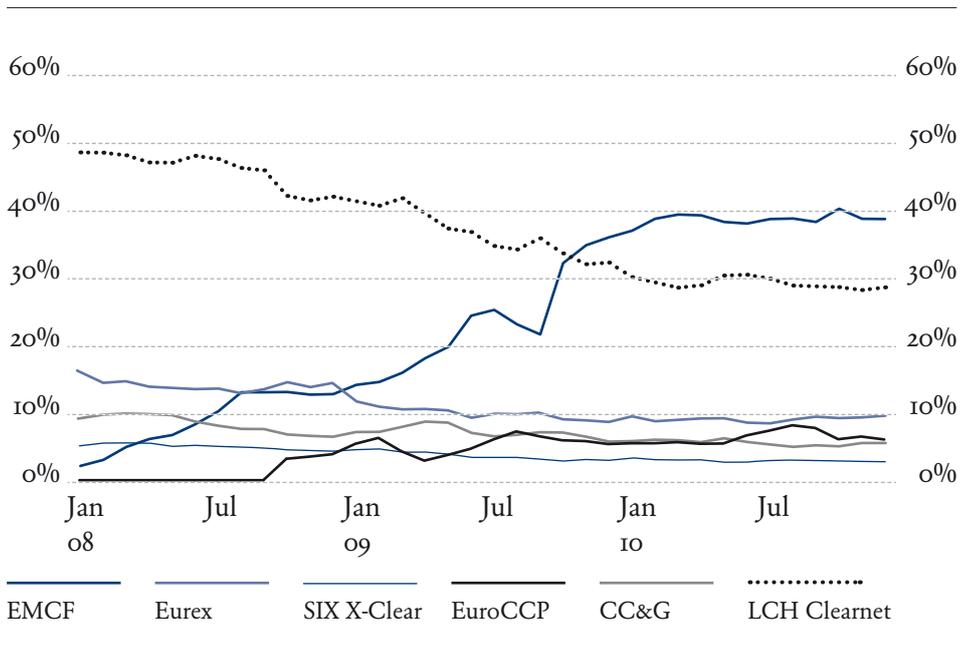
### European Multilateral Clearing Facility

European Multilateral Clearing Facility (EMCF) is a Dutch organisation that acts as a central counterparty (CCP) between trading parties. EMCF assumes the counterparty risk of executed transactions, nets the outstanding positions of each counterparty / clearing participant and requests collateral from the clearing participants to cover the risk. EMCF was founded four years ago, and has grown explosively: at the end of 2010 it processed approximately 3.5 million transactions per day in its role as CCP. The growth of EMCF flattened slightly in 2010. With a market share of more than 35% of transactions in European blue-chip stocks, EMCF is a major player. In November 2010, EMCF was responsible for the clearing of six trading platforms,<sup>2</sup> and is one of the biggest players in Europe in the area of securities clearing (see Figure 4.2).

<sup>2</sup> Chi-X, BATS, Burgundy, Quote, NASDAQ OMX Nordic, TOM

**Figure 4.2 Market shares of CCPs in European stock exchange trades**

Market shares on European stock exchanges

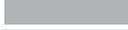
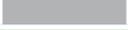
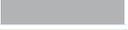


Sources: FESE, WFE, Spring Association analysis

In 2008, the AFM and DNB carried out a full assessment of EMCF, based on the CPSS-IOSCO standards for CCPs. Additional assessments of all relevant changes at EMCF have since been carried out. In 2010, EMCF met nine of the fourteen standards (see Table 4.2). One standard, relating to links with other CCPs, does not yet apply, because EMCF had no such links at the time of the assessment. Five recommendations are broadly observed; these relate mainly to the heavy dependency of EMCF on its major shareholder ABN AMRO Clearing Bank (AACB, formerly Fortis Bank Global Clearing) and the chosen settlement structure. EMCF has already reduced its dependency on AACB by taking into use and managing its own IT systems. It has also moved into its own premises and has become less (financially) dependent on AACB. The availability of EMCF was 100% in 2010.

**Table 4.2 Oversight assessment of EMCF**

 Observed	 Not observed
 Broadly observed	 Not applicable
 Partly observed	 Not assessed

Recommendations for Central Counterparties	2008	2009	2010 <sup>1</sup>
Legal risk			
Participation requirements			
Management of credit risks			
Collateral requirements			
Financial resources			
Default procedures			
Custody and investment risks			
Operational risk			
Money settlements			
Physical deliveries			
Risks in links between CCPs			
Efficiency			
Governance			
Transparency			
Regulation and oversight			

<sup>1</sup> The assessment of EMCF was based on the CPSS-IOSCO standards as these applied when the assessment began.

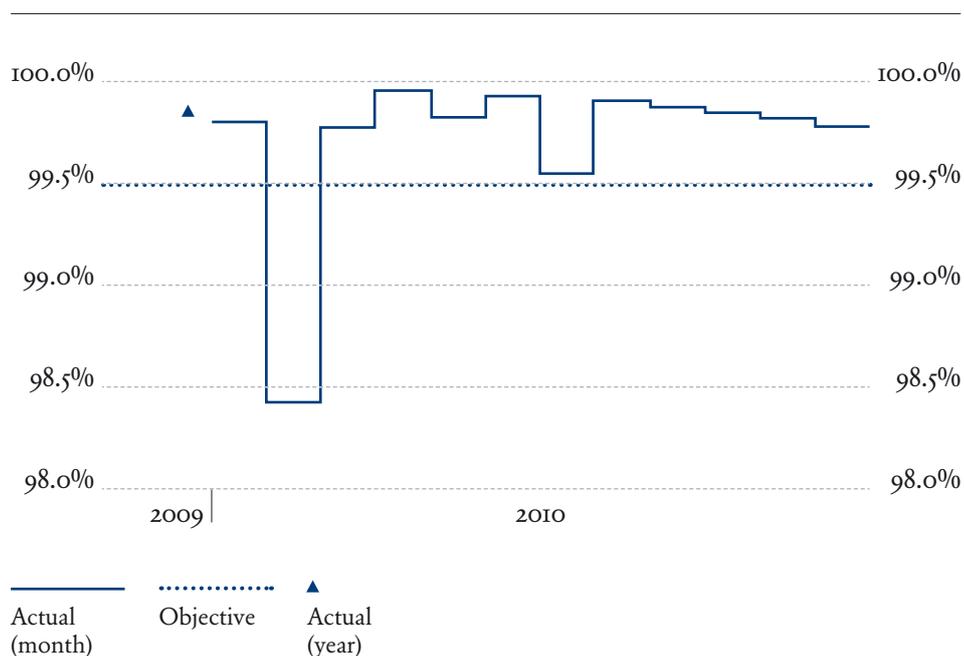
### Euroclear – ESES

Euroclear Nederland is the Central Securities Depository (CSD) in the Netherlands, providing settlement, custody and administration services to banks and investment institutions. Euroclear Nederland and the Euroclear CSDs in Belgium and France launched a new securities settlement system in 2009, Euroclear Settlement for Euronext-zone Securities (ESES). Since then, ESES has settled all securities transactions, using central bank money, i.e. settlement between accounts held at a central bank. This is done largely on a ‘delivery versus payment’ basis, whereby the delivery of securities and final payment take place simultaneously, greatly reducing counterparty risks. The ESES system settles transactions on the Belgian, French and Dutch Euronext exchanges and all over-the-counter trades on a single technical platform, thereby eliminating the difference between domestic and cross-border securities transactions between these three countries. In 2010, Euroclear Nederland worked with Euroclear Belgium and Euroclear France to create an integrated Operating Model, which configures the operational settlement, custody and administration activities across the three CSDs in a more efficient way. The model is scheduled for implementation in the first quarter of 2011.

The availability of the ESES platform was 99.75% in 2010 (Figure 4.3).

**Figure 4.3 Availability of ESES**

Annual and monthly averages



Source: Euroclear

The low availability in February and July was the result of two incidents. Euroclear analysed the causes of these incidents and is taking steps to minimise the risk of a repetition. Assessment of Euroclear Settlement for Euronext-zone Securities (ESES) against the ESCB-CESR standards was completed in 2010. The assessment was carried out by DNB, the National Bank of Belgium and Banque de France. The AFM and its French and Belgian equivalents (AMF and CBFA) were all consulted, as were the British, Irish, Swedish and Finnish regulators on aspects of ESES that apply for the entire Euroclear group, such as Governance. The outcome of the assessment of Euroclear Nederland is shown in Table 4.3.

The standard relating to Central Counterparties does not apply, because LCH Clearnet SA is assessed separately. Euroclear Nederland does not fully satisfy the Access standard, because its terms and conditions do not admit institutions from outside the European Economic Area (EEA) to the system. This geographical restriction goes against the standards, which stipulate that exclusion must be risk-based. Since countries from outside the EEA cannot join Euroclear Nederland, they are forced to hold securities that are held in custody by the Dutch CSD via ISCD Euroclear Bank, the commercial sister of Euroclear Nederland. In fact, no applications have ever been received from institutions located outside the EEA. Euroclear France does not fully satisfy the standard relating to Links because of a lack of (recent) legal opinions for some links in relation to the protection of customers' securities. Euroclear Nederland and Euroclear Belgium do satisfy this standard because they hold the majority of their balances at foreign CSDs with Euroclear Bank, which satisfies all the requirements with regard to this link. The other standards are observed. ESES is sufficiently operationally stable as a securities settlement system; the system has a solid legal basis and governance arrangement, is efficient and meets the wishes of users. Nonetheless, the three NCBs have made suggestions and recommendations in relation to a number of standards with regard to the system and management.

**Table 4.3 Oversight assessment of Euroclear Nederland – ESES**

<b>Recommendations for Securities Settlement Systems</b>	<b>2010</b>
Legal basis	
Transaction confirmation	
Settlement time	
Central counterparties	
Securities lending	
Dematerialisation	
Delivery versus Payment	
Settlement finality	
Credit risks	
Cash settlement assets	
Operational risk	
Ownership protection	
Governance	
Access	
Efficiency	
Communication standards	
Transparency	
Regulation and oversight	
Links between CSDs	

### EuroCCP

EuroCCP is the central counterparty for transactions concluded on the trading platforms Turquoise, NYSE Smartpool and NYSE Arca Europe. EuroCCP is based in the United Kingdom and is a wholly-owned subsidiary of the US-based Depository Trust & Clearing Corporation (DTCC), which clears and settles transactions in equities and bonds in the United States. The primary regulator of EuroCCP is the British Financial Services Authority. Since 2009, DNB and the AFM oversee EuroCCP because EuroCCP clears transactions for the Dutch trading platform NYSE ARCA Europe. The AFM, DNB and FSA have signed a Memorandum of Understanding in which the three regulators express their intention to share relevant information on EuroCCP with one another. The AFM and DNB carried out an initial assessment of EuroCCP based on the CPSS-IOSCO standards for CCPs, following which the ongoing supervision will be left to the FSA.

In the initial assessment, EuroCCP observed nine and broadly observed five of the 14 standards (see Table 4.4). EuroCCP has several plans in place to mitigate the identified risks. FSA and the Dutch authorities will work closely together and co-ordinate efforts for the assessment of EuroCCP against international standards in

2011. The AFM and DNB have performed an initial assessment of EuroCCP against the CPSS/IOSCO recommendations for CCPs. DNB and the AFM will rely on the FSA for the regular oversight of the activities.

**Table 4.4 Oversight assessment of EuroCCP**

Recommendations for Central Counterparties	2009	2010 <sup>1</sup>
Legal risk	Broadly observed	Broadly observed
Participation requirements	Observed	Observed
Management of credit risks	Observed	Observed
Collateral requirements	Observed	Observed
Financial resources	Broadly observed	Broadly observed
Default procedures	Observed	Observed
Custody and investment risks	Broadly observed	Broadly observed
Operational risk	Observed	Observed
Money settlements	Broadly observed	Broadly observed
Physical deliveries	Broadly observed	Broadly observed
Risks in links between CCPs	Not applicable	Not applicable
Efficiency	Observed	Observed
Governance	Observed	Observed
Transparency	Observed	Observed
Regulation and oversight	Observed	Observed

<sup>1</sup> The assessment of EuroCCP was based on the CPSS-IOSCO standards as these applied when the assessment began.

## 5. Assessment results: retail payment systems and products

### Equens SE

Equens SE processes financial transactions effected using payment products. Its services cover the entire spectrum of cashless and card-based transaction processing, including clearing and settlement. DNB carries out oversight in three areas of the Equens SE activities: the Clearing and Settlement System (CSS), for clearing domestic payments; the Clearing and Settlement Mechanism (Equens CSM), for clearing SEPA payments; and Switch, the central system for the authorisation of electronic card payments.

No assessments of CSS were carried out in 2010; CSS was reassessed against all Core Principles in 2007. At the start of 2010, DNB revised its opinion with regard to Core Principle 1, as the number of participants and transactions from outside the EU/EEA was so small that country opinions were not needed for Equens SE. CSS now complies fully with nine of the ten standards set at European level; one standard does not apply (see Table 5.1).

**Table 5.1 Oversight assessment of Equens SE**

Oversight standards for euro retail payment systems	2008	2009	2010
Legal basis	Broadly observed	Observed	Observed
Transparency of financial risks	Observed	Observed	Observed
Control of financial risks	Observed	Observed	Observed
Prompt final settlement	Observed	Observed	Observed
Multilateral netting systems	Not applicable	Not applicable	Not applicable
Settlement assets	Observed	Observed	Observed
Operational reliability	Observed	Observed	Observed
Efficiency	Observed	Observed	Observed
Access	Observed	Observed	Observed
Governance	Observed	Observed	Observed

Owing to a phased migration process, the number of SEPA transactions is limited compared with the present high domestic volumes. The migration to SEPA products over the coming years means that the CSS will be phased out in favour of the Equens CSM, which is consequently likely to grow very rapidly into the dominant system for retail payments. In the light of this, a start was made in 2010 on two assessments of the Equens CSM, the first against the Core Principles formulated for Prominently Important Retail Payment Systems and the second in relation to the links established by Equens CSM with other clearing and settlement systems in Europe. The results of both assessments are expected in 2011.

Equens SE operates the Interbank Authorisation Network (also referred to as IAN-Switch or simply Switch). Switch facilitates payments made using a PIN as the means of identification (guest use cash withdrawals from ATMs, POS terminal payments, loading Chipknip electronic wallet cards and Maestro transactions) as well as credit card payments. The retailer's payment terminal contacts Switch, which sends the authorisation request to the customer's bank and returns the result to the payment terminal. The operational reliability of Switch is extremely important; if it were to fail for an extended period, there would be insufficient opportunities for Dutch consumers to make a rapid transition to alternative payment methods for the 2.1 billion electronic transactions effected every year. Alternatives have been phased out and consumers – partly because of the convenience of electronic payment – generally carry less cash. Not only does Switch authorise guest use of ATMs, the number of bank branches and the capacity of the secure cash transportation system are also limited. The first assessment of the Switch was carried out in 2009 (see Table 5.2), in which observance of the three Core Principles that are most relevant for Switch was tested. The 'broadly observed' assessment for Governance is due to the lack of formal complaints procedures for Switch participants. In 2010, an assessment of the operational reliability of Switch was initiated; the result will be published in 2011.

**Table 5.2 Oversight assessment Switch Equens**

<b>Core Principles for Systemically Important Retail Payment Systems</b>		<b>2009</b>
Legal basis		Not assessed
Transparency of financial risks		Not assessed
Control of financial risks		Not applicable
Prompt final settlement		Not applicable
Multilateral netting systems		Not applicable
Settlement assets		Not applicable
Operational reliability		Observed
Efficiency		Not assessed
Access		Observed
Governance		Broadly observed

## iDEAL

iDEAL is a national product for processing internet payments where the originator of the payment uses an online banking application from a Dutch bank. The online retailer and the bank must support the iDEAL payment standard. The legal owner of iDEAL is Currence. Six Dutch banks currently accept payment instructions via iDEAL and customers of nine Dutch banks can use iDEAL to make payments. In October 2010, iDEAL had been operational for five years, and in March 2010 the 100 millionth transaction was processed.

In view of the importance of iDEAL as an interbank payment product in the Dutch retail payments system, DNB conducts active oversight on the product. DNB has concluded that iDEAL satisfies all relevant standards (see Table 5.3).

**Table 5.3 Oversight assessment of iDEAL**

Recommendations for Payment Products	2008	2009	2010
Legal structure	Observed	Observed	Observed
Solid financial position	Observed	Observed	Observed
Outsourcing	Observed	Observed	Observed
Legislation and regulations	Observed	Observed	Observed
Product conditions	Observed	Observed	Observed
Risk spreading	Observed	Observed	Observed
Risk analysis	Broadly observed	Observed	Observed
Review of risk analysis	Broadly observed	Observed	Observed
Security and continuity	Observed	Observed	Observed
Integrity and governance	Observed	Observed	Observed

Partly due to the arrival of overlay payment services, the importance of secure implementation of internet payments via online banking has increased. Three schemes are currently offered in Europe for such a payment method: giro pay (Germany), eps (Austria) and iDEAL. All these systems currently operate exclusively nationally, but the three operators have recently begun a joint study of the scope for technical collaboration to enable consumers to make cross-border purchases, including with iDEAL. Meanwhile, other players are also entering the European market (PayPal, Facebook, eMaestro), and the commercial pressure on the banks to find a good solution to facilitate payments for cross-border e-commerce is therefore increasing. iDEAL has developed a new version of the iDEAL standards for SEPA, which is likely to be introduced to the market from the end of 2011.

## PIN

PIN is a payment product for over-the-counter payments using a debit card and pincode. National and international agreements mean that cards can be used to withdraw cash both at home and abroad and also to make payments whilst abroad. PIN is owned by Currence. The national PIN product, which uses a magnetic strip, is to be replaced by international payment products based on chip technology (EMV), such as Maestro from MasterCard and V Pay from Visa. This will require the complete replacement of PIN cards and POS terminals before 2012, after which the PIN brand will cease to exist.

Given the importance of PIN in the Dutch retail payments system, it was assessed against the European Oversight Framework for Card Payment Schemes in 2009. PIN satisfied all five standards from the Framework (see Table 5.4).

**Table 5.4 Oversight assessment of PIN**

Oversight Framework for Card Payment Schemes	2009	2010
	Legal structure	Observed
Product conditions	Observed	Observed
Security and continuity	Observed	Observed
Governance	Observed	Observed
Financial risks	Observed	Observed

Total losses due to fraud involving card skimming fell sharply in 2010 compared with 2009, from EUR 36 million to EUR 19.7 million. The migration to chip-based technology is expected to lead to a further reduction in skimming fraud.