

2007 ESTA CONFERENCE

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DIRECTIVE

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Many thanks to all of you for attending our 2007 venue. Tallinn, a very beautiful city, and exceptionally good weather welcomed our 270 participants who were eager to debate on the Future of Cash, in Europe.

We have heard from our distinguished speakers that cash is an efficient payment medium and is promised to a challenging future. All presentations are available from our web site: www.esta.biz

Our next conference is likely to take place in the Southern part of France, and is already scheduled for May 18 thru 20.

The exact location and all useful details will be communicated as soon as possible, but already book this important date in your 2008 diary.

ESTA BOARD

Our Board is now presided by Mr. Ken Niven and is composed of the following Directors: B. Dumoulin (Executive Vice President), H. Ericson (Vice President), F. Williams, H-J. Kroeger, V. Moser, O.E. Sanchez, R. Juhos, P. Spollon, G. Levinsohn, P. Verzendaal, F. Ravez (Secretary General).

NEW ESTA MEMBERS

EFFECTIVE:

- IVRI of Italy, Vakt Service Verdi of Norway

ASSOCIATE:

- Cisco of Singapore, Erk of Turkey

ADHERENT:

- Inovia (Belgium)
- Stoof (Germany)
- Great American Insurance Group (USA)
- MacTwin (Netherlands)
- Global Risks Partners (USA)
- BDS (Croatia)

EU AFFAIRS

THE SERVICES DIRECTIVE

The Directive is now in the process to be transposed in national legislation and the Commission will evaluate the need of harmonization of CIT services.

THE PAYMENT SERVICES DIRECTIVE

The Directive is expected to be ratified later-on, in 2007, and is due for transposition in national legislation by 1 November 2009.

ESTA has recently met with the Commission to discuss and rebut its anti-cash ideology which is contradicted by the most recent neutral studies of Central Bankers and by the European Central Bank (see further).

EUROPEAN CENTRAL BANK (ECB)

1. A RECENT COMMUNICATION FROM ECB CONCLUDES:

"Only moderate potential savings can be achieved from a substitution of cash by electronic means of payments. Most probably, much greater cost savings could result from optimizing the cash handling process, in particular the lodgment processes. The Eurosystem is committed to contributing in this context together with all relevant stakeholders in the cash cycle."

We obviously welcome those words of wisdom that comfort our position on cash efficiency.

2. ECB MEASURES FOR MORE CONVERGENCE OF NCB CASH SERVICES:

2.1. Agreed measures:

- ✚ Implementation of "remote access" to NCB cash services
This measure will allow credit institutions to access cash services of any European Central Bank, for withdrawal/lodgment of banknotes and coins. The implementation of this measure has led ECB to table cross border cash transports and the Commission (DG ECFIN) will conduct an impact assessment of a possible harmonization of cross border CIT.
- ✚ Acceptance of coin lodgments at NCB counters
Coin lodgments shall be accepted at all euro area NCBs from professional clients by end-2007.

2.2 Measures to be elaborated for consideration (currently discussed)

- ✚ Electronic data exchange with professional clients for cash lodgments and withdrawal:
A harmonized approach for electronic communication with professional clients ensuring interchangeability of data.
- ✚ Dropping the requirement to face and orientate banknotes for lodgments and withdrawals at NCBs.
Technology developments for both the banknote processing machines and cash dispensers (ATMs) allow today reading and processing banknotes in all 4 orientations.
- ✚ Extension of opening hours and measures with similar effect:
The Eurosystem will explore the scope for further harmonization of opening hours or measures with similar effects.
- ✚ Common packaging standards for NCB free-of-charge cash services
The Eurosystem is exploring the possibility of developing a limited number of packaging standards (small).

EUROPEAN (CEN) STANDARDIZATION ATTEMPT OF CASH DEGRADATION SYSTEEMS

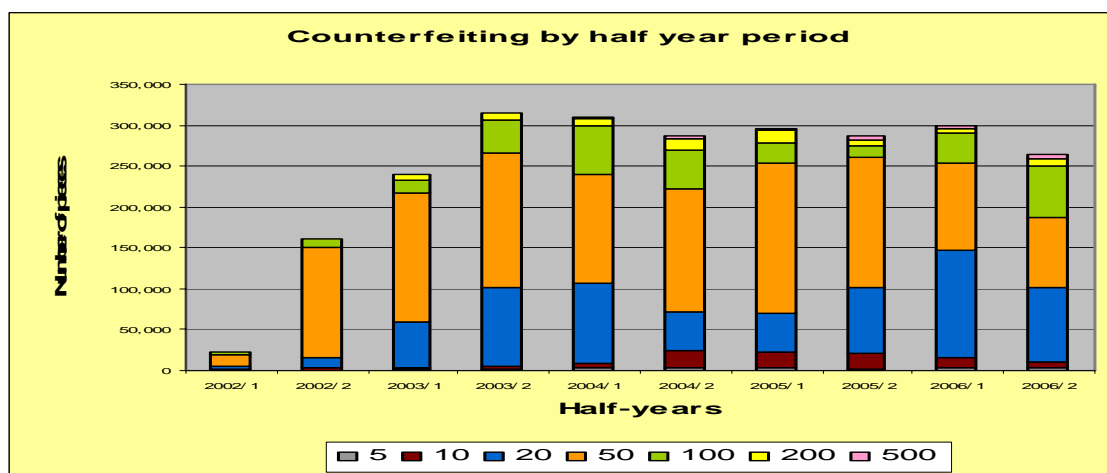
The last CEN TC 263 WG4 has concluded to the installation of a Task Group, mainly composed by CIT and manufacturers, to discuss all pending claims and issues.

The Task group is scheduled to meet on July 30th.

MISCELLANEOUS

UPDATE ON COUNTERFEITING

The number of reported counterfeit euro banknotes removed from circulation had remained remarkably consistent for over three years. Towards the end of 2006 the numbers started to reduce noticeably. In terms of annual figures 563,000 were received in 2006 compared with 582,000 in 2005 and 594,000 in 2004.



The above histogram shows the number of counterfeits per half-year period, (chosen so as to illustrate the general trend and to smooth out the effect of monthly fluctuations). The different colors in the bars represent the different denominations, from which it can be seen that the €50 was the favored target of the counterfeiters up until 2005. In 2006 a high volume €20 counterfeit class made that denomination the most numerous. In addition the €100 also had a greater proportion of the attention in 2006 than in previous years.

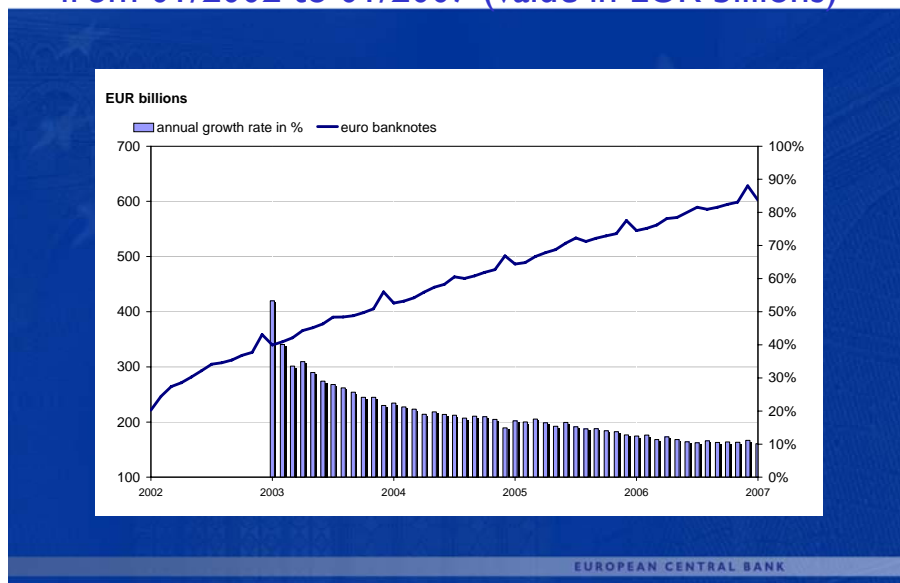
Counterfeit banknotes do not circulate in the same way that genuine notes do – usually they are detected very quickly, if not by the recipient, then by the banks. Therefore there are less than 1,600 counterfeits detected each day. When compared with the 10.6 billion genuine banknotes in circulation it can be seen that the overall scale of counterfeiting is very small indeed.

In terms of volume, some 84% of all counterfeits have been produced by a traditional printing process, requiring a reasonable level of skill and investment in equipment. A further 13% have been produced by the ink-jet process, which requires very little skill and low investment costs. The remaining 3% are toner printed, e.g. on color photocopiers or laser printers. A tiny proportion of them are produced by other means.

Counterfeits are essentially classified either as local classes or, where their quality and/or quantity demands, as common classes. Approximately 90% of counterfeits recovered in 2006 belong to common classes. Up until the end of 2006 some 216 distinct common classes had been recognized (some with variants), although only 38 of these classes were 'active' by the end of the year (i.e. at least 100 pieces received in any one of the preceding 6 months). Of these active classes, one high volume €20 class and one high volume €100 class account for over half of the total received in 2006. Thus the overall statistical picture is of a generally moderate level of counterfeiting, and what counterfeits there are, come from a tiny number of production sites.

Most euro counterfeits are produced within the European Union and over the last year national police forces have been very successful in closing down clandestine print shops and arresting counterfeiters and distributors. The European System of Central Banks is aware that a particular need in effectively fighting counterfeiting is to have accurate and timely data and urges cash users to refer discoveries of counterfeits to the appropriate national authority at the earliest possible opportunity.

Development of euro banknote circulation from 01/2002 to 01/2007 (value in EUR billions)



UPCOMING EVENTS

- ✚ EFMA CONFERENCE ON CARDS & PAYMENTS – September 18, 19 & 20 – Paris
- ✚ ICCOS 2007: THE INTERNATIONAL COMMERCIAL CASH OPERATIONS SEMINAR - September 23-26, Las Vegas (USA)

HAPPY HOLIDAYS!