



Direct Debit Services

Three national direct debit procedures from one provider

With its Direct Debit Services, Deutsche Card Services helps merchants to settle direct debits in three countries. The payment method, which is extremely popular in Germany, Austria and the Netherlands, permits merchants to debit receivables directly to the customer's bank account. This enables merchants to open their internet and traditional mail-order business to customers who either prefer this well-known and simple payment method or who do not hold a credit card.

Background/market development

Not all German online shoppers are credit card holders, and the popular debit card girocard (the former Eurocheque or EC card) was not designed for online use. Other payment methods, such as invoicing or Cash on delivery (COD), harbour considerable risks of non-payment and entail cost and labour-intensive procedures such as payment monitoring, dunning and debt collection. Pre-payment is unpopular with customers and has procedural disadvantages such as long processing times and account monitoring. COD results in logistical risks and liquidity disadvantages for merchants. New payment methods offered by third-party providers are only suitable for certain market segments and have no major market shares.

While direct debiting is unknown or unusual in numerous European countries, it is very popular in Germany, Austria and the Netherlands. Almost all potential customers in these countries have current accounts, which can be used for Direct Debit payments. The uniform European "SEPA Direct Debit" procedure, which is due to start in November 2009, will make direct debiting possible across Europe and replace the national procedures in the long run.

Direct debiting is originally a bricks-and-mortar payment method; a transaction is authorised by the customer's presenting the bank card for the current account and signing the transaction slip. Since no signed transaction slip is available in long-distance selling, the transactions remain "unauthorised". This does not affect the debiting procedure because the direct debit system is based on the principle of good faith. However, it does affect the right to object. While the period for objections is usually limited to six weeks after the purchase, unauthorised transactions may be objected against at any time – at least in principle. The resulting risks for the merchants need to be mitigated by fraud protection measures. Under the "SEPA Direct Debits" procedure the period for returning unauthorised direct debits will be limited to 13 months. Moreover, the method is to support electronic mandates to authorise debits. However, the realisation and implementation of the system will take some time.

Description of the product

Direct debiting permits merchants to directly and easily debit any receivables to the customer's account. Merchants have to conclude an agreement to this effect with their bank. Customers permit the merchants to debit a given receivable to their account and provide them with the necessary account data. The data are

processed by Deutsche Card Services and transmitted to the merchant's bank, which debits the receivable in the framework of the interbank payment settlement system. The debited amount is credited to the merchant's account on the date on which the payment is filed with the bank. The system does not provide for online authorisation and does not require an authorisation for the debiting. However, clients may object to the debiting, usually within six weeks after having received the invoice. Deutsche Card Services' Direct Debit Services support merchants with the settlement process under the following, comparable procedures:

- Germany: Elektronisches Lastschriftverfahren.
- Austria: Einzugsermächtigungsverfahren.
- Netherlands: Cliëntopdrachten (ClieOP).

How it works

1. Customers order goods and select direct debiting as payment method.
2. The direct debit data are transmitted to Deutsche Card Services.
3. Deutsche Card Services checks the data for plausibility and against blacklists (optional).
4. Deutsche Card Services prepares the direct debit payment file in the country-specific format.
5. Deutsche Card Services files the payment file with the merchant's bank.
6. The merchant is notified of the payment.
7. The interbank payment settlement takes place:



- The merchant's bank transmits the payment stack to the customer banks, and the customer banks book the payments.
- The customer account is debited.
- The amount is credited to the merchant's account.

Supplementary products

In addition to its broad range of services around other payment methods and fraud protection, Deutsche Card Services, as a full-service provider, can offer other services which ideally complement its Direct Debit Services:

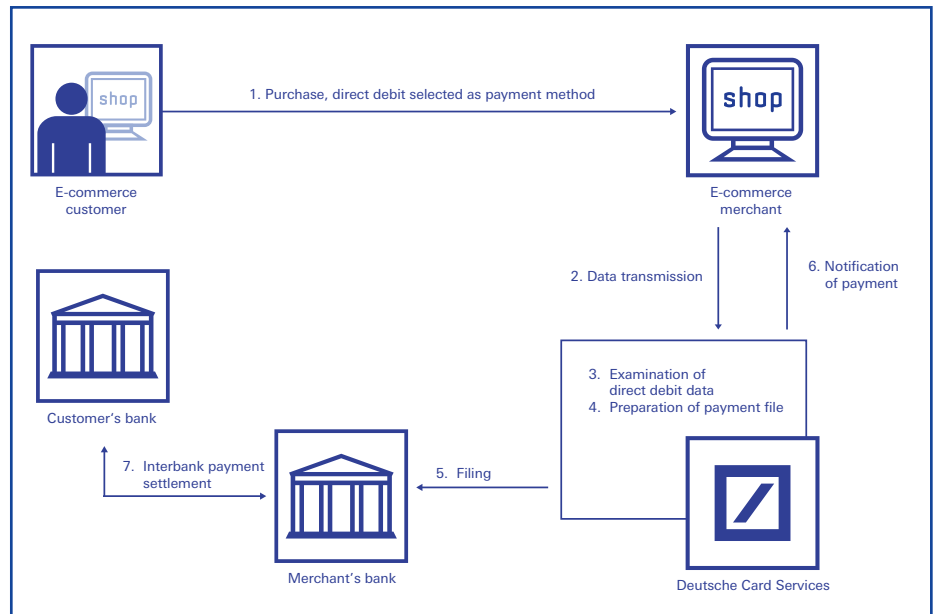
Account Check checks the bank data for plausibility and **Direct Debit Check** checks them against blacklists, thus reducing the non-payment risk.

Receivables Management monitors actual payment receipts and direct debit chargebacks and permits accounting in line with individual requirements. In case of any problems dunnings are prepared and sent out and the receivables are transferred to a debt collection agency. This considerably reduces administrative expenses for the merchants.

Target groups

Direct Debit Services are particularly suitable for merchants who

- want to attract customers who do not hold credit cards,
- seek a good alternative to credit card payments and are willing to take the risk of direct debit chargebacks and the related expenses or hedge against it with additional measures or
- know their customers well and are certain that the risk of non-payment is small.



Reasons to select Direct Debit Services

- Extend the customer base by offering a widely known and popular payment method in which consumers trust.
- Address customers who do not hold a credit card or who do not like to use a credit card.
- If successful, a cost-effective and easy payment method for both merchants and consumers.
- Merchants receive their money quickly.

Advantages of Deutsche Card Services

- All leading online payment methods and other services from one provider.
- Settlement of three national payment methods by one provider and a joint interface with card payments.
- Reduction of direct debit chargebacks and settlement expenses by combining Direct Debit Services with fraud protection and receivables management modules, up to a complete outsourcing of the receivables accounting.
- Centralised, web-based reporting for all payment methods – comprehensive and updated every 24 hours.

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