



Recognizing cash – Dutch experience



9th Annual Research Conference
Recent developments in Payment Economics

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Just some notes....



Model

Obvious counterfeit

The world as we
would like it to be

Science as a tool
to discover reality



Reality

Clearly genuine

The world as it is..?

Science as a tool
for policy-makers



And my remarks

- 1. Research outcome**
- 2. Analytical framework**
- 3. Relevant historical events and trauma's**
- 4. Policy background of this specific research**
- 5. Conclusion and outlook**

Research outcome

- The goal was not to mimic real-life transactions but essentially to find out if people can learn:
 - it appears they can, especially when provided with a financial incentive in the experiment
 - for training purposes the DNB CD ROM is useful, (especially for consumers)
- The unique part of the research was on the devices for recognition; those are no silver bullet to prevent fraud:
 - cashiers (and public) don't need aids for detecting counterfeits: eyes and hands work better / just as fine



Analytical framework - 1

- There is no fundamental difference between market players and regulators; the regulatory market is only slightly different from a product/services market
- In a situations where government agents act as the operator of systems or owners of products the distinction between regulators and market players may even disappear completely
- History matters more than we may think



Analytical framework - 2

MARKET PLAYERS

- want to survive
- want to grow bigger
- make products / services
- make headlines with profit and loss / innovation
- will not enter a market and then refrain from selling
- shape actions based on historical events/trauma's

REGULATORS

- want to survive
- want to grow bigger
- make regulations
- make headlines with rules and market intervention
- will not study a market and then decide not to intervene (Katz)
- shape actions based on historical events/trauma's



Historical events - 1

- Shocking experience for bankers and cashiers in Amsterdam in 1814:
 - establishment of central bank that issued bank notes;
- Solution: boycott the newcomer and his product
 - worked until 1860s when central bank and cashiers worked out a gentlemen's agreement as to allowing and using central bank notes for payments
- Traumatic experience was complete when in 1904 the central bank legally became monopolist for this lucrative product ; banks kicked out of the market

Historical events - 2

- 1921: the Mercurius note



- Considered ugly !

“The board of the Dutch sculptors organization regrets that government is not empowered to prohibit such deplorable products”

- Reply of the central bank:

“While unwilling to disregard the appreciation of the notes, the Bank’s foremost requirement is that it presents as many safeguards against forgery as possible”!

Historical tradition - 3

- Given the immense negative public response to the Mercurius note, the central bank decides to ensure that for future bank notes design and security would both be maximized
- Leads to a tradition of extremely well designed and secured bank notes:





Policy background - 1

- 1814 - 2000:
 - Central bank the sole owner of the Dutch bank note and its security features
 - Retailers used to the security features of the product and the fact that the central bank would not compensate retailers that ran into counterfeits
- 2001 - > :
 - New security features of European banknote a bit different from what we knew in the Netherlands; the average security as a part of European compromise..
 - Retailers confronted with more forgeries than they were used to in the old days



Policy background - 2

- Retailers asked for:
 - compensation for forged bank notes (it was not their decision to introduce a less secure Euro bank note so why would they have to pay for it?)
 - know-how from DNB on the quality of bank note testing devices (which one can we use in the shops and which don't work at all)
- And received:
 - publication of test results for bank note testing-machines on the DNB-website
 - policy research that demonstrated that hands and eyes can do the job just as well as those machines....



Conclusion and outlook

- The central bank takes its responsibilities as a product owner for cash by:
 - educating the consumer (CD ROM)
 - researching bank note test machines and making the results public so that retailers are informed
 - enjoying the profits that cash generates
- But how about the direct consequences of the central bank policy goal: efficiency of payments?



The theory is simple

EU Commission: *“When prices paid by users reflect the real cost value of the service, they provide an incentive for users to select services that meet their needs at the lowest possible private and social cost. This promotes the efficiency of the payment system.”*

Today in many countries the private and social costs of payment instruments are not aligned, in the sense that the payment instrument that is most expensive for society – cash – is perceived as cheapest by consumers and merchants alike.

L. Van Hove, Prochip, October 2006, p 12

But how to achieve this in practice..... ?



Theory



Reality

Which would be the best exit-strategy for the product bank note and the central bank as an active market player ?

Cash has a price

Cash has a price

~~Cash is free~~

But how to achieve this in practice..... ?



Theory



Reality

Does the role of the central bank as the product manager for bank notes stand in the way of its policy goal to strive for efficient payments?