

INTRODUCTION EURO NOTES AND COINS

With the introduction of EURO notes and coins in January 2002, **FLUX RISK SERVICES** has conducted an initial appreciation of the situation and associated risks. This document provides a synthesis of our current assessment **and shows clearly that a number of elements need to be taken into consideration, not least a review of security procedures and On Premises and In Transit risks under relevant insurance policies.**

GENERAL

Depending on the country, the lead time for distribution of the EURO will be relatively short (as little as 1 month prior to 1 Jan 2002 in certain instances). This obviously means that the storage points and distribution circuits (Bank HO, bank branches, security transport premises, retail companies, post offices etc..) from the National Banks will have to handle higher than average amounts. From data taken on a sample basis we believe this to be an increase by a factor of three. This, due to increasing outflows of EURO coupled with a slightly decreasing (out) movement of local currency.

In the interim period when both currencies co-exist (EURO and local between January and June 2002) we estimate that average amounts within the distribution networks will increase by a factor of five! There will be an above average inflow of local currency coupled with slightly increased (in and out) movement of EURO.

Risk :

1. **Armed attack on key choke points such as Bank HO, bank branches, security transport premises, retail companies (supermarkets, stores etc..)**
2. **Insufficient storage space that is adapted to hold values.**

COUNTERFEIT

It is a well known fact that at any one time x% of any currency in circulation is counterfeit. With the introduction of the EURO most of this local currency counterfeit money will appear within distribution circuits in a very short period of time (between January and June 2002).

In addition, the new EURO is relatively easy to counterfeit. We therefore expect that a significant amount of counterfeit EURO notes and coins will appear during the initial introductory period. This, most probably as people come back from their 2002 summer holidays.

Risk :

- 1. Above average volumes of counterfeit notes and coins. Do all branches and remote sites have equipment to check for counterfeit notes ?**

SECURITY TRANSPORTS

Over the total introductory period (November 2001 to June 2002) the security transport companies will be under severe pressure. Whilst banks and commercial companies can control the amount they have within any one transport for outward distribution or pick-up, it is not possible to limit the amounts security transporters may have within their depots or on their national trunking circuits. At peak periods such amounts (often representing monies pooled from different clients) may well be in excess of their own insurance limits.

Risk :

- 1. Possibility of large losses being in excess of transporters insurance. Verify that their policies are on an each and every loss basis and that limits appear reasonable for increased volumes. You may wish to insure this risk yourself.**
- 2. Current contracts with security transporters not adapted to new conditions.**
- 3. Industrial action by transporters.**

INTERNAL SECURITY PROCEDURES

A key point during the transitory period (between January and June 2002) relates to the significant increase of local currency coming into the money centres of banks, transporters, commercial companies etc.. In this context, we understand that most central banks will continue to place the onus for verification and counting on the current distribution networks prior to delivery to them.

It is apparent that in most cases normal levels of staffing, storage and ancillary equipment will not be sufficient to handle the extra volumes operationally. This will require contingency plans that may include the hire of external temporary staff and the use of non secure storage sites.

Risk :

- 1. Use of external temporary staff leading to higher level of errors or theft.**
- 2. Use of non secure storage sites that are not covered by relevant insurance policies.**

MISCELLANEOUS

The following miscellaneous points may also be of interest in your analysis of risk :

- ◆ Local currency will *always* remain legal tender at the counters of National Banks, even after the 30 June 2002.
- ◆ It is clear that a lot of "black" money (undeclared to tax authorities) will need to be injected into legal circuits. Consequently, we expect to see an increase in money laundering and associated fraud such as parallel banking and investment scams.
- ◆ ATM's will have to be modified, with the introduction of the EURO. This will also probably mean that they will contain higher amounts per ATM than previously.
- ◆ It would seem that EURO notes from different countries may differ slightly in texture or paper type. This may well mean re-calibrating counting machines for "different" EURO notes. To our knowledge, commercial entities have not yet been able to test the new EURO notes on counting machines or ATM's.
- ◆ **In Belgium**, the 1956 Road Transport Convention has been enacted into local law. In summary, this law stipulates that unless a transporter signs a receipt for a definite value for the item he is transporting at time of receipt, if the item is lost/stolen during transport any indemnification is limited to +/- BEF 400 (8.33 AU) per kilo. Unfortunately, security transports were not excluded from the law.



As it is normal practice with such transports to never provide a receipt for a definite value (i.e. the transporter does not know the value of that which he is carrying), **it would appear that in Belgium, security transports are only covered to a limit of +/- BEF 400, irrespective of any contractual stipulations.**

Should you have any comments or additions to the above, please let us know so we can include them in a later version.

If you have any questions or are interested in our Risk Control Services please contact :

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