

## **It's a platypus – The UK National Changeover Plan**

When the platypus was first brought back from Australia to Europe, (it was stuffed of course), it was widely regarded as a fake. An egg-laying mammal, with a beak, fur and webbed feet and a poisonous spur was clearly a crudely glued together example of the taxidermist's art and not to be taken seriously. But real it was, and soon enough its existence was established along with other weird creatures just as implausible.

Well, the UK's National Changeover Plan (NCP) is a bit of a platypus too. It doesn't really convince by its appearance, and some of the expected details are a bit vague or absent. But this is neither any reason to believe that it does not reflect a real move in the direction of genuine preparation.

Unfortunately, the lack of 'insides' in the Changeover Plan tends to make it as much prey to scepticism as the platypus was. Demands continue for 'certainty' on dates and other matters which simply cannot be given.

In this article, I shall be looking at what the plan does cover, what it does not cover, and putting forward a few ideas on how public and private sector organisations can both read the plan with profit, and more importantly, how they may influence the future development of the UK's euro preparations.

First, however, we must draw a sharp distinction between public and private sector preparations. For the private sector, the use of the euro is, even today, an option which can be taken or put off, and it is a matter between the shareholders and the management whether spending money on creating a euro version of the business is justifiable.

For the public sector, it is much harder. Unlike many countries, public expenditure is closely watched, and we would expect that the first hint of preparation which was not sanctioned by Parliament or within accepted spending criteria would cause a storm in the Commons. It would no doubt be described as 'euro by the back door' or something similar.

For industry therefore, I think it is important to emphasise that business preparations for the euro should not be thought of simply as an extended 'UK in' scenario. Many organisations can expect to be affected profoundly by the increasing use of this currency 'next door', and will need to consider carefully how they will be prepared to react to it.

Two particular issues raise themselves here: the level of use of the euro for UK transactions, and the relative competitiveness of UK companies in European trading.

In the first case, a company which deals extensively (or even exclusively) with a large supplier or customer which itself has decided to operate in euros will find itself in a kind of unofficial *de facto* euro zone in its home market. Not being able to operate in the dominant currency of its own market will be a severe limitation.

In the second case, we should consider the position a German buyer of goods or services *vis à vis* first a French, then a UK supplier. Until January 1999, the German buyer faced

currency risk with both suppliers. Since that date, however, only the UK vendor has posed a risk when operating in his national currency. Indeed, with the generally unexpected weakness of the euro, a constant value in Sterling would have resulted in additional costs of around six percent.

So we should therefore remember that the term 'euro preparations' should not simply be limited to preparations for UK entry. Many, if not most, preparations will be required whether or not the UK joins. We should therefore read the NCP with at least some regard to how the UK would need to be prepared, *even if the country were never to join*.

### **Contents of the NCP**

So what then, did we learn from the NCP, and what is missing. What can we expect to be filled in later, and for what, as we may say, are we on our own?

The first thing we learn is that there is a set of steps which can be identified as preliminary to entry. Then the plan discusses how we can make the most of the experiences of other countries as they go through their conversion plans in practice. Finally, it briefly examines several of the UK economy's major sectors and reports on the progress in discussions held over the past months to determine how a conversion can best be effected.

Thankfully, the plan elegantly avoids any of the discussion of pros and cons into which it would be all too easy to fall. The plan takes as its remit the objective issues relating to changes to organisations, communication between them and the systems which underpin them.

#### *UK entry steps*

Decision – this means that the government has decided it believes that its own criteria, plus those set out in the Maastricht treaty have been met.

Referendum – a vote has returned a result in favour of joining the single currency. At this point legislation would be brought in, and the agreement of other member states would be sought. It is a point that will no doubt be made in any referendum campaign, but we should be aware that the referendum will be held *before* it is known what penalties the UK may incur for not being part of the first wave, and this may in itself cause problems at various stages.

Only after these two steps would, for example, the manufacture of coins commence. And this is considered one of the longest parts of the process.

UK joins – at some point after the UK agrees joining terms and is accepted, the exchange rate between sterling and the euro will be fixed, as it was for the other countries' currencies at the end of 1998.

UK: euro cash – later still, at some logistically convenient moment, the transition of cash will occur. This is the most complex matter of all, though the high use of cards in the UK may make this easier than elsewhere.

Finally, the process will end with the end of the period for withdrawal of Sterling from circulation.

#### *Learning from other countries*

Potentially, this is the most important part of the process. We already know that some countries have found that their banking systems were less than completely prepared, and that others have found everything worked rather well.

The report has little to say in this area, which is rather disappointing. We understand that it is the intention of the UK government to second staff to ministries in some of the 'in' countries. This will certainly provide a measure of information on the public sector methods adopted, but there must be some concern that the civil services of the UK and (say) Italy may be sufficiently different for the lessons to be a bit thin on the ground.

It might have been a good idea to appeal to UK companies which are established in 'in' countries to ask for feedback on how national infrastructures are working, what the problems are and what can be learned here.

#### *Effects on businesses prior to entry*

The report recognises that many firms will need to prepare, and correctly identifies systems, strategy and external support as the three main factors. Interestingly, the report recognises that the main sources of information for smaller firms will be banks, accountants and lawyers, mentioning Business Link only after these.

So does this mean that we should take it that the government expects the majority of information to be provided from these sources? This is, we understand the approach which was taken by the German government, which relied heavily on the banks to provide information to businesses.

This is probably a sensible approach. The government will provide such information as is relevant to dealings between itself and the private sector, but it will not seek to direct matters which do not involve it directly.

#### *The City*

It seems a bit late to report on the City. The professional, interbank or investment banking markets are already exclusively euro, and what is left is pretty unimportant.

The report mentions conversion of gilts, but, to be honest, for most banks it wouldn't be much more effort than a larger scale version of what is happening daily with German and other corporate bonds.

Of course all of the UK's internal payments would need to be expanded to handle the increased euro business, but it is hard to believe that this would be a major undertaking.

### *Retail banking*

This is recognised as one of the key sectors. If the financial sector isn't capable of handling the currency, it doesn't happen! The section on retail banking is notable more for its brevity than anything else, one supposes that there was a lot more which has been left unsaid.

The big problem, which is mentioned briefly, is that many financial institutions are completely dependent on antique systems which, in effect, cannot be modified. These systems are single currency (or more accurately 'no currency' – there is no concept of currency, just money). And they incorporate many layers of processing going back to the original systems in UK banks – often the predecessors of today's – we might expect to find code written for Martins Bank or National Provincial somewhere in there.

But for the banks more than most organisations, there will be a competitive issue if the European banks decide to try to cherry pick accounts. The problem is that while the clearing banks are fabulously efficient and profitable compared with their continental rivals, they cannot go and buy (say) German banks because of the horrible effect there would be on financial returns. Similarly, the measures which have been taken over the years by the UK banks in terms of staffing and technology, would simply be illegal in Spain, Germany or France.

So there is a real issue here. And sorting it out will have a major impact on the ability of the UK to prepare itself for conversion.

### *Retailers*

This section gives the impression of being one of the more difficult areas, but one has to be a little sceptical about some of the arguments being put forward, and suspect that there has been not a little special pleading.

While it is clear that the matter of notes and coins is a more serious one for the retailers than for most organisations, one has to be a little sceptical that an organisation which changes the locations of hundreds of lines on a regular basis, and predicts consumer behaviour with the sophistication of a Tesco or a Sainsburys cannot handle two sets of notes and coins.

If the supermarkets do not wish to install dual currency tills – and one has to suppose that if enough were needed the price would not drop to the same as that for single currency machines – then they can simply direct shoppers to euro-only or sterling-only checkouts. Of course you could pay with a credit or debit card at either.

There is also much mad of the time required to change systems. But this too is implausible. The banks, as we have seen, operate systems based on ancient, proprietary software. The supermarkets, on the other hand, operate some of the most modern and smart technology around. Do we really think that the organisations which lead in data mining and have tightly integrated stock management schemes are incapable of modifying the price databases to add a field, calculated from another field according to a fixed mathematical relationship?

We are also often told that vending machines and cash registers will need to be replaced. But surely these are mechanical systems which need regular replacement anyway?

Finally we are told that one supermarket chain has estimated that the euro conversion will cost 3 to 5 times what the millennium issues cost. Does this mean that the millennium cost them next to nothing, or that they will be undertaking a full reconstruction of their systems, and are using the euro as an excuse for the entire cost. Frankly, it's not that complicated. Perhaps they are simply including the entire training budget, the IT budget and a few other things into the euro budget. But I really shouldn't be so cynical, should I?

### *Public authorities*

Well, we all hate the taxman and his pals don't we, so any sympathy here. Well, for once perhaps, we should look at this differently. Unlike the private sector, only the tax ministries can really get going on this one until pretty late in the process.

Why the tax ministries? Because sterling is so lightly enshrined in English law, that you can pay tax in anything you like, so long as the Inland Revenue agrees – and Customs and Excise are likely to be faced with similar demands, irrespective of UK entry.

This means – as the NCP states clearly – that most government bodies can only begin once the decision has been made. The one piece of ‘luck’ is that, being state entities, they are not driven by commercial acceptability, and can in effect convert whenever they like without too much consideration for anyone else. But just wait for a minister under pressure in the House to announce that his people will be ready early – and watch the ministry IT staff jump off the top floor!

The NCP says that the majority of public sector institutions will remain sterling based until the end of the conversion period, which seems to make sense, but they will find it difficult to avoid answering plenty of questions relating to the manner of conversion at the end of the transition. There will be plenty of advanced planning and work once a decision to join becomes reality.

### **Next steps**

The NCP is notable for its lack of real, solid advice or direction. This is probably unavoidable, and indeed may silence some of those who are asking the unanswerable – namely, the date of UK entry.

To demand of the government that it gives a date, and refusing to take responsibility for the fate of their institutions without it is a step which several senior business people seem to have adopted. But as soon as the Labour party committed to a referendum, and then won the election, this became impossible.

I have heard it said that a programme like this would benefit from a Thatcherite approach – no not handbagging the Eurocrats – but rather a determination and certainty to proceed no matter what public opinion says, and there is probably much truth in this idea. But right now, that is not an option.

The actual date of a referendum, and the dates following a ‘yes’ decision are both highly sensitive and political questions, and this government, probably more than any in British history, is driven by its knowledge of the public’s views. They also, after Black December are aware of Harold Macmillan’s most permanent political epitaph. When asked what he feared in politics his reply was ‘Events, dear boy, events.’ Well, the fall of Cresson and Santer were a couple of ‘events’, and who knows what others will be in store before the referendum ‘yes’ is brought safely into harbour.

So just because the NCP looks a bit like the original platypus – a weird looking object with no guts – is no reason to suppose that it isn’t real.