

Insuring against euro collapse

In the last of my papers, I considered the possibility of euro collapse. My conclusion was that, like anything else now prescribed by physics, it is possible, but that the forces of dispersion were not those currently acting in Europe.

So what should we consider to be the priority and content of 'insuring' against the collapse of the currency?

In the first place, an exit would almost certainly happen quickly, since exit from the system would probably cause a flight of capital, and there are no mechanisms in the 'Euroland' institutions which could act to prevent what would amount to domestic transfers of assets. Therefore, a country exiting the euro would do so very quickly, and would probably immediately impose restrictions on financial movement.

After all even beneficial exits from financial systems – such as that of the UK from the ERM – are accompanied by fairly severe currency or asset value movements. So the first thing we would want to ensure in taking steps against problems, is to be connected to the mechanisms of financial transfer – that is the local real time gross settlement systems (RTGSs) of more than one country. This would be coupled with ensuring that we have bank accounts in more than one country so that we can effect immediate transfer.

Well, there can't be many financial institutions which don't have relationships in several countries – so this problem is already covered for most organisations. Certainly the systems of all institutions are already in place – or are being brought in for the beginning of 1999.

What about assets held in the country which exits the euro regime? These would certainly be more problematic, since bonds or equities might suddenly become illiquid in the period leading up to an exit. But once again, this is very much a call for the management of a business.

Having lived in central Europe for several years, I learned to be very circumspect indeed before doing any business which involved Russia. Even in the early 1990s, it was well known that the risks of doing business there were of an entirely different order from those existing in Poland, the Czech Republic or Hungary. When I learned of the positions which had been taken in fixed income securities which were suddenly dishonoured I was far less inclined to condemn the Russians than to be amazed at the institutions which had lent them money.

So it is with securities in countries which 'might fall out of the euro system'. This would not happen in minutes, and it would be clear that a country was under strain. Similarly, the markets would place a premium on investments into such an area.

So the manner of identifying problems would, I suggest, not differ from those ought to have been applied to Russian investment – or indeed any other.

Once again we have no systems implications here. The mechanisms for buying and selling Italian, Portuguese, Irish, French or German securities are already in place – and indeed this type of business is becoming *easier* not more difficult.

So we have now looked at the risk to cash, and found that the 'insurance' mechanisms for exiting deposits in a potentially problematic country already exist, and indeed are being strengthened by euro mechanisms. Similarly, assets under threat will be far more easily identified in Euroland than they appear to have been in Russia, even though they were there for all to see.

In summary, it rather looks as though the same mechanisms will work both for a thriving Euroland, and a collapsing one! Rather inconveniently for the software industry, there doesn't seem to be anything for us this time!