

Taipans and transitions

A few months ago, my wife travelled to Australia for her brother's wedding. On the way back, she stopped at Cairns in Queensland having heard that this was a place not to be missed. My son, a typical morbid 12 year old, was soon on the Internet finding out what horrible fates could befall her. In between the salties and sharks, funnel web spiders and blue ringed octopuses, he came across references to the inland taipan. This was described as extremely aggressive and the most poisonous snake on earth. "Cool!" was, of course, the response to this discovery and the inland taipan became the most popular animal in the house for a while.

It seems that treatment consists first in applying a tourniquet above the bite to stop the venom moving around. The article on this then said that under no circumstances even after antidotes had been applied must the tourniquet be removed because the rush of venom would probably kill the patient immediately. This effect, of a sudden rush rather than a progressive loosening was described as a 'bolus effect'.

Judging by the speed of adoption of the euro in business in Europe, we may well be in for just such an effect at the end of the transition period – and the effect could be just as disastrous.

It seems that apart from in the international banking arena, there has been practically no adoption of the new currency. It is even suggested that there are more euro payments – and by this I mean payments whose original payment currency was euro rather than within the national clearing systems – going through the national payment systems of the UK than there are in France.

According to a survey published in April by the German chambers of commerce (DIHT), only around half of the enterprises which said that they would adopt the euro for internal purposes in 1999 now plan to do so.

There are several explanations for this lack of use. Three stand out as particularly important:

- 1) The 'euro gorillas' – Philips, Siemens and so on – who were going to force the pace and gently insist on euro usage have not done so. Whether this is because they were less influential than they believed in supply chains (the charitable view) or because they weren't really ready themselves (the cynical view) – or indeed both – is unimportant. The big influencers have been pretty quiet on the matter.
- 2) Since most businesses do business with the same companies most of the time, and established patterns of payment already exist, why change? One of the most artificial of all 'euro compliance tests' was the requirement that systems be able to accept payment in euros for invoices sent in national currency. This would naturally lead to multiple reconciliation problems at both ends, it would add extra steps into the process at both ends, and seems to go against that fundamental law of human nature – people only do just as much as they have to.

- 3) The final point is that there is absolutely no pressing business reason to convert. Indeed, the prospect of major system failure due to the Y2K problem is an excellent reason for doing nothing at all just yet.

Misleadingly, we also read that high percentages of companies in Europe and the UK 'have done business in euros'. The value or volumes of such transactions, however, are minimal. And we all know that a small number of euro transactions are no more challenging to handle than a few yen, dong or kwacha transactions. You just process them manually. This does not mean you would be able to handle the sudden arrival of a couple of thousand of these payments.

So it would appear that businesses have neither been persuaded by governments, nor forced by business circumstances to use the new currency in volumes which could be described as anything more than 'experimental'.

But so what? If the mechanisms and processes are in place then surely the systems will just sit there quietly until the demand grows, and they will then be able to take up the required level of demand.

Well, not quite. Last summer, I met representatives of a French bank who had presided over what appeared to be an excellent project to prepare for the currency. Their view was that they could probably handle most retail or commercial business for they had thought long and hard about the needs and requirements of customers and systems – but they said that they sincerely hoped that there would be little early demand. For they reasoned that even with the best analysis and planning, there was a good chance that the euro would induce changes in the market which could not be predicted, or even that some of their assumptions were incorrect. Early low volumes would allow a measure of manual intervention or demand management to be applied which fixes were identified and implemented.

But if there is very little use of the new currency, then it is quite possible that 'glitches' which growing use would have exposed will remain undetected. The banks may be working with incorrect assumptions, or the volumes through national and cross-border clearing may have been underestimated for some classes of transaction.

The main danger of a sudden late demand is that the underlying systems will simply prove inadequate. The banks will be unable to process payments and receipts, companies will not be able to handle all manner of payments. And if the demand comes only at the time when the logistical problems of the introduction of notes and coins occur, then we could be facing a Europe-wide banking operational crisis.

And the bolus effect of the rapid introduction of the euro may turn out to be just as shocking to the European banking system as the taipan's poison to a victim.