One Stop Solution for Coin Changeovers

MONEA has carved a niche in the market for the demonetisation and destruction of coins as part of currency changeovers, as well as buying the scrapped coins.

The company offers two different machines for coin destruction - the *Decoiner80-M8* with a capacity of handling up to 100kg of coins per hour (depending on the coin dimensions and alloys), and the larger *Decoiner600-M60*, with a capacity of up to 2.5 tonnes per hour. The latter was used in Latvia, as well as virtually all other countries adopting the euro after 2002, such as Lithuania, Estonia, Slovakia, Slovenia and Cyprus.

The company has been heavily involved in coin recycling since 1998, having developed the Decoiner for the introduction of the euro in 2002, and most of the EU countries in the first phase of euro adoption also used its technology.

Both machines deform the coins, so that they are rendered unusable for transactional purposes. They are part of a 'one-stop' solution for central banks that includes not just the lease of the equipment, but also buying the resulting scrap – thereby enabling the banks to recover the value of the demonetised coins.

According to MONEA's Davorin Dragas, 'our advantage is that we are interested on either selling or renting the equipment, and in combining this if required with the purchase of old coin metal scrap. Especially for euro countries, the combination of both – providing machinery and taking care of metal scrap – has been a major benefit to our customers, with our one-stop solution giving higher levels for security for the central banks.'

Davorin Dragas

In Latvia, MONEA installed the machine at the customer's secured premises and trained the personnel/operators. Each week the Bank notified it about the quantities being processed, and MONEA took care of the pick-ups and all the logistics involved with the full truck loads. As indicated by Mr Blums, the LME metal price fixing for the processed quantities was always done on an agreed day each week. Once the project was complete, within a 12 month timeframe, the machine – which had been leased – was taken away again.

The Bank of Latvia and its Change from the Lat to the Euro

In January 2014, Latvia became the 18th member of the European Union to adopt the euro, implementing a rapid changeover, with just two weeks of co-circulation before the lat was demonetised and the euro become the sole legal tender. The changeover was the result of several months' planning and preparation, involving the supply of nearly 17.5 million banknotes and 125.4 million coins so that banks, retailers and other businesses were ready to start issuing the new currency at one minute past midnight.

The changeover followed a tried and tested path implemented by several other countries including, most recently, Latvia's neighbour Estonia. But it was not without its issues - the lat itself was a relatively new currency, having only been introduced in 1992 following the break-up of the Soviet Union, and its replacement was used as something of a political football at a time of particular tension within the eurozone.

It nevertheless ran smoothly, according to Janis Blums, Head of the Cash Department and Member of the Board of the Bank of Latvia. He also chaired the cash changeover committee. *Currency News*™ caught up with him at the World Money Fair in Berlin earlier this month to find out more about the changeover and its successful execution.

Q: *Latvia was given the green light by the EU to adopt the euro in July 2013. With just six months to implement the changeover, what were the first steps?*

A: In July 2013 a corporate initiative 'Fair Euro Introducer' was launched to facilitate an honest and transparent implementation of the euro in Latvia. The initiative was formed from co-operation among businesses, government and the public, to help the euro adoption. In joining the initiative, participants publicly promised to strictly adhere to legislation related to euro adoption and pledged not to use the euro introduction as a reason to raise prices.

The project was implemented in close partnership with leading Latvian business organisations, the Consumer Rights Protection Centre, media, and active segments of civil society.

Q: *What were the key stages from deciding to adopt the euro until the currency changeover?*

A: The project consisted of several major stages, of which the biggest part was the minting and ordering of coins (the design of which, with Latvian motifs on the reverse, had already been decided several years ago following a public contest).

The coins were ordered from the State Mint of Baden-Wurttemberg, while the initial requirement for banknotes was supplied by the ECB.

The distribution of the new banknotes and coins was another stage, made difficult due to transportation issues from having to travel by both train and sea.

The frontloading of the euro cash was another significant part of the project. We needed to provide cash to the stakeholders well in advance, therefore we began frontloading in October 2013. The banks had to accept our euro cash under a special contract restricting it from being circulated. Rules were put in place stating how the cash was to be stored, and security in this area was a big factor.

We encountered some issues with commercial banks who were unwilling to take the early provision of euro cash - normally they would borrow cash rather than take it, therefore a special system had to be put in place. But some commercial banks said that the euro cash would be classed as 'frozen money' and therefore extra measures were not needed. However, we were able to resolve the issues and they completed their testing on time.

Another frontloading requirement was to supply the public with euro cash so that they were prepared for the launch.

We produced 800,000 starter kits consisting of different denominations of euro coins, totalling €14.23. From 10 December 2013, members of the public could purchase them so that they would have a small amount of euro cash to use from 1 January, and so that they could become acquainted with the different coin designs. This was particularly important as, even in the second half of 2013, we found that more than 50% of the population had never used or even seen the euro currency.

Janis Blums

The starter kits were hugely important in educating and informing the Latvian citizens of the euro banknotes and coins - by December, over 70% of the population said they felt prepared.

The withdrawal of banknotes and coins was another big stage of the project. The withdrawal of banknotes was done with relative ease due to the central bank already owning banknote processing machines that would destroy the old notes.

The removal of coins was a bigger task due to not having initial access to the required machinery to process and deform them. We contacted nearby mints early in the project to discuss how this task had worked well in other countries such as Estonia.

Obtaining the necessary equipment transpired to be a challenging task, as we found that many equipment providers would not provide a rental service, only offering equipment sales. As we only required the coin processing machinery for a certain period, we did not want to invest in owning the equipment.

We found the answer in MONEA to whom, following a tender process at the beginning of 2013, we entrusted this important part of the coin withdrawal. They have huge experience in similar projects in euro-introducing countries and, with their expertise, they covered both the purchasing of coin metal scrap, together with a partner, and the renting and service of the decoining equipment.

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Bank of Latvia's Euro Changeover *(continued)*

This deforms the coins so that they cannot be used as legal tender or in vending machines, and transforms the coin value into metal scrap value.

The process of withdrawing and scrapping old coins began in August 2013 and lasted one year, after which the machine was dismantled and taken away.

With our positive experience of Davorin Dragas and his team at MONEA we were able to advise our Baltic neighbour Lithuania, who chose the same partner for the coin destruction process.

Throughout all stages of the project, communication was key. Effective communication was required with all stakeholders in the project including the working groups, banks, members of the public, everyone. In fact, we had an internal slogan that the most challenging part of this change over was Coins, Copper and Communication. The three C's.

The project, considered huge for any European mint, started at the beginning of 2012 and lasted two years.

Q: *How was the value of the metal recovered?*

A: This was based on stock prices. Usually for scrap coins or metal you take a certain percentage from the London Metal Exchange price. We did this so that a price was fixed on an upcoming date. It's the same process when buying new coins, whereby a price is fixed at the same time.

Demonetised coins

Q: *Which special committees or taskforces did you work with?*

A: There was a large State Committee that supervised things such as all payment systems, statistics and legalities. I was head of a working group which discussed and made decisions on all cash related issues. There were over 30 participants in this group including commercial banks, state police, the Latvian Post, Ministry of Finance and CIT companies. We met at least once every month, particularly as there were a lot of cash issues involving commercial banks. It was a successful committee.

Q: *Which parties were involved in the demonetisation process?*

A: It was a state led process, led by the Prime Minister. There were subcommittees and working groups as mentioned previously, and commercial banks were heavily involved too.

The Latvian Post was heavily utilised in the changeover due to having the largest network of branches across the country. Our starter kits were available through Latvian Post branches, which was particularly important due to some resistance from commercial banks to stock them. We found that some commercial banks were focussing on their own business agenda and thus were not always cooperative.

> *"It's very important that, not only the central bank, but also all the partners and stakeholders are well prepared. Projects such as this one are not just one bank's project, or even one country's project."*

For example, a gentleman's agreement was in place whereby commercial banks agreed not to close bank branches or reduce the number of ATMs in their collection during the currency changeover period, but in fact some commercial banks did just that. They began optimising their branches by removing cash from site, which was not very helpful for our project.

They had their own strategies coming from their parent companies and subsequently, the euro changeover was not high on their priority list.

Our intention was to ensure the public had access to cash within a 10km range. By working with the Latvian Post, their network enabled us to provide availability to the public all over the country.

Even so, providing access to those in rural areas was still challenging. At the time, the Latvian Post had over 500 branches across the country, but some of them were small and had a low budget, meaning they were not able to store cash.

We therefore agreed to utilise 300 of their branches spread across the country. These, combined with commercial bank branches and ATM units, enabled us to reach our target.

The police force was another party involved with the changeover, due to requiring escorts for the high number of cash transfers that took place. There was a lot to consider, from weather implications and traffic jams. Many police were involved, including helicopter units.

A problem we sometimes encountered was that the private company receiving the cash order was not ready to accept it. We had several cases where a shop with their own security team thought they were being attacked after seeing a platoon of armed vehicles driving towards them, without realising they were the police. Fortunately we had no incidents that occurred but, with armed guards on either side, it was a risky situation. It really showed how vital and intensive such planning needed to be to avoid any confrontation.

The security services involved had the philosophy of being visibly 'over secure'. With such huge volumes of cash being delivered over a two month period, the potential for that information to be leaked was relatively high and subsequently so was the likelihood of criminal activity being planned. The security team's plan was to appear highly secure to show people the message of 'don't even try', hence the visibility of the armoured guards and vehicles.

Even the newspapers reported the seriousness of the cash deliveries, which was the PR that the security teams wanted.

Q: *That must have been costly?*

A: It was, but the general principle was that every stakeholder, be they commercial banks, the retail market, state services or the central bank, covered their own costs.

Unsurprisingly, there was a lot of negative PR regarding this, particularly from retailers complaining that they didn't want to absorb the additional costs. This was mainly due to the support for the changeover being very low, even six months before the launch date.

Additionally, politicians made a big deal about losing our national currency, saying it could mean losing our independence. This made an impact on our citizens, many of whom thought we had a beautiful national currency and preferred it to the euro notes.

So, there was a lot of emotional negativity towards the changeover, with certain political parties keeping these negative thoughts mainstream.

Q: *Where there any other issues voiced by the public?*

A: Yes, we were asked why we were destroying our national banknotes. At the time, there were many rumours that Germany's Bundesbank was keeping their national Deutsche mark banknotes in a vault somewhere in case the euro currency failed. We were questioned why we weren't doing the same.

Again, political parties kept such issues fresh, possibly due to there being an election due the following year. It's likely that, if something went wrong with the currency changeover, politicians could say that they had predicted it. They were playing towards citizens' emotions of having previously being part of the Soviet Union before becoming independent, but that now they were risking losing that independence again. There was a lot of game playing.

It's very important that, not only the central bank, but also all the partners and stakeholders are focussed on such issues so that they are well prepared. Projects such as this one are not just one bank's project, or even one country's project.

Q: *How well do you think the currency changeover project went?*

A: From our side, all stakeholders did their job very well. We learnt from other countries' experiences, particularly Estonia who introduced the euro in 2011. We began to have meetings with them three years before the changeover, and subsequently I believe it was one of the smoothest changeovers experienced by the euro countries.

However, people often focus on the negatives, even when they are outweighed by the positives. If all goes well nothing is mentioned; but if the smallest thing goes wrong, it's big news. Such are the rules of the game. Coming from a private business background, we see this all the time and I was therefore prepared for such scenarios.

Within state institutions and the central bank, people generally don't like to take risks and things are often delegated. In the currency changeover, we couldn't afford to waste any time - sometimes a decision needed to be made within five minutes.

Such issues are often experienced and it is important that people are willing to take on extra responsibilities or risks, otherwise these issues will never be solved.

Q: *Just as Estonia helped Latvia, were you able – in turn – to assist your other neighbour, Lithuania, with its adoption of the euro the following year?*

A: Yes. The great thing for us, which was also challenging, was that the Estonians introduced the euro in 2011. My Estonian colleague said 'Janis, if you know already that your date is 2014, just come as soon as possible before we lose our memories of the changeover and our documents, because then we won't be able to help.'

So three years before our own changeover, we started to meet Estonians and learn from their experience.

For our Lithuanian colleagues, it was much easier because it was only one year after us that they adopted the euro so they were able to 'copy and paste' parts from our legal acts and follow our example, including the demonetisation of the coins, which had been one of the big challenges.

So the three Baltic countries were all able to help one another as we individually, and successfully, went through the process.