

Henrik Auth: Cash processing and protection against counterfeiting

Opening speech by Henrik Auth, Deputy Governor of Magyar Nemzeti Bank (the central bank of Hungary), at the first currency issuance conference at Magyar Nemzeti Bank on cash processing and protection against counterfeiting, Budapest, 1 June 2006.

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Ladies and Gentlemen,

Introduction

Magyar Nemzeti Bank (MNB) is holding a currency issuance conference for the first time. On behalf of the Board of Directors of MNB, I should like to welcome the invited speakers and participants, and thank all the speakers called upon, and a large number of experts involved or interested in currency issuance for accepting our invitation. Among the speakers, I should like to warmly welcome Mr. Antti Heinonen, the Director of Banknotes at the European Central Bank, Mr. Róbert Juhos, Managing Director of G4S Cash Services Ltd., Mr. Tibor Pataki, the Head of the National Counterfeit Centre, and Mr. Barnabás Ferenczi, the Head of currency circulation, while in the audience I warmly welcome the highly esteemed representatives from Hungarian credit institutions, cash in transit companies, Magyar Posta Ltd., the Hungarian State Treasury, the Hungarian Banking Association, the National Police Headquarters and MNB.

Our aim in holding this conference is to further strengthen the dialogue that has been going on for a number of years with market participants, and to further develop our cooperation in cash processing and the fight against counterfeiting by acquainting all of us with experiences and conclusions drawn as well as by discussing opinions.

In my speech I wish to elaborate on two issues.

- Why do we hold the conference now?
- What does MNB think about cash processing and protection against counterfeiting?

Timing

This year we are celebrating the **60th anniversary of the introduction of the forint**. After the post-war hyperinflation, MNB issued the first series of forint banknotes on 1 August 1946. This series of banknotes, disregarding changing the original design at the beginning of the period, served circulation for over 50 years. The set of denominations altered with the passage of time but the system of security features barely changed.

The **second series of banknotes** was issued by using modern security features between 1997 and 2001. Since then MNB has been continually developing the range of security features, the most recent example of which is incorporated in the **new thousand forint banknote** issued less than two months ago on 10 April.

Over the last year MNB has made significant progress in the field of **the regulation of cash distribution**.

In June 2005 and February 2006 MNB issued a total of **three decrees of the Governor of MNB**. Consultations were held on the draft of these decrees not only with Hungarian market participants but also with the European Central Bank. The three decrees issued by the central bank regulate, firstly, technical tasks and other duties related to the protection against counterfeiting Hungarian and foreign legal tender; secondly, the conditions for cash processing activity and cash distribution; and, thirdly, rules and procedures related to the reproduction of the forint and the euro.

On 1 July 2005 MNB amended **cash handling fees**. MNB decreased fees for withdrawals and lodgements of banknotes by 25%, and made lodging coins free of charge, while increased fees for exchanging cash to another denomination. With this MNB shifted the regulation of withdrawals and lodgements towards that of the euro area and in the field of exchange MNB rose the fees to the level of costs.

Precisely today MNB's **new regulation containing business terms and conditions** come into force with regard to transactions made in cash. In addition to withdrawals and lodgements, this regulation governs all activities related to exchange both for clients with an MNB account and those without such an account. An important change is that MNB will only accept quantities of banknotes or coins in excess of 100 items per denomination provided that a cash in transit company has already processed them.

Due to the effect of recent changes, I and my colleagues felt that it would be timely to discuss jointly issues related to cash processing and the fight against counterfeiting, and to show and learn about issues deemed important from the viewpoint of the Hungarian central bank, market participants and the European Central Bank.

Cash processing and the fight against counterfeiting

First of all, I should like to share a few thoughts on cash processing and the fight against counterfeiting with you.

After the reintroduction of the two-tier banking system in January 1987, credit institutions in Hungary established their cash distribution lines, but starting from the early 1990s they **outsourced** cash processing and transportation to an ever increasing extent to cash in transit companies that had emerged in the market at that time. Concerned credit institutions handed over or sold their vaults, or converted or use them for other purposes.

In response to this widespread outsourcing, MNB initiated **laying down the legal foundation for the performance of cash processing activity outside the central bank**. As a result, starting in 1997 cash processing activities outside the central bank are conducted within regulated framework. The legislation also covered the requirements for the authenticity and fitness of cash. MNB licenses cash processing activity, regularly checks the observance of preconditions required for launching the activity and the activity itself. Simultaneously with laying down the legal foundation for cash processing outside the central bank, MNB itself moved towards the **wholesale cash distribution** starting from the second half of 1990s.

Accordingly, it is rather common in Hungary that credit institutions and other economic actors **reissue** banknotes and coins without processing by the central bank. The processing of banknotes by the central bank compared to processing on a profit-oriented basis accounts for approximately 20%. The interbank market for both banknotes and coins is considerable.

The change in Hungarian responsibilities fits in with **prevailing international trends**. In view of the envisaged introduction of the euro in Hungary, of the prevailing international trends for us the practice and regulation of the euro area is the most interesting.

The central bank decree issued in 2005 **tightened and made more exact** earlier rules on the examination of the authenticity and fitness of forint currency. MNB introduced a new means of checking the observance of requirements on fitness specified in the decree: MNB checks cash lodged with it by processing machine on the level set according to the specification of the decree, in its own premises and in the presence of the organisation that processed it, be it either a cash in transit company or a credit institution.

The spirit and depth of the new Hungarian regulation **is similar to the framework to be implemented for euro banknotes in countries in the euro area by** the end of this year. We are proud of the fact that Hungarian credit institutions and cash in transit companies not only examine forint banknotes based on the requirements for authenticity in a more detailed manner than used to be the case but also check numerically determined fitness criteria, albeit often manually or with the aid of simple devices. It is necessary to draw attention to the fact that in the long term manual processing is not sustainable as after the introduction in Hungary of euro currency only such banknotes may be issued via ATMs that have been previously processed by a machine successfully tested by the Eurosystem.

The fight against counterfeiting would be inconceivable without the cooperation of the organisations present here. MNB, in addition to aiming at issuing forint banknotes and coins that are appropriately protected against counterfeiting, established the National Counterfeit Centre using the existing expert basis in January 2005. Here suspect counterfeit forint banknotes and coins as well as suspect counterfeit foreign currencies detected in Hungary are examined. Hungarian cash in transit companies and credit institutions withdraw a significant quantity of counterfeits from circulation. Under the coordination of the National Central Office of the National Police Headquarters, criminal

prosecution bodies conduct crime prevention and investigation. The cooperation agreement between MNB and the National Police Headquarters was signed in October 2005 and it made joint action in the fight against counterfeiting more effective.

Closing remark

I am confident that in the course of this conference you will learn about many valuable experiences. I am convinced that discussing experience and opinions promotes the realisation of our common tasks, and ensures the authenticity and quality of cash in circulation.

Thank you for your attention and I wish you good work at the conference.