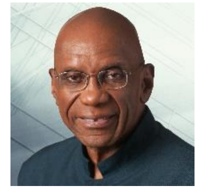

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Banks Do Not Use Currency to Make Payments

Most payments in any modern economy are made to and from accounts held at banks and other financial institutions which carry out banking functions, such as credit unions. Credit and debit cards, cheques, online payments, standing orders, digital wallets and mobile payments systems are all different ways to make payments to and from accounts held at banks. All bank payments are made by subtracting value from the purchaser's bank account and adding that value to the seller's bank account, irrespective of the method used to make the payment. No currency is involved in this process.

The money that we have in the bank is real, but it is not currency. We receive our salaries, pension payments and other income in the form of cheques and bank transfers from our employers, companies we have worked for, the National Insurance, pension funds and other sources. That value is lodged to our account at the bank and the bank deducts value from that account to pay our mortgage, our rent, loan payments, standing orders, online payments and debit card purchases. Any cheques we write are instructions to the bank to deduct value from our account and transfer to the account of the person who deposits the cheque. All bills are paid and all transfers are completed without the use of a single dollar bill.

The payments process is the same whatever the means of payment. When I tap my Scotiabank debit card to pay for a meal at a restaurant that banks with CIBC, that action sends a signal to my bank to deduct the price of the meal from my account and a signal to CIBC to add that value to the restaurant's account. The payment is done by means of a message. Nowadays the instructions for transfer of value are all sent electronically.

The payments problem in a bank-based economy is not about the currency. The value of the transaction is known in US dollars - and any other currency - at the time of payment, so long as there is an internet connection. The payments problem has to do with identification and verification. Is the seller whom the buyer intends to pay? Is the amount being transferred the agreed value? Are all the individuals and institutions involved in the process legally constituted and regulated to international standards? Have errors been made, fraud committed, or incomplete or misinformation supplied?

Payment with currency - notes and coins - is an entirely different process, one which does not involve any banking services. With a US$20 bill I can buy anything of that value in the US and most countries in the world; with 100 units of local currency anywhere you can buy that value of product or service in the local currency area.

Currency notes are designed with numerous security features because the note is its own verification; once you have it you can make purchases, no matter whether you earned, borrowed, begged for or stole it.

The crucial difference between payments with currency and bank-based payments has to do with anonymity. Bank-based payments are preferred because of convenience and low risk of loss and fraud, but they come with high information requirements: you need to be reassured about the buyer, the seller, the product or service being paid for, the soundness of the bank or credit union involved and the security of the entire transaction. Payment with currency is risky and inconvenient, but there are no information requirements.

The use of currency persists because of its anonymity. Electronic payments will continue to grow in popularity because of their convenience and security. Currency and electronic payments will continue to coexist because of these distinct characteristics.

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