

## Non-technical summary for ‘Confidence in Australian Banknotes’

By Kim Nguyen and Anny Francis

One of the Reserve Bank of Australia’s key responsibilities is to produce banknotes that everyone can trust, both as a means of payment and a secure store of wealth. In other words, the Bank works to ensure that the public has confidence in their banknotes. Given this, the paper aims to better understand what drives confidence in banknotes. It considers three main drivers of people’s confidence: who they are, their personal experience with banknotes and counterfeits, and their knowledge about security features and counterfeiting incidents.

Starting with what seems to be an obvious first question: ‘Do people have different levels of confidence in banknotes simply because of who they are?’, we find that females, people aged between 25 and 44 years, and those with lower income appear to be less confident in banknotes. Each demographic variable, however, tells a different story:

- Female respondents – who are less likely to report having received counterfeits in the past than otherwise similar males – are nonetheless more likely than males to believe that they will receive a counterfeit in the future. This discrepancy is not observed for age or income groups.
- Younger adults, between the ages of 25 and 44 years, are less confident in the system to remove counterfeits from circulation compared with those aged 45 years and over. This is not related to sex or income. This result seems to suggest a trust issue among younger adults compared with older adults.
- Respondents with relatively low incomes perceived a relatively high risk of receiving a counterfeit in the future, despite being just as likely to report having received a counterfeit in the past as higher-income respondents. This is likely due to the financial loss from unknowingly accepting a counterfeit being felt more strongly by individuals with reduced financial resources.

The second potential driver of confidence in banknotes is one’s personal experience with using banknotes, and with banknote counterfeits. We find that:

- Those who have encountered counterfeits in the past are more likely to believe that they will receive counterfeits again in the future. This is unsurprising since victims of crime tend to feel more vulnerable, and tend to suffer psychologically and emotionally, which then makes them more fearful of crime.
- Those who have had problems using banknotes (for example, having had a banknote rejected by a vending machine or shop assistant) are not only more likely to believe that they will be a victim of counterfeiting, but also have less confidence in the system for removing counterfeits from circulation. This suggests that ensuring circulating banknotes are of high quality and are easy to use may be important in maintaining the public’s confidence in banknotes.

Lastly, we investigate if confidence in banknotes is influenced by the Bank’s efforts to inform the public about security features or the media’s coverage of counterfeiting. Our results show that:

- Knowing more security features increases confidence in banknotes. However, the incremental effect reduces as individuals become aware of more and more additional features.
- As more unique counterfeit incidents are reported in the media, more genuine banknotes are mistakenly submitted as counterfeits, which we interpret as a heightened sense of perceived counterfeit risk. However, as the same set of counterfeiting incidents are picked up by more media outlets, the negative effect of media coverage on confidence lessens.

Overall, personal experience with using banknotes and with banknote counterfeits emerges as the most important driver of public confidence in Australian banknotes. Other factors such as demographics, knowledge about security features, and media reporting on counterfeiting incidents also affect perceptions of counterfeit risk to a lesser extent.