

# *ICL Pathway - Review 28 July*

## **98**

### *Agenda*



- 1. Presentation to Ministers**
- 2. The Live Service**
- 3. Programme Status**
- 4. The Treasury Review**
- 5. Recovery Plan**
- 6. Actions**



*ICL Pathway - Review 28 July 98*

# ***1. Presentation to Ministers - agenda***



- **Objectives of the Horizon Service**
- **Progress to date**
- **Future options for Horizon**
- **Benefits of the Payment Card**
- **Progress to ACT**
- **ICL Position**



# *1. Presentation to Ministers* **Objectives of the Horizon service**

- **Eliminate encashment fraud**
- **Reduce administration costs of paying benefit**
- **Full and speedy reconciliation of benefit payments**
- **Commence provision of a modern, acceptable benefits payment service**
- **Exploit the Post Office network reach**
- **Build a UK infrastructure for Better Government  
- e.g. Social Banking**
- **Deliver counter automation to Post Offices**
- **Offer new services to UK citizens**





# 1. *Presentation to Ministers* **Progress to date** delivery plans

- **Delivered to date:**
  - ◆ Release IGL / Release 1b / Release 1c
- **Release 1c**
  - ◆ Live now in 204 Post Offices
  - ◆ Payment Card for Child Benefit
  - ◆ Order Book Control Service
- **Release 2 developed and in test**
- **National Rollout - Spring 1999**
  - ◆ Payment card for multiple benefits
  - ◆ Order Book Control Service
  - ◆ EPOS service
  - ◆ Bill payment / budgeting service





# 1. Presentation to Ministers Achievements *to date*

- **204 Post Offices, 334 Counters**
- **Number of Payment Cards in use**  
**28,958**
  - ◆ Very acceptable to customers
  - ◆ Well liked by counter staff
- **Total number of BES Transactions**      **741,113**
- **Total value of : BES Encashments**  
**£11.3m**
  - : **BES Stops & Expiries**      **£109k**
- **Total Number of OBCS Transactions**      **4.5m**
- **Number of OBCS books impounded**      **13,942**
- **Potential fraud avoided to date**      **> £1.5m**



*Statistics are correct as of 30 June 1998*



# 1. Presentation to Ministers *Future options* *for* Horizon



- **Personal Financial Services**
  - ◆ Withdrawals
  - ◆ Deposits (Savings / ISAs / Pensions)
  - ◆ Insurance
- **Family Budgeting Services**
- **Universal Banking**
- **ISAs**
- **Stakeholder Pensions**
- **Government.Direct**



# *1. Presentation to Ministers* **Benefits of the Payment Card**



- **Designed for the Customer**
  - ◆ **Face to face counter service**
  - ◆ **Flexibility to handle agents for the housebound**
  - ◆ **Provides for emergency payments within the hour**
  - ◆ **Capable of handling part payments**
  - ◆ **Cash (£0.01 - £1,000)**
  - ◆ **No PIN / Biometric required**
  - ◆ **Personal safety and security**
  - ◆ **Telephone Help Desks**
  - ◆ **Advice, Stops, Complaints, Emergencies**



# *1. Presentation to Ministers* **Benefits of the Payment Card**



- **Fraud Prevention & Detection**
  - ◆ **Secure card issue  
(Pick Up Notice / Card collection)**
  - ◆ **Extended Verification - personal details questions  
(Best Financial Service practice)**
  - ◆ **Secure card technology**
  - ◆ **Encrypted network and data**
  - ◆ **Immediate application of stops**



# *1. Presentation to Ministers* **Progress to** **ACT**

- **Requires national Post Office network to provide access**
  - ◆ **Consistent with POCL vision for Banking**
  - ◆ **Takes time to implement**
- **900m transactions go to ACT to banks**
- **A proportion (say 200m) delivered via POCL**
- **Net effect on POCL would be £300m p.a.**
- **Network would become non-viable**





# *1. Presentation to Ministers* **Progress to ACT - The Way Forward**



- **Control timing of move to ACT**
- **Support POCL in re-engineering the network**
- **Re-engineering will take time (5-10years)**
- **Exploit all the benefits of the payment card - always better than paper**



# *1. Presentation to Ministers* ICL Position

- **Want to co-operate to make the programme a success**
- **Strongly support the Payment Card**
- **We have invested huge amounts to develop card-based system to meet all BA requirements**
- **Payment Card is live and successful**
- **Extensions to support multiple benefits are developed and in test**
- **Cancelling card-based system puts ICL in an impossible position**
- **Cannot write off our costs - need substantial compensation**
- **Either pay to have the system, or pay to cancel**





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## *2. The Live Service*





## ***2. The Live Service* CS Management Information :** **Release 1C Vital Statistics - 30 June 1998**

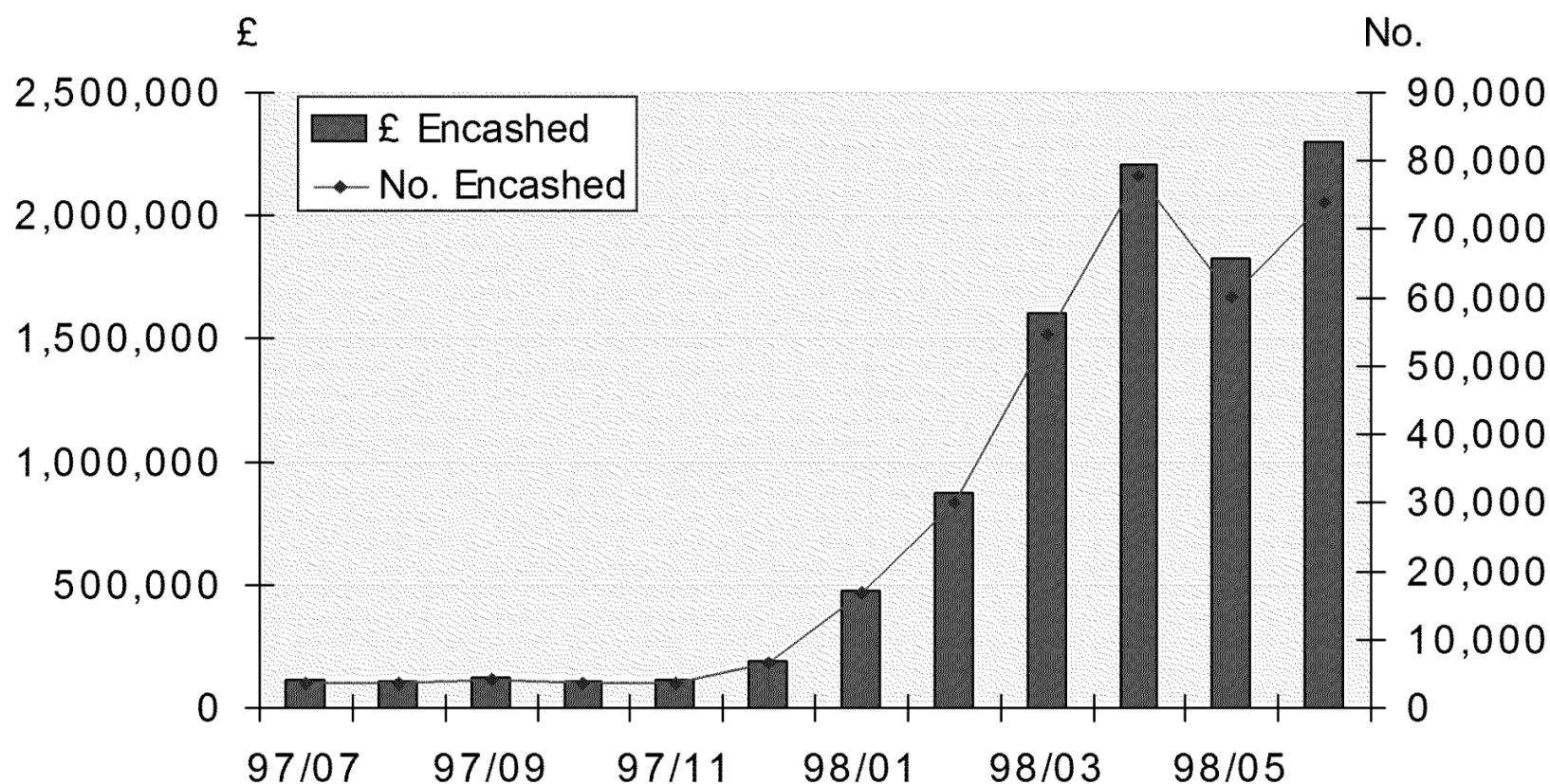
Installed Base: 204 Post Offices, 334 counters



|   |                |
|---|----------------|
| Number of Cards Issued:                           | 34,033         |
| Number of Active Cards in use :                   | 28,958         |
| Total number of BES Counter Transactions to date: | 741,113        |
| BES Counter Transactions in June:                 | 74,007         |
| Total value of Benefit Payments received to date: | £11.3 millions |
| Value of Benefit Payments received in June:       | £2.1 millions  |
| Total value of Benefit Encashments made to date:  | £10.8 millions |
| Value of Benefit Encashments in June:             | £2.3           |
| millions  |                |
| Total number of OBCS Transactions to date:        | 4.5 millions   |
| Number of Order Books impounded:                  | 13,942         |
| Potential Fraud avoided:                          | >£1.5 millions |

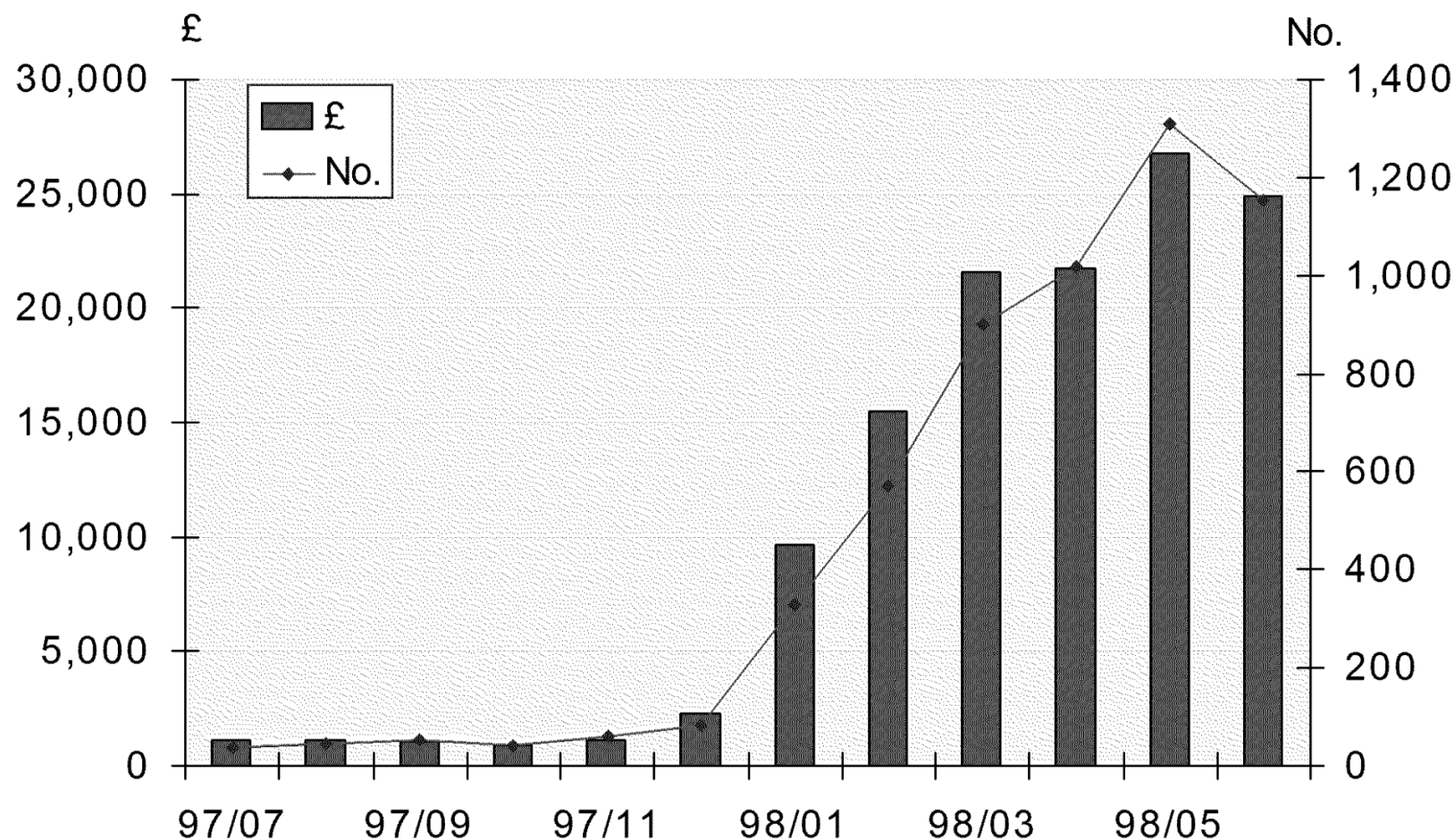


## 2. The Live Service CS Management Information : Payment Encashments



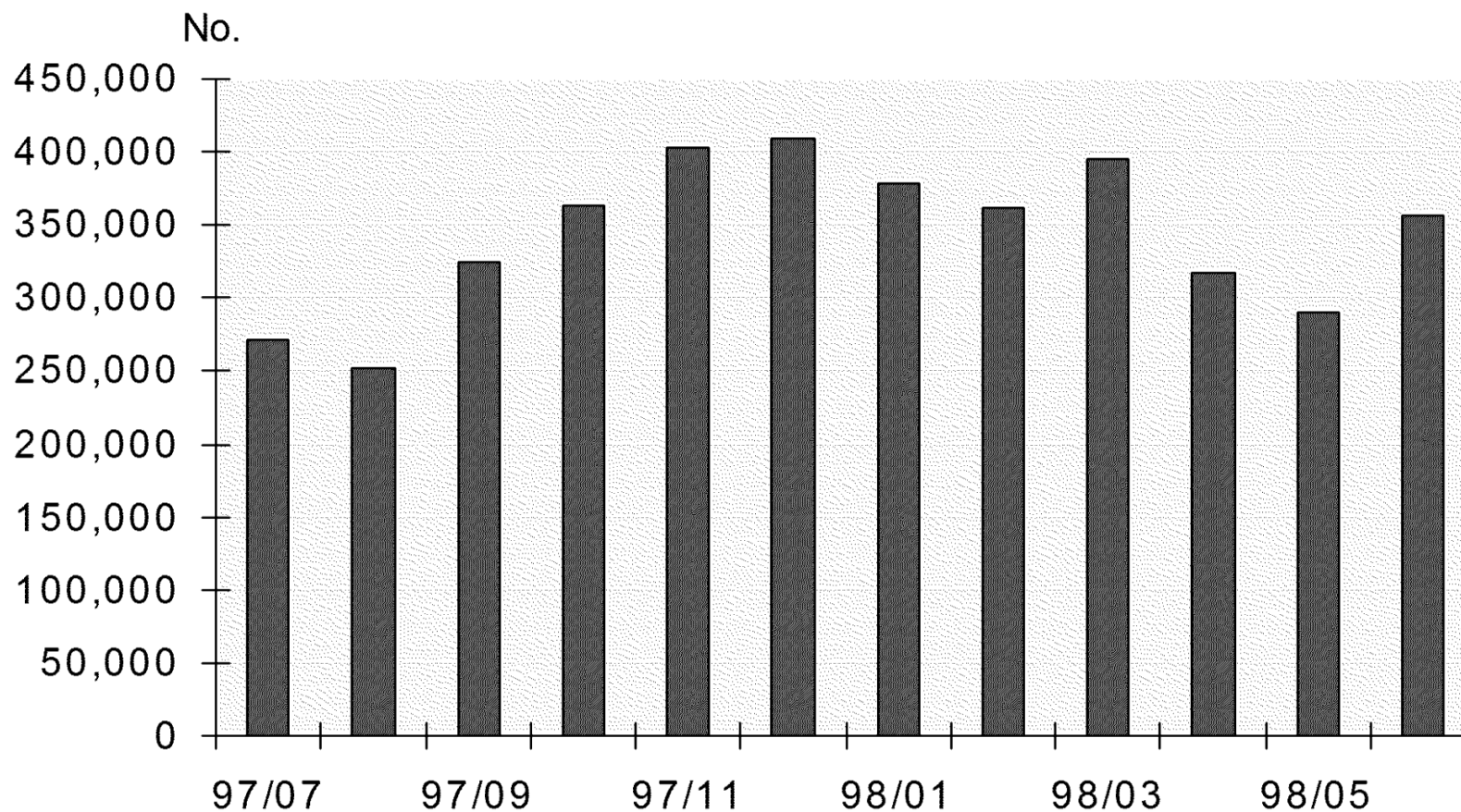


## 2. The Live Service CS Management Information : Stops & Expiries





## 2. The Live Service CS Management Information : OBCS Data





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## ***3. Programme Plan - agenda***



- **Treasury Review**
- **Current status**
- **Key dates**
- **New Release2**
- **Summary**



### ***3. Programme Plan - Treasury Review***

- **Consultants conclusions on likely National Roll-Out start date**

- 50% chance of January 2000
- Planning date should be April 2000



- **Conclusion based on**

- Unexpected BA inputs on need for increased testing
- POCL readiness to “manage” automation in the business
- Lack of clarity on BA/POCL acceptance process
- Interaction between NR2 and NR2+ due to RCD caveats

- **ICL Pathway response**

- Unacceptable and unnecessary delay
- Restated plan date of April 1999 for NRO

- **POCL position**

- Delay unacceptable and unnecessary
- Instigated a full plan review supported by ICL Pathway



### ***3. Programme Plan - Current Status***

- **POCL/ICL Pathway proposal for NRO to start with:-**
  - Child Benefit only but full card roll out
  - EPOSS and APS for POCL
  - OBCS
- **Separate and later model offices for other benefits (JSA,IS,PSCS)**
- **Additional benefits introduced in a phased manner from 28 Feb 2000**
- **BA/CAPS accepted proposal in principle**
- **Proposal gives earliest start of NRO 5 July 1999 a slip from April 1999 due to duration of Live Trial**
- **ICL Pathway position is to welcome proposal BUT seek to maintain April 1999 start of NRO**



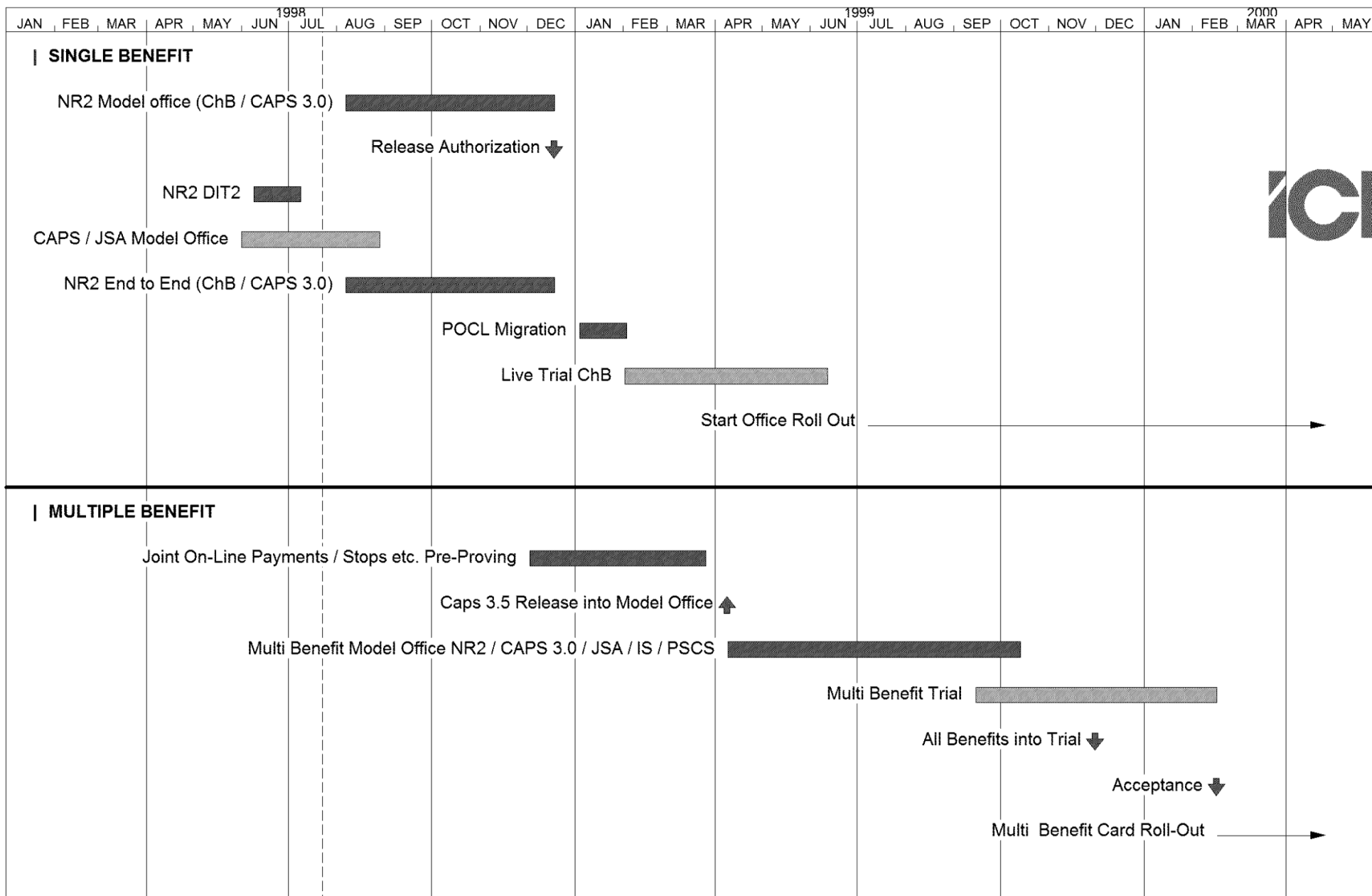


EYES ON THE FUTURE

23JUL98

HORIZON PROGRAMME RE-PLAN

1



ICL



### 3. *Programme Plan* - Live Trial Issue

- POCL requesting additional time for LT set-up
- POCL requesting extended duration for observation
- POCL requesting additional period for approval
- Resulting dates:



|                   | <u>ICL Pathway</u> | <u>POCL</u> |
|-------------------|--------------------|-------------|
| Start Migration   | 4 Jan 1999         | 4 Jan 1999  |
| Live Trial Starts | 25 Jan 1999        | 8 Feb 1999  |
| Live Trial Ends   | 9 April 1999       | 19 June     |
| 1999              |                    |             |
| Start NRO         | 12 April 1999      | 5 July 1999 |

- Above based on BA accepting POCL Programme Plan
- NR2 acceptance for single benefit is 19 June 1999
- ICL Pathway position is to achieve earliest NRO ie. April 1999



### ***3. Programme Plan -***

## **Multi Benefit Introduction**

- BA requesting single Model Office for next 3 benefits
- BA requesting extended live “Trial” before card roll- out
- BA linking multi benefit to full acceptance of NR2
- Resulting dates:



|                        |                  |                |
|------------------------|------------------|----------------|
| Multi benefit MO       | 12 April 1999    | to 1 Oct 1999  |
| Multi benefit Trial    | 13 Sept 1999     | to 31 Jan 2000 |
| Start Multi benefit RO | 28 February 2000 |                |

- Phased introduction of new benefit to MO and Trial
- All benefits into trial by end November 1999
- NR2 full acceptance is 25 February 2000
- ICL Pathway evaluating proposal (received 22 July 1998)



### ***3. Programme Plan - Summary***

- **Treasury Review concluded start of NRO between:**
  - January 2000 - April 2000
- **POCL and ICL Pathway driving to bring forward to earliest date**
- **Current views of earliest NRO start**
  - POCL, July 1999
  - ICL Pathway, April 1999
- **ICL Pathway approach**
  - identify and agree earliest, non contingent plan (ie. April 1999)
  - work to produce contingent programme plan
  - ensure all parties work to earliest date
- **ICL Pathway Plan version 4 identifies earliest dates**





### 3. Programme Plan

# **ICL Pathway**

## **Project Plan Key Dates**

|  | <b>V.3.0</b>    | <b>V.4.0</b>    |
|--|-----------------|-----------------|
| • New Release 2 Ready for use                    | 05/10/98        | 18/12/98        |
| • Existing PO's and Data Centres<br>Migrated     | 02/11/98        | 24/01/99        |
| • Additional 100 offices ready<br>for Live Trial | 25/01/99        | 05/02/99        |
| • <b>Live Trial Starts</b>                       | <b>25/01/99</b> | <b>25/01/99</b> |
| • Start of National Rollout                      | 29/03/99        | 12/04/99        |
| • Completion of National Rollout                 | July 2000       | Aug 2000        |

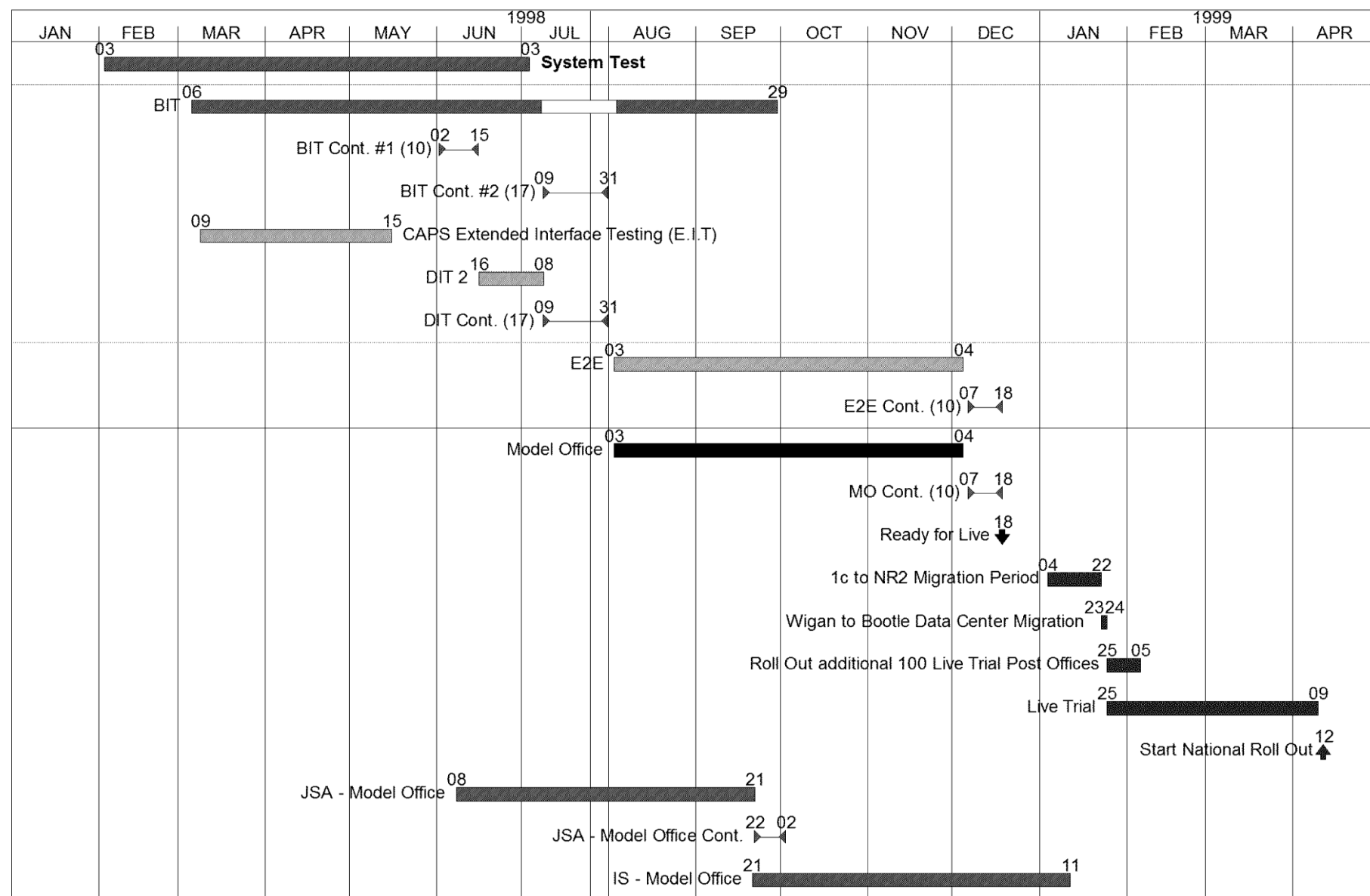




# New Release 2 High Level Plan - Version 4

15MAY98

1





### 3. Programme Plan *Project*

## *Milestones - NR2*

High Level Plan V4.0.

Start

End

System Testing (1st &amp; Main Pass)

08-Dec-97

24-Aug-98

System Testing (Final Pass)

25-Aug-98

30-

Oct-98

Business Integration

06-Mar-98

29-Sep-98

Testing (1st &amp; Main Pass)

**Business Integration Testing****(Final Pass)****15-Sep-98****30-Oct-98**

Technical &amp; Security Testing

04-Dec-97

30-Oct-98

**Direct Interface Testing (DIT2)****16-Jun-98****08-Jul-98****End to End Testing (Main Pass)****03-Aug-98****23-Oct-98**

End to End Testing (Final Pass)

02-Nov-98

04-Dec-98

Model Office Rehearsal #1

10-Aug-98

11-Sep-98

Model Office Rehearsal #2

21-Sep-98

23-Oct-98

**Model Office Test****02-Nov-98****04-Dec-98****New Release 2 ready for use****18-Dec-98****Start of Live Trial****25-Jan-99**



### *3. Programme Plan* **NR2 - Current Status**

- **Direct Interface Testing (DIT2) Complete**
- **Business Integration Testing (BIT2) Complete**
- **System Testing (Main Elements)**
  - **Benefit Payment System (BPS) complete**
  - **Order Book Control System (OBCS) complete**
  - **Automated Payment System (APS) complete**
  - **Electronic Point of Sale System (EPOSS) 24 August 1998**
  - **Transaction Processing System (TPS) 24 August 1998**
- **Preparation for Model Office Rehearsal (MOR1)**
  - **System test criteria for entry met**
  - **Other preparation activities underway**
  - **1st MOR1 activity is environment reset 3 - 10 August 1998**
  - **Plan tight but achievable for 10 August 1998**





### 3. Programme Plan **NR2 - Risks & Issues**

- **Risks to start Model Office Testing on 10 August 1998**



- ICL Pathway environment reset
- Establishing software baseline
- POCL supplied reference data impacts
- EPOSS/TPS/Counter Procedures and Training

- **Issues to be managed**

- POCL supplied live reference data
- Functionality upgrades (Audit/Reconciliation/RODB/Frame Relay)
- Migration process 1c to NR2
- Large Pinicl stack



### 3. Programme Plan ***Project Summary***

- **Implementation process to prepare Post Office Estate commenced 8 June 1998**
- **On target to start MOR1 10 August 1998**
  - BA not joining until 7 September 1998
- **POCL proposal for Live Trial gives 8 Feb 1999 start date**
  - ICL Pathway seeking 25 January 1999
- **POCL proposal for Live Trial duration gives 5 July 1999 for NRO**
  - ICL Pathway seeking 12 April 1999
- **ICL Pathway preparation for acceptance progressing well**
  - POCL and BA have not agreed a process
- **New BA proposal for multi benefit roll-out being evaluated**





*ICL Pathway - Review 28 July 98*


# *4. Treasury Review - agenda*



- **The Expert Panel report**
- **Options under consideration**
- **Sponsor attitudes**
- **Decision making process**



## ***4. Treasury Review* The Expert Panel Report**

- **Completed 7 July, to Working Party** 
- **A positive endorsement for ICL - technical & programme plan**
- **Implied criticism of sponsors (edited ICL Version)**
- **Recognises ICL have a case**
- **ICL response copied to Working Party**
- **6 options, 2 recommended**



## *4. Treasury Review* **Options**

- **Option 1: Full Restructuring**
  - ◆ **Payment Card used from the outset**
  - ◆ **Order Books & GIROs withdrawn**
  - ◆ **POCL build new financial services, banking etc capability**
  - ◆ **Card & ACT coexist until full ACT**
  - ◆ **BA transfer to full ACT when POCL ready to compete - beyond current contract end date**
  - ◆ **“Pathway well placed to compete for new business”**





## *4. Treasury Review* **Options**

- **Option 2: Partial Restructuring**
- ◆ Paper-based payments continue - no Card
- ◆ POCL build new financial services, banking etc capability
- ◆ OBCS for high fraud areas
- ◆ Until POCL ready to compete for ACT
- ◆ “Pathway compensated for reduced scope of contract”





## *4. Treasury Review* **Sponsor attitudes**

- **BA determined to kill Card**
  - ◆ Slowdown in planned Card Rollout
  - ◆ Lobbying Ministers
  - ◆ Objected to Treasury Report - “beyond brief”
- **POCL supportive but ineffective**
  - ◆ Criticism from BA, DTI
  - ◆ over-optimistic on new business potential
- **DTI supportive**
  - ◆ PO need Automation
- **Treasury as deal broker**
  - ◆ Seeking acceptable resolution





## *4. Treasury Review* **Decision Process**

- **Expert Panel Report 8 July**
- **Working Party report 24 July**
- **Ministers to meet 30 July**
- **Decision target date 1 August**
- **Commercial negotiation August/Sept**
- ***BUT* impact of a Cabinet re-shuffle??**





*ICL Pathway - Review 28 July 98*

## ***5. Recovery Plan - agenda***



- **Planning assumptions in Jan 1998**
- **Planning assumptions in July 1998**
- **Re-structuring Option 1 / Pathway approach**
- **Possible business case scenarios**



## ***5. Recovery Plan* Plan assumptions in Jan 1998**

- **National Rollout to start March 1999**
- **Contract ends: May 2005 for BA**



**Sept 2005 for POCL**

- **Transaction volumes as per original contract**
- **Results in loss of £200m and peak cash of £350m**



## **5. *Recovery Plan* Plan assumptions in July 1998**

- **National rollout**
  - April 1999 for Pathway
  - July 1999 for BA/POCL
  - Jan 2000 for Treasury
- **BA want to**
  - cancel Payment Card
  - continue with OBCS
  - accelerate to ACT
  - encourage POCL into banking
- **Contract extension is**
  - under discussion
  - acceptable in principle to POCL
  - rejected by BA
  - legal
- **Treasury Review has**
  - limited options
  - no consensus
  - preference for restructuring Option1





## ***5. Recovery Plan* Pathway approach to Option 1**



- **extend timescales to 2010**
- **de-risk BA volumes on Payment Card (??)**
- **de-risk POCL volumes on new business**
- **include realistic view of banking transactions - 370m transactions in 2010 (??)**
- **uplift cost base for delays / complexities**



## 5. Recovery Plan **Business Case**

# Scenarios



|                            | <b>Scenario 1</b>         |        |       | <b>Scenario 2</b>               |       |       | <b>Scenario 3</b>                |       |       |
|----------------------------|---------------------------|--------|-------|---------------------------------|-------|-------|----------------------------------|-------|-------|
|                            | Impact of price increases |        |       | To achieve 3% return on Revenue |       |       | To achieve 10% return on Revenue |       |       |
| Price Increase 1997-99     | 10%                       | 10%    | 10%   | 0%                              | 5%    | 10%   | 0%                               | 5%    | 10%   |
| Price Increase from 2000   | Flat                      | 1.5%   | 3.5%  | 4.70%                           | 3.75% | 2.85% | 5.7%                             | 4.75% | 3.85% |
| Profit £m                  | (423)                     | (172)  | 175   | 65                              | 65    | 68    | 236                              | 234   | 232   |
| IRR %                      | (0.8%)                    | 4.9%   | 10.6% | 8.9%                            | 8.9%  | 8.9%  | 11.3%                            | 11.4% | 11.5% |
| Peak Borrowing             | 483                       | 482    | 481   | 490                             | 485   | 481   | 489                              | 484   | 481   |
| PBT % to Rev.              | (22.6%)                   | (8.4%) | 7.6%  | 3.0%                            | 3.0%  | 3.0%  | 10.0%                            | 10.0% | 10.0% |
| Yr 2004 Prices vs Contract | 126%                      | 136%   | 150%  | 144%                            | 146%  | 145%  | 151%                             | 152%  | 152%  |



## *ICL Pathway - Review 28 July 98*

# **6. Actions**



- **Continue lobbying to Ministers, advisers, MPs Select committee, DSS**
- **Plan for PO banking business**
- **Position for negotiations**
- **Prepare contingency plan**