

136/20

RESTRICTED - Policy

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**SSSC: INFORMATION ON THE JOINT DSS BA/POCL AUTOMATION PROJECT
("HORIZON") AND THE BENEFIT PAYMENT CARD**

Issue: There is an outstanding request for briefing from the Social Security Select Committee (SSSC) on:

- Benefit Payment Card (BPC): Security Measures;
- the usage of ACT (Automated Credit Transfer) in the payment of benefits and the research that has been carried out in this area.

These were originally requested, before the Government had decided to reshape the project and drop the BPC.

Officials therefore propose providing the SSSC with a note summarising the Government's decision (announced on 24 May 1999) and taking the opportunity to put our "gloss" on the proposed way forward.

Action required/Timing:

Are you content for the attached notes now to be sent? The SSSC Clerk is now pressing for us to produce the briefing notes.

Background

1. On 20 January 1999, with Secretary of State's approval, officials made a presentation to an informal session of the SSSC regarding developments in the joint DSS BA/POCL Automation Project (DSS Benefits Agency/Post Office Counters Ltd) and the NIRS2 (National Insurance Recording System). Both projects involved: major contracts with private sector companies; huge amounts of money; considerable difficulties/delays. The session was held informally in Richmond House due to the commercial sensitivities involved. At the presentation the SSSC requested two briefing notes, relevant to their interests in the DSS BA/POCL Automation Project. The first was on the security

aspects of the Benefit Payment Card (BPC) then a part of the project. The second was on the usage of Automated Credit Transfer (ACT) in the payment of benefit and any research that had been carried out in this area. The request for briefing is not unusual and the convention is that we would normally provide it within two months.

The DSS BA/POCL Automation Project

2. The DSS BA/POCL Automation Project was set up with the twin objectives of: automating the Post Office Network; and replacing girocheques and orderbooks with a plastic Benefit Payment Card. This was a PFI project with ICL as the main private sector supplier. The project had suffered considerable delay and at the time of the SSSC hearing we were in the middle of very difficult negotiations with ICL and the Post Office. The public sector had held ICL to be in breach of contract although ICL rejected this. In addition there was considerable press speculation that the contract with ICL would be cancelled. There were several hundred million pounds at stake and litigation was a real possibility. It was finally agreed that we would dispense with the BPC and that from 2003 we would move to paying almost all benefit payments by ACT, completion is due in 2005. There are some claimants who can not have a bank account, for example bankrupts. An alternative method of paying will have to be found for them. The Post Office automation is due to be completed by 2001. In addition, the Post Office will also enter into commercial arrangements with a number of high street banks so that those people who wish to continue receiving their benefits at the post office can continue to do so.
3. Secretary of State was sent a submission on 28 April 1999 with the briefing notes for the SSSC. He decided to hold back producing the briefing notes for the SSSC due to the sensitivity of negotiations concerning the DSS BA/POCL Automation Project. We are now being pressed to produce the briefing notes and it is anticipated that a formal approach/complaint will result if we do not respond soon.

Briefing notes for the SSSC

4. The note on ACT usage and associated research simply pulls together information that is already in the public domain. On the security aspects of the BPC the information is now historical, as we have withdrawn all BPCs. However, it is suggested that the SSSC should nonetheless be asked to treat the information on the BPC as confidential. The security procedures described could well be used or developed to form the bases for the proposed extension to the OBCS (Order Book Control System). In addition, as the Post Office develop their banking strategy they may draw on the work/procedures described in this paper.

Handling

5. There is no set procedure determining who should send briefing notes to the SSSC. As officials were asked for the information it would seem appropriate that the notes are sent to the SSSC's Clerk via the Department's liaison section.
6. When we pass the briefing notes to the SSSC, we consider that it would be helpful to offer additionally a note setting out briefly from a DSS perspective, the key elements in the Government's decision to derisk the project, drop the BPC and move to paying

nearly all benefits by ACT. I have attached a note on these lines which, if you agree, will be passed to the SSSC when we provide them with the briefing notes. The note has been seen by DTI colleagues; and draws on text already agreed with them and HMT.

7. The original briefing notes were requested in January 1999. It would seem prudent to explain the reason for the delay, namely, the sensitivity and timetable of the various negotiations. (ICL and the Post Office completed their negotiations last week and have signed a contract)

Next action

8. If you are content with the above, the briefing notes will be sent to the SSSC and the committee will be advised of the confidential nature of the BPC briefing note etc.

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Note on the usage of ACT in the payment of benefits and the research that has been carried out in this area.

1. The Government announced on 24 May 1999 that the DSS will begin the process of making all benefit payments from 2003 via ACT and bank. The process will be completed in 2005. The main reasons for this are:
 - the huge savings to the welfare bill this will bring – saving hundreds of millions of pounds in administration each year, if everyone was paid by ACT;
 - the potentially wider choice this could bring people, if their benefit cash could be accessed via banks and ATMs, Post Offices and other places that they might find convenient (as is now technically possible);
 - the support this could give to broader 'welfare to work' principles and policies, by aligning more closely people's financial management arrangements, whether or not they are in or out of work (and minimising separate 'benefit' and 'in work' cultures).
2. Bank accounts can be seen as a first rung on the ladder: a gateway to other products and services. At the very broadest level, DSS is keen to support Ministers' objectives of tackling poverty, encouraging personal responsibility and maintaining connections with the world of work. In addition, making benefit payments via ACT fits in with the government's long-term ambition to conduct as many as possible of its financial transactions with citizens via standard systems people use anyway.

Research evidence

Extent and key features of financial exclusion

3. Elaine Kempson's work for the Joseph Rowntree Foundation (Kempson and Whyley, 1999) demonstrates that while access to financial products and services has been expanding over the past few decades, the spread has not been even. Some households (estimated at around 7%) have no financial products at all, while many more (up to 20%) have only one or

two. These households tend to be concentrated in certain geographic areas (especially in the 50 most deprived districts and boroughs in England and Wales, and those living in Scotland) and among lower income groups. Households headed by a single parent are more likely to be financially excluded than those headed by a couple. Adults in the oldest and youngest age bands are least likely to have financial products (but often for different reasons). Benefit recipients are particularly likely to be financially excluded. Analysis has demonstrated that this is not just because they have low incomes – suggesting that there is something about the benefit system itself that encourages a cash culture.

4. Where people have access to only one financial product, this is usually a current account with either a bank or a building society. Estimates of the proportion of British adults with a bank account vary from 80-90%. Our best estimate (based on data from the Family Resources Survey) of the proportion of benefit recipients with accounts suitable for ACT is 80%, although this proportion varies between individual benefits.
5. Much of the analysis of financial exclusion has been at household level. It is also important to consider access to products *within* households. A number of studies indicate that women have less access to and control over financial products than men (see, for example, Goode *et al.*, 1998). A qualitative study into the financial arrangements of 35 couples on Jobseeker's Allowance or Income Support has recently been commissioned by DSS and will shed further light on this issue. It is expected that the research findings will be published by the end of this year.
6. A key finding from Kempson and Whyley's work is that there is a *dynamic* to financial exclusion, with more people on the margins of exclusion than are currently excluded. While some currently excluded groups may never have engaged with financial products and services, others have done so in the past. For example, around a third of those who do not have a current account have had one in the past but closed it down. Closing down an account is associated with key life-stages, especially those associated with a loss in income: losing a job, retirement and relationship breakdown. On the other hand, some of those who do not currently have a bank account yet

are likely to have one in the future (Kempson & Whyley, 1998). There are also likely to be changes over time and generations as people become more comfortable with new technologies.

7. We cannot assume that all those who have a current account and/or other financial products are 'financially included'. A very small proportion (fewer than one in twenty) of those with bank accounts do not use them at all. Many others do not have access to the full range of services and features that they might like.

Characteristics of those excluded:

8. Most of the available evidence on the characteristics associated with financial exclusion relates to bank accounts, but there are also studies focusing on particular types of insurance (e.g. access to home contents insurance) and on pension provision.
9. The study by Kempson and Whyley for the British Bankers Association (Kempson & Whyley, 1998) identified four key sub-groups amongst those without bank accounts. These may require different policy responses.
 - the 'opted outs' (around 30% of those without current accounts) who have had an account in the past but have opted out (due to unemployment, etc) This is likely to be a temporary state (although the longer the spell of unemployment, the less likely they are to return to the financial mainstream) and the individuals concerned do have financial skills.
 - the 'not yet's' (8%) don't have one yet but expect to do so in future: e.g. when older, when get job.
 - 'always outs' (60% - but likely to be a higher proportion of benefit recipients). These are divided between the older, cash-only generation (25%) and the more chronically socially excluded (35%).
 - very few have actually been refused an account (2% of those without one).

10. The notion of exclusion is therefore complex: few people are literally turned down by banks, but a larger number of people do not have products because they feel there are no suitable ones available to them and/or they are too expensive. The research evidence suggests that those without bank/building society accounts do consider themselves in need of at least some financial services. Some already use other people's accounts (e.g. getting a friend to write a cheque) or resort to un-regulated products. There appears to be considerable unmet need for financial products (Kempson & Whyley, 1998).

Specific issues with respect to benefit recipients

11. Around 80% of benefit recipients already have an account suitable for receiving benefit payments by ACT¹. At present 33% of benefit recipients elect to have their benefit paid by ACT, this is a large increase on the figure of 16% in 1993. For some benefits the election of ACT as the preferred method of payment has increased significantly. In the case of Child Benefit 54% of new customers elect to have their benefit paid by ACT and for Retirement Pensions the figure has now risen to 49% whereas the figure for Income Support is 11%.
12. Combining the findings from Kempson & Whyley's work for the British Bankers Association (Kempson & Whyley, 1998b) with analysis of Family Resources Survey data we can estimate that:
 - 33% of benefit recipients already elect to be paid by ACT
 - a further 47% already have an account and are therefore 'in the market'
 - around 13% don't have an account (these are the 'always outs' and those refused accounts)
 - some 7% of benefit recipients overall (around a third of those without accounts) *may* be in the market for opening accounts and having benefit paid by ACT (they are the 'not yet's' and the 'opted outs')

¹ i.e. current account or other account with a bank or building society.

Reasons for not having bank accounts

13. *Attitudes Towards Methods of Paying Benefit* (Thomas and Pettigrew, 1999) was published in April 99 as part of the Department of Social Security's in-house research series. The research investigated claimants' views of benefit payment methods and frequencies of payment; and attitudes towards places of delivery, specifically banks, building societies and post offices. Methods of budgeting were also explored. Focus groups and depth interviews were carried out in three areas with claimants receiving a range of benefits.
14. The main findings of the study were:
 - In general, those that received benefits in cash tended to budget in cash, often on a weekly basis. Those who were better off or in employment were more likely to budget using banks or building societies, often on a monthly basis.
 - People saw the advantage of order books as providing a guaranteed amount of money on a guaranteed date.
 - Automated Credit Transfer (ACT) was seen to have advantages for security and anonymity. But there were a number of reasons why people did not opt to use this method of receiving benefits. These included the perceived cost of running a bank account, concerns about reliability and, in rural areas, the closure of local branches of banks, and they were concerned that this would mean they would only be able to withdraw whole pounds. Some claimants did not want their money put into their bank account because their accounts were overdrawn and the benefit would be used by the bank to cover the overdraft.
 - Some people suggested paying benefits through supermarkets, train stations, petrol stations and housing estate offices. Others suggested they would prefer ACT payments through a building society or post office account rather than a bank account. There was also support for a plastic benefit card which could be 'charged up' at a post office or Jobcentre and the money withdrawn through a cash machine.

15. The study also noted that the location of and distance to a bank or Post Office were also issues which claimants considered when they selected their method of payment. There was a tendency to use whichever was closest to their home.

Research gaps

16. We have some indications about why those with bank accounts do not have benefits paid in, but this is a large group and the issue could be explored further.
17. People's reactions to ACT are likely to depend on the precise details of proposed arrangements: e.g. what sort of other help/encouragement is offered to set up a bank account, transitional issues.

DSS
July 1999

References

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- Thomas, A and Pettigrew N (1999) *Attitudes towards methods of paying benefits*, DSS In-house Report No 51, London: DSS

**THIS INFORMATION IS PROVIDED TO THE SOCIAL
SECURITY SELECT COMMITTEE IN CONFIDENCE.**

Benefit Payment Card (BPC): Security Measures

Introduction

1. The BPC was designed to help ensure the secure payment of benefits, cutting the estimated remaining £100 million fraud endemic in current paper based systems.
2. The card itself had various security features these include:
 - the customers title and full name were excluded so that any one finding the card had no knowledge as to the first name and sex of the card holder;
 - one of the words on the card was deliberately misspelt so that if the word was spelt correctly this would expose the card as a counterfeit.
3. In addition the actual obtaining of the card by the customer from the Post Office (PO) involved security measures:
 - the customer had to produce a current and valid Pick Up Notice (PUN) in order to pick up the card from the PO;
 - in addition they also had to produce identification which the PO deem appropriate. There is a list of acceptable identification, which the PO holds.

Extended Verification Procedures

4. There were also security arrangements in place called Extended Verification Procedures (EVP). EVP took place at the PO. It offered additional and stronger Cardholder Verification Methods associated with classes of customer or types of transaction known to be particularly vulnerable to fraudulent encashment. The application of EVP was invoked by one of three parties:
 - ICL Pathway ensured that the system invoked EVP in certain circumstances, for example on the first issue of a

Payment Card;

- DSS were able to select the criteria for the application of EVP (to a maximum of 8% of all benefit transactions) to protect high risk encashments, for example an encashment at a post office other than that nominated by the customer (known as foreign encashments);
- a PO counter clerk who was suspicious of the encashment taking place in front of them.

5. The following circumstances could also invoke the EVP process:

- an encashment which required payment card details to be keyed as a result of the failure to read a card;
- an encashment which required manual procedures to be used due to a failure of the card payment system.

Operation of EVP

6. The PO clerk had access via the system to certain information only a genuine customer would be expected to know. Questions for the clerk to ask the customer were generated from this information. The questions and answers were taken from three pieces of information: the customer's first name, numeric date of birth and month of birth.
7. The customer could be asked up to three questions, depending on whether correct answers were given. If the customer answered two questions incorrectly, payment was refused and the customer was advised to contact their local Benefits Agency office.

DSS
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**POST OFFICE AUTOMATION AND THE PLANNED MOVE TO
PAYING BENEFITS BY AUTOMATIC CREDIT TRANSFER
INTO BANK ACCOUNTS: THE RESHAPED "HORIZON"
PROJECT
SUMMARY OF THE GOVERNMENT'S PLANNED WAY
FORWARD**

1. The "Horizon" programme, as originally conceived, was a huge IT project let under PFI principles and worth £1 billion at the time the contracts were signed in May 1995. Under the programme, Post Office Counters Ltd (POCL) and DSS (Benefits Agency) jointly contracted with ICL to achieve two key objectives:
 - the automation of the Post Office network; and
 - the replacement of current paper-based methods of benefit payment (Order Books and Girocheques), which would, when up and running, secure an estimated £100 million per annum fraud savings.
2. Although the objectives of the programme remain valid, the project itself has turned out to be over ambitious and was three years behind schedule. Following very careful consideration by all the Ministers involved; and lengthy and protracted negotiations between all parties, the project has been significantly revised.
3. The Government's objectives have been to preserve the two key objectives of the original project and, given the delays, find the best route forward:
 - secure automation of the Post Office as early possible to support the future business of the Post Office as envisaged in the recently announced White Paper;
 - to assure a safe, convenient, more modern and efficient way of paying benefits consistent with what people want.

The Government is also keen to learn the lessons from the large IT projects, such as Horizon, which it has inherited from the last administration. A major concern has been to de-risk the project, both in the interests of people receiving benefit, many of whom are among our most vulnerable citizens, both financially and in other ways; and in the interests of tax payers who pay for the welfare system.

4. On 24 May 1999 the Government announced a new way forward, which will achieve these objectives; and will also help support this Government's determination to bring wider access to mainstream banking and financial services for those people currently excluded, and to promote a modern Post Office, able to continue to offer services through a national network of outlets but also better positioned to compete for business in the market place.
5. The key elements of the planned way forward are that:
 - the plans to automate the Post Office will go ahead, and should be completed by 2001;
 - the Benefit Payment Card has been dropped. This will simplify the project and help assure Post Office automation. Given the delays to the project, the Benefit Payment Card technology was fast becoming outdated;
 - instead, nearly all benefit payments will be made via ACT (Automatic Credit Transfer) into bank accounts starting in 2003 and completing by 2005. In the period up to 2003, arrangements for benefit payments will continue as now, either at Post Offices or into bank accounts (34% of customers are paid by ACT into bank accounts);
 - it is the Government's intention that people who wish to continue to collect their cash at Post Offices will continue to be able to do so, before and after the change in 2003. The intention is that the Post Office will introduce suitable banking technology and commercial arrangements with banks to allow this to happen;
 - for those relatively few people for whom a bank account may remain an unsuitable option, special arrangements will be made.
6. The intervening period between 2001 and 2003 will allow the Post Office and DSS Benefits Agency to plan the transition smoothly and ensure that no benefit recipient is put at a financial disadvantage.

Background information:

The current paper-based methods of paying benefits have changed little since the 1940's and are very expensive; costs per transaction are:

- Girocheque/Order Book foil: 79p and 49p respectively
- Benefit Payment Card would have been 67p
- ACT around 1p

An ever-increasing number of people are opting to be paid their benefit via ACT and bank accounts. Currently 34% of people choose to be paid this way. Around

50% of new Child Benefit and Retirement Pensioners are opting for ACT payments.

The move to ACT is expected to save the welfare budget £400M per year once the transition to ACT is complete.