

Initial Complaint Review and Mediation Scheme

Suspense Account – second response

Executive summary

Second Sight has asked whether the release of credits from Post Office's client suspense accounts could have disadvantaged Subpostmasters. The purpose of this paper is to set out how Post Office's suspense accounts operate and to provide some examples of their operation in practice. On the basis of this review, we do not consider that branches can be disadvantaged by the release of credits from client suspense accounts.

Second Sight's question

Second Sight originally raised the following question of Post Office:

"Could any SPMRs have been charged by Post Office Ltd for amounts that become incorporated in suspense account balances that were subsequently taken into profit by POL or any of its Counterparty Companies, or that remain as credit balances on the balance sheet of POL or any of its Counterparty Companies?"

Post Office responded to this question in its paper of 29 July 2014. Second Sight has now raised further questions on this subject at a series of Working Group meetings. These questions have focused on whether a credit in a suspense account operated by Post Office could have been taken into profit when it should have been properly credited to a branch.

Suspense accounts process

Suspense accounts are accounting tools for temporarily holding differences in payments moving between Post Office and its clients, where the client and Post Office's view of what is payable or receivable are not the same. The accounts are typically used to manage differences on the transfer of "customer monies" to and from clients (such as bank account deposits). Some differences on commission payments have also been handled through them. This is typically where the payment for services due to a client from Post Office was a share of the commission / premium paid by a customer (for example, commission share on travel insurance policies sold). Differences on commission do not affect branches and so have not been considered in this paper.

The operation of Post Office's suspense accounts is part of a wider range of reconciliation processes used to identify, assess and correct discrepancies with clients. Before addressing the question posed by Second Sight, we first set out some background context on Post Office's accounting systems.

In branches, transactions with customers may be performed directly on Horizon or on separate point of sale devices (eg. ATM, Camelot lottery terminal, etc). Where a transaction is conducted on separate equipment that transaction later needs to be recorded on Horizon, either manually by branch staff or through an automated process.

Transactions conducted directly on Horizon lead to accounting postings in Post Office's central finance systems ("POLSAP"). The postings go to "vendor" (client creditor and client debtor) accounts, with a

double entry in method of payment accounts such as card, cheque or cash. Payments are made to clients from their related vendor accounts.

For transactions not conducted directly in Horizon, Post Office operates matching accounts. It receives two sets of double entry feeds to POLSAP. There is a feed from the client system (double entry to vendor and matching account) and there is a feed from Horizon (double entry to matching account and method of payment).

Differences in the transaction records in different data sources / matching accounts are investigated by Post Office. From the data in POLSAP, Post Office will be able to identify the branch and, most of the time, the individual transaction or group of transactions that are the source of the discrepancy. Best endeavours are made to investigate discrepancies in order to determine whether any difference belongs to, or arises from the actions of, a client, a branch or a customer.

If the root cause of a discrepancy can be determined, Post Office takes action to resolve the difference so that correct accounting is completed. This could be by way of a number of different actions including making payment to or taking payment from a customer / client, issuing a credit or debit Transaction Correction ("TC") to a branch or absorbing the credit / loss.

There are nonetheless situations where there is a difference between Post Office and the client (particularly where the client view of transactions is based on paperwork that needs to be taken and remitted from a branch such as paying in slips). These are investigated but, despite best endeavours, in some cases neither Post Office, the client nor the branch are able to determine the identity of the customer who performed the transaction in question or the specifics of the transaction. For example, Post Office may not be able to determine the details of the bank account to be credited. In such situations, and following enquiries with branches, unresolved differences are moved to Post Office suspense accounts.

However, the above process is disconnected from the process undertaken to maintain branch accounting records and therefore the release of credits from suspense will not cause any detriment.

Credit processes

Second Sight has asked Post Office to focus on credits in its suspense accounts. In relation to branch accounting, a credit to a suspense account can occur in two ways:

- Transactions initiated in a branch which result in Post Office paying money to a client (eg. a customer pays a utility bill at a branch and Post Office pays a sum to the value of the bill to the utility company client).

A credit will occur when the records on Horizon (as generated by a branch) show that a **greater** amount is due to the client than the client's records show, leading to a client not recognising the extra amount. If the discrepancy over the extra amount is not resolved in short order, it may then be moved to suspense as a credit.

- Transactions initiated in a branch which result in Post Office receiving money from a client (eg. where a customer withdraws cash from their bank account at a branch and the client bank then reimburses Post Office to the value of the withdrawal).

A credit will occur when the records on Horizon (as generated by a branch) show that a smaller amount is due from the client than the client's records show, leading to the client paying an extra amount to Post Office which Post Office does not consider to be due. If the discrepancy over the extra amount is not resolved in short order, it may then be moved to suspense as a credit.

Why are monies placed in suspense?

As a result of the above processes, unresolved discrepancies are likely to be ultimately due to Post Office clients or customers and not a branch. Post Office therefore holds these discrepancies in its suspense accounts to give time for customers and clients to put forward more information to explain what has happened. If no new information is provided then after 3 years values held in suspense are released to Post Office's P&L.

Suspense account data

Second Sight has requested details of the credits released from Post Office's suspense accounts to profit for the period 2008 to 2013. As there is a 3 year retention period, no amounts have yet been released for years 2012 / 13 and 2013 / 14. In summary, the total gross credits released from suspense to P&L (excluding commission / payment of services differences) in relation to years 2007 / 8 onwards are:

Year released to P&L	£'000
2014 / 15 (year to date)	8
2013 / 14	104
2012 / 13	234
2011 / 12	207
2010 / 11	612

These releases should be considered within the overall context of Post Office performing around 2.5 billion transactions per annum, with a combined value in the order of £60bn. The amount of unresolved credits that end up in Post Office's P&L is therefore less than 0.001% of all transactions (by value) undertaken by branches.

Individual examples

Above we have explained the broad principles behind the operation of Post Office's suspense accounts, set out the general rules that ensure that Subpostmasters are not disadvantaged and shown that the suspense accounts affect only a tiny proportion of the transactions conducted by branches.

The exact implementation of these rules and principles varies from product to product so it is not possible to describe a universal process map for how this happens. However, to help show the operation of the suspense accounts, we have set out below a description of the most typical releases of unresolved credits from suspense to P&L in the last few years.

Banking deposits

A number of the releases relate to banking deposits of cash by customers. In particular, they relate to situations where a paying-in slip (as opposed to a chip and pin system) is required from a customer in order to complete the deposit.

As part of the banking process, the paying-in slip is sent to a banking intermediary, IPSL, which consolidates and scans the slips received in order to provide reports to each client bank of amounts due to them. In the event that a paying-in slip is not sent to, or is mislaid by, IPSL, the amount the client bank considers due to them will be less than the amount recorded on Horizon – creating a credit.

When such a discrepancy arises, formal enquiries are made of the branches involved as it is clear which branches are impacted. These enquiries are to try to determine the identity of the customer – this can sometimes be as simple as the branch finding the missing paying-in slip in the branch. However, where Post Office and the client cannot identify the customer behind a transaction, the difference is transferred to suspense.

As long as the branch has conducted the underlying deposit transaction properly (ie. recorded the transaction accurately on Horizon and taken the correct amount of cash from the customer), the loss of slip will not disadvantage the branch.

A customer may be disadvantaged if they do not notice the missing deposit. However, if a customer does make a complaint to their bank or to Post Office then that will give Post Office the missing link to resolve the suspense item and make the supported payment to the relevant bank.

It has been known for complaints to be made direct to banks and for the bank to then credit the customer's account without updating Post Office. In this instance, the bank is disadvantaged but only due to its failure to come back to Post Office with the missing information.

ATMs

Some of the releases relate to the dispensing of cash from ATMs in branches. This occurs where the figures reported by the ATM provider to Post Office for withdrawals from their ATMs exceed the amounts reported by branches through Horizon. In effect, this means that Post Office considers that it is due less from the ATM provider than the ATM provider actually pays to Post Office in respect of those ATM withdrawals. This generates a credit difference in Post Office's favour.

The credit difference reflects either an understatement of the amount dispensed as recorded on Horizon by the branch or an overstatement by the ATM provider due to its being unaware of retracted notes in the ATM. "Retracts" are notes that were presented to a customer by the ATM but were not taken by the customer and after a short time are pulled back into a retracts tray inside the ATM.

In each case, branch by branch, Post Office would contact the affected branch to explain that the ATM provider had reported a different dispensed value to the one recorded by the branch in Horizon. If those enquiries led to the identification of an error by the branch (ie. an inaccuracy in their balancing of the ATM or the recording of retracts) then the credit may be passed to the branch by way of a TC to correct the accounting error in branch.

If, however, the enquiries did not reveal an issue in branch then the credit would be moved into suspense. This situation inherently means that the branch believes that the amount of cash physically in its ATM reflects the amount of cash recorded as being dispensed by the ATM and that the branch has suffered no loss. The Subpostmaster is therefore not disadvantaged by moving the credit into suspense.

Epay

Releases of credits to P&L sometimes occur in relation to Epay transactions. Epay transactions are where customers look to pay, amongst other things, utility bills in branches. To identify the client / customer, the customer will bring a "token" into the branch. The token will be a magstripe card or a paper bill with a barcode. The card or barcode is scanned in order to capture the transaction details.

Differences arise when customers come into branches with tokens for transactions that cannot be processed in Post Office branches or where the token is unreadable (eg. due to damage to the magnetic strip on the card).

The branch may, in good faith, have attempted a workaround by manually keying in the details of the token code in order to conduct a manual payment. If the transaction was not actually valid to be conducted in a branch or if the token code was mis-keyed by the branch then, although Horizon will have accepted it (and the branch will have taken payment from the customer), the client will reject the payment as it will not recognise the transaction details. This generates a credit in Post Office's favour.

Post Office would make enquiries with the branch to try to identify the customer / transaction details but if no further information can be obtained as to the customer or the intended payee then Post Office transfers the amount to suspense.

This type of error will not disadvantage a branch. As long as the branch has recorded the transaction value accurately on Horizon and taken payment to the corresponding value from the customer, the branch will be holding sufficient payment to cover the transaction recorded on Horizon and therefore the branch accounts will balance.

Payout

Payout clients prefund Post Office in order to then pay customers in branch for the encashment of payout vouchers. Payout schemes are usually for defined periods related to specific events (eg. refunds to consumers for unexpected charges when voting by phone in a TV show).

At the end of a scheme, Post Office pays any residue on the prefunded account back to the client. Such a residue would arise because not all the expected customers came into branch to encash their vouchers.

Sometimes clients confirm to Post Office that they do not expect the residue to be paid back to them. Post Office therefore transfers the credits into suspense. This item therefore had no effect on branch accounting and no Subpostmaster will be disadvantaged by moving the credit to suspense.

Paystation

Releases of credits can occur in relation to transactions on Paystation terminals used for certain bill and top-up payments.

The accounting process for PayStation is that the Paystation terminals transmit a data file to Ingenico who tell Post Office what the transaction totals were for a particular branch on a particular day. A Transaction Acknowledgement ("TA") is then sent to the branch the next day to update the branch accounts with details of the previous day's transactions.

There have been periods when there are connectivity issues downstream from the PayStation terminal in a branch. In that event it can be necessary to refer to a printed batch summaries from the PayStation terminal to determine the values transacted and to whom they relate. Without a TA, the branch would have a cash surplus as it needs the TA to update its accounts (ie. the branch will have taken cash from customers for transactions but without the TA the transactions would not have been recorded in the branch accounts).

Based on the printed summary, Post Office would send a manual TC to the branch to balance their accounts (ie. to inject the missing transactions) however this TC may not include full details of the client / customers. Without the client / customer details, when Post Office tries to pass the bill payments to Ingenico, Ingenico may reject them, leaving Post Office with a credit.

If, following enquiries with Ingenico and the branch, the customers behind the transactions cannot be identified then Post Office transfers the value of the credit into suspense. If later a customer complains that their bill has not been paid, then the credit will be moved to Ingenico.

As with the examples above, as long as the branch has taken the correct amount of payment from customers at the point of transaction, the branch will be holding sufficient payment to cover the transactions recorded on Horizon and therefore the branch accounts will balance. The movement of a credit to suspense will therefore not disadvantage a Subpostmaster.

30 January 2015