

PATHWAY GROUP LIMITED

FINANCE DIRECTOR'S REPORT

BOARD MEETING - 21 FEBRUARY 1996



1. INTRODUCTION

Activity on customer-facing issues has been at a high level since the last Board meeting, including some weekend negotiating sessions.

Many issues remain on the table, and - in view of Tony Oppenheim's current indisposition - this report merely summarises the critical areas.

2. BUSINESS CASE

Further updating of the business case model has been taking place, and every effort will be made to courier the latest version to Board members in advance of the meeting.

3. CUSTOMER/CONTRACT ISSUES

Customer negotiations have centred on four separate platforms:-

- Core Negotiating Team (CNT)
- Fraud/Risk Transfer Negotiations
- Charging Structure
- Schedules to Contract

Significant progress has been made, particularly with respect to the CNT and charging structure.

There are still many open items in the fraud and risk areas. Appendix A lists the most serious risks (categories A and B1), and appendix B is the Pathway paper outlining its stance on fraud liability issues. The general Risk Register process has been far from satisfactory.

In spite of the long overdue progress, there are several gaps which need to be addressed. These relate to:-

- The clarification of performance penalty rules and levels
- Issue of a defined programme timetable
- Resolution of conflicts between contract requirements and Pathway's solution

The various forms of performance penalty are discussed further in Section 4.

We have not received any indications that the ITT date of 29 February will slip any further, but much remains to be done within the ever-shortening time available. If the date does slip, it is unlikely to be by very much.

The time to respond to the ITT is likely to be a sharp 3 to 4 weeks, and award is still hoped to be achieved in late May.

We have been told that there will be a 3 month period, post-award, for negotiation of detailed contractual points such as service requirements and acceptance criteria. A prudent view is that this will take more than 3 months, but this would then conflict with the Programme's objective to carry out user acceptance trials in July/August and live trials immediately thereafter.

4. AREAS OF EXPOSURE

From a shareholder's perspective, the main areas of exposure are as follows:-

- Default liability - of up to £750 million - in the event of catastrophic system failure. Business interruption insurance to mitigate this risk is currently being investigated.
- Performance penalties under service level agreements are as yet unclear in magnitude.
- Costs of curing system faults that cannot be pushed back to sub-contractors. In practice, this is likely to be limited to software, and should be relatively containable.
- Delays in revenue build-up. This could be significant, and the business model has been made more prudent in this area.
- Surety for the banks, with regard to infrastructure. The notion of limited recourse liability will not fly and full recourse arrangements will be necessary. Our proposed financial structure still has a category A risk against it.
- Fraud risk transfer. See paper at appendix B.

All of the above items are separate and potentially cumulative, resulting in increased cash risk to Pathway.

5. PENSION ARRANGEMENTS

Appendix C summarises proposed pension arrangements for staff from shareholder companies whose employment will be transferred to Pathway on award.

The proposal mirrors the Camelot solution, with staff from shareholder companies retaining membership of their 'home' pension schemes. This will involve Pathway and the shareholder companies entering into a deed of participation. Some formalities are required to be completed vis a vis the Inland Revenue, and the action plan in the appendix allows for completion of these activities before the anticipated date of award.

6. BID COSTS

Bid costs for the 15 month period to June 1996 are still forecast at close to £9 million. Some of the costs of development resources have been clarified since the last meeting. A major cost saving through the use of Oracle for CMS/PMS development - at Oracle's risk - has released enough funds from the bid budget to cover the costs of establishing an in-house European Development and Support Centre (EDSC) to address short-term development work, knowledge transfer from Escher and prepare for ongoing systems support obligations.

Development timescales and the resourcing of test and integration phases are still critical issues.

Shareholder representatives should refer to the Chief Accountant's report, which covers bid costs in more detail. Their attention is particularly drawn to the need to formalise an amendment to the Bid Cost Sharing Agreement.

GRO

p.p. A E Oppenheim
16 February 1996

Appendix A

RISKS

There are two A category and eight category B1 risks remaining on the Risk Register.

- 1) Category A risks could potentially result in Pathway not being invited to tender. They relate to:
 - The financial structure and funding arrangements of Pathway.
 - The commercial acceptance of fraud due to co-ordinated attacks on the card. We have stated that we will accept such fraud; this risk is likely to be reduced in severity or cleared.
- 2) Category B1 risks will be assessed to have a financial impact of greater than £5 million per annum. They are:
 - Riposte; concerns regarding the scalability, reliability, performance. Several responses have been produced, and much discussion. The risk was originally A category. It is will not be cleared.
 - Escher; concern regarding the degree of dependence on Escher and a need to understand the contractual arrangements. This will not be cleared or reduced.
 - Foreign encashments; concerns regarding the sensitivity of charges to increase in the level. This risk will be reduced in severity, but not cleared.
 - Central sites location; concern over the proximity of Wigan and Bootle. This is likely to be cleared.
 - Transaction times; concern over the estimated times for benefit transaction. This is likely to be reduced in severity.
 - Card technology; concern over the potential of mass compromise of cards resulting in loss of credibility in the system. We proposed a change to IC Protected Memory Card (as a higher security option to Watermark magnetic card). This was rejected. The reasons for this rejection have been requested strongly.
 - In addition to the card technology risk, 9 other security risks were raised on 18/1/96; 3 of which were B1. All have been responded to. No feedback has been received.

There are still 19 risks for which no final (or in the case of security risks, even initial) feedback has been received. This situation at this late stage has been strongly presented to the CNT as unreasonable.

GRO

Appendix B

Pathway

PATHWAY LIABILITY PLANS

Ref: Liab2.doc
Version 2.0
Date: 09/02/96

Document Title:

PATHWAY LIABILITY PLANS - ISSUES

Document Type:

Fraud Liability

Abstract:

This document relates to the Fraud Liability Meeting held at Terminal House 03/02/96 and provides a working document with respect to the fraud liability Pathway are willing to accept.

Distribution:

Management Team,
BA/POCL: David Miller

Document Status:

Issued

Document Predecessor:

Pathway Liability Plans Version 2.0, 25/01/96

Associated Documents:

Author:

G P King, M H Bennett, A E Oppenheim

Approval Authority:

M H Bennett, Director Quality and Risk Management

Signature/Date:

GRO

9/2/96

Comments To:

Comments By:

Pathway

PATHWAY LIABILITY PLANS

Ref: Liab2.doc
Version 2.0
Date: 09/02/96

0.1 CONTENT

0.1.1 DOCUMENT HISTORY

Version	Date	Reason
1.0	05/02/96	Draft
1.1	08/02/96	Revision
1.2	08/02/96	Revision
2.0	09/02/96	Issued

0.1.2 ASSOCIATED DOCUMENTS

Version	Date	Title	Source
2.0	25/01/96	Pathway Liability Plans	Pathway

0.1.3 ABBREVIATIONS

BA	Benefits Agency
CVM	Cardholder Verification Method
HMG	Her Majesty's Government
IOP	Instrument of Payment
PFI	Private Finance Initiative
POCL	Post Office Counters Ltd
SLA	Service Level Agreement

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1.0 INTRODUCTION

This document sets out two proposed overall approaches for best managing fraud risk among the three parties.

The first approach rests on a framework for individual incentives such that each party is charged with making the value for money trade off decisions which it is best placed to make.

The second approach adopts best practice from the insurance market and puts the onus on all three parties to periodically agree optimum procedures for all categories of fraud risk such that the total be minimised within the bounds of best value for money. Each party will be required to bear a share of the working risk consistent with their relative ability to manage (which would need to be agreed).

We identify and acknowledge some of the key constraints and limitations of the environment in which each party is operating. We put forward specific approaches to mitigating each of them by reference to the framework of incentives and other suggested methods.

These take the proposition into the allocation of risk under the different fraud and operational scenarios.

2.0 OVERALL APPROACH FOR BEST MANAGING FRAUD RISK

Principles:

The subject is encashment fraud, not entitlement fraud.

He who can best manage a given risk should own that risk.

The system will operate according to the information provided to it through one of the agreed feeder systems (CAPS or CMS): it cannot be expected to "know" facts which have not been so provided.

The system has been designed to a set of external constraints (see below) which make it dependent to some degree (which can be varied) on the customer interactions of both BA and POCL staff.

If there is a boundary condition where management is transferred from one party to another within the end-to-end service, a means needs to be found which enables both parties to contribute in its own way to minimising that risk.

Incentives should align with risk ownership such that trade offs can be made as to the value of fraud versus the value of other factors, such as counter transaction time (cost and customer satisfaction) and social need.

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Onus of proof should reflect both cost and balance of probability such that overall costs of obtaining that proof is minimised. Cost of retrieval of receipt should be borne by the party owning a given fraud risk.

BA and POCL staff to follow agreed procedures within reasonable bounds.

It should be acknowledged that there is such a category as "no fault", where all parties have performed reasonably and the system has worked correctly but nonetheless fraud has taken place.

Pathway will make available to BA trend analysis, exception profiles (e.g. Repeat Lost /Stolen cards), on a regular basis as part of a partnership approach to Fraud Risk Management.

Pathway will enable security audits by BA experts on both a regular and exception basis. This will provide certification as to the correct operation of the service within the Pathway boundaries.

3.0 CONSTRAINTS AND LIMITATIONS**3.1 Contractor**

The benefit encashment service can be characterised by two distinct elements:

- that which ensures the right payment (as instructed by CAPS) goes to the right card and
- that which ensures that the right person is associated with that card

The first is entirely under the Contractor management and should be auditable and subject to certification and penalties if found to be deficient.

The second is shared. Even with the best card technology there is a reliance on verification procedures to ensure that the card is associated with the right person. Verification screens will minimise the dependency on POCL but will increase counter transaction time. Not using verification screens places a higher dependency on POCL but is quicker.

In addition the Contractor relies on verification by BA staff to ensure that customer statements are borne out by systems evidence before assuming that a non-entitled party has secured the benefit in question and subsequently authorising an emergency payment.

Finally, the Contractor's ability to take on fraud risk in areas which it cannot manage on its own is inhibited by lack of data on the current fraud losses and the absence of a close analogy which can be used to assess the value of such risk transfer.

3.2 POCL

Constraints include:

- transaction and queue times, particularly at workload peaks

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- customer acceptance of verification questions
 - ability to transfer risk to agents
 - difficulty in assessing the value of risk transfer against a backdrop of low exposure under current rules:

3.3 BA

Constraints include:

- social needs (casual agents, emergency payments, temporary tokens, etc.)
- inability today to trade off operational costs against fraud savings

4.0 APPROACH ONE - INCENTIVES

The challenge is to set appropriate incentives on each party which when taken together will result in the overall best value for money balance between minimising the cost of fraud as compared with other costs.

It must be recognised that combating fraud does have a cost associated with it (see constraints below) and that such effort will be subject to the law of diminishing marginal returns. The objective should therefore be to optimise this balance.

The contractor should have the incentive to put in place and operate correctly all those elements of the service which fall within their exclusive control.

POCL or POCL's agent should have the incentive to carry out those procedures upon which the end-to-end service reasonably depends.

BA should have the choice as to whether to pay more for a more secure service with fraud indemnity by the contractor or accept the fraud risk but pay less in charges.

POCL should have the incentive to offer a more secure service to the BA at a competitive charge in order that its fraud exposure to higher risk transactions through failure to carry out counter procedures is reduced.

The contractor should have the incentive to make available information required by the BA to make these trade off decisions on a timely basis.

The BA should have the incentive to establish benefit rules with HMG which strike a reasonable balance between social need and the need to inhibit fraud. The obvious example is Casual Agents, but the same applies to smoothing the POCL workload across the days of the week such that more time can be taken on transactions without unduly extending queue times.

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5.0 APPROACH ONE - FRAUDULENT TRANSACTION MATRIX

Fraudulent Transaction Type	Genuine Card Available Yes/No	Card Authentication Method	Verification Screen Applied	Investigation	Signature Check Match Yes/No	Liability
Mass Counterfeiting of Cards	Yes	Pathway	N/A	Pathway	Yes/No	Pathway
Skimming	Yes	IC Card - Pathway	N/A	Pathway	N/A	Pathway
Skimming	Yes	Magnetic Stripe Card - POCL visual check of card to screen	N/A	BA/POCL	N/A	POCL
Attempted Dual Encashment/suspect one-off counterfeit	Yes	Pathway	No	BA - compare receipt to card signature	Yes	BA
Attempted Dual Encashment/suspect one-off counterfeit	Yes	Pathway	No	BA - compare receipt to card signature	No	POCL
Attempted Dual Encashment/suspect one-off counterfeit	Yes	Pathway	Yes	BA - compare receipt to card signature	Yes	Pathway
Attempted Dual Encashment/suspect one-off counterfeit card	Yes	Pathway	Yes	BA - compare receipt to card signature	No	Pathway

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5.0 Approach One - Fraudulent Transaction Matrix Cont.

Fraudulent Transaction Type	Genuine Card Available Yes/No	Card Authentication Method	Verification Screen Applied	Investigation	Signature Check Match Yes/No	Liability
Card Reported L/S Post Encashment	No	Pathway	No	BA - compare signature on receipt against a previous signature	Yes	BA
Card Reported L/S Post Encashment	No	Pathway	No	BA - compare signature on receipt against a previous signature	No	POCL
Card Reported L/S Post Encashment	No	Pathway	Yes	BA	Yes	Pathway
Card Reported L/S Post Encashment	No	Pathway	Yes	BA	No	Pathway
Altered Cards	As the card is not available it is not known whether the card has been altered, therefore the procedure will be as Card reported lost / stolen post encashment. However, should the card become available in the future the following will apply.					
Altered Card	Yes	Pathway	No	BA - examine card Alteration evident	Yes	POCL
Altered Card	Yes	Pathway	No	Alteration Evident	No	POCL
Altered Card	Yes	Pathway	Yes	N/A	N/A	Pathway
Card Issue	N/A	N/A	Yes	POCL	N/A	Pathway
Casual Agent - Card Holder	N/A	Pathway	Yes	BA	N/A	Pathway
Casual Agent - Card Holder	N/A	Pathway	No	BA	N/A	BA
Casual Agent - Non Card Holder	N/A	N/A	N/A	BA	N/A	BA

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PATHWAY LIABILITY PLANSRef: Liab2.doc
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Date: 09/02/96**6.0 APPROACH TWO - RESIDUAL RISK TRANSFER**

To reduce the complexity of fraud liability apportionment and ensure that all parties are incentivised to reduce the residual levels of fraud in the Benefit Encashment Service, Pathway offer for discussion an alternative approach.

Pathway propose that an independent assessment of the BES is carried out by a jointly appointed insurance broker in order to determine the level of "working risk", this may be defined as the level of fraud that can reasonably be expected to be experienced in relation to the overall operation of the system.

The expected working risk value would be apportioned fairly between all parties. The remaining risk for exception events is then transferred through fraud insurance, an estimated premium level would be £1m for each £50m of cover.

The performance of the system is reviewed on a regular basis i.e. annually. This has the benefit that good fraud prevention performance in year x will be experienced in that year and further reflected in reduced costs for risk transfer in year y.

The working fraud risk should be apportioned by independent evaluation and arbitration.

This approach has a number of benefits:

1. All parties have a quantified maximum fraud risk exposure.
2. All parties have an incentive to reduce the fraud risk.
3. Any party wishing to reduce the system security will accept the increased working risk exposure and the additional insurance premium.
4. Reducing the actual fraud levels will reduce the fraud transfer premiums.

This method of fraud liability apportionment removes internal conflict as any action taken by a party is quantifiable in terms of working risk and transfer premium. Therefore, the party responsible is able to be charged accordingly and assess the cost in advance of the intended action.

The result of the above proposal is a fraud apportionment and transfer method that:

- reduces internal conflict
- quantifies the maximum fraud exposure for each party
- incentives for all parties to reduce fraud
- allows the parties to concentrate on identifying and prosecuting fraudsters

This approach has the considerable benefit that the working risk is predictable, measurable and can therefore be budgeted and fraud prevention measures monitored more effectively.

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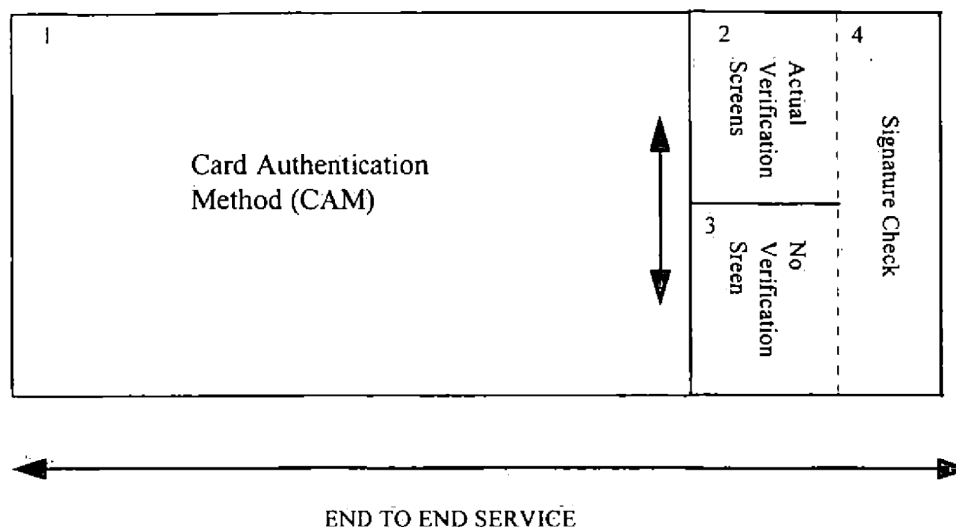
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1.0 PATHWAY / BA / POCL LIABILITY AREAS



1. This area represents the system authenticating the card as genuine. *Pathway accept all liability for the authentication of cards.*
2. This area represents those transactions that have been identified and agreed as **High Risk**; verification screens are automatically invoked at the time of encashment. *Pathway accept all liability for the verification of the cardholder in these instances.*

Pathway accept full liability for transactions with system invoked verification screens under the following conditions.

- All High Risk Transactions are agreed with the BA
- Questions are agreed with the BA/POCL

Type of Question	Information Source
First Name	BA
Maiden Name	BA
Date of Birth	BA
Address - House number and street	BA
Date of Last Payment	Pathway
Parental / sibling name	BA
Amount of Last Payment	Pathway
Place of Birth	BA

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Name of Spouse	BA
BA Office (not statutory)	BA
Nominated Post Office	BA/Pathway
Benefit Type(s)	BA/Pathway

- Pathway have flexibility to moderate up and down
- Periodic review of screen function through FRM MIS fraud trend analysis (say monthly)
- No unreasonable rejection of the right to invoke screens
- BA provide the information requested by Pathway
- Agreement is reached on counter SLA times.

Pathway will accept liability for all fraudulent transactions in agreed high risk transactions and in the following cases:

- Pathway fail to invoke the verification screens
- Verification screens fail
- Pathway choose not to invoke the verification screens

Pathway will not accept liability in instances where BA/POCL:

- Unreasonably withhold permission to invoke verification screens
- The required information is not supplied by CAPS
- Information relevant to fraudulent activity is not passed to Pathway in a timely manner.

Pathway will not accept the residual fraud risk resulting from transactions not involving verification screens and will charge a higher transaction charge for high risk transactions in line with the additional liability accepted.

3. Area three represents those transactions that do not automatically invoke verification screens i.e. are subject only to CAM and the visual signature check. Verification screens may be invoked on any transaction type or beneficiary at the request of the BA. This will extend average transaction time and Pathway will accept the fraud liability, subject to the conditions in 2 above.
 4. Area four represents the visual and tactile check that will be carried out by POCL counter staff. This will include checking the signature on the card against that produced on the receipt, and that the signature panel has not been tampered with. This will be referred to as the signature check for the remainder of this document. Pathway will provide an option for the counter staff to invoke the additional verification screens in times of doubt.
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There are two categories of signature check failure:

Incompatible Signatures: A disputed transaction occurs and the card is available. If the signature on the card is obviously different from that on the receipt, liability rests with POCL.

Should the card not be available the receipt signature will be required to be checked against a previous receipt or an agreed BA enrolment document; should the signatures be obviously different liability rests with POCL.

No Fault Scenario: A disputed transaction occurs and upon comparison of the card signature to the receipt signature, there is no difference that could reasonably be detected by the counter staff. These transactions must be treated as "No Fault" transactions. The liability for these transactions should remain with the BA as per 3 above:

- The transactions were not subject to additional verification screens as in 2 above.
- The POCL counter staff would not be reasonably expected to identify the signature as a forgery.

2.0 ENCASHMENT FRAUD SCENARIOS

This describes the scenarios discussed at the Fraud Liability Meeting 03/02/96. This section provides a realistic and workable solution to the liability issues discussed at the above meeting.

2.1 Counterfeit Cards

Pathway, on acceptance of the revised card proposal by the BA/POCL, will accept liability for fraud associated with large scale counterfeiting.

Pathway asserts that limited encashment fraud cannot be associated with counterfeiting and therefore if the card is unavailable for inspection the assumption must be that another type of fraud has taken place. Pathway proposes that an independent evaluation be carried out to substantiate this assertion before rollout.

2.2 Counterfeit Card / Attempted Dual Encashment

Scenario:

The customer, in possession of their genuine card, would report to the BA office that their benefit had already been encashed.

Assumptions:

A Counterfeit card has been used or it is an attempted dual encashment.

It is a BA responsibility to investigate the matter. Pathway will provide evidence that the system was working correctly at the time of encashment. The BA can request the receipt:

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1. The signature on the receipt is an acceptable match for that on the genuine card. In this case it is not a counterfeit card. Therefore this transaction falls into category 3 in the above diagram.

The signature on the receipt is different from that on the genuine card. If the card is agreed to be "impossible to counterfeit on a small scale (one-off)" then this falls into category 4 in the above diagram, and POCL are responsible.

Pathway are able to provide the option that the system will write to the Protected Memory IC Card identifying the last date of use, therefore identifying whether the card in the customers possession was used. This will allow BA investigators to confirm whether the card in the customers possession was used to obtain the benefit in question.

2.3 Card reported lost/stolen post encashment.

In the scenario where a card is reported lost/stolen post encashment the BA must investigate the matter in order to ascertain whether the customer has already collected the payment and subsequently reports the card lost or has genuinely lost the card.

The BA will investigate issue. Pathway undertake to provide evidence that the system was working correctly at the time of encashment and information with respect to the transaction in question. This information will be available through the PMS and CMS Help Desks. Pathway will accept liability if the information is not available. Liability will rest with the BA should Pathway fulfil the above conditions.

This is as agreed 03/02/96.

2.4 Altered Cards

Pathway have proposed a card that incorporates a tamper evident signature panel.

The circumstances in which an altered card would be used would mirror those for a card reported lost/stolen post encashment.

The card will not be available for inspection and therefore the situation described in 2.3 applies. However, should the card become available at a later date and an alteration be evident liability will rest with POCL.

Pathway will supply evidence that any alterations to the signature strip are identifiable.

3.0 CASUAL AGENT

Pathway will accept liability for Casual Agents in the following circumstances:

- The Casual Agent is known to the system and therefore is a card holder.

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- The Casual Agent presents their own card plus the card of the Beneficiary and the signed mandate receipt.

Pathway will, subject to the conditions established in section 2 and 3 accept liability for payment of benefit to the card holder present in the post office. Pathway declines to accept any liability for the authorisation of the casual agent by the beneficiary or for the transfer of funds from the casual agent to the beneficiary.

Pathway propose, in order to ensure that customers who do not have contact with other card holders may collect benefit in exceptional circumstances, that the BA authorise and enrol individuals of a responsible nature onto the system as "Permanent Casual Agents". These agents may be social workers, Home Helps or special interest groups such as Help the Aged etc. Pathway will work with the BA in securing the agreement of selected groups for enrolment onto the system.

3.1 Card Collection by an Agent

If the customer is unable to visit his nominated post office in person to collect his benefit card, it will be because he is suddenly, but hopefully transiently, indisposed, although still entitled to benefit and perhaps with authorisations already available to him. If the customer is not able to attend the nominated post office for some time then there is of course no point in attempting to collect a card for that very purpose and agent procedures should be, or have been invoked.

The Pathway solution handles this case in the following ways:

1. For existing customers replacing cards routinely:

If the customer is an existing card holder then he will call the CMS Help Desk explaining his position. The CMS Help Desk will extend the validity of his current card by a period to be agreed between BA/POCL and Pathway, and extend the date by which his new card can be collected to the same date. The old card remains available for casual agent encashments. New authorisations will carry a card expiry date which BES will use in place of the expiry date read from the card.

2. For existing customers replacing cards following card loss or damage:

If the card has been lost, stolen or damaged, as might be the case if the customer has been in an accident or suffered an assault - the CMS Help Desk will stop the current card and initiate a replacement cycle providing a longer time during which he may collect the card.

3. If the customer is not a cardholder, he should first call the CMS Help Desk.

He is newly enrolled into the benefit system - the CMS Help Desk will extend the date by which his new card can be collected.

In cases 2 and 3, the CMS Help Desk will advise the customer to call the BA office and arrange for a form of agent to be appointed, if collection of payments is necessary during the

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expected period of their indisposition and an agent is not already appointed. If the indisposition is protracted then a permanent agent should be authorised, and if necessary be equipped with a card. If only a short indisposition is anticipated then a casual agent can be identified. In either case if the customer is short of immediate funds and has authorisations available, then the agent without a card of his own can also be provided with a temporary token to collect these funds. The verification data used for the temporary token will then be specific to the Agent not the beneficiary.

In all cases, the CMS Help Desk will advise the customer that if it transpires he is not able to get to his post office until after the extension, then he should contact his BA office towards the end of the extension period and arrange a permanent agency.

If in the event he recovers before or during the extension period, he can pick up his replacement card in the normal way, the new card will be activated and, when appropriate (i.e. in case 1), the old card stopped.

4.0 PATHWAY RELIANCE ON POCL STAFF

Pathway will rely on POCL staff to carry out a number of tasks in order that the system and therefore, the end-to-end service functions effectively.

The service will require the counter staff to carry out a number of agreed procedures e.g. impounding and destroying cards, carrying out receipt of cards into post office procedures, and ensuring that receipts and new cards are signed at the counter. POCL shall be liable for any fraud relating to or resulting from these acts should the counter staff not carry out these procedures with due diligence.

Incentives: Pathway propose that a fraud prevention incentive scheme is incorporated into the system in order to maintain the level of counter staff vigilance. Pathway proposes that a reward is payable for any card that is retained that has been altered or is an attempted counterfeit. This scheme could be extended in order that the best performing counter clerk is rewarded on an annual basis i.e. no fraudulent transactions results in award status as does the highest number of identifications of fraudulent activity.

5.0 PATHWAY RELIANCE ON BA STAFF

Pathway will rely on BA staff to carry out a number of tasks in order that the system and therefore, the end-to-end service functions effectively.

The service will require the counter staff to carry out a number of agreed procedures e.g. the issue of temporary tokens, casual agent enrolment, dual encashment investigation, confirmation of change of nominated office, to obtain first encashment details for claimed dual encashment. BA shall be liable for any fraud relating to or resulting from these acts should the counter staff not carry out these procedures with due diligence.

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6.0 AGREED LIABILITIES

The references below relate directly to the references in document Pathway Liability Plans Version 2.0, 25/01/96

7.2 *Lost / Stolen / Damaged Cards*

Pathway will accept liability for encashments successfully completed using cards that have been reported lost/stolen/damaged to the CMS Help Desk from the time that the loss/theft/damage has been logged.

7.3 *Hacking*

Pathway will accept all liability for successful hacking directly into a Pathway operated system.

The BA will take the risk of hacking into the Pathway system should entry be gained to a BA system and a level of authority to enter the Pathway system is achieved. This relates only to systems that have dedicated access i.e. CAPS. Pathway must take all reasonable steps to protect their system from hacking. Likewise POCL via TIP etc. interfaces and other POCL clients through comparable interfaces to CAPS.

Pathway will take all reasonable measures to protect the Pathway domain from the threat of "Hacking".

8.3 *Temporary Tokens*

Pathway will accept the liability for temporary token encashments made to the incorrect person i.e. an individual other than the person issued with the token, in cases where the beneficiary is known to the system.

Agreement has been reached that all payments must be to a known account i.e. NINO. Should the procurement team push for a bearer type Temporary Token Pathway should escalate the issue. There is no intention by the BA to create a bearer token.

8.4 *Card Collection by an Agent*

See section 5.1

8.5 *Report of a Lost/Stolen Card Post Encashment*

See Section 4.3

8.6 *BA Staff Collusion*

Should any member of BA staff use privileged information alone or in collusion with a third party, except Pathway staff, to commit a fraudulent act, full liability will rest with the BA as they are best able to manage their own staff. Such fraud will generally be Entitlement fraud.

This was accepted

Pathway

PATHWAY LIABILITY PLANS

Ref: Liab2.doc
Version 2.0
Date: 09/02/96

8.7 Hacking

BA shall accept full responsibility for any occurrence of hacking affecting the performance of the Pathway system that has occurred because access has been enabled by BA through a BA or BA authorised/certified system.

Accepted see 7.3 above

9.2 POCL Staff Collusion

Should any member of POCL staff use privileged information alone or in collusion with a third party, except Pathway staff, to commit a fraudulent act full liability will rest with POCL as they are best able to manage their own staff.

This was acceptable with the proviso that Pathway make all reasonable efforts to assist POCL to prevent the above occurring.

9.3 POCL Hacking

POCL shall accept full responsibility for any occurrence of hacking affecting the performance of the Pathway system that has occurred because access has been enabled by POCL through a POCL or POCL authorised/certified/client system.

Accepted See 7.3 above

Pensions Plan for Pathway**Background**

A major consideration in the resourcing of Pathway with employees for the shareholder companies is the handling of pension arrangements. Many of the key individuals would stand to lose considerable benefits if asked to transfer out of their long-standing membership of their corporate pension schemes. Equally, it would be a costly exercise for Pathway to compensate them for this change in terms and conditions.

The most sensible solution to these issues would be to arrange for transferees into Pathway from the parent companies to remain as members in their present pension schemes, as was successfully achieved in the case of Camelot. In order to implement this a deed of participation must be signed by Pathway with each of the Parent companies' pension funds, by which Pathway is charged for the cost of retaining individuals in their current pension schemes. Such deeds of participation must be agreed by the Inland revenue before being implemented. This process can take some time so action must be taken promptly.

The scheme must be ready to implement immediately on award of contract.

Actions to be taken

ACTION	OWNER	DATE
Shareholder representatives to agree to the above approach to Pension arrangements to Pathway	Shareholder Reps.	21/02/96
Pass Briefing Document to Company Pension Managers	Shareholder Reps	23/02/96
Supply Pension Managers with description of Pathway Venture to include: % participation of Girobank/DLR/ICL, length and nature of contract, approximate number of employees transferring, pension arrangements for non-ICL/DLR/Girobank employees of Pathway	Graham Wingrove, Chief Accountant, Pathway	01/03/96
Implement actions contained in Briefing Document	Pension Managers	See Brief
Supply Pension Managers with details of staff transferring to Pathway	John McIntosh, HR Manager, Pathway	26/04/96
Sign deeds of Participation with Pension Funds, under the guidance of Bob Coe, ICL Pensions Manager	Tony Oppenheim, Commercial and Finance Director, Pathway	2 weeks prior to award of contract

Attachment to
Appendix C

Pensions Plan for Pathway

Pension Managers Briefing Document

Background

A major consideration in the resourcing of Pathway with employees for the shareholder companies is the handling of pension arrangements. Many of the key individuals would stand to lose considerable benefits if asked to transfer out of their long-standing membership of their corporate pension schemes. Equally, it would be a costly exercise for Pathway to compensate them for this change in terms and conditions.

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The scheme must be ready to implement immediately on award, currently likely to be around the beginning of June.

Graham Wingrove, Chief Accountant, Pathway will be happy to supply you with the necessary information regarding the nature of the Shareholder arrangements, the length and nature of the contract, approximate numbers transferring and pension arrangements for non-ICL/DLR/Girobank employees of Pathway. Graham can be contacted on GRO

GRO

Actions For Pension Managers

Action	Dates (Latest)
Contact ICL Pensions Manager Bob Coe on GRO to agree a consistent approach acceptable to the Inland Revenue	01/03/96
Inform Inland Revenue Inspectors of intention of Pathway to take deeds of participation in ICL, DLR and Girobank Pension Schemes	15/03/96
Inform Pathway of Inland Revenue decision	26/04/96
Implement necessary changes on transfer of staff to Pathway	On award