

PWKP4-7

## RESTRICTED CONTRACTS

*Bringing Technology to Post Offices and Benefit Payments***CURRENT ASSESSMENT OF SERVICE PROVIDERS**

Author: Derek Selwood  
Authority: Derek Selwood  
Reference: PWKP4-7

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**1. PURPOSE**

- 1.1. This paper provides a brief assessment of service providers' standing against the pre-ITT issue hurdles identified in PWKP4-3 (relevant page reproduced as Annex A) and a summary of the Risk Register for each service provider.
- 1.2. The information contained in the paper should be read in the context of the state of play in the two streams of Stage 3 work that have provided input:
  - (a) the Demonstrator and Requirements Streams, where work has been concentrated on the clarification of service provider proposals and sponsor requirements rather than clearance of risk entries;
  - (b) the Contracts Stream - where little or no negotiation has yet taken place.

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**2. STATUS AGAINST THE PRE-ITT HURDLES****2.1. Minimum Service Requirements**

- 2.1.1. The information in this area comes primarily from the Demonstrator and Requirements Streams; their views on the most significant issues are discussed in Section 3 and attached as Annex B. All three service providers have a reasonable chance of clearing this hurdle.

**2.2. Partnership**

- 2.2.1. The first meetings with all three service providers structured specifically around this topic have taken place. All three are acceptable to POCL Heads of Market. Further meetings will be taking place with the aim of establishing whether there is any significant difference between the three.

**2.3. Risk Transfer**

- 2.3.1. Much work remains to be done in this area during the contract negotiations. Pathway will need to address a severity "A" risk register entry raised by the proposal evaluation relating fraud transfer. At this early stage there is nothing else apparent to distinguish between the service providers.

**2.4. Funding/ Financial Structure**

- 2.4.1. Charterhouse are conducting the research on funding and financial structures. Whilst Cardlink and IBM have been cleared on the funding side, Charterhouse have concerns about insufficient availability of funds in respect of Pathway.
- 2.4.2. The CNT is progressing work to address the Programme concerns about the existence of limited liability companies heading the Cardlink and Pathway consortia with the aim of establishing appropriate parent company guarantees. The Programme has also raised concerns with Cardlink and Pathway on their risk registers with respect to the size of specific key subcontractors (Datafit and Escher respectively) in order to further assess these risks and the counter-measures the prime is putting in place.



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**3. SERVICE PROVIDER RISK REGISTER**

- 3.1. The current state of the SPRR is summarised for each service provider in the three tables below. In considering this members need have regard to the early state of proceedings as summarised in paragraph 1.2. (Note: Severity A = Critical, B = Significant, C = Minor, Q = Query, X = cleared).

*Table 1 - Cardlink*

Risk Category / Severity	A	B1	B2	B3	Q	X	Total A & B's
BPS	1	0	1	0	0	0	2
CNT	2	1	0	0	1	0	3
End to End	0	2	0	0	0	0	2
Implementation	1	0	0	0	4	4	1
Infrastructure	0	2	0	0	2	1	2
Security	0	0	0	0	0	1	0
Grand Total	4	5	1	0	7	6	10

*Table 2 - IBM*

Risk Category / Severity	A	B1	B2	B3	Q	X	Total A & B's
BPS	0	0	0	0	1	4	0
CNT	0	0	0	2	0	0	2
End to End	1	1	1	0	0	1	3
Implementation	1	1	1	1	0	0	4
Infrastructure & Appl'ns	0	7	1	0	6	6	8
Security	0	0	0	1	0	1	1
Grand Total	2	9	3	4	7	12	18

*Table 3 - Pathway*

Risk Category / Severity	A	B1	B2	B3	Q	X	Total
BPS	0	3	0	1	0	3	4
CNT	1	2	1	2	0	0	6
End to End	0	2	1	0	1	0	3
Implementation	2	2	0	0	0	2	4
Infrastructure & Appl'ns	1	3	0	1	2	1	5
Security	0	0	1	1	0	1	2
Grand Total	4	12	3	5	3	7	24

- 3.2. The current position may be summarised as follows:

- (a) CardLink have two 'A' risks (relating to transaction times and development timeframe) that the Demonstrator strands are progressing and hope to clear or downgrade. They have two commercial 'A' risks on contract transfer which are to be addressed during contract negotiations. They have no significant concentrations of 'B1' risks but there are a number of other concerns:

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- (b) IBM have two 'A' risks relating to roll-out timescales and disaster recovery. Papers addressing these should be available by the end of November. They have a 'significant' concentration of 'B1' risks in the POCL Infrastructure strand. Firm plans to address these are in train;
  - (c) Pathway have three 'A' risks currently being addressed by the Demonstrator strands, of which one is particularly significant (regarding Riposte). They have one commercial 'A' risk relating to risk transfer of card fraud, which is to be handled during contract negotiations. Of the three 'B1' risks in the BPS strand, two are in the process of clearance.
- 3.3. Annex B provides further details of the outstanding risks.

**4. CONCLUSION**

- 4.1. There remain concerns, as there did at the end of shortlisting, about the service providers and their offerings. However, actions to address these concerns are in hand as part of what was always envisaged as the normal Stage 3 process, and there is nothing over and above those that the Programme wishes the Board or the sponsors to do at this stage.



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**ANNEX A - THE ITT ISSUE DECISION**

*The following text is taken from PWKP4-3 "From Demonstrator to Selection".*

**3.4 The ITT Issue Decision**

- 3.4.1 Any service provider invited to submit a best tender must have cleared a number of "hurdles". The Stage 3 work and the commercial assessments will assess whether each service provider meets or exceeds:
- (a) the minimum service requirements acceptable to the sponsors;
  - (b) the minimum requirements for partnership with POCL and the development of new business opportunities (as described in the Prospectus and the SSR);
  - (c) sufficient transfer of risk for an acceptable risk profile, in particular for the fraud risks but also the general service development and business volume risks;
  - (d) an acceptable funding method and financial structure.
- 3.4.2 The mechanisms by which failure to clear the hurdles will be detected are the SPRR and agreement to final draft contracts. A service provider will not be invited to tender if:
- (a) he has any "Critical" (category A) risks or an unacceptable profile of other risks outstanding at the time the SPRR is finalised; and/or
  - (b) it has proved impossible to agree with him a contract acceptable to BA and POCL.
- 3.4.3 The final SPRR from Stage 3 will be analysed to identify the impact (both financial and non-financial) of the outstanding risks. This analysis and the outcome of the contract negotiations will be put to the Evaluation Board to decide if any service provider should not be invited to tender.

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**ANNEX B - DEMONSTRATOR RISKS**

This note represents the Demonstrator's perception of the three service providers as at 23 November 1995. It addresses "hurdle" (a) of PWKP4-3 (minimum service requirements acceptable to sponsors). Each assessment covers:

- the current status on 'A' risks;
- significant concentrations of 'B1' risks, where 'significant' is defined as 'three or more' in a single Demonstrator strand;
- other relevant issues which are either covered by lower level risks or could well emerge as new risks.

**1. CardLink*****'A' Risks*****Authentication Times:**

- this risk reflects concerns about network response time and the counter process for benefit encashment;
- network response now seems acceptable (subject to some more investigation);
- Cardlink are tuning their solution to reduce the transaction time for normal encashments;
- counter process time for agent encashments is linked to the level of security measures required - the balance of cost/risk/time is subject to the risk transfer negotiations;
- the severity of this risk is thus currently being reviewed.

**No details of (Pilot Programme) development times:**

- this risk is a 'hangover' from the Rugby evaluation;
- it is currently being downgraded to a 'Q' (query) as details are being made available and is likely to be cleared shortly.

***Other Issues*****Some key issues at this stage are:**

- Cardlink have gone for a lower level of card technology than originally proposed i.e. they are no longer proposing to use Watermark magnetics to protect the magnetic stripe. The paper on this was presented recently and the full implications are yet to be analysed - potentially a risk could be raised;
- the risk on network capacity - highly sensitive to workload assumptions and impact on transaction times;



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- CardLink's proposal for 'greenfield' development of card management facilities with respect to their ability to have this in place to meet project timescales.

**2. IBM*****'A' Risks*****Computers only 11 Miles Apart:**

- this risk relates to FDR's two sites at Basildon & Southend and problems in the event of a major disaster in the area;
- IBM are proposing a number of options, together with their implications, to address the risk. These include the use of a third site at IBM Warwick as a "fairly cold" standby;
- the paper is targeted to be available by 27 November.

**Late Roll-out:**

- IBM's target date to start roll-out is November 1996, which shows dependency on contractual aspects;
- they are now producing a paper (expected 29 November) which addresses roll-out in timeframes rather than specific dates;
- this will allow meaningful discussion around the plans for roll-out, specific dates being applied when the definitive timetable for the remainder of the procurement is announced.

***POCL Infrastructure 'B1' Risks***

- Two 'scalability of TMS' risks are likely to be cleared by end-November;
- a risk on the network (use of ISDN D Channel) being addressed by discussions with BT;
- two risks on Storeplace relating to its state of development and lack of track record. These are to be addressed at a visit to IBM's development centre for Storeplace in two weeks time;
- other two risks relate to OS/2; one is being addressed by IBM presenting on its future; the other is being put on hold pending definition of requirement for using Microsoft Office (or otherwise).

***Other Issues***

- IBM are limiting their investment in development of solution, e.g. no host system connect during Stage 3 - Demonstration will be a simulated connection. This should not cause problems for assessment, even though an end-to-end transaction cannot be physically demonstrated.

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**3. Pathway****'A' Risks**

Riposte is Unproven:

- there are serious concerns with its scalability - especially the new 32-bit version proposed which is still being developed (target date for 'freezing' this version is Spring 96 - this may become a new risk);
- Pathway are performing modelling to try and clear the risk. A key problem is that ICL do not seem to understand Riposte in sufficient depth to answer questions;
- an apparent high (or total?) dependency on Escher - a small US based software house responsible for development of Riposte;
- trip planned to visit Escher for detailed discussions and to obtain 'first hand' view of the development resource (concern is that there are really only two people that know Riposte).

Phased Approach to Acceptance of Products & Late Roll-out:

- still on the SPRR as they are dependent on a risk which relates to the change in Pathway's proposal for PMS;
- that risk will be cleared once acceptable replies obtained on two issues - fault tolerance and scalability of proposed hardware platform;
- clearance of that risk will then support clearance of these two 'A' risks.

**BPS 'B1' Risks**

Cardholder Verification:

- paper has been produced by Pathway explaining the cardholder verification process;
- the risk owner has now recommended that the risk should be cleared (Risk Assessment Panel to consider on 30 November).

Policy on Foreign Encashments:

- dependent on statistics that Pathway have produced on levels of foreign encashments and impact on their solution;
- statistics being passed to Business Case team for validation; if they stand up then risk will be cleared.

Card Security Technology:

- linked to the 'A' risk on Card Fraud;



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- lack of strong authentication technology may have acceptability problems;
- paper being produced to address risk expected end-November.

*Other Issues*

- Pathway have been 'slow to get going' in supplying information - leaving them some way behind the other two service providers; the pace has now accelerated and they are catching up fast.
- A key concern is with Riposte which is fundamental to the Pathway proposition - not just the technical aspects, but the nature of Pathway's relationship with Escher (this has been flagged as a B1 commercial risk).
- Pathway have the highest number of A & B risks of the three, including 12 at B1 which are spread across all areas; the pace of clearing them needs to pick up for there to be an acceptable number left at time of ITT issue.