An Roinn Coimirce Sóisialaí
Department of Social Protection
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Department of Social Protection

Payment Strategy

Foreword

The modernisation of welfare payment methods is of pivotal importance to our customers, the Department of Social Protection (DSP) and the wider Irish economy. This strategy sets out the Department's vision for the future where all welfare payments will be made electronically, recognising the needs of the DSP and its customers.

There is an urgent need to reform both the financial and payments environment in Ireland. Cash and cheques have been estimated to cost the Irish economy in the order of 1.4% of GNP through production, administration and security costs. Changing to electronic payments has been shown in other countries to speed up the delivery of payments, to reduce their associated costs and increase national competitiveness. DSP accounts for more Government expenditure than any other Department. It plays a significant role in the overall production of cash and cheques in the Irish economy. The channels used to deliver welfare payments to customers therefore, has a hugely influential role in wider payment modernisation across the State.

For us, incremental movement towards delivering all welfare payments electronically is a significant opportunity to improve services to customers and provide for more cost effective delivery as well as contributing to the wider Government agenda. The Payment Strategy will support all customers in receiving their welfare payments in a convenient, safe and secure manner. This includes unbanked customers, customers with specific access requirements and customers with other forms of payment accounts. It is anticipated major savings will be achieved through the provision of cost effective services to customers. These changes will also support the State's objective of improving financial inclusion and will help strengthen DSP's approaches to fraud and control.

The progressive move to e-payments will undoubtedly affect our customers. For some, it will require giving assistance and support to help them in the transition. This assistance is an essential element of the strategy. The Department will work energetically to help customers and their representatives in a transition period of up to five years. We have previous experience of transitioning from one payment type to another i.e. when the post office books were taken out of circulation. Informed by that success, we will aim to make the changeover as seamless and easy as possible for customers through good communication and personal assistance where necessary.

In this document DSP sets out its vision to move to fully electronic welfare payments, and the implementation path to deliver the changes required. In developing this strategy we have undertaken a wide range of stakeholder engagements seeking views from state organisations, financial institutions, the supplier marketplace, customer representatives and staff. We have also extended our research to find out what is happening in the welfare sectors in other jurisdictions both in Europe and further afield. In this context we are clear that the strategic path we are now embarking on is the right one for our customers, for DSP, for the wider Government and for the citizens of Ireland.

Joan Burton T.D.
Minister for Social Protection

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Glossary

Term	Definition
Banking Partner	Bank of Ireland currently acts as the primary Banking Partner for DSP. In this role they facilitate the transfer of funds from DSP to customer accounts.
Standard Bank Account (SBA)	An SBA is a payment account which is designed to offer those functions which are essential in order to receive, place, transfer and withdraw funds, but does not have the full functionality of a current account - in particular overdraft, direct debit and cheque-writing facilities.
Cheque	The customer receives a cheque which must be encashed before the welfare payment can be accessed. The DSP can generate cheques manually through the Community Welfare Service, or via their central payment systems which then issue the cheques by post.
Department of Social Protection (DSP)	DSP is responsible for the delivery of welfare payments to customers. Our mission is to promote social well-being through income supports, employment services and other services which enable people to participate in society in a positive way.
Electronic Information Transfer (EIT)	An EIT is the current electronic messaging service which provides an instruction for the amount to be paid to a DSP customer when they present at a nominated post office within a given period. The payment details are retrieved using their Social Welfare Services Card or Public Services Card and the cash payment is made to the customer in full.
Electronic Fund Transfer (EFT)	The welfare payment is lodged via DSP's banking partner directly into an account provided by an institution authorised by the banking and credit union regulators.
IPSO	Irish Payment Services Organisation.
National Payments Plan (NPP)	The objective of the plan is to improve the efficiency of the national payments infrastructure through reducing the reliance on cash and paper instruments and the greater use of electronic alternatives while enhancing the ability of low-income households to access modern payment methods.
Onward transactions	Payments made by the welfare customer once they have received their welfare payment.
Welfare Payment	The payments made by DSP to eligible welfare customers.

1 Introduction

1.1 The role of the Department of Social Protection

The Department of Social Protection (DSP) is responsible for the administration of social insurance and social assistance schemes within the state system of social security, and the delivery of other forms of social support policy in line with its mission. The mission of DSP is to promote social well-being through income supports, employment services and other services which enable people to participate in society in a positive way. DSP is committed to delivering a high quality service for all customers.

The Department delivers over 70 welfare schemes and services with an annual budget in 2012 of almost €21 billion. Approximately 87 million individual welfare payments are paid annually. These payments are issued on a daily, weekly, monthly and annual basis, depending on the scheme type. Customers can also require emergency and one-off payments to support them in dealing with unforeseen financial situations.

DSP's responsibility is to assess the entitlement of a claimant and, should they be entitled, ensure the correct welfare payment is made to them, or their authorised agent. Once the welfare payment has been made DSP has no role in how that customer might undertake any onward transactions. Some customers sign up for a voluntary household budgeting service. This scheme is currently only available to some customers collecting cash payments through the post office network, although some credit unions offer similar services and direct debits or standing orders in financial institutions also serve the same purpose.

1.2 The current approach to delivery of customer payments

The Department's customer base spans parents and children, people of working age, older people and pensioners, people with disability or illness and carers. These customer groups have different needs and preferences in how they receive their payments. Approximately 87 million welfare payments were made last year. The Department generally offers choice in how these payments are transmitted depending on the scheme, using three payment methods:

- Payment through the post office network: post office payment (50%): An Post receives an electronic information transfer (EIT) stipulating the amount payable to the DSP customer. The customer presents at a post office, uses their Social Welfare Services or Public Services card, confirms their identity and then receives their payment in cash in full.
- Electronic Fund Transfer (EFT) (42.5%): The welfare payment is lodged via DSP's banking partner directly into an account provided by an institution authorised by the banking and credit union regulators.
- Cheques (7.5%): The customer receives a cheque payment. Cheques are issued manually through the Community Welfare Service and given to the customer, or via the central payment systems which then issues the cheque by post.

Over the past number of years there have been divergent trends in payment delivery. In July 2008, a decision was made to require all jobseeker payments, apart from casual workers, to be paid through the post office to address control concerns. By comparison, in the absence of instruction, the customer choice has been increasingly towards direct electronic funds transfer with a marked trend in the move toward payment by EFT over other payment methods. Last year new customers claiming state pension chose EFT as their payment method by a ratio of two to one. Similarly, the preferred choice for the payment of child benefit indicates a very high level of preference towards direct payment into financial institutions with four out of five customers choosing EFT as their preferred method of payment. Clearly customer choice is moving towards electronic payment channels.

1.3 The Payment Strategy project vision for future payments

The Payment Strategy Project (PSP) was established in September 2010 to enable the Department to continue to modernise welfare payments. This is in line with wider Government policies and objectives such as better public services, better and more effective e-payments and the National Payments Implementation Programme. The Department's Payment Strategy seeks to deliver the following vision:

"All customer payments will be fully electronic, recognising both the DSP and customer needs".

This vision refers to achieving fully electronic payment methods that facilitate both electronic transfer of payment information and receipt of payment by the customer. The current post office payment method, as it is currently operated, is therefore not considered to be electronic, as, while the transfer of data is electronic, the customer still receives payment by cash.

The vision recognises the need to pay all customers electronically, including those who are currently unbanked and vulnerable customers. This includes payment in all scenarios, ranging from on-going weekly payments to emergency one-off payments. It also recognises that more than one electronic payment method may be required to meet the needs of all customers in all payment scenarios.

1.4 Contributing to national reform in payments

Reform of the Irish payments environment is being actively pursued by the Department of Finance. Key amongst these reforms are the establishment of a National Payments Plan (NPP) and the development of a new basic payment account, or Standard Bank Account. As the biggest spender of Government funds, DSP's Payment Strategy will make a significant contribution to realising the goals of the National Payments Plan to reduce the reliance on cash payments. A move away from EIT, as a cash-based service, and a reduction in the numbers of cheques will be key pillars in the national e-payments agenda and build towards a more cost-effective national payments environment.

The National Payments Plan was established to deliver a more efficient and cost effective payments environment in Ireland through promoting electronic payments throughout the Irish payment system. Electronic payments are used considerably less in Ireland than in most other EU countries. A significant shift to electronic payments from the current high levels of cash and cheques, although ostensibly reducing customer choice, could realise benefits to all stakeholders. The Central Bank was tasked by the Government to take a lead role in preparing a National Payments Plan for its consideration and approval. The preparation of the Plan included the convening of a high level steering group to oversee this work, comprising representatives of consumers, businesses, the banking sector and the public sector, a process of consultation with a broad range of stakeholders as well as the undertaking research to inform and underpin recommendations of a National Payments Plan. The plan has recently been published by the Central Bank[1].

The Strategy for Financial Inclusion (2011)[2], which was also led by the Department of Finance, identified a crucial first step in addressing financial exclusion as being the launch of a basic payment account – a transaction account which has been designed to meet the needs of the financially excluded. Given the number of DSP customers who fall into the group most financially excluded, the Department has a pivotal role in contributing towards remedies to this problem.

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[1] Available at <http://www.centralbank.ie/paycurr/paysys/Documents/National%20Payments%20Plan%20-%20Final%20Version.pdf>

[2] Available at <http://www.finance.gov.ie/documents/publications/reports/2011/Fininclusreport2011.pdf>

In the chapters that follow, the case for change is outlined at Chapter Two, describing the administrative and financial dividend to be gained by both the Department and the economy as a whole. An understanding of the imperative to address financial exclusion is examined, as are the behaviours and perceptions of customers and the benefits that they can enjoy in switching to e-payments. International strategies and approaches are set out as well as a view from the industry itself on the challenges to be faced in implementing the programme of change. Chapter Three sets out the five strategic actions to be taken to implement and achieve the vision of the strategy. Notable in them is the critical requirement to support and assist customers through the transition to electronic payments. The implementation approach and key deliverables are included in Chapter Four.

2 The case for change

This chapter explores the convergence of Government policy imperatives, rising demand from consumers for alternatives to cash and cost pressures. In addition, it takes account of the emergence of enabling technologies that is driving the Department to further increase the use of modern means of payment delivery. Overall the strategy will reduce the costs of payment, improve fraud prevention and detection and through encouraging the take up of alternative more efficient payment channels provide a better service to customers.

2.1 Government policy emphasises the key role of electronic payments in the economy

Since 2004, Ireland's eGovernment strategy and wider policy places a strong emphasis on the modernisation of the Irish payments environment. The cross-government[3] National Payments Implementation Programme (NPIP) established in 2005 and the succeeding National Payments Plan seek to secure a decisive shift to electronic payments with the aim of reducing usage of cash and cheques, as well as reducing financial exclusion. These multi-agency groups driving these initiatives were convened in response to the lack of real progress being made to reduce the high levels of cash in Ireland's payments environment for sound economic reasons:

- **Electronic payments are used considerably less in Ireland than in most other EU countries.** Ireland is overly dependent upon cash and cheque, with the highest value of cheques per capita in the EU. Whilst cheque usage has started to decline in anticipation of the removal of cheques, the pace of change is slow compared with other high electronic payment users such as the Netherlands, Finland or Germany. Ireland is the second highest user of ATM cash across Europe on a per capita basis. We have 667 ATMs per million inhabitants by comparison to Sweden which operates with only 359 ATMs per million residents. We withdraw 60% more cash than the average resident within of the EU. On average the Swedes withdrew the equivalent of only €2,322 from ATMs in the year whereas in Ireland the average per capita was approx. €4,375[4].
- **It has been estimated that cash and cheques cost the Irish economy €1 billion every year[5],** because of the production, administration and security costs that they incur. In the wider economy, Ireland is reputed amongst northern European countries to be slow in settling accounts payable, which correlates with a preference for settlement by cheque. Reflecting on the current Irish financial environment brings the scale of the savings opportunity into sharp relief. Ireland writes 16.5 cheques annually for each head of population. By comparison, the equivalent figure in eight countries in the euro area (including Sweden) is zero. The current use of cheques in DSP is significant, representing over 8 per cent of all cheques issued in the economy in 2012 and approximately three quarters of all public sector cheques issued[6]. Over the lifetime of this strategy it is envisaged that the option of receiving a welfare payment by cheque will be progressively removed. The National Payments Plan points to the need to draw down this potential saving through improved efficiency in the payment system.
- **The current economic situation heightens the sense of urgency for action** to create a more modern payments environment. A significant shift to electronic payments from the current high levels of cash and cheques would speed up payments, reduce the cost of

[3] Including the Central Bank, the Department of the Taoiseach, the Department of Finance, the Irish Payment Services Organisation (IPSO) and the banking and payments industry
[4] Irish Payment Services Organisation Limited Industry Stats 2012
[5] *National Payments Implementation Plan* Irish Payment Services Organisation www.ipso.ie
[6] Derived from data published in *The Usage, Cost and Usage of Pricing in Retail Payments in Ireland*, (Central Bank) Quarterly Bulletin 02/April 13.

making payments, reduce activity in the shadow economy, or unrecorded payment activity, and any improved infrastructure is likely to increase Ireland's competitiveness. A rise in electronic payments will lead to a decrease in the volume of transactions in the shadow economy, currently estimated by some to be in the order of 13% of our GDP[7]. Cash is the most important enabler of the shadow economy given the ease at which it can be used and its attributes of lack of visibility and traceability. It is estimated that an increase in electronic payments within an economy is a significant driver in reducing the level of transactions in the shadow economy by a ratio of approximately 2:1[8]. DSP is one of the largest initiators of cash payments in the economy and therefore a key player in the movement to electronic payments. A parallel reduction in the level of cheque usage would be expected to deliver a dividend in improved cash flow for individuals and businesses in Ireland[9]. Such a flow of benefits would be expected to enhance Ireland's competitiveness.

Government policy is therefore clear on requiring a significant and rapid shift to electronic methods of payment. The DSP accounts for almost 40% of gross current government expenditure. How it delivers customer payments therefore can have a hugely influential role in wider payment modernisation across the State.

2.2 Innovations in the payments sector can support this modernisation

The payments' sector has been evolving in response to shifts in consumer behaviour, pressure on cost, advances in technology and changes in the regulatory environment resulting in needs to continuously improve efficiency, security, certainty and convenience. Innovations include:

- **Direct payment into a wider choice of accounts:** This is a common and well tested route to channel payments to an individual. It allows DSP to transfer a payment directly from DSP via our banking partner into a customer account, such as a bank account, credit union account or an account with other financial institutions. The accounts typically have an associated payment card through which onward transactions can be made. Direct credit transfers are effective, swift and increasingly popular in the Irish economy.
- **Pre-paid cards:** These types of smart card which, with an embedded microchip, function like any other card at the point of sale. The cards are only usable when the card has funds which, critically, can be loaded remotely by third parties, for example the Department. Some cards house the stored value themselves (e.g.the Leap card for integrated transport ticketing for Dublin rail, Luas and bus) and lend themselves readily to contactless usage. Others are necessarily linked to an underlying individual or common bank account. This latter can also be structured to restrict usage to certain types or locations of merchant.
- **m-Payments:** Mobile payments are a new and rapidly growing alternative payment method – especially in Asia, Europe and Africa. Instead of paying with cash, cheque or credit card, a consumer can use a mobile phone to pay for a wide range of services and digital or hard goods. It is generally considered within the payment industry that mobile payments will generate the greatest growth over the coming years. A white paper published by MasterCard reviewed the progress being made in the use of m-payments around the world. From their research, it would indicate that Ireland, like many European countries, is not yet at an advanced stage of readiness for m-Payments[10].
- **Near Field Communications (NFC),** or contactless payments, enable the use of mobile phones or cards to pay for goods and services by swiping their devices over a terminal.

[7] *The Shadow Economy in Europe, 2011* AT Kearney & Prof. F. Sneider,(2011), page 3. Available at < www.visa**europe**.com/idoc.ashx?docid=4d53b726-cd71-4ba50b-735d11ca4075&versions=1>

[8] *The Shadow Economy in Europe, 2011* AT Kearney & Prof. F. Sneider,(2011) page 7. Available at < www.visaeurope.com/idoc.ashx?docid=4d53b726-cd71-4ba50b-735d11ca4075&versions=1>

[9] European Payment Index, 2011, Intrum Justitia

[10] MasterCard White Paper MPRI available at http://mobilereadiness.mastercard.com/

Contactless or "tapping" transactions make small value payment transactions faster because neither a PIN number nor a signature is needed. This area is expected to be a significant growth area in the payment industry over the coming years. Outlets such as McDonalds, Insomnia, Marks and Spencers, Centra, Spar, and Mace have already introduced contactless terminals in their stores here, with more retailers expected to follow suit. Higher value transactions are achieved with tighter security requirements i.e. chip and pin.

The net effect of these technological advances has been a rise in electronic payments in Ireland, the rest of Europe and across the world. The suite of electronic solutions now available provides the potential for cost reductions and customer benefits, with the assurance of required security and traceability.

This evolution in the payments sector means that there is now a wealth of alternative payment solutions available to the Department to modernise the way it makes payments to customers and it is appropriate that the Department moves in that direction.

2.3 Wider financial inclusion initiatives are required to support these changes

At both a national and European level the requirement to tackle financial exclusion has been recognised. The importance of addressing financial exclusion reflects both the increasing importance of financial services in the day to day management of household resources and the structural barriers faced by low-income households in accessing and using such services. Access to a current account is a critical indicator of financial exclusion. A recommendation adopted by the EU Commission in 2011 referenced the criticality of accessing transaction banking services as an essential stepping stone to addressing financial exclusion while also highlighting the importance of access to electronic means of payments to enable citizens to gain the benefits of the internal market[11]. Analysis of Irish levels of financial exclusion provides evidence of financial exclusion in Irish households:

- The Survey on Income and Living Conditions (SILC) has found that the percentage of households in Ireland without a current account has remained persistently high between 2008 and 2010. In 2010, 17% of households had no current account[12].
- An in-depth analysis of the SILC 2008 data found that households that are highly dependent on social transfers are less likely to have a bank account. The rate is 40% for households where social transfers represent over 75% of total disposable household income[13]. This report also found that Ireland is quite distinctive from the rest of the EU 15 in having one of the highest percentages of banking exclusion at three time the EU15 average.
- During 2012, approximately one in two new social welfare claimants who could have availed of EFT payments, chose to.

Reasons for the high levels of financial exclusion are thought to include the popularity of cash usage, the lack of banking products designed specifically for vulnerable groups and an absence of any dedicated campaign to promote take-up. Any DSP payment modernisation approach would therefore need to be accompanied by a strategy to support these customers in receiving their payments electronically.

The Government has an explicit objective to address financial exclusion, including banking exclusion and difficulties accessing financial services products in the mainstream market through the availability of a basic bank account or as it is known here as a Standard Bank

[11] http://ec.europa.eu/governance/impact/ia_carried_out/docs/ia_2011/sec_2011_0907_en.pdf
[12] *Survey on Income and Living Conditions (available at www.cso.ie)*
[13] *Russell, H., Maitre, B and Donnelly, N., 2011. Financial Exclusion and Over-indebtedness in Irish Households. Dublin: ESRI*

Account (SBA). SBAs are simple, no/low-cost, 'no frills' current or payment (depending on definition) accounts with no credit facilities, designed for those who are financially excluded. Provided by banks, these accounts have the potential to help address the problems of financial access faced by those on low incomes and other financially excluded members of society. The SBA, if designed appropriately, will benefit those welfare customers who need such an account. The SBA has been piloted in three locations around Ireland and it is anticipated that it will be rolled out during 2013. This means that that SBA facility should be generally available in the timescales needed to support the Payment Strategy.

2.4 Best practice in delivering welfare payments

To inform the development of the DSP's future Payment Strategy for welfare payments, a Market Engagement exercise was undertaken between November 2010 and January 2011. The project received feedback from over 40 payment industry organisations, ranging from global players with capability to deliver an 'end-to-end' payment solution to niche companies focussing on one element of payment management or delivery.

At the top-level, the industry's view was consistent across all participants: achieving the vision and strategy is feasible and a range of options is available to achieve that outcome. As outlined above, these include an array of different types of accounts and pre-paid tokens such as cards or mobile phone delivered payments.

The payments industry organisations identified that the challenges to delivery did not focus only on the technology, but rather on the scoping and management of the change, including:

- How to drive the changes needed in customers and other parties' behaviour to enable the new Payment Strategy to succeed, for example supporting customers to adapt to new payment methods;
- Ensuring the balance of responsibilities between the Department and payment providers to develop clear requirements for providers to be able to support the implementation of the Payment Strategy;
- The requirement for very clear specifications of the Department's requirements and
- The capacity within DSP systems to map a new payment onto its issuing and reconciliation systems.

As a supplement to the market engagement, additional work was undertaken to research and report on payment methods in other countries. Insights identified include:

- Welfare payment methods in other countries, most notably the UK and US are now predominantly electronic. This includes examples such as the provision of a branded pre-paid debit card to customers without bank accounts.

- Many of the innovations deployed have focused on overcoming financial exclusion (e.g. use of mobiles to make welfare payments in Kenya and prepaid debit cards in the UK for vulnerable customers).

Summary of other countries' payment methods and approach to financial inclusion

Area	UK and North Europe[14]	Asia Pacific[15]	North America[16]	Africa[17]
Payment methods	• Basic Payment Account/current account • Building society/credit union account • Post Office Card Account • Cheques/Payable orders • Easy Account • Bank credit transfers	• Direct payment/special banking option. • Electronic payment card	• Cheques, Direct Deposits/Direct Express cards	• Cash transfer using a smart card at the local appointed agent machine
Approach to financial inclusion	• Bringing strategic change within banks • Increasing awareness through local intermediaries/ communities	• Government providing accounts through the special banking option – used only for social welfare payments to the vulnerable citizens	• Rating banks on their efforts and effectiveness at serving the poor community – an incentive for banking institutions to serve the poor	• Mobile phone application to enable customers to transfer money by phone without opening a bank account

2.5 Payment modernisation has the potential to realise significant savings to the Department and the Exchequer

The changing Irish demographic and economic profiles have implications for the DSP customer base. The population is growing and ageing and over the next decade the number of pensioners will increase. The economic environment has led to a spike in other types of welfare payments, notably Jobseekers payments.

Against this backdrop, the current cost of welfare payments – in volume terms and cost per transaction – and the volume of payments is increasing significantly. This needs to be addressed, particularly as the economic downturn continues to bite.

In addition to the need to deliver on government policy, the relevant costs per transaction of the current methods of payments, including internal administration costs, vary considerably.

This prompts closer consideration of the use of payment methods. An examination of the costs involved was undertaken for the Strategy. The costs were quantified across all schemes and payments including the costs of cheque stationery, cost of cheque printing machinery, secure storage, transport, staff time, postage, agency fees and internal staffing costs during 2010. The results indicate a very significant variation in the costs of each separate payment channel used to direct income support to customers as follows:

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[14] Denmark, Finland and Germany
[15] Australia, New Zealand and Singapore
[16] Canada and US. Note: A national programme of conversion to e-payments is currently underway driven by the US Treasury. See www.GoDirect.gov.
[17] Kenya

- EITs/Cash (through post office network) €1.70 (€74.9m total per annum);
- Cheques €0.71 (€5.3m total per annum);
- EFTs €0.26 (€8.7m total per annum).

This has a significant impact on the cost of payment delivery to the DSP where 84% of costs are incurred by 50% of payment transactions (post office payments) whereas only 10% of costs are incurred by 42.5% of payment transactions (EFT).

Currently just over four in every ten customer payments by DSP are fully electronic. A number of factors contribute to this status:

- Allowing customers to have a choice of other payment methods directs new claims away from EFT and towards most costly and inefficient payment channels. During 2012, DSP actioned over one million new claims with only 36% of them going on to EFT in the first instance. However, judging by the scale of those opting to be paid by EFT, including in particular new pensioners and those who were claiming child benefit for the first time, this trend is changing where the option is available.
- Departmental policy shifted in 2008 when some scheme payments were directed to post office payment as a control measure. This is the default method of payment to ensure the customer presents at a counter to allow confirmation that they meet one of the specific scheme criteria, i.e. presence in the State. In these cases, even customers with an existing bank account must collect their payment in this way.
- In the current economic environment, the cost associated with paper-based payments and EITs through the post office highlight the requirement for reform and modernisation of our payment approaches. The pressure on public finances, as well as the need to achieve best business practice, requires that this potential opportunity for efficiency must be pursued. On the basis of the costs above and the existing transaction volumes, it would be anticipated that moving from a base of just over 40% to 75% could generate significant efficiency savings on our current costs. However, the capital and current costs of implementation to migrate to fully electronic payments and the potential exposure to new e-payment service costs need to be considered. A business case will be necessary to clearly specify the benefits to be gained in a programme of conversion to electronic channels.

Reform of DSP welfare payments would be a powerful catalyst for modernisation of the Irish payments' landscape. Given the scale of DSP payment transactions in the economy, the new e-payment methods will be consistent with the National Payments Plan's objective of removing cash from the economy.

Furthermore, DSP's payment modernisation will allow the Department to enhance treasury management approaches to the benefit of the State and reduce associated costs. The strategy is cognisant of the State's financial position and the changing role of the State in the banking sector. It also recognises the importance of balancing potential costs and savings at both State and DSP level.

Finally, wider benefits will accrue to the State as the scale of cash usage diminishes. Notable in this is the lower security costs in the State for example through reduced cost for cash-in-transit transport and other security costs associated with a reduction in cash robberies.

2.6 Reflecting customers changing payment behaviours

The Department's business requirement in modernising the manner in which payments are made needs to reflect customer requirements and evolving practices in the payments environment.

To ensure an understanding of these key elements, a number of consultations with customers were undertaken as well. The Department is also informed by a focused survey on existing welfare payments and practices, while using current data on payment trends in the Irish economy.

- **Customers and their representative groups are generally positive towards payment electronically of their welfare**. In receiving soundings from customers and some key representative organisations[18] overall feedback was positive with customers appreciative of the need to move towards a more modern and inclusive approach to welfare payments. The consultations held highlighted some views and concerns which will need to be considered in implementing the Payment Strategy which include:
  - On the plus side customers accepted the scope for easier money management, for example if social welfare payments go through the same channel as salaries and wages. They identified the potential for speeding up the payment of welfare when people make a claim as their bank details may already be held on file. The scope for greater financial inclusion was identified, as was the requirement to minimise risk to customers by reducing the danger of carrying cash.
  - Some of the concerns included the importance of making sure the Standard Bank Account is available to those who are currently unbanked and to facilitate access for people with disabilities to access their entitlements. Some customers raised the concern for the security of personal information and to ensure there is no increased potential for fraud. Finally, it was recognised that some customers prefer to use cash for budgeting purposes.

- **More of our customers are banked than are choosing to be paid by EFT**. A survey undertaken by the Financial Services Innovation Centre during 2011[19] highlighted the extent to which customers are already accessing electronic payments services and their willingness to move to have their welfare payments made electronically. Of the jobseekers surveyed, 90% already had bank accounts, with 42% having a credit union account; 87% of customers said they would be happy to move to electronic payments. Of the pensioners surveyed it was found that 86% had bank accounts and 79% had a credit union account; 66% of pensioners indicated they would be happy to switch to electronic payments. The survey also found that 4% of jobseeker customers were unbanked and none of the pensioners were without an account in a financial institution. Appendix A provides more details on the survey.
- **People are changing the way they make their payments**. Over the years from 2003 to 2012, the trend in customer payments has changed significantly[20]:
  - Electronic credit volumes have risen from 71.8 million transactions to 138.4 million;
  - Electronic debit transactions have also risen over the period from 76.6 million to 109.1 million;
  - There were 1.8 million credit cards in the Irish system in 2003 and this has grown to 2.1 million over the period;
  - The number of Laser(debit cards) has grown most significantly from 1 million to 4 million over the eight year period;
  - Parallel to these changing trends, the volume of cheques and other paper debits in the system dropped in number from 128.8 million in 2003 to 76.1million by 2012.

[18] NGOs included Age Action, Irish National Organisation for the Unemployed, One Family, Rehab Group, National Federation of Pensioners, CIB, National Widows Association, Vincent de Paul, Irish Deaf Society, NALA

[19] Social Welfare Payments Method Survey (2011) Research project completed by the Financial Services Innovation Centre (FSIC) in UCC which was an Innovation Partnership co-funded by ITPS and Enterprise Ireland.

[20] Industry Statistics, Irish Payment Service Organisation <available at www.ipso.ie>

2.7 Electronic customer payment can deliver significant benefits but also challenges

In developing the Strategy, the Department considered the potential risks of moving to a fully electronic environment, in particular, the impact on customers in the event of payments not reaching customer accounts. A recent and very public example of this scenario was the Ulster Bank's technology failure in June 2012. Ulster Bank Ireland Ltd (UBIL) experienced technical problems which impacted on the bank's ability to process payments into and out of customer accounts. While the problem itself occurred within UBIL, its impact was wide reaching and adversely affected all Clearing banks in the retail electronic, the paper inter-bank clearings, customers of those member banks and beyond. On investigation it transpired that the underlying cause was due to a failure in a software upgrade in RBS group which had a knock on effect on their payment systems in the UK and Ireland. There was no issue with the Irish clearing and settlement systems. Comprehensive investigations of the incident have been carried out via the UK regulatory authorities (with input from the Central Bank of Ireland) and the RBS group (including the UBIL aspects in full). IPSO activated its own Incident Management Team and steered a coordinated approach to try to mitigate the impacts. The UBIL event has highlighted the criticality of robust risk assessment and contingency management procedures. Strong risk assessment and contingency arrangements are as relevant to both cash transactions and electronic transactions for DSP customers.

DSP has tried to take account of the potential benefits to our customers, the concerns they have and the external issues that can affect the issuing of the Departmental payments. The benefits are shown in the table below, along with some of the concerns that emerged.

One of the main advantages of e-payments is the convenience it offers customers, facilitating bill payment and purchases outside normal business hours without needing to wait for a merchant to open. E-payments also save time. In most instances a purchase can be made within minutes; for routine bill payments, once the customer has been set up the bill can be paid within seconds without needing to walk to a bill pay outlet and queue, or write a cheque and cover the cost of the postage stamp. It has been estimated that a person can spend up to 34 hours during the course of a year paying bills in cash or cheque while doing this through e-payments can save up to 60% of this time. Despite fears on the security of e-payments, they can offer enhanced levels of security and can assist in tackling financial abuse of the elderly. While cash is not traceable, e-payments offer an audit trail to trace any alleged non-payment or mis-use of funds; cheques can be interfered with or stolen from the post; cash can be lost or stolen without recourse or replacement options. The increased security features offered on e-payments such as the encryption of financial and personal data when making an e-payment and the chip and pin facilities to validate a payment increase the levels of security offered to customers over the cash or cheque options.

Comparison of characteristics between cash and electronic payment channels

Advantages	Cash	Electronic
• Assists personal and household budget control	Yes	Yes
• Monies can be replaced if lost	No	Yes
• Monthly statements can be produced to track expenditure easily	No	Yes
• Facilitates a range of options for onward transactions	No	Yes
• Offers security features on transactions e.g.	No	Yes

through audit trail, payment encryption		
• Offers enhanced personal security against theft	No	Yes
• Enables online purchases	No	Yes
• Creates a personal financial profile and support financial inclusion to enable other financial products to be accessed	No	Yes
• Time saving	No	Yes
• Transaction Insurance	No	Possible
• SMS text alerts	No	Possible

One of the issues to be addressed in mobilising customers to convert to e-payments will be the need to generate an understanding of the benefits of accessing financial services generally and electronic services specifically. A survey commissioned by the EU Commission on retail financial services[21] found that three quarters of Irish respondents without a bank account said they neither needed nor wanted a bank account. Married to this problem is the apparent level of consumer inertia; only 35% of Irish respondents indicated that they shopped around before opening a bank account, whereas by comparison more than half the respondents compared products when seeking credit card services or personal loans. Around a quarter of Irish respondents did not seek a recommendation from anyone when opening a bank account, with similar numbers acting only on the recommendation of the provider. The survey results reflect significant inertia, lack of understanding, or an under-appreciation of retail banking products among Irish respondents in choosing the best product and service for their personal circumstances.

An overview of the key messages and the appropriate responses can therefore be summarised as follows:

Customer concerns to be managed throughout the period of change

Concerns	Change initiative being considered in response to the potential disadvantage
• Costs associated with transactions undertaken through financial institutions including banks	• Any new payment accounts introduced should be on the basis that there will be no additional costs to customers
• Negative perception of financial institutions	• Will be acknowledged and responded to through the change and communication plans in cooperation with the National Payments Plan
• Potential loss of a face to face interaction	• Welfare payments to be accessible through at least the same number of outlets as now. These outlets may range from retail counters, post offices and ATMs but will include the potential for a social interaction should that be desired.
• Don't like change e.g. need to change the way in which they manage money and budget	• Customers will be assisted through the change process.

[21] Special Eurobarometer 373, Retail Financial Services Report (March 2012). Available at http://ec.europa.eu/internal_market/finservices-retail/docs/policy/eb_special_373-report_en.pdf

• Easier access for fraudulent claimants in other jurisdictions (note, see related benefits in previous table)	• The strategy will include specific initiatives to prevent and detect fraud, minimising any additional risks generated by a new method of payment.

As DSP moves forward with its strategy implementation, further engagement with customers and customer representatives is planned to ensure the customer experience is taken into account throughout the period of change.

3 Recommended strategy to deliver the payments vision

In developing this strategy five strategic actions were identified. These are

- a conversion programme to e-payments,
- measures to support greater financial inclusion for DSP customers,
- excellence in payments processing,
- improved fraud and control measures and
- support for customers through the transition to electronic payments.

Details of what DSP intends to achieve under these strategic actions are set out below.

3.1 Convert customers to electronic payments

The customer conversion to electronic payments will be facilitated by developments such as the availability nationally of a Standard Bank Account and will support the implementation of the National Payments Plan. In the recent launch of various INTREO employment and support services, DSP is restructuring the engagement with customers of working age who are seeking employment with change in both the nature and frequency[22] of engagement. This engagement with customers, the use of risk analytics and customer profiling are important tools which could assist in the identification of the most appropriate method of payment for individual customers.

Supporting customers to shift to electronic payment in a systematic way is fundamental to delivering on the DSP payments vision. Payment into a customer account has been identified as the most economically advantageous electronic payment. DSP has therefore identified it as the primary payment method to achieve the vision of fully electronic customer payments, recognising that in the short and medium term, an additional method(s) of payment will be required for customers without accounts, for customers in receipt of particular scheme payments, or in exceptional payment circumstances (such as emergency payments).

This move to fully electronic payments will have the following implications for customers:

- Customers will have more flexibility and security in relation to accessing their payments;
- Customers may not receive a choice of payment. Some will be required to provide account details, others will be directed to a new method of payment;
- New claims will be paid electronically;
- There will be a targeted migration to EFT of customers who are banked but are not currently being paid electronically;
- Complementary financial inclusion initiatives will be required to support customers in accessing accounts;
- Information regarding encashment of payments will be required from financial institutions where there is a risk of fraud or mispayment.

The migration to e-payments and the procurement of a new method(s) of payment must be developed, implemented and achieved with strategies that complement and enhance the Department's Fraud Initiative and the Government's Pathways to Work policy.

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22 *Pathways to Work*, Department of Social Protection (2012). Available at <http://www.welfare.ie/en/Schemes/JobseekerSupports/documents/PathwaysToWork.pdf>

The Department recognises that it is not feasible to achieve a full migration to electronic payments by the time the current cash services contract expires on 31 December 2013 for the following reasons:

- Significant numbers of people, including current social welfare recipients, do not have bank accounts. Notwithstanding the roll out of the Standard Bank Account, it is anticipated that substantial numbers of people will remain unbanked at the end of 2013;
- There is a large degree of attachment to the cash payment option within the current payment arrangements;
- The Department must recognise and provide a payment solution for some customers who are not in a position to accept payment through electronic means, regardless of the reason why this is so.

For these reasons, the Department intends that the migration of customers to electronic payments will be carried out on a progressive basis, moving over the medium term towards a future where all welfare payments will be made electronically, recognising the needs of DSP and its customers.

The first step in achieving this objective is the procurement exercise for a cash service which is currently being undertaken by the Department. This procurement will ensure service continuity for customers from January 2014 when the cash services contract currently with An Post expires. It also requires the successful bidder to assist the Department and customers to migrate from cash payments to electronic payments progressively over the contract term. An Post has been selected as the preferred bidder subject to contract agreement.

To further support the migration towards electronic payments, the Department intends to commence a procurement exercise in 2014 seeking an e-payment solution to complement the existing facility to make payments directly into customers' accounts in financial institutions.

3.2 Support financial inclusion of DSP customers

Supporting achievement of financial inclusion for customers is of fundamental importance to DSP.

Payment by EFT will enable payment into DSP customer accounts such as bank accounts, many credit union accounts and accounts with other financial institutions. In addition, DSP will work on a cross-government basis to support access to the new Standard Bank Account. This new transaction payment account is a key to enabling customers who do not currently have bank accounts to access electronic payment services. This initiative is being progressed by the Department of Finance with Bank of Ireland, Allied Irish Bank and permanent tsb. The objective is to enable those who are currently financially excluded to establish a financial footprint through a no-frills bank account through which they can enjoy the same access to electronic receipts, purchasing and payments.

The final report of the Commission on Credit Unions[23] pointed to their central role in the provision of social lending and promoting financial inclusion. Around 10% of credit unions currently have access to banking sort codes with a higher percentage facilitating electronic payments, including social welfare payments and card based withdrawals through a variety of arrangements. The Commission recommended that credit unions look at online banking and

[23] Report of the Commission on Credit Unions (March 2012). Available at <http://www.finance.gov.ie/documents/publications/reports/2012/creditunionrepmar2012.pdf> .

credit checking, become direct debit originators and opt for access to clearing where payments accounts are part of their business strategy as areas for growth and development. Advances in these recommendations would contribute positively towards achieving DSP's vision and aiding customer choice.

A phased approach to implementation is being taken with the roll out of the Standard Bank Account. A market-testing exercise of the Standard Bank Account was carried out. Three locations were selected to pilot the account – Tallaght, Tullamore and New Ross. NGOs and representative groups in the pilot areas are involved in recruiting and assisting new customers to open and use the new account. A formal evaluation, taking into account the views of the providers and the customers has been finalised. Lessons learned from the pilots will be applied in the national rollout.

It is proposed that the new method(s) of payment to be procured by DSP will mirror many of the benefits available through the Standard Bank Account. It is proposed that payments from DSP through the new method(s) of payment will continue to support a voluntary household micro-budgeting tool also.

3.3 Seek payments process excellence

Implementing the shift to electronic payment for all DSP customers and schemes provides DSP with an opportunity to ensure payments process excellence. A focus on process improvement is essential to ensuring the potential benefits to the Department are realised. The benefits include lower costs as a result of fewer paper based processes, fewer manual interventions and a common approach to payment processing.

Achieving this will involve the following elements:

- Contributing to reduced processing times through implementing consistent approaches;
- Harmonising payment cycles to reduce overpayment caused by duplication;
- Consider the appropriate regularity at which welfare payments are delivered;
- Examining the scope for rolling up payments to multi-benefit customers.

DSP plans to use this modernisation opportunity to align the regularity of payments and to harmonise payment cycles across the different welfare payment schemes. There are a number of customers who receive different welfare payments through different payment methods and at different times. Combining these payments into fewer payment transactions will help realise other efficiency improvements to DSP. Consideration will also be given to the potential to reduce the regularity at which payments are made. A move to fortnightly payment cycles where appropriate, would reduce the payment transaction volumes further and will be examined after progress has been made in implementing the Strategy.

The rollout of the Public Services Card, which is being developed and steered by DSP, is another example of the evolution of technological advances which may be able to assist in payments innovation. The rollout of Public Services Cards is underway, incorporating identification features including a photograph and signature. The card will act as a key for access to public services in general, validating an individual's identity where appropriate. Once the first phase of this Payment Strategy is realised, and customers are receiving their welfare payments through electronic channels, the scope for developing a strategy using the Public Services Card as a payment token will be examined and considered.

Delivering welfare payments electronically will provide DSP with greater visibility, management and control of internal and external payment related financial flows. This will support the Department in ensuring improved:

- Treasury management;
- Information in respect of the reconciliation of welfare payments;

- Management of welfare payments such as stopping a payment, tracking a lost payment, or dealing with a rejected payment.

The modernisation of DSP payment files requires adherence to binding international directives, notably the ambition to support the implementation of the Payment Services Directive (PSD) introduced on 1 November 2009. This includes obligations on the payment service providers that instructions for payment orders should be effected by the end of the following day. The Payment Services Directive also provides for a new pan-European regime to be adopted for file transmission (SEPA). As part of the conversion to e-payments, payment files will be enhanced to ensure payments records transferred for payment are compliant with SEPA requirements.

Whilst the Payment Strategy is a DSP initiative, it also seeks to maximise treasury management, recognise and reconcile payments earlier and to minimise associated administration and agency costs for the benefit of the State. The benefits arising from earlier recognition of payments should result in benefits being realised at a national level. However, any improvements to payment management will need to recognise the potential trade-offs between those savings realised at State level and the potential for some increased costs to be incurred by DSP to realise the objective e.g. capital investment to facilitate more efficient payment approaches.

The current arrangement for banking between the Department and Bank of Ireland as the main banking partners is also expected to be market tested having regard to Government commitments under the Public Service Reform Plan for a shared banking service across central government services. Under these reforms, the Government plans to examine the scope for both consolidating and delayering banking arrangements for Departments. A new procurement could replace existing banking arrangements across Departments and agencies. The business case to be developed by the Department of Public Expenditure and Reform will consider this in the case for shared services. DSP will contribute to this consideration including the examination of whether the service of more than one banking supplier will be necessary in the context of both business needs and economic efficiencies. Initiatives such as the proposed new shared banking service for Government Departments and the abolition of payable orders which, under the Public Service Reform Plan, ceased to be issued from August 2013[24] are relevant in this regard.

3.4 Improve fraud and control measures

As articulated in the Department Fraud Initiative 2011-2013[25], a priority is to minimise fraud and abuse of the social welfare system and thereby ensure that the public have confidence and trust in the Government's approach in this area. The emphasis is to minimise risks of fraud and eliminate incorrect payments insofar as possible.

There is no contradiction between exercising fraud control and delivering good customer services. Everyone involved in the administration of the various social welfare schemes is aware of the need to implement appropriate controls at every stage of the process.

Converting customers from a current non-electronic to electronic payment method will provide an opportunity to target fraud during the implementation period and on an ongoing basis. In particular, electronic payments will reduce the levels of fraudulently altered and counterfeit payments in welfare payments, while providing tangible evidence of the payment having been received.

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[24] Recommendation 3.4(iii) Public Sector Reform. Available at < http://per.gov.ie/wp-content/uploads/Public-Service-Reform-pdf.pdf>

[25] Available at < http://www.welfare.ie/en/downloads/fraudinitiative2011.pdf>

The Department is very conscious of the need to ensure that fraud controls are not diminished when implementing change in this area. The migration to a fully electronic payment system must build on the advantages and anti-fraud processes and measures of the existing cash payment arrangements. In particular, the current arrangement whereby certain payments may be received only in person over a counter at a designated outlet has the advantages of requiring the recipient to be present in the State, although fraudsters may attempt to circumvent that through impersonation. In achieving an electronic payments environment, the Department will ensure our payment delivery approaches complement and enhance our scheme and payment control functions.

Two features in particular will underpin the implementation of the Payment Strategy. Firstly, there will be a capacity to replicate the control attributes and securities of existing payment methods where needed e.g. the ability to limit the lifespan of a payment and the capacity to ensure that certain payments can only be encashed within the State. Secondly, the Payment Strategy and other relevant developments will be aligned to enhance fraud prevention and detection. The other relevant developments include the rollout of the Public Services Card, more widespread and active engagement with customers under INTREO and the potential use of predictive risk analytics to enhance fraud prevention and detection systems. Outcomes from fraud and error surveys will also be used to identify fraud and error levels associated with particular payment methods and remedial action will be taken as necessary. Notably, the Department commits to ensuring that higher risk customers will not be migrated to an electronic payment until it has defined and implemented robust measures that address the risk of payment fraud. In this regard particular attention will be paid to measures that will continue to address the risk of non-residency in the country where it is a condition of entitlement.

Under the Payment Strategy, fraud and control measures will be built around five important pillars, as set out below. These measures will support the Department in continuing to pursue enhanced fraud prevention and detection approaches and to target any new risks that may be introduced. They are:

- **A risk-based approach**: The rollout and migration of e-payments will be based on appropriate assessment of risk for the customer cohorts involved. It will build on existing control attributes and security. The Department will seek to reassess and evaluate the associated risks and ensure that both preventative point of entry controls and detection systems are modified to securely accommodate the Payment Strategy. This approach will also be used to identify and combat any trends that are emerging in the financial services sector including fraudulent applications.
- **Examination of best practice models**: A comparative analysis and examination of best practice internationally will be carried out to identify lessons from countries that have been paying their social security payments exclusively through electronic means.
- **Ensure that appropriate relationships with financial service providers are in place.** DSP will develop protocols with financial institutions for information sharing on fraud and transmission of data to mitigate the risk of fraud, while fully respecting data privacy requirements. This will have due regard to the Payment Services Directive and Data Protection Directives.
- **A specific communication emphasis on fraud and control measures.** As a key part of the communications approach for the Payment Strategy fraud and control will have a prominent focus.
- **Employing new technologies and processes to help detect and deter fraudulent encashment of DSP payments.** Technology and third party interventions (such as undertaking risk intelligence or assessments for Social Security agencies) are now important and increasingly successful tools available to prevent and detect fraudulent activity. These technologies will be examined and applied appropriately in the context of the Payment Strategy.

The implementation approach to be adopted to fully migrate to electronic payments will include specific measures to address fraudulent payments in line with the five key pillars identified above.

3.5 Supporting customers through the transition

A strong communications strategy and supporting networks will be key to building an understanding of DSP's imperative to move to e-payments among welfare recipients and in realising that goal.

The main issues facing customers in the move towards increased e-payments are:

- To build an awareness of the cost and implications of a cash society;
- To increase an understanding of the benefits to be gained nationally from removing the high levels of cash from the economy;
- To help customers appreciate the value to them of moving their transactions to electronic forms;
- To support previously unbanked and under-banked customers to convert to electronic methods of payments;
- To enable all welfare recipients to draw down the benefits of financial inclusion.

An effective dialogue starts with hearing and understanding our customers and their representatives. Once the needs of our customers are heard and understood, the better our strategy will be to assist and support them. In understanding our customers' needs we can ensure the best approach to attending to their e-payment needs. The most effective dialogue will be achieved when our customers also understand our needs and the dividends that could be achieved for Ireland.

DSP cannot achieve this alone. While DSP will assist its own customers in migrating to e-payments on the supply side, the effort must be matched at a national level through building a demand throughout the economy. Central to this will be the implementation of the National Payments Plan which will drive more economic efficiency at a national level across all sectors of our society. The introduction of the new Standard Bank Account will serve as a first step in the gateway to wider financial services for unbanked customers. Other financial services required to secure full financial inclusion will be the availability of low cost responsible credit, savings and insurance products which are designed to be customer friendly and easy to access, understand and use.

4 Delivering the Vision

The approach to delivering the vision was shaped and informed by a range of exploratory activities. A review of current DSP payments delivery against the vision was undertaken to identify the scale of reform required. International practice in welfare payments was researched to identify trends and opportunities. The feasibility of delivering the vision was tested with the DSP customer schemes and with the payments industry via a comprehensive market engagement. This engagement is continuing. The key findings from these activities are set out in this chapter.

4.1 Implementation approach

This Strategy focuses on a range of deliverables to be achieved to modernise DSP payments approach. The first stage will be to progressively migrate customers to electronic payments. Further initiatives to be progressed include consideration of DSP's banking partners and on-going enhancement of fraud initiatives and processing procedures to achieve greater efficiency, including the rollout of the Public Services Card to customers.

More immediately, the delivery of the payments vision for a fully electronic payments environment is dependent on the effective execution of the five strategic actions set out in Chapter 3 which are recommended to drive the strategy forward. Although these actions are concise, they are also complex and are reliant on a number of key internal and external dependencies. These dependencies include implementation of the:

- Standard Bank Account - currently planned for national roll out during 2013;
- Payment Services Directive - implementation on-going throughout 2013;
- Cash service provider - procurement and integration programme being put in place before the An Post contract expires in December 2013 to ensure continuity of payments. This provider will also be involved in assisting with the migration to electronic payments. An Post has been selected as the preferred bidder subject to contract agreement;
- Procurement of an e-payment solution to supplement EFT payments scheduled to commence in 2014;
- A Department-wide mobilisation of effort to support customers through the conversion programme whilst also balancing the achievement of other significant Government priorities;
- Legislative amendments where necessary to ensure transparency and compliance with national legal frameworks notably in payment services and data protection where necessary and to remove references to now-outdated payment processes;
- Strong, active and supportive communications campaign of assistance and advice to customers and their representatives through the transition to electronic payments.

The delivery of a strong but supporting communications campaign is essential given the vulnerability of some of the Department's customers. The implementation therefore, whilst initially driven by the economic case, needs also to be customer focussed. Careful consideration needs to be given to the manner in which implementation waves propose to convert customers to electronic payment.

4.2 Customer conversion plans

In broad outline it is proposed there will be a series of conversion waves planned as follows:

- **Wave 1 Primary Conversion** – targeted at customers with bank accounts and other accounts in financial institutions. It is estimated that some 600,000 of our customers will be converted to direct payments into a financial institution at claim initiation stage and through a conversion programme. Progress in this primary wave of activity would be expected to generate a level of success given that these customers are already conversant and with a level of experience of transactions with the retail financial services and will include bringing payment files into compliance with SEPA.

- **Wave 2 Secondary Conversion** – to continue with the on-going conversion activity whilst introducing new method(s) of payment. It is estimated that up to 450,000 customers for whom direct payment to a financial institution would not be suitable will move to a new method of payment to be procured. This creates a high level of challenge as it requires phases of design, procurement and testing to ensure it would be useful and workable for the Department's customers.
- **Wave 3 Final Conversion** – focussed on achieving full conversion. This is likely to present the greatest challenge and may not be achieved in the short term. The critical consideration is that all payment needs are met and customers are supported in making the transition where it is feasible to so do.

Electronic Payments Migration Programme					
Transactions/year	**Cash**	**EFT**	**Cheque**	**MPV/Oracle Chqs**	**e-payment**
Jan 2012 (baseline)	*51%*	*42%*	*7%*	*<1%*	*Nil*
Dec 2014	46%	45%	5%	<1%	3%
Dec 2015	32%	55%	3%	0%	10%
Dec 2016	10%	70%	2%	0%	18%
Dec 2017	3%	75%	0%	0%	22%
May add up to more than 100% due to rounding					

The targets set out above for a migration to electronic payments are indicative only and are based upon the Department's current expectations and plans and are subject to significant risks and uncertainties. The following factors, among others, could affect the Department in achieving its targets:

- unexpected difficulties or delays in progressing the proposed e-payments initiative;
- receptiveness of customers and other stakeholders to the revised payment approaches, notably the increased numbers of payments by EFT;
- changes in services, legislative, or regulatory environment; and
- other factors affecting the Department's operations including the e-payments service to be procured and implemented in the near term as applicable.

4.3 Governance

The Department has established a Programme Board responsible for delivering the outcomes of the Payment Strategy. To ensure familiarity, continuity and consistency between the Payment Strategy and the implementation plan, 'delivery projects' will be established and supported with skilled resources. These projects will be shaped around the five key strategic actions and will incorporate the conversion waves.

In addition there will be:

- cross-cutting teams responsible for delivering specialist skills, information and assurance to each of the delivery projects;
- scheme representatives will help ensure customer considerations remain at the centre of the delivery activity.

Ahead of the conversion waves a period of detailed planning and mobilisation will take place to ensure a firm foundation exists for the implementation activity. This will include detailed consideration of the following:

- the major dependencies identified above;
- detailed planning for the conversion approach;
- operational procedures needed by schemes to support the conversion approach;
- recognising other priority demands for business change in accordance with the Programme for Government;
- working with the Department of Finance with regard to the on-going implementation of the Standard Bank Account;
- determining an appropriate procurement to deliver a new electronic payment method.

The internal resourcing of the procurement process, development and testing work while managing customer relations through the period will be a demanding task for the Department in the context of other key items to be delivered to meet the Government's ambitious agenda for the Department and its customers.

4.4 Delivery on the national agenda

The cross-government payment regime is a critical component of the Strategy. While DSP will be focusing engagement and activity on our own customers, the wider national agenda must also be pursued to deliver the benefits identified throughout the Strategy. The DSP Payment Strategy is one arm of a wider body of activity being progressed and delivered as part of the National Payments Plan which is working to the same broad timeline. The roll out of the Standard Bank Account during 2013 within the recapitalised banks is a key enabler to facilitate customers to access banking and facilitate electronic transactions. The engagement of national representative groups on that steering group and subgroups is critical to the identification of concerns to be addressed as part of the national e-payments agenda and also in assisting their customers through the transition. These cross-organisational, cross-governmental arrangements will be necessary to achieve the goals identified and achieve a wider macro-economic efficiency.

Summary of Key Deliverables

- Procure and implement a new cash service to ensure continuity of payment to customers on the cessation of the An Post contract. This cash service provider to assist with migrating customers to electronic payments:
  - Procurement exercise now complete. An Post selected as the preferred bidder, subject to contract. Cash payment services to commence from Q1, 2014
- Engage with a number of welfare services in other jurisdictions to examine the identity and fraud and control measures they apply when using electronic payments.
  - Benchmarking exercise to commence in Q4, 2013
- Issue a Request for Information (RFI) to the market as the first step in the procurement of an electronic payment solution alternative to EFT;
  - RFI to issue Q1, 2014
- Procure and implement new electronic method(s) of payment for specified schemes, emergency payments and customers who cannot have a bank account;
  - Procurement exercise to commence in 2014.
- Convert at least 75% of payments to EFT payments into a financial institution;
  - Targeted conversion to commence immediately. 75% of payments to be paid by EFT by Q4, 2017
- Consider the need for any additional measures to complement the Payment Strategy and combat fraud;
  - Measures to be identified for consideration by Government by Q3, 2014
- Communicate with and support customers and their representatives on conversion and fraud prevention approach;
  - Ongoing throughout change programme
- Consider appropriateness of internal payments processes and revise as necessary

    - Will continue to be undertaken as part of planned enhancements to DSP payment systems
- Develop payment files to be SEPA compliant
    - In compliance with SEPA requirements

Appendix A: The clients view of electronic payments

A key aspect to be considered in the development of the Strategy has been to understand the payment behaviour of welfare recipients, particularly those who are working in the cash economy rather than through electronic channels. The Strategy is informed by research undertaken by the Financial Service Innovation Centre in UCC[26] during February/March 2011 which sought to understand the extent to which electronic payments are routine among welfare recipients currently and their disposition towards electronic channels of payments. The survey sampling was limited but the results echo the findings of similar available data and give a useful insight to the manner in which social welfare customers manage their weekly income. In the survey, a total of 207 customers were interviewed within two specific welfare groups i.e. jobseekers and pensioners. The findings were as follows:

Existing levels of payment accounts: Of the jobseeker respondents, 82% of them were being paid at the post office where they receive their welfare payment in cash. However, 90% of them have bank accounts and in 88% of cases they are being used. 37% have and use a credit union account and 20% have and use a savings account. In each instance more respondents had bank, credit union or savings accounts than were being used for receiving welfare payments. Only 4% of these jobseekers did not have access to an account in a financial institution. Of the pensioners interviewed some 62% of them were being paid at the post office with the balance being paid electronically into an account in a financial institution. Of these 81% of them had and used a bank account, 69% a credit union account and 40% a savings account. Again higher numbers of them had accounts which they did not use for their weekly welfare payment. Most notable however, is the fact that none of the pensioners were without some type of payment account.

Use of electronic cards: Associated with this is the prevalence of electronic card usage and preferred bill payment methods. 76% of the jobseekers have an ATM card with 72% using them. 64% had a laser card with 56% of respondents having a credit card. Only 1% use prepaid cards. Some 82% of them had access to the internet and 54% of them use internet banking. In terms of everyday use of money, 52% of jobseekers prefer to work in cash with 29% using a card and a further 4% using cheques. The usage of direct debits was 15%. The responses from pensioners varies from this in that 67% have and use either an ATM, Laser and credit card with 3% of them using prepaid cards. The penetration and use of the internet among the pensioners is lower than with jobseekers with 68% of them being without the internet. Of the pensioners who do have the internet (32%), 23% have it but do not use banking on line. The preferred payment methods for pensioners is quite different to jobseekers with more than two thirds of them (78%) using cash and 21% using cards. The rate of direct debit use was 1%.

Payment behaviour: The views of the jobseekers and pensioners converged when it came to describing the situations in which they prefer to use cash. It includes situations where only small payments made, for everyday buying, paying service bills etc. The instances where cards are the preferred payment channel relate to larger purchases/payments, holidays, fuel, weekly shopping, bill payment and because it more convenient, easier and safer than carrying cash.

Willingness to move to electronic payments: When asked whether they would be happy to switch to electronic payments, 87% of the jobseekers respondents responded positively. While 22% of jobseekers had no preference, 74% indicated their preferred method of electronic payment would be into an account. 66% of pensioners indicated they would be happy to switch to electronic payments of which 58% would prefer to be paid into an account and 8% had no preference.

[26]*Social Welfare Payments Method Survey* (2011.)Research project completed by the Financial Services Innovation Centre (FSIC) in UCC which was an Innovation Partnership co-funded by ITPS and Enterprise Ireland.

Challenges to be addressed: On enquiring about any obstacle to switching to electronic payments, some 62% of jobseekers identified no obstacles to moving to electronic payments with a further 4% foreseeing no obstacles but having some reservations. Just under half of the pensioners (49%) expressed no view with a further 14% foreseeing no obstacles but having some reservations. The main reservations raised by all respondents included matters concerning the security of personal information, the management of welfare fraud, the reluctance to giving up personal cash budgeting arrangements and the level of expertise required to manage an electronic payment.

Appendix B: Strategic outcomes

In this appendix, we set out the outcomes the Payment Strategy must deliver in order to achieve the vision for DSP customer payments.

B.1. The vision for DSP customer payments

The Department's emerging Payment Strategy seeks to deliver the following vision:

"All customer payments will be fully electronic, recognising both the DSP and customer needs".

This vision:

- Refers to achieving fully electronic payment methods that facilitate both electronic transfer of payment information and receipt of payment by the customer. That therefore does not define the post office payment as electronic as is currently delivered;
- Recognises the need to pay all customers electronically, including the unbanked and the vulnerable;
- Includes all payment scenarios, ranging from on-going payments to emergency one-off payments;
- Requires all payments are issued and received electronically, whilst recognising that more than one electronic payment method may be required to meet the needs of all customers in all payment scenarios;
- Is consistent with Government policy on electronic payments and financial inclusion;
- Maintains the Department's emphasis on meeting customer needs in the transfer of payments, such as accessibility and appropriateness of payment method;
- Acknowledges the needs of the DSP in the management and delivery of payments, such as robust management information and ability to monitor and control payments.

It is expected that progress and benefits will be delivered from 2013 onwards and there will be important interim milestones to cater for e.g. PMG payable orders removed in August 2013.

B.2. The desired outcomes for the Payment Strategy

It is recognised that a facility to deliver welfare payments in cash will have to continue for a period as the conversion to electronic payment methods is incrementally implemented for all customers. Notwithstanding this contingency arrangement, the Department has identified a suite of nine outcomes that the Payment Strategy must deliver in order to achieve this vision. These 'strategic outcomes' are summarised and defined in further detail below. Their identification was informed by the RFI process wherein respondents were asked to provide information and insight to the DSP on how each of these outcomes can be achieved.

Strategic Outcomes	
1	All customer payments are electronic;
2	DSP payment methods support financial inclusion of DSP customers;
3	Payments are made and managed in the most cost effective manner for the DSP;
4	Customer payments are timely and accessible to all DSP customers;
5	Customers are supported to access the most appropriate method of payment;
6	DSP have continuous access to customer payment and customer management information;

7	DSP payment methods are compatible with existing DSP ICT systems;
8	DSP Payments are safe and secure, and minimise fraud and error;
9	Payments support optimal internal and external financial management.

NB: the list in the table above should not be viewed as reflecting priorities.

Outcome 1: All customer payments are electronic

The payment method facilitates electronic transfer and receipt of payment to all customer types. DSP requires that the payment method is consistent with the National Payments Plan's objective of reducing the high levels of cash in the economy and payments should not be paper-based.

It is recognised that more than one payment method may be required to ensure the DSP has the ability to pay all customers electronically, including:

- Unbanked customers;
- Customers with specific access requirements.

The payment methods must also facilitate the following customer payment scenarios:

- Urgent payments, where the DSP seeks to effect immediate transfer of the payment to the customer;
- On-going payments, where the DSP transfer payment to the customer on a regular basis;
- One-off payments, where the DSP seeks to transfer payment to the customer on an irregular or one-off basis;
- Rolled-up payments, where the DSP seeks to consolidate multiple customer payments into one transaction;
- Facilitate payments to third parties, e.g. paying illness benefits to employers.

Outcome 2: DSP payment methods support financial inclusion of DSP customers

The payment method is consistent with Government policy on financial inclusion and supports achievement of financial inclusion for DSP customers.

Examples of how a payment method could support this policy include:

- Facilitating payment into DSP customer accounts such as bank accounts, including the Standard Bank Account and credit union accounts and other similar accounts;
- Providing electronic payment methods for unbanked customers for whom a Standard Bank Account is not suitable;
- Supporting the provision of enhanced payment services to DSP customers, such as household budgeting, including the payment of utility bills;
- Supporting the provision of payment information to the customer e.g. similar to electronic payslips and summary statements.

Outcome 3: Payments are made and managed in the most cost effective manner for the DSP

The payment method reduces the costs associated with customer payments while offering significant additional benefits to the DSP and its customers.

The payment method results in:

- Decreased cost to DSP (e.g. reduces paper based processes; reduces the cost of processing and managing payments);
- Increased value (e.g. can facilitate faster payment transfer, more rigorous fraud and control measures, better service to customers);

- Increased efficiency (e.g. fewer errors, facilitates faster payment processing times; enhanced treasury management).

Outcome 4: Customer payments are timely and accessible to all DSP customers

The payment method ensures that payments are transferred to customers within the required timescales and that all customers can access their payment.

The payment method facilitates:

- Timely delivery of payment transfer to customers: This includes immediate payment transfer when required;
- A comprehensive national network of payment access points to customers: The payment method does not denigrate current customer access and the customer will continue to be able to access their payment in as many places as they currently can. This includes those customers living in areas with limited banking facilities;
- Access to welfare payment for all customers: Some DSP customers have specific access requirements such as physical access to payment outlets for people with a disability. The payment method must not diminish the existing access available to these customers.

Outcome 5: Customers are supported to access the most appropriate method of payment

Customers are supported in the conversion to the appropriate method of payment for them. In so doing, the appropriate method of payment for each customer, scheme and payment scenario (e.g. urgent/one-off/on-going) type is clearly agreed and consistently applied. Customers may require direction and support in transitioning from one payment method to another in circumstances such as:

- If the Department seeks to change the customer method of payment, due to change in customer circumstances, or change in scheme policy;
- If the Department seeks to migrate banked customers to EFT;
- If the Department introduces a new method of payment for a cohort of customers or schemes.

Outcome 6: DSP have continuous access to payment and customer management information

DSP have access to a suite of management information and data on the payments that they make, from both the payment transaction and customer perspectives. The type of management information the Department would like to be in a position to add to this existing suite of management information and data includes:

- Real-time management information and analysis on payment issue and encashment, such as stopped and lost payments;
- Regular management information and analysis on customers, such as encashment patterns and locations.

Outcome 7: DSP payment methods are compatible with existing DSP ICT systems

The payment methods need to be compatible with existing DSP ICT systems and should not require significant changes or enhancements to be undertaken by DSP. The points to be considered are:

- The ease of integration and interoperability of their proposed service with existing DSP ICT systems to ensure that realisation of the strategy is not unnecessarily dependent on large scale IT change to achieve it;
- The flexibility of the Department's proposed services to respond to the changing payment requirements over time and the extent to which the Department believe it is possible to 'future proof' these services.

Outcome 8: DSP Payments are safe and secure, and minimise fraud and error

Customer payment methods should:

- Support robust governance and audit;
- Ensure payment transactions are safe and secure;
- Meet DSP control measures, such as confirmation of customer identity and entitlement criteria such as being present in the state ;
- Contribute to reductions in payment instrument fraud and payment error.

Outcome 9: Payments support optimal internal and external financial management

DSP envisages that:

- The payment method provides clear visibility, management and control of internal and external payment related financial flows;
- Treasury management is best practice: Whilst the Payment Strategy is for DSP it also seeks to maximise treasury management for the benefit of the State and minimise associated costs. The strategy is cognisant of the State financial position and the changing role of the State in the banking sector. It also recognises the trade-off between potential savings at State level that correspond to increased transactional costs at DSP level.