From April 2003, the payment of social security benefits and pensions by Automated Credit Transfer (ACT) into a bank account or some other kind of account will become the Social Security Agency’s preferred method of payment.

A phased conversion is planned, with an intention to commence with Child Benefit claimants on a pilot basis from October 2002. Other benefits set to follow from April 2003 include Income Support, Job Seekers Allowance, Incapacity Benefit, Industrial Injuries Benefits and Retirement Pension claimants.

Research\(^1\) has shown that, whilst 21% of people receiving social security benefits and pensions in Northern Ireland have all of their payments made directly into a bank or building society account through ACT, it is calculated that 72% of people have an account of some kind.

**AIAC Concerns**

1. The fact that 72% of claimants have an account of some kind is not really the issue. The concern is that while 72% of claimants may have access to an account, are these accounts really the most appropriate platform for the delivery of social security benefit payments.

The Research by Elaine Kempson was carried out in order to provide an overview of the characteristics, experiences and attitudes of benefit recipients who were not paid by ACT. It highlighted a variety of reasons as to why people preferred not to choose this method of payment including:

- Fear of errors or delays in payment (by far the most common concern);
- Wanting to use the Post Office / lack of convenience of using accounts at banks or Building Societies;
- Wanting to keep tight control over finances / managing money in cash;
- Risk attached to using accounts / not wanting to become overdrawn;

Other reasons included:

- Not wanting / having an account;
- Dislike / mistrust / problems using ATM machines;
- Ability to withdraw small amounts from an account;
- Anticipated problems on transfer (the ‘changeover period’);

\(^1\) ‘Payment of Pensions and Benefits in Northern Ireland’ (2001, Elaine Kempson)
Therefore the fact that 72% of claimants may have existing accounts is not entirely a reliable indicator that these accounts will be suitable for individual claimants. In particular, not all of these accounts may be useable at Post Offices.

The Prime Minister has already given a commitment that “No-one will be prevented from continuing to receive benefits in cash at the Post Office if he or she wants to, and not only monthly but weekly”.

In addition the Minister for Social Development has also given assurances in the Northern Ireland Assembly²:

“What steps are being taken to ensure that claimants who do not wish to open a bank/building society account in order to receive pension and benefit payments, will, after April 2003, retain the option of receiving such payments directly from a Post Office?”

(AQO182/02)

“Payment by credit transfer is being introduced to modernise the way benefits are paid, to reduce social and financial exclusion by giving access to basic bank accounts, and to reduce the fraud and abuse associated with the current paper methods of payment.

Negotiations are proceeding between the banks and the Post Office to ensure that people who open basic bank accounts will be able to access those through the Post Office. Thus it is my clear policy that people in Northern Ireland will be able to continue to collect their benefits at post offices.”

“Will the Minister give an assurance that any switchover will not be compulsory?”

“I assure the Member that people can collect their benefits in cash from the Post Office if they so wish. The purpose of the reforms is to tackle social and financial exclusion and to reduce fraud and abuse. Clearly, provision must be made for those who cannot or do not wish to avail of that system. There is no question of people being forced to use it, and people will still be able to receive their money weekly. They will not have to make different financial arrangements for their own accounting purposes.”

The government is currently working on a Universal Banking Service which will have two separate strands:
- Basic Bank Accounts;
- Card Accounts available at Post Offices;

² http://www.ni-assembly.gov.uk/record/reports/020930.htm#dsd
At this stage it is proposed that Basic Bank Accounts will provide basic banking services which will enable people to pay money in, get money out and no risk of overdraft. They will be accessible via a plastic card and PIN number.

**AIAC Concerns**

2. The fact that details have not yet been finalised as to the terms of Basic Bank Accounts; and as to the position of all the major banks and Building Societies on the issue is a concern, especially with six months to implementation. The Kempson Research highlighted that “there are currently [2001] no basic bank accounts in Northern Ireland that meet fully the CAT standards being proposed by the Treasury.”

3. While the details have not yet been finalised, if there is to be an ability to set up direct debits etc, there will be scope for the account to become overdrawn. There will therefore be scope for the account to be subject to fees and charges, which is a major concern for people already on low incomes.

4. Many banks and Building Societies have accounts which are marketed along the lines of a corporate strategy, with various names like QuickMoney or EasyCash. There may then be an issue of identification – in that claimants may not be clear as to what type of account they have;

It is proposed that the Card Accounts at Post Office will be an even more basic form of Basic Bank Account which will be accessible only at Post Offices. This account will be accessed by a plastic card and Personal Identification Number, over the Post Office counter and will only be able to receive benefit payments and tax credits by ACT.

**AIAC Concerns**

5. Research has already shown that “the level of resistance to plastic cards … has important implications for the plans to make ACT the normal method of payment from 2003. Not only are basic bank accounts card-based but so too is the simple type of account that is planned by the Post Office as part of its Universal Banking proposals.” Therefore older people, people with sight problems, people with limited use of their hands, people who have difficulty remembering PIN numbers may very well have problems with the plastic card access to accounts.

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3 CAT: **Charges** (no charges for everyday transactions and no risk of an overdraft; **Access** (no requirement for initial or regular deposits; customers must be able to use cash machines, cash and cheque deposits, automated credit transfer, direct debit, standing order or budget accounts); **Terms** (all advertising and paperwork must be straightforward, fair and clear; account holders must receive regular statements and minimum notice if CAT standards terms are to be withdrawn; account holders must be able to withdraw all funds)
AIAC Concerns

6. Research has already shown that “the level of resistance to plastic cards … has important implications for the plans to make ACT the normal method of payment from 2003. Not only are basic bank accounts card-based but so too is the simple type of account that is planned by the Post Office as part of its Universal Banking proposals.” Therefore older people, people with sight problems, people with limited use of their hands, people who have difficulty remembering PIN numbers may very well have problems with the plastic card access to accounts.

7. There must be an understanding of the fact that many people on benefits may not have any savings. This is important because people will be moving from the perceived safety of cashing their order book to a situation where they have to trust that their benefit payment will arrive into their account on time. Where there are no savings and where benefits are the sole source of income, many people may be very reluctant to change their method of payment until the payment modernisation initiative can be clearly seen to be problem-free.

8. If access to either account is to be via plastic cards and PIN numbers there must be effective systems in place to assist those claimants who loose their cards – not only in order to receive replacement cards but also from a security point of view;

9. The impact of this payment modernisation initiative on the longer-term viability of some Post Offices is a cause for concern. It is likely that this initiative will lead to reduced income for Post Offices as people opt to receive their benefit into a bank or Building Society account. Therefore while “No-one will be prevented from continuing to receive benefits in cash at the Post Office” will all Post Office outlets continue to remain in tact?

While much remains to clarified in relation to Universal Banking proposals (Basic Bank Accounts / Card Accounts available at Post Offices) the first wave of publicity has begun with the Summer 2002 Edition of Touchbase⁴, published by the Department for Work and Pensions.

The front-page article indicates that “the Government has decided that – from April 2003 – the normal method of paying benefits and pensions will be by credit transfer directly into a bank or building society account.”

The article goes on to explain, “Customers will have more choice about when and where they get their cash. For example, if they have a bank account, they can get it from a branch of their bank, a cash machine or, perhaps, the supermarket. Or, if they prefer, they will still be able to collect their cash at a post office – free of charge.

“Customers will be able to choose an account that is suitable for them.

“For most, this will be a current account – a standard bank or building society account that offers a range of services, often including access at cash machines, cheque books, Direct Debit and overdrafts. Not all current accounts may be useable at Post Offices.

⁴ www.dwp.gov.uk
Alternatively, customers may choose an account that, from April 2003, gives access to banking at a post office. These are:

- A **bank or building society basic bank account** – also called an introductory account or starter account – for those new to banking who just want to pay money in, get cash out and, perhaps, pay bills automatically.
- A **card account at the Post Office** – a simple account for those who are unable, or do not want, to open a current account or basic account, which will allow customers to access benefits, pensions and tax credit payments at the Post Office.

**AIAC Concerns**

10. The only mention of choice is in terms of which account to select. There is no mention of the option not to choose any of these accounts. Certainly for some clients a move to benefit payment via ACT will not be a realistic option and it is vital for these claimants that they receive adequate information. AIAC believe that the information made available on this issue must cater for those who cannot transfer as well as those who can, so that these already vulnerable people do not feel isolated and threatened by the process;

11. In terms of which account to select, there is very obviously a prioritisation in terms of choice. The article points out that a standard bank or building society current account (which may not be useable at post offices) will be the choice for most customers. While they have the choice, customers appear to be directed in a certain direction.

AIAC have been in touch with the British Bankers Association\(^5\) (BBA) requesting further information on the preparation their members are taking for this payment modernisation initiative. The BBA is the leading trade association in the banking and financial services industry representing banks and other financial services firms operating in the UK.

**“(i) Resource issues:**

Our members are working hard to identify resourcing requirements both by area and by date to ensure that they are adequately equipped to deal with the change.

**“(ii) Identification & Verification issues:**

We are working with the Department for Work and Pensions (DWP) and the FSA on ID&V issues. There is an appreciation that many claimants new to banking will not be in a position to produce standard ID&V documentation, and members need to be as flexible as possible to accommodate them while remaining vigilant about the Money Laundering Rules and Regulations. You may be interested to know that the JMLSG Money Laundering Guidance Notes are soon to be revised, so if you have any suggestions of the types of documents which financially excluded groups are able to produce, but which are still 'secure', we could take these into consideration in the drafting.

\(^5\) www.bba.org.uk
“(iii) Informing clients of the options available:
The DWP will be sending detailed literature to each of the client groups, and the Post Office will also have material available in Post Office branches. We have seen, and indeed commented extensively on, this material, and can confirm that it does spell out all the options available to claimants. It has been written to be as clear and simple as possible, and has been tested on customers. We have also seen and commented on the call centre scripts which also explain all the options.

“(iv) recourse if / when things go wrong:
We are working with the DWP, the Post Office and our members on this. I'm afraid that I'm unable to provide any details on this at present.”

The question of identification for opening an account may pose problems for some people. In many cases two forms of identification are required, including photographic identification in the shape of a drivers licence or a passport. This may pose a problem for many people, and so may limit their choice in terms of selecting an account appropriate to their needs.

**AIAC Concerns**

12. Identification requirements may pose problems for some claimants. Government must have a strategy in place to deal with the situation where claimants may be prevented from opening an account of their choice due to a lack of specific identification. Consideration should be given to broadening identification requirements, thus enabling claimants to exercise their capacity to choose to the full.

AIAC believes that the issue of empowering claimants to be able to exercise real choice in terms of which account to choose should be fundamental to this initiative. However AIAC has been contacted by a Sub-Postmaster who is concerned that Government Departments may already be contacting benefit recipients for their bank details. He goes on to say:

“My understanding was that everyone would have the choice of three types of bank account including the new Post Office Card account. Currently there is no Post Office Account until April 2003, Bank of Ireland and First Trust have not signed up to the Universal Bank with the Post Office⁶.

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⁶ Bank of Ireland and First Trust have now signed a Memorandum of Understanding with the Post Office and may sign contracts shortly.
“The Benefits Helpline that we have phoned is requesting bank details only and not mentioning that the other accounts will be available by April 2003. When told that we worked in a Post Office they then informed us that Post Office Account applications forms would be available from Jan 2003.

“As this campaign continues the benefit recipient once transferred to bank account cannot access their cash at a Post Office until at least April 2003. This is not being explained. This is contrary to what the government agreed and pledged in the PIU report of 2000. They stated that everyone would have access to a bank account and they would still be able to lift cash at their local Post Office

“The effect of this current action will inconvenience recipients who are not being given the full facts and options. They will then have to travel to their nearest bank or ATM to access cash. As well as creating a massive void in Post Office business, this will certainly result in the closure of Post Offices as salaries are based on transactions carried out.

“The Post Office is relying on the Universal Bank for their survival and this action will close offices before we even get the facilities to do the account business. The disadvantaged and less well off will be hardest hit as closure of offices will reduce the convenient access to services that the government have apparently promised to retain in the PIU report in the form of Post Office Network

“There would appear to be a fundamental error in timing here that is hard to explain on the part of Government.”

### AIAC Concerns

13. Priority should be given to informing claimants of the initiative in a full and fair manner. Claimants should be able to choose from the full range of accounts, but there is already a concern that Post Office Card Accounts may receive less favourable treatment.

The payment modernisation initiative has the aim of migrating Social Security Agency claimants from order books and girocheques to electronic payment of benefit. Therefore the initiative is going to impact upon many in society who are vulnerable, sick & disabled and trapped in poverty. Benefits affected will include Income Support, Incapacity Benefit, Jobseekers Allowance, Pensions and Minimum Income Guarantee, Disability Living Allowance and Attendance Allowance. These benefits alone have in the region of 500, 000 accounts – which gives an idea of the scale of the exercise.

These people will need access to clear, impartial advice on the issue of payment modernisation – for some a move to payment benefit into some form of account may be appropriate and right for them. For others, any such move may not be appropriate in their current circumstances, or indeed may never be appropriate.
AIAC Concerns

14. Judging by the limited information available to date, there appears to be (i) little or no mention made about the voluntary nature of the initiative; (ii) considering the imminent commencement of the process, there has been little or no engagement with claimants in order to fully explain the issues involved.

AIAC has already contacted the Financial Services Authority\(^7\) (*which has a statutory role to secure protection for consumers and to promote the public’s understanding of financial services and products*), outlining that Research has shown that the level of account holding among social security benefit claimants is low, therefore this initiative is going to bring a large number of people into regular contact with financial institutions —many for the first time:
- Often the most vulnerable, disadvantaged and poorest people in society.
- A group of people which research has shown largely to be previously excluded from such financial services.

We raised issues from the perspective of benefit claimants including:

- Overcoming financial literacy problems;
- Assisting these people to make informed choices about whether or not to shift to ACT for their benefit payments;
- Helping people to make informed choices about selecting an account;
- Outlining the process for complaining about the level of service provision, if/when things go wrong;
- Providing ongoing monitoring of the treatment of these individuals by financial institutions;

We also raised issues from the perspective of the financial sector including:

- Returns to be gained from the ACT initiative;
- Accessibility of appropriate services;
- Tailoring services to meet the unique needs of this vulnerable group of people;
- Information provision relating to these services;

An initial response from Gill Hind, Consumer Education Services Manager, outlined that her work was mostly with the formal education sector, both schools and adults.

“We are for example in consultation with the NI Council for the Curriculum, Examinations and Assessment as part of their current curriculum review. For adults we work closely with the various basic skills organisations and have recently produced an Adult Financial Capability Framework (in consultation with a variety of organisations, including money advisors) which links the basic skills with adult skills, knowledge and understanding about personal finance.

\(^7\)www.fsa.gov.uk
“I have been particularly concerned to raise some of the issues you outline with the various organisations I am in contact with. It is likely that those adults who are currently unbanked and in receipt of benefits will also have basic skills needs. So offering numeracy and literacy teaching in the context of personal finance makes a lot of sense for this target audience.”

**AIAC Concerns**

15. This would appear to be a longer-term strategy for improving financial literacy. There would therefore be a concern that the 2003 – 2005 timescale which the Agency has set for achieving migration to payment into some kind of account is at best optimistic and may even be unrealistic in terms of people’s ability to cope with this change.

The issue of access to clear, impartial and complete information is key to empowering people to decide on (i) whether or not to change their method of payment and (ii) if they do decide to change – which type of account to opt for.

Postwatch\(^8\), which has the role of protecting, promoting and developing the interests of all customers of postal services in the UK, has already declared that benefit recipients should be fully and fairly informed in good time of the choice they must make and the options open to them; there are no hidden pressures to favour one type of account over another; the new payment systems are operational and properly tested; there is free and independent financial advice for those who need it; there must be a safety net so that those who fail to open an account can still receive their benefits.

“Government must ensure that benefit recipients have access to free and independent advice. This may require the provision of extra funding for independent advice agencies.”

**AIAC Concerns**

16. AIAC’s 2000/2001 Membership Profile Report\(^9\) highlighted that 100,000 clients presented with over 222,000 enquiries, the majority being social security related. There can be no doubt that this payment modernisation initiative will have a major impact on the workload of independent advice agencies in terms of providing independent advice and information on the process and the options available. However at a time when advice services are under severe funding pressures, there must be doubt about their capacity to perform this vital function without additional financial support.

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\(^8\) [www.postwatch.co.uk](http://www.postwatch.co.uk)
\(^9\) [www.aiac.net](http://www.aiac.net)
The impact on the Post Office network will also be significant. Currently the Post Office contract for the encashment of order books and girocheques amounts to up to £400 million per year.

In February 2002 the Assembly\(^\text{10}\) debated the issue of Post Office provision, noting proposals by Consignia to cut the number of post offices in Britain by half and calling for immediate action to protect the infrastructure of post offices in Northern Ireland, particularly those serving people in rural and disadvantaged urban areas.

The debate recalled that in a House of Commons Hansard report of 12 April 2000, the Prime Minister indicated:
"Half a million more people a year choose to get their pension or child benefit through their bank accounts. That will carry on, so inevitably the post offices are faced with a process of change."

The Assembly debate continued: “The Government policy of changing benefit payments from cash over the counter to bank transfer will deprive post offices of so much income that a large new wave of closures is certain, unless that income is replaced. The Social Security Agency intends that all benefits will be paid through a bank account in a conversion programme running from 2003 to 2005, known as automated credit transfers (ACT), and efficiency savings of £400 million per annum are expected.”

**AIAC Concerns**

17. There must be a concern about the future shape of the Post Office network, and as such there must be a concern about reduced accessibility to Post Offices for the collection of benefit in the future.

The payment modernisation initiative is an enormous undertaking for the Social Security Agency and there is no doubt that many claimants will have very many questions and concerns which will need to be addressed before they will feel comfortable moving to benefit payment into some kind of account.

Many other claimants will welcome this initiative as they can take advantage of the banking services on offer such as:
- payment of bills by direct debit (with the resultant savings that this often achieves);
- greater convenience;
- greater choice in terms of accessing money at several outlets;
- greater security with excess money held securely in the account;
- can lead to an improved credit rating and lead to greater access to other financial services;
- and simply the opportunity to modernise this aspect of social welfare along with the vast number of changes and developments in other aspects of everyday life;

\(^{10}\) www.ni-assembly.gov.uk
Nevertheless, for those already feeling isolated, disadvantaged and excluded, any initiative which directly impacts on their financial situation will at least be a matter of concern and for some it will cause anxiety and even distress. The aim of this paper is to flag up some of these issues of concern so the payment modernisation initiative can progress in a manner which does not negatively impact on benefit claimants.

**AIAC Concerns**

18. At one point or other throughout our lives, we all are in contact with social security benefits. From Child Benefit to Jobseekers Allowance to disability benefits to Retirement Pension – this initiative will impact upon all members of the community. Each person may have their own individual concerns, fears and problems therefore it is vital that the Social Security Agency have adequate contingency plans in place to deal with unintended outcomes of this initiative: contingency plans which must take account of the scale of the undertaking.

19. The list of issues and concerns are not exhaustive but as well as the issues highlighted above other issues which appear to be outstanding include:

- Urgent payment cases (ACT payments require three days processing time);
- Information for those unwilling / unable to transfer their method of payment;
- Impact on third parties and agents as regards encashment arrangements;
- How the milk token scheme will be administered via ACT arrangements;
- Whether all claimants will have choice as regards their payment cycle;
- Whether interest will be available on all accounts;
- Claimants having access to account statements on request;
- How the Agency propose to keep in contact with claimants (i) regarding the make up of their benefit; (ii) informing claimants of changes; (iii) ensuring that claimants rights are not undermined, for example ensuring claimants are empowered to challenge deductions at source, prior to deductions being implemented;

AIAC will continue to monitor this important issue and we trust that the concerns highlighted in this paper will be given due consideration by those with responsibility for implementing the payment modernisation initiative. We look forward to these issues being taken forward and addressed over the coming weeks.

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AIAC Mission Statement

AIAC is a voluntary organisation for the independent advice sector in Northern Ireland, representing and giving voice to its members aspirations to deliver effective and holistic, community or issue-based advice through the provision of services, support and development opportunities.

Values

As a membership organisation, our values are embedded in promoting the application of creative community development approaches to advice giving, which place people and communities at the centre of the process and involves them in finding solutions and making informed choices.

AIAC believes in

Quality advice which is delivered free.

Advice services which are impartial and non-judgemental and respect the individuals dignity.

Advice which is wholly confidential, and accountable to the public.

Independent advice, which is free from statutory or private control and is both non-party political and non-sectarian in nature.

Advice services which are aimed specifically towards overcoming social exclusion.

Offering people choice through the provision of flexible, accessible advice services.

Social Policy Briefing

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