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FROM: PETER SCHOFIELD
DATE: 1 FEBRUARY 1999
EXTN: GRO

STEVE ROBSON

cc APS/Chief Secretary
Harry Bush
Adrian Montague
Sarah Mullen
Ross Newby

BA/POCL: MEETING WITH ICL

You met Keith Todd and Richard Christou (ICL) on 29 January. I was also present.

2. You started by making clear that these discussions should be considered to be on an informal basis and without prejudice and confidential. Todd and Christou accepted this.

3. You explained the background to the meeting. You said that Ministers were unhappy with the deal on offer from ICL, for example the price and the acceptance procedures proposed for BA. You noted the difficulty of reaching agreement within the public sector on a way forward for the project given in particular the differing objectives of BA and POCL. You said that you had been asked to look at the project with a fresh perspective, and to see whether there might be a way around the impasse that had been reached. In particular, you wondered whether a way might be found to take BA out of the loop by moving directly to paying benefits through ACT without going through a transitional, benefit payment card stage. You also noted that Ministers were interested in proposals for a smartcard, allowing access to a wide range of services, as set out in Todd's letter of 18 December.

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4. Todd made the following points:

- he felt that the move to compulsory ACT was not as simple as the BA suggested. The transition needed to be gradual - the timing had to be as fast or as slow as benefit recipients were prepared to accept. And he thought it unlikely that the banks would be prepared to offer free banking to the poorest people in society - their focus was increasingly much more on the high value side of the personal banking sector;

- this meant that before ACT was in place, there would need to be some provider of social bank accounts. The natural access point for these accounts would be the Post Office, given its trusted brand and the size of its customer base. But the accounts themselves should be run by a bank, presumably for a fee;

- likewise, the Post Office could be the natural access point for “Citizen-centric Government”, which could be supported by a smartcard and the Horizon infrastructure. But there would probably need to be a period of exclusivity for the PO to enable the business to become viable. And it would require a more commercial approach by PO management.

5. You asked whether the payment of benefits into these social bank accounts, accessed by a smartcard, would be a way of moving to ACT without the transitional phase of a benefit payment card. This would take the BA out of the contract, leaving them to concentrate on getting their own IT systems ready for ACT. For people who wanted it, there could be some means of transferring money from social bank accounts to conventional bank accounts, but many people would still go to post offices to obtain their benefits - either because they

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do not have another bank account or just because of inertia. This would help maintain footfall, and give a customer base from which to launch Citizen-centric Government and other applications for the smartcard.

6. Christou said they would look at this over the weekend - at the commercial and financing implications and whether it was technically possible without making significant changes to the hardware. He hoped to have completed a broadbrush "stress test" of this option by Monday (1 February).

7. Todd emphasised the pressure he was under on timing. The ICL board meet on Thursday.

8. You and they agreed to meet again at 3pm on Monday.

PETER SCHOFIELD