

MINISTRY OF EMPLOYMENT AND INCOME ASSISTANCE

ISSUE NOTE FOR “CLIENT”

SUBJECT:

Alternative Benefit Payment Options for BC Income Assistance clients.

PURPOSE:

The purpose of this exercise is to explore electronic payment options for BC income assistance that may be more efficient than the current cheque-based payment system with the aim to reduce costs and fraud while providing better services to customers.

BACKGROUND:

Over the past few years, governments have had to improve their business processes and save money while still providing good services to their customers. This trend of “doing more with less” has generated an effort to move the delivery of public benefits for services, goods, and money from paper-based to electronic based processes.

By utilizing new technologies governments moved to a customer-centric approach, trying to change the perception that interacting with government departments is nearly always a frustrating chore.

The BC Employment and Assistance Program (BCEAP) provided by the Province of British Columbia and is designed to offer temporary and long-term financial support to those in need. Approximately \$89 million is paid to about 112,000 clients located throughout British Columbia each month. Currently 54% of payments are still made by cheque, 29% by EFT (and 17% by imprest cheque).

Given the huge amount of paper work that still needs to be handled by Employment and Assistance Workers (EAWs) on a regular basis, the Ministry is looking into new electronic ways of making BCEAP payments in order to streamline the payment process, lower costs and reduce fraud and overpayment.

DISCUSSION:

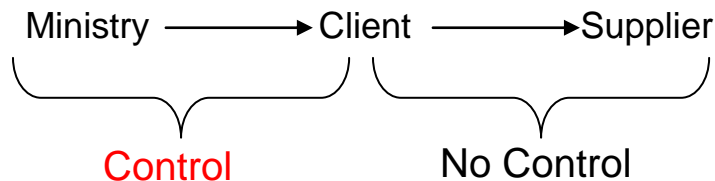
There are many aspects to consider when implementing new technologies. There are internal issues related to how the new technology impacts all aspects in an organization such as workflow, staffing, policy (BCEAA, FAA) and other things such as social and political issues like confidentiality (FOI), security and discrimination.

Also to be considered is that any electronic payment system requires exceptions for handling special situations. EAWs need flexibility to respond to special circumstances (e.g. emergency needs, medical transportation, people who are unable to manage a bank account, etc.). In some cases, it may be best to continue some services through cheques.

Understanding the “flow of funds” the Ministry can/cannot (chooses/chooses not to) control is critical (and would likely dictate the project scope, should an endeavour be undertaken to affect a change in a particular area).

For example:

REGULAR INCOME ASSISTANCE (IA) BENEFITS

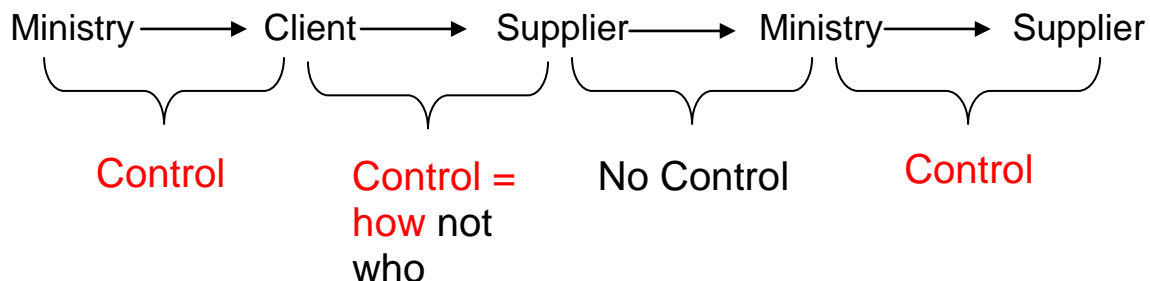


Current, the Ministry has a greater amount of control over how the “funds flow” from the ministry to the client, and has little* to no control over how the client then expends those funds, making it considerably easier to address the “control point” with a more efficient/effective electronic system.

(* little meaning administrative payments – i.e. there are cases where payments are made directly from the Ministry to landlords for rent, etc.)

In the example below with the legislated benefits* stream the Ministry currently has multiple vehicles to “issue funds” (imprest cheques, HR407s, CHITs for meal tickets and taxis, etc.), as a result, the Ministry may choose to implement a more effective/efficient electronic means to address **how** the client receives the benefit (funds) from the Ministry, but has historically chosen not to control **who** ultimately receives those funds when the client expends/receives a benefit (i.e. pre-determined suppliers), this would be a key factor requiring serious consideration in any plan/project supporting the integration of electronic technology. More detailed information is provided later in this exercise.

LEGISLATED BENEFITS



(*referred to in varying ways, i.e. legislated benefits, supplements (general/health), allowances – but for the purpose of this exercise will be referred to as “Legislated Benefits” and include any payment that is not a regular IA benefit payment).

Also, in this exercise we look at the current payment system and explore some of the payment alternatives available - discussed in more detail as follows:

- Schedule A – Current Payment System Overview : Predominantly Cheque Based
 - Regular Income Assistance (IA) Benefits
 - Legislated Benefits
- Schedule B – Electronic Benefits Transfer (EBT) systems
 - B-1 : Magnetic Stripe Cards
 - B-2 : Smart Card (aka Chip Card, Integrated Circuit Card)
 - B-3 : Hybrid Cards
 - B-4 : Chits, Vouchers, Forms, Letters of Authorization, Cash
- Schedule C – Expanded, Mandatory EFT

As supplements to this exercise, the following reference materials are provided:

- Appendix 1 - United States – Electronic Benefits Transfer System (Highlights from Maryland & Missouri)
- Appendix 2 – Reference document : Canada’s Social Payment Disbursement System and the Financial Services Sector, Moving to a Mandatory Direct Deposit Scheme : The Case of Alberta (Michael Grant)
- Appendix 3 – Audit of the Department of Social Services Electronic Benefit Security Card and Electronic Benefit Transfer Benefit Delivery System (Office of the Auditor Claire McCaskill, State of Missouri)
- Appendix 4 – Identity Authentication and Authorization in Electronic Service Delivery – An Ontario Perspective (Office of the Chief Information Officer)

When considering changing the payment system, it is important to consider the various stakeholders and the benefits associated with each of them. Conceptually/theoretically, the benefits that implementing one or some of the options above provide are outlined below:

Clients

- can take advantage of the convenience of an electronic form of payment by drawing their benefits as needed instead of receiving a month’s allotment at one time
- can access their benefits immediately on cheque issue day
- cheques will not be lost or delayed in the mail system, nor will they be stolen
- can also use the cards to make purchases or withdraw cash
- get receipts and account balances every time they use the card, which enables them to better manage their benefits and carry forward their balances
- using ATMs or POS, clients have customer service available 24 hours a day
- assists with integration “into mainstream society” as having a bank account requires some interaction with the banking institution and many employers require EFT access for salaries
- can easily have their card replaced if lost or stolen and it can not be used by anyone who doesn’t know the PIN

Financial Institutions

- make money from electronic payments, by charging transaction fees

- get interest income off the benefits payments between the time they are deposited by the government and the time they are withdrawn by the client

The government

- saves time and money by moving to an electronic form of payment - the process of printing, transporting, safeguarding, distributing, replacing, accounting and storing the cheques is eliminated
- can perform a range of financial activities associated with any paper-based payment system better, faster and cheaper (reports, reconciliations, and other associated activities)
- has more rapid access to accurate information which not only support reporting but the reduction of fraud

RECOMMENDED ACTION:

The Ministry will need to consider the options from the perspective of what it can/cannot (chooses/choose not to) control and thoroughly analyze each of the individual options:

1. Ministry to client (Regular IA Benefits) – EFT currently in place, the Ministry continues to provide incentives and marketing to increase “up-take.”
2. Ministry to client (Regular IA Benefits) – EBT is an option, and has been considered, however, to-date, has not been selected over EFT. The Ministry might, however, want to consider implementing this option only for those clients who do not/can not/will not ever be set up on EFT.* Multiple issues (detailed below) will need to be addressed in any plan to move forward.
3. Client to supplier (Regular IA Benefits) – the Ministry cannot reasonably control any portion of this other than those payment which flow through the “Administrative Payments” program.
4. Ministry to Client to Supplier (Legislated Benefits) – room for consideration of options and potential improvement, however, options (including formal procurement processes and/or EBT) will likely require plans to address – FOI, the Patriot Act, client identification, pre-determined suppliers,** and compatible electronic systems (i.e. for suppliers) - details in Schedules B-1, 2, 3 and 4.

Prepared by:

Diane Roberts
Diane L. Roberts Business Consulting Inc.
May 3, 2006

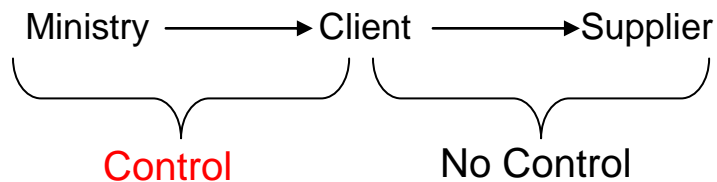
* as in the case of the Metro Toronto Pilot – see Schedule B

**as in the case of the U.S. – see Appendix 1

Schedule A

Current Payment System Overview : Predominantly Cheque Based

REGULAR INCOME ASSISTANCE (IA) BENEFITS



The Ministry provides services to clients through approximately 150 district offices in 5 regions in BC. When a client asks for income assistance, they first go through a two-stage application process as well as a verification and eligibility process. If the client meets the requirements, they receive an imprest cheque to address their immediate needs, if they miss the cut-off for the monthly BCEAP cheque run. The Ministry issues on average 30,755 imprest cheques per month. These cheques are normally for one-time or emergency payments and are manually created and issued from the district offices.

After the client is registered in the BCEAP, they have the option to receive their benefits either by cheque or through direct deposit. The BCEAP system sends the data to BC Mail Plus to print the next cheque or, if client opted for direct deposit, to issue an EFT notice.

BC Mail Plus prints all the cheques in Victoria on the last or second to last Wednesday of every month and sends them either directly to clients, or to the district offices if the EAW needs to see the client in person.

To process BCEAP payments the Ministry uses 2 banks: Royal Bank for cheques and Credit Union Central for EFT. The reconciliation of the BCEAP bank accounts is done at the Financial Services Branch in Victoria. They receive daily mismatch reports identifying items cashed the previous day which were either stopped, stale-dated, previously cashed, or didn't match Ministry records for cheque number or amount. These items are reviewed with Royal Bank every day. Monthly, G/L accounts are reconciled to the bank statements (on-line from the Royal Bank).

Also, the Financial Services Branch in Victoria advises the district offices of any returned EFT payments and actions trace requests from the EAWs for lost payments with Credit Union Central.

Historical records indicate that the Ministry implemented EFT on a voluntary basis about 10 years ago.

Currently only 29% of the BC Benefits payments are done through EFT. There are several reasons for the EFT program not being implemented to a larger scale,

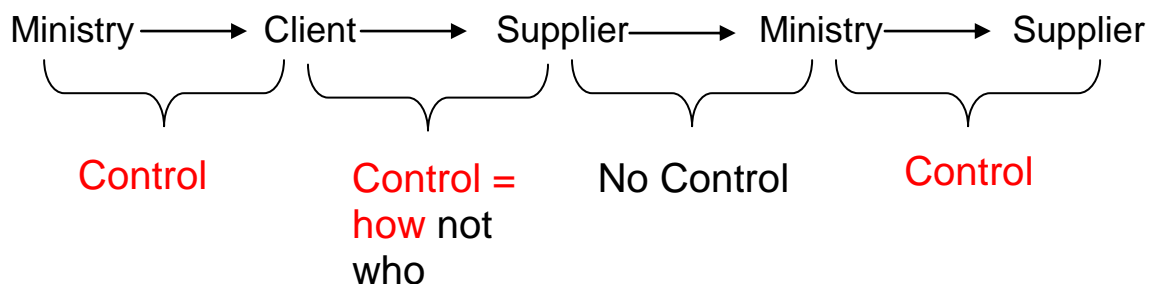
generally, clients:

- do not have bank accounts and are reluctant/unwilling to establish one;
- lack proper ID and/or have a poor credit rating;
- resist change due to psychological discomfort (they want to “see” their money);
- have security of income concerns – worries (real or perceived) that a bank may impose a garnishment order (e.g. tax, child support, etc.);
- have access concerns – hours of operation are inconvenient or they don’t feel “comfortable or accepted” in a banking environment; debit card concerns – can’t/don’t remember the PIN, etc.;
- live in a remote area with no, reasonably close, banking facilities and/or ATM machines;
- have joint accounts with spouses, parents or caregivers and have concerns related to misuse.

The disadvantages of a predominantly cheque based payment system are outlined below:

- The issuance of cheques is time consuming as well as expensive in terms of administrative costs.
- Clients often have difficulties negotiating cheques because they lack proper identification. Some of these clients end up paying high fees to cash their cheques as they turn to financial institutions like Money Mart that have less stringent identification requirements but charge high fees for their services.
- Some clients have problems managing the funds from cheques, as they cash the money all at once and do not have the option of securely saving funds for later needs.
- The chances of fraud are high as cheques can be lost or stolen in the mail.
- Clients have to complete and return a monthly eligibility form (on cheque stub) which is mailed together with the client’s payment. This increases the administrative burden of handling paper for EAWs.

LEGISLATED BENEFITS



In this category payments for various legislated benefits/supplements/allowances (as previously defined) are included, for example:

PAYMENT TYPE	PAYMENT METHOD
Health Goods/Services	EIA407 FORM
Meal Tickets	CHITS (pre-determined values \$1.25, \$1.75, \$2.50)
Photo ID	LETTER OF AUTHORIZATION
Long Term Care Residences	EIA150A FORM
Alcohol & Drug Residences	EIA150A FORM
Funerals	EIA2817 FORM
Taxi (Medical Transportation)	CHIT (reconciled to "register book" - District Office)
Crisis Supplements	HR149 FORM – Purchase Authorization (aka "PUR")

The Ministry manages the processing of these payments, generally, as follows:

- Ministry Expense Authority (EA) authorizes the client purchase through one of the above tools.
- Client takes the form/chit/letter to a supplier in the community – currently the Ministry chooses not to control **who** the supplier is.
- The supplier sends an invoice to Ministry for payment (attaches relevant documents as required).
- These invoices are processed in accounts payable, FASB Vancouver Operations (approximately 13,700 invoices, in total, per month).
- Payment to the supplier is currently in cheque form.
 - In December 2003 a project was initiated by the IMB Branch to implement Electronic Funds Transfer (EFT) to Suppliers. It was Phase III of the project, Phases I and II being EFT to clients. It appears this project did not move forward.
 - In April 2006 the Financial Operations Branch (Brian Alexander) initiated a project to review consolidated payments to suppliers (with an EFT consideration), this project (as I understand it), has been put "on hold."

Schedule B

Electronic Benefit Transfer (EBT)

There is a need to identify and implement a more effective mode of payment, both at the Ministry to client “control point” (i.e. find a way to “bring in” clients who may never have a bank account) and potentially at the client to supplier “control point.”

The first option the Ministry has in order to achieve its goal of improving the payment process as well as saving money is adopting an electronic benefits transfer (EBT) system.

An EBT system is an integrated business solution that enables the electronic delivery of cash and non-cash benefits for IA programs. Typically there are 3 components to an EBT system:

- 1) A benefit card that allows access to benefits through the banking system.
- 2) A financial management system that provides the ability to track and manage program operations.
- 3) A facility that provides an identification capability for recipients.

In EBT systems, clients apply for their benefits in the usual way. Once eligibility and level of benefits have been determined, an account is established in the client’s name, and BCEAP funds are deposited electronically in the account each month.

A plastic card, similar to a bankcard, is issued and a personal identification number (PIN) is assigned or chosen by the recipient to give access to the account. Recipients are offered the opportunity to change the PIN number at any time, and are offered ongoing training if they have any problems accessing the system.

There are several types of EBT systems:

- magnetic strip cards,
- smart cards, and
- hybrid cards.

Details on each type of EBT system can be found on Schedules B-1, B-2 and B-3 attached.

EBT Benefits

An EBT system offers:

- 1) Efficiency - Eliminates the cumbersome processes required by the cheque system by eliminating much of the paper handling involved and automating the accounting process. Checkout is fast and easy because transactions are processed in seconds and no change has to be made.

- 2) Reliability - Electronically distributed benefits are delivered accurately and on time, avoiding the inconsistencies of sending a cheque by mail.
- 3) Security - EBT benefits are protected by the same rules that apply to other electronic accounts. A personal identification number or PIN insures that only authorized users may access EBT benefits. Additional security technologies are now available to deter the potential fraud in the EBT environment. Biometrics are automated methods to measure a physical characteristic or personal trait to verify a recipient's identity. (Note on biometrics - Although very efficient in eliminating fraud, there are many concerns related to privacy and confidentiality).
- 4) Convenience - Cash access will be allowed at a variety of outlets, such as ATM machines and retailers with POS equipment.
- 5) Improved self-esteem (reducing stigma) - The EBT system reduces stigma associated with benefits recipients by enabling them to join the social mainstream in using existing technology instead of "cashing welfare cheques."
- 6) Reduced fraud - EBT has potential to reduce fraud. Automatic data input and tracking allows quicker identification of duplicate and improper use of government benefit programs. EBT can localize fraud to the retailer or ATM, allowing an electronic trail for investigation.
- 7) Utilization of existing commercial network infrastructure - The EBT transactions can often be accomplished through existing infrastructure, saving governments and service providers the expense of investing in new systems.
- 8) Program Interoperability - An important feature of EBT is that a single system may be used to deliver multiple services, if there is cooperation and coordination among different ministries. For example a card can be used to provide income assistance benefits as well as youth assistance programs. Eventually the same card could be also used as a medical card or driver license.

EBT Problems and Concerns

1. Costs - Clients may have to pay to obtain access to their IA benefits. Under the cheque system, if proper identification is provided, clients do not have to pay fees to receive their benefits. Under EBT, clients have to pay for access to their benefits and in some instances, may be charged up to 3 times for each withdrawal. These fees could include:
 - An access charge by the assigned bank.
 - The ATM operator's surcharge.
 - A non-customer charge for using another bank's ATM.

These added costs could amount to a substantial portion of a client's monthly benefit.

NOTE: A well-negotiated bank agreement could potentially reduce or eliminate these costs.

2. Infrastructure accessibility - An EBT system requires an infrastructure of digital databases and networks in order to work. Although most geographic areas have the technological infrastructure in place, some rural areas may not. So before deciding to adopt EBT, the Ministry must be assured that cash access by EBT is comparable to the current benefit distribution system.
3. Consumer protection - Another area of concern is the extent to which the client's are protected.
4. Training and education - The clients must know how to use an EBT program in order for it to work. EBT technology may intimidate clients. Furthermore, there may be a substantial number of clients who, having had little, if any, technological experience may not know what to do when given an EBT card. An uninformed and intimidated client-base may threaten the viability of the program. Therefore, it is very important to set up an efficient training program. Recipients could be instructed through video material and instructional booklets.
5. Security - EBT systems are subject to fraudulent use. Although a principal feature of EBT is that it is able to reduce fraud when compared to conventional form of service delivery, the potential exists for technologically savvy clients to commit fraud.
6. Use of Biometrics - All EBT systems entail a form of personal identification in order to identify clients and reduce fraud. The most well known and commonly used form of identification is the personal identification number. Biometrics measurement, or the measurement of an individual's physical features in order to verify his or her identity, is a highly effective form of identification. This is especially important for the EBT system because the lack of proper identification form of many clients. Biometrics can safely identify the recipients when cards are lost and need to be replaced or for benefits disbursement. Examples of biometric technologies are fingerprints, hand geometry, retina scan, voice verification, and signature verification. Although very helpful to detect and defer fraud, these technologies raise concerns about the privacy of income assistance clients. Finger printing has raised concerns about being identified with criminals and, with the likelihood of fingerprints being placed in central files, concerns about "big brother" watching.
7. Privacy - EBT systems enable government to monitor clients and their behavior and store their personal information in databases that might be accessed by unauthorized third parties. By associating a client's name to each transaction, EBT provides the conditions for trespassing upon individuals' privacy. FOIPPA and now, more notably, *Patriot Act* implications must be adequately assessed and addressed.

EBT programs have to find a balance between securing the program from fraudulent use, ensuring the privacy interests of the clients, while providing government agencies with necessary client information.

EBT in Canada – The Metro Toronto Pilot

An attempt to implement EBT in Canada occurred in 1998 with the Metro Toronto pilot. The new system was supposed to combine an already successful direct deposit scheme with EBT technology. Recipients were given the option of having their benefits deposited in their own account. With the new system, recipients without bank accounts were to be provided access to a debit-only sub-account of Metro Toronto-Citibank debit card and their own PIN. Recipients were to be allowed three free withdrawals every month, any additional withdrawals being charged \$1.00 per withdrawal, deducted from the next social assistance payment.

Although EBT was quite close to being implemented, issues related to both privacy and the selection of a biometric identifier deterred the completion of the project. Privacy experts have raised fears that fingerprints would be used by authorities other than welfare workers to compile secret files on certain individuals. Also it was argued that biometric identification systems reinforce the public prejudice that social assistance recipients are somehow deceitful.

ETB – Cost Estimate

Costs are heavily reliant on the extent/type of implementation chosen by the Ministry, e.g.:

- All Ministry to client (Regular IA Benefits) where the client is not on EFT (i.e. that percentage of caseload expected to never obtain a bank account – reference the Metro Toronto pilot); or,
- All Ministry to client (Legislated Benefits); or
- Some Ministry to client (Legislated Benefits), as applicable.

Considering the complexity and time required to perform an accurate costing exercise in relation to:

- a. the two week turn around time to deliver this issue note;
- b. the variety of options identified above; and,
- c. the conclusion that ETB (due to FOI and other issues confronted by Ontario's pilot project) might not be a suitable alternative for government at this time;

the writer assumes that it would be best to provide detailed, specific, costing only once an option is chosen. That said, some high-level costing information is outlined in Appendix 2.

ETB – Issues and Potential Additional Costs

Issues to consider when designing an electronic benefit delivery program:

- Is participation in EBT mandatory or optional?
- Does the recipient bear any expense? (i.e. base account fee, fees for optional transactions, card replacement fee, etc.)

- Are there any extraordinary project implementation requirements which will drive up expenses? Examples include:
 - retail training,
 - equipping retailers in lower income areas with POS terminals to maximize benefit access,
 - language requirements for training or customer service,
 - access to live customer service staff, etc.
- What are the contract terms (banking arrangement):
 - duration,
 - risk mitigation,
 - up front payments to address fixed costs, etc.

While very dependent on what services are included (training level, card issuance, customer service support, ATM transactions, etc.), given the cardholder volumes associated with the overall BCEAP environment an EBT service account could be provided for approximately \$2.50 to \$4.00 Canadian per account, per month.

Schedule B-1 : Magnetic Stripe Cards

A magnetic stripe card is a type of card capable of storing data by modifying the magnetism of tiny iron-based magnetic particles on a band of magnetic material on the card. The magnetic stripe, sometimes called a magstripe, is read by physical contact and swiping past a reading head. Magnetic stripe cards are commonly used in credit cards, identity cards, transportation tickets, and so on. There are numerous international standards that define the physical properties of the card, including size, flexibility, location of the magstripe, and magnetic characteristics. They also provide the standards for financial cards, including the allocation of card number ranges to different card issuing institutions.¹

With these cards, transactions are done “on-line.” The card is run through an electronic reader or a point of sale terminal, and the client enters the PIN to access their account. Then electronically, the processor verifies the PIN and the account balance and sends back an authorization or denial notification. The client’s account is then debited for the specified amount.

¹ http://en.wikipedia.org/wiki/Magnetic_stripe

Schedule B-2 : Smart Card (aka Chip Card, Integrated Circuit Card)

(Also in this category: Capacitive cards, Optical Cards)

A smart card, chip card, or integrated circuit(s) card (ICC), is defined as any pocket-sized card with embedded integrated circuits. Although there is a diverse range of applications, there are two broad categories of ICCs:

- *Memory cards* contain only non-volatile memory storage components, and perhaps some specific security logic.
- *Microprocessor cards* contain memory and microprocessor components.

The standard perception of a "smart card" is a microprocessor card of credit card dimensions (or smaller) with various tamper-resistant properties (e.g. a secure cryptoprocessor, secure file system, human-readable features) and is capable of providing security services (e.g. confidentiality of information in the memory). Not all chip cards contain a microprocessor (e.. the memory cards), therefore not all chip cards are necessarily also smart cards. However the public usage of the terminology is often inconsistent.²

These cards are used in systems that are "off-line." In these systems the transaction is authorized between the chip in the card and the POS device. The chip verifies the PIN and then is debited for the specified amount. There is no on-line communication with a host computer during the transaction. At the end of the business day, the POS electronically contacts the host to perform settlement and update the database information.

Smart card technology for off-line transactions is used for many applications in Europe, but is not widely available in North America. Finland and Spain successfully use smart cards for their social assistance payments. The consumer acceptance of smart cards in Europe is related to a specific problem with high telecommunication costs. Dutch retailers found that it would cost upwards of US\$ 2.5 to verify a credit card purchase compared to 5 cents to verify a smart card purchase³.

In North America lower telecommunication costs associated with magnetic strip cards have decreased the incentive to move towards smart cards. Also, the nearly universal infrastructure already in place for magnetic strip cards has limited the growth of smart cards. Other obstacles are the lack of consensus on the number and type of applications that should be on a card and the new costs for the maintenance and distribution of a smart card system.

² http://en.wikipedia.org/wiki/Magnetic_stripe

³ Michael Grant, Canada's Social Payment Disbursement System and the Financial Services Sector

Schedule B-3 : Hybrid Cards

Hybrid smart cards include a magnetic stripe in addition to the chip — this is most common in payment cards, so that the cards are also compatible with payment terminals that do not include a smart card reader⁴.

The writer could not find any examples of this type of card being used for services in a “social assistance” realm in either Canada or the US.

“Several U.S. cities have conducted smart-card trials, but the cards have failed to win any popularity contests. By the time smart cards appeared in the United States, most of those niches had already been filled by magnetic-stripe cards. Americans have had so many years to fall in love with their magnetic-stripe cards that they will not easily break up the relationship.

Citibank, The Chase Manhattan Bank, Visa International, and MasterCard International each have launched pilots in several cities. The results have been the same in each program: Merchants were discouraged that too few consumers used the cards. Customer habits and limited infrastructure were the major barriers to success.”⁵

⁴ http://en.wikipedia.org/wiki/Magnetic_stripe

⁵ CNN.com (March 11, 1999)

Schedule B-4 : Chits, Vouchers, Forms, Letters of Authorization, Cash

PAYMENT TYPE	PAYMENT METHOD/TYPE
Health Goods/Services	EIA407 FORM
Meal Tickets	CHITS (pre-determined values \$1.25, \$1.75, \$2.50)
Photo ID	LETTER OF AUTHORIZATION
Long Term Care Residences	EIA150A FORM
Alcohol & Drug Residences	EIA150A FORM
Funerals	EIA2817 FORM
Taxi (Medical Transportation)	CHIT (reconciled to "register book" - District Office)
Crisis Supplements	HR149 FORM – Purchase Authorization (aka "PUR")

These "vehicles" are currently used in the ministry to provide clients with a large number and diverse range of benefits.

There are pros and cons to each payment method, generally speaking:

PROS:

- Assurance – that client gets/only gets the benefit to which they are entitled
- Provides good financial control
- No pre-determined suppliers – client's may purchase anywhere (may be seen as the "politically" correct thing to do)
- Avoids the alternative, i.e. providing the client with cash (*which does not provide the ministry with assurance that the client gets/only gets the benefit to which they are entitled...*)

CONS:

- Expensive to manage (staff salaries, benefits, etc.) - payment processing (currently, approx. 14,000 invoices/chits, etc. monthly) managed through a team of AP clerks in FASB Vancouver Operations – 6 full-time FTEs.
- No pre-determined suppliers – client's may purchase anywhere (*NOTE: This creates a barrier to most electronic options*).

Therefore, it may be prudent to more thoroughly investigate the feasibility of an EBT option, likely with "magnetic stripe" technology option for some/all of these payment types; and/or for each payment type, consider what the options might be.

Example #1: Taxi Chits

Eliminate (likely on a region by region basis) the use of taxi chits by going out to tender for a "bulk" taxi rate from one or multiple suppliers (as required to cover the territory). This (assuming it is feasible as client identification would be a significant factor) could result in significantly fewer invoices from fewer suppliers being processed against contracts – it would:

- support the shift of accountability for payment processing to the regions, putting the responsibility in the hands of regional contract management staff;
- eliminate the need for FASB Vancouver staff to process approximately 12,000 chits annually from multiple suppliers across the province.

NOTE: Taxi cab services is the one area where it may not be conducive to EBT as the majority are not set up to accept a “debit card” type transaction at this time. Although through the RFP process the ministry could require suppliers to provide this technology, however, there is the risk that there will be no/not enough suppliers who will respond, or of those who do, to address the need.

Example #2: Photo ID

Eliminate the “option to take a Letter of Authorization to any supplier” and, again, procure the services of one or multiple suppliers under contract with similar “processing” implications as above (178 invoices annually). If EBT technology was being seriously considered, the RFP document could also require suppliers to provide/maintain compatible EBT technology.

These are just two examples - other options could be considered for the other benefit payment types as well.

Schedule C

Expanded – Mandatory EFT

An obvious solution for payment process enhancement is to expand the already existing EFT system by moving to a mandatory direct deposit scheme.

Most of the information in this report about implementing a mandatory deposit is based on the case of Alberta, which successfully moved to a direct deposit scheme in July 1997. One of the main principles of implementing a mandatory direct deposit plan is to make all stakeholders (recipients, financial institutions and government) better off. In Alberta, savings were estimated as 60 cents per payment or about \$500 thousand annually from transferring the major social payment programs to direct deposit, which should allow clients, the financial services sector and government to be made better off⁶.

The most important advantages of a direct deposit system over a cheque-based system are outlined below:

1. Increased efficiency and reduced costs from combining the payment and clearance functions.
2. Less staff time spent on replacement cheques.
3. Low-cost accounts with deposit taking financial institutions helps social assistance recipients achieve faster and more secure access to their funds at reasonable costs.
4. Direct deposit integrates the client base into mainstream banking services. This assists in MEIA's broader strategy of re-integrating clients into society.
5. EFT reduces the opportunity for forgeries, counterfeits, multiple payments, theft and the use of false identification.

There is a need for close collaboration with deposit taking institutions for administering BCEAP payments. This is especially important due to the perception by financial institutions that low-income Canadians are not profitable customers. In Alberta, the marketing co-operation between the government and the financial service sector facilitated the successful transition to a mandatory direct scheme. Although government officials expected only 70% of the total recipients to move to direct deposit, over 90% of the caseload had been placed on direct deposit by February 1998. The case of Alberta successfully moving to a mandatory direct deposit scheme shows that this option is a viable solution for BC.

The February 14, 1997 Agreement between clients representatives, government and financial institutions was an important step in improving access to bank accounts. The key participants to this agreement have been: the federal Department of Finance, various provincial ministries, the Canadian Bankers Association and client/consumer advocates, such as Option consummators, the Task Force on Churches and Corporate Responsibility, The National Anti-Poverty Organization, the Jane-Finch Community Association Toronto. The agreement stated a clear policy that addressed many of the

⁶ Michael Grant , Moving to a Mandatory Direct deposit Scheme: The Case of Alberta

concerns of social assistance agencies regarding access to financial services. The Agreement clearly states that practices like using credit history and employment as reasons for denying access are strictly forbidden⁷. This facilitates the implementation of a direct deposit scheme in any province of Canada.

As the Alberta case has shown, even a mandatory direct deposit system requires exceptions for special situations. Some of the exemptions from direct deposit policy could be:

- clients who are unable to manage bank accounts,
- geographic remoteness,
- client refuses to get an account, or
- other special circumstances.

In any of these situations, clients might still be best served through cheques.

Expanded Mandatory EFT – Challenges

When analyzing the option of implementing a direct deposit plan, it is important to take into account all the challenges that previous experience showed.

1. Branch concentration - Financial system accessibility and location of branches plays an important role in successfully implementing a mandatory EFT plan. When arranging EFT bank agreements for IA recipients it is important to make sure that benefit accessibility is at least as much as it was with the cheque system.
2. Identification requirements - One of the major challenges of mandatory EFT is identification requirement to open and access an account. Many IA recipients have problems in acquiring an acceptable form of identification for financial institutions.
3. Account access - Account access is another challenge when implementing an EFT plan for IA payments. Some financial institutions place restrictions on accessing cash through ATM's. Typically this involves setting a limit on bank withdrawals. The reasons of these restrictions are various. For example, there may be times when the verified cash balance may not be able to be distinguished from payments in process because the system is down for maintenance or is otherwise incapacitated for technical reasons. For IA recipients with no banking history, overdrawing presents a quite high level of risk.
4. Dispensing Standards - Another issue is related to ATM dispensing standards. These standards vary from one institution to another and may result in clients being subject to varying service charges.
5. Garnishment risk - When funds are deposited directly into client's accounts they become general funds and are susceptible to being garnished. Although legally IA payments can not be garnished, once a payment is transferred to an account and mixed with other funds, it can technically be subject to seizure pursuant to a court

⁷ Michael Grant , Moving to a Mandatory Direct deposit Scheme: The Case of Alberta

order for debt collection. Nonetheless, provincial and municipal administrators who had moved aggressively into direct deposit had little problem with seizure. Agreements can be reached if properly negotiated with banks. Dartmouth for example had developed an understanding with financial institutions not to seize IA payments and the few cases that arisen were managed informally between the municipality and local branches⁸.

6. Funds non-revocable - Currently cheques are returned if they do not reach the recipient. With EFT payments, recovering the funds becomes problematic.
7. Staff Resistance to Change - Sometimes cheque distribution system is viewed as a client control method, through which “case workers” can better encourage the IA recipients to find employment (using threat of payment withdrawal). Some EAW might have the perception that EFT will reduce their ability to manage cases effectively. Also, staff might fear that the elimination of all the paper work may cause them to lose their jobs or be transferred in other positions that they do not feel comfortable with.

Expanded Mandatory EFT - Costs

The writer is making the assumption that these costs are already known since EFT has been an ongoing project within the Ministry.

⁸ Michael Grant, Canada's Social Payment Disbursement System and the Financial Services Sector

APPENDIX 1

See legal size document attached.

APPENDIX 2

EBT Implementation costs:

Implementation costs (including biometrics)*	\$3.80 million
Less biometrics	<u>(1.04 million)</u>
Cost without biometrics	\$2.76 million

+EBT Operating costs:

Minimum annual EBT account cost**
 \$ 2.50/ account/ month x 112,000 x 12 = \$3,360,000

Maximum annual EBT account cost**
 \$ 4.00/ account/ month x 112,000 x 12 = \$5,376,000

+Reference: *ETB – Issues and Potential Additional Costs – page 11*

<u>EBT Operating Benefit/(Cost):</u>	<u>Maximum Est</u>	<u>Minimum Est</u>
Existing cheque/based system	2,071,575***	2,071,575***
EBT system	5,376,000	3,360,000
Result – benefit/(cost)	(1,533,975)	(1,288,425)

NOTE: ATM withdrawal fees vary from \$ 1.00 to \$1.50, depending on institution. Arrangements can be made to address who supports this fee (the client or the Ministry).

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* These implementation costs are based on 1996 information likely have increased.

** Based on September 5, 2003 summary overview of financial institutions general services and fees. Also based on information received from Provincial Treasury which is based on September 2000 cost estimates for the Ministry of Children and Families – at that time the prices were negotiated for 50,000 to 70,000 cases per month. For a bigger volume of payments the prices might decrease. (Provincial Treasury determined, at the time, that this decrease may be about 10%).

*** Based on 2003 cost analysis prepared for MIEA, based on “current at the time” EFT figures.