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## Modern payment methods improving the effectiveness of social benefit system – implementation failure in the Czech Republic

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### Abstract

The paper describes the issue of electronic welfare benefits payment card. This new noncommercial-banking product was meant to be a new tool of effectiveness in the social benefit system in the Czech Republic. The goal was effectiveness in costs, transaction time reduction and directness. However the implementation scheme turned out to be defective from design. At first the paper describes a new system of welfare benefit payment where the commercial bank is implemented as a service provider. Then the main implementation issues such the provider contract, the obligatory duty of card usage, the range of services, possible personal data misuse are described. The problem got as far as payment system provider Česká spořitelna starts to assess if the project is interesting anymore. At the end the paper assesses the current project progress and the future.

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### 1. Introduction

The idea of electronic state benefit distribution system (or more widely as welfare payment system) that uses special electronic means of payment is implemented already in some European and North American countries. The paper is focused on the issue of social benefits electronic payment card known as sKarta in the Czech Republic (in Czech language sKarta or sCard is an abbreviation representing the social card; the abbreviation sCard will be used further in the text). Most of the welfare payments should be made through the commercial bank issued sCards in the future. This new banking product was meant to be a new tool of effectiveness in the social benefit system. The expectations were high such as costs effectiveness, transaction time reduction and social benefit directness.

The basic idea was ambitious and mostly corresponded with the abroad solutions of similar cases. The problem was the implementation that showed certain flaws from the very design. Those flaws manifested itself clearly during the pilot run of the sCard since the July of 2012. The main problems concern the sCard provider contract, obligatory duty to have the sCard for all welfare claimants, personal data protection and benefit directness. In the paper there will be introduced the abroad model the Czech Ministry of labor and social affairs (thereinafter only as MLSA) was inspired with, then the sCard product and the main will described the implementation problems will be described. At the conclusion there will be proposed a possible way, how to correct the current failure. Please note that social

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welfare cashless payment services are a new topic and that the situation concerning sCard is developing every week and so it is very hard to find a monographs or printed sources.

## 2. Social benefit electronic payment and the sCard design

Social welfare cashless payment services, such as social debit cards, are latest trend considering developed economies and even the emerging markets. System-wide or specific benefit payment debit cards are used in Italy, Netherlands, USA but also the Poland or Russia. In the Great Britain the issue of cashless welfare payments is being discussed right now. The discussed issues are very similar to the ones that took place in the Czech Republic such as that cards could help recipients control debt and build up budgeting skills, as well as delivering administrative savings. Also using that technology, would allow authorities to for example blocking the purchase of alcohol and pet food on food stamp cards. (Butler, 2013, para. 3-4) The system-wide solutions are used for the periodic benefits such as pensions in Italy but also the specific benefits such as unemployment compensation, e.g. in the USA (Mississippi, Oregon, New York Electronic Benefit Transfer Card). (Electronic benefit transfer, n.d.)

In the Czech Republic the welfare benefit card design is described e.g. in the contract (Ministry of labor and social affairs, 2012b) between the MLSA and the provider of the sCard – commercial bank Česká spořitelna. The goal was to reduce the administrative costs, increase effectiveness and directness of welfare benefit distribution. In the next paragraphs there will be outlined the design of sCard, for better understanding please see the figure 1 at the end of that part. Administrative costs reduction is not concerning only the data management. Welfare benefits had its own information system MLSA was using for almost a decade. The main cost reduction was concerning the pay-off. So far the system post remittance and personal accounts was the major welfare benefit distribution channel. The most frequent welfare benefit such as pension was using the post remittances making the distribution costly (up to the 70 eurocents per one pay-off) due to a total number of claimants. In the sCard design all payment would be send electronically to a social account (in Česká spořitelna) the sCard was issued to. The citizen will apply for the benefit and the MLSA will assess the claim. If the application is found entitled a new claimant is registered. The MLSA then provides the data of the claimants and the Česká spořitelna creates the personal social accounts and issues the sCard. Those sCards are then sent to MLSA labor office where claimant can claim it. The MLSA then sends the benefits directly on the personal social account of the Česká spořitelna. The benefits mean almost all welfare benefit types the MLSA provides as a compensation for the case of: child birth, having under age child, being on maternity or parental leave, being unemployed, being a foster-parents, care of disabled person, being a disabled person, being on a poverty line, funeral expenses, and newly (not yet confirmed) the inclusion of retirement and sick leave making the sCard a channel for 98 % of all benefits.

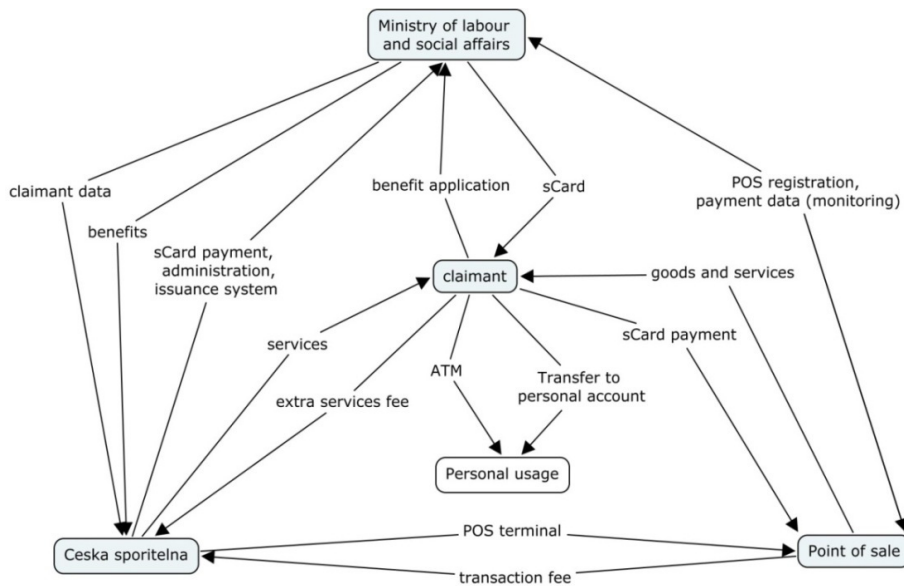
To make possible the sCard usage as a debit card in points of sale the Česká spořitelna will equip the shops with a card readers or POS terminals if the shop does not have it already. The terminals and the shops are obliged to provide cash-back. The social account, the sCard and POS usage are to be provided free of charges for claimants concerning standard services.

Table 1. The standard services provided free of charge, source: own elaboration from (Ministry of labor and social affairs, 2012b)

Service	Month frequency free of charge
Mail or a call on the help centre of Česká spořitelna	unlimited
Issuing and delivering the sCard	for the first time or as a replacement of expired card
PIN generation and delivery	once per full expiration time of the card
Set a direct or standing order using an ATM of Česká spořitelna	unlimited
Cash withdrawal at Česká spořitelna ATM	once per every received benefit payment
Cashless payment	unlimited
Account balance check using the ATM of Česká spořitelna	unlimited

But this is not the only way that the benefits can be used. The ATMs will accept the sCard as a standard debit card and so the money withdraw can be made. The third option is to access the electronic banking of personal social accounts and set a direct order for the benefit of another account. To sum up the design please see the figure lower.

Figure 1. Basic scheme of welfare benefits distribution, source: own elaboration.



### 3. Project failure descibtion

The pilot run started in July 2012. Since then every month the project is being changed in its very crucial features such as what will be the range of services, who will have to participate, what are the deadlines, will be the project worthwhile for the provider etc. There won't be presented the timeline of project changes because some previous changes were already changed or the feature does not exist anymore. There will be discussed the problems of the project in its full scale as it was meant to be after the pilot run. The one contractor for the 12 years is the first problem, that critics (mainly the ombudsman office, Social democratic party in parliament and senate) points out, can be expressed as privatization of public services, where the state is providing opportunities of income to private company. The contract was set to find one large provider. Three largest banks in the Czech Republic sent their offers. The largest bank (Česká spořitelna) won the contract for the 12 years. Czech retail core banking services market is an oligopolistic one as the calculation of Herfindahl–Hirschman Index proves. Assigning the project to the major bank might even worsen the market situation because the Česká spořitelna prepares to offer additional products to the social account owners. In case of obligatory duty to use sCard for any social welfare benefit, then the Česká spořitelna would have a gateway product for very large percent of the Czech population. The gateway, cross-selling and product tying in retail banking services problem is closely described in (Randa, 2009, p. 26, 127, 235-238) as a tool of cross-selling and information asymmetry advantage in favor of the supply side of the market. Every person that will get sCard will automatically open the social account at Česká spořitelna, meaning this commercial bank will gain personal data such as name, contact, age etc. Public, Social democratic party in parliament and senate and the ombudsman office warn that this is a valuable source of the marketing data that can be easily abused to gain new commercial clients. (Ombudsman office, 2012) If this idea is thought more thoroughly then the possible threat of personal data abuse is even more dangerous because the personal data are not the only information that can be gained. Presume the case of welfare benefits concerning children. When those benefits appear on the social account the bank now knows who has children and who is a possible demand for the kid or junior bank account. Due to larger variety of benefits in the Czech Republic a specific consumer situation can be derived. The personal data issue cannot be separated form sCard because it is also in identity card for welfare benefit system replacing previous identity cards. The first goal of the project was to create significant cost reduction and effectiveness. The MLSA

predicts the cost reduction as high as up to 10 million euros a year by cutting the costs of the benefit payment process. (Ministry of labor and social affairs, 2012a) However the formula used for cost reduction was not published by the MLSA. Still it is clear the reduction is based on the total number of participant in the system. This feature is major dispute where parliament, senate, Handicapped people's council and public opinion got different demands and disagreements. The greatest problem concerns the system and the sCard as obligatory or facultative tool. Obligatory duty is problem for the retired persons and Handicapped people's council. (Krasa, 2013) So far the system of benefits for the disabled and retired persons was using a post remittance for free. Due to no charge for the claimant and the dense net of post offices it was found adequately convenient. The remittances are to be abolished or the claimant should pay full price per each benefit received. After the tariff update it might be 0.8 eurocents per one benefit and disabled person receive 4-5 separate benefits according to the level of disablement. Also the net of Česká spořitelna branches and ATMs is much sparser meaning much less places where the benefits can be claimed. It is possible to use ATM of another bank but then there is a charge of 1,8 euro that claimant naturally do not want to pay. The net is even sparser if the problem of disabled people is taken into account – most of the banks are not accessible for the disabled persons, ATMs are not equipped for the blind persons etc. For retired person is a problem the electronic banking of personal social account because not every retired person owns a computer, wants or I able to go to the ATM to transfer the money electronically. All those problems are reducing the possible effect on costs and the formula for the MLSA cost reduction is still unknown.

The second goal of social benefit directness is not met at all. The first problem is that using sCard a claimant can buy alcohol, tobacco and all goods and services deliberately. The sCard is acting as a standard debit card because the system of purchase control is not working yet nor the control mechanism was not published yet. In the contract it seems as a good idea but the implementation is terrible and flaw from the design. If the contract is studied more thoroughly (please see the figure 1) then the main problem is found in the social account. From the social account the benefits can be transferred easily to another personal account. Then there is no expenditure control at all. The same regards the ATM withdrawal after it there is absolutely no expenditure control possible.

The third set of problem is project transparency. The first question is why there was only one provider and the contract itself, which contains an exhaustive list of criteria, was signed by former Deputy Labor and Social Affairs Minister Vladimír Šiška. This high-ranking clerk was later charged with bribery connected with another order for the MLSA. The situation on the MLSA got worse after the minister Drábek had stepped down because of this corruption case (Lopatka, 2012) and because of IT system upgrade for the labor offices. This another IT contract on the welfare benefit system was malfunctioning even several months after the pilot run crippling the benefit distribution during the last winter. Let us look aside from the contract and assess the post signature development. The basic features such as obligatory/voluntary participation, the range of benefits (lately a pensions and sick leave payments are to be included as well) and the POS issue. Even now it is not clear if and how much will the retailers pay for the POS terminal. Considering the frequency and magnitude of changes for the last few months the question of transparency is rightful because it is not clear who definitely and how makes the decisions – the MLSA or Česká spořitelna and how it is possible when the contract is signed or how is it possible that the contract was so vague that those changes are possible?

#### **4. Conclusion**

There were stated many problem that new system for electronic welfare benefit payment project encountered during the pilot run. The goals of cost reduction and benefit directness (misuse prevention) are not met so far and the second one won't be met because of the system design flaw. Nevertheless the main idea itself is right and the trend in other countries confirms that. The main problem comes from the contract, the uncertainty and lack of discussion. The contract is vague and designed for a single provider. Why the entire set of retail banks cannot be the providers? The model of the "basic banking product" from Slovakia could be adopted. Although it was a failure (it was designed as commercial product, the sCard is not) the implementation through the legal process and service determination was successful.

Many problems were caused by vague contract and almost no previous discussion of the problem. During that discussion the problem of disabled persons and retired people would be identified. Of course the system could be working without them but those two groups are major claimants and so for the sake of cost reduction those groups are very important. The future is unpredictable. The problems got as far as Česká spořitelna starts to assess if the project is interesting anymore in case of voluntary duty. This again raises suspicion of hidden marketing motives. However the MLSA already claimed that they will (again) to guarantee personal data protection because as Ombudsman office stated (Ombudsman office, 2012) current state breaks the law of personal data protection.

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