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# Good Practices in Social Security

Good practice in operation since: 2018

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## **Fraud risk management**

**Social Insurance Institution**  
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## **Summary**

*The Social Insurance Institution (Zakład Ubezpieczeń Społecznych – ZUS) strives to maintain the highest standards in public fund management and fund security. The challenge in this area is fraud which is among the types of risks affecting the ZUS. We analyse actions in this risk category which, through intentional concealment of truth, may result in obtaining a benefit or in avoiding the payment of contributions. These activities are often carried out in apparent compliance with the law but are in fact in contradiction of the law. Such phenomena distort the essence of social insurance and the principle of social coexistence, and therefore require strong reactions. By streamlining these activities, we aim to create a comprehensive approach and structured framework for fraud risk management, maintain a balance between the advantages and costs of control mechanisms, tighten the social insurance system, equalize the opportunities of entrepreneurs and protect the person insured.*

*The described activities are proof of responsible management which also signal to potential fraudsters that the ZUS does not tolerate dishonest practices. ZUS recognizes the importance of these activities and builds a system approach to combat the risk of fraud.*

## **The issue or challenge**

*What was the issue or challenge addressed by your good practice? Please provide a short description.*

The ZUS is one of the largest Polish and European financial institutions, with funds equivalent to nearly 60 per cent of the state budget. Serving approximately 24.5 million customers, ZUS often deals with situations that distort the essence of social insurance, motivated by entities attempting to obtain undue benefits. The risk of fraud and abuse affects every organization, but in the public finance sector it should be under special supervision because it is about the responsibility to manage public finances and to protect public funds against moral hazard. Financial fraud in the sphere of public finances seems to be universal, with activities on the verge of legality and often treated as entrepreneurial. Attempted fraud happens every day at the ZUS, i.e. obtaining benefits by deception or avoiding the payment of contributions. Through a comprehensive framework on fraud risk management, the ZUS is responding with multidimensional solutions to the increasing scale of such cases and the emerging new mechanisms of fraud.

## **Addressing the challenge**

*What were the main objectives of the plan or strategy to resolve the issue or challenge? List and briefly describe the main elements of the plan or strategy, focusing especially on their innovative feature(s) and expected or intended effects.*

The upward trend of the above phenomena is the reason for strengthening the anti-fraud methods in ZUS. Two important elements of the anti-fraud methods are the “detection and reporting” and “responding” approaches which refer to the effective detection of fraud and the implementation of solutions to efficiently eradicate and correct fraud, including the recovery of unduly paid benefits or unpaid contributions. In line with the principle that “prevention is better than cure”,

the third element is “prevention” especially in situations where proving fraud could be done only in court. Potential fraud is considered as a threat and is managed similar to other types of risks.

The Committee for the detection of fraud at the ZUS Headquarters monitors and recommends activities related to fraud risk management. The risk analysis system is complemented by branch committees for quality, efficiency and work effectiveness. Such committees have been established in each ZUS branch where they directly support the branch director in risk management. The committees design solutions to limit risks that may occur at the stage of performance of ZUS statutory tasks. In order to ensure effective cooperation between ZUS branches and Headquarters, Plenipotentiaries have been appointed to coordinate the flow of risk information between ZUS branches, identify key risks and propose remedial actions. However, it should be emphasized that ZUS employees play a key role in risk management because in performing their tasks, they are the ones who face the events that may lead to adverse effects on ZUS operations. Therefore, training and information activities are an important element of the implemented approach. An important role is also played by systematic communications of the management board containing the declaration of non-tolerance for fraud and the expectation of staff involvement in counteracting fraud.

The first step where employees were involved was in the collection of information on possible frauds and the identification of mechanisms used. After identifying and communicating the risk, it was possible to introduce systemic responses to counteract irregularities. All risks are recorded in the Fraud Risk Register which is published on ZUS Intranet site. The Risk Register is a tool for building an early warning system. To identify potential fraud, particular attention is given to diagnosing the factors that can generate risk. These factors are the basis for drawing up a list of premises that facilitate the recognition of situations requiring a reaction. Risks that require deeper analysis are identified in the list of potential fraud, taking into account their materiality. In these cases, a “risk sheet” is drawn up to describe the management process including a description of tools used to analyse risk and explore the available data sources. Risk characterization and risk analysis inform the decision on the method to solve problems of potential fraud. The costs of implementing additional control mechanisms (introducing new solutions) should not exceed its benefits, therefore each reaction to risk is preceded by an actual valuation of the potential threat. An important role in the process is played by internal audit, which actively participates in supporting risk management and provides support to the management board and the managerial staff by means of advisory services (assessment of current control mechanisms and provision of information on proposed solutions).

## **Targets to be achieved**

*What were the quantitative and/or qualitative targets or key performance indicators that were set for the plan or strategy? Please describe briefly.*

As part of fraud risk management, continuous and ad hoc activities have been defined in ZUS, which are implemented by individual participants of the process. These are activities related to:

- diagnosis of processes and software in terms of solutions or gaps favouring fraud;
- updating the risks of fraud registered in the Fraud Risk Register;
- systematizing the route for reporting new phenomena;
- improving tools for documenting and systematizing knowledge about the discovered fraud as well as monitoring the scale of phenomena and the effectiveness of actions taken;

- continuous increase of awareness of fraud risk management among ZUS staff;
- carrying out activities to discourage customers from unfair behaviour (making public the information about current activities, including discovered fraud and sanctions being implemented);
- initiating legislative changes to tighten up the social insurance system;
- unifying the level of detail of risks;
- characterizing the identified risks;
- exchange of good practices with other entities;
- developing the operational premises of the analytical centre, whose tasks include the detection of fraud through data analysis, supporting business owners in risk detection and monitoring.

## Evaluating the results

*Has there been an evaluation of the good practice? Please provide data on the impact and outcomes of the good practice by comparing targets vs actual performance, before-and-after indicators, and/or other types of statistics or measurements.*

The measures we have taken so far to tighten up the funds are related to:

- Limiting the risk of sickness allowance payment arising from improper use of medical certificate on incapacity for work – To diagnose, prevent and correct such cases,
  - we have expanded the system of checks on the correct use of such medical certificates. Verifying documents and comparing relevant data contained in the applications increased the effectiveness of our activities. As a result of the extension of inspections, decisions issued in 2017 required beneficiaries to return unduly paid allowances in the amount of Poland zloty (PLN) 17.8 million compared to PLN 9.5 million in 2016;
  - we have initiated an amendment to the law, which changed the rules for calculating the basis for the assessment of allowances for the insured persons running non-agricultural business activity and persons cooperating with them, which has limited the financial consequences of fraud. The amount paid from the Sickness Fund (separated from the Social Insurance Fund managed by ZUS) decreased from PLN 3,079.9 million in 2015 to PLN 2,236.7 million in 2017.
- Limiting the risk of fraudulent employee outsourcing (problems with determining the basis for assessment of contributions, undeclared work, not including in the assessment basis of revenues from civil law contracts with own employer). For this purpose, we have proposed legal changes including the principle of joint and several liability of the outsourcer and the service provider, crediting payments of unauthorized entities to the payables of contributors; and the use of a de-registration reason code for newly insured persons to monitor the phenomenon and thus more quickly detect irregularities.
- Limiting the risk of benefit payment after the death of a beneficiary living abroad. An electronic exchange of death data now facilitates the exchange of information with foreign institutions on the death of a ZUS beneficiary living abroad. After the introduction of this mechanism, ZUS has avoided overpayments in the amount of PLN 2 to 4 million;

- Limiting the risk of unauthorized correction of data on accident insurance contribution (ZUS IWA) which would lower the interest on the accident insurance contribution. The analyses showed that the financial consequences of the corrections submitted by payers amounted to PLN 22.6 million in 2017. In addition, companies linked with the "optimization" of the accident contribution have been blocked, resulting in the correction of documents by PLN 2.5 million). A legislative change is proposed which would result inter alia in reducing the time for correcting ZUS IWA and increasing the power to commission the National Labour Inspectorate to check the validity of data correction in documents.

## **Lessons learned**

*Based on the organization's experience, name up to three factors which you consider as indispensable to replicate this good practice. Name up to three risks that arose/could arise in implementing this good practice. Please explain these factors and/or risks briefly.*

The following factors are indispensable to replicate this good practice:

- implementation of a framework for fraud risk management, and its continuous improvement and monitoring;
- commitment of all employees and the management board;
- implementing activities to discourage fraudulent behaviour of customers.

Possible difficulties related to the implementation of the good practice:

- employees' belief that risk management will impose additional tasks on them;
- external companies that advise contributors on how to skirt the law, e.g. avoiding contributions payment or obtaining higher benefits;
- lack of appropriate tools, applications and access to data that would support the fraud risk management process.