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Framework to address error, evasion and fraud in social security systems
A compliance-based approach

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1. Introduction

Error, evasion and fraud (EEF) is a central topic in social security systems. More concretely, whereas EEF in benefits administration mainly erodes the cost-efficiency and trust in the system; EEF in contribution collection reduces the availability of funds for the programmes and undermines workers' rights to receive benefits for themselves and their dependents. Therefore, the impact of EEF goes beyond specific social security schemes but reaches the social security system as a whole eroding the system's legitimacy and social and political support (Meissnitzer and Reindl-Krauskopf, 2013; Elmerstig and Van Stolk, 2013; IRIS; ISSA, 2013; H5NCP, 2014; Gómez et al., 2014; NAO, 2006; Tesliuc and Van Stolk, 2010).

Even though social security administrations and policy makers are aware of EEF, addressing these issues poses important challenges to Social Security institutions. Firstly, establishing the exact level of error, evasion and fraud, and therefore defining strategies to tackle them, is challenging. Second, EEF phenomena evolves, notably following the place of new labour activities (e.g. growing self-employment) as well as using electronic-based fraud (e.g. identity fraud), and cross-scheme and cross-border criminal manoeuvres (ISSA, 2013; Morsa, 2013; Regioplan, 2010). In addition, some governments in Organisation for Economic Co-operation and Development (OECD) countries have found that error on behalf of the benefit system can be a more substantial problem than fraud (i.e. undue benefits) (Elmerstig and Van Stolk, 2013; Department for Work and Pensions, 2015). Furthermore, studies show the strong relationship between EEF issues and the design of the Social Security system (NAO, 2006; ISSA and Derrama Magisterial, 2016), which limits the application of practices that have been successful in other countries. Moreover, the cost-effectiveness of measures against EEF constitutes another aspect to take into account. Whilst evidence suggests that EEF is inevitable (NAO, 2006), the focus has been to keep it at a minimum level and, especially, to guarantee the social rights of workers.

In this context, and in line with the International Social Security Association (ISSA) initiatives based on the Centre for Excellence, this work aims at providing practical support to social security institutions in order to tackle the issues of EEF, including their definition, causes, cost, and strategies to deal with it. The goal is to prepare the ground for developing I*SSA Guidelines on Error, Evasion and Fraud* as part of the ISSA Programme and Budget for 2017–2019.

This report presents a framework to address EEF issues in an integrated way, covering the main functions such as contribution collection and benefit administration, and based on Compliance principles – i.e. considering error, evasion and fraud as non-compliance issues. The framework is also based Compliance Risk Management (CRM) model, which enables to carry out a systematic treatment of non-compliance issues.

Compliance risks management models have been recommended by the OECD (OECD, 2004; OECD, 2009) and by the European Union (EC, 2010). The ISSA Guidelines on Contribution Collection and Compliance also included these recommendations.

Such framework can facilitate to tackle these issues in an integrated way, to prioritize types of EEF to be addressed based on the severity of their impact as well as on the cost-effectiveness of the measures, and to fight cross-scheme manoeuvres such as contribution-related as well as benefit-based operations (ISSA, 2013)**.**

Summarizing, the framework consists of:

- **Definitions** of error, evasion and fraud, as well as of non-compliance which covers EEF.
- **Compliance Principles**, which provide the background for applying the concept of non-compliance as well as to define institution's compliance strategies.
- A **Compliance Risk Management model**, which aims at addressing the non-compliance issues (i.e. EEF) in a systematic and holistic way. It includes:
  - a **process** covering the tasks of risk identification, prioritization and treatment;
  - **categories** of non-compliance risks (i.e. EEF cases);
  - **criteria for prioritizing the risks** in order to define the action plans to tackle them;
  - **strategies, instruments and measures** to tackle non-compliance / EEF scenarios.

This report has been prepared as part of a project led by the ISSA Technical Commission on Compliance and Contribution Collection. It is based on contributions done by ISSA Technical Commissions on Organization, Management and Innovation (Compliance Principles prepared by the Sociale Verzekeringsbank (SVB) of Netherlands (ISSA and SVB, 2015) and on Pensions (a study on *Fraud in Pensions* prepared by Derrama Magisterial of Peru (ISSA and Derrama Magisterial, 2016). This study constitutes the basis for defining Categories of non-compliance risks in Pensions as well as for identifying measures to prevent them based on country experiences. It also provides information on the current extent of these issues in a number of countries.

2. The impact of error evasion and fraud

Error, evasion and fraud have relevant economic and non-economic impacts on the social security systems as well as on people's lives. On the one hand, the economic impact, which involves non-collected contributions, undue-paid cash benefits, and undue-delivered non-cash benefits, may seriously undermine the economic sustainability of the schemes. On the other hand, the non-economic impacts have also serious consequences, including the loss of social rights by workers and their dependents, undermining the fair economic competition through social dumping (e.g. when employers use cheaper labour), jeopardizing international social security agreements (e.g. bogus detached workers and undue payments), as well as the loss of trust in the social security system and its reputation and legitimacy as well as the political support to the programme and it is associated with political manipulation of the funds (Samamé and Durán-Valverde, 2008; Baumann, Friehe and Jansen, 2009).

2.1. The economic cost

The economic involves non-collected contributions, undue-paid cash benefits, and undue-delivered non-cash benefits (e.g. health benefits), and may seriously undermine the economic sustainability of the schemes (Gómez et al., 2014; Tesliuc and Van Stolk, 2010; Samamé; Durán-Valverde, 2008; Baumann, Friehe and Jansen, 2009).

Although error is an administrative matter, and evasion and fraud are, primarily, a legal matters, their economic impact on public finances cannot be denied. According to (Elmerstig and Van Stolk, 2013, p. 48) the current economic climate further contributes to bringing matters of the economic cost of EEF to the forefront of the current policy agenda. Under increasing pressure to demonstrate “value for money”, governments seek to identify areas of their budget where cost-efficiency approaches can be applied, and therefore decreasing the amount of EEF looks like a straightforward option to follow. It’s important to highlight that the public opinion tend to overestimate benefit fraud and underestimate tax evasion. In France, for instance, evidence reinforces the idea that “the fraud of the poor is a poor fraud”. As such, the country registered EUR 4 billion of benefit fraud, against EUR 16 billion in tax evasion plus EUR 25 billion deficit from uncollected taxes. These two types of tax evasion are most likely to be committed by the wealthier (*Le Monde diplomatique*, 2013).

EEF represents a major risk to the successful delivery of social services and benefits in countries around the world. Evidence for OECD countries[1], puts the range of fraud and error in social protection systems in between 2 to 5 per cent of overall government expenditure on social security. For targeted social protection programmes, which use more complex eligibility criteria and therefore are more prone to EEF, this fraction is estimated in 10 per cent[2] (Elmerstig and Van Stolk, 2013).

According to Elmerstig and Van Stolk (2013, pp. 49, 58, 59, 62), despite the interest, establishing the economic cost of EEF in social security systems around the world is constrained by how EEF is defined and measured in different national and cultural contexts. The use of different measurements and methodologies make comparisons between the countries uncertain. However, the overall figures can nonetheless allow for some reflection.

The variance in the levels and measuring approaches of fraud and error between these four European countries is shown in Table 1. For instance, the Netherlands has used perceptions

[1] NAO. 2006. Australia, Canada, France, Ireland, the Netherlands, New Zealand, Sweden, USA, National Audit Office.
[2] NAO. 2006. Please see National Audit Office.

data, which tend to overestimate the overall level of fraud and error. Ireland and the United Kingdom (UK), because of their sample-based approach, probably have the most robust data.

Table 1. *Selected European countries by welfare expenditure and fraud and error in per centage*

Countries	Welfare expenditure	Welfare expenditure as % of GDP	Fraud and error	Fraud
Sweden	GBP 24.5 bn	29%	6-7 %	3%
United Kingdom	GBP 166.8 bn	22%	2.1%	0.7%
Netherlands	GBP 42 bn	21%	n/a	10-20%
Ireland	GBP 18 bn	13.5%	0.5-2.1%	0.5-1.2%

Source: RAND Europe 2006–2008 (reviewed in 2013).

As shown in Table 1, the Netherlands has estimated that between 10–20 per cent of unemployment and disability benefit claims were found to be fraudulent in 2000, 2002 and 2004 among four categories of fraud defined by the country: identity fraud, income fraud, estate fraud, and living situation fraud. The UK, on the other hand, with 2.1 per cent of fraud and error and a cost of GBP 3.5 bn, classifies the categories into: official error, customer error and deliberate fraud. In the UK, the estimate for overpayment due to deliberate fraud is 0.7 per cent (or GBP 1.2 bn) of the total welfare expenditure. The total underpayment is estimated at 0.9 per cent (or GBP 1.4 bn) of the total welfare expenditure. Claimant error accounts for 0.6 per cent (or GBP 0.9 bn), while official error accounts for 0.3 per cent (or GBP 0.5 bn) of the total expenditure with welfare. In Sweden, around 30 per cent of overpayments are estimated to be due to false information being unintentionally provided and 20 per cent due to state/service provider error.

Error, evasion and fraud are often confused in definition. Intentional fraud or unintentional error from the claimant is often not isolated from mistakes occurring through service providers. This can result in the costs of fraud being presented as deceptively large. Few countries measure EEF systematically, such as the United Kingdom, which finds that administrative and customer errors on behalf of the benefit system can be a more substantial problem than fraud. Concretely, the UK's Department for Work and Pensions estimates that the total underpayment due to error across all benefits was GBP 1.4 bn in 2013, or about 0.9 per cent of the total expenditure. Elmerstig and Van Stolk also highlights that while underpayments may appear to save costs for the state, they also potentially mask economic losses. As eligible claimants have less expendable income, their value-added tax contributions would be in turn smaller. It is also possible that those who do not receive the social security benefits for which they are eligible can potentially put a strain on the welfare state in other ways, for instance by requiring other forms of costly support, such as housing or medical care.

As such, talks about reducing the economic cost of EEF needs to address the importance of simplifying the complexity of the benefit system for both users and administrators (Elmerstig and Van Stolk, 2013). These authors also highlight that EEF is largely considered about overpayment of benefits or services. However, evidence suggests that underpayments can be considerable and are often neglected when determining the economic cost. More specifically, the cost associated with "non-take-ups" of benefits is related to individuals who (deliberately or not) do not claim the benefits they are entitled to. This could be due to an unwillingness to take up benefits, a lack of knowledge of entitlements or due to a system error.

Apart from differences on how fraud and error are measured, and on over and under payment of benefits, there are also fundamental differences between contribution and tax evasion as the former entitle to future claims while the latter does not. (Baumann et al., 2009). More specifically, whilst tax evasion happens when there is absence or under payment of mandatory taxes to the state that will be used for the maintenance and development of the states' general structures and services, contribution evasion entitles to future claims from the contributors. For cases that the future claims are income-related, this may discourage contribution evasion. Therefore, according to Gomez-Sabaíni et al., 2014, p. 64) differently from tax payments, contribution payments entitle a right to receive a type of compensation in the present and/or in the future. This compensation, coupled with individual's aversion to risk has a direct relation upon the decision of evading contributions or not. Both tax and contribution evasions can bring fiscal imbalance to the public budget as the state might have to use the budget of other sectors to pay for benefits or services for those who are not contributing properly. Finally, national reports indicate that evasion and fraud in contribution collection is much higher than in benefits (Cour des Comptes, 2014).

Because EEF is multifold, the impact of its economic cost also presents variations. In this report we highlight four particular types of economic impact: the cost of administrative error, tax evasion, contribution evasion and benefit fraud.

2.1.1. The economic cost of tax evasion

Fraudulent misreporting of income to reduce tax payments has been discussed extensively since the pioneering work of Allingham and Sandmo (1972). For tax evasion it is known that risk averse employees will evade taxes if the expected penalty does not exceed the reduction in taxes paid. In a setting with heterogeneous employees and cross subsidization in unemployment insurance, we show that individuals faced with a high risk of becoming unemployed declare more income than they are supposed to if there is a close link between benefits and contributions. For low-risk agents evasion can only be observed if insurance coverage is high, whereas they do not evade contribution payments if benefits are indexed to contributions and refund only a small fraction of previous income.

2.1.2. The economic cost of contribution evasion

Social security contribution evasion is considered narrower and smaller than tax evasion and therefore its analysis has attracted far less attention than the study of tax evasion. Sabaíni et al. (2014, p. 64) states that the non-compliance with contribution obligations is a real problem for all countries of the world. This kind of evasion involves complex social security schemes and lack of straightforward ways of measuring them. According to (Manchester, 1999), contribution evasion occurs when participants perceive taxes paid will generate little or no payoff in the future. Table 2 summarizes estimations on the size of the evasion rate for selected OECD countries. It is generally admitted that, in OECD countries, the cost of contributions fraud is 7 to 8 times higher than the cost of benefit fraud.

Table 2. *Non-compliance in contribution in selected OECD countries*

Country	Evasion Rate % (2000)	Country	Evasion Rate % (2000)
Austria	0.06	Italy	0.20
Belgium	0.14	Mexico	0.55
Czech Republic	0.02	Poland	0.18
Finland	0.06	Portugal	0.16
France	0.07	Slovakia	0.03
Germany	0.10	Sweden	0.12
Hungary	0.29	United States	0.12
Ireland	0.16		

Source: 2004b. Author's organization based on OECD study.

Developing countries have one particular characteristic that plays a prominent role in the calculation of the economic cost of contribution evasion: large informal labour markets. Low compliance rates in face of aging populations imply high contribution rates for those who remain in the system, and may portend shrinking benefits for those who expect to receive old-age support. Table 3 shows that this ratio is 38.3 per cent for Latin America and the Caribbean and 23.5 per cent for Asia compared to 93.9 per cent for OECD countries. These figures suggest a correlation between the size of the informal market and the social security contribution evasion. The more informal a job market is, the higher is the likelihood of contribution evasion.

Table 3. *Ratio of public pension scheme contributors to the labour force in major world regions, late 1980s to early 1990s*

Regions	Percentage
OECD countries	93.9
Latin American and Caribbean	38.3
Middle East and North Africa	41.3
Asia	23.5
Sub-Saharan Africa	6.4

Source: World Bank (1994).

For the US, Manchester (1999) found that the overall non-compliance rate for social security and Medicare taxes, defined as the aggregate amount of the tax liability not paid voluntarily as a percentage of the "true" tax liability, was 11 per cent in 1987. On the other hand, the non-compliance rate was much higher among the workers who were self-employed, at approximately 55 per cent. Those workers constituted 10 per cent of the country's workforce. Such a high non-compliance rate among the self-employed suggests that evasion is an issue for social security in the US and again the size of the informal market plays a central role in this figure.

In Latin America, the proportion of the economically active population covered by a contributory social security scheme reflects the levels of informality. As such, countries with the highest coverage level are Uruguay and Costa Rica, both with almost 70 per cent of their population covered; followed by Brazil, Argentina and Panama, with approximately 50 per cent of their population covered. On the other hand, countries with the lowest share of coverage are Honduras, Peru and Paraguay, with less than 20 per cent of their population covered, and followed by Colombia, where less than 35 per cent of the population are secured in a pension scheme. The average of social security coverage is approximately 60 per cent in Latin America and it does not present significant variation over time as in the 1990s the average coverage was also approximately 60 per cent (Rofman and Oliveri, 2011, p. 15).

Gomez-Sabaíni et al. (2014, p. 33) estimated the cost of contribution evasion from the paid workers in three Latin America countries. Argentina, with a traditional and large social security system, has fragmented schemes within different types of institutions. Colombia has a mix of public and private schemes that are organized after more recent reforms. Peru is the country with the highest level of informality in the job market and the lowest level of social security coverage in Latin America. Table 4 below shows the estimated contribution evasion rates for pension and health insurances and their economic cost in terms of GDP for the selected Latin American countries.

Table 4. *Estimation of contribution evasion of paid workers in Latin America*

	Country and year of estimation		
	Argentina (2007)	Colombia (2010)	Peru (2007)
Rate of evasion (%)			
Pension	21.5	30.0	45.5
Health	21.5	30.0	46.1
Total	21.5	30.0	45.8
Cost of evasion as percentage of the GDP			
Pension	0.89	1.67	1.63
Health	0.59	1.31	1.13
Total	1.48	2.98	2.76

Source: Gomez-Sabaíni et al. (2014).

To conclude on this, one of the, and maybe the most devastating effects of contribution fraud, is its side effect on the efficiency of the market. Generating twists on competition, it induces growing negative externalities on the well-functioning of the whole economy.

2.1.3. The economic cost of benefit fraud

Frauds related to benefits and benefit abuses affect contributory as well as non-contributory social security schemes. International evidence suggests that social security benefits which are non-contributory and means-tested have higher levels of EEF than those which are not. A research with five OECD countries suggests that the average level of EEF in means tested benefits was between 5–10 per cent of overall expenditure, followed by contributory unemployment benefits and disability programmes was at 1–2 per cent. The lowest rates of EEF (0.1–1 per cent) appear in old age pension benefits and child benefits. The main reasons for the higher risk of EEF in means-tested benefits are: i) complex eligibility requirements;

ii) changing eligibility over time due to changes in personal circumstances (National Audit Office, 2006).

For contributory schemes, benefit fraud means receiving more benefits and/or services than the monetary amount fairly paid into the system. This might lead to fiscal unbalance, debts in public accounts, pressure into the system and reduction in the quality of the benefits and services delivered. On the other hand, for non-contributory schemes, benefit fraud means receiving benefits and/or services one do not qualify for. This might lead to the overuse of universal benefits creating budgetary and structural problems for them, or, for the case of targeted benefits, this could prevent benefits to reach vulnerable parts of the population (Tesliuc and Van Stolk, 2010).

As an example, an internal audit to the programme's beneficiary families of *Bolsa Família* (BF)[3], the well-known non-contributory CCT programme, has recently found that the CCT has 1.2 per cent of its benefits transferred to non-eligible beneficiaries. In other words, 163,173 families out of the total 13,216,986 beneficiary families of the BF programme have an income above the threshold. According to this audit, the BF benefit evasion costs correspond to 0.7 per cent of the annual spending of the programme. This internal audit was made crossing data from the BF's Single Registry, the social security data base and the national employees' registry. This study concluded that the benefit fraud of the BF programme is very low and its success might be due to its centralized registry and management.

The economic cost of benefits fraud in OECD countries has also been addressed in several studies (Elmerstig and Van Stolk, 2013; NAO, 2006; Department for Work and Pensions, 2015). These studies show that benefits fraud's size is less important than its coverage by public media.

2.1.4. The economic cost of administrative error

Evidence suggests that countries tend to place less emphasis on administrative error[4] although this type of error can be a more significant problem than fraud in several social security systems (Elmerstig and Van Stolk, 2013, p. 62). Administrative error has different economic costs depending on the type and size of a social security scheme in the broader social security system and may cause monetary imbalance in public accounts, reduce the effectiveness of social security systems, and prevent vulnerable parts of the population to receive eligible benefits.

The Brazilian means-tested Non-Contributory Pension Programme (*Benefício de Prestação Continuada* – BPC)[5] provides the amount of one minimum wage per month for the elderly and the disabled who live in a household with monthly per capita income of less than ¼ of the minimum wage. An audit of the year of 2008 has estimated that there is 10 per cent of error in the calculation of eligible families. In other words, 10 per cent of the beneficiary families have a monthly per capita income of three times or more the threshold. Considering that in

[3] Bolsa Familia's webpage at the Ministry of Social and Agrarian Development .
[4] NAO (2006).
[5] Benefício de Prestação Continuada's webpage at the Ministry of Social and Agrarian Development:

2008 the BPC distributed BRL 14 billion (approximately USD 4 billion) in cash benefits, the estimated error cost BRL 1.4 billion (approximately USD 400 million).

Contributory schemes are also prone to errors. A recent report issued by Spain's Audit Office has revealed a significant economic impact of administrative error regarding the country's payment of state pension benefits. As such, the report has revealed that almost 30,000 people whose deaths have officially been registered in the National Statistics Institute's (INE) register of deaths were still included on the receipt of a pension for the year of 2015.

The French means-tested non-contributory minimum income (RSA) sees another type of administrative "error". It appears indeed that for sociological reasons, a lot of people who could be eligible to this kind of social aid does not apply for it, "saving" unduly millions in public accounts. This kind of error has to be tackled as well, by pro-active research of people who could take advantage of an existing benefit.

2.2. Non-economic impact

The impact of EEF on social security schemes goes beyond the monetary cost. According to Elmerstig and Van Stolk (2013, p. 49), as definitions of EEF varies, so do perceptions of responsibility of EEF, affecting the non-economic impact of such phenomena. Anglo-Saxon countries tend to emphasize the responsibility of the individual claimant while the Swedish example suggests that achieving correct benefit claims is more a shared responsibility between the claimant and the state. Therefore, EEF can represent legal, moral and social concerns, eroding the trust in and the legitimacy of social security institutions, seriously affecting the political support to the system. Therefore, the non-economic impact of EEF is very diverse, ranging from concrete consequences on individuals to broader social and political ones in countries and regions. More concretely, this impact includes:

- the loss of social rights by workers and their dependents due to errors as well as due to the lack of social security contributions on their behalf;
- undermining the fair economic competition through social dumping. The loss of trust in the social security system and its reputation and legitimacy as well as the political support to the programme and it is associated with political manipulation of the funds;
- jeopardizing migrant protection regulations and regional integration policies based on international social security agreements (e.g. bogus detached workers and undue payments);
- the financial instability of the social security system;
- undermining of the principle of equity and social solidarity.

2.2.1. Loss of human capital due to non-compliance of conditionalities

In non-contributory and targeted social protection schemes, a non-compliance situation can result from not fulfilling the mandatory conditionalities of CCT programmes. For instance, the Brazilian CCT *Bolsa Família* programme has two main mandatory conditionalities: i) children aged 6–15 years old must maintain the minimum of 85 per cent of school attendance; ii) children up to six years old must have their immunization status confirmed and, together with pregnant women, must have regular health check-ups.

A non-compliance of CCT conditionalities has two types of impact: i) break-up of a social pact, and ii) lack of build-up of human capital for younger generations of the most vulnerable part of the population. (Soares, 2012, p. 11).

As for the impact “A”, by not complying with their obligations, the beneficiary families send to the tax’s payers the message that they are not ‘doing their part’. This attitude can erode the society’s support to the programme. This is particularly important for a large CCT such as the *Bolsa Família (BF)* programme, which benefits over 40 million people or, in other words, one in four Brazilians. As for the impact “B”, by not complying with the conditionality of sending their children regularly to the school, the beneficiary families might prevent their kids from learning what is expected to them at school. This non-compliance can have a negative impact on the human capital formation of the most vulnerable segment of the population. If poor children cannot be healthier and more educated than their parents, this would seriously affect the long-term objective of a CCT, which is the breakdown of the intergenerational poverty cycle.

The compliance control of the conditionality on education of the BF Programme is done regularly and punishments are gradual. In case the school attendance of a beneficiary child continues below 85 per cent after the first warning, and the child’s family gives no acceptable justification, two months later a second letter is sent and the benefit is temporarily blocked. When the family attempts to withdraw the money, they will get a message telling them this time that their benefit is blocked. The benefit will be paid as soon as the attendance situation is resolved, but until then it remains blocked. If the child’s attendance remains low for another two months, the benefit is suspended – meaning that it will not be paid even when the situation is rectified. After one year of noncompliance the benefit is permanently cancelled and passed on to another family.

Table 5 shows that the non-compliance of the BF programme look substantial as 36.6 per cent of the beneficiary families had their benefits blocked between 2006 and 2008 for not sending their children to school. However, despite high, the non-compliance leads to only 4.5 per cent of cancellation of the benefits. This shows that temporary sanctions have the potential for a positive impact on benefit fraud.

Table 5. *Application of sanctions for noncompliance in Bolsa Familia, 2006–2008*

Action	Number of families	Percentage
Warning	2,092,394	100.0
Blocked benefit	765,011	36.6
1st suspension	339,205	16.2
2nd suspension	149,439	7.1
Cancellation	93,231	4.5

Source: Soares (2012) based on data from the Ministry of Social Development and Fight against Hunger of Brazil.

2.2.2. Loss of social rights due to lack of contributions

For contributory schemes, the absence or reduced payment of contributions towards the social security system can lead to the loss of social rights by workers and their dependents.

Mistrust of government systems reinforces reluctance to contribute to statutory insurance schemes, particularly when the benefits provided fail to match the priority needs of the informal sector poor, particularly the short-term benefits such as smoother and more effective health expenditure, survivor, disability, unemployment and accident benefits. Broad coverage requires levels of financial and human resources which many states lack, while the fragmentation of responsibility for different aspects of social security between different government agencies contributes to patchy coverage.

Chile, in South America, offers an example of the loss of social rights for paid workers due to the lack of contributions. As such, the country reports this phenomenon in two types: i) the “labour evasion”: when a paid worker has no contract with her employer, and ii) the “pension evasion”: when a paid worker does not contribute to the pension’s system only. In other words, the employee’s monthly contribution to the pensions system is not paid, and therefore he/she will have no rights to receive old age pension benefits. In both cases, the lack of contribution can been done by the employee or can be by the employer. The consequences may be larger if the employee also does not contribute towards to short-term social security schemes (e.g. health, occupational disease/accidents, family benefits, maternity leave, and unemployment benefits, etc.) as he/she may lose the rights to them. Chile has estimated the “labour evasion” of the country to be approximately 20 per cent of the paid workforce with a contract; and the sole ‘pension evasion’ to be 5 per cent of the paid workforce with a contract. Small companies represented the largest share of non-covered workers (those with two to five employees) – approximately 50 per cent. Moreover, approximately 30 per cent of the farm workers and the non-skilled workers were not covered. These occupations therefore represented the largest share of workers with reduced social rights (Ministerio del Trabajo y Previsión Social, 2012).

2.2.3. Beneficiaries not receiving benefits due to non-take-ups

There is another type of phenomenon also related to benefit claim, but that goes into an opposite direction: the non-take-up of benefits by eligible beneficiaries. According to Hernanz et al. (2004) take-up reflects both decisions of eligible individuals to apply for benefits and the accuracy of administrative decisions as to whether these individuals should get the benefit in question or not.

Many countries operate social protection programmes designed to secure a minimum level of resources for low-income families. However, the redistributive effectiveness of such policies can be compromised if intended recipients end up not claiming the benefits they are entitled to. A study on the effects of non-take up on targeted social assistance benefits in France, Poland, Portugal, Sweden and the UK found that non-take-ups increase poverty rates and that the effect is greater the lower the poverty line of a country. Non-take-ups also increase poverty gaps, with the negative effect of the non-take-up being more pronounced towards the bottom of the income distribution (Matsaganis et al., 2008).

Yet, the available evidence is fragmented. Despite its policy relevance, the phenomenon of non-take-up is not studied systematically or on a regular basis (Bargain et al., 2010; Matsaganis et al., 2008; Warin, 2013).[6] The recent literature indicates that non-take-ups is a

[6] Warin, P. 2013. “La face cachée de la fraude sociale”, in *Le Monde diplomatique,* July.

phenomenon for several countries and for different types of benefits, for instance, poverty alleviation programmes, housing and unemployment benefits (1996). According to Hernanz et al. (2004), international estimates of non-take-ups typically span a range of between 40 and 80 per cent in the case of social assistance and housing benefits, and between 60 and 80 per cent for unemployment compensation.

Moreover, a substantial high non-take-up of income maintenance programs is particularly observed in countries with generous schemes like Germany, France or Nordic countries (Hernanz et al., 2004; Currie, 2004). In Finland, evidence found rates of non-take-up that are both substantial and robust: between 40 to 50 per cent of those eligible for income benefits under the scheme *Toimeentulotuki* did not claimed them during the post-recession period (1996-2003). That means that for seven years approximately 50 per cent of vulnerable Finish individuals lived under the minimum income level and therefore under minimum living standards (Bargain et al., 2010). In Germany, the universal benefit for income support *Hilfe zum Lebensunterhalt* registered an estimated 60 per cent of non-take-ups between the 1970s and the 1990s. The also universal social assistance programme *Sozialhilfe* presented an even higher non-take-up of approximately 50 per cent during the same period. Denmark presented a smaller non-take-up rate for the same period. The country's universal housing programme had a non-take-up of 33 per cent; and the country's special housing benefits for pensioners presented a non-take-up of only 15 per cent (Hernanz et al., 2004, p. 12).

With more recent evidence, the French's means tested benefit Active Solidarity Income (*Revenu de Solidarité Active* – RSA) presented an estimated non-take-up of between 50 and 60 per cent. This cause a saving of approximately EUR 5.7 billion to the French social security system (Warin, 2013; Domingo and Pucci, 2014). The main objective of the RSA is to improve the situation of the working poor, guaranteeing that everyone over 25 years old has a right to a minimum income and a real increase in her resources when income from employment rises (Legros, 2009, p. 21). Therefore, despite the significant short-term savings in the French public budget, the non-take-up can cause deeper long-term economic and social costs. For instance, children from vulnerable families that do not take-up the RSA may have less intake of nutrients during their growth, which is likely to affect the development of their cognitive capacity and consequently their educational and job chances. Also, due to their reduced income, vulnerable family members could have more nutritional and health issues, causing a burden to the health system that can potentially cost more than the money saved in the non-take-ups.

According to Van Oorschot (1995), the non-take-ups are known to be originated from four main causes: i) administrative: inaccessible and complex procedures, error, slow assessment, unskilled staff; ii) scheme: complex, unstable; iii) individual: unawareness of benefits or entitlement, unawareness of application procedure, stigma, cost of applying perceived to be higher than benefit, lack of interest based on principle; iv) society: stigma of benefits and/or conditions, discrimination against population groups, poor access to bank accounts, low internet access, legal restrictions on linking databases.

2.2.4. Beneficiaries not receiving benefits due to errors

Non-economic impact can also be related to administrative error. The Brazilian Non-Contributory Pension Programme (*Benefício de Prestação Continuada* – BPC), pays 10 per cent of its budget for non-eligible families. However, the audit also concluded that the BPC does not reach 27 per cent of eligible families. Therefore, the administrative error of this targeted social protection programme is preventing vulnerable families to receive cash benefits they are entitled by law.

3. Definitions: Error, evasion, fraud, and non-compliance

Unlike error which is considered unintentional, evasion and fraud usually involves loss of funds due to intentional or unintentional evaded social security contributions and/or inaccurate benefit payments. Although there evasion and fraud overlap – we acknowledge that evasion is a type of fraud – due to the importance of the evasion phenomenon under fraud schemes, we decided to keep its definition separately in this document.

- **Error**: refers to **unintentional** mistakes due failure of information system in the processing of payments and/or benefits and by human factor by staff members as well as customers (contributors and beneficiaries). Examples: staff members of the social security system can make mistakes in dealing with complex data processing; and beneficiaries can misreport their situation and consequently pay fewer contributions and/or receive higher benefits.

- **Evasion**: refers to an **intentional** illegal act performed by contributors to the social security system in order to decrease their share of contributions. These under-declarations include shorter working periods as well as lower salaries. Evasion is very often carried out by employers. This evasion can even, in certain countries and for certain types of population, become a political demand, such as in European countries where some professional categories, such as the self-employed or borderers, claim contribution exemptions (but the same level of social protection).

- **Fraud** refers to an **intentional** illegal act against the social security system. Fraudulent acts can potentially be performed by employers, contributors, beneficiaries themselves, their family, staff members, medical personnel, or even by a network of specialized criminals. Examples: family members of a pensioner can hide her death in order to keep receiving her pension benefits. A network of criminals can use fake companies and/or documents of individuals to claim illegal benefits from the system. The deviation of funds in cash or in kind performed by employees of the social security system is also considered a fraudulent act.

  While the definitions are overlapping and it’s difficult to determine the exact nature of a case (error vs. fraud) all the three can be considered as **non-compliance** situations.

- **Non-compliance** with social security regulations refers to errors, evasion and fraud acts. This definition aims at facilitating the definition of common approaches to tackle the issues of error, evasion and fraud.

4. Compliance principles

A set of compliance principles is required to apply the concept of non-compliance and to serve as the basis for compliance related decisions.

This section summarizes a first set of compliance principles prepared by the SVB of Netherlands.

4.1.1. Prevention rather than correction

The first aim of preventive compliance measures is to foster compliance and to discourage the contributor/beneficiary from behaving unlawfully ensuring that any attempt to act unlawfully has little chance of success. Prevention is therefore considered an effective, efficient and client-friendly way to prevent that clients do not contravene the rules in the first place. Prevention is more effective because it comes before correction and therefore, prevents it from happening. Prevention is also more efficient because it costs less than correction, and it is also more client-friendly because prevention spares the client a lot of trouble.

Despite prevention efforts, correction actions must continue to detect and correct intentionally or unintentionally unlawful acts. This can be carried out through checks where risks are suspected and to conduct both individual and generic investigations, including under criminal law. But even here, the lessons learnt from the results of such corrective activities should be aimed at prevention. The social security institutions should carry out a careful analysis of the irregularities uncovered and use this to increase the effectiveness of its preventive measures.

4.1.2. Compliance measures must be justifiable and proportional

Compliance measures, such as checks on contributors/beneficiaries situations that may affect benefit rates or entitlement should be based on risk analyses and/or validated signals picked up during the implementation process. On the basis of risk analyses, small-scale, exploratory investigations can be carried out to check whether a theoretical risk of EEF exists in practice and decide how it should be tackled. Additional compliance measures are only justified if the empirical evidence shows that a substantial risk exists in practice. The definition of substantial in this regard should be based on previously established normative values. It should be clear beforehand what occurrence rate is acceptable for a particular risk of EEF and at what particular measures need to be introduced. Compliance strategies should be proportional and just and always be weighed against the respect for the contributor/beneficiary's privacy, which can be affected by home visits or information from third parties. Therefore, privacy rules shall be previously well established and clear beforehand.

4.1.3. Compliance is time-related and cyclical

Compliance practices should be an official part of the planning and budget of social security institutions. This ensures that priorities are weighed up and the compliance practices are monitored accordingly. Moreover, the validity of compliance measures should be periodically assessed: the results, the types of cases being closely investigated, the proportionality and justice of investigative cases, the potential preventive effects of compliance checks, among others. Here, too, the social security institutions should set up its investigations in a way that promotes new insights into prevention. The aim is to permanently evaluate and optimise compliance policy and its implementation by continually drawing lessons from practical experience.

4.1.4. Compliance should be chosen on the basis of added value

The decision to carry out a compliance activity should be based on an assessment of the activity's added value. Aspects which generally add value to compliance strategies are direct financial returns, preventive effects and political, administrative and social interests.

4.1.5. Cooperation with partner organizations

Cooperation with partner organizations is an excellent way of promoting compliance effectively, efficiently and with minimal involvement from the part of the contributors/beneficiaries. For instance, such organisations can be those responsible for implementing social insurance schemes, tax authorities, and education and health institutions for the cases of targeted social protection programmes.

4.1.6. Transparency towards contributors/beneficiaries and governmental institutions

Social security institutions must be proactive and clear in explaining their roles, rules, principles, and also how they operationalise their compliance strategies with their internal administration rules. The idea behind transparency is to make the rules and practices of the institutions clear and also to avoid unnecessary checks.

4.1.7. International compliance should attain the level of national compliance as far as possible

International compliance is important for countries that pay benefits for clients living abroad. The most common cases are pension benefits for those who left the country after retirement. In such cases, compliance practices directed for those living abroad must be as closest as possible to the own national norms.

4.1.8. Enforcement under criminal law is a last resort

Compliance strategies have two main objectives: i) Investigating EEF under administrative law by conducting checks, and consequently correcting irregularities by revising benefits and reclaiming overpayments, and ii) Investigating criminal offences and report applicable cases to public prosecutors.

For instance, if necessary, the social security institutions would also impose sanctions to the party responsible for EEF cases. This first objective is to legitimate the implementation of legislation and schemes that regulates contributions and benefits. The second objective is to investigate criminal offences and report applicable cases to public prosecutors. Under these circumstances, there is risk of exposing to stigmatisation the involved party in EEF cases, such as contributors, beneficiaries or staff members.

5. Main categories of error, evasion and fraud

Non-compliance issues due to EEF impact on all social security functions, schemes and programmes. It worth to highlight that while some types of non-compliance EEF cases are specific to schemes and functions (e.g. health-related benefit EEF) other ones are common to some schemes and functions, such as false/wrong identity.

In order to categorize non-compliance risks, this section presents a summary of schemes, functions and EEF activities (i.e. non-compliance risks). A more detailed, not exhaustive, description is presented in an Annex available for ISSA members.

5.1. Social security schemes with non-compliance risk

Follows a summary of schemes and types of social security programmes where non-compliance cases may occur.

- Cash long-term benefits:
  - pensions: invalidity, old-age and survivors';
  - housing for retired persons.
- Cash short-term benefits:
  - family and children benefit;
  - parental/maternity benefits;
  - sickness benefits (excluding invalidity);
  - unemployment insurance;
  - non-contributory social transferences (benefits in kind or in cash);
  - cash benefits due to accidents and occupational diseases.
- Non-cash short-term benefits:
  - health system;
  - medical care due to accidents and occupational diseases;
  - non-contributory social transferences (benefits in kind or in cash).

5.2. Social security functions with non-compliance risk

- registration (i.e. enrolment in the social security system). It's common for contribution collection and benefit administration;
- contribution collection;
- benefits administration;
- manage compliance of conditions (for non-contributory and conditional transferences);
- regular and random inspections;
- detection and report of irregularities.

5.3. Types of non-compliance risks/EEF cases

This section presents a preliminary summary of types of non-compliance risks organized by function and scheme/programme. For pensions it's based on the report on fraud in pensions provided by the ISSA Technical Commission on Old-age, Invalidity and Survivors' Insurance (ISSA and Derrama Magisterial, 2016).

- Enrolment / registration:
  - identity fraud, false personal ID;
  - false personal and family/household data. Non-reporting and/or delayed reporting of changes;
  - false employer data.
- Contribution collection:
  - fully undeclared employees;
  - under-declared working periods of employees;
  - under-declared salaries of employees;
  - fake self-employment;
  - wrong calculation in contribution amount (error by administration);
  - submit wrong information and/or delayed;
  - fail to pay contributions on the established schedules;
  - retain employees' contributions but not transferred by the employer;
  - fail to pay accepted debts;
  - non-report changes in material circumstances to avoid paying contributions;
  - the intentional periodic modification of nominal report on contributions transferred to be redistributed to the beneficiary.
- Managing pension benefits (based on ISSA and Derrama Magisterial, 2016):
  - false identity documents; profiting of pension benefits using false identity documents;
  - false delegation of authority;
  - false supporting documents of contributions (work certificates);
  - false medical certificates for receiving sickness or invalidity benefits;
  - bogus companies aiming at providing worked and contributed periods;
  - false (or stolen) personal identity by defrauders for receiving payment of benefits in place of the real beneficiary;
  - impersonation of a real beneficiary to receive medical benefits;

  - receiving benefits after death (not notify / inform about death);
  - receiving multiple payments for the same benefit.
- Managing general social welfare/ social protection programmes:
  - under-declaration of income for means-tested benefits;
  - error and underpayment of benefits;
  - non-school attendance and/or non-health checks of children from beneficiary families of non-contributory and conditional social transferences;
  - non-notifications of family circumstances (re-marry, etc.);
  - non-notifications of change in labour status (e.g. working while receiving un-employment as well as family benefits).
- Managing international social security agreements:
  - bogus posting of workers;
  - non-declaration of death and changing personal status;
  - undue simultaneous benefits (e.g. pensions) in several countries.

5.4. Profile of non-compliant entities/actors (organizations, individuals)

Non-compliance activities may be carried out by different kinds of actors, including individuals and organizations.

- Employers/companies:
  - typology of employers: large, medium, small.
- Self-employed.
- Employees contributing to the system.
- Beneficiaries:
  - workers contributing to the system (employed and self-employed);
  - dependents and survivors of workers;
  - retirees and partial retirees.
- Social security administration and staff.
- Specialised criminals.

5.5. Profile of non-compliance by social security branches

Non-compliance activities may be carried differently, following the social security risk managed.

- Healthcare:
  - health leaves benefit frauds;
  - overbilling (of service/material providers and health professionals);
  - over prescription (of corrupted physicians);
  - occupational invalidity pensions;
  - hospital over-billing.
- Pensions:
  - fake careers and professional records (false companies, false payslip, etc.);
  - fake ID (to take advantage of someone else's benefit);
  - windfall effects (when reforms are decided, in order to fit with the profile covered by reforms. EG: early retirement);
  - fake residence;
  - survivors: hidden death of the pensioner.
- Social aid:
  - multiple requests in different local offices (redundant rights);
  - underdeclaration of income;
  - fake loneliness (for lone mother benefit).
- Family benefit:
  - fake family (when lack of civil registration);
  - underdeclaration of income;
  - fake residence of the family (all children, even if somewhere else, declare that they're still living in their parents' household, so that the latest can have access to house benefit).
- Unemployment benefit:
  - hidden accumulation of income (benefit + Informal work);
  - fake record of employment to have access to an undue benefit.

- Contribution collection
  - partially or totally hidden work;
  - windfall effects on employment policies (contributions' partial or total exemption);
  - fake status (for example, when a salaried person is declared as self-employed, to pay less contributions);
  - ancillary income (professional fees, fringe benefit, delayed pension, stock options, etc.) and all aspects in the structure of the professional income that can exonerate part of the professional income;
  - fake "posted" jobs (growing international aspect of the contributions fraud).

6. Compliance risk management model

A compliance risk management model is introduced in order to address the issues of error, evasion and fraud in a holistic way.

6.1. Compliance risk management and social security

Compliance risk management can be described as a systematic process in which a social security institution makes deliberate choices on which treatment instruments could be used to effectively stimulate compliance and prevent non-compliance on the managed schemes. These techniques have been widely applied in Tax administration and increasingly in contribution collection (OECD, 2004 and 2009; EU, 2010).

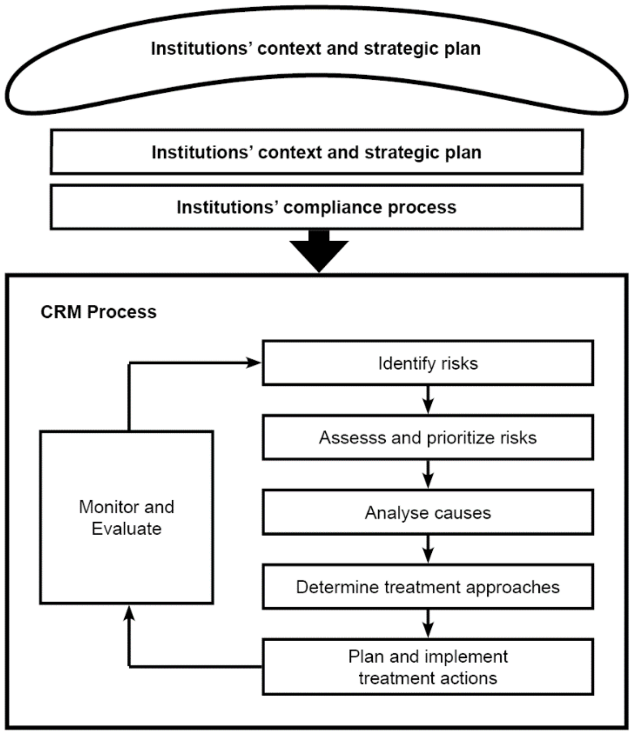
The objective of compliance risk management in this context is to provide a social security institution a systematic process to identify, analyze and treat non-compliance risks (error, evasion and fraud) throughout the functions and schemes in its mandate notably including contribution collection and benefit delivery.

A compliance risk management model consists of the components shown in Figure 1 (OECD, 2004): i) compliance principles providing the background for the institutional compliance strategies, ii) the context and strategic plan of the social security institution, iii) the general Compliance strategies, and iv) a Process with continuous loop of identification, assessment and prioritisation, analysis of causes of risks, determining treatment approaches, plan and implementation of treatment actions, and monitor and evaluation.

6.2. Compliance principles

A preliminary version of Compliance principles is presented in Section 4 (ISSA Technical Commission on Old-age, Invalidity and Survivors' Insurance and Social Insurance Bank of Netherlands, 2015)

Figure 1. *Compliance risk management (CRM) model*



6.3. Institutional context and strategic plan

The institutional context includes:

- the organizational structure, roles and responsibilities involved in tackling non-compliance/EEF issues. New structures may be created as part of the CRM model application;

- a high-level management unit or committee would manage the application of the model globally, connecting tasks and results from different operational units.

To be effective, the tasks involved in applying an institutional CRM model should be part of institution's strategic and operational plans.

6.4. General compliance strategies

Strategies to tackle non-compliance aim at ensuring that contributors and beneficiaries comply with their obligations, therefore safeguarding the legitimacy of social security institutions. In cases where compliance is lacking, these strategies help uncovering violations and impose sanctions, which can range from benefit cuts to prosecution under criminal law.

At this level, general compliance strategies are intended to fully cover the schemes and functions managed by an institution, or eventually several institutions in a national multi-organizational system. These strategies would combine three types of initiatives: prevention, detection and deterrence.

- **Prevention initiatives** aim at limiting opportunities for non-compliance as well as at reducing unintentional and intentional errors. The goal is to prevent the most of non-compliance risks as possible through regulatory, operational and awareness measures. Although these types of initiatives are widely recognized as the most desirable, they cannot cover all the compliance risks.

- **Detection initiatives** enable to identify non-compliance cases, ideally the earlier as possible. They are increasingly based on an array of data-oriented techniques (e.g. data mining, data matching, online data analysis, etc.), which implement a pipeline starting with the identification of "potential non-compliers" and finishes with a list of candidates for a field inspection/audit, which enables to asses non-compliance cases.

- **Deterrence actions** provide the means to prosecute and sanction non-compliant individuals and companies. They are mainly based on regulations defining the sanctions as well as on procedures (administrative, courts, etc.) to carry out the prosecution and apply the sanctions (ISSA and Derrama Magisterial, 2016; Samamé and Durán-Valverde, 2008; Vonk, 2013).

It's interesting to highlight that the three types of initiatives are applied and/or recommended to tackle non-compliance worldwide and in all schemes and functions This reinforces the feasibility of developing a unique framework for social security systems (ISSA, 2013; NAO, 2006; Tesliuc and Van Stolk, 2010; OECD, 2009).

6.5. The compliance risk management process

The compliance risk management process consists of a continuous loop of the following tasks: Risk identification, Analysis and prioritisation, Analyse causes, Treatment and evaluation of the non-compliance risks, Plan and implement treatment actions and Monitor and evaluate

6.5.1. Risk identification

The output of this task is a list of potential risks, such as the ones presented in Section 5.3, but also including groups of potential defrauders, such as the ones presented in Section 5.4.

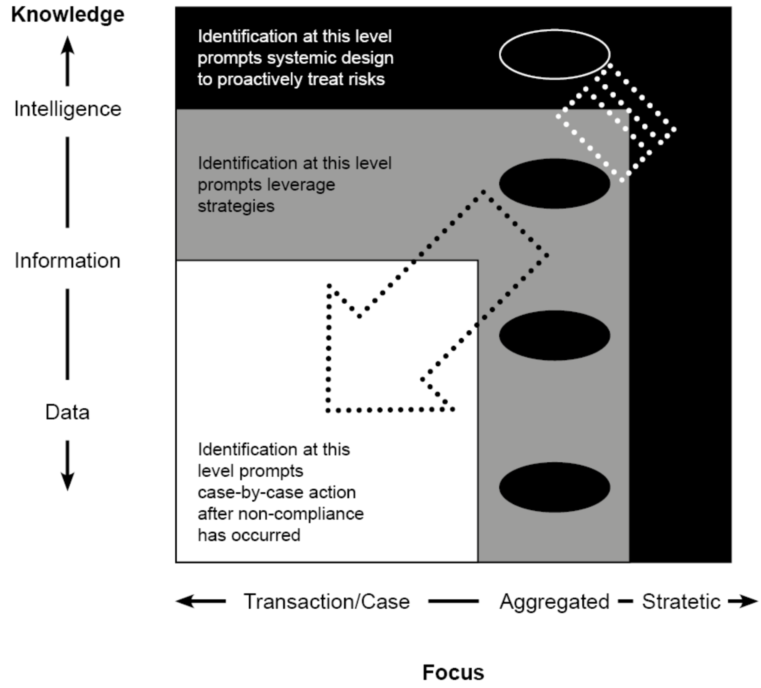
It's important to point-out that although institutions have to deal with compliance risks at different levels (from the more strategic and general to the more specific and case-based) compliance risks lie along a continuum. This continuum, which is shown in Figure 2 (in OECD's model (OECD, 2004), has a horizontal axis representing the types of risks and a vertical axis representing the type of knowledge necessary to identify the risks.

At a **high level**, identification starts preparing a *general risk overview* of risky areas and/or sector/population groups. This document describes the risk areas by scheme, function, and/or sector/population group. It concludes providing the direction for identifying risky activities and specific sectors.

The **medium level** focuses on a specific risk area and/or sector/population group. More concretely, it would include relevant types of risks for specific functions and schemes as presented in Section 5.3.

At the **low-level**, most detailed risks would depend on scheme and national regulation specificities.

Figure 2. *Risk identification chart (based on OECD's model (OECD, 2004))*



In the risk analysis task, the risks and risky individuals identified in the previous stage are systematically weighed and grouped in relative order. The output of this task is the list of risks with the following additional aspects:

- Reasons for non-compliant behaviour. This information contributes to the assessment and for defining cost-effective measures.
- *Likelihood*, which represents the probability that the risk will occur. The *Frequency* describes how often could occur.
- A classification of the *severity of the consequences*, which may be based on two dimensions, the severity degree (low, medium, high, very high, and extreme) and to whom they impact (individuals, institution, socials security system). For instance, the consequences of a an employer not declaring a worker may be a lack of short and long term benefits for the employee as well as a loss of resources for the institution and the social security system.
- Possible treatment options and the associated cost and complexity.

6.5.2. Analysis and prioritisation

The goal of the risk prioritisation task is to select the cases and individuals that are to be treated based on the risk assessment. When assessing and ranking risks it is necessary to take into account both the likelihood and the consequence of the risk occurring. This can be done using a Compliance risk rating matrix (Figure 3), which classifies the risks according to the ranking: low, moderate, significant, high, and severe.

The output of this task is the list of risks with the following additional aspects: reasons for non-compliant behaviour, likelihood representing the probability that the risk will occur, frequency describing how often could occur, the severity of the consequences and to whom they impact (individuals, institution, social security system).

Figure 3. *Compliance risk rating matrix (in OECD's model (OECD, 2004))*

Consequence						
	Extreme	High	High	Severe	Severe	Severe
	Very high	High	High	High	Severe	Severe
	High	Significant	High	High	High	High
	Medium	Moderate	Moderate	Significant	Significant	Significant
	Low	Low	Low	Moderate	Moderate	Significant
		Rare	*Unlikely*	*Possible*	*Likely*	*Almost certain*
		Likelihood				

24 The methodology for determining the *severity of the consequences*, which will be developed in future reports, would be based on the potential impacts for individuals (e.g. employees and their dependents losing the rights to medical care, risks on the long-term sustainability of a programme, etc.).

6.5.3. Analysis of causes

Some of the main causes for the non-compliance risks are very diverse and very often a mix of several factors facilitating the non-compliance and generating barriers to the compliance. Some of these factors are the following:

- complexity and unclear contributions/benefits rules can confuse staff members and beneficiaries of the social security system;
- unclear rules: undefined rules can open gaps for fraudulent actions by contributors/ beneficiaries and/or staff;
- "grey zones" and lack of controls in the cross-institution and cross-country jurisdictions;
- system: lack of efficient control mechanisms. Lack of systems facilitating performing compliant contributions and benefit claims;
- staff-related issues: workload, inadequate training, and inadequate management of the system of contributions/benefits;
- economic interest and dishonesty of contributors, beneficiaries and/or staff;

- the low level of financial education of the population;
- the low level of information about the benefits of enrolling in the social security system;
- the intervention of the political factor in respecting the principles of the social security system;
- the low level of trust in the social security system.

6.5.4. Treatment and evaluation of the non-compliance risks

Treatment approaches may be organized according to the three types (prevention, detection and deterrence) and using different kind of instruments (Table 6).

Table 6. *Treatment approaches based on analysed cases and studies*

	Approaches		
Instruments	Prevention	Detection	Deterrence
Legislation	Simplification of regulations and rules	Enabling cross-institution data exchange	Typification of faults and definition of sanctions
Support tools & services *Operations*	Pre-filling of forms Control & automatic correction.	Control & validation	Support tools to inspectors
Education & Communication	Education and awareness campaigns	Surveys analysis.	Information about legislation and sanctions
Partnerships	Workers Unions Employers' Organizations	• Tax administration • Ministry of Labour and Social Security • Other social security institutions • Clearinghouses of debtors • Tip-off/*Denounces*	• Courts • Coordinated inspections
Data Analysis & profiling *Predictive/Modeling/ Behavior*	Profiling risks sectors	Detection of suspicious cases	
Field inspection	• Mass-inspection, random		Targeted inspection, based on a detection
Strengthen institutional capacity	• Staff training • Improve information systems • Strengthen ICT security		

Each of these approaches can be further developed and associated to specific actions.

6.5.5. Plan and implement treatment actions

After having prioritized risks and defined treatment approaches, the next step in the compliance risk management process is to apply the treatment actions by defining a treatment plan. The treatment actions will be framed by the strategies previously defined, particularly combining prevention, detection and deterrence initiatives. More concretely, they could follow the approaches described in Table 6.

Preventive approaches may be prioritized in order to reduce risks in advance. Risk reduction can be done in different ways, particularly by:

- limiting opportunities for non-compliance, i.e. making errors deliberate or accidental;
- reducing unintentional errors: "Make it difficult to make mistakes;"
- reducing intentional errors: "Make it risky to make mistakes."

Some concrete **preventive** measures are:

- information campaigns on rights, obligations and risks in non-complying with the rules: information on transparency rules and by making it clear to contributors/beneficiaries that data between partner organizations can be exchanged for the detection of irregularities. Good practices in Argentina, Australia, Belgium, Canada, Denmark, Ireland, Italy, Norway, Singapore, Spain, Uruguay;
- specialised units for EEF management and control: establishment of inter-institutional committees between partner organisations for information analysis of suspicious cases and promotion of random routine checks of social security institutions and clients' cases. Good practices in Argentina, Denmark, France, Italy, Morocco, Netherlands, Norway, Uruguay;
- risk analysis and development of risk profiles: promotion of risk analysis of non-compliance in specific schemes and in groups of contributors and beneficiaries. Good practices in Argentina, Australia, Belgium, Spain, Uruguay;
- staff training: improve the administrative capacity of the staff via specific training on how to avoid error, manage face to face communication, and also on the potential penalties for committing fraud. Good practices in Canada;
- improving management structures: improve the leadership capacity and the sharing of workload among the staff;
- ICT improvements: keep technologies updated and safe from failures, blackouts and hacker attacks. Good practices in Argentina, Ireland;
- unique fiscal identifiers between partner organizations: development of key ID numbers for contributors and beneficiaries to be used by partner institutions in an integrated way and to minimise information requested to contributors and beneficiaries. Good practices in Argentina, Uruguay;
- systematic data quality control: promote simultaneous data update into the integrated system. Good practices in Argentina, Australia, Brazil, France, Italy, Norway, Spain, Uruguay;

- investigators/reviewers not assigned cases where familiarity is suspected: rule out familiarity between partners in cases under investigations in order to minimise the risks of fraud;

- internal auditions: auditions by external investigators in order to keep a good level of internal transparency and minimize the risk of fraud committed by the staff;

- separation between assessment and payment: separate staff responsible for assessment functions from those responsible for payment in order to avoid fraud.

Limitations for effective prevention strategies, which might not succeed due to:

- poor management and information structures;

- lack of technical expertise to deal with failures in complex ICT systems;

- lack of good quality experts and economic resources that allow for complex and efficient structures to be created.

In turn, **detection** initiatives may consist of:

- data-matching (or data-crossing): promote data-matching between partner institutions for regular and random checks. Good practices in Argentina, Australia, Belgium, Brazil, France, Ireland, Italy, Netherlands, Norway, Spain, Uruguay;

- data-mining (or big data analysis): profiling of the non-compliant entities/actors in order to aim inspections at risk profile employers/employees/beneficiaries. Good practices in Argentina, Australia, Belgium, France, Ireland, Italy, Spain, Uruguay;

- online and phone lines for reporting fraud (denunciations): keep an online or phone line with easy access by the broad audience for reporting fraud. Good practices in Argentina, Australia, Belgium, Brazil, Spain, Uruguay;

- joint operation between partner organisations: agreements formalised between partner institutions and flexible law on data protection for efficient investigations aiming at detecting fraud. Good practices in Argentina, Australia, Belgium, Brazil, France, Italy, Netherlands, Norway, Spain, Uruguay;

- field inspection: planned and complete checks aimed at risk profile groups of schemes and contributors/beneficiaries. Good practices in Argentina, France, Italy, Norway, Spain, Uruguay.

Limitations for effective detection strategies, which might not succeed due to:

- lack of unique fiscal identifiers;

- poor quality administrative data;

- lack of agreements between partner institutions and very restrictive data protection law.

Finally, **deterrence** may be carried out through:

- laws and regulations which clearly typify faults and establish sanctions. Good practices in Argentina, France, Italy, Norway, Peru, Spain, Uruguay;
- administrative penalties. Good practices in Argentina, Australia, France, Italy, Norway, Spain, Uruguay;
- court-based prosecutions. Good practices in Argentina, Ireland, Norway, Uruguay;
- court-based criminal prosecutions. Good practices in Norway;
- sanctions and confiscation of assets. Good practices in Norway.

Limitations for deterrence:

- weak laws and enforcement institutions;
- inefficiency and lack of technical specialization of courts.

After tackling cases through detection and deterrence actions, new preventive measures should be generated (distilled) in order to prevent these cases. This is part of a permanent improvement on reducing the compliance risks.

6.5.6. Monitor and evaluate.

The last stage consists of the Monitor and Evaluation of the performed actions. It can be done different levels: Outcomes and impact levels, to indicate how the institution is meeting the strategic objectives (e.g. increasing voluntary compliance and/or reduce certain types of EEF); Outputs and activity level, analysing the effectiveness of specific actions.

As the process is cyclical the evaluation should provide an effective feed-back to the other tasks for a permanent improvement. Moreover, the result of the evaluation has to be taken into account to confirm or adjust the strategies as well as the risk assessment and treatment plan.

7. Conclusions

The issues of error, evasion and fraud (EEF) constitute a matter of concern worldwide as they impact on the sustainability of the systems, the social rights of the population and the trust of the society in the social security systems.

However, addressing these issues poses important challenges to the institutions, particularly putting into practice cost-effective measures which enable to tackle the relevant risks. In addition, the traditional organizational structure of social security agencies - by function and/or scheme – doesn’t help to address the problems in an integrated way. Furthermore, as non-compliance risks are highly related to the specificities of the social security system, the possibilities of generalizing diagnosis and solutions remain limited.

This report presents a preliminary version of a framework based on compliance risk management practices to address these issues. The main features are: i) introducing the concept of non-compliance to cover error, evasion and fraud, ii) a set of compliance principles, iii) a compliance risk management adapted from the Contribution Collection area, and iv) a preliminary categorization of non-compliance risks (i.e. EEF cases) as well as measures to tackle them.

The performed study confirmed the relevance of the issues of EEF in social security and their negative impact worldwide. It also shows the feasibility of defining a unified framework to tackling the EEF issues covering contribution collection and benefits functions. An extended version of this report is available for ISSA members.

The project took as input not only the contributions from the ISSA technical commissions but also ISSA Good Practices, external studies and the discussions carried out in the International Seminar on Evasion and fraud in social security held in Madrid in April 2013.

The next steps for the study would consist of:

- extending the categories of risks, particularly identifying categories that are common to several schemes; develop the prioritization criteria and the methodology for determining the severity of the consequences;

- developing the treatment measures for the different categories and taking into account the national social security contexts;

- preparing ISSA Guidelines on EEF as a synthesis of approaches and good practices analysed in the present study;

- implementing a knowledge base based on cases an experiences on EEF in social security.

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