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

Summary report

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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 [1][2][3][4][5][6][7][8].

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 ISSA 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, and based on Compliance principles. 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 Organisation for Economic Co-operation and Development (OECD) [20][21] and by the European Union [22]. The *ISSA Guidelines on Contribution Collection and Compliance* also included these recommendations.

This summary 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 [19]) and on Pensions (a study on *Fraud in Pensions* prepared by Derrama Magisterial of Peru [9]). An extended version of this document is available to ISSA members.

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.

2.1. The economic cost

The economic cost of error, evasion and fraud 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 [6][8][11][16]. 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 Van Stolk and Elmerstig (2013:48) 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.

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 percent 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 percent[2] (Van Stolk and Elmerstig, 2013).

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

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

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

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 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. In the UK, the estimate for overpayment due to deliberate fraud is 0.7 percent (or GBP[3] 1.2bn) of the total welfare expenditure. The total underpayment is estimated at 0.9 percent (or GBP 1.4bn) of the total welfare expenditure. Claimant error accounts for 0.6 percent (or GBP 0.9bn), while official error accounts for 0.3 percent (or GBP 0.5bn) of the total expenditure

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

with welfare. In Sweden, around 30 percent of overpayments are estimated to be due to false information being unintentionally provided and 20 percent 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. 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 (Van Stolk and Elmerstig, 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.

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

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 percent for Latin America and the Caribbean and 23.5 percent for Asia compared to 93.9 percent 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 labor force in major world regions, late 1980s to early 1990s*

Regions	Percent (%)
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: 1994. World Bank.

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 country suggests that the average level of EEF in means tested benefits was between 5–10 percent of overall expenditure, followed by contributory unemployment benefits and disability programmes was at 1–2 percent. The lowest rates of EEF (0.1–1 percent) 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 – NAO, 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 (Van Stolk and Tesliuc, 2010).

The economic cost of benefits fraud in OECD countries has also been addressed in several studies: Van Stolk and Elmerstig (2013), NAO (2006) and 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] However, evidence suggests that this type of error can be a more significant problem than fraud in several social security systems (Van Stolk and Elmerstig, 2013: 62). Administrative error 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. Administrative error has different economic costs depending on the type and size of a social security scheme in the broader social security system.

2.2. Non-economic impact

The impact of EEF on social security schemes goes beyond the monetary cost. According to Van Stolk and Elmerstig (2013: 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;

[4] NAO. 2006. National Audit Office.

- 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, fraud can result from non-compliance of 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 to types of impact: A) break-up of a social pact; B) lack of build-up of human capital for younger generations of the most vulnerable part of the population. (Soares, 2012: 11).

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 will not pay monthly contributions to the pensions systems and therefore will have no rights to receive old age pension benefits. In both cases, the lack of contribution can be done voluntarily by the employee or can be by the employer. Chile has estimated the "labour evasion" of the country to be approximately 20 percent of the paid workforce with a contract; and the sole 'pension evasion' to be 5 percent of the paid workforce with a contract. Small companies represented the largest share of non-covered workers (those with 2 to 5 employees) – approximately 50 percent. Moreover, approximately 30 percent 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 (Matsaganis et al., 2008; Warin, 2013). [5] The recent literature indicates that non-take-ups is a phenomenon for several countries and for different types of benefits. According to Hernanz et al. (2004), international estimates of non-take-ups typically span a range of between 40 and 80 percent in the case of social assistance and housing benefits, and between 60 and 80 per cent for unemployment compensation.

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 percent of its budget for non-eligible families. However, the audit also concluded that the BPC does not reach 27 percent 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).

- **Evasion**: refers to an **intentional** illegal act performed by contributors to the social security system in order to decrease their share of contributions.

[5] Warin, P. 2013. "La face cachée de la fraude sociale", in *Le Monde Diplomatique*, July.

- **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.

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.

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.

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.

3) **Compliance is time-related and cyclical**

Compliance practices should be an official part of the planning and budget of social security institutions.

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.

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.

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.

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.

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; (ii) Investigating criminal offences and report applicable cases to public prosecutors.

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 Fraud in Pensions provided by the TC Pensions [9].

- 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 [9]):

- 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. This section is further developed in the extended version of the report.

6. Compliance risk management model

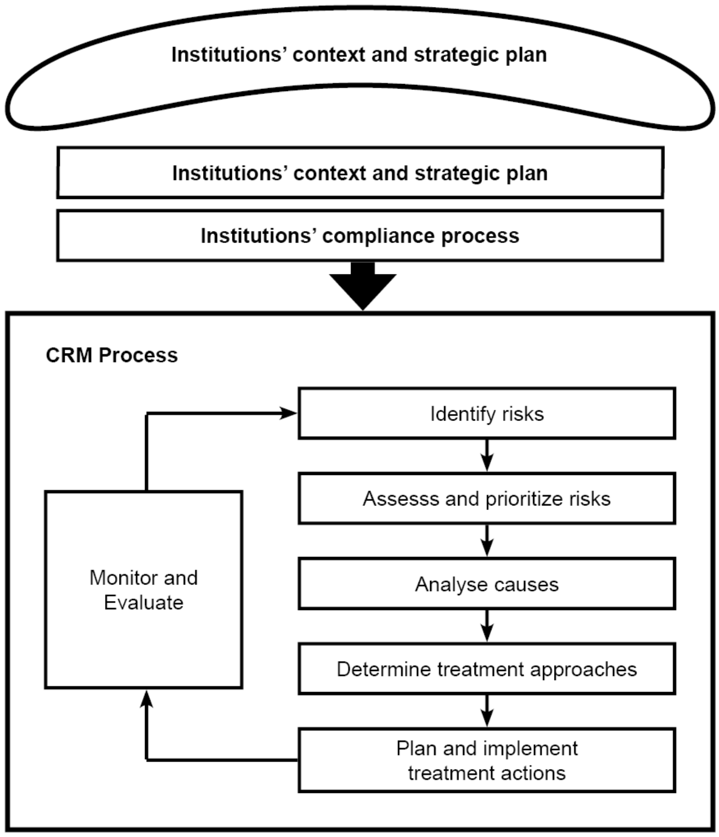
A Compliance risk management model is introduced in order to address the issues of error, evasion and fraud in a holistic way.

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) (OECD, 2009) (EU Directorate Taxation, 2010).

A Compliance risk management model consists of the components shown in Figure 1 (OECD, 2004) [20]: (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.

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



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)

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.

- **Prevention initiatives** aim at limiting opportunities for non-compliance as well as at reducing unintentional and intentional errors.

- **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 (ISSA TC Pensions 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 [4][8][7][21].

6.5. The compliance risk management process

The compliance risk management process consists of a continuous loop of the following tasks:

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.

2) **Analysis and prioritisation**. The goal of the risk prioritization task is to select the cases and individuals that are to be treated based on the risk assessment. 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).

3) **Analyse causes**. Some of the main causes for the non-compliance risks are: Complexity and unclear contributions/benefits rules and regulations; "grey zones" and lack of controls in the cross-institution and cross-country jurisdictions, lack of efficient control mechanisms; staff-related issues (workload, inadequate training, etc.); 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 benefits on participation 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.

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 4).

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

Table 4. *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		

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 4.

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.

- IT 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

- The prevention strategies listed above might not succeed due to poor management and information structures; lack of technical expertise to deal with failures in complex IT systems; and particularly 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

- The detection strategies listed above 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) 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

This summary 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 shown 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.
- 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 based on cases an experiences on EEF in Social Security.

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