International Benchmark of Fraud and Error in Social Security Systems

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Managed by Paul Cannon at the NAO

World Bank
2007
General findings of study

- Benchmarking is worthwhile despite limitations
- Measuring fraud and error is not straightforward
- There are interesting commonalities in approaches to combat fraud and error
- Measuring the impact of initiatives is important
Outline

• Introduction
  • RAND Europe
  • Introduction to study (approach)
• Fraud and error in social security administrations
  1. Context: There are important differences between institutional structures and expenditure
  2. Benchmark: Benchmarking of overall rates of fraud and error has limitations
  3. Good practice: Countries show a variety of interesting practice in tackling fraud
• Concluding thoughts & discussion
RAND Europe: Overview

“RAND Europe is an independent not for profit research organisation whose mission is to help improve policy and decision-making through research and analysis”
Background of study

- The UK National Audit Office (NAO) has given a qualified opinion of the Department of Work and Pension’s accounts for 16 years
- RAND Europe is a strategic partner of NAO
- NAO asked RAND Europe to:
  - examine international fraud and error rates
  - establish how the UK performed internationally
  - find examples of good practice
Research Approach

Country selection
With NAO

Agree a set of core questions with NAO (template)

Build a RE research team (based on experience)

Initial 3 days of desk research per country to answer template

One-day workshop to identify themes

Refine the investigation through contacts with informants

Feedback from NAO

Clearance and final report
# Country selection

<table>
<thead>
<tr>
<th>Focus</th>
<th>Countries selected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Similar to the UK in:</strong>&lt;br&gt;• Wealth per capita&lt;br&gt;• Population structure&lt;br&gt;• Amounts of public expenditure on social benefits</td>
<td>Australia (AU) <img src="flag.png" alt="Australia" />&lt;br&gt;Canada (CA) <img src="flag.png" alt="Canada" />&lt;br&gt;France (FR) <img src="flag.png" alt="France" />&lt;br&gt;Ireland (IE) <img src="flag.png" alt="Ireland" />&lt;br&gt;Netherlands (NL) <img src="flag.png" alt="Netherlands" />&lt;br&gt;New Zealand (NZ) <img src="flag.png" alt="New Zealand" />&lt;br&gt;Sweden (SE) <img src="flag.png" alt="Sweden" />&lt;br&gt;US <img src="flag.png" alt="US" /></td>
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</tbody>
</table>
Template used for comparison

- **Context**
  - description of social security system and scale of expenditure on social security and pensions

- **Benchmark**
  - definitions of fraud and error and measurement of extent of fraud and error

- **Good practice**
  - causes of fraud and error and actions taken to combat fraud and error
Three areas of investigation

1. Context: There are important differences between institutional structures and expenditure
2. Benchmark: Benchmarking of overall rates of fraud and error has limitations
3. Good practice: Countries show a variety of interesting practice in tackling fraud
Structure of social security

Most social security systems have a three-tiered system

- Social insurance (contribution)
- Supplementary benefits (means-tested, non-contributory)
- Universal coverage (specific conditions, e.g. child benefit)
Differences exist in institutional structure and expenditure (1)

<table>
<thead>
<tr>
<th>Countries selected</th>
<th>Expend in bill. £ most recent</th>
<th>Expend as % of GDP in 2001</th>
<th>Relevant institutional characteristics</th>
<th>Specific approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>44.2</td>
<td>18</td>
<td>Central independent implementation agency (contract)</td>
<td>Targeted rather than earnings-related</td>
</tr>
<tr>
<td>Canada</td>
<td>62.5</td>
<td>17.8</td>
<td>Federal state</td>
<td>Three tier part devolved; tax credits</td>
</tr>
<tr>
<td>France</td>
<td>115.5</td>
<td>28.5</td>
<td>Devolved administration to regional funds</td>
<td>Traditional three tier</td>
</tr>
<tr>
<td>Ireland</td>
<td>7.5</td>
<td>14</td>
<td>Government department with executive agencies</td>
<td>Three-tier (means-tested)</td>
</tr>
</tbody>
</table>
Differences exist in institutional structure and expenditure (2)

<table>
<thead>
<tr>
<th>Countries selected</th>
<th>Expend in bill £ most recent</th>
<th>Expend as % of GDP in 2001</th>
<th>Institutional characteristics</th>
<th>Specific approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>42</td>
<td>21.8</td>
<td>Implementation agencies (some consolidation)</td>
<td>Traditional three-tier</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.5</td>
<td>18.5</td>
<td>Implementation in Ministry and central agency</td>
<td>Core benefits</td>
</tr>
<tr>
<td>Sweden</td>
<td>32</td>
<td>29</td>
<td>Implementation in insurance agencies</td>
<td>Three tier system</td>
</tr>
<tr>
<td>US</td>
<td>718</td>
<td>14.8</td>
<td>Federal state</td>
<td>Tax credits</td>
</tr>
</tbody>
</table>
Differences inform measurement and actions taken

- In how countries measure/define fraud and error
- In how countries approach the issue of fraud and error and take actions to tackle the problem
Three areas of investigation

1. Context: There are important differences between institutional structures and expenditure

2. Benchmark: Benchmarking of overall rates of fraud and error has limitations

3. Good practice: Countries show a variety of interesting practice in tackling fraud
Definitions in countries are similar

- Intentional
  - Fraud
  - Corruption
- Unintentional
  - Customer error
  - Official error

Claimant          Staff
Variations are cultural and specific

- SE emphasises shared responsibility between citizen and state to ensure accuracy of payments
- Anglo-Saxon countries place more emphasis on individual’s responsibility
- NL does not have fixed definition (agency issue)
Three levels of measurement (1)

1. Total fraud and error
   • Few countries measure total fraud and error
     *UK and IE (for a few benefits) measure overall fraud and error on the basis of ‘rolling measurement’ and ‘snapshots’ (gold standard)*

2. Specific sampling
   • Some countries undertake random sampling (SE, US, NZ)
   • Sampling and reviews can be linked to risk-based assessments (IE and US)
Three levels of measurement (2)

3. Measuring often focuses on other criteria (e.g. outcomes of initiatives)
   • Minimum accuracy targets (NZ, SE, AU)
   • Improper payments per benefit type (US)
   • Savings and prosecutions achieved (AU, IE, NL, NZ)

Across countries much focus on fraud, less so on error, and least on corruption
Difficulties in comparing rates reflects different approaches

- Where data available, rates of fraud and error range between 2 and 5%
- Trend data is mostly absent in countries studied

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</thead>
<tbody>
<tr>
<td>Total Fraud and Error</td>
<td>2.3%</td>
<td>3.5% ('94)</td>
<td>–</td>
<td>2.7%</td>
<td>–</td>
</tr>
<tr>
<td>Fraud and Error in Housing Benefit</td>
<td>5.2%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>3.6%</td>
</tr>
<tr>
<td>Fraud and Error in Income Support</td>
<td>5.3%</td>
<td>3.5% ('03)</td>
<td>–</td>
<td>–</td>
<td>5.07%</td>
</tr>
<tr>
<td>Fraud and Error Old Age, Disability</td>
<td>4.9%, 0.1%, 1.9%</td>
<td>–</td>
<td>7%</td>
<td>–</td>
<td>0.53%</td>
</tr>
</tbody>
</table>

1 A comparison of fraud and error rates in countries studied
Three areas of investigation

1. Context: There are important differences between institutional structures and expenditure
2. Benchmark: Benchmarking of overall rates of fraud and error has limitations
3. Good practice: Countries show a variety of interesting practice in tackling fraud
Three main causes of fraud

1. Customer dishonesty (about 20% of causes in NL)
   - Undeclared income
   - Failing to report changes in material circumstances
2. Exploiting the system (about 48% of cases in IE)
   - Multiple programme claims
   - Misrepresentation of material circumstances
   - Identity fraud
3. Complexity (no real data available, 1-2% estimate in CA)
   - Cross-jurisdictional claims (federal systems)
   - Complexity of rules and regulations (UK)
   - Simplification of rules and identity requirements (FR)
Fraud in Ireland

- 48% of cases of overpayment were due to deliberate fraud
- 22% of overpayments were estate cases
- 25% are identified as client error
- 5% are classified as departmental error
Categories for actions to combat fraud

• Prevention
• Detection
• Deterrence
Common actions to combat fraud

1. Prevention
   • Information campaigns (AU, UK)
   • Prepayment investigations (US)
   • Rights and obligations (CA, NL)

2. Detection
   • Gathering information from the public (tip-offs) (AUS, UK)
   • Data-matching (AU, NZ, CA, IE, NL, SE, UK, US)
   • Regular payment checks (controls) (AU)
   • Risk-based assessments to organise reviews (e.g. select client reviews [professions]; scoring; profiling) (AU, NZ, CA, SE)
   • Random and time-based reviews (AU, NZ)
   • Inter-agency compliance activities (AU, NL)

3. Deterrence
   • Increased sanctions and prosecutions (IE, US, and UK)
Evidence from Australia

- Face to face interviews, AU$ 4.1 million over 4 years (1,200 interviews)
- Media campaign targeting notification of circumstances, AU$ 271.2 million over 4 years from 115,000 notifications per year
- Data-matching, about AU$ 70 million over 4 years
- Compliance reviews, about AU$ 96.5 million over 4 years
Main causes of error

- **Staff**
  - Staff caseloads (NZ)
  - Inadequate support and training of case managers and team coaches (NZ, UK)
  - Breakdown or override of internal control (US, AU)
- **System**
  - Failure of payment system (NZ)
  - Failure of IT systems (UK)
  - Problematic information management (AU)
  - Inadequate monitoring or reporting procedures (AU)
- **Complexity**
  - Complexity of benefits and rules (NZ and UK)
Common actions to tackle error

- **Staff**
  - Results-based management (CA)
  - Staff training (listed in all countries)
  - Improving management structures (CA)
- **System**
  - IT improvements (IE, UK)

Context performance targets (e.g. business partnership in AU)
None of the countries explicitly reported issues around corruption of departmental staff

Possible reasons for low corruption
- Eligibility criteria
- Separation between assessment and payment
- Separation between processing/decision-making and investigations or reviews
- Integrity of systems processing payments
- Staff training and management
- Investigators/reviewers not assigned cases where familiarity is suspected
- Internal audit
Interesting practice per country (1)

- Central and extensive control process (detection)
- Centrelink’s accountability to the Australian Government (performance)

- Focus on prevention, which has achieved savings through risk-based Claimants’ Information Sessions (prevention)

- Range of measures to improve data management, including the planned development of a national database of customer records (detection)
Interesting Practice per Country (2)

- Emphasis in the Dutch social security system on the rights and obligations of the claimant (prevention)
- Use of random response surveys (detection)
- The use of unique fiscal identifiers (detection)
- The use of cost-benefit analyses to determine the cost-effectiveness of control measures (performance)

- The requirement for claimants to re-establish core eligibility (prevention)
- The introduction of single core benefit (prevention)
- New Zealand’s Accuracy Reporting Programme (ARP) (detection/performance)
- The setting of targets for control measures (detection)
Interesting Practice per Country (3)

- Integration of measures of fraud in the overall quality reporting system (Qben II) (detection)
- Use of neural networking (detection)
- Comparative risk assessment through the Fraud and Error Surveys, which establish baseline rates of error and fraud per benefit type (detection)
Benchmarking worthwhile despite limitations

- Making like for like comparisons between countries is challenging
  - Institutional differences
  - Varying benefit types and funding
  - Lack of availability of comparable data
- However, exercise is worthwhile
  - Benchmark gives an indicative range
  - Maps interesting practice
  - Raises issues to consider
Measuring F&E is not straightforward

Issues to consider:

- Acceptability of fraud and error rates (audit perspective)
- Effectiveness of anti-fraud and error strategy
- Setting up of F&E measurement (see Ireland)
- Resource implications (500 FTE)
- Political sensitivities
Commonalities in approaches

- Rights and obligations (e.g. contracts and information campaigns) (see Canada CIS with CA$ 800 million in savings since 1999)
- Information exchange (data-matching) (see Australia with AU$ 17.5 million per year)
- Compliance reviews (prevention in CA; supplement to investigations in UK)
- Staff training (see Ireland aiming to half staff error; Canada with a training programme from 1997 onwards)
Measuring impact is important

- Performance measurement
  - Trend data on fraud and error (UK, IE)
  - Reduction of overpayments due to interventions (cost-benefit analysis) (AU, NL, NZ)
  - Accuracy reporting (AU and NZ)
  - Evaluations and feedback loops
Measuring impact: issues to consider

• Connectedness of interventions (portfolio)
  • Prevention
  • Referrals
  • Investigations/reviews
  • Prosecutions

• Problem of measurement and attribution
  • Hard to measure prevention and deterrence
  • Hard to compare effectiveness of initiatives (connectedness)
Contact

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Questions and Discussion