Note on occurrence of fraud and error in international social security systems

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Introduction
1. In 2006, RAND Europe, an independent not-for profit research institute, was commissioned by the National Audit Office of the United Kingdom (UK) to undertake an international benchmarking exercise of the occurrence of fraud and error in social security systems. The NAO is the Supreme Audit Institution in the UK responsible for auditing and examining the ‘value for money’ of public expenditure in the UK. The context for the study was the fact that the NAO had qualified the Department of Work and Pension’s (DWP) accounts for the last sixteen years due to unacceptable levels of fraud and error in the social security system. DWP is the main social security administration in the UK. In this study, the NAO wanted to place the performance of the DWP in an international perspective. The three aims of the study were to:
   - examine fraud and error rates in international social security administrations;
   - establish how the performance of the UK compared to other social security administrations; and
   - find examples of good practice in how countries addressed the issue of fraud and error.
2. The study focused on the issue of fraud and error in social security administrations in eight OECD countries and the UK. The countries selected were Australia, Canada, France, Ireland, the Netherlands, New Zealand, Sweden, and the US. These countries were selected because they were similar to the UK in wealth per capita, population structure, and amounts of public expenditure on social benefits.
3. The analysis of the issue of fraud and error in these eight countries took place on the basis of a study template. This template included:
   - Context: description of the 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; and
   - Good practice: causes of fraud and error and actions to combat fraud and error.

General findings
4. There were a number of specific findings in the report, which concern the comparison of the performance of DWP in the UK with international social security administrations. The specific findings were:
   - rates of fraud at the DWP appear comparable to those of other countries where comparisons can be made;
   - availability of data and methodologies for measuring fraud and error vary considerably across social security administrations, but DWP is at the forefront in developing estimates of losses from fraud and error in social security expenditure;
   - DWP compares favourably in terms of awareness of fraud and error and activities to combat the problem;
   - DWP, with support of the NAO, could lead an international exchange on the measuring and management of fraud and error; and
   - DWP could possibly learn from specific approaches taken in other countries.
5. On the basis of the report, one can also make a number of more general observations, which might be of interest to a wider audience. These findings include:
   • Benchmarking of fraud and error rates is worthwhile despite limitations;
   • Measuring fraud and error in social security systems is not straightforward;
   • There are interesting commonalities in approaches to combat fraud and error between countries; and
   • Measuring the impact of approaches to combat fraud and error is important.

6. In the next sections, we will look at these general findings in some more detail.

**Benchmarking is worthwhile**

7. The study identified only limited comparable data on fraud and error. Where data is available (for certain benefit types in the UK, Canada, Ireland, New Zealand and the USA), one can say that rates of fraud and error in social security systems range between 2 and 5%. Trend data given the paucity of data is hard to establish. There are some exceptions. Sweden shows no change in its error rate in social insurance from 1995-2002. The Netherlands shows a drop in fraud cases detected between 2001 and 2004 but no change in the motivation of those committing fraud. The US shows a substantial reduction of error-related improper payments in housing benefits (66%) over two years. The UK shows fraud falling from 2000 to 2006 by about 75%. However, official error and customer error seem to be increasing slightly over the same period.

8. There are two main limitations in comparing fraud and error rates. Firstly, the institutional architecture of countries varies. Countries show differences in how the administration of social security is organised and differences in public expenditure. Though all countries studied have a three-tier social security system (social insurance [contributory]; supplementary benefits [non-contributory and often means-tested]; and universal coverage [linked to specific conditions, such as child benefits]), differences exist in whether the administration is centralised or devolved, in benefit types, in the specific approach and focus of benefit administration (e.g. New Zealand focuses on core benefits; the US and Canada use tax credits) and between overall levels of expenditure. These differences have to be taken into account when comparing the performance of social security administrations and comparing overall rates of fraud and error. For instance, differences in benefit types will affect how one compares the occurrence of fraud and error in specific benefits.

9. Secondly, though most countries define fraud and error in a similar way (see graph below), there are some cultural and administrative variations in what countries focus on in terms of conceptualising fraudulent behaviour. For instance, Sweden emphasises shared responsibility between citizen and state to ensure accuracy of payments. This means that more onus is placed on the state to get benefit payments right. Less emphasis is placed on customer fraud. On the other hand, Anglo-Saxon countries focus more on fraud and the individual claimant’s responsibility. In the Netherlands, definitions vary slightly between agencies as the administration of the benefit system is devolved. Definitions in this sense are also a function of administrative culture and the institutional set-up (e.g. decentralisation of administration or autonomy of agencies dealing with benefits).
10. There are two main reasons for finding that benchmarking is worthwhile. Firstly, benchmarking a country’s performance against others can put a country’s performance in international perspective. In this case, an indicative range was identified and the UK compared favourably. Secondly, the exercise maps interesting practice (as discussed in a following section) and raises issues to consider when understanding fraud and error in social security systems.

Measuring is not straightforward

11. Given the differences between social security systems listed in the last section, the countries studied also show differences in how they measure overall fraud and error. Only Ireland and the UK measure overall fraud and error on the basis of ‘rolling measurement’ and ‘snapshots’. These are arrived at through random but regular reviews of cases. Ireland only measures for specific benefit streams. This type of measurement is perceived to be the gold standard but can be costly in terms of resources. Other countries such as Sweden, the US, and New Zealand undertake specific sampling (targeted reviews [e.g. risk-based] to determine fraud and error). These measurements produce more limited determinations of fraud and error (e.g. for a specific benefit on a specific point in time). Finally, many countries link their efforts at measurement to other criteria such as performance. Australia, Sweden, and New Zealand measure accuracy targets, which gives an overall view on the accuracy of payments and an indirect picture of fraud and error in the system. Several countries (Australia, Ireland, the Netherlands, and New Zealand) have indicators and targets for savings that arose from anti-fraud activities (effectiveness) and prosecutions achieved (number of activities).

12. Measuring fraud and error is also not straightforward. There are a number of issues to consider when deciding as a social security administration on how and whether to measure the fraud and error occurring in the system: measurement of the effectiveness of an anti-fraud and error strategy-can one truly say something about effectiveness of anti-fraud and error initiatives if one does not have trend data or data on the overall levels of fraud and error occurring within the system; the political acceptability of fraud and error-in some countries, supreme audit institutions and parliamentary scrutiny bodies might have a great interest in fraud and error issues and the way it is addressed (e.g. the NAO in the UK); and resource implications-full measurement of fraud and error is costly and takes resources (up to 500 full-time equivalents in the UK).

Commonalities in good practice

13. Before we discuss the commonalities in interesting practice that the countries selected showed, it is useful to identify the main causes of fraud, error (staff), and corruption identified by countries. This understanding will provide a context for the actions taken in the countries. In terms of fraud, the study identified three main causes:

- Customer dishonesty (about 20% of causes in the Netherlands): this category mainly consists of a low-level degree of dishonesty such as undeclared income and a failure to report changes in material circumstances.
- Exploiting the system (about 48% of cases in Ireland): this category consists of a higher level of fraud such as multiple programme claims, major and deliberate misrepresentation of material circumstances and identity fraud.
- Complexity (no real data available, 1-2% estimate in Canada): this category deals with the complexity of the benefit system such as the difficulty in monitoring cross-
14. In terms of error, there are again three categories. The first category are errors caused by staff in benefit administrations, which can be linked to staff caseloads (noted in New Zealand), inadequate support and training of case managers and team coaches (New Zealand and UK) and a breakdown of internal control procedures (US and Australia). The second category deals with systemic aspects such as the failure of the payment system (noted in New Zealand), the failure of IT systems (noted in the UK), and inadequate monitoring or reporting procedures (Australia). A final category is the complexity of benefit and rules which can lead to both customer and official error. In terms of magnitude, New Zealand sees error in about 2.7% of the cases reviewed. Ireland estimates error at 5% of cases. In the UK, error has been increasing slightly since 2000 in overall measurement.

15. The anti-fraud and error activities identified in the countries can basically be organised in three categories: prevention, detection, and deterrence. These categories overlap and some activities or initiatives will cover more than one thematic category. The following presents a brief overview of some of the more innovative and common approaches used in social security administrations. It is by no means a comprehensive list of what countries are doing in the field of anti-fraud and error.

16. In prevention, Canada holds claimant information sessions (CIS) with groups at high risk of committing benefit fraud. Since 1999, Canada claims it has saved about US$600 million in overpayments in the benefit system. The Netherlands also uses contracts and campaigns to inform claimants of their rights as a preventative measure. Claimants sign a contract that explains rights and obligations when claiming for benefits. Similarly, the New Zealand government aims to inform about 70% of claimants of their obligations. These measures aim to inform and remind claimants of their obligations. The underlying idea being that a better informed clientele is less likely to commit fraud. For error, preventative measures include staff training and introducing results-based management. In Canada, error rates have fallen by making line managers more accountable for the errors of their staff. Ireland aims to half its error rate through staff training.

17. In the detection category, data-matching is used in all countries. Data-matching can be highly cost-effective and target ratios are set in Australia and New Zealand for overpayments identified to cost of the programme. A normal ratio would be four to one. So, data-matching can be highly cost-effective. Unique identifiers for claimants are also often part of data-matching strategies. The use of identifiers across different databases and departments allows analysts to more effectively match data on claimants held in different databases. Review activities are also instrumental to detection efforts. Different strategies are used in most countries ranging from risk-based reviews (e.g. reviews of certain professions in Canada, scoring in the UK, and profiling in Canada) to random and time-based reviews. In New Zealand, claimants have to re-establish core eligibility after a certain time period.

18. In deterrence, the main levers reported are increased sanctions and increases in the rates of prosecutions. This is done in Ireland, the US, and the UK.

19. None of the countries explicitly reported issues around corruption of departmental staff. It seems a small problem for administrators in these countries. Though direct reasons were not given, one can speculate about some of these reasons. Reasons could include a strict separation of functions (e.g. between payments and assessments, between decision-making and investigations and reviews), staff training and management, effectiveness of internal audit and the integrity of systems processing payments.
Measuring impact is important

20. It seems obvious to state that measuring the impact of initiatives is important. Indeed, in many countries such as Australia and New Zealand, most of the measurement around fraud and error exists around measuring the effectiveness of fraud and error strategies. The presupposition is that fraud and error will exist in the system. Rather than measuring overall rates of fraud and error, these countries focus on measuring the effectiveness of initiatives. So, countries show different ways of measuring impact. The UK and Ireland closely monitor the overall rate of fraud and error occurring and determine effectiveness of the strategy on the basis of changes in this overall rate. Australia, New Zealand and the Netherlands measure cost-effectiveness of initiatives by measuring the overpayments recovered due to interventions against the money invested in these initiatives. This is often linked to accuracy targets (e.g. Australia has a 95% accuracy target) and targets for activities performed (e.g. reviews or prosecutions). Both the overall measurement of fraud and error and determining the cost-effectiveness of initiatives in fraud and error strategy are understood to be good practice.

21. There are some issues to consider when measuring the impact of initiatives. There is a problem of attribution of outcome to initiatives. For instance, it is hard to measure prevention and deterrence and thus to determine the effectiveness of initiatives in this area. Furthermore, many initiatives are connected to others and do not exist in isolation. Effectiveness might therefore have to be seen in a wider context. The UK would argue that the measurement of overall rates of fraud and error in the system is optimal as it captures this connectedness of initiatives and gives an overall level of effectiveness incorporating all categories of interventions.