Reducing Fraud, Error and Corruption (EFC) in Social Protection Programs

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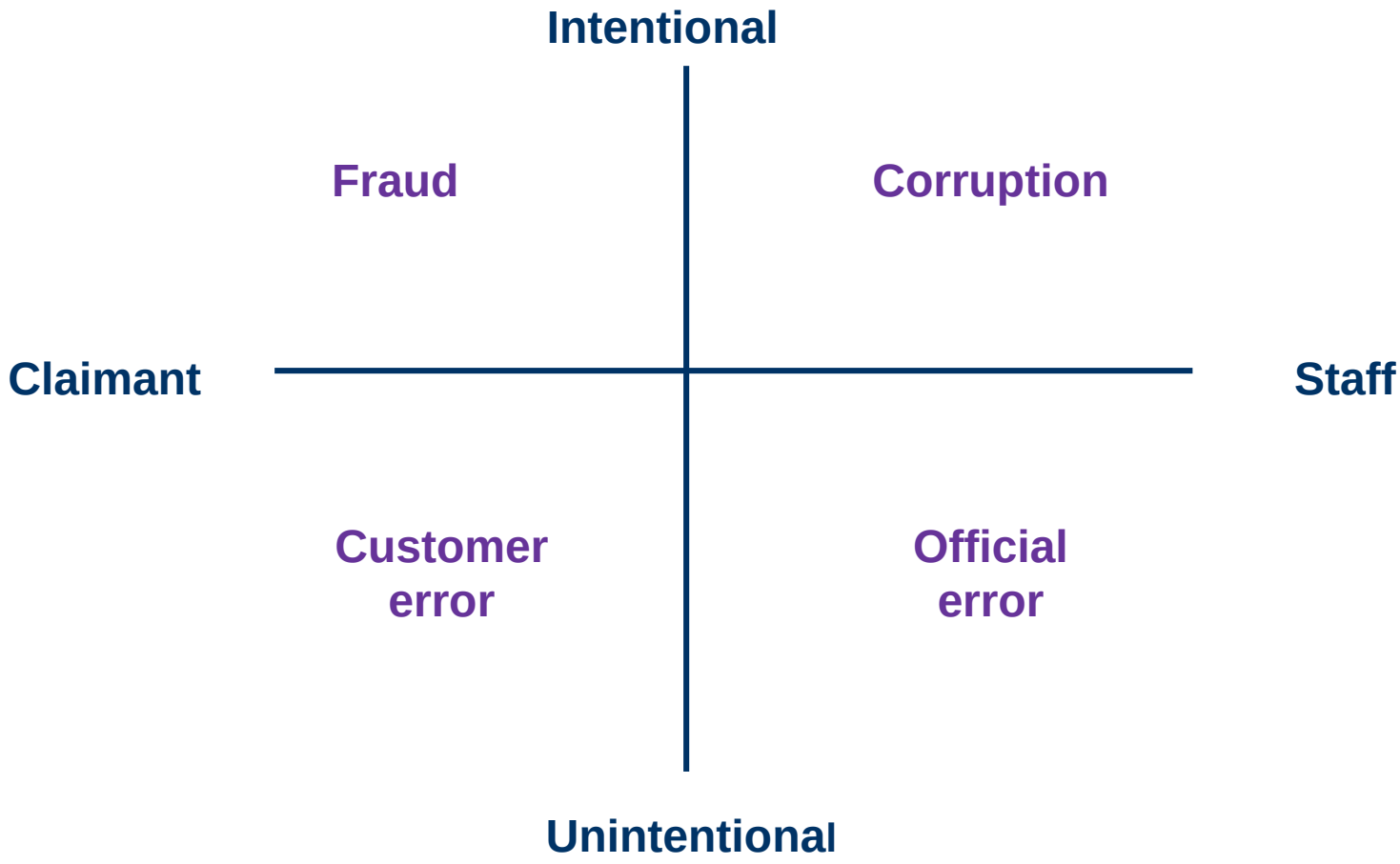
EFC in Social Protection (SP): The good and the bad

- GOOD: Most SP benefits are paid correctly, and most beneficiaries & program staff are honest.
  - Most benefits are paid to the right beneficiary, in the right amount, at the right time
- BAD: But not all. Some of the program budget is lost to error, fraud and corruption (EFC). Unavoidable
- A good system to prevent, detect and deter EFC can minimize it
- Need to find the right balance:
  - Do not scare good-standing beneficiaries!

What is error, fraud and corruption (EFC)? Definitions



How much social protection spending is lost to EFC?

- Fraud and error rates range between 2 and 5% of overall social protection spending in high-income countries (see Table below*)
- Rates are higher for means-tested, income-replacement and disability programs: between 5-10% of program expenditures
- … Likely even higher in countries where EFC was not a priority

2 A comparison of fraud and error rates in countries studied[1]

As % of expenditure/payments	UK (2004-2005)	Canada (1994, 2003)	Ireland (2004)	New Zealand (2001)	USA (2003)
Total Fraud and Error	2.3%	3-5% ('94)	–	2.7%	–
Fraud and Error in Housing Benefit	5.2%	–	–	–	3.6%
Fraud and Error in Income Support	5.3%	3.5% ('03)	–	–	5.07%
Fraud and Error Old Age, Disability	4.9%, 0.1%, 1.9%[2]	–	7%	–	0.53%

Source: National Audit Office (2006) Benchmarking international EFC

Two country examples used in this presentation: UK and Romania

- UK population (2011): 63 million
- Recipients of SP benefits: about 50% of the population
- SP spending: ¼ of Govnt. spending
- Types of SP programs:
  - Old-age, survivorship, disability pensions;
  - Unemployment benefits
  - Social assistance programs (mostly means-tested)

- Romania's population (2011): 20 million
- SP recipients: about 70% of the population
- SP spending: about 12% of GDP, 1/3 of Govnt. spending
- Types of SP programs:
  - Old-age, survivorship, disability pensions;
  - Unemployment benefits
  - Social assistance programs (categorical & means-tested)

Two country examples used in this presentation

	United Kingdom	Romania
Population (million, 2011)	63	20
SP coverage (% populat.)	50%	70%
SP Spending:		
% of GDP	17%	12%
% of Government Spending	1/4	1/3
	Types of SP Programs	
Old age	Old-age, survivorship, disability pensions;	Old-age, survivorship, disability pensions;
Job seekers	Unemployment benefits	Unemployment benefits
Poor, vulnerable groups	Social assistance programs (mostly means-tested)	Social assistance programs (categorical and means-tested)

Example of benefit fraud, UK

- A claimant falsely claimed over £80,000 of benefits, failing to tell the Department of Works and Pensions and her local authority that she was in a relationship with her 'landlord'. The couple were sentenced to nine months each in jail.

- This claimant will spend 13 months in prison for fraudulently claiming over £14,000 in benefits using three false identities.

Example of benefit fraud, UK

- A mother of 8 children, aged between 7 and 23 submitted a series of claims for DLA for 5 of her children between May 2000 and June 2010. The DLA claims stated that the children suffered from problems with speech and language, physical disabilities, mental health problems, severe learning and behavioural problems, poor coordination and walking difficulties. However the children were appearing in theatre productions which would not have been possible given the level of disability claimed. She was arrested and charged for claiming fraudulently. At the time of her arrest she was living in a 7 bedroom country mansion. The outcome of the trial was a four year prison sentence after she was found guilty of defrauding the taxpayer of over £350,000.

Romania: Type of irregularities detected in selected benefit

- Guaranteed Minimum Income program (means-tested)
  - Income under-reporting
  - Assets (exclusionary filters) under-reported
  - Family composition (more members)
- Disability allowance program (categorical)
  - Blind people who subsequently have passed the driving license test (2,317 persons)
  - Large number of disabled people with same medical condition and certifying physician
  - Disability certificates signed by persons without appropriate competences to certify disability

How can you reduce the share of SP funds lost to EFC?

1. Focus on large budget programs which are risk-prone to EFC

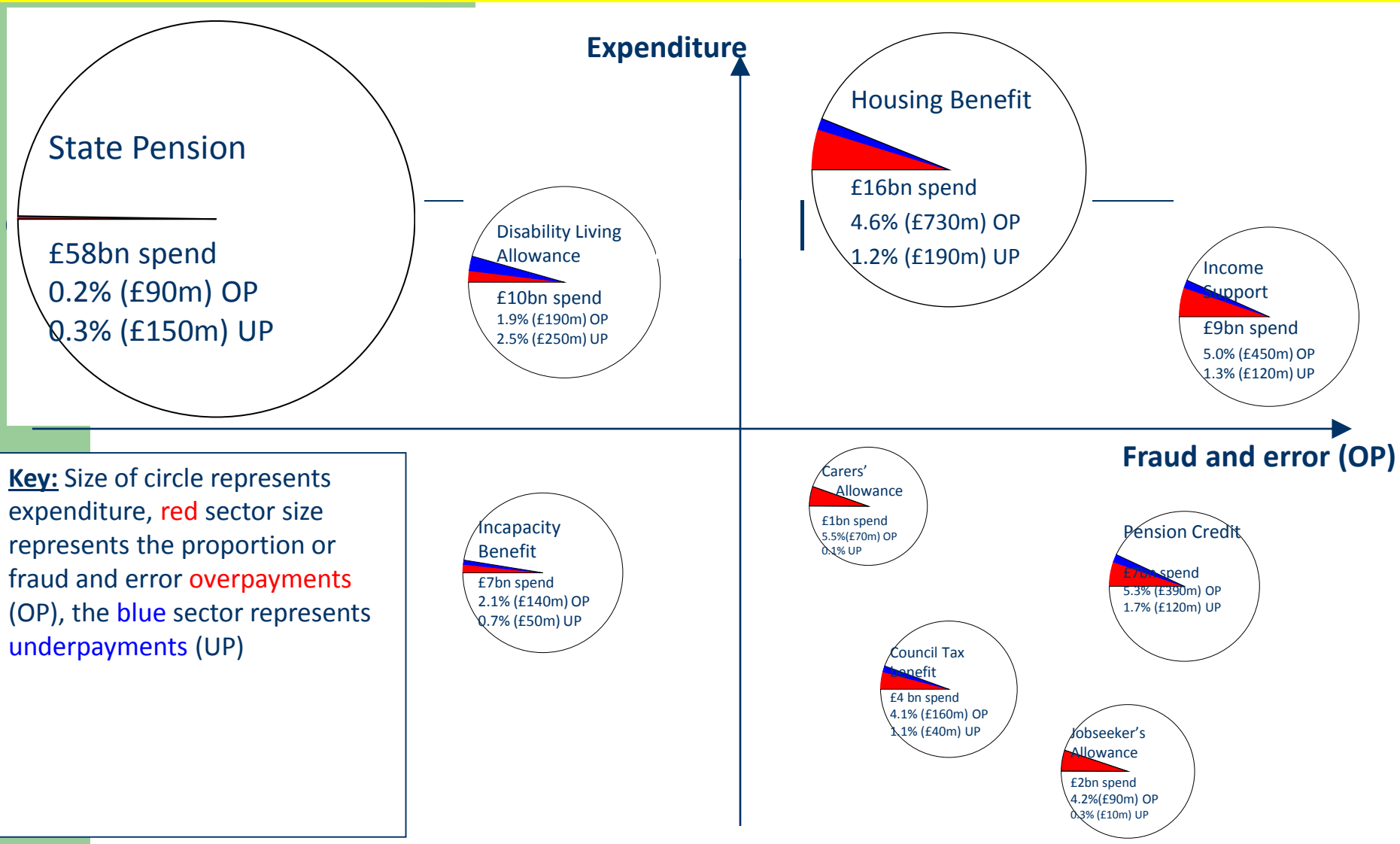
2. Develop an end-to-end system to reduce EFC: prevent, detect, deter and monitor

3. Use the system !!!

Rule #1: Be Strategic !!!

Focus on large budget programs which are risk-prone to EFC

Example from United Kingdom: Focus on large risky benefits



Key: Size of circle represents expenditure, red sector size represents the proportion or fraud and error overpayments (OP), the blue sector represents underpayments (UP)

Note: Expenditure, fraud and error in DWP benefits

How do you start when you do not know which programs have larger EFC rates?

- Identify SP programs prone to higher risk of EFC
- Key question: When is fraud profitable?
- Cost–benefit analysis
- Benefits: Net Present Value of the future stream of benefits (* ease of defrauding the program)
- Cost: ($$$, non-monetary costs)
  - Monetary: Probability of being caught * Sanctions
  - Non-monetary: Shame, stigma

Example:
Which program is worth defrauding?

Program	TSA	Disability Allowance
Benefit Level (LCU)	100	100
Recertification	Every six months	Every 3 years (temporary disability)
Interest rate	12% per annum	12% per annum
Benefit stream:		
Nominal gains	?	?
Net present value*	?	?

Net Present Value:
benefit stream adjusted for the timing of the payments and interest rate

Example:
Which program is worth defrauding?

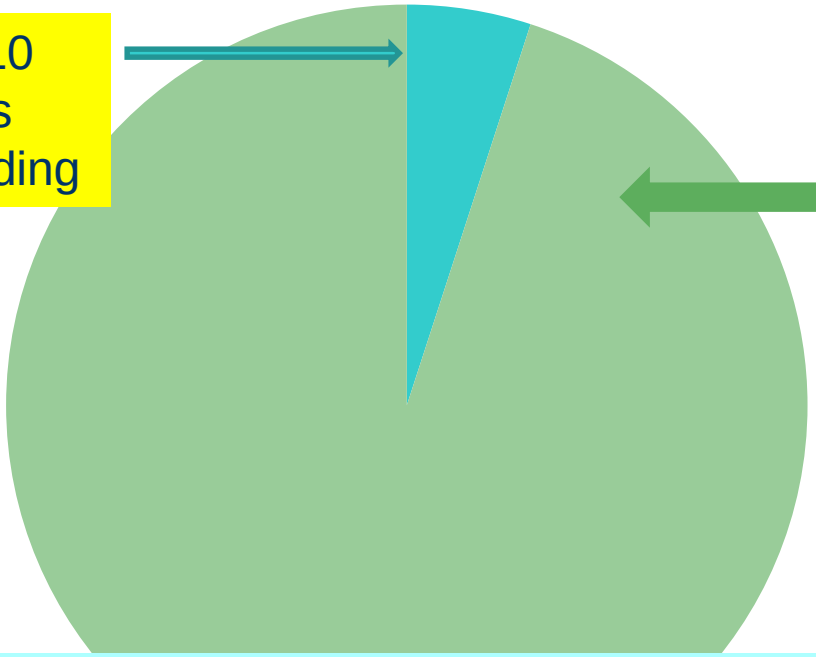
Program	TSA	Disability Allowance
Benefit Level (LCU) / month	100	100
Recertification	Every six months	Every 3 years (temporary disability)
Interest rate	12% per annum	12% per annum
Benefit stream:		
Nominal gains	600	3600
Net value*	586	3088

Net Present Value:
benefit stream adjusted for the timing of the payments and interest rate

Example from Romania (I):
Focus EFC resources on cash transfers

Share in Social Assistance Spending, 2010

Focus before 2010
on social services
= 5% of SA spending



Focus after 2010
on cash transfers
= 95% SA spending

Social services
Cash transfers

Before 2010, Romania focused its “social inspectors” almost exclusively to check whether the social services’ institutions were meeting minimum quality standards

Example from Romania (II): Focus SI's on high-value, high risk programs

- Five large programs are subject to annual inspections:
  - Disability allowances and invalidity pensions (income replacement)
  - Child raising (maternity leave) benefit (income replacement)
  - Guaranteed Minimum Income program (means-tested)
  - Heating benefit (means-tested)
  - Family benefit (means-tested)
- Combined spending of social assistance programs: 2.3% of GDP
- Total social assistance plus disability pension spending: 4% of GDP

What institutional structures you need to combat EFC?

In the UK:

- Frontline staff: Prevention
- Fraud & Error Service (specialized unit):
  - about 4500 persons
  - F&E Prevention Service
  - Customer Compliance
  - Fraud Investigation
  - Criminal Intelligence & Investigation

In Romania:

- Frontline staff: prevention
- Social Inspection (specialized unit):
  - about 300 persons
  - Social assistance benefits team
  - Social services team

Rule #2: End-to-end Approach

Put in place a comprehensive system to combat EFC:

Measures to prevent, detect, deter and monitor EFC

Comprehensive menu of activities to combat EFC

Prevention

- Improved verification on eligibility
- Provision of information to applicants & public
- Risk profiling

Deterrence

- Sanctions

Detection

- Risk-based and random reviews
- Data matching
- Risk profiling
- Telephone hotlines

Monitoring

- Often linked to performance management

Prevention in Romania: Consolidation of means-tested benefits, simplified admin.

Before reform (2011):

- 3 means-tested benefits for the poor
  - Guaranteed minimum income (GMI), covers 5% of population, 225,000 households
  - Family allowances (FA), covers 30% of families with children, 260,000 families
  - Heating benefits (HB): covers 50% of the population, 1 million households
- Different procedures to measure household means
- Slightly different eligibility, recertification & payment

Two Steps Reform:

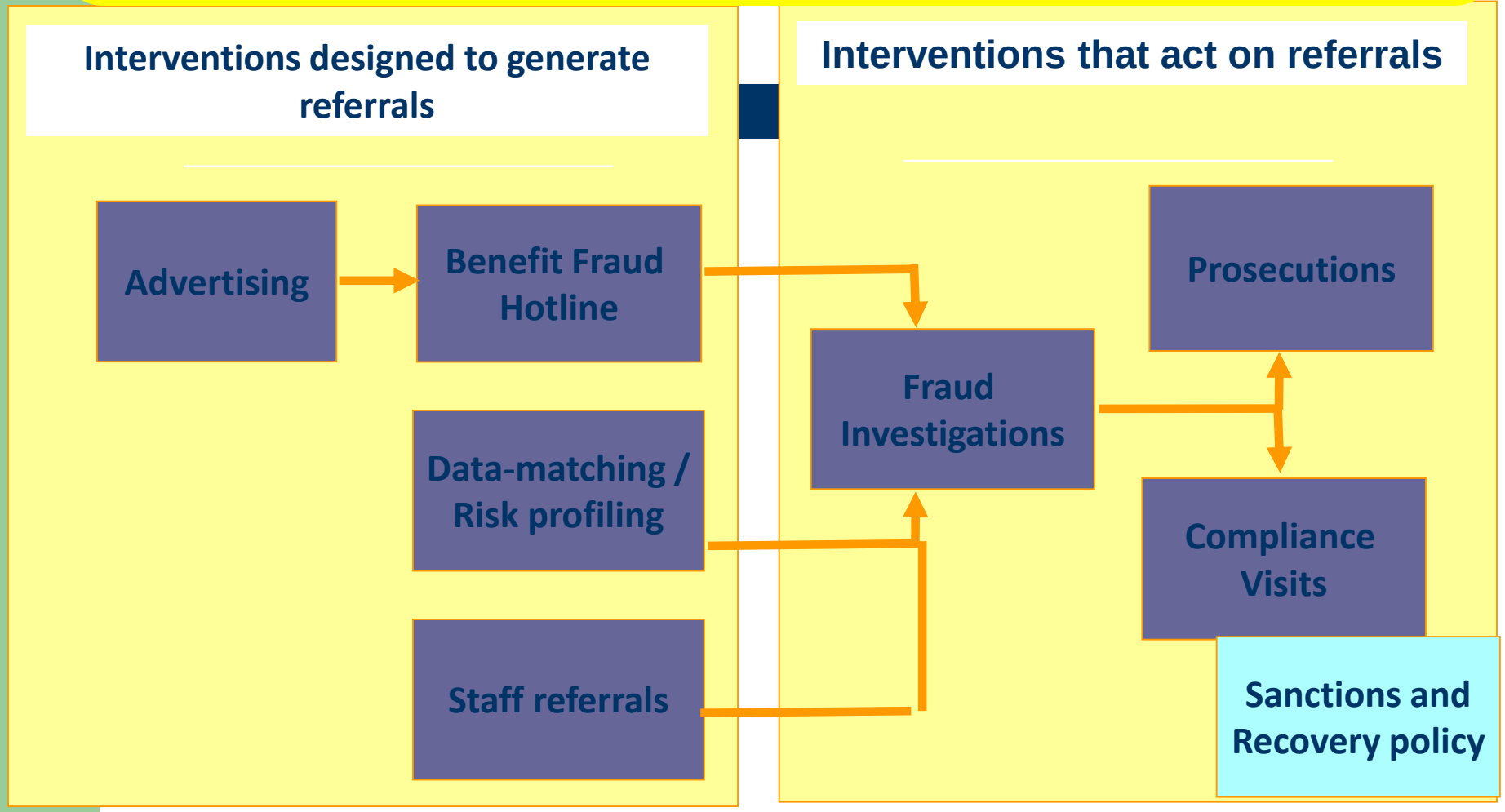
- Harmonization of the procedures to assess household means (Nov 2013)
- Consolidation of the three programs into a single anti-poverty flagship (expected 2016)

Prevention in Romania: Consolidation of means-tested benefits, simplified admin.

- Harmonization of the procedures to assess household means (Nov 2013), same:
  - Types of incomes taken into account as “administrative” income
  - Recall period for estimating income
  - Income disregards
  - Asset filters
  - Documentary evidence & forms
  - Recertification period

- Consolidation of the three programs into a single anti-poverty flagship (expected 2016):
  - Same assistance unit (family)
  - Same equivalence scale
  - Same type of benefit (cash benefit, no subsidy component)
  - Same co-responsibilities
  - Unique roster of beneficiaries
  - A single payment (check) for one beneficiary

Example from United Kingdom: System to detect and correct EFC



Referrals: hints of benefits likely paid with error or fraudulently

UK Fraud and Error Service:
We continue to receive excellent results from initiatives

Correction programmes have already delivered £814m for an investment of £118m

- From activity to end of March 2013, the fraud and error change programme:
- has delivered: **£814m**
- **which will mean £1.184bn delivered by end of 2014/15**

£1 spent currently returns £7 in benefit savings

Romania: Detection of EFC in Social Assistance and Disability Pensions

- Step 1: Large sample benefit reviews in 5 risk-prone programs (2010-2011)
  - Detection of irregularities (errors or suspicion of fraud), remedial actions
  - Monitoring system tracking the implementation of remedial measures, every 3 months
  - Identification of legislative gaps ➔ improvements in legislation (sanctions, investigative powers) and operational procedures
- Step 2: Identification of irregularities through data matching (2012-2013 and beyond)
- Next steps: Development or risk-profiles based on the results of the benefit reviews (2014-2015)

Romania (2010/2011): Results of benefit inspections

Program	Files checked (# and % of total)	In-depth investigations	% irregularities detected
GMI	283,200 (100%)	n.av.	24.5%
Heating benefits	417,500 (30%)	n.av.	2.5%
Family benefits	10,855 (small %)	100%	36%
Child Raising Benefit	184,180 (100%)	0,1% (home visit, employer visit)	10%
Disability allowances & pensions	241,000 (30%)	50440	Results difficult to interpret (change in legislation)

Romania:
Overall results of data matching (2013)

`Program	SA MIS (SAFIR)	Number of cases with suspicions - data matching	Number of cases investigated 2013	Number of cases with EFC, 2013	Total over payments (debts) 2013 (Lei)	Recovered debts by Mar 31, 2014 (Lei)	Costs Dec 31, 2013 (Lei)
CRB	Yes	36,818	27,720	5,650	11,569,170	5,117,824	115,692
FA	Yes	51,664	34,123	15,151	2,643,421	1,690,999	1,129,939
GMI	Yes	15,964	9,676	2,959	1,730,223	877,075	
SCA	Yes	541,502	27,308	2,549	1,189,902	692,476	74,964
Heating		35,851	24,030	4,874	755,368	241,046	490,989
Disabilities		5,457	5,457	2,724	1,301,069	551,914	143,118
Total			**128,314**	**33,907**	**19,189,153**	**9,171,334**	**1,954,701**

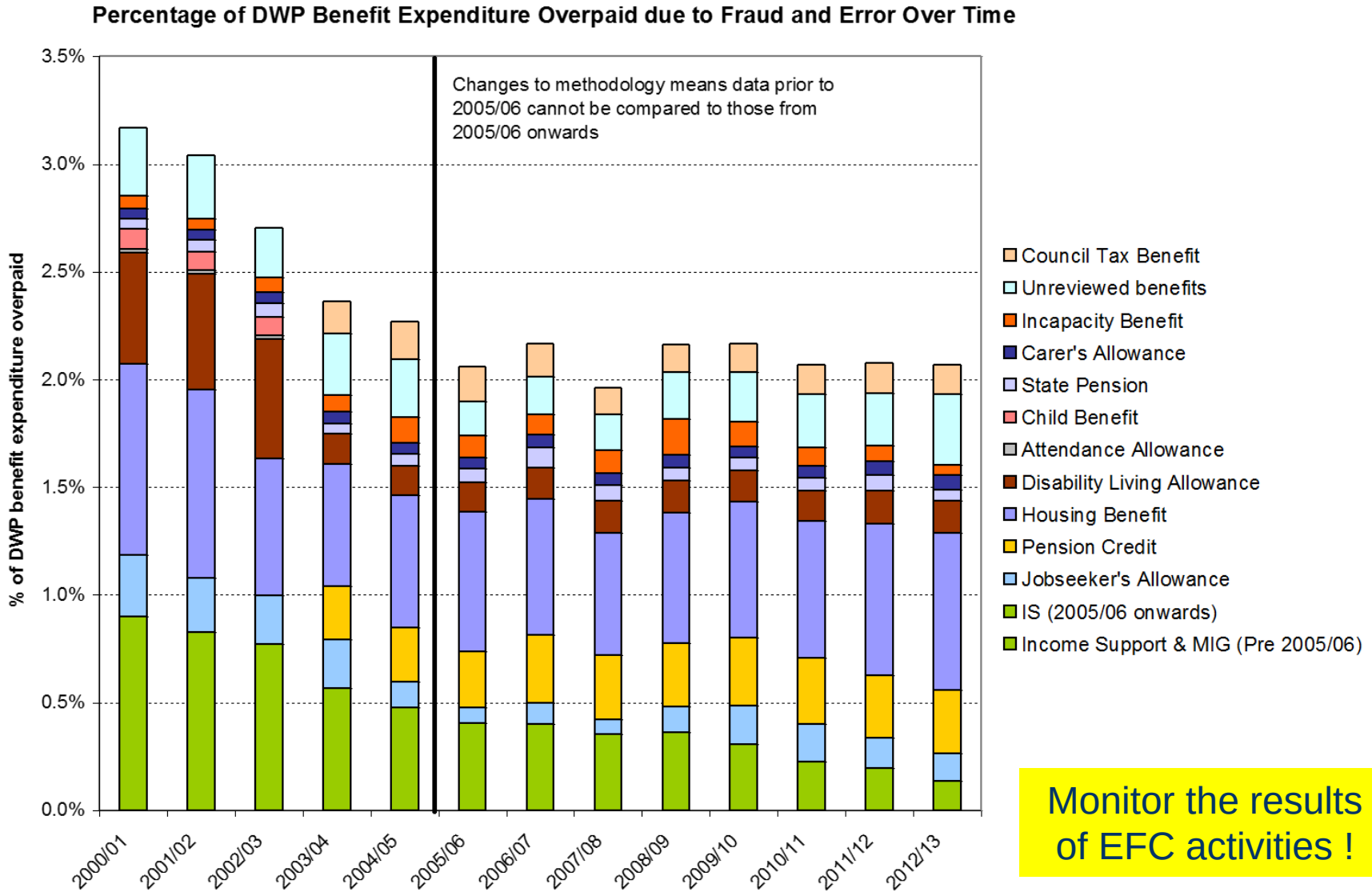
Cost-benefit ratio on overpayments (estimated debts)	**9.82**
Cost-benefit ratio on recovered debts	**4.69**
SA MIS (SAFIR) Cost-benefit ratio on recovered debts	***6.34***

Rule #3:
Use the anti-EFC system

Typical question:

Does it pay off?

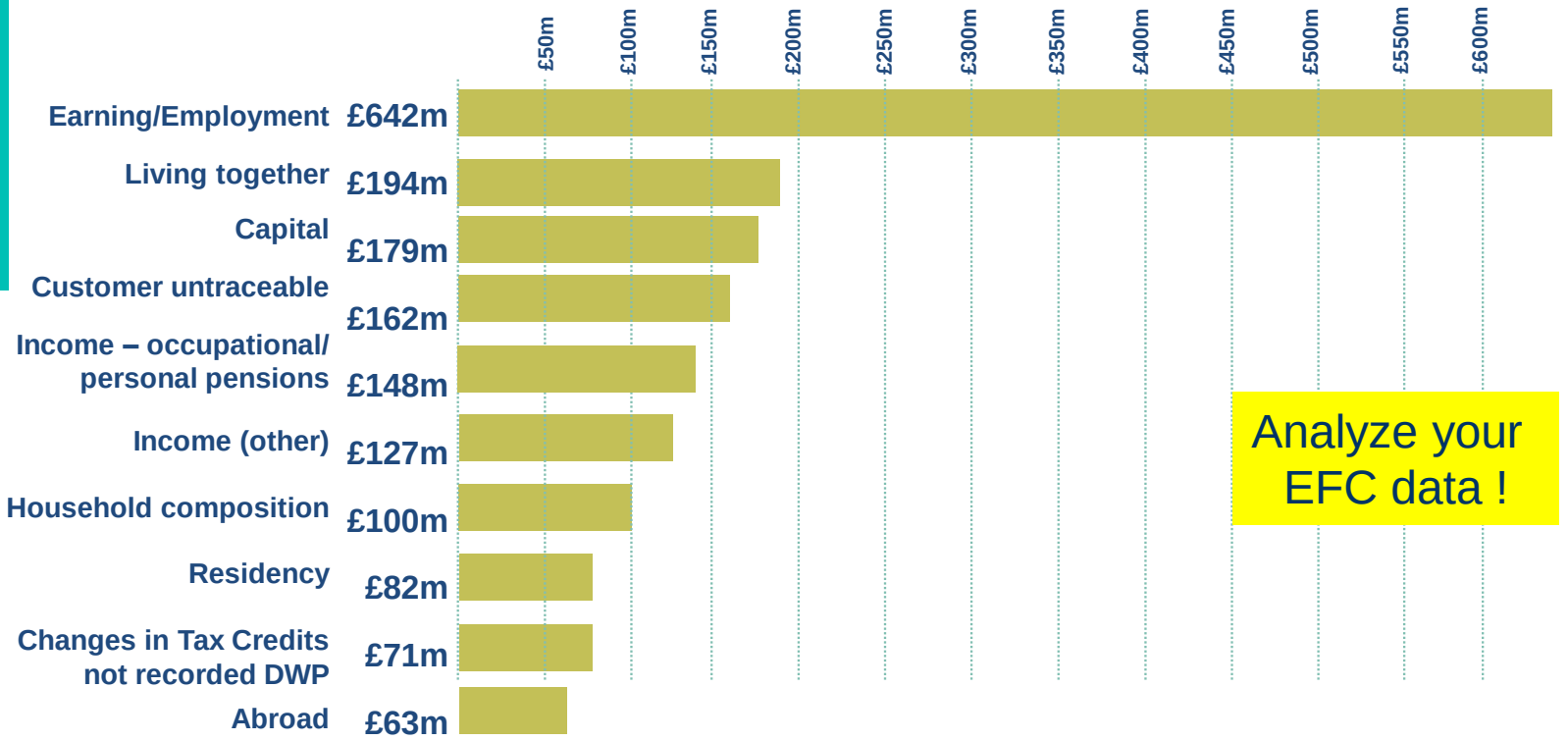
UK: Reduction in EFC after adopting Comprehensive Strategy (2000)



Monitor the results of EFC activities !

We understand where our problems lie

- Top ten types of loss in the benefit system:



Figures from: *Fraud and Error in the Benefit System: Preliminary 2012/13 Estimates*

Romania: Started with large-scale inspections of risk-prone benefits

- Large sample inspections
- Checks all beneficiary files
- In-depth investigations (home/employer's visit, with physicians and police) for suspect files
- Time-to-completion: 1 to 3 months
- Follow up visits in 2-3 months, to check whether the recommended corrections / sanctions have been implemented

Romania: Developed an effective EFC system in three years …

Thematic areas:	Situation at baseline (2010)	Target (2013/2014)
Sanction and recovery policy	Each SP benefit has its own sanctions policy Sanction/inspection not based on cost-benefit or severity Weak recovery policy	Same sanction for the same offence across programs Larger sanctions for larger offences, repeated offences Effective recovery policy
Investigative powers for the social inspector	Incomplete powers Focused on the service provider, not on suspect beneficiaries	Stronger powers Clear oversight mechanisms to prevent abuse
Database cross-checks	Occasional, ad-hoc	Routine, regular, clear procedures to detect irregularities
Risk-profiling and risk-based inspections	Based on the experience of the social inspectors	Derived from analytic models

Does this approach work in low- & middle- income countries (LICs and MICs)?

Yes, it does.

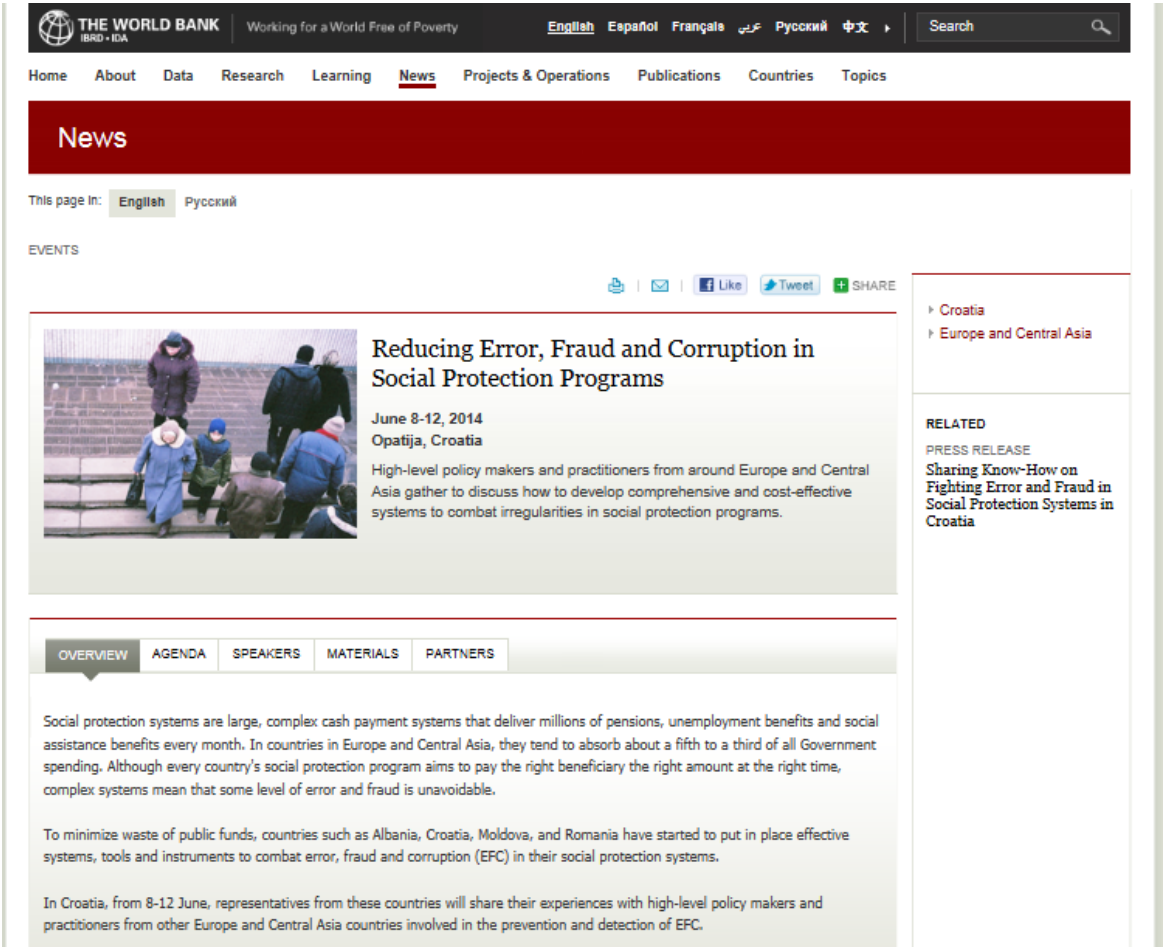
Promising approaches for LICs and MICs

- Use the power of information technology:

1. Data cross-checking (detection)
2. Risk-profiling of likely fraudulent or erroneous claims for:
   - Prevention
   - Detection

Romania Data Matching Team 2013

More information about this topic?



http://www.worldbank.org/en/events/2014/06/08/reducing-error-fraud-and-corruption-in-social-protection-programs

Questions and Answers