



Social Security Reform Co-operation Project
中国－欧盟社会保障合作项目

Standardization

as a means to

Combat Fraud, Prevent Errors

- The European Approach -

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EUSE

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<i>Belgium; United Kingdom; Bulgaria; France; Austria; Germany; The Netherlands</i>	



Introduction

Standardization of business processes has, as one of its leading objectives, the ambition to contribute to the improvement of performance in social security schemes management. It is notably to be expected that standardization will bring better results in terms of accuracy, which includes a correlative reduction in errors and fraud.

This Technical note, which is based on a version previously prepared at the request of the Beijing Municipality Social Insurance Administration Center – SIAC – therefore introduces the main characteristics of standardization in identification of errors and combating fraud attempts adopted in European countries in the field of social security, including collaboration with other interested institutions and cross-European considerations.



Common EU practices in combating fraud and tackling errors

In a context where sustainably financing social security protection confronts European countries with growing challenges, it comes hardly as a surprise that more and more efforts are devoted to try and minimize the risk of financial losses due to either frauds or errors in operating social security procedures.

To illustrate this situation, the following paragraphs, addressing the European approach to combat fraud and tackle administrative errors, will cover the common definition of fraud and its quantitative importance for social security schemes, and describe the most commonly used remedies before briefly documenting a few country examples of most recent actions in the area under review.

What is fraud?

The magnitude of fraud (or errors) and its influence over social security finances (including use of staff time to address consequences) are not to be underestimated. The cost of fraud is however not systematically documented in European social security – and is often wise explored only on the occasion of audits and reviews.

Few countries in fact measure total fraud and error – the UK is one of those attempting this type of approach. Other countries undertake random sampling, sampling and reviews being possibly linked to a priori risk assessment, whereas measuring often focuses on other criteria than direct losses – e.g. the desirable minimum accuracy rate, the percentage of accurate payments per type of benefit or the amounts saved through investigation or prosecution.

However, direct losses attributable to fraud or error are far more being negligible.

According to a study submitted to the World Bank in 2007¹ when data available, rates of fraud and error often range between 2 and 5% of benefit amounts which corresponds to amounts superior to typical management fees.

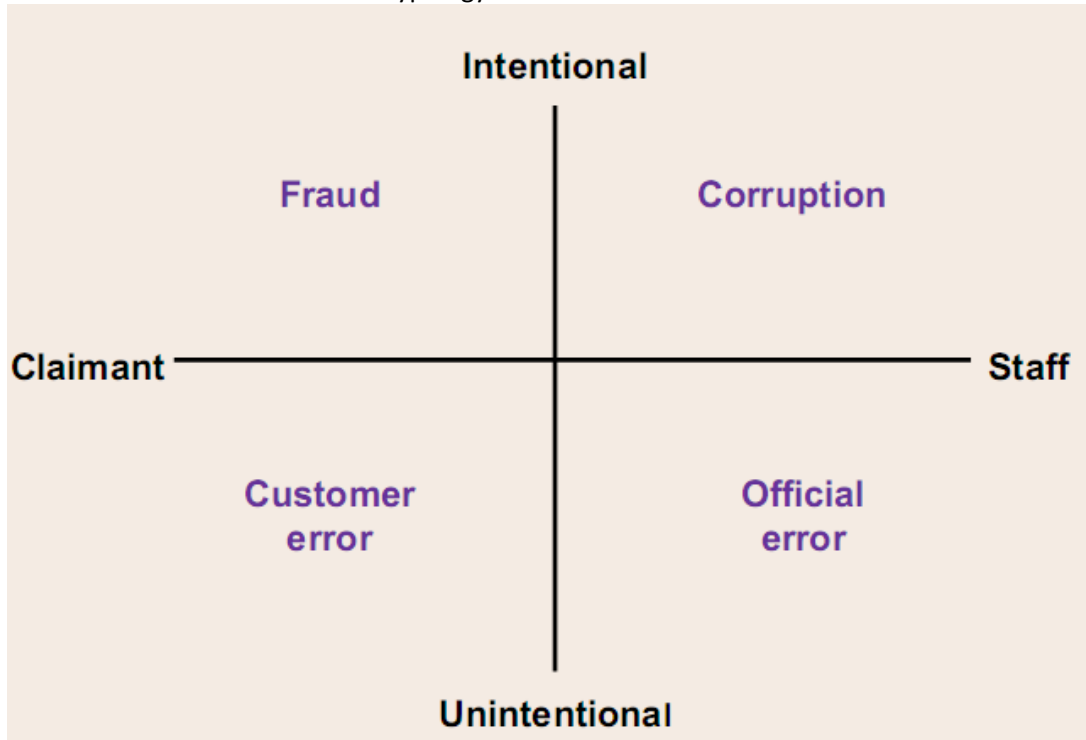
Although fraud and errors are usually counted jointly for statistical purposes, not all cases are the same – fraud or error may be or not intentional, it may be attributable to client, or to staff. Chart 1 hereafter suggests a typology of fraud and error classified according to these two parameters – intention, and origin.

The most benign case being that of an unintentional error by a client, and the most serious one that of an intentional fraud by an official, beyond moral or governance considerations, tackling errors and combating fraud free resources for better servicing the huge majority of decent clients.

¹ International Benchmark of Fraud and Error in Social Security Systems, RAND Europe, World Bank 2007.
Preliminary Report on Anti-Fraud Regulation and Operation

Chart 1

Typology of Fraud and Error



A variety of situations may in fact constitute social security fraud, and the following, derived from the US experience, list a few unethical actions leading to a fraudulent situation².

Those unethical actions include:

Making false statements.

A person states as fact something untrue, such as claiming to be single when married or not working when employed.

Concealing a beneficiary's death or other facts.

A person doesn't tell the Social Security Administration when a beneficiary dies and continues to cash the beneficiary's checks.

Misusing a beneficiary's funds.

A person or organization (e.g., nursing home) appointed to handle social security funds for an incapacitated beneficiary uses the money for personal expenses or continues to receive social security for a beneficiary no longer under his or her care.

² Quoted from AVVO, <http://www.avvo.com>



Identity theft

A person uses the social security number of another person to obtain credit, loans, and other goods and services such as access to medical care.

Buying, selling, or altering social security cards or other social security documents

A person or organization illegally sells social security cards or documents or impersonates a social security official.

The far more detailed list of fraudulent actions included in the review of pension fraud circumstances conducted under Component 1 of the project³ broad and wide includes the cases included in the above categories, but groups those under headings more directly linked to financial – contributions, benefits, funds management - than to behavioural items.

Table 1
Pension Fraud Typology - China

1 Fraud at contributions stage
1.1 <i>Avoiding registration.</i>
1.1.1 Overseas-capital enterprises refuse to be covered by the pension system.
1.1.2 A large number of private enterprises avoid registration and contributions by any means.
1.1.3 The self-employed also do not contribute to the pension system for their future retired lives.
1.2 <i>Understating the number of employees</i>
1.2.1 Only paying contributions for members of the management team and core technicians.
1.2.2 Falsified workers' status
1.2.3 Failure to conclude labour contracts
1.2.4 Conclusion of unequal contracts
1.2.5 Excluded immigrant rural workers and casual workers.
1.3 <i>Understating the level of salaries</i>
1.3.1 Use of falsified salary bills as the base of contribution.
1.3.2 Excluding some wage items from total salary bill.
1.3.3 Employees paid contribution as individual insured.
1.4. <i>Deliberately delayed contributions</i>
2 Fraud in pension payment
2.1 <i>Enterprises delaying pension payments.</i>
2.2 <i>Claiming pensions benefits after pensioners' death.</i>
2.3 <i>Illegal early retirement</i>
2.3.1 Illegally falsified documents and retired as workers in special occupations.
2.3.2 Illegally changed employees' dates of birth.
2.4. <i>Falsified work careers</i>
2.5. <i>Forged nonexistent retiree's documents</i>
3 Abuse in pension fund management
3.1 <i>Deliberately abating the contributions that enterprises should pay.</i>
3.2 <i>Failure to put contributions into the special fiscal account on time</i>
3.3 <i>Illegal investment</i>
3.4 <i>Misappropriated fund</i>
3.4.1 Filling the deficit in fiscal budgets
3.4.2 Misappropriated fund for social insurance agencies' own use.
3.5 <i>Cheating or retaining the subsidies of central government for other use.</i>

³ Prevention of Fraud and Abuse of the Pension system: Situation, Problem and Measures by Wang Zongfan, National Social security Institute..



The fact that some European detected fraud attempts do not currently correspond to actions detected within the Chinese context does not mean that those may not occur, e.g. the production of counterfeit social security cards. Coupled with deliberate action to obtain registration of alleged employees on the basis of fake documents⁴ this may form the basis for system wide broad fraudulent action of the type known already to several European countries.

It has to be noted in that respect that matching social security numbers against central data base records does not fully protect against the risk of fraud – since a comprehensive fraud would include action prompting the central registration of data under the fake number through the production of counterfeit employment and other certificates – or indeed would use an already existing social security number for production of a fake document.⁵

While Beijing authorities, in their preliminary analysis of fraud and false claims founding their request for support to the Project, focus on illegal actions from beneficiaries or their family members⁶, it nonetheless remains that committing fraud is far from being limited to insured persons – and that the most damaging financially cases of fraud or insurance defaulting are in fact primarily imputable to enterprises, which either fail to register workers to social insurance, or register workers only for selected risks, or purposely underestimate salaries and other elements of remuneration on which to base contributions.

As will be seen from the following sections, European social security institutions definitely insist, in their strategies to combat the financial consequences of fraud, on the responsibility of the employers – notwithstanding otherwise unremitting efforts to better identify and prevent illegal, unethical or indeed erroneous action by insured persons, beneficiaries and family members.

Possible Remedial Actions

Action commonly taken across European countries to combat social security fraud or tackle errors may be grouped under a few categories according to the stage of their intervention, or their target audience.

Combating fraud takes place either as preventative action, as detecting action, or as deterrent action.

⁴ For example, it was reported in Belgium that underground societies were commonly selling Unemployment certificates, allowing for an entry point for the receipt of unemployment benefits and access to medical care.

⁵ Recent studies conducted in the US – Carnegie Mellon University, Proceedings of the National Academy of Sciences, quoted in the New York Times 6 July 2009 – have shown that the US social security numbers was vulnerable to privacy breaches, therefore allowing for comprehensive fraudulent documentation to be elaborated.

⁶ Alteration of personal data, concealing death or other events normally leading to suspension of pension payments, unduly using funds remitted to bank account after demise of retiree...



Prevention

The most efficient preventative actions against fraud include the following, according to international experience:

- Launching Information campaigns that would, for example, increase public awareness about the risks incurred through fraud, or the strain on social security resources caused by fraud.
- Prepayment investigations that would strengthen the internal controls leading to benefits processing and payment authorizations, those prepayment investigations being either systematic over a period of time – all benefit claims are being investigated – or targeted on the basis of type of benefits, beneficiary characteristics, cash levels involved, etc.
- Insisting on rights and obligations vis-à-vis the various social security clients (enterprises, contributors, beneficiaries) to make them fully aware of their rights and obligations, so that ignorance may not be quoted as an excuse when fraud attempts would be detected.

Detection

Detecting fraud attempts is most efficiently conducted through:

- Gathering information from the public (tip-offs), which includes opening special hotline to report, ad hoc forms, dedicated websites, etc.
- Data-matching which includes crossing references within a scheme – ensuring that for example same contributor is not registered twice – or across schemes – ensuring that a contributor for one insurance is enrolled under other insurances too, or that for example an unemployment beneficiary is not contributing as salaried worker, or that a pensioner is actually benefiting from medical insurance coverage, otherwise he/she may have passed away.
- Regular payment checks (controls) ensuring that benefits are actually paid to beneficiaries and not high-jacked by third party fraudulent action
- Risk-based assessments to organise reviews (e.g. select client reviews [professions]; scoring; profiling) including for example checking existence of all pensioners beyond certain age who did not lodge medical claim for last month
- Random and time-based reviews conducted when systematic reviews would be too costly and cumbersome
- Inter-agency compliance activities conducted through exchange of information among agencies – among social security agencies, or between those and other Government agencies.



Deterrence

Deterring tempted individuals – insured persons, beneficiaries, family members, enterprises, staff members – from attempting fraud may be obtained through:

- Making punishment more severe, considering fraud or attempted fraud as criminal offense, expanding sanctions from those facilitating fraud to those using it or benefiting from it on equal footing – e.g. imposing same level of sanctions to sellers of fake social security documents and buyers of such documents
- Publicizing potential sanctions, and actual sentences.

Tackling errors may be achieved either through upgrading skills levels and staff motivation, or through systemic upgrading.

Actions targeting staff

It is now commonly accepted that a powerful tool for limiting the number of errors committed by staff is to reward these staff in case of absence of errors. A number of social security institutions have therefore adopted a Results-based management approach through which staff in charge of processing benefit claims enjoy the payment of bonuses or other special awards when their records show, after control, a satisfactorily low level of identified errors or mistakes.

This said, proper staff training and training oriented towards early identification and avoidance of errors and mistakes is the prominent means of achieving improvements in error limitation throughout the processing of social security actions. This training or skills upgrading can however be only of limited influence if not coupled with a managerial organization ensuring that control, coaching and monitoring by higher level of the hierarchy is conducted as a daily operation in the vicinity of front line staff members, while managers themselves are being held responsible for non precociously detected errors or mistakes committed by staff under their supervision.

Systemic upgrading

Proper use of information technology is at the core of all efforts for limiting the occurrence or impact of errors in processing social security claims, as indeed it is at the core of efforts aiming at preventing or detecting fraud.

To be efficient in avoiding errors and mistakes, IT systems should effectively reconcile at least four core characteristics, namely:

- reliability, which entails self control over the accuracy of data, inputs and processing;
- comprehensiveness, which relates to the fact that all relevant data concerning clients, insured persons or beneficiaries should be duly stored, analysed, kept and used when processing or controlling claims;



- uniqueness, which corresponds to the fact that whatever fragmented a social security system may be, all data related to the same individual should be accessible by those acting upon his/her records and claims for any given scheme; and,
- self-detection, which presupposes that information technology systems embed processes that generate warning signals in case of self detected possible anomalies, such as risk of duplicate affiliation, conflict between payment of benefits and insured person's situation, possibly excessive levels of benefits in comparison with usual patterns of consumption, etc.

Safeguarding against the risk of corruption

Corruption (which is, according to the Fraud & error typology, a voluntary breach of the rules committed by an official) does not appear usually as a major cause for social security fraud in Europe.

Reasons for this low incidence include:

- ✓ Very precise **eligibility criteria** making voluntary breach of the rules by officials relatively easy to detect on the occasion of any control – and perfect awareness of this by potentially defrauding staff;
- ✓ **Separation between assessment and payment** which requires for corruption scenario to intervene that both technical and accounting people be involved – and be involved in relatively high numbers, since both technical and financial controls usually require the intervention of 3 persons, the one processing the claim, the one controlling and the one validating the work;
- ✓ **Protection of systems processing payments**, which makes it virtually impossible to generate instructions that would not correspond to a full records history, failing which its likelihood of fallacy would be automatically detected by the system;
- ✓ High level of **staff training**, and high consideration to **management**, career prospects, lifelong employment and relatively generous salary levels being an admittedly efficient protection against the temptation of corruption;
- ✓ Investigators and reviewers not assigned cases where **familiarity** is suspected, which avoids the temptation of even “passive corruption”, i.e. a situation by which an official would refrain from investigating or slow down his/her investigation process, not to harm in any manner the position of an acquaintance;
- ✓ Very active **internal and external audits**, it having to be understood that audits, notably internal audits conducted by peers, i.e. persons familiar with all possible ways of cheating the system, are extremely efficient and their frequency acts as a strong deterrent from any temptation to staff members to engage into fraudulent action.



The Human - Machine Twinning

Even though upgrading of social security information technology is at the core of institutional fighting against fraud or errors, it remains important to take into account the fact that computerization does not make it all.

Indeed, designing processes like “neural networking” is a highly valuable support to detect fraud and error – interconnected computers in such a configuration draw “fraud maps” based on actual experience and anticipate on possible occurrence of new cases, learning from the actuality in a way similar to human brain operation.

Even without this level of sophistication, computer use for cross checking data, pointing to unlikely results, automatically retrieving missing information from database, etc. may achieve a great lot, here again acting like human brain in learning from facts.

Computers cannot do it all by themselves, though. There is a need of human intervention to interpret and follow up on their output. An automated report produced by a computer reporting possible cases of fraud is of no value if action is not systematically taken on its contents. Similarly, if computer detected cases of possible fraud are systematically acted upon and result in routine blocking of benefits without any human intervention to actually check the reality of presumption, there is a serious risk that a number of claims will not be treated without any actual error or fraud justifying this blocking.

Furthermore, the physical inspection notably of enterprises remains extremely efficient, even more efficient with computer support – a visit of an HR Department by someone accustomed to work in that area would usually allow for an immediate, instinctive detection of possible mishaps or misconducts, and this detection might be dramatically improved thanks to efficient customers’ support. In other words, combating fraud cannot be a matter of computers only, and conversely, the use of computer technology in conjunction with human investigation greatly strengthens the latter, and makes it reach unprecedented levels of efficiency in fighting fraud and tackling errors.

Collaborative efforts

To efficiently combat fraud or detect errors, social security agencies should not work in isolation. In parallel with the development of complementarities between human and machine based monitoring, several types of partnerships have been progressively promoted in a growing number of countries among partners eager to join efforts in combating fraud or tackling errors of which they were jointly victims.

Different types of partnership mobilize social security institutions, other official public bodies, enterprises and stakeholders in different regions. Such partnerships require that data be kept in compatible formats by the variety of institutions and organisations involved.



Partnership among social security agencies – Here, the intention is to share data concerning registration, the basis for contributions, information on benefit awards ... among various social security institutions operating in the same realm, to ascertain that insured persons known to one scheme be known also to others, that persons insured under one scheme be not unduly registered as beneficiaries under another one, and that the basis for contributions as well as personal data for one individual be compatible among the various schemes. Partnership among the various social security institutions also facilitate exchange of data concerning detected or anticipated fraud, which may prove to be efficient in avoiding spreading of fraudulent actions, non compliance under one scheme being often accompanied by non compliance also under other schemes.

Partnership with other official bodies – A variety of other Government and official bodies have interest in collaborating with social security Agencies to also find support in their own combat against fraud. Among typical partnership between social security institutions and other official bodies, one may usually find collaboration with tax authorities, with social welfare schemes, with private insurance agencies, with institutions keeping vital records, with public security, etc. Conversely, social security institutions has indubitable interest in collaborating with such Government and other departments, to confirm the social and other status of insured persons and beneficiaries. Areas for cooperation include information sharing, direct notification o events and mutual access to data – table 2 below providing a few examples of areas where such cooperative links could develop.

Table 2

Some areas for partnership between social security institutions and other official bodies

Area	Collaborative Agency	Mechanism
Death of insured person or beneficiary	Vital records keeping (hukou), banks, notaries	Systematic notification to social security agency in case of signaled demise of an individual -
Amounts subject to contribution	Checking salary against tax records	Comparison between tax and social security declaration, exchange of data either systematic or upon request by either institution
Access to social welfare benefits	Ministry of Civil Affairs	Exchange of information avoids that same person benefit from multiple protection
Access to labour market	Employment Centers	Mutual information permits that newly employed persons be identified by social security, and to avoid that persons in employment contributing to social security benefit from unemployment benefits (cash or kind)
Health care reimbursement	Cooperative health insurance	Avoids that persons insured under urban medical insurance claim reimbursements for care already covered under cooperative medical insurance
Social status	Public security	Civil status records sharing allows for checking contributory status when employment known to public security officers



Partnership with enterprises –While enterprises tend to modernize their treatment of information related to salaried workers, it is both important and useful that such modernization including the development of automatic linkage with social security data bases. Automatic exchange of data and information is less costly to enterprises than manual processing, and entails less paper work for the social security institution. Automatic transmission of data also minimizes the risk of involuntary errors, permits to install safeguards in terms of automatic controls and warning signals in case of unlikely evolution over time, and allows for more sophisticated and systematic controls easily performed as desk operation by trained social security staff. On-going experiments across China to facilitate such automatic exchange of data between enterprises and social security institutions have to be commended – it has furthermore to be noted that encouragements to automatic exchange could be provided to enterprises, legislation permitting, through modest discounts on contribution amounts.

Partnership with other regions – Within a fragmented system, i.e. a system which is not integrated nation wide, it is not easy to check that alleged mobility of workers corresponds to their real situation. For example, the production of employment certificates from another region to support quick access to benefits, or the receipt and undue accumulation of benefits from various locations, or the declaration of unemployment in one city and that of work in another are all typical circumstances leading to fraud against the social security system as a whole. Here again, exchange of data between Provinces or other pooling levels to better monitor migrant workers claims and records can prove to be a very efficient means of action to combat fraud and ensure early detection of fraudulent attempts.

The European Approach

Internationally, there are many common problems that nurture social security fraud and error among which the most widespread appear to be illegal working; document and identity fraud; and, weakness of internal controls.

At the European level, where coordination among social security schemes dates back from the early nineteen seventies, an agreement was reached in among all member countries on a format for safe and secure electronic transmission of data through, starting from 2009, the EESSI Project⁷ with the objective *“to ensure that all the information exchanges currently taking place through the use of nearly one hundred paper E (European) forms (nearly 2000 E forms in total when taking account of the various language versions) will be undertaken by electronic means in 2009, so as to coincide with the application of the new, modernised and simplified European Regulations coordinating social security.”*

⁷ Electronic Exchange of Social security Information, formerly PROTECTUS – see <http://ec.europa.eu/idabc/en/document/7189/>



Previously, in 1999⁸, a Code of conduct had been adopted for improved cooperation between social security authorities of the Member States concerning the “combating of transnational social security benefit and contribution fraud” and “undeclared work”, as well as the “transnational hiring-out of workers”.

The Code of conduct included, as its most salient features, direct communication between competent bodies; the designation of national liaison offices in the Member States with a view to facilitating cooperation, and their notification to the other Member States and to the Commission; forwarding of any request for cooperation to the competent body of a Member State; reciprocal provision of administrative assistance between the competent bodies (supply of information, transmission of documents).

Member States were to encourage cooperation between their competent bodies in respect of data transmission and requests for information, while protecting the right to privacy in the processing of personal data. Member States were also invited to keep the Commission informed of measures taken in implementing this resolution.

In that respect, and as shown in annex 1, a number of national measures were taken over the recent years, all aiming at giving force to the provisions embodied in the Code of conduct, and to help fulfilling its objective to combat social security fraud, notably through combating clandestine work.

Whichever its importance, fraud should however not lead to paranoia. Systematic fighting against fraud should not run counter the fundamental objective of social security, which is to serve clients promptly, efficiently and accurately.

Furthermore, beyond fraud, clerical mistakes are also responsible for losses – and many clients make mistakes, without attempting to defraud the institution. In that respect, computerization is useful to not only detect fraud, but also help staff apply the rules – and allow for workers as well as employers to better understand and respect those same rules.

*

* *

⁸ Resolution of the Council and the representatives of the governments of the member states, meeting within the Council of 22 April 1999 on a Code of Conduct for improved cooperation between authorities of the Member States concerning the combating of transnational social security benefit and contribution fraud and undeclared work, and concerning the transnational hiring-out of workers (1999/C 125/01) – see http://eur-lex.europa.eu/LexUriServ/site/en/oj/1999/c_125/c_12519990506en00010003.pdf



Annex 1 – Selected countries approaches to combating social security fraud

Country Example 1 – Belgium

A data warehouse – joint data system – created within the framework of anti-fraud project between inspection services of various social security institutions and employment service.

Goal is to facilitate carrying inspection on the basis of indicators of potential fraud.

Joint control brigades established on local basis corresponding to one legal district

Targeting 4 sectors: Agriculture; Bars and Restaurants; Shops; Construction

Sources: <http://www.epractice.eu/en/cases/oasis>

Country Example 2 - United Kingdom

Four structures cooperate to fight against social security fraud: Benefit Fraud Inspectorate (central); Local Authority Investigation Officers Group; National Antifraud Network (exchange of data); Department for Work and Pensions Fraud Investigation team (undeclared work)

Have online fraud reporting form and 24-hour fraud hotline number

Sources: <http://www.gateshead.gov.uk/Benefits%20and%20Council%20Tax/Benefits/Fraud.aspx>

Country Example 3 – Bulgaria

Under a MATRA Project (accession countries, financed by Government of the Netherlands) promotion of fraud prevention approach through a triangle Labour, Benefits and Inspection (data sharing; focus on undeclared work)

Also includes a component to promote collaboration between social security agencies, the inspectorate, the police and the judiciary.

Sources: http://www.devco.government.bg/LANGen/public/portal/prj_view.php?id=2095

Country Example 4 - France

A national Committee and a National Delegation for Fraud Fighting (joint public body) were established grouping tax authorities, employment services, social security bodies.

Social security bodies may have direct access to third party information. Working on automatic data crossing within each institution, across institutions. between institutions and other bodies

Tougher penalties, with statutory minimum have been adopted under control of the National Committee on Computerization and Freedom.



Sources: <http://www.securite-sociale.fr/institutions/fraudes/fraude.htm>

Country Example 5 – Austria

Austrian Employers Federation and Workers' Union agreed that employers should be obliged to register workers with social security before commencement of work (special target: construction industry).

Organized tax and social fraud is considered as criminal offence (imprisonment up to 5 years against employers)

Sources: <http://www.eurofound.europa.eu/eiro/2007/05/articles/AT07050191.htm>

Country Example 6 - Germany

Fraud fighting more focused on non declared work. Allegedly, 20% of those in receipt of unemployment benefits work undeclared.

Tools used are: Unemployed have hours were compulsorily at home to make control easier; More frequent home controls; Crossing tax and social security data; Establishing a special inspection body (6.000 inspectors for 3.000.000 unemployed): Controlling bank situation of beneficiaries.

Sources: http://www.cnas-icsw.org/sources/seminaires/synth_se_s_minaire_26.03.09.pdf

Country Example 7 - The Netherlands

Fight against undeclared employment. Private Banks have to supply the tax authorities with information on all savings accounts. Measures taken to legalize cash-at-hand part time work such as domestic workers.

Trade Unions act as partners of the Government in controlling that employers comply with legislation, especially not hiring undeclared workers

Sources:

http://bancadati.italialavoro.it/BDD_WEB/bdd/publishcontents/bin/C_21_Benchmarking_408_documento_itemName_0_documento.pdf