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**COMPLIANCE AND ENFORCEMENT
IN CONTRIBUTORY SOCIAL SECURITY SCHEMES**

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Scope of Presentation

I. Introduction

II. Registration

III. Collection of Contributions

IV. Enforcement

V. Conclusion



INTRODUCTION



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Definitions

Compliance

The extent to which covered employers register themselves and pay contributions to the social security schemes.

Enforcement

The method by which the social security scheme ensures that covered employers covered by the scheme are registered and paying contributions as required by law.



Three Pillars of

Compliance

Registration

COMPLIANCE

Collection of Contributions

Enforcement

REGISTRATION



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Registration

Importance of Registration

- **To identify covered employers so that their payment patterns can be monitored.**
- **The challenge is to register all employers subject to coverage**
 - **unregistered employers are unknown to the scheme and cannot be monitored.**



Registration

Registration of employers involves:

- The assignment of unique registration numbers (with check digits)
- Creation of two employer records:
 - employer information record, containing details about the employer.
 - employer contribution record where all remittances and collection list totals are posted
- These records remain active until they are tagged “inactive” based on verified information that the employer has suspended or ceased operations.

COLLECTION OF CONTRIBUTIONS



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Collection of Contributions

The importance of collection

- **To enable the scheme to pay adequate benefits to covered employees.**
- **To make social insurance schemes financially sustainable.**





Collection of Contributions

In collection, two basic requirements are imposed on employers:

- **Regular remittance of contributions**
 - usually monthly
- **Submission of supporting collection lists**
 - together with the remittance
 - separately, at longer intervals (e.g. quarterly)



Collection of Contributions

The collection lists:

- **Must be submitted on time**
- **Must be processed for accuracy of data**
- **Must be posted promptly**
 - **individual contributions: to the employees' accounts**
 - **collection list totals: to the employers' accounts**

ENFORCEMENT



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Enforcement

The Importance of Enforcement

- **To ensure that contributions are collected from employers to finance the benefits of the employees.**
- **To discourage employers from evading their contribution obligations.**



Enforcement

Problem of Poor Compliance

- **Principally attributable to employers who:**
 - fail/refuse to register themselves
 - fail/refuse to pay contributions
- **Employees are mere “unwilling victims” of unscrupulous employers**
 - under pains of dismissal
- **Employees may be “willing victims” if the scheme has lost its public credibility**



Enforcement

Motivation for Employer's Non-Compliance

- **Maximize profits**
- **Minimize losses**
- **Financial difficulties**
- **Ignorance**
- **Lack of administrative capacity**
- **Procedural complexity**



Enforcement

McGillivray says:

“ The proclivity of an employer to evade depends on the employer’s assessment of the risk of being caught and should the employer be caught, the severity of the financial penalty and damage to the employer’s reputation.”



Enforcement

“Thus, if an employer believes that discovery of his/her non-compliance with the law is nil because of the weak enforcement procedures being implemented by the social security organization, or, even if discovered, it is easy to bribe enforcement inspectors to look the other way, then such employer becomes a potential violator of the social security law.”



Enforcement

Common Cases of Employer Non-Compliance

- 1. Non-registration of employers**
- 2. Non-remittance of contributions**
- 3. Underreporting the number of employees**
- 4. Understating the earnings of employees**
- 5. Misrepresenting the number of employees required for coverage.**



Enforcement

Enforcing registration

- **Identify and locate all unregistered employers from the following sources:**
 - records of government agencies registering or licensing business enterprises
 - records of enterprises bidding for government contracts
 - complaints received
 - public announcements of newly-opened businesses
 - telephone directory for businesses



Enforcement

Enforcing registration

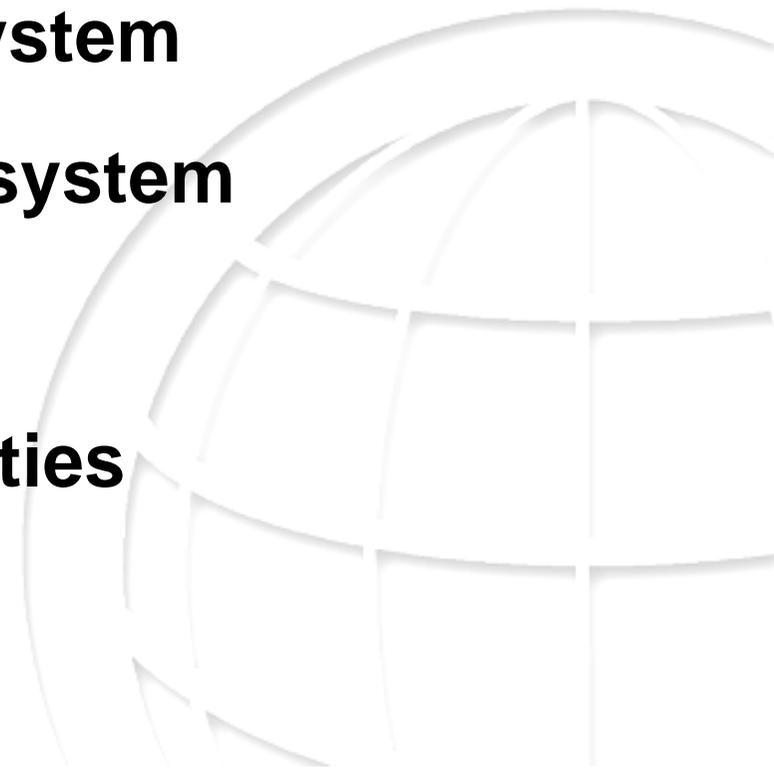
- **Verify from master file of employer information records if employers are registered or not**
- **Communicate by correspondence/telephone with the unregistered employers and ask them to register**
- **Those not responding positively should be referred to the inspectorate group for investigation.**
- **Inspectorate group may also undertake periodic “registration drives”.**



Enforcement

Requirements for Enforcing Collection

- **Legal provisions facilitating compliance and enforcement**
- **Effective monitoring system**
- **Effective inspectorate system**
- **Legal action**
- **Other supportive activities**





Enforcement

Legal Provisions

- **Scheme should cover all employers, big and small.**
- **Require social security certification of good standing before businesses can deal with government.**
- **Improve criminal and civil sanctions for violation of the law.**
- **Vest ample authority to social security organizations to inspect employer premises or records and assess their liabilities.**
- **Establish special courts to hear violations of the law.**
- **Declare amnesties for condonation of penalties.**



Enforcement

Legal Provisions

- **Require employers to post certificate of social security registration in their premises.**
- **Make non-complying employers pay for benefits which the employee would have received had the contributions been paid.**
- **In bankruptcy, priority in claims should be given to unpaid contributions.**
- **Adopt a schedule of contributions to facilitate computation and reporting of contributions.**



Enforcement

Monitoring System

- **A computerized system should be installed to generate periodic reports showing the following:**
 - **the total amounts in the collection lists is less than the remittance.**
 - **the total amounts in the collection lists is more than the remittance.**
 - **the collection list has no matching remittance.**
 - **the remittance has no monthly collection list.**
 - **there is neither a remittance nor a collection list.**
- **Verify the report for possible errors**
- **Initially, communicate with the employer by telephone or in writing**
- **If no response, refer to inspectorate group for inspection.**



Enforcement

Inspectorate System

- **An inspectorate group should be organized to inspect employers having problems with payment of their contributions.**
- **An inspection may be initiated by:**
 - the registration or monitoring group
 - complaints from employees, unions, public, etc.
 - the inspectorate group itself (e.g. “registration drives”)
- **Once the need for inspection is established, the inspectorate group should inspect the premises and records of the employers and determine their contribution liabilities.**



Enforcement

Inspectorate System

- **Once the liabilities are established, require the employers to pay immediately.**
 - employer may propose payment in installments to be approved by higher authorities.
- **If the employers refuse to pay, the inspectorate group should recommend legal action.**
- **Standard procedures should be installed to guide and control the activities of the inspectorate group, including their proper supervision and spot checking of their work by senior inspectors.**
 - it may be advisable to transfer inspectors every few years to ensure strict and impartial enforcement of the law.



Enforcement

Legal Action

- **Prosecution of offending employers, as a last resort, can be an effective deterrent for potential offenses.**
- **There should be established procedures to guide the prosecution group and monitor all pending cases.**
- **Special courts devoted to social security cases will facilitate the disposition of these cases.**



Enforcement

Other Supportive Activities

- **Payment procedures should be simplified**
- **Periodic statement of contributions should be provided to the employees**
- **Continuing public information should be undertaken**



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Enforcement

Need for Speedy

Enforcement

- **To avoid accumulation of unpaid contributions beyond employer's financial capability to pay which can lead to:**
 - **bankruptcy of the employer**
 - **loss of jobs of the employees**
 - **inability of the scheme to collect**
 - **loss of scheme's credibility**





Summary

- **Effective registration of all employers is needed to monitor and enforce their compliance**
- **Effective collection is needed:**
 - **For provident funds (DC): to pay projected benefits**
 - **For social insurance (DB): to sustain viability of the scheme**
- **Effective enforcement is needed:**
 - **to attain collection efficiency**
 - **to discourage potential violations**
- **Enforcement must be speedy to avoid accumulation of unpaid accounts beyond the employer's capacity to pay.**



Concluding Statement

It is recognized that the challenges that social security organizations face in achieving success in the collection of contributions are not easy to surmount, but they can be if there is a strong and determined political will backed not only by sufficient resources but also by honest, competent, and dedicated staff.



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Thank You