



ABUSE OF THE SOCIAL SYSTEM IN THE CZECH REPUBLIC

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Abstract

The aim of the paper was to identify areas of possible abuse of social security support in the Czech Republic, with a specific focus on the Ústí nad Labem Region and the Litoměřice district, and to estimate the volume of social security support drawn in conflict with the legal regulations of the Czech Republic. In the Ústí nad Labem Region, spending on social security increased by 34.9% in the years 2016–2020. Upon a detailed focus on the Litoměřice district in the monitored period of 2018–2020, there were 69 fraud cases in the Litoměřice district within the scope of the social security system and illness benefit. Over 60% of this fraud and loss was deferred. The biggest shortcoming of the Czech Republic's social system is the fact that individual institutions have little or no chance of finding out whether applicants are entering truthful information in the forms. A change of legal regulations and mandatory checks on applicants is the path towards reducing the amount of fraud and loss in social security and illness benefit.

Keywords

Social Security, Illness Benefit, Fraud, Loss

I. Introduction

In recent years, the phenomenon of fraud in social insurance funds has been increasing, which reflects the existence of legislative gaps in social security administration. An example can be Australia, where anti-fraud academic research should be strengthened, the social security system should be improved, a special department should be established to

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fight this fraud, the information system should be enhanced, and IT technology should be strengthened (Han and Zhou, 2017). When dealing with fraud, close attention should be paid to how it occurs and persists, not only to how serious the problem is or who is committing these crimes (Kim and Maroulis, 2018). Welfare fraud can also be seen as resistance to social control; according to a study from 1997, it can be argued that welfare fraud can represent a form of resistance (Dean and Melrose, 1997).

II. Theoretical Background

The social security system is financed by taxes and social security contributions. A study from 1997 aimed to identify companies that deliberately go bankrupt to avoid paying taxes (van Vlasselaer et al., 2017). There are two groups of people that defraud social security, and both commit financial crimes. These are white collar criminals and welfare fraudsters. From a criminological perspective, so-called white collar criminals (persons who do not have extensive experience dealing with law enforcement authorities, but have good to above-average knowledge of this issue) belong to the elite of society, with certain protection mechanisms and often privileged treatment in the criminal justice system, while welfare fraudsters are treated like street criminals, with less protection and almost automated treatment in the criminal justice system (Gottschalk and Gunnesdal, 2018). In the United Kingdom and Australia, social security applicants who are suspected or convicted of minor welfare fraud are excluded from social security. Legal regulations on fraud in the area of social security reinforce this exclusion (McKeever, 2012). The Social Security Administration (Fraud) Act 1997 was passed in the UK to make it easier to detect, prosecute and punish benefit fraud. In addition, the government published the Green Book, which addresses fraud, and more recently also the Order Document on Social Security Provision. Both documents emphasise the importance of preventing fraud, and reeducating the public about its nature and seriousness. However, neither document addresses the motivation to commit fraud, or how public attitude to fraud can be influenced. If a government's anti-fraud strategy is to be effective, the link between justified motivation and public opinion must be taken into consideration (McKeever, 1999). In the years 2000 to 2004, a television advertising campaign was created in the United Kingdom with the aim of deterring residents from committing welfare fraud (Grover, 2005).

Given the fact that there are many types of fraud in the area of social security, the paper from 2013 focuses on payment fraud, and predicts which companies will deliberately default on their payment obligations to the government. It presents a new, so-called spider-web fraud structure, which can be easily transferred from the perspective of social networks and incorporated into learning algorithms (van Vlasselaer et al., 2013). The article from 2019 deals with the state's information control powers when detecting welfare fraud as one of the pillars supporting the conditionality of social security in Western European countries. The article emphasises the importance of the right to data protection in the area of social security. It then provides a normative scale for the national assessment of control powers by analysing the normative criteria stipulated by the EU data protection framework, more specifically with regard to the principle of purpose limitation and individuals' right

to transparency. Three case studies are conducted on Germany, the United Kingdom and the Netherlands, which examine the concord between the social administration's control powers and the fundamental right to data protection. The article ends with an explanation of the differing levels of protection in the studied countries, and a recommendation of strategies to improve welfare recipients' position in the area of data protection (Gantchev, 2019).

Social security delinquency can undermine social justice and its delivery. Taking into consideration that fact that social security status is tied to employment, job insecurity and undeclared work represent a threat to the balance of the social security system. It is a matter of financial and social balance, as the former can ultimately result in a violation of social justice that causes unwillingness to participate in the social security system and properly fulfil the obligations arising from it. An example can be the situation in the EU regarding employment "grey areas", where American fraud reporting mechanisms and whistleblower protection are analysed (Tsetoura, 2016). A 2014 effectiveness analysis studied patients with a temporary disability who were suspected by the Labour Inspectorate of welfare fraud. 112 records for 2011 and 2012 (0.2% of the total number of records) where fraudulent conduct was suspected were examined in Spain. In 44% of the cases reported due to suspected fraud, the Labour Inspectorate decided that there was proof of the same. The profile of patients who were suspected of fraud was men aged > 50, independent, self-employed, with a temporary disability, a trauma diagnosis and an average of 584.6 days' previous incapacity for work (Salazar González et al., 2014).

Illegal work, welfare fraud, illegal employment, economic crime and other examples of shadow economy activities are becoming a growing problem in countries around the world. Rather than reforming tax and social security systems, most governments seek to restrict the shadow economy using repressive measures or education. A new reform of state (public) institutions could improve the dynamic of the official economy (Schneider and Enste, 2003). The aim of the paper from 2019 was to study the effect of various fraud audit strategies in one specific welfare benefit system in Sweden. The effectiveness of the audit's various strategies was compared using a computer-based optimisation algorithm. Two types of audit strategies were used. One of them was the adaptation of the audit's intensity to the propensity for errors and fraud in various segments of the studied group (segmentation strategy). The second type was an audit strategy based on adaptation of behaviour through information (information strategy). Despite higher audit costs, it was shown that the information strategy is much more effective than the segmentation strategy (Appelgren, 2019).

National policies aimed at deterring welfare fraud, with punishments such as higher penalties and more frequent benefit investigations, increase high earners' willingness to pay taxes. However, the same policy for all EU countries may not be a good strategy (Moro-Egido and Solano-García, 2020). Welfare fraud is motivated by need or greed, with opportunity often acting as a stimulus. Empirical evidence indicates that the reasons for committing welfare fraud are varied, and can be explained by a number of criminological perspectives such as stress and rational choice (Tunley, 2011). Economic psychology focuses on tax evasion, and ignores other offences relating to public finances such as social benefit fraud.

Data from questionnaires collected from a sample of Italian and English students shows that, given the same economic value, tax evasion and social benefits fraud are perceived differently. In particular, participants are usually stricter in relation to benefit fraud, and more lenient in the case of tax evasion; moreover, tax evasion is perceived as a less serious crime than other illegal actions (including non-tax crimes). Several differences were also found in a comparison of the two different cultural contexts (Italy and the United Kingdom) (Castiglioni et al., 2014). In neoclassical economics, a decision to avoid tax is analysed in the same way as a decision to commit social benefit fraud. Both decisions depend on the net expected benefit that the “representative individual” gains from taking the risk. If the financial loss experienced by the community when tax evasion occurs is equal to the financial loss it suffered from social benefit fraud, there is no reason to expect any difference in individuals’ attitudes to these crimes. In practice, however, individuals condemn benefit fraud far more than tax evasion. Prospect theory is used to explain this difference in attitude, as well as to explain why individuals commit tax evasion more frequently than benefit fraud. Moreover, the significance of public finances in individuals’ lives, together with the perceived prevalence of illegal conduct, is important when comparing attitudes and behaviour towards public finance crimes in different countries. A comparison of attitudes in Italy and the United Kingdom shows that Italians are more likely to not only punish but also commit these crimes (Cullis et al., 2015).

Earlier studies of interviews with suspects focused more on the causes of false confessions, with few of them addressing how to overcome false denials and obtain truthful confessions. A current study involving 85 interviews with individuals suspected of social benefit fraud examined the interviewers’ level of skill in the area of tactics and attitudes (and the extent of their use and presence), along with measuring any related movement towards confession. It was found that confessions usually occurred when skilful displays of specific tactics and attitudes were increasingly demonstrated by interviewers (Walsh and Bull, 2012). Although there is extensive literature on tax evasion, another aspect of defrauding the state, specifically benefit fraud, has received relatively modest attention in economic literature. A 2009 study seeks to fill this gap. It examines the differences between tax fraud and tax evasion due to different social norms, and also defines the terms benefit morality and tax morality as the motivation to refrain from defrauding the state through these two crimes. A multilevel analysis based on a large set of microdata from respondents in 29 OECD member countries over time shows that benefit morality and tax morality have different determinants on an individual level, and respond differently to fiscal policy measures (Halla and Schneider, 2009).

III. Data and Methodology

The aim of our paper is to identify areas of abuse of support within the social system of the Czech Republic in the Ústí nad Labem Region, with a detailed focus on the Litoměřice district, and to estimate the volume of social security support drawn in conflict with the legislation of the Czech Republic. Social security benefits in the Czech Republic were included among the monitored indicators. These are social insurance benefits (pension insurance, illness benefit and state employment policy contribution) state social support benefits (child allowance, parental allowance, housing allowance, unemployment benefit) and social assistance benefits (housing supplement, subsistence allowance). All data was drawn from the State Final Accounts for the individual monitored years (Ministry of Finance of the Czech Republic, 2021).

Given the fact that neither regional authorities nor the Czech Social Security Administration is able to provide exact information on how much individual regions contribute to this expenditure, the social security values for the Ústí nad Labem Region in individual years were obtained on the basis of the following calculations.

First, the % share of the population of the Ústí nad Labem Region in the total population of the Czech Republic was calculated.

$$PPU = \frac{USP}{CRP} \times 100 \quad \text{in \%} \quad (1)$$

where *PPU* is the percentage share of the population of the Ústí nad Labem Region in the total population of the Czech Republic, *USP* is the population of the Ústí nad Labem Region and *CRP* is the total population of the Czech Republic.

Based on the result found, the share of social security expenditure for the Ústí nad Labem Region in individual years was calculated according to the formula:

$$SEU = CRSE \times PPU \quad (2)$$

where *SEU* is the social security expenditure for the Ústí nad Labem Region, *CRSE* is total social security expenditure for the Czech Republic, and *PPU* is the percentage share of the population of the Ústí nad Labem Region in the total population of the Czech Republic. Illness benefits in individual years were obtained from data provided by the Czech Statistical Office (2021a, 2021b).

Welfare and illness benefit fraud was ascertained from statistical crime overviews by the Police of the Czech Republic. The monitored data included the number of fraud cases and their calculated damage, for the Czech Republic and individual regions, in the monitored period.

The share of the number of welfare fraud cases in the Ústí nad Labem Region in the total number of welfare and illness benefit fraud cases is determined according to the formula:

$$PFU = \frac{UF}{CRF} \times 100 \quad \text{in \%} \quad (3)$$

where PFU is the percentage share of fraud cases in the Ústí nad Labem Region in the total number of fraud cases in the Czech Republic, UF is the number of fraud cases detected in the Ústí nad Labem Region, and CRF is the total number of fraud cases in the Czech Republic.

The share of the loss caused in the Ústí nad Labem Region in the total social security and illness benefit loss is determined according to the formula:

$$PLU = \frac{UL}{CRL} \times 100 \quad \text{in } \% \quad (4)$$

where PLU is the percentage share of loss in the Ústí nad Labem Region in the total loss in the Czech Republic, UL is the total loss caused in the Ústí nad Labem Region, and CRL is the total loss in the Czech Republic.

The share of the number of cases of social benefit fraud in the Litoměřice district in the total number of welfare and illness benefit fraud cases in the Ústí nad Labem Region is determined according to the formula:

$$PFL = \frac{LF}{UF} \times 100 \quad \text{in } \% \quad (5)$$

where PFL is the percentage share of fraud cases committed in the Litoměřice district in the total number of fraud cases in the Ústí nad Labem Region, LF is the number of fraud cases in the Litoměřice district and UF is the number of fraud cases in the Ústí nad Labem Region.

The share of the loss caused in the Litoměřice district in the total social security and illness benefit loss is determined according to the formula:

$$PLL = \frac{LL}{UL} \times 100 \quad \text{in } \% \quad (6)$$

where PLL is the percentage share of loss in the Litoměřice district in the total loss in the Ústí nad Labem Region, LL is the total loss in the Litoměřice district, and UL is the total loss in the Ústí nad Labem Region.

As on 01/01/2021, the Czech Republic has a total of 10,701,777 inhabitants. The number of regions in the Czech Republic is 14, including the Capital City of Prague (which is also considered a region). Information on the regions' individual shares in the total population is set forth in Table 1.

The largest share of the total population of the Czech Republic is that of the Central Bohemian Region, being 13.06%, with the second largest share of the total population of the Czech Republic being that of the Capital City of Prague (which is also one of the regions of the Czech Republic). The share of the population of the Ústí nad Labem Region in the total population of the Czech Republic is 7.63%. In the case of other regions, the share of the total population of the Czech Republic is less than 7%.

Table 1: Share of the population of individual regions in the total population of the Czech Republic as on 01/01/2021

Region	Population	Share of population in total population of Czech Republic (%)
Capital City of Prague	1,335,084	12.48
Central Bohemian Region	1,397,997	13.06
South Bohemian Region	643,551	6.01
Plzeň Region	591,041	5.52
Karlovy Vary Region	293,311	2.74
Ústí nad Labem Region	817,004	7.63
Liberec Region	442,476	4.13
Hradec Králové Region	550,803	5.15
Pardubice Region	522,856	4.89
Vysočina Region	508,852	4.75
South Moravian Region	1,195,327	11.17
Olomouc Region	630,522	5.89
Zlín Region	580,119	5.42
Moravian-Silesian Region	1,192,834	11.15
Total	10,701,777	100.00

Source: Czech Statistical Office (2021a), own processing

Data on social security and illness benefits for the monitored period was obtained from the State Final Accounts of the Czech Republic (Table 2).

Table 2: Social security expenditure and illness benefits in the period of 2016–2020 (mil. CZK)

	2016	2017	2018	2019	2020
Total social security	536,679.98	555,459.90	583,218.75	626,139.15	724,267.03
Illness benefits	26,505.79	28,569.41	34,261.07	39,230.36	55,610.75

Source: Ministry of Finance of the Czech Republic (2021), own processing

Social security expenditure in the Czech Republic increased by more than 187 billion CZK in the last 5 years, which corresponds to 34.9%. The largest year-on-year increase, of 15.67%, was recorded between 2019 and 2020. The reason for this year-on-year increase is the worldwide COVID-19 pandemic, which paralysed the global economy. The same results can be seen in illness benefits, which increased by more than 29 billion CZK, or 52.33%, in the last 5 years. The largest year-on-year increase, of 29.45%, was recorded between 2019 and 2020. The reason for this year-on-year increase is the same – the worldwide COVID-19 pandemic.

The data on social security expenditure for the Ústí nad Labem Region was calculated on the basis of the determined percentage share of the population of the Ústí nad Labem Region in the total population of the Czech Republic. The result was used to calculate social security expenditure in the Ústí nad Labem Region in the monitored period (Table 3). The illness benefit data was obtained from the statistical information provided by the Czech Statistical Office (2021b).

Table 3: Social security expenditure and illness benefits in the Ústí nad Labem Region in the years 2016–2020

Ústí nad Labem Region / in mil. CZK	2016	2017	2018	2019	2020
Social security	40,971.67	42,405.38	44,524.57	47,801.24	55,292.60
Illness benefits	1,532.17	1,662.90	2,049.54	2,329.73	3,180.24

Source: Ministry of Finance of the Czech Republic (2021), Czech Statistical Office (2021b), own processing

Social security expenditure in the Ústí nad Labem Region increased by more than 15 billion CZK in the last 5 years, which corresponds to 34.9%. The largest year-on-year increase, of 15.6%, was recorded between 2019 and 2020. The reason for this year-on-year increase is the worldwide COVID-19 pandemic, which paralysed the global economy. The same results can be seen in illness benefits, which increased by more than 1.6 billion CZK, or 107%, in the last 5 years. The largest year-on-year increase, of 36.5%, was recorded between 2019 and 2020. The reason for this year-on-year increase is the same – the worldwide COVID-19 pandemic which paralysed the global economy.

The data on welfare and illness benefit fraud was obtained from statistical crime overviews maintained by the Police of the Czech Republic (Table 4).

Table 4: Number of welfare and illness benefit fraud cases in the Czech Republic in the years 2016–2020

Region	2016	2017	2018	2019	2020	Total	%
Ústí nad Labem	255	299	270	302	218	1,344	39.94
Moravian-Silesian	84	74	64	62	65	349	10.37
South Bohemian	75	76	54	77	76	358	10.64
Hradec Králové	38	83	55	63	36	275	8.17
Olomouc	49	64	55	36	25	229	6.81
Central Bohemian	34	38	43	46	14	175	5.20
South Moravian	40	38	23	16	16	133	3.95
Zlín	20	25	25	21	21	112	3.33
Pardubice	17	21	25	24	33	120	3.57

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Region	2016	2017	2018	2019	2020	Total	%
Liberec	13	18	12	24	12	79	2.35
Plzeň	8	12	20	13	11	64	1.90
Prague	6	1	13	24	20	64	1.90
Karlovy Vary	4	1	9	24	15	53	1.58
Vysočina	0	1	1	6	2	10	0.30
Total	643	751	669	738	564	3,365	100.00

Source: Police of the Czech Republic (2021), own processing

A total of 3,365 welfare and illness benefit fraud cases were detected in the monitored period. The largest share in the monitored period was that of the Ústí nad Labem Region, with 1,344 fraud cases and a share of 39.94%. It is followed by the Moravian-Silesian Region with 10.37%, and the South Bohemian Region with 10.64%; the other regions show less than 9%. Over the entire monitored period, the year 2020 shows a slight decrease, of 12%, compared to the year 2016. Overall, fraud fluctuates around the 10% mark.

Table 5: Loss caused by welfare and illness benefit fraud in the Czech Republic in the years 2016–2020 (in thousands of CZK)

Region	2016	2017	2018	2019	2020	Total	%
Ústí nad Labem	12,202	12,023	12,916	15,042	6,613	58,796	34.48
Moravian-Silesian	4,019	2,976	3,062	3,088	13,932	27,077	15.88
South Bohemian	3,589	3,056	2,583	3,835	2,100	15,163	8.89
Hradec Králové	1,818	3,337	2,631	3,138	1,281	12,206	7.16
Olomouc	2,345	2,573	2,631	1,793	1,932	11,274	6.61
Central Bohemian	1,627	1,528	2,057	2,291	1,020	8,523	5.00
South Moravian	1,914	1,528	1,100	797	1,873	7,212	4.23
Zlín	957	1,005	1,196	1,046	3,289	7,493	4.39
Pardubice	813	844	1,196	1,195	1,007	5,056	2.97
Liberec	622	724	574	1,195	833	3,948	2.32
Plzeň	383	483	957	648	943	3,413	2.00
Prague	287	40	622	1,195	2,529	4,674	2.74
Karlovy Vary	191	40	431	1,195	3,340	5,198	3.05
Vysočina	0	40	48	299	84	471	0.28
Total	30,767	30,198	32,003	36,759	40,776	170,503	100.00

Source: Police of the Czech Republic (2021), own processing

The total loss caused by welfare and illness benefit fraud in the monitored period was more than 170 million CZK. The largest share in this loss is that of the Ústí nad Labem Region, with a total amount exceeding 58 million CZK, which is 34.48%. It is followed by the Moravian-Silesian Region with 15.88%, and the South Bohemian Region with 8.89%; the other regions show less than 8%. The year 2020 shows an increase of more than 33% compared to the year 2016.

Table 6 shows the ratio between total loss and welfare and illness benefit fraud between the Czech Republic and the Ústí nad Labem Region in the years 2018–2020.

Table 6: Welfare and illness benefit loss and fraud in the Ústí nad Labem Region in the years 2018–2020 (in thousands of CZK)

		2018	2019	2020	Total
Fraud	Czech Republic	669	738	564	1,971
	Ústí nad Labem Region	270	302	218	790
	%	40.36	40.92	38.65	40.08
Loss	Czech Republic	32,003	36,759	40,776	109,538
	Ústí nad Labem Region	12,916	15,042	6,613	34,571
	%	40.36	40.92	16.22	31.56

Source: Police of the Czech Republic (2021), own processing

In the monitored period, the total number of fraud cases in the Ústí nad Labem Region exceeds 38% of the total amount. Loss also shows the greatest value, at 31.56%.

The Litoměřice district is part of the Ústí nad Labem Region. The Litoměřice district was chosen for a more detailed analysis on the basis of the results of analyses of the share of loss caused by welfare and illness benefit fraud in the total loss in the Ústí nad Labem Region. Based on the limited availability of data, the monitored period for the Litoměřice district was limited to the years 2018–2020. Table 7 shows the share of the Litoměřice district in the total fraud and loss in the Ústí nad Labem Region.

Table 7: Welfare and illness benefit fraud and loss in Litoměřice in the years 2018–2020 (in thousands of CZK)

		2018	2019	2020
Fraud	Ústí nad Labem Region	270	302	218
	Litoměřice	24	27	18
	%	8.89	8.94	8.26
Loss	Ústí nad Labem Region	12,916	15,042	6,613
	Litoměřice	445,061	485,64	315,375
	%	3.45	3.23	4.77

Source: Police of the Czech Republic (2021), own processing

The share of the number of fraud cases committed in the social security system in the Litoměřice district in the total loss in the Ústí nad Labem Region was more than 8%. The share of loss caused by welfare and illness benefit fraud was lowest in the year 2019 (3.23%); however, in the year 2020, it was 4.77%.

Based on the available data from the Police of the Czech Republic Litoměřice, the number of fraud cases and total loss in social security and illness benefits in the years 2018–2020 were determined (Tables 8, 9 and 10).

Table 8: Number of fraud cases and total loss in social security, Litoměřice district (in thousands of CZK)

2018	Total cases	Total loss (thousands of CZK)	Prosecution	Prosecution amount	Deferred	Deferred amount
Child allowance	2	37,990			2	37,990
Parental allowance	7	302,566			7	302,566
Housing allowance	10	207,593	6	158,178	4	49,415
Housing supplement	1	55,502	1	55,502		
Unemployment benefit	1	44,450			1	44,450
Subsistence allowance	3	71,976	2	61,336	1	10,640
Total	24	720,077	9	275,016	15	445,061

Source: Police of the Czech Republic Litoměřice (2020), own processing

In 2018, a total of 24 welfare and illness benefit fraud cases were registered, with a total value of 720 thousand CZK. Out of the total number of cases in the given year, 9 cases were prosecuted by the Police of the Czech Republic and 15 cases were deferred, i.e. more than 60% of the cases were deferred. Given the fact that the reason for deferring the prosecution is not known (insufficient evidence or another reason), the data was included in the total loss.

Table 9: Number of fraud cases and total amount of loss to social security, Litoměřice district 2019, in CZK

2019	Total cases	Total loss (thousands of CZK)	Prosecution	Prosecution amount	Deferred	Deferred amount
Child allowance	1	19,210			1	19,210
Parental allowance	6	84,034			6	84,034
Housing allowance	8	425,450	5	395,470	3	29,980
Housing supplement	6	497,825	4	366,020	2	131,805
Unemployment benefit	1	5,618	1	5,618		
Subsistence allowance	3	206,081	1	15,851	2	190,230

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2019	Total cases	Total loss (thousands of CZK)	Prosecution	Prosecution amount	Deferred	Deferred amount
Exceptional immediate assistance	1	5,970			1	5,970
Child's needs contribution	1	24,411			1	24,411
Total	27	1,268,599	11	782,959	16	485,640

Source: Police of the Czech Republic Litoměřice (2020), own processing

In 2019, a total of 27 welfare and illness benefit fraud cases were registered, with a total value of 1.2 million CZK. 11 cases were prosecuted by the Police of the Czech Republic and 16 cases were deferred (reason unknown). Given the fact that the reason for deferring the prosecution is not known (insufficient evidence or another reason), the data was included in the total loss.

Table 10: Number of fraud cases and total amount of loss to social security, Litoměřice district 2020, in CZK

2020	Total cases	Total loss (thousands of CZK)	Prosecution / undecided	Prosecution amount / undecided	Deferred	Deferred amount
Child allowance	4	31,350	1 u	7,800	3	28,680
Parental allowance	4	147,850			4	147,850
Housing allowance	5	246,779	2 p / 2 u	42,741 / 190,249	1	13,789
Unemployment benefit	2	36,207	2 u	36,207		
Subsistence allowance	1	21,286			1	21,286
Child's needs contribution	1	90,770			1	90,770
Maternity grant	1	13,000			1	13,000
Total	18	587,242	2 p / 5 u	44,007	11	315,375

Source: Police of the Czech Republic Litoměřice (2020), own processing

In 2020, a total of 18 welfare and illness benefit fraud cases were registered, with a total value of 587 thousand CZK. 18 cases were prosecuted by the Police of the Czech Republic, of which 11 cases were deferred (more than 60% of the cases). Given the fact that the reason for deferring the prosecution is not known (insufficient evidence or another reason), the data was included in the total loss.

IV. Results

The Czech Republic consists of 14 regions (including the Capital City of Prague), and the Ústí nad Labem Region is the fifth largest in terms of population. Social security and illness benefit expenditure in the Czech Republic increased by more than 29 billion CZK, or 52.33%, in the monitored period of 2016–2020. The largest year-on-year increase, of 29.45%, was recorded between 2019 and 2020. In the Ústí nad Labem Region, spending on social security benefits increased by more than 15 billion CZK in the last 5 years, which corresponds to 34.9%.

In the monitored period of 2016–2022, a total of 3,365 welfare and illness benefit fraud cases were detected in the Czech Republic. The share of the number of cases of fraud committed in the Ústí nad Labem Region in the total number of fraud cases in the Czech Republic was 39.94%. The total loss to social security and illness insurance in the monitored period was more than 170 million CZK. The share of the loss caused by this fraud in the Ústí nad Labem Region in the total loss in the Czech Republic was 34.48%. In every year of the monitored period, the Ústí nad Labem Region ranks first in the loss caused by welfare and illness benefit fraud; this is over 4 times more than other regions, but we cannot conclude the frauds are not a serious problem for the whole Czech Republic as the amount of identified frauds is dependent on many factors not covered by the current statistical analysis and the control mechanisms in the Czech Republic are not robust enough to use them as the only criteria. The total identified loss to social security and illness insurance exceeded 170 million CZK, whereby the share of the Ústí nad Labem Region for the monitored period was 34.48%. In all of the monitored periods, the Ústí nad Labem Region ranks first, with more than triple the calculated loss, except in 2020, when the Moravian-Silesian Region ranks first.

Due to the limited amount of data provided by the Police of the Czech Republic Litoměřice, the period of 2018–2020 was monitored. In the monitored period, the Litoměřice district exceeded 8% (69 fraud cases) of welfare and illness benefit fraud cases out of the total number of fraud cases in the Ústí nad Labem Region (790 fraud cases). In the total social security and illness benefit loss in the Ústí nad Labem Region (34,571 million CZK), the Litoměřice district has a share of more than 3% (2,575 million CZK) (Table 11).

In the monitored period of 2018–2020, there were 69 cases of welfare and illness benefit fraud, of which 23 cases related to housing allowance, 17 cases to parental allowance and 7 cases to housing supplement and subsistence allowance, amounting to a total loss of 2.5 million CZK. 42 cases were deferred, which is more than 60% of the total number, with a value of 1.25 million CZK, which is 50% of the total loss.

The actual hidden number of frauds and errors might be much higher than the amount identified and analysed in this article due to the lack of subsequent control mechanisms; nevertheless, this is a task for future research, which might utilise the rate of frauds and errors of the ad hoc financial support during the covid era, which should be monitored better than the standard benefits or use the foreigner experience as the relative base for the whole Czech Republic frauds and errors estimation. The future analysis aiming at searching for reasons for social benefits frauds and errors might use the macroeconomic indicators of the regions, such as the unemployment rate or income value.

Table 11: Total number of fraud cases and total loss in the Litoměřice district in the period of 2018–2020, in CZK

	Total cases	Total	Prosecution	Prosecution amount	Deferred	Deferred amount
Child allowance	7	88,550	1	7,800	6	85,880
Parental allowance	17	534,450	0	0	17	534,450
Housing allowance	23	879,822	13	596,389	8	93,184
Housing supplement	7	553,327	5	421,522	2	131,805
Unemployment benefit	4	86,275	3	41,825	1	44,450
Subsistence allowance	7	299,343	3	77,187	4	222,156
Exceptional immediate assistance	1	5,970	0	0	1	5,970
Child's needs contribution	2	115,181	0	0	2	115,181
Maternity grant	1	13,000	0	0	1	13,000
Total	69	2,575,918	25	1,144,723	42	1,246,076

Source: Police of the Czech Republic Litoměřice (2020), own processing

V. Conclusion

The aim of the paper was to identify areas of possible abuse of social security support in the Czech Republic, with a specific focus on the Ústí nad Labem Region and the Litoměřice district, and to estimate the volume of social security support drawn in conflict with the legal regulations of the Czech Republic.

Social security and illness benefit expenditure in the Czech Republic increased by more than 187 billion CZK in the years 2016–2020. A more detailed analysis focusing on the Ústí nad Labem Region showed that social security and illness benefit expenditure in the given region increased by more than 15 billion CZK, which corresponds to 34.9%. The total loss caused by the abuse of the social security system in the Czech Republic in the monitored period was more than 170 million CZK. The largest share of this loss was detected in the Ústí nad Labem Region, with a total amount exceeding 58 million CZK, which is 34.48% of the total loss in the Czech Republic.

In the monitored period of 2018–2020, 69 cases of fraud committed in the social security system were detected in the Litoměřice district. Most cases related to housing and parental allowance, being more than 50% of the total number of fraud cases, with a total loss exceeding 620 thousand CZK, i.e. more than 50% of the total loss. Given the fact that more than 60% of these fraud cases and losses were deferred by the Police of the Czech Republic, it is highly unlikely that the loss will be reimbursed. The cases were deferred either due to insufficient evidence, or for another reason.

The biggest shortcoming of the social security system in the Czech Republic is that fact that individual institutions have little or no chance of finding out whether applicants are entering truthful information about their financial situation in the forms; there is no

database that would confirm or refute the applicants' claims. Another weakness is the IT limits and literacy of employees in the social security system and working with data. The overall IT literacy of employees in the social security system and work with data is another weakness. During the receipt of the benefit, individual institutions do not check whether applicants' financial situation has changed, and whether their entitlement to the benefit has not lapsed, as legal regulations do not require them to do so. We believe that applying a subsequent control system with a sophisticated risk analysis, mandatory checks on applicants, mandatory employee training, interconnection of individual authorities' databases and medialised stricter punishments for offenders would help reduce benefit fraud and loss in the social security system in the Czech Republic.

Acknowledgements

This paper is a partial result of the research project [No. 2019B0010] – Czech Social System Fraud Rate Estimation and System Optimization Proposals, supported by the Internal Grant Agency (IGA) of Faculty of Economics and Management, CULS Prague.

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