



Fraud and Company Pensions: A Relevant Topic?

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Occupational pension systems can be manipulated. However, the risks can be reduced with appropriate measures.

Apparently limited possibilities of manipulation.

Most pension managers would probably deny that there are any relevant opportunities for fraudulent behaviour in their area of responsibility. In fact, the possibilities for manipulation seem limited, as occupational pensions are by their nature long-term and manipulations would be noticed if they were carried out over a longer period of time. Also, in many cases in Germany the administration is separated from the actuarial function or from fiduciary structures, which is an additional control instance besides the usual internal company control systems. However, it should not be forgotten that it is a matter of pension benefits and obligations in quite relevant amount, which makes fraud conceivable and possible with a certain criminal energy.

Why fraud is still an issue for occupational pension administration.

So, despite these valid arguments, the question remains whether the issue of fraud can be relevant to company pensions in Germany. Company pensions in Germany are often constructs that have grown over many years, with complex pension plans, an increasing number of members and pensioners, and an increasing number of parties involved in their implementation and administration. Monitoring this landscape requires specialised knowledge that often only a few employees and specialists possess.

In addition, it must be taken into account that the entire value chain of administration, which may involve many corporate functions, offers possible starting points for manipulation: starting with the data bases that lead to the respective entitlements, through the administration of the entitlements and the relevant calculations for benefit determination, to settlement and payment. Each of these elements has different possibilities for intervention by involved parties - sometimes involving the members. Examples of this are:

- Falsification of commitments (falsification of documents)
- Creation of additional reversionary accounts under a false name
- Manipulation of the data basis (e.g. credit periods)
- Falsification of calculations and benefit determinations
- False statements (e.g. in the context of health checks)
- Manipulation of payout
- Identity theft or identity manipulation for proofs of life

Regardless of which part of the value chain the manipulation takes place in, the financial damage can be considerable. In addition, the potential damage to the reputation of the respective pension institution must also be considered, which can also damage the fundamental trust in reliable occupational pension administration.

There are no official figures on the extent of occupational pension fraud in Germany. However, it is a fact that there have been individual cases of fraudulent manipulation that have been uncovered. In some cases, this required very extensive historical research after an initial suspicion.

Measures for risk limitation

Many companies have already taken and implemented precautions against fraud to limit the risks. The risk limitation methods can be categorized into preventive instruments, operational procedures and measures to limit damage, even if the subdivision is not clearly defined.

Preventive instruments aim at preventing fraudulent activities in advance by means of education and the setting of suitable framework conditions (e.g. contractual framework for firmly defined account movements) or at least reducing their probability. This includes, for example, guidelines for the administration, selection, training and education of employees, governance structures, technical exclusion of data and calculation manipulation as well as the establishment of a whistleblowing system. Fraudulent activities can also be significantly reduced with the help of an appropriate organizational separation of responsibilities. In practice, the transfer of administration to a separate corporate entity or to an external provider has proven successful. This would require several parties to collude for fraudulent activities and/or the data manipulation to take place within the standard HR/salary accounting systems, which are usually subject to even higher compliance requirements.

Operational procedures are applied directly to the processes to prevent and limit fraudulent activities during implementation. Examples of this are controls by means of the dual control principle including technical/organizational controls, plausibility checks, inventory reconciliations, spot checks and documentation, risk-based reports.

Mitigation measures try to keep the extent of damage as small as possible. Examples of this are limiting powers of attorney, defining charts of accounts, additional controls depending on the risks, regular checks within the framework of audits.

Ideally, all these measures are coordinated to achieve the best possible effectiveness. In addition, these methods should be optimized to the respective supply landscape and company specifics to holistically consider the respective risks.

Conclusion: Regular engagement with fraud is indispensable.

Even if we can assume that there have been few individual cases in practice so far, a review of the control systems should be on the agenda regularly. The rapid changes resulting from digitalization alone mean that the framework conditions are constantly adapting, and with them both the possibilities for manipulation and the necessary countermeasures. New technical possibilities should not be underestimated, as they may lead to a complete reassessment of the control system.

The starting point of a regular reassessment should be the structured recording of the respective risks. Based on this, the review of existing governance and established measures along the entire value chain should then be carried out for reasons of economic efficiency. Finally, necessary adjustments or changes to measures should then be made.



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