

# The Reasons of Integrity Deficiency of Social Insurance in China

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## Abstract

Social insurance is often plagued by moral risk in the process of implementation. The emergence of moral risk aggravates the contradiction between supply and demand of social insurance fund, raises the cost of enterprise, increases the financial burden of the government, and affects the reputation of the social insurance system. Moral risk is mainly manifested as the misappropriation, illegal operation of social security funds, and social security violations occurring frequently. As the main part of the social security system, the enterprises have the phenomenon of evading the social security fee. What's more, there is also a moral risk problem in the field of social health insurance. Social integrity based on private relations has been hardly to meet the needs of social development, while social integrity based on mechanism perfection has not been established yet; the Chinese society is experiencing an integrity crisis. Therefore, it is of great theoretical and significance to research and establish a practicable system of social insurance. Based on the present situation in China, this paper analyzes the root of integrity deficiency in China's social insurance, and puts forward the corresponding policy recommendations and countermeasures.

## Keywords

Social Insurance, Moral Risk, Credit System, Integrity Deficiency

## 1. Introduction

Integrity is the basic principle that social insurance parties should abide by. With the development and improvement of the market economy, the number of people involved in the social insurance system is increasing, while the phenomenon of integrity deficiency is becoming more and more serious [1].

### 1.1. Dishonesty Behavior of Employers in Social Insurance

Many employers pay less or default social insurance premiums. They break the

relevant provisions which require registering social insurance for the sake of avoiding the payment of social insurance premiums. Or they pay social insurance premiums not according to the actual number of workers but just pay for a few workers [2]. In the process of payment declaration the employers concealed total wages and the wage base, so as to achieve the purpose of less payment of social insurance premiums. (Some enterprises do false accounts to deceive the social insurance agencies. The most common is that many enterprises do not pay social insurance premiums in accordance with the provisions which lead to serious delinquency.)

### **1.2. Dishonest Behavior Mode of the Individual Is Relatively Single**

Many workers have a weak sense to follow the law. They do not think that the participation of social insurance is a legal obligation [3]. When they left the original unit they interrupted the social insurance relations. Many freelances canceled the insurance by themselves, because they believed that the payment period has reached a condition that they can draw a pension monthly. Some unemployed interrupted the social insurance relations because paying social insurance premiums add to their burden. Some companies and individuals colluded. They used the fake identity cards and files to deceive the retirement approval agencies. Some relatives of retired workers who have been dead defraud pension insurance [4]. For example, the income of Guangdong social security fund in 2014 was 385 billion yuan, and the accumulative surplus was 821 billion yuan. The issuance of huge social security fund has risks. Many staffs who are not the residents of Guangdong affiliated the companies to illegally participate in health insurance of Guangdong province. They cheated outpatient treatment of specific projects, as well as some people cheated or repeated received social security funds.

### **1.3. Dishonest Behavior of Government Departments, Social Organizations and Their Staff**

In some regions and departments, the policy changes quickly [5]. Some cadres especially some leading cadres misappropriated and embezzled of social insurance funds. For example, in the 1990's, the 1.018 billion yuan social security fund of Guangzhou was "misappropriated". The matter surfaced in 2004 during the NPC and CPPCC period. Government officials who were involved in the case illegally approved 700 million yuan for illegal investment which resulted in 500 million yuan in economic losses. Some departments illegally paid for social insurance, approved the retirement illegally and for early retirement formalities for the laborer who does not meet the conditions. China's medical insurance implements third-party payments policy [6]. Medical institutions provide medical services for patients with medical insurance. Social security agencies pay the relevant costs in accordance with the requirements of the system. Due to the long chain of management, the discipline violations occur in fre-

quency.

#### **1.4. Dishonest Behavior of Social Security Agencies, Physicians, Pharmacies and Designated Hospitals**

After a long time of regulation, the phenomena of arbitrary charges, arbitrary checks, indiscriminate using of drugs is still common in designated hospitals. The main reason is that the income of the designated hospital is direct proportional to the number of patients and the expenditure of the medical insurance fund. The more the fund is used, the greater the income of the hospital. In order to gain greater benefits, some hospitals do not strictly comply with the relevant provisions. Excessive examination and drug using are extremely common. The reason why doctors often use expensive drugs instead of cheap drugs which seriously cause the condition of excessive medical treatment is that most hospitals have commission on physician examination fees, medical expenses. Some Medicare drugstore swipe the card illegally, allow customers to purchase the non-drugs, foods and health care products with health insurance card, and convert carte vital into cash in order to retain customers and increase sales.

## **2. The Situation of Integrity Deficiency of Social Insurance in China**

Integrity question cannot be blamed on moral decay generally in the field of social insurance. The defects of existing system make rational people thought that dishonesty can bring profit. If the dishonesty can't get the punishment of the existing system or the punishment is not enough, it will lead to more dishonesty. Dishonesty is becoming an increasingly serious problem owing to lacking of effective punishment and a complete social credit information network in the field of social insurance of China. Also the government can't be absolutely fair in the process of formulating rules, and their corruption and rent-seeking behavior make the situation worse.

### **2.1. Interest Lure Drives Dishonesty Behavior**

The main reason for defrauding social insurance premiums is driven by interests. To a certain extent, low cost and high income provide a source of power for insurance fraud. Here are some examples.

- Some employers regard “underreporting” and “omitting” social insurance premiums, and understating the number of insured persons as an important means to reduce labor costs and pursue the maximization of interests.
- In determining the payment base of workers, some units reduce the unit payment base, improve the staff payment base as far as possible.
- Bonuses, welfare, subsidies are not included in the payment of wages payable.
- And in order to extend the time to receive social insurance benefits as far as possible, hide the time of death for those who enjoy social security, defrauding social insurance benefits.
- The survivors continue to enjoy the benefits of social security although the

deadline has passed.

- The injured who have not work-related injuries do everything possible to squeeze into the work injury insurance treatment team, just trying to improve the level of social security benefits.
- Fixed medical institutions allow the insured to use the health insurance card to buy daily necessities in order to pursue the maximum profit.
- Employers who sacrifice the interests of insured worker pay less or even not pay insurance premium to reduce operating costs.

By various means, insured personnel obtain high-quality social insurance services, while don't fulfill the obligation to pay. Fixed medical institutions input less while obtain high profits in the field of medical insurance, so they rush into danger.

## **2.2. Lack of Necessary Rules and Regulations**

Since the reform and opening up, China is undergoing social transitional period, the relevant social insurance regulations and policies are newly developed in recent years, is still not standardized, not systematic and even loopholes [7]. Until July 2011, China's first social insurance law was implemented, pension insurance, medical insurance and maternity insurance even have no unified national administrative regulations, only the general normative documents. Unity, thoroughness and seriousness of social insurance laws and regulations are not enough, resulting in no laws to abide by. Therefore, even if we found violations in the process of social insurance supervision, the offender can't be punished. For example, the unit which checked out without paying enough or deliberate default social insurance premium is only expected to fill the vacancy number. Neither hinder the promotion nor affect any political reputation of the leader. What's more, employers and the insured workers are unfamiliar with the social insurance policy and have weak consciousness to comply with law. They believe that even if the impersonator of social security funds is recognized, the worst punishment is that they just can't get the social insurance funds [8]. They don't realize that this fraud is illegal and criminal. As the main body of supervision, social insurance agencies do have the right to verify the payment of insurance premiums or social insurance treatment, but they have the difficult to implement the punishment on the people who is uninsured, underpaid, and false claim social insurance funds. As a result, the phenomenon of repeated honesty crisis will not stop.

## **2.3. The Delay of the Construction in Government Supervision Department of Social Insurance**

Each type of insurance is provided with a corresponding supervision and verification mechanism, which makes the organization overlap and work repeatedly [9]. In this mechanism, not only cause a waste of human, material and financial resources, but also give the public the social insurance sector confusion image. Social insurance personnel training lax and insured units handling personnel

changes result in the insured units of social insurance lack of serious awareness about contribution base declaration and audit. Some of the collection agency personnel who have low cultural level frequent wage reporting error increased the difficulty of the work of audit supervision.

#### **2.4. The Construction of Credit System and Credit Management System Lags Behind for a Long Time**

The reason of the lack of social credit is also related to the national credit system which has not been formed in our country. Social insurance is a highly developed field, which requires not only a complete credit instrument, but also a sound credit system [10]. Since reform and opening-up, Especially the time when we change from a traditional planned economy to a socialist market economy, the market attaches more and more important to the basic allocation of resources, while the credit system and credit management system is not synchronized development. That makes our social credit system so weak that it can't face the impact of the modern market economy. Only if there is a standardized credit rating to assess the employer's social insurance premiums in arrears and the employer can be punished or rewarded according to the results of assessment, can inhibit this behavior to a large extent.

### **3. Policy Suggestions and Countermeasures**

As an important social system in our country, it is difficult to maintain the operation of the social insurance system only by moral constraints due to the current social group moral status uneven in quality. Therefore, it is of great practical value to pay attention to the study of the social security system and explore the reasons for the emergence of the credibility problem. Learn from the experience of social security at home and abroad and reference to strategy of the provinces and cities in China, we can draw the following ideas to deal with the problem of the social security honesty crisis.

#### **3.1. Speeding up the Construction of National Social Credit System**

To enhance the credit consciousness of the whole society, establish and improve the social credit system, and further improve the market system, it is necessary to attach importance to the construction of social credit system [11]. Under the condition of market economy, social credit system is composed of a series of credit related, mutual connection, mutual promotion and mutual influence of credit moral culture, relevant laws and regulations, organization, technology, operation tools and mode of operation. In January 2014, China's State Council executive meeting adopted the "social credit system construction plan (2014-2020)" [12]. It means that China has started in the construction of social credit. In order to adapt to the development of credit economy and information society, it is necessary to put accelerating the construction of social credit system nationwide in the first place of national culture and moral construction with the continuous growth of economy.

### **3.2. Establish a Sharing Platform of National Government Information and Provincial Information**

Increasing the transparency of information can improve the quality and efficiency of the system operation and reduce the cost of supervision. The specific approach is to form a national government information office system quickly which will be included information of all areas in government work. At the same time, allowing each province establish the appropriate local government information sharing platform according to their own needs. The platform is an information system under the requirements of the central government of the State Council, which is composed of various government information of provinces, autonomous regions, municipalities directly under the central government and cities under separate state planning. The platform connects the main government information dynamic data of each place through the computer network and the remote information system. It can achieve information sharing through the establishment of e-government information exchange platform. Therefore, it is an authorized information service platform which can meet the needs of the government to record, obtain and share the government information.

### **3.3. Speeding up the Legislation of Moral Integrity of Social Security**

The establishment and improvement of the legal system can protect and encourage the legality of the behavior of the parties effectively, also can curb and punish speculation and illegal acts to a great extent. Undoubtedly, strengthening law enforcement has a strong deterrent effect on illegal acts. However, there is no special legislation on anti-fraud in our country. What's more, there is no legal definition of social insurance fraud and moral hazard owing to the absence of basic legislation of social insurance fraud. The anti-fraud legislation is being drafted in social security area, while the task is still arduous. The repeated of pension impersonator, misappropriation and wasting of social funds are related to law enforcement ineffective in Chinese social insurance. Hence, it is necessary that make strict penalties for possible violations and speed up the legislative work which really can be depended on. On the other hand, the law enforcement must be strict, and the violations must be severely punished.

### **3.4. Strengthen the System Design and Policy Optimization**

It is no doubt that avoiding the dishonest behavior in social insurance has to starting from the design of the system. The system is the most critical constraint to people's behavior, and also the most basic and effective choice to avoid the moral hazard of social insurance. Information communication is an important basic work to solve social insurance moral hazard [13]. In the field of social insurance, the situation of information asymmetry is very complex as a result of the specific business and the complexity of the participants. Therefore, the main ideas to solve this problem include the following.

- 1) Clarify the responsibility, rights and obligations of social insurance in the

form of legislation, and prevent the moral hazard of social insurance in these areas.

2) Deal with the relationship between the level of social insurance treatment and the overall social income distribution. In this way, we can prevent the differences in the treatment of pension insurance and early retirement of enterprises in poor efficiency.

3) Improve the relationship between social security and social assistance. The system of “common affordable” which no individual has payment obligations should be very careful design for such a system would actually create a “free lunch”.

### 3.5. Give Local Government Greater Autonomy in the Investigation of Social Security Issues

Local governments are directly involved in the social insurance, so they understand and grasp the integrity of the insured object profoundly [14]. The central government has to entrust local government greater autonomy in the investigation of fraud, and allowing local governments to set up corresponding rules and regulations to avoid the dishonest of social insurance. It is useful to form a joint working group to investigate organized cross regional fraud. With the development of information technology, the government can strengthen the management of social security numbers through improving the computer network, and reduce the likelihood of fraud which is caused by poor management by strict welfare eligibility procedures and trained public welfare staff.

## 4. Conclusion

In a word, the lack of integrity has been the new bottleneck of the economic development of our country, and is a major obstacle to the implementation of the social security system. Therefore, it is necessary to establish and improve the system of social credibility, cultivate and strengthen the national consciousness of honesty and credit, and let the social security system plays an active role in maintaining social stability, promoting economic and social development. To ensure that all the social members have normal development ability, so they are free from moral hazard.

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