

ISF Report 2011:19

Sharing systems  
Business-critical services  
as a commodity between  
two government agencies

Swedish Social Insurance Inspectorate

Stockholm 2011

© Inspektionen för socialförsäkringen

# Summary

As of 1 January 2010 the new Swedish Pensions Agency (Pensionsmyndigheten) (henceforth the Pensions Agency) administers the Swedish public old-age pension system, taking over the responsibility from the Swedish Social Insurance Agency (Försäkringskassan) (henceforth the Social Insurance Agency) and the Premium Pension Agency. The Pensions Agency is responsible for: (1) old age pensions (2) survivors' pensions, including the surviving children's allowance (3) the survivors' annuity (4) the housing supplement for pensioners.

Prior to 1 January 2010 the pension system was jointly administrated by the Social Insurance Agency and the Premium Pension Agency. However, until today the administration of the system has remained partially the responsibility of the Social Insurance Agency, but it is funded by the Pensions Agency. Time constraints and high conversion costs were at the time the reasons given for this new arrangement.

This purchaser-provider split comprises disbursement services, claims management and IT services, supporting the Pensions Agency in the case handling and disbursement of pensions and related benefits. In other words, these services are essential for the daily operation of the Pensions Agency. The cost of these services, which are business-critical for the Pensions Agency, amounts to 370 million Swedish kronor per year.

This review, conducted by the Swedish Social Insurance Inspectorate (ISF), examines the incentives and obstacles of the purchaser-provider split described above. The ISF provides recommendations on how to address the obstacles identified and improve the operational effectiveness of the Pensions Agency.

The business-critical services provided are complex and strongly integrated in the Social Insurance Agency's own operational

management. Consequently, the Pensions Agency cannot independently manage its operational services or systems. As a result, the development work tends to be a laborious process as both agencies need to be involved and, perhaps more importantly, it impairs the Pension Agency's possibilities to independently run its service operations. This coordination negatively affects the development work within the Social Insurance Agency. Moreover, it is plausible that the differences in how the agencies manage the systems will be accentuated in the future.

The ISF's review shows that the cooperation between the agencies tends to work well, but there are areas that could be further enhanced. In several areas improved routines and processes are under way. In order to improve the cooperation and trust between the agencies, the ISF suggests that the following short-term measures should be considered:

- The Government should consider giving the Social Insurance Agency instructions to provide the Pensions Agency with the necessary business-critical services as long as it requires the support. The Social Insurance Agency should in turn ensure that these instructions are incorporated in the Agency's internal control documents
- The internal auditors at the Pensions Agency and the Social Insurance Agency should extend their cooperation in order to increase effectiveness in the work process
- The Pensions Agency and the Social Insurance Agency should highlight and work towards maintaining their combined competence and knowledge of the area, for example, through training schemes and service exchange
- The Pensions Agency should involve the Social Insurance Agency to a greater extent in its internal development process
- The Social Insurance Agency should provide the Pensions Agency with more extensive documentation on its systems
- The agencies should review the current cost model in order to ensure adequate remuneration for the advisory services, skills development and preventive measures provided.

In the longer term, alternatives to the purchaser-provider split should be considered. The Pensions Agency has taken a principal decision to

reconsider and eventually reduce its dependence on the Social Insurance Agency.

The ISF's review shows that the closest alternative to the current purchaser-provider split is that the Pensions Agency gradually takes over the services provided by the Social Insurance Agency and manages them in-house. Another alternative is the purchase of market-based services, but this would only be a feasible alternative for a small part of the services due to the complexity of the systems. Another option could be to merge the IT departments of the two agencies while allowing the new IT organization to have a more independent position.

The ISF suggests that the following long-term measures should be considered:

- The two agencies should jointly conduct a thorough investigation of the pros and cons of the different options, including costs. This also includes the funding of the separate systems. The funding is of course a governmental matter
- The Pensions Agency should review the services provided by the Social Insurance Agency in order to more clearly investigate which services could remain or should be excluded from the current agreement

If a review of the system is conducted, the agencies should use the opportunity to consider the full separation of their operational systems.