For the good of the global economy

Social protection for the migrant worker
IBM Institute for Business Value

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For the good of the global economy

Social protection for the migrant worker

By Brian Lee-Archer, Chris Brailey, Marc Le Noir and Dr. Oliver Ziehm

Social protection schemes have traditionally focused on the needs of domestic populations and are not designed to handle the demands of temporary and permanent worker migration and competition for talent within a globalizing workforce. As the world “flattens” and more people live and work in multiple countries during their lifetimes, governments want to provide continuous protection against social risks such as aging, labor accidents and health problems. This can be achieved through new collaborative social security approaches enabled by technology.

Introduction

Over the past five years, the number of foreign-born workers has increased by more than 10 percent in almost all member countries of the Organisation for Economic Co-operation and Development (OECD). In some nations, such growth is even more pronounced. Italy, for example, has seen a six-fold increase during that same time period.

The expanding population of foreign-born workers has become a major component of the labor force in many countries. In Switzerland and Australia, it comprises 25 percent of the total workforce – and it accounts for 15 percent in the United States and 12 percent in Germany. Worldwide, more than 100 million individuals are working outside their countries of origin. In recent years, the Arab Middle East has received more than 10 percent of the world’s migrants – most of them from Southeast Asia; the oil-rich countries of the Gulf now have a higher ratio of guest workers to indigenous populations than any other region in the world. Migrant workers in this region are working legally but are generally excluded from social protection programs.

Given the movement toward globalization and increased worker mobility, the IBM Institute for Business Value recently undertook a study to analyze the impact of these trends on government programs. In particular, we were interested in social protection, the pensions and healthcare benefits governments provide for workers and retirees – in this case, for those that have worked or are working legally
in multiple countries. We found that governments were struggling to get ahead of the curve; they were aware of the growing challenge, but they were not yet fully prepared for large-scale international worker mobility. The recent expansion of the European Union (EU) toward the east is a stark example of this phenomenon with up to 600,000 migrant workers from eight new EU accession states now living and working in the United Kingdom.

Even in countries where formal social protection is in place for the domestic population, there is little to no social protection for migrant workers. And when a program is available, it has usually been designed based on historical immigration patterns, where workers take up permanent residency. Most social protection schemes are not suited to the newer migratory patterns of the 21st century that involve short stints of employment in multiple countries.

Some countries have established bilateral and multilateral social security agreements in an effort to protect migrant workers. However, operationalizing these agreements is difficult because of fundamental differences in social protection concepts, terminology and practices among nations and the sheer number of organizations involved in administering these programs. And according to many of the government leaders we interviewed as part of our research, this growing complexity has led to service quality problems and higher administration costs.

Ultimately, we believe the long-term answer lies in an international clearinghouse of sorts, one designed to service the social protection needs of the internationally mobile 21st century worker. The emergence of Internet-based communication protocols and standards makes it possible for social security organizations to begin to manage globally based business processes. An international clearinghouse could eliminate the need for country-to-country (point-to-point) communication and processes, improving the quality of service for migrants. The visibility and efficiency of such an operation could even encourage countries that currently offer no protection for migrants to step up and meet the minimum standards.

But a clearinghouse type of solution may take several years to establish and will require significant international collaboration. In the interim, governments can take steps now that improve social protection within their own nations and work with other countries on multinational approaches that lay the groundwork for an eventual supranational solution.

The overall health of the global economy depends on efficient, balanced and fair labor markets. Effective social protection can be an incentive that spurs national economic growth.
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A different kind of workforce migration

For centuries, people have migrated from their home countries to foreign lands in hopes of improving their lives. However, worldwide patterns of migration are changing rapidly, becoming increasingly difficult to predict.

Although nations with the highest numbers of immigrants remain fairly constant (see Figure 1), with totals built up over several decades, countries that have the fastest-growing immigrant populations are changing. At the turn of the century, Portugal had one of the steepest growth curves; but more recently, its growth has leveled off and Spain, Italy and the Middle East region are among the fastest growing.  

Historical migration paths are also giving way to newer routes. For years, individuals have migrated from Mexico to the United States and from North Africa to the European Union. But more recently, we see deviations from these historical norms. For example, more people are moving from Latin America to Europe and South and Southeast Asia to the Middle East.  

Clearly, government actions have a strong impact on migration patterns: Nations can push people out – with high taxes, limited freedoms or human rights abuse; or they can pull people in – through better education, higher wages and employment opportunities. In recent years, however, we have also witnessed more frequent, less predictable regulatory actions. Immigration rules can – and do – change over night, as with the fall of the Iron Curtain, the recent EU expansion and national security responses to international terrorism concerns (particularly acute since 2001).

Labor supply and demand are also affected by demographic shifts. Historically, in developed countries, migrants filled labor gaps at both the high and low ends of the skill spectrum. However, as baby boomers retire over the next 20 years and developed nations’ domestic populations stabilize or even shrink, we expect more acute skill shortages. While migration alone will not solve the problems caused by an aging workforce, nations will increasingly rely on migrants to compensate for insufficient numbers of skilled workers across a wider spectrum of occupations and industries (see Figure 2).
We expect the worldwide competition for talent to intensify as a result of rapid economic growth in certain nations. The business expansion that accompanies a booming economy creates new jobs—often more jobs than there are available workers. Not surprisingly, our research shows a strong correlation between capital investment and worker migration. Eight of the top ten countries based on capital investment are also hosts to the largest populations of foreign-born workers (see Figure 3). Of these ten countries, only China and Brazil seem able to meet most of their labor demand domestically. However, China is experiencing increased internal migration, mainly from rural areas to rapidly expanding cities, which raises a different set of social protection issues.

FIGURE 2. Changing labor needs.

Source: IBM Institute for Business Value.

FIGURE 3. Top ten countries by capital investment in 2005.

Source: IBM-Plant Location International, Global Investment Locations Database (GILD).
International migration helps all
Generally, a fluid global labor market helps address the ebb and flow of labor demand in different countries. Globalization and worker migration can be a win-win situation for both source and host countries.

For a host country, migrants can reduce labor shortages and provide in-demand skills, thereby supporting economic growth. Often, migrants are a less expensive labor source for employers. These workers may also contribute to the local social security system and help ease the financial strain these systems will likely experience over the next few decades as baby boomers retire.

Source countries benefit as well. Migration helps eliminate labor oversupply (under or unemployment) and can help curb poverty. In fact, remittances from migrant workers can help elevate the standard of living of their families who remain at home. In the case of the Philippines, for example, citizens working overseas are a significant source of national income, contributing 9.9 percent of the nation's gross domestic product through remittances of wages to resident family members. Upon return, migrants often bring with them new skills, experiences and ideas that increase the value of their contribution to their home country's workforce.

Although international migration has many advantages for participating nations, there are potential drawbacks. Poorer countries, in particular, are most vulnerable. They could lose critical expertise if too many specialists migrate. Also, high-potential students that migrate for educational purposes might decide never to return. For host countries, a positive net result hinges on providing adequate social protection, such as health insurance for migrant workers while in country and contributions to a retirement pension scheme for when they return home and retire. Ignoring the issue could eventually lead to more costly societal problems – for instance, migrants forced to live below the poverty line either in the host country or in their home country upon return.

Social security agreements facilitate migration
With more workers migrating, and migrating to and from more countries, the need for additional social security agreements is rising. Among OECD member countries, over 170 bilateral social security agreements are already in place. Most of them are among developed nations; migrant workers from developing countries are often not covered. Therefore, we anticipate that the number of agreements worldwide will increase rapidly as high-migrant sending nations in Asia, Africa and Latin America seek to protect their citizens working abroad.
Existing agreements are typically based on five core principles recommended by the International Labor Organization:

1. **Equality of treatment**: A migrant worker should have the same rights and obligations as regular residents.

2. **Determination of the applicable legislation**: Migrant workers must know which country is responsible for their social protection and which agency to go to for these services.

3. **Maintenance of acquired rights and provisions of benefits abroad**: Any right to which a migrant is entitled in his home country should be guaranteed even in foreign countries. In other words, a migrant should not lose any entitlements simply because he is working abroad.

4. **Maintenance of rights in course of acquisition**: If a right is conditional upon completion of a qualifying period, working time spent in each country should count toward that qualification requirement. This is often referred to as “totalization.”

5. **Reciprocity**: A country that refuses equal treatment to workers from another country cannot expect the other country to grant equal treatment to its own workers.

Historically, agreements were forged between nations experiencing a high degree of cross-migration. They were reactive moves. In large part, these agreements were created to provide basic social protection for permanent immigrants and protect the country’s own nationals who were working abroad.

But the motivations for establishing international agreements are changing. Increasingly, workers view social protection as a fundamental requirement, regardless of the country they are working in; and the presence or absence of bilateral protection can play an important role in the decision to migrate.

Nations need to have adequate social protection policies to attract the workers that fuel economic development and growth. Nations are realizing the free movement of people is closely linked to free trade – and is a necessary ingredient for a vibrant economy. As more free-trade agreements are negotiated, there is a growing awareness of the potential exploitation of workers, including denial of social protection rights. Countries also want to provide their own citizens with more choice and flexibility to take advantage of educational or, more recently, healthcare opportunities available in other nations.

The nature of social security agreements is changing as well. Newer accords tend to cover a much broader range of social risks, such as healthcare. Many are using the EU model as a template. And instead of focusing only on long-term immigrants, the schemes are now designed to protect short-term migrants too. For example, as migrants move from nation to nation, the bilateral agreement assures that the years worked in each country are counted toward the “minimum contribution years” in the pension and insurance calculations of each country. As developed nations begin to enter into agreements with developing countries, both sides are realizing the need to design pacts that prevent possible exploitation of foreign-based workers.

Going forward, the number of social security agreements is likely to multiply – which, in turn, will multiply the administrative challenges for governments.
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FIGURE 4.
Current state of bilateral agreements among the G7 and top-sending nations.

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*USA and Mexico signed a U.S.-Mexican Social Security agreement at a ceremony held in Guadalajara, Mexico, on June 29, 2004. The agreement must be submitted to the U.S. Congress and the Mexican Senate for review.

Note: The bilateral agreements depicted provide migrants with varying rights and entitlements across social programs. Source: IBM Institute for Business Value research.

Challenges in providing social protection for migrants

Even when nations want to work together to protect migrant workers, the practical challenges can be daunting. In addition to managing a growing number of agreements, the disparity among national approaches makes the task of mutual social protection inordinately complex. We see two major challenges that need to be addressed:

- A joint definition and purpose of social protection – the what and why
- How social protection is to be administered – the how

Joint definition and purpose

Countries have diverse views on the very purpose of social protection. In Germany, for instance, pensions are intended to help retirees maintain their current standard of living, at a rate that is approximately 67 percent of their pre-retirement salary, paid from a publicly managed social fund. In Australia, on the other hand, public pensions are intended to protect retirees from poverty, which may mean some individuals have no entitlement from the public system and they only receive a pension via the occupational pension system administered by the private sector. Fundamental differences are also evident in social objectives, legislation, policy and practices. Even the words used to
describe and define social protection topics vary; the term part-time employment, for example, means different things in different places.

**Administration**

In addition, countries administer social protection programs differently. There are specific tax considerations and variations in how qualifying periods, contributions and payments are tracked. Those agencies that provide social protection also vary from country to country. While most are national, in some countries they operate at the state or provincial level. Adding further complexity, governments must address payment-related issues, such as currency fluctuations and transferring funds abroad.

What exacerbates this complexity – as we found in our research of advanced nations – is that international social security agreement administration still relies mainly on manual processes with limited automation. With no prevailing international standards for social protection processes and data, the adoption of electronic data interchange between countries has been extremely slow, thereby leading to processing delays and errors.

When we spoke with government leaders about these challenges, they underscored a lack of standards as the top obstacle in implementing social protection for migrant workers. Other commonly cited issues include: political and legal barriers, data availability and technology.

For governments, social protection complexity is a large and growing problem. As more people cross borders for work, the inability to effectively manage this international paper chase can result in a number of negative consequences:

- Delays and poor service
- Errors in determining rights and entitlements
- Increased potential for identity fraud
- Improper payments to healthcare providers
- Higher program costs
- Barriers that inhibit new and extended agreements with other nations.

**Addressing the challenge**

To address the rising challenges associated with social protection for migrant workers, we recommend nations consider moving toward a supranational clearinghouse. As standardization of social security agreements increases, we believe the opportunity for such an approach will grow. The feasibility of multiagency collaboration via a central agency has been demonstrated within one country, and we believe it can be extended to the international context (see sidebar, *Proving the concept*).

Remaining obstacles are primarily political, in particular, determining what type of agency could fulfill the role of a central clearinghouse and satisfy the privacy and other political concerns of governments.

A supranational clearinghouse could facilitate and streamline the exchange of data among participating nations. All data would remain with the agency that originally collected it. There would be no central database. The only information shared would be that authorized by the organization that owns the data. The clearinghouse simply manages the request.
for information and coordinates the exchange once the request is authenticated and approved.

Individuals would only need to inform one organization of a change in their circumstances. When that organization submits a change to the clearinghouse, the automated exchange mechanism would inform other organizations that have an interest in that person on a need-to-know basis. This means that a worker could inform the social security organization in his host country of a change in circumstance, and that agency, in turn, would advise the person’s home country social security organization via the international clearinghouse.

With the automation and efficiency this kind of solution offers, participating countries should be able to reduce the overall cost of social protection for migrants. Because of its hub-and-spoke design, the clearinghouse concept would also allow new nations to be integrated more quickly. In addition, sophisticated risk management could be “built in” as part of the exchange mechanism, thereby benefiting all participants.

Multicountry electronic collaboration has been investigated before within Europe as part of the Trans European Services for Telematics between Administrations (TESTA) initiative. This effort resulted in some architectural standards and improvements in bilateral exchange for some countries. However, the maturity of the Internet and middleware technologies and the convergence of channels (voice and data) together form a powerful enabler for a new supranational approach.

**Proving the concept: A small step toward global social security collaboration**

Although this example is not an international one, the pioneering initiative at Belgium’s Crossroads Bank for Social Security (CBSS) helps demonstrate the technical feasibility of a multi-organization information exchange, which is the basis of a supranational social security approach. Launched in 1990, the CBSS solution consists of a network of more than 2,000 public and private social security organizations connected to each other and the Belgian banking network through the Internet. Each socially insured citizen is issued an electronically readable social security card used for identification purposes. Information is exchanged among organizations electronically with Crossroads Bank serving as a central clearinghouse for all transactions. The electronic processes are based on centrally defined standards and data definitions. The solution also includes an online portal that provides information about the social security system and instructions for processing electronic transactions.

The results have been remarkable. In 2005 alone, more than 500 million electronic exchanges occurred (most in less than four seconds). These electronic transactions represent eliminated manual effort that would have been required from not only the various social security organizations, but also the insured individuals, their employers and their healthcare providers.
The supranational approach is the desired end state. But, there are three other models that various nations are currently using:

- **National** – A country that is unilaterally providing protection to migrants; e.g., the Philippines

- **Bilateral** – Two countries with a social security agreement; e.g., Australia and New Zealand

- **Multilateral** – Several countries with a common agreement, often regionally based; e.g., the European Economic Area

We expect nations will evolve over time, from national approaches to bilateral and multilateral ones and, eventually, to a supranational solution.

**FIGURE 5. Social protection models.**

<table>
<thead>
<tr>
<th>Number of involved countries</th>
<th>National</th>
<th>Bilateral</th>
<th>Multilateral</th>
<th>Supranational</th>
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<tr>
<td>Optimization within one country</td>
<td>Automation of claiming and other operational processes</td>
<td>Electronic data exchange and integration between two countries</td>
<td>Group of countries define common standards and procedures for collaboration</td>
<td>Global standards and procedures concentrated in a “supranational clearinghouse”</td>
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We believe organizations should apply the same disciplined and automated claims processing for social security agreement cases as for domestic ones. Such cases are equally amenable to rules-engine processing, since agreements include a set of rules that outline the necessary exchanges and define the responsibilities of the different social security schemes.
For those nations where the social security system is disaggregated across more than one agency, a lead agency should take responsibility for integrating the processes and data across agencies within that country. Here again, automation can help improve the quality of interaction among the various agencies of each participating nation.

**Align domestic labor market, immigration and social protection policies**

Given their impact on international competitiveness, social security agreements should be an integral component of a nation’s economic development strategy. Economic growth is more likely when a nation can align its social security agreement approach with its labor market requirements and immigration and border management policies. This synchronization effort must also consider the potential impact on the source country’s skill base. In fact, when a social security agreement exists, there is an increased likelihood that migrants may return to their home countries, taking the fruits of their labor home with them.

**Migration policies help satisfy labor needs**

Australia, Canada and New Zealand have long accepted immigrants as major contributors to economic growth. In addition to their regular intake from the migrant categories of humanitarian reasons, refugees and family reunions, these nations target highly skilled immigrants that match their skill shortages. These nations implement this policy through point systems. Applicants for immigration receive points for such characteristics as education, work experience and language skills. These highly skilled migrants comprise a substantial portion of these countries’ migrant populations. For example, almost 65 percent of Australia’s annual migrant intake falls into this category.

**Integrate with partner countries**

The maturity of the Internet and associated Web-based technologies has made it much more practical in recent years to build applications and processes that span national borders. In particular, the adoption of service-oriented architectures (SOA) is accelerating because of the innate flexibility it provides.

With SOA, everyday business applications are broken down into individual business functions called services. In the case of an international pension claim, a service could be totalizing years of contribution across different social security systems. An IT application built using SOA allows organizations to build, deploy and integrate these services independent of the software and the computing platforms on which they run. As a result, it simplifies communications among IT systems to the point where it doesn’t matter whether a particular service resides within one or multiple organizations. It allows data exchange to happen as part of a nation’s normal social security business processes. Because of the flexibility and adaptability it engenders, SOA helps eliminate many of the technological barriers that have inhibited collaboration among domestic and international agencies in the past.

**Focus on managing risk, fraud and compliance**

As complexity and automation increase, so does the possibility of fraud and compliance problems. Fraud and error rates typically fall in the range of two to five percent of social security expenditure. Nations can adopt more sophisticated risk management tools and techniques to detect and mitigate threats, maintain data integrity and protect workers’ privacy and their identities. However, mitigation actions need to be designed in such a way that they do not interfere with business process efficiency.
One way this can be achieved is for collaborating organizations to act as agents for one another, monitoring for compliance and fraud. In an increasingly connected world with such diverse worker migration patterns, countries must work together to mutually control risk. This will involve exchange of data across borders, and privacy and legislative barriers will need to be overcome. One straightforward initiative that some countries have adopted is the exchange of details concerning the death of persons of mutual interest to avoid payments continuing from one country after the person has passed away in the other. Ideally, this information should be exchanged in real-time as part of an integrated business process, but currently, the data is often exchanged manually or via files sent over the Internet.

**The United States uses neural networking**
The United States is using neural networking (a technique developed to study how the brain processes information) for processing and analyzing large volumes of social security data. This analysis technique detects associations and patterns among data elements, which allows it to find suspicious activity that needs to be reviewed. The more data a neural network processes, the better it performs (in this case, the better it can identify potential fraud). In Texas, a neural networking program was commissioned to search for fraud and abuse in the state’s Medicaid program. In 2000, the agency managed to recover US$3.4 million in payments. Such initiatives complement the wider use of data mining (the analysis of the characteristics of fraudulent behavior based on data patterns) and data-matching programs that are underway throughout the United States.

This kind of approach could also be used in a cross-border situation, provided the data can be legally exchanged.

**Adopt data, document and processing standards**
Today, a wide variety of official and unofficial standards and guidelines exist for data exchange. To facilitate international collaboration, countries should consider adopting current standards where they exist and participate in the definition of standards where commonality is limited. Standards – such as MoReq – can also help streamline data exchange among national agencies. Nations with decentralized operations may need to resolve domestic consistency issues before they can effectively work on international standardization.

Standard ways of defining and managing data can facilitate the use of SOA, which, in turn, can facilitate increased automation and integration. This is particularly critical as nations automate multilateral business processes and data exchange with other national social security agencies. Technologies like SOA, which simplify integration of disparate IT systems, can help nations address the rising complexity of administering more – and more varied – social security agreements.

**What is your social protection plan for the globally integrated era?**
Nations need to thoughtfully assess whether they are adequately prepared to protect both mobile and retiring workers who may or may not have been born within their borders. The social protection practices and administrative systems countries establish now may very well dictate future competitiveness in the global economy. For government leaders, here are some questions that need to be considered:

- How will the mass exodus of the baby boomers from the workforce influence our need for foreign-born workers? How prepared are we for a major influx of highly skilled, well-paid migrants?
• What actions are we taking to provide social protection to the increasing percentage of our citizens who will work abroad at some point during their careers?

• Which nations do we expect to see the most migration to and from? How well does this list of countries align with our existing bilateral social protection agreements?

• How scalable are our social protection processes and the enabling information technology infrastructure? Are we capable of administering agreements with twice as many countries as we do today?

• In what areas are our existing agreements, policies and processes focused primarily on permanent immigrants to the detriment of temporary migrant workers?

• To what degree have we automated social protection processes? What type of systems integration exists among the countries we collaborate with? How quickly can we adapt to changes on the world stage – such as forging new international agreements or conforming to new legislation?

• How are we mitigating the additional security, privacy and financial risks introduced by higher volumes and greater complexity?

• In what ways are we helping to define international standards for social protection?

• Have we considered the plausibility of an international clearinghouse for social protection transactions? What steps are we taking to eliminate obstacles blocking an international solution?

• Is there an existing international agency that could act as the competent authority to manage and oversee the operation of an international clearinghouse approach, or is a new agency required?

Social protection of the migrant worker is by definition an international challenge. However, there are a number of actions that nations can undertake on their own, such as standardizing decentralized domestic operations and automating processes. These actions not only help improve the efficiency of present-day national program administration, but also provide a foundation for establishing a supranational solution in the future.

Governments that take proactive steps now are positioning their countries for greater success in our globally integrated economy – and at the same time protecting one of the most vulnerable groups in society, migrant workers.

To learn more about this IBM Institute for Business Value study, please contact us at ibv@us.ibm.com. You can also browse a full catalog of our research at:

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**About IBM Global Business Services**

With business experts in more than 160 countries, IBM Global Business Services provides clients with deep business process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. We draw on the full breadth of IBM capabilities, standing behind our advice to help clients implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.
References

2 Ibid.
3 Ibid.
5 Ibid.
6 Ibid.
7 Interviews with social protection agencies were conducted in Germany, France, the United Kingdom, Japan, Canada and Australia. Secondary research was conducted across a broad range of countries.
8 This study is focused on legal immigration and therefore does not factor in the special considerations associated with other unauthorized immigrants, such as asylum seekers.
11 Ibid.
12 IBM Plant Locations International. Global Investment Locations Database. This database is maintained through annual surveys conducted by IBM-Plant Location International (IBM-PLI), the global location strategies service within IBM Global Business Services. The press release on the 2006 survey provides further information: http://www.ibm.com/press/us/en/pressrelease/20283.wss
14 “International Migration Outlook.” Organisation for Economic Co-operation and Development. 2006. In recognition that their citizens working abroad receive little to no social protection in their host countries, the Philippines as well as the Hashemite Kingdom of Jordan allow their citizens to remain members of the national retirement social fund, provided these individuals make voluntary contributions while abroad.
15 Steingart, G. Weltkrieg um Wohlstand. Tübingen: Piper Verlag. 2006. We are, however, beginning to see an emerging trend for expatriates to return to their home countries since globalization is making more job opportunities available locally. Work is now flowing to where the labor is (versus people always moving to where the work is). For example, 95 percent of the people now employed by international companies in Bangalore are Indians who used to live and have worked abroad before.


18 Rürup, Bernd. Achieving Financial Sustainability for the Social Security System. German Ministry of Health. 2003. But the percentage is expected to fall: If no other measures are taken, Germany’s gross pension level will fall to 42 percent by 2030.

19 Interview with Peter Ball, Manager International, Centrelink.


22 “Crossroads Bank for Social Security.” http://www.ksz.fgov.be/En/CBSS.htm#Results


24 Interview with Peter Ball, Manager International, Centrelink.


27 Interview with Peter Ball, Manager International, Centrelink. For example, Australia has established this procedure with its seventeen social security agreement partners.


29 “Records management.” http://en.wikipedia.org/wiki/Records_management. The need for Model Requirements (MoReq) in electronic records management was originally identified by the Document Lifecycle Management Forum in the late 1990s. The original MoReq specification was produced in 2001, after an international competition run by the European Commission. Since then, MoReq has become recognized throughout Europe and beyond. MoReq has been translated from its original English into at least 12 languages.