

Time for a risk review?

✓ Judith Hetherington explores whether 2020 is the time to review governance and fraud risks

From the sudden need to reassess the strength of the employers covenant and funding levels of schemes, to the adjustments made to the controls and procedures at administrators to ensure that business as usual activities were not impacted by remote working, and the increase in fraud and cybercrime, the governance of pension schemes has not been a simple task since lockdown began in March 2020.

We ran a series of articles earlier in the year covering scheme governance and the issues which trustees should consider since the start of lockdown. The series covered trustee effectiveness, administration, covenant and funding, investment and fraud.

Now that restrictions are being lifted and there seems to be some sort of normality returning (although this may change any day), it will be interesting to identify changes to administration and

the journey plan of pension schemes. This is especially relevant seeing as no one knows what impact there will be on the economy in the medium term and there is yet to be a vaccine discovered for Covid-19.

It has been widely recognised in the industry that the majority of administrators reacted swiftly to the lockdown. This helped to ensure that business as usual activities remained unaffected as much as possible through careful planning and prioritising of activities, between the critical and non-critical parts of their service to schemes.

By now, trustees will have either received one or two quarterly administration reports and would have reviewed these to identify what trends there have been in service levels at administrators. Where service levels have fallen, do trustees know how these are being addressed going forward, and whether the administrators have the

resources available to do this?

Another key question for trustees to consider: Do they know what changes have been made to the controls and procedures at their administrator and how has this affected services to members?

Fraud and cybercrime has always been a risk in pension schemes due to the large sums of money being held for beneficiaries, and the amounts of personal data held in pension schemes. Crowe, in association with Institute of Criminal Justice Studies at the University of Portsmouth, issued *The Nature and Extent of Pension Fraud* earlier this year. The report estimated that fraud in the pension sector could be costing the UK at least £6.2 billion as detailed in the table below.

As reported by the Office for National Statistics, gross domestic product fell in the second quarter by 20.4 per cent compared to the previous three months, and the UK economy is officially in the deepest recession since records began, following a decrease in GDP in the first quarter of the year. As in all recessions there has been an increase fraud and cybercrime. Pension schemes have already been affected,

Estimated fraud rate		£m	Fraud rate	Fraud £m
State pension	Payments	96,700 ³⁹	0.00%	0 ⁴⁰
State pension credit	Payments	5,059 ⁴¹	2.31%	120 ⁴²
Government and public sector pension	Payments	38,000 ⁴³	3.02%	1,148 ⁴⁴
Private pension – investment and payment fraud	Investment	2,885,000 ⁴⁵	0.10%	2,885 ⁴⁶
	Payments	55,867	3.02%	1,687 ⁴⁷
Private pension – fraud affecting administration costs	Payroll	2,404	1.70%	41 ⁴⁸
	Purchasing	6,086	4.76%	290 ⁴⁹
Total				6,171

as reported recently in *Pensions Age*, with an administrator falling victim to cybercrime.

Pension schemes' third-party suppliers include those who undertake member administration, pensions payroll, banking and asset management,

payment processing, insurance including buy-ins, accounting, actuarial, legal and other support services. Many will hold or have access to sensitive personal data, commercial data and have payment/asset transfer capabilities and many would have had to set up remote working in a

short space of time after the lockdown where security and controls may not be as stringent. Therefore what assurances have the trustees received over fraud and cybercrime and are existing 'controls' effective against such a rapidly evolving threat as fraud and cybercrime?

Our *Governance and Risk Management* survey looks to take a temperature check of how UK pension schemes are prepared for today's risks and your response can help us map out the pensions risk landscape.

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► Written by Crowe UK partner, Judith Hetherington

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RISK MANAGEMENT SURVEY

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Crowe, in association with Pensions Age is undertaking its fourth survey into the risk management of Trust based pension schemes. Completion of this survey each year identifies trends in risk management. This year there are some additional questions considering changes to your scheme due to COVID-19 and the increased risk of fraud and cybercrime.

If you are actively involved in managing occupational Trust based pension arrangements, we would appreciate it if you could complete this short survey. It will take no longer than 10 minutes to complete and the survey will close on 31 October 2020. We will not publish any names of participants or their organisations in our report.

IF YOU REPRESENT MORE THAN ONE SCHEME, PLEASE ANSWER ON BEHALF OF THE MOST RELEVANT SCHEME.

Pensions Age will also put all participants in a draw for a free iWatch as a thank you for taking part.

Survey is at: www.pensionsage.com/survey

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