Margaret Snowdon

PSIG interview: Industry guidance

The latest in its year-long scams focus sees *Pensions Age* speak to Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, about the group's key priorities and new guidance, and the latest challenges in the fight against fraud

What are the key priorities for PSIG now, in terms of tackling pension scams?

PSIG's priority has always been to combat pension scams. Our core work has been setting out good practice for the industry to follow where members wish to transfer their pension from their current scheme to another. In the early 2010s it became clear to us that many transfers were deceptive and we needed action urgently to stop what could have been a disastrous loss of savings. Taking action after the event was too difficult and too late, so we focused on preventing savings getting into the wrong hands in the first place. The magnitude of scamming was surprising and our early research showed that billions was being lost to thieves. While the number of scams compared to the volume of transfers was low (we have always believed that about 5 per cent of transfers tend to show worrying signs), the overall losses were tragic for the victims.

We believe we have prevented many millions from disappearing into criminals' hands and our work has made it harder for scammers to operate, however, scammers are very determined and creative.

Another of our priorities was to argue for a legal structure that would protect trustees and providers who found worrying signs and wanted to stop those transfers, because we found that the law was not on our side – it was tilted towards the right to transfer regardless of circumstances.

We succeeded in getting regulatory change, but that change has become a sledgehammer where we really wanted a scalpel.

Our focus for 2023 is threefold: We will update our code to reflect evolving good practice, we will work to get fairer outcomes for victims of scams and further the development of a scams intelligence database for the industry, so we can share knowledge of dodgy dealings.

PSIG has provided a code of good practice for almost a decade now. Why has PSIG decided that it will also publish guidance and that now is the right time to do so?

PSIG started working on a code of good practice in 2014, publishing the first version in 2015. We thought that would be it, but we then realised we had to keep updating to reflect evolving scam tactics and to improve industry processes. We have therefore published various versions since then. We spent a long time supporting government and regulators to produce legislation that would support ceding schemes and make it easier to protect members and we were pleased that our red and amber flags approach was accepted, although with a number of tweaks. And thereby hangs a tale. We had been ready to produce a final version of the code to coincide with the publication of new transfers regulations in December 2021, but it immediately became clear that the Department for Work and Pensions' (DWP) policy intent had not been perfectly reflected in the wording of the regulations and we were in a bit of a quandary – reflect the letter of the law and effectively stop most transfers, or devise workarounds that would remove friction, but put risk back squarely on trustees and providers. As we represent the industry as a whole, we too had widely differing views on the best approach, with real challenge to find a safe and practical middle ground.

What we have done is instead of releasing a new version of the code, which remains valid, with all its resources, is to produce an interim guide that helps practitioners understand and navigate the complexity we have now, and wait for the expected review of the transfer regulation this summer. Hopefully, we will get some amendments that will make everything clear – we have suggested some fairly simple changes.

What are the main points from the upcoming PSIG interim guidance?
The main points from the PSIG interim guidance are the need to differentiate between statutory transfers that are impacted by the new regulations and discretionary transfers that are not. Statutory transfers require compliance with the two conditions set out in the regulations, while discretionary transfers rely on powers within the scheme rules and the proper exercise of those powers. Each requires adequate due diligence and each involves a degree of risk. It should also be noted that some schemes will not have a choice and may only be able to pay statutory transfers. Administrators therefore need to know what their scheme rules say.

The guidance also covers the use of clean lists, automated transfers and discharges.

Once the review of the regulations has been completed, PSIG will update the code documents.

How do you respond to those that say there's a difficulty balancing completing transfer requests in a reasonable time with protecting against potential scams? What would you suggest to any struggling?
That is the heart of the problem. We continue to believe that scams are a minority (circa 5 per cent) of transfers and the purpose of good due diligence is to help spot those scams and not to get in the way of straightforward transfers. The PSIG code has always focused on proportionate due diligence and carrying out that due diligence quickly and efficiently. The use of clean lists is a good way to speed up transfers to known destinations and most third-party administrators adopt this approach for trusted transfers. This allows more time to be spent on unusual transfers, where there is greater risk. Of course, the resource needed to maintain a robust and up-to-date list may be overkill for a scheme that carries out few transfers.

What must be avoided is back-end loading transfer processing until there is a deadline approaching and dealing with the matter becomes frustrating and stressful for everyone. PASA also stresses this in its *DB Transfers Guidance*.

One unfortunate side effect of the regulations is the broad definition of overseas investments as an amber flag. This drives some administrators to refer most transfers to MoneyHelper for guidance and this slows up the process, adding five or six weeks to the timeline and also tying up limited resources that would be better focused on serious scam risks. However, the regulations are clear and ignoring them in favour of a judgement call is a balance of risk tolerance and customer service. A change in the wording would be very helpful.

What are the other challenges/ barriers to being able to more effectively fight scams?
One of the biggest challenges is the ease with which scammers can reach customers. They use phone calls, emails, adverts on social media and direct mail. They look legitimate and often appeal to people right when they are vulnerable or want a change. Once people are sold on a transfer, they don't want to be put off by their current scheme and the scammers don't want to lose an opportunity they've worked on. It makes for confrontation where administrators are made out to be obstructive if they don't pay the transfer straightaway. We already have legislation outlawing cold calling, but little real progress has been made against online scamming. Of course, we have the added complication that some transfers might not be in a member's best interests, but they are not actually scams. Quality of advice is outside our remit.

On the flip side, what are the notable 'wins' that have occurred when tackling scams since the emergence of freedom and choice reforms?
Freedom and choice made accessing pension savings a bit easier. Not a bad thing in itself, but scammers took the opportunity to expand into investment scams. Since then there has been increased government and regulator focus on scams, raising awareness and introducing the ban on cold calling, working with PSIG on the Scams Pledge and various solutions. The PSIG Code has been recognised as instrumental in reducing pensions scams and the Pension Scams Industry Forum has helped share information on potential bad actors.

How well would you say the industry, government, regulators, and the members themselves, work together to prevent scams? How could this be improved?
DWP has been listening to the industry and Project Bloom has been renamed Pension Scams Action Group and revamped under TPR to focus on key strategic themes. PSIG is a partner, responsible for non-legislative solutions. FCA and TPR collaborate on ScamSmart campaigns to help ensure consumers know about the risks and tactics of scammers. All-round awareness has improved, but scammers still manage to get at savers. Action must be taken to curb online scamming and trustees and providers must be reassured that proportionate steps taken to protect members will be safe and appreciated. HMRC needs to accept that scams victims are indeed victims and reconsider its outdated policy on tax penalties.

Finally, what one message would you like the pensions industry to consider in the fight against scammers?
We all have a part to play in protecting our members from scams. Settle transfers quickly where you can and where you can't, help members understand your concerns.

Written by Laura Blows