Treating the cause – not the symptom

Financial Services Compensation Scheme (FSCS) chief executive, Caroline Rainbird, discusses with Sophie Smith the importance of ensuring consumers make informed decisions

What impact do you expect the pandemic to have on savers, and on claims to FSCS?
Consumers should feel reassured if they have purchased an FSCS-protected product through an FCA-regulated firm.

This is our highest-ever year for claims so far. We are working very closely with the regulators – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) – to prepare for what could be coming down the line so that we can respond appropriately and issue guidance to help consumers make good financial choices. We have not yet seen the impact of the pandemic in terms of claims; however, we are prepared for the worst and hoping for the best.

What concerns are there emerging around the increase of pension scams amid the pandemic?
We are very aware that, across the industry, there has sadly been an increase in the number and sophistication of scams since lockdown last March, particularly in relation to pensions. The FCA issued over 1,000 warnings about scam firms in 2020 alone, which is already 80 per cent higher than 2019.

In any period of uncertainty, you often see a rise in scam activity. People offer consumers free pensions reviews, use highly-pressured sales tactics and guarantee better returns than where their pensions are currently.

That is why we are very focused on highlighting how consumers should approach this subject, making sure that they are aware of scams. Last year we partnered with the FCA, Money & Pensions Service (Maps), the Pension Protection Fund, The Pensions Ombudsman and The Pensions Regulator to create a guide to support pension savers.

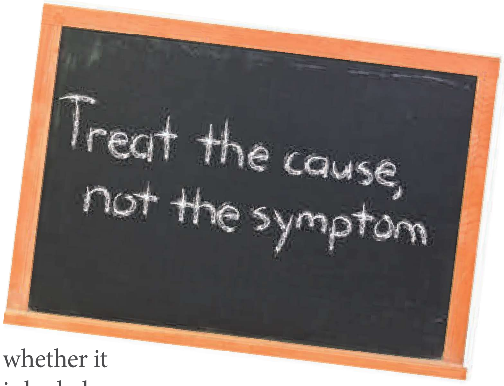
In this period of uncertainty, it is especially important that consumers know where to go, what to look for, what FSCS protection covers and that we are there when customers need us the most. We hope this guidance will help people to understand that their pensions are protected.

This also ties in with our 'Questions' approach, which we launched in September to prevent people from making rushed decisions about their pension, to advise them to get independent guidance or advice, and to be aware of scams.

A lot of our work involves raising our profile and helping people to understand the importance of financial education. Money is a taboo subject, particularly in our culture. People are reluctant to talk about money, ask questions or realise the importance of having conversations around pensions early enough to be able to make informed choices. Yes, we pay compensation; that is what we are here for. But we are also here to guide where we can, to highlight scams and to highlight some of the right questions to ask.

FSCS pensions questions for consumers are:
1. Does FSCS protect my pension?
2. How much of my pension pot is protected?
3. Is my defined benefits pension protected by FSCS?
4. Am I still protected if I buy an annuity?
5. What if I buy other products with my pension pot?
6. What would happen to my pension if something happened to your business?
7. If I transfer money across from an existing pension, will that also be protected?

How does FSCS hope to use increased awareness to improve consumer outcomes, and how do you hope to continue raising awareness and educate savers?
We are committed to protecting consumers from pension scams, many of which occur online. The best that we



– and anyone in the regulatory family – can do is raise awareness as much as possible. When you start a journey with a particular product our *Covid-19 and your Pension* guide can help ensure you ask the right questions.

We want people to make good, informed decisions so that they not only have good outcomes, but also have the confidence to purchase other financial products. This means it is important for us, where we can, to highlight other organisations where people can go and become better informed. It is about working with pension providers, for example, to raise awareness of our protection.

We have also seen the impact and benefit of highlighting the FSCS logo on protected products. We mostly see it on the deposit side, and we are hoping it can be rolled out more widely across the pensions industry so that people can understand there is protection for the right product. Some firms already use our logo, but there is a long way to go.

I think the current environment has made many people want to look at the different financial products and services they have. For those able to save, this may be the first time they have seriously considered a pension, an investment or speaking to an independent financial adviser. We want them to feel confident and comfortable when they make these important decisions.

There has been criticism over rising levy costs associated with FSCS. Can you tell us a bit more about the levy and whether this could look to be reduced in future?

Without levy payers' funding and support, we could not do the crucial work we do to get people back on track. The industry is one of our key stakeholders and I am very aware of its concerns about the rising trends in compensation costs, the increasing levies and the impact this may have upon our levy payers.

We recognise that every penny we pay out in compensation has to come from the industry. We are also very aware that the rising number of claims and every penny we pay in compensation is because somebody has had, regrettably, a poor outcome. We engage with the industry on a regular basis, but there is no simple answer to address this complex problem and it will require the participation of everyone in the financial services sector.

To minimise the elements of the levy that FSCS can control, we take a three-pronged approach. The first is our effort to continually innovate so that our management costs are as low as possible, which is shown, for example, by our like-for-like claims handling costs falling by 8 per cent in 2019/20. Secondly, we make recoveries wherever possible and if cost-effective, and have recovered over £280 million since the start of the 2015/16 financial year, which we were able to return to the levy payers.

And finally, under the 'Prevent' workstream in our five-year strategy, we collaborate with our regulatory and industry stakeholders to help prevent future failures and drive better outcomes for consumers, with a view to the longer term of helping to lower compensation costs and reduce the levy.

The overall levy increase is due in part to an ever-growing number of claims against self-invested personal pension (Sipp) operators. There is a year-on-year increase in the number of Sipp claims from just over 4,750 in 2017/18 to more than 7,300 in 2019/20 and the total amount of compensation stands at over £455 million.

FSCS continues to see claims from customers who have transferred from a defined benefit (DB) scheme into a private pension scheme. The FCA says that it is generally not in someone's best interests to transfer out of a DB pension scheme, which offers a guaranteed income for life. In general, our approach reflects that of the FCA's.

In my view, reducing the levy is about tackling the cause of poor outcomes, whether it is bad players, scams, poor advice or a lack of financial education, the list goes on. We need to collectively come together to find solutions to address poor outcomes and not just focus on the symptom, which is rising levies.

By reducing the number of poor outcomes, we reduce the amount of compensation.

What do you think the pensions industry needs to do going forward to support better consumer outcomes?

The biggest thing we can do collectively is highlight to consumers the questions they should be asking about pensions, so they can make informed choices.

Anything we can do collectively around highlighting scams and fraud will also support better outcomes because the best way people can avoid scams and fraud is to be aware of them. Financial scams are becoming more sophisticated and appear more authentic and credible than ever. In challenging times such as this, there is always an increasing volume of scams and fraudulent behaviours. Therefore, while we do our bit to report and highlight scams, we would welcome opportunities to do this together as an industry.

The important thing for the pensions sector to do is to highlight the choices people can make, educating them as much as possible, and highlighting the pitfalls and potential pitfalls. Sadly, we will never prevent scammers, but if we all can make things harder for them, they might question whether it is worth doing what they do.

Written by Sophie Smith