

There has been a lot of noise throughout the pandemic about the heightened risk of scam activity in the pensions industry. New legislation brought in by the government is seeking to help squash the problem, but when there are problems measuring just how widespread scams are, it is hard to know if the announced measures will be enough.

New powers

When it comes to scams, the Pension Schemes Act has paved the way for new regulations to be made, which will seek to support pension trustees in blocking a transfer that displays pension scam red flags. These new rules are expected to come into force in September or October 2021.

The reaction to this was largely positive, with Sackers partner and director of professional development, Claire Carey, stating that the act would “bolster The Pensions Regulator’s (TPRs) powers through new criminal and civil sanctions, compel defined benefit trustees and employers to think longer term by introducing a new funding and investment strategy, and hopefully help curb pensions scams by imposing new restrictions on statutory transfers”.

This rosy view was not universally upheld, however, with AJ Bell senior analyst, Tom Selby, commenting that the legislation’s attempt to address pension scams through controls on transfers was likely to have a “limited” impact as most scams focus on people aged 55 and over, rather than those transferring.

Elsewhere, Pensions Minister, Guy Opperman, has been vocal about cutting scams and fraud from the British pensions landscape. For example, January saw Opperman calling for HM Revenue & Customs to take a more active role in Project Bloom, a campaign launched by government agencies in 2015 to combat pension scams.

Perhaps the most significant hint of what the future strategy for dealing with scams might be is Opperman’s call for



Summary

- The Pension Schemes Act has set the stage for new trustee powers to block suspect transfers, while Pensions Minister, Guy Opperman, is pushing for further measures in the fight against scams.
- While there is clear evidence of a slight upward trend in the number of pension scams, the true number could still be being vastly underestimated.
- PSIG is pushing for a rethink in the way in which scams are reported to Action Fraud, which could lead to a more accurate picture of how much of a problem they are for the industry.

Red flags

► **Duncan Ferris examines recent developments in how the industry can tackle scams, the prevalence of fraud and what further changes could be on the horizon**

the introduction of broader ‘Henry VIII’ powers in February, which he claims would make combatting the issue far easier.

He explained: “The problem that is repeatedly identified, is we identify a problem, cold calls is a good example, transfers is a good example, we go through a long process of consultation, legislation, secondary regulation, to deal with the problem, which takes a long time, and which there is a problem in the interim.

“The difficulty is if something pops up in the next six to 12 months that is an identifiable scam that you want me to address as minister, I have to come back and do consultation, primary legislation, and secondary regulation; because I haven’t got a totally broad power.”

Additionally, he called for the industry to step up, stating that he intended to question around 150 pension organisations about why they had not yet begun sharing their data with the Pension Scams Industry Group (PSIG).



Magnitude

Alongside these developments in regulations for fighting scams, recent months have also seen the release of data that indicates how prevalent scams are in the world of pensions. In early January, Action Fraud reported that it had received 637 reports of pension scams in 2020, of which 545 were passed out to UK law enforcement for further action. Speaking about the data, City of London Police national coordinator for economic crime, Commander Clinton Blackburn, noted that 2019/20 had shown a “slight upward trend” in reported pension fraud, following steady annual decreases from 2015.

However, this still might not reflect the full scale of the problem, as he explained: “The pension scam data is a subset of a much bigger problem. In the past three years we’ve seen losses of £30.8m. Pension scams are often reported as investment fraud and investment fraud is increasing as a result of the pandemic. In 2020 we saw nearly 19,000 investment frauds reported to Action Fraud.”

Pension Scams Industry Group (PSIG) chair, Margaret Snowden, appeared to go further when speaking on TPR’s recently-launched *TPR Talks* podcast, when she warned the scale of

the pensions scams problem could be being underestimated by “as much as 5,000 per cent”.

After being asked whether this figure was a calculation, Snowden commented: “Obviously we don’t know, because you don’t know what you don’t know! However, based on the number of cases that we see where we think there are scams, compared with the number of people who report a scam, the numbers are of that magnitude.

“You may only be getting 80 people reporting scams when we know that there are thousands of them taking place, or probably taking place, so the difference is huge. As only 80 or so people are reporting you can forgive Action Fraud for thinking there really isn’t a big problem and that they would be far better of looking at areas where they can see big issues.”

Additionally, Pensions and Lifetime Savings Association chair, Richard Butcher, points out that the pandemic period has seen “an increased amount of people taking money out through freedom and choice”, adding that “what we don’t know is whether they have genuinely undertaken careful analysis on their own, or whether they have been cajoled into doing it by some unscrupulous dealer”.

In the pipeline

While we have examined what might be coming next from the government, different industry groups have their own perspectives on what needs to happen to progress the fight against fraudsters.

When asked about what PSIG is focusing on, Snowden says: “One of the problems we have found with the Action Fraud process is that it is focused on pension liberation and it is focused on individuals making a report. The problem is that individuals don’t tend to make those reports.”

She cites numerous other problems with the process, such as needing to declare what the loss from the scam is when “at that point you don’t actually

know what the loss is” and needing to declare the victim when “the victim is not always the person who is reporting”.

She adds: “It’s very long-winded and one of the major issues is that you very rarely, if ever, hear anything about it once it has been reported. You report into a black hole and you never know if this was worthwhile or whether any action has been taken.”

Butcher takes on a slightly different angle when looking to the future as he ponders how scammers might evolve with the industry. He notes that, when considering the impact that scams can have on retirement savings, it is worth considering “the implications of increasing longevity” and the average age of retirement increasing.

He adds: “That trend will continue as defined benefit pensions die away. So, we are going to see people working longer and making decisions about retirement later in life, but also, because of freedom and choice, we will see more people making active decisions about the pace at which they drawdown their money.

“All of this combines with cognitive decline, which starts to kick in when you are 40. Your brain is very clever; it can build hacks into itself which can bypass those weaknesses, but its ability to do that starts to stop at the age of around 75, meaning you are less able to make informed decisions.”

Butcher concludes that this increased “vulnerability”, coupled with the older age at which people will be making active savings decisions, will make people “more susceptible to scams”.

If, as predicted by Butcher, this issue rears its head, the industry will be forced into coming up with further measures to crack down on fraudsters. While it might be better to do this sooner rather than later, Butcher notes that “whatever control structures we build in order to protect members, scammers come up with a new method outside of it”.

➤ Written by Duncan Ferris