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Pension scams – Taking the pledge

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The Pensions Regulator has launched a new campaign - "Pledge to combat pension scams" - aimed at trustees, providers and administrators of occupational pension schemes.

The vulnerability of pension scheme members to fraud, on transferring their benefits from occupational pension schemes, has been a real weakness in the system for many years.

This campaign is a useful addition in the battle against the criminals behind pension fraud, and one which Buck supports. Unfortunately, there is no magic bullet to beating the scammers, because the potential rewards from accessing members' pension savings are simply too inviting for the known gangs of fraudsters currently operating in the UK.

As a result, trustees and administrators must continually look to improve the standard of due diligence on pension scheme transfers, with the pledge campaign being described as the "gold standard" by The Pensions Regulator.

In this issue: Background | The pledge | Buck's due diligence procedures | What will be changing | Comment

Background

Fraud, in general, continues to be a significant problem in the UK. It is a unique type of crime. There is more of it than there is of any other crime, it is often complex, and it has no respect for jurisdictional boundaries.

A police report entitled "Fraud: Time to choose" and published in April 2019, said the elderly were under siege from scammers. At the time, the police were aware of 4,629 organised crime groups in the UK of which 842 (18%) were involved in fraud. That doesn't include, of course, fraudsters operating on a smaller scale, or from outside the UK. Pension scams are a small, but important part of the bigger picture of fraud in the UK.

The scale of pension savings makes pension scams extremely attractive to some of the UK's brightest criminals. Moreover, whilst the police, regulators and the pensions industry must follow the rules, there is no rule book for criminals involved in pension scams. They are constantly evolving their scam techniques leaving the pensions industry to play catch up.

The pledge

The Regulator's new campaign asks trustees and administrators to publicly pledge to commit to:

- Raising awareness of the risk of scams;
- Educating themselves on best practice and due diligence around transfers; and
- Doing all they can to protect their members.

Regular warnings

Perhaps the easiest part of the pledge is to commit to issuing regular warnings to members. Many trustees already do this in newsletters, via member portals and websites. In addition, the Regulator's material on pension scams is now issued as a matter of routine in every transfer case.

Trustee toolkit

Most trustees will have completed the Regulator's online trustee toolkit. A new module has been specifically introduced to cover pension scams. Trustees and administrators are required under the pledge to recognise the warning signs of a scam and best practice for transfers by completing the new scams module in the trustee toolkit and using the resources on the Financial Conduct Authority's Scamsmart website.

PSIG code

The Pension Scams Industry Group (PSIG) produced a voluntary code of good practice for transfers in 2015. The current edition was published in 2019 and a new version is expected in the Spring of 2021. Schemes and administrators are asked to follow this voluntary code. The PSIG code expects large numbers of transferring members to be telephoned as part of the due diligence process, and for suspicious transfers to be reported to Action Fraud, the UK's national centre for reporting fraud and cybercrime.

Pledging process

The pledge is a two-stage process. The first step is to pledge an intention to follow the process. This, therefore, allows time to change procedures to fully align with the Regulator's requirements. Step two is a self-certification that the Regulator's requirements are met.

Buck's due diligence procedures

Buck has always taken pension scams very seriously. We already have substantial documented due diligence procedures in place for transfers, which were developed well before the PSIG code was first launched. These procedures have, however, usually been largely paper-based, with due diligence being undertaken in writing and thus clearly evidenced for the purposes of an audit trail. While, on occasion, calls are made to members by our staff or by the trustees, this has not been standard practice in many cases.

We have also not, as a matter of routine, reported suspicious cases via Action Fraud, choosing instead to report directly to the Regulator and FCA where the case has merited it.

What will be changing

We are looking to make the pledge, but in order to do so will be making some minor necessary changes to our due diligence processes on transfers to more fully align them with the PSIG code.

In addition, however, making the pledge will potentially commit the trustees or us, in cases where trustees sign the pledge, to telephoning more members who request transfers, rather than relying on paper-based due diligence checks, and will also involve the trustees or us reporting more suspicious cases to Action Fraud.

Is making the pledge mandatory?

The Regulator has made it clear that making the pledge is purely voluntary, and there is no comeback on administrators and trustees who do not do so. It is simply trying to raise the bar on a voluntary basis as to the due diligence that is done prior to any transfer.

Although the Regulator is not currently proposing to make public the list of those who have made the pledge, it may do so at some stage in the future.

Comment

The Regulator is asking trustees and administrators to voluntarily raise the bar and adopt the “gold standard” of due diligence when dealing with transfer requests, in response to a genuine need and desire to protect scheme members from making life-changing decisions that can have serious consequences.

Buck has always taken the risk of members being defrauded out of their pension benefits incredibly seriously and we welcome this new Regulator initiative. Much of what is contained in the pledge is already being done in one form or another by trustees and their administrators. While complying with the pledge will inevitably increase the time taken to process transfer requests, which may have some cost implications for trustees, future Pensions Ombudsman decisions could well expect the “gold standard” of due diligence to be adopted.

There are provisions in the current Pension Schemes Bill to tighten the rules on transfers and further amendments are expected in regulations next year to allow trustees to better investigate and apply conditions to transfers. However, trustees and administrators must continue to remain alert to the threat posed by pension scams.

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