The PSIG Scams Survey Pilot 2018

The Pension Scams Industry Group (PSIG), the voluntary industry group set up in 2015 to create a Code of Good Practice on Combating Pension Scams, decided following publication of version 2.0 of the Code in June 2018, that it would attempt to find out the scale of scam activity affecting members and practitioners. To this end, we drafted a questionnaire to test with a sample of providers over the year January to December 2018. We invited three companies to complete the questionnaire as far as possible and all three, XPS Pensions Group, Phoenix Life Assurance Company and Standard Life Assurance Company, agreed to help. We are grateful for their assistance.

PSIG was reasonably confident that the industry would be able to provide some information, but as well as obtaining valuable data about transfers and concerns, we also wanted to find out how practical it would be to collect such information and how challenging it might be for practitioners to provide all the information requested.

Our data collection pilot coincided with a request from Project Bloom to provide information to support their intelligence gathering from the industry. We undertook to share our findings with Project Bloom and to work with the Pensions Regulator (TPR) on how best to provide intelligence to the multi-agency group.

We issued the questionnaire (see Appendix) to the three pilot organisations in October 2018, seeking responses covering the 2018 calendar year by January 2019. We held discussions with the companies to help explain the data required and receive feedback on progress.

Observations

In January we received completed questionnaires from all three pilot companies and the findings are outlined below.

The key finding was that the information requested in the questionnaire is not readily available at the organisation level. In some cases it was collected at the scheme level but not aggregated. We wanted to collect both Defined Benefit (DB) Scheme and Defined Contribution (DC) data, but separating data by the type of scheme was challenging and would require manual extraction and collation. PSIG, as a voluntary group, does not have the ability to formally secure the additional resources which would be required.

The origin of a member or customer request for a transfer (the member, a regulated adviser, unregulated introducer or receiving scheme) was especially difficult to obtain, especially for insured arrangements, where requests tend to be more automated. There was some confidence that transfers originating from a cold call could be identified when the companies were able to engage with the members, but reporting on them generally requires manual interrogation of records which is both expensive and time consuming. Similarly, information on transfer requests withdrawn by members, paid out despite provider concerns or refused, was available on a case by case basis, but not easy to report on at either a scheme or organisation level.

This shows that while considerable effort is undertaken by schemes to protect members and policyholders from scams, additional time and resources would be required to collate information, maintain a database or other record keeping and interrogate cases for statistics and information. Naturally, practitioner focus needs to be very much on first line protection, but without reliable information about the nature of transfer requests and the concerns at the coal face, we will always be behind the curve in identifying trends and developing good industry practice. We are very grateful for the insights the pilot has uncovered and for the appropriate effort by the participants to provide data to us.

One encouraging feature is that all three organisations use the Scams Code as the basis of its due diligence and all endeavoured to talk to members where a transfer threw up concerns, with one party, XPS going so far as to introduce a specialist scams investigation service for clients who choose it. This service recognises that talking to members requires special communication skills as well as sufficient time to investigate cases.

Findings from the pilot

Survey statistics are shown in table 1 below.

Table 1: Sample data

Total value of transfer values in sample	£1.33bn
Total number of transfers in sample	27,087
Average transfer value (trust-based)	£225,337
Average transfer value (contract-based)	£44,029

Organisations go to great lengths to protect members and customers, with impressive and extensive research being carried out on the receiving arrangements as well as advisers and intermediaries. The time spent by administrators on due diligence ranges from 15 minutes for a straightforward case to ten hours or more for more complex ones. This means that in the sample alone, it is likely that more than 14,000 man-hours have been spent on due diligence in one year. This is a significant investment by the industry.

The more detailed the due diligence carried out, the more suspicious traits are discovered. This almost goes without saying, but unless administrators and back office staff are tasked (and paid) for carrying out detailed research, cursory examination of paperwork will allow a significant number of transfers of concern to slip through the net. Where due diligence goes beyond a short desktop review to a more detailed investigation by experienced staff, the number of suspicious cases identified rises from 0.5% to 12%. This tells us that spotting potential scams is difficult and unless considerable work goes into pursuing red flags and convincing customers of the risks, many payments will be made to scam arrangements, to the great detriment of the member. The other risks of detailed due diligence is that transfer requests may take a long time, thereby frustrating the member or, in extreme cases, may be incorrectly denied if the concerns identified prove to be unfounded.

PSIG has already highlighted the trend towards SIPPS as the scammers' vehicle of choice. The pilot showed that SIPPS, including international SIPPS, account for as much as 95% of all transfer requests during 2018. We found that only 6% of transfers in the sample examined appear to have originated from a cold call. This could be because of the expectation during 2018 that a ban on cold calling was imminent, or because scheme members were unwilling to say that they had been cold called or did not realise it. Such a low figure shows that our efforts to convince individuals about the dangers of scams cannot simply focus on the cold calling ban. Scammers are already using other means of contact, including email and on-line advertising, as well as word of mouth and factory-gating.

The other key challenge in terms of the prevention of pension scams is that, in many cases, the member will retain a legal right to a transfer. In such cases, where concerns of potential scamming are identified, these will be clearly highlighted to the member in writing but, if the member insists on proceeding with the transfer, there is little or nothing that the trustee can do to stop the payment. In a small number of cases, where the concerns, typically involving unregulated introducers and the facilitation of high-risk overseas investments with complex charging models, are very strong, the trustee may initially refuse to make the payment in spite of the statutory right to a transfer, but this may well be subject to a legal challenge and ultimately payment may have to be made.

In terms of the remaining transfers of concern, around 3% of trust-based transfers were to authorised occupational pension schemes while only 2% of payments were to a QROPS. This is not surprising given the fact that changes to QROPS registration and tax charges made them less attractive as transfer destinations. The industry is however now reporting that QROPS transfers are now once again on the rise as ex-pats are increasingly being targeted owing to Brexit fears. The key exposure remains however in the international SIPP arena.

Identifying red flags is crucial to effective protection. Due diligence will often throw up more than one red flag, increasing the likelihood that the transfer is a possible scam.

The top ten areas of concern are set out in table 2 below.

Table 2: Top 10 areas of concern*

Unregulated intermediary
Member unaware of adviser
Member cold called
Member understanding low
Adviser on a watchlist
Receiving scheme suspicious
No paperwork from receiving scheme
Member can access funds more tax efficiently
Guaranteed return promised
TVAS not provided

*Do not add up to 100% as a subset of all data and more than one concern can present on a case

The majority of red flags raised by due diligence concern the quality of adviser. For example, 52% of flags involved an unregulated introducer, an adviser in a different country from the member, or an adviser who appears on an internal watch list because of previous concerns.

Another significant concern is member awareness. In just under half (49%) of cases, the member had limited understanding or appeared to be unaware of who was providing the advice, the fees being charged, or the receiving scheme to which the transfer would be made. Such customers may well be regarded as “vulnerable”.

20% of red flags related to the terms of the transfer including investment returns, guarantees made or the ability to access funds. 19% of flags related to the receiving scheme itself being suspicious. 12% of flags involved cold calling or similar.

Conclusions

We have seen the focus move from pension liberation to pension scams and, more recently, to investment schemes. It is important to be able to identify trends in scams as early as possible to help law enforcement and practitioners act to disrupt scammers and to protect both members and customers.

The survey, although not statistically significant or robustly controlled, shows us that some things we assumed are not necessarily the case. For example, the number of transfers originating from a cold call is lower than we expected but the number of suspicious cases involving unregulated advisers or introducers is higher. We can see that the more in depth the due diligence, the greater the likelihood of finding red flags. The proportion of transfers that raise concerns range from 0.5% of all transfers to 12%, depending on the degree of due diligence carried out. Even if only 1 in 200 of all transfers requested are scams, the effort to prevent them is justified.

The survey shows that practitioners value the voluntary industry Code of Practice, although we know that it is not followed by all and that some schemes have not yet updated their processes to fully reflect the Code.

Key findings:
1. Information on scams is not readily available at an organisational level
2. The Scams Code is seen as a good basis for due diligence
3. Significant time and effort goes into protecting members from scams
4. The more detailed the due diligence, the more suspicious traits are identified
5. SIPPS (including international SIPPS) are the vehicle of choice by scammers
6. Quality of adviser tops the list of practitioner concerns, with member awareness a close second
7. Sharing of intelligence would help avoid duplication of effort

That some transfers are refused because of clear warning signs from the due diligence undertaken is encouraging. When trustees can talk to the member directly, they are better able to communicate the concerns, and in some cases, the members decide to withdraw their transfer requests as a result. Direct member engagement was one of the key call-outs from the June 2018 update to the industry code.

Scams destroy lives, so we need to do what we can to limit them. The statutory right to transfer constrains trustees in this regard. Trustees do not have a discretion to refuse a transfer and PSIG has outlined the challenges that this presents as part of its engagement with the Pensions Regulator, the Financial Conduct Authority (FCA) and the Department of Work & Pensions (DWP) through the multi-agency Project Bloom initiative. Forthcoming legislative changes to restrict the statutory right to transfer will help to reduce the opportunity for scammers, but without the power to refuse, will increase the responsibility of trustees and the risks they face.

There are calls to speed up transfers, which conflicts with our and the TPR and FCA ScamSmart messages to slow down transfers where there are concerns. It is therefore vital to achieve the right balance between speeding up “white” transfers and slowing down the “grey” ones and stopping the downright “black”. The Pensions Ombudsman greatly assisted this balance in two recent determinations where he stated that the Code of Good Practice set out a reasonable level of due diligence.

What has become very clear from the survey is that administrators collectively put a lot of effort into uncovering the same information in their separate organisations, when sharing that intelligence would both reduce the overall amount of effort and increase the level of protection to members and schemes. For these reasons, PSIG will consider how to create a safe sharing environment for practitioners during 2019.

Finally, PSIG will work with the pilot organisations and the Pensions Regulator during 2019, to agree the optimal approach to gathering key data on scams, balancing the benefits of the data against the effort and cost of its collection.

Margaret Snowdon OBE
Chair of Pension Scams Industry Group
February 2019

Appendix

PSIG Information Gathering on Scams and Near Misses

PSIG is attempting to gather information from providers on the scale of scams and the threats faced by schemes in order to better understand the market and pressures faced by transferring schemes and administrators. We would also like to understand the effort taken to collect statistics on scams, so that we can ensure the assessment is as little a burden to schemes as possible, while better understanding where to target due diligence efforts.

Your cooperation in this pilot exercise is appreciated and the findings and experience will be shared with Project Bloom partners and government as well as reporting to the industry generally (with your agreement). No data will be identifiable to schemes or providers, although your participation in the pilot will be acknowledged to all partners.

The data collection will relate to transfers conducted during 2018 and will cover transfers from DB and DC schemes.

Provider Data required

Name of Provider:	
Date of Submission:	
Period of data gathering:	
Name of Contact:	

Transfer Data required

	DB		DC	
	No.	Value £	No.	Value £
Total of individual Transfer values requested in the period (we appreciate this may be difficult if members can request on line via a portal)				
Origin of request: (A)Member directly (B)Regulated adviser (C)Unregulated introducer (D)Receiving scheme				
How many transfer requests come from a cold call approach				
Total of transfers paid out				

Of these, how many were “white” transfers (to previously known and internally verified receiving arrangements)				
How many transfers were paid out despite concerns raised on due diligence (insistent customers)				
Total of transfers refused by provider due to concerns				
Total of transfer requests withdrawn by member/customer				
Total number of requests for extension of transfer window				
Typical time spent on due diligence per case				
Number of cases where telephone contact is made with members/customers before transfer is made				

General

What are the destinations of transfers (A) Paid out (B) Refused	Authorised OPS Personal Pension SSAS SIPP (platform) SIPP (Full) QROPS Other
What concerns emerge from transfer due diligence?	Destination arrangement credentials Registered scheme but shows signs of a scam Unsuitability of investments Regulated Adviser skills Unregulated introducers Multiple transfer requests involving single adviser firm Dodgy paperwork Cold calling Lack of member/customer involvement Concern about onward transfers/investment plans Other

Does your due diligence process follow the principles of the 2018 Code of Good Practice on Combating Scams?	Y/N
Do you charge a fee for due diligence work on scams?	Y/N
Do you think the Code could be improved to make it easier to adopt? Suggestions welcome	Y/N (add further information if possible)
How could this data gathering exercise be improved?	