HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: Protecting pension savers - five years on from the pension freedoms: pension scams, HC 648

Wednesday 7 October 2020

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Watch the meeting

Members present: Stephen Timms (Chair); Debbie Abrahams; Shaun Bailey; Steve McCabe; Nigel Mills; Selaine Saxby; Dr Ben Spencer; Chris Stephens; Sir Desmond Swayne.

Questions 44 to 87

Witnesses

I: Peter Hazelwood, Group Financial Crime Risk Director at Aviva; Rachel Vahey, Senior Technical Consultant at A J Bell; Lorraine Harper, Client Relationship Director and Head of Proposition at Mercer; and Julian Adams, Director of Public Policy and Regulation at M&G PLC.

II: Brian Thorne, Principal at Barnett Waddingham at Pensions Management Institute; David Weeks, Co-chair at Association of Member Nominated Trustees; Neil Copeland, Director at Dalriada Trustees Limited; and Nita Tinn, Chair at Association of Professional Pension Trustees.

Written evidence from witnesses:

Aviva

A J Bell

Mercer

M&G PLC

Barnett Waddingham

Pensions Management Institute

Association of Member Nominated Trustees

Dalriada Trustees Limited

Examination of Witnesses

Witnesses: Peter Hazelwood, Rachel Vahey, Lorraine Harper and Julian Adams.

Q44 **Chair:** I welcome everybody to this meeting of the Work and Pensions Select Committee, looking at the problem of pension scams. I am very grateful to all the witnesses who have joined us on Zoom this morning for the two panels. In fact, we have all eight witnesses with us already. Thank you all for being so prompt and willing to help us with our inquiry on this subject. This is the second evidence session we have held on it.

Would each of the four witnesses in the first panel very briefly introduce yourselves and tell us and those who are observing our meeting who you are, please.

Peter Hazelwood: Good morning. Peter Hazelwood, Group Financial Crime Risk Director at Aviva plc.

Lorraine Harper: Good morning. I am the Client Director and Head of Proposition at Mercer. We are a large pensions administration provider.

Julian Adams: I am the Director of Public Policy and Regulation. That means I am essentially the Chief Compliance Officer for the group. I am also in charge of government affairs for the group and I am the Interim Chief Risk Officer of the M&G Group.

Rachel Vahey: Good morning. I am Senior Technical Consultant at AJ Bell. We are an investment platform, pension provider and investment manager.

Q45 **Chair:** Thank you all for joining us. At the moment there is not an accepted definition of a pension scam. I would be interested to know from each of you whether that is a barrier to tackling this problem. Also, could you each tell us what steps you are all taking to stop people falling victim to pension scams?

Peter Hazelwood: Aviva welcomes this inquiry and we are very pleased to be given the opportunity to provide evidence to the Committee on this important topic.

We believe that the definition of pension scams is very important. If the focus were purely on pension transfer fraud, we feel that is too narrow because the threat of financial crime and fraud exists in respect of all long-term savings, particularly for people who are of pensionable age. As we know, pensioners fund their retirement using various investments. We have seen from the data and numbers that about 95% of the current pension and investment frauds that we are seeing relate currently to cloned investment sites selling fake bonds and fake ISAs. The average age of the victim is about 61 and the average loss is about £54,000. Only about 5% of the frauds at the moment are pensions transfer frauds. The average loss in respect of those cases is approximately £70,000. We support a broader definition of all investment products that support retirement.

Q46 **Chair:** Of the 95% that are not pension transfers, are these where people already have the money, they already have the cash, and are falling prey to cons in their investment of that money?

Peter Hazelwood: Yes. What we are seeing is at this time, with investment returns being challenged, investors are looking for—particularly retirement-age investors—investments that give a slightly better return on large lump sums. A bunch of fake web domains have sprung up that purport themselves to be linked to well-known household brands of pension providers. Customers find these sites via big tech search firms, which are really acting as enablers to advertise fraudulent investment products. They perform a simple web search on a search stream such as "best ISA returns" or "best fixed term bond returns" and they are directed to a fraudulent site that purports itself to be from a household brand. Then the money is paid away to, usually, an online payment platform.

When the dividend or the return does not materialise, inevitably the brand that has been associated with the fraud will receive a phone call from the investor asking about the dividend payment or the coupon payment on the bond, or the return on the ISA. Of course, we don't recognise the product that has been fraudulently sold to these investors. That is about 95% of the fraud that we are seeing at the moment.

To support investors through that, including those that are not Aviva customers, we have set up a dedicated fraud site on our web domain, aviva.co.uk, and we are providing a huge amount of information on that. We have issued the Aviva Fraud Report and we have engaged external media on this as well. We have engaged the Investment Association with all of the other providers to write to—I think we engaged the Security Minister on the topic.

We formed a task force with all of the other providers to share intelligence because these fraudsters do not respect organisational boundaries. We have filed the first super filing under section 11 of the Criminal Finances Act with a huge group of other providers to provide intelligence to the National Crime Agency. We also have joined the National Crime Agency's Covid Fraud Taskforce, the Fusion Taskforce as well, to actively share intelligence on this threat because during the period of lockdown this threat has accelerated. Apologies for hogging the floor.

Q47 **Chair:** No, thank you for a very helpful answer. Lorraine Harper?

Lorraine Harper: As a pensions administrator, we are in the front line with some of these activities in that we deal directly with members trying to access benefits from their pension schemes.

What we know about fraudulent activity or scamming activity is it is at extremely low levels that we have experienced ourselves. I have had a look at some of the cases and they are in respect of individuals who perhaps had transferred benefits out of a scheme since 2015, recently tried to access them and then found that they were not able to find their benefits. But, as I say, they are very low levels.

How we deal with members accessing benefits and protecting them from fraudulent activity is we have a wide range of checks that we apply in every case. Clearly if anybody is under the age of 55 and transferring, we are very vigilant around whether they have been made any promises by the advisers that they have appointed, such as if they can access cash straight away. At the moment we are particularly vigilant because we know that some people might be slipping into financial hardship and, therefore, would be particularly vulnerable to this kind of activity. We make sure people understand what is and is not allowed so that they can identify whether their adviser is giving them good advice or not.

We also make sure they understand that advisers are regulated and that there are ways of finding and appointing an appropriate person. There are often still occasions where an adviser has contacted someone on spec and then started talking to them about all sorts of possibilities, how much better off they might be if they moved their benefits to another arrangement. We are very concerned to find out how people appointed the adviser in the first place.

We have a raft of information that we provide to individuals. This has all grown out of experience because since 2015 we have seen a 66% increase in transfer activity across all our schemes, so we have stepped up processes. For example, we have checklists that are embedded in our systems and on transfer activity alone we have some 180 different lines of information checks, requirements, that have to be followed and of those about 70 are related directly to anti-scamming activity. We apply these and that has largely helped us be successful in keeping the rate very low.

Having said that, once somebody transfers out or takes their benefits, it is difficult for us to know what has happened afterwards unless they come back to us because they are distressed in some way as they cannot find their benefits anymore.

Q48 **Chair:** What do you do when somebody wants to transfer and you can see that they are actually wanting to transfer into a scam, which I imagine sometimes happens?

Lorraine Harper: The administrator who is handling the case would immediately alert the local manager. We have a separate internal team centrally that is more technically expert in this area and would go through the case very thoroughly. If we believed that this was potentially scamming activity, the next port of call is to go to our client, which would be a trustee of a pension scheme, and we would then express all our concerns for the client, usually in a report. The trustee would usually then engage its legal adviser to get advice on what it should do next.

Sometimes it is quite difficult. Some of the cases that I looked at before today's meeting go back a few years. They go back to 2015-16 and although the schemes were not registered with the FCA, they did have an HMRC certificate. In that case, we did not have a bona fide reason to refuse but we would then go back to the individual and we try to emphasise the risk, get them to perhaps think about it for a little bit longer. In some cases we have asked them to sign a second discharge form that sets out, "These are all our concerns, you understand them and you are still going ahead". That is as much as we can do.

We are caught between a rock and a hard place. If somebody has a right and we do not have a very clear reason to refuse a transfer, we have to do it.

Julian Adams: I similarly welcome the opportunity to be here and welcome the profile that the Committee is showing into this issue. I have little to add substantively to what was said by the first contributor. He was absolutely right, in my view, to draw attention to not being narrow in definition. The main harm appears to come from when people have withdrawn their money and what they do with it thereafter. In a sense, the scams are a subset of investment fraud generally.

What we are doing essentially falls into three categories. There is the proactive monitoring for fake websites, and I entirely agree that that is where the main harm at present seems to be. Proactively monitoring and identifying them where we can, closing them as quickly as we can, although it is often slower than we would like. The tech companies take longer than we would like but I will come back to that, if I may, later in the answer.

That is the first thing we do. The second thing is clearly collaborate. There is a huge amount of co-operation, as was evidenced. As Vice Chairman of the ABI, I have used that position to make this whole issue prominent with insurers. There is a lot of information sharing with the official sector and between peers in that.

The third thing is customer education; that is the most fundamental point here. In every annual benefit statement, we prioritise and draw attention to scam risk. There are various points along the retirement journey where we would highlight this as a specific risk as people start thinking about it. Then we do it passively through our website where not just do we have a section on this risk but also, where we are aware of individual fraudsters or individual schemes, we draw attention to that as well. We are trying to be as proactive there as we can.

The role of the tech companies is important because essentially, they host websites that are fraudulent and also fraudsters can pay to have the hits to go higher and higher up the screen. They have a very important role to play here. That will become more important not only as we move more generally to using the internet for more and more of our financial services needs but also—again, I agree with the comment that was made—we have seen an increase now.

What we have actually seen is sharp fluctuations. When we went into lockdown, there was a very sharp increase and then it settled down and in September, we have seen a similarly sharp increase. This is something that is a real and present danger now.

You started your question, Chair, by asking about how important definitions are. I think it is important so that we can be tracking where attention ought to be focused but I would encourage it to be broad. But I don't think we should be doing that work alongside all the other work we are doing because we have to prioritise is the victims here. It matters less to them how they have been defrauded than that they have been defrauded.

Rachel Vahey: I want to add my thanks for inviting AJ Bell to be a witness for this very important inquiry.

I agree a lot with the other three witnesses. I don't believe that having a narrow definition of a pension scam is going to help the problem. I think it will be counterproductive, it will be restrictive and we would find that the scammers would take steps to make sure they didn't fall into whatever that definition of pension scams was.

What we have seen very much over the last few years is that this is an evolving situation. Every time you think you understand a scam or how it works, a new scam evolves and a new scam erupts. We cannot stop the pension scams because of that but we need to be aware of how the situation is changing.

I think this is wider than a pensions issue because of the reasons we have already been through. We also are very aware that since pension freedoms people can come and cash up all their pension fund, a sizeable pension fund, and then spend it however they see fit or invest it however they see fit and we have no tabs or no controls over that. We can help people understand scams but once the money is theirs it is their freedom and their choice how they want to take this forward.

This is wider than pensions, as the previous witnesses have said. This is investment scams and maybe we need to stop thinking of this as a narrow focus and instead think of it as quite a wide society issue, because it obviously extends much further into society. What we would like to see is an overarching role within Parliament, maybe someone who has an overarching responsibility for all of these types of issues and activity—say, a Minister for Scam Prevention, something like that. Someone who takes this forward.

On what we do and how we approach this, I am going to echo some of the previous comments. We have seen pension liberation and transfers and trust busting activity reduce over recent years. We still take very vigilant steps when somebody wants to transfer their pension. If it is to a recognised provider or administrator, someone who is on an accepted list, it will go ahead but we investigate the other ones. There are maybe 10 a month that we have a team investigating. Similar to what Lorraine was saying, there are a lot of hoops and a lot of checks and balances that we go through. We have maybe 40 checks to look at: how old the person is, which is a big indicator; where they are transferring to; when the company was set up; whether they have an employment link; the adviser; all of these particular aspects, everything.

We do that particular element and, as I said before, we have seen this activity reducing. That is partly because of the steps that we do and the code of practice we all follow but also because of the two-step process with HMRC. We work with HMRC finding out if the scheme is registered but also whether they have any suspicions about the activities surrounding that scheme.

We also do a lot of work on investment scams. If somebody wants to invest in a particular type of fund and it is on the FCA standard list, we allow it; if it is not, we investigate further. There are some investments that might appear to have the gloss of approval and respectability because they are listed on a foreign stock exchange and might appear at first sight to be okay but when we have investigated further, we have had suspicions around them. This is a growing area of concern for us.

We think there are several different elements coming into play here. This is about raising awareness of scams for individuals, to make sure that they are vigilant and aware. We do a lot of work here. We do a lot of press releases—we have done something like 18 in the last two years—and a lot of press comments. We try to educate people generally but also educate our specific customers about the risks involved in pension scams. There are also things that could be done to make it more of a deterrent for the pension scammers, to make it less attractive for them to go into it.

Chair: Thank you. We will come back to some of those helpful points in a moment.

Q49 **Sir Desmond Swayne:** What responsibilities should properly be placed on the industry itself to stop its clients being scammed? We should bear in mind that the FCA has consulted more than once on whether to have a regulatory duty of care, but we have never implemented it. Why is that?

Julian Adams: The question of compensation for victims is a tricky area because these are people who have exercised their freedom and have terminated their relationship with their former provider. They would have to say why the remaining members of schemes should compensate individuals who have already had the money without compromising both the financial security of the remaining members and the performance of remaining members.

Q50 **Sir Desmond Swayne:** I did not mention compensation. The word "compensation" did not cross my lips.

Julian Adams: I thought your point was about—

Sir Desmond Swayne: A duty of care.

Julian Adams: Most of the detriment happens when people have exercised their freedom. They have ceased to become members or have a counterparty relationship with firms and what they subsequently do with their money. At that point they have no relationship with any regulated firm and they may not even be doing anything that constitutes regulated activity within the UK. That is what we are saying, that where we should be focusing attention is the fraudsters and the way in which they access victims, which is typically through the internet, and that is—again as the FCA have drawn our attention to—where we should be focusing attention.

Q51 **Sir Desmond Swayne:** On that score then, a recent Government White Paper called for a single regulatory framework to tackle online harms, including a statutory duty of care, but it does not include scams. Is that the remedy, that we should include that?

Peter Hazelwood: I will take that question, Sir Desmond. We see big technology companies as key enablers of fraud and we feel that it would be highly beneficial to extend the Online Harms Bill to include the advertising of fraudulent investments, including pension scams. You can categorise the big tech players in this space into four different categories.

The first is the search firms. As I mentioned earlier, an investment will generally perform a search to look for a better than average investment return. Scammers are paying for adverts on search firms using the proceeds of previous crimes committed and promoting fraudulent schemes as a result. We are ironically having to pay for advertising space on the same platforms to advise customers against investing in those fraudulent schemes. The online search firms are key to preventing this because they are the accelerant fuelling the acceleration of these frauds. They are a key enabler.

Secondly, social media platforms play a key enabling role as well. Thirdly, in respect of the prevalent fraud type at the moment that I mentioned, the cloned investment sites, challenger payment platforms play a key role. The proceeds of crime are very often laundered via the challenger platforms at the other end because the barriers to entry for an account on a challenger payment platform tend to be lower than a bricks and mortar bank and as a result it is easier for criminals to slip under the radar there, unfortunately.

Fourthly is the web domain providers, the fake domains that keep popping up. One witness mentioned earlier it takes quite a long time. It takes an average of about 21 days for us to get a fake domain taken down. As of today, we had to take down 27 fake domains linked to our brand. It is like a whack-a-mole approach. It is very difficult and it takes a very long time to engage the web domain providers to get it down.

All of these four participants play a key role.

Q52 **Sir Desmond Swayne:** Is there a faster remedy to dealing with those clone firms that impersonate your businesses? Should the current ban on cold calling be extended to social media platforms?

Peter Hazelwood: On the second question, we would welcome that. The one note of caution would be that I think criminal gangs would probably just get overseas IP addresses to bypass it. But, nevertheless, we would welcome it.

We are doing a better job as an industry and with law enforcement in coming together to share intelligence but I think we need to better engage big tech to bring them into the fold. That will accelerate the takedown of the fraudulent sites. We have to figure out a way that we work collaboratively together.

Q53 **Debbie Abrahams:** Good morning, everyone. I want to go back a little bit and ask about the victims of the scams. I am very pleased that everyone seems to be in agreement that it needs to be a broader definition. Peter, I think you said that 95% of them were in relation to cloned investment sites. You mentioned the average of about £54,000 being lost in monetary value. Do you have a sense of who particularly the victims are? Which client group are most likely to fall prey to these investment sites?

Peter Hazelwood: Thank you for the question. Some 80% of the victims are aged between 50 and 80 and the average age is 61. We have done some analysis on demographics and the main concentration of frauds that we have seen—again, this is only Aviva—or those that have been reported to us that are not Aviva customer but it was a fake domain pretending to be Aviva. That is the total population here. The greatest demographic concentration in order of numbers is London, the south-east, the north-west, east of England, east Mids and then Scotland. Yes, average age 61.

Q54 **Debbie Abrahams:** Do you have a sense of if they are people of low income, middle income, higher income? Do they go across the socioeconomic spectrum?

Peter Hazelwood: It is a really mixed demographic. We have had people who, for example as a result of lockdown, might have sold their home, the conditions at the moment have not allowed them to buy a new home, they are renting and they are looking for a short-term fixed investment for the proceeds of sale—regular middle-class families. We have had people who are clearly in the vulnerable category, highly vulnerable and unsophisticated investors, and we have had some quite sophisticated investors as well, so it is really mixed.

Q55 **Debbie Abrahams:** I am sorry if this is a little bit of a naïve question, and this is to all the panel. You say they are cloned sites. How do the criminals set them up and does it mean that they have to have some understanding and even could potentially have been members of the pension sector to be able to set up these sites? I am sorry if it is a little bit unpalatable, but it goes very much to what Sir Desmond was saying about the duty of care and how that potentially has an implication.

Peter Hazelwood: It is a very good question, thank you. It is very easy to set up a web domain via a web domain provider. They simply set up a site that sounds like a legitimate site. We have listed all of them. You can see them on the fraud hub on our website.

What they try to do is lend credibility to the scam by utilising the investment company's brand or the pension provider's brand but then extending the domain name. For example, one we saw was Avivabonds.com, which looks and sounds like Aviva and it lends a lot of credibility to the scam. These are organised crime groups. These are not people from financial services. We understand it is a mixed bag of individuals and groups that are operating all over the world, not just domestically.

Julian Adams: To add to what Peter has just said, they are incredibly sophisticated. If you look at the websites, the material they use is often material taken from our own websites. They clearly know what is allowed, what is not allowed and they know what side of the line to cross or not cross. They are very skilled and, to Peter's point, this is organised crime.

Q56 **Debbie Abrahams:** I recognise the difficulties there. Does anybody else want to add to that?

Rachel Vahey: We have also had experience of the clone companies and I echo the views that it can be a very subtle name change. For example, instead of .uk at the end it has been .cc.uk, so very subtle. Thinking as a consumer, even when you click on it just to see the name you realise that lots of people could easily miss that and it looks bona fide.

We would check for experience of financial services. If we had an investment company come to us with an investment where the client is not currently on our panel and the client wants to take forward this investment, we would check it out. Sometimes we come across people who have absolutely no experience whatsoever of financial services and this is obviously an indicator to us that the investment may be fraudulent. It is not necessarily people who are working in financial services.

Q57 **Dr Ben Spencer:** I will go back to some of the responses to Sir Desmond's questions and ask you a couple of questions, Mr Adams. If I have it right, the point you are making about the problem is that you have someone who cashes out their pension pot and they then go on to spend that money in fraudulent investments. The impression I got from what you are saying is that in effect your duty of care as a business stops at the point they have cashed out their pension pot, irrespective of what they then go on to use that money for.

I do not know the strict criteria under which you operate. I know there are special rules about what advice you offer. But my experience has pretty much been that whenever I have been involved in a contractual relationship with any company, if I am going to end that contractual relationship and then go to another provider, the company does everything it damn well can to keep me as a customer. I cannot quite believe that if somebody is saying, "I am going to cash out a huge amount of money from this particular investment" there is no discussion or you cannot have the discussion, which is, "What are you going to do with this? Perhaps this is not the greatest of idea, going around pursuing this angle." Can you not have that discussion or is it such that you just have to put your hands up and say, "You have cashed out the money, good luck to you"? What is the situation?

Julian Adams: For a start, we can't offer advice to individuals. There is a fine line to be drawn. We support pension freedom and the whole point of pension freedom is that people want to be able to access their money, they have a right to access their money and we have a time period in which we have to provide that money to them. We encourage people to take advice because this is a highly material transaction for them, probably one of the biggest financial decisions they have made in their life.

The point I was making was that having exercised their freedom to make a choice of taking their money out at the point at which they take it, from that point on there cannot be a contingent liability back on the scheme they have come out of. What they do with it—they may choose to spend it, pay off of a mortgage, put in a kitchen, and as part of the lump sum at a later point choose to make an investment. It is at that point that we see the harm coming from fraudsters. Often it is possible that these people have been groomed through that process. This is one of the other harms that tech companies can do.

There are two forms of harm. The first is where they host material and the second is the search engine. People can be groomed via social media platforms. They can be given "advice" by fraudsters, "Take your money out. Do whatever you can to get your money out". After you have your money out then the fraud is perpetrated.

My point is that we should be focusing attention on the agents who are perpetrating the fraud, so go after these fake domains, go after the people who are cloning our good name and good service, close them down as expeditiously as we possibly can and promote awareness among the consumers of the dangers of scamming.

Lorraine Harper: We are a pension administrator providing a service to our clients who are largely trustee boards and their members. We are moving quite large sums of money around. In 2019 we paid out £2.6 billion in transfer values. The average transfer value was £290,000. The people who are going after the members themselves, trying to persuade them to move money, often are making empty promises to them. When we tell members, for example, that if they are under 55, they cannot access any money, the adviser will have already told the member that we will say that and that we are lying to them in order to keep hold of their cash. That is the sort of thing we are up against as administrators.

Q58 **Selaine Saxby:** Good morning. My question is: how do you report suspected scam activity?

Peter Hazelwood: I will take that one. The reporting mechanisms are very clear generally. Members of the public are encouraged to report fraud to Action Fraud. With our scam reporting service we help all the victims of fraud to make that report and file it for them. We have recently started utilising section 11 of the Criminal Finances Act to file super suspicious activity reports with the National Crime Agency. We filed the first one, which was a pensions fraud with a platform provider that we co-operated with. We have recently joined a collaborative effort across the industry to file a huge filing on over 800 different cases in total across the industry. Again, this is the cloned investment sites.

One of the impediments at the moment—again, to reemphasise that criminals don't respect organisational boundaries. They just go after where the money is and they do not really mind which firm it is or which business line within an individual firm. It is very important that we work as an ecosystem collaboratively to share intelligence and to get that intelligence in a consolidated manner to the authorities as quickly as possible.

At the moment, the banking industry is reluctant to utilise section 11. One of the opportunities—given that the banking industry is often the recipient, particularly with the challenger platforms, of the proceeds of crime—is it would be very useful if we could find a way to get the banking sector comfortable with utilising section 11 as the insurance sector is. Overall the reporting mechanisms are clear but they possibly could do with being extended into other sectors, again because criminals do not respect organisational boundaries.

Julian Adams: I agree with all of the points that have been made. In general this works well. We would like to see a little bit more feedback from the authorities on the reports we make to Action Fraud because that would help further refine what we send. Apart from that, this is a very well-worn pathway.

Rachel Vahey: There may be some confusion sometimes of who can report to Action Fraud and whether it is only victims or consumers who can report or whether companies can report as well. We would welcome better definitions and better guidance on what we can report and how it can be reported. We have encountered situations where different companies are reporting on a similar crime or a similar scam but because it is couched in slightly different terms it is not being recognised as the same type of scam and because of that Action Fraud have not pursued it. They work on a scoring system so you have to have so many reports or so much amount of money that has been scammed or attempted to be scammed. Some better guidance around all of that would help us.

It is quite understandable that people who report to Action Fraud and FCA are not receiving any feedback because there is an ongoing investigation, but I think sometimes, especially for FCA, people might report and then think it has just disappeared into the ether and we are not getting any comeback on this. If we could get better feedback from these organisations, and maybe even a higher profile of people they have prosecuted and where there have been successful prosecutions as well, I think that would be very instrumental and important to raising the profile of pension scams and other finance scams.

Q59 **Selaine Saxby:** Is there anything else you would like to say about once you have reported scam activity? Do you feel it is acted on appropriately or is there more that could be done in that area?

Chair: We have heard the point about feedback that has been well made, anything else that you would feel—

Julian Adams: Of the feedback we get, about 10% of the cases that we have referred on get referred to individual police forces for investigation. Of the balance, roughly half are recorded and closed because of insufficient evidence and the others are simply recorded. On what happens to them, I think your questions are better directed to the law enforcement agencies or the financial supervisors. Those are the stats from us.

Q60 **Chair:** You are saying that only 10% of the cases that you report appear to be investigated; is that correct?

Julian Adams: No, referred to individual police forces. The recorded cases are obviously still open but it is not clear what the status of those is and who is investigating them. When I say "feedback", I was not looking for feedback necessarily on individual names but in aggregate. The points that were made subsequent to my intervention would very much agree with me. That kind of feedback would be positive.

Peter Hazelwood: Greater use of section 11 would be beneficial. If an individual firm is making an individual report to Action Fraud with one data point, that might not be referable or actionable but if we all collaborate on a broader filing under section 11 that provides far more actionable intelligence for the authorities to go after it. At the moment it is a little bit too piecemeal. That is my observation.

Q61 **Steve McCabe:** I want to ask Rachel something. I notice these references to section 11 and Peter talked about sharing intelligence. AJ Bell said in its evidence that it wanted a database to pool knowledge about scams because they were often the same although perpetrated on different companies and people. Could you say any more about what your database would look like and how it would be best set up?

Rachel Vahey: What we found is that generally if somebody tries, for example, to set up a fraudulent investment with us or to operate on that basis, if they are unsuccessful with us, they will tell the client to try with another company. They will put forward this investment and we will say we are not happy to accept it and then we will see a transfer. We will see someone want to transfer to Standard Life, Aviva, whoever, so they have tried to transfer out to it and then tried to perpetrate the scam elsewhere. This is just for sharing information.

We believe that a degree of the success we have seen in reducing the liberation and the trust busting has been through groups like PSIG and

PSFI and sharing information has been very important. This is similar. If we are aware that there are people who have attempted fraudulent activity, we have some way of sharing information between the industry on a much better basis. As we have said, it could be some form of database. We have not given that much thought yet to exactly how that would work in practice but that is an important initiative for industry and others to take forward.

Q62 **Nigel Mills:** A question for Peter. You have used the phrase that tech companies are enabling scammers. In various aspects of financial crime we looked at an offence of enabling financial crime, be it tax evasion or corruption or all those sort of things. Are you suggesting that we should be looking to criminally attack tech companies for not stopping this, or is that going too far in your use of the word "enable"?

Peter Hazelwood: At the moment engaging tech companies is challenging. There is engagement but I think it would be very helpful to have a central point of engagement, a risk function, a compliance function, much like we have in financial services, that we can share intelligence with to speed up the exchange of intelligence and the take down of these sites. At the moment it is extremely difficult and it is really easy to advertise a fraudulent scheme on a big tech platform.

Julian Adams: I support what Peter is saying but I also make the point this is not just a frustration that we feel as an industry, it is also something that our regulators have drawn attention to. The FCA was recently making these very points about the speed with which things can be taken down. That is frustrating. Engagement, at least in the first instance, is the way forward.

Q63 **Chair:** Do you think there should be criminal offences defined by Government that these acts on the part of tech companies would be in breach of?

Julian Adams: We want to be cautious and see if we can get the current system to work. We can see the harm that they are causing. We would like to see whether that can be reduced by the voluntary efforts. I would regard it as a staging post. Let's engage, let's organise better. Again, these are not just points that Peter, me and others are making from the industry, these are points that one of the world's biggest regulators is making about the frustration. They should come seriously and engage with us and see where that takes us.

Q64 **Nigel Mills:** I guess we are not prosecuting Google yet. To switch to the issue of the right to transfer, which has been mentioned a few times, is that a big problem in attacking scammers? Is that somewhere you would like to see a rule change, a softening of the rule or more discretion so you can perhaps refuse to transfer in more cases or at least delay a transfer until an investigation is done?

Rachel Vahey: To make it more difficult for people to transfer would be a tool in our toolbox. As I said before, we have taken quite a few measures to stop transfers going ahead, a lot more investigation about transfers and those have been successful. It all has to be a balanced approach. People have a statutory right to transfer and people believe they have a right to transfer. Anything we bring in has to be balanced to make sure that we are not putting unnecessary obstacles and burdens in the way of people who genuinely want to transfer for absolutely genuine reasons. It is a balanced approach.

Q65 **Nigel Mills:** You are not sat there very often going, "We think this may well be a scam, we would love to stop this but we just can't". Are there many situations like that where you think, "If only we could have a bit of discretion here to pause this for a month" or something like that? That is not what you are asking for, is it?

Rachel Vahey: It would be a useful element but we found that if we investigate further and we push for further questions—we have also found the two-step process with the HMRC has been very effective. Again, anything that is going to add to it will help. You will not stop all of them going forward; scammers are very clever and these thing will evolve. It may be a useful tool to have.

Julian Adams: I agree with that point and also the fundamental point about this is a balance, because you do not want to take action that frustrates the essential freedom that pensions freedom gives. I keep coming back to where we are seeing detriment is not at the point of transfer itself but when the money has been transferred after a period of time when other uses may have been made of the money and there is a lump sum still left. It is at that point, some point after, where I think all our attention should be focused.

Peter Hazelwood: I agree with that point. We see that only 5% of the frauds are pension transfer frauds but, that said, we would welcome a little more ability to be able to defer a transfer should there be indicators of fraud. That would be prudent, but I echo the previous comments on a balanced approach. That said, 95% of the transfers are a completely different problem, which is the broader cloned investment problem at the moment.

Lorraine Harper: Speaking from a pensions administrator's perspective, we are sometimes disincentivised to carry out further due diligence because we are also bound by statutory timescales for turning around transfer values. A number of trustee boards who have delayed because of concerns have ended up being fined for doing so. You can apply for extensions to the timescale but it does take a long time to get those granted and, in the meantime, a legal adviser may have said, "You don't have concrete reason not to do this, so do it otherwise you will get fined".

There have also been other cases that have gone to the ombudsman where individuals have applied for compensation because maybe they have lost some investment opportunity because of delays. We are under significant pressure to improve performance on turning around transfer values, while at the same time undertaking significant due diligence to protect people against scamming activity.

Q66 **Nigel Mills:** If I am lucky enough to have my investment with Bell or Aviva, there may be a whole raft of checks done before my transfer goes through. Should we require all scheme trustees to have that work carried out, or is that something that is happening anyway right across the industry so we don't need to mandate it?

Rachel Vahey: I would say probably most of the pension industry would follow these checks and certainly the companies where I have worked have all followed the code of practice and the number of checks. I don't think we are an unusual group in doing so.

Chair: Thank you very much. We are going to need to speed up a bit.

Q67 **Steve McCabe:** I want to ask about advice and guidance. Peter, you may want to opt out of this because it is broadly a question about policy. I notice that the Association of Member Nominated Trusts said that we need something to bridge the gap between Pension Wise and full paid for advice. They recommended the development of an advisory service. What is your view of that and do you yourselves have a pool of financial advisers that you recommend to people?

Rachel Vahey: We believe that guidance does play a role, as does regulated financial advice. Both of these aspects, receiving guidance or regulated advice, can help people make much better decisions about their pensions and they have a role in preventing pension scams. As part of that, we work with people who are either looking to transfer their money or set up an investment, or looking to just encash their fund. We would always say, "Go seek regulated advice or guidance". We would not recommend a particular financial adviser. We would not feel comfortable in doing that and we only accept business from FCA-regulated advisers who are registered with us.

For all of this, it depends when in the process you are pushing or you are nudging or you are compelling the client to go and seek advice. Often, especially when it comes to pension scams, the client may be in dire financial straits and desperately needs this money, which is why they are taking such desperate action. We have found that if you are telling them just at the point of transfer or just at the point where you are encashing the fund, "Go get financial help, go get advice or go get guidance", they may be reluctant to do so because they are not interested in that. They are only interested in getting their money at that particular point.

There is also the point that I think Julian made earlier about people being groomed. When they are working with scammers, the scammers are telling them, "They are going to say that, they are going to make that point. Ignore it, don't worry about it. They just have to do it". Therefore, these elements play a very important role and I think it is difficult to make people take those actions.

Julian Adams: On the more general point—and obviously, I agree with what Rachel has said there—the issue of investment advice and whether there is a middle path between guidance on the one hand and bespoke advice on the other is one that is a longstanding issue between the industry and the FCA. We would say that there is a role for a middle pathway and we would look to certainly help guide what that may be.

Q68 **Steve McCabe:** You support an advisory service, Julian; is that what you are saying?

Julian Adams: The form it takes is a matter for discussion and debate, but you could have some form of structured pathway that is less than bespoke advice taking your personal circumstances into account and your attitude to risk. That is bespoke advice that an adviser would give, Steve. That is not what this would pretend to be. This would be a structured pathway through a decision tree that would be more than just generic, "Be careful of things, you have these"—

Q69 **Steve McCabe:** Sorry to interrupt. Does M&G have a pool of advisers that you recommend to customers?

Julian Adams: Similarly to Rachel, we would not recommend a pool of advisers. We have our own prudential advisers that we mention, but we would also say, "The most important thing here is to take advice and take advice from a regulated firm". Entirely serendipitously, there was a report in today's financial press where a financial adviser saved someone £150,000 of money that was about to be invested in a fake prudential website. These people have important roles to play, but it also underlines my continual point that the harm here is in the fake websites. That is where there is real consumer harm and vulnerability.

Lorraine Harper: At Mercer about five years ago, we introduced a sort of halfway house service that was plugged into our regular administration service. It is called the Pensions Decision Service. It was aimed at members accessing benefits at retirement and about 25% of people at retirement now transfer all of their benefits out.

The idea was that this was absolutely not regulated advice. It was free to the member, so they did not have to pay, because the cost of regulated advice often puts people off. Essentially, what the agent, as we call them, does is asks a lot of questions about their circumstances, points out pros and cons of different activities, and is designed to inform them to the extent that they can make good decisions for themselves.

The Pensions Management Institute introduced a qualification, a certificate in member guidance, that is designed to get people to a point where they could carry out that service. The feedback on it has been excellent from both members and clients. They found it valuable and there have been occasions where we believe it has stopped people making bad decisions, but it is definitely not advice.

Q70 **Steve McCabe:** There is this £500 that people can take out—I think it is three times over three different tax years—to get some advice. The Personal Investment Management and Financial Advice Association suggested it is a bit tokenistic because providers are not obliged to mention it at all, and for £500 you might not get much in the way of advice. What is your own view of that? Should it be £1,500 as a block sum or should it be done in a different way?

Julian Adams: We do not provide it, for the reasons you give, and it is also complex and expensive to administer. It is not clear what you would get for £500. I do not know if there is a sum of money that would be—it is clearly more than £500 but we don't have a view on that point. I cannot really comment on that further.

Rachel Vahey: To follow up on that, it is not something that we offer either. We have not had the demand from advisers or their customers to bring it in. Obviously, like every other organisation in the world, we have limited resources, so we would maybe focus those resources on other tools to help clients and customers make better decisions or to follow regulations we have to put in. We have just not seen the demand from advisers or customers.

Q71 **Steve McCabe:** Is that because hardly anybody knows about it or just because it is not very good?

Rachel Vahey: I think the adviser community do know about it. They are fully aware of what they can do and how it works. It is just that it is not a sufficient amount of money and, as Julian was saying, it is a complicated process.

Julian Adams: You also have to remember that for financial advisers give regulated advice because naturally the standards are so high, and the consequences of giving poor advice are so high that people are extremely cautious and thorough about that process. That takes time and people need to be compensated for the time that they give and the advice that they give. That is one of the ways in which some form of structured and guided pathway through complicated decisions may be a middle path that we have certainly recommended the regulator give careful thought to. We have done that for a number of years now, but that is about investment service advice.

Steve McCabe: I understand. Thank you very much.

Q72 **Chris Stephens:** I will ask Peter the question and if other panellists want to write in to the Committee that would be helpful. Peter, we know that pension scam victims get very little, if any, money back. My questions to you are: what are the main barriers for victims getting redress and how can we overcome that?

Peter Hazelwood: I think the main barrier at the moment is that certainly a lot of the schemes that we are seeing are perpetrated by international organised crime groups, so the money is offshore. That is the main problem right now.

Q73 **Chris Stephens:** What support should those who have been victims of scams receive? Is there anything that you think should be done and for the Committee to recommend?

Peter Hazelwood: There are multiple different types of fraud, especially if we adopt the broad definition that we discussed earlier on. That does not physically touch us. They are leveraging our brand and the only enablers in that scenario are the big tech companies that advertise the fraudulent investments at one end and the challenger banks that launder the proceeds at the other.

In the case of a pension transfer fraud, if we have not met our standards we should and will recompense the customer. I think the answer would be to refer to an independent third party such as the pensions regulator in cases of dispute, because there is no one-size-fits-all. It is a very good question, thank you.

Chris Stephens: Thanks, Peter. I will hand back to the Chair, but if the other witnesses want to write to the Committee, we would be more than happy to receive those representations.

Chair: Yes, if there are any more thoughts on that or, indeed, on any of the other matters that we have covered this morning, we would be very keen to receive those from you. We have unfortunately run out of time. Thank you all very much for joining us and for the very helpful answers that you have given to all our questions.

Examination of Witnesses

Witnesses: Brian Thorne, David Weeks, Neil Copeland and Nita Tinn.

Q74 **Chair:** We move now to the second panel. I think all four witnesses for the second panel were with us and listening in to that first panel. I would like to start in the way that we started last time by asking each of the four witnesses to introduce themselves and tell us very briefly who they are. Thank you all for joining us. We will start with Neil Copeland.

Neil Copeland: Hello. I am a director and co-founder of Dalriada Trustees Limited, a firm of independent professional trustees that acts for a broad range of pension schemes, including over 120 schemes where we have been appointed by the Pensions Regulator because of concerns about fraud.

Brian Thorne: Good morning. I am a principal at Barnett Waddingham, which provides actuarial consultancy and pension administration services. I am here today to represent the Pensions Management Institute, which is the UK's largest professional body for pensions professionals.

Nita Tinn: Good morning. I am a professional independent pension trustee with Independent Trustee Services. I am here today to represent the Association of Professional Pension Trustees. Our organisation has approximately 250 members and just over 200 are accredited professional pension trustees. We are the professional body for professional trustees.

David Weeks: Good morning. I represent the Association of Member Nominated Trustees, of which I am a co-chair. We have about 800 members who are, as it says on the tin, trustees of pension schemes who are nominated by the members. Collectively, we represent funds with assets under management of about a third of the total of the UK occupational pension sector. On the scale of funds represented, we have a fairly even spread, from the biggest down to the smallest.

Q75 **Chair:** Thank you all for being with us. I would like to ask each of you a question to start with. I imagine all of you will have fielded transfer requests where it has been apparent to you that the destination was probably a scam. Have you tried to stop that transfer when it has happened? Have you been able to stop it and, if you have not, do you think you should have had the power to be able to say no to a transfer that was being requested?

Neil Copeland: Unfortunately, I have experience of having to address situations where it is clear that transfers are being sought to schemes that would be a matter of concern for us. It is challenging. Sometimes we will use an escalation process where members are written to and issues and concerns are flagged to the members, but there have been occasions where I have picked up the phone to members to say, "We have material concerns about this". We tend to get two responses. One is members are quite thankful for us having taken the time and effort to investigate the matter and to bring the issue to their attention.

Unfortunately, there are circumstances where members are not so appreciative and it comes back to the point that was raised by one of the contributors in the earlier session. We are absolutely clear and aware of the fact that scammers prime members with—they will pose as the member's friend and be doing everything they can to free up the money that is trapped in their pension scheme. One of the effective tactics they use is to tell members, "When you want to transfer out of your scheme, the trustees or whoever manages the scheme will be desperate to hold on to your funds and your money and they will throw up all sorts of barriers to you taking this transfer. Don't you listen to them. It's your money and you have an absolute right, as a member does in some cases, to transfer that money. Don't let them fob you off. They just want to hold on to your funds".

For that reason, I think it is absolutely critical that we have a power to pin some limited and clearly defined circumstances around transfers. I don't think any trustee would lightly interfere with a member's right to transfer their pension, but from the other side of the perspective on the schemes where we have been appointed by the regulator, we see the devastation that these transfers to inappropriate schemes cost the members and the distress and the difficulties that it causes the members of the schemes we have been appointed to.

I think there is an absolutely clear case for some mechanism, and I know the Committee is aware of the Pension Schemes Bill and the proposed amendment on this, and I believe is supportive of it. We are also supportive of it because I think it would take away the statutory right to transfer in very limited circumstances. It would also have a deterrent effect because it makes the argument that it is just the trustees or the insurance company or the administrator wanting to hold on to your money much less effective.

Brian Thorne: We are experiencing a similar sort of scenario as the last contributor in the sense of often we have suspicion that there may be warning signs of pension scams and we will address them and raise those and try to educate members of the potential implications of that. But often what we are seeing is that members are effectively prewarned and primed that organisations like ourselves will be contacting members and they are being, effectively, sold a story that we are trying to block them from making the transfer for whatever reason.

Feeding back on to the first session, what we are seeing at the moment in most scams is that a transfer is being made to an FCA-regulated product, a scheme that is operated by a regulated provider. It is very difficult on occasions to actually stop a scam because often you may have some sort of warnings or implications that there may potentially be some future scam activity going on under that new arrangement but you may not have evidence that a scam is taking place at that point.

Having said that, I agree that we would be in favour of an option to be able to block transfers, at least perhaps temporarily until the individual has completed some further activity that they need to complete. For example, currently we, and I am sure most administrators and providers, would encourage people to discuss the cases with the Pensions Advisory Service, but in our experience that doesn’t always happen. Perhaps on cases where there is appropriate levels of suspicion there could be certain mechanisms in place to enforce people to take those steps. I think that has an advantage that it brings some independence into the process.

Another aspect from the industry’s perspective is that any legislation or accompanying regulatory guidance would need to be very clear about under what circumstances transfers could be blocked or paused.

Nita Tinn: Thank you for the opportunity of coming here today to talk about this issue. As professional trustees, we expect all our members to follow a code of practice and have good measures in place to try to prevent scams. Having said that, of course we still see these and, as has been said previously, we are under the difficulty that we have no choice but to pursue a transfer if the member is insistent. I am dealing with one at the moment personally where we have already written to the member on several occasions. We have asked them to give us their assurance that they have read all the ScamSmart literature that we have sent them. We suspect that it could be a scam but we are not sure. We have already exceeded the time limit for—

Q76 **Chair:** Sorry, Nita, we can't hear you at the moment. Something has happened. Let's see if we can fix that so we can come back to you. David Weeks, could we come to you while we see if we can get the link back to Nita? Nita, can you hear me?

Nita Tinn: Yes, Chairman.

Chair: Now we can hear you. You are back.

Nita Tinn: Shall I start again? I don't know how much you heard.

Chair: You were just telling us about a very interesting example you are dealing with at the moment and then we lost you.

Nita Tinn: Yes, Chair. On this particular case we have already written to the member. Obviously, the administrator as gone through its processes, carried out various checks and decided that it may be a potential scam. We have written to the member and tried to persuade them otherwise, but in the meantime, we have had to report ourselves to the regulator because we are exceeding the time period that it takes in which to deal with this scam.

We would very much welcome the proposed amendment to give us limited powers to prevent transfers in the appropriate circumstances. As a previous witness said, there would have to be safeguards around that for trustees because there is always the potential of claims. One of the new areas of claims has been claim companies going back to trustees and saying, "You shouldn't have made this transfer" and so on. We have to be wary and I think we need proper protections in place so that those who can transfer can still transfer with good reasons.

On the other side of the coin, I have dealt with some of the recovery cases that Neil referred to and we are very much aware of the devastation it causes its victims, so I think it would be a welcome amendment.

Chair: Mr Weeks, I am not going to put this to you because I think we have had a good range of answers to that question and we are a bit up against the clock, so I will come to you in a moment when we come to the next question.

Q77 **Selaine Saxby:** It is nice to see you all. How do you report suspected scam activity, please? I don't mind, whoever would like to go first.

Chair: Can we come to you first, Mr Weeks, since I didn't give you the chance to answer the last question?

David Weeks: Thank you very much, Mr Chairman. The position of Member Nominated is a sort of general drift towards becoming more proactive in this sort of activity. At the minimalist end, if a question is asked, we answer it but some schemes move further than that and say they have Robo advice that can answer questions in an automated way. Further down the line to the interventionist approach is that we point you in the direction of an independent financial adviser but we expect you to pay.

The sort of top end of the trade is the one where you say, "Yes, we will arrange an independent financial adviser and we will cover the cost". There is a difference, as I mentioned in my introductory remarks, that we cover big and small schemes. The bigger schemes are obviously more able to cover that sort of cost. The smaller ones, funds of lower than £100 million assets under management, find it more difficult to do that.

The second thing is that we see the importance of acting in concert with other organisations. It is done in a sort of chain of involvement. You have got the Pensions Regulator that lays down general guidance for these things. Then there are the trustees themselves, of course. We find Pensions Wise gives very good general advice. Next down the line is independent financial advisers who offer advice on individual matters and I think there is a problem there on the uneven quality of the responses that they get. The final one down the line, which has not really come out in any of these sessions that you, Mr Chairman, have had so far, is there is a role for the ombudsman in picking up problems where individuals have been disadvantaged.

As a general comment, I will add that it may be more productive to warn members in advance rather than try to pick up problems when they have arisen. By and large, I think our members report that when somebody has come to a view that they would like to invest in them or return the investment, it will be difficult to dislodge them from that. It is better to try to get them before they have their minds made up.

Q78 **Chair:** Thank you. Do any of our witnesses want to comment on how you report?

Nita Tinn: I think the reporting mechanism is quite complicated because until someone has actually suffered a fraud, they are not really able to get very far with Action Fraud. As trustees, I think our first port of call would generally be to the regulator, although some of our members have successfully reported to Action Fraud.

Echoing some of the comments in the last session, it is incredibly difficult to know what happens next. I have sympathy with the regulatory authorities here because they are not able, in many instances, to share information on potential scammers or potential organisations that are running scams because of confidentiality, the requirements that we have. We, as trustees, or they have to be careful about tipping off.

One of the things I would very much welcome, and our members would welcome, is better information sharing and perhaps one overarching body responsible for reporting, enforcement and so on. At the moment the tasks are divided over a number of organisations, primarily Project Bloom, but it is often very difficult for the end user, whether it is the trustees or our members, to know exactly where to turn when reporting these things.

Brian Thorne: Echoing the last witness, from our experience reporting scam activity seems somewhat fragmented because we have the Action

Fraud mechanism, that has been touched on in both sessions. That appears to be set up for those cases where fraud has actually taken place. That does not necessarily cover all aspects of potential fraud activity that could, if the industry were aware of it, help the industry prevent future fraud. A request if possible: appreciating the difficulties and the confidentiality, some form of feedback through that mechanism to help industry prevent future fraud potentially would be helpful.

In addition to Action Fraud, there are mechanisms to report to the Pensions Regulator or to the FCA, who are perhaps focusing more on the engagement of adviser firms, where industry is identifying unusual or concerning patterns of whether those organisations are involved.

Again, there are various methods of reporting dependent upon the particular circumstances. We agree, if it were possible to have one central mechanism of reporting all of these types of things that would certainly make things easier to do. The knock-on effect is that it may well increase the number of reports made.

Q79 **Chris Stephens:** Mr Weeks, your organisation sent in a written submission. Is getting Financial Conduct Authority regulated advice enough to prevent someone from being scammed and should trustees have a pool of financial advisers that would be recommended to scheme members?

David Weeks: Trustees would tend to point members for advice, first of all, in the direction Pension Wise or independent financial advisers. As I mentioned, there is a general drift at the moment among trustees to become more proactive themselves in taking advice. Increasingly trustees, especially in the bigger schemes, will tend to have pools of advisers who they call on. The advantages of those, of course, would be quite considerable in financial terms. If you are a financial adviser and have got to grips with the mechanics of one particular scheme, rates of which are dependent on remuneration, you can build up a core of expertise that will reduce the cost for individuals. I think there is a strong advantage with it.

The problem is that there is what the Pensions Regulator calls a long tail of schemes, which are not particularly well governed. They are typically smaller schemes and will find it difficult to retain panels of financial advisers who could fill this brief.

In answer to your questions, there is general movement towards that but problems in implementation especially among the smaller schemes.

Q80 **Chris Stephens:** Neil, is the regulated advice device enough to prevent people being scammed?

Neil Copeland: There is an even more fundamental problem than that. On regulated advice there is still, in our experience, a fundamental lack of understanding among large sections of the public about the difference between the regulated and unregulated advice. We speak to members of the scam schemes we have been appointed to and when we first get in touch with them, they will often tell us that their financial adviser recommended transferring into this particular scheme. When we investigate, we find that it is an unregulated introducer and members have not had financial advice even though they think they have.

I think it is still an education requirement, an awareness raising campaign around the importance of regulated independent financial advice. For the reasons we touched on earlier, I don't think regulated advice alone is sufficient to prevent scams. As we know, insistent customers are problematic. One of the red flags that I would like to see in regulations eventually is for a pause or a suspension of the right of transfer for an individual who is going against independent financial advice. We occasionally have seen examples of that where members have been advised not to transfer and still insist on transferring.

If we are talking about transfer advice, there is a gap in that the requirement to take financial advice applies only to defined benefit scheme transfers and it does not feel right or logical to me that a member with a 150k defined contribution transfer value is less protected than a defined benefit member with a transfer value of the same amount. I think for those reasons the answer is that regulated advice alone is not enough.

On what schemes and trustees could do, I think ideally that at retirement and on the point of transfer, schemes should, if they can, make advice available to members. There are issues about how that is paid for that David has identified and you touched on, in your earlier session, the pensions advice allowance. There is scope for the pensions advice allowance to be effective. I think the reason it is not being taken up at the minute is, as was alluded to, that £500 for proper, considered, independent financial advice is not going to get you very much advice and it is also quite cumbersome to corroborate. There are challenges with extending it to defined benefit schemes but people are making very big decisions here. A member of a defined benefit scheme will have a transfer value that is possibly their most valuable asset or possibly second only to their house. Facilitating people accessing proper independent financial advice has to be a key objective of all this.

Q81 **Chris Stephens:** To take that up, Neil, my understanding is that someone can take that pension advice allowance three times without charge. You are saying to the Committee that is not really effective and you would like to see some changes there.

Neil Copeland: It is three times but spread over three tax years. People don't normally take advice on a tax cycle; they take advice on key events in their life, like retirement or possibly if they are considering transfer. I think it should be event driven. Obviously, it cannot be unlimited, I understand the need to limits, but it should be event driven rather than tied to the tax cycle, which does not seem to have any logic underpinning it to me.

Q82 **Chris Stephens:** Thanks, Neil, that is helpful. Nita, is there anything you want to add about whether the FCA regulation advice is enough, the role of the trustees and the best advice?

Nita Tinn: I echo Neil’s comments and go further and say that obviously as trustees there is a legal duty to make sure that members take advice for DB transfers over £30,000 but as trustees, we have no right to see that advice. There may be a perfectly good financial adviser who said, “Don’t do it” but we can’t see that advice to say, “Please don’t do it, we know your adviser said it is wrong for you”.

I am concerned about the people at the small end, the below £30,000 because they have no protection at all. Depending on their circumstances, £30,000 can still be a significant amount of their overall wealth if they are low paid and do not have a lot of savings. There is a gap in the requirement to take financial advice.

On the question of whether trustees should offer this or have a pool, there are very mixed views here among our members, having canvassed them on this issue. Personally, I do not see an issue with the principle. At the moment if we were to run a transfer exercise where we tell people about their transfer value and do you want to transfer, there is an obligation to pay for independent financial advice under the code of practice and all our members would do that. In those situations we would run a tender exercise and make sure we appointed a reputable firm of advisers and they would then have all the information about the scheme. I don’t see why we could not do that as trustees on other business as usual issues and they pay for it themselves with their allowance or otherwise.

There are two difficulties. Many trustee boards think they might be sued if the adviser turned out to be giving wrong advice and, as we mentioned previously, there are a lot of scam claimants persuading you to take claims against your trustees. The other issue, of course, is cost. I am not sure how we can have a level playing field if the cost of advice is so expensive.

The benefits of trustee boards setting up a panel is that the members of that panel can then become familiar with a particular scheme and that should bring down the cost. Obviously for a larger scheme you can negotiate a fixed fee, which could be considerably lower than the cost of advice otherwise.

I would echo the comments made previously about the £500 allowance. On average, even when we run a transfer exercise and we are getting a discount, the average is around £700 or £800 to give basic transfer advice, which is way beyond many individuals. If you go individually it could be several thousand pounds.

Q83 **Chris Stephens:** Thank you very much, Nita. Brian is there anything you want to add that might not have been covered by the other witnesses?

Brian Thorne: In relation to is the regulated advice enough, we say not on its own. It is clearly an important tool but we are aware of requests where individuals decide they want to transfer where they have received that regulated advice and the recommendation is not to transfer. Again, we suspect that scammers are priming members in this regard. For example, given the FCA's stated initial position of you should not transfer out of a DB pension scheme and it is for the adviser to determine otherwise, if that is the case for someone we believe that scammers are saying, "Well, look, they have to say that to you because that is the standard approach". I suspect that that recommendation to some members does not come as much of a surprise to them.

As touched on before, currently not all individuals who want to transfer need to obtain financial advice. So there is that angle to cover. In addition, it is possible that when we are talking about investment scams and freedoms, the money extracted may not come from a transfer activity—someone may have retired and received a large lump sum at retirement, for example. That would be another situation where currently they would fall outside of the advice requirements.

On the pensions advice allowance, similarly to the other contributors we do not see that being widely used and, indeed, we do not see that being widely requested. Primarily, the overall limit is relatively small for the cost of getting advice about a transfer. The other challenge for DB transfer, of course, as previously mentioned, is that the pensions advice allowance can't currently be taken from DB benefits so it would not necessarily work in that scenario.

Regarding a pool of advisers, in our experience this is something that some larger schemes engage in where they feel that it is to the benefit of their members and perhaps those schemes have large transfer activity compared to smaller schemes. There is probably an element of is there value for trustees in facilitating and offering that service. But there could be benefits for members because it provides a panel for them—a shortlist effectively—to then decide whether they want to use any of those individuals. As David mentioned earlier, that could possibly result in lower fees.

Trustees may also deem it a risk. They may be seen to be endorsing certain adviser firms and they may feel that they put themselves at risk for claims for compensation if at a later date a particular firm has given unsuitable advice.

Finally, that panel would need to be reviewed on fairly regularly. For example, at the moment we are seeing a lot of adviser firms pulling out of the DB advice market. I suppose the message there is it is not only a one-off cost or consideration for trustees, it will require an ongoing consideration and maintenance.

Chris Stephens: Thanks for the full answers. I will hand you back to the Chair.

Steve McCabe: Do you think it would help prevent scams if the Money and Pension Service were able to give limited advice rather than just guidance?

Nita Tinn: I think most members don't understand the difference between advice and guidance. I think Neil mentioned earlier that sometimes they think they have had regulated advice when actually they have been talking to someone who is not regulated and is probably associated with a scam organisation.

I agree that especially for those I mentioned, the people with transfers of less than £30,000 who don't get any advice, who have no requirement to take advice, some limited form of either enhanced guidance or basic advice from someone like Pension Wise or Money Advice Service would be welcome. We would need to give considerable thought to it and how it would be funded but I suppose it could be funded in the same way as the levy, through the pension industry in some way. But I think anything that we could do to protect members and help them before they make the decision would be beneficial.

Neil Copeland: I will make precisely the point Nita did. Members won't necessarily make a distinction between guidance and advice, but I think that any sort of impartial, unbiased, factual information about your pensions options is important and members should be directed to it. The question of whether MaPS should give advice rather than information and guidance is not the point. I think the key thing that more people are directed to MaPS in the appropriate circumstances and they have access to an unbiased, independent source of information about their pension options.

David Weeks: I was going to make several distinctions. There is a distinction between advice and guidance that needs to be clarified. There is a distinction between regulated investments and unregulated investments that ought to be covered. Several of our members on the unregulated report cases like, "I live on the Costa Brava and I have got this new adviser and he tells me that there is a new hotel company that has got guaranteed occupancy rates of 90% and you can get 6% guaranteed—" how far you can go in that way.

The other distinction that our individual members are unclear about is the difference between objective advice and restricted advice. Objective advice is open to all comers and restricted advice is basically salesmen for the particular product of the company they represent. Finally, a distinction that needs to be addressed is that there are cases that are clear scams and there are others that are not scams at all or they are not illegal but they are extremely doubtful from a risk management point of view. It would be helpful if your Committee, Mr Chairman, could turn your attention to all those matters.

Q84 **Shaun Bailey:** I want to start with a couple for Neil. Could you talk me through the process of how you retrieve lost funds and some of the difficulties that you have when trying to retrieve funds that have been lost through scams?

Neil Copeland: Yes. When we are appointed to a scheme by the Pensions Regulator we are often faced with an absence of records and a difficulty in obtaining those records because, as you can imagine, the incumbent trustees and/or administrators are often not inclined to be co-operative. When the records aren't absent, when we manage to obtain the records there is often incomplete documentation around the investments and the investment documentation is often very much in the favour of the investment provider. At one level you could argue it is because the trustees haven't taken the advice they are obliged to under the legislation, but the other argument is they are scammers and they are not really that concerned about complying with the legislation.

When we take these schemes on board, they are often not in any semblance of a pension scheme that most people would engage with. For example, very rarely are there administration records. We normally have to construct those from scratch. Having worked our way through the documentation and tried to identify the investments, you will often find when you get hold of the bank account records that scheme assets have been comingled in the funds of some of the associated companies. There is scheme money sitting in a company bank account but because it is a company bank account, we can't access it although we think we can prove it is scheme money.

The other challenge, when you have unravelled the string ball that you have been presented with, is identifying parties to take action against. Often there is a corporate trustee that is a shell company that has been set up very recently, has not assets. It probably has not even completed a set of accounts. You could take action against that company but you are not going to see any benefit from it. A cost-benefit analysis needs to be done and then we often engage with the investment providers directly.

The investments that we have seen in our schemes range from car parking spaces, shares in single companies, loans to single companies, teak plantations in Brazil, which I don't believe even existed unfortunately, but we have to engage with the people behind these. Again, they are not usually in a rush to hand the money back to the scheme. Quite often trustees, despite the fact that they are meant to be running a pension scheme where members will inevitably want to draw on the benefits, have signed up to investments that are extremely long term, have no early redemption clauses. There are myriad challenges in working through the legal ramifications of the investments, the actions of the trustees, the actions of people maybe associated with the trustees, so there are a lot of challenges.

Having said that, we have had some success in recovering assets, usually on schemes where we have some resources to take action. If we are appointed to schemes where there is little cash or free assets in the scheme, that constrains the actions that we can take in certain circumstances. There are quite a lot of challenges but we have had success particularly in schemes where we have had resources to be able to take the actions that we have thought have been necessary and appropriate.

Q85 **Shaun Bailey:** You have answered already about the level of work that goes into having to recover lost funds, but is that the only measure that you have?

Neil Copeland: I think it is an issue that touches on a failing in the system. When we are appointed to these schemes the regulator has certain powers. It has limited tools in its armoury to take control of these schemes and manage them to some sort of conclusion, whether that is wind up or whatever, one of which is to appoint a trustee to come in on the scheme. When it does that it also has the power to require that the trustee's costs are met, either from the employer or from the resources of the scheme.

The reality is that quite often those costs in the first instance fall on the employer or sponsor of the scheme but, as I have mentioned, a bit like the trustee firms, these are often shell companies with no assets so unfortunately the costs fall on the members. That does not feel fair or equitable but unfortunately it is the nature of the system that we have now.

It is certainly an area that we think could do with some consideration at this level about whether a mechanism can be found where people can be appointed to sort out these schemes but the cost of sorting them out does not fall disproportionately on the members, as it does here.

Nita Tinn: I echo Neil's comments and reinforce them. I have been involved in some of these cases—we were looking at teak trees in Ghana rather than Brazil—and the costs are disproportionate in trying to follow recovery. The difficulty we face is trying to communicate with the members, because every time we write out to them or answer their calls or deal with them it is costing money that comes out of the remaining assets. This is a real issue because there is no central funding to help us on this. We are having to use lawyers and forensic accountants and following assets abroad is extremely expensive and time consuming. I wanted to put that in perspective. It is an issue that we are really frustrated by as trustees.

Neil Copeland: As trustees, we don't have a blank cheque when it comes to using trust funds, contrary sometimes to what members think. If we are contemplating legal action to recover assets, we have to be able to justify that and we will often go to court for Beddoe relief. That is not really a pensions thing, but sadly I have come to learn about it, which basically allows trustees or a trust to obtain directions from the court approving us for participation in litigation.

These are very difficult and challenging schemes and there has to be a better way of sorting them out. They need sorting out. We can't have these schemes like zombie schemes out there with members left uncertain as to the outcome of their pension benefits. These schemes need to be taken on and sorted out. The people in the pensions industry are best placed to do that but it doesn't feel quite right that it is the members who disproportionately pay for this rather than the scammers or some other party.

Q86 **Shaun Bailey:** Where do you think funding compensation should come from when you can't recover funds?

Neil Copeland: Members of our schemes don't have a clear route to compensation at the minute. There are routes. There is the FSCS but it will pay out only in circumstances where members have taken regulated advice. As we have said, the vast majority of the schemes and the vast majority of members have been introduced to these schemes by unregulated advisers and unregulated advice.

We have been doing some work with the FSCS where members are eligible. There are some issues around qualifying loss for an FSCS claim that don't quite fit the schemes that we have but we have been working with the FSCS to help members make claims and we have seen some successful claims through that path. Unfortunately, it only applies to a minority of the members.

There is a Fraud Compensation Fund that is run by the PPF that may provide a route for victims of these scams and members of our schemes, but the eligibility of the schemes from the Fraud Compensation Fund is not terribly clear either and we are working with the PPF on that to see if we can find a route to the FCF being available for victims of fraud.

We think there is an argument for a new compensation fund. Who pays for that? Quite often these compensation funds are paid for by levies on the industry or they might be government funded, but people have clearly been defrauded, people are clearly victims of scammers. In other walks of life where people have been the victims of crime they are compensated. We need to find a way of compensating these individuals.

David Weeks: Could I add my weight to or vote to a national scheme, perhaps on the lines of the way the Pension Protection Fund is covered in the industry. I think the problem if it were landed on an individual scheme is that the cost would be quite significant for certainly the smaller schemes. If a scheme of, say, £100 million assets has two expensive transferees who have pots of £1 million each, which is quite likely with senior directors in a scheme, that would make quite a significant dent in the resources available for the other members. I think some sort of industry levy would be the way to go on this one.

Q87 **Chair:** Thank you very much. That brings us to the end of our session. One final point I wanted to raise is that the Committee has been contacted by a number of people affected by what happened around the Norton Motorcycles scheme. Neil, I know that this is a case where your company has been involved. We would love to have asked you about that but because it is still before the courts of course we can't. But, Neil, the

Pensions Regulator frequently appoints you in this kind of case where things have gone badly wrong. Why does your company get involved in these cases so often?

Neil Copeland: I think that is a fair question. In 2011 we were appointed to a number of schemes that are collectively known as the Ark Schemes, which was our first appointment for schemes of this type. We developed a lot of experience and expertise dealing with those schemes.

Appointment to these schemes is by a tender process with the regulator and my understanding is that the regulator likes a minimum number of, I think, three people to tender for them. We picked up another case the following year and we have built up quite a bit of expertise and an approach that has not really been replicated by other firms in the industry. It involves a fair degree of robust engagement with the scammers and we have built a team with some forensic accounting knowledge and legal expertise, and I think we are probably the best equipped people in the industry to do this job. That is a big claim to make, but it is very niche and we have invested in developing a specialist team, which perhaps other firms haven't, and we have developed a very robust and strong approach to dealing with these.

I presume the regulator appoints us because it thinks we are possibly the best equipped of the people tendering, for the reasons I have outlined, to deal with these cases.

Chair: Thank you all very much for the very helpful answers you have given to all of our questions. We are very grateful to you. If you have any further thoughts on any of these issues, such as how compensation might be payable, we would be very keen to hear from you about that. We are most grateful to you for your help this morning. Thank you very much.