

## Written evidence from Aries Insight [PS0013]

I am a pensions technical consultant at a company called Aries Insight, (though this submission is in a personal capacity, with its blessing). Aries provides guidance on legal and compliance issues within pensions, and one of my specialisms is pension transfers. Naturally, this brings scams within my remit. I have the kernel of an idea that I think could help reduce the opportunities for scammers.

**5. What more can be done to prevent pension scammers operating?**

**6. What more can be done to prevent individuals becoming victims of pension scams?**

**7. What role should the pensions industry have in preventing scams?**

This response is single-issue and could fall into a response to any of these questions.

I believe the industry should explore the idea of maintaining a log of all pension transfers. The potential benefits I explore below. It might require encouragement to do so and this inquiry may be such an opportunity.

### ***Pattern analysis***

Before transferring an individual's pension to another arrangement, the Pension Regulator expects schemes to:

*"identify unusual or concerning patterns, such as spikes in CETV requests or the same adviser across a multitude of requests"*

<https://www.thepensionsregulator.gov.uk/en/covid-19-coronavirus-what-you-need-to-consider/communicating-to-members-during-covid-19>

However, schemes' analyses are limited to just the requests they receive themselves. An industry-wide database would obviously improve this analysis, spot patterns sooner, and potentially identify more scams before any damage is done.

### ***Data on the prevalence of scams***

The availability of data on scam activity is lacking. The FCA relies to a large extent on reporting to Action Fraud, such as in this example [here](#), but this only includes reported scams. This is likely to be the tip of the iceberg.

A database containing a record of all transfers made to any particular scheme would be invaluable. If a scam arrangement is identified, there would be a record of all the transfers made to it.

## ***Better intelligence***

Scheme administrators and providers often have internal lists of schemes they have already investigated as part of transfer due diligence. They may have a 'whitelist' of schemes that they can be more confident of transferring to, and/or a blacklist of schemes they have serious concerns about. This offers efficiency, as they can focus attention on riskier propositions.

There has been demand for some time for these lists to be industry wide, for the obvious benefit of a greater pool of data. There are obstacles to this, but a transfer database could be used to help facilitate such lists.

This proposition will have its own challenges, but has not (as far as I am aware) been given any serious thought. I have some support from the Pension Scams Industry Group for the idea, but they couldn't facilitate this themselves. With WPC backing, this has a chance of being brought to fruition.

I have included a more detailed proposal below

### **Proposal for the Creation of a Pension Transfer Database**

The creation of a simple, industry-wide transfer request log recording:

- (a) Pension arrangements that transfers have been requested to\*
- (b) Financial advisers associated with proposed transfers
- (c) Dates of entry
- (d) The scheme administrators logging the entries

\*The details should be entered pre-settlement, as not all proposed transfers will go ahead.

As part of due diligence on a proposed transfer, administrators will enter the details for (a) and (b), if relevant. The other two will be recorded automatically.

After submission, the database will return the following details:

- the number of transfers requested to that specific arrangement; and
- (if relevant), the number of requests associated with that specific adviser;
- some information using the dates of entry to qualify the above two details (e.g. number in the last three months).

It will not display the arrangements those transfers have been requested from. This prevents the log from being used for any competitive purpose, restricting it to analysis of genuine transfer requests.

There could be a later step to confirm whether the transfer went ahead. The log could then also report on proposed transfers cancelled: a useful 'red flag' indicator. This would also provide more accurate figures for the number of transfers made to arrangements that are later found to be scams.

### **Steps Involved:**

1. A database will need to be created, tested, and approved.
2. Several scheme administrators will need to agree to adopt the database for it to be worthwhile.
3. Those scheme administrators will have to create a record and login details so (d) can be recorded automatically.
4. Schemes will need to enter these details consistently. This may involve updates to automated processes.
5. The database would need to be maintained (e.g. to keep up with operating system updates).

### **Benefits:**

- The results could be useful for spotting red flags, and certainly more useful than monitoring just the requests received directly by the organisation.
- It could create automatic notifications (e.g. to the FCA) when certain thresholds are reached.
- Details of the scheme administrators that made the entries could be accessible by Action Fraud (and other authorities), which may be useful for:
  - o Analysing the scale of pension scams;
  - o Tracking down individual scam victims (via the transferring arrangements).
- This could be the starting point for an industry-wide 'Whitelist', if a criterion for this category can be widely agreed (considering the risks of granting a fraudulent operation this status).
- This could also be used for a 'Blacklist' (confirmed scam operators) and even perhaps a 'Grey-list' (under investigation by HMRC, the Regulator, or the FCA) – though this is possibly more fraught than the other two.
- If your due diligence discovers significant concerns about a scheme, you can instantly flag this. Any scheme that has made a transfer will be notified, and can inform the member. It may be early enough for them to investigate the scheme (after transfer has taken place).

### **Potential Obstacles:**

1. Is this information that should be, or even can be made public?

*Mitigation*

- The details of individuals (besides perhaps individual financial advisers and their FCA registration number) will not be recorded, circumventing data protection considerations.
- Full access to information will only be provided to the authorities.
- The manager of the database should be independent and agree to use the information only for the intended purpose.

2. How is it possible to know whether a number of transfers is a 'spike' or normal for an organisation that size?

*Mitigation*

- The Regulator advise this step in any case.
- The database could provide details (e.g. 25% increase on the previous three months).
- Over time unusual patterns will become easier to spot.
- It shouldn't be the only basis for a decision about the level of DD to undertake.

3. An organisation, ideally one that doesn't compete with pension providers, will need to agree to create and/or maintain the database. There will naturally be a cost.

*Mitigation*

- It seems a relatively simple database.
- There are plenty of organisations committed to this cause.
- There will be prestige attached to supporting this project.

4. Scheme administrators and providers might not want to be involved if there isn't compulsion.

*Mitigation*

- If PSIG recommend it, they risk complaints of falling short of best practice.
- Making transfers to scam operations can result in reinstatement.
- There are reputational risks to be seen to be doing less.

5. Schemes will need to adjust to ensure they consistently update the database.

*Mitigation*

- The adjustments don't seem complicated.
- If take up is widespread, it may be an essential expense.

6. Transfer processing times will increase

*Mitigation*

- It requires only login and a bare minimum of details.
- This analysis should be done anyway, just on an arrangement/organisational level.

7. Organisations may submit fake entries to check out their competitor's stats or to throw suspicion on them

*Mitigation*

- Submitters will have to declare that their entry is true to the best of their knowledge. There will be consequences for misstatement (e.g. reputational).
- The information will be of limited usefulness in this respect. Transfers in are only one way of obtaining new business.
- Even if a 'red flag' is artificially attached to an arrangement this way, other due diligence should clear the arrangement.
- It may be possible to restrict 'enterers' to just registered pension schemes and their practitioners. IFAs won't be able to learn about their competitors.

8. Scammers may find ways of gaming the system

*Mitigation*

- Unless they can delete entries, it shouldn't be too great an issue. All they can do is add entries dishonestly.
- Having to create lots of different schemes (to prevent spikes) at least adds a barrier for scammers to overcome.
- The industry will just have to be vigilant.

9. If the system crashes, this could hold up transfers

*Mitigation*

- It is a relatively simple system.
- The organisation maintaining it will need to be responsible and regularly available.
- The step may be skipped in this (hopefully rare) event, possibly to be revisited later.

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