Written evidence from M&G PLC [PPS0035]

About M&G PLC

M&G plc is a savings and investment company with a long-term outlook. Our aim is to grow our customers' wealth and improve their world by investing with care.

Serving customers in 28 markets across the world our broad set of asset management capabilities allows us to offer customers a series of savings and investments solutions. Where appropriate, we combine this with our capital management expertise to align these solutions with our customers' risk appetite.

In the UK; Prudential, a part of M&G PLC, is one of the nation's leading Life and Pensions companies.

Response to the inquiry: Summary

1. We are grateful for the opportunity to present our thoughts on this incredibly important topic. The end result for those who are the victim of a scam can be devastating; possibly resulting in a lifetime of retirement savings being wiped out in a single transaction. We welcome the Committee's decision to look into this issue and support further efforts to try to reduce the number of individuals who end up being the victims of pension scams.

2. We set out our responses to the questions asked below but would like to highlight a few points:
    - We have some concerns about the definition of a 'pension scam'. We have found that, sometimes, when people speak about a pension scam, they are speaking only about scams which impact directly on money currently held within a pension scheme. It is our belief that there is currently a trend towards people being scammed out of their retirement savings after it has been legitimately withdrawn from a pension environment and we believe that because of this such scams are often not classed as pension scams.

    - Closely tied to the above point pension freedoms means that people are now able to take their money from pension savings and do what they wish with it, including investing it elsewhere. We support such freedoms and the way that they empower customers to control their own financial future. However, a consequence of this is that some people may have access to larger lump sums than at any other point in their lives and this makes them an attractive target for scammers.

    - We believe that the legal vehicle in which the money is sitting when the scam takes place, whilst relevant from a regulatory perspective is of less relevance to the victim for whom the end result is the same. Ideally, we would like to see a clearer definition of a pension scam as a subset of financial / investment scams, with an overall Government strategy looking at trends in all such scams and, as a result, of ways to combat them.

- We believe that fraudulent and fake websites, which purport to be offering legitimate pensions or savings / investment products from a well-known and regulated financial services company, are increasingly being used to facilitate investment fraud and scams. We believe that the mechanisms by which the firm whose name and brand is being misused by the fraudsters can deal with such cases are inadequate. The resolution mechanisms often involve multiple public agencies and take significant time before action emerges. We believe there needs to be a concerted effort to deal with such websites more rapidly and decisively.

- Because no one deliberately sets out to be scammed we believe that there may be a number of individuals who do not even realise that they have fallen victim to a scam. As far as these individuals are concerned their money is safely invested somewhere and they will only realise that they are a victim at a later date. Combined with a reported reluctance of some individuals to come forward to admit they have been scammed we are concerned that the current figures do not capture the full extent of the problem.

- **What is the prevalence of pension scams?**

3. As the nature of pension scams, or potential scams, can vary so dramatically and as there is currently no single definition it is not necessarily easy to accurately judge prevalence.

4. Scammers usually make their money either by absconding with the entire pension fund or, more commonly, by applying inflated charges which are often multiple (i.e. a number of different charges) and hidden in complex terms and conditions. These inflated charges can end up reducing the individual's fund to zero or near zero. However, the actual scam itself can take a number of forms.

5. In theory a pension scam could involve:
   - someone's money being stolen outright. Often the individual will think their money is being transferred to another pension or an investment whereas in actuality it is diverted to the scammers own account.
   - money being invested in high-risk investments such as overseas property, renewable energy bonds, forestry or storage units which are unsuitable for the individual
   - money being put in less high-risk products but ones which have high charges and often generate tax liabilities which the individual was not made aware of.

6. This variety, which can sometimes lead to people being unsure if they have been scammed or simply been unlucky in their investment, combined with a general lack of reporting due to time lag (as described in paragraph 9) and, sometimes, embarrassment about having fallen for a scam means that getting an accurate picture of prevalence can be difficult.

7. Pension companies do a lot to prevent scams and the easily identifiable ones are often the least common because they are picked up. As mentioned above scams often occur when an individual is convinced to transfer their savings somewhere unsuitable or fraudulent and

when this money comes directly from a pension existing processes and controls may be able to prevent it, or at least to raise concerns which may cause the saver to rethink their plans.

8. However, under pension freedoms an individual who has (under current rules) reached age 55 is able (subject to appropriate taxation) to remove their money from a pension scheme to do with it whatever they wish. If subsequent activity results in them falling victim to a scam which sees them lose that money it is not generally considered to be a pension scam even though, for the scammed individual, the result is the same: the loss of assets that may have been intended to fund retirement. Closely linked to this, it is not currently known how many savers are being persuaded, by scammers, to legitimately withdraw their money from a pension environment in order to facilitate a follow-on investment scam. Encouraging someone to remove their money from a pension environment would be useful to scammers are there are generally less 'rules' and controls in place when money is being invested from a bank account than directly from a pension fund.

9. Time lag is also an important factor. While some scams are picked up quickly others may take years to come to light. An individual, perhaps someone in their mid-50's, could withdraw their money from a pension environment quite legitimately, pay whatever tax is owed, and then transfer the money to an investment which is either non-existent or totally inappropriate for them. They may not realise they have been the victim of a scam until many years later when they decide to actually retire and need access to the money they 'invested'.

10. We believe that an important initial step in increasing the fight against scams would be to have a consistent definition of a pension scam and, if possible, to treat pension scams as a subset of wider investment scams (or financial scams). Each specific type of scam would be dealt with in the appropriate way but with coordinating action and policy across all financial scams, rather than having the focus on individual elements as is currently the case. This is based on our belief that, from a consumer perspective, the end result is the same and so the focus of industry and policy makers should be on the devastating effect that scams can have, rather than on the source or vehicle from which the scammed funds originate.

- **What are the current trends in pension scams?**

11. Until pension freedoms allowed people to access their pension money from age 55 and do with it what they wished the main type of pension scam was 'liberation' - undertaking transactions which 'illegally' extracted the money from a pension wrapper. Pension freedoms significantly reduced that type of scam (though it does still occur in relation to those aged under 55) but scammers are adaptable and have changed tack.

12. In the early days of pension liberation, it was often the case that 'Small Self-Administered Schemes' (SSAS's) would be used by scammers. The saver would be encouraged to set up their own company and then have that company set up an occupational pension scheme. The saver was the only director/employee of the company and the only member of the pension scheme. The administrator of the pension scheme was usually the company that had encouraged the customer to do this. Funds from other schemes would then be transferred to that scheme and, on the face of it, the transfer was to a legitimate pension

scheme. However, the scheme was either misappropriated or invested in a very high-risk investment with inflated charges. The scammer would make money from either absconding with the entire fund or through benefitting from the increased charges. We believe that it is possible that the removal of the requirement to appoint a professional trustee of a SSAS increased the use of such schemes for pension liberation

13. Over time QROPS were increasingly used for pension liberation. A QROPS is an overseas pension scheme intended for people who live in the country in which it is established. Customers, including those living in the UK with no intention of moving overseas, were encouraged to transfer to these and have often seen the value of their investment fall - due to it being high risk - or disappear entirely. Again, the scammers made their money by either misappropriating the entire fund or, more commonly, benefitting from high and complex charges.

14. More recently we have seen the use of International SIPPs. These are self-invested personal pensions established by a company that is primarily based, and operates, abroad but that has set up a UK office to administer the SIPP. As with the other types of scam the scammer mainly makes their money by imposing inflated charges, though in some cases they may abscond with the entire fund. There are concerns about how customers are being approached and encouraged to transfer to these. Although cold calling in relation to financial products is banned for UK based firms the ban doesn't apply to overseas companies (which is not surprising given the difficulties of enforcement).

15. In addition, overseas advisers, or other companies contacting the individuals, are often not regulated by the FCA and may not be regulated by their own regulator and so there's less, or no, protection afforded to customers. Such individuals or companies should not be advising on transfers from UK schemes. We also have concerns about the nature of investments available in such schemes which, if based in the UK, may not be seen as suitable for that type of investor.

16. Even where a scheme may have major reservations about a proposed transfer to an international SIPP there is often no legitimate reason to prevent it going ahead. There are very limited circumstances in which a scheme can refuse to pay a transfer. Despite being referred to as 'international' SIPPs these schemes are simply a form of personal pension and a transfer to such a scheme is perfectly valid as far as the law stands.

17. While scams involving money direct from pension savings remain a problem we believe, anecdotally, that the most significant increase in recent years may have been in investment-focused scams targeting those who have legitimately accessed pension monies through pension freedoms. Such scams can see people who have either already accessed their savings (and are perhaps holding them in a bank account) or people who are able to access their savings being persuaded to put that money in fraudulent or unsuitable investments. Because the money is no longer in a pension environment when the scam takes place (and could be in a number of possible places) and due to lack of reporting (mentioned above) figures which show the full scale of this issue are, we believe, unavailable.

18. We believe that one specific and increasing danger when it comes to investment scams comes from the cloning of websites – fraudsters setting up a fake site which looks like that

of a legitimate investment company and using this to persuade individuals to invest money (which may well have come from pension savings) in bogus funds that have no relationship to the firm whose name and branding has been used. For our organisation alone in June there aware more than 150 sites / domain names on our watchlist, which were using some variant of our name or brand. It is difficult to do anything pre-emptively about a domain name or website that raises these red flags. Often, they are simply 'waiting to be activated' and when they are activated for criminal purposes those behind them pay to ensure that their sites appear at the top of search engines' results, exacerbating the problem. By the time the site can be shut down it may be too late for some scam victims.

19. Historically consideration of the harms caused online has focussed on non-financial 'grooming' and online financial scams were usually considered as just another form of traditional fraud (i.e. someone, usually unknown to the victim, steals their information or accesses their account without the victim being aware). But it is now recognised that there is a hybrid form of financial fraud - which includes an element of grooming (the scammers are using close personal contact with victims – telephone etc. to build relationships (groom) to override the bank security systems. These are referred to as authorised push payments. Due to their bypassing of normal security systems such scams are often harder to prevent. Banks have an important part to play in validating that the account funds are being transferred to are bona fide and work in this area has been ongoing for some time.

- **What are the common outcomes of pension scams for perpetrators and victims?**

20. The common outcome for victims is the loss of some or all of the savings that were intended for retirement and, in some cases, large tax bills that only compound the problem.

21. As alluded to above one of the issues with looking at this situation is that the definition of a pension scam is often based on the tax position of the money 'taken' rather than the outcome and the implications for the victim. A scam is regarded as a 'pension scam' if the funds lost by the victim came from a designated pension scheme but, as we discuss above, we believe that the trend is towards people losing the money they have legitimately removed from a pension rather than the pension itself being targeted. Unless these additional types of scams are also considered it is hard to judge the true scale of the problem.

22. The increasing instance of authorised push payments (see paragraph 19) also means that there is more 'grooming' taking place where victim and scammer are in closer communication and contact. Anecdotally there is a suggestion that this increases the sense of betrayal the victim experiences and adds to the trauma of being scammed. There are also suggestions of a link between other vulnerabilities (such as loneliness) and the likelihood of being scammed and indications that those who fall for one scam are targeted more often in the future for others. Further research into both of these aspects would be invaluable to ascertain if there is some opportunity for a more targeted approach to preventing scams (perhaps in conjunction with other measures).

- **How are existing enforcement tools being used?**

23. As many pension scams involve the individual's money being transferred to overseas schemes or investments it is often difficult to see enforcement actions being taken. Often the only visible action is against the scammed individual (the victim, in effect) who receives a large tax bill.

24. In the case of adapting and increasingly technological scams (such as cloned websites) the enforcement tools are often slow, involving multiple enforcement authorities. Sometimes the rules, and subsequent enforcement, are simply not keeping up with the scammers.

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

25. Speed – investigations must be conducted quickly, and damage limited by allowing schemes and trustees to prevent transfers where there is concern about a scam. One possibility is that, if schemes are suspected of being involved in scams, they should have their HMRC authorisation temporarily removed while the situation is investigated. There are mechanisms in place for the industry to raise with the authorities concerns about potential scams and scammers which can lead to investigations taking place. At present no action is taken until the investigation concludes but consideration should be given as to whether early action, albeit potentially temporary, would be possible and desirable.

26. One of the keys to reducing scams and stopping scammers does though appear to be education and awareness. Scammers and fraudsters are always looking for new loopholes and ways of persuading people to part with their money. It is difficult for pension providers and authorities to keep up. It is thought likely that if people are more aware of the dangers of pension scams and where they can turn for more information, they are less likely to become victim to the scams. Further research into the links between awareness and the likelihood of falling victim to a scam would be welcomed.

27. As we mention above one of our main concerns is what we believe is a growing trend of cloned / fake websites and false financial adverts. The scammers who use such tactics can only really benefit when search engines return links to their fake sites. The search engines make money from the links and may therefore be more reluctant to remove them. We feel that a wider discussion on such issues is needed, including looking at whether the search engines that benefit should be subject to FCA rules on Financial Promotions. This would be likely to act as a significant impediment to such scam activity.

28. We also believe that consideration should be given to the online environment and what can be done to support firms who are trying to prevent people being scammed against a backdrop of URL expansion. There are currently 280 endings for every single domain name available and each new URL ending that is made available gives scammers a new opportunity to purchase a URL that exploits a legitimate firm's brand and identity. It is not feasible for a legitimate, regulated firm to purchase every single ending that involves its name or brand. For example, in April 2020 the '.TK' URL ending was released and so we are now seeing Prudential websites with .TK emerging, yet we can only take them down once

they are in operation, giving the scammers a window of opportunity. Historically, firms would endeavour to buy every URL linked to their brands but with so many URL endings now available it is not feasible for a firm to acquire the rights for every brand and every URL ending.

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

Making it harder for Scammers to operate

29. We, both as an industry and society more widely, need to make it as hard as we can for scammers to operate. This includes speeding up actions such as shutting down fake websites, the industry (and consumers) being warned of new and emerging dangers, and increased enforcement action against scammers when they can be caught.

Educating Consumers

30. Often a scam victim has undertaken an action which they are perfectly entitled to take but which, at other times, in other circumstances may be encouraged – such as withdrawing funds from a pension environment or making an investment. They have not done anything illegal or 'dodgy'. In addition no one deliberately sets out to be scammed; people often feel that they are being careful and so it couldn't happen to them. In such cases persuading them that the action they are taking could lead to them becoming the victim of a scam can be difficult.

31. Short of reversing freedoms or putting new barriers in place which make it harder for people to get to their pension savings (which we do not recommend as a solution given the broader benefits of allowing individuals to control their own financial future) we believe that education, awareness and, where needed, assistance should be the focus.

32. The majority of those with financial products should already be receiving regular reminders about the dangers via communications such as ScamSmart leaflets (often included with communication from their provider) but it is important that such reminders are accompanied by wider messaging (leaflets are only effective when they are read) and that such messaging is up to date. It is unlikely that a year-old consumer campaign will still be fully relevant. Campaigns should be updated to reflect current trends. There should be clearly signposted resources where an individual can go to seek assistance if they have concerns. Industry and Government should work together closely to agree key messaging and provide early warning of new scams appearing.

Coordinated Policy

33. Government should consider the impact of other policy actions on scams – for example trying to speed up transfer times may provide some consumer benefits but it may also

impact on the number of people falling victim to scams as pension providers are encouraged to process transfers more quickly.

34. Giving trustees and providers greater discretion to pause transfers where there are suspicions may help in some situations. At present it is difficult for trustees and pension providers to refuse, or delay, a transfer – even if they believe that there could be a danger of the individual being scammed. Whilst we fully agree with the concept that the money belongs to the individual and they have a right to transfer it if they wish we feel that there is more of a balance which can be reached when it comes to helping the industry protect individuals.

35. Tighter regulation on the types of investments which can be advertised and sold to individuals would be beneficial – especially when it comes to high risk investments which while perfectly valid for a limited specialist audience may be entirely unsuitable for the mass market, clamping down on cloned websites, stopping false social media adverts (using famous names to advertise high risk investments without their permission) are all indirect but important ways of preventing people from being scammed.

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

36. The pensions industry has an important part to play and in general it already does so. The industry is able to identify and flag those scams, or potential scams, which involve money still within pension schemes and are of a type which has been identified as being a possible scam.

37. Regulatory requirements/guidance are complied with and the relevant ScamSmart leaflets are sent with all Annual Benefit Statements and transfer quotes. In addition, we consider publications such as The Pension Scams Industry Group's (PSIG) code of good practice, ensuring processes and correspondence are aligned as far as possible with industry best practice. Our business processes provide for due diligence checks on transfers out, which align to PSIG's code, and we have a robust referral process to subject matter experts where there are any suspicions of pensions scams taking place. We also place specific warnings (relating to current known scams) on our external websites alongside more generic information about scams. We also enter into direct dialogue with the victims/ potential victims of scams to assist them with reporting to the authorities, and possible recovery

38. In addition to the above activities, where appropriate we will also:

    - Liaise with the FCA, including ScamSmart, to help ensure that details of cloned domains / information is published on their website
    - Engage in dialogue with City of London Police where scams have been identified
    - Liaise with the banks to discuss methods of limiting scams
    - Liaise with industry bodies (such as the ABI/IA) regarding prevention/investigation activity and provide input to press releases which alert the media to new scams, allowing them to be publicised.

- Share intelligence/best practice with peer Financial Services companies/ banks (including, where appropriate, making joint reports to the National Crime Agency (NCA))
- Report scams to the Police (Action Fraud/NCA) and encourage victims to do so as well
- Report suspicious phone numbers to telecoms providers
- Maintain internal awareness amongst our staff, especially customer facing staff, through education and updates.

39. We believe that our actions are consistent with the majority of the pensions industry and that this does help reduce the number of people who fall victim to scams. However, we believe that, increasingly, scams involve retirement savings which are outside of the pension industry's control / remit i.e. money legitimately withdrawn from pensions which then falls victim to a scam or money which the pension provider has been required by legislation to transfer because the potential scammer has received HMRC authorisation.

40. One of the key roles of industry is in sharing information. There are forums within the industry, such as the Pension Scams Industry Group (PSIG), which have produced a code of good practice for pension schemes and providers to aid with due diligence processes. We are a member of the Pension Scams Industry Forum (PSIF), which sits under PSIG and at which intelligence is shared, as well as other fraud forums which discuss pension scams and as other types of financial fraud. Groups such as this should be encouraged and, where necessary expanded. The taskforce, as well as industry, would likely benefit from a clearer, consistent, definition of pension scams.

41. The pensions industry also has a key role in providing educational material and links to places where individuals can get assistance (such as MaPS). This should continue as should centralised campaigns designed to educate people of the dangers.

- **Is HMRC's position on the tax treatment of pension scam victims correct?**

42. As we mention above one of the difficulties in identifying the number of pension scams which takes place is that there tends to be a focus on those scams which involve tax liabilities. This potentially risks less focus on those who are scammed out of their money in other ways.

43. The liability, which arises due to the Government reclaiming the tax relief which has been given on the scheme, was put in place to dissuade those who want to access their pension money early from doing so. It is no longer illegal to access pension savings early; there is just a large tax penalty if you do. This is meant to dissuade people from early access but is only effective if people know about the penalty or - less commonly – if they have not been convinced by a scammer that the opportunity being proposed to them will give them a return that exceeds the value of the tax they will need to pay.

44. So far as we can tell the penalties were meant as a deterrent to put people off accessing their pension savings earlier than Government policy intended and, as such, were not originally put in place to cover situations where people have been genuinely scammed. If

someone has been scammed and has lost all of their pension savings it does seem harsh that as a matter of Government policy, they will then also receive a tax penalty.

45. As an alternative the threat of large penalties could be made a clear and explicit part of an education campaign in order to encourage people to seek expert help before taking any actions which could result in such penalties. Not all of these actions would necessarily be scams but highlighting the tax penalty may help to encourage potential victims to ask further questions about the suitability and appropriateness of the step they are considering.

- **Are public bodies co-ordinating the response to pension scams?**

46. The response to pension scams is being co-ordinated at various places and various points in the chain. The de-centralised nature of the coordination, at least partially, comes back to the fact that there is no clear single definition of a pension scam and some types of scam receive more focus than others. For example, we are not aware of any central coordination of issues arising from cloned websites or misleading financial advertising.

47. That is not to say that decentralised coordination cannot have its advantages, it does allow specific focus and expertise to be brought to bear on specific issues and the public body coordination in these specific, limited areas is usually very good. For example, the ScamSmart and PSIG work on pension scams is good. The problems arise because different parts of the policy system are responsible for different elements of the situation and overall coordination is not always easy. For example, trustees and occupational schemes are generally overseen by DWP and the Pensions Regulator, whilst contract-based pensions, pension providers and the investment system are overseen by Treasury / FCA, and the tax system is looked after by HRMC, and so on. Individually all of these bodies does a good job within their specific remit but overall coordination, which would look at the wider concerns, tends to be more difficult to achieve. It also means that when new concerns such as the cloning of websites arise it is less clear where action can be taken.

48. We believe that consideration should be given as to whether more co-ordination, more communication and openness both with the public and the pensions industry would be possible and useful. It may be that a new oversight body with official duties and powers to oversee operations on financial scams is needed in order to cut across existing roles and remits. We are concerned that, sometimes, scammers may be able to perpetrate their scams for longer than they should because of the difficulty of coordinating a response.

49. We also feel that there should be further consideration of the tax implications of scams – primarily in relation to the tax penalties imposed on those who take their money out of a pension environment before they reach the right age but also in relation to the tax paid when someone is persuaded to legitimately exit pension savings in order to invest elsewhere.

50. We have a specific concern over the involvement in transfers of non-FCA regulated third parties. Such parties can request information based on a letter of authority, despite them not being an appointed representative for an FCA regulated firm. Most of these requests are entirely legitimate and understandable, such as those coming from wealth management

companies, but the fact they are not coming from a regulated firm makes the situation more complex to evaluate. We believe that consideration should be given as to whether these firms, or at least a senior individual within the firm, should be FCA regulated at some level.

51. Another difficulty is that it is only mandatory for an individual to have advice from an FCA regulated adviser on transferring out to another scheme when they have a safeguarded benefit. Whilst we appreciate that advice would not be the right solution in all circumstances, we believe that further consideration should be given to alternatives such as a mandatory conversation with an organisation such as MaPS before action is taken on funds over a certain level.

52. We also have some concerns over feedback/ visibility from public bodies involved in scam prevention. We know that scammers use the brand name of financial services organisations in criminal acts but have found that firms are often not informed when their name or brand is being used and that makes it harder for us to help with prevention.

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