

Written evidence from Aviva [PPS0037]

**Aviva's Response to the Work and Pensions Select Committee inquiry on "Protecting Pension Savers - five years on from the pension freedoms: Pension scams"**

**About Aviva:**

Aviva provides life insurance, general insurance, health insurance and asset management to 33 million customers worldwide. In the UK we are the leading insurer, serving one in every four households. We help more than five million people save for and live in retirement, and meet the pension needs of more than 20,000 companies, ranging from large multinationals to small start-ups.

Pension scams is a matter of great concern for Aviva and we welcome the opportunity to contribute to the Committee's inquiry.

**Aviva's Response:**

**1. What is the prevalence of pension scams?**

On 25 August 2020 the FCA stated that: "A total of £30,857,329 has been reportedly lost to pension scammers since 2017 according to complaints filed with Action Fraud".

Research by FCA and TPR in summer 2019 suggested that 42% of pension savers are at risk of at least one of the common pension scam tactics. That is a total of 5 million people.

In 2019 Aviva investigated circa £750k that related to pension scams. Since lockdown we have identified 27 fake web sites purporting to be Aviva, trying to defraud pension age customers of their investments.

That said, the true prevalence of pension scams is unknown as:

- Many victims of pension scams do not realise that they have been scammed
  - Some victims will not find out they have been scammed for many years (when they come to draw on their pension savings and find that the statements that they have received are entirely misleading).
  - Some victims will never realise that, for example, significantly cheaper arrangements or safer investments or lower fees are available. The difference between poor decision making and scams depends on the intention of the third parties.
- Some victims will never come forward out of embarrassment or shame.
- In fact, there is no common understanding of what is meant by the term "pension Scam" and this needs to be clarified.

**2. What are the current trends in pension scams?**

Since the introduction of pension freedoms there has been an inevitable rise in pension scams – as there are more ways in which fraudsters can defraud victims of their lifelong savings.

In recent years, the impending introduction of whiplash reform measures has also caused "cash for crash" fraudsters to look elsewhere for their victims.

In the meantime, the outbreak of the Covid-19 pandemic has given fraudsters a relatively convincing opening pitch on “we are phoning to help because we see that the value of your pension savings has gone down...”.

Current frauds that operate in the wider pension market include, in order of prevalence seen by Aviva:

- **Very high fees:** charging disproportionately high fees for advice or for investment management.
- **“Interesting” investments:** investing funds in “interesting” sounding investments (for example, truffle farms in the Midlands) that don’t actually exist (and were not intended to exist from the outset).
- **Accessing pension savings before age 55:** The fraudster convinces the customer to transfer their pension savings to the fraudster’s “pension fund” which is not an authorised pension scheme. The money is then transferred to a bank account that the fraudster has access to. The customer has lost their savings **and** faces a hefty tax bill from HMRC (for an “unauthorised” withdrawal from a pension scheme).
- **Accessing pension savings post age 55:** The fraudster convinces the customer to transfer their pension savings to the fraudster’s “pension fund” which is not an authorised pension scheme. The money is then transferred to a bank account that the fraudster has access to. The customer has lost their savings **and** faces a tax bill from HMRC (at the customer’s marginal rate of tax for drawing down on the whole of their pension pot).
- **Account takeovers:** The fraudster obtains login details to access the victim’s on-line savings accounts and withdraws the savings to a bank account controlled by the fraudster. Similarly, the fraudster may have access to their victim’s e-mail account and when they see a potential transition, ask for the money to be sent to a new bank account which the fraudster controls.
- **Brand misappropriation:** creating a presence online and over the phone that purports to be a valid, well known, pension provider to acquire funds – this is currently more focused on investment bonds, though the fraud is migrating to ISAs, and pensions remain a possibility.

**Note** that Aviva has a number of controls in place to help prevent or limit these scams where possible (See question 7).

### 3. What are the common outcomes of pension scams for perpetrators and victims?

**Perpetrators:** In our experience, it is very unlikely that the perpetrators of these pension frauds are brought to justice. This could be for a number of reasons, such as:

- The perpetrators are hard to catch as the frauds are committed remotely.
- The trail goes cold when it takes a long time for the victim to realise that they have been victims of fraud.
- Victims may not come forward.
- Investigating the frauds is very time intensive with relatively low probability that suitable proof will be forthcoming.
- The likelihood of a successful conviction is relatively low.
- Law enforcement has a huge number of competing priorities.

**Victims:** Related to this, victims of pension fraud are unlikely to be put back into the position that they were in before the fraud was committed. The criminals are unlikely to be caught and if they are caught are unlikely to have the funds available to repay their victims.

The victims of pension scams that involve promises to access pension savings early are often taken up by customers who are vulnerable at that time. The pension scammer offers the customer the hope of resolving a financial crisis through accessing pension savings. Whilst this vulnerability will always exist, Aviva would encourage government to clearly set out ways in which customers can access pension savings early and the tax consequences of doing so.

#### 4. How are existing enforcement tools being used?

Where pensions remain within Aviva, they are only subject to market risks that are associated with normal investments. The key risks occur when an investor wants to transfer their pension out of Aviva, as a result of this we only transfer pensions under the following circumstances:

- To another regulated / authorised entity that is registered on the ORIGO transfer platform.
- To a recognised overseas pension scheme registered with HMRC.

While Aviva believe that our existing controls are largely effective in minimising pension frauds we do take the lead in a number of areas. For instance, we are a member of the Joint Money Laundering Intelligence Taskforce (JMLIT) with the National Crime Agency (NCA). We collaborate with them to provide intelligence on live cases and involve them in sector wide problems identified through intelligence sharing. We were the first company that used Section 11 of the Criminal Finance Act that resulted in arrests over pension transfer fraud and are currently part of the second Section 11 sector submission in relation to fake bond and ISA investments (brand misappropriation) targeting pension age investors.

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

We believe that the following measures could play a significant role in preventing pension scams.

- **Financial Service Fraud Prevention:** Scammers do not respect organisational boundaries or operating siloes. We propose creating a mechanism to improve intelligence sharing and management throughout the banking, insurance and investment management sectors in partnership with the public sector, building on the vision of the National Economic Crime Centre. Currently, the banking sector do not share intelligence with other financial service providers, this is a blockage in detecting and investigating fraudulent activity and is something that should be reviewed.
- **Funded Law Enforcement:** We propose that the UK should dedicate expert law enforcement resources to preventing, detecting and prosecuting organised investment and pension fraudsters. Prosecutions should be publicised – even if the scam is for a relatively small sum – in order to increase the risk side of the equation in the risk/reward trade off for scammers.
- **Banking:** We propose that government clearly sets out banks' responsibilities for tackling fraudulent transactions, and develops options for ensuring that banks have the appropriate incentives to effectively carry out their responsibilities in practice.
- **Adviser & Scheme Register:** A central repository containing all authorised adviser and scheme information, rules, key feature documents etc would be a huge help to the industry as this would help spot inappropriate transfers.

Other ways in which pension scams could be reduced include:

- Examining the role of challenger platforms as enablers for investment fraud, as they often appear to make it too easy for money mule accounts to be established.
- Exploring the role of big tech search firms and social media in enabling investment and pension fraud. If fraudulent aggregator/comparison sites were more quickly identified and taken down, there would be far less harm to pension age investors.
- Making certain types of investment illegal for pension savings so that some of the fake investment routes can be closed or prosecuted.
- Ensuring that anyone accessing investments that are not priced on a daily basis should have authorised investment advice to ensure that they have understood the risks of an investment where the true value is hard to establish at the point of agreeing to invest.
- Giving pension companies more power to defer transfer **when** fraud is suspected, perhaps with a clear route to support from law enforcement or another third party that would ratify that the deferral was justified.
- Holding web domain providers more accountable for the creation of domains and the speed with which they can be taken down when inappropriate activity is identified.

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

Organisations fighting pensions scams need to understand the psychology of the fraud: many victims suspect that there may be a problem with the scam, but because of the **possibility** that the scheme might be genuine and the rewards offered **might** be real, allow their better judgement to be overruled.

The government needs to continue to invest in ensuring that the signs of a scam are well publicised. We recognise that there are two fundamental ways members of the public can be “helped” by the scammer:

- Victims who are financially desperate will try anything to get access to their locked in pensions savings.
- Victims who are facing poor retirement prospects will try anything to get a better return.

By ensuring that these two groups know the best options for them, we can help them to avoid being lured in by the scam.

We propose the creation of a free service for members of the public to easily check to see if a scheme and/or an adviser is genuine.

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

Aviva takes the following steps to reduce the impact of pension scams:

- We are a member of the Joint Money Laundering Intelligence Taskforce (JMLIT) with the National Crime Agency (NCA). We collaborate with them to provide intelligence on live cases and involve them in sector wide problems identified through intelligence sharing. We were the first company that used Section 11 of the Criminal Finance Act that resulted in arrests over pension transfer fraud and are currently part of the second Section 11 sector submission in relation to fake bond and ISA investments.
- We wrote an industry wide view of the impact organised crime has on the insurance and investment management sector (including pension / investment fraud) that has been issued to FCA, NCA and City of London police. This has been endorsed by the Association of British Insurers, Investment Life Assurance Group and Investment Association and has recently

been shared with UK Finance. The intention of this document is to ensure the National Economic Crime Plan reflects all of these risks when it is next updated and to focus our sector on tackling each key risk area.

- We understand that Aviva are the only insurer that provide a fraud hub, for members of the public who have concerns over any transactions relating to insurance or investments. We deal with every report on an individual basis. The fraud hub also provides education on current frauds and highlights suspicious activity such as domains pretending to be Aviva or one of its heritage brands.
- We have a dedicated team of data scientists that monitor financial crime activity and focus in on key risks. This has significantly reduced exposure to protection commission fraud and has actually identified that our concerns that pensions were being churned for fees, is not actually occurring on a large scale.

The pensions industry could help support the initiatives that we outline under question 5, namely:

- Financial Services Fraud Prevention
- Funded Law Enforcement
- Adviser & Scheme Register

## 8. Is HMRC's position on the tax treatment of pension scam victims correct?

Our understanding is that HMRC will try to recover tax as if the transaction had been genuine even if the individual receiving the tax bill has been an unwitting victim of pension fraud (in line with current legislation). This is a difficult situation, but it would be possible to introduce a (small) burden of proof on the victim to demonstrate that there had been fraud (as opposed to claiming fraud becoming a new route to tax avoidance) to avoid the double whammy of a penal tax bill.

## 9. Are public bodies co-ordinating the response to pension scams?

Some progress is beginning to be made in this area. We have noted the good work that FCA and The Pensions Regulator have done through their summer campaigns to raise awareness.

We have noted the work done by the Joint Money Laundering Intelligence Taskforce (JMLIT) with the National Crime Agency (NCA).

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