**Written evidence from Personal Investment Management and Financial Advice Association (PIMFA) [PPS0051]**

The introduction of freedom and choice represented an unprecedented intervention into the UK retirement market. Despite this inquiry marking the 5 year period since the implementation of the freedoms, it remains unclear to us whether or not the market as currently constructed is able to fully service the needs of savers or whether the right protections for savers are currently in place. In many respects, the existence of this inquiry speaks to our belief that many of the challenges of freedom and choice as a policy intervention remain unresolved.

At its heart, the existence of freedom and choice speaks to an obvious disconnect in government policy. On the one hand, the vast majority of UK savers are invested in workplace pensions through dint of them doing nothing at all having being automatically enrolled. On the other, from the age of 55 UK savers are provided with full agency of their retirement saving without due concern for their ability to manage such responsibility.

The inevitable consequence of this is that despite savers being provided with full control over their retirement, the UK retirement market has in effect become unequal. On the one hand, there is a significant cohort of savers who are underprepared to navigate complex choices at the point of retirement and are largely left to their own devices to do so, and on the other, a much smaller group of savers who have accessed professional support by way of use of a financial planner or wealth manager.

Currently, the construct of freedom and choice and its implementation has left the UK with a two tier retirement market – one which works reasonably well for a small cohort of savers and one which for millions of savers does not. Whilst there have been moves to mitigate this which we set out below, the market as currently constructed remains reasonably uneven.

**What are the risks and how have these been mitigated?**

***Unsuitable investment choice***

Whilst we note that the focus of this part of the inquiry looks specifically at the prevalence of pension and investment scams arising as a direct result of pension freedoms, it is important to bring to the attention of the Committee the propensity for individuals to invest in products which whilst not strictly scams, pose significant potential for consumer detriment. Investment in these instruments can be extracted through strictly legal means as well through 'scams' although strictly speaking there is currently nothing illegal about their existence.

It is natural for any inquiry to focus on the potential harm posed by individuals being wrongly persuaded to part with their savings in exchange for fraudulent investment opportunities, of far greater concern to the Committee and policy makers more broadly should be the propensity for individuals to 'mis-buy' products due to their inability to navigate the complexity of the retirement market owing to a lack of engagement and support.

By mis-buy we mean that in some cases, individuals could find themselves exposed to products which are unregulated – even if they are not illegal. The current construct of the regulatory perimeter means that there are products which fall outside of it which are largely unsuitable for retail consumers but are sold to them regardless and legally. Whilst in the event of these products failing, consumers will have the ability to claim compensation which we discuss below, we take the view that it would be a better outcome if these products were not available to individuals in the first place.

Investment in these products can be through pressurised sales tactics or offers of investment returns which on reflection are far and above what any retail investor could hope to expect. These investments will almost always then be rooted in complicated structures or more illiquid investments making it hard for investors to divest should they wish to.

To their credit, the FCA have sought to mitigate the risk of unsuitable investment choice to an extent through the introduction of guided pathways at the point of retirement. Whilst we remain supportive of the provision pathways, their introduction has largely been to mitigate individuals doing nothing at all at the point of retirement and, in effect defaulting into cash like investments. For consumers who want to take an active choice in their retirement decision making but do not seek out advice or guidance, pathways may prove to be effective, but it is just as likely that consumers will eschew them in pursuit of investment solutions with more esoteric options.

***Scams***

The intention of the freedom and choice policy has always been to provide individuals with the opportunity to do whatever it is they wish to do with their savings provided that the product options are available to them. It follows logically that in a marketplace whereby savers are provided with multiple pathways in order to enjoy their retirement as they see fit, that scammers are provided with multiple pathways to scam individuals out of their personal pension savings. Since 2017, Action Fraud reports that over £30m has been lost through pension scams, although in reality, that number is surely much higher.

In the main, pension scams tend to be more simple in their construct than slightly more complex investment scams which we have also seen a rise in:

- The scammers offer to move investments to safer or better performing assets; or
- The scammers seek to play on the insecurity of millions of people by offering early release of pension funds to those under the age of 55.

Pension liberation fraud remains a point of extreme concern for us, especially in the context of COVID-19. Given the likelihood of a sustained economic downturn and rising unemployment as a result, we are very concerned that offers to allow individuals access to their pension saving before time will become both more prevalent and more attractive to individuals in trying economic circumstances.

**Where can solutions be found**

***Working with stakeholders***

Financial crime is complex and rapidly evolving. As a result, relevant authorities struggle to proactively identify threats until they have already crystallized. PIMFA and its members continue to work closely with government and relevant stakeholders in flagging potential issues which are arising within the market.

By way of example, following constructive conversations between government, PIMFA and the Regulator, investment fraud was included in the government's Economic Crime Plan having originally been omitted.

The original omission of investment fraud is, in our view, indicative of a broader issue in the way in which government sees financial crime – that it is solely endemic and of risk to large entities such as banks. This is not the case at all, and PIMFA has sought to readdress this imbalance in broadening relevant stakeholders horizons whilst helping them build a better picture of the financial services sector as a whole. We continue to have constructive engagement with relevant stakeholders - the NCAA, City of London Policy, HMT, FCA and others to this end.

***Education***

There is a wide array of information for consumers to access in order to provide them with information on how to spot potential scams. The FCA has launched a ScamSmart[1] website and given that a number of retail investors approach PIMFA in order to be directed towards an adviser, we have also built a microsite[2] in order to provide consumers with information related to how they can spot potential scams as well as what to do in the event of them being scammed.

The provision of information resources for consumers is important and for many, can act as a tool to screen out communications which they have some doubt about. However, these tools are also reliant upon individuals accessing the information in the first instance and being aware of where to seek out the information. To this end, we would argue that those most vulnerable to scams may not have the wherewithal to seek out the FCA website for example and check to see whether or not a firm appears on their register. It should also be noted that whilst the number continues to grow, there is a small proportion of the UK population which still has no access to the internet.

In order for educational tools to be truly effective, public bodies need to be able to effectively alert consumers of their existence. We would point to large scale advertising campaigns on behalf of the government in support of automatic enrolment as well as the Regulator's own campaign around PPI as examples of improving consumer awareness and understanding of issues relevant to them that they ordinarily wouldn't be aware of. We strongly believe in the value of education material for consumers in protecting them against scams, but without making consumers aware of their existence, they will ultimately always be targeted at a reasonably small proportion of people.

The Committee, in partnership with government should consider whether or not they believe the ongoing risk of pension scams to be significant enough to justify investment in a public awareness campaign on the matter.

***Support***

A bi-product of the introduction of pension freedoms was the introduction of the 'guidance guarantee' providing consumers who wished to use it use of a free guidance service to allow them to consider their options as they transitioned into retirement. Take up of Pension Wise has so far been reasonably good with individuals reporting high levels of satisfaction of the government's guidance service[3].

In addition to high levels of satisfaction, awareness of Pension Wise is high with the majority of individuals who used Pension Wise having been made aware of its existence through material sent by their existing pension provider[4]. PIMFA remains strongly supportive of Pension Wise and the

[1] https://www.fca.org.uk/scamsmart
[2] https://campaigns.pimfa.uk/sites/managing-your-money/scam-safe/
[3] In its most recent evaluation report, MAPS reported 93% customer satisfaction with Pension Wise which is extremely positive.
[4] Providers are required to signpost savers to the Pension Wise service – an initiative we strongly support.

Money and Pension Service as a whole, however, we are also cognisant of the current limits of financial guidance. The complexities of navigating the retirement market are such that whilst guidance is a useful tool in helping individuals with reasonably simple needs at the point of retirement, it may not be sufficient for others with more complex needs.

However, what is clear, is that those over the age of 55 who will have received wake up packs should as a result, be more aware of the existence of Pension Wise than they were previously. Whilst we do have some concerns around the efficacy of guidance, the existence of Pension Wise is vital in combatting scams.

Given the limits of guidance we believe that, where possible individuals should seek out professional support through the provision of regulated financial advice[5]. At present take up of advice is comparatively low[6] to the UK population although in the main those that do benefit from financial advice tend to be at the point of retirement or in retirement. The reasons why people do not take financial advice are well discussed – they think it's too expensive; they think they do not have enough wealth to reasonably benefit from it; they think that they can manage their affairs comfortably without paying a professional to do so on their behalf[7].

These concerns can be well founded. Financial Advice is a regulated profession and as a result, it may seem expensive. However, there are significant benefits to those who do use financial advice. Research conducted by the International Longevity Centre[8] suggested that an individual who took financial advice between 2001 and 2006 would have received a boost of £47,706 in their personal pension wealth in 2014/16. Savers at the lower end of the income spectrum, would have received a boost of 24% in comparison to their peers within the same cohort who did not receive financial advice. Beyond the immediate financial benefits, the provision of professional support acts as a key protection for consumers who may be the target of potential scams.

*The Pensions Advice Allowance*

The government and Regulator have previously recognised the benefit that financial advice has on improving consumer outcomes and protecting them from poor decisions. The introduction of the Pension Advice Allowance represents a positive intervention to encourage individuals to take up financial advice related to their pension. However, there are two obvious issues with the policy as things stand:

- Providers are not required to offer meaning that take up has not been as good as would have been expected;
- The current construction of the advice allowance (£1,500 over 3 tax years) is unwieldly and realistically not generous enough for some people who would benefit from financial advice to utilise the allowance.

In seeking to identify areas where more could be done to protect individuals from scams, we would urge the Committee to consider how the pension advice allowance could be better utilised – either

[5] In its report on consumer take up of financial advice, the FCA argued that individuals with investible assets of over £10,000 could reasonably benefit from regulated financial advice
[6] FAMR Consumer research indicates that only 9% of the UK population benefitted from financial advice between 2017-18.
[7] PIMFA and the Wisdom Council, Underfunded, Under risked and Underwhelmed 2018
[8] The Value of Financial Advice, International Longevity Centre, 2017

in encouraging more providers to offer and advertise it, as well as considering whether or not its current configuration is fit for purpose.

*Pension check ups*

As we set out above, the obvious challenge presented by pension freedoms is that it is a policy which is philosophically at odds with the way in which we accumulate pension wealth – through automatic enrolment. In this construct, an individual can largely be left to their own devices over a 30 year saving career only to be forced to engage with their pension savings around the age of 50 onwards. We would favour an approach whereby targeted, engagement was introduced to allow individuals to better understand their finances and the options available to them from an earlier age.

One area that the Committee could explore is the use of 10 yearly check-ups within the work place supervised by a financial adviser/employee benefit consultant. Encouraging individuals to take advantage of a workplace benefit like the use of an adviser should encourage savers to consider whether or not they are on track for retirement as well as preventing cliff-edge decision making which the current policy construct encourages.

***Regulation***

Ultimately the prevention of scams can be best achieved through targeted supervision and enforcement of the sector. Within the context of COVID-19, it should be a source of some satisfaction that the UK regulatory bodies as well as crime enforcement agencies have seemingly been able to work so effectively together. The introduction of social distancing measures and with it, the destruction of individual support networks create unique circumstances and in particular opportunities for fraudsters. At the time of writing, Action Fraud estimates that around £14m has been lost to all fraud associated to COVID-19. Whilst this is a regrettable amount, the unique circumstances of the preceding 6 months could have made this much worse.

As we set out above, of equal concern to the Committee should be the propensity for individuals to find themselves invested in unsuitable investment products at the point of retirement which in many cases could be unregulated. We do not believe that the current regulatory system is working well for these consumers[9] who are at risk of mis-buying without fully understanding that the product they will be investing their life savings in is unregulated .

Too often, enforcement action is taking well after harm has been caused rather than proactively identifying areas of concern in the market. To some extent we do accept the Regulator's argument that the nature of enforcement activity means that much of their good work in this area goes without recognition and well before harm has arisen.

The existence of the Financial Services Compensation scheme does mitigate the potential for consumers to lose out on their savings to an extent. Individuals who have lost money through malpractice and firm failure have recourse for compensation however, there are also significant issues of concern arising from the levy – not least the fact that it is ultimately prudent firms who have to finance the cost of compensation for firms who fail. By definition, anyone who has had to claim through the compensation scheme has had a bad outcome that it would have been much better to avoid. Policy should be designed to minimise the need for the compensation scheme and protect consumers before the harm occurs, rather than allowing harm to occur and replying on the FSCS as a safety net. In the first instance, this means ensuring that the regulatory and supervisory

[9] FCA supervision – fit for purpose? PIMFA, 2020

structures in place to ensure that claims on the compensation scheme begin to fall rather than continue to rise.

This is a pressing concern for our industry in particular.  Rising levy payments directly impact on firms with respect to their overall profitability. Ultimately the cost of servicing these levy payments falls on to consumers, in some cases pricing them out of financial advice and as a direct result, widening the advice gap. This should be of concern to the Committee going forward in its efforts to reduce the propensity for people to be scammed.

We would therefore urge the Committee to consider with colleagues whether or not the Regulatory system as is currently constructed is able to identify potential areas for consumer harm in good time before

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