

Written evidence from the Financial Services Compensation Scheme (APS0047)

1.0 Overview of FSCS

- 1.1 The Financial Services Compensation Scheme (FSCS) is the UK wide compensation scheme for customers of authorised financial services firms that are unable to meet claims against them. It helps to provide confidence in the UK's financial services industry by helping customers get back on track when authorised financial institutions go out of business. Last year FSCS paid compensation of £700 million benefiting several tens of thousands of people.
- 1.2 FSCS welcomes the Work and Pensions Select Committee call for evidence on accessing pensions savings. FSCS works closely with the Department for Work and Pensions and HM Treasury to protect customers and promote financial stability. Not all of the areas covered by the Call for Evidence are directly relevant to FSCS, we therefore only addressed the questions we feel have the most relevance to the work we undertake.

2.0 Introduction

- 2.1 FSCS is a public body set up by Parliament under the *Financial Services and Markets Act 2000* (FSMA).
- 2.2 In carrying out its functions, FSCS helps to protect consumers by paying compensation and in so doing promotes public confidence in financial services and contributes to financial stability. FSCS compensates customers where they normally would have a civil claim (e.g. negligence) against a firm, but the firm is no longer operating and is unable to pay claims against it. FSCS is operationally independent from, but accountable to, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). It is also independent of Government.
- 2.3 FSCS is funded by levies on authorised financial services firms and never charges individual consumers for the work it does. In all cases, making a claim for compensation directly to FSCS is a free and user-friendly service.
- 2.4 Our mission is to help get customers back on track after their authorised financial services firm has failed. We know many customers are under stress and may be vulnerable as they have lost hard-earned savings, and so our aim is to provide an outstanding customer experience to ensure all those who bring a claim for compensation receive the right outcome in a timely and efficient manner.
- 2.5 FSCS does not sit within the pension regulatory family, however, our rules do allow us to protect pensions in some circumstances. We work with The Pensions Regulator (TPR), The Pensions Ombudsman (TPO) and our compensation counterpart, the Pension Protection Fund (PPF) when needed. We also work with the PPF's Fraud Compensation Fund where applicable.
- 2.6 FSCS does not cover occupational pension schemes, such as Defined Benefit Contribution, if they fail. These are covered by the PPF.
- 2.7 However, FSCS can protect pensions that are provided by UK-regulated insurers, as long as they qualify as 'contracts of long-term insurance', such as an annuity
- 2.8 When a pension is purchased as an annuity and that fails, FSCS will cover a person for 100% of the loss with no upper limit.

- 2.9 Where an investment was held within a personal pension (e.g. a Self-Invested Personal Pension or SIPP) or a Defined Contribution, and the UK-regulated provider of the investment fails, FSCS may be able to pay compensation up to £85,000 per pension scheme member.

3.0 Accessing Pensions

Q4 *Are people receiving the guidance and advice they need to make informed decisions about how they access their pensions?*

- 3.1 Following the introduction of pension freedoms, consumers have had more choice. This has resulted in an increase in people investing their pension savings into SIPPs. What must be noted is a SIPP is a pension wrapper and not a product in itself. FSCS covers regulated activities, such as operating a personal pension scheme which every SIPP operator will be conducting. The investments held in the SIPP may or may not be regulated investments for example wine, art or an overseas property investment.
- 3.2 Complaints about pensions which involve a SIPP have steadily increased at FSCS. The typical issues raised by consumers are the suitability of the investments they have been advised to take, or unexpected cost of the SIPP fees. The types of issues consumers face are:
- Investments held in unsuitably high-risk products which have become worthless or underperformed due to the failure of the underlying scheme
 - Investments in products which are incapable of being sold or transferred, restricting ability to draw on pensions. This can include fractional property investments in overseas holiday resorts or storage units, or long-term investments in corporate bonds which may have been delisted from a trading market
 - The involvement of an unauthorised third party in their decision to hold their pension savings in investments in a SIPP
 - Unexpected fees and charges being applied or requests for top-up payments required for ongoing fees. Most SIPP administrators look for a cash reserve of around £2,000 being kept in a cash account to pay for fees and if that is depleted consumers may find themselves receiving unexpected requests for payments
- 3.3 It is therefore important to take steps to ensure savers are adequately informed about the products available to them when deciding how to save for their retirement and when they get to the point where they need to think about accessing their savings.
- 3.4 FSCS believe there needs to be clear and accessible information made available to consumers by both, advisers and providers about what FSCS coverage is available to them. This information should be made available to consumers at the point of sale and when documentation is sent to them by the relevant provider.
- 3.5 To assist consumers, we have launched a new campaign to raise awareness of FSCS protection of pensions and investments. It will encourage people to check our website for the types of pension and investment products that we protect, before continuing to confirm the product's protection with their provider.
- 3.6 Both before, during and/or after receiving advice on pension transfers, consumers should read:
- the FCA's guide [Pension transfer advice](#): what to expect in particular the section 'What does good advice look like?'
- 3.7 FSCS is concerned about the very significant rise in recent years of pensions-related claims as a proportion of FSCS's claims volumes and compensation costs; a large proportion of those

claims are for unsuitable pensions advice, notably relating to moving pension savings into investments which are held in a SIPP. Our Plan and Budget 2021/22, published 22nd Jan. forecast as follows:

- We are anticipating an ongoing rise in complex pension advice claims:
 - The compensation cost for the LDII class¹ is forecast to be £361m, which is a similar level to the latest 2020/21 forecast (£368m). The main cost (71%) of this class is estimated to be in respect of advice claims, where we expect the recent trend of processing more complex and expensive claims to continue.
- We expect further failures of self-invested personal pension (SIPP) operators:
 - Claims in relation to SIPP operators are forecast to account for £336m of the Investment Provision's anticipated £345m compensation costs. The compensation cost for this class is a significant (89%) increase on 2020/21, mainly due to expectations that SIPP related firms may fail.

3.8 It's important to remember that the above figures reflect real detriment suffered by consumers who have received negligent advice or face the failure of their SIPP operator, and these significant costs of compensation are met by firms within the wider financial sector, not directly responsible for the advice given or the firm failure. Consumers who lose funds via a pension investment face little or no prospect of recouping these funds and may face an impoverished retirement. The financial detriment suffered is only part of the problem as the emotional damage of such a loss can be devastating.

4.0 Pension Scams

4.1 FSCS responded to the Committee's previous call for evidence relating to scams and although not directly included in this part of the Call for Evidence, we feel it's appropriate to highlight some segments from our previous response.

4.2 Although FSCS is operationally independent of government and its regulators, FSCS believes it is important to working together with other organisations and to share our data and insights to contribute to consumer protection and the best customer experience, ongoing public confidence in the financial services sector and playing our role to combat rising the costs to firms. This would be in line with legislative arrangements under the Data Protection Act 2018, and MOUs with organisations such as the Serious Fraud Office, the Money and Pension Service and the Financial Ombudsman Service (FOS), amongst others. The FOS provides a dispute resolution service where a consumer has a complaint against a financial firm which is still operating and is able to meet claims against it.

4.3 FSCS also works with the Money and Pensions Service (MaPS) and share a good working relationship. FSCS has recently begun directing consumers to MaPS through our compensation letters, this is to try and ensure that consumers who receive FSCS compensation seek the free and impartial advice offered by MaPS in the hope that consumers will be better able to make good decisions about their pensions in the future.

4.3 FSCS has been working with ~~our~~ other organisations in the regulatory family in the financial services sector on pension scams to do the best for our customers. FSCS will continue to look for ways to cooperate with other organisations and industry where appropriate and where information laws permit to reduce the risk of consumers and the financial services industry being affected by scams.

¹ Life Distribution and Investment Intermediation Class

- 4.4 In the time since pension freedoms were introduced in 2015, there has been an increase in the number of people transferring out of defined benefit (DB) pension schemes into self-invested personal pensions (SIPPs). This in turn has led to a rise in complaints to firms and the financial ombudsman service. Although FSCS cannot say the introduction of pension freedoms and a rise in complaints have led to more failures, there are nonetheless current trends in scams that we are aware of, which was addressed in our previous response.
- 4.5 Scam offers often include
- Free pension reviews.
 - Higher returns - guarantees they can get you better returns on your pension savings.
 - Help to release cash from a pension, even though people are under 55 (an offer to release funds before age 55 is highly likely to be a scam).
 - High pressure sales tactics - the scammers may try to pressure people with ‘time limited offers’ or even send a courier to doors to wait while people sign documents.
 - Unusual investments - which tend to be unregulated and high risk and may be difficult to sell if you need access to your money.
 - Complicated structures where it isn’t clear where your money will end up.
 - Long-term pension investments – which mean it could be several years before you realise something is wrong

These features can also be present in claims where there is no evidence of illegal activity, however FSCS is vigilant in attempting to spot potential scams and report them to the relevant authorities.

- 4.6 Pension scammers undermine FSCS’s remit to protect consumers and promote confidence in the financial services industry.
- 4.7 FSCS continues to support the consensus across financial services stakeholders that financial scams must be included in the Online Safety Bill, lest scammers continue to operate online with near impunity. We are unconvinced that existing initiatives by Government and tech giants will be effective without new legislation. The interconnectedness of scamming operations means that a multi-pronged holistic approach is essential.

5.0 Information required to make informed decisions

Q8: *Including costs, what information do consumers need about different retirement products to make an informed choice?*

- 5.1 FSCS protection should be promoted more to ensure consumers are aware of FSCS and the level and scope of coverage available.
- 5.2 FSCS would like to see a requirement introduced which makes it mandatory for advisers and providers to include information about FSCS protection on pension documents sent to consumers. This is similar to the requirements which already exist for deposit takers.

6.0 Conclusion

- 6.1 FSCS is committed to putting the customer first and helping to get them back on track while reducing the levy through our prevent programme. FSCS also remains committed on working to reduce the levy.
- 6.2 FSCS welcomes the Work and Pensions Select Committee call for evidence on accessing pensions savings. Ensuring that pension savers have ready access to the correct information when accessing their pension is vitally important.
- 6.4 FSCS stands willing to work with the DWP, WPSC, Regulators and Industry to drive awareness of FSCS protection and to work together to drive better outcomes for consumers.

May 2021