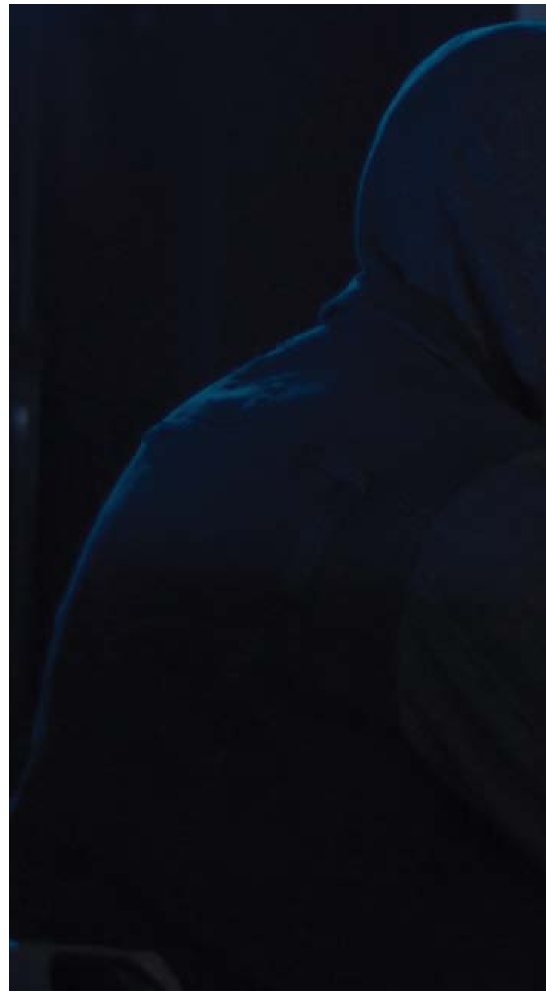

SECURITY

Playing catch up

UK retirement savers are targeted by scammers in many ways, particularly since the introduction of pension freedoms. But are the authorities getting any closer to shutting out the fraudsters?

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In March this year, the City of London police force, which takes the lead on financial crime in the UK, reported a large spike in pension scamming. £8.6 million of retirement savings had been lost to fraudsters. The month before, that figure had sat at £779,000.

The jump meant that according to latest calculations, some £42 million worth of pension savings have been reported lost since the UK government introduced pension freedoms in 2015, which made it much easier for people to access their savings after they turned 55.

But this is just the tip of the iceberg. The total number lost to scammers over the years is much greater.

Government statistics show that from 2006 to 2016, £8.8 billion was transferred from UK schemes into qualifying recognised overseas pension schemes (QROPS). And a couple of years ago, Aegon revealed that 80 per cent of the requests that it had received for transfers into QROPS were fraudulent.

Generally speaking, pension scams contain elements of pension liberation schemes and risky investments. An individual is contacted by a fraudster and persuaded to request that their pension provider or scheme transfers their pot to another registered pension plan or a QROPS. Once the pension scammers have managed to get the money transferred, they can then release it as a cash payment or throw it away on fabricated or dubious investments that promise astonishing returns and deliver the precise opposite.

Consultancy Broadstone technical director David Brooks says the scammers appeal to two instincts to snare their victims: fear, and greed.

"Some of these QROPS websites say some pretty disgraceful things about the UK pensions system to get people to transfer out. That DB schemes are all bust, and that the PPF *[Pension Protection Fund]* hasn't got any money, for example.

"It's all about the sales technique. They say that your pension is about to disappear completely. So the mentality is, 'well if I've got it, then they can't get it'.

"They also see pound signs in their minds."

To stem this, the UK government, as part of a wider plan to tackle tax avoidance, introduced of a 25 per cent charge on transfers to QROPS earlier this year. Other measures have also been in the pipeline since December. These include installing a cold-calling ban; clarifying the law so that company-run pension schemes can block transfers if they have legitimate concerns; and making it a requirement that only active companies can register a pension scheme. At present, single-member occupational schemes require no registration with the UK's pensions regulator, and can be set up using a dormant company as the sponsoring employer.

It's no wonder then, that the City of London police's March statistics showed a sharp rise in pension scamming activity. The fraudsters are beginning to feel the heat.

A mutating problem

However, fraudulent QROPS are only part of the quandary, Lane Clark & Peacock senior consultant Tony Bacon explains.

"The problem of scams is

SCAMMING HAS DEVELOPED FROM SIMPLY STRIPPING PENSION SAVINGS AWAY TO FUNNELLING THEM INTO BAD OR FAKE INVESTMENTS

increasing but it continually mutates, with the authorities at least one step behind," he says.

"Fraudulent SIPPs (Self Invested Personal Pensions) or non-pension investment vehicles for money legitimately cashed out under freedom and choice may be bigger problems."

He singles out one example of the misuse of a SIPP involving a supposed £23 million Cambodian biofuel project that needed investors. It turned out that there was no project. But there was nothing to suggest that the SIPP itself was fraudulent at the time.

Brook says that scamming has developed from simply stripping pension savings away to funnelling them into bad or fake investments.

"The scammers will abide by the rules over transfers, but then what happens afterwards?" he says.

"The pension scams nowadays seem to be about what you do with the money once it's gone. That's the issue."

Swindling savers out of their retirement savings is far more prevalent in the UK than anywhere else in Europe, due to the ubiquity of second and third pillar pensions on the British Isles compared to most parts of the rest of the continent. This means that there is little scope for learning lessons from others as to how to tackle it. It doesn't help that the regulatory bodies seem to have been one step behind the fraudsters either.

Between 2009 and 2013, the 5G Futures Pension Scheme – a trust-based DC occupational plan – managed to switch over £16 million into unregulated investments such as tree plantations in Fiji after 529 members of the scheme were contacted and offered financial incentives to transfer their pension into the exotic funds. The investments failed, leaving those who had fallen for the scam with a total of £991,000.

The two trustees involved in the running of the scheme were eventually barred from governing any pension arrangement, but the damage had already been done. As Bacon says: "We've reported on this in May 2017. The regulator did take enforcement action, but long after the money had disappeared."

What the case also proved, of course, is that the criminals are happy to target any type of pension scheme if they can get to it.

Combating the scammers

The Pensions and Lifetime Savings Association (PLSA) policy lead for EU and international James Walsh says that the new UK government needs to "be a lot more ambitious" with its proposals to tackle the scammers.

As well as banning cold calling, the PLSA believes that ministers need to look at preventing fraudsters from text messaging and emailing potential victims as well. It also wants to witness the creation of an authorisation regime for pension schemes.

"It's been too easy to set up a scheme and register it for tax, which many people will think is a seal of official approval, but of course it's nothing of the sort," says Walsh.

"We should get to a situation where people know that if a scheme is approved by the government then they can trust it with their savings."

Additionally, the PLSA has ideas about making it more difficult to abuse small self-administered schemes (SSASs), occupational schemes that are set up under a trust for 12 or fewer members. It wants any new SSAS, or one seeking transfers, to be required to appoint an independent trustee who would be able to blow the whistle on any suspicious activity.

GIVEN THAT NO ONE HAS YET GONE TO JAIL FOR *[PENSIONS FRAUD]* DESPITE BILLIONS BEING LOST, PERHAPS A NEW CRIMINAL OFFENCE OF PENSION FRAUD WOULD HELP

Tax Incentivised Savings Association (TISA) pensions technical officer Renny Biggins says that tightening up the rules around SSASs is crucial.

"SSASs are a vehicle of choice for scammers because there's very little regulation around them," he says.

"Back in 2006 they removed the need for a pensioner trustee who oversaw the scheme. So now just employees or members can run a SSAS. And regulation has been light touch, so you've seen people investing into assets through a SSAS that they really shouldn't be.

"What's more, the sponsor of a SSAS doesn't even have to be a functioning employer."

Bacon believes that the government needs to go an even further step forward.

"Given that no one has yet gone to jail for this despite billions being lost, perhaps a new criminal offence of pension fraud would help," he says.

Opening eyes

On top of putting safeguards in place, extra effort needs to be put in to raise awareness of scams among the public, says Biggins.

There are websites that people can access to get help on how to identify a scam, and the Financial Conduct Authority provides a list of companies that it knows are providing financial services without authorisation. But not enough people know about them.

"There have been a few surveys carried out that analyse how aware people are of scams," he explains.

"One of them *[conducted by the Citizens Advice Bureau]* found that 75 per cent of respondents were confident that they could spot a scam. But when they were presented with three different options, only 12 per cent chose the legitimate offer.

"Scammers are sophisticated. As one avenue gets closed down, they will be working on other ways that they can get your money."

People need to be made aware of exactly what the scams are, warns Biggins. Before it's too late. ■