PENSION SCAMS

Duncan Ferris examines pension scams, looking at how scams can affect the industry, what professionals can do to prepare, and whether the global pandemic is being exploited by criminals looking to pilfer pension pots

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The art of the scam

Crime is a fascinating subject. Whether it's the exploits of the stunningly corrupt Detective Alonzo Harris in *Training Day* or the rise and fall of Henry Hill in *Goodfellas*, some of cinema's most enthralling stories centre around criminals. While stories of pension scams have yet to grace the big screen, the subject is of the utmost importance for industry professionals everywhere.

Perhaps the most important thing to remember is that pension professionals have a responsibility to ensure that scheme members' retirement savings are secure. Let's begin our examination of scams with a look at the ways in which savers' pots can be placed in jeopardy.

Common scams

There are two primary ways in which pension funds can be affected by fraud. The first of these is through members being persuaded into transferring their pots to fraudulent investments, only to find their hard-earned savings depleted or gone entirely.

The Pensions Regulator executive director of frontline regulation, Nicola Parish, says: "Pension scams can be extremely difficult to spot and even the most savvy of us can fall victim. Our research shows there are five million people in the UK who would fall for one of the six common scam tactics.

"All scams are different, but there are a number of warning signs that should raise alarm bells. These include being contacted out of the blue, offers of a free pension review, or unusual investment opportunities – things like overseas forestry or storage pods."

In one example of this, Alistair Greig, owner of Midas Financial Solutions (Aberdeen), persuaded more than 140 investors to place over £13 million into a non-existent, guaranteed, short-term deposit scheme.

He was sentenced to 14 years in prison after siphoning off £6 million of the investors' savings and pensions into his personal accounts, which had allowed him to lead a lavish lifestyle full of expensive cars and trips to Ascot.

This might seem like an enormous amount of money, but it is far from atypical, as Parish explains that "the latest available figures show that victims lost on average £82,000 each", demonstrating that the issue is not trivial.

Schemes themselves can also be vulnerable to tricksters' charms, as was the case in a long-running criminal case in Sweden, which saw four defendants jailed by a Stockholm court after their fraudulent activities cost around 20,000 pension savers SEK 308 million.

The case saw Maltese private pension provider Falcon Funds ordered to return all payments to savers after cash was sunk into investments that the funds were not eligible to be allocated to.

Resilience

So, how can schemes defend themselves, and their members, from such criminal activity?

One essential measure needed in order to fight against fraud is to ensure that staff are prepared to face the challenges posed by criminals.

Aviva group fraud risk director, Matt Chapman, says company staff have been given “fraud prevention training and regular reminders to be vigilant for scams”, which includes “targeted guidance for our people when working from home as well as dedicating a section of our employee website to coronavirus scams”.

He adds: “Pension funds and providers can help themselves by working with the industry and law enforcement agencies to stay up-to-date on emerging threats and types of scams as this dynamic situation evolves, and then using this intelligence to train front-line employees.”

Technology is also a key issue, with Mercer principal, Lorraine Harper, explaining that Mercer has investigated ways to “reduce the need for email traffic in the future whilst enabling members to continue making online requests”.

She says Mercer offers online scheme specific member portals and has rolled out “a central online portal, which is secure for members to provide information directly to us”.

Measures like these can ensure that information is more secure and less likely to fall into the wrong hands, while reducing email flow will help make communications from scammers stand out more.

Harper says: “We are conscious that online requests so necessary in the current pandemic will become the norm in the future, therefore, we have implemented online verification processes designed to cut down the need for members to provide certificates but also to ensure that the members with whom we are speaking are who they say they are.”

While Harper’s point touches on the technological improvements that can combat scammers, it also brings into sharp relief the need for schemes’ communication to be up to scratch.

Parish argues that schemes need to “alert members to the risks of scammers through their communications”, as well as highlighting “the free, impartial pensions guidance” offered by industry bodies.

Chapman concurs, stating: “With the number of people now working from home, delivering targeted security guidance is crucial. Simple stuff like adding scam awareness tips to desktop wallpaper can help ensure people have the threat of scams front of mind.”

Indeed, the current circumstances have created a particular challenge, not just because of the difficulties of remote working, but also because of how happy some people are to exploit an emergency.

Coronavirus

With the world currently experiencing a crisis over Covid-19, it seems that now is a crucial time to exercise caution and be aware of the dangers posed by devious criminals.

The onus is on schemes to be vigilant against these actors, with an April statement from the European Insurance and Occupational Pensions Authority warning that authorities should “expect institutions for occupational retirement provision (IORPs) to carefully consider and effectively manage the increased risk exposure to fraud, other criminal activity, cyber security and data protection” because of “the disruption of society and, in particular, staff working remotely”.

Chapman points out that one facet of this disruption to society, which has left investors “much more vulnerable to falling victim to scammers offering unrealistically high rates of return”, is the sharp falls experienced by global markets.

Harper notes that there are also more and more members “under financial pressure and needing to replace lost jobs and income”, as well as an increased amount of “information being shared electronically across all sectors due to lockdown”.

Chapman comments: “Unscrupulous individuals are using coronavirus as the hook to take advantage of unprecedented levels of uncertainty for pension scheme members and operational change for pension schemes.”

“The type of fraud is the same, but the vehicle is coronavirus. [*In the UK*] Action Fraud has indicated that thousands of web domains have been registered with the name Covid-19. Our intelligence gathering also leads us to believe Covid-19 is being used as a pretext by scammers to persuade investors to transfer their investments into a safer investment,” he adds.

While there might already be early warning signs of coronavirus-related scams, Parish comments: “We have seen no evidence of an increase in pension scams because of Covid-19 yet. However, criminals always seek to capitalise on uncertainty. Fears about the pandemic’s impact on markets could make people more susceptible to scammers tactics.”

Harper agrees that there has not been an observed increase in scam activity but warns that this could only be “because of the time taken to transfer benefits from defined benefit pension schemes”.

It seems that while we have yet to see a spike in coronavirus-related pension fraud, the industry needs to prepare for a potential wave of cases. This makes it essential for pension professionals to use the current window of opportunity to prepare for the worst.

This will ensure that, when Hollywood finally gets round to making a summer blockbuster about pension scams, the good guys will come out on top. ■