



House of Commons
Work and Pensions Committee

Protecting pension savers—five years on from the pension freedoms: Pension scams

Fifth Report of Session 2019–21

Report, together with formal minutes relating to the report

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Work and Pensions Committee

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Summary

Most of us are at risk of becoming the victim of a pension scam. The pension freedoms introduced in 2015 gave people more choice in how they use their pension savings to meet their own needs. But by offering pension savers access to a much wider range of investments, the freedoms also put people at risk of a much wider range of scams and financial fraud. More than five years on from the introduction of the pension freedoms, the Government and the regulators are still putting in place the necessary support framework to tackle scams. Our report calls on them to act quickly and decisively to protect pension savers.

Recording and reporting

Over £30 million lost to pension scammers was reported to Action Fraud between 2017 and August 2020. This is the most commonly cited figure for the scale of pension scamming, but there is no doubt that it is a substantial underestimate. The Pension Scams Industry Group, a voluntary body set up to tackle pension scams, estimates that £10 billion has been lost by 40,000 people to pension scams since 2015. The situation is likely to be getting worse rather than better: scammers in all industries look to take advantage of new situations, and covid-19 potentially offered them new opportunities.

Many victims of pension scams never report that they have been scammed. Others report a scam only a long time after it has taken place. Scam victims reasonably expect that, when they do make a report to Action Fraud, it will be acted upon. They are understandably left disillusioned when this does not happen. A 2019 investigation by the Times found serious failings at Action Fraud, the UK's national reporting centre for fraud and cybercrime. While representatives of Action Fraud were able to speak positively about improvements made to the service since 2019, the investigation, a failure to manage victims' expectations and a lack of action on cases has left Action Fraud with a tattered reputation. The City of London Police should make annual reports to Parliament on efforts to repair it.

The pensions industry itself has the potential to be a valuable source of information about scams. Although we were told that the industry should be reporting scam activity to Action Fraud, representatives said that it is unclear where or how the industry should report pension scams and suspected scams and that they are sometimes discouraged from doing so. Action Fraud should make it clear that the industry should make reports of scam activity to Action Fraud and should provide clear guidance and an effective tool for the industry to do so.

Prevention

The Pension Schemes Act 2021 will allow people's statutory right to transfer from their pension scheme to be restricted where there are signs of a pension scam. Regulations will be developed by DWP and are expected to be in place later this year. The regulations will identify potential indicators of a pension scam which would raise either red or amber flags. A red flag would require trustees to block a transfer and an amber flag would allow them to pause a transfer until a person has received appropriate guidance. This will be

a significant step in preventing pension transfer scams. DWP should publish a review within 18 months of the policy being operational, to allow any necessary legislative changes to be made this Parliament.

The move online by pension scammers has been a recurring theme of our inquiry. Regulators appear powerless to hold online firms to account for hosting scam advertisements in the same way they would be able to for traditional media. Scammers using paid for online advertisements appear to be particularly hard to tackle without the co-operation of the hosting firm. It is immoral that tech firms such as Google are accepting payment to advertise scams, and then further payment from regulators to warn about the scam. It should not require legislative solutions to deter global firms from benefitting from the proceeds of crime, but unfortunately legislation is clearly needed. We recommend that, in order to create parity between traditional media, such as TV and newspapers, and new media, including search engines and social networks, paid-for advertising on online platforms should be covered by the regulatory framework for financial promotions. This would require online publishers to ensure that any financial promotion which they communicate has been approved by an authorised person or is exempted from the financial promotions regime.

On 15 December 2020 the Government announced its decision to bring forward legislation to tackle online harms—the Online Safety Bill—but also signalled its intent to exclude financial harms from the scope of that legislation. It is notable that several public bodies, including the Financial Conduct Authority and National Economic Crime Centre, are openly saying that there is a better approach for the Government to take than the one it has chosen. The Financial Services Compensation Scheme has gone further still, calling explicitly for the Bill to include powers to tackle online scams. The forthcoming Online Safety Bill should legislate against online investment fraud.

Enforcement

There are many bodies with potentially overlapping enforcement responsibilities relating to pension scams. The fragmentation of reporting, investigation and enforcement has made tackling pension scams more difficult. The establishment in 2012 of Project Bloom, the multi-agency task force set up to tackle pension fraud was an attempt to overcome this. We support the creation of Project Bloom, but it has become clear that it does not have the capacity in its current form to achieve its objectives. It must now be given a statutory remit, an appropriate name—we propose “the Pension Scams Centre”—dedicated funding, and the staffing to manage a pension scams intelligence database alongside law enforcement. To avoid the risks of creating yet another regulatory body in an already crowded field, we recommend that the new Pension Scams Centre should have a board made up of representatives of Project Bloom’s current member organisations, with oversight of a pension scams hub. The hub’s responsibilities would include facilitating intelligence-sharing within the pensions industry and between regulatory bodies.

Supporting pension scam victims

As well as ruining someone's financial future, a pension scam can leave them with large unexpected tax bills. Pension liberation scams often involve scammers claiming that there are legal loopholes, such as loans or cash incentives, which can allow a person to access their pension early, before the age of 55, without the victim having to pay tax. This is not correct. Someone who accesses their pension early faces tax charges of 55%. These penalties are intended to act as a deterrent, but do not work in cases where a scammer has convinced a potential victim that the charge will not apply. HMRC has been described as “unrelenting and uncompromising” in the pursuit of these charges. While the position taken by HMRC is legally correct, it has often lacked empathy or understanding of the impact that its demands have on victims. HM Treasury should recognise that, in some clearly defined circumstances, where the saver has been the victim of a crime and made no financial gain from the early access, it may not be in the public interest to demand payment of tax due.

The FCA told us that there have been a very large number of prosecutions involving scams and unauthorised business. We do not agree with this assessment. Its own figures—revealed only through Freedom of Information requests—show that there were just 25 convictions. We have heard numerous criticisms that the FCA is not effective in stopping scams, punishing scammers or retrieving scam proceeds. There is a compelling case for a much more ambitious approach. We recommend that the FCA publish a costed plan to raise its game in tackling scams.

Being a victim of any fraud can be devastating. Pension scams often involve the loss of a lifetime's savings and many of the plans people have made for their later life. Victims of pension scams suffer lifelong financial harm and potential lifelong impact on their mental health. DWP should ensure that all pension scam victims are offered, and encouraged to take, support for both the financial harm and psychological distress caused by pension scams.

1 Introduction

1. In 2015, many people aged 55 and over were given more choice about how they access their pensions, which led to wholesale changes in the industry and the way people plan to use their pensions. Five years on from these changes, known as the *pension freedoms*, we have started a major piece of work looking at how pension savers are protected. This is the first of three planned reports and focusses on protecting pension savers from pension scams. Our future reports will look at how savers access their pensions and saving for later life.

2. People with a defined contribution (DC) pension build up a pension pot, the value of which depends on the amount of money contributed by the person and their employer, and the performance of investments. Before April 2015, most people with DC pensions were required to buy an annuity—a form of guaranteed income. The pension freedoms gave them more choice about how they access their pension savings. People aged 55 and over can still use their DC pension to buy an annuity, but they can also take their whole pot in cash, leave their funds invested while withdrawing an income from the pot (known as “drawdown”), or leave the whole pot untouched.

3. Most of us are at risk of becoming victims of a pension scam. The evidence we received suggests that overconfidence from people that a scam cannot happen to them is a serious concern. According to research by the Pensions Regulator and Financial Conduct Authority “the more highly educated a person, the more likely they are to fall for a pension scam.”¹ During our inquiry we were contacted by many victims of pension scams, both before and after the pension freedoms. These people’s experiences have significantly influenced our report and the recommendations we made. We are not in a position to take any action on or make recommendations about any individual cases. We hope, however, that our recommendations will help past victims and prevent future scams.

4. We have heard about several different types of pension scams. Scammers may use only one of these approaches or mix and match them in the same scam. Some of the scams most frequently raised with us in evidence are:

- a) Liberation: A scammer makes false promises to encourage someone to access their pension before the age of 55. This usually leaves the victim facing a large tax bill.
- b) Investment: A scammer persuades someone to transfer their pension with the prospect of unrealistically high returns on overseas or other investments.
- c) Review: A scammer seeks information about a pension or to make contact for a further scam by offering a ‘free’ review of pension savings and returns.
- d) Advice: A scammer offers free advice with the aim of obtaining information, authority to transfer a pension, or to act as a lead for another pension scam.
- e) Transfers: An adviser, possibly unregulated, recommends a transfer to either a scam or genuine scheme against client interests in order to receive a fee.

- f) Misadventure: A fund or asset manager may invest in a different way to what the saver was led to believe, exposing them to higher risks that they are unaware of and would not willingly take.
- g) Hidden charges or conditions: Firms or individuals involved in a pension that hide and do not seek consent for fees or terms that would be considered unreasonable.
- h) Claims management scams: A secondary scammer targets pension scam victims with offers to reclaim their lost money for a fee.

5. There is not a clear line which separates pension scams from other types of investment or financial fraud. We have therefore dedicated a section of this report to discussing the definitions of pension scams in more detail. Deciding on where the line is, or even if there is a line at all, is not an entirely academic exercise. There are many overlapping organisations involved in preventing and responding to pension scams; defining the issue they are dealing with will determine the response they choose. We were told that often in the past only liberation scams have been considered in discussions about pension scams.

6. The pension freedoms opened up a much wider range of investment choices to pension savers. Pauline Smith, Director at Action Fraud, told us “Instead of taking a pension from one scheme into another scheme, we are now seeing that people are getting targeted to use their pension to, say, invest in fine wines, diamonds or the environment.”² The Pensions Policy Institute, an independent expert research organisation, told us that “Since the introduction of pension flexibilities, there has been a shift towards investment-focused scams”.³ Tim Fassam, Director of Government Relations and Policy at the trade association the Personal Investment Management and Financial Advice Association (PIMFA), said that the distinction between pension scams and other investment fraud is “relatively moot” over the age of 55 as there “are pools of money that can be moved around in very similar ways.”⁴

7. The difficulty in drawing a dividing line between pension scams and other investment fraud was further highlighted by evidence submitted to us on behalf of groups of people who have lost savings intended for retirement, but not all necessarily directly from pension schemes, including the Premier FX Liquidation Committee⁵ and Coburn Corporate Intelligence.⁶ We also heard from groups raising cases in which the actions of their employer or the Government are perceived to have led to lost pension savings, including the Midland (HSBC) Clawback Campaign⁷ and AEA Technology Pensions Campaign.⁸ Issues relating to the management of schemes, not set up or used primarily for the purpose of a scam or misleading savers, cover a much wider range of topics than we are able to address in this report and much of the evidence we gathered is not applicable to these cases.

2 [Q187](#)

3 [The Pensions Policy Institute \(PPS0034\)](#)

4 [Q21](#)

5 [Premier FX Liquidation Committee \(PPS0075\)](#)

6 [Coburn Corporate Intelligence Pty Ltd \(PPS0077\)](#)

7 [Midland \(HSBS\) Clawback Campaign \(PPS0002\)](#)

8 [AEA Technology Pensions Campaign \(PPS0025\)](#)

8. There are many bodies involved in the response to pension scams, either through prevention, investigation or enforcement. The key bodies relevant to our report are shown in the table below, but this is not an exhaustive list and responsibility for scams crosses many Departments and public bodies.

Table 1: Bodies involved in the response to pension scams

Body	Role
The Pensions Regulator	The Pensions Regulator is responsible for regulating trust-based occupational pension schemes and employers' automatic enrolment duties.
The Financial Conduct Authority (FCA)	The FCA is responsible for regulating contract-based personal pensions. It is also the conduct and prudential regulator for firms that provide supporting products and services for pensions, such as advice and asset management.
Project Bloom	Project Bloom is a multi-agency task force set up to tackle pension fraud in 2012. It is chaired by the Pensions Regulator and other partners include the Financial Conduct Authority, Department for Work and Pensions, HM Treasury, the Pensions Advisory Service, the Pension Scam Industry Group, the Insolvency Service, the Information Commissioner's Office, the National Economic Crime Centre and the National Fraud Intelligence Bureau. It is not a statutory body and receives no dedicated funding.
Action Fraud	Action Fraud is the UK's national reporting centre for fraud and cybercrime. The City of London Police is designated as the UK's lead force for economic crime. Since 2014 this has included the National Fraud and Cyber Crime Reporting Centre, known as Action Fraud.
The Pensions Ombudsman (TPO)	TPO investigates and determines complaints and disputes concerning occupational and personal pension schemes.
Financial Ombudsman Service	The Financial Ombudsman Service can consider complaints about FCA-regulated businesses including pension transfers, and personal pensions and SIPPS.
HM Revenue and Customs (HMRC)	HMRC is responsible for enforcing tax legislation and tackling tax avoidance.
Information Commissioner's Office	The Information Commissioner's Office has been responsible for enforcing the pensions cold-calling ban, which was introduced in January 2019.
Police service	The police service investigates and has powers for criminal prosecution of people who commit fraud.
Serious Fraud Office	The Serious Fraud Office investigates and prosecutes serious cases of fraud, bribery and corruption.

9. Five years on from the introduction of the pension freedoms, regulations are still adapting. Later in this report we discuss changes to the right to transfer introduced by the Pension Schemes Act 2021 and the work going on still to deliver the guidance promised alongside the pension freedoms. In March 2020, Andrew Bailey, the then CEO of the Financial Conduct Authority, was asked about the pension freedoms by the Treasury Select

Committee during his pre-appointment meeting for Governor of the Bank of England. He said “Whether they were good, bad or indifferent, they were introduced too quickly. It feels, again, that we have been on a catch-up process as a regulator.”⁹

10. People save for retirement and later life in many different ways, not solely through their pensions. During the course of our inquiry we have been contacted by a number of people who have lost savings, other than pensions, which were intended to support them in retirement.

11. The pension freedoms gave people more choice in how they use their money to meet their own needs. However, by offering pension savers access to a much wider range of investments, the freedoms also removed much of the distinction between pension scams and other types of investment and financial fraud. More than five years on from the introduction of the pension freedoms, the Government and the regulators are still putting in place the necessary support framework to protect pension savers. They must now act quickly and decisively.

12. We recommend that DWP should publish details of its plans to co-ordinate work with the Treasury to combat pension scams as a matter of urgency. Following the introduction of the pension freedoms there is now less practical distinction between the areas of Treasury responsibility, including investments and advice, and DWP’s role in combatting pension scams.

2 Recording and reporting

Scale of pension scamming

13. Over £30 million lost to pension scammers was reported to Action Fraud between 2017 and August 2020.¹⁰ This is the most commonly cited figure for the sale of pension scamming, but it is indisputably an underestimate and is “likely to be the tip of the iceberg.”¹¹ Mark Steward, Executive Director of Enforcement and Market Oversight at Financial Conduct Authority, told us of a single case involving up to £90 million of pension savings.¹² In its evidence to our inquiry, the Pensions Regulator acknowledged that the lack of definitive figures on the scale of pension scams is an “obvious concern”.¹³

14. Pension scamming is likely to be underreported for a variety of reasons. Tim Fassam, Director of Government Relations and Policy at the trade association the Personal Investment Management and Financial Advice Association (PIMFA), explained that many people do not report scams because they are embarrassed to have fallen victim to them.¹⁴ We were also told that not all funds lost to pension scams are identified in the data. Graeme Biggar, Director General at the National Economic Crime Centre, suggested that some of the underreporting of pension scams was hidden inside investment fraud.¹⁵ The Minister for Pensions and Financial Inclusion raised a further challenge to measuring the scale of pension scams, telling us:

The difficulty with scams is that you do not necessarily know that you have been scammed until potentially many, many years later, which makes understanding the scale of the problem very difficult.¹⁶

Pensions, by design, are intended for long term saving and a person may go a long time without checking their funds and might not even realise they are a victim of a scam until they attempt to withdraw their savings.

15. The lack of a definitive measure of the scale of pension scams makes it difficult for both the public and policy makers to make an appropriate judgement about the level of concern we should show. The Pension Scams Industry Group, a voluntary body set up to tackle pension scams, raised concerns with us that “limited reporting of scams activity runs the risk of creating a false impression with the public and government that the instance of scams is considerably lower than experienced by the pensions industry itself.”¹⁷ Its research showed that between 0.5 and 12% of all transfers are likely to be scams. An estimate of 5% of all transfers showing typical scam signs would put the value of money lost to scams since 2015 at around £10 billion.

10 Financial Conduct Authority, [Pension savers claim over £30 million lost to scams as regulators urge footie fans to show scammers the red card](#), 25 August 2020

11 Aries Insight ([PPS0013](#))

12 [Q216](#)

13 The Pensions Regulator ([PPS0064](#))

14 [Q4](#)

15 [Q220](#)

16 [Q274](#)

17 The Pension Scams Industry Group ([PPS0018](#))

16. Our inquiry has taken place during the covid-19 pandemic and several evidence submissions we received raised concerns about the impact this would have on scams. XPS, a UK specialist in pensions actuarial, investment consultancy and administration, reviewed the destinations of transfers from the schemes it administers, finding a recent increase in the proportion of transfers showing at least one “red flag” that may indicate a pension scam.¹⁸ In July/August 2020 over half of transfers exhibited one of these red flags, compared to 33% in the year to June 2020 and 35% the previous year.¹⁹

17. Scammers in all industries look to take advantage of new situations and covid-19 potentially offered them new opportunities. Aviva, an insurance and asset management company, explained that:

... 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 ... ”.²⁰

The Pensions Regulator told us in September 2020 that, at that point, it had not seen evidence of an increase in pension scams, but it had still moved quickly to issue a joint warning about pension scams with the Financial Conduct Authority and Money and Pensions Service.²¹

18. The Association of British Insurers, an insurance industry trade association, told us that covid-19 could make pension scams more prevalent because of the “financial impact that the pandemic is having on many peoples’ lives.”²² This point was echoed by Andy Agathangelou, founder of the financial services campaigning community the Transparency Task Force, who said “Many people are becoming financially distressed and they therefore become an even easier target for crooks and scammers to approach.”²³ The consumer organisation Which? explained:

With savings rates at rock bottom, company dividends suspended and share prices changing rapidly, pension savers might also be looking for a better return, making them susceptible to fraudsters offering ‘high guaranteed returns’.²⁴

Phoenix Group, a FTSE 100 company specialising in the acquisition and management of life and pensions insurance businesses, told us that “The pandemic has shown us that fraudsters will look for every opportunity to exploit the situation for their own ends.”²⁵

19. The real scale of pension scamming is undoubtedly much larger than the £30 million reported to Action Fraud, the UK’s national reporting centre for fraud and cybercrime, between 2017 and August 2020. We have even heard examples of individual cases with losses potentially larger than the total amount reported to Action Fraud in those three and a half years. The Pension Scams Industry Group, a voluntary body set

18 The Pension Scams Industry Group’s scam code has a detailed due diligence process for identifying red flags. Some typical red flags might be incorrect or missing registrations or individuals/firms showing up on lists of known scams.

19 XPX Pensions Group ([PPS0030](#))

20 Aviva ([PPS0037](#))

21 The Pensions Regulator ([PPS0064](#))

22 Association of British Insurers ([PPS0039](#))

23 [Q4](#)

24 Which? ([PPS0061](#))

25 Phoenix Group ([PPS0043](#))

up to tackle pension scams, estimates that £10 billion has been lost by 40,000 people to pension scams since 2015. The situation is likely to be getting worse rather than better: scammers in all industries look to take advantage of new situations and covid-19 potentially offered them new opportunities.

20. *We recommend that Project Bloom, the multi-agency taskforce set up to tackle pension scams, should develop a range of measures to enable a better understanding of the scale of pension scamming, rather than relying solely on the current Action Fraud data. The lack of a definitive measure of the scale of pension scams makes it difficult for both the public and policy makers to make an appropriate judgement about the priority that should be given to tackling pension scams and the resources they should deploy.*

Definition of a pension scam

21. There is no universal definition of a pension scam. Much of the evidence we received suggested that the most fitting definition is the one used below by the Pension Scams Industry Group, a voluntary body set up to combat pension scams, namely:

The marketing of products and arrangements and successful or unsuccessful attempts by a party (the “scammer”) to:

- a) release funds from an HMRC-registered pension scheme, often resulting in a tax charge that is not anticipated by the member.
- b) persuade individuals over the normal minimum pension age to flexibly access their pension savings in order to invest in inappropriate investments.
- c) persuade individuals to transfer their pension savings in order to invest in inappropriate investments.
- d) where the scammer has misled the individual about the nature of, or risks attached to, the purported investment(s), or their appropriateness for that individual investor.²⁶

22. Previously the Department for Work and Pensions and the Treasury have consulted on using the same definition for the multi-agency taskforce Project Bloom.²⁷ It is chaired by the Pensions Regulator and other partners include the Financial Conduct Authority, Department for Work and Pensions, HM Treasury, the Pensions Advisory Service, the Pension Scam Industry Group, the Insolvency Service, the Information Commissioner’s Office, the National Economic Crime Centre and the National Fraud Intelligence Bureau. The Minister for Pensions and Financial Inclusion described to us some of the problems of agreeing a shared definition:

The difficulty is that the question is: what is crime, what is a regulatory breach and what is what I have described as a matter for civil action? Splitting those particular three things in any professional context is difficult, but it is not impossible.²⁸

26 The Pension Scams Industry Group ([PPS0018](#))

27 [Pension scams: consultation](#), 21 August 2017

28 [Q273](#)

The Minister explained that different action would be needed in each case, but concluded:

I agree with you that definition would improve, but you have to subdivide that into the different types of particular actions that follow. Other sectors and other professions have done this before and I do not see why we can't do it.²⁹

23. The line between pension scams and other types of investment fraud is not clear cut. M&G PLC, a savings and investment company, told us that it was concerned that “when people speak about a pension scam, they are speaking only about scams which impact directly on money currently held within a pension scheme.”³⁰ A J Bell, an investment platform, pension provider and investment manager for retail investors, expressed similar concerns that the regulatory focus is too narrow and gave a recent example of scams involving investments into corporate bonds listed on stock exchanges which “would have received very little attention as a pension fraud”.³¹ The North East Derbyshire financial planning business, Belmayne Independent Chartered Financial Planners, told us that pension scams “most often take the form of investment into illiquid, unregulated investments, purchased via a regulated pension wrapper, normally a Self-invested personal pension.”³² The charity Age UK told us that “... there is often a fine line between a ‘dodgy’ yet legal investment, and something illegal” such as a risky product with exorbitant fees.³³ The Association of British Insurers, an insurance industry trade association, said that “Government and regulators should be clear that high-risk, illiquid unregulated investments of this kind are scams and are unsuitable for a pension.”³⁴

24. Unscrupulous actions to profit from pension savings are not solely restricted to illegal activity. The trade association PIMFA warned us and other policy makers of the potential consumer harm of investments made through strictly legal means. Pressurised sales tactics or unrealistic offers of returns may lead people “to ‘mis-buy’ products due to their inability to navigate the complexity of the retirement market owing to a lack of engagement and support.”³⁵ Professor Nicholas Barr told us that “Some suppliers exploit their superior knowledge to increase profits” and that “Many workers and pensioners lack the technical skills to make those choices well (‘can’t’), and some with the necessary technical skills do not devote sufficient continuing attention to the management of their pension savings (‘won’t’).”³⁶

25. The pension freedoms have meant that scammers no longer need to access pension savings directly from a pension scheme. After age 55 a person can withdraw their pension savings in cash with one action and then transfer it to the scammer with a second. The consumer organisation Which? told us that the current definition fails to cover scams which occur after someone has accessed their pension pots and moved their savings to a current account. This can lead people vulnerable to “losing large sums of money to a whole range of scams such as romance scams and impersonation scams.” Which? acknowledged that “a broader definition would overlap with other types of fraud” but

29 [Q273](#)

30 [M&G PLC \(PPS0035\)](#)

31 [A J Bell \(PPS0045\)](#)

32 [Belmayne Independent Chartered Financial Planners \(PPS0040\)](#)

33 [Age UK \(PPS0041\)](#)

34 [Association of British Insurers \(PPS0039\)](#)

35 [Personal Investment and Financial Advice Association \(PPS0051\)](#)

36 [Professor Nicholas Barr, London School of Economics \(PPS0023\)](#)

believes that it is crucial to understand the full “customer journey”.³⁷ Rachel Vahey, Senior Technical Consultant at A J Bell told us that a narrow definition of pension scams “will be counterproductive, it will be restrictive and we would find that scammers would take steps to make sure they didn’t fall into whatever that definition of pension scams was” and suggested that there should be an overarching role in Parliament, such as a Minister for Scam Prevention.³⁸

26. At present there is no universal definition of pension scams and the range of potential activity which could be classed as a scam runs from sharp practice all the way to outright fraud. Project Bloom, the multi-agency taskforce set up to tackle pension scams, uses a broad definition of pension scams which has been developed by the Pension Scams Industry Group. We recommend that Project Bloom should continue to use the Pension Scams Industry Group definition of pension scams, which should be treated as the industry standard. Members of Project Bloom may need to use different definitions within their own settings—for example, to avoid double counting a case of investment fraud under several different categories—but they should record data in a way that is compatible with the definition used by Project Bloom.

Victim reporting

27. Many victims of pension scams never report that they have been scammed or do not do so until a long time after the scam has taken place. According to a recent survey by Aviva, an insurance and asset management company, half of pension scam victims do not do so, mainly because they do not know whom to approach or because they do not believe that their cases would be investigated.³⁹ Phoenix Group, a FTSE 100 company specialising in the acquisition and management of life and pensions insurance businesses, told us that “Many victims are extremely reluctant to admit that their investment may have been a scam and that they have been duped.”⁴⁰ Some victims of liberation scams are worried about unauthorised payment tax charges, but many others will be unaware that they have been scammed until they try to access their pension.

Action Fraud

28. Despite fraud accounting for a third of reported crime, Graeme Biggar, Director General of the National Economic Crime Centre, told us that it has “less than 1% of police dedicated to looking at it.”⁴¹ Action Fraud is the UK’s national reporting centre for fraud and cybercrime. Action Fraud was established in 2009 in response to Lord Goldsmith’s 2006 Fraud Review, which recommended that a national reporting centre with the capability of screening and allocating cases to forces should be set up. An investigation by the Times into Action Fraud published in August 2019 found that:

Call handlers who take victims’ reports after only two weeks of training are coached to mislead callers into thinking that they are talking to police officers.

37 Which? ([PPS0061](#))

38 [Q48](#)

39 FT Adviser, ‘[Missed opportunity’ to use victims in scam work](#), 22 July 2020

40 Phoenix Group ([PPS0043](#))

41 [Q223](#)

They decide during calls whether or not to classify victims' cases as crimes but are told never to reveal this to victims.

Undercover filming shows the outsourced staff taking fraud calls while scrolling through their phones, napping and play-fighting.

Managers say that the police “do absolutely everything in their power to avoid” investigating fraud cases.⁴²

The investigation also found that, of the 500,000 reports made to Action Fraud each year, half are classified as crimes and the rest as “information reports” which are rarely revisited. In 2018 an algorithm selected 117,412 of these to be reviewed by the National Fraud Intelligence Bureau. Of these 37,590 were passed to the police, of which 10,473 were solved.

29. In response to the investigation a review was commissioned which reported in January 2020. The review found that:

- a) Action Fraud's operations are significantly hampered by an operating system that is not fully functional and their resourcing levels have not kept pace with increased reporting.
- b) Concern about the sustainability of a system that is dependent on the 43 police forces in England and Wales to investigate allegations of fraud properly. Rarely is fraud identified as a priority in forces; only a small proportion of officers are involved in fraud investigation; they lack the skills to investigate complex cases; and there is no certainty that cases will conclude with positive outcomes.
- c) A number of people had been dismissed, left the service or had been warned for their behaviour in response to the Times investigation.
- d) Action Fraud has an enthusiastic workforce of mainly young people starting out on their career, who are aware of the standards of behaviour expected of them.⁴³

The review set out concerns about:

... the operational pressures that are being experienced in Action Fraud. When compared to call centres in the police service and the commercial sector, Action Fraud is falling behind industry standards. Callers wait a long time to be answered, over a third of them hang up, call handlers have far fewer rest breaks and high staff turnover suggests that long-term employment is not an attractive proposition.⁴⁴

30. Commander Blackburn, National Coordinator for Economic Crime, City of London Police, told us:

... we expect a very high level of service from the contractors that supply our call-handling service, and we do not tolerate what played out in the newspapers in 2019. Some very swift dismissals took place following that and

42 The Times, [Action Fraud investigation: victims misled and mocked as police fail to investigate](#), 15 August 2019

43 Sir Craig Mackey QPM/Jerry Savill, [Fraud: A review of the national 'lead force' responsibilities of the City of London Police and the effectiveness of investigations in the UK](#), 24 January 2020

44 Ibid.

an improvement plan was put in place with 81 applicants, which covered a number of themes, including recruitment, training, culture and processes. I am pleased to say that 95% of those now have been completed. Through the City of London police, the Police Authority Board commissioned what is known as the Mackey review and that was published in January [2020]. That made 15 recommendations for areas of improvement, eight of which have now been implemented to date.⁴⁵

Commander Blackburn added that:

Since 2019 when this broke in the press, from the cohort of victims that have reported, satisfaction rates have been no less than 90% and up to 97% as it stands now.⁴⁶

31. The expectation of many scam victims is that when they make a report to Action Fraud it will be acted upon. It is hardly surprising that they are left disillusioned when this does not happen. Richard Piggan, Head of External Affairs and Campaigns at the consumer organisation Which?, said:

The key point here is that the disparity between people's expectations and the actual reality is so stark. Consumers who have fallen victim to scams will expect to be able to report it, will expect that report to be acted on, to be investigated, to be contacted, perhaps by their local police force, and the perpetrator brought to justice. In reality, it is reported to Action Fraud. Action Fraud has no investigative powers. Reports are screened and scored by artificial intelligence. The vast majority of these do not get passed on to local police forces and even those that do often do not get followed up and limited action is taken. This erodes trust in the system and it might even put off people from reporting it in the first place because they do not see any action being taken.⁴⁷

Pension scam victim Sue Flood told us about the difficulties she had engaging with Action Fraud:

I actually, at the outset, had a breakdown about this. I was left completely on my own. Action Fraud is a data processing department and they don't engage and they don't offer support. No support was available. The only support that we have ever had was in 2013 when myself and other victims were all together in what was called an Ark class action group. We then facilitated other victims and joined other victims together over the years. No, pretty much everyone I know is highly critical of Action Fraud because it does not seem to take any action.⁴⁸

45 [Q223](#)

46 [Q223](#)

47 [Q25](#)

48 [Q178](#)

Pension scam victim Dennis Waite described a similar lack of support:

When I first reported what had happened to me, it said, “Will you need victim support?” and I accepted. It was basically, as I said earlier, “Oh, you poor thing, it must be terrible,” but that really did not help me. As I am approaching my retirement age, it is starting to affect me more because I am thinking about what it could have been, so I am still, after all these years, struggling.⁴⁹

32. We put the criticisms of Action Fraud to Pauline Smith, Director at Action Fraud, who told us:

First, I would like to say I am very sorry about both of their experiences, Dennis and Sue.

We recognised, from the City of London Police, very early on, when we took over the service in April 2014, that certainly the victim care side—the victim-centric side of the Action Fraud service—really was not there. It was more a recording service. Very early on, in 2015, we set up an Economic Crime Victim Care Unit, which, as Dennis has just said, is not the victim care service that he experienced. Our victim care service was set up as a very early pilot in London to start with, to see if we could support victims of not just pension fraud but all types of fraud and cyber-related crimes, to see if we could support them on the phone, and to see if we could help them cope and recover but, more importantly, to see if we could also stop them becoming repeat victims.⁵⁰

The pilot is now working with 18 forces across the country. Pauline Smith told us that it had supported 81,000 victims and only 17 of those had reappeared on the database.

33. We have been told that Action Fraud has improved significantly since the investigation by The Times, but that there are areas where progress still needs to be made. Richard Piggin told us:

We would like to see more done to work with those victims to prevent reoffending, but also to rebuild their confidence and trust in engaging with the financial services industry in the future.⁵¹

The Minister for Pensions and Financial Inclusion told us that Action Fraud is not an area over which he has ministerial control, but added:

I would make a couple of quick comments, though. The first would be that I do feel that since The Times report—whether that is right or wrong, I do not know—there is no doubt, and I read the evidence of the gentleman who came along from Action Fraud to give evidence to you, that that has shaken them up and they have looked again at the way in which they are working, there is no question. That was the essence of what he was saying.

49 [Q179](#)

50 [Q185](#)

51 [Q43](#)

The data from Action Fraud is clearly really good data. Are we using that well enough? In my view, we can use it in a better way. I do believe we can share it with industry in a data-appropriate way, and we can share it with regulators in a better way. One of the key lessons from all of this process is: try to build on what you have. What we have is Action Fraud, which has a lot of data. We just need to use it in a better way.⁵²

34. Many victims of pension scams never report that they have been scammed. Others report a long time after it has taken place. Scam victims reasonably expect that, when they make a report to Action Fraud, it will be acted upon. They are understandably left disillusioned when this does not happen. A 2019 investigation by the Times found serious failings at Action Fraud, the UK’s national reporting centre for fraud and cybercrime. Representatives of Action Fraud were able to speak positively about improvements made to the service since 2019, but there is a long way to go before it can regain the faith of victims and the wider public. *We recommend that Action Fraud should be accountable to Project Bloom, or any successor organisation, for its work on pension scams. A failure to manage victims’ expectations, an investigation by the Times and a lack of action on cases has left Action Fraud with a tattered reputation. The City of London Police should make annual reports to Parliament on efforts to repair it.*

35. The aftermath of a pension scam can leave a victim needing to deal with several different bodies without much guidance or support. For many victims Action Fraud is the first point of contact and for those for whom it is not, it should be. *We recommend that Action Fraud should have a coordinating role for pension scam victims. Anyone who contacts Action Fraud should not be required to self-direct to other bodies which may be able to help them and instead Action Fraud should set up initial appointments for them. If a potential scam victim contacts a body other than Action Fraud their case should routinely be recorded with Action Fraud, which should signpost the relevant support available.*

Secondary scammers

36. We heard repeatedly of a worrying trend of secondary scammers—that is, scammers targeting people who have already been the victim of a pension scam. People who have not reported their case to an appropriate body or who have done so but not received appropriate warnings may be unaware of the risk secondary scammers pose. The Association of British Insurers, an insurance industry trade association, told us:

We are aware of a sudden increase in Claims Management Companies (CMCs) making claims against ceding schemes or advisers on behalf of victims for allowing bad transfers to go ahead. Astoundingly, these CMCs are sometimes set up by the same individuals as the companies that encouraged the transfers in the first place.⁵³

The Financial Conduct Authority, which became responsible for the regulation of Claims Management Companies in April 2019, told us it has “received a steady flow of consumers reporting that they have been cold-called by firms regarding mis-sold pensions.”⁵⁴ These

52 [Q320](#)

53 Association of British Insurers ([PPS0039](#))

54 Financial Conduct Authority ([PPS0048](#))

cold-callers then ask for an advanced fee to recover lost investments. It also told us that it had also seen “phoenixing”—closing a firm and re-appearing under a new guise to avoid liabilities—in this area:

We have seen instances of financial advisers leaving failed or failing financial advice firms that have run up liabilities to customers through providing poor advice—often in relation to pension transfer advice - and re-emerging directly, or via associates, in CMC to pursue claims against the advice that they themselves have given.⁵⁵

37. We heard repeatedly about a worrying trend of secondary scammers—scammers targeting people who have already been the victim of a pension scam. People who have not reported their case to an appropriate body—or who have done so but not received appropriate warnings—may be unaware of the risk that secondary scammers pose. It can take many years before a person realises that they have been scammed. Once they do realise, if they do not seek the right help they are at risk of falling prey to secondary scammers. We recommend that the Pensions Regulator and the Financial Conduct Authority should use their scams awareness campaign, ScamSmart, to warn of the risk of secondary scammers.

38. We return to ScamSmart in Chapter 3 of this Report.

Industry reporting

Reports to Action Fraud

39. The pensions industry itself has the potential to be a valuable source of information about scams. As part of a panel representing Project Bloom, Nicola Parish, Executive Director of Frontline Regulation at the Pensions Regulator, told us that the industry should be reporting scam activity to Action Fraud and that this is what had been set out in the code of practice developed by the industry through the Pension Scams Industry Group.⁵⁶

40. The evidence we received from witnesses in the pensions industry, however, showed uncertainty about the role of Action Fraud and a perception from the industry that Action Fraud is only intended to be used by individuals who have been scammed. Nita Tinn, Chair at the Association of Professional Pension Trustees, told us that until someone had actually suffered fraud they will not “really [be] able to get very far with Action Fraud” and that trustees would generally contact the regulator first.⁵⁷ Brian Thorne, Principal at the professional services consultancy Barnett Waddingham, , said that it would be easier to have one central mechanism of reporting, which “may well increase the number of reports made.”⁵⁸ Rachel Vahey, Senior Technical Consultant at A J Bell, an investment platform, pension provider and investment manager for retail investors, told us that better definitions and guidance on what can be reported and how it can be reported would be welcome.⁵⁹ Action Fraud’s own website reinforces this perception, saying that:

55 Financial Conduct Authority ([PPS0048](#))

56 [Q227](#)

57 [Q78](#)

58 *ibid.*

59 [Q58](#)

Action Fraud is the UK’s national reporting centre for fraud and cybercrime where you should report fraud if you have been scammed, defrauded or experienced cyber crime in England, Wales and Northern Ireland.⁶⁰

41. Margaret Snowden, Chair of the Pension Scams Industry Group, explained the difficulties of reporting a scam to us:

Action Fraud—and we have been quite public about this—is not currently fit for purpose in terms of defending or following up on pension scams. Really the system is at fault. That is where the problems lie. The system for reporting is very cumbersome. It is focused on individuals reporting, so it does not take reports from practitioners who are at the sharp end and see most of the suspicious activity and would love to be able to report it. There is almost a resistance to schemes and practitioners reporting to Action Fraud.

When you try to report to Action Fraud, it asks for the details of the victim. When a transfer has not yet happened, there is no victim.⁶¹

Margaret Snowden went on to explain that Action Fraud is geared towards viewing pension fraud as pension liberation, but that this is no longer true of the vast majority of pension scams. A J Bell warned in its written evidence that Action Fraud is at risk of missing widespread scams if “several different sources are reporting scams in slightly different ways or referring to slightly different models, with the result that no action is being taken on investigating these scams”.⁶² The Pensions Regulator told us:

Above all, we want the pensions industry to report suspected scams. We are currently working with PSIG and the industry to understand how the industry could be better mobilised to do so. There is no requirement for industry to report pension scams—we believe this is also worth considering.⁶³

When asked how the industry should report suspicious activity, Commander Blackburn, National Coordinator for Economic Crime, City of London Police, told us:

Quite simply, Action Fraud, and that can be reported either by phone or website. This is absolutely vital because this is how we build a rich intelligence picture about what is going on across the UK. Victims must also contact their pension provider, again another really important thing to do because there may be potential to stop that transfer from occurring. Thirdly, pension scheme companies can also report as a third party proxy on behalf of their clients using the Action Fraud reporting tool, the business tool.⁶⁴

42. Pension firms can and should report suspect scams directly to Action Fraud. But we heard extensive evidence from the pensions industry that they are not sure where or how to report pension scams or suspected scams and that they are in fact sometimes discouraged from doing so. Action Fraud’s own website creates a confusing impression that it is intended only for use by scam victims. We recommend that Action Fraud

60 Action Fraud, [What is Action Fraud?](#), Accessed 24 March 2021

61 [Q24](#)

62 A J Bell ([PP50045](#))

63 The Pensions Regulator ([PP50064](#))

64 [Q257](#)

should make it clear that the industry should make reports of scam activity to Action Fraud and should provide clear guidance and an effective tool for the industry to do so. The member organisations of Project Bloom should ensure that they provide clear guidance to the industry about how to report suspected scam activity.

Industry intelligence sharing

43. The pensions industry does not universally share information about possible scams and current trends amongst providers and schemes. There are voluntary ways in which information can be shared, including through the Pension Scams Industry Group and the forum it supports—the Pension Scams Industry Forum—but such information sharing is not mandatory.

44. We heard several similar proposals to encourage the industry to share information about pension scams throughout our inquiry. The Police Foundation, a policing think tank, in its report, *Protecting people’s pensions: Understanding and preventing scams*, recommended that a central intelligence database should be set up for the industry.⁶⁵ Rick Muir, Director at the Police Foundation, told us that this proposal could be pursued on a voluntary basis in the first instance, but if that did not prove to be effective, then Government and Parliament could take action.⁶⁶ Mercer, a health, retirement and investments consultant which is already part of intelligence sharing initiatives like the Pension Scams Industry Group and Forum, suggested that the Pensions Regulator and Financial Conduct Authority could set up a similar service with subscribing organisations paying fees to cover the cost.⁶⁷ Phoenix Group, a FTSE 100 company specialising in the acquisition and management of life and pensions insurance businesses, told us that a pension scams intelligence database would mean that “Trustees and providers would not be solely reliant on the intelligence gleaned from their own, individual experience of transfers of concern and could benefit from the information input by others.”⁶⁸

45. The Pensions Regulator is supporting efforts to encourage the pensions industry to share information about pension scams. Nicola Parish, Executive Director of Frontline Regulation at the Pensions Regulator, told us that it has been running a campaign to encourage the industry to join the Pension Scams Industry Group. As of January 2021, 100 organisations had signed up to the Pensions Regulator’s pledge campaign.⁶⁹ To make the pledge, trustees, providers and administrators pledge to follow the Pension Scams Industry Group code of Good Practice and commit to:

- regularly warn members about pension scams
- encourage members asking for cash drawdown to get impartial guidance from The Pensions Advisory Service
- get to know the warning signs of a scam and best practice for transfers through resources produced by the regulators

65 The Police Foundation, [Protecting people’s pensions: Understanding and preventing scams](#), September 2020

66 [Q203](#)

67 Mercer Limited ([PPS0026](#))

68 Phoenix Group ([PPS0043](#))

69 [Q222](#)

- take appropriate due diligence measures by carrying out checks on pension transfers
- clearly warning members if they insist on high-risk transfers being paid
- report concerns about a scam to the authorities and communicate this to the scheme member.

The Pensions Regulator also told us that the “pensions industry could learn from good practice in other areas of the finance sector” such as the not-for-profit organisation Cifas which manages a fraud database for member organisations from all sectors.⁷⁰ The Minister for Pensions and Financial Inclusion also supported the idea of the industry sharing data through the Pension Scams Industry Group, but told us that take up would need to be higher for it to be successful:

The striking thing for me is this. PSIG has done a very good job. There were about 44 different organisations who were part of its data sharing, and that is now up to about 50, but the practical reality is you would need about 200 of the organisations that are part of industry for there to be real coverage of every part of that industry.⁷¹

46. The pensions industry does not universally share information about possible scams amongst providers and schemes. Information can be, and is, shared voluntarily, including through the Pension Scams Industry Group and the forum it supports—the Pension Scams Industry Forum. We recommend that Project Bloom should facilitate industry intelligence sharing and that the Government should legislate to require industry participation in intelligence sharing at the next opportunity.

47. We welcome the fact that the Pensions Regulator is supporting efforts to encourage the pensions industry to share information about pension scams through its pledge to combat pension scams campaign, which was launched in November 2020. We would like to see all of the pensions industry sign the pledge. We recommend that Project Bloom should actively encourage the pensions industry to sign up to the pledge. The Pensions Regulator should monitor and report twice annually to this Committee on the effectiveness of its pledge to combat pension scams.

Cross-border scamming

48. Pension scammers do not confine themselves to the borders of the UK. Many of the cases we heard about took place across several countries, making enforcement more complicated. Tim Fassam, Director of Government Relations and Policy at the trade association the PIMFA, gave us examples of ‘sharp practice’ in overseas investments, such as real estate and storage containers, and told us “to have any chance of recovering this money that has been transferred overseas it will require law enforcement to work cross-border.”⁷²

70 The Pensions Regulator ([PPS0064](#))

71 [Q226](#)

72 [Q10](#)

49. Qualifying recognised overseas pension schemes (QROPS) are overseas pension schemes which meet the requirements set by HMRC to receive transfers of benefits from the UK. They serve a legitimate purpose for UK citizens who move abroad, but they have also been used as a vehicle for pension scams. M&G PLC, a savings and investment company, told us that QROPS were often a feature of pension liberation scams but explained that more recent pension scams tend to involve international self-invested personal pensions (SIPPs).⁷³ Manita Khuller, who had been the victim of a pension scam, told us that both QROPS and SIPPs are “where pension scammers have operated to a greater extent and continue to do so, operating outside UK FCA regulation.”⁷⁴

50. There are suggestions that requirements for savers to receive better advice would reduce cross-border pension scamming. Mercer, a health, retirement and investments consultant, suggested that it should be a requirement for all overseas pension transferees to take Financial Conduct Authority (FCA) regulated advice.⁷⁵ M&G PLC told us that often overseas advisers are not regulated by the FCA and “may not be regulated by their own regulator”.⁷⁶ There are concerns that firms in the UK may have to pick up the cost of such scams, because the compensation is funded by an industry levy. One financial adviser told us “Many of us were horrified when the [Financial Services Compensation Scheme] started compensating people abroad, where the “advice” was given abroad and the adviser had never been regulated in the UK.”⁷⁷

51. We note that, since the introduction of a potential 25% charge on many QROPS transfers in March 2017, there has been a significant fall in the number of transfers to QROPS. The number of transfers to QROPS fell from a high of 20,100 in 2014/15—with a value of £1,760m—to 4,400 in 2019/20, with a value of £550m.⁷⁸ Margaret Snowdon, Chair of the Pension Scams Industry Group, told us that this was because HMRC introduced new requirements which made it more difficult to transfer pensions overseas. She added, however, that there has been an increase in “people who may be conned, being advised by advisers who are based overseas, and also to invest in overseas investments that are unregulated.”⁷⁹

52. Pension scammers do not confine themselves to the borders of the UK. Many of the cases we heard about took place across several countries, making enforcement more complicated. We note that since the introduction of a potential 25% charge on many qualifying recognised overseas pension schemes transfers in March 2017, there has been a significant fall in the number of transfers to these schemes, which have been a vehicle for scams in the past. But there remain problems with unscrupulous—and often unregulated—advisers based outside the UK. Cross-border co-operation remains important, as the involvement of firms or investments based abroad is a common feature of many scams. We recommend that the Money and Pensions Service should run—and report on—a programme to encourage eligible expatriates to access the free guidance it offers through its new consumer facing brand MoneyHelper when it launches in June 2021.

73 M&G PLC (PPS0035)

74 Manita Khuller (PPS0078)

75 Mercer Limited (PPS0026)

76 M&G PLC (PPS0035)

77 Name Withheld (PPS0036)

78 HMRC, [Transfers to Qualifying Recognised Overseas Pension Schemes](#), 31 July 2020

79 [Q8](#)

3 Prevention

Right to transfer

53. Since we launched our inquiry in July 2020, debate in and out of Parliament has led to legislative changes through the Pension Schemes Act 2021 which will allow people's statutory right to transfer from their pension scheme to be restricted where there are signs of a pension scam. Regulations will be developed by DWP and are expected to be in place later this year. The previous statutory right to transfer was clarified in 2016 when the High Court ruled that Royal London was not able to decline a member's transfer request where there were concerns about the possibility of a pensions scam, overturning a decision by the Pensions Ombudsman.⁸⁰

54. There have been calls since 2016 to introduce legislation which would allow people's statutory right to transfer to be restricted where there are signs of a pension scam. Before the Pension Schemes Act 2021, the Pensions Management Institute, a pensions professional body, told us that pension providers and schemes are the "first line of defence in preventing scams" but "there is only so much providers and schemes can do, not least given the statutory right to a transfer set out in legislation."⁸¹

55. Warning someone that they are about to hand their pension to a scammer is often not enough to prevent them doing so. As part of the Police Foundation's report, *Protecting people's pensions: Understanding and preventing scams*, it undertook a survey of pension companies which found that 70% of pension companies reported that insistent customers wanting to transfer were a major challenge. Some companies described insistent customers being groomed by scammers:

Scammers are often skilled salespeople (with confidence and few scruples) and pension scheme members are often primed with certain messages about what their pension schemes might do or say to attempt to dissuade them from transferring before they even get to us (or we can get to them).⁸²

Lorraine Harper, Client Relationship Director and Head of Proposition at Mercer, told us that "We are caught between a rock and a hard place. If somebody has a right and we do not have a very clear reason to refuse a transfer, we have to do it."⁸³

56. Many of the submissions we received called for trustees to be given the power to block transfers, when they have reasonable grounds for suspicion that a transfer is going to a fraudulent scheme. M&G PLC, a savings and investment company, said that giving trustees and providers greater discretion to pause transfers where there are suspicions of a scam may help in some situations.⁸⁴

57. We wrote to the Minister for Pensions and Financial Inclusion in October 2020, during the passage of the Bill, seeking assurances that the powers in clause 125 are sufficiently broad to enable the Government to set out regulations which would limit the statutory

80 [Hughes v The Royal London Mutual Insurance Society Ltd \[2016\] EWHC 319 \(Ch\)](#)

81 [Pensions Management Institute \(PPS0060\)](#)

82 [The Police Foundation, *Protecting people's pensions: Understanding and preventing scams*, September 2020](#)

83 [Q48](#)

84 [Age UK \(PPS0041\)](#)

right to transfer.⁸⁵ The Minister provided us with those assurances and committed during the passage of the Bill to work closely with us and the Treasury Committee on the regulations.⁸⁶

58. Our understanding is that regulations will be in place by autumn 2021 to allow trustees to restrict transfers to suspicious schemes, in line with the Pension Schemes Act 2021.⁸⁷ The regulations will identify potential indicators of pension scams which would raise either red or amber flags. A red flag would allow a transfer to be blocked and an amber flag would allow a transfer to be paused until a person has received appropriate guidance. If trustees allowed a transfer to a scheme which showed signs of being a scam without making the necessary checks it may then be possible for a complaint to be considered by the Pensions Ombudsman.

59. The red and amber flags being drawn up by the Department will need to strike a careful balance between protecting savers, being easily used by trustees and not being overly restrictive. Richard Piggitt, Head of External Affairs and Campaigns at Which?, told us that “it is important that we avoid box-ticking rules and that regulations remain flexible to respond to the different ways in which fraudsters will operate.”⁸⁸ The Association of British Insurers, an insurance industry trade association, also supported proposals to refuse transfers to suspicious schemes, but warned that “it needs to be clear that providers will not face negative consequences for flagging suspicions, and therefore preventing transfers, in good faith; and needs to enable routine transfers to be conducted rapidly.”⁸⁹ Brian Thorne, Principal at the professional services consultancy Barnett Waddingham, told us that from the industry’s perspective “any legislation or accompanying regulatory guidance would need to be very clear about under what circumstances transfers could be blocked or paused.”⁹⁰

60. The Financial Conduct Authority (FCA) hosts a warning list on its website. The warning list publishes details of unregulated entities which appear to be carrying out an FCA regulated activity without the requisite authorisation or permission. Throughout our inquiry we have asked whether the fact that an entity involved in a pension transfer appeared on the FCA’s warning list would be sufficient grounds to block the transfer, perhaps by raising one of the proposed red flags. The Minister for Pensions and Financial Inclusion told us that the powers under section 125 of the Pension Schemes Act 2021 do not allow a transfer to be blocked by reference to a warning list operated by a third party organisation, such as the FCA. Instead the Minister told us “Putting it bluntly, we will fix the FCA warning list problem by another means.”⁹¹ Emma Varley, Head of DC and International Private Pensions Policy at the Department for Work and Pensions, expanded on this, saying that the Department believed that, by focussing on the red flags identified by the Pension Scams Industry Group, it would “capture all of those elements that do get somebody on the warning list.”⁹²

85 [Correspondence between Chair and Minister for Pensions and Financial Inclusion about Clause 125 of the Pension Schemes Bill](#), 4 November 2020

86 HC Deb 16 November 2020, Vol 684, Col 111

87 [Q322](#)

88 [Q17](#)

89 Association of British Insurers ([PPS0039](#))

90 [Q75](#)

91 [Q322](#)

92 [Q323](#)

61. The Pension Schemes Act 2021 will allow people’s statutory right to transfer from their pension scheme to be restricted where there are signs of a pension scam. Regulations will be developed by DWP and are expected to be in place later this year. This will be a significant step in preventing pension transfer scams. Pension scheme trustees will be required to check if a transfer showed signs of a pension scam before allowing it to take place. If a trustee, through a lack of due diligence, allowed a transfer to a scheme which showed signs of being a scam then we believe that the Pensions Ombudsman must be able to require the scheme to compensate the victim. *We recommend that a review of the legislation should be published within 18 months of the regulations being operational. If there are any concerns about the operation of the policy this will allow legislative changes to be made during this Parliament.*

62. The regulations will identify potential indicators of a pension scam which would raise either red or amber flags. A red flag would allow a transfer to be blocked and an amber flag would allow a transfer to be paused until a person has received appropriate guidance. The red and amber flags being drawn up by the Department will need to strike a careful balance between protecting savers, being easily used by trustees and not being overly restrictive. *We recommend that the suitability of the red and amber flags should form part of the 18 month review and then be reviewed at least every 3 years thereafter.*

63. The FCA hosts a warning list on its website. The warning list publishes details of unregulated entities which appear to be carrying out an FCA regulated activity without the requisite authorisation or permission. The Minister for Pensions and Financial Inclusion told us that the powers under section 125 of the Pension Schemes Act do not allow a transfer to be blocked by a warning list operated by a third party organisation, such as the FCA. *We recommend that inclusion on the FCA warning list should constitute a red flag. If this is not possible, then the red flags developed by DWP should be defined in such a way that any firm or individual appearing on the FCA warning list would trigger a red flag.*

Online promotion of scams

64. The move online by pension scammers has been a recurring theme of our inquiry. Scammers can advertise themselves online, they can contact potential victims through social media and they can impersonate legitimate businesses or claim a fictitious relationship to one. Aviva, an insurance and asset management company, told us that since the first covid-19 lockdown in 2020 it had “identified 27 fake web sites purporting to be Aviva, trying to defraud pension age customers of their investments.”⁹³ The Association of British Insurers, an insurance industry trade association, told us that even once a fake website has been discovered “there are several obstacles to taking down the website leaving the public vulnerable to scams for a prolonged period.”⁹⁴

65. A ban on pensions cold-calling was introduced in January 2019, which made this method of contacting potential victims more difficult for pension scammers. A J Bell, an investment platform, pension provider and investment manager for retail investors,

93 Aviva ([PPS0037](#))

94 Association of British Insurers ([PPS0039](#))

suggested that the cold-calling ban could be “extended to include social media, emails and text.”⁹⁵ Quilter, a wealth management business also told us that the cold-calling ban had pushed scammers online and towards social media.⁹⁶ Quilter added that:

As it currently stands, there is no legally enforceable system for compelling search engine providers to remove suspected scam adverts, which unnecessarily exposes more people to the scam. We also believe there are few checks undertaken by search engine providers in the first instance to filter out fraudulent adverts in their due diligence process.⁹⁷

The Investing and Savings Alliance (TISA), a financial services industry body, told us that the cold-calling ban would be improved if it was “extended to include social media, emails and texts, which are now an everyday method of communication and not considered unusual to receive out of the blue.”⁹⁸

66. Regulators appear powerless to hold online firms to account for hosting scam advertisements in the same way they would be able to for traditional media. The Minister for Pensions and Financial Inclusion told us that:

I do think there is a dramatic difference between the way we regulate newspapers, TV companies and online providers, and these are the providers of information, in reality, in not that different a way.⁹⁹

The Financial Conduct Authority is both the criminal law enforcement agency and the regulator for the financial promotions regime. The Financial Promotions Regime requires that most financial promotions should be checked by an FCA-authorized firm to ensure that the promotion is clear, fair, and not misleading. But communicating or approving financial promotions is not a regulated activity itself. The FCA thinks that online platforms should bear clear legal liability for the financial promotions they pass on, at least to the same extent as traditional publishers of online promotions.¹⁰⁰ This would mean that online publishers would have to ensure that any financial promotion which they communicate has first been approved by an authorised person or is exempted. It told us that:

We also pay Google to flag warnings to consumers searching for investment opportunities through Google’s search engine. We have 3 priorities in our ongoing work with Google: first, to remove and refuse advertisements from advertisers which are likely in our view to be scams and appear on the FCA warning list; second, to refuse financial promotions which are not placed or signed off by an FCA authorised firm; and third, to refuse lead generating advertisements which could tempt consumers to embark on a journey that leads to potentially harmful investment.¹⁰¹

95 A J Bell ([PPS0045](#))

96 Quilter ([PPS0050](#))

97 Quilter ([PPS0050](#))

98 The Investing and Saving Alliance ([PPS0014](#))

99 [Q297](#)

100 Financial Conduct Authority, [Perimeter Report 2019/20](#), September 2020

101 Financial Conduct Authority ([PPS0048](#))

In the first eight months of 2020, Mark Taber, a volunteer consumer finance campaigner, reported 380 scam adverts targeting savers using Google to the FCA. Mark Taber told us that it can take weeks or months for the FCA to issue a warning—and that this appears to be the only action.¹⁰²

67. Scammers using paid-for online advertisements appear to be particularly hard to tackle without the co-operation of the hosting firm. Mark Taber told us that:

Google Ads has a 90% share of the online paid keyword search market in the UK. Paid keyword search is a highly efficient means for pensions & savings scammers to target their victims. Not only does it enable them to precisely reach potential victims through targeting keywords and phrases such as ‘top ISA rates’ but also they can instantly have an advert placed at the top of the paid search results and above the natural search results simply by outbidding genuine advertisers. Furthermore, fraudsters and scammers are able to outbid genuine advertisers because they have no intention of providing a return on or repayment of money they obtain from their victims.¹⁰³

The consumer organisation Which? told us that in July 2016 it found:

... a significant number of paid-for adverts on search engines such as Google that were aimed at attracting consumers seeking to find out how to withdraw money from their pension, following the pension freedom reforms. Many adverts appeared to offer pension advice, but were in fact linked to unregulated lead generation websites, while other companies overstated the ease, speed and benefits of pension transfers, or pitched the potential benefits of releasing cash from a pension without mentioning the risks.¹⁰⁴

Tim Fassam, Director of Government Relations and Policy at the Personal Investment Management and Financial Advice Association, warned that association fraud (in which a scammer purports to have an association with a legitimate firm) is increasing:

This is on social media or on search engines. People are not pretending to be one of our members, they are pretending to have an association with one of our members. This makes it much harder to crack down and to get those removed.¹⁰⁵

68. Mark Steward, Executive Director of Enforcement and Market Oversight at the FCA, told us:

... it is the FCA that is paying social media for some of these warnings to appear. The irony is very rich, that social media is receiving a fee from both the scammer and the regulator. We do not think there is parity between, for example, traditional media and social media in these matters. It is clear

102 Mark Taber ([PPS0058](#))

103 Mark Taber ([PPS0058](#))

104 Which? ([PPS0061](#))

105 [Q21](#)

that social media is largely unregulated in this space and that there are few gateway controls on the admission of advertising into either the search engines or Twitter or with Instagram. That is something that concerns us.¹⁰⁶

69. Currently, responsibility for an advertisement online lies with the firm placing the advertisement, or with the FCA authorised firm which has approved it. If the FCA wants an advert to be removed it needs to demonstrate to the online company that an advert is illegal on a case by case basis. Traditional publishers of financial promotions have to ensure that any financial promotion which they communicate has first been approved by an authorised person or otherwise falls within the scope of an exemption in the Financial Promotions Order. The Economic Secretary to the Treasury told the House, in a response to the Gloster report into London Capital Finance, that:

The Treasury is working with the FCA to consider whether paid for advertising on online platforms should be brought into the scope of the financial promotions regime. The Treasury is also working with the Department for Digital, Culture, Media and Sport to ensure that fraudulent online advertising is addressed as a priority harm through its Online Advertising Programme.¹⁰⁷ we ex[

70. The Minister for Pensions and Financial Inclusion was unequivocal in his assessment of the current situation:

I have absolutely no doubt whatsoever that Google needs to take a very, very, long, hard look at itself and to change its ways. There is no question that effectively taking money from fraudulent organisations on your website in circumstances where there is, it seems, very limited assessment of the merit of the organisation before it is allowed on the website—the consequential damage that is then done to all of our constituents by people then thinking that they are going to the Prudential or to Legal and General or to Aviva, or whoever it is, is massive. I read the evidence of the gentleman from Aviva, who, I think, went to the next degree, where they were paying money to persuade Google to take down sites and advertising that their own site may be subject to fraud as well.¹⁰⁸

The Minister added:

We have reached a situation where the No. 1 provider of information is not a newspaper or an encyclopaedia; it is Google, quite clearly, and to a lesser extent the problem is with Facebook. We, as legislators, need to take a very long, hard look at how we are going to regulate online operators on an ongoing basis. Clearly, this is a decision way above my pay grade. It is a decision not even in my Department, but I have very strong and unequivocal views that what is going on, and what Google and Facebook are allowing to happen, is utterly unacceptable.¹⁰⁹

106 [Q229](#)

107 [HCWS678](#)

108 [Q296](#)

109 [Q296](#)

71. The Online Safety Bill expected from the Government imminently has been promised for some time, including through the April 2019 Online Harms White Paper. On 15 December 2020, the Government announced its decision to bring forward legislation, but also signalled its intent to exclude certain harms from the scope of the legislation.¹¹⁰ Richard Piggin, Head of External Affairs and Campaigns at the consumer organisation Which?, told us that “unbelievably” scams were not part of any proposed online harms legislation.¹¹¹ Peter Hazelwood, Group Financial Crime Risk Director at Aviva, told us that big technology companies are seen as “key enablers of fraud” and that “it would be highly beneficial to extend the Online Harms Bill to include the advertising of fraudulent investments, including pension scams.”¹¹²

72. Graeme Biggar, Director General of the National Economic Crime Centre, agreed with this assessment. He told us:

We all see this as a big problem, we all think that the online world needs to do more about it, and we all think that some form of regulation is necessary. The online harms Bill at the moment is a missed opportunity in that regard.¹¹³

Mark Steward, Executive Director of Enforcement and Market Oversight at the FCA said that recognising investment fraud as a harm in the Bill “would go some way to helping”.¹¹⁴ The Financial Services Compensation Scheme told the Government that the Bill should include extra powers to tackle online scams.¹¹⁵ It said that clarity is required between regulators and advertising platforms on who is responsible for financial promotions. The FSCS also suggested that this may entail making online providers legally responsible for the losses of consumers who fall victim to scams advertised on their platforms.¹¹⁶

73. The move online by pension scammers has been a recurring theme of our inquiry. Regulators appear powerless to hold online firms to account for hosting scam advertisements in the same way they would be able to for traditional media. Scammers using paid-for online advertisements appear to be particularly hard to tackle without the co-operation of the hosting firm. It is immoral that tech firms such as Google are accepting payment to advertise scams, and then further payment from regulators to warn about the scam. It should not require legislative solutions to deter global firms from benefitting from the proceeds of crime, but unfortunately legislation is clearly needed. We recommend that, in order to create parity between traditional media, such as TV and newspapers, and new media, including search engines and social networks, paid-for advertising on online platforms should be covered by the regulatory framework for financial promotions. This would require online publishers to ensure that any financial promotion which they communicate has been approved by an authorised person or is exempted from the financial promotions regime.

110 Department for Digital, Culture, Media & Sport and Home Office, [Online Harms White Paper: Full government response to the consultation](#), 15 December 2020

111 [Q22](#)

112 [Q51](#)

113 [Q230](#)

114 [Q229](#)

115 Financial Services Compensation Scheme, [Prevention is better than cure: an update on our prevention work](#), 20 November 2020

116 Financial Services Compensation Scheme evidence to Treasury Select Committee ([ECC0072](#))

74. On 15 December 2020 the Government announced its decision to bring forward legislation for the Online Safety Bill but also signalled its intent to exclude financial harms from the scope of that legislation. It is notable that several public bodies, including the Financial Conduct Authority and National Economic Crime Centre, are openly saying that there is a better approach for the Government to take than the one it has chosen. *We recommend that the forthcoming Online Safety Bill should legislate against online investment fraud.*

75. *In the period between now and any legislation coming into force, we recommend that voluntary codes of conduct should be developed by search engines and social networks which make it clear that a request from a UK-based regulator is sufficient to remove a scam advertisement.*

ScamSmart

76. Last year fraud became the biggest single reported crime.¹¹⁷ Commander Blackburn, National Coordinator for Economic Crime at City of London Police, told us:

You are more likely to be a victim of fraud than any other crime type; I think we need to remember that.¹¹⁸

There is a lack of understanding that most people are at risk of becoming pension scam victims; overconfidence among savers is a serious concern. The Pensions Policy Institute, an independent expert research organisation, told us:

Three quarters (76%) of people feel confident at spotting pension scams. However, in 2016 Citizens Advice carried out an experiment in which participants were shown mock pension adverts. Almost nine in ten (88%) participants who took part selected a pension access offer containing pension scam warning signs.¹¹⁹

Margaret Snowdon, Chair of the Pension Scams Industry Group, told us,

Even though we have campaigns to alert people to pension scammers, 50% of people still do not think it matters to them because they would never be fooled by a scammer, but the truth is they always can be victims.¹²⁰

77. The Financial Conduct Authority is the Project Bloom lead on raising public awareness of pension scams. With the Pensions Regulator, it has been running multi-year ScamSmart campaigns since 2014 to alert consumers to the risk of scams. The Department for Work and Pensions told us that the campaign began by focussing on investment scams but has grown to incorporate pension scams as well.¹²¹ Mark Steward, Executive Director of Enforcement and Market Oversight at the FCA, told us:

The campaigns that we have run through Project Bloom and the ScamSmart website that the FCA runs, together with the other information that we have, have been very effective but I think it has always been limited by

117 [Q223](#)

118 [Q264](#)

119 The Pensions Policy Institute ([PPS0034](#))

120 [Q19](#)

121 Department for Work and Pensions ([PPS0070](#))

the amount of money we have had to spend on it. It needs much broader, saturating coverage. That is what happened in Australia and it is worth looking at. The success of these campaigns has been good; I think we need to go further but there is a real question of resource and money here.¹²²

78. The Investing and Savings Alliance, a financial services industry body, said that the joint TPR/FCA ScamSmart awareness campaign had been successful, but “in order to be an effective force against pension scammers, a single body should operate with ultimate responsibility for setting and co-ordinating the approach”. The trade association PIMFA said that a drawback of the current approach is 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” and pointed to automatic enrolment and PPI as large scale advertising campaigns which improved “consumer awareness and understanding of issues relevant to them that they ordinarily wouldn’t be aware of.”¹²³

79. Since 2014, the FCA and the Pensions Regulator have been running ScamSmart campaigns to alert people to the risks of scams. The campaigns have made effective use of limited resources to target groups vulnerable to scams. We recommend that Pensions Regulator and FCA should continue to run the ScamSmart campaign, while regularly evaluating whether it is reaching the right groups and whether it has the necessary resource to do so effectively.

Advice and guidance

80. When someone is looking for support to help them make a decision about their pension they can seek either advice or guidance. Advice is a personalised recommendation which can only be provided by firms regulated by the Financial Conduct Authority. Guidance is a broader term which includes general information and signposting about pensions. Guidance does not include a recommendation and can be offered by any organisation. People can receive guidance from public bodies, including the Pensions Advisory Service, Pension Wise and Money Advice Service—all of which are part of the Money and Pensions Service and will be consolidated into a new consumer facing brand—Moneyhelper—in June 2021.

81. This difference is not always understood by consumers and can be exploited by scammers. Neil Copeland, Director at Dalriada Trustees Limited, told us that many people do not know the difference between regulated and unregulated advice, saying:

We speak to members of the scam schemes we have been appointed to and when we first get in touch with them, they will often tell us that their financial adviser recommended transferring into this particular scheme. When we investigate, we find that it is an unregulated introducer and members have not had financial advice even though they think they have.¹²⁴

122 [Q221](#)

123 Personal Investment and Financial Advice Association ([PP50051](#))

124 [Q80](#)

For this report, which is the first of three planned reports in our broad inquiry, we are focussing solely on the role of advice and guidance in preventing pension scams. Our next report will look in more detail at how savers use advice and guidance when they access their pensions and our final report at the role advice and guidance has in helping people save for retirement.

Guidance

82. When the pension freedoms were introduced, a guidance guarantee was presented as a key pillar of the reforms, in order to support people making use of the new range of choices available to them. Everyone with a defined contribution pension is entitled to free impartial guidance from Pension Wise when they come to access their pension. The Pensions Regulator told us that it encourages trustees to “actively promote the free, impartial pensions guidance from Pension Wise, including phone appointments and online information. This will help provide savers with greater understanding of their retirement options and question any potential scam activity.”¹²⁵

83. Pension Wise is widely considered to provide a good service to those who use it. The 2019/20 Pension Wise evaluation report found that 95% of people who have an appointment with Pension Wise feel very or fairly confident in their ability to avoid pension scams, compared with 79% of non-users. Just Group, a specialist financial service group focusing on the retirement income market, told us:

Short of people receiving regulated financial advice—which many consumers are uninterested in or can’t afford—there is no evidence of a better approach to improving people’s ability to make informed decisions about how to use their DC pension savings than the free, impartial guidance offered by Pension Wise.¹²⁶

84. The Financial Guidance and Claims Act 2018 requires the FCA to ensure that consumers have received appropriate pensions guidance or have opted out of guidance before accessing or transferring their pension savings. In July 2020 the Money and Pensions Service published the results of behavioural trials to increase the use of Pension Wise. The trials increased the proportion of people receiving Pension Wise guidance from 3% to 11%—an additional 27% had already received guidance or advice from another provider in the previous 12 months.¹²⁷ The Department for Work and Pensions told us that:

We want to present taking guidance as a natural part of the journey when individuals access their pension savings. That is why we intend to introduce regulations in the near future to introduce a stronger nudge to guidance. We are also working with the FCA on rules that would require managers of personal pension schemes to introduce parallel provisions.¹²⁸

125 The Pensions Regulator ([PPS0064](#))

126 Just Group ([PPS0054](#))

127 Money and Pensions Service, [The Stronger Nudge](#), July 2020

128 Department for Work and Pensions ([PPS0070](#))

85. Guidance is not always sufficient to prevent pension scams, Rachel Vahey, Senior Technical Consultant at A J Bell, told us:

For all of this, it depends when in the process you are pushing or you are nudging or you are compelling the client to go and seek advice. Often, especially when it comes to pension scams, the client may be in dire financial straits and desperately needs this money, which is why they are taking such desperate action. We have found that if you are telling them just at the point of transfer or just at the point where you are encashing the fund, “Go get financial help, go get advice or go get guidance”, they may be reluctant to do so because they are not interested in that. They are only interested in getting their money at that particular point.¹²⁹

Margaret Snowden, Chair of the Pension Scams Industry Group, also told us that guidance is not enough: in the Pension Scams Industry Group’s experience only 25% of people who take guidance will listen to it and the other 75% will be determined to go ahead with a transfer.¹³⁰

Enhanced guidance or limited advice

86. Regulated advice comes at a cost to savers which can be a barrier for many. The Association of Member Nominated Trustees told us that the cost of providing independent advice could be a significant proportion of the value of someone’s pension. It suggested that the gap between Pension Wise guidance and full paid-for advice might be bridged by an advisory service and recommended that the practicalities of establishing one should be investigated.¹³¹ Similarly, in November 2020, the Association of British Insurers called for the advice boundary to be shifted, so that consumers could either get simpler and more affordable advice or guidance which offers more help, after it found that 72% of people were unwilling to pay for advice.¹³² Money Alive Limited submitted to us a proposal to use a tech-based approach to bridge the gap through interactive video engagement, which could report whether a person has watched and understood content about scams to trustees and pension scheme administrators.¹³³

87. Calls for a shift in the advice-guidance boundary are not new. Julian Adams, Director of Public Policy and Regulation at M&G PLC, told us that whether there is a “middle path” between guidance and advice “is a longstanding issue between the industry and the FCA.”¹³⁴ Nita Tinn, Chair at Association of Professional Pension Trustees, said that “some limited form of either enhanced guidance or basic advice from someone like Pension Wise or Money Advice Service would be welcome” but added that thought would need to be given to how it should be funded.

129 [Q67](#)

130 [Q35](#)

131 Association of Member Nominated Trustees ([PPS0011](#))

132 Association of British Insurers, [ABI calls for financial advice and guidance overhaul as polling reveals 72% of people will not pay for advice](#)

133 Money Alive Limited ([PPS0022](#))

134 [Q67](#)

Pension Advice Allowance

88. There is an option for members of defined contribution and hybrid pension schemes to use some of their pension savings to pay for advice. The pension advice allowance was introduced in 2017 and allows £500 to be withdrawn from a pension up to three times in different tax years for advice. PIMFA told us that “there are two obvious issues with the policy as things stand”, namely:

- 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 unwieldy and realistically not generous enough for some people who would benefit from financial advice to utilise the allowance.¹³⁵

Industry representatives told us that the pensions advice allowance is not being widely used. Julian Adams, Director of Public Policy and Regulation at M&G PLC told us that M&G PLC do not provide it because “it is also complex and expensive to administer.”¹³⁶ Rachel Vahey, Senior Technical Consultant at A J Bell, echoed these comments, telling us that A J Bell had “not had the demand from advisers or their customers to bring it in”.¹³⁷ Neil Copeland, Director at Dalriada Trustees Limited, said that “There is scope for the pension advice allowance to be effective” but that £500 “is not going to get you very much advice”.¹³⁸

89. The Minister for Pensions and Financial Inclusion wrote to us on 22 February 2021 telling us that HM Treasury intends to consider the effectiveness of the pension advice allowance as part of its wider work to tackle any remaining challenges in the financial advice market but does not intend to formally report back on it.¹³⁹

90. When someone is looking for support to help them make a decision about their pension they can seek either advice or guidance. These are both important tools to prevent scams, with earlier intervention likely to lead to better outcomes. Advice is a personalised recommendation which can only be provided by regulated individuals and firms. Guidance is a broader term which includes general information and signposting about pensions. This difference is not always understood by consumers and can be exploited by scammers.

91. When the pension freedoms were introduced, a guidance guarantee was presented as a key pillar of the reforms supporting people making use of the new range of choices available to them. Everyone with a defined contribution pension is entitled to free impartial guidance from Pension Wise when they come to access their pension. The Minister for Pensions and Financial Inclusion has agreed that having a Pension Wise appointment should be the norm. *We recommend that DWP should set out a plan for how this will be achieved and a timetable for getting there. Pension Wise is an important tool to prevent scams and we will look further at its role, within the new MoneyHelper brand, in the next part of our inquiry on accessing pension savings.*

135 Personal Investment and Financial Advice Association ([PPS0051](#))

136 [Q70](#)

137 *Ibid.*

138 [Q80](#)

139 Letter from Minister for Pensions and Financial Inclusion to Chair of the work and Pensions Committee about Pension Advice Allowance, 22 February 2021

92. *We recommend that the Department for Work and Pensions should consider the options available for the Money and Pensions Service to offer enhanced guidance or limited advice, including through technological solutions. Regulated advice comes at a cost to savers, which can be a barrier for many, whereas the guidance currently provided may not be enough for some people to avoid them becoming a victim of a scam. We have asked for views on this in the call for evidence for the second part of our inquiry which will look at how people access pension savings.*

93. **The pension advice allowance allows members of defined contribution and hybrid pension schemes to withdraw £500 from their pension up to three times in different tax years for advice. There appears to have been little take up of the Pension Advice Allowance which has been set at too low a level. We welcome news that HM Treasury is reviewing this policy after the Minister for Pensions and Financial Inclusion told us that it will consider the policy’s effectiveness as part of its wider work on the financial advice market. *We recommend that the overall cap of £1,500 should be reviewed and the annual cap of £500 on the amount which can be withdrawn in any one year under the pensions advice allowance should be removed.***

4 Enforcement

Public bodies and the use of enforcement powers

94. Pension scams can involve a complex collection of overlapping enforcement bodies. A Specialist fraud investigator spoke to the Police Foundation for its report, *Protecting People's Pensions: Understanding and Preventing Scams*, and said:

There are so many regulatory bodies ... [it's] a good area for criminals to make use of the greyness and figure out the next scam.

The regulatory bodies include, but are not limited to, the bodies below.

The Pensions Regulator

95. The Pensions Regulator is responsible for regulating trust-based occupational pension schemes and employers' automatic enrolment duties. The Pensions Regulator has powers for criminal prosecution of certain regulator offences, it can prohibit pension scheme trustees from practicing and issue fines for breaches of legislation.

96. The Pensions Regulator told us that it “is making greater use of our existing powers and using them more innovatively to clamp down on scammers.” It described its approach as Protect, Pursue, Punish and Recover:

Protect - appointing an independent trustee to scam schemes to take over the administration of the scheme preventing more people from becoming victims.

Pursue—investigating with a view to prosecute for fraud or other offences.

Punish—prosecuting offenders through the courts.

Recover—using the Proceeds of Crime Act 2002 to recover assets back to the schemes.¹⁴⁰

When our inquiry launched in July 2020, the regulator was carrying out seven criminal investigations into scams involving 52 schemes, 38 suspects and a loss of around £55m. In the 18 months leading up to our inquiry the Pensions Regulator prosecuted two people for fraud in unrelated cases.¹⁴¹

The Financial Conduct Authority

97. The Financial Conduct Authority (FCA) is both the criminal law enforcement agency and the regulator for the financial promotions regime. The FCA described its enforcement role to us in its written evidence:

Where we identify serious misconduct through the work described above, firms and individuals are referred for enforcement investigation. In regulatory investigations, we are likely to focus on whether regulated

140 The Pensions Regulator ([PPS0064](#))

141 The Pensions Regulator ([PPS0064](#))

persons breached our requirements by acting without integrity, failing to manage conflicts of interests and/or providing unsuitable advice to consumers. Where we establish breaches, we are likely to pursue financial penalties, prohibitions of individuals and redress for consumers where feasible. We also prosecute criminal offences where appropriate, including in respect of unauthorised activity. We will also work with the police and other law enforcement agencies depending on the type of offence.¹⁴²

98. The Department for Work and Pensions outlined to us the action being taken by the FCA when our inquiry launched:

We understand that the FCA is currently undertaking approximately 20 investigations into firms authorised by them where consumers' pension funds may have been exposed to high risk investments in connection with pension switches or transfers. They are also investigating the roles of related individuals. Clearly an investigation does not necessarily lead to prosecution of civil law action, but some do.¹⁴³

The Insolvency Service

99. The Insolvency Service is responsible for tackling misconduct by companies and misconduct in the process of putting a company into liquidation. It has the power to fine companies and disqualify company directors or insolvency professionals. The Pensions Regulator told us that:

Between 2015 and 2019, it applied to the courts to have 24 companies wound up, connected with schemes that elicited £202m worth of pension contributions, and secured directorship disqualifications against eight directors.¹⁴⁴

HMRC

100. HMRC is responsible for enforcing tax legislation and tackling tax avoidance. It can issue penalties to those in breach and can refuse to register pension schemes. The Economic Secretary to the Treasury told us:

HMRC is responsible for registering pension schemes for tax relief and exemption. It has done much to combat pension scams facilitated through newly registered pension schemes. In 2013, new legislation was introduced to help detect, disrupt, and deter promoters of these schemes leading to an 88% reduction in applications to register new pension schemes—safeguarding taxpayers and their savings. In addition, a “fit and proper test” for scheme administrators was introduced in 2014 through which scheme administrators identified as not fulfilling the appropriate criteria are prevented from registering new schemes and de-registered from any of their existing schemes. Through this process, since 2014 HMRC has de-registered 770 schemes that had been, and would have continued to be, used

142 The Pensions and Lifetime Savings Association ([PPS0062](#))

143 Department for Work and Pensions ([PPS0070](#))

144 The Pensions Regulator ([PPS0064](#))

for liberation. HMRC has also dealt with over 20,000 requests from bona fide scheme administrators enquiring about the status of schemes to which their members wish to transfer.¹⁴⁵

Information Commissioner’s Office

101. The Information Commissioner’s Office has been responsible for enforcing the cold-calling ban since it was introduced in January 2019. It can issue fines for breaches of the regulations and we were told that it fined a Swansea-based company £130,000 for making thousands of unauthorised direct marketing calls to people about their pensions.¹⁴⁶

Police service

102. The police service has powers for criminal prosecution of people who commit fraud. Graeme Biggar, Director General of the National Economic Crime Centre, told us that fraud is the biggest reported crime, accounting for around a third of the total, but has “less than 1% of police dedicated to looking at it.”¹⁴⁷

Serious Fraud Office

103. The Serious Fraud Office investigates and prosecutes serious cases of fraud, bribery and corruption.

The Pensions Ombudsman

104. The Pensions Ombudsman investigates and determines complaints and disputes concerning occupational and personal pension schemes. It can investigate pension scams where the complaints fall within its jurisdiction and, if upheld, will make Determinations that are enforceable in court. The Pensions Ombudsman can also make findings of personal liability and make awards for distress and inconvenience. In July 2020, the Pensions Ombudsman, Anthony Arter, told us:

I would hope that if someone believes they have been scammed or they have been scammed, they would make a complaint to me, absolutely. I think it is also worth them informing the regulator, because it takes a different approach—it looks at whether there has been any breach of the regulations—and the FCA, of course, in terms of whether there has been an IFA involved or how they were advised. I think it is quite important.¹⁴⁸

145 [Correspondence with the Economic Secretary to the Treasury on pension scams](#), 14 January 2021

146 Department for Work and Pensions ([PPS0070](#))

147 [Q223](#)

148 Work of the Pensions Ombudsman, [Q3](#)

The Financial Ombudsman Service

105. The Financial Ombudsman Service can consider complaints about FCA-regulated businesses including pension transfers, and personal pensions and SIPPS. It can award compensation up to a limit for both financial and non-financial loss.

Views on enforcement

106. We heard a range of evidence about the perceived lack of enforcement and regulatory action. Margaret Snowdon, Chair of the Pension Scams Industry Group, told us that there are not many prosecutions, saying: “You can probably count them on your fingers of your hands.”¹⁴⁹ Tim Fassam, Director of Government Relations and Policy at the trade association the Personal Investment Management and Financial Advice Association, added:

Alongside the lack of prosecution I would also highlight the lack or certainly the slowness of regulatory action. If you look at one of the scams that will have affected a large number of pension savers as well as other savers, which are mini-bonds, PIMFA members were raising concerns about mini-bonds in 2015 and we are only really seeing action this year. Swift regulatory action, as well as enhanced prosecution, will be absolutely critical.¹⁵⁰

Phoenix Group, a FTSE 100 company specialising in the acquisition and management of life and pensions insurance businesses, told us that it is “encouraging to see examples of action being taken” but that “the clear concern is that far too many are simply getting away with it and enjoying the fruits of their certainly immoral and very possibly illegal activities.”¹⁵¹ The National Federation of Occupational Pensioners, which represents individual pensioners, surveyed its members to respond to our inquiry, telling us that respondents suggested that protection and enforcement were too slow, with one saying:

It’s a disgrace that a generally welcomed change did not properly protect individual pensioners. The scammers and fraudsters work in hours and days, while any catch-up protection takes months and years.¹⁵²

Mr Stephen Sefton, a pension scam victim, said:

Scamming is a Low Risk, High Reward business for the perpetrators. Very, very few perpetrators get prosecuted, regardless of the fraudulent misrepresentations they employ to con people from all walks of life and educational ability. Perpetrators make millions and get to keep it even after the authorities finally catch up and close down the scam.¹⁵³

The Connaught Action Group, a campaigning group, told us:

We believe that the principal reason why pension scams are so widespread is that the FCA has historically operated, and continues to operate, as a light-touch conduct regulator, both reluctant and slow to bring to bear

149 [Q43](#)

150 [Q43](#)

151 Phoenix Group ([PPS0043](#))

152 National Federation of Occupational Pensioners ([PPS0066](#))

153 Mr Stephen Sefton ([PPS0009](#))

the consequences of misconduct on the firms and individuals who are responsible and consequently predisposed toward allowing consumers to be exposed to avoidable harms.¹⁵⁴

107. According to a freedom of information request, reported in the Times, the FCA did not prosecute any authorised firm or individual over financial promotions between 2013 and 2019 and fined only three groups of authorised firms and individuals.¹⁵⁵ We asked Mark Steward, Executive Director of Enforcement and Market Oversight, Financial Conduct Authority, about this. He told us:

That is not entirely true because it is looking at prosecutions of section 21. There have been a very large number of prosecutions involving scams and unauthorised business where the charge that has been laid is, in fact, a fraud charge rather than a charge under the Financial Services and Markets Act, where the instigation of the scam is, in fact, a misleading financial promotion of some kind or other. Every investment fraud involves a misleading representation being made at the outset.¹⁵⁶

A further freedom of information request showed that the FCA had secured 18 convictions for fraud between 2015 and 2019, with 10 of these in 2015, and that a further individual had been prosecuted in 2020.¹⁵⁷ There were also 5 convictions and one prosecution under section 89 of the Financial Services Act 2012, which covers misleading statements and practices.¹⁵⁸

108. We were told by pension scam victims that apparent endorsement from regulators was a deciding factor in the decision to transfer their pension savings to a scam. Sue Flood, a pension scam victim, told us:

The HMRC registration and TPR registration was heavily sold to us throughout the process and we thought that it was all kosher. However, there was a huge difference between what was sold to us and agreed and what it actually turned out to be.¹⁵⁹

Pension scam victim, Dennis Waite, told us that “the fact that it was a HMRC and TPR registered scheme, made me feel secure.”¹⁶⁰ Since these victims were scammed there has been new legislation to “to help detect, disrupt, and deter promoters of these schemes” and HMRC has de-registered 770 schemes used for liberation.¹⁶¹ Pete Searle, Director, Private Pensions and Arm’s Length Bodies at DWP, told us:

154 Connaught Action Group ([PPS0010](#))

155 The Times, [Financial Conduct Authority criticised for failure to act over misleading promotions](#), 28 July 2020

156 [Q242](#)

157 Name withheld ([PPS0079](#))

158 *Ibid.*

159 [Q140](#)

160 [Q149](#)

161 [Correspondence with the Economic Secretary to the Treasury on pension scams](#), 14 January 2021

Some of the concerns that were raised by the victims in their terrible stories were around pensions schemes being authorised by HMRC but actually being scams. HMRC has taken steps in recent years to correct that and tighten up the authorisation of pension schemes. There has been a big drop, as a result of that, in the number of schemes that are authorised.¹⁶²

109. Enforcement work comes at a cost. Many witnesses expressed concern to us about the value for money of the enforcement work of the FCA and the cost to the industry of the Financial Services Compensation Scheme (FSCS). Phoenix Group told us that:

In this regard, it can also be argued that the industry itself is a victim of the scammer as we bear the inherent resource and operational costs of the additional measures required to combat pension scamming. In addition, we also pay for the increased work of the regulators and the Financial Services Compensation Scheme through the industry levy.¹⁶³

The FSCS can protect pensions that are provided by UK-regulated insurers, such as an annuity, up to 100% of the loss with no upper limit. It also covers investments within a personal pension, such as a SIPP, up to £85,000 if the operator fails and up to £85,000 per person per firm for bad pensions advice. It is funded by a levy paid by eligible firms. The FSCS told us that:

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.¹⁶⁴

The FSCS currently forecasts that its 2021/22 levy will be £1.04 billion, a 48% increase on the previous year. Caroline Rainbird said that:

We need to tackle the root causes, not just the symptoms, of the costs and distress caused by failures. We are doing everything in our power to try to reduce the levy. Alongside our recommendations, we are continuing to raise awareness of FSCS protection and we are working with the regulators to tackle scams.¹⁶⁵

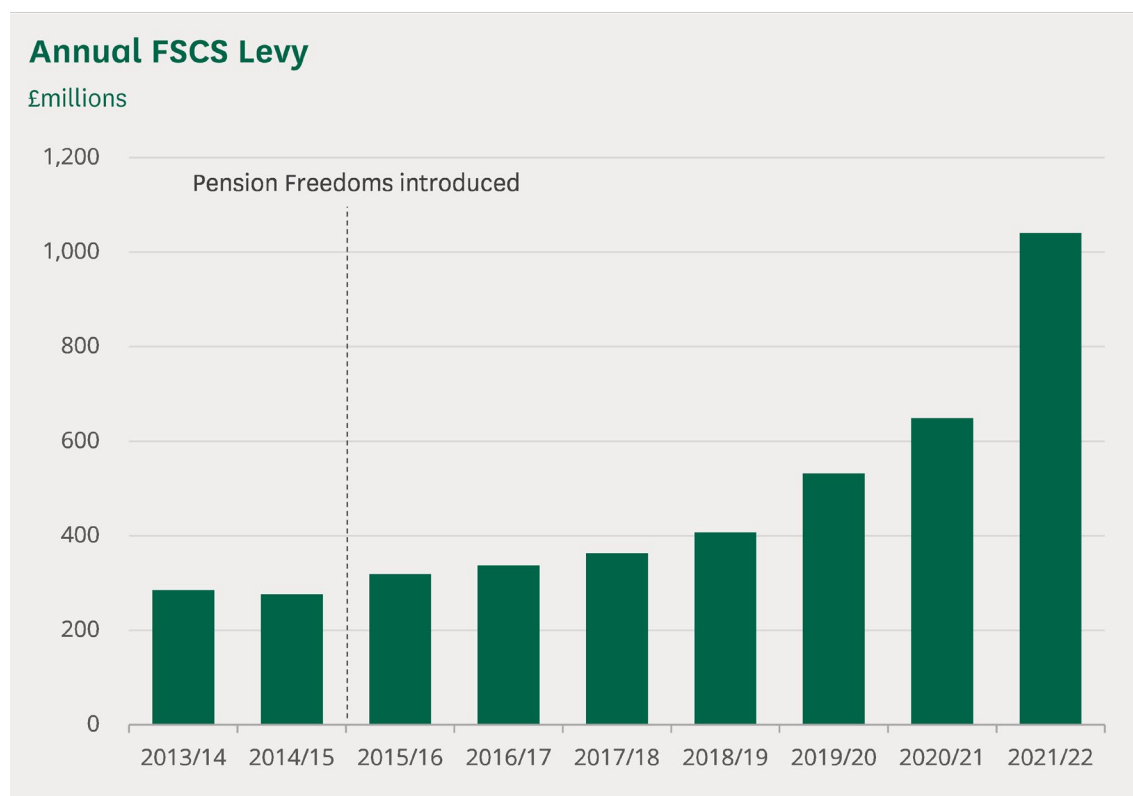
162 [Q300](#)

163 Phoenix Group ([PP50043](#))

164 The Financial Services Compensation Scheme ([PP50063](#))

165 Financial Services Compensation Scheme, [FSCS publishes 2021/22 Plan and Budget](#)

Its Plan and Budget for 2021/22 says that it expects an “ongoing rise in complex pension advice claims” and “further failures of self-invested personal pension (SIPP) operators”. The annual FSCS levy has increased every year since the introduction of the pension freedoms:



110. Apex CB Financial Planning Ltd, an Independent Financial Advice firm based in Dorset, told us that its FSCS levy had increased by 282% over the last two years.¹⁶⁶ RMI Finance Ltd similarly said that its fees to the FCA for FSCS and PII had gone up from £10,000 to £50,000 in 18 months.¹⁶⁷ Mr Philip Milton, representing a group of independent financial advisers and discretionary investment managers managing over £160m for smaller clients, told us that:

Of course, our industry, the honest and law-abiding survivors, has then been obliged to compensate the losing investors to the tune of hundreds of millions of pounds for their stupid decisions to subscribe to such ridiculous things in the first place. That too is wrong morally when the investors should be responsible for buying unregulated investment products in the first place and the FCA has no plans for revisiting how the compensation levy should be collected going forward.¹⁶⁸

166 Apex CB Financial Planning Ltd ([PPS0027](#))

167 RMI Finance ([PPS0021](#))

168 Mr Philip Milton ([PPS0003](#))

One written evidence submission from someone working for a Financial Advice company told us:

My firm has provided documentary evidence of wrong doing by firms and still the FCA does nothing! And then, we, the good firms end up with the bill to compensate those wronged investors.¹⁶⁹

111. **There are many bodies with potentially overlapping enforcement responsibilities relating to pension scams. These include, but are not necessarily limited to: the Pensions Regulator, the FCA, the Insolvency Service, HMRC, Information Commissioner’s Office, the police service, the Serious Fraud Office, the Pensions Ombudsman and the Financial Ombudsman Service. The fragmentation of reporting, investigation and enforcement around pension scams has made tackling pension scams more difficult. *We recommend that, as the taskforce responsible for coordinating the response to pension scams, Project Bloom should publish an accessible and publicly available document outlining the roles and responsibilities of all bodies involved in tackling pension scams. It should also report annually on the amount lost by, and reimbursed to, pension savers.***

112. **The FCA told us that there have been a very large number of prosecutions involving scams and unauthorised business. We do not agree with this assessment. Its own figures—revealed only through Freedom of Information requests—show that there were just 25 convictions. We have heard numerous criticisms that the FCA is not effective in stopping scams, punishing scammers or retrieving scam proceeds. There is a compelling case for a much more ambitious approach. *We recommend that the FCA publish a costed plan to raise its game in tackling scams. It should also publish proactively data about its enforcement action, rather than waiting for Freedom of Information requests.***

113. **We have heard devastating evidence from pension scam victims who were persuaded to hand their savings over to a scammer because the scam pension scheme was registered with HMRC. We welcome the action that has led to a reduction in cases such as this. *HMRC should make clear that a tax reference is not any endorsement of a given scheme.***

114. **Regulators exist to protect savers and not enable scammers. Where a regulator has failed in this fundamental duty they should be held accountable. *We recommend that the Government review the recourse available to pension scam victims when the actions of a regulator have been beneficial to the scammer.***

115. **The pensions and wider financial services industry has a strong reputational interest in preventing scams. The regulators responsible for protecting the reputations and consumers of these industries are largely levy funded to meet this interest. Levy payers, particularly those regulated by the FCA paying into the Financial Services Compensation Scheme, have seen their costs rise in recent years and rightly expect the regulators demonstrate that levies are both set at a reasonable level and spent effectively on enforcement action. If regulators were more effective in preventing pension scams, then the need for compensation would be reduced and the levy on the industry would be lower.**

169 Name Withheld ([PPS0049](#))

Project Bloom

116. Project Bloom is a multi-agency task force set up to tackle pension fraud. It is not a statutory body and receives no dedicated funding; the bodies which comprise it fund their own work areas. The Pensions Regulator told us that:

With its own funding, Bloom could improve the tasking and coordination of educational, prevention and enforcement activities between regulators, industry, police and criminal justice agencies.¹⁷⁰

Margaret Snowden, Chair of the Pension Scams Industry Group, said there were signs of better collaboration with Project Bloom and that:

The Pensions Regulator is absolutely determined to get that group working together for the benefit of society and victims and it ought to be encouraged and possibly resourced in order to do that properly.¹⁷¹

Phoenix Group, a FTSE 100 company specialising in the acquisition and management of life and pensions insurance businesses, also told us that it was not tenable for Project Bloom to remain unfunded and to rely on the voluntary efforts of the member organisations to deliver its Strategic Action Plan.¹⁷² The plan has five key workstreams:

- a) Public awareness:
- b) Understanding the problem
- c) Enforcement and regulatory interventions
- d) Legislation and regulations
- e) Non-legislative interventions

117. The Pensions Regulator suggested to us that Project Bloom could be improved if it was supported by a pension scams hub:

We believe that a telling way to improve central leadership and coordination by Project Bloom would be to establish a pension scams ‘hub’, staffed by officials on attachment from different agencies working alongside law enforcement and covered by appropriate information-sharing arrangements.¹⁷³

A similar suggestion was made to us by Andy Agathangelou, founder of the Transparency Taskforce, who said:

We think there needs to be a strategically different approach. The model that is normally used is to create collaboration and cohesion and co-operation between different entities. On the surface that may look like the best thing to do. However, that model is flawed because its success is dependent upon the extremely good interworking between the different agencies. We advocate

170 The Pensions Regulator ([PPS0064](#))

171 [Q13](#)

172 Phoenix Group ([PPS0043](#))

173 The Pensions Regulator ([PPS0064](#))

a different approach, a strategically different approach. We advocate a joint taskforce that is an entity in and of itself that can leverage the information and the powers of all the other agencies, but has central control, central responsibility and central accountability.¹⁷⁴

In its report, *Protecting people's pensions: Understanding and preventing scams*, the Police Foundation recommended that a central intelligence database should be set up to ensure a more systematic collection and analysis of intelligence.

118. We were told that Project Bloom could be more effective than it currently is. In a joint submission to us, the international law firm Pinsent Masons and Dalriada Trustees, an independent trustee which has been appointed by the Pensions Regulator to be trustee for over 100 schemes suspected of being used for pension liberation or scams, said that Project Bloom is “not effective enough”.¹⁷⁵ The joint submission said that the Pension Regulator’s powers to instigate criminal proceedings should be extended to allow it to take action more quickly to protect assets and to “curtail the activities of the suspected scammers at the first sight of concern.” The Association of British Insurers, an insurance industry trade association, also told us that Project Bloom “would benefit from having a stronger leadership by a single body. The taskforce is also quite disengaged with the industry as a whole.”¹⁷⁶

119. Project Bloom is a multi-agency task force set up to tackle pension fraud in 2012. It is not a statutory body and receives no dedicated funding. The members of Project Bloom have argued convincingly to us that it has the potential to be an effective body but is restricted by limited resources. The Pensions Regulator and other organisations suggested to us Project Bloom should also be supported by a pension scams hub staffed by officials from the different members of Project Bloom working alongside law enforcement.

120. The establishment in 2012 of Project Bloom, the multi-agency task force set up to tackle pension fraud was an attempt to overcome this. We support the creation of Project Bloom, but it has become clear that it does not have the capacity in its current form to achieve its objectives. It must now be given a statutory remit, an appropriate name—we propose “the Pension Scams Centre”—dedicated funding, and the staffing to manage a pension scams intelligence database alongside law enforcement. *To avoid the risks of creating yet another regulatory body in an already crowded field, we recommend that the new Pension Scams Centre should have a board made up of representatives of Project Bloom’s current member organisations, with oversight of a pension scams hub. The hub’s responsibilities would include facilitating intelligence-sharing within the pensions industry and between regulatory bodies. The funding for both bodies should be ringfenced from existing budgets. The new organisation should consult on a public strategy with clear targets for reducing the incidence of pension scams and publish data demonstrating its success—or otherwise—in achieving these targets.*

174 [Q12](#)

175 Dalriada and Pinsent Mason ([PPS0059](#))

176 Association of British Insurers ([PPS0039](#))

5 Supporting pension scam victims

HMRC

Tax bills for pension scam victims

121. A pension scam can ruin someone’s financial future. But it can also leave them with large unexpected tax bills. Any payment from a pension not meeting conditions specified under tax rules will not be authorised. The most common type of unauthorised payment involved in pension scams is a person accessing their pension before the age of 55 as part of a pension liberation scam. The only exceptions in which a person can access their pension funds before age 55 are when someone retires due to ill health or if, before 6 April 2006, the person had the right under the pension scheme to take their pension before age 55.

122. Pension liberation scams often involve scammers claiming that there are legal loopholes, such as loans or cash incentives, which can allow a person to access their pension early without the victim having to pay tax. This is not correct. Someone who accesses their pension early faces an unauthorised payment charge of 40% and an unauthorised payment surcharge of 15%.¹⁷⁷

123. In our call for evidence we asked if HMRC’s position on the tax treatment of pension scam victims is correct. The Low Incomes Tax Reform Group, an initiative of the Chartered Institute of Taxation, told us that there were two interpretations of our question: whether is it correct in law, and whether the law itself is right to treat pension scam victims in the way that it does.¹⁷⁸ We have considered both of these questions, as well as the related question of whether there is scope within the existing law for HMRC to change the way it treats pension scam victims.

124. On the question of whether HMRC’s position is correct under the law as it stands, there was little dispute in the evidence we received that HMRC’s approach is legally correct. Phoenix Group, a FTSE 100 company specialising in the acquisition and management of life and pensions insurance businesses, told us:

HMRC has no discretion not to apply the tax charges. For victims of scams, typically facilitated by organised crime, it seems entirely unfair that these people are then subjected to additional tax charges. Many have no means of paying them and it really does feel like a ‘double whammy’ having already suffered at the hands of the scammer.¹⁷⁹

Several evidence submissions cited tax tribunal cases which had demonstrated that HMRC’s position is legally correct.¹⁸⁰ Others acknowledged that the unauthorised access charge was meant to dissuade people from early access¹⁸¹ and that “there has to be a penalty in place for people who do liberate their pensions.”¹⁸²

177 HM Revenue and Customs, [Guidance: Pension schemes and unauthorised payments](#), 16 September 2014

178 Low Income Tax Reform Group ([PPS0004](#))

179 Phoenix Group ([PPS0043](#))

180 PPS004 and G M Say ([PPS0069](#))

181 M&G PLC ([PPS0035](#))

182 Quilter ([PPS0050](#))

125. Some queried the success of the tax charge in dissuading people from accessing their pensions early, particularly where a scammer has convinced a victim that they will not face any tax penalties. AON, a professional services firm providing risk, retirement and health solutions, said that although HMRC’s website warns about the risk of a tax penalty the message is hidden in other technical information.¹⁸³ M&G PLC, a savings and investment company, told us that:

So far as we can tell the penalties were meant as a deterrent to put people off accessing their pension savings earlier than Government policy intended and, as such, were not originally put in place to cover situations where people have been genuinely scammed. If someone has been scammed and has lost all of their pension savings it does seem harsh that as a matter of Government policy, they will then also receive a tax penalty.¹⁸⁴

M&G PLC suggested that:

... the threat of large penalties could be made a clear and explicit part of an education campaign in order to encourage people to seek expert help before taking any actions which could result in such penalties.¹⁸⁵

126. Instead of focussing on whether the position was legally correct, the evidence we received concentrated on whether HMRC could use greater discretion within the law and its perceived poor treatment of scam victims. Age UK, a charity for older people, said:

To an extent, HMRC’s hands are tied and the ultimate responsibility for how it acts on the law rests with Ministers. However, it could have done more. HMRC has acted insensitively and inappropriately towards scam victims, choosing to pursue a literal interpretation of law over common sense and fairness.¹⁸⁶

In a joint submission the People’s Pension, a master trust, and the Police Foundation, a policing think tank, said that “HMRC’s approach was described by police investigators as unrelenting and uncompromising, overlooking the complexities of the fraud, rendering the victim the perpetrator.”¹⁸⁷ Dennis Waite, a pension scam victim, told us:

I have been pursued quite relentlessly by HMRC for tax. In fact, I have also had debt collection letters sent to my house without warning. Then, because I can’t afford to pay the tax bill, I had to take out a payment plan on my car, and now they have added interest to that as well. I don’t know what I feel.¹⁸⁸

A qualified financial adviser and mortgage broker described the approach of Treasury officials defending the charge in unequivocal terms:

their reasoning is flawed and their pompous and arrogant pursuit of the victims hypocritical, cruel and malicious in the extreme.¹⁸⁹

183 Aon ([PPS0024](#))

184 M&G PLC ([PPS0035](#))

185 M&G PLC ([PPS0035](#))

186 Age UK ([PPS0041](#))

187 The People’s Pension, The Police Federation ([PPS0015](#))

188 [Q158](#)

189 Name Withheld ([PPS0012](#))

Rick Muir, Director at the Police Federation, told us that HMRC’s approach led to a lower reporting of pension scams because victims are worried about tax penalties which might be imposed.¹⁹⁰ Rick Muir went on to tell us that:

To be honest, we did not find anyone who said anything positive about their experience with HMRC. We did not speak directly to victims. We spoke to police officers who had been working with victims, and it was they who told us about the impact HMRC’s approach was having.¹⁹¹

Mark Ormston of Retirement Line, a pension incomes broker, summarised the situation:

Every time HMRC requests a potential scam victim for tax payments, it damages them, the government, the pensions industry—everyone. The damage and mistrust is shouldered by everyone, it one of the clearest examples of the system not communicating and letting consumers down in one of the worst possible ways.¹⁹²

Although not the Minister responsible, the Minister for Pensions and Financial Inclusion acknowledged the need for consistency in the approach taken by HMRC towards pension scam victims.¹⁹³

127. There appears to be scope within the current framework for HMRC to show some discretion in the way it treats pension scam victims. The Investment & Life Assurance Group, a representative body with members from across the Life Assurance and Wealth Management Industries, noted that “It is possible to obtain a discharge from the (15%) unauthorised payment surcharge but not the standard (40%) charge” and recommended that this should be extended to allow people to appeal for a discharge of the 40% charge.¹⁹⁴

128. The Economic Secretary to the Treasury wrote to us about the options available to HMRC and said that where no money has been received there may not be a breach for HMRC to act on. The Economic Secretary to the Treasury also responded to claims that HMRC’s approach is unrelating and uncompromising:

HMRC’s role is to apply the laws laid down by Parliament. However, in doing so it does all it can to help anyone who believes that they may have been misled about their pension investments. HMRC recognises that facing a large tax bill can be very stressful and is committed to making affordable payment arrangements and giving enhanced support to customers who need extra help. HMRC stands ready to support any taxpayer in financial difficulty. They may be eligible to receive support with their tax affairs through HMRC’s Time To Pay service. These arrangements are agreed on a case-by-case basis and are tailored to individual circumstances and liabilities.¹⁹⁵

190 [Q193](#)

191 [Q195](#)

192 Mark Ormston, Retirement Line ([PPS0019](#))

193 [Q300](#)

194 Investment and Life Insurance Group (ILAG) ([PPS0020](#))

195 [Correspondence with the Economic Secretary to the Treasury on pension scams](#), 14 January 2021

129. Given the consensus that HMRC’s approach is lawful and the questions about how much discretion HMRC has, it seems likely that any change in approach would need changes to legislation. The Pension Scams Industry Group, a voluntary body set up to tackle pension scams, outlined proposed changes to the unauthorised member payments regime in the Finance Act 2004. It proposed that the regulations included:

- a) Listing affected schemes which would not incur unauthorised payment charges.
- b) Limit an amnesty of payments to payments made prior to a particular date. The 1 January 2014 proposed as members of suspected scam schemes might have transferred before the Pension Regulator’s Scorpion campaign commenced on 14 February 2013.
- c) The regulations could include good faith or lack of knowledge requirements which would allow HMRC to maintain a harder line with members who were sufficiently aware of the tax risks when making a payment.
- d) A general amnesty covering the finite number of schemes, members and payments affected by the change.
- e) If a full tax amnesty is considered to be going too far an alternative approach could be to add an alternative repayment approach.¹⁹⁶

The Pension Scams Industry Group added that:

Aside from addressing the individual unauthorised member payment charges, the regulations should address the scheme sanction charges levied against the ceding and receiving schemes. We consider it is only appropriate that these be removed as well, given those will otherwise also impact upon the future of the affected members by reducing the assets remaining in the affected schemes.¹⁹⁷

130. A J Bell, an investment platform, pension provider and investment manager for retail investors, told us that there is a spectrum of guilt and “Some people have made an active choice to access pensions before the age of 55, despite being told repeatedly that this is not possible.” This raises difficulties with waiving unauthorised payments as HMRC would need to assess how guilty a person is which “feels like a subjective test.”¹⁹⁸

131. As well as ruining someone’s financial future, a pension scam can leave them with large unexpected tax bills. Pension liberation scams often involve scammers claiming that there are legal loopholes, such as loans or cash incentives, which can allow a person to access their pension early, before the age of 55, without the victim having to pay tax. This is not correct. Someone who accesses their pension early faces an unauthorised payment charge of 40% and an unauthorised payment surcharge of 15%. These penalties are intended to act as a deterrent, but do not work in cases where a scammer has convinced a potential victim that the charge will not apply. We recommend that, where someone is seeking to transfer or access their pension before the age of 55, pension schemes should be required to inform them, in a clear and accessible format, about the unavoidable tax charges they would face if they access their pension

196 Pension Scams Industry Group ([PPS0067](#))

197 Pension Scams Industry Group ([PPS0067](#))

198 A J Bell ([PPS0045](#))

early. For people who access their pensions after this requirement has been introduced, it would be reasonable for HMRC to collect the tax due—unless it can be proved that the requirement was not adhered to.

132. HMRC has been described as “unrelenting and uncompromising” in the pursuit of unauthorised payment charges. While the position taken by HMRC is legally correct, it has often lacked empathy or understanding of impact that its demands have on victims. *We recommend that HMRC should make greater use of its current discretion to support pension scam victims left owing large tax bills and that it should do its utmost to provide them certainty where possible. HM Treasury should recognise that, in some clearly defined circumstances, where the saver has been the victim of a crime and made no financial gain from the early access, it may not be in the public interest to demand payment of tax due. Where someone seeks to access their pension before the age of 55 without being eligible for one of the exemptions, we recommend that the pension schemes be required to withhold the Income Tax and surcharge and pay this to HMRC. In the event that the tax is not due, the individual could reclaim it from HMRC. This would ensure that victims of scams would not be subject to a tax bill on top of their pension loss. If a person has made a financial gain from early access, but can demonstrate that they have been the victim of a crime, they should be given the option to return the gains to an approved scheme within three years of the point at which they ought to have realised they have been scammed. If HMRC is unable to make greater use of its current discretion to waive the tax due by pension scam victims then the Government should consider whether legislation is required to give HMRC the option not to pursue the tax penalties of pension scam victims.*

HMRC’s membership of Project Bloom

133. HMRC was a partner of the multi-agency task force Project Bloom when was established but is no longer listed as a member. The Investment & Life Assurance Group, a representative body across the Life Assurance and Wealth Management Industries, told us that Project Bloom had been weakened by HMRC’s withdrawal.¹⁹⁹ The Economic Secretary to the Treasury told us that:

HMRC participates in the Project Bloom Comms Group and, alongside the Financial Conduct Authority and The Pensions Regulator, recently ran a webinar for employers and tax agents, explaining how to help savers avoid scams and referencing the Financial Conduct Authority’s ‘Scamsmart’ Campaign and website.

Whilst not an active member of the Project Bloom Strategy Group due to HMRC’s duty of taxpayer confidentiality, HMRC has always co-operated with the members of Project Bloom exchanging information via legal gateways.²⁰⁰

199 Investment and Life Insurance Group (ILAG) (PPS0020)

200 [Correspondence with the Economic Secretary to the Treasury on pension scams](#), 14 January 2021

134. The Minister for Pensions and Financial Inclusion told us in oral evidence that he “100%” supports HMRC re-joining Project Bloom, explaining that:

I have to say I find that their reason for not being part of the strategy group and being more involved in Project Bloom, while perfectly understandable in terms of data confidentiality, can definitely be overcome, and I would very much hope that whatever the future does hold with HMRC, they will become much more actively involved in Project Bloom. They surely should be able to be part of the group without revealing taxpayer data in circumstances where, frankly, we want as many hands on deck as we possibly can.²⁰¹

135. We recommend that HMRC should re-join the pension scams taskforce Project Bloom. It was a founding member when Project Bloom was set up in 2012 but has since left. The Minister for Pensions and Financial Inclusion told us that he “100%” supports HMRC re-joining Project Bloom. We agree.

Professional trustees

136. Where a pension scheme has been used as a vehicle for a pension liberation scam the Pensions Regulator will appoint an independent trustee. The trustee’s management fees and associated legal costs will be met directly from the scheme’s assets, which often need to be recovered first by the trustee. As the Minister for Pensions and Financial Inclusion described it, this is a “niche speciality”²⁰² and one trustee—Dalriada—is appointed to the majority of these schemes. One submission told us that “The Pensions Regulator relies too heavily on appointing Dalriada as replacement trustee, so it has a lot of schemes to administer and recover funds for; appointing other trustees to share the burden would be a good idea.”²⁰³

137. Dalriada, which is a private firm, told us that:

Over the course of the last nine years, Dalriada has been appointed by the Pensions Regulator to over 100 schemes suspected of being used as vehicles for pension liberation or pension scams. These schemes have a combined membership of over 5,500 members and have received transfers in excess of £260m, the vast majority of which has been lost to the scammers.²⁰⁴

Andy Agathangelou, Founder of the Transparency Taskforce, told us that “Many people that we have spoken to have told us that once a statutory trustee has been appointed, they are not given reliable, routine information”, adding that “There is a massive communications issue once a statutory trustee has been appointed, in my opinion, based upon the conversations I have had with many scam victims.”²⁰⁵

201 [Q300](#)

202 [Q304](#)

203 Name Withheld ([PPS0031](#))

204 Dalriada and Pinsent Mason ([PPS0059](#))

205 [Q36](#)

138. Pension scam victim Dennis Waite told us that he thought it was wrong for Dalriada to take fees from the funds it recovers from pension scams and proposed instead that there should be a central fund.²⁰⁶ Neil Copeland, Director at Dalriada Trustees Limited, told us that:

We think there is an argument for a new compensation fund. Who pays for that? Quite often these compensation funds are paid for by levies on the industry or they might be government funded, but people have clearly been defrauded, people are clearly victims of scammers. In other walks of life where people have been the victims of crime they are compensated. We need to find a way of compensating these individuals.²⁰⁷

The Minister for Pensions and Financial Inclusion told us that:

There is no other resource available to remunerate the appointed trustees save for the assets of the scheme, as the Pensions Regulator is not able to pay for such work carried out. The trustees being paid from the assets of the scheme is analogous to a company administrator in the insolvency examples. It is fairly standard practice in insolvency where a company administrator will have a situation where they are one of the listed creditors in a corporate insolvency.²⁰⁸

The Minister said that a “no win, no fee” approach could be an alternative but that this would “have a significant premium on the recovery because, of course, an individual organisation would be effectively acting for free unless there was a recovery out of this matter”.²⁰⁹ The Minister said that another alternative would be a cap on fees but noted that this would further restrict competition in a market with only one major player. The Minister went on to say that “I suspect there is not the size of the market to allow lots of different participants, but certainly it is something that we can look at.”²¹⁰ Pete Searle, Director, Private Pensions and Arm’s Length Bodies, Department for Work and Pensions, offered to look at this further, with a view to promoting “a bit more competition here while still maintaining high standards”.²¹¹

Fraud Compensation Fund

139. During the course of our inquiry a judgment on the Fraud Compensation Fund (FCF) may have opened the door for an alternative source of compensation for victims of some pension scams. The FCF received a number of claims from independent trustees appointed to schemes that were used to scam pension savers, typically enticed to transfer their savings from a genuine occupational pension scheme into a ‘scam scheme’ from which scammers took the funds. The FCF was established by the Pensions Act 2004 to compensate pension schemes which lost out because of dishonesty and it was unclear whether the FCF could compensate schemes set up for the purpose of a scam. As a result, no claims of this sort were progressed.

206 [Q182](#)

207 [Q86](#)

208 [Q304](#)

209 [Q304](#)

210 [Q305](#)

211 [Q304](#)

140. To clarify the ambiguities in the legislation, the Pension Protection Fund and Dalriada Trustees initiated a ‘Part 8 application’ to test the law. The legal process focused on one specific scheme as an effective test case. The judgment clarified that these types of claims are eligible for FCF compensation.²¹²

141. Before the judgment, the Pension Protection Fund told us that:

Since it was established [in 2004], the FCF has received 47 applications for compensation for dishonesty. Of these, 37 were from genuine schemes which had themselves been subject to fraud. These are clearly within the remit envisaged for the FCF. Of the 37, the FCF has paid out compensation totalling approximately £5.4 million in respect of 14 claims. Seventeen claims have been rejected and six were withdrawn.

The remaining 10 claims were from independent trustees appointed to schemes that were themselves used to scam individual pension savers.²¹³

142. It added that it is aware of a suggestion that the Pension Protection Fund’s assets might be used for FCF compensation, but that this cannot be carried out lawfully as the two funds are ring-fenced and supported by separate levies. In a joint submission, the international law firm Pinsent Masons and Dalriada Trustees said that there should be a compensation fund covering not just redress for victims but also the investigation costs.

143. Where a pension scheme has been used as a vehicle for a pension liberation scam the Pensions Regulator will appoint an independent trustee. The trustees management fees and associated legal costs will be met directly from the scheme’s assets, which often need to be recovered first by the trustee. With one professional trustee being appointed to the vast majority of schemes and a number of complaints from victims about these fees and the quality of communication we welcome the offer from the Department to look at this market. In a larger market, complaints about the communication and fees paid to professional trustees might be corrected by competition. We recommend that the Pensions Regulator should review the value for money that scam victims get from trustees appointed to scam schemes within a year.

144. Members of schemes where professional trustees are appointed can face long waits to receive any recovered assets, even if a significant proportion of the assets are recovered. Often because of the costs associated with providing communications to members, which are met directly from the recovered assets, scam victims perceive communication from professional trustees as poor. We acknowledge that professional fees in this market face a trade-off and that better communication inevitably results in higher fees. We recommend that the Pensions Regulator should explore the case and make a recommendation to DWP for allowing members to more easily transfer out of a scheme where a professional trustee has been appointed before all of the assets are recovered, if this would be in the member’s interest.

212 Board of the Pension Protection Fund v Dalriada Trustees Ltd [2020] EWHC 2960 (Ch).

213 The Pension Protection Fund ([PPS0055](#))

Supporting someone after a pension scam

145. Being a victim of any fraud can be devastating. Pension scams often involve the loss of a lifetime's savings and many of the plans people have made for their later life. The charity Age UK told us that despite this:

Often scam victims, and fraud victims more generally, are not perceived as needing support because the crime lacks physical repercussions.²¹⁴

Aviva, an insurance and asset management company, stressed that:

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.²¹⁵

146. We have heard first-hand from many pension scam victims who told us about situations similar to that G M Say describes below:

Aside from the huge sense of loss and financial devastation, there is also the intense mental anguish which victims suffer for many years into the future, which in itself becomes more of a burden on the State as they require access to medical and social care services.²¹⁶

147. Pauline Smith, Director at Action Fraud, told us:

From Action Fraud itself, rather than the victim care side of the service, just this year we have had 222 people on the phone where we have stayed on the phone until a police officer has got around to them because they are suicidal.²¹⁷

148. Being a victim of any fraud can be devastating. Pension scams often involve the loss of a lifetime's savings and many of the plans people have made for their later life. Victims of pension scams suffer lifelong financial harm and potential lifelong impact on their mental wellbeing. We recommend that DWP should lead in the creation of a strategy to ensure that all pension scam victims are offered, and encouraged to take, support for both the financial harm and psychological distress caused by pension scams. Support for financial harms could be delivered through the Money and Pensions Service's new consumer facing brand MoneyHelper when it launches in June 2021. Support for psychological distress could be delivered jointly with other Government departments to signpost relevant services.

214 Age UK ([PPS0041](#))

215 Aviva ([PPS0037](#))

216 G M Say ([PPS0069](#))

217 [Q186](#)

Conclusions and recommendations

Introduction

1. People save for retirement and later life in many different ways, not solely through their pensions. During the course of our inquiry we have been contacted by a number of people who have lost savings, other than pensions, which were intended to support them in retirement. (Paragraph 10)
2. The pension freedoms gave people more choice in how they use their money to meet their own needs. However, by offering pension savers access to a much wider range of investments, the freedoms also removed much of the distinction between pension scams and other types of investment and financial fraud. More than five years on from the introduction of the pension freedoms, the Government and the regulators are still putting in place the necessary support framework to protect pension savers. They must now act quickly and decisively. (Paragraph 11)
3. *We recommend that DWP should publish details of its plans to co-ordinate work with the Treasury to combat pension scams as a matter of urgency. Following the introduction of the pension freedoms there is now less practical distinction between the areas of Treasury responsibility, including investments and advice, and DWP's role in combatting pension scams.* (Paragraph 12)

Recording and reporting

4. The real scale of pension scamming is undoubtedly much larger than the £30 million reported to Action Fraud, the UK's national reporting centre for fraud and cybercrime, between 2017 and August 2020. We have even heard examples of individual cases with losses potentially larger than the total amount reported to Action Fraud in those three and a half years. The Pension Scams Industry Group, a voluntary body set up to tackle pension scams, estimates that £10 billion has been lost by 40,000 people to pension scams since 2015. The situation is likely to be getting worse rather than better: scammers in all industries look to take advantage of new situations and covid-19 potentially offered them new opportunities. (Paragraph 19)
5. *We recommend that Project Bloom, the multi-agency taskforce set up to tackle pension scams, should develop a range of measures to enable a better understanding of the scale of pension scamming, rather than relying solely on the current Action Fraud data. The lack of a definitive measure of the scale of pension scams makes it difficult for both the public and policy makers to make an appropriate judgement about the priority that should be given to tackling pension scams and the resources they should deploy.* (Paragraph 20)
6. At present there is no universal definition of pension scams and the range of potential activity which could be classed as a scam runs from sharp practice all the way to outright fraud. Project Bloom, the multi-agency taskforce set up to tackle pension scams, uses a broad definition of pension scams which has been developed by the Pension Scams Industry Group. *We recommend that Project Bloom should continue to use the Pension Scams Industry Group definition of pension scams, which should be*

treated as the industry standard. Members of Project Bloom may need to use different definitions within their own settings—for example, to avoid double counting a case of investment fraud under several different categories—but they should record data in a way that is compatible with the definition used by Project Bloom. (Paragraph 26)

7. Many victims of pension scams never report that they have been scammed. Others report a long time after it has taken place. Scam victims reasonably expect that, when they make a report to Action Fraud, it will be acted upon. They are understandably left disillusioned when this does not happen. A 2019 investigation by the Times found serious failings at Action Fraud, the UK’s national reporting centre for fraud and cybercrime. Representatives of Action Fraud were able to speak positively about improvements made to the service since 2019, but there is a long way to go before it can regain the faith of victims and the wider public. *We recommend that Action Fraud should be accountable to Project Bloom, or any successor organisation, for its work on pension scams. A failure to manage victims’ expectations, an investigation by the Times and a lack of action on cases has left Action Fraud with a tattered reputation. The City of London Police should make annual reports to Parliament on efforts to repair it. (Paragraph 34)*
8. The aftermath of a pension scam can leave a victim needing to deal with several different bodies without much guidance or support. For many victims Action Fraud is the first point of contact and for those for whom it is not, it should be. *We recommend that Action Fraud should have a coordinating role for pension scam victims. Anyone who contacts Action Fraud should not be required to self-direct to other bodies which may be able to help them and instead Action Fraud should set up initial appointments for them. If a potential scam victim contacts a body other than Action Fraud their case should routinely be recorded with Action Fraud, which should signpost the relevant support available. (Paragraph 35)*
9. We heard repeatedly about a worrying trend of secondary scammers—scammers targeting people who have already been the victim of a pension scam. People who have not reported their case to an appropriate body—or who have done so but not received appropriate warnings—may be unaware of the risk that secondary scammers pose. It can take many years before a person realises that they have been scammed. Once they do realise, if they do not seek the right help they are at risk of falling prey to secondary scammers. *We recommend that the Pensions Regulator and the Financial Conduct Authority should use their scams awareness campaign, ScamSmart, to warn of the risk of secondary scammers. (Paragraph 37)*
10. Pension firms can and should report suspect scams directly to Action Fraud. But we heard extensive evidence from the pensions industry that they are not sure where or how to report pension scams or suspected scams and that they are in fact sometimes discouraged from doing so. Action Fraud’s own website creates a confusing impression that it is intended only for use by scam victims. *We recommend that Action Fraud should make it clear that the industry should make reports of scam activity to Action Fraud and should provide clear guidance and an effective tool for the industry to do so. The member organisations of Project Bloom should ensure that they provide clear guidance to the industry about how to report suspected scam activity. (Paragraph 42)*

11. The pensions industry does not universally share information about possible scams amongst providers and schemes. Information can be, and is, shared voluntarily, including through the Pension Scams Industry Group and the forum it supports—the Pension Scams Industry Forum. *We recommend that Project Bloom should facilitate industry intelligence sharing and that the Government should legislate to require industry participation in intelligence sharing at the next opportunity.* (Paragraph 46)
12. We welcome the fact that the Pensions Regulator is supporting efforts to encourage the pensions industry to share information about pension scams through its pledge to combat pension scams campaign, which was launched in November 2020. We would like to see all of the pensions industry sign the pledge. *We recommend that Project Bloom should actively encourage the pensions industry to sign up to the pledge. The Pensions Regulator should monitor and report twice annually to this Committee on the effectiveness of its pledge to combat pension scams.* (Paragraph 47)
13. Pension scammers do not confine themselves to the borders of the UK. Many of the cases we heard about took place across several countries, making enforcement more complicated. We note that since the introduction of a potential 25% charge on many qualifying recognised overseas pension schemes transfers in March 2017, there has been a significant fall in the number of transfers to these schemes, which have been a vehicle for scams in the past. But there remain problems with unscrupulous—and often unregulated—advisers based outside the UK. Cross-border co-operation remains important, as the involvement of firms or investments based abroad is a common feature of many scams. *We recommend that the Money and Pensions Service should run—and report on—a programme to encourage eligible expatriates to access the free guidance it offers through its new consumer facing brand MoneyHelper when it launches in June 2021.* (Paragraph 52)

Prevention

14. The Pension Schemes Act 2021 will allow people's statutory right to transfer from their pension scheme to be restricted where there are signs of a pension scam. Regulations will be developed by DWP and are expected to be in place later this year. This will be a significant step in preventing pension transfer scams. Pension scheme trustees will be required to check if a transfer showed signs of a pension scam before allowing it to take place. If a trustee, through a lack of due diligence, allowed a transfer to a scheme which showed signs of being a scam then we believe that the Pensions Ombudsman must be able to require the scheme to compensate the victim. *We recommend that a review of the legislation should be published within 18 months of the regulations being operational. If there are any concerns about the operation of the policy this will allow legislative changes to be made during this Parliament.* (Paragraph 61)
15. The regulations will identify potential indicators of a pension scam which would raise either red or amber flags. A red flag would allow a transfer to be blocked and an amber flag would allow a transfer to be paused until a person has received appropriate guidance. The red and amber flags being drawn up by the Department will need to strike a careful balance between protecting savers, being easily used by

trustees and not being overly restrictive. *We recommend that the suitability of the red and amber flags should form part of the 18 month review and then be reviewed at least every 3 years thereafter.* (Paragraph 62)

16. The FCA hosts a warning list on its website. The warning list publishes details of unregulated entities which appear to be carrying out an FCA regulated activity without the requisite authorisation or permission. The Minister for Pensions and Financial Inclusion told us that the powers under section 125 of the Pension Schemes Act do not allow a transfer to be blocked by a warning list operated by a third party organisation, such as the FCA. *We recommend that inclusion on the FCA warning list should constitute a red flag. If this is not possible, then the red flags developed by DWP should be defined in such a way that any firm or individual appearing on the FCA warning list would trigger a red flag.* (Paragraph 63)
17. The move online by pension scammers has been a recurring theme of our inquiry. Regulators appear powerless to hold online firms to account for hosting scam advertisements in the same way they would be able to for traditional media. Scammers using paid-for online advertisements appear to be particularly hard to tackle without the co-operation of the hosting firm. It is immoral that tech firms such as Google are accepting payment to advertise scams, and then further payment from regulators to warn about the scam. It should not require legislative solutions to deter global firms from benefitting from the proceeds of crime, but unfortunately legislation is clearly needed. *We recommend that, in order to create parity between traditional media, such as TV and newspapers, and new media, including search engines and social networks, paid-for advertising on online platforms should be covered by the regulatory framework for financial promotions. This would require online publishers to ensure that any financial promotion which they communicate has been approved by an authorised person or is exempted from the financial promotions regime.* (Paragraph 73)
18. On 15 December 2020 the Government announced its decision to bring forward legislation for the Online Safety Bill but also signalled its intent to exclude financial harms from the scope of that legislation. It is notable that several public bodies, including the Financial Conduct Authority and National Economic Crime Centre, are openly saying that there is a better approach for the Government to take than the one it has chosen. *We recommend that the forthcoming Online Safety Bill should legislate against online investment fraud.* (Paragraph 74)
19. *In the period between now and any legislation coming into force, we recommend that voluntary codes of conduct should be developed by search engines and social networks which make it clear that a request from a UK-based regulator is sufficient to remove a scam advertisement.* (Paragraph 75)
20. Since 2014, the FCA and the Pensions Regulator have been running ScamSmart campaigns to alert people to the risks of scams. The campaigns have made effective use of limited resources to target groups vulnerable to scams. *We recommend that Pensions Regulator and FCA should continue to run the ScamSmart campaign, while regularly evaluating whether it is reaching the right groups and whether it has the necessary resource to do so effectively.* (Paragraph 79)

21. When someone is looking for support to help them make a decision about their pension they can seek either advice or guidance. These are both important tools to prevent scams, with earlier intervention likely to lead to better outcomes. Advice is a personalised recommendation which can only be provided by regulated individuals and firms. Guidance is a broader term which includes general information and signposting about pensions. This difference is not always understood by consumers and can be exploited by scammers. (Paragraph 90)
22. When the pension freedoms were introduced, a guidance guarantee was presented as a key pillar of the reforms supporting people making use of the new range of choices available to them. Everyone with a defined contribution pension is entitled to free impartial guidance from Pension Wise when they come to access their pension. The Minister for Pensions and Financial Inclusion has agreed that having a Pension Wise appointment should be the norm. *We recommend that DWP should set out a plan for how this will be achieved and a timetable for getting there. Pension Wise is an important tool to prevent scams and we will look further at its role, within the new MoneyHelper brand, in the next part of our inquiry on accessing pension savings.* (Paragraph 91)
23. *We recommend that the Department for Work and Pensions should consider the options available for the Money and Pensions Service to offer enhanced guidance or limited advice, including through technological solutions. Regulated advice comes at a cost to savers, which can be a barrier for many, whereas the guidance currently provided may not be enough for some people to avoid them becoming a victim of a scam. We have asked for views on this in the call for evidence for the second part of our inquiry which will look at how people access pension savings.* (Paragraph 92)
24. The pension advice allowance allows members of defined contribution and hybrid pension schemes to withdraw £500 from their pension up to three times in different tax years for advice. There appears to have been little take up of the Pension Advice Allowance which has been set at too low a level. We welcome news that HM Treasury is reviewing this policy after the Minister for Pensions and Financial Inclusion told us that it will consider the policy's effectiveness as part of its wider work on the financial advice market. *We recommend that the overall cap of £1,500 should be reviewed and the annual cap of £500 on the amount which can be withdrawn in any one year under the pensions advice allowance should be removed.* (Paragraph 93)

Enforcement

25. There are many bodies with potentially overlapping enforcement responsibilities relating to pension scams. These include, but are not necessarily limited to: the Pensions Regulator, the FCA, the Insolvency Service, HMRC, Information Commissioner's Office, the police service, the Serious Fraud Office, the Pensions Ombudsman and the Financial Ombudsman Service. The fragmentation of reporting, investigation and enforcement around pension scams has made tackling pension scams more difficult. *We recommend that, as the taskforce responsible for coordinating the response to pension scams, Project Bloom should publish an accessible*

and publicly available document outlining the roles and responsibilities of all bodies involved in tackling pension scams. It should also report annually on the amount lost by, and reimbursed to, pension savers. (Paragraph 111)

26. The FCA told us that there have been a very large number of prosecutions involving scams and unauthorised business. We do not agree with this assessment. Its own figures—revealed only through Freedom of Information requests—show that there were just 25 convictions. We have heard numerous criticisms that the FCA is not effective in stopping scams, punishing scammers or retrieving scam proceeds. There is a compelling case for a much more ambitious approach. *We recommend that the FCA publish a costed plan to raise its game in tackling scams. It should also publish proactively data about its enforcement action, rather than waiting for Freedom of Information requests.* (Paragraph 112)
27. We have heard devastating evidence from pension scam victims who were persuaded to hand their savings over to a scammer because the scam pension scheme was registered with HMRC. We welcome the action that has led to a reduction in cases such as this. *HMRC should make clear that a tax reference is not any endorsement of a given scheme.* (Paragraph 113)
28. Regulators exist to protect savers and not enable scammers. Where a regulator has failed in this fundamental duty they should be held accountable. *We recommend that the Government review the recourse available to pension scam victims when the actions of a regulator have been beneficial to the scammer.* (Paragraph 114)
29. The pensions and wider financial services industry has a strong reputational interest in preventing scams. The regulators responsible for protecting the reputations and consumers of these industries are largely levy funded to meet this interest. Levy payers, particularly those regulated by the FCA paying into the Financial Services Compensation Scheme, have seen their costs rise in recent years and rightly expect the regulators demonstrate that levies are both set at a reasonable level and spent effectively on enforcement action. If regulators were more effective in preventing pension scams, then the need for compensation would be reduced and the levy on the industry would be lower. (Paragraph 115)
30. Project Bloom is a multi-agency task force set up to tackle pension fraud in 2012. It is not a statutory body and receives no dedicated funding. The members of Project Bloom have argued convincingly to us that it has the potential to be an effective body but is restricted by limited resources. The Pensions Regulator and other organisations suggested to us Project Bloom should also be supported by a pension scams hub staffed by officials from the different members of Project Bloom working alongside law enforcement. (Paragraph 119)
31. The establishment in 2012 of Project Bloom, the multi-agency task force set up to tackle pension fraud was an attempt to overcome this. We support the creation of Project Bloom, but it has become clear that it does not have the capacity in its current form to achieve its objectives. It must now be given a statutory remit, an appropriate name—we propose “the Pension Scams Centre”—dedicated funding, and the staffing to manage a pension scams intelligence database alongside law enforcement. *To avoid the risks of creating yet another regulatory body in an already crowded field,*

we recommend that the new Pension Scams Centre should have a board made up of representatives of Project Bloom’s current member organisations, with oversight of a pension scams hub. The hub’s responsibilities would include facilitating intelligence-sharing within the pensions industry and between regulatory bodies. The funding for both bodies should be ringfenced from existing budgets. The new organisation should consult on a public strategy with clear targets for reducing the incidence of pension scams and publish data demonstrating its success—or otherwise—in achieving these targets. (Paragraph 120)

Supporting with pension scam victims

32. As well as ruining someone’s financial future, a pension scam can leave them with large unexpected tax bills. Pension liberation scams often involve scammers claiming that there are legal loopholes, such as loans or cash incentives, which can allow a person to access their pension early, before the age of 55, without the victim having to pay tax. This is not correct. Someone who accesses their pension early faces an unauthorised payment charge of 40% and an unauthorised payment surcharge of 15%. These penalties are intended to act as a deterrent, but do not work in cases where a scammer has convinced a potential victim that the charge will not apply. *We recommend that, where someone is seeking to transfer or access their pension before the age of 55, pension schemes should be required to inform them, in a clear and accessible format, about the unavoidable tax charges they would face if they access their pension early. For people who access their pensions after this requirement has been introduced, it would be reasonable for HMRC to collect the tax due—unless it can be proved that the requirement was not adhered to. (Paragraph 131)*

33. HMRC has been described as “unrelenting and uncompromising” in the pursuit of unauthorised payment charges. While the position taken by HMRC is legally correct, it has often lacked empathy or understanding of impact that its demands have on victims. *We recommend that HMRC should make greater use of its current discretion to support pension scam victims left owing large tax bills and that it should do its utmost to provide them certainty where possible. HM Treasury should recognise that, in some clearly defined circumstances, where the saver has been the victim of a crime and made no financial gain from the early access, it may not be in the public interest to demand payment of tax due. Where someone seeks to access their pension before the age of 55 without being eligible for one of the exemptions, we recommend that the pension schemes be required to withhold the Income Tax and surcharge and pay this to HMRC. In the event that the tax is not due, the individual could reclaim it from HMRC. This would ensure that victims of scams would not be subject to a tax bill on top of their pension loss. If a person has made a financial gain from early access, but can demonstrate that they have been the victim of a crime, they should be given the option to return the gains to an approved scheme within three years of the point at which they ought to have realised they have been scammed. If HMRC is unable to make greater use of its current discretion to waive the tax due by pension scam victims then the Government should consider whether legislation is required to give HMRC the option not to pursue the tax penalties of pension scam victims. (Paragraph 132)*

34. *We recommend that HMRC should re-join the pension scams taskforce Project Bloom. It was a founding member when Project Bloom was set up in 2012 but has since left. The Minister for Pensions and Financial Inclusion told us that he “100%” supports HMRC re-joining Project Bloom. We agree.* (Paragraph 135)
35. Where a pension scheme has been used as a vehicle for a pension liberation scam the Pensions Regulator will appoint an independent trustee. The trustee’s management fees and associated legal costs will be met directly from the scheme’s assets, which often need to be recovered first by the trustee. With one professional trustee being appointed to the vast majority of schemes and a number of complaints from victims about these fees and the quality of communication we welcome the offer from the Department to look at this market. In a larger market, complaints about the communication and fees paid to professional trustees might be corrected by competition. *We recommend that the Pensions Regulator should review the value for money that scam victims get from trustees appointed to scam schemes within a year.* (Paragraph 143)
36. Members of schemes where professional trustees are appointed can face long waits to receive any recovered assets, even if a significant proportion of the assets are recovered. Often because of the costs associated with providing communications to members, which are met directly from the recovered assets, scam victims perceive communication from professional trustees as poor. We acknowledge that professional fees in this market face a trade-off and that better communication inevitably results in higher fees. *We recommend that the Pensions Regulator should explore the case and make a recommendation to DWP for allowing members to more easily transfer out of a scheme where a professional trustee has been appointed before all of the assets are recovered, if this would be in the member’s interest.* (Paragraph 144)
37. Being a victim of any fraud can be devastating. Pension scams often involve the loss of a lifetime’s savings and many of the plans people have made for their later life. Victims of pension scams suffer lifelong financial harm and potential lifelong impact on their mental wellbeing. *We recommend that DWP should lead in the creation of a strategy to ensure that all pension scam victims are offered, and encouraged to take, support for both the financial harm and psychological distress caused by pension scams. Support for financial harms could be delivered through the Money and Pensions Service’s new consumer facing brand MoneyHelper when it launches in June 2021. Support for psychological distress could be delivered jointly with other Government departments to signpost relevant services.* (Paragraph 148)

Formal minutes

Friday 5 February 2021

Members present:

Rt Hon Stephen Timms, in the Chair

Debbie Abrahams	Nigel Mills
Shaun Bailey	Selaine Saxby
Siobhan Baillie	Dr Ben Spencer
Steve McCabe	Sir Desmond Swayne

Draft Report (*Protecting pension savers—five years on from the pension freedoms: Pension scams*) proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 148 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 24 March at 9.15am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Wednesday 16 September 2020

Margaret Snowden, Chair, Pension Scams Industry Group (PSIG); **Andy Agathangelou**, Founder, Transparency Task Force; **Richard Piggin**, Head of External Affairs and Campaigns, Which?; **Tim Fassam**, Director of Government Relations & Policy, The Personal Investment Management and Financial Advice Association (PIMFA)

[Q1–43](#)

Wednesday 7 October 2020

Peter Hazelwood, Group Financial Crime Risk Director, Aviva; **Rachel Vahey**, Senior Technical Consultant, AJ Bell; **Lorraine Harper**, Client Relationship Director and Head of Proposition, Mercer; **Julian Adams**, Director of Public Policy & Regulation, M and G PLC

[Q44–73](#)

Neil Copeland, Director, Dalriada Trustees Limited; **Brian Thorne**, Principal at Barnett Waddingham, Pensions Management Institute; **Nita Tinn**, Chair, Association of Professional Pension Trustees; **David Weeks**, Co-Chair, Association of Member Nominated Trustees

[Q74–87](#)

Wednesday 2 December 2020

Dennis Waite; **Sue Flood**

[Q140–183](#)

Rick Muir, Director, The Police Foundation; **Neil Postins**, Service Delivery Manager, National Economic Crime Victim Care Unit; **Pauline Smith**, Director, Action Fraud

[Q184–212](#)

Wednesday 6 January 2021

Nicola Parish, Executive Director of Frontline Regulation, The Pensions Regulator; **Commander Clinton Blackburn**, National Coordinator for Economic Crime, City of London Police; **Mark Steward**, Executive Director of Enforcement and Market Oversight, Financial Conduct Authority; **Graeme Biggar**, Director General, National Economic Crime Centre

[Q213–265](#)

Wednesday 27 January 2021

Guy Opperman MP, Minister for Pensions and Financial Inclusion, Department for Work and Pensions; **Emma Varley**, Head of DC and International Private Pensions Policy, Department for Work and Pensions; **Pete Searle**, Director, Private Pensions and Arm's Length Bodies, Department for Work and Pensions

[Q266–324](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

PPS numbers are generated by the evidence processing system and so may not be complete.

- 1 AEA Technology Pensions Campaign ([PPS0025](#))
- 2 AJ Bell ([PPS0045](#))
- 3 Age UK ([PPS0041](#))
- 4 Aon ([PPS0024](#))
- 5 Apex CB Financial Planning Ltd ([PPS0027](#))
- 6 Association of British Insurers ([PPS0039](#))
- 7 Association of Member Nominated Trustees ([PPS0072](#))
- 8 Association of Member Nominated Trustees ([PPS0011](#))
- 9 Aviva Plc ([PPS0037](#))
- 10 Barnett Waddingham LLP ([PPS0044](#))
- 11 Barr, Professor Nicholas (Professor of Public Economics, London School of Economics) ([PPS0023](#))
- 12 Belmayne Independent Chartered Financial Planners ([PPS0040](#))
- 13 Coburn Corporate Intelligence Pty Ltd ([PPS0077](#))
- 14 Dalriada & Pinsent Mason ([PPS0059](#))
- 15 Department for Work and Pensions ([PPS0070](#))
- 16 Financial Conduct Authority ([PPS0048](#))
- 17 Financial Services Compensation Scheme ([PPS0063](#))
- 18 Investment and Life Assurance Group (ILAG) ([PPS0020](#))
- 19 Just Group ([PPS0054](#))
- 20 Khuller, Manita ([PPS0078](#))
- 21 Low Incomes Tax Reform Group (a committee of the Chartered Institute of Taxation) ([PPS0004](#))
- 22 M&G PLC ([PPS0035](#))
- 23 Mercer Limited ([PPS0026](#))
- 24 Milton, Mr. Philip (Managing Director, Philip J Milton & Company Plc) ([PPS0003](#))
- 25 Midland (HSBC) Clawback Campaign ([PPS0002](#))
- 26 Money Alive Limited ([PPS0022](#))
- 27 Name Withheld ([PPS0012](#))
- 28 Name Withheld ([PPS0031](#))
- 29 Name Withheld ([PPS0036](#))
- 30 Name Withheld ([PPS0049](#))
- 31 Name Withheld ([PPS0079](#))
- 32 National Federation of Occupational Pensioners ([PPS0066](#))

- 33 New South Law Ltd ([PPS0042](#))
- 34 Ormston, Mr Mark (Head of IT, administration and external affairs , Retirement Line) ([PPS0019](#))
- 35 Parish, W J ([PPS0068](#))
- 36 Pension Protection Fund ([PPS0055](#))
- 37 Pension Scams Industry Group (PSIG) ([PPS0067](#))
- 38 Pension Scams Industry Group (PSIG) ([PPS0018](#))
- 39 Pensions Management Institute ([PPS0060](#))
- 40 Pensions Policy Institute ([PPS0034](#))
- 41 Pensions and Lifetime Savings Association ([PPS0062](#))
- 42 Personal Investment Management and Financial Advice Association (PIMFA) ([PPS0051](#))
- 43 Phoenix Group ([PPS0043](#))
- 44 Premier FX Liquidation Committee ([PPS0075](#))
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- 46 RMI Finance Ltd ([PPS0021](#))
- 47 Say, G M ([PPS0069](#))
- 48 Sefton, Mr Stephen ([PPS0009](#))
- 49 Smart Pension ([PPS0052](#))
- 50 Stears, Mr Gareth (Pension Technical Consultant, Aries Insight) ([PPS0013](#))
- 51 Taber, Mr Mark (Volunteer Consumer Finance Campaigner, Voluntary) ([PPS0058](#))
- 52 The Connaught Action Group ([PPS0010](#))
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- 54 The Pensions Regulator ([PPS0064](#))
- 55 The People’s Pension; and The Police Foundation ([PPS0015](#))
- 56 Transparency Task Force ([PPS0073](#))
- 57 Transparency Task Force ([PPS0076](#))
- 58 Transparency Task Force ([PPS0071](#))
- 59 Ward, Bob ([PPS0074](#))
- 60 Which? ([PPS0061](#))
- 61 XPS Pensions Group ([PPS0030](#))

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2nd	The appointment of Dr Stephen Brien as the Chair of the Social Security Advisory Committee	HC 733
3rd	Universal Credit: the wait for a first payment	HC 204
4th	The temporary increase in Universal Credit and Working Tax Credit	HC 1193
1st Special	DWP's response to the coronavirus outbreak: Government Response to the Committee's First Report	HC 732
2nd Special	The two-child limit: Government Response to the Committee's Third Report of Session 2019	HC 1079
3rd Special	Universal Credit: the wait for a first payment: Government Response to the Committee's Third Report	HC 1117
4th Special	Universal Credit and "survival sex"	HC 1225