THE POLICE FOUNDATION
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PROTECTING PEOPLE'S PENSIONS: UNDERSTANDING AND PREVENTING SCAMS

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SEPTEMBER 2020

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About the Police Foundation

The Police Foundation is the only independent think tank focused exclusively on improving policing and developing knowledge and understanding of policing and crime reduction. Its mission is to generate evidence and develop ideas which deliver better policing and a safer society. It does this by producing trusted, impartial research and by working with the police and their partners to create change.

Acknowledgements

This study would not have been possible without the generous support of The People's Pension, to whom we are extremely grateful. The views expressed in this report are solely those of the authors. We would also like to thank Tommy Burns and Margaret Snowdon OBE at the Pension Scams Industry Group (PSIG), who are central to the industry-wide response to pensions and were instrumental in developing and administering our survey to pension companies. We are also very grateful to the Association of British Insurers (ABI), the Pensions Administration Standards Association (PASA) and the Pensions and Lifetime Savings Association (PLSA) for assisting with the survey.

Finally, we would like to extend our gratitude to all practitioners who gave up their valuable time to give us the benefit of their insights and experience.

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GLOSSARY OF TERMS

Defined benefit pension: workplace pensions which guarantee a retirement income to employees, the value of which is based on the rules of the pension scheme (commonly referred to as "final salary" or "career average" schemes). The employer can invest the pension funds but this will not affect the retirement income paid to individual employees.

Defined contribution pension: money is paid into investments by a pension provider and the value of the pension pot (and the saver's retirement income) is dependent on the performance of the investment. They include both workplace pensions and those arranged privately by the saver.

FCA: Financial Conduct Authority.

Financial adviser: individuals authorised and regulated by the FCA to provide advice and recommend suitable financial products to pension holders and investors.

Fraud: incidents that meet the criteria for a criminal offence as defined in the Fraud Act (2006).

HMRC: Her Majesty's Revenue and Customs.

Introducers: companies engaged in mass-marketing or targeted marketing to pension holders and investors to promote financial products and identify prospective clients (or "leads") for new pension providers or investment schemes.

Pension freedoms: officially termed "Freedom and Choice". This is an entitlement introduced by the government in 2015 for pension savers aged 55 or over to access cash and/or re-invest funds from their pension scheme.

Pension liberation fraud: a pension fraud methodology in which an individual is misled or encouraged to access pension funds in way that breaches tax regulation.

Project Bloom: a cross-sector, strategic taskforce established to tackle pension scams.

Scam: all incidents in which a pension saver loses money to a dishonest company or practitioner.

SUMMARY

Pension entitlements make up a substantial proportion of personal wealth in Britain, totalling £6.1tn in 2016-18 which is 42 per cent of aggregate household wealth, more than any other source, including property and financial savings. Around £2.5tn of this £6.1tn is accessible to scammers.

Police figures show that on average in a single year, victims lost £91,000 to pension scammers with some losing as much as £1m. Furthermore, the issue may be set to worsen as scammers begin to exploit new vulnerabilities from the financial hardship caused by the coronavirus crisis.

This report draws together the findings of a research project carried out by the Police Foundation and supported by The People's Pension. The research aimed to do two things:

- **Improve our understanding of the scale and nature of pension scams**: looking at the current threat from pension scams and how this has changed over time, including an understanding of who scammers are, the methods they employ and the vulnerabilities they exploit.
- **Explore how the public policy response to this problem can be improved**: looking at the response from stakeholders in law enforcement, financial regulators and the private sector, the role of partnerships, and identifying the challenges that need to be overcome in implementing effective prevention and response strategies.

Pension providers are at the frontline of dealing with pension scams, receiving and processing transfer requests from customers potentially being scammed. As part of our research, 121 pension companies were sent an attitudinal survey and request for administrative data on scams that were identified and responded to during 2019.

While only a small number provided full administrative data, the results highlighted the scale of the issue; 13 pension companies alone reported that 938 customers with aggregate savings amounting to £54m were targeted by scammers last year. 62 per cent of these customers had insisted on the transfer regardless of the risk, with £31 million potentially lost.

DEFINING PENSION SCAMS

Pensions scams encompass a range of methods through which people are tricked into transferring and/or investing their pension into inappropriate or non-existent investment products so that their money can be taken from them.

While the risk of fraud has always been associated with pensions, with the theft from Mirror Group pension fund in the 1990s being one of the most notable examples (Prokesch, 1992), the problem has evolved over the last decade with attention shifting from fraud at the level of the employer to scams (including fraud) at the level of the individual.

Following the announcement of Freedom and Choice in 2014 and the substantial relaxation of the rules that govern the way in which pension savings are turned (or decumulated) into a retirement income, we have seen growth in different kinds of scam. Increasingly people have been encouraged to transfer or decumulate their pension[1] in a way that harms them financially but benefits those providing the arrangement. There has also been an increase in individuals induced to transfer from defined benefit to defined contribution pension schemes where they are then vulnerable to victimisation. In some cases, the eventual destination of the pension monies is outside of a pension, meaning there are increasing overlaps with investment scams.

Scams are typically a blend of the legitimate and the illegitimate. This is true of the financial structures used by scammers as well as the scammers themselves. Our research found scams using enablers from across the legitimate finance sector, including marketing firms and professionals such as accountants, solicitors, insolvency officers and pension scheme trustees. Those involved vary in their culpability:

- Core planners and co-offenders who set up the schemes; these individuals may have obtained regulatory or legal permissions (e.g. HMRC registration) under false pretences and present themselves as indistinguishable from legitimate actors or may have once been legitimate actors but are now acting corruptly.
- Other facilitators who are making money and content not to know too much.

1 Specifically, defined contribution pensions.

- Others who appear to genuinely not know they are embroiled in a scam.

These participants may enable scams to be perpetrated but the less culpable may operate with only partial knowledge of the overall scam. This mitigates culpability and shields them from repercussions. Our research found a consistent pattern of unregulated individuals (or “introducers”) generating leads for prospective scammers or undertaking regulated activities, either by providing financial advice or advising on investments without the required authorisations.

> One case involved “a loose cartel of enablers and businesses across the UK” with an organised crime group at its centre, with links to other crimes such as serious violence and money laundering, in addition to multiple fraudulent pension companies. The company in focus had legitimately existed but represented little more than a bank account. It was registered to a “patsy” director who was peripheral to the conspiracy and multiple solicitors and accountants facilitated the running of the business; not all of the more peripheral actors will have been aware of the underlying fraud. An external call centre was contracted to make the initial sales calls to prospective investors and refer those who were receptive to marketing (i.e. a “lead”) to be followed up by the pension company. The fraud also had links to a corrupt insolvency officer who concealed details of the illicit transactions in order to close companies down without raising suspicion. The fraudsters would periodically “phoenix” their company to evade detection and put a distance between the perpetrators and previous frauds. In addition, they were linked to a network of people who operated on the “edge of legality” and specialised in winding-up companies and laundering assets.

THE QUALITY OF PROTECTIVE MEASURES IN THE INDUSTRY

Pension holders rely on finance professionals to guide them, but in addition to the risks from rogue “advisers”, protective measures from legitimate pension providers are patchy. Pension companies have a voluntary duty to perform due diligence checks when a customer requests a transfer to another pension scheme. Furthermore, trustees have a responsibility not to make an unauthorised payment. However, implementation of these measures across different companies is highly variable.

In our survey, one company was responsible for the overwhelming majority of suspicious transfers that were successfully prevented, also a minority of providers had chosen not to implement industry standard measures. Additionally, there was evidence of a lack of direct contact between provider and saver in the event that a provider suspected a scam. The majority conveyed concerns about suspected scams only by letter.

Furthermore, the powers of pension providers are limited because in most cases the customer retains the statutory right to transfer their pension even when acute risk is identified. Providers can flag concerns and delay the process however many savers proceed regardless of these warnings. There is expertise in the industry, but pension companies alone are not suitable guardians because:

- They are commercially motivated to retain rather than to release funds, which creates a conflict of interest that customers are aware of and scammers exploit. Indeed, in our survey, pension providers reported that scheme members are sometimes primed by scammers not to engage or listen to advice from them.

- Their powers to influence and intervene are limited. Pension companies currently do not have the same powers to leverage a public sector response to identified risks as does the banking sector (through the Banking Protocol).

Industry-generated intelligence is critical to gaining insight on current trends and informing preventative strategies. Providers have developed methods for collecting and analysing data to inform risk assessments, but the reliability of these measures is untested.

VULNERABILITY AND IMPACT

Our research identified a number of factors that make individuals particularly vulnerable to pension scams and that make these scams particularly harmful. The first is the degree of change in pension legislation. Freedom and Choice allowed individuals much greater leeway over what they could do with their pension entitlements, but this has not been matched by a greater public understanding of the risks of scams and their consequent personal responsibilities. People are aware of the upside of the freedoms, but many do not yet understand the risks. There is usually no recourse when things go wrong.

We recognise that the government has tried to increase public awareness of pension scams, through the work of the Money and Pension Service, through public education campaigns like ScamSmart and by encouraging industry initiatives. However, we found that many people still do not appreciate the risks to their pension, one of their most significant personal assets. The sheer scale of the changes brought about by Freedom and Choice legislation has meant that awareness raising and public education are struggling to keep up with these risks and substantial amounts of money are getting caught up in grey or illicit schemes.

While the impact of pension scams is usually considerable, there is often a lag between the scam being perpetrated and discovery of the scam by the victim. When victims discover a scam it is not always clear to them where they should go to report the crime and how they can receive support and advice.

Finally, some scams may make a victim complicit in the scam. That may happen if the scam involves a breach of the tax rules that govern pensions. Victims may lose money to the scam and then be pursued by HMRC for the tax rule breach. HMRC's approach was described by police investigators as unrelenting and uncompromising, overlooking the complexities of the fraud, rendering the victim the perpetrator. This can deter victims from coming forward or engaging with police investigations.

IMPROVING THE RESPONSE TO PENSION SCAMS

Pension providers vary in their approach to identifying scams and many do not routinely share information with the authorities or their competitors. Many highlighted the need for a centralised information hub to help identify suspicious schemes and actors across the industry. A clear picture of the scale and nature of the problem is currently lacking due to:

- The very limited reporting by pension providers.
- The challenge in distinguishing a crime from a scam.
- Rigid crime classification that focuses on pension liberation alone.

The consequence is that the authorities are perennially on the back foot, unable to proactively tackle pension scammers. While the annual volume of pension liberation fraud (see glossary of terms on page 2) has seen a sustained decline, there was a marked increase in investment frauds from 2015-16:

> *"[In official statistics the volumes have] dropped off in the last 18 months, not because the scams have gone away, we think there's a transition, it's changing and the system is not picking it up … [including a move away from pension companies] into areas that are less regulated and less visible."*
>
> Advisory service – policy officer

Project Bloom, led by the Pensions Regulator, brings all the relevant bodies together and is designed to provide national strategic oversight of the scams problem. It does not however steer the response on the ground. Currently, the official response is largely determined by where in the regulatory system a scam is reported or identified, rather than through a collective strategy or assessment. A single case can be known to multiple partners, with each tackling the scammer or scheme in their own way. A lack of coordination means that optimum use is not made of the resource and powers available across the system.

RECOMMENDATIONS

Overarching recommendations

1. Implement a coherent set of principles for law enforcement and regulators to follow to inform resource allocation and facilitate a more coordinated and consistent response across agencies.

2. Implement a training requirement for pension and finance professionals to ensure they can identify scam risks and are aware of the channels for reporting concerns.

3. A new framework modelled on the Banking Protocol should be developed to give pension companies the power to trigger an urgent regulatory response to savers at risk of being scammed.

4. Pension schemes and providers should be required to perform an enhanced set of due diligence checks on transfers and report a suspected scam to their regulator.

5. Pension regulators should be given the power to override the statutory right to transfer should a suspected scam be reported to them. Individuals who disagree with the regulators' decisions should have a right of appeal to the Pensions Ombudsman.

Recommendations for HMRC

6. A system must be created by HMRC and partners to ensure that victims of pension fraud are not liable for tax penalties from HMRC.

Recommendations for the police

7. Broaden the definition of pension fraud to ensure crime data provides an accurate picture of the issue, with data from the industry, regulators and policy contributing to an annual assessment.

8. A central intelligence database should be set up to ensure a more systematic collection and analysis of intelligence, which can be made available to partners in the public and private sector to assist decision-making.

9. Police investigators should be supported by a specialist fraud victim support service such as that provided by the National Economic Crime Victim Care Unit, to help manage, assess and support vulnerable victims of fraud, and facilitate engagement with the criminal investigation.

10. New digital technology and techniques should be implemented by the police to support and speed up analysis of the high volumes of digital intelligence and evidence collected during criminal investigation.

Recommendations for regulators

11. Introduce regulation for "introducers" to ensure they only generate leads for regulated professionals or provide information to customers, and don't also undertake regulated activities.

12. The victim journey needs to be streamlined. All organisations that receive a report or otherwise identify a victim should consistently channel those affected into the Money and Pensions Service to assess risk and need and make referrals to specialist support where necessary (for example, debt management or victim support).

1. INTRODUCTION

The government has introduced significant changes to pensions in recent years, and the finance sector and pension savers are having to quickly adapt to a radically changed environment. Most notably, pension savers have been given considerable freedoms to control and manage their pensions, bringing new opportunities to invest and grow their pensions to provide an income in later life. However, this increased responsibility brings greater risks, from unethical actors within the industry and criminal elements outside the industry who seek to take advantage of savers trying to navigate unfamiliar terrain in the pension and investment markets.

The published data reveals contrasting perspectives on the problem, with police data showing pension fraud to be a low volume crime affecting several hundred victims each year, compared with industry figures that estimate losses to scams amounting to £4bn in 2019. Each victim can experience substantial losses with police figures showing on average victims lost £91,000, with some losing as much as £1m (The Pensions Regulator, 2019). There has been little research into the perpetrators of these scams, though they commonly employ sophisticated mass marketing and social engineering techniques to trick savers out of their money; a common example was to approach individuals with the offer of a free pension review (Citizens Advice Bureau, 2015; Citizens Advice, 2016). Approximately one in five industry figures believed pension liberation fraud involved organised crime groups (FCA, 2018).

The effectiveness of the authorities in preventing these scams and supporting victims has received little scrutiny. A wide range of public and private sector organisations have a role, including financial regulators, law enforcement and support services, many of which have been brought together under Project Bloom, a national multi-agency taskforce for tackling this problem. A key strategy of the regulators has been to raise public awareness so that citizens can protect themselves from scams (the ScamSmart campaign). However, pensions and investments are complex and the public continue to display decision-making and behaviours that put them at considerable risk. Furthermore, the police have come under increased scrutiny for the lack of priority afforded to frauds that are being recorded in increasing numbers (HMICFRS, 2019; Home Affairs Committee, 2018; Skidmore et al, 2018).

This report draws together the findings of a research project carried out by the Police Foundation and supported by The People's Pension. The research aimed to do two things:

- **Improve our understanding of the scale and nature of pension scams**: looking at the current threat from pension scams and how this has changed over time, including an understanding of who scammers are, the methods they employ and the vulnerabilities they exploit.
- **Explore how the public policy response to this problem can be improved**: looking at the response from stakeholders in law enforcement, financial regulators and the private sector, the role of partnerships, and identifying the challenges that need to be overcome in implementing effective prevention and response strategies.

APPROACH

A mixed methods approach was used to collect evidence from policy makers, a range of stakeholder organisations, and frontline practitioners. The methods deployed included:

An industry survey: 121 pension companies were sent an attitudinal survey and a request for administrative data on scams identified and responded to during 2019. Experts from industry (PSIG) and the regulators fed into the development of the survey. Each organisation was affiliated to one of three industry membership bodies which sent the survey on our behalf; the Pension Scams Industry Group (n=41), the Association of British Insurers (n=25) and the Pensions Administration Standards Association (n=55). The survey was also disseminated to the wider membership of the Pension and Lifetime Savings Association (approximately 1,300 companies). 40 attitudinal surveys were completed and returned, 13 of which also provided administrative data. See Appendix 1 for a breakdown of the pension companies in our sample.

Semi-structured interviews with senior stakeholders: we completed 12 interviews with senior policy makers and practitioners from organisations that included the Department for Work and Pensions, the Financial Conduct Authority, the Pensions Regulator, the Insolvency Service, law enforcement and consumer support and advocacy organisations. In addition, the Police Foundation hosted a roundtable event, attended by senior stakeholders to discuss the nature of the current problem and the challenges in responding to it.

Semi-structured interviews with police investigators: six interviews were completed with Economic Crime teams in local police forces (n=2), Regional Organised Crime Units (n=3) and the national lead force in City of London Police (n=1). Questions focused on recent pension fraud investigations and on the modus operandi of the offenders and the challenges experienced during the investigation. All cases had undergone a near complete police investigation that had either been successfully prosecuted or was proceeding through the courts. The time period over which each perpetrator had offended ranged from several months to six years; the oldest case involved offending that began in 2010 and continued for six years, and the most recent case took place in 2017. None involved offending that took place after 2017 because it typically took years for these crimes to be detected and several years to complete an investigation. In this regard, these cases may not wholly represent the current picture of a crime that is continuously evolving. Additionally, we do not know the extent to which these cases represent scams that do not meet criminal thresholds.

Review of the literature: we conducted a review of relevant secondary evidence using an open source search of relevant material on pension fraud and scams, including publications and press releases from stakeholder organisations.

2. THE SCALE OF PENSION SCAMS

Pension savings make up a substantial proportion of personal wealth in Britain, totalling £6.1tn in 2016-18 which is 42 per cent of aggregate household wealth, more than any other source including property and financial savings (ONS, 2018). Around £2.5tn of this £6.1tn is accessible to scammers.[2] Pension wealth therefore represents a substantial source of revenue for prospective scammers, although the actual scale of offending and the harm caused is difficult to ascertain.

Table 1 lists the range of published statistics on the scale of pension scams, showing wide discrepancies between the figures reported by the police and by the pensions industry. In 2018, 180 victims reported a pension fraud to the police and experienced on average losses of £82,000.

These figures are dwarfed by an estimate of £4bn in losses to pension scams in a single year based on figures reported by the pensions industry. This industry figure is based on the volume of pension transfer requests received by three pension providers assessed to have contained at least one characteristic that may indicate a scam; these are risk markers adopted across industry to aid frontline practitioners in identifying a scam, including the role of an unsolicited sales call, unregulated intermediaries or members displaying limited awareness of the recipient scheme or adviser (PSIG, 2018). The reliability of each indicator (or combination of indicators) in identifying a scam is untested, meaning the validity of this estimate is uncertain.

Nevertheless, the stark discrepancy between official reports and industry estimates in part reflects the wide gap between prevalence and reporting, and between money lost to criminal fraudsters and that lost to scammers who adopt sharp practices but without breaking the law.

Citizens Advice estimate that 8.4 million people received unsolicited phone calls relating to pension scams in 2015-16 but again, it is not clear whether this figure indicates the extent of pension scams. Cold calling became endemic after the introduction of pension freedoms in 2015 (Aviva, 2018), but up until early 2019 it was a legitimate marketing technique used by licit and illicit actors alike (Citizens Advice, 2016). The proportion linked to scams is not known.

Table 1: Statistics on the scale and impact of pension scams

The impact of pension scams

£82,000

The average financial loss of a victim who reported a pension fraud to the police in 2018 (Hirst, 2019)

£43m

The total losses reported by victims of pension fraud who contacted the police in a three year period (Gov.uk, 2017)

£4bn each year

Pension savers' total estimated losses (Mostrous, 2019) from an assessment of transfer requests that had at least one scam indicator (PSIG, 2018)

The scale of pension scams

180

Victims reported a pension fraud to the police in 2018 (Hirst, 2019)

3,145

People per day sought help from the ScamSmart website following a media campaign (The Pensions Regulator, 2018)

8.4 million

The estimated number of individuals who received an unsolicited phone call offering pension advice or a review in 2015-16 (Citizens Advice, 2016)

[2] ONS estimate total pensions wealth as £6.1tn. This is an estimate based on the current value of DC pensions and the modelled value of funded and unfunded DB entitlements. Valuing pensions in this way gives a sense of the size of future entitlements but does not give a sense of the asset pool backing those entitlements that is vulnerable to scammers. We estimate this as £2.5tn, comprising £1.7tn backing funded DB pensions (excluding LGPS), c. £250bn in contract and trust-based DC, £420bn in non-workplace DC and £119 designated for drawdown.

2.1 OUR SURVEY OF PENSION COMPANIES

Pension companies occupy the frontline in tackling pension scams, because for scammers to arrange transfer of retirement savings they not only need to engage with the pension holder, but also their existing pension provider. In our survey of pension companies, 13 provided administrative data on the volume of pension transfers processed and scams identified in 2019.

Table 2 shows a total of 425,244 transfers had been processed by 10 pension companies in 2019 (three had been unable to provide this data). There was a considerable range in the size of the companies and the majority of the transfers (91 per cent) were processed by the three largest companies.[3] The total value of transfers in 2019 was approaching £16bn. This highlights the scale of the industry in which scammers are operating and the challenge in implementing robust industry-wide assessments for identifying the minority of transfer requests linked to scams.

Our survey found a total of 938 pension transfer requests were flagged as a suspected scam in 2019 (the sum total of suspicious, refused and cancelled transfers - see Table 3). The total value of these suspected scams was just under £54m. Unlike the previous industry estimates, that included all transfers flagged with one or more risk signal. This offers a more refined figure, reflecting only transfer requests that were either refused or flagged as a concern to the customer following more in-depth investigation.

There are limits to the powers of pension companies to block transfer requests due to a customer's statutory right to transfer their pension. While in 29 per cent (n=270) of cases the transfer was cancelled by the customer on receiving advice from their pension provider, 62 per cent (n=580) had disregarded the advice and chosen to proceed. Consequently, just under £31m was transferred to schemes suspected of being linked to a scam. The average amount that each scheme member transferred to a suspicious scheme was £53,404.

The reason why such a high proportion of customers disregarded advice is unclear but of the three largest companies, one was responsible for the vast majority of the cases (93 per cent) in which a scheme member had cancelled the transfer following advice, whereas they were linked to only 44 per cent of cases in which a customer had chosen to proceed with the suspicious transfer. Not only had the other two companies identified fewer suspicious transfers, they had also been much less effective in deterring scheme members once risks were identified. This indicates considerable variability in both the quality of assessments and the advice given across different companies.

Table 2: The number and value of pension transfer requests processed in 2019

Source: Survey data collected from pension companies by the Police Foundation

No. Transfers made	No. companies	Total no. transfers	Total value of transfers (£s)
Over 30,000	3	385,342 (90.6%)	15,106,415,007 (95.4%)
5,001 to 30,000	2	35,063 (8.2%)	104,189,193 (0.7%)*
1,000 to 5,000	1	3,705 (0.9%)	387,400,000 (2.4%)
Under 1,000	4	1,134 (0.3%)	241,875,837 (1.5%)
Total	10	425,244	15,839,880,037

* One company was unable to provide the total value of transfers made in this period

[3] The relative size of each company was inferred from the volume of transfers each had processed in 2019.

Table 3: The number and value of transfers identified as a potential scam in 2019

Source: Survey data collected from pension companies by the Police Foundation

No. Transfers made	No. companies	Total no. transfers refused	Total value of transfers refused (£s)	Total no. transfers cancelled	Total value of transfers cancelled (£s)	Total no. of suspicious transfers made	Total value of suspicious transfers made (£s)
Over 30,000	3	70 (79.5%)	3,224,336 (51.1%)	253 (93.7%)	15,901,526 (95.4%)	568 (97.9%)	29,453,319 (95.1%)
5,001 to 30,000	2	2 (2.3%)	107,014 (1.7%)	4 (1.5%)	303,797 (1.8%)	0	0
1,000 to 5,000	1	4 (4.5%)	372,000 (5.9%)	0	0	3 (0.5%)	191,000 (0.6%)
Under 1,000	4	2 (2.3%)	1,956,110 (31%)	9 (3.3%)	0**	0	0
Not specified	3	10 (11.4%)	650,000 (10.3%)*	4 (1.5%)	459,000 (2.8%)	9 (1.6%)	1,330,000 (4.3%)
Total	13	88	6,309,460	270	16,664,323	580	30,974,319

* One company was unable to provide the total value of transfers refused in this period

** None of the companies in this category were able to provide the total value of transfers cancelled in this period

Our survey represents a small window on a very large industry. The survey was sent to 121 companies and publicised to many more. Pension companies vary widely in size and the 13 who responded are unlikely to be representative of the industry as a whole, making it difficult to extrapolate the scale of scams detected across the industry. However, the scale of losses to suspicious transfers is likely to be much higher than indicated here.

We should note that pension providers and practitioners are likely to have varying levels of capability in proactively identifying scams, and inevitably, some scamming tactics will be more visible to industry practitioners than others. For example, where individuals or entities are known to be of concern to the organisation making a transfer, the scam risk should be more apparent than if a scammer is cloning a legitimate scheme (which to be successful needs to remain hidden).

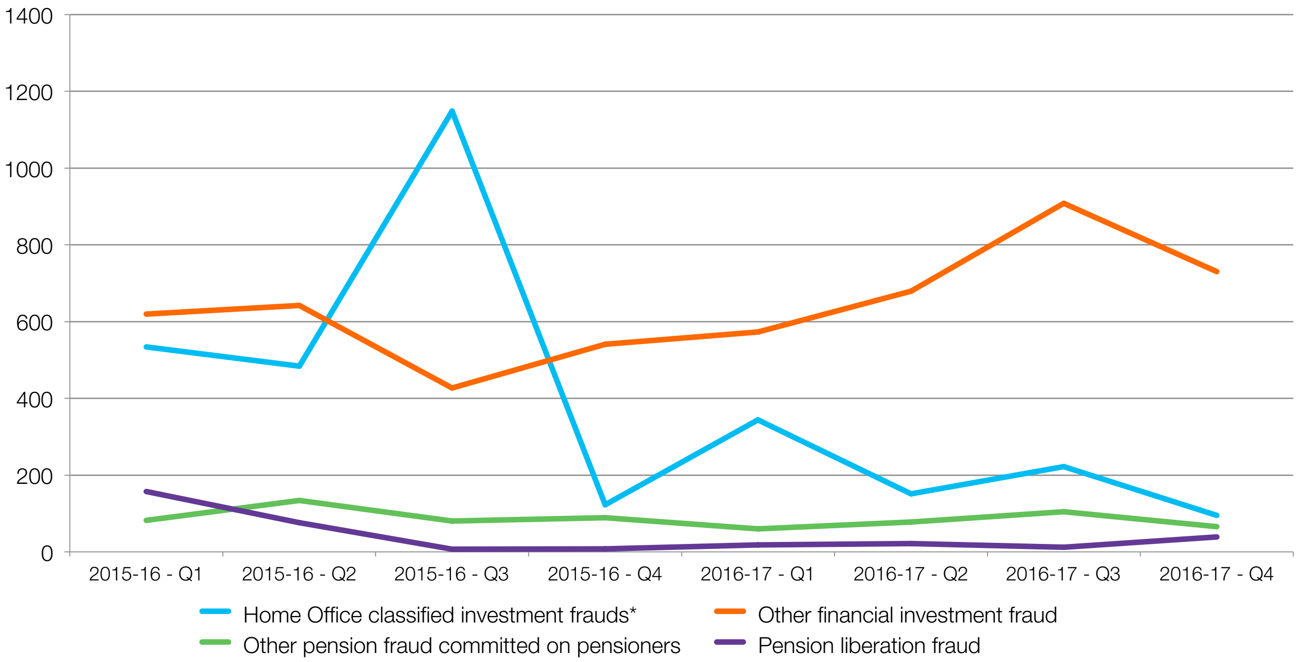
The Pension Scams Industry Group developed protocols in a bid to establish a common standard across the industry (PSIG, 2019), which included a checklist of risk factors for practitioners to reference in order to identify suspicious transfer requests that may be linked to a scam[4]. The use of this protocol needs to be supplemented by knowledge and understanding of scamming risks on the frontlines, since practitioner assessments that solely rely on the checklist were found to produce a high number of false negatives (i.e. transfers not flagged but which are in fact a scam) (PSIG, 2018). Much less is known about the volume of false positives generated by the current risk assessment framework (i.e. cases that are flagged but are not in fact a scam).

2.2 RECORDED CRIME DATA

The diverse nature of pension fraud means that it cuts across a range of different criminal offence categories that vary in their specificity; these include pension liberation fraud, other pension fraud committed on pensioners and various forms of financial investment fraud. Not all pension scams are recorded as a fraud, as their categorisation depends on whether there is sufficient information to demonstrate criminality and on the methods employed by the suspect (those which do not constitute a criminal offence may be dealt with as a civil dispute). Capturing fraud in official statistics is further impaired by under-reporting (for example, see Button and Cross, 2017), a problem accentuated in the case of pension frauds because many victims are either unaware of the fraud or unwilling to report it.

[4] For example, warning signals include: when a scheme member has received advice on an overseas investment, displays little understanding of where their money is being transferred to, or they have been promised direct access to cash before the age of 55.

Figure 1: The volume of pension and investment frauds reported to the police in 2015-16 and 2016-17 financial year periods



* Includes share sales or boiler room fraud, pyramid or Ponzi schemes, prime bank guarantees and time shares and holiday club fraud.

Figure 1 shows the volume of the different fraud categories recorded in 2015-2017. Pension liberation fraud comprised only 0.25 per cent of all fraud reported in this period (n=1.033) and declined through 2015. The timing of this decline coincides with legislative change that introduced new flexibilities for pension holders aged 55 or over, including the option of being able to access 25 per cent as a tax-free cash lump sum. This change created new opportunities for scammers to gain access to people's retirement savings and so the methods evolved. The trends in "other financial investment frauds" reported in this period are markedly different, rising by 113 per cent in the year from the end of 2015 to 2016 (see Figure 1). Investment fraud encompasses diverse methods (for example, Ponzi schemes or timeshare fraud)[5] and it is not possible to draw out those which specifically targeted pensions or retirement savings. As a consequence, new and emerging offending methods for targeting pension savers are unlikely to be captured in recorded crime.

> *"[In official statistics the volumes have] dropped off in the last 18 months, not because the scams have gone away, we think there's a transition, it's changing and the system is not picking it up … [including a move away from pension companies] into areas that are less regulated and less visible."*
>
> Advisory service – policy officer

2.3 SUMMARY

This chapter has summarised police recorded data and industry intelligence on suspected scams, focusing specifically on cases that had been investigated and flagged as a potential scam. It reveals a problem that remains highly prevalent to those in the pension industry but is near invisible when viewed through the lens of recorded crime. In 2019 13 companies identified over 900 potential scam victims who stood to collectively lose £54m. This provides a small window on a wider industry that incorporates many pension companies, not to mention the high volume of individuals who have already withdrawn their pension and operate out of sight. In short, these figures are likely to constitute a considerable underestimate on the scale of the problem.

[5] The indication is that investment fraud methods have evolved with a rise in uncategorised investment frauds, and a decline not just in pension liberation but other investment fraud categories, such as boiler room or time share fraud.

3. THE NATURE OF PENSION SCAMS

In this section we explore the nature of pensions scams: what they are, how they have adapted to policy changes, the methods deployed by those carrying out scams and what pension providers perceive to be the current and emerging threats.

3.1 WHAT ARE PENSIONS SCAMS?

Pensions scams encompass a range of methods through which people are tricked into transferring and/or investing their pension into inappropriate or non-existent investment products to their considerable financial detriment. The principal motivation for a scammer is to acquire some or all the funds. The scam usually involves a transfer from a legitimate pension scheme but can also target funds held in personal investments or savings accounts intended for use as a pension in later life. The government definition is as follows:

> *The marketing of products and arrangements and successful or unsuccessful attempts by a party (the "scammer") to:*
>
> - *release funds from an HMRC-registered pension scheme, often resulting in a tax charge that is not anticipated by the member*
> - *persuade individuals over the normal minimum pension age to flexibly access their pension savings in order to invest in inappropriate investments*
> - *persuade individuals to transfer their pension savings in order to invest in inappropriate investments*
>
> *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.*
>
> (HM Treasury and Department for Work and Pensions, 2017)

There are various mass marketing and sales techniques considered to be the hallmarks of a scam, including unsolicited calls offering free pension advice or a review, engaging in pressure sales tactics and the promise of inordinately high returns on an investment (Citizens Advice Bureau, 2015). Scammers employ a variety of social engineering techniques to persuade a prospective victim that they are trustworthy or legitimate. These include adopting a company name or office location (often within the UK) that present as credible, acquiring registered status from the regulatory bodies or else enlisting others that have it, pretending to represent a legitimate company and in some cases, the use of shills[6] to advocate for investment products within a target social network or community.

The term "scam" is used throughout this report. It encapsulates the spectrum of activity and deceptions in use that range from ethically dubious practices, to infringement of financial regulations, and at the most serious end, criminal fraud. Unlike a regulatory breach, which is often straightforward to demonstrate (for example, a provider either is or is not a registered with HMRC), there is a fine line that divides a scam and a fraud. And in the case of scammers operating closest to the line there can be considerable challenges in demonstrating the crime. In proving fraud by false representation there is a need to produce evidence of an underlying intention to falsely represent a product or service (Fraud Act, 2006). Compiling the evidence is often a precarious and hugely resource intensive process, as illustrated in the below comment from a police investigator:

> *"The hardest cases to prove [are] where there is some legal business linked to the crime … I pulled [the investigation] because I didn't think we would ever have been able to prove it was a fraud."*
>
> A specialist fraud investigator in the national lead force

For this reason, the extent of criminal fraud that remains concealed within the statistics on pension scams is unknown. Although scams and fraud are distinct in legislative terms this does not necessarily have any bearing on the degree of loss or harm caused to victims.

[6] A co-offender who poses as a genuine customer to encourage others to invest.

3.2 THE IMPACT OF POLICY CHANGE

Pension schemes use differing financial models and regulatory controls, as shown below:

- Defined benefit or "final salary" schemes pay out a secure retirement income for life that reflects time served and the salary earned in the company. They are mostly provided by public sector or other larger companies and the employer retains the responsibility for ensuring that the funds are available on retirement. They are managed by a board of trustees that are subject to specific laws regulated by The Pensions Regulator. Defined benefit schemes have been in considerable decline over the past decade, replaced by defined contribution schemes.
- Defined contribution schemes are either trust based schemes regulated by The Pensions Regulator (TPR) or contract based schemes subject to regulation by the Financial Conduct Authority (FCA). The fundamental difference is that defined contribution pensions provide no assurances of a fixed income for life, the value of the pension reflects only what has been paid into the scheme and the performance of the underlying investment(s) minus costs and charges. They have transferred greater risk to individuals, while offering more scope for individual savers to access and manage their own pensions.

The introduction of pension freedoms in 2015 provided pension savers aged 55 or over with much greater flexibility and choice in how and where to invest savings from their pensions. This freedom included the ability to transfer all or some of their retirement savings to alternative investment schemes. Added to that, pension holders over 55 are entitled to release 25 per cent as a tax-free cash sum to spend or invest as they wish.

People are taking advantage of this flexibility at an increasing rate; nearly 1.3 million people took flexible payments from their pensions in 2019, compared to 550,000 in 2016, an increase of 130 per cent (HM Revenue & Customs, 2020).

Pension liberation fraud had been a one of the most common methods adopted by offenders, targeting people who for various reasons want early access to their pension funds, enticing them with high investment returns and false promises that they can bypass tax penalties. The increased pension freedoms since 2015 have meant that scamming has become less focused on pension liberation and more on investment scams targeting the substantial personal wealth that can now be legitimately released from pension schemes.

Key changes in pension legislation

- **Finance Act 2004** – prior restrictions on the types of investments eligible for use in a Self-Invested Personal Pension (SIPP) were repealed, opening up opportunities to invest pension savings into almost any type of investment product with the exception of residential property (House of Commons Library, 2013).
- **Finance Act 2014** – HMRC powers to help prevent fraudulent schemes being registered and make it easier to de-register such schemes (Gov.uk, 2014).
- **Pensions Schemes Act 2015** – new flexibilities for those aged 55 or over to access and move pension savings into a broad range of products, including the option to take 25 per cent as a tax-free lump sum (Gov.uk, 2015).
- **Finance Act 2017** – new restrictions and tax liabilities concerning the use of qualifying recognised overseas pension schemes (QROPS) to address a wider issue of overseas transfers for preferential tax rates, but also to prevent exploitation by pension scammers (Gov.uk, 2017).
- **The Privacy and Electronic Communications Regulations 2018** – a ban on cold-calling in relation to pensions (Gov.uk, 2018).

3.3 THE METHODS EMPLOYED IN SCAMS

3.3.1 The nature of the deception

Previous reports have characterised pension scams on the basis of observable elements such as the marketing techniques used by scammers, including cold-calling or the offer of a free pension review, and the specific nature of the product and advice such as unregulated financial advisers, overseas investments or the promise of unrealistic investment outcomes (Citizens Advice, 2015; PSIG, 2019). However, these do not necessarily reveal the range of underlying deceptions in use by scammers. Our research for this report included an analysis of six frauds investigated by the police, five of which were notionally pension liberation frauds and one an investment fraud. They contained four principal deceptions:

Tax liability: tax rules, as regulated by HMRC, specify the conditions under which a pension holder is eligible to take lump sum payments or otherwise access funds from their pension. In particular, individuals must be aged

55 or over (Gov.uk, 2014b), otherwise a full withdrawal of funds from a pension is subject to a tax charge of 55 per cent of the value of the original pension pot. Pension holders are misled by scammers to believe that they can gain access to money in their pension funds without being liable to pay this tax charge. This involves elaborate social engineering methods to facilitate the deceit including the use of dummy companies and accounts from which to transfer the money in the guise of a tax-exempt "loan". The extent to which victims are aware they are engaging in tax evasion varies. The facilitation of tax avoidance was often the most explicit criminal element in an investigation.

Pension providers: scammers establish pension companies with a veneer of legitimacy to deceive prospective victims and the existing pension provider that is required to transfer the funds. This is facilitated by acquiring authorised status by misleading regulatory bodies such as HMRC and the FCA. The extent of the deception ranges from companies that operate with an entirely separate legitimate arm, employing staff who are sometimes unaware of the underlying scam, to short-lived companies established for the sole purpose of perpetrating a scam, and others which disguise themselves as representatives of a legitimate provider (i.e. "clone firms").

Investment schemes: these include schemes that are established by the scammer themselves that either do not exist or for which the prospective rewards from investment are misrepresented. Some sell legitimate but high risk investments by misleading investors about the prospects and risks. The success or failure of the investment for the pension holder is of little bearing to the scammer, as illustrated in the below comment:

> *"… they're not interested in that because they think, 'well I've got my commission'. As long as it holds for a year or more, providing enough distance between them and the investment, they don't really care if it works out for the investor."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

Terms of service: there is a rising trend of scammers imposing excessive fees. This involves establishing unnecessarily complex (or "layered") business structures with a pension saver's money passing through multiple professionals who each "skim" off high commission fees. This is not necessarily fraudulent; terms are either hidden in the small print or put in full view and agreed upon by clients who are either naïve or in urgent need of money. In this respect, it represents the sharp end of business practice and not necessarily a criminal fraud.

> *"They've put money into investments that were completely inappropriate and along the way, people have been taking payments that were completely inappropriate … [for example, taking] hundreds of thousands of pounds for not doing much work"*
>
> Specialist fraud investigator – Regional Organised Crime Unit

Each of the police investigations we examined uncovered pension frauds involving multiple layers of deception. Scammers adopted various structures and configurations, with more complex cases containing all four of the above elements (see Case 1) and others just one. In essence, the misrepresentation of tax liability in a pension liberation fraud is an elaborate social engineering technique to persuade victims to provide the offenders with access to their pensions. Most fraudsters fulfilled their obligations in providing a large proportion of the liberated funds as a cash lump sum to the pension holder, which reinforced trust with the client and minimised risk of detection in the short-term. It was in the course of subsequent deceptions when managing the remaining funds that criminal gains were generated. In the least complex cases the money was not invested and simply stolen; some victims were sold an investment that was set up as a vehicle for the fraud; and others sold a legitimate investment scheme that was high risk and unlikely to reap the promised rewards. In the three most complex schemes fraudsters had operated in unnecessarily complex and layered structures, with intermediaries at each layer "skimming" off exorbitant fees.

Case 1

In 2017 six individuals fell victim to a fraud by a company posing as a legitimate pension provider. They misrepresented the victims' tax liabilities and imposed terms of service that included exorbitant charges. The company was a registered pension provider selling a high risk investment, in a legitimate overseas company. On releasing the funds victims received 70 per cent of their pension savings in the form of an "unconnected loan" which they were told circumvented any tax liability (all victims were under 55 years old). They were informed the rest would be invested and that their services would be subject to a commission. The money passed through multiple intermediaries who at each stage "creamed off a slice", amounting to approximately 15 per cent of the total pension savings. The police also suspected the remaining funds were not actually invested. The victims suffered losses at every stage, with HMRC subsequently imposing severe tax penalties on the money released from their pension pots, substantive fees paid to the scammers and the remainder possibly lost or stolen.

3.3.2 The key enablers

Pension fraudsters are not confined to an illicit underworld of financial services but instead operate in plain sight and in the course of their operation come into contact with a range of actors in the legal economy, including regulatory bodies, other financial services and pension providers. In our examination of police investigations we found that they had multiple means of camouflaging their illicit operation: by tapping into licit business strategies; gaining authorised or regulated status to ostensibly operate with the endorsement of the regulators; corrupting or deceiving legitimate professionals; employing marketing strategies that mirrored those of legitimate firms; and presenting an embellished image of their organisation or products in order to appear legitimate. Success hinged on their ability to deceive not only their clients but also other pension companies and the industry regulators.

Below we describe the key enabling factors in the investigations we examined.

Financial advisers

In the context of a pension transfer, the principal role of financial advisers is to assess a client's requirements, advise on investment options and advocate relevant financial products. Regulations stipulate a requirement to take advice from a regulated adviser in only a minority of cases[7], and while for most there is no such obligation they can still choose to do so. However, the provision of pension "advice" is in all cases governed by strict regulatory principles (FCA, 2020) which prohibits non-regulated practitioners from sharing opinion or judgement to influence an individual's decision.[8] Others are legally entitled to market and sell investments so long as they do not cross the line into "advice", though any such infringement is likely to be imperceptible to many pension savers and will have been given verbally so is difficult to detect or audit. Fraudsters drew from a thriving parallel industry of introducers and other individuals who sit outside of the FCA's regulatory purview but who may be carrying out regulated activities, like providing financial advice. The boundary separating formal and authorised "advice" and sales is ambiguous, certainly from the perspective of the pension saver, and many victims make significant decisions without receiving any meaningful financial advice.

To illustrate, one fraudster used a firm run by a colleague (linked to the same pension scheme) to sell to the public. It was staffed by "introducers", many of whom were "former IFAs" whose regulated status had lapsed. The police investigator was unsure whether they were fully aware of the underlying fraud, but they appeared to take a "reckless" approach to sales and did not provide an "independent" voice:

> *"They can almost say anything and promise things without any regulatory recourse … 'can you really be telling someone that?', but they operate in an industry in which they can tell people anything and historically, they've gotten away with it."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

> *"They believe they have received the advice of an expert but they haven't checked the small print which says that the IFA isn't regulated."*
>
> Intelligence officer – Serious Fraud Office

A number of pension companies echoed these points. Limited actions and powers for tackling unregulated advice was fostering a free-for-all in the sector, with rogue advisers persistently providing inappropriate advice to pension holders:

> *"The [unregulated] financial advice sector has behaved disgracefully. On a daily basis we see financial advisers recommending transfers where the member … is being advised by an un-regulated person. We also see the same advisers time and again continuing to recommend large numbers of transfers."*
>
> Pension company representative

These individuals appeared to operate with near impunity by virtue of operating outside of regulated practice and the restricted use of proactive enforcement by the FCA. While the FCA has a remit in regulating the financial advice sector, its core role relates to more confined operational parameters that focus on specific segments of the problem; for example, it is a criminal offence to explicitly purport to be an authorised practitioner. In areas outside of their core remit, such as wider fraud or scams, the FCA adopts a more discretionary approach based on consumer harm and internal priorities.

Equally, advisers and introducers were often peripheral to criminal investigations and so were left untouched and free to continue to practice. Unregulated individuals

[7] Specifically, transfers over £30,000 from a defined benefit scheme.

[8] Section 19 of the Financial Services and Markets Act (2000) prohibits carrying on regulated activity without authorisation.

presenting themselves as financial advisers not only carry the risk of a scam but also render the victim ineligible for compensation from the Financial Services Compensation Scheme. The FCA publicises the risks of such individuals but prevention ultimately relies on consumer judgement and decision-making, such as ensuring to check with the Financial Services Register (FCA, 2020b).

Rules that restrict certain functions to authorised practitioners could be bypassed by fraudsters contracting the services of a genuine adviser. Fraudsters in a number of cases were able to draw on regulated services as required; in one example, two legitimate companies provided independent evaluations of the pension transfer for a fee, but with the fraudster as the intermediary this advice never reached the client.

Enforcement against regulated practitioners can to a large extent be done through the use of administrative controls (for example, the threat of withdrawing their regulated status), however an increased focus on the unregulated advice sector has implications for how enforcement is done and the resources that are needed. Primarily, it would require the use of more resource-intensive, proactive enforcement to detect those who are currently under the radar.

Recommendation:

> Introduce regulation for "introducers" to ensure they only generate leads for regulated professionals or provide information to customers, and don't also undertake regulated activities.

Registering as a pension scheme

In most cases of pension liberation fraud, the company had been registered with HMRC and this was an essential component for persuading pension holders and the pension companies required to transfer the funds, that they were a legitimate company. Police investigators observed the relative ease in registering the company which provided them with a tax reference that then eased their passage through subsequent due diligence checks. Changes in legislation have since closed some of the regulatory loopholes, however in our survey over three quarters of pension companies (n=31, 77.5 per cent) considered that HMRC needed to do more to tackle pension scams. In their comments they highlighted the lack of robustness in its registration process (meaning scammers are still able to register), a database of registered schemes that is not always promptly updated, delays in sharing relevant information to companies on request, and delays in withdrawing the registered status of a suspected scammer once information has been passed to them.

Marketing

Scammers employ many of the same advertising strategies as legitimate providers, aiming to efficiently target their marketing at people who are most likely to buy what they are selling. The ability to target and tailor sales was considered essential for selling the scheme.

> *"It's got to be believable, the more knowledge they have of a person, the more likelihood of success."*
>
> Specialist fraud investigator – national lead force

At its most basic, this required lists with personal contact details, but could involve campaigns that targeted consumers with the most appropriate profiles (for example, specific age groups) or even those known to be most receptive to marketing. In most case studies the fraudsters used cold-calling (which was legal at the time) by contracting companies in the legitimate marketing sector to create or refine lists of "leads". These contact lists could be generic or produced to order. Investigators described some fraudsters who ran their own internal call centres which generated "leads" to be followed up by sales people (or "closers") in the pension company. There was a striking lack of expertise needed from telemarketers to make the initial sales call for pensions and investment schemes:

> *"You can hire a call centre by the day or by the hour, it can be double-glazed windows in the morning and then pensions in the afternoon."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

Restrictions on cold-calling introduced in 2019 mean it is likely that this marketing will have been displaced to overseas providers or other communication channels. A number of fraudsters developed "leads" from online advertising, phishing emails and text messages. In one case, fraudsters paid high amounts to an internet search engine to ensure their website was the first site returned from relevant searches.

Business enablers

A variety of professionals were essential for establishing and maintaining a legitimate appearance, including accountants, solicitors, insolvency officers and pension scheme trustees. Many of the professional enablers were described by the police as peripheral figures, acting with varying degrees of complicity that ranged from those content to make money and look the other way, and others who appeared to have genuinely not realised they were facilitating fraud. In one case, a perpetrator had procured a HMRC-registered pension company and inherited staff that continued unknowingly with their work. In other companies, staff were paid unusually high commissions; to illustrate, in relation to the frontline advisers/sales team in one company the investigator observed that "*anyone receiving this amount of commission would be sceptical about the legitimacy of the product*", and another company was registered to someone who served as a "stooge" director and was paid a salary for doing very little:

> *"[The] criminality can't be proven, but morally, what did she think was going on?"*
>
> Specialist fraud investigator – Regional Organised Crime Unit

A small number of professionals chose to withdraw at the point of suspecting a company or scheme was not legitimate but often these questions were not asked, and suspicions not flagged, indicating gaps in due diligence and whistle-blowing across the industry. While most investigations identified a small clutch of individuals who had orchestrated the fraud, these peripheral actors played a fundamental role in facilitating the crime but carried limited culpability due to having only partial knowledge or peripheral involvement in the overall fraud (see Case 2). An investigator described an investor's money passing through three or four intermediaries with a role in "financial layering", including a shell company and an overseas finance professional, before the depleted funds eventually reached the investment scheme. This served to obfuscate the financial trail but also diffused responsibilities across a mix of loosely connected actors who were (or could claim to be) ignorant of a fraud conspiracy and could deny responsibility.

> *"They try to get round [legal restrictions] almost by a dilution principle … the more people involved, the more layers of offenders [the less accountable they are]."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

While police officers often believed core actors linked to a scheme were knowingly breaking the law, it was not always possible to be sure. Previous studies have highlighted a tendency for white collar criminals to neutralise their actions to distance themselves from their crimes and impact, and in some cases, to imperceptibly slide into ethically dubious or criminal behaviour due to a perversion of professional culture and practices (Kapardis and Kapardis, 2004; Schuchter and Levi, 2014).

While understanding the motivations behind pension fraud is beyond the scope of this research, certain aspects of the legitimate market fostered a culture of profits over integrity. This was evident in the functioning of the investment market whereby high commission fees offer strong incentives to trade in high risk schemes, and fraudsters gamed this market by pitching the products to the least discerning consumers. The companies in receipt of the investment funds were often overseas and described by one investigator as unaware or unconcerned about where the money had come from; "*they would say, 'just get us £10 million', and they trust that the systems are in place in the UK*."

In general, fraudsters avoided face-to-face contact to maintain distance between themselves and the victims and minimise suspicion and risk of detection. This remote interface could be readily manipulated to present a legitimate front and gain the confidence of victims. There were a multitude of services-for-hire that helped to sustain a legitimate facade for the company, including companies that served and processed legal documents to clients (not knowing the content of the documents) and others that hired out space in office buildings.

> *"A lot of [consumers] take a lot of comfort from a prestigious address in London … but [in some buildings] you can rent a desk and phone for £300 a week."*
>
> Specialist fraud investigator – national lead force

Recommendation:

Implement a training requirement for pension and finance professionals to ensure they can identify scam risks and are aware of the channels for reporting concerns.

The ability to move money undetected was central to evading detection by the authorities. As money flowed or trickled through the layers of people and accounts the funds became harder to trace, as one victim's money became inextricable from another's. This detection challenge was exacerbated when the money was transferred to overseas accounts due to the difficulties in accessing financial evidence from international jurisdictions.

> *"Transferring money abroad and layering between different countries is a really good way to cover your tracks."*
>
> Specialist fraud investigator – national lead force

Other methods were also adopted to create distance between the fraudster and the crime. This included separating the perpetrator from the company used as the

Case 2

One case involved ”a loose cartel of enablers and businesses across the UK” with an organised crime group at its centre, with links to other crimes such as serious violence and money laundering, in addition to multiple fraudulent pension companies. The company in focus had legitimately existed but represented little more than a bank account. It was registered to a ”patsy” director who was peripheral to the conspiracy and multiple solicitors and accountants facilitated the running of the business; not all of the more peripheral actors will have been aware of the underlying fraud. An external call centre was contracted to make the initial sales calls to prospective investors and refer those who were receptive to marketing (i.e. a ”lead”) to be followed up by the pension company. The fraud also had links to a corrupt insolvency officer who concealed details of the illicit transactions in order to close companies down without raising suspicion. The fraudsters would periodically ”phoenix” their company to evade detection and put a distance between the perpetrators and previous frauds. In addition, they were linked to a network of people who operated on the ”edge of legality” and specialised in winding-up companies and laundering assets.

vehicle for the fraud. A number of investigators described the periodic liquidation of pension companies by fraudsters, before going on to establish a new company and continuing to offend; to “phoenix” the company could be analogous to changing the sign on the front of the shop. Some fraudsters had also installed company directors to provide a legitimate front and create more distance between themselves and the criminality; in two cases the registered directors appeared to have limited awareness of the pension fraud.

> *“There are two areas of fogging [in the case], corporate entities that change, and limited companies with new people including new stooges or patsy directors… you don’t get a lot of sense out of them because they don’t know what’s happened”.*
>
> Specialist fraud investigator – Regional Organised Crime Unit

3.4 CURRENT AND EMERGING TRENDS

The composition of deceptions has changed over time as offenders adapt to new legislative or regulatory restrictions and opportunities. Government restrictions have focused on plugging identified loopholes; for example, more stringent controls on establishing an HMRC registered pension scheme made it more difficult to establish a fraudulent pension scheme, which raised a barrier to certain fraud methods, including pension liberation fraud.

However, scammers operate in increasingly flexible markets that no longer require social engineering to release pension funds, because with the new pension freedoms they can instead sell bogus assets and investments to people with legitimate rights to access their pension savings. Indeed, depending on the sophistication of the deception, scammers need not commit any crime at all, with increasing numbers embedding exploitative terms and fees in their terms of service:

> *“[The problem] transferred into such a difficult space … [it’s difficult to be] sure if it’s sharp practice or fraud”.*
>
> Senior stakeholder – roundtable event

> *“As pension freedoms mean that more people are empowered to take control of their investments the trend [of increasing scams] will only go up.”*
>
> Policy officer in central government

As such, the necessity to bypass the checks, red flags and advice of pension companies is reduced, and so scammers can remain under the radar. UK-based Self-Invested Personal Pensions schemes (SIPPs) containing risky overseas investments represent a particular risk, with scammers adapting to government measures to plug loopholes in other overseas products they had been exploiting (QROPS[9]):

> *“[International SIPPs] have been the favoured modus operandi of the scammers since the introduction of the overseas QROPS transfer charge in 2017.”*
>
> Pension company representative

SIPP platforms often contain a portfolio of different investments and assets that include overseas stocks and shares, investment trusts and non-residential property (The Pensions Advisory Service, 2020). The risks are that they contain investments that exist outside of UK regulation, and there can be limited due diligence from those managing the SIPPs in checking the assets and investments available on their platform (see Case 3).

[9] Qualifying Recognised Overseas Pension Schemes

Case 3

Over a period of five to six years, 40 individuals fell victim to a fraud in which the perpetrator had fabricated an investment scheme. The victims' money had come from various sources (such as inheritance) but each victim had intended for it to provide a pension in later life. The fraudster was a "sole operator" and had purchased land overseas, stating his intention was to build property for which he required investment. To that end he established a UK-based SIPP scheme and tricked a financial adviser into managing it. From this platform he sold the scheme to investors who would receive a stake in the development. The nature of the investment rendered it eligible for tax relief so he also claimed a refund from HMRC on behalf of each investor (unbeknownst to some). In order to reassure and appear credible he gave the illusion that the scheme was attracting more investment by passing the victims' money through multiple accounts, snowballing it with money from tax relief and new victims, before then returning it to the SIPP account. In reality there was no real prospect or demonstrable effort made to build on land that was otherwise of little value. He had been siphoning off money which he claimed as expenses or a "director's loan" and had spent most of it by the time of prosecution. The victims lost all their savings and HMRC were also claiming back the refunded tax.

3.5 SUMMARY

There is considerable complexity in the modus operandi employed by those committing pension scams. They are able to exploit multiple elements of the legitimate sector to their own ends, including the regulators and other financial professionals and services to commission the fraud, to operate in plain sight (an essential component if they are to reach prospective investors) and can help put distance between the criminals and the crime. The use of professional enablers can range from exploitation to corruption, though many seemingly operate somewhere in the middle. Particularly rife is the market in unregulated financial advice by introducers and others who slip between the cracks of regulation. They are not serious or criminal enough to be tackled by the police, but are too abundant to be assertively regulated.

The analysis highlights the diversity of methods in use by pension scammers, whose activities continuously evolve in response to market and regulatory conditions. Many of the cases examined in this study involved pension liberation fraud, and the criminality could most readily be verified on the basis of links to tax evasion. However, the indications are that these scams are evolving, moving away from pension liberation to new models including more generic investment scams or others that impose unfair terms and fees on to investors. The result will be criminality that is increasingly difficult to prove, and more generally, a problem that may go further below the radar. In short, while the problem has changed shape, the vulnerability of pension savers remains.

4. THE QUALITY OF PROTECTIVE MEASURES IN THE INDUSTRY

Pension companies are the gatekeepers to funds sought by scammers and as such, have a role in ensuring that their customers get the knowledge and information they need to protect themselves. However, there are gaps in the provision of protective measures at the frontline.

4.1 VARIATION IN THE IMPLEMENTATION OF PROTECTIVE MEASURES

There are common standards for undertaking due diligence checks to detect and prevent scams, most notably the code of conduct for validating transfer requests published by the Pension Scams Industry Group (PSIG, 2019). In our survey nearly all respondents had to a large extent (n=33, 82.5 per cent) implemented these principles, with a minority (n=5, 12.5 per cent) reporting they were either not applicable or they had never heard of them. One company reported they had not introduced formal scam controls due to the low volume of transfers they processed.

The majority of pension companies (n=33, 82.5 per cent) reported confidence in being able to identify a scam, although a high proportion (n=29, 72.5 per cent) flagged the sophistication of scammers as a challenge in responding (see Table 4). In their comments a number described limitations in their own knowledge, such as in relation to financial regulations in overseas jurisdictions or simply the array of investment products now available. Two thirds (n=27, 67.5 per cent) highlighted the challenges in dealing with scheme members who display limited scams awareness.

Administrative data collected from 13 companies indicates there is variation in the nature of interventions and their effectiveness and a tendency to engage with the person at risk by letter rather than through a conversation. Four companies reported that they flagged concerns by letter rather than phone call to the customer. This is likely to be a resourcing decision and also a capability issue: sensitively managing the interaction in a way that "avoid[s] potential accidental defamation, alarmism [and being able] to respond to difficult or complex questions/answers from the customer" is not straightforward. Practitioners in different law enforcement and support services observed inconsistencies and inherent limitations in the industry approach:

> *"The ceding schemes are only obliged to run their own due diligence, but the extent to which that's done varies amongst the different pension schemes."*
>
> Regional Organised Crime Unit – specialist fraud investigator

> *"However good the provider is, the reality is that their contact centres are focused on processing the transactions".*
>
> Advisory service – policy officer

Table 4: A perspective from pension companies on the challenges in responding

Source: Survey data collected from pension companies by the Police Foundation

The pension scam problem and challenges in responding	No. of respondents	%
The sophistication of deceptions used by scammers	29	72.5%
A lack of awareness among scheme members	27	67.5%
The risk of future complaints or reinstatement claims	20	50.0%
The threat of a legal challenge in refusing a transfer request	19	47.5%
A lack of awareness of current scam typologies	11	27.5%
The threat of legal action by scammers	10	25.0%
The high volume of transfer requests assessed as suspicious	7	17.5%

Recommendation:

> Pension schemes and providers should be required to perform an enhanced set of due diligence checks on transfers and report a suspected scam to their regulator.

4.2 THE RIGHT TO TRANSFER

Nearly three quarters of pension companies in our industry survey highlighted as a major challenge the legal right of a customer to transfer the money (n=28, 70 per cent). Furthermore, over half (n=23, 57.5 per cent) reported customers who insisted on making a transfer were a major challenge. Some pension company representatives described "insistent customers" that had been primed or "groomed" by scammers to not engage or listen to advice from ceding companies.

> *"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)."*
>
> Pension company representative

There is a need for companies to balance multiple considerations including their social responsibility to protect people from scams, the legal duty to facilitate quick and seamless transfer requests,[10] as well as their own deployment of resources. Pension holders retain a statutory right to transfer and obstruction of this can expose them to the risk of legal action; for example, one company which identified and blocked a suspicious transfer request was successfully taken to court by the scheme member (The Pensions Ombudsman, 2016). The statutory right to transfer provides a significant constraint on their power to prevent scams. These restrictions are intended to protect the newly introduced freedoms and competition in the market, and while companies can put obstacles in the way and draw the customers attention to the risk, they are legally bound to abide by their decision irrespective of how acute the risk. The government has proposed imposing limits to empower ceding pension schemes to block transfers to suspicious schemes (Gov.uk, 2017b) but these have not yet come to pass.

Recommendation:

> Pension regulators should be given the power to override the statutory right to transfer should a suspected scam be reported to them. Individuals who disagree with the regulators' decisions should have a right of appeal to the Pensions Ombudsman.

The banking industry faces a similar situation in receiving requests for financial transfers from customers who they suspect are being defrauded (especially in relation to those identified as vulnerable). In partnership, the government and the banks established the Banking Protocol which focused on upskilling first responders in the banking sector to identify potential fraud, but also introduced a mechanism for staff on the frontline to act on concerns by initiating an emergency response from the police or Trading Standards (Hampshire Constabulary, 2019). The enforcement teams advise and guide the customer and as a trusted third party, use their influence to prevent the

Table 5: The key organisational challenges in responding to pension scams

Source: Survey data collected from pension companies by the Police Foundation

Organisational challenges in responding to scams	No. of respondents	%
The lack of a central source of information on suspicious schemes or advisers	29	72.5%
The legal right to a transfer requires some transfers to be made even although serious concerns have been identified.	28	70.0%
Customers insisting on the transfer	23	57.5%
The necessary training to raise the awareness and capability of staff	16	40.0%
Sourcing the necessary information on the receiving schemes	16	40.0%
The resources needed to complete the due diligence checks	13	32.5%
Arriving at a robust and conclusive risk assessment of a transfer request	7	17.5%
Unsure of what the law is in this area	2	5.0%

[10] For example see PASA (2020).

suspected transfer. The relationship between pension providers and scheme members is seldom conducted face-to-face and their concerns often pertain to scams as well as fraud, but the potential scale of loss and damage suggests the need for similar proactive guardianship. Providers would need to implement consistent and robust risk assessments with risk-based protocols for targeting public resource to the highest risk cases.

Recommendation:

> A new framework modelled on the Banking Protocol should be developed to give pension companies the power to trigger an urgent regulatory response to savers at risk of being scammed.

4.3 SUMMARY

Pension providers are at the frontline of dealing with suspected scams. Our survey found considerable variation in the types of protective interventions deployed by providers and there should be greater accountability across the sector for adopting good standards. However, it must also be said that providers are hamstrung in their attempts to protect consumers by the legal rights of savers to transfer their funds even when providers believe that they are being scammed. The government ought to look at introducing further safeguards so that providers can take action when they suspect a scam is afoot.

5. VICTIM VULNERABILITY AND IMPACT

In this section we examine the vulnerabilities at the level of the individual victim that expose them to the risk of scams, and we set out what we know about the impact of becoming a victim of a scam.

5.1 VICTIM VULNERABILITIES

Pensions funds are an inherently long-term investments and prior to 2015 it was much more difficult for individuals to access them in a flexible manner. Practitioners expressed the view that that there continues to be a lack of understanding of these financial products among the public, that many do not actively monitor or engage with their pension (at least not until approaching retirement age) and more generally, that there is an observed tendency for some to focus on immediate rather than the long-term value of their pension. It is these characteristics and the significant amount of money tied up into pensions that has made them open to exploitation by scammers. The increased freedoms for consumers to manage and invest pension funds helps to cultivate consumer choice and more competitive markets but also brings risk and vulnerability that is accentuated for consumers who are poorly equipped to make informed choices.

> *"Pensions are not tangible, what [people] forget is that what they're about to release, it's probably the second biggest asset they've got."*
>
> Operational lead – financial regulator

In the case of pension liberation fraud, many victims were uniquely vulnerable because of urgent financial need, and they would often give scant regard to how fraudsters invested what was left. One police investigator stated there were a range of underlying motivations behind individuals accessing funds from their pension but the "the common denominator [was that] they were all desperate for the money."

> *"They will have been convinced that there was no tax liability … but of course, they want to believe it don't they, that's the problem."*
>
> Specialist fraud investigator – local police force

> *"These people were strapped for cash, they had a sum of money but couldn't utilise it. The fraudsters guaranteed their victims returns on their investment and said their capital was safe. They operated out of boiler rooms in Spain and issued non repayable loans."*
>
> Investigator – Serious Fraud Office

People, lacking pensions expertise, are often reliant on professionals in financial services to offer guidance.

> *"Nobody understands what an IFA does [or] their pensions … you rely on that person who comes to your door and trust them with everything, it's like going to your GP… it's very difficult for them to know if this is someone they should trust or not … they have the flashy websites, the shiny business cards and the patter."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

While public awareness campaigns highlight unsolicited contact and an offer of investment returns that "sound too good to be true" among other warning signs (FCA, 2017), a more objective test is to check that an adviser is registered with the FCA. However, one investigator considered that none of the available mechanisms were foolproof:

> *"It's too difficult in this country for people to know if a person or a scheme is good or bad, even if they're regulated it doesn't tell you much."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

A recent survey which explored public attitudes, behaviours and awareness of known risk signals (such as cold calling) found 42 per cent of respondents continued to be at risk of falling victim to a pension scam (FCA, 2019b). Preventing scams and fraud is in general challenging because the perpetrators employ diverse and sophisticated methods (often using social engineering) and because the population which scammers and fraudsters target is so wide, meaning there are challenges in simplifying and targeting public awareness messages effectively (Cross and Kelly, 2016; Skidmore et al, 2018). In the case of pension transfers there is an additional need for messaging at the right time, since most people transfer their pensions very rarely over a lifetime.

Current anti-scam policies and interventions are limited to signposting and guidance. The government-funded Money and Pensions Service (including Pensions Wise) provides independent guidance on pensions, including to those with concerns about scams. The organisation is widely publicised by partner organisations in the public and private sector. However, there is concern that the level of public awareness of this service continue to be low relative to the volume of people navigating new pension freedoms, with only a small minority of people choosing to engage with this service.

> *" [Most of the] public do not seek guidance or give adequate consideration for what to do with their pensions. The public are accustomed to external protections (e.g. regulator) and insurance but it's not there in the case of their pensions."*
>
> Senior stakeholder- roundtable event

The take-up of regulated financial advice is suggested to be even lower.

5.2 THE IMPACT ON VICTIMS AND THE SUPPORT AVAILABLE

The losses from scams can cause significant damage to a victim's finances and lifestyle and significantly impacts on their psychological and emotional wellbeing. At its most extreme, a police investigator described victims who had committed suicide. In other cases, interviewees described an impact on family relationships, their quality of life and an inability to retire due to a lack of income.

> *"[Interviews with victims] can happen some time after the event and for some, [it is] the first time they've talked about the nature of the transaction, if you do it too soon [afterwards], they are blown away with grief."*
>
> Policy officer – advice service

> *"It wipes out your retirement savings; [you've been] saving all your life and you're now living on the breadline."*
>
> Consumer advocacy organisation

A complicating factor is that pension scams are characterised by a time delay that can span many years, from the initial deception to first realising that the damage has been done. Consequently, the responding agencies are left to deal with the fall-out for victims many years after the event. To illustrate, a recent criminal investigation examined in this study related to fraud victimisation that stretched as far back as 2010. In several other cases the crimes occurred several years prior to the investigation but had not been reported by any of the victims as they only came to light through financial intelligence.

There is no way to know the scale of victimisation and loss that will surface over the coming years, and for this reason, scamming methods in previous years (including pension liberation fraud) will for some time continue to shape the nature of the demand:

> *"There's still a huge amount of latent damage and we don't know what it is at the moment."*
>
> Intelligence officer – financial regulator

> *"The problem is you can't predict it, the only way to tell is when someone gets to 55 … we're going to have a considerable steady drip of victims over the next 10 to 15 years."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

There is little by way of compensation for victims of pension scams. A representative from an industry membership body described pension scams to be "*one of the few frauds where there is no way to get your money back*" especially for those scammed by practitioners who are not regulated.[11] In the case of bank and credit account fraud many victims are compensated their losses (Blakeborough and Correia, 2018), though victims tricked into making a payment or transfer themselves more often retain liability (Financial Ombudsman, 2015), and so is the case with pension scams.

Accessing support following victimisation can be onerous. The regulatory landscape in pensions is cluttered, encompassing Action Fraud, the local police, their pension provider, the FCA, The Pensions Regulator, the financial ombudsman, compensation services and the Money and Pensions Service. There is a need to navigate this landscape to report the scam and seek help, and so a victim needs to understand the role, remit and significance of each agency as it relates to the specific nature of the scam or fraud they have experienced. This can create obstacles to reporting the crime and frustration; moreover, none of these institutions will necessarily provide a way to get

[11] If the scammer was regulated the person can apply for compensation from the Financial Services Compensation Scheme.

their money back. The statutory entitlement to receive victim support is – as with all fraud cases – limited to the provision of generic services when victims may be hard-to-engage, experience acute emotional trauma, or be faced with the practical challenge of rebuilding their finances. Additionally, these services are only available to victims of crime, thereby discounting the many impacted by scams that do not cross criminal thresholds.

> *"They just want to be put back in the place they were before they were a victim of fraud … the supporting agencies can't achieve that, they can at least help them to come to terms with the emotional trauma of what's taken place."*
>
> Policy officer – Financial services membership body

> *"We meet these people often – we're sympathetic to them and do what we can to help but if they simply haven't read the small print then the onus is on them."*
>
> Investigator – Serious Fraud Office

Pension liberation fraud victims are also faced with stringent tax penalties imposed by HMRC regardless of the offence or personal context; police investigators described the tax authority as "fierce", lacking discretion and that "there was nothing that [they] could do to call them off". The concurrent treatment of the same person as a victim and a perpetrator fosters an operational dissonance between the police and HMRC, one which confounds criminal investigation and victim support. HMRC operate to cut-and-dried legal principles (they either did or did not prematurely withdraw the funds) and targets people who are relatively transparent in their actions (unlike scammers), and investigations are swift and penalties severe (up to 55 per cent of the total original pension value). This contrasts with the protracted and complex investigations of law enforcement in which convictions are hard-won. In short, official institutions can be much more robust in tackling victims than fraudsters. Consequently, it seems natural that victims are deterred from engaging with the police, given the prospect of a tax penalty they cannot afford. Even when they are not deterred, their HMRC conferred status as tax avoiders erodes their credibility as witnesses for the prosecution of the fraudster-scammers.

> *"Are they a victim or a suspect? … we're trying to treat them as victims."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

> *"[A victim's involvement] takes the shine off it if I'm honest, what you need to back it up is to take a statement from the [ceding] pension company [to provide supporting evidence of the underlying fraud]. They [the pension provider] will have known that it was likely to be a pension fraud."*
>
> Specialist fraud investigator – local police force

There are pension scam experts in industry who acknowledged the need for a fairer system, especially for victims who believed their actions were legitimate, with calls for a tax amnesty for victims of pension liberation prior to April 2014 and improved victim support (Ftadvisor.com, 2019).

Recommendation:

A system must be created by HMRC and partners to ensure that victims of pension fraud are not liable for tax penalties from HMRC.

Recommendation:

The victim journey needs to be streamlined. All organisations that receive a report or otherwise identify a victim, should consistently channel those affected into the Money and Pensions Advice Service to assess risk and need and make referrals to specialist support where necessary (for example, debt management or victim support).

5.3 SUMMARY

Pension savers have been given increased freedoms but lack the engagement, experience or knowledge to navigate this complex area of finance. This has exposed them to substantial risk. However, closing this gap and raising the capability and vigilance of the public to the required scale is proving challenging, and the effectiveness of information campaigns is so far equivocal.

Victims of pension fraud can be affected in particularly severe ways. The financial losses can be severe and can leave people unable to retire. There is a time lag between the scam and the realisation that it has taken place, making it difficult for agencies to respond. Victims often have little recourse to compensation or justice and the landscape for support is onerous to navigate. The imposition by HMRC of severe tax penalties is a further cause of detrimental impact on pension fraud victims.

6. IMPROVING THE RESPONSE TO PENSION SCAMS

In this section we describe the shape of the current response to pension scams and highlight three broad areas in which the response could be improved: better information sharing, improved coordination among partners and a stronger capability to tackle fraud on behalf of law enforcement.

6.1 AN OVERVIEW OF THE CURRENT RESPONSE

Table 6 outlines the range of public sector bodies with a role in preventing and responding to scams. The hidden nature of scams means that effectively configuring roles and responsibilities across the fragmented response landscape is a challenge. New patterns in scamming continuously ask new questions of the different agencies, with the role of each agency redefined at each turn.

> *"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."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

The regulatory emphasis has been changed by the ebbing of pension liberation fraud and the rise of investment scams; whereas HMRC and The Pension

Table 6: The distribution of roles and enforcement powers across public sector agencies

Organisation	Remit	Relevant powers	Actors in scope
The Pension Regulator	Regulating occupational pension schemes.	Criminal prosecution of certain regulatory offences (The Pensions Regulator, 2016). Prohibiting pension scheme trustees from practising. Fines for breaches of legislation.	• Pension scheme trustees.
Financial Conduct Authority (FCA)	Regulating investment schemes and the provision of financial advice, including defined-benefit and defined-contribution pension products.	Criminal prosecution of unauthorised provision of a regulated activity (FCA, 2017b). Revoking regulated status of financial advice professionals.	• Financial advice services. • Investment schemes.
Insolvency Service	Tackling company misconduct to protect consumers. Tackling misconduct in the processes of putting a company into liquidation.	Winding up companies engaged in misconduct. Disqualification of unfit company directors. Disqualification of insolvency professionals.	• Company directors. • Insolvency practitioners.
HM Revenue and Customs (HMRC)	Enforcing pension tax legislation to tackle tax avoidance.	Issuing tax penalties to pension holders in breach of legislation. Refusal to register a pension scheme.	• Investors. • Pension company.
Information Commissioner's Office (ICO)	Enforcing legislation that prohibits unsolicited telephone calls for the purpose of pension sales.	Fines for companies in breach of regulations.	• Telemarketing companies.
Police service	Enforcement action against offences under the Fraud Act, 2006.	Criminal prosecution of individuals who perpetrate fraud offences.	• Fraud offenders.
Serious Fraud Office (SFO)	Enforcement action against serious offences under the Fraud Act, 2006.	Criminal prosecution of individuals who perpetrate fraud offences.	• Fraud offenders.

Regulator were central to tackling fraud that involved occupational schemes and tax evasion, the FCA and its role in regulating investments and financial advice has now come to the fore. An increase in opportunities for "skimming" off high commission fees from investments no longer necessitates criminal misrepresentation (i.e. fraud) which mitigates the role of the police. However, a single scammer may be in breach of multiple laws, creating ambiguity over which organisation has primacy and many are keen to conserve finite resources.

> *"The fraud bit is so complex … the threshold for getting the pension regulators to recognise something needs investigation is really high because these investigations are really costly."*
>
> Policy officer – advisory service

Across organisations the response is primarily configured to respond to complaints, with much less invested in costly proactive resources to monitor, identify and investigate suspicious actors and schemes. To illustrate, the financial regulators do not monitor or inspect practitioners and schemes within their remit, nor do the police use intelligence to drive proactive investigation of suspects.

> *"My impression is that there are a lot of pension companies to regulate with not many people"*
>
> Specialist fraud investigator – Regional Organised Crime Unit

The full extent and complexity of scams and the range of actors involved are not often revealed. For example, the ICO enforces laws that prohibit cold-calling to sell pensions and may investigate and impose financial sanctions without necessarily uncovering all offenders, offences or the full extent of misconduct by the company.

We now turn to three areas where the response should be improved: better information sharing, improved coordination among partners and improved law enforcement capability.

6.2 BETTER INFORMATION SHARING

Better information sharing across the response landscape would:

- Promote understanding of the scale and nature of the threat.
- Help to align and coordinate the partners and their resources to optimise the powers and capabilities available to each agency.
- Facilitate more systematic identification of suspicious actors to drive enforcement and prevention activity.

Crime data provides a poor barometer because it is not configured to capture the full range of pension scams. Many scams do not pass criminal thresholds, specific fraud methods captured in recorded crime are in decline (i.e. pension liberation fraud) and there is an inherent lag between the commission of an offence and the victim coming forward.

Additionally, pension companies on the frontline do not currently engage with the police; administrative data from 13 companies indicated that collectively nearly 1,000 suspected scams had been identified but only 25 were reported to Action Fraud. One company had only recorded six frauds but shared information on "around 40 firms of concern … in the 'International SIPP arena'" to the FCA. Much of this information represents "intelligence", some of which will contain criminality that can only be uncovered through investigation, which is currently in short supply.

Official data is not picking up the problem, leaving police and partners perennially behind the curve:

> *"[The volumes have] dropped off in the last 18 months, not because the scams have gone away, we think there's a transition, it's changing, and the system is not picking it up."*
>
> Policy officer – advisory service

The majority of pension companies in our survey collated information on potential scams (n=33, 82.5 per cent). Table 7 shows that this information was most commonly used to inform their decision-making such as in maintaining an internal blacklist of suspicious actors (n=25, 75.8 per cent) and/or developing internal warning markers to prevent further attempts from specific scammers (n=23, 69.7 per cent). Some expressed reservation on the effectiveness of static registers of blacklisted entities due to the sophistication and agility of scammers, preferring to adopt real-time warning markers in relation to immediate scam risks. Fewer reported information sharing with external bodies, with less than half stating they would report to law enforcement (n=15, 45.5 per cent) and only one in five said that they would share the information with other providers to prevent further attempts by the same scammer (n=7, 21.2 per cent). Half of respondents (n=17, 51.5 per cent) reported they would share the information with the Pension Scams Industry Forum (which is hosted by PSIG).

Data is collected in siloes across the public and private sector, including the support and advisory services, suspects and victims identified in the course of

Table 7: How information collected on scams is used by pension companies

Source: Survey data collected from pension companies by the Police Foundation

The application of the collated information on scams	No. of respondents	%
Produce a blacklist of providers / schemes / individuals / entities of concern	25	75.8%
Develop internal warning markers to prevent further attempts by specific scammers	23	69.7%
Analyse trends over time to inform internal strategies for identifying potential scams	21	63.6%
Report to regulators	19	57.6%
Share with the Pension Scams Industry Forum to prevent further attempts by the scammers	17	51.5%
Report to law enforcement	15	45.5%
Produce a whitelist of schemes where there are no concerns in terms of transfers	11	33.3%
Identify members with potential advice or support needs	10	30.3%
Share with other pension providers to prevent further attempts by the scammers	7	21.2%

regulatory enforcement or pension companies that red-flag suspicious transfers and schemes. However, there are anxieties about sharing across public and private sector organisations and about publicising the scale of the problem in case that damages public confidence in the wider pension system. In our survey, many pension companies highlighted a need to systematically pool information-sharing to inform the protective response.

> *"It is extremely difficult to keep up with potential scammers and we need to pool resources to develop robust checks on approved adviser and pension arrangement. Individual schemes will not necessarily spot individual patterns due to limited volumes of transfers but if we have a central point of reference then this could highlight suspicious activity quickly and thoroughly."*
>
> Pension company representative

The lack of a central hub to collate intelligence and inform risk-based assessment was also flagged as a key gap by a police investigator:

> *"There is no stage at which we have someone who's independent and can gather concerns that people have about specific pension providers, almost like an intelligence system. It could operate as a traffic light system; red being those caught with their hand in the till, amber highlighting those not so good or experienced and green, an established firm."*
>
> Regional Organised Crime Unit – specialist fraud investigator

Recommendation:

Broaden the definition of pension fraud to ensure crime data provides an accurate picture of the issue, with data from the industry, regulators and policy contributing to an annual assessment.

Recommendation:

A central intelligence database should be set up to ensure a more systematic collection and analysis of intelligence which can be made available to partners in the public and private sector to assist decision-making.

6.3 IMPROVED COORDINATION ACROSS PARTNERS

The tension between flexibility and security in pension freedom gives rise to contradictory operational incentives across the response system:

- Pension providers are mandated by the Department for Work and Pensions to facilitate quick and seamless transfer requests, but to also take the time to complete adequate diligence checks and forestall suspicious transfers, all in the context of the commercial drive to sustain their share in the market.
- Government departments and regulatory bodies such as the FCA and HMRC impose relatively light-

touch regulation on actors in the finance sector to limit obstruction to the market, but at the same time call emphatically for consumers to raise their guard, and to this end, the Money and Pensions Service is funded to increase public defences.

- HMRC's role in protecting tax revenues sits in direct contradiction with the police effort to advocate for victims of pension liberation fraud, many of whom were drawn into tax evasion.

Project Bloom[12], led by the Pensions Regulator, brings all the relevant bodies together and is designed to provide national strategic oversight of the scams problem.[13] It does not however steer the response on the ground.

> *"There is no national intelligence model, no targeted, evidence-based central response. Everyone is working on an ad hoc basis and they are very protective over their areas of expertise."*
>
> Investigator – financial regulator

Interviews with police investigators and other stakeholders highlighted distinct objectives in engaging with partner agencies. To be effective, decision-making needs to balance efficient management of scarce resources with enforcement that is commensurate to the risk and harm caused by a scam. However, as things stand, a lack of joined-up thinking hinders a systemic approach.

The response to individual cases is largely determined by where in the regulatory system a scam is reported or identified. Equally, a single case can be known to multiple partners with each tackling the scammer or scheme in their own way. The lack of coordination means that optimum use is not made of the resource and powers available across the system and it seems likely that serious harm is going undetected as a result. A senior stakeholder from the pensions industry considered that the lack of secure and dedicated funding for Project Bloom and the Pension Scams Industry Group, was a key limitation in their ability to develop a coordinated approach to protecting people from scams and delivering a response.

Recommendation:

Implement a coherent set of principles for law enforcement and regulators to follow to inform resource allocation and facilitate a more coordinated and consistent response across agencies.

6.4 LAW ENFORCEMENT CAPABILITY

Many interviewees believed that the scale of intervention from law enforcement failed to match what was required, with the response in the case of proven and suspected frauds limited. Sixty per cent (n=24) of companies believed that law enforcement needed to do more to tackle pension fraud. In their comments some highlighted the small numbers brought to justice and the low sentences received in court, and consequently, the absence of a deterrent to reduce offending (or re-offending).

The increased role of digital commerce and finance has rendered fraud a borderless crime (Levi et al, 2015). However, in the pension fraud case studies examined as part of this research it is notable that many of the perpetrators were UK nationals operating from within UK borders, but there remained significant challenges for criminal investigation, many of which echoed those from a previous study (Skidmore et al, 2018). To varying degrees the frauds involved: high volumes of geographically dispersed suspects and victims; victims who were hard-to-engage and/or had complex needs; frauds that unravelled to expose burgeoning numbers of people and crimes; and difficulties in manageability of cases that quickly grew too unwieldy and complex to be effectively investigated or prosecuted (Skidmore et al, 2018). In order to manage resources, investigators left threads unresolved, including victims who refused to engage (for some it was an attempt to evade tax liability and in others, a refusal to accept they have been victimised) and identified suspects and suspicious schemes that fell out of scope.

Pension scams, as noted repeatedly, range from outright dishonesty (for example, selling an investment product that did not exist) to poor or neglectful investment advice. In addition to appraising the relative merits for prioritisation (often based on harm and seriousness), the police needed to make a preliminary decision on whether to invest resources into finding out if a crime had even occurred. To illustrate, while one investigator was convinced that a case had involved an investment fraud (in addition to tax evasion), after several years of investigation they were still unable to produce sufficient evidence to prove this. One investigator recounted the following advice from a colleague:

[12] For example, see – Gov.uk (2015b)

[13] For example, see HM Treasury and Department for Work and Pensions (2017).

> *"We don't touch [these types of fraud] because you can't prove it is going to be a fraud in 25 years' time … you can't show at the moment that he's not going to produce the goods in 25 years."*
>
> Specialist fraud investigator – local police force

Investigators commonly need to demonstrate the absence of action (for example, no transfer being made or no activity to develop the investment product or service) to discredit claims that a suspect or scheme would eventually bear fruit.

The process of evidence collection and analysis is complex and protracted; it could involve charting historic frauds that spanned multiple years, processing vast amounts of digital finance and communications data that often crossed into overseas jurisdictions and managing victims who themselves had only partial understanding and records of what happened. Investigators described awkward processes of analysis that were largely unassisted by technology and enquiries with overseas financial service providers that were drawn out and precarious. A practical challenge was in identifying cashflows that had been transferred through multiple suspect accounts, so to be able to clearly evidence theft of the victim's money.

> *"[The] massive collections of documents in terms of transaction histories, [the] thousands of emails between the people involved and complex banking analyses; it's just the size of it. It's why it's very difficult for police to allocate resources to these investigations … they're so big, you have to write off two to three years to undertake an investigation."*
>
> Specialist fraud investigator – Regional Organised Crime Unit

> *"Seizing the tape and scripts are the only way to prove the fraud. The resource to return rate is not large enough. They work from various operations and boiler rooms which are all abroad. The best thing to do is to disrupt, to get to know the players. But there is very little action one can take against the base level players."*
>
> Investigator – financial regulator

The police have powers under the Proceeds of Crime Act legislation to recover monies but even in successful prosecutions recovery could be hampered by an inability to trace the money or by offenders that had already spent it all. From a victim perspective, *"you're locking people up, but it can be a hollow victory".*

Recommendation:

Police investigators should be supported by a specialist fraud victim support service such as that provided by the National Economic Crime Victim Care Unit, to help manage, assess and support vulnerable victims of fraud, and facilitate engagement with the criminal investigation.

Recommendation:

New digital technology and techniques should be implemented by the police to support and speed up analysis of the high volumes of digital intelligence and evidence collected during criminal investigation.

6.5 SUMMARY

The problem of pensions scams is one that is continuously shifting, partly in response to changes in legislation that govern and shape conditions in the market. These changes have the effect of continually reconfiguring the roles and responsibilities of the public bodies in a cluttered regulatory landscape, which operate to priorities and objectives that do not necessarily mesh well together. However, under-reporting by the public, and limits on proactive investigation resource and intelligence sharing from frontline pension companies, leaves the system open to being blind-sided by scammers who are much more agile than those tasked to respond. The consequence of a lack of responsiveness to changes in the problem is for regulatory cracks to open up that are exploited by scammers, an issue especially apparent in relation to individuals without FCA authorisation acting as financial advisers.

To address this there is a need for improved information sharing between partners and much better coordination of responsive activity across the Project Bloom actors. A coherent set of principles ought to be developed to help prioritise activity and deal with inconsistent incentives. Moreover, there should be a much clearer allocation of roles and responsibilities so that resource is allocated more effectively.

We will never arrest our way out of the problem of pension scams. Nevertheless, law enforcement capability could be improved through the provision of more specialist victim support and an uplift in the technical capabilities required to investigate these crimes.

7. CONCLUSION

With new freedoms come new risks and responsibilities. The introduction of pension freedoms in the UK has enabled people to have much greater flexibility regarding their pensions and to release funds in order to invest them directly. However, this greater consumer freedom has also exposed people to scammers, keen to exploit a colossal pot of wealth.

This report has shed new light on the scale and nature of pension scams. Using data direct from the pension providers we found that from just 13 providers alone, £54m of pension wealth was suspected to have been targeted by scammers in 2019 and of that, potentially £31m was lost. Alarmingly, 62 per cent of consumers proceeded to transfer their pension even when warned of the risks.

With the new pension freedoms, scammers have shifted their operations from tax evasion schemes to investment scams and exploiting unfair charges that occupy a grey area between crime and sharp practice.

The impact of pensions scams can be considerable and indeed many victims may be unaware they have been scammed until they approach retirement and seek to access their funds. When they discover what has happened victims face a complex reporting landscape, a fragmented victim support system and the likelihood that they will not be able to get their money back, leaving them in considerable financial difficulty.

This report has argued that we need to strengthen our national response to this problem at all levels. The pension industry itself needs to become more consistent in the checks that are carried out when transfers are requested and in the reporting of scams that are identified. Providers also need to have the power to block transfers where they believe that a scam is underway. Consumer freedoms need to be balanced by consumer protections.

Regulators need to do more to tackle rogue financial advisers and financial sector professionals need to be made more aware of the signs of scams to avoid unwittingly facilitating them.

There needs to be more streamlined support for victims and HMRC should take a softer approach when it comes to imposing tax penalties on those who have been defrauded. There should also be much greater coordination of the response across the private sector, regulators and law enforcement through more coherent collection of intelligence which in turn should facilitate a more coordinated approach to tackling the scammers.

The new pension freedoms have enabled many consumers to enjoy greater flexibility to grow their pension pots. However, these reforms have also exposed consumers to new risks in a complex and unfamiliar landscape. The government, regulators, the pension industry and the police have a responsibility to gain greater oversight of this problem and to work together to provide much better protection for pension savers.

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APPENDIX: A BREAKDOWN OF THE SURVEY SAMPLE

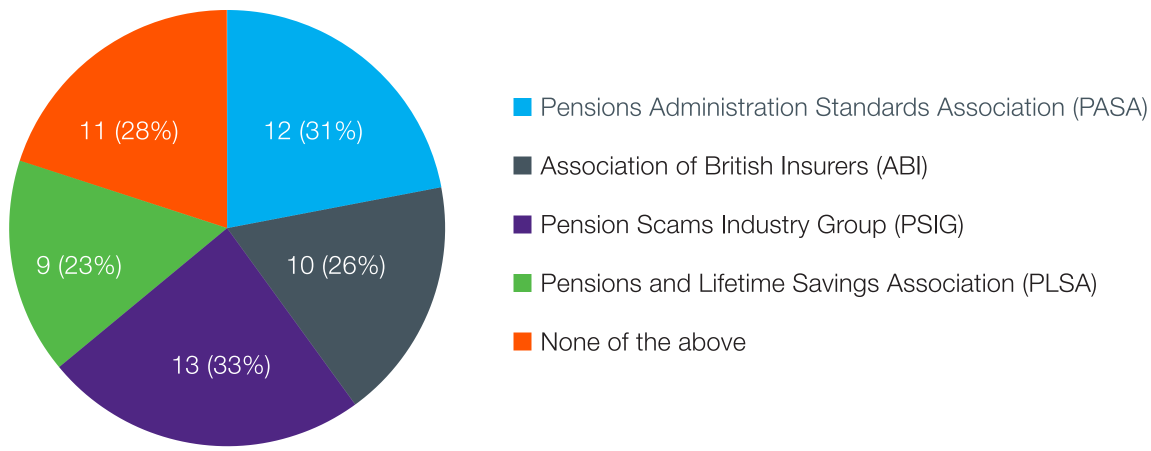
In total, 40 surveys were received, a third (33 per cent) of the pension companies sent a survey directly (n=121). These companies are members of representative bodies, the Pensions Administration Standards Association (n=55), Association of British Insurers (25) and Pension Scams Industry Group (n=41) and may not represent all companies in the industry. The survey was publicised to members of the Pension and Lifetime Savings Association (membership approximately 1,300), though it is not known how many of these companies got sight of the survey.

Figure 2 provides a breakdown of the membership(s) of the pension companies in our survey. There is a relatively even distribution across the membership bodies. The percentages do not tally to one a hundred because a single provider may be affiliated to multiple membership bodies.

Table 8 outlines the pension products provided by companies in the sample, showing the most prominent were single employer trusts and SIPPs, with QROPS provided by the fewest companies. Nine companies reported providing "other" products and these included defined benefit trust organisations (n=2), workplace providers (n-2) and a multi-employer occupational scheme (n-2).

Nearly all in the survey were private sector companies. Only two (five per cent) were public sector companies.

Figure 2: The industry membership body affiliations of the survey respondents*



* The percentages do not tally to a hundred because a single pension provider may have more than one affiliation.

Table 8: Pension products provided or administered by the survey respondents*

Pension products	No. Respondents	%
Single employer trusts	17	42.5%
SIPP	17	42.5%
(Group) Personal pension	15	37.5%
Master trust	10	25.0%
SSAS	9	22.5%
Other	9	22.5%
QROPS	3	7.5%

* The percentages do not tally to a hundred because a single pension provider may offer multiple product types.

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ISBN: 0 947692 76 2

Charity Registration Number: 278257

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