RE: Work and Pensions Select Committee, 6 February 2019

Following our appearance at the Work and Pensions Select Committee on 6 February, I wanted to write to update you some of the points we discussed.

FCA’s approach to tackling scams
During the evidence session, the Director of Life Insurance and Financial Advice Supervision, Deborah Jones, said there were 10 people looking at scams. It is worth providing some additional context and clarity here,

First of all, I want to highlight that tackling scams is a key priority for the FCA. Our 2018 Sector Views highlights that “harm suffered by consumers as a result of pension scams is one of the most significant issues affecting the sector. As well as their impact on individuals, we also have concerns regarding the significant role they can play in lowering consumer confidence in the sector.”

Our 2018/19 business plan highlights the importance of tackling scams as part of our cross-sector priority on financial crime and anti-money laundering, and helping consumers avoid fraud and scams forms part of our sector priority on pensions. Tackling scams is also highlighted in our joint regulatory strategy with The Pensions Regulator which includes explicit actions to work together, and also with other bodies, through our ScamSmart campaign and the multi-agency Project Bloom.

When Deborah said in the evidence session that we have 10 people working on scams, she was referring to the specialist supervisory team sitting within her area that looks at authorised adviser firms that may be involved in pension scam activity. As Deborah mentioned, we flex the number depending on need, for example, in response to a particular set of intelligence or multiple cases all arriving at the same time.

The specialist supervision team does not work in isolation and works with many other areas around the FCA. The specialist team gets cases referred to it from the pension scam intelligence team, the Firm and Customer Contact Centre (who look out for scam type cases), the Whistleblowing Team and other areas around the FCA that identify advisers as part of their own work. The team also undertakes proactive work.

The pension scam intelligence team, which has six people working in it, acts as a single point of contact for the receipt of all intelligence regarding pension scams across the FCA. This team collates, analyses and researches all incoming and self-generated intelligence regarding pension
scams and systemic mis-selling. This work includes thematic work, individual cases for Authorisations, Supervision and Enforcement, contributing to the FCA’s communication strategy as well as liaising with other regulators, law enforcement and government agencies.

A typical pension scam case may involve the pension scam supervisory team looking at the adviser firm advising consumers, a different supervisory team looking at SIPP Operators that are holding the investment that may be central to the scam, another different supervisory team looking at any Discretionary Fund Manager that is being used as a wrapper underlying the SIPP investment, another different supervisory team looking at the underlying funds, the Unauthorised Business Department (UBD) looking at the unregulated introducers sending the business to the adviser firm and an Enforcement team which will work with the supervisory teams on urgent interventions using Enforcement resource. Once the supervisory work is undertaken, the most serious cases are referred to Enforcement for formal investigation.

As per above, Enforcement resources are also expended on work connected to pension scams. The UBD, which is part of the Enforcement Division, reviews, assesses, analyses and actions all reports involving unauthorised business activity. Many of these reports include activity connected to pension scams and many of these reports have formed the basis of current investigations. UBD plays a hugely important role in policing the perimeter as it has responsibility for receiving and assessing the many thousands of reports about potential unauthorised activity each year. In addition to taking enforcement action against unauthorised firms, UBD is responsible for consumer education programmes aimed at helping prevent consumers fall victim to investment fraud such as working with the ScamSmart campaign team.

In addition to the work of the UBD, another Department in Enforcement, the Regulatory and Retail Investigations Division, is currently undertaking a significant number of investigations into suspected pensions-related misconduct. Around 20 of these investigations, each of which may have several investigation subjects, appear to involve scam-type features. These investigations make up a significant proportion of the work being done by staff in this division.

As well as supervisory and enforcement interventions, our policy team worked closely with HMT on the recent introduction of the pension cold calling ban, which is where we see a lot of our pension scam cases emanating from, and other legislative measures to protect consumers.

As indicated above, we also undertake direct communications to consumers to help them avoid scams. Our communications team developed our recent ScamSmart advertising campaign (https://www.youtube.com/watch?v=dQyK4QvymnU), which highlighted the dangers of responding to cold calls about pensions. During the campaign period 173,000 users visited the ScamSmart site and 376 users were warned about an unauthorised firm.

It would be easy for us to quote a much higher number of staff whose work includes pension scams and for whom we have the flexibility to allocate to priorities such as scams according to threat levels at the time. However, I would not wish to mislead the committee in any way that therefore all of these staff spend all of their time on pension scams. Our approach to resourcing is deliberately flexible, but if we add up the time spent by our staff it is substantially larger than 10 full time equivalents.

Beyond the FCA, we work closely with HM Revenue and Customs, DWP, the Serious Fraud Office, National Fraud Intelligence Bureau, National Crime Agency and TPR as part of “Project Bloom”. This is a multi-agency task-force taking coordinated action and sharing intelligence on scams which may sit within another organisation’s remit.

**Alerts**

Since 2016, we have issued a number of alerts on scams:

- In August 2016, the FCA issued an alert entitled ‘Investment advisers’ and authorised firms’ responsibilities when accepting business from unauthorised introducers or lead
generators”. This alert was issued due to the large number of cases that had been identified where the unregulated introducer was the driving force behind the investment, with the regulated firm having little, or no, interaction with the customer and warned of the dangers of allowing themselves to be used in this way. (https://www.fca.org.uk/news/news-stories/investment-advisers%E2%80%99-and-authorised-firms%E2%80%99-responsibilities-when-accepting)

- In January 2017, the FCA issued an alert entitled “Advising on pension transfers – our expectations”. This alert was issued due to a large number of pension transfer cases being identified where firms were not taking full responsibility for the advice being issued. (https://www.fca.org.uk/news/news-stories/advising-pension-transfers-our-expectations)

- Also in January 2017, the FCA issued an alert entitled “Pension scheme operators are at risk from smarter scams”. This alert was issued to advise SIPP operators of the way pension scams have been evolving, which might make it more difficult for them to identify non-standard assets. (https://www.fca.org.uk/news/news-stories/pension-scheme-operators-risk-smarter-scams)

- In November 2017, we issued an alert to all regulated firms with one of more appointed representatives/introducer appointed representatives outlining the steps they should be taking to ensure they have adequate oversight of the activities of their appointed representatives/introducer appointed representatives. (https://www.fca.org.uk/news/news-stories/considerations-for-principals-who-have-appointed-representatives-or-introducer-appointed-representatives).

- In December 2017, we re-issued the “Protect your pension pot” alert from August 2014 as a news item on the FCA website as part of the ongoing work in relation to British Steel transfers. (https://www.fca.org.uk/news/news_stories/protect-your-pension-pot-risky-investments-scams)

Key statistics

During the session, committee members also asked for us to provide some statistics on consumer access to Pension Wise and financial advice, as well as how many consumers chose decumulation products from their existing provider. Please find an overview of relevant data below.

Figures for decumulation products

For October 2017-March 2018 – source FCA Data Bulletin: September 2018

Our September 2018 data bulletin on the latest trends in the retirement income market[1] found that, between October 2017 and March 2018, 57% of annuity purchases were made by existing customers of the provider and 43% by new customers. In the same period, 53% of drawdown plans were sold to existing customers.

The table below shows - for different types of retirement income products - what proportion of customers took advice, and what proportion accessed guidance from Pension Wise, between October 2017 and March 2018.

Since the April 2015 pension freedoms, we have collected these data from a representative sample of pension providers. Our next update will include the first set of whole of market data that we’ve received from all UK pension providers. When the data were first collected, we

estimate our sample covered 95% of defined contribution contract-based pension scheme assets. It does not include trust-based workplace pension schemes or defined benefit schemes, which make up the majority of assets in the workplace pensions savings market and serve the largest number of scheme members.

<table>
<thead>
<tr>
<th>Product</th>
<th>Annuity</th>
<th>Drawdown</th>
<th>UFPLS</th>
<th>Full withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advised</td>
<td>20%</td>
<td>69%</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Pension Wise</td>
<td>30%</td>
<td>11%</td>
<td>17%</td>
<td>15%</td>
</tr>
</tbody>
</table>

There are some other important points we should note about these data. They are based on data received from providers, so only capture those customers who have contacted their providers - it is possible some may have used Pension Wise and then ultimately decided not to contact their providers at this stage. The data are designed to capture the number of customers who have specifically used Pension Wise rather than other forms of guidance - but based on self-declaration by the consumer, so the data may erroneously capture other forms of guidance (for example, from The Pensions Advisory Service). Additionally, the data do not include those customers who used Pension Wise and then decided to get advice.

These data do not break down into whether the customer was moving the product or staying with the same provider.

One final point to note is that the consumer survey published alongside the final report of our Retirement Outcomes Review found that 46% of the non-advised drawdown customers surveyed received guidance from Pension Wise. Our review recommended specific proposals to improve outcomes for consumer accessing drawdown without advice, including investment pathways.

**Figures for accumulation products**

During the session, members asked if we could provide figures for how many people receive advice, broken down by type of products. The data below are based on Product Sales Data (PSD) for accumulation products from 2015 onwards.

It is important to note that "advised sale unspecified" means that the firm has not specified that the sale was advised – in some cases advice may have been sought separately to the purchase of the product without the knowledge of the firm. Therefore, these data are likely to underestimate how many customers were advised.

<table>
<thead>
<tr>
<th>Occupational pensions</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Self-Administered Scheme (SSAS)</td>
<td>Advised Sale</td>
<td>65%</td>
<td>66%</td>
<td>67%</td>
</tr>
<tr>
<td></td>
<td>Advised Sale Unspecified</td>
<td>35%</td>
<td>34%</td>
<td>33%</td>
</tr>
<tr>
<td>Group section 32 buy out (when a company closes a trust based scheme such as a DB scheme)</td>
<td>Advised Sale</td>
<td>8%</td>
<td>27%</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>Advised Sale Unspecified</td>
<td>92%</td>
<td>73%</td>
<td>46%</td>
</tr>
<tr>
<td>Group money purchase (company DC pension scheme)</td>
<td>Advised Sale</td>
<td>5%</td>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>Advised Sale Unspecified</td>
<td>95%</td>
<td>91%</td>
<td>94%</td>
</tr>
<tr>
<td>Executive pension (occupation DC scheme for senior employees)</td>
<td>Advised Sale</td>
<td>89%</td>
<td>83%</td>
<td>69%</td>
</tr>
<tr>
<td></td>
<td>Advised Sale Unspecified</td>
<td>11%</td>
<td>18%</td>
<td>31%</td>
</tr>
<tr>
<td>Additional voluntary contributions group</td>
<td>Advised Sale</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Finally, during the session, you asked about the Wonga loan book. As at 6 March, I can confirm that no part of the loan book has been sold. We are engaging closely with the administrator, Grant Thornton and, were they to reach a view that it would be in the best interests of creditors to sell the loan book, I will write to you.

I do hope that you find the information in this letter helpful. If you need anything further on any of the points covered, please do let me know.

Yours sincerely,

Andrew Bailey
Chief Executive