



XPS
Administration

Protecting Members

November 2023

Pension transfers: Taking the time to protect members

Actioning a member's request to transfer their benefits is a lengthy process and one that can receive a lot of negative attention, but it is essential that trustees, via their administration provider, carry out the necessary steps to reduce the risk of pensions scams. In this briefing XPS Administration looks at the transfer process, what checks need to be carried out and how trustees can help their administration teams to manage expectations to ensure a better member experience.

Pension professionals often hear complaints about the lengthy process for the payment of transfer values. It's an issue that clearly causes frustration – but there can be very good reasons for this.

With large amounts of money often at stake, it's important to undergo a thorough due diligence process that protects members' pension funds from scams.

Actions are required from both the member and the administration team before the transfer can proceed, and the **2021 Transfer Regulations** have added to those requirements. Trustees can now remove the right to a statutory transfer where they suspect a member may fall victim to a scam. But this comes with enhanced due diligence requirements.

First, here's a high-level overview of the transfer process:

- 1 The **member, or their Independent Financial Adviser**, contacts the administration team to request a transfer quotation.
- 2 The **administration team prepares and issues the quotation** with the paperwork required to proceed with the transfer.
- 3 The **member and receiving scheme complete and return the paperwork**. Members will need to receive independent advice before transferring a defined benefit pension where the **transfer value is more than £30,000**, and the transfer is to a scheme providing flexible benefits.
- 4 The administration team **reviews the paperwork and carries out identity verification on the member**; they also check if the Financial Adviser is authorised to provide appropriate advice via the **Financial Conduct Authority**. If the paperwork is incomplete or contains anomalies, they will make further enquiries with the member or receiving scheme.
- 5 The **trustees must check for 'Red' and 'Amber' flags**, as defined in the regulations. XPS' specialist **Scam Protection Service** – aligned with the **PSIG code of good practice** – can help trustees by offering a direct phone call to the member. We believe this is the best way to identify any area of concern. A paper-based approach can overlook some issues and easily be forwarded by the member to the scammer to complete on their behalf.
- 6 If the Scam Protection Service identifies an **'Amber' flag**, the member must arrange a call with **MoneyHelper** and obtain a reference number to proceed. In the case of a **'Red' flag**, the statutory right to transfer is removed and the case is referred to the trustees. We'll make a recommendation to assist the trustees which, may include refusing the transfer, if a scam is suspected but, ultimately, the final decision is made by the trustees.
- 7 The transfer can be paid if the trustees are satisfied that there is **no trace of any scam activity**.





Communicating with members about scams

It is a requirement for trustees to **assess for a scam warning flag**. While it may cause delays, this is a significantly better outcome for the member than potentially losing their pension savings.

Communication is key, it is important for members (and their advisers) to understand the process. Trustees should also be highlighting the dangers of scams and any preventative measures. **We recommend regular communication using all methods available to the trustees**, for example, via the Scheme website, annual newsletters or a dedicated announcement.

Possible future developments

The **2021 Transfer Regulations** sparked much discussion on their impact on transfer timescales.

The Department for Work and Pensions' (DWP) 18-month review highlighted that certain aspects were causing concern and further lengthening the process – in particular, the **'Incentives' Red flag** and the **'Overseas Investment' Amber flag**. Our **Scam Protection Service** found 45% of cases were raising only the 'Overseas Investments' flag but had no other scam warning signs.

Consequently, transfers were being unnecessarily stopped, or members were making avoidable calls to **MoneyHelper**. Overall, this was leading to greater frustration for both members and trustees.

The **DWP** has committed to working with the pensions industry to consider changing the wording if this may improve the transfer experience; however, the timescales for this are still unclear. We hope changes to resolve these issues will be forthcoming, and XPS are involved in the discussions to review this process.

In the meantime, the **DWP** and **The Pensions Regulator (TPR)** have jointly flagged that in some cases – where due diligence satisfies trustees that the transfer presents a low risk – they may allow the transfer on a discretionary basis. Trustees will need to be sure they are comfortable with the level of risk of such transfers, and the potential implications if the transfer did turn out to be a scam.


What trustees can do to ensure a smooth and timely process:

1. **Communicate with members regularly** to explain the transfer process and warning signs to look out for.

It is **important that members complete their forms accurately and promptly**. Trustees can help to highlight their crucial role in the process. This should give sufficient, clear detail of any required information from the member as well as the necessary timescales.

Trustees should consider using **all methods of communication available** to engage with different demographics of their membership.

2. Where a trustee decision is required, **trustees should agree standard processes with administrators** to ensure referrals can be acted upon quickly.
3. Where **trustee signatures are necessary to disinvest monies or make payments**, make sure that signatory lists and signing levels are up to date and consider the use of eSignatures to avoid delays.



Pensions scams are prevalent and pose a huge risk to members' benefits. It is vitally important that trustees and their administration providers carry out a rigorous process to ensure that members are protected.

Neil Bradford – Head of Client Management, XPS Administration

Summary

To avoid members falling victim to pension scams, a full due diligence process is essential, as well as clear communications with members about their role in protecting themselves. The overall experience is therefore key to ensure members get what they need from their pensions.

At XPS Administration, **we put members at the heart of everything we do.** We help members make the right decisions with member-friendly communications and wider education – and this includes helping them to protect their benefits. Educating members on the transfer process and all the steps that are carried out to protect their benefits is crucial to ensure a great experience.

About us

XPS Pensions Group is a leading independent pension consulting and administration business focussed on UK pension schemes. XPS combines expertise, insight and technology to address the needs of over 1,500 pension schemes and their sponsoring employers on an ongoing and project basis. We undertake pensions administration for over one million members and provide advisory services to schemes and corporate sponsors in respect of schemes of all sizes, including 81 with assets over £1bn.

For further information, please get in touch with **Neil Bradford** or speak to your usual XPS Administration contact.



 0203 994 4914

 neil.bradford@
xpsgroup.com

 @xpsgroup

 xpspensionsgroup



© XPS Pensions Group 2023. XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 03842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. XPS Pensions (Trigon) Limited, Registered No. 12085392. Penfida Limited, Registered No. 08020393. All registered at: Phoenix House, 1 Station Hill, Reading RG1 1NB.

XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

This communication is based on our understanding of the position as at the date shown. It should not be relied upon for detailed advice or taken as an authoritative statement of the law.