



Pensions Audit Sub Committee

2.00pm, Tuesday, 27 September 2022

Fraud Prevention

1. Recommendations

The Pensions Audit Sub Committee (Committee) is requested to:

- 1.1 Note the report and highlight any points it would like to raise at the Pensions Committee.

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Fraud Prevention

2. Executive Summary

- 2.1 The purpose of this report is to enable the Committee to review and scrutinise the work undertaken by Lothian Pension Fund (LPF) to prevent fraud. The report provides details of participation in fraud prevention initiatives as an integral part of the control environment and the overall management of risk.

3. Background

- 3.1 An annual update on fraud prevention is reported to Committee to ensure appropriate oversight of this area.

4. Main Report

- 4.1 The pension administration team delivers services to members using a browser-based pensions software system. The software stores and controls all aspects of the membership database, document management and benefit calculations. Access is restricted to authorised individuals by user identification and password protection. In addition, LPF's compliance policy includes the restriction that members of staff should not be involved in the computation or checking of benefits payable to a member who is connected person.
- 4.2 The operation of internal controls also gives comfort that the risk of fraud is mitigated or minimised. Procedural controls include:
- if any beneficiary of a lump sum death grant is a minor (under age 16), and their share is over £5,000, the payment must be referred to the Accountant of Court. If their share is under £5,000 their parent or guardian must set up a Trust Fund. The parent or guardian must also evidence that they are capable and have the appropriate capacity to act in the best interests of the minor; and
 - authorisation of payments in line with the LPF's delegations.
- 4.3 LPF processes one-off payments to members and nominated third parties, such as solicitors and dependents. Controls ensure that payments are made to authorised recipients only and that all payments are authorised in line with the Fund's scheme of delegation and sub-delegations. All member movements (for example active member to pensioner member status) are reconciled against financial transactions monthly.

- 4.4 LPF carries out bank validation checks on all new pensioners, when a change to a pensioner's bank account is received, before a lump sum death grant is paid to a beneficiary and before a refund of pension contributions is paid to an early leaver. This is augmented by the Royal Bank of Scotland's introduction of Confirmation of Payee (CoP), a name-checking service that checks the name of the account holder along with the sort code, account number and account type. Whilst this service is available for the Fund's payments made through "Bankline", these being "immediate" bank transfers made to new pensioners, it does not yet cover the monthly pensioner payroll which is made through BACS (Bankers' Automated Clearing Services).
- 4.5 Pensioner existence is one of the biggest fraud risks.
- 4.6 The National Fraud Initiative (NFI) is a well-established data matching exercise, led by Audit Scotland, which is carried out every two years. It is designed to help organisations identify causes of fraud and detect and correct any consequential overpayments from the public purse. The matching exercises undertaken include a comparison of public sector records to death records and other pension related outcomes, for example, when retirees have returned to work but not reported circumstances that require their pension to be reduced. Costs are met through the annual audit fee. The NFI 2020/21 identified 14 deferred and 14 pensioner members who had not previously been reported as deceased. The link to the 2020/21 report is: https://www.audit-scotland.gov.uk/uploads/docs/report/2022/nr_220818_national_fraud_initiative.pdf
- 4.7 To supplement NFI exercises, LPF submits its pensioner members to a mortality tracing service which identifies and report deaths throughout the year on a monthly basis. Pensioner data is resubmitted every year to ensure the screenings are up to date. LPF has also began mortality screening checks for deferred members.
- 4.8 The Local Government Association (LGA) on behalf of all Local Government Pension Scheme (LGPS) across the UK holds a central database, known as the "National Insurance (NI) database". Should a match between an NI number on the LGPS NI database occur the relevant LGPS Fund is notified that data relating to a death of one of their members is available for it to access. From 1 September 2021 -31 August 2022, 573 death notifications have been received through this service.
- 4.9 The LGA NI database is also used to prevent duplicate payments of death grants and to prevent payments of Cash Equivalent Transfer Values (CETV) and Refund of Contributions, should the member have membership in another Scottish local government fund.

- 4.10 An existence check designed to cover pensioners living overseas who have their pension paid to a UK bank account is carried out on a yearly basis in partnership with Western Union and its network of agents. The 2022 exercise was completed in February 2022 with no pensions suspended. There were 219 overseas pensioners with an UK bank account who had to verify that they were alive by means of a face-to face meeting at which they must produce a valid form of identification, such as a passport or driving licence.
- 4.11 Each year, in July, LPF normally carried out an overseas pensioner existence check in partnership with Western Union and its network of agents. There are 200 overseas pensioners with an overseas bank account who up until last year had to verify that they are alive by means of a face-to face meeting at which they must produce a valid form of identification, such as a passport or driving licence. Following COVID-19, earlier this year we successfully trialled a new existence check on 30 overseas pensioners. The new provider, Crown Agents Bank enables overseas pensioners to carry out proof of life verification from home using their laptop, tablet, or smartphone by taking a picture of themselves and a picture of their photographic ID showing their name and date of birth. Their system then carries out facial recognition on the two pictures to verify that they match. The trial was successful and an existence check for all overseas pensioners (UK and overseas bank accounts) will be carried out in October 2022.
- 4.12 LPF continues to exercise its discretion and carry out rigorous due diligence (where required), as to whether to approve transfers to prevent pensions liberation scams. Our transfer out procedure has been reviewed and updated to comply with The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021. This gives pension schemes more power to delay or stop transfers where there is suspicion of fraud/scams. Over the period 1 September 2021– 31 August 2022, Lothian Pension Fund received 102 transfer requests to a Defined Contribution Scheme. LPF has signed up to The Pensions Regulator’s Transfer Pledge and all relevant staff members receive training to ensure the standards and due diligence are carried out at both the initial quotation and payment stages of transfer cases.
- 4.13 LPF also includes information about the possibility of pension liberation scams on our main web page, in all transfer out and retirement packs and through its annual newsletters to alert active and deferred members to the issue and provide links to further information on the subject. We will also be adding this information to deferred member notifications.

5. Financial impact

- 5.1 Expenditure on fraud prevention measures is met from within the pensions administration budget of the Fund.

6. Stakeholder/Regulatory Impact

- 6.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the funds and they are invited to comment on the relevant matters at Committee meetings.
- 6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

- 7.1 None.

8. Appendices

None.