



QROPS – an AUM driver

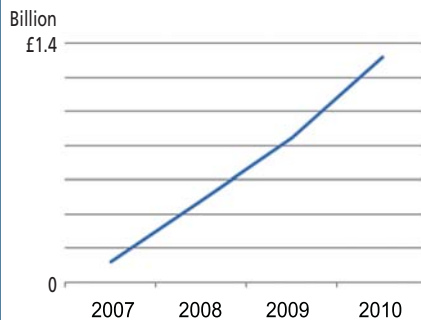
By Roger Berry FCCA, Managing Director,
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Guernsey is a leading jurisdiction for the provision of **Qualifying Recognised Overseas Pension Schemes (QROPS)**. These are overseas pension schemes that meet certain criteria required by Her Majesty's Revenue and Customs (HMRC). If the scheme meets the specified criteria, people with accrued UK pension scheme benefits may transfer into the overseas pension without incurring taxes and charges.

It is effectively a passport system for those leaving or having left the UK to transfer their UK pensions overseas. Given that the use of QROPS allows people who are non-UK resident for more than five complete UK tax years to avoid the death benefits charge and in many cases be exempt from inheritance tax – both significant taxes on death – the demand for QROPS is growing fast.

Add to this the fact that many QROPS providers offer open architecture products where the underlying investment strategy is left open, a real opportunity exists for those looking to gain assets under management (AUM).

Value of UK Pensions Funds Transferred into QROPS: 2007 - 2010



Total value of Funds Transferred Between 2007-2010

(Source: HM Revenue & Customs; obtained under the Freedom of Information Act, June 2011)

The market

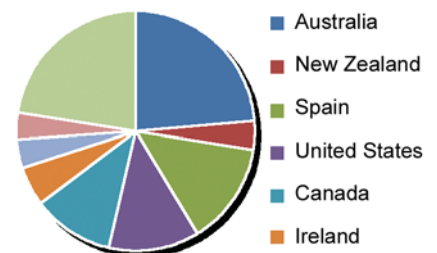
QROPS first arose in April 2006 and as such, they are a relatively new concept. Nevertheless, official HMRC statistics show that the trend in QROPS is very much upward in both the number of QROPS transfers and the assets being transferred. With total assets transferred to date in excess of GBP1.3 billion and growing, it is not an insignificant market.

Guernsey is a preferred jurisdiction for QROPS business. HMRC figures obtained under the Freedom of Information Act show Guernsey, New Zealand and Australia to be the top three QROPS jurisdictions, as demonstrated in the chart.

If you take into account the considerable number of QROPS transfers that occur into New Zealand and Australia due to the large number of expatriates choosing to reside there, it becomes clear that Guernsey is dominant in the "3rd country" QROPS market, i.e. people choosing a jurisdiction for their accrued pension benefits that is:

- not the UK;
- not where they are going to reside;
- a third party jurisdiction chosen for its safety and security.

Top Destinations for British Expatriates



(Source: BBC News; 'Brits Abroad' 2006)

Why is Guernsey so dominant in the QROPS market?

The very early days of QROPS centred around a very small number of schemes, usually occupationally based, with the intrinsic difficulty of demonstrating how clients ended up as members of an occupational scheme, but in reality performed no duties or services representing employment. The classic QROPS case on this matter is *Dunne v Revenue & Customs 2007*.

The innovation of personal pension group QROPS came about in late 2006 and early 2007 and the Aurora QROPS was the first such plan and became the template for most QROPS that followed. A proactive Guernsey Tax Office forged discussions with HMRC in 2008 and this approach has set Guernsey apart from all other jurisdictions since. Guernsey was also the first to create an industry QROPS group and first to look at Codes of Practice to harmonise standards of QROPS providers in the Island.

The Codes are voluntary but adopted by a significant part of the Guernsey QROPS industry.¹

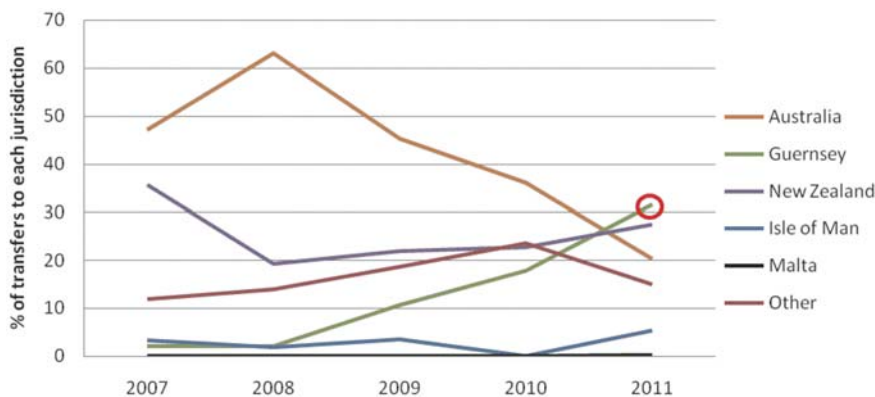
The combination of a proactive tax office and a proactive industry has left Guernsey widely recognised as the most prudent, mature and secure jurisdiction for QROPS.

Safety and security are the hard currency of QROPS, to get it wrong in QROPS can be disastrous. Since 2006, there have been difficulties with some schemes and even jurisdictions. Loss of QROPS "approval" from HMRC can have significant and detrimental effects on scheme members with the potential to retrospectively expose clients to 55% unauthorised transfer charges.

Guernsey – a mature finance centre

Guernsey has fared very well in the recent financial turmoil. Its most

Market Overview by Jurisdiction of the percentage of QROPS transfers received (2007 – 2011)



(Source: HM Revenue & Customs; obtained under the Freedom of Information Act, June 2011)

direct competitors are the other Crown Dependencies of Jersey and the Isle of Man. The graph below provides a comparison of Guernsey and the Crown Dependencies of Jersey and the Isle of Man for fund values held within the islands.

In 2010, the International Monetary Fund completed a review under their Financial Stability Assessment Programme of Guernsey's regulatory framework and reported in January 2011 that:

"The ratings that have been achieved by Guernsey are the highest awarded to any jurisdiction...this rating is the highest achieved by any jurisdiction to date."

Guernsey has a diverse, transparent and mature industry. It boasts the Channel Islands Stock Exchange, the largest private equity fund administration centre in the world and Europe's largest captive insurance market.

The finance industry employs over 7,000 people, has approximately GBP140 billion in banking deposits, GBP265 billion in funds under administration and in aggregate over USD1 trillion of total assets under management.

Guernsey has no government debt, reserves of 30% of GDP and is triple A rated by rating agencies. In recent years, the jurisdiction has received reviews by various entities

including the IMF, the OECD, the EU and the UK government. They have concluded that Guernsey is a stable, respected, well regulated and sustainable international financial centre.

The business case for QROPS

QROPS is a strong developing industry. For investment managers, a review of existing clients will uncover clients living abroad. Client meetings and interviews should include questions about expatriate intentions. Relationship managers should be aware of QROPS and recognise that being able to open a discussion on the subject may well mean they either maintain pension assets currently managed under UK registered schemes that might otherwise disappear elsewhere, or indeed create new AUM.

Consider also transient workers, people working in the UK, subsequently returning to their country of origin. Whilst in the UK, they may accrue UK pension benefits which may benefit from a QROPS transfer.

Whilst care must be taken to ensure proper advice is taken, not least on the pension transfer and taxation issues, many QROPS providers do not provide investment advice and will be very happy to provide the QROPS wrapper and help with sourcing transfer and tax advice as required, leaving investment management an open goal.

END NOTES:

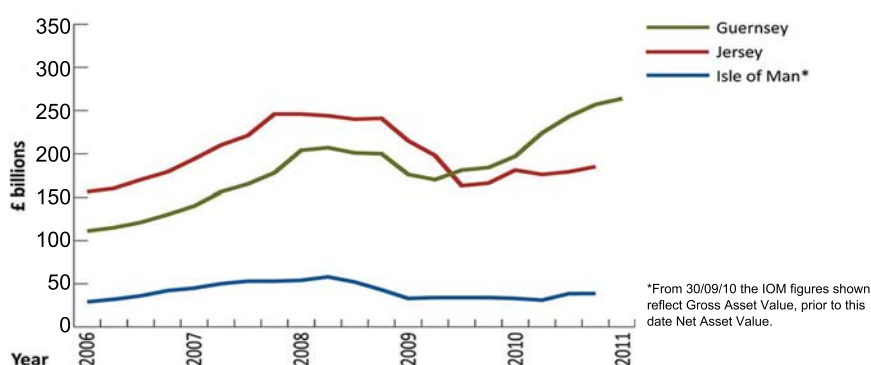
1. Further information can be found at www.GAPP.gg



Why Guernsey is a popular jurisdiction for pension schemes for the mobile client
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offshoreinvestment.com/archive

Crown Dependencies Fund Values



*From 30/09/10 the IOM figures shown reflect Gross Asset Value, prior to this date Net Asset Value.

(Source: Guernsey Financial Services Commission (GFSC) / Jersey Financial Services Commission (JFSC) / IOM FSC)