

words | Ian Le Estor



7 YEARS & 84 COLUMNS

Looking back at the Financial News

So, *The Gibraltar Magazine* has completed its twentieth year of continuous publication. Two decades would be an impressive achievement in almost any epoch but, given the digital tsunami that has swept over the publishing terrain in this particular era, it is most definitely something to celebrate. Especial thanks should go to the loyal advertisers and readers that have made this continuity possible.

For a little over a third of those 20 years, I have had the honour of penning the monthly finance column. My debut in these pages was in November 2008, when I was invited to try to explain a highly innovative new overseas pension scheme, which had been launched under a rather impenetrable acronym – QROPS. I'm delighted to say that we (QROPS and I that is) are both still around. I was asked back and have somehow managed to convince the editor every month since then that I had something useful to contribute.

Looking back over those seven years (equating to 84 columns and over 100,000 words) it is difficult to make sense of it all. Since my first column was launched on an unsuspecting Gibraltar public, we have experienced an economic maelstrom that pushed the global financial system to the very brink of collapse. We are still dealing with the consequences and it is my fervent hope that we will not witness anything similar during our lifetimes.

Economic history is of course littered with crises, from the South Sea Bubble to the Dot-com Bubble. Arguably the first was in Holland when tulip bulb contract prices collapsed in February 1637 bringing tulip mania to an abrupt and painful end. And as economics became more global, so the crises became more spectacular. The big one was of course the Wall Street Crash of 1929 and the Great Depression that followed, but there have been many seismic shocks since then. I know. I was in the City of London during the 1987 stock market

crash (so-called "Black Monday")! So have the last seven years been any different?

To me, the answer is yes. The 2008 Global Financial Crisis affected everyone. Not just because of its scale but also because of the way the world had changed during the 1980s and 1990s. We, in the "west", had grown used to living on credit, some of it taken on irresponsibly but, and perhaps more importantly, a lot of it made available recklessly by the banks. When the world suddenly stopped turning after it was dragged down a black hole known as the US sub-prime property market (at least that is one theory), this whole edifice of debt came tumbling down.

The fallout continues to be felt by far too many people here, in Spain and elsewhere across Europe and beyond. The world did not collapse financially but it came perilously close. Massive monetary and fiscal stimulus may have prevented an all-out depression like the 1930s, but the recov-

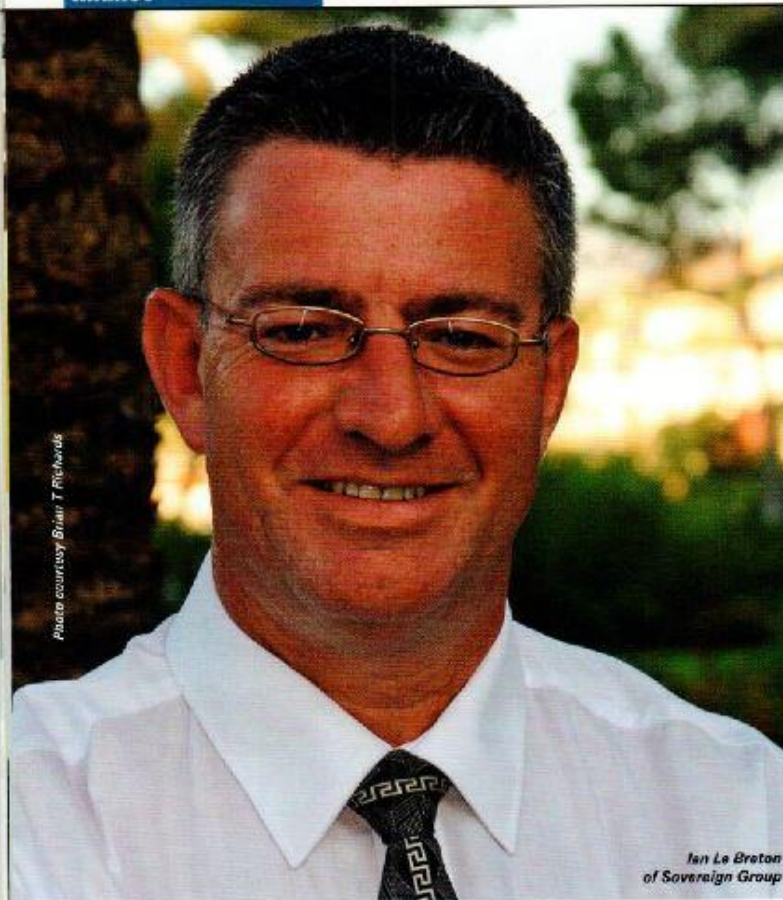


Photo courtesy Brian T Richards

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Annuity rates are at historic lows — exacerbated this year following the turmoil experienced in the international stock markets

vestment performance of underlying funds. The second negative aspect of annuities of course is that in the event of the death of the pension holder, any remaining value in the pension fund is lost for all time.

Under UK legislation introduced in 2004, effective from April 2006, expatriates or UK residents who have a demonstrable intention to move overseas may transfer the value of their UK pension rights to a non-UK pension scheme. In doing this, it is possible to avoid most of the normal restrictions imposed on the pension fund if it remained in the UK. The transfer must be made to a Qualifying Recognised Overseas Pension Scheme (QROPS for short) that is approved by HM Revenue & Customs (HMRC).

Such non-UK schemes may be established in many jurisdictions across the world. Amongst others, Gibraltar, Guernsey and Isle of Man are all considered suitable and of course as British territories, clients may rest assured that their affairs are being well looked after in any of these well regulated jurisdictions.

There are a number of basic conditions that must be fulfilled in order for a transfer to a non-UK pension scheme to be considered advisable. Cases should be examined on an individual basis but the basic rules are:

The pension holder must become non-resident of the UK and remain so for at least five complete UK tax years.

The administrator of the QROPS must report details of the transferred pension to HMRC for five years following the transfer.

The existing UK pension scheme can be in drawdown (i.e. benefit is being paid from the fund directly — an approach now referred to as “unsecured income”) before transferring to a QROPS. However, there are restrictions and if the permitted lump sum (nearly always 25% of the value of the pension rights) has been taken, no further lump sums are allowed.

UK rules impose a statutory lifetime allowance relating to the amount payable from UK registered pension schemes that will be treated as tax-privileged. For the tax year 2008/9 this allowance is £1.65m and will rise in stages to £1.8m by 2010/11. Transferring benefits to a QROPS is known as a crystallization event and the value of pension rights transferred in excess of the lifetime allowance will be taxed at the rate of 25%.

QROPS can be established so that the underlying investments are not subject to tax.

With careful on-going planning, the pension fund can be continued until retirement date on a tax free basis. As mentioned above, the other principal benefit in transferring a UK Pension to

Debunking the Myths: QROPS

Anyone reading the international expatriate press in recent months may well have come across a curious five letter acronym — QROPS. What is it and why should it be considered by anyone who has left the UK for foreign climes? This article attempts to explain QROPS and perhaps along the way may debunk some of the myths and misleading information that has been published.

On moving abroad many British expatriates will have left their UK pension rights retained in their existing arrangements. These private pensions remain subject to UK pensions law. While there are different pension arrangements, many include the effective requirement to purchase an annuity at a later stage (and in any case no

later than attaining 75 years of age without the later prospect of huge tax charges otherwise). Additionally UK taxation may be suffered on pension payments. Annuity rates are at historic lows and of course this has been exacerbated this year following the turmoil experienced in the international stock markets, reducing the in-

ery has remained feeble compared with previous upturns and, as winter beckons in the northern hemisphere, every country seems to be on a different economic trajectory.

Throughout this time, I have attempted to remain upbeat in my monthly ramblings. These columns have in the main been focused on Gibraltar or have tried to link us into the bigger picture. Occasionally, I have drifted away from the Rock with columns dedicated to the financial aspects of other geographical areas. I have written on the emerging markets and particularly the opportunities to be found in the BRICS countries (Brazil, Russia, India, China and South Africa), which we hoped would drive forward global growth.

It is interesting to note though, as we enter the last quarter of 2015, that much of the excitement surrounding BRICS has evaporated. In its place is a more realistic assessment of those countries' prospects as they continue to face difficulties that have wide implications for the world at large. I remember with fondness my 2012 piece entitled "Taming the Lion", in which I pointed out that GDP in all African countries had been positive in the previous year; funnily enough that was the column that resulted in the most feedback from my "adoring" public!

It is true that here, in Gibraltar, we have been spared some of the worst effects of the crisis. We may count ourselves lucky (or prudent) but, as I have written on many occasions, we have by no means been spared totally. One of the main casualties on the local financial scene has been the reorganisation of our local banking sector. The loss of Barclays after so many years was a particular blow, not least for the large numbers of staff who had to find alternative employment. Other banks have left or downsized, although our impressive range of private banks continues to offer employment opportunities. The retail banking space has been buoyed by the establishment of Gibraltar International Bank, which recently opened in its impressive new Ince's House headquarters.



I was asked during a recent radio interview as to the most important changes I have seen in Gibraltar over the almost eleven years that I have lived here. The 20th anniversary edition of this magazine is probably a good place to repeat what I said. In my view, in addition to the more obvious physical changes we can see all around us, there have been a number of less visible developments that nevertheless exert a great deal of influence on all our lives.

When I arrived on that blustery day in November 2004, the airport was not exactly "state of the art"; there was no Ocean Village and a lot more besides. I imagine the next ten years will prove to be equally remarkable. The World Trade Center is now taking shape and the recently announced plans for the Blue Water development on the eastside are impressive.

Aside from infrastructural changes, much else has changed particularly relating to the financial services industry. The "off-shore" industry with which many of us here in Gibraltar are associated has been completely transformed. Indeed, hardly anyone would refer to this jurisdiction as "offshore" anymore – rather we prefer "international finance" or "specialist centre".

We continue to owe a duty of confidentiality to our clients, of course, but the various national and supranational bodies – the UK, the EU, the US, the FATF and the OECD – with which Gibraltar must (and should) cooperate has meant that transparency and exchange of information has now become the rule rather than the exception. Naturally, regulation continues to become more onerous and costly for us but, provided that the playing field is level, that need not be a negative issue. And if we continue to score well in respect of our

international compliance and regulatory reputation, then it should be a positive one.

I have written several times (including in my very first column) on the pensions industry and this is becoming ever more important locally. QROPS is still perhaps the best-known product but the sector is set fair for other developments over the next few years. There are also exciting opportunities in many other areas of the local financial services industry; the insurance and funds sectors are just two examples. As a major source of employment, together with tourism, shipping and Internet gaming, it is reassuring to think that local people will have plenty of choices to develop their skills in the years ahead.

No one can predict the future but, coming right up to date, this 20th anniversary edition comes soon after a change of ownership at the magazine. Readers will have noticed the changes already put in place. I wish the proprietors and staff of *The Gibraltar Magazine* well and I look forward to seeing this publication develop over the next 20 years – and beyond.

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