

Bandwagon

The BWCI Group Newsletter



BWCI

Quarter 1 - 2012

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Victoria College- Senior Maths
Team Challenge Champions



2012 BWCI Bursary



The BWCI Group has been supporting local undergraduate students since 2007 through its bursary scheme and we are delighted to be able to announce the launch of our 2012 bursary. We will be looking for students who are predicted to achieve good A level grades in three subjects, including an A at A level maths.

As well as financial assistance, the successful applicant will participate in BWCI's comprehensive training programme for two months each summer, for the duration of their degree course to give students a good understanding of the range of work we do.

Further details of the bursary and an application form are available from our website www.bwcigroup.com/bursary or from our HR manager, Ali Hawkins ahawkins@bwcigroup.com.



2011 Bursary Winner
Anthony Shilito

Best Business Awards



BWCI has been sponsoring the Best Medium Business Award for six years. This award is for companies employing between 8 and 30 full time personnel.

The winners of the Guernsey 2011 Awards for Achievement will be announced on 9 February at a gala dinner. This year the guest speaker will be internationally acknowledged architect, Robert Adam.

Shortlisted for the
2011 BWCI Medium Business Award

Aztec Group
CCD Architects
Clydesdale Bank Limited

Actuarial Exams Success



Matt Stanbury

We are delighted to announce that Matt Stanbury has just completed the 15 actuarial exams required for the class of Fellow of the Institute and Faculty of Actuaries.

Originally from the UK, Matt moved to Guernsey in 2003 having graduated from the University of Bath with a BA in Modern Languages and European Studies. Matt joined the BWCI Group in 2005 as an actuarial trainee within the pensions team.

Matt is pleased to have completed his studies and is very much looking forward to spending his weekends with his family rather than studying!

He is also keen to focus more on his career with BWCI and develop within his role in the pensions team. Matt is also taking over as Study Coordinator from one of BWCI's other actuaries, senior manager, Carl Stanford.

Carl said "*Matt's success in completing the actuarial exams reflects the hard work and commitment that he has shown to his studies over the last 6 years. In his new role as Student Coordinator, he will now provide support and encouragement to BWCI's 11 actuarial trainees, through our structured study and tutorial arrangements. He will also be liaising with schools to promote career opportunities available within the actuarial profession in Guernsey.*"

QROPS Update



“Guernsey and the Isle of Man are actively reviewing their QROPS regimes to ensure that they remain compliant”
Debra Smith



QROPS (Qualifying Recognised Overseas Pension Schemes) were introduced from 6 April 2006 as part of the reform of the UK's pension taxation regime. QROPS allow individuals who have left the UK to transfer their pension savings abroad. The overseas scheme does not need to be established in the same country that the individual has relocated to and English speaking jurisdictions, in particular Guernsey, the Isle of Man and New Zealand, have become popular QROPS destinations.

Funds transferred to QROPS arrangements have previously received UK tax relief and HMRC therefore monitors QROPS to prevent misuse of the regime. A recent HMRC review has produced some unexpected proposals for change to the QROPS requirements. The proposals were set out in a consultation document issued on 6 December 2011. It includes drafts of the proposed legislation, guidance and reporting forms. The changes are due to come into force on 6 April 2012. HMRC's aims are for better compliance and to deter misuse of the QROPS regime.

The headline changes are a revision of the conditions that a scheme has to meet to be a QROPS, together with a strengthening of the information and reporting requirements.

Changes to Overseas Pension Scheme Definition

Currently, if there is no system for a country's tax office to approve pension schemes, an overseas scheme must meet HMRC's benefit restrictions. These require that at least 70% of the fund is used to provide pension income and benefits are not taken before age 55 (unless in ill health). Under the proposals, these restrictions will be replaced by a new requirement for all schemes. However, the benefit restrictions will still need to be met by many schemes because they appear more than once in the route to achieving QROPS status.

The new requirement is that where a tax exemption is afforded to members not resident in the country of the QROPS, that same tax exemption must be available to members who are resident in the QROPS country.

This is a significant change and will adversely impact jurisdictions like Guernsey and the Isle of Man where individuals are taxed on the basis of their residency. For example, individuals resident in Guernsey are taxed on their worldwide income in Guernsey. Individuals not resident in Guernsey are not normally taxed on their Guernsey source income, but are liable to tax on such income in accordance with the laws and practices of their own country of residence. This "effective taxation" approach would not be permitted if the new QROPS regime is implemented.

Changes to Recognised Overseas Pension Scheme Definition

It is proposed that the Recognised Overseas Pension Scheme (ROPS) definition be amended explicitly for New Zealand schemes. To date, New Zealand schemes have been able to achieve QROPS status without meeting the benefit restrictions. Going forward, New Zealand schemes would need to meet the benefit restrictions (or be a KiwiSaver scheme for local residents) in order to be a ROPS and hence a QROPS. This would end the 100% commutation that has previously been allowed in New Zealand third country QROPS.

Increased Reporting Requirements

HMRC are proposing a strengthening of the reporting requirements by:

- Increasing the length of the reporting period to the later of:
 - Five complete tax years of non UK tax residency (as currently); and
 - Ten years from the date the transfer was made from the UK
- Reducing the time QROPS managers have to report payments to members, from up to 22 months to just 60 days, following the date the payment was made.

Some other reporting obligations of both QROPS managers and of UK pension providers have also been strengthened.

New Member Declaration

Under the proposed changes, potential QROPS members will need to sign a declaration confirming that they understand that:

- The transfer could give rise to a UK tax liability if the receiving scheme does not meet the QROPS requirements
- Future payments from the QROPS could potentially give rise to a UK tax liability

The Future

The consultation period ends on 31 January 2012 and we await HMRC's reaction to the consultation responses. However, the short consultation period and the very detailed draft documentation already provided could be a sign that HMRC may be unwilling to make major changes to their proposals. As a result, both Guernsey and the Isle of Man are actively reviewing their QROPS regimes to ensure that they remain compliant if the proposals proceed.

We will report further progress in the next issue of Bandwagon.

Changes at a glance

- Definition of Overseas Pension Scheme
- Definition of Recognised Overseas Pension Scheme
- Increased reporting requirements
- New member declaration

Addressing compensation culture



“These changes will result in a fairer split of cost between parties”

David Peel

The phrase “compensation culture” has intrinsically negative connotations. It conjures up stories of spurious claims made by individuals possibly trying their luck or attempting to exploit a weak system. Personal injury claims are largely responsible for “compensation culture”, with numerous reports of bizarre claims. While at first glance these cases may be amusing, they have gradually been driving up claims costs and we take a look at the steps being taken to try to reverse this trend.

US Claims

The legal system in the US is often blamed for the escalating compensation claims in the UK. Indeed, over the years, there have been some very strange personal injury claims in the US, some of them even resulting in substantial damages being awarded. However, blaming the US for the compensation culture in the UK may not be entirely fair!

Examples of US Claims

An overweight boy sued a well-known fast food restaurant because they did not warn him that eating excessive amounts of burgers would damage his health.

A man put his camper van on cruise control at 70mph so he could make a cup of coffee in the kitchen area of the vehicle. Not surprisingly, it careered off the road and he sued the manufacturers because they did not tell him that it would not steer itself around bends!

UK Claims

Studies show that there have been some equally bizarre claims in the UK, dating back to the late 1860s. Insurer Aviva found examples of completely self-inflicted incidents and blatantly frivolous claims earning payouts worth thousands of pounds in today’s money. Here are some examples:

- An innkeeper from Birmingham accidentally took a poisonous potion after mistaking it for a sleeping medicine - £1,000 paid in 1878 (modern equivalent: £48,310).
- A merchant from Glasgow was injured while jumping out of bed to catch his wife who had fainted - £42 paid in 1895 (modern equivalent: £2,575).

Perhaps these very old claims, made by the British public, show that UK compensation culture is nothing new?

ABI Report

A report from the Association of British Insurers (“ABI”) highlighted some key causes of increased claims costs.

Causes of increased claims costs in the UK

- claims management firms who aggressively promote claims opportunities
- ease of making fraudulent or exaggerated whiplash claims
- excessive legal costs
- lack of incentives for claimants to manage costs
- selling of personal information relating to potential claimants (referral fees)

Government Action

In an attempt to tackle rising insurance costs and curb the compensation culture, the UK Government announced in September 2011 its intention to ban referral fees in personal injury cases. Referral fees are surprisingly significant – one firm admitted that they amounted to 6% of their annual profits.

The Government’s proposals focus on stopping unsuccessful defendants having to pay a “success fee” to reimburse the claimant’s lawyer for other unconnected “lost” cases. The Government is proposing changing the law so that, in future, the claimant will have to pay the success fee, rather than the defendant. In addition, fees will be capped.

It is hoped that these changes will result in a fairer split of costs between parties, as well as lower legal costs overall which means lower costs to pass on to customers.

On a cautionary note, claims management companies have developed into substantial commercial entities. Therefore, the drafting of any law will be carefully scrutinised for any loopholes that will enable their businesses to continue.

It is also worth noting that the ban on referral fees will only address some of the issues identified by the ABI. For example, problems such as the growth in fraudulent or exaggerated whiplash injuries will not be affected.

So will this Government action help to curb the compensation culture in the UK? Only time will tell.

Example of a referral fee

You have an accident and your insurer refers you to a claims management firm (your insurer is paid a fee for the referral).

The lawyer sues for compensation. If he wins, he can cover his costs and his own “no win, no fee” mark-up on his costs from the losing defendant. This will cover the amount he paid out as a referral fee.

To cover the costs of paying the claim, losing insurance companies are forced to raise premiums.

Good Governance



“Good governance is good business”
Carl Hansen

Employee Benefit Plan Governance

Good governance is central to the effective management of all types of employee benefit plan and is being seen as increasingly important by sponsoring employers, plan members and local regulators. Governance defines the roles and powers of those responsible for plan management. An effective governing board leads to effective governance and an ongoing cycle of continuous improvement. In short, good governance is good business.

This article looks at what is considered good governance for the complete range of plan management activities.

Formulating Strategy and Policy

Those responsible for employee benefit plans should prepare a board strategy together with the terms of reference of board committees and management, in order to ensure that appropriate and effective governance structures are in place. Management boards should also have a business plan and a budget.

Identifying and Managing Risk

Plans are subject to a range of risks, some of which can be mitigated while others need to be recognised and managed. A Risk Register can assist with all aspects of risk management. Once risks have been identified and measured, risk mitigation should be considered. For example, DB plans are increasingly using asset liability modelling to understand and manage their investment risks.



Accountability and Compliance

Compliance with local laws and regulations is essential and may well need to be supplemented by compliance with governance standards set globally by parent corporate boards. Increasingly, identifying and managing potential conflicts of interest is recognised as a governance issue.

Asset Management

Funded employee benefit plans need an investment strategy as a guide for the investment managers. The strategy will also be important when selecting managers. Following selection, manager performance should be measured regularly against the underlying investment strategy.

Knowledge, Skills and Training

Employee benefit plan staff and trustees should make a commitment to improving their overall knowledge and skills through participation in regular training.

Funding and Accounting

The funding position of a DB plan needs to be monitored regularly so actuaries and accountants will need to be engaged to provide financial information for the plan.

Communication and Education

A strategy for communicating with plan members and the specific communication materials and methods used will take on much greater importance for defined contribution pension plan members, who need to understand their investment choices within the plan.

Information and Advice

It is important to establish a process to monitor developments in employee benefits continually and also to be aware when it is necessary to seek out specialist advice.

Monitoring Administration

Engaging the right staff and advisors is key to an effective employee benefits management operation. In addition, once selected, services should be monitored on an ongoing basis.

Effective Boards and Decision Making

Boards should assess and continually improve individual trustee skills to increase effectiveness. Decision making is aided by high quality minutes and secretariat services.



Updated Ogden Tables



“This could increase damage awards in personal injury claims significantly”

Stacey Wilen

In October 2011 the UK Government Actuary's Department published the 7th Edition of the Ogden Tables for use in the calculation of lump sum damages in UK personal injury and fatal accident cases.

These latest tables reflect improving life expectancies and also incorporate negative discount rates for the first time since the tables were originally published back in 1984. The notes to the tables highlight developments in Guernsey as a key reason for including these negative rates and, in particular, reference is made to the Guernsey Court of Appeal judgement in *Helmot v Simon* in September 2010.

Background to *Helmot v Simon*

In the Quarter 4 2010 issue of *Bandwagon* we looked at the impact of *Helmot v Simon*. This Guernsey case made national headlines due to the £14 million record damages awarded. This was higher than the largest successful claim in the UK at that time. A key reason for the substantial award was the negative discount rate that had been used to calculate the damages.

Choice of Discount Rate

What discount rate should be used is an important decision when applying the Ogden Tables. For cases in England and Wales the discount rate is currently set by the Lord Chancellor at 2.5% pa.

The Guernsey Court of Appeal judgement in *Helmot v Simon* ruled that a discount rate of -1.5% pa should be used for losses linked to Guernsey earnings inflation for that particular case. The Court of Appeal also set out key principles to be applied in determining the discount rate for subsequent Guernsey personal injury claims, which are likely to result in the widespread adoption of negative discount rates. The case is also expected to have implications for damages cases in Jersey.

The latest edition of the Ogden Tables includes multipliers at discount rates ranging from -2% to 3% and are 2% lower than those in the previous edition, which ranged from 0% to 5%.



Key features of new tables

- Negative discount rates included
- Updated life expectancy
- Further update due autumn 2012

Increase in Life Expectancy

The tables have also been revised to reflect updated mortality rates. The result is an increase in life expectancies which, in turn, has increased the multipliers.

For example, life expectancies at birth for both males and females have increased by over 2 years since the previous (sixth) edition.

	Future Life Expectancy at birth	
	6th Edition years	7th Edition years
Males	86.63	88.96
Females	90.15	92.57

What does this mean for claims?

The combined impact of lower discount rates and higher life expectancies has increased the multipliers to be used in cases in which the *Helmot v Simon* principles are applied. This could increase damage awards in personal injury claims significantly and could ultimately result in higher motor and public liability insurance premiums where such claims might arise.

Future Developments

The Lord Chancellor has agreed to review the discount rate of 2.5% pa in the UK, although it is not known when his decision will be published.

We expect that the eighth edition of the Ogden Tables will be published in autumn 2012. This is likely to reflect further updates in mortality rates.

Further Information

If you would like advice about the application of the Ogden Tables in the Channel Islands, please contact ogdentables@bwcigroup.com

Transfer Analysis Reports



“Without proper analysis, the value of the pension can be underestimated”

Michelle Galpin

The requirement for a transfer analysis report in relation to a potential transfer from a Guernsey defined benefit (DB) scheme to a Retirement Annuity Trust Scheme (RATS) has been in place for over a year now.

Introduced in response to concerns that historically some transfers might not have been in the best interests of the individual, we are now seeing a steady flow of requests for these reports.

Transfer analysis reports are designed to help potential transferees and trustees of the RATS to appreciate fully the value of the benefits being given up in the DB scheme. The reports also show the rate of return needed to be achieved on the funds transferred to a RATS, in order to replicate the DB benefit.

The first stage of preparing a report is a detailed analysis the DB benefits. This is important because there can be significant differences between the value of benefits provided by different schemes. Indeed, even within a single pension scheme, different members may be entitled to different levels of benefits. This situation might arise due to the timing of the introduction of any historical changes.

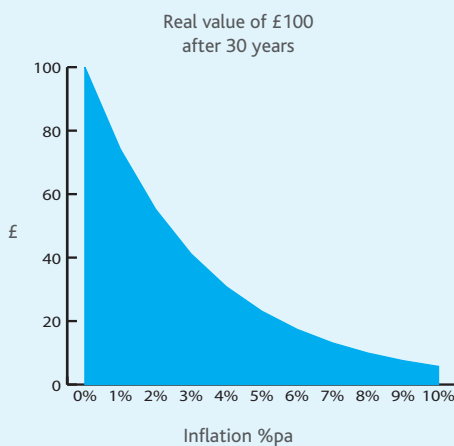
How a pension increases in future is a key driver in how much the pension is “worth”. In some cases the increases may not be straight-forward. For example, it is not uncommon for different tranches of pension to increase at different rates. Without proper analysis, the value of the pension can be underestimated.

The following example shows how inflation can erode the purchasing power (or “real” value) of a fixed pension.

A male retiring at age 60, in good health, can expect to live on average to around age 90. The graph illustrates how the “real” value of a fixed pension of £100 per week is eroded by inflation. If average inflation over the next 30 years is 3% pa then £100 per week of pension today would only be worth just over £41 per week, in real terms, in 30 years’ time.

Even if average inflation were at a lower level of 2% pa then the value of £100 per week would almost halve to £55 per week.

For details of BWC’s transfer analysis service please contact:
Michelle Galpin (mgalpin@bwcgroup.com) or
John Martin (jmartin@bwcgroup.com).



Watch out for annual allowance changes!



“Trustees need to obtain and record additional information”

Carl Stanford

UK pension schemes must send members a “Pension Savings Statement” where the increase in a member’s pension benefits (“pension input amount”) for the year (“pension input period”) exceeds the Annual Allowance (“AA”). This new annual requirement came into force for pension input periods ending in the tax year 2011/12.

Trustees must carry out this AA check for each member, based on the member’s aggregate pension input across all arrangements under the registered pension scheme. In practice, this means trustees need to obtain and record additional information in order to be able to carry out these aggregate tests.

Whilst in the past very few members were likely to exceed the AA, the substantial reduction in the AA from £255,000 to £50,000, combined with the increase in the flat rate valuation factor for defined benefit (DB) pension accrual from 10 to 16, means it is much more likely that scheme members will breach the AA.

A member of a DB scheme need now only receive an increase in their benefits of £3,125pa in excess of the increase in the Consumer Prices Index, to trigger the new disclosure requirements. In addition, members may now also breach the AA in the final year before receiving benefits. This is because the exemption from testing against the AA in these circumstances, other than on death in service or severe ill health, has been removed. Consequently, the disclosure requirements are now more likely to be triggered.

Trustees have until six months after the end of the tax year (or three months from the date of a member request, if later), to issue affected members with a statement. However, under transitional arrangements for the 2011/12 tax year, schemes will be given an additional 12 months to issue them.

Senior Maths Team Challenge



Victoria College - Channel Islands Champions

On a sunny day at the end of November 2011 32 sixth form students from Channel Island schools and colleges grappled with a variety of mathematical brain teasers in the Channel Islands regional final of the UK Mathematics Trust Senior Team Maths Challenge.

As well as the ability to analyse and solve a range of problems, the winning team from Jersey's Victoria College demonstrated their excellent communication skills to work so effectively together as a team. In addition to being crowned Channel Island Champions, Victoria College also won the BWCI Trophy. 2010 winners, the Guernsey Grammar School, were narrowly beaten into second place, while Jersey College for Girls finished in third place.

BWCI has been sponsoring both the junior and senior Maths Team Challenges since 2008. We think it is really important to support the maths challenge as it is a great way for the students to develop their practical problem solving skills, as well as working as part of a team.

Victoria College will now go on to represent the Channel Islands in the national finals of the competition in London on 1st February, where they will take on the top teams from across the British Isles and we wish them the very best of luck.

The next event in the series will be the junior challenge which is due to take place in March in Jersey.

Promotion

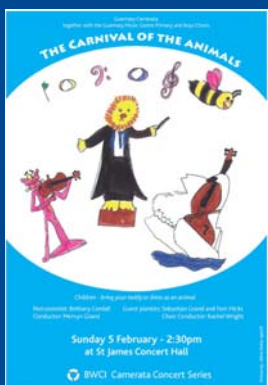


Andy Mountford

We are delighted to announce that Andy Mountford has been promoted to Manager within our pensions actuarial team. Andy joined BWCI in 2004 after graduating from Loughborough University with a 1st class Masters Degree in mathematics.

Andy is part of the team advising a wide range of local pension clients. In addition, Andy specialises in developing BWCI's in house actuarial software and is deputy chair of BWCI's actuarial modelling group.

BWCI Camerata Concert



The Guernsey Camerata's popular family concert features some of Guernsey's most talented young musicians this year. The next concert as part of the BWCI Camerata Concert Series is "Carnival of the Animals" and will take place on Sunday 5 February at 2.30 pm at St James Concert and Assembly Hall.

This animal themed concert promises plenty of audience participants as we meet the different animals. Children are encouraged to come dressed as their favourite animal. We are delighted to be able to welcome three local music students, currently studying music in the UK; pianists Sebastian Grand and Tom Hicks who will be joined by Beth Cordall on xylophone.

Readers are reminded that nothing stated in the newsletter should be treated as an authoritative statement of the law on any aspect, or in any specific case and action should not be taken as a result of the newsletter. We will be pleased to answer questions on its contents.

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