canada life

Brexit one year on:

how are offshore investment bonds shaping up?

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[Technical Eye]

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The tax efficiencies that can be achieved using offshore investment solutions are well known, but a year after Brexit there are questions around how different jurisdictions compare. Here we explain what Brexit means for offshore investment bond products, especially those offered by insurers based in Ireland.

The changes brought about by Brexit have affected how advisers manage and transact their business, but it hasn't changed the fundamentals. Creating plans to meet the client's needs and objectives together with delivering those plans using tax efficient products and services, still plays an important part in the advice process.

In fact, Canada Life's offshore business has continued to grow with more than £1.2 billion of new premiums flowing into the Canada Life International operations in Dublin and Isle of Man in the last year. However, with the UK leaving the EU, there have been changes in the market.

What does an offshore bond offer?

An offshore investment bond, with or without a trust, can play an important part in a client's plan because it:

- Can provide a regular flow of capital without creating an immediate income tax charge.
- Gives control over when income tax is due.
- In some circumstances gives control over how much income tax is due.
- Potentially enables the value of an investment to grow faster than a UK-based equivalent because of the tax-efficient way the underlying investments are treated.
- Works well with Discretionary Fund Managers (DFMs), third party platform and segregated portfolio services.
- Benefits from the simplification of trusts and trustee administration.
- Offers the opportunity to extend the investment beyond the life of the investor.
- Enables the free flow of movement from one fund to another without concerns around capital gains tax liabilities occurring, or bed and breakfast rules.
- Is VAT exempt when utilising either a DFM or segregated portfolio service (Ireland only).

Dublin-based providers question the market

The most obvious change is that Ireland remains within the EU and the UK does not. This has caused Dublin-based providers to review their own operating models and regulatory permissions to assess whether they can continue to serve new UK customers once the post-Brexit transitional arrangements end. For that reason it's best to check with offshore providers based in Ireland what their current and future position is in this market.

The good news is that Canada Life International will continue to offer our full range of Dublin-based products to advisers and their clients in the UK.

The impact on investor protection

The second notable change relates to investor protection for UK investors via offshore investment bonds. In the Isle of Man, offshore investment bonds continue to be covered by the **Isle of Man Policyholder Compensation Scheme**. But when it comes to Dublin- based business, Brexit means that the UK Financial Services Compensation Scheme (FSCS) cover is no longer available. So, should your clients be concerned about investing in an Irish offshore bond? The short answer is no, and let me explain why.

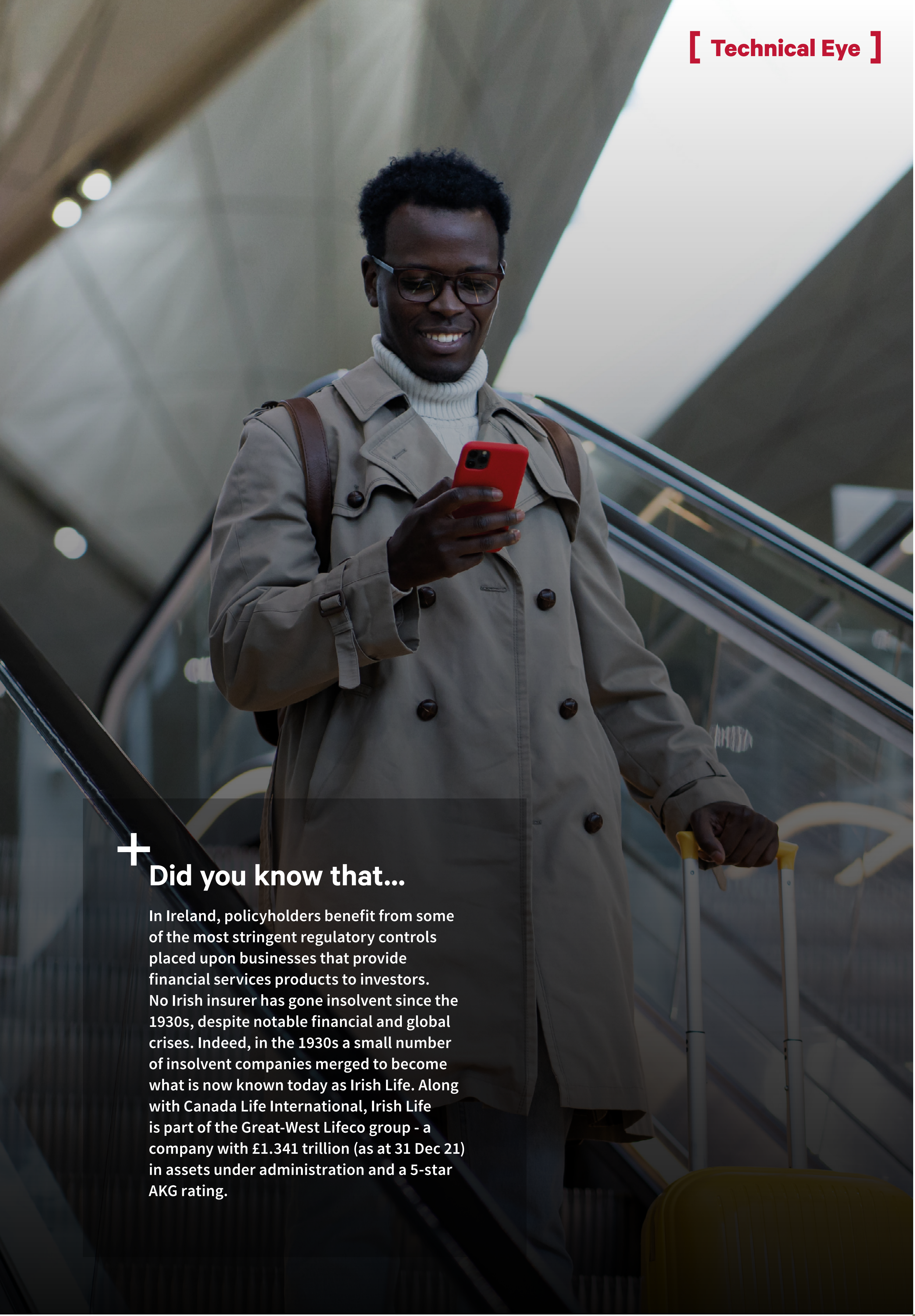
Although there is no formal insurance policyholder compensation scheme in Ireland there is a robust regulatory framework in place to protect **Canada Life International Assurance (Ireland) customers:**

- **Regulation**
  This is set out by the Central Bank of Ireland (CBI)
- **Separation**
  Reserves must be held separately from all other assets of the company to meet policyholder liabilities
- **Priority**
  The policyholder is paid before any other claim other than the cost of winding up the company
- **Segregation**
  Policyholder assets are held separately to those belonging to other shareholders
- **Solvency**
  Insurers must meet Irish and EU legislation
- **Restriction**
  The types of assets that can be held are restricted to limited exposure to more volatile assets
- **Submissions**
  Annual submissions on solvency to CBI are subject to regular reviews and audits
- **Intervention**
  The CBI has the power to intervene if there are concerns over an insurer's solvency
- **Review**
  The Canada Life Irish business is regularly reviewed by CBI to ensure compliance with the regulations and legal framework

The future is bright for offshore investment bonds

There is no doubt that offshore investment bonds will continue to play an important role in financial planning. Their ability to grow funds in a tax efficient manner and the fact they give clients control over the amount and timing of income is hugely important. Combine this with effective IHT trust arrangements and, they become a natural choice as part of a client's portfolio.

In addition, offshore investment bonds offer the opportunity to access a wider choice of investment funds than would normally be provided via a UK based investment bond and, they offer additional investment adviser services such as DFM and segregated portfolio services. It's also good to remember that DFM charges in relation to investment bonds from an Irish provider are VAT exempt when utilising either a DFM or segregated portfolio service – a welcome reduction in cost for the client. Canada Life has over 30 years' experience offering offshore investment bonds to the UK market. We're proud to offer advisers the choice of either Ireland or Isle of Man and the security of the financial backing of the Great-West Lifeco group.



Did you know that...

In Ireland, policyholders benefit from some of the most stringent regulatory controls placed upon businesses that provide financial services products to investors. No Irish insurer has gone insolvent since the 1930s, despite notable financial and global crises. Indeed, in the 1930s a small number of insolvent companies merged to become what is now known today as Irish Life. Along with Canada Life International, Irish Life is part of the Great-West Lifeco group - a company with £1.341 trillion (as at 31 Dec 21) in assets under administration and a 5-star AKG rating.

Legal disclaimer

This document is based on Canada Life's understanding of applicable UK tax legislation and current HM Revenue & Custom's practice, as at March 2022 and could be subject to change in the future.

It is provided for professional advisers only. Any recommendations are the adviser's sole responsibility.

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