Scorpio Partnership

Private and confidential

Key findings

The UK's wealthy resident non-domiciled market segment

by

Scorpio Partnership

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Overview

During July and August 2007, Scorpio Partnership undertook a qualitative and quantitative assessment of the market among UK resident non-domiciles (RNDs) for tax and investment services. The research covered a range of income brackets including mass affluent, high net worth and ultra high net worth for 10 different national groupings. They included Australia, Canada, France, Germany, the Gulf Cooperation Council (GCC) member states, India, Russia and the Confederation of Independent States (CIS), South Africa, Spain and the US.

While undertaking this research, Scorpio Partnership identified and conducted qualitative interviews with 140 RND experts including private client lawyers, accountants and private bankers who specialise in the RND segment, as well as a large number of RND individuals of varying wealth levels. The wealth segmentation adopted throughout this analysis was the following:

- mass affluent: assets ranging from GBP100,000 to GBP500,000
- high net worth: assets ranging from GBP500,000 to GBP3 million
- ultra high net worth: assets of more than GBP3 million

In addition, detailed quantitative research was undertaken primarily to determine the market size in these segments and national groupings. Data relating to the size of the RND market are notoriously unreliable and contradictory. Therefore, in order to build the model a variety of socio-economic, population, wealth statistics, academic work, national statistics and industry sources were used. These included the National Office of Statistics, University College London migration unit, Home Office immigration services department, census data, foreign embassies and Scorpio Partnership's wealth distribution database.

The market sizing model reflects the number of individuals from each target market who were born outside of the UK but are currently resident in the UK. This is because of the complexities surrounding the legal definition of domicile and the fact that only a minority of foreign residents claim resident non-domicile status.

About Scorpio Partnership

Scorpio Partnership is a strategy consultancy to the wealth management industry and is based in London. The firm, founded in 1998, has conducted more than 300 assignments for over 120 institutions in international private banking, fund management, family offices, technology, resource management, as well as for related service providers to the wealth management industry.

Scorpio Partnership specialises in qualitative interviewing of high net worth individuals and wealth management industry professionals to support strategic assessments and future initiatives. The information collected from these interviews forms the foundation for strategic recommendations to clients.

In April 2007, Scorpio Partnership was voted the best global wealth management consultancy for the second consecutive year*.

**WealthBriefing, 2006 and 2007*

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Key findings

➢ Emerging market nationals dominate

Scorpio Partnership's market sizing exercise suggests that the RND market is now being driven by new money from emerging markets. Indian and South African citizens living in the UK are now more numerous than French or Germans. The US also ranks highly, reflecting the historically strong business and political links between the US and UK.

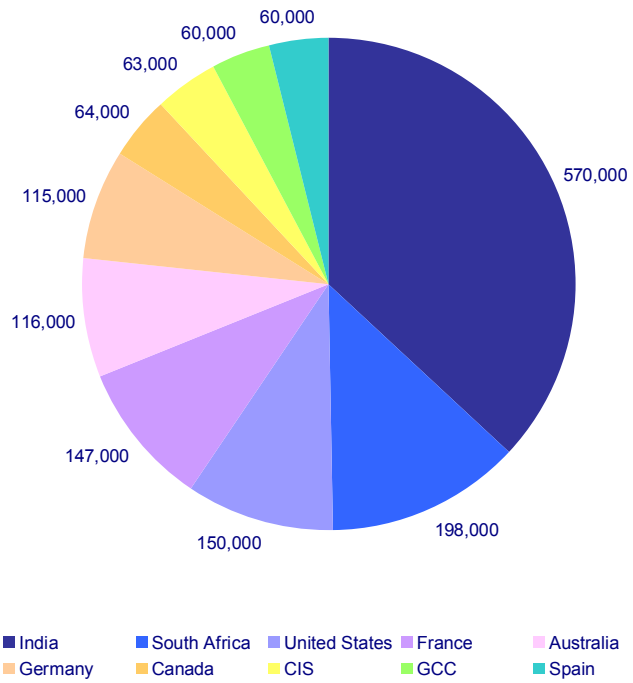
Looking at the figures in more detail, the numbers of Indian residents in the UK should come as no surprise given the two countries' close historical ties. Recent growth in the Indian economy has led many Indians to come to the UK to access capital for growth ventures and has prompted many UK-born Indians to invest into India. Of note, due to these longstanding links the non-resident Indian community also typically has a good knowledge of the UK tax laws.

The large number of South Africans in the UK reflects a mass affluent 'brain drain' from the country in response to rising crime rates and affirmative action employment policies.

Among the European countries investigated in the research, France ranked first with 147,000 individuals in total. Germany's representation was slightly smaller with 115,000. Both of these results are lower than popularly quoted figures. Research by Scorpio Partnership suggests this is because the most frequently cited figures are derived from the International Passenger Survey – a random sampling of people entering the UK – which has proved notoriously unreliable.

Figure 1 shows the total number of individuals from the 10 national groupings currently living in the UK but born outside. It reflects all wealth levels not just mass affluent, high net worth (HNW) and ultra high net worth (UHNW).

Figure 1: Total size of UK communities – all wealth levels



Source: Scorpio Partnership wealth distribution analysis

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➢ Emerging market RNDs also control considerable wealth

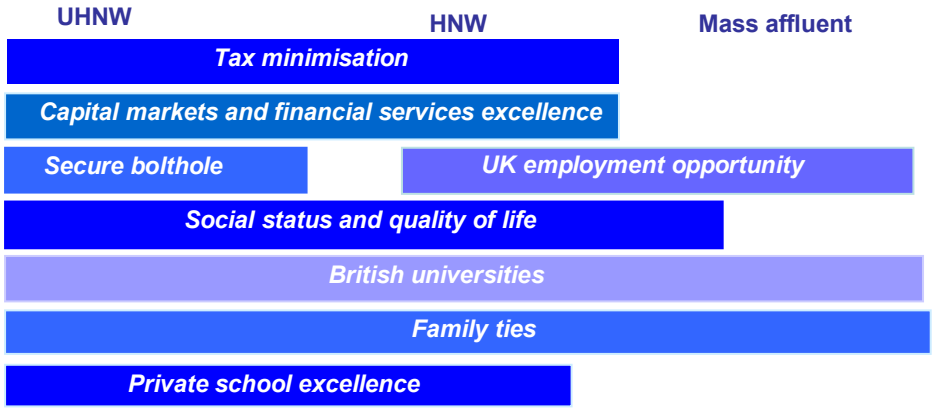
Scorpio Partnership has calculated there are approximately 256,500 first-generation foreign nationals living in the UK with financial assets (excluding primary residence) in excess of GBP100,000 from the 10 national grouping covered in this research. The total wealth of this group is estimated at GBP274 billion.

Figures 2 and 3 (opposite page) show the distribution of wealth by segment and national grouping. It is notable that among those from the emerging markets, in particular the CIS and GCC member countries, there is a very high concentration of wealth in the hands of a small number of UHNW individuals.

➢ Tax is only one reason for moving to the UK

The UK RND tax laws are a strong pull factor for UHNW and some HNW individuals. However, most HNW and mass affluent individuals move to the UK primarily for professional opportunities. Figure 4 shows the primary reasons for relocating to the UK by wealth segment.

Figure 4: Reasons wealthy foreign nationals come to the UK



Source: Scorpio Partnership

While tax optimisation is important, UHNWs are also drawn to London as a strong financial centre which offers good access to capital for business interests and wealth management. For some, the UK's stable economic and political environment is also a draw.

Among the mass affluent segment there are high concentrations of international staff working in London-based financial services, law, and accounting professions. Others work with larger multinationals, for example in the oil and gas sector, or are following inward investment from overseas companies.

Notably, however, individuals of all wealth backgrounds will have chosen the UK over several other postings or residences of choice. Thus quality of life factors are important. The reputation for quality private education and secure living environment are important factors attracting international residents. Family ties and a historical relationship with the country were also cited as tertiary reasons why some chose the UK.

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Figure 2: Number of individuals – mass affluent, HNW, and UHNW

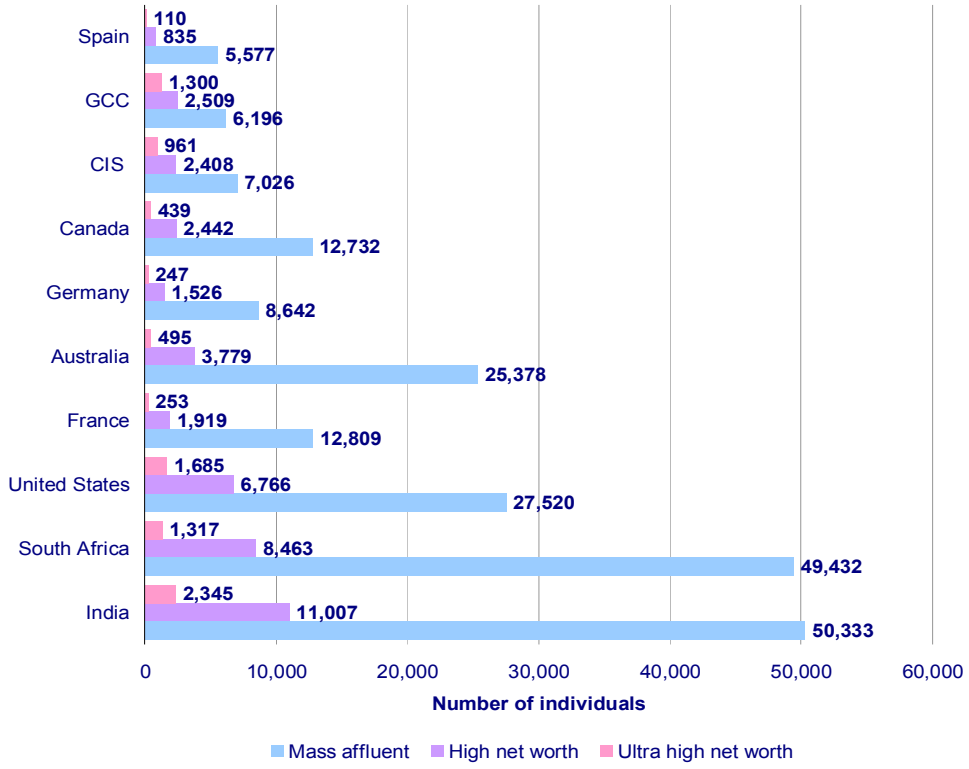
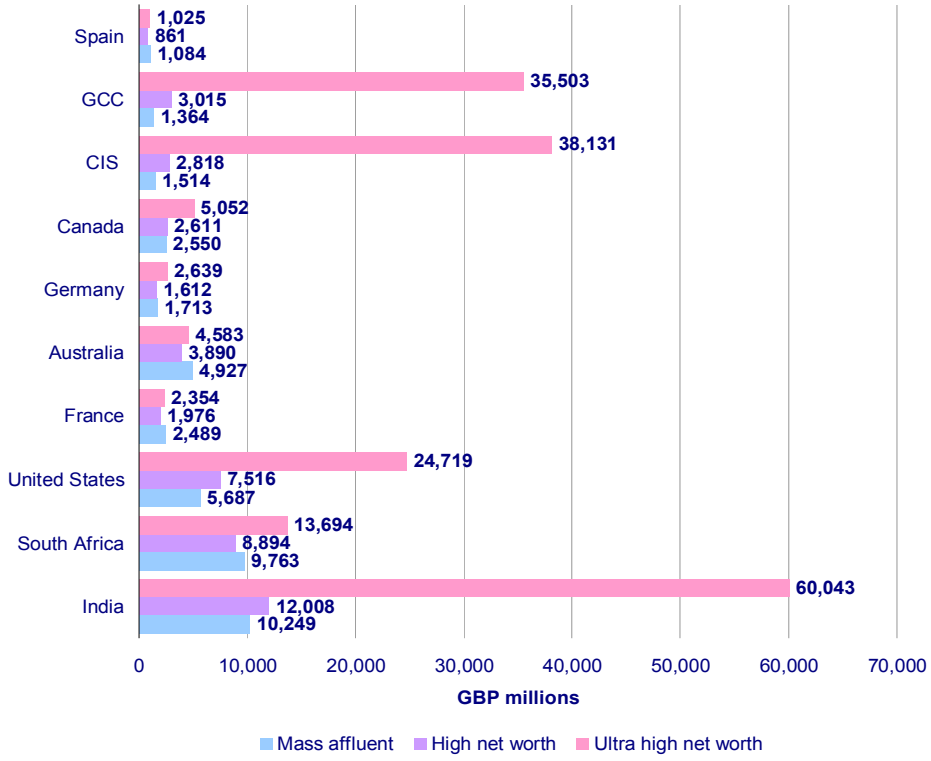


Figure 3: Assets controlled – mass affluent, HNW, and UHNW



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➢ Product and service needs vary between wealth levels

The majority of HNW and mass affluent individuals from overseas are unaware of their RND status prior to arrival. In many cases they find out about the benefits of RND status six months to a year after arrival. Even then, many choose not to adopt RND status as their primary motivation for coming to the UK is professional advancement not tax saving. Also, in many cases residence is temporary and most leave within three years.

Those mass affluent and HNW individuals who are relocated by their companies usually receive only basic support on financial matters including information on RND status. Typically, companies in the financial services industry are more likely to provide such support functions, but even so, many working in these industries commented on the general lack of advice being offered to them.

Consequently, for mass affluent and some HNW individuals the initial priorities range from opening bank accounts to securing a mortgage. These emerging HNW and mass affluent arrivals were notably the most critical of the quality of basic financial services they received. Primarily, complaints were directed towards the UK retail banking industry, in particular, the inability to obtain a credit card or mortgage despite a healthy overseas credit rating.

For UHNWs and established HNWs the priorities are more focused on establishing a business profile in the UK. Figure 5 and Figure 6 illustrate the order of priority by wealth segment.

Figure 5: Breakdown of priorities upon arrival for mass affluent and emerging HNWs

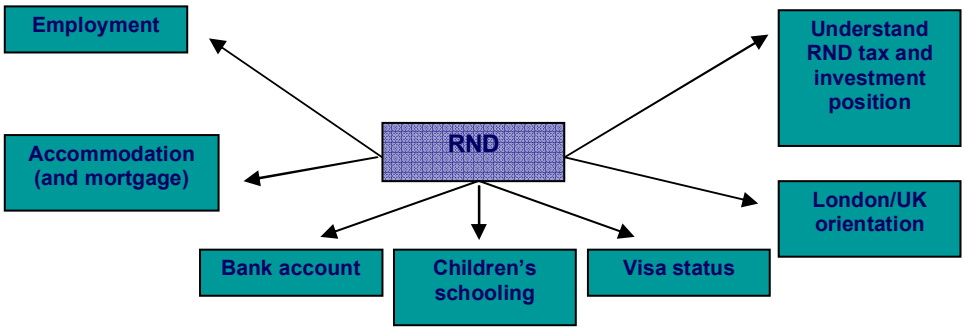
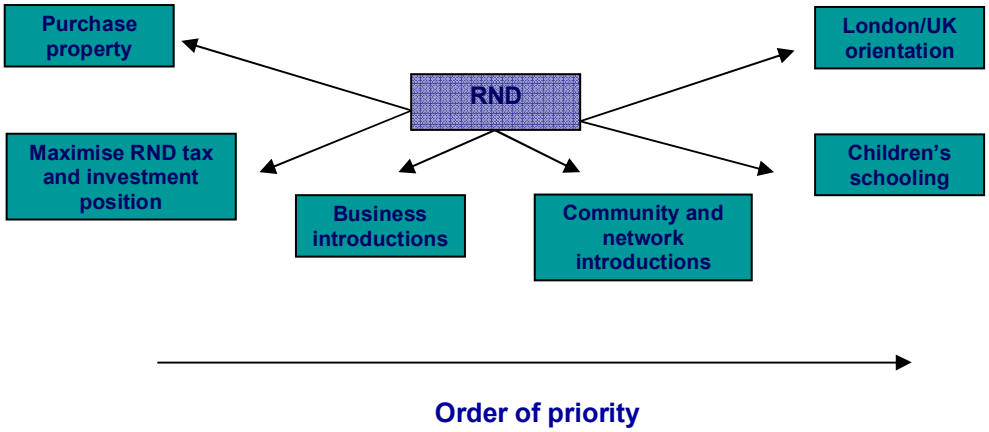


Figure 6: Breakdown of priorities upon arrival for established HNWs and UHNWs



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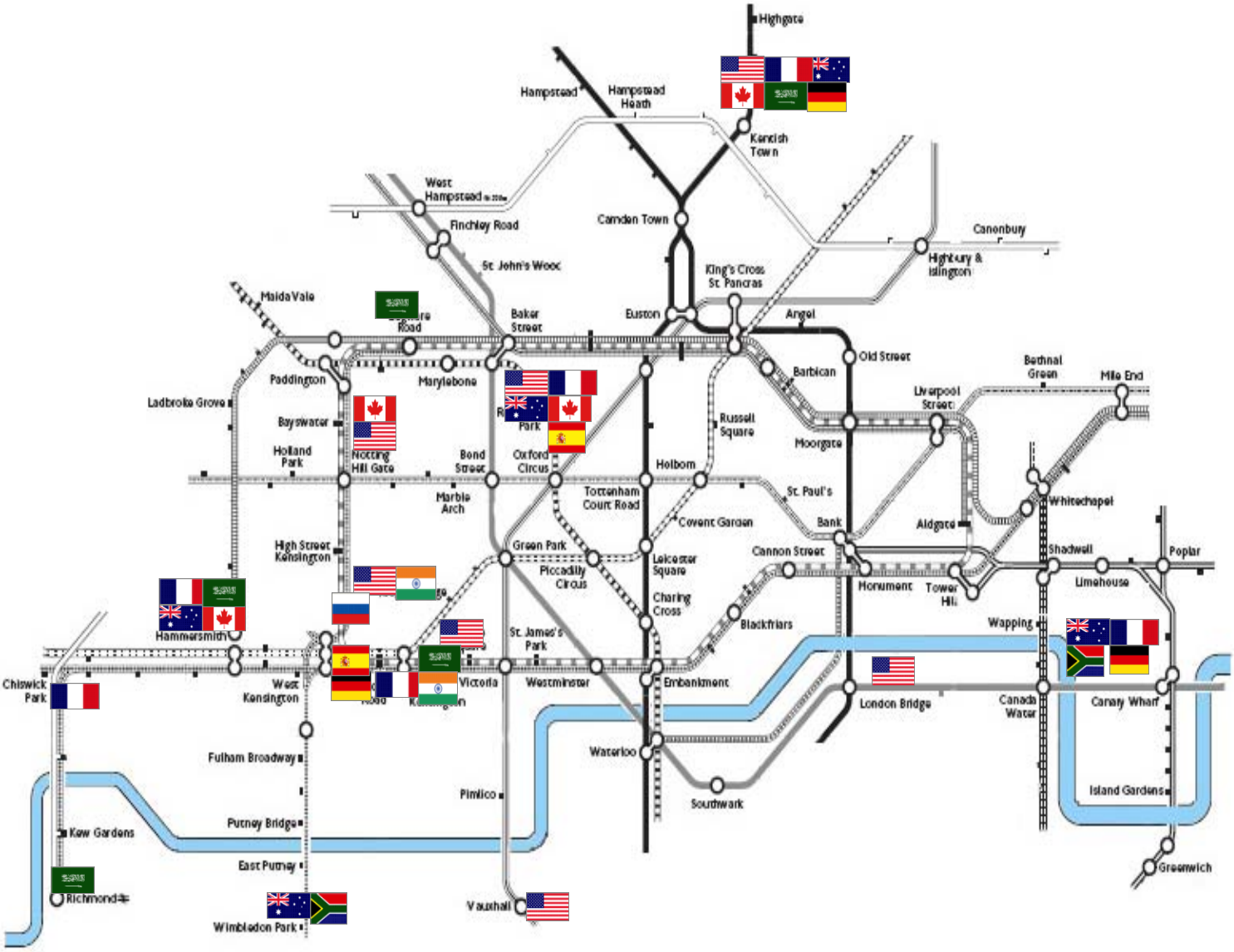
➢ Prestigious postcodes

Wealthy RNDs are typically located in London for professional and personal reasons. Although once established some may buy additional country properties in the South East or in other prestigious cities such as Bath and Edinburgh, it was notable that outside of London there were very few RND communities.

Within London, many communities gravitate to the same location forming social networks built around common national and linguistic ties. So strong are these forces that it is possible to map communities to specific districts within central London, as shown in Figure 7.

Figure 7: Preferred London residential areas by nationality



GCC	USA	India	Russia/CIS	Australia	Canada	South Africa	France	Germany	Spain

Source: Scorpio Partnership

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➢ A stable future

Of note in the current political climate, threats to RND tax status are not seen as a major concern for the vast majority of international residents in the UK. For the majority of such HNW and mass affluent individuals job security and quality of life are seen as being sufficiently strong to dissuade them from leaving in the event of reform of the RND regime. At the same time, there is still huge potential to be realised from new wealth flows from Asia, Africa, and South America.

Of note, some argue that reforms could simplify the regime for RNDs making it more accessible for many from these wealth and geographical segments.

Any punitive change in RND tax laws will, however, likely have a disproportionate impact on international UHNW individuals who are currently resident in the UK. At this level some advisors are already recommending their clients consider relocation to Switzerland should the tax environment turn hostile.

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