

## Collective Investment Bond - By Royal Skandia

*(Originally published in "International Adviser" September 2007. Reproduced with the kind permission of International Adviser.)*

The Collective Investment Bond (CIB) is Royal Skandia's market-leading pooled fund portfolio bond. This article, the latest in a series of monthly LifeBase product analyses, examines the Bond to see how it compares in this most competitive sector of the offshore life business.

### Company

Royal Skandia was one of the earliest life companies to establish in the Isle of Man in 1985. Following early changes in ownership, culminating with 100% acquisition by Skandia, the company grew very strongly in a settled corporate environment, and extended its international reach. As a result, Royal Skandia (based in Onchan) operates around the world, being strong not just in the UK but also in the Middle East, Far East, Latin America and Scandinavia. Royal Skandia is a top 3 company not just in single premium business but in regular premium business too. Funds under management are approaching £10 billion.

New business for Skandia International – the offshore and cross-border business of the Skandia Group, which includes also Skandia Ireland and Skandia Life (Norway and Finland) – was £245m annual premium equivalent in 2007, with Royal Skandia contributing the large majority of this total.

The Skandia Group was acquired in 2006 by Old Mutual plc, the South African insurance group. Old Mutual has a market capitalisation of £8 billion and a primary listing on the London Stock Exchange.

### CIB - Funds

CIB is a pooled fund private portfolio bond (PPB) aimed at the UK and other international markets. Key competitors in the international arena therefore are Friends Provident International, Zurich International, Generali International, Prudential International, Scottish Provident International and Scottish Life International. In the UK market, the list is joined by AXA, Canada Life International, CMI and Scottish Equitable International.

Skandia is well known for its open architecture approach to investment bond business, with established links now to over 100 fund management groups. As a pooled fund PPB, CIB takes the concept to an even wider level, with a full open-architecture platform giving access to 1000's of funds, on preferential dealing terms which reflect Skandia's buying power. (Skandia Group now has in excess of £3 billion invested with each of Fidelity and Invesco Perpetual). Royal Skandia typically place around 2,500 deals each week from their dealing department in the Isle of Man.

Royal Skandia also offer a share exchange facility, enabling investors to transfer existing funds into the CIB wrap.

### Capital Redemption and Highly Personalised Versions

Royal Skandia has been a long-time provider of product flexibility. As such, the Collective Investment Bond has a sister product, Capital Redemption Bond, which is identical apart from the latter being issued in Capital Redemption form with a guaranteed minimum maturity value of 2 times premium after a term of 99 years. As has been commented on in previous articles, a large proportion of offshore bond business is now written in capital redemption format, and the different solvency rules mean that Isle of Man insurers such as Royal Skandia are better placed to write CRB business than EU insurers. The CRB is therefore an important accompaniment to the CIB in Royal Skandia's range of portfolio bond products (which extends also to highly personalised bonds - the Executive Investment Bond and Executive Redemption Bond - aimed at non-UK markets).

A full range of trusts is available to support CIB, with the option of using in-house Royal Skandia Trust Company as trustee. Trusts include Absolute Trust, Power of Appointment Trusts, Discounted Gift Trust and Retained Interest Trust.

### Design

Royal Skandia have one of the lowest minimum premiums in the PPB product sector, with a minimum of only £25,000 (or currency equivalent) for the CIB/CRB and £50,000 for the highly personalised products EIB/ERB. (Note the quid pro quo though that a higher Administration Charge applies where premium is less than £50,000.)

As with most PPBs, CIB is offered in a choice of charging structures, in this case three. Structure A is back-end loaded with an 8-year surrender penalty, Structure B (aimed at higher premiums) is fee-based and back-end loaded with a 5-year annual charge, whilst Structure C is front-end loaded with a 5% initial charge. The three charging structures (shown on standard commission terms) are summarised in Table 1.

The CIB is available in the choice of any major currency. Death benefit is 101% of surrender value.

TABLE 1	Structure A (Back-end loaded)	Structure B (Back-end loaded)	Structure C (Front-end loaded)
Investible Percentage	100%	100%	95%
Establishment Charge *	1% in year 1 only	1% in year 1 only	none
Administration Charge *	1.0% pa, ongoing	1.6% pa, years 1-5 only	1.5% pa, ongoing
Quarterly Valuation Fee	£48 per quarter but £96 per quarter if premium is less than £50k	£96 per quarter	none
Surrender Penalties	5% initially reducing by 5/8% pa to nil at the end of year 8	8% initially reducing by 1.6% pa to nil at the end of year 5	N/A
Dealing Charge	£15 per sale or purchase		
External Fund Charges	Usual annual management charges associated with the underlying investments apply. Discounts are available on initial charges		

\* The Establishment and Administration Charges are applied quarterly in arrears and are based on the higher of premium and fund value

#### Price

In any comparison of Personal Bonds, the only key areas of potential competitive advantage are Price and Service. (All Personal Bonds have virtually the same investment options, so Performance is no different from one company to another.)

CIB is reasonably competitive on price, particularly so for Structure B, although a comparison on standard terms really does not do the product justice. Table 2 compares Reductions in Yield for leading PPB products, looking at the effect of charges over 10 years. The figures are produced using LifeBase, and to give the most like-for-like comparison, are shown on standard terms but on a nil commission basis (a recent enhancement to LifeBase Offshore). In fairness to Royal Skandia, though, much of their business is written on non-standard terms and they enjoy a reputation (on this basis) for some very low charges.

Table 2 - Reduction in Yield

The figures assume investments of £250,000 and £500,000, an annual growth rate of 7%, nil commission and for consistency no external fund management charges.

Company	Product	£250k RIY	£500k RIY
Axa IOM	Evolution (Nil Comm Option D)	0.20	0.14
Norwich Union	Premier Portfolio (Nil Comm Option 2)	0.23	0.17
Friends Prov Int	Reserve - UK Version (Nil Comm Initial Option)	0.24	0.17
Aegon Scot Eq Int	Wealth Management Portfolio (Nil Comm Structure)	0.27	0.21
Prudential Int	Prudence Portfolio Bond (Nil Comm)	0.28	0.21
Canada Life Int	Premiere Account - Alpha (Nil Comm Option 1)	0.28	0.22
Scot Life Int	PIMS (Nil Comm Structure K)	0.41	0.35
Scot Prov Int	Select (Nil Comm Option 2)	0.42	0.26
CMI	Global Investor (Nil Comm Level Option)	0.50	0.45
Royal Skandia	Collective Investment Bond (Nil Comm Structure B)	0.58	0.51
Irish Life Int	Portfolio Bond (Nil Comm 5 Year Option)	0.66	0.59
Standard Life Int	International Bond (Nil Comm Structure)	0.85	0.85

\* Note: Source – LifeBase Offshore: £250,000 and £500,000 premium. External fund charges excluded.

It should be noted that a comparison of RIYs on *standard* commission terms may produce a slightly different order of results.

#### Service

Royal Skandia enjoys a good reputation for customer service, holding a number of IFA-nominated awards for client support, commitment to service and on-line service. Their IFA extranet "Insite" is one of the more advanced on-line systems in the industry, enabling advisers amongst other things to access Policy Viewer to obtain downloaded CIB valuations on a regular basis.

Royal Skandia offer a "selected custodian" facility where, subject to approval, they will use an external custodians of the investor/adviser's choice.

One innovative feature of the CIB is the option of opening an offshore bank account – with either Lloyds TSB or Kaupthing Singer & Friedlander – for receipt of regular withdrawals from the bond. This gives policyholders the ability to access funds worldwide through a VISA debit card.

#### Summary

The Collective Investment Bond enjoys a long-standing market leader position in the offshore pooled PPB product sector. The bond's main attributes can be summarised thus:

Award winning levels of customer service – to international customers, not just those in the UK

A choice of 3 standard charging structures (and many more unofficial structures) offering flexibility to cater for different customer profiles

A choice of life assurance (CIB) or capital redemption (CRB) format

Availability in pooled fund (CIB) and highly personalised (EIB) formats

Low entry level, with a minimum premium of only £25,000

A large scale offshore life operation with nearly £10 billion under administration, most of it PPB business

A well-developed IFA extranet, including on-line valuations

In-house trust company with advanced range of trusts

Unique offshore bank account opening facility.