

Evolution - By AXA Isle of Man

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"Evolution" by AXA Isle of Man is a market leading offshore single premium bond. This article, the first in a new series of monthly LifeBase product analyses, will examine Evolution and show why it is as successful as it is.

Company

AXA Isle of Man is itself the successful evolution of Sun Life International (Isle of Man), which began operations in 1992. The move to a disciplined, more focused strategy some 5 years after launch, combined with the successful development and implementation of an administration software platform, led to the company building a dominant position in the one market (UK) in which it mainly operates.

Today, AXA Isle of Man has £4.8 billion of funds under management, looked after by 135 staff.

Evolution - Funds

Evolution is a hybrid product which spans the two largest sectors of the offshore single premium business - 1) Pooled Fund Portfolio Bonds and 2) Investment Bonds.

At the minimum premium level of £15,000, Evolution is an Investment Bond, offering links to a wide range of internal ("Core") and external ("Partner") funds. The Internal fund range of AXA funds includes distinctive core offerings, most notably the hugely successful AXA Deferred Distribution Fund, which in total has more than £1.5 billion invested (i.e. more than 30% of total funds under management are represented by the various series of AXA Deferred Distribution funds). The fund range also has some commonality with that of the AXA UK sister company, and of the worldwide AXA wealth management group, in what is termed the "AXA Global Family" series of offshore funds, where managers include Framlington (now an AXA group company).

Alongside these internal funds, the Investment Bond fund choice for Evolution also extends to a wide range of around 200 External Partner funds. Fund managers include Artemis, Threadneedle, Fidelity, Gartmore, Blackrock, Newton, New Star, Invesco, M&G and UBS. A point to note in relation to these External Partner funds is that AXA - unlike most of their peer group - pass on *all* fund rebates, including trail commission and other annual rebates - to policyholders.

For premiums of £50,000 and above, though, Evolution turns into a Pooled Fund Portfolio Bond, ie a full open-architecture platform covering 1000's of funds, all with discounted dealing terms. This - the PPB version - is the more important of the two. In this respect, Evolution is somewhat unique in covering both segments within a single product. The analysis which follows will focus on the PPB version of Evolution. (The Investment Bond version will be the subject of a future article.)

Capital Redemption

Ever since its launch, one thing that *has* remained constant about AXA Isle of Man has been its innovative focus on Capital Redemption business. (Being an Isle of Man insurer, AXA's solvency margin requirement is the same, regardless of whether the business is written in Capital Redemption or Life Assurance form. Both carry the same ¼% solvency margin requirement - unlike the case for insurers in Ireland or the UK, where Capital Redemption margin requirements are much higher than for normal life assurance business.)

Evolution is available in both forms, i.e. capital redemption and life assurance, but capital redemption is the default option. IFA readers will be aware of the natural fit of capital redemption structures to trust business generally, and to IHT planning in particular.

Charges

It is notable that Evolution is offered in a choice of 4 charging structures, at least one of which will be most suited to an individual's circumstances. The charging structures all feature explicit, transparent lower charges for higher premiums. In effect, large case special terms are hard-coded into the product design. One of the charging structures is driven explicitly by commission (a design feature associated for many years with Canada Life International).

The four charging structures (shown on standard commission terms) are summarised in Table 1.

TABLE 1	Option A	Option B	Option C	Option D
Allocation Rate	100%	100%	100%	101.5%-104.0% (depending on premium size)
Initial Charge	-	-	2.0% - 4.5% (depending on premium size) + Commission	-
Establishment Charge	4.00% (taken over 4 years)	6.88% (taken over 4 years)	-	12.50% (taken over 5 years)

Management Charge	0.60% - 0.88% pa (depending on premium size)	0.56% - 1.20% pa (depending on premium size)	-	-
Administration Charge	<ul style="list-style-type: none"> ● Internal only ● PPB <p style="text-align: right;">£ 17.50 per quarter £ 89.50 per quarter</p>			

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.)

As a Personal Bond, Evolution is extremely competitive on price. 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 a nil commission basis (this new feature is a recent enhancement to LifeBase).

Table 2 - Reduction in Yield

Company	Product (Structure)	RIY*
AXA IOM	Evolution (D)	0.19% pa
Norwich Union Int	Premier Portfolio (2)	0.23% pa
Friends Provident Int	Reserve-UK (5yr)	0.24% pa
Scottish Equitable Int	Wealth Management Portfolio	0.27% pa
Canada Life Int	Premiere Account - Alpha (1)	0.28% pa
Prudential Int	Prudence Portfolio Bond	0.28% pa
CMI	Global Investor (initial)	0.36% pa
Scottish Life Int	PIMS (K)	0.41% pa
Scottish Provident Int	Select (C)	0.46% pa
Royal Skandia	Collective Investment /Redemption Bond (B)	0.58% pa
Irish Life Int	Portfolio Bond (5)	0.66% pa

* Note: Source - LifeBase Offshore: £250,000 premium. External fund charges excluded.

The figures in Table 2 show a gap of nearly 0.5% pa between the highest and lowest charges, with Evolution being the lowest. Some care though needs to be taken in interpreting these figures: firstly, at a £250,000 premium level, many companies will in practice give (unpublished) special terms; secondly, a comparison of RIYs on *standard* commission terms will produce a slightly different order of results; finally, the ranking order will change, depending upon the premium size.

Service

AXA have a good reputation for service, and indeed pride themselves on the quality and consistency of their service. Customer service is backed up by an excellent on-line IFA platform. A Boal & Co study of offshore life company web-sites found that AXA's was by far the most advanced in its functionality. On-line services at <https://www.axa-iom.com/im/> include:

- Projections
- Commission Statements
- Sales and pipeline reports
- Surrender quotations
- Switching
- Policy details
- Portfolio planner
- Pre-sales tools
- Literature library
- Fund Performance

Central to the estate planning uses of Evolution is AXA's Discounted Gift Trust. AXA's service here is enhanced by the provision of professional trustee services through the in-house trustee company AXA Isle of Man Administration Ltd.

Summary

Evolution ticks all of the boxes, including price. It is no coincidence that Evolution is now a market-leader in its class.

About LifeBase

Actuaries Boal & Co launched the product comparison system LifeBase Offshore in 1997. It provides analysis of offshore life products and has been used extensively by life companies. LifeBase OnLine brings LifeBase to professional IFAs. For further details, please register at www.lifebase.co.uk