

Premier / Premier Ultra - By Friends Provident International

by Gary Boal

(Originally published in "International Advisor" August 2007. Reproduced with the kind permission of International Advisor.)

Premier, together with its up-market version Premier Ultra, is one of the top-selling offshore regular savings plans on the market today.

This article, part of a series of monthly product analyses using LifeBase OnLine, takes a detailed look at Premier to see just why it is so successful.

Company

Friends Provident International (FPI), along with Zurich International Life, can be regarded as the co-founders of today's offshore life industry, and indeed of the Isle of Man as a centre for such business. FPI established full-time operations on the Isle of Man in 1978, as Lloyds Life Assurance (Isle of Man). Various ownership changes then saw the company become Royal Life International in 1985, Royal & SunAlliance International Financial Services in 1998, before acquisition by Friends Provident for £126m in August 2002 saw the company change to its current name Friends Provident International. Today, FPI has more than £3 billion under management.

Friends Provident plc's commitment to the offshore market was subsequently strengthened further by the acquisition of another leading offshore insurer, Lombard International, in 2005. Together, the two offshore operations contribute more than 40% of the total life and pension sales of the Friends Provident Group. In 2006, FPI's new business was £823m1, a 16% increase on 2005.

FPI's business model is heavily focused on the Far East and Middle East, which together comprise 60% of FPI's total worldwide new business. FPI has branches in Hong Kong, Singapore and Dubai.

FPI is a market leader in terms of offshore regular premium business, with "Premier" their key regular premium savings plan, in a highly competitive sector where Zurich International and Royal Skandia are the key competitors. FPI also have a VIP version of the product – Premier Ultra – which is geared to very high premiums, and boasts enhanced allocations.

Funds

FPI's range of mirror funds is extremely comprehensive, with around 150 funds in a range which continues to grow. At the present time, FPI has exclusive mirror funds links to Barings' absolute return multi-manager funds - Multi Manager Sterling and USD Extended Risk.

1: PVNBP basis, which is single premiums plus the expected present value of regular premiums

The Mirror funds link to a long list of selected investment managers, including:

- Aberdeen
- ABN Amro
- Allianz
- Baring
- Blackrock Merrill Lynch
- Ciptadana (Lippo)
- Collins Stewart
- Fidelity
- Franklin Templeton
- HSBC
- Invesco
- Investec
- JF Asset Management
- Man Investments
- Martin Currie
- New Star
- Principal Global Investors
- Schroders
- Thames River
- UBS
- Value Partners
- Vanguard Group.

The range of funds is very geared to FPI's Asian customers, with regional country funds including:

- China
- Philippines
- Korea
- Indonesia
- Hong Kong
- India
- Thailand

Using the fund performance tools in LifeBase, past performance in \$ over 5 years (to 31 May 2007) includes high performing funds such as:

TABLE 1 – 5-YEAR PERFORMANCE: TOP FPI FUNDS

Fund Manager	Fund Performance
JF India	+501.5%
Thames River Eastern European	+372.5%
Ciptadana Indonesian Growth	+354.0%
Baring Hong Kong	+306.9%
Dresdner New Tiger Philippine	+261.5%
HSBC Chinese Equity	+251.9%
Baring Australia	+174.3%

According to the data in LifeBase, the FPI JF India fund (launched in 1993) is the top-performing offshore life fund over this period. The FPI Thames River Eastern European fund is also a top performer, being 8th best in the period.

The regional specialisation of FPI's investment offerings is very much apparent from the list in Table 1, remembering that all of these funds have been linked to FPI for at least 5 years.

In the Balanced Managed fund category, performance is understandably more sedate, the star performers (again measured in \$) being:

- Collins Stewart Aggressive Managed £ +110.9%
- Invesco Growth Managed +99.3%
- Collins Stewart Aggressive Managed \$ +95.9%
- Friends Provident Pension Growth +94.0%

The average performance across all of FPI's funds over the 5-year period is +102%, which equates to 15.1% pa and is above the average for FPI's peer group.

Design and Charges

Like many offshore savings plans, Premier has an initial unit charging structure, where premiums during the initial period (18 months) are allocated to Initial units which carry an additional annual charge (6% pa). All units, including initial units, have no bid/offer spread.

The % of premium allocated to Initial units (allocation to Standard units is always 100%) increases considerably with premium size, and also with premium term, most particularly for Premier Ultra. The standard allocations are boosted by special offer terms which have now been extended to 30 September 2007:

Premium \$ per month	Normal Allocation (to Initial units)	Special Offer terms - Premier			
		10 years	15 years	20 years	25 years
150 - 249	95%				
250 - 499	100%				
500 - 999	105%	110%	112.5%	115%	117.5%
1,000 - 1,999	110%	115%	117.5%	120%	122.5%
2,000+	110%	125%	132.5%	135%	137.5%

Premier Ultra Initial Unit Allocation		
Term (years)	Standard	Special Offer
5	110%	
10	120%	125%
15	130%	137.5%
20	140%	150%
25	150%	162.5%

Premier's design is relatively clean, transparent, and less complicated than some other products in its peer group. A summary of the charges is outlined in the Table below.

PREMIER CHARGES

Allocation Rates	Months 1-18: see separate table for allocation % to Initial Units Month 19 onwards = 100%
Bid/Offer Spread	Nil
Initial Unit Charge	6% pa (deducted as 1.5% quarterly)
Annual Mgmt Chg % pa	1.2% pa of unit value.
External/Underlying Fund Charges	0.1% - 3.35%.

Policy Fee	\$6 pm.
Loyalty Bonus	N/A
Surrender Penalties	Nil value during the first 12 months. Sliding charge scale thereafter, applies to Initial unit value only, according to outstanding term, eg 5 years = 30% 10 years = 45% 15 years = 60% 20 years = 75%
Paid-up Penalties	Plans can be made paid-up after 18 months without penalty.

Fund switching is free (unlimited).

Premier and Premier Ultra have two optional rider benefits – Additional Life Cover and Premium Protection Cover. Standard death benefit is 101% of unit value.

Projections

Using LifeBase's projections suite, it is possible to see how these charges compare against other products when it comes to projected maturity values. The Table below shows the results for one example – a 15-year savings plan with a premium of \$1,000 pm. To give the best like-for-like comparison, these LifeBase projections allow for all product charges (other than external fund charges) and growth is assumed at 7% pa before charges.

TABLE – PROJECTIONS

Company	Product	Maturity value Year 15
Royal Skandia	Managed Pension/Savings Account - Special Offer	\$283,116
Royal Skandia	Managed Savings Account	\$273,195
Scottish Provident	International Quantum	\$264,528
Friends Provident Intl	Premier Ultra - Special Offer	\$263,013
Generali Intl	Vision (Mirror Fund Investments)	\$261,802
Friends Provident Intl	Premier Ultra	\$261,754
Hansard Intl	Focus	\$260,757
Friends Provident Intl	Premier - Exp 30/06/07 (Special Offer)	\$259,655
Friends Provident Intl	Premier	\$258,396
Zurich Intl	Vista (III) (Mirror Fund Investments)	\$256,900
Hansard Intl	Pinnacle	\$255,779

Projections are for a 15-year plan with premium \$1,000 pm. Assumes growth at 7% pa before charges (excludes external fund charges).

Source: LifeBase

As can be seen, Premier Ultra and Premier are competitive products, particularly during the latest special offer period.

Whenever comparing different regular premium plans and providers, particular care needs to be taken to ensure that value is assessed not just at maturity, but also on early paid-up conversion of a policy or to early surrender. After all, it is a minority of 15-year plans (for example) which run to maturity and pay full premiums throughout. Some product designs subsidise enhanced maturity value projections with less competitive early paid-up values and/or surrender values, so care is needed in interpreting projection figures. A good maturity value projection may often go hand in hand with a poor surrender value projection, and vice versa. In this respect, more detailed analysis by Boal & Co indicates that Premier is very much above average, with paid-up values and surrender values very much at the top end of the peer group.

Summary

Premier is one of the market-leading offshore regular savings plans. LifeBase's objective analysis of the product, including:

- The large range of good-performing funds
- Clean, transparent design
- Competitive charges, including surrender and paid-up charges
- Good multi-currency flexibility

all provide a clear rationale for Premier's success.