

International Investment Bond - by **AIG Life International**

(Originally published in "International Adviser" June 2008. Reproduced with the kind permission of International Adviser)

The International Investment Bond by AIG Life International is a new offshore investment bond. This article, part of a series of monthly LifeBase product analyses, takes a detailed look at the Bond to see how it compares in its peer group.

Company

AIG Life International ("ALI") is one of the younger offshore life companies in the Isle of Man, established in 2002. Formerly named American Security International until a change of name in 2007, ALI sits offshore alongside a sister company AIG Life (Ireland) established in Dublin.

Having transacted large volumes of specialist single premium business in recent years (over £1 billion of new business in 2006), ALI is now moving into the mainstream, and the International Investment Bond (IIB), launched in February 2008, is the first part of this new market strategy. The Bond is aimed both at UK and international markets, with AIG having significant sales presence both in and out of the UK.

In the Isle of Man, ALI has 50 staff. Worldwide, however, AIG has a few more – some 106,000 more at the last count! AIG is the 6th largest public company – and the largest insurance company - in the world. As much as it pains me to say it, they also sponsor the best football club in the world.

Funds

The IIB is, as its name suggests, an investment bond, which is to say that it wraps a defined range of funds. In ALI's case, the range of funds is one of the widest in its sector, with in excess of 200 funds. The investment proposition is accentuated by the fact that fund switching is free, at least in relation to the first 20 switches in any year. (For the over-active investor, subsequent switches incur a £20 charge.)

The IIB links to over 50 fund management groups, which makes it one of the most diverse of its type, including:

The initial fund range for the IIB has been constructed by ALI following an overlay of quantitative and qualitative research methods. It should be noted that the funds are *direct* external links, rather than mirror funds. Consequently ALI charges are deducted by cancellation of units, rather than via the unit price.

Features

The IIB is a comprehensive product with a choice of no less than four charging structures, which is an unusually large number of options for an investment bond.

The Bond is available also in a choice of life assurance (whole of life) structure or capital redemption (99-year) form, with no price differential between the two forms. For the life assurance version, the death benefit is 101% of surrender value

(or 100.1% if all lives assured were aged 80+ at inception).

The minimum premium for the IIB is £25,000, or €37,500/\$37,500 for international business.

Charges

As noted above, the IIB comes in four charging structures, one front-end loaded, three back-end loaded. For the three back-end loaded designs, annual withdrawals of up to 10% pa (non-cumulative) can be made in any year.

The full product charges and design are summarised in Table 1 below.

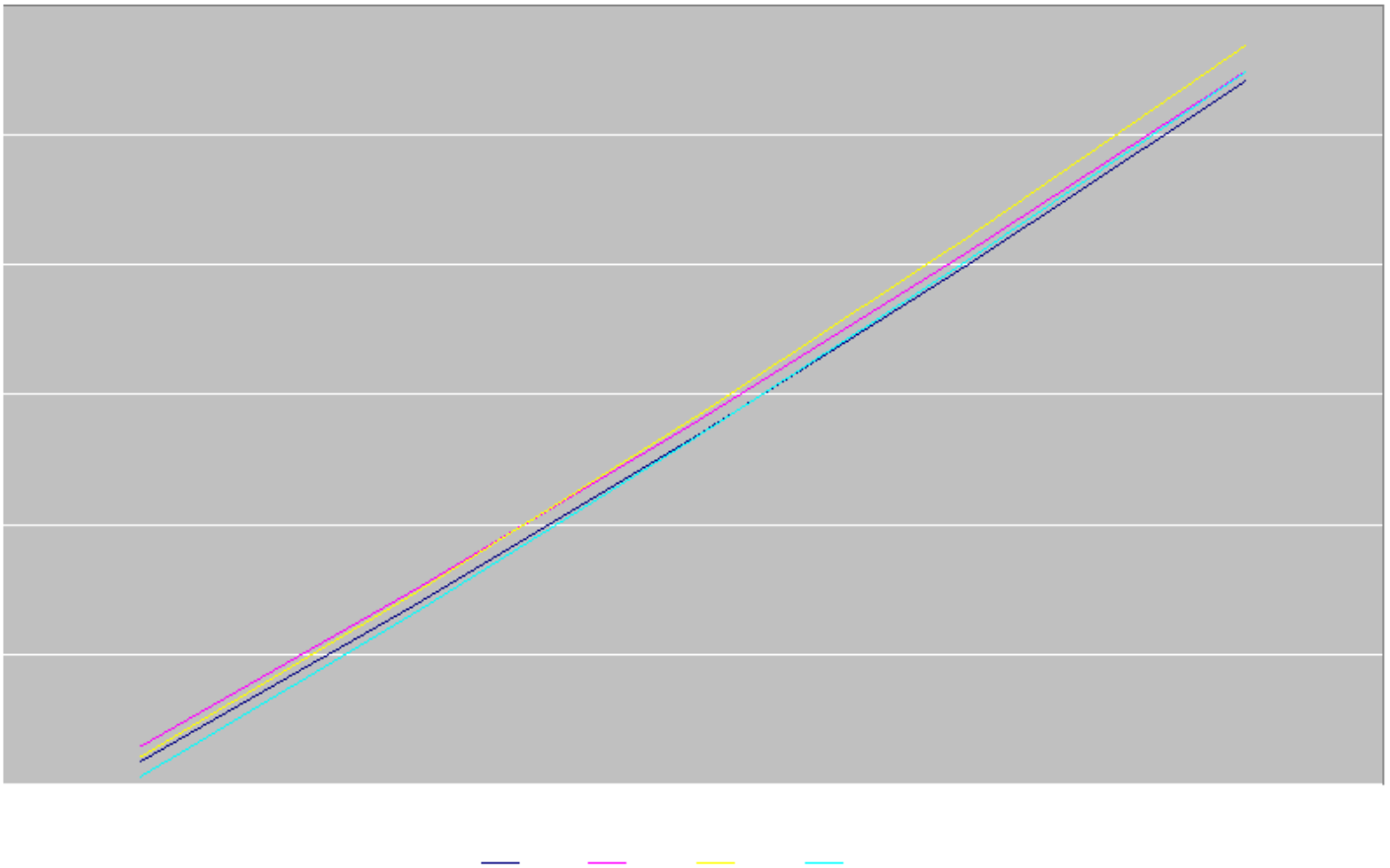
TABLE 1	Option A – “Penalty-Free”	Option B – “Establishment”	Option C – “Total Allocation”	Option D – “Enhanced Allocation”
Investible Percentage Convert x 1.5 for €/£ amounts	99%	100%	100%	£25-49k: 101.0% £50-99k 101.5% £100k+: 102.0%
Initial Charge % of premium	7%	-	-	-
Establishment Charge (% of fund value or premium if higher)	-	1.5% pa x 5 years = 7.5%	-	1.7% pa x 5 years = 8.5%
Administration Charge (% of fund value or premium if higher)	0.35% pa	0.45% pa	1.20% pa	0.55% pa
Surrender Penalties (% of fund value or premium if higher)	-	7.5% reducing over 5 years	8% reducing over 8 years	10% reducing over 5 years
External Fund Charges	Heavily discounted (mostly eliminated/nil) initial charges on external funds. Standard annual management charges apply on external funds.			
Dealing Charge	20 free deals pa, £20 thereafter			
Loyalty Bonus	0.25% pa bonus units if premium > £250,000			

Our analysis (Chart 1) suggests that the difference in projected values is relatively small, across the four structures.

Through some actuarial back-solving program, they all have remarkably consistent reductions in yield of 2.8-2.9% pa over 10 years (which is based on an average external fund charge of 1.5% pa). The choice of which charging option is therefore substantially a marketing decision, as opposed to a financial decision (at least when looked at over a 10-year term)

- though Option C will prove the most expensive of the four in the longer term.

CHART 1: PROJECTED SURRENDER VALUES, OPTIONS A-D, £50,000 PREMIUM (source: LifeBase)



To see how the IIB compares against other products in its sector, Table 2 shows projected policy values on the standard FSA projection basis. The companies and products selected for this comparison are aimed more at international markets than the UK market. (LifeBase users can of course see the full picture.) The comparison shows ALI's new Bond to be very competitive, and therefore well-positioned.

TABLE 2 – COMPETITOR COMPARISON PROJECTIONS, £50,000 PREMIUM

Company	Product	Underlying	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	RIY%
Scot Life	The Secure Investment Portfolio	-	49,152	51,984	54,963	58,098	62,009	82,486	1.9
Pru Int	International Prudence Bond	0	48,621	51,733	55,019	58,488	62,150	81,635	2.0
FPI	UltimaBond	1.5	49,270	52,235	55,366	58,670	62,469	79,803	2.2
Zurich Int	Elite International Bond	0.5	48,283	50,884	53,564	56,338	59,387	77,222	2.6
AIG	IIB A	1.5	48,349	50,779	53,331	56,012	58,827	75,173	2.8
AIG	IIB B	1.5	48,578	51,011	53,552	56,206	58,978	74,988	2.9
AIG	IIB C	1.5	48,421	50,963	53,632	56,435	59,378	74,944	2.9
Scot Prov Int'l	Preference (Basis A)	1.5	48,343	50,792	53,353	56,029	59,570	74,766	2.9
AIG	IIB D	1.5	48,113	50,657	53,311	56,080	58,969	74,601	2.9
FPI	Zenith (UK Version)	1.5	47,877	50,489	53,230	56,108	59,131	74,203	3.0
FPI	Elite	1.5	48,452	51,258	54,214	57,326	60,602	74,195	3.0
Zurich Int	International Wealth Account	1.5	48,306	50,676	53,626	56,171	58,815	74,035	3.0
Scot Prov Int'l	Preference (Basis B)	1.5	48,636	51,411	54,333	57,409	60,647	73,685	3.1
Han Euro	Premier Investment Account	1.5	48,051	49,559	52,117	54,804	58,001	72,670	3.2
Han Euro	Capital Bond	1.5	47,721	50,155	52,711	55,393	58,208	72,348	3.2
Han Int'l	Capital Builder	1.5	47,712	50,137	52,682	55,353	58,156	72,224	3.3
RSk	Managed Capital Account - Exp 30/06/2008	1.5	49,017	51,193	53,451	55,792	58,221	72,004	3.3
Generali Int'l	Choice	1.5	48,408	50,628	52,911	55,261	57,681	71,336	3.4
FPI	Zenith (ROW Version)	1.5	46,856	49,458	52,183	55,037	58,028	71,043	3.4
Han Euro	Income Builder	1.5	47,721	48,985	51,476	54,091	56,836	70,617	3.5
RSk	Managed Capital Account	1.5	48,056	50,189	52,403	54,698	57,080	70,592	3.5
Han Int'l	Income Builder	1.5	47,712	48,966	51,448	54,052	56,785	70,492	3.5

source: LifeBase