

## Managed Savings Account – By Royal Skandia

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

The Managed Savings Account - Royal Skandia's offshore savings plan – has been a market leading product in its sector for many years. This article, part of a series of monthly analyses using LifeBase's product analytical tools, takes a detailed look at the product to see just why it is as successful as it is.

### 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 company not just in single premium business but in regular premium business too. Funds under management are around £10 billion.

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.

### Funds

The Skandia Group were insurance pioneers of the Multi-Manager approach to investment more than 20 years ago, and the multi-manager concept remains at the core of their product offering and philosophy. Skandia's entire marketing philosophy has been built upon offering a wide range of funds and fund managers.

The fund range remains under active management. For example, during 2007, Royal Skandia added more than 20 new funds

to its range.

The Royal Skandia investment proposition offers two broad choices. "Self Select" enables investors and/or advisers to choose individual funds and construct a portfolio of funds from the huge list available. Alternatively, advisers can opt for the expertise of Skandia Investment Management to "manage the managers", and choose from Skandia's range of Managed Growth Solutions (Cautious, Balanced, Aggressive) and Asset Allocator Solutions. The range of Asset Allocator funds (each available in £, US\$, HK\$ and €) is:

- UK Equity
- North America Equity
- Far East Equity
- Japan Equity
- Europe Equity
- Emerging Markets Equity
- UK Fixed-interest
- Global Fixed-interest
- Money
- Property

For Self Select investors and advisers, the range of fund managers to choose from includes:

- Aberdeen
- Artemis

- AXA Framlington
- Baring
- F&C
- Fidelity
- First State
- Franklin Templeton
- Gartmore
- Henderson Global
- HSBC
- Invesco Perpetual
- Investec
- JPMorgan
- Jupiter
- Lazard
- Liontrust
- M&G
- Merrill Lynch

Morley

•

New Star

•

Newton

•

Sarasin Chiswell

•

Schroders

•

Société Générale

•

Threadneedle.

Using the fund performance tools in LifeBase, we can see that past performance in \$ over 5 years (to 31 January 2008) includes high performing funds such as:

TABLE 1 – 5-YEAR PERFORMANCE: TOP ROYAL SKANDIA FUNDS

<u>Fund Manager</u>	<u>Fund</u>	<u>Performance</u>
Baring	Eastern Europe £	+456.8%
Fleming	Emerging Markets £	+443.0%
Invesco GT	Developing Markets £	+384.0%
HSBC	Chinese Equity £	+343.8%
Baring	Europe Select Trust £	+288.5%
Merrill Lynch	New Energy £	+267.8%

source: LifeBase

By comparison, the top 10 performing funds in the offshore life business over the same 5-year period were as shown in Table 2, with Indian and Latin American funds taking the plaudits.

TABLE 2 – 5-YEAR PERFORMANCE: ALL FUNDS

<u>Fund Manager/Insurer</u>	<u>Fund</u>	<u>Performance</u>
JF – SPILA/Generali	India	+750.4%
JF – Friends Prov	India	+690.5%
Merrill Lynch - SPILA	Latin American	+636.3%
Hansard	Latin America	+634.9%
Threadneedle -Zurich	Latin American Growth	+585.6%
Hansard	First China Growth	+539.9%
Hansard	Indian Subcontinent	+506.7%
Lippo – Friends Prov	Indonesian Growth	+489.3%
Scottish Provident	India	+489.2%
JPM Fleming - Generali	Eastern Europe	+474.0%

source: LifeBase

Shortening the time horizon to 1-year, Royal Skandia is well represented on the list of top performing funds. Table 3 shows

the leading 10 funds in performance terms (\$ 1 year to 31 January 2008).

TABLE 3: 1-YEAR PERFORMANCE: ALL FUNDS

<u>Fund Manager/Insurer</u>	<u>Fund</u>	<u>Performance</u>
Merrill Lynch /Norwich Union	Gold & General	+55.8%
Threadneedle / Zurich	Asia Growth	+47.9%
Merrill Lynch / SPILA	World Gold	+46.8%
JF / Generali	Thailand	+44.3%
JF / Royal Skandia	Thailand HKD	+43.9%
JF / Friends Prov	Thailand	+42.6%
JF / SPILA + Generali	India	+40.8%
JF / Friends Prov	India	+39.4%
Threadneedle / NU	Asia	+38.6%
HSBC / Royal Skandia	Indian Equity \$	+38.2%

Source: LifeBase

As ever, some companies take their charges through the funds, whilst others take charges as unit deductions. The figures in Tables 2 and 3 need to be interpreted accordingly.

### Charges and Design

The Managed Savings Account (MSA) eschews the normal "standard and Initial unit" design found in other popular offshore regular premium plans. Instead, the MSA's sales costs are funded through back-end loads in the form of charges when a policy surrenders early or is made paid-up. These "exit" charges may be slightly higher than for other products, but it does mean that Royal Skandia maturity value projections are correspondingly higher. In effect, discontinuing policyholders subsidise higher maturity values for those policyholders who pay premiums to maturity.

Royal Skandia, like its close competitor Friends Provident, supports its regular premium product with "special offer" terms, which have been extended so many times they are now more normal than special. The special offer takes the form of enhanced unit allocations, provided the policy term is 10-15 years and the premium is at least \$750 per month. The benefit of the "special offer" is a unit allocation of 107% throughout, which more or less cancels out the 7% bid/offer spread.

The design of the MSA, including the special offer terms, is summarised in Table 4 below.

TABLE 4 - POLICY CHARGES

<b>Allocation Rates</b>	<p>I. <u>Standard</u></p> <p>Year 1 = 105%</p> <p>Year 2+ = 100%</p> <p>Minimum premium is \$525 pm</p> <p>II. <u>Special Offer</u></p> <p>107% throughout</p> <p>if premium &gt; \$750 pm and term is 10-15 years</p>
<b>Bid/Offer Spread</b>	<b>7%</b>
<b>Annual Mgmt Chg % pa</b>	<b>1.0%</b> pa of unit value.
<b>Switching</b>	free of charge
<b>External/Underlying Fund Charges<sup>5</sup></b>	standard external annual fund charges apply, though initial charges are discounted

<b>Policy Fee</b>	<b>\$8.30</b> pm.																																																												
<b>Loyalty Bonus</b>	0.2% of unit value for each year the plan has been in force (maximum 4%) is payable at the selected maturity date																																																												
<b>Surrender Penalties</b>	<p>An early surrender charge applies, as a % of value, depending on the policy term and the outstanding term. The following example rates are the percentage of the value of the policy that would be available on early surrender.</p> <table border="1" data-bbox="1052 462 1792 1165"> <thead> <tr> <th colspan="2"></th> <th colspan="4">Policy Term</th> </tr> <tr> <th colspan="2">Years in force</th> <th>5</th> <th>10</th> <th>15</th> <th>20</th> </tr> </thead> <tbody> <tr> <td>2</td> <td></td> <td>87.9</td> <td>63.8</td> <td>38.5</td> <td>29.4</td> </tr> <tr> <td>5</td> <td></td> <td>100</td> <td>88.5</td> <td>71.4</td> <td>58.0</td> </tr> <tr> <td>8</td> <td></td> <td></td> <td>97.5</td> <td>82.7</td> <td>71.0</td> </tr> <tr> <td>10</td> <td></td> <td></td> <td>100</td> <td>89.1</td> <td>77.0</td> </tr> <tr> <td>13</td> <td></td> <td></td> <td></td> <td>97.8</td> <td>84.6</td> </tr> <tr> <td>15</td> <td></td> <td></td> <td></td> <td>100</td> <td>90.0</td> </tr> <tr> <td>18</td> <td></td> <td></td> <td></td> <td></td> <td>97.8</td> </tr> <tr> <td>20</td> <td></td> <td></td> <td></td> <td></td> <td>100</td> </tr> </tbody> </table>			Policy Term				Years in force		5	10	15	20	2		87.9	63.8	38.5	29.4	5		100	88.5	71.4	58.0	8			97.5	82.7	71.0	10			100	89.1	77.0	13				97.8	84.6	15				100	90.0	18					97.8	20					100
		Policy Term																																																											
Years in force		5	10	15	20																																																								
2		87.9	63.8	38.5	29.4																																																								
5		100	88.5	71.4	58.0																																																								
8			97.5	82.7	71.0																																																								
10			100	89.1	77.0																																																								
13				97.8	84.6																																																								
15				100	90.0																																																								
18					97.8																																																								
20					100																																																								

## Paid-up Penalties

A **Monthly Contribution Servicing Charge** applies if a premium is partially missed or completely missed in any year. The charge is deducted monthly during the following year and during any subsequent year until contributions are restored to their previous highest. In any year the charge is based on the missed contributions from the previous year. The contribution servicing charge is **8% of the missed contributions**, although this charge can be partially offset by either 1% or an accumulation of Penalty-free allowance (if not used for withdrawals). The charge will not be applied if the premiums are re-instated to their normal amount within 3 months.

source: LifeBase

Using LifeBase's projections suite, it is possible to see how these charges compare against other products when it comes to projected maturity values. Table 4 shows the results for one example – a 15-year savings plan with a premium of \$1,000 pm, where projected values are at maturity assuming 7% pa investment return before charges, with external fund charges excluded. Table 5 shows the corresponding effect if fund charges are included.

TABLE 4 – PROJECTIONS: EXCLUDING EXTERNAL FUND CHARGES

<u>Company</u>	<u>Product</u>	<u>Year 15 Value</u>
Royal Skandia	Managed Savings Account - Special Offer terms	\$291,089
Royal Skandia	Managed Savings Account (standard)	\$273,194
Friends Provident Intl	UltimaSave	\$271,011
Scottish Provident Intl	Quantum	\$264,528
Friends Provident Intl	Premier Ultra - Special Offer terms	\$263,013
Generali Intl	Vision	\$261,802

Friends Provident Intl	Premier Ultra	\$261,754
Friends Provident Intl	Premier - Special Offer terms	\$259,655
Friends Provident Intl	Premier	\$258,396
Zurich Intl	Vista	\$256,558

TABLE 5 - PROJECTIONS: INCLUDING EXTERNAL FUND CHARGES (1.5% pa where applicable)

<u>Company</u>	<u>Product</u>	<u>Year 15 Value</u>
Generali Intl	Vision (internal funds)	\$261,802
Royal Skandia	Managed Savings Account - Special Offer terms	\$256,088
Zurich Intl	Vista (internal funds)	\$241,145
Royal Skandia	Managed Savings Account (standard)	\$240,242
Friends Provident Intl	UltimaSave	\$238,661
Scottish Provident Intl	Quantum	\$234,041
Generali Intl	Vision (external funds)	\$233,947
Friends Provident Intl	Premier Ultra - Special Offer terms	\$232,776
Friends Provident Intl	Premier Ultra	\$231,761

Friends Provident Intl	Premier - Special Offer terms	\$230,070
Friends Provident Intl	Premier	\$229,055
Zurich Intl	Vista (mirror funds)	\$227,198

Care should be taken when interpreting tables 4 and 5 above. The numbers shown are projected values at maturity. The fact is however that few policies will reach this stage and pay premiums throughout. Therefore it is arguably more important to look at the position for surrender values or values where policies are made paid-up part way through. Work undertaken by Boal & Co in this area does tend to show that products with higher maturity values are associated with lower surrender values, and vice versa. It is important for advisers not to lose sight of this fact.

## Features

The MSA has a considerable number of benefit features:

- **Additional life cover** is available as an option, to supplement the standard death benefit which is 101% of unit value
- **Waiver of premium** benefit (on disability) is another optional extra
- **Premium escalation** is optional - the planholder can elect at outset for premiums to increase automatically at 5% or 10% pa (where premiums are payable by credit card)
- **Phased investment facility** - there is the ability to drip feed lump sum investments into selected funds, to reduce risk
- **Automatic re-balancing** - there is the option to instruct Royal Skandia to regularly automatically re-balance the fund holdings in a policy, to keep to a pre-selected % matrix
- **Interest-free policy loans** - are available (as an alternative to surrender) through a "Fixed Account". Where this facility is used, the policy fee increases to \$16.60 pm for the duration of the loan.
- **Penalty-free allowance** - policies accrue and accumulate a 1% penalty-free allowance (re surrender) on each

policy anniversary.

## Summary

The Managed Savings Account has been a market-leading savings plan for many years. LifeBase's objective analysis of the product, including:

- A huge large range of Multi-Manager funds (for Self Select investors and advisers)
- An excellent range of managed and asset allocator funds (where Skandia "manage the manager")
- Competitive charges and features, supported by special offer terms which go on, and on ...
- A range of optional risk rider benefits and other added-value product features
- Excellent multi-currency flexibility

all provide a clear rationale for the Managed savings Account's success.