

## Paragon – By Scottish Life International

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Scottish Life International, who have generally focused to date on single premium business, have just launched Paragon, a new regular premium product, for Middle East and Far East business. This article, part of a series of monthly analyses using LifeBase's product analytical tools, takes a detailed look at the product to see how it compares with its competitors.

### Company

Scottish Life International (SLI) came into the offshore life market in 1996, establishing in the Isle of Man with a marketing strategy focused on capital-protected bonds and funds. Over the years, SLI has been led by a number of interesting industry characters, and its business strategy has gradually evolved. A key product now is the PIMS portfolio bond.

SLI (based in Douglas) operates not just in the UK but also around the world, including the Middle East where it has offices in Lebanon and Dubai, the Far East (a Hong Kong office), and Germany where it operates under the Royal London brand. New business in 2007 was £165m and funds under management exceed £800m.

Parent Royal London is now the largest mutual life and pensions group in the UK, with funds under management of £32.6 billion and annual profits of £147m (2007). When Royal London finally won in the bidding war to buy Resolution, the acquisition brought offshore competitor Scottish Provident International (SPILA) into the group. A key corporate priority for the next 18 months will be integration of SLI and SPILA into a single IoM operating unit (though no announcement has yet been made as to whether the longer-lived SPILA brand and business will be maintained).

### Funds

SLI's fund range for Paragon is comprehensive and very international in flavour, as suits the regions in which it is being launched. Paragon links directly to a range of around 100 external funds. The range of fund managers includes:

- Aberdeen
- AXA Rosenberg
- Blackrock
- CAAM
- Credit Suisse
- Fidelity
- Franklin
- Gartmore
- Goldman Sachs
- BNY Mellon
- JP Morgan
- New Star
- Parvest
- Pictet
- Schro
- UBS

Past performance figures reveal that the high performing funds in the range are:

TABLE 1 – TOP PERFORMING FUNDS (in fund currency, 1-year to 30/6/08)

Fund Manager	Fund	Performance
Blackrock	World Gold	+39.4%
ABN Amro	Brazil Equity	+34.4%
Blackrock	World Mining	+35.4%
ABN Amro	US Opportunities	+30.6%
Blackrock	World Energy	+26.9%
Threadneedle	Latin American £	+23.3%

source: SLI

By comparison, the top 10 performing offshore life funds over the same period were as shown in Table 2.

TABLE 2 – 5-YEAR PERFORMANCE: ALL FUNDS

Insurer/Fund Manager	Fund	Performance
Norwich Union Int / Blackrock	Gold & General	46.3%
Scottish Provident Int / Blackrock	World Gold	39.4%
Zurich Int / Threadneedle	Latin American	23.0%
Skandia / JPMF	Gbl Capl Preservation	20.6%
Scottish Provident Int / Blackrock	Latin American	19.7%
Norwich Union Int / Baring	Global Bond	19.5%
CMI / CMI	Japan Bond	19.1%
Skandia / ABN Amro	Latin American	18.9%
CMI / CMI	European Bond	18.7%
Hansard / Hansard	Latin America	18.6%

source: LifeBase

As ever, some companies take their charges through the funds, whilst others (such as SLI) take charges as unit deductions. For this reason, LifeBase enables performance analysis to be done on a "modified performance" basis, to provide proper like-for-like comparisons.

The fund range for Paragon has been carefully selected, to include a good choice of specialist funds, along with more traditional investment choices. Examples of the former include numerous single country equity funds, eg :

- Franklin India
- CAAM China (one of three China funds in the SLI range)
- UBS Taiwan
- JF Singapore
- CAAM Korea.

Examples of *specialist* funds in the Paragon range include:

- ABN Amro Energy
- Blackrock World Mining
- JP Morgan Natural Resources
- Pictet WaterBNY Mellon Global Alpha
- Pictet ABS Return Global Driver
- Al Dar Islamic Global Equity.

Paragon therefore provides a number of very interesting fund choices.

### Charges and Design

Paragon eschews the normal “standard and Initial unit” design found in other popular offshore regular premium plans. Instead, it uses a 4-year establishment charge, with between 30% (for a 5-year premium payment term) and 54% (25-year term) of all units purchased in the first 4 years being cancelled over the period. Establishment charges are guaranteed to SLI via a corresponding penalty on early surrender.

Unit allocation is 100%-105%, depending on premium size, though there is a 7% initial charge on all regular premiums. An annual charge of 1.5% pa applies, taken by unit cancellation, together with a quarterly policy fee (currently £10.50 pq).

The design of Paragon also incorporates loyalty bonuses, however, which for the more persistent investor can substantially rebate the quite high establishment charges over time. There is a 1% annual loyalty bonus, beginning between the 2<sup>nd</sup> policy anniversary (for 5-7 year plans) and 7<sup>th</sup> anniversary (for 24-25 year plans), plus special 7% loyalty bonuses on each of the 5<sup>th</sup>, 10<sup>th</sup>, and 15<sup>th</sup> anniversaries. These loyalty bonuses therefore are quite flattering for Paragon’s projected maturity values, for policies which pay throughout the full term.

The design of Paragon is summarised in Table 3 below.

TABLE 3 - POLICY CHARGES

<b>Allocation Rates for</b>	<b>100%</b>
<b>Annual Premium:</b>	<b>101%</b>
<b>\$2,000-2,999</b>	<b>103%</b>
<b>\$3,000-3,599</b>	<b>105%</b>
<b>\$3,600-4,799</b>	
<b>\$4,800+</b>	
<b>Premium Charge</b>	<b>7%</b>
<b>Establishment charge</b>	The following % of all units purchased during the first 4 years are cancelled during that period:
<b>Premium payment term (years)</b>	
<b>5</b>	<b>30%</b>
<b>10</b>	<b>36%</b>
<b>15</b>	<b>43%</b>
<b>20</b>	<b>49%</b>
<b>25</b>	<b>54%</b>
<b>Annual Mgmt Chg % pa</b>	<b>1.5% pa of unit value.</b>
<b>Switching</b>	free of charge
<b>External/Underlying Fund Charges</b>	standard external annual fund charges apply initial charges are fully discounted (units bought at NAV)
<b>Policy Fee</b>	<b>\$21.00</b> per quarter

<b>Loyalty Bonus</b>	1% of unit value each year, commencing between 2 <sup>nd</sup> and 7 <sup>th</sup> policy anniversaries, provided premiums have been paid throughout:
<b>Premium term (years):</b>	
5-7	2
8-11	3
12-15	4
16-19	5
20-23	6
24-25	7
	Also, a 7% loyalty bonus is credited on the 5 <sup>th</sup> /10 <sup>th</sup> /15 <sup>th</sup> anniversaries, if the policy is also receiving regular loyalty bonuses at that time.
<b>Surrender Penalty</b>	Equal to the outstanding establishment charge for future premiums during the 4-year initial period

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 210-year savings plan with a premium of \$500 pm, where projected values are at maturity assuming 7% pa investment return before charges, with external fund charges of 1.5% pa assumed where applicable. Table 5 shows similar figures for a 20-year plan. As can be seen, Paragon is more competitive on projected maturity values for longer term plans (where the effect of the loyalty bonuses is significant – albeit of course only for policies that pay premiums throughout).

TABLE 4 – PROJECTIONS: EXCLUDING EXTERNAL FUND CHARGES \$500 pm x 10 years

Company	Product	Year 210 Value \$
Generali Intl	FlexisaverVision (internal funds)	68,025
Generali Intl	VisionFlexisaver (external funds)	69,333
Friends Provident Int	Premier Ultra *	72,046
Friends Provident Int	Premier *	67,233
Royal Skandia	Managed Savings Account *	74,616
Scottish Provident Intl	QuantumKudos	69,601
<b>Scottish Life Intl</b>	<b>Paragon</b>	<b>67,251</b>
Zurich Intl	Vista (external funds)	70,369
Zurich Intl	Vista (internal funds)	67,711

\* special offer terms

Source: LifeBase

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.

TABLE 5 – PROJECTIONS: EXCLUDING EXTERNAL FUND CHARGES \$500 pm x 20 years

Company	Product	Year 20 Value \$
Generali Intl	Vision (internal funds)	169,475
Generali Intl	Vision (external funds)	171,924
Friends Provident Int	Premier Ultra *	198,017
Friends Provident Int	Premier *	169,235
Royal Skandia	Managed Savings Account *	179,881
Scottish Provident Intl	Quantum	171,265
<b>Scottish Life Intl</b>	<b>Paragon</b>	<b>179,289</b>
Zurich Intl	Vista (external funds)	179,649.
Zurich Intl	Vista (internal funds)	165,570

\* *special offer terms*

Source: LifeBase

### Features

The list of additional features for Paragon is quite short:

- Additional life cover is not available, and the standard death benefit is 100% of surrender value
- Waiver of premium benefit likewise is not available
- The policy can be denominated in either £, \$ or €, and in addition premiums may be paid in Dirham (for \$ conversion)
- Premium escalation at 5% and 10% pa (simple) is optional
- Regular withdrawals are possible only after 5 years

### Summary

Paragon is launched into an important market segment, i.e. regular savings plans, an area of new business which SLI (and a few other life offices) has been absent from for far too long. The regular premium market is tough for any newcomer, being dominated by giants such as Friends Provident, General, Royal Skandia and Zurich.

Paragon is broadly competitive on price, more so for those longer term plans which eventually qualify for the large loyalty bonuses (and less so for those that do not). The fund range is interesting and quite distinctive; it will be interesting to see how SLI adapt and manage it to suit different market conditions in the future.