

## Portfolio Account - Prudential International

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The subject of this month's product article is, for once, a brand new product – the Portfolio Account, from Prudential International. This article, part of a series of monthly analyses using LifeBase product analytical tools, takes a detailed look at the Portfolio Account to see how it compares with its peer group, and what new features it brings.

### Company

Prudential International traces its origins back to Scottish Amicable European, a company founded in the early 1990s by serial insurance entrepreneurs Paul Bradshaw and Clive Cowdery (whatever happened to him?) as one of Dublin's first IFSC life insurance ventures. Everyone involved of course, including Dublin IFSC, has gone on to ever greater things, and in the case of Scottish Amicable European it was gobbled up by the (UK) Prudential group when the Pru acquired Scottish Amicable in 1997.

Scottish Amicable European originally launched with a distinctive USP which focused around unit-linked protection products, including a long-term care bond. Since it became part of the Pru, though, the Dublin company has moved ever more into the mainstream part of the offshore market, and particularly in recent years Prudential International has made great strides to climb the offshore league tables.

### Funds

The all-new Portfolio Account is Prudential International's new flagship portfolio bond product, replacing the previous Prudence Portfolio Bond. The changes inherent in the new product are more of a revolution than an evolution, and for this reason the all-new product name is a good marketing idea.

The Portfolio Account (PA) is very much a "new generation" PPB product, which is distinguished not only by the extent of the fund rebates it provides, but also for the fact that these rebates accrue to the PA policyholder on a daily basis, regardless of when the fund management group actually remit them to Prudential. The launch range of over 2,200 funds (which, being open architecture, is already being expanded) offers excellent value for money discounts. Average external fund standard initial charges of 4.30% are virtually eliminated, down to a mere 0.1%, by means of initial rebates. Many funds therefore can be purchased at no initial charge at all.

The PA also benefits from annual management charge (amc) rebates. In this case, our analysis of the initial launch fund list indicates that the average annual rebate is 0.35% pa, reducing the net amc to an average of 1.0%. Individual amc rebates range from nil (eg money funds) up to 0.65% pa (eg Blackrock ML Gold & General fund).

Annual charge rebates are paid into the PA cash account for the investor, accruing on a daily basis and vesting quarterly. They therefore provide a regular, predictable degree of extra liquidity, useful for meeting the PA product charges.

Unusually for an Irish PPB, the PA is offered not just in life assurance form, but also as a capital redemption bond. The much higher solvency requirements for capital redemption business in Ireland/EU penalise Prudential International, and result in a 0.25% pa higher product charge for the capital redemption variant.

A range of trusts is available to support the Portfolio Account:

#### Discretionary trusts:

- I Discounted Gift Trust
- I Loan Trust
- I Gift Trust
- I Excluded Property Trust

### Design

The Portfolio Account covers all design options and ticks all the boxes, with a choice of four easy to understand charging structures, all of which are clean and commission-driven.

Two of the four structures have a fixed £ annual fee, the other two being %-based. In the latter case, the annual wrap (product) charge ranges from 0.7% pa at most (for portfolio values less than £250k) down to 0.15% (portfolio values of £1m and above). These % rates are uncannily similar to those of Aegon Scottish Equitable's product. (Unintentional, I'm sure.) Where assets are held with a discretionary asset manager, a small additional delegated management charge of 0.1% pa applies throughout.

The four charging structures are summarised in Table 1. Charges are commission-driven, and the figures in Table 1 assume 5% commission, for ease of comparison. All of the designs offer free deals: 20 in the first year, and 10 pa thereafter.

TABLE 1	1. "Establishment Charge Option"	2. "Initial Charge Option"	3. "Ongoing Charge Option – Establishment version"	4. "Ongoing Charge Option – Initial version"
Investible Percentage	100%	£50-99k: 92.5% £100-299k 93.25% £300k+: 94.0%	100%	

Establishment Charge	A 5-year establishment charge is taken evenly each quarter, pro rata.  The total charge (which is a % of premium) over 5 years is as follows:  £50-99k: 9.25%  £100-299k 8.75%  £300k+: 7.75%	None	A 5-year establishment charge, total 5.75%, is taken evenly each quarter. The charge is a % of value, or premium if higher	None
Administration Charge	£115 per quarter	£115 per quarter	Nil	Nil
Portfolio Charge (% of fund value pa)	Nil	Nil	£50-249k: 0.70% £250-499k 0.40% £500-999k: 0.20% £1m+: 0.15%	£50-249k: 0.70% £250-499k 0.40% £500-999k: 0.20% £1m+: 0.15%
Surrender Penalties	Outstanding establishment charge	N/A	Outstanding establishment charge	N/A
External Fund Charges	Heavily discounted initial and annual fund charges apply. Rebates paid by the underlying managers are credited to the Cash Account.			
Dealing Charge	20 free deals in year 1, 10 free deals pa thereafter. After which, £23 per deal			
Other Charges	Custodian – varies by asset type. Capital redemption option – extra 0.25% pa throughout. Delegated management charge (discretionary asset manager) – extra 0.1% pa.			

The Portfolio Account is available in 11 major currencies, including £, \$ and €. Death benefit is 100.1% of surrender value.

#### 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.)

A price comparison for the Portfolio Account shows it in an excellent light, but still does not entirely do the product justice, given the extent of the fund charge rebates referred to earlier. However, as amc rebates do differ from one fund manager to another, and between different insurers with the same fund manager, accurately reflecting this is difficult. (It's something we're working on for LifeBase at the present.) Suffice to say that on average, across the 2,200 fund list, the average effect of rebates in the case of the Portfolio Account is 0.35% pa.

Table 2 compares Reductions in Yield for leading PPB products, looking at the effect of charges over 10 years. It does not allow for the impact (if any) of annual fund rebates, though in the case of Prudential we suggest a reduction of 0.35%, for the reasons explained earlier. The figures are produced using LifeBase, and to give the most like-for-like comparison, are shown on a nil commission basis.

Table 2 – Reduction in Yield

The figures assume investments of £200,000, an annual growth rate of 7%, nil commission and for consistency no external fund management charges.

Rank	Company	Product	RIY%
=1	Axa IOM	Evolution (D)	0.28
=1	Canada Life Intl	Dimensions Preference Account (A)	0.28
=3	Aegon Scottish Equitable	Wealth Management Portfolio	0.32
=3	Canada Life Intl	Premiere Account - Alpha (I)	0.32
5	Norwich Union Intl	Premier Portfolio (Option 2)	0.34
6	CMI	Global Investor (Enhanced Allocation Option)	0.36
7	Prudential Intl	Portfolio Account (Initial Option)	0.39
8	Scottish Life Intl	Personal Investment Management Service (K UK))	0.43
9	Scottish Provident Intl	Select (Option 2)	0.50
10	Royal Skandia	Collective Investment Bond (A)	0.74

Source – LifeBase Offshore

In the case of Prudential's Portfolio Account, the average amc rebate of 0.35% pa almost covers the 0.39% pa product charge in full (on a nil commission basis). On this basis, the Account practically pays for itself, and the added-value proposition of the PPB wrap is very much evident.

#### Service

Prudential International provide a number of added-value on-line services, enabling advisers to:

- I generate illustrations
- I track new business
- I search the complete list of available funds under a number of different criteria, such as fund management group, sector, discounted initial

- charge and amc rebate
- I download literature
- I generate suitability letters for clients

In addition, Prudential International has created a new service charter which sets out the service standards for areas such as:

- I illustration requests
- I new business notification
- I policy issue and documents
- I payment of commission
- I valuations
- I dealing
- I withdrawals and surrenders

#### Summary

Prudential International's brand new Portfolio Account is excellently positioned to increase Prudential's market share in the offshore PPB product sector. The product's main attributes can be summarised thus:

- I Concentration on the needs of UK customers and IFAs
- I Clean, transparent design, with all charges being commission-driven
- I A choice of 4 standard charging structures, offering flexibility to cater for different customer profiles
- I Low charges, with a choice between fixed annual charges and % annual charges (as low as 0.15%)
- I Annual fund charge rebates, typically 0.4 – 0.6% pa (for most equity funds), are credited back to the Portfolio Account
- I Good entry level, with a minimum premium of £50,000