

Select - By Scottish Provident International

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In recent weeks, Isle of Man based Scottish Provident International (SPILA) has re-launched "Select", its pooled fund portfolio bond. This article, the latest in a series of monthly LifeBase product analyses, examines the new Select to see how it compares in this most competitive sector of the offshore life business.

Company

Established in the Isle of Man in 1991, SPILA has had to overcome a challenging ownership history. Following launch, SPILA grew relatively quickly, with a balanced single and regular premium business diversified across multiple international markets. However, following the sale of Scottish Provident to Abbey National, SPILA then had to refine its business strategy within the context of a larger group which had other offshore operations, in the form of Scottish Mutual International in Dublin. After a period of consolidation, SPILA had begun to re-establish on to a growth plane, before troubles at parent company Abbey led to SPILA, along with many other Abbey operations, being placed in a so-called "Portfolio Business Unit" of non-core operations earmarked for sale. SPILA re-trenched and pulled back from many international markets, including Hong Kong. The busy corporate background was not yet over, though, as Abbey itself was taken over by Santander, the Spanish bank. Santander then sold Abbey's entire life assurance operations (UK and offshore) in June 2006 to Resolution plc for £3.6 billion.

Today, SPILA therefore finds itself sitting as part of Resolution, a FTSE 100 company. SPILA has once again therefore re-engineered its proposition, now as part of Resolution, and in December 2006 re-entered the Hong Kong market. The re-launch of Select comes at the same time as a re-launch of other products, including "Prosper" and "Momentum", as SPILA once again strides forward with confidence. SPILA has £1.25 billion of funds under management, looked after by 150 staff.

Select - Funds

Select is a pooled fund private portfolio bond (PPB) aimed at the UK and other international markets. Key competitors therefore are AXA, Royal Skandia, Canada Life International, CMI, Friends Provident International, Prudential International and Scottish Equitable International.

As a pooled fund PPB, Select has a full open-architecture platform covering 1000's of funds, all with discounted dealing terms. SPILA has negotiated especially enhanced institutional trading terms with a long list of external fund providers. Examples of the initial unit purchase terms are:

Manager	Unit Purchase Price
Blackrock Merrill Lynch	Creation
Gartmore	Creation
Henderson	Creation
Schroder	Creation
Investec	Creation + 0.25%
Threadneedle	Creation + 0.25%
F&C	Creation + 0.5%
Fidelity	Creation + 0.5%
Jupiter	Creation + 0.5%
Morgan Stanley	Creation + 0.5%
GAM	Creation + 1%
M&G	Creation + 1%

SPILA's full extra discount list spans more than 70 different fund groups.

A key point to note in relation to Select is that SPILA pass on *all* annual fund rebates, including trail commission and other annual rebates - to policyholders. This is a growing feature of the PPB market and is a marked change with past practice. SPILA therefore now joins a growing number of PPB providers, including AXA, CMI and Scottish Equitable International, who provide added value in this way.

Capital Redemption Option

SPILA has taken the opportunity in the new version of Select to offer it for the first time in Capital Redemption form. Being an Isle of Man insurer, SPILA's IoM solvency margin requirement is the same regardless of whether the business is written in Capital Redemption or Life Assurance form. In contrast, EU solvency rules mean that insurers in Ireland for example are subject to much higher solvency requirements for CRB business, to the point that it is uneconomic. SPILA will have noted that a large proportion of offshore bond business is now written in capital redemption format and is therefore wise to make the most of its opportunities and to now offer Select in CRB form (as well as the traditional life assurance form). For Select, the guaranteed minimum maturity value is 2 times premium, after a term of 99 years.

A full range of trusts is available to support the estate planning uses of Select.

Although Select is available in both capital redemption and life assurance form, one point to note is that SPILA have attached extra conditions to the CRB version. For example, the minimum CRB premium is raised to £250,000 (or currency equivalent), which is much higher than the standard £50,000 for the life assurance version. The CRB version is also subject to the additional requirement that cash deposits are limited to no more than 50% of policy value (to protect SPILA in some respects in relation to the maturity guarantee).

Life Cover

Select stands out from most other PPBs in offering the option of additional life assurance cover, of up to 10 times premium (depending upon age). In this respect, SPILA perhaps aim to leverage off Scottish Provident UK's reputation for protection business. Standard cover though is 101% of surrender value.

Charges

As with most PPBs, Select is offered in a choice of charging structures, in this case three. Option 1 is back-end loaded, Option 2 is front-end loaded, whilst Option 3 is very much geared towards discretionary asset management introducers, with a tiered annual management charge reducing to as little as 0.2% pa (for fund value in excess of £2m). In effect, large case special terms are hard-coded into the product design. Two of the three charging structures are driven explicitly by commission.

The three charging structures (shown on standard commission terms) are summarised in Table 1.

TABLE 1	Option 1 (Back-end loaded)	Option 2 (Front-end loaded)	Option 3 (Hybrid)
Investible Percentage	100%	99% less commission (max commission is 5%)	100% less commission (max commission 3%)
Establishment Charge	3% in year 1, 1% pa in years 2-4. The charge is based on the higher of unit value or premium and is deducted quarterly in arrears (total 6% of higher of unit value or premium)	None	None
Quarterly Administration Charge	0.125% per quarter of fund value deducted quarterly in arrears, subject to a minimum of £125/\$250/€190/JPY21,250 HKD 1,875 per quarter.	0.0125% per quarter of fund value deducted quarterly in arrears, subject to a minimum of £250/\$500/€375/JPY42,500/ HKD 3,750 per quarter.	Tiered structure as follows: First £500,000 = 0.15% pq Next £250,000 = 0.125% pq Next £250,000 = 0.10% pq Next £1,000,000 = 0.075% pq Above £2,000,000 = 0.05% pq In year one the fee is based on premium and is deducted annually in advance. Thereafter the charge is based on fund value and is deducted quarterly in arrears.
Quarterly Valuation Fee	£35/\$70/€55/JPY5,950/ HK\$525 per quarter.	Nil	Nil
Surrender Penalties	6% of higher of premium or fund value initially, reducing by 0.75% pq in year 1 and 0.25% pq thereafter to nil at the end of year 4.	N/A	N/A
External Fund Charges	Usual annual management charges associated with the underlying investments apply. Discounts are available on initial charges - see fund section. In addition SPILA refund any fund management rebates paid by the underlying managers to the Cash Account.		
Dealing Charge	£25/\$50/€40/JPY4,250/HK\$375 per transaction. There is no charge for the purchase of internal funds.		

Other Charges	Custodian - varies by asset type.
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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.)

As a Personal Bond, Select is broadly competitive on price, particularly so for Option 2. Table 2 compares Reductions in Yield for leading PPB products, looking at the effect of charges over 10 years. The figures are produced using LifeBase, and to give the most like-for-like comparison, are shown on a nil commission basis (a recent enhancement to LifeBase Offshore).

Table 2 - Reduction in Yield

The figures assume investments of £250,000 and £500,000, an annual growth rate of 7%, nil commission and for consistency no external fund management charges.

Company	Product	£250K R1Y	£500k R1Y
Axa IOM	Evolution (Nil Comm Option D)	0.20	0.14
Friends Provident Int	Reserve - UK Version (Nil Comm Initial Option)	0.24	0.17
Norwich Union	Premier Portfolio (Nil Comm Option 2)	0.23	0.17
Pru Int	Prudence Portfolio Bond (Nil Comm)	0.28	0.21
Scot Eq Dub	Wealth Management Portfolio (Nil Comm Structure)	0.27	0.21
Canada Life	Premiere Account - Alpha (Nil Comm Option I)	0.28	0.22
Scot Prov Int'l	Select (Nil Comm Option 2)	0.42	0.26
CMI	Global Investor (Nil Comm Initial Option)	0.36	0.29
Royal Skandia	Collective Investment Bond (Nil Comm Structure B)	0.58	0.51
Scot Prov Int'l	Select (Nil Comm Option 1)	0.58	0.56
Scot Prov Int'l	Select (Nil Comm Option 3)	0.64	0.61

* Note: Source - LifeBase Offshore: £250,000 and £500,000 premium. External fund charges excluded.

The ranking order as shown in Table 2 will change, depending upon the premium size. As one example, the design of Select's Option 3 will clearly make it very attractive for larger cases, eg with premiums of £1m and above. Projections have not been shown for such higher cases, though, as many companies will in practice give (unpublished) special terms. It should be noted too that a comparison of R1Ys on *standard* commission terms may produce a slightly different order of results.

Service

SPILA prides itself on recognising the importance of quality service to both advisers and their clients. As part of this ongoing commitment to quality service, SPILA was one of the first companies on the Isle of Man to achieve the Investor in People award. SPILA has been assessed five times against the IIP standard and successfully reaccredited on each occasion, most recently in June 2006. In addition, SPILA has received Investor in People Champion status, the only company on the Isle of Man to achieve this status in their own right and one of only 9 organisations within the UK to receive this award in 2006.

Summary

The re-launch of Select is a significant challenge to some of the established PPB market leaders. Select stands out from some of its peer group through its commitment to institutional trading terms for policyholders (including annual fund rebates), its choice of 3 charging bases (including one tailored specifically to discretionary asset management, and with the option of additional life assurance cover. Importantly, for those advisers who prefer capital redemption products, Select is also available in CRB form