

Wealth Management Portfolio - By Aegon Scottish Equitable International

(Originally published in "International Adviser" November 2007. Reproduced with the kind permission of International Adviser)

The Wealth Management Portfolio (WMP) is AEGON Scottish Equitable International's market-leading pooled fund portfolio bond. This article, the latest in a series of monthly LifeBase product analyses, examines the Wealth Management Portfolio to see how it compares in this most competitive sector of the offshore life business.

Company

AEGON Scottish Equitable International (ASEI) is one of the newer companies in the offshore life industry, having launched into the market in 2002.

ASEI is located in Dublin, where it represents the second chapter in the story of Scottish Equitable's offshore life strategy. Scottish Equitable originally went offshore in 1995 - but to Luxembourg, not Ireland. Whilst the Luxembourg company Scottish Equitable International SA (SEISA) achieved some success, it was ultimately held back by the life assurance regulatory regime in Luxembourg, which gave an uncompetitive product platform for UK unit-linked business. Scottish Equitable, recognising that Luxembourg was proving difficult in many ways, took the decision to tackle the fundamental problem and did so by choosing Ireland as a new base. The successful launch in Ireland in 2002 hugely vindicated the management decision (the second one, that is!), to such an extent that SEISA was deemed surplus to requirements, was closed to new business in early 2004 and was subsequently sold in 2006 to La Mondiale Europartner.

AEGON Scottish Equitable International plc (the AEGON was added to the name in 2007 when it changed from Scottish Equitable International (Dublin)) does business only in the UK. Whilst this gives the company maximum operational efficiency, it does mean the company is very exposed to single market risk (witness the UK capital gains tax changes in the October UK Pre-Budget Report).

Because ASEI operates only in the UK, its business is mostly single premium. ASEI does have a regular premium product in Flexible Investment Plan, a recurrent single premium design. In 2006, though, single premium products accounted for 95% of ASEI's total business (on an Annual Premium Equivalent basis). ASEI's single premium product range extends also to its innovative "GMxB" single premium product "5 for Life".

Wealth Management Portfolio though is ASEI's main product. WMP was launched in 2006, in effect replacing the original SEID launch products Private Client Portfolio and Investment Portfolio. It has sold very strongly since.

In part because of the success of WMP, AEGON Scottish Equitable International is a top 5 company in offshore single premium business. At 31 December 2006, funds under management were €2.3 billion, with new business in the year contributing €0.9 billion.

WMP - Product and Funds

For investments of £75,000 and above, WMP is a pooled fund private portfolio bond (PPB) aimed exclusively at the UK IFA market. Key competitors in this UK-centric world therefore are AXA (IoM), Canada Life International, Royal Skandia, CMI, Friends Provident International, Prudential International, Scottish Life International and Scottish Provident International. In PPB form, the WMP links to a choice of around 23,000 funds, ie it is a definitive wrapper (insofar as the UK PPB Regulations will allow).

WMP is very much a "new generation" PPB product. WMP is distinguished by the extent of the fund rebates it provides. The 1,000-fund "Preferential" range has especially discounted charges, with more than 700 funds available at no initial charge. Annual fund charges too are rebated, with rebates typically of 0.5-0.9% pa off the retail annual charge. Indeed, ASEI publish sample portfolios of medium and higher risk funds with an effective total yearly charge of less than 1% pa. Annual charge rebates are paid into the WMP cash account (for the investor) or paid to the IFA as trail commission, which as a combination is a very powerful marketing tool - so much so that other leading PPB providers are having to revamp their product to respond.

For premiums of between £15k and £74k, WMP is available in a restricted investment bond form, linking to a risk-graded range of more than 70 "Portfolio Funds" managed in-house by AEGON and externally by managers such as 7IM, Baillie Gifford, Invesco, Lazard, Merrill Lynch, Newton, Artemis, Fidelity, JP Morgan, Schroder and UBS.

Because ASEI is very much concentrated on the mainstream UK offshore sector, it does not offer WMP in highly personalised form. Neither does it offer WMP in capital redemption format (a consequence of the particular solvency requirements of CRB business in Ireland and EU).

A range of trusts is available to support WMP:

Discretionary trusts:

- Discretionary Gift Trust
- Discretionary Loan Trust
- Discretionary Reserved Interest Trust

Bare trusts:

- Bare Gift Trust
- Bare Loan Trust

Design

The Wealth Management Portfolio covers all design options and ticks virtually all the boxes, with a choice of five easy to understand charging structures, including a nil commission/clean structure.

The annual wrap (product) charge ranges from 0.7% pa at most (for portfolio values less than £150k) down to 0.15% (portfolio values of £1m and above). The 0.15% figure is even negotiable for values of £5m and above.

The five charging structures are summarised in Table 1. All of the designs offer free deals (for the first 25 deals in any year).

Table 1.

	Option A - initial	Option B - 5 year	Option C - 8 year	Option D - enhanced allocation	Option E - clean
Commission	standard initial	standard initial	standard initial	standard initial	0%
Investible Percentage	94%	100%	100%	104%	100%
Establishment Charge	None	0.33% per quarter (1.32% per annum) of higher of unit value or premium deducted quarterly in arrears for 5 years (total 6.6%)	0.225% per quarter (0.9% per annum) of higher of unit value or premium deducted quarterly in arrears for 8 years (total 7.2%)	0.55% per quarter (2.2% per annum) of higher of unit value or premium deducted quarterly in arrears for 5 years (total 11%)	None
Portfolio Charge	<p>A quarterly charge is deducted based on the value of the portfolio, as follows:</p> <p>£15,000 - £149,999 = 0.70% pa</p> <p>£150,000 - £249,999 = 0.40% pa</p> <p>£250,000 - £499,999 = 0.25% pa</p> <p>£500,000 - £999,999 = 0.20% pa</p> <p>£1,000,000* plus = 0.15% pa</p> <p>* Terms for cases £5m plus are negotiated on a case by case basis</p>				
Surrender Penalties	None	6.6% of higher of unit value or premium initially, reducing by 0.33% pq to 0% at the end of 5 years.	7.2% of higher of unit value or premium initially, reducing by 0.225% pq to 0% at the end of 8 years.	11% of higher of unit value or premium initially, reducing by 0.55% pq to 0% at the end of 5 years.	None
Dealing Charges	25 free deals each year, subsequent deals incur a charge of £20.50.				
Other charges	Custodian fees. Any underlying investment charges.				

The WMP is available in £, \$ and €. Death benefit is 100.1% of surrender value.

One slight criticism of WMP is the relatively low rate interest credited on the Portfolio's cash account - currently 2.5% on £ balances (at a time when bank base rate is 5.75%).

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 WMP 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. It is still a minority of PPB products which pass these rebates on to the policyholder.

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, as these are fund-specific. The figures are produced using LifeBase, and to give the most like-for-like comparison, are shown on standard terms but on a nil commission basis.

Table 2 - Reduction in Yield

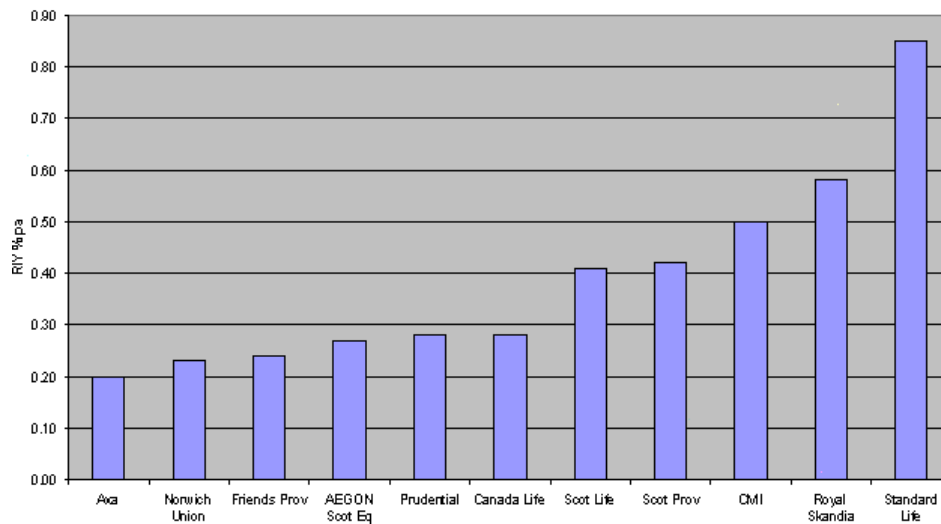
The figures assume investment of £250,000, an annual growth rate of 7%, nil commission and for consistency no external fund management charges.

Company	Product	RIY %
Axa IOM	Evolution (Option D)	0.20
Norwich Union Int	Premier Portfolio (Option 2)	0.23
Friends Provident Int	Reserve - UK Version (Initial Option)	0.24
AEGON Scot Eq Int	Wealth Management Portfolio (Nil Comm Structure)	0.27
Prudential Int	Prudence Portfolio Bond	0.28
Canada Life Int	Premiere Account - Alpha (Option I)	0.28

Scottish Life Int	Personal Investment Management Service (Structure K (UK))	0.41
Scot Prov Int'l	Select (Option 2)	0.42
CMI	Global Investor (Level Option)	0.50
Royal Skandia	Collective Investment Bond (Structure B)	0.58
Standard Life Int	International Bond (Nil Comm Structure)	0.85

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

RIY - Effect of Charges



Service

- AEGON Scottish Equitable International provide a number of added-value on-line services, enabling advisers to:
- obtain summary and detailed downloaded policy valuations
- use ASEI's Investment Risk Profiler to identify clients' risk profiles and tailor investment strategies suited to them
- generate "reasons why" detailed client recommendation reports
- access investment planning tools from Morningstar - on a free to use basis
- train using ASEI's on-line training suite, including CPD certificates on successful completion.

Summary

The Wealth Management Portfolio has rapidly risen to become a market leader in the offshore UK pooled PPB product sector. The product's main attributes can be summarised thus:

- Concentration on the needs of UK customers and IFAs
- Clean, transparent design
- A choice of 5 standard charging structures, offering flexibility to cater for different customer profiles
- Low charges, with an annual charge of between 0.15% and 0.70% (depending on portfolio value)
- Annual fund charge rebates are credited back to the portfolio, or paid to the IFA - they are not retained by ASEI
- Low entry level, with a minimum premium of only £15,000 (for the investment bond version)
- IFA extranet, including on-line valuations, training and investment tools.

Actuaries Boal & Co launched the product comparison software LifeBase Offshore in 1997. It provides analysis of offshore life products and has been used extensively by life companies. LifeBase OnLine brings LifeBase to professional IFAs. For further details, please register at www.lifebase.co.uk