OFFSHORE FLEXIBLE WHOLE OF LIFE PLANS

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Mike Batey**, with assistance from* **LIFEBASE OFFSHORE+, completes Boal & Co's analytical look at the offshore life assurance industry. Under examination this month are Flexible Whole of Life plans.*

So far in our series of analyses, we have examined products that are intended for savings and investment needs. In examining Flexible Whole of Life products we now depart from the motivation of wealth management and head towards what could be considered a more traditional financial planning need for a life assurance product – that of protection.

Scope and Market

Protection is, as we all know, an integral part of the financial planning process – the simple argument being that it is all very well making plans for retirement or other future events, but what if something happens in the meantime which either affects the ability to maintain those plans or even prevents the enjoyment of the benefits at all? Almost all products available from offshore life assurance providers offer a tiny element of protection of some description or other, but mostly in the form of standard death benefit inextricably linked to the value of the underlying units. Protection is of course much wider than this, embracing, for example, inability to work through disability / illness / injury, medical expenses and long term care. It is of course possible to cover most lifetime protection needs by setting up individual plans for each (either on a stand-alone or unit-linked basis), but this tends to be a time consuming (because of medical underwriting) and disjointed way of going about it. Through a unit-linked Flexible Whole of Life plan assurers can provide a "one-stop shop" whereby several protection benefits can be incorporated into a single plan.

At this point, some readers may recall last month's article where we identified several regular savings plans with a range of additional benefits and ask whether it is possible to satisfy diverse protection needs in this way? The answer is of course, yes, but with the inevitable result that the savings benefits are eroded. The choice of benefits in respect of regular savings is just that – a choice – whereas Flexible Whole of Life plans operate in reverse, offering protection benefits with the possibility of a small cash-in value. For each of these two different financial planning needs there are two distinct product types.

The geographical spread of the market is quite diverse. One of the mainstays for offshore providers in the past has been South America, serviced through Master Agent distributors. However, strategic corporate withdrawals over recent years have resulted in a reduced number of providers. As might be expected, the traditional expatriate hotbeds of the Far and Middle East through the financial intermediary channel certainly feature as key target markets, as does the African continent. Whereas the UK is generally avoided for other offshore regular premium product types, there are one or two companies who are happy to compete alongside the big UK companies with Flexible Whole of Life products. The fact that there only a handful of providers targeting the UK market can, more often than not, be attributed to a conflict with "sister" UK operations for whom this can be a key market.

The Providers

The focus away from mainstream investment products towards the more specialist world of protection has perhaps resulted in a somewhat limited number of providers offering Flexible Whole of Life plans.

Table 1 : Principal Offshore Flexible Whole of Life Products

Company	Product
Canada Life International	Flexible Life Plan
CMI	Lifetime Classic Plan
Eagle Star International	Futura
Generali International	Viva
Hansard International	Assured Security Plan
Scottish Amicable International	Flexible Life Plan
Scottish Amicable International	Flexible Critical Illness Plan
Scottish Provident International	Stratum

Source : www.lifebase.co.uk LifeBase Offshore

The list of products and providers shown in Table 1 bears out the point made earlier about the diversity of geographical focus. Three of the providers shown have (in the case of Eagle Star) or used to have (CMI, Scottish Amicable) strong representation in the South American region. For the Far and Middle Eastern countries there is a choice of Eagle Star, CMI, Generali International, Scottish Provident International and Hansard (although the latter would exclude the Hong Kong market). Canada Life International and Scottish Amicable have both chosen to buck the trend and compete with UK providers.

Product Design & Charges

When it comes to Flexible Whole of Life plans, charges fall into two distinct camps – risk benefit (mortality and/or morbidity) charges and product charges. In previous articles we have made use of the Reduction In Yield calculation incorporated within **LIFEBASE OFFSHORE+** (which assesses the drag effect of product charges on a prescribed investment return) to compare investment or savings products against one another. For Flexible Whole of Life Plans, however, the benefit of RIY comparisons is somewhat diluted, firstly because it is only possible to take into account the effect of benefit charges on a case-by-case basis and, secondly, because the focus for this product genre is on protection rather than savings or investment benefits.

All but 2 of the providers from the study group employ a bid/offer spread as an initial charge (at rates ranging between 5 and 7.5%). Unlike other regular premium offshore product types, use of initial units is very much in the minority with only one company (Scottish Amicable) opting for this. Of the rest, reduced allocation in the early years is the preferred companion for the bid offer spread as a means of recouping initial commission, medical underwriting and set-up costs. Perhaps because the attention is diverted away from product charges there is a much bolder, more transparent approach to these reduced allocations. Three out of the six providers have opted for a nil allocation over an initial period and one for a 10% allocation. If we compare this situation with, for example, pensions or savings products we find that providers have in general shied away from presenting such blatant up-front charges. Other charges that are found typically include:

- Annual management charges
- Policy fees
- Switch charges

The application of loyalty bonuses is another popular feature with only 2 providers <u>not</u> opting for this feature.

The total effect of charges however must factor in benefit charges, the rates for which are dependent on a multitude of factors including age, sex, health status and country of residence. Advisers have little choice but to keep up to date with the competitiveness of the premium rates available across the range of providers. To help in this regard, many life offices provide illustrations software packages providing up-to-date premium rates.

Product Features & Benefits

Whilst cost is an important factor, advice in respect of which Flexible Whole of Life product is most suitable is as much about the quality and range of benefits on offer as it is about the premium payable for those benefits. Table 2 below summarises the range of benefits available from the primary offshore products using data from **LIFEBASE OFFSHORE+.**

	Total Benefits Available	Key Benefits Summary			
		Additional Life Cover	Waiver of Premium	Critical Illness	Terminal Illness
Canada Life Intl, Flex Life Plan	6	✓	✓	✓	✗
CMI Lifetime, Classic Plan	9	✓	✓	✓	✗
Eagle Star Intl, Futura	10	✓	✓	✓	✗
Generali Intl, Viva	9	✓	✓	✓	✗
Hansard Intl, Assured Security Plan	5	✓	✓	✓	✗
Scot Am, Flexible Critical Illness Plan	5	✓	✗	✓	✓
Scot Am, Life Plan	5	✓	✗	✓	✓
Scot Prov Intl, Stratum	6	✓	✓	✓	✓
Source : www.lifebase.co.uk LifeBase Offshore					

Across the group of products covered there are as many as 20 individual benefit types available. However, the primary ('most common') ones are: Additional Life Cover, Waiver of Premium, Critical Illness and Terminal Illness. In Table 2 we can see that only Additional Life Cover and Critical Illness are covered by all of the providers and Waiver of Premium is covered by all but one. Table 2 also shows the total number of benefits available through each product, to include those that perhaps may not be considered primary (e.g. Family Income Benefit, Air Disaster Cover, Long Term Care, Repatriation etc). Interestingly, the table illustrates that a large number of total benefits does not necessarily mean that all the primary ones are covered. In short, there is no one provider that covers everything and so advisers are still faced with the task of searching for the most suitable product. Unlike the more investment-driven products, for which it is possible to construct a short-list of providers who stand out in respect of performance, charges and features it may come down to which, if any, offers the combination of benefits that the client is looking for.

It would be a mistake, however, simply to consider these products purely on the basis of cost and the range or availability of the protection benefits. The product must be considered as a whole. For example, the minimum premium may be too high for the client in question, or the fund range too limited to give you a fighting chance of sustaining the growth rate required to fund the benefits. These examples, and many others besides, are not directly linked to the benefits but do have an impact on the suitability of the product for the client. Within **LIFEBASE OFFSHORE+** is an analysis tool called the Investment Flexibility & Access (IFA) Rating. Through this it is possible to consider suitability using a qualitative scoring of the individual features and benefits. When considering an benefit such as Critical Illness for example, the score given to each product takes into account issues such as the range of illnesses covered, waiting periods and the availability of Child Benefit. Other important product features such as fund ranges, switching capability and plan reviews are all taken into account.

The IFA Rating results can be considered at a number of levels. Firstly, for an overall view of the product it is possible simply to aggregate the scores for each feature analysed. Recognising, however, that some features are more important than others a second level applies weightings to individual features. The weighted results for our product study group are shown in Chart 1.

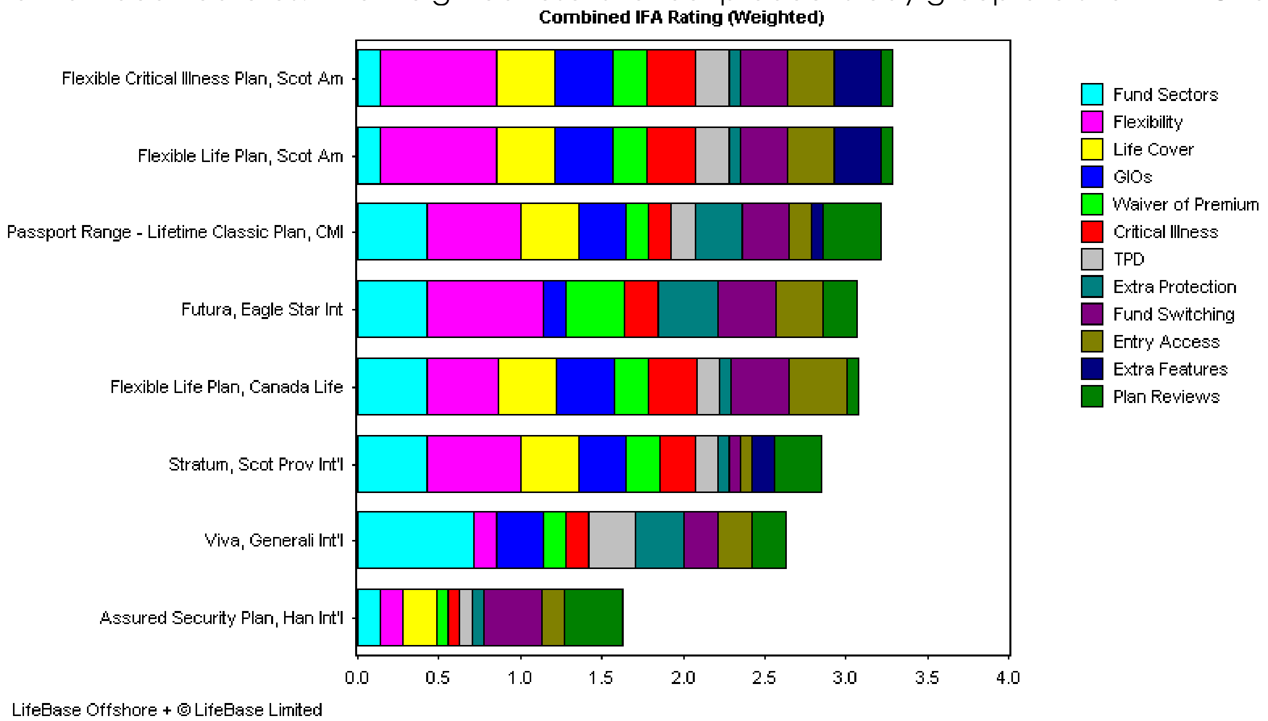

Chart 1

As an example of a third, lower level of analysis, let us take four mainstream protection benefits – Life Cover, Waiver of Premium, Critical Illness and Total & Permanent Disability – and compare them across our different products. The results, as shown in Chart 2, make interesting reading but, most notably, illustrate that there is no individual provider that stands out above the rest across the range of benefits chosen. In these terms, one could conclude that choosing a Flexible Whole of Life Plan is very much a "horses for courses" decision.

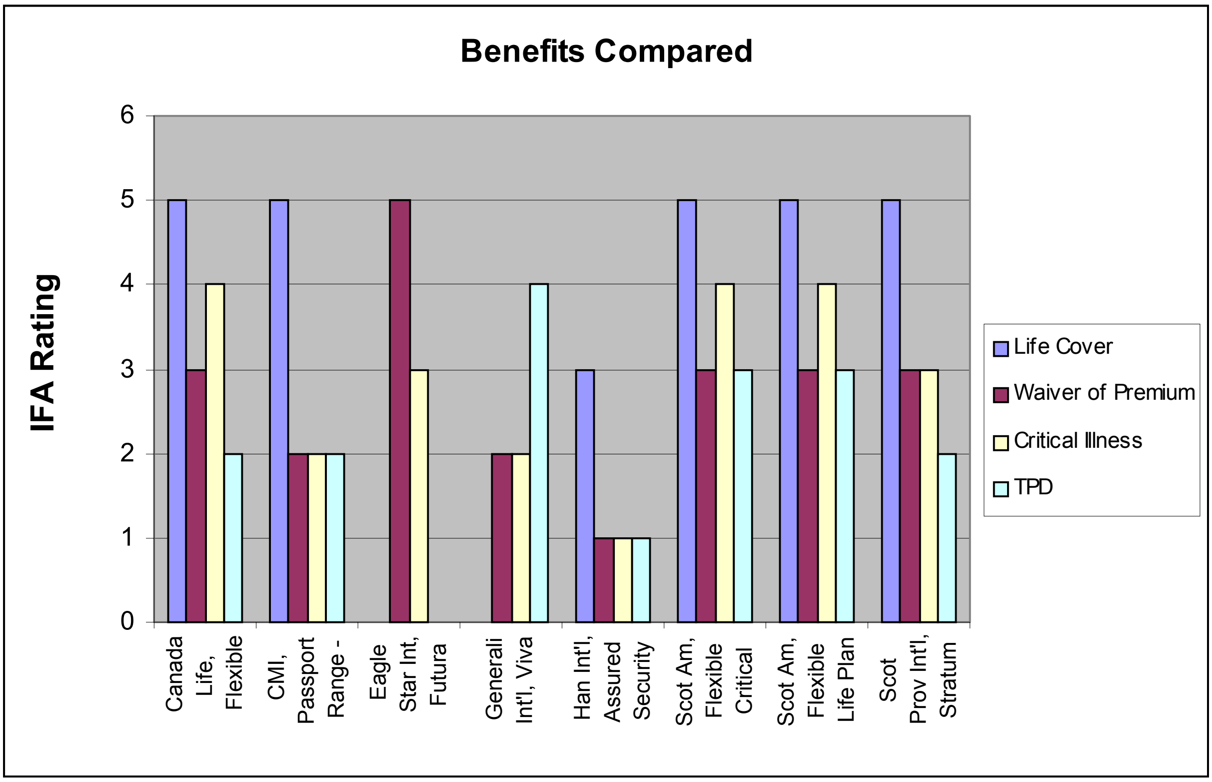

Chart 2

Fund Performance

On one level it can be argued that fund performance is a secondary issue, given that the policyholder's primary objective is to obtain protection benefits and as such encashment values do not really enter the equation. True, but where protection benefits are funded from units, the growth in the value of those units takes on separate significance. Achieving growth rates of, say, 9% per annum (net of charges) to maintain cover can be a tall order and so an analysis of the past performance of a life office's fund range is a sound starting point. Of course, it is up to the individual what they consider the best performance benchmarking sectors to be, but in Chart 3 we have chosen to compare performance over three sectors – International Managed, UK Equity and North America –over 3 years to September 2000 (assuming a sterling investor). Eagle Star International, Canada Life International and Hansard are, on this particular analysis at least, better bets for sustained growth and maintenance of cover.

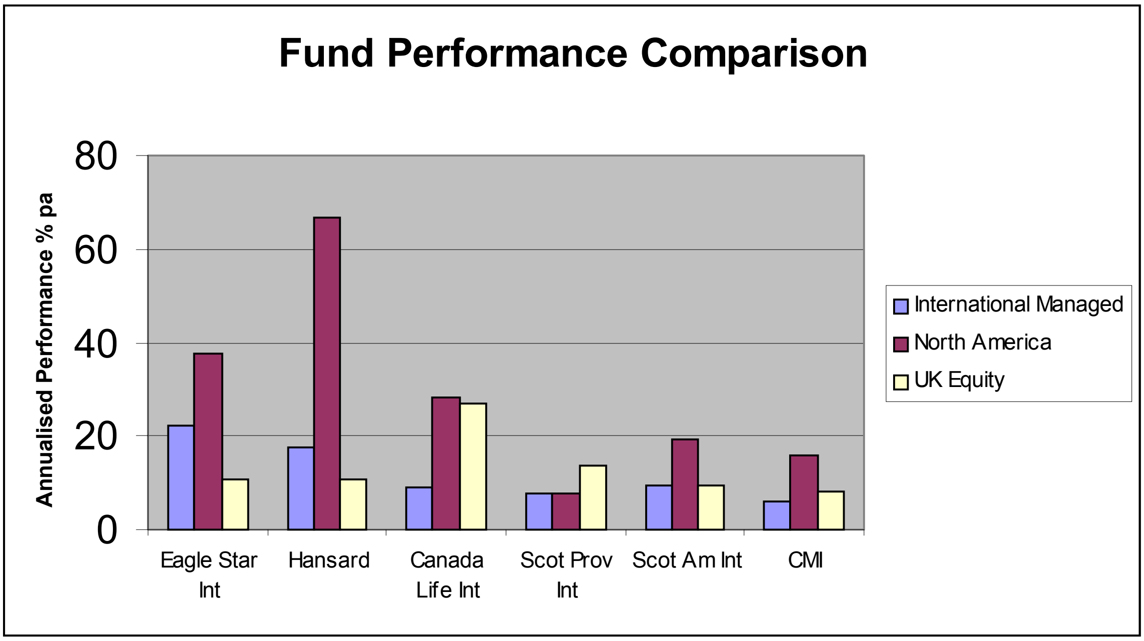

Chart 3

In Conclusion

The Flexible Whole of Life Plan is a complex product type. With other products it may be possible to draw up a list of preferred providers because there are only a limited number of criteria to consider, but with Flexible Whole of Life it very much depends on individual client scenarios. The conclusion could well be therefore that no individual product is better than another and so the knack in choosing the right provider is knowing what to look for. Of course, cost is a primary consideration but there are some other important issues that should not be overlooked, namely:

- more benefits and features on one product do not necessarily make it better than another but, instead, it is the suitability of those benefits to a client's requirements that counts

- alongside the suitability must come an assessment of the quality of the cover available (exclusions and limitations for example)

- underlying fund performance must not be overlooked where cover is reliant on a steady fund growth and a life office's past performance record is as good a place as any to start.

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