

Commission Clawback Terms for Investment Bonds (Level Option only)



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INVESTMENT BONDS

Commission Clawback on the Level charging structure – effective from 1 November 2006

Standard Life previously applied commission clawback on full surrenders under the Level charging structure. The clawback period was a maximum of two years per investment, with the maximum initial commission clawback being 3% per investment. From 1 November 2006, this rule changed.

Commission Clawback on Part Surrenders (Level Charging Structure)

Evidence prior to 1 November 2006 suggested that clawback terms at that time may have led to an increase in the number of partial surrenders that leave a residual value just above the clawback threshold. If this situation was to become widespread, profitability on investment bonds would suffer.

To address this issue, with effect from 1 November 2006 we made changes to our commission clawback terms on some partial surrenders. Full details of how this applies are explained below.

When clawback applies (last in, first out)

We apply clawback on a last in, first out basis. In simple terms we will look at the latest investment and apply the clawback rules. The clawback rules may also be applied to other investments with the same rules applying, eg. most recent investment first.

- We will only carry out clawback on partial surrenders for investments made on or after 1 November 2006.
- We will apply clawback only if the total withdrawals are greater than 20% per policy year, per investment. The policy year is determined by the date of risk of the latest investment.

For example:

1. £100,000 investment on 1 November 2005.
2. £30,000 investment on 12 December 2006.

Policy Year would run from 12 December 2006 to 11 December 2007 (and for the next year) and all withdrawals and partial surrenders for that period would be included in the clawback calculation. If the most recent investment was fully surrendered, the policy year would be based on the previous investment.

The total withdrawal value is calculated as follows:

1. Total monetary value of all regular withdrawals in the policy year.
2. Total monetary value of all distributions paid out (not reinvested) in the policy year.
3. Total monetary value of the part surrender in question and all part surrenders in the policy year.
4. This will provide a total withdrawal value.

We will apply clawback in the following instance:

$$\frac{\text{**Total withdrawal value (fig 4 from above)}}{\text{**Latest investment}} = > 20\%$$

**Previous part surrenders may be included or deducted from the above values. Please refer to 'Additional Clawback Rules'.

We will check this every time there is a part surrender and all investments that can have clawback applied will be affected. This will be calculated on a last in, first out basis.

Please note that we reserve the right to apply clawback in certain circumstances other than those described in this document.

Important Note

We will not apply clawback if the total withdrawals (fig 4) are equal to or less than 20%. However, in the event of total withdrawals exceeding 20% of the latest investment, we will clawback commission in respect of the amount withdrawn over the 10% per annum regular withdrawal limit. For example, if the withdrawals were 22% we would apply clawback but we would take into account the 10% withdrawal allowance under the Level charging structure. This will be explained further in the examples below.

Investment Bonds

Example 1

Level bond taken out 01/11/06 for £100,000. Adviser takes 5% initial commission.

- Regular withdrawals: None
- Distributions taken: None
- Part surrender occurs on 03/12/06 for £40,000
- Total withdrawals are £40,000
- Total payments are £100,000

$$\frac{£40,000}{£100,000} = 40\%, \text{ so clawback applies}$$

- The current 10% withdrawal allowance is £10,000 (10% of £100,000), so the clawback calculation will apply to £30,000 of the surrender (£40,000-£10,000)
- £30,000/£100,000 = 30% of Year 1 Clawback of 3% = 0.90% initial commission (or £900)

So we will clawback £900 of the initial commission paid out.

Example 2

If the client in Example 1 were to fully surrender their bond on 03/01/07 then 3% – 0.90% (2.10% or £2,100) of initial commission would be clawed back. Clawback rules state that we will clawback a maximum of 3% initial commission per investment. The 3% rule applies as the full surrender has occurred within the first 12 months of the policy.

Example 3

Level bond taken out 1/08/06 for £100,000. Adviser takes 5% initial commission.

- Regular withdrawals: None
- Distributions taken: None
- Level Investment 2 of £40,000 on 20/11/06
- Level Investment 3 of £15,000 on 12/03/07
- Part surrender occurs on 15/05/07 for £20,000
- Clawback applies on Increment 3 as £20,000 partial surrender exceeds 20% of £15,000 investment amount (£3,000)
- The 10% withdrawal allowance is £1,500 (10% of £15,000), so clawback will apply to £18,500 of the surrender (£20,000 – £1,500 = £18,500)
- $\frac{£18,500}{£15,000} = >100\%$ of £15,000, therefore $100\% \times \text{Year 1 clawback of } 3\% = 3\%$ initial commission \times £15,000 or £450
- The £15,000 increment has now been fully surrendered, leaving an excess withdrawal of £3,500 subject to clawback (£18,500 – £15,000)
- No clawback applies on Increment 2 as £3,500 surrender is < than 20% of £40,000 investment amount, eg. £8,000. NB. If there is a subsequent partial surrender, the £3,500 may be taken into account.

Additional Clawback Rules

Previous part surrenders will be included in the 'Total Withdrawal Value' if the surrender amount is in the policy year and there has been no clawback applied to the surrender amount.

Previous part surrenders will be deducted from the 'Latest Investment' if they are outwith the current policy year, or within the policy year and clawback has been applied.

Important Note

The examples provided assume that the financial adviser took at least 3% initial commission. If the financial adviser took 2.5% initial commission, the maximum clawback of initial commission would be 2.5% in Year 1 and 1.25% in Year 2. Maximum clawback of 3% per investment in Year 1 and 1.50% per investment in Year 2.

Cancellation Rules

Clawback of the full initial commission applies when a bond is cancelled within the cancellation period.

When will Clawback not be applied?

Clawback will not be applied in the following circumstances:

- When fund based commission is taken on its own.
- When full fund based commission and initial commission is taken.
- On death.

If you have any questions about Commission Clawback, your Account Manager will be pleased to answer them.

The investment bonds to which these terms refer are the Capital Investment Bond and Distribution Bond. Full details of the bonds are available on request.