

Investment Bond Service Review 2024

February 2024

Contents

03	Introduction	12	Importance
04	Methodology	13	Satisfaction
05	Key findings	14	Best performing providers
06	Investment bond types	15	Expectations
07	Other investment products	16	Service and due diligence
08	Investment bond providers	17	Defaqto Engage
10	Preferred providers		

Introduction

Defaqto undertakes an annual satisfaction survey among financial advisers to establish the service levels of providers of wealth and protection products. This paper sets out the results for the investment bond market.

The online survey took place between August and September 2023 and canvassed the opinions of 318 financial advisers measuring the importance to them of seven categories of service:

Provider strength and brand – Consider brand strength, financial strength, integrity and ease of doing business

New business administration – Consider processing timelines, communications, ability to solve problems efficiently, speed and accuracy of administration and the options available

Existing business administration – Consider speed of responses to enquiries, time to make switches and redemption payment timelines

Administration staff – Consider availability, competence, helpfulness, technical knowledge and product/sales support provided to advisers and paraplanners

Product design and management – Consider diversity and range of investment options, the quality of the options available and the supporting literature provided

Reporting – Consider reporting, and the depth, speed and accuracy of the data provided

Online services – Consider investment support tools, IT technical support, online management, online transactions, system reliability and access, website content and website functionality

Methodology

First, we asked advisers to tell us how important the seven service disciplines are to their businesses using a five-point scale from 'not at all important' through to 'very important'. From this we calculated a mean score out of five to determine the importance of each individual aspect of service.

Next, we identified which providers are being used regularly by advisers and asked them to rank them in order of preference.

Finally, we measured the advisers' satisfaction levels with the preferred providers, again using a five-point scale ranging from 'very dissatisfied' through to 'very satisfied'.

For the providers that qualify, we combine the 'satisfied' and 'very satisfied' responses to determine the 'total satisfaction score' for each individual aspect of service. These are weighted by the importance of each category and then aggregated to determine one overall satisfaction index for each preferred provider.

The satisfaction indices by category are available within Defaqto Engage, our financial planning software solution and Centra for SimplyBiz users. They are also the basis of Defaqto's Gold and Silver service ratings.

Key findings

- The study was conducted between August and September 2023 employing an online survey. It measured the relative importance of seven satisfaction categories and identified the advisers' preferred providers of investment bond business.
- The study measured how satisfied the advisers are with their preferred providers and identified where expectations were being met by cross-matching ranked importance with ranked satisfaction.
- Open architecture products remain the first choice over bonds with a limited fund selection, and onshore bonds are preferred to international bonds. While these preferences haven't altered since the previous study, advisers are selecting fewer different bond types – on average, just 1.48 different types of bond.
- Interest in other investment products has generally increased since the previous study, particularly for the conventional products including pensions and investment ISAs, which have the support of over 90% of advisers. Fewer advisers are recommending bonds; after personal pensions and investment ISAs, only 35% of advisers said they would recommend onshore bonds next and only 19% said they would recommend international bonds.
- Prudential is dominant in the onshore bonds market with 46% of advisers saying they had recommended the firm in the last 12 months. In the international bonds market, Canada Life International (IoM) is the most recommended provider with the support of 16% of advisers. Advisers are, on average, recommending 1.6 onshore bond providers and 0.87 international providers.
- Where advisers said they had recommended more than one provider, we asked them to rank the providers they use in order of preference. Prudential was the first or only choice for the greatest number of advisers writing onshore bonds and Canada Life International (IoM) was in most advisers' top three choice for international bonds.
- The ranked order of importance is largely unchanged since 2022. **New business administration** remains the most important category to advisers with an average score of 4.57 out of 5, and **Reporting** remains the least important with an average score of 4.22 out of 5.
- All satisfaction scores are significantly lower than those recorded last time by, on average, eight percentage points. The administration categories that are ranked most important to advisers took the greatest hit. This feedback indicates a general dissatisfaction with bond provider service.
- Transact, Aviva, Quilter and Nucleus achieved the most top three positions for performance across the seven categories of satisfaction. It is notable that the firms that are recommended the most and those that are the preferred choice of advisers are not necessarily those that received the highest performance scores.
- A cross-match of ranked importance and ranked satisfaction demonstrates that the industry is exceeding expectations for four out of the seven categories of service. However, for the third year in a row, there is a poor correlation between importance and performance with expectations not being met for the important administration categories.

Investment bond types

Q Which types of investment bonds have you recommended in the last 12 months?

Chart 1: Investment bond types recommended in the past 12 months

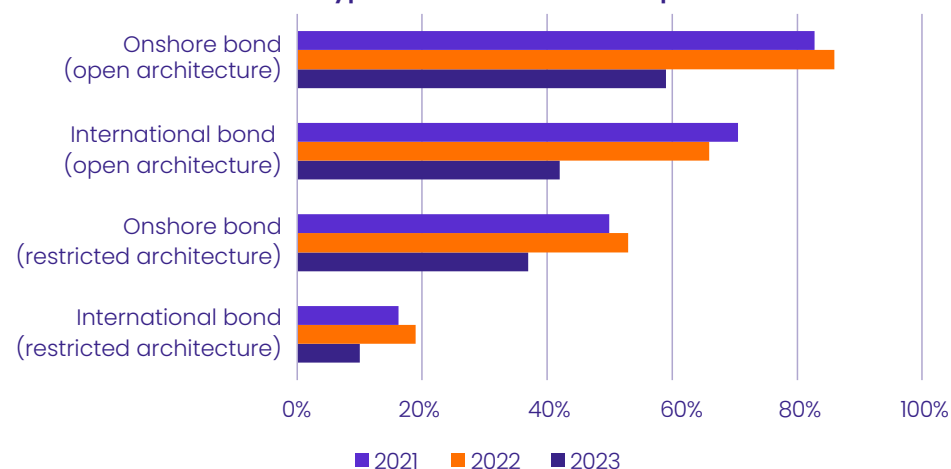


Chart 1 shows that advisers' preferences for the different types of investment bond have not changed since the last study, but they are selecting fewer different types than previously. In 2022, advisers were recommending, on average, 2.76 different types, but in 2023 that has fallen to 1.48, hence the percentages of advisers expressing a preference for each type of bond having fallen this time.

Open architecture products remain the first choice over bonds with a limited fund selection, and onshore bonds are preferred to international bonds.

Almost 60% of advisers are now writing open architecture onshore bonds and over 40% are writing open architecture international bonds, down from 66% in 2022 and only just ahead of restricted architecture onshore bonds.

The range of providers and products in the international bond space has become quite limited in recent years with the exit of a number of players, and advisers may find the choice available to them from the onshore bond market more ample for their clients.

Other investment products

Q Which of the following other investment products and types have you recommended in the last 12 months?

Chart 2: Other investment products recommended in the past 12 months

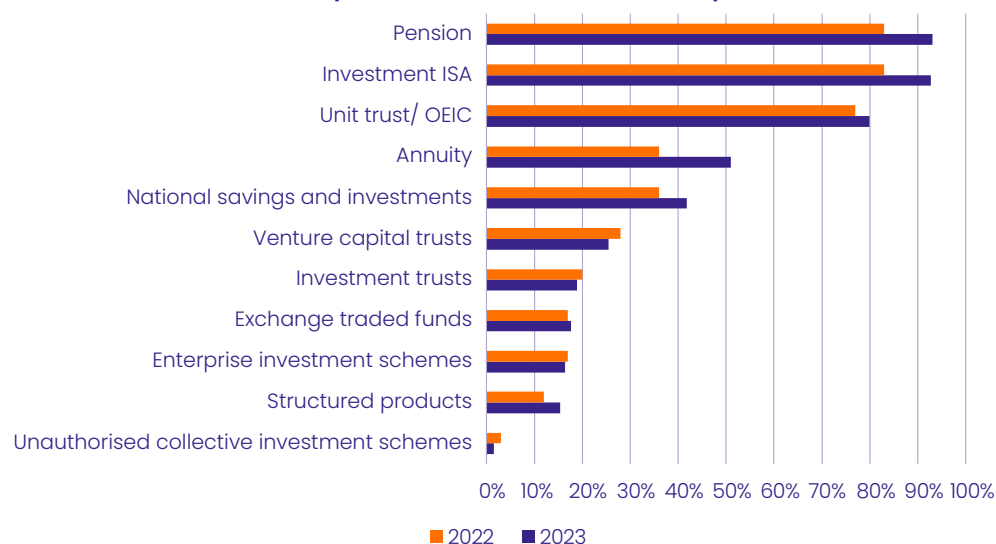


Chart 2 shows that, with the exception of VCT, investment trusts, EIS and UCIS, interest has increased for each product type, mostly for those that may be termed the conventional investment products. Pensions and investment ISAs are, quite naturally, the product of choice for advisers and the percentage of advisers saying they have recommended them has increased significantly this time to in excess of 90%.

Annuities and National Savings also received increased support this year compared with 2022.

It is interesting to see where investment bonds fit into this pecking order, so this year we asked an additional question: *After using up your clients' ISA and pension allowances for the year, are investment bonds typically your product of choice for your clients' investments or do you use some other investment vehicle?*

Only 35% of advisers said they would recommend onshore bonds next and only 19% said they would recommend international bonds compared with 50% that said they would create a portfolio of unit trusts/OEICs for their clients through a platform general investment account (GIA). This is consistent with the 80% of advisers that say they recommend unit trusts/OEICs.

Investment bonds remain an important tax wrapper for client money but, it would seem, have increasingly less general appeal.

Investment bond providers

Q Which of the following onshore bond providers have you placed business with in the last 12 months?

Chart 3: Onshore investment bond providers recommended in the past 12 months

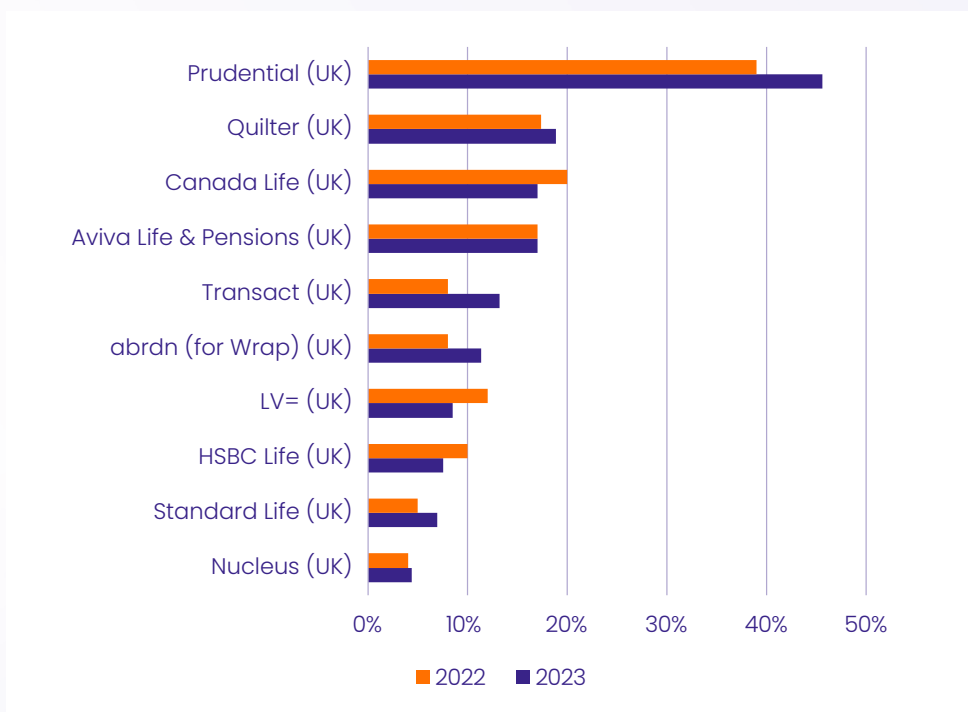


Chart 3 shows that Prudential maintains its domination of the onshore bond market with 46% of advisers saying they have recommended the firm for onshore investment bonds in the last 12 months, representing an increase in support from the previous year of seven percentage points.

The nearest competition comes from Quilter, Canada Life and Aviva, all of which had the support of approaching 20% of advisers, Quilter edging ahead of Canada Life into second place this time.

The remaining providers had support from around or below 10% of advisers. The withdrawal of Canada Life from the onshore bonds market in January 2024 presents an opportunity for all providers to increase market share.

On average, advisers recommended 1.6 onshore bond providers in the last year, unchanged since 2022 but down from 2.3 in 2021 (see Table 1).

Table 1: Average number of onshore providers recommended in the past 12 months

Year	Average number of providers
2023	1.6
2022	1.6
2021	2.3

Investment bond providers

Q Which of the following international bond providers have you placed business with in the last 12 months?

Chart 4: International investment bond providers recommended in the past 12 months

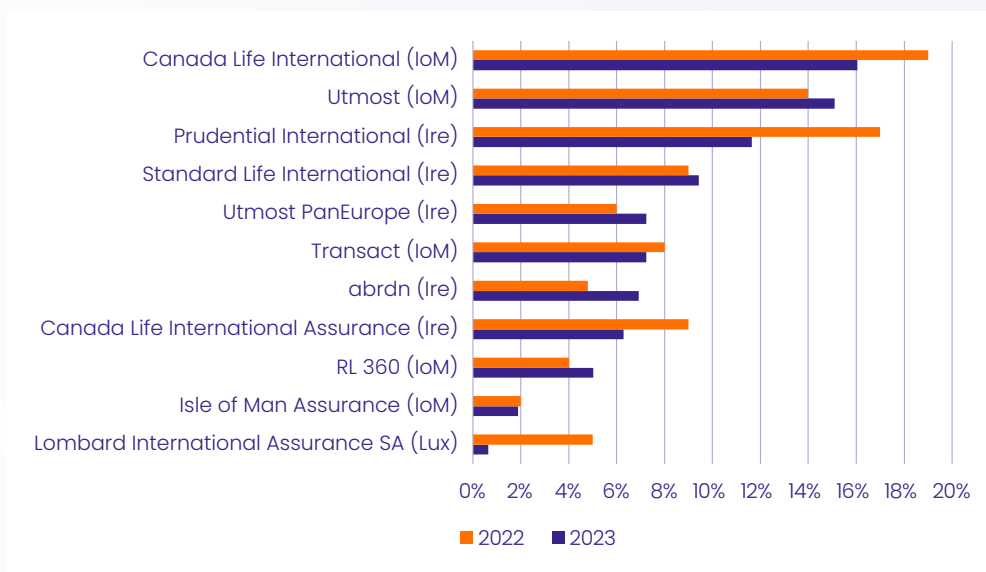


Chart 4 shows that Canada Life International (IoM) remains the most recommended international bond provider, but with less support this time. In 2022, 19% of advisers said they recommended the firm, whereas in 2023 just 16% said that they did.

There is significantly less support for Prudential (Ire) this time with 5% fewer advisers saying they recommended the Prudential bonds in the last 12 months and relegating the firm to third place behind Utmost (IoM), which had slightly increased support.

Canada Life International Assurance (Ire) experienced the biggest drop in relative position moving from joint fourth in 2022 to eighth in this year’s study.

In reality, the international bonds market is dominated by Canada Life and Utmost so, with little prospect of any new challengers anytime soon, this probably leaves advisers with little choice for their clients should service levels drop.

Table 2: Average number of international providers recommended in the past 12 months

Year	Average number of providers
2023	0.87
2022	1.0
2021	1.0

Preferred providers

Where advisers said they recommended more than one provider for either onshore or international bonds, we asked them to rank the providers they use in order of preference.

Table 3: Advisers' top three providers for onshore bonds

Provider	First or only choice	Second choice	Third choice	Total (rounded)
Prudential (UK)	33%	11%	2%	46%
Quilter (UK)	13%	3%	2%	18%
Aviva Life & Pensions (UK)	8%	5%	2%	16%
Canada Life (UK)	5%	7%	4%	16%
Transact (UK)	8%	3%	2%	12%
abrln (for Wrap) (UK)	4%	3%	2%	9%
LV= (UK)	2%	4%	3%	8%
HSBC Life (UK)	4%	1%	1%	6%
Standard Life (UK)	1%	2%	2%	4%
Nucleus (UK)	3%	1%	0%	4%

Table 3 shows the percentage of top three preferences by provider for onshore bonds.

As we might expect, Prudential is the first or only choice for the greatest number of advisers – 33% – and with the firm achieving the most top three preference positions overall.

Quilter is also a popular choice for onshore bonds with 18% of advisers placing it in their top three and 13% making it their first or only choice.

Aviva, Canada Life and Transact are also popular choices with advisers.

Preferred providers

Table 4: Advisers' top three providers for international bonds

Provider	First or only choice	Second choice	Third choice	Total (rounded)
Canada Life International (IoM)	9%	3%	3%	15%
Utmost (IoM)	8%	5%	2%	14%
Prudential International (Ire)	8%	3%	1%	12%
Standard Life International (Ire)	5%	3%	1%	8%
Transact (IoM)	6%	1%	1%	7%
abrDn (Ire)	5%	1%	1%	7%
Utmost PanEurope (Ire)	3%	3%	0%	7%
Canada Life International Assurance (Ire)	3%	2%	1%	6%
RL 360 (IoM)	2%	3%	1%	5%
Isle of Man Assurance (IoM)	0%	0%	1%	1%

Table 4 shows the percentage of top three preferences by provider for international bonds.

Given the relatively few active international bond providers, it is perhaps no surprise that advisers' preferences focus on the Isle of Man branches of Canada Life International and Utmost, with Prudential International (Ire) coming a close third.

Standard Life International (Ire), Transact (IoM) and abrDn (Ire) also feature a lot in advisers' top three.

Importance

Q How important are the seven categories of service when it comes to the overall service provided by investment bond providers?

In this study, the providers were measured against seven categories of service weighted according to the level of importance that advisers attach to each of them.

We asked the respondents to say how important each of these categories of service is to their business, ranging from 1 'not at all important' to 5 'very important'. From the range of responses, we are able to calculate an average score and rank the categories in order of importance, as set out in Table 5.

Table 5: Ranked importance

Year	2023	2022
New business administration	4.57 (1)	4.55 (1)
Existing business administration	4.54 (2)	4.52 (2)
Provider strength and brand	4.49 (3)	4.49 (3)
Administration staff	4.38 (4)	4.40 (5)
Product design and management	4.38 (5)	4.33 (6)
Online services	4.37 (6)	4.41 (4)
Reporting	4.22 (7)	4.27 (7)

Comparing the results from this study to those from the study in 2022, there are no significant changes in the average importance scores accorded the seven categories of service. The top three – **New business administration**, **Existing business administration** and **Provider strength and brand** – remain unchanged.

Online services dropped two ranked positions from fourth to sixth and **Administration staff** and **Product design and management** moved up to fourth and fifth respectively.

Satisfaction

Satisfaction is calculated with reference to scores awarded to the providers for each of the seven aspects of service in the range 1 – 5, where 1 equates to ‘very dissatisfied’ and 5 equates to ‘very satisfied’.

In Table 6 we show the satisfaction indices for each service category for the industry as a whole across onshore and international bonds. The indices are weighted by the average importance scores the advisers gave each category.

Table 6: Weighted satisfaction by category and ordered by ranked importance

Satisfactory category	Importance	Weighted satisfaction 2023	Weighted satisfaction 2022
New business administration	1	71%	76%
Existing business administration	2	61%	76%
Provider strength and brand	3	79%	85%
Administration staff	4	61%	73%
Product design and management	5	72%	76%
Online services	6	63%	68%
Reporting	7	63%	71%
Industry satisfaction	-	67%	75%

Comparing the results from this study with those from the study in 2022, the satisfaction indices for all categories fell by, on average, eight percentage points.

Existing business administration and *Administration staff* took the biggest hit with drops of 15 and 12 percentage points respectively. These results indicate a general dissatisfaction among advisers with their chosen bond providers, with administration appearing to be the main cause of disapproval.

The highest performing category was *Provider strength and brand* with a satisfaction index of 79%, but even that is down by six percentage points compared to last year.

It is important to note that this feedback is not unobjective – these scores have been cast by advisers in respect of providers which they are using regularly and which they have indicated are their first, second or third choice and, in many cases, their only choice. This is a wake-up call to the industry to deliver a better service experience.

Best performing providers

Based on the weighted satisfaction indices for each provider, we can identify the top performers in each of the seven categories of service. Those placed first, second and third for performance are shown in Table 7.

Table 7: Best performing investment bond providers by category

Satisfactory category	1st place	2nd place	3rd place
Provider strength and brand	Nucleus (UK)	Aviva Life & Pensions (UK)	Prudential International (Ire)
New business administration	Utmost PanEurope (Ire)	Aviva Life & Pensions (UK)	Transact (IoM) RL 360 (IoM)
Existing business administration	Transact (UK)	Transact (IoM)	Utmost PanEurope (Ire)
Administration staff	Transact (UK)	Transact (IoM)	Nucleus (UK)
Product design and management	HSBC Life (UK)	Quilter (UK)	Transact (IoM)
Reporting	Transact (UK)	Transact (IoM)	Quilter (UK) Standard Life International (Ire)
Online services	Quilter (UK)	Transact (UK) Nucleus (UK)	Aviva Life & Pensions (UK)

Transact makes the most appearances in the top three for satisfaction performance with five top three positions for the Isle of Man branch and four for the UK based company, three of which are first positions.

Aviva Life & Pensions (UK), Quilter (UK) and Nucleus (UK) each achieved three top three positions, and Quilter (UK) and Nucleus (UK) were ranked first for **Online services** and **Provider strength and brand** respectively.

The remaining first positions were accorded Utmost PanEurope (Ire) and HSBC Life (UK).

It is interesting to note that those providers that take the lion's share of the business are not necessarily those that score well when it comes to analysing the individual categories.

Expectations

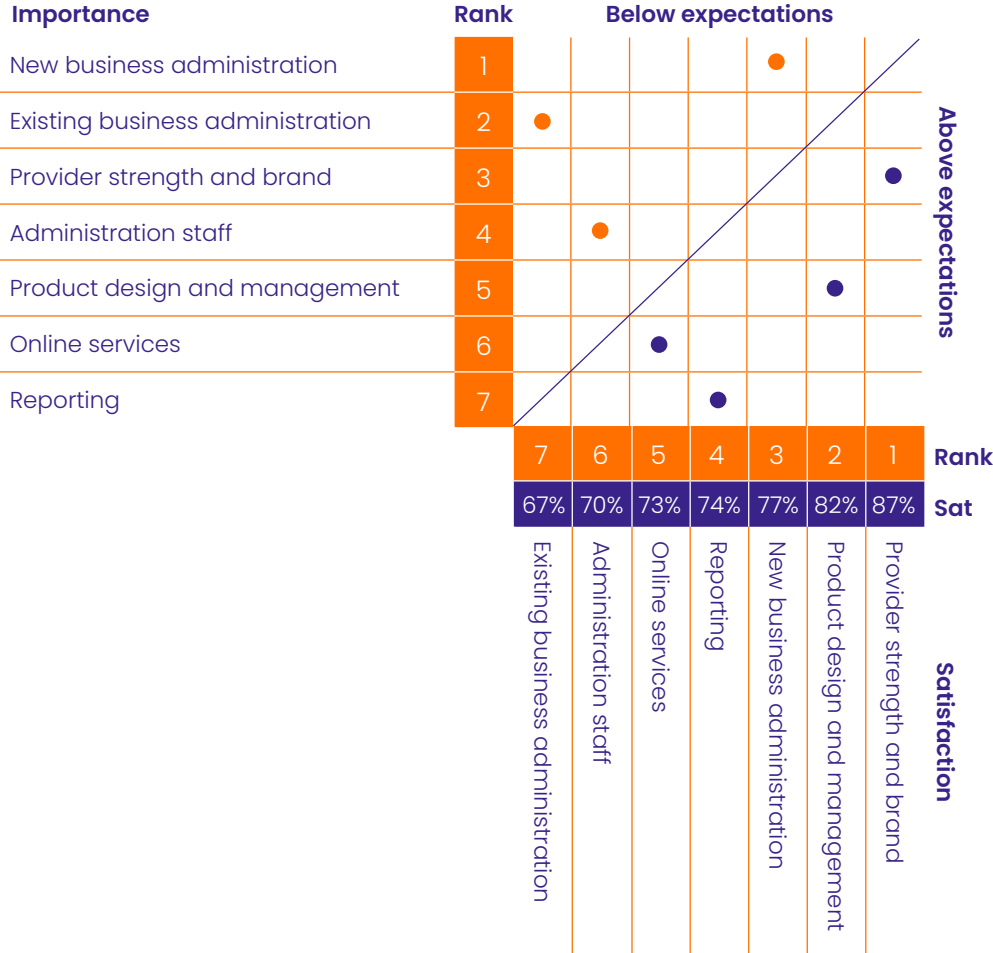
Ranked order of unweighted satisfaction plotted against ranked order of importance demonstrates where expectations are being met.

Chart 5 shows the cross-match of ranked unweighted satisfaction with ranked importance. It shows where expectations are being met or where the industry is falling short.

For the third year in a row, the chart reveals a poor correlation; four out of the seven categories are exceeding expectations, but the remaining three are underperforming by some considerable degree.

Again, it's the important administration categories that are falling down, and this underlines the general dissatisfaction with bond providers in recent times.

Chart 5: Expectations – cross-match of satisfaction versus importance



Service and due diligence

The results and insights in this document have been collated from a survey among financial advisers and reflect the service and levels of satisfaction those advisers have experienced.

While there is not a direct relationship with the service experience of consumers, there should be a good correlation for clients of adviser firms. It stands to reason that where the adviser is receiving good service, they can be more confident and better equipped to meet client requirements.

This high-level commentary is supported by the detailed scores for each provider listed by service satisfaction category in Defaqto Engage (Centra for SimplyBiz users). We do not anticipate that advisers use service scores as the sole measure of suitability, but rather that service scores may feature as one of a number of selection criteria. Advisers should continue to conduct their own research and document their findings before recommending any suitable solutions.

Defaqto Engage

Defaqto Engage (Centra from SimplyBiz) is our financial planning software solution enabling advisers to manage their financial planning process all in one place.

Our software contains a wealth of product and proposition information to help advisers select a product that is suitable for their clients' needs and evidence their due diligence for compliance purposes. You can see more at defaqto.com/advisers/solutions/engage

The satisfaction results, by category, are available within Engage (Centra for SimplyBiz users). Advisers can use the individual category satisfaction scores (for example, new business services, existing business administration, online services) during the research process, as one of a number of selection criteria. They can also be added to comparison tables.

Advisers should note that not all providers are rated. To qualify for a Service Rating, providers must receive a minimum number of responses from advisers. So, using any service results in the filtering process may exclude providers offering potentially suitable client solutions from the research output.

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