



**DELIVERING  
ASIA**

**Prudential Hong Kong**  
**Delivering growth in a developed market**

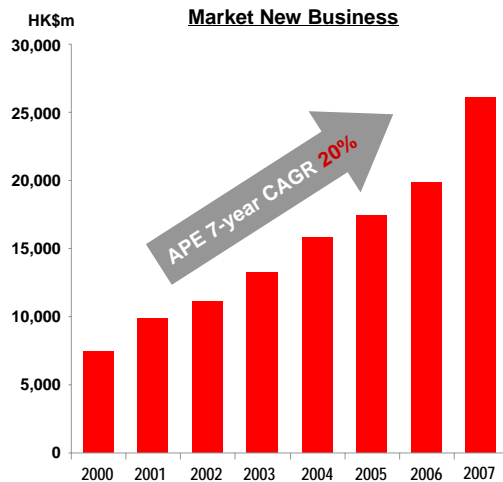
**Jeff Walker, Chief Executive Officer**  
**Michael WK Leung, Chief Agency Officer**  
**Prudential Assurance HK**  
22 April 2008



- When we held our last meeting with you in December 2006 in London, it was more than 16 months ago. For a market as dynamic and competitive as Hong Kong, 16 months is a long time indeed and inevitably we have seen some changes.
- One of the more significant changes has been the recent change in leadership for Prudential Hong Kong, which saw me joining from New York Life where I most recently ran their Hong Kong operation, and the previous CEO, Kevin Wright, move onto an expanded role with Prudential in North Asia.
- Why did I join Prudential? I had the opportunity to join the market leader with significant multi-distribution strength – something that I will discuss in more detail later as this multi-distribution capability is not only a differentiator, it is key for our continued market success. I also had the opportunity to join an organization with a broad and deep footprint across Asia that is unrivaled – and a footprint that continues to deepen. And, I had the opportunity to join a leadership team that has a clear vision and strategy to meet the expanding needs of customers across Asia. I don't know of any industry executives that would not seriously entertain joining this powerful brand.
- The theme chosen for your visit to Asia today is “Delivering Asia”, and the title of the presentation I am sharing with you is “Prudential Hong Kong: delivering growth in a developed market.” I will show you that this is a very appropriate theme, especially with regard to the performance of Prudential Hong Kong.

# The Hong Kong Market

Hong Kong is a sophisticated, developed life insurance market. The rapid development of bancassurance as a distribution channel is a major driver of growth and medical and retirement products are increasingly popular



## A highly competitive market

- Well developed, sophisticated and very crowded market
- 47 life insurers / 7m people
- Major multi-national players

## Market growth drivers

- Bancassurance - 29% market APE in 2003 to 35% in 2007
- Linked business – 23% market APE in 2003 to 61% in 2007
- Medical reform driving interest in health insurance
- Retirement accumulation products underpin market growth



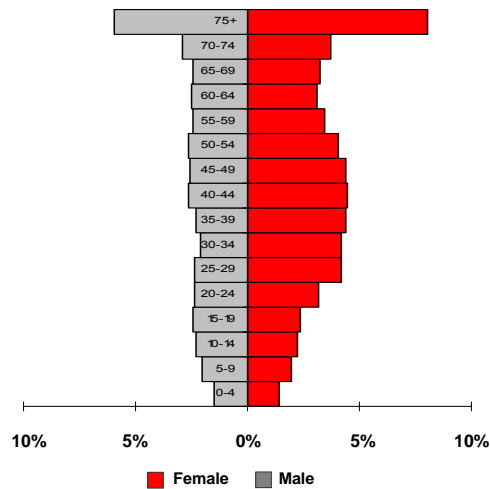
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- Let me start by talking about the Hong Kong life insurance market in general.
- 16 months ago we highlighted that Hong Kong was a highly competitive, well developed, sophisticated and crowded market, but with strong growth and even stronger opportunities for growth.
- Every other Prudential CEO in every market in Asia will tell you that their market is the most competitive in the region – the fact is that they are all lying to you – HK is by far and can reasonably lay claim to being Prudential's most competitive life market. There are 47 insurers covering a total population of 7 million.
- The market is dominated by well-resourced, established multi-national players and two of the top four players are banks. I will talk more about the top 4-5 players and why Prudential's success is very much admired here and why our growth is sustainable over the long term.
- In terms of distribution, there are a number of drivers to growth. Bancassurance is increasingly important – up from 29% of market APE in 2003 to 35% in 2007. As we shall show later, Prudential is unique in the market in successfully combining both in a multi-distribution model. Unit linked also continues to grow in importance – up from accounting for 23% of market APE in 2003 to 61% of APE in 2007.
- In December 2006, we mentioned that medical insurance was an opportunity. This opportunity has gained momentum, with the HK govt. announcing plans to move away from the fully funded public health policy to a more user pay focused model. Medical reform is moving slightly slower than we anticipated, but the government is being quite diligent and reviewing many models in effort to get the right model for Hong Kong.
- The Mandatory Provident Fund has raised the profile of the importance of retirement planning, and retirement accumulation products have become extremely popular and are underpinning a significant proportion of the market growth.

## The Hong Kong Market

In addition to the immediate opportunities, a number of market trends are emerging indicating longer term opportunities

Population by sex and age group  
(2036)



### Market Opportunities

- Medical
- Unit Linked
- Retirement

### Emerging Market Trends

- Increasing customer wealth & economic integration with Pearl River Delta
- Increasing customer sophistication and expectations
- Retail financial services convergence, especially in retirement category

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- We strongly believe there is continued upside in the market.
- The medical, unit linked and retirement segments offer significant opportunities for growth.
- As well as these immediate opportunities, we see a number of emerging trends in the Hong Kong market that point to longer term opportunities that Prudential will tap by developing a broader wealth management platform.
- Hong Kong people are amongst the wealthiest and longest living in Asia. They are increasingly sophisticated in terms of lifestyle expectations -- both while working and in retirement. The average net worth of the city's 6.9 million people is over USD\$246,307, the highest in the world – and the growth in Hong Kong's high net worth individuals is one of the strongest in the region.
- We are also seeing greater economic integration with southern Mainland and the Pearl River Delta region, leading to increased capital flowing into Hong Kong; this is also fueling increasing competition amongst life companies, banks and asset managers particularly for the retirement market.
- Like all developed markets, Hong Kong is faced with a rapidly aging population. This demographic pyramid shows how large the post retirement segment will become in over the next 30 years. Typically, when you see a demographic pyramid, you see something that resembles a pyramid, or a graph with a stronger foundation to support the aging population – for Hong Kong, we will soon see a T-shaped pyramid. The consequences, as well as the opportunities, are significant.
- With little social security here, I see this trend representing a huge opportunity in terms of retirement accumulation, income and health products for Prudential in Hong Kong.
- All these data underscore that the Hong Kong life market, consistent with the views we shared in 2006, has continued to grow strongly and continues to offer significant upside.

## Prudential Hong Kong Today

Prudential is the fastest growing player in the top 3 and is steadily rising in terms of market rank

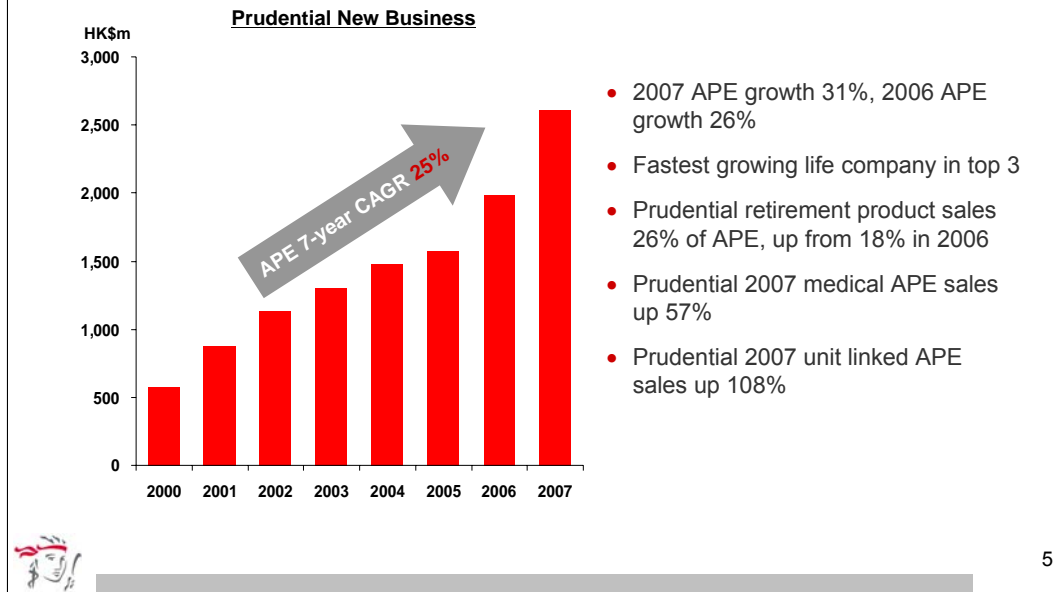
2005			2006			2007		
Rank	Insurer	APE (HK\$M)	Rank	Insurer	APE (HK\$M)	Rank	Insurer	APE (HK\$M)
1	AIA	2,933	1	AIA	3,335	1	AIA	4,067
2	HSBC	2,067	2	HSBC	2,237	2	Prudential	2,612
3	Hang Seng	1,736	3	Prudential	1,988	3	HSBC	2,594
4	Prudential	1,572	4	Hang Seng	1,596	4	AXA + (MLC + Winterthur)	2,104
5	Manulife	1,161	5	AXA + (MLC)	1,535	5	Hang Seng	2,104
6	AXA	1,121	6	Manulife	1,253	6	Zurich	2,020
7	Zurich	742	7	Zurich	1,169	7	Manulife	1,542



- Our strong performance in the medical, unit linked and retirement segments has driven Prudential Hong Kong's significant growth in recent years.
- This impressive growth is amongst the strongest when compared to the market leaders here – moving Prudential, in terms of new business APE, from 4<sup>th</sup> in the market three years ago to now 2<sup>nd</sup> – with the leading position within our sights.
- Prudential's first quarter 2008 new business growth was a record 49%. Informally, we have heard that AIA's new business growth was relatively flat during the same period and for Q1 we expect to be very close to the No. 1 position in the Hong Kong market.

## Prudential Hong Kong Today

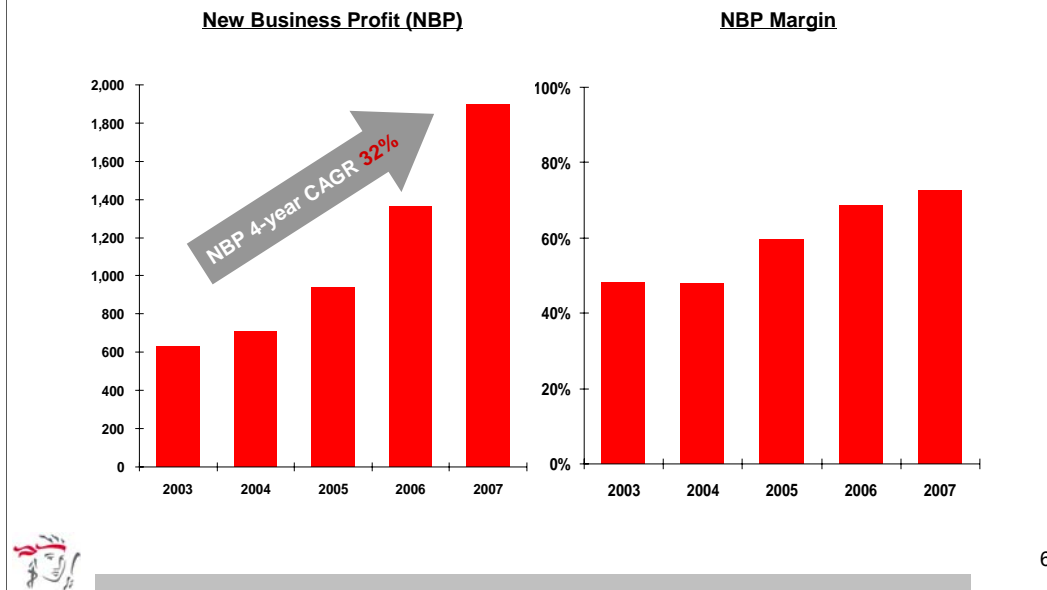
Prudential's 7-year CAGR growth of 25% has outperformed the 7-year industry CAGR growth at 20%



- What I'd like to do now is to give you a snapshot of what Prudential Hong Kong has achieved in the 16 months since you last heard from us. What you will see, is a company that has very much delivered on its commitments of increased growth.
- We have continued to deliver strong growth; our 2007 APE growth of 31% and 2006 APE growth of 26% is straightforward evidence of this. We are also the fastest growing life company among the top three players.
- As I said, retirement is a huge opportunity for Prudential Hong Kong and the proportion of our APE from retirement products is up from 18% of total APE in 2006 to 26% in 2007.
- Consistent with our view on the medical and unit-linked opportunities, our medical sales were up 57% over 2006 and our linked business was up 108% in the same period.
- The success we achieved over the last two years very much reflects the opportunities we saw and shared with you in 2006. At Prudential Hong Kong, we said we were going to do certain things, the Company focused on the opportunities and the execution and results speak for themselves.
- The same areas of strategic focus we shared with you at our last meeting 16 months ago continue to offer strong opportunities for growth going forward.

## Prudential Hong Kong Today

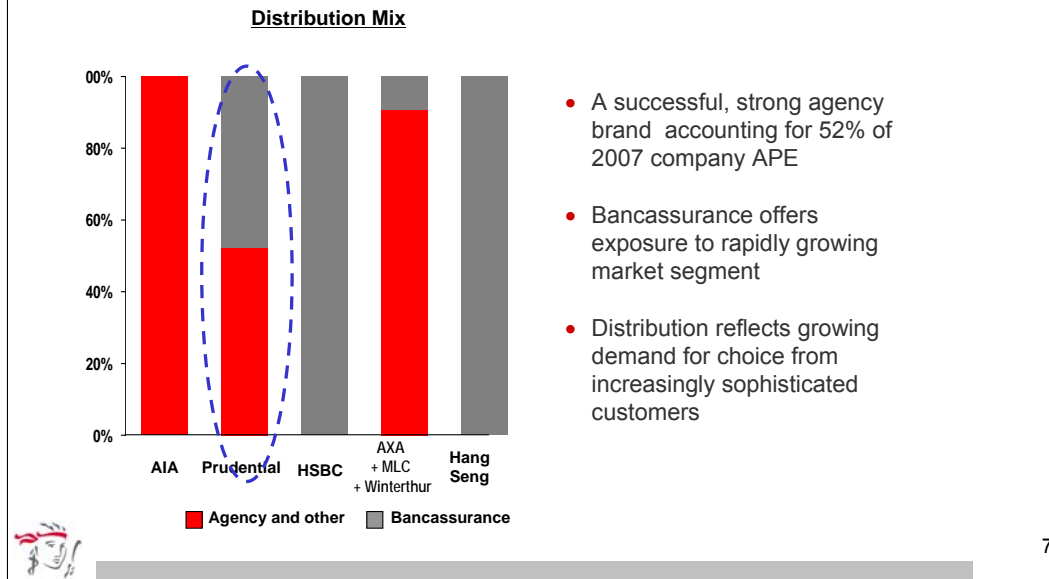
Strong APE growth supported by healthy new business profit growth, 4-year CAGR of 32%. Margins continued to strengthen, increasing from 48.2% in 2003 to 72.6% in 2007, highlighting quality of growth



- As well as strong top-line sales performance, our strong APE growth has been mirrored by strong NBP growth. This chart shows our 4-year NBP CAGR is 32%, and despite the levels of market development and competition, our margin has continued to steadily climb from 48.2% in 2003 to 72.6% in 2007.
- This is a remarkable performance, particularly the strengthening margins, and can be attributed to a much more aggressive pursuit of the medical and unit linked segments which both offer relatively higher margins than traditional life policies.
- I've talked about market growth and Prudential Hong Kong's recent strong performance. I'd like to now move on and cover some of the reasons why we are, and will continue to be, well-positioned to further capitalize on the growth opportunities.

## Prudential Hong Kong : Multi distribution a key differentiator

Prudential's pioneering multi distribution approach remains unmatched and offers unique access to growth opportunities across both channels

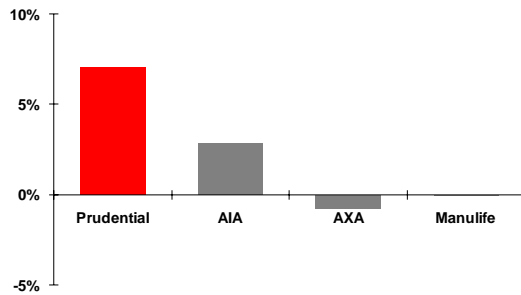


- First, let me speak of our distribution strength.
- This slide highlights a unique, key strength for Prudential in Hong Kong – our well developed multi channel distribution approach. This is something our competitors have not been able to match. While this chart breaks down the top 5 – if you went further down the league tables, you still would not find this type of distribution balance.
- Our agency force is highly regarded, and most importantly it continues to grow. It continues to be our most heavily weighted channel and in 2007 accounted for 52% of company APE – in short, agency is our core distribution strength. In just a few moments, Michael Leung, our Chief Agency Officer, will be discussing our Agency performance and what has happened with agency operations in the market and at Prudential. Quite simply, the agency channel continues to be of critical importance in Hong Kong and we are focused on being the premier home for high quality agents in Hong Kong and providing an environment that generates high productivity and quality advisors.
- Prudential was one of the first insurers in Hong Kong to recognize the opportunity presented by the bank channel. As you can see, we have a well balanced distribution split. This has allowed us to take advantage of bank sales, which is a fast growing segment in the Hong Kong market. Our relationship with Standard Chartered Bank ensures we can reach the Hong Kong customers who are increasingly demanding a choice in how they access retail financial services. This Hong Kong relationship is also a regional best practice and has been leveraged into Taiwan.
- I'd now like to ask Michael to discuss our core distribution strength – agency.

## Prudential Hong Kong : Attracting & retaining quality key to agency growth

A segmented approach focused on attracting and retaining quality agents is key to driving growth in a highly competitive agency recruitment market

Growth % of Direct Sales Force of Leading Players, 2006- 2007



Segmented approach to recruiting key to agent quality and APE growth

- Prudential 15% increase in agents vs. total market decline of 2% over 5 yrs
- Prudential agency growth of 7% in 2007
- Recruitment strategy focused on two key segments:
  - Fresh graduates are a development pipeline for existing agencies
  - Mature recruits from other industries (e.g. accounting, finance) offer reach into new customer segments



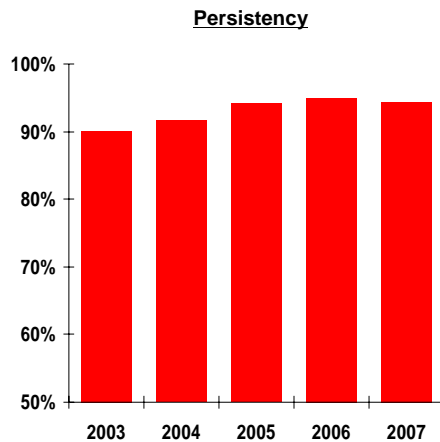
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- Thanks Jeff
- As the Chief Agency Officer with Prudential, I can say that Prudential has worked hard to build a strong agency, which is and will continue to be a significant contributor to our business for the long term.
- Let me stress that the agency distribution model is strong, healthy and continues to be very successful in Hong Kong. In fact, our competitors are also working very hard to develop their agency forces.
- Keeping our agency force strong and expanding in such a competitive market is a challenge, however our segmented approach to attracting and retaining agents has been key to us outperforming the market
- In fact, if you look at the total agency market over the last 5 years, headcount has declined by 2% while Prudential has posted a very healthy 15% increase. In 2007 alone, our agency headcount increased by 7%, significantly outperforming the other major agency based players.
- Moreover, many of our agents have long-term relationships with Prudential, with 22% of them having worked with Prudential for 7 years or above. Our agents come and stay because they regard Prudential as the best place for quality agents in Hong Kong.
- In terms of driving agency growth, we have developed a strategy that very much focuses on identifying the quality segments within the recruitment market. And by 'quality' we mean recruits that will create value for Prudential.
- Our recruitment strategy has identified two key segments;
  - New graduates as a talent pipeline to refresh our existing agencies,
  - Mature recruits from other industries, who effectively offer reach into new customer segments.



## Prudential Hong Kong : Attracting & retaining quality key to agent growth

A range of targeted initiatives in place to drive recruitment and retention of quality agents. Industry leading persistency highlights quality of agency sales.



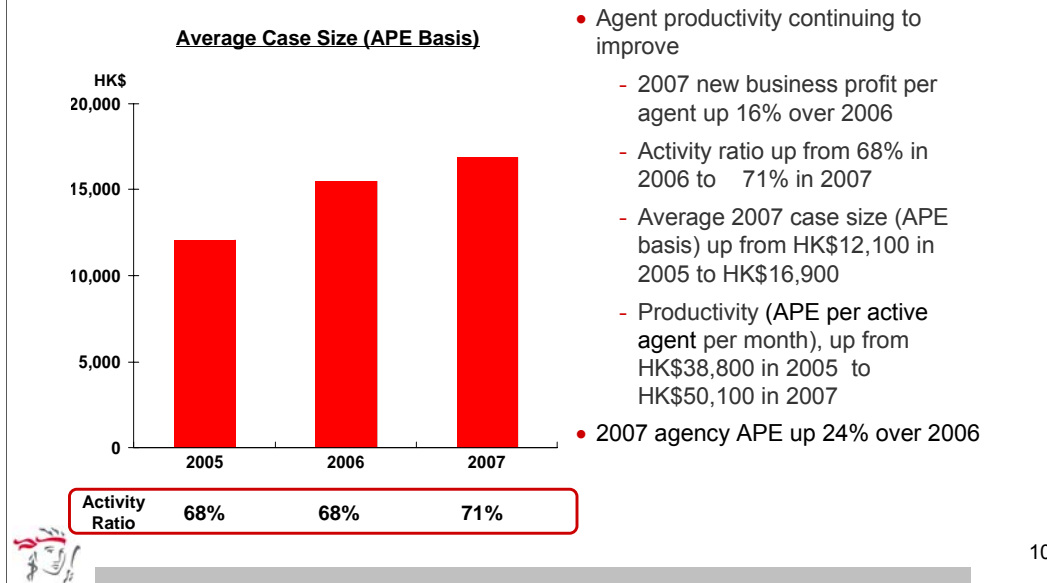
- Recruitment growth supported by establishment of Central Recruitment Intelligence Unit offering:
  - Improved recruiting incentive packages
  - Enhanced recruitment training & support
- Segmentation also key to retention strategies
  - Retention initiatives include: financial planning training, long-term incentive programmes and share options scheme for quality agents
- Strong persistency amongst agency sales
  - Robust internal monitoring and controls
  - Compliance focused culture and training



- So we have a strategy in place to focus on attracting and retaining quality agents. Let me now talk about some of the initiatives we have in place to support this strategy.
- In terms of targeted recruitment, we have made recruitment a major priority across the agency force and have established the Central Recruitment Intelligence Unit that offers a wide range of recruitment support initiatives including improved recruiting incentives and enhanced recruitment training and support.
- A segmented strategy also applies to how we retain agents. We focus on our most productive segments and we have launched a number of targeted new initiatives including:
  - Financial planning training for agents meeting production & other training requirements
  - Long term incentives for selected agents
  - Share option scheme for agents that consistently meet performance thresholds
- I think the best real measure of quality is business persistency and thanks to robust internal monitoring and controls and compliance focused culture supported by on-going training, the Prudential agency has persistency that is the envy of the industry.

## Prudential Hong Kong : Agent productivity continues to improve

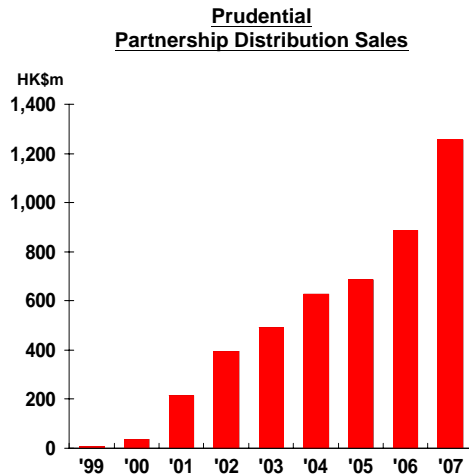
Agency channel APE growth supported by continued productivity improvements with further upside potential available



- Our segmented strategy has been very successful in attracting and retaining quality agents. As well as attracting and retaining quality, we are also very focused on driving productivity and I'd like to share some of the results of our efforts to drive agent productivity.
- In terms of more specific productivity measures, Prudential Hong Kong agents continue to show improvement;
  - 2007 NBP per agent up 16%
  - Activity ratio up from 68% to 71% in 2007
  - Average APE per case up 40% since 2005
  - Productivity up 29% since 2005
- The bottom line is that our total APE growth through the agency channel continues to grow. In 2007 it was up a very healthy 24% over 2006.
- Our segmented strategy for attracting & retaining quality agents, our other initiatives to drive productivity and the high quality of our written business as indicated by industry leading persistency all mean that the agency channel has a very positive future within Prudential.
- I'll now pass you back to our CEO, Jeff Walker.

## Prudential Hong Kong : Exclusive SCB partnership

Bank sales driving market growth; Exclusive SCB relationship offers additional reach into growing customer segments that prefer to purchase life products via banks



- One of the first insurers to recognise potential of bank distribution in HK.
  - 48% Prudential 2007 APE
- Over 60 SCB branches in Hong Kong
  - 145 Prudential staff selling savings and protection products
  - 330 SCB staff selling Prudential insurance products
- 2007 bancassurance average regular premium case size of HK\$34,600 vs. HK\$15,300 for agency



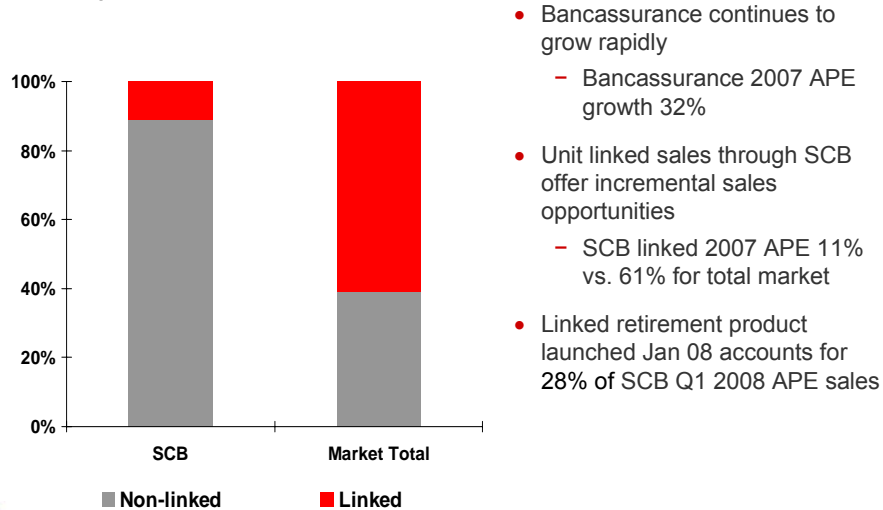
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- Thanks Michael.
- This slide highlights a unique, key strength for Prudential in Hong Kong – our ability to combine best of breed agency distribution with innovative bank distribution into a complementary multi-channel distribution model.
- SCB and Prudential have an outstanding relationship in HK and we have been at the forefront of the development of the bancassurance sector.
- As you can see from this chart, this foresight has paid off with the partnerships distribution channel now accounting for 48% of Prudential APE sales in 2007.
- The relationship is a regional best practice for PCA and operates in Hong Kong with 145 Prudential Financial Planning Managers, who are recruited, trained and managed by Prudential and located in the 60-plus SCB branches across Hong Kong selling a range of savings and protection products to SCB customers. Our financial planning managers are complemented by an additional 330 SCB branch staff selling Prudential single premium products.
- **Importantly**, the SCB relationship gives us access to the growing segment of older, wealthier customers who prefer to buy their insurance where they do their banking. The difference in regular premium average case sizes, HK\$34,600 for bancassurance vs. HK\$15,300 for agency is one indicator of the different customer types the respective channels access.

## Prudential Hong Kong : Exclusive SCB partnership

Unit linked sales through SCB offers an additional opportunity to drive incremental business

Split of Non-linked and Linked Sales



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- Bancassurance gives Prudential access to a strong, consistently growing segment within the Hong Kong life insurance market. What I want to highlight now, is the additional growth opportunity that exists within this rapidly growing channel.
- As you can see from this chart, in 2007 only 10% of the Prudential bancassurance APE was from linked products. This compares to 61% of industry APE coming from linked products.
- We see strong growth in 2008 through increases in the productivity of our Financial Planning Managers and a push by SCB into the Unit Linked market. February and March were record sales months with SCB and the 1<sup>st</sup> quarter 2008 was the strongest in partnership history.
- We have recently launched a new regular premium unit-linked plan that is sold through SCB and as of Q1 2008 it alone accounted for 28% of SCB sales – doubled the full year 2007 proportion.
- Let's move on to new opportunities !

## Prudential Hong Kong : Core strategic focuses will drive growth

Agent recruitment, productivity and activity will drive growth. Retirement, medical and unit linked opportunity through SCB offer complementary growth opportunities.

- Opportunities to drive agent recruitment, productivity and activity
- Opportunities to expand SCB relationship
  - Unit linked business
  - Productivity improvements
  - Product development tailored to SCB needs
  - SCB commitment
- Retirement planning and health insurance continue to be key strategic focuses
- Wealth management opportunities
  - Expand product range
  - Technology based financial planning platform
  - Leverage brand into wealth management



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- As we said in our introduction, Hong Kong is a wealthy, competitive market and we have identified a number of opportunities for growth in both the short and long terms.
- As Michael mentioned earlier, our agency recruitment, retention and productivity activities have delivered robust growth in agency APE in recent years. We will continue to drive growth by focusing on these areas which will also ensure our agency force continues to be a major growth driver for Prudential Hong Kong.
- Also as mentioned, expanding our relationship with SCB also represents a significant opportunity. We are exploring ways to dramatically expand our linked business with them and our early results for 2008 look extremely promising.
- In addition, we are working more closely with SCB to further improve our already very strong productivity and developing products more specifically targeting SCB customers needs. In fact, we are close to launching a new bank focused single premium VA that has the potential to drive incremental business.
- SCB is even more committed to driving value from the Prudential partnership.
- Retirement & medical will continue to be key. MPF is driving huge demand for complementary retirement accumulation plans. The govt. has announced medical funding reforms that will effectively make Hong Kong people responsible for a greater proportion of their medical expenses, further accelerating customers interest in medical insurance plans.
- To take advantage of the longer term wealth management opportunity, we have a number of core strategies in place to develop and enhance our wealth management platform.
- We plan to expand our product range and make greater use of technology in our financial advisory tools and in the long term, leverage our brand to include wealth management.

## Summary

- 1. Hong Kong market growing strongly**
  - 2007 APE growth 32%
  - 7 year CAGR 20% p.a.
- 2. Hong Kong market offers continued opportunities**
  - Retirement and medical segments
  - Generated by demographics and healthcare reform
- 3. Prudential's unique multi distribution model drives performance**
  - 7 year CAGR 25%
  - Bancassurance relationship accounts for 48% of 2007 APE
  - Only major player with truly successful multi distribution approach
- 4. High quality agency**
  - Agency headcount growing against market trend; focus on quality
  - Productivity up with opportunities for more improvement
- 5. SCB offers access to attractive customer segments**
  - Unit linked opportunity will drive further value from bancassurance channel
- 6. Prudential's broader wealth management proposition**
  - Meet expanding needs of an increasingly affluent, sophisticated market
  - Power Prudential growth over the long term



- In summary,
- Hong Kong is one of the world's most competitive life insurance markets. Despite the market's maturity, growth continues strongly; 32% APE in 2007 giving a 7-year CAGR of 20%.
- Long term, we see the market offering continued upside. Demographics and reform of the public healthcare system will generate significant opportunities in the retirement and medical sectors, and will drive changes in the market.
- Prudential's is extremely well positioned to take advantage of these opportunities and is already attacking them. We have a unique, innovative multi distribution model through our relationship with SCB that is driving our market and peer out-performance. We are the only major player with truly successful multi distribution approach. Our 7-year CAGR at 25%, and the fact that this bancassurance relationship accounted for 48% of our 2007 APE, are strong proof of this success.
- We also have a high quality agency force whose headcount has grown, in spite of a declining overall agency market. We have additional initiatives in place to cherry pick quality agency recruits and there are continued opportunities to lift agent productivity.
- At the same time, SCB offers us access to attractive customer segments, and unit linked products will allow us to further drive value from our bancassurance channel.
- Finally, meeting the expanding customer needs of an increasingly sophisticated and affluent market with a broader wealth management proposition will power Prudential's growth over the long term.