

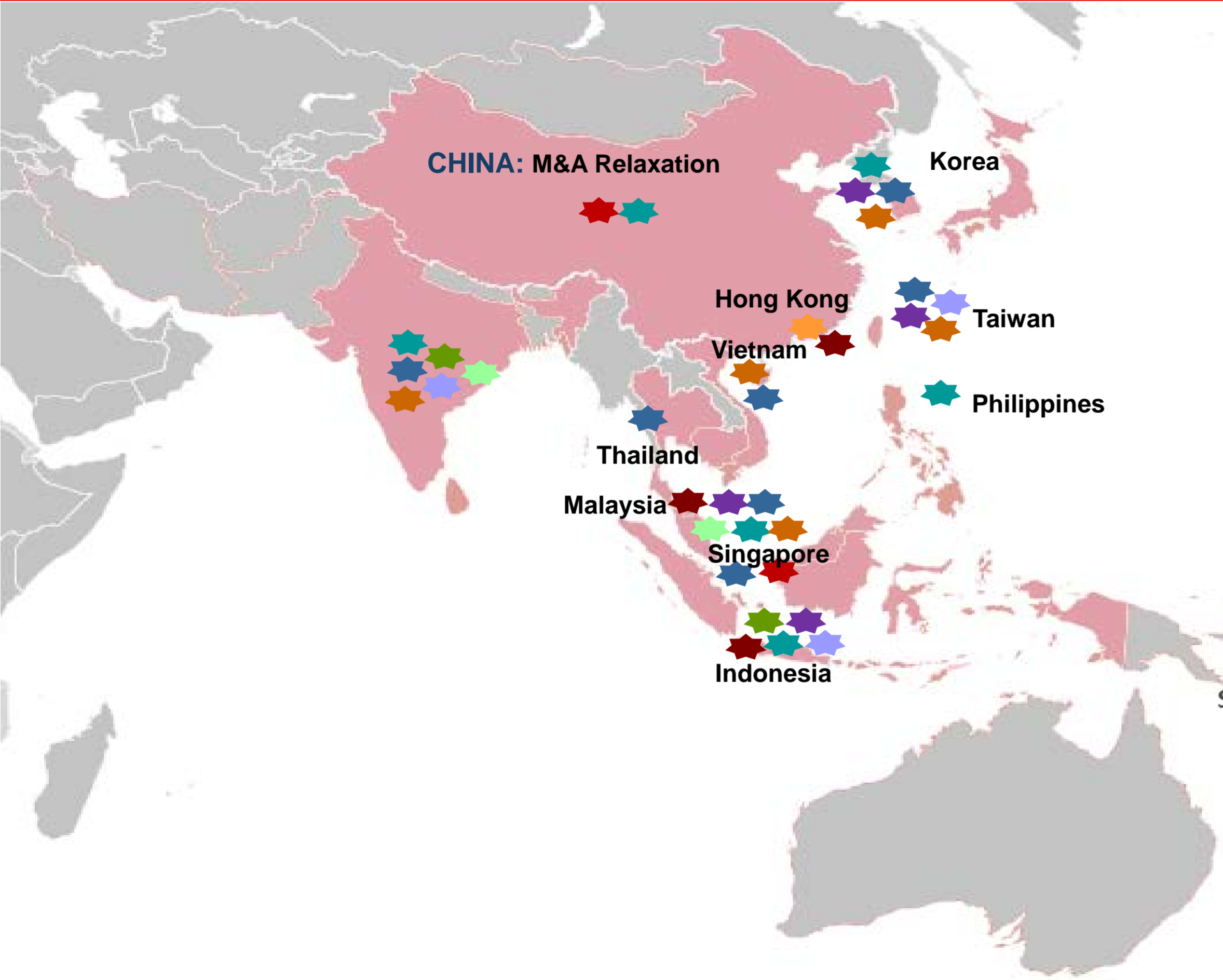
Assuring Quality Growth

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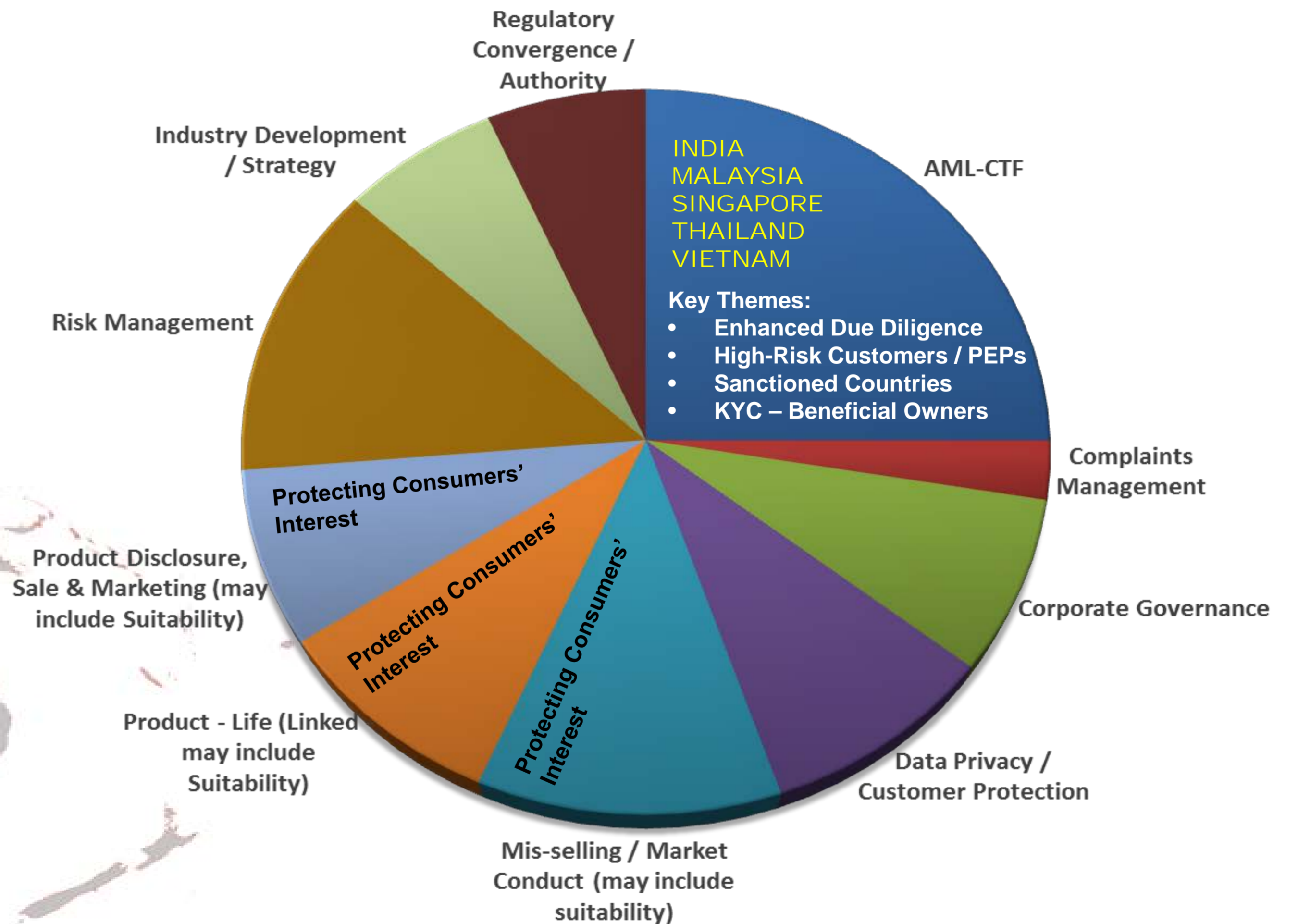
Regulatory Overview

- **Asian regulations continue to emerge with a focus on consumer protection, market conduct and prevention of financial crimes**
- **Local regulatory objectives balanced between consumer protection, market development and industry stability**
- **PCA seeks to take a leading role in the development of regulations**
- **International requirements also built into local compliance and assurance arrangements**
- **Risk and compliance policies and processes incorporated into all businesses supported by a strong compliance culture**

Regulatory changes in Asia (Insurance)



Overview and distribution of key & relevant regulatory themes*



*For the last 12 months. "Regulatory Themes" are based on the understanding of the scope and coverage of the relevant regulatory changes or developments identified for the period, other regulatory themes pertaining to taxation, solvency, actuarial, etc. not represented here

Examples of Recent Regulatory Developments



Hong Kong

- Independent Insurance Authority
- Investment linked changes
- Risk Based Capital consultation



Indonesia

- Consumer protection
- New Insurance law
- Corporate Governance



Malaysia

- Concept papers on Life Insurance & Takaful frameworks
- Financial Holding Companies
- Goods & Services Tax

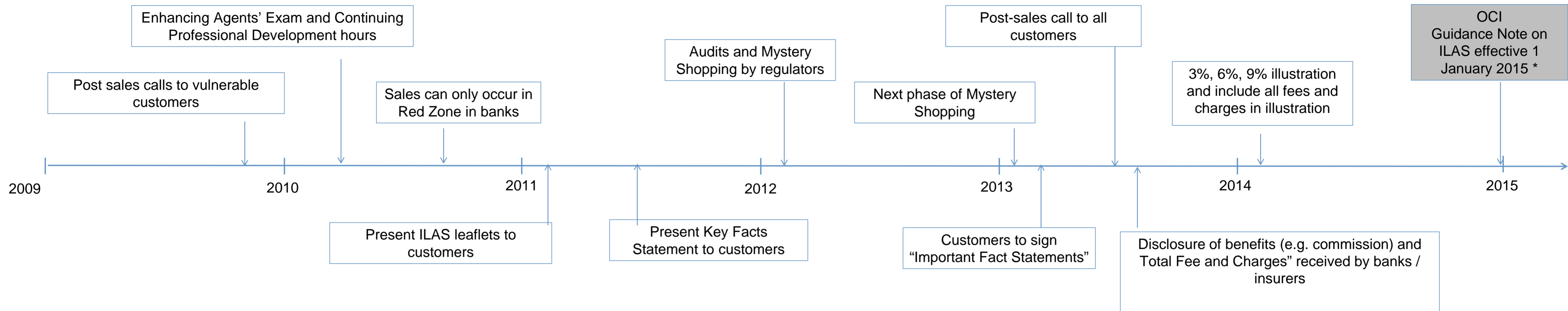


Singapore

- Financial Advisors Industry Review (FAIR)
- Anti Money Laundering controls
- Risk Based Capital 2 regime



Example: Hong Kong – Linked Products



*** OCI Guidance Note on ILAS effective 1st January 2015**

Product design

- “Fair treatment of customers” principle
- Minimum death benefit not less than 105% of account value
- Fees and charges should be fair to customers
- Appropriate remuneration structure for intermediaries to avoid mis-selling or aggressive selling, i.e no high commissions in initial years of policy term

Sales Process

- Suitability assessment and presentation with other non-ILAS insurance options
- Adequate and clear information to clients
- Disclosure of intermediaries’ remuneration to manage potential conflicts of interest



Example: Singapore FAIR

- Financial Advisors Industry Review first announced in 2012. Designed to:
 - Improve competence and quality of financial advisory firms and representatives
 - Make financial advice a dedicated service
 - Lower distribution costs of insurance products
 - Increase public access to insurance
 - Promote a culture of fair dealing
- Long consultation period to balance interests of industry stakeholders and consumers
- Initial proposals for replacement of commission with fee based advice have been dropped.
- Full regulatory implementation by 1 January 2016

Current proposals include:

- Balanced scorecard for financial representatives remuneration – comprises non sales related KPIs
- Direct purchase with no commission - term and par whole life products with total permanent disability cover, and critical illness rider attachments
- Competency – minimum onboarding and ongoing training requirements
- Cap on commission for regular premiums (minimum 6 year spread with first year cap of 55%)
- Restrictions on single product or product class incentives
- Web aggregator – MAS provided



Example: Malaysia Life & Takaful Concept Papers

First step, in a phased approach to liberalise the Life Insurance & Takaful sectors:

- allow for greater operational flexibility to promote product innovation while preserving the policy/certificate value
- encourage diversified distribution channels to widen outreach
- strengthen market conduct to enhance consumer protection

Ultimate aim is to achieve a higher insurance and takaful penetration rate of 75% (currently at 54%) while at the same time ensuring that consumers continue to receive proper advice.

- Removal of operating cost (commission and agency related expenses) limits for unit linked
- Minimum allocation of premium to policyholder's unit fund
- Commission limits for pure protection policies removed subject to offering through direct channel
- Alignment of bancassurance and corporate agents commissions
- Intermediaries remuneration based on a balanced scorecard
- Enhanced disclosure standards
- Product aggregator

Applications of International Regulations

Anti Money Laundering and Economic Sanctions

- Mandatory Group policies apply to all PCA entities
- Automated Sanctions checking system
- Consistent training programmes
- Ongoing programme to remain best in class and automate where possible
- Implementation challenges:
 - Cash based economies
 - Common names

Sanctions Checklist System

24 million records subject to ongoing review

3 million alerts

17 Sanctions matches

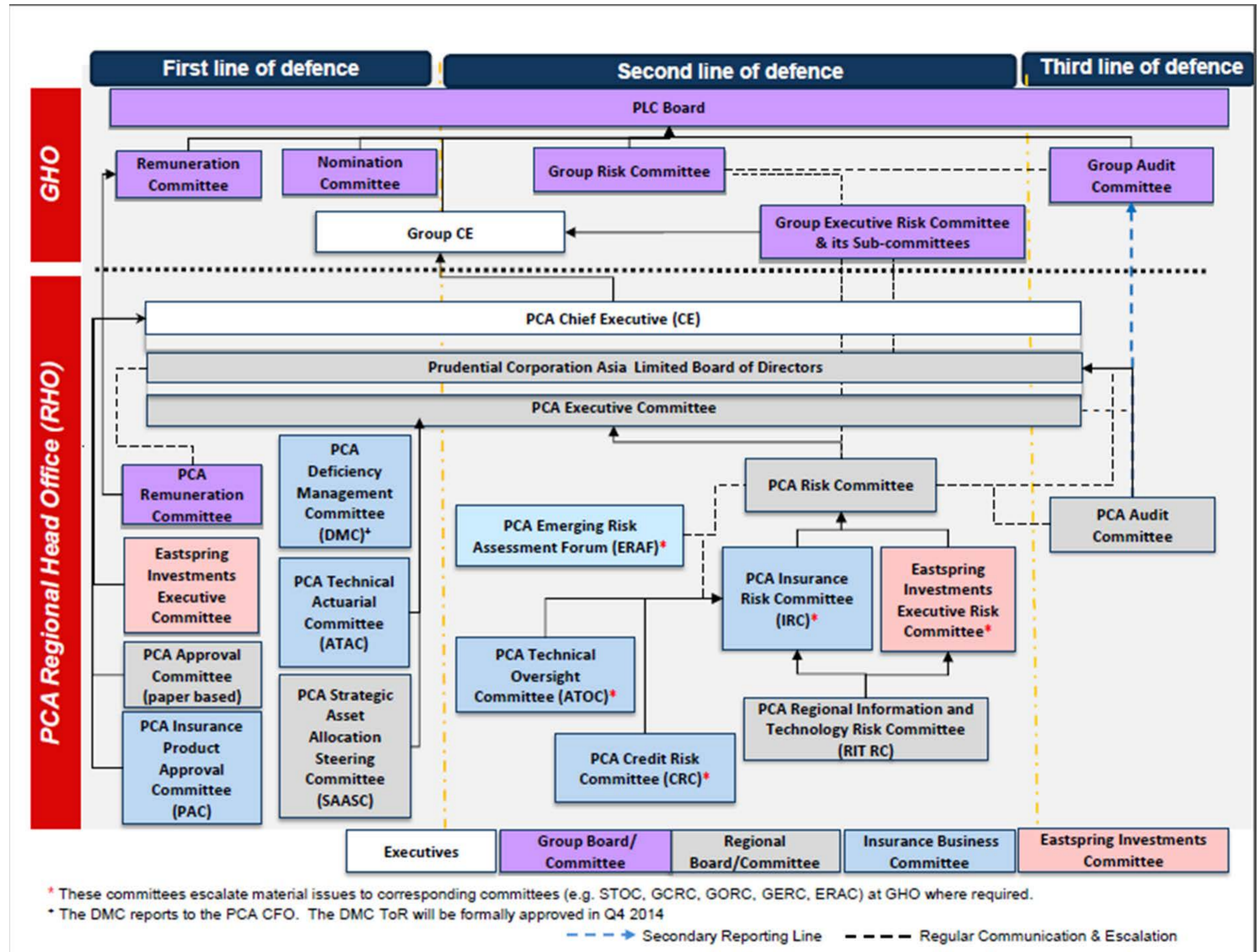
39 matches to black lists

12000 PEPs

Average of **9000** suspicious transactions per quarter (50% increase since 2012)

PCA's approach to Risk and Compliance

- Three lines of defence
- Common risk framework across the Group
- Oversight from GHO to RHO to local businesses
- Clear processes for escalation of issues
- Significant increase in risk and compliance resources over past 5 years

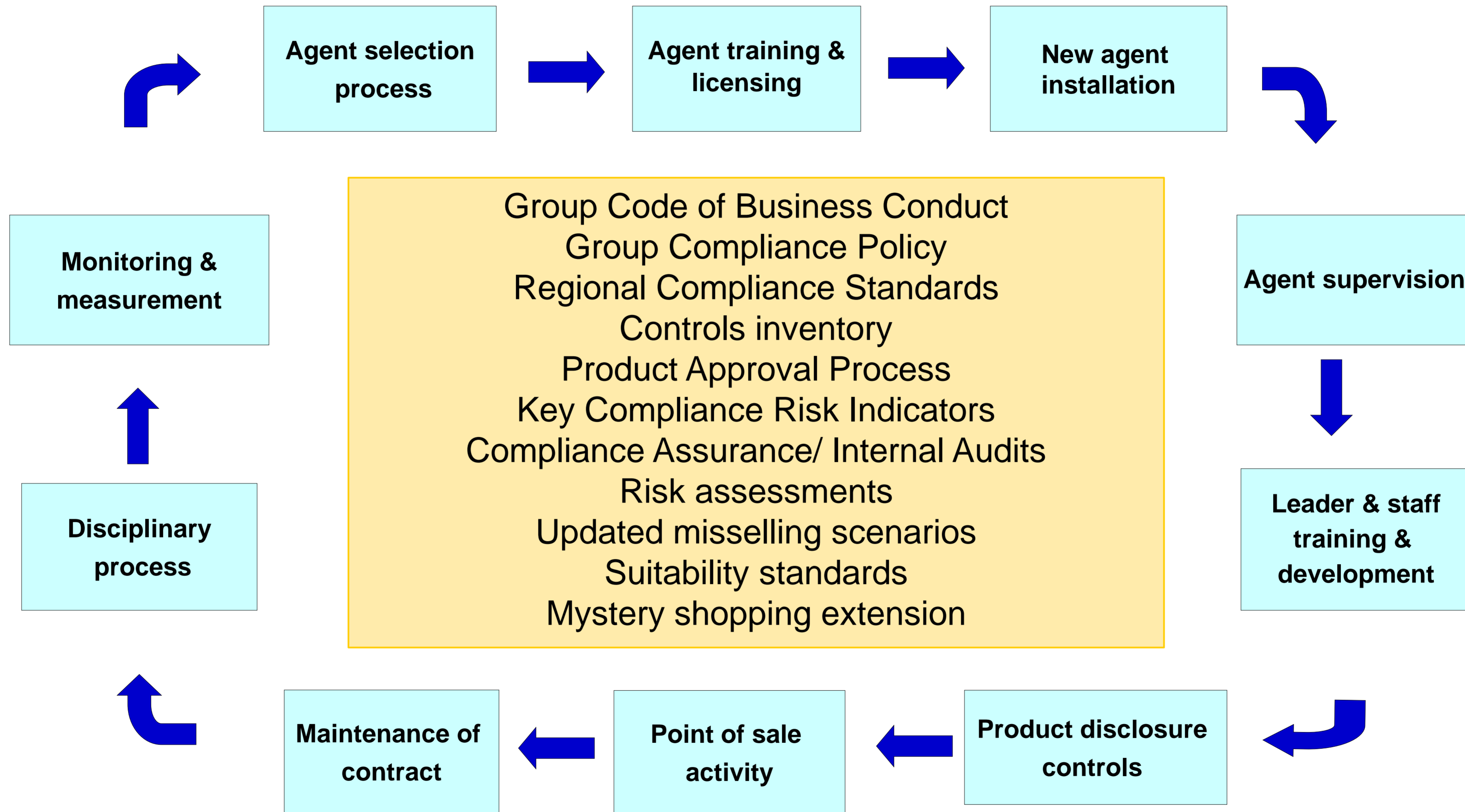


Application of Three Lines Model: Mis-selling Risks

1 st Line of Defence RISK MANAGEMENT	2 nd Line of Defence RISK OVERSIGHT	3 rd Line of Defence RISK ASSURANCE
<p>Control Examples:</p> <ul style="list-style-type: none"> • Product design • Recruitment controls • Training (new and continuous) • Registration / Licensing • Point of Sale controls • Assessments / reviews • Complaints processing • Whistle blowing • Incentive structures • Independent risk management • Exit controls • Conduct of business rules 	<p>Examples:</p> <ul style="list-style-type: none"> • Product approval • Regional complaints monitoring • Minimum standards • Compliance monitoring • Risk based quality assurance • Training • Conferences • Inventory of controls • Key risk Indicators • Scenario and stress testing • Mystery shopping 	<p>Examples:</p> <ul style="list-style-type: none"> • Audit of controls and compliance framework

KPI Triggers
<ul style="list-style-type: none"> ▪ Policy Attrition Rate ▪ Year 1 Persistency ▪ Agency Attrition ▪ Cancelled from Inception ▪ Complaint Numbers ▪ Sales misconduct complaints

Misselling Risk Mitigation



Summary

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