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Interview with Mark FitzPatrick

Francine Lacqua

First now let's get straight to some earnings news. Prudential's first half earnings rose less than expected as a pandemic disrupted sales in key markets, such as Hong Kong underscoring. The challenge posed by the insurers pivot to Asia. We are delighted now to be joined by Prudential's chief executive officer, he's Mark FitzPatrick. Mark, thank you so much for joining us. First of all, given some of the border closures that actually affected Chinese customers, what does it mean for Prudential's strategy? Does it change where you want to be focused on?

Mark FitzPatrick

So Francine, hi, good morning to you. It's great to be here. I think in terms of the border closed between Mainland China and Hong Kong, what it does, it means that we're pivoting now on our domestic business. So the domestic business in Hong Kong was 7 million consumers, great opportunity for us to meet their health and savings needs. And we're seeing a real uptick in terms of consumers in Hong Kong trying to get more health and protection products. We saw a real uptick in COVID cases in the first quarter of this year. There was a hard lockdown for the fifth wave in Hong Kong and effectively, what we've seen coming out of that is a relaxation of some of the COVID restrictions down to three-day quarantine in Hong Kong, which is great, and a real opportunity now for the business to bounce back.

Francine Lacqua

So what are you expecting, Mark, more Chinese buyers purchase purchasing insurance in Hong Kong. Are they looking for more local providers? What do the next 18 months look like?

Mark FitzPatrick

Every quarter, Francine, we do an exercise and an independent survey that actually ask people in Chinese mainland what is their intent of coming down to Hong Kong when the border opens. And what we're seen is a dramatic increase in appetite for Mainland Chinese consumers to come down to Hong Kong and to buy insurance policies in Hong Kong and effectively, what they get when they come to Hong Kong, they get different currency options. They get an option to participate in critical illness cover, and they also get an option to be able to participate in the phenomenal healthcare system that we find here in Hong Kong.

Francine Lacqua

Mark, give me a little bit of a sense of now that the Pru is largely, of course, focused, if not all focused in Asia, will you de-list from London?

Mark FitzPatrick

So I think what we have is we have two primary listings. We have a primary listing in London, and we have a primary listing here in Hong Kong. And we raised 2.4 billion in equity raise last year here in Hong Kong, as a way to try and increase people's awareness and increase our profile here and get more investors that are familiar with the Asian market. What we're looking at going forward, I think, is to really make sure that we drive through our pivot to Asia. It's going to be our home going forward. We are agnostic as to the question of domicile. And as to regards, the element of listing about 40% of our shareholders are, are based in it around the UK. And most of the liquidity today is traded through the

London line. Though, that being said, we are applying and we are trying to get onto the Hong Kong/Shanghai index, if that comes through, and we'll hear later on this month that comes through, that should create extra demand, but also give access to the Shenzhen and Hong Kong connect.

Francine Lacqua

Okay. How can you expand in China? Do you want to expand in China?

Mark FitzPatrick

So the Mainland Chinese market is huge. And generally speaking, what we're seeing is... And the regulators ask for is greater penetration of insurance products. I think on average, it's about two and a half, 3% of the moment. The regulators are trying to aim for about 5%. So Mainland China is a huge market for us. It's one that we like to get into even more. We're in 99 cities, access to 6,000 outlets there. And it's a great opportunity for us to grow into that footprint and really do a lot more in Mainland China.

Francine Lacqua

Mark, any interest to take a majority stake, for example, in some of the joint ventures with CITIC.

Mark FitzPatrick

So the CITIC joint venture is a great joint venture. We hold 50/50 with CITIC. We would love to own more, but that being said, while we are willing buyer, you need to have a willing seller. In the absence of that, all our attention is focused on driving that business forward. And we printed some great numbers today in terms of its profits and in terms of its sales and its overall kind of scale that we're reaching. So we've outperformed the market in Mainland China by four times in this last six months. And since 2017, we've continued to outperform the local market. So we're clearly doing something right. We're clearly connecting with consumers and we've clearly got the right product set that they need.

Francine Lacqua

Mark, give me a sense of how inflation overall will hurt your earnings. Do you worry that inflation... We're talking about peak inflation, but inflation's here to stay. And so at some point, customers will have to face whether they continue with insurance or they actually pay for gasoline.

Mark FitzPatrick

So I suppose an element to bear mind is that... So we saw Mainland China produce and print its CPI number earlier on today, 2.7% far cry from what we're seeing in the UK, Europe or in the US. Undoubtedly, inflation is going to have an impact in terms of where consumers spend and therefore, Francine, to adjust to that, we're creating new products. We're creating an ability to be able to reprice. We're creating more bite-size products so that consumers get some protection, but without necessarily needing to commit for a multi-year policy or very large policy that might tie their hands up financially. So we're trying to adjust our products set for the economic environment that we expect to see over the course of the next couple of years.

Francine Lacqua

And Mark, when you look at China's common prosperity drive, which really has resulted in the bankers pay and how much you can pay them. Do you struggle or worry about banker retention, insurance individual retention?

Mark FitzPatrick

So our retention levels in our business in Mainland China is fine. There's no issue with that component at all. Because we have the backing of a stated enterprise and because of our brand in mainland China,

actually, we're magnet for really interesting talent that wants to come into the insurance world. So people come in because they see there's an opportunity to work with the Western organisation, but yet one that's got fantastic backing with CITIC and actually that's winning, and people want to be with the winning organisation. So they're coming to us.

Francine Lacqua

All right, Mark. Thank you so much for the interview. Mark FitzPatrick there, the chief executive of Prudential.

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