Prudential Final Q&A

James: Well, thanks very much to Mike Wells for that message, and welcome back to Investor Day, Mike, Mark, Nic, James, and Ben as we glide into the final Q&A of this conference. The lines are now open to ensure that everyone has the opportunity to ask their question to the management. May I ask you to keep your questions brief? You can call in live, or you can type in your questions on the event website where we have a dedicated Q&A session.

Thank you very much. And let's go now to our first question, it's a live caller. And it's Blair Stewart from Bank of America. Blair, please take it away.

Blair Stewart: Thanks very much. And thanks very much for all the effort today and also the showcases. It's been very good, and congratulations. I've got two questions left. Firstly, just going back to the cash conversion of the embedded value, I noticed that free surplus generation growth and embedded value growth have been different. I think the embedded value has grown by twice as much as the free surplus generation since 2015. And free surplus generation is running at about 5% of the embedded value, and that's pre any new business spend. And obviously you need to cover your central cost and dividends from cash that comes from the free surplus generation.

So, long question, but what can be done to improve the free surplus generation? Because, in doing so, you will improve PCA's financing capabilities. So, I just wondered if that was something that we should be focusing on, or what can be done to improve the rate of cash conversion? I know you've talked about the with profits being a slow burner, but it is only 10% of the VIF.

Anyway, the second question is just coming back to Babylon and the relationship. I don't know what you can say with regards to the economics for them. Are they incentivised per policy, per user, etc.? How does that work? Is it a bank assurance type relationship? Is what they provide exclusive to PCA? And what happens if they were to walk away? Could you just rent that tech from someone else?

And then coming back to one of the questions from earlier, Pulse is conspicuous by its absence in China and India, where arguably its qualities would be best put to use. Thanks very much again.

James: Mike, may I ask you to take the question in whichever direction you wish?

Michael Wells: Absolutely. I think on this segment, looking at some of the questions in the queue, Mark, I'm going to ask you to host this piece, because a number of inbound questions, including Blair's, I think are more financial. So, why don't we put you to work and first respond, you and Ben, to some of the questions from Blair, and then you go ahead and host this segment, it'd be great.

Mark FitzPatrick: Perfect. Okay. Will do. Thank you. Blair, thanks for your questions this afternoon. So, clearly at the moment, our focus is on disciplined capital allocation, writing new business, which meets the hurdle rate and also tends to be more regular premium in nature. As I showed in the video, the capital generation each year is really used to invest in new business, build resilience and also provide funding for inorganic investment going

forward. So, clear answer to your question, high quality NBP generated each year would naturally add new cohorts and increase the size of free surplus generated. At a country mix level, some of our businesses have more front-ended cash flow, such as Indonesia. When this kind of country returns to growth, we'd expect the velocity of that cash flow to increase.

But, thirdly, also, is an element of some of the actions that we've taken in terms of some of our costs, in terms of central costs. And also in terms of – as we look to enhance our financial flexibility through potential debt redemptions, that'll also reduce our interest cost in the future. And all of those actions going forward should create a high proportion of free surplus to be available for reinvestment in the business organically and inorganically.

And in terms of your second question around Pulse, Nic, maybe I can hand it to you to take that key piece please?

Nic Nicandrou: Thank you, Mark. On Babylon the arrangement is a fixed fee for all the markets that are in scope, with the exception of India and China, for a fixed period of time that started when Pulse was first launched in Malaysia in August 2019. China and India is open for us to work with Pulse if we choose to. As to our relationship, clearly, it's a very warm relationship, not least because through the work that we're doing with them, we're giving them access to the most populous – to 720-odd million people ultimately in Southeast Asia, and up to 400 million people in Africa. So, that allows the AI to be exposed to other parts of the globe to learn and be much richer as a result.

Back to you, Mark.

Mark FitzPatrick: Thank you very much, indeed. James, should we go to the next question, please?

James: Thank you very much. We've got another caller. It's Andrew Crean. Andrew, for the benefit of everyone who may have joined a bit later, can you just remind us of the company that you represent, and please put your question to our management here.

Andrew Crean: Hello, thank you for giving me a chance to ask more questions. A couple of questions. Firstly, your dividend pay-out ratio is around about 10% to 15%, which is very low compared with most companies. And I want to understand whether that is going to be the long-term pay-out ratio, or whether there is a short-term need to build and retain capital perhaps to buy out relationships in China and India. And that once you've achieved some inorganic strategic goals, you'll raise the pay-out ratio to a more normal level?

So, that was the first question. Second question is on the embedded value basis. I know, Mark, you've said that you believe in the European embedded value basis, and that's the ~~TEV~~ [Editor correction] EEV basis, but the investors live in a comparative world. And it's quite clear that your main competitor is under a TEV basis. And there've been a lot of questions as to which one is more conservative.

Can I just ask you, have you actually done a comparable analysis, both of your EEV and of your business profits on a TEV basis? And could you share with us, not necessarily in absolute numeric terms, but in broad scope as to whether they are comparable?

Mark FitzPatrick: Andrew, thank you for those. So, I'll take the first one in terms of the dividend piece, and then, Ben, I will ask you to pick up the EEV piece, as you've got a slightly different lens on that for Andrew.

Andrew, so in terms of the dividend piece, I think we indicated at the half year last year that we're looking for the dividend to grow in line with the OFSG post run rate costs, so no change expected in that particular piece today, we do accept that the dividend pay-out ratio is low. One of the things we did indicate last year is that we were making a very deliberate pivot towards more investment into the business. And part of that you saw play through at the second half of last year, part of that you have seen play through in the first quarter of this year, where we've actually focused more on health and protection, we've focused more away from the Par fund, because we think that the returns, the profits signatures of those, are preferable.

So, in terms of dividend pay-out, not much more to really to be able to say on that; really is linked to OFSG, and separate from anything that we might be looking at or considering in terms of future inorganic. We would look at future inorganic as it arises, as opportunities arise, as against it being linked to any particular dividend pay-out.

Ben, would you mind picking up the EEV and the TEV piece, please?

Ben Bulmer: Sure, Mark. Thanks for the question, Andrew. In short, no, we haven't restated our EEV onto a TEV basis. Look, as I've referenced in my video, I think it's worth reminding ourselves that EEV was devised to address the perceived shortfalls with TEV, amongst others, prudence allowance for risk and measuring risk in a more – or market risk, at least, at a more granular product level. But, of course, the need for more transparency and consistency of reporting.

I think is the appropriate way for us to measure our business. And let me perhaps give you two examples. The first is when we measure market risk at a product group level, as Mark has referenced in his slides, and indeed I did in the video, two-thirds of our VIF relates to health and protection business. So, yeah, in essence, these are underwriting profits that aren't sensitive to market risk. So, when we combine that with a conservative asset strategy, we're essentially projecting out and discounting back at close to risk-free rates. So, really it's akin to a MCEV.

If I then think about the investment side of the book, so one-third of our VIF, again, we apply an active approach to setting yields based on the 10-year government rate. We then hold those flat throughout the projection, and don't mean revert to an ultimate forward rate. In addition to that, as you know, we calculate a time value of options and guarantees, and separately disclose that.

Now, whilst we've always had limited appetite for guarantees, we compete on a total returns basis. If we were to move to a passive basis of setting FER and to include some mean reversion, one, we would expect a higher embedded value, particularly when rates are below long-term average levels. Two, I think in doing so, in the absence of anything else, we would tempt management to write higher levels of guarantees in the products.

Perhaps one final point on investment side, if I may, when we do write savings products, we do so in either our well-capitalised UK style with profit funds, or through unit-linked chasses. Now, both forms of which don't directly expose our shareholders to market risk. And, in that regard, with profits products and the ability to manufacture them here in Asia, is a competitive advantage for us. Thanks.

So, back to you, Mark.

Mark FitzPatrick: Thank you. James, shall we move to the next question, please?

James: Thanks very much. Well, we've got another question from Ashik Musaddi. Ashik asks, how do we think about excess capital in the LCSM or GSM solvency ratios? How much cash can be deployed into inorganic growth?

Mark FitzPatrick: Okay. So, thank you for that question. When I think about our LCS position, a very comfortable position, and we operate well within internal risk appetites. Free surplus stock also allows for capital buffers in excess of the minimum capital requirements. And while the majority of our surplus is fungible, our key stakeholders, whether they be regulators, distributors, or customers, expect our business units to remain well capitalised. And therefore the retained capital also enables us to be nimble and react very quickly to local opportunities as they arise. And it's also worth noting that the comments in my video a bit earlier about accelerating our deleveraging by a potential equity raise, which will further enhance our financial flexibility as we consider any potential inorganic growth opportunities.

So, overall, while we consider inorganic opportunities when they arise, we consider both internal and external funding options. And we saw, during the course of last year, how, with some of the capital that was in Thailand, we were able to reinvest that back into the business as part of the funding for the Bancassurance deal, which is a very real and a very current example of how we use the capital locally, but also how we provide some support at a group level.

But thank you for that question. Back to you James.

James: Great. So, with that, we can go to a question this time from Dom O'Mahony. Dom says: You highlight that WP IFRS profit is back-loaded due to the weighting to terminal bonuses. Under IFRS-17 do you expect group or profit to be higher to reflect these smoother profit-signature of these WP products? Or, will this be offset by the change in profit signatures of other products, for example, annuities?

Mark FitzPatrick: Okay. So, we get into the murky world of IFRS-17. So, this is a complex standard that we will be applying across multiple products and countries. And I think it's fair to say as well that industry practice is still being developed, and it's really too early to give any guidance on where we think we're going to land on IFRS-17 today. But I do commit to be able to giving you some update as and when that becomes available in a meaningful fashion.

Now, under IFRS-17, profits are really a combination of the services provided to policy holders in the period. There's a release of the risk adjustment and also the investment profit. Whereas, under IFRS-4, the current standard, that's really driven by the release of prudence, which is specific to local reporting bases, if you will.

So, IFRS-17 doesn't change underlying product cash flows, however, it will change the timing of profit recognition, which is behind the question. It's very difficult to generalise the potential impact given where we and others are on the market at the moment, because there are a number of options which are subject to significant judgment, which will ultimately impact this. I suppose, at its simplest, IFRS-17 tends to result in profit recognition throughout the duration of a contract, whereas the current standard tends to back-end the profit recognition. So, given that it's likely that the operating profit for the Par business

would be high under IFRS-17, but there are a number of other products that need to be looked at and around, and actually meshed together. So, we haven't defined yet what that operating profit profile would look like. But, as I said, as soon as we have something further to add, we'll be able to share that with you in due course.

So, thank you for that question.

James: Thank you. So, let's go now to a question this time from Greig Patterson. A two-fold question here for you panellists, the first one on EEV. How do you think your basis differs from your peers? And the second one focuses the conversation back on Pulse. How complete is the rollout? Where is the current 9% ($70 million) mainly from? And Pulse products, will these be low margin? $70 million APE first quarter 2021 or 9% of group?

Mark FitzPatrick: Right. Okay, so, let me share a bit of the love here. I think we've dealt with an element of the first question in terms of one of the earlier piece, but let me just check, Ben, if there's anything further you'd like to say on the EEV versus peers.

Ben Bulmer: I think we've dealt with that question. Thanks, Mark.

Mark FitzPatrick: Yeah. Okay. So, then onto Pulse, Nic, would you like to pick up the key component around Pulse and the different aspects behind the question, please?

Nic Nicandrou: Yes, I think we covered that earlier in terms of the contribution. As I said, it's mainly Hong Kong, Indonesia and Malaysia at this stage. The capabilities of the rollout of Pulse as we go from here will be expanded, both in adding new services, as we said earlier, lead generation, fulfilment. The virtual face-to-face that we talked about a lot over the last year is capable of being done on the single platform of Pulse, which is, again, going to come into play as we face into the current lockdowns that we've been seeing in one or two markets. Servicing is only at the beginning. We can do claims, but we want to put other aspects. And, of course, in time we'll put wealth services.

So, the rollout is significant. The products that we're selling are predominantly health and protection in nature. So, the margins are akin, as Ben said earlier, to what we're seeing in the rest of our portfolio.

James: Okay. Mark, should I go with the next question?

Mark FitzPatrick: James, thank you.

James: It's a long one here and it comes from Henry Heathfield. Henry asks: I was wondering if you could answer, when investing in new business in Asia, could you provide an idea of how and where this investment is made, and where we would see it in your financial statements? That's the first one.

Let's go to the second one from Henry: I appreciate PCA is a health insurance, life insurance and long-term savings business in Asia, and that most of your profit is generated from insurance. However, health insurance and life insurance are quite different, and a lot of life insurance falls into long-term savings. So, I was wondering if you could give me an idea of which is most important: health insurance, life insurance, or savings. If it's life insurance, is that pure-term life protection?

Mark FitzPatrick: Right. Okay. So, those are fairly fulsome questions, so thank you for that, Henry. In terms of where do our investments show in terms of the accounts, I suppose

the key elements that you look for would be in our embedded value accounts, you'd see the element of new business strain or new business investment in our free surplus rolled in our disclosures. So, you'll see a separate line item for that particular piece quite clearly in the accounts, Henry. So, that would be the backend of the nearly 400 page document. So, that's where you'll find the answer to that key piece.

And then in terms of the element of long-term savings and the different aspects of that, Nic, would you like to give a view on that, please?

Nic Nicandrou: Well, I think, in the end it's they're both important in the sense that they're fulfilling real needs; savings products tend to fulfil educational needs, retirement needs. Health and protection products and really what we mean by protection is life insurance, it's medical reimbursement business, it's critical illness, as we covered earlier in one of the capabilities session, it's accident, hospital cash. Those are the main sources. And those on the protection side, we can sell them as standalone products, which is what we've done. We've started doing a lot, particularly during this pandemic. Or, we can sell them bundled with saving chassis

Now, why would you do that? You would do that so that when someone buys a product when they're 30 and they're contributing, say, $100 a month, the cost of those insurance riders, protection riders, is not very expensive. So, they will form a relatively modest part of the $100 premium. But later in life, maybe that $100 premium doesn't cover the cost of insurance. So, one is able to recycle some of the account value into providing that protection. Or the customer has the option to stop the product, take whatever the account value is and not be protected at that stage.

So, that's the flexibility. And when we talked earlier about building, writing protection on top of saving chassis, this is what we had in mind. The profitability that comes from savings, it's purely a charge on the account value. The profitability that comes from protection is the ability to understand price risk, deliver good value to the customer, and ultimately a good return to the shareholder. And that's really what underpins our IFRS and our embedded value profitability in the way in which we report it.

Back to you, Mark.

Mark FitzPatrick: Thank you very much, indeed.

James: Thank you very much to Henry for that. Panellists, we've got another question. This one comes from Oliver Steel. And, again, it's a two-fold question. I'll start with the first one: If you're targeting low income customers, what does that imply for NBP margins over the next five years? Then, Oliver asks you all a second question: How should we think about cost growth relative to revenue growth as a result of Pulse? Specifically, how do costs of writing new business develop as scale grows? And what savings over what timeframe could come from fewer legacy systems?

Mark FitzPatrick: So, great questions, Ollie. Thank you very much for those. Clearly, the element of lower – as we move into somewhat lower income strata, the element of the shape of the complexity of the products is going to be rather different. And, with that, we're going to see a different level of profitability. We saw an element of it coming through in terms of the bite-size products that were sold through Pulse during the back end of last year and

through the front end of this year. And that, by definition, squeezes an elements of the NBP piece.

But, having said that, I think as we do some element of potential face-to-face and virtual face-to-face with some of those segments, the opportunity to be able to then up-sell as those individuals increase their wealth is very real. And that is part of the customer journey that we're very focused on.

In terms of the element of cost and the like, I think one of the things you'll see coming through in time, but it is going to take time, is further operational leverage. And it's one of the things that Ben spoke about briefly in his video, the element of extra operational leverage that will come through as additional sales come through, as additional activity come through in terms of Pulse.

But let me just see if Ben's got anything further to add to my initial observations.

Ben Bulmer: I think it was Johnny talking about the op leverage as we move all the systems onto a singular platform. But you're right, Mark, we're looking for a digital dividend, if you like, and additional operating leverage. But I think it would be premature for me to state our targets in that regard.

Mark FitzPatrick: Thank you. Thank you very much, James.

James: Thank you. Let's jump to this question, and it comes from Charles Cartledge over at Trium Capital. Charles says this: Now that Pru plans to have a standalone Asian entity plus a smaller Africa entity, and given the possibility that this entity will seek additional equity capital, doesn't it make sense to publish embedded value data on a like-for-like basis with your major regional peer? This might help analysts and investors make a clearer peer-to-peer comparison.

Mark FitzPatrick: Charles, thank you for that question. I think we've tried to answer this in a number of responses to earlier questions that have come, either from Greig Patterson or others as well in terms of EEV, and why we believe EEV is right for us. Hopefully, the additional disclosure that we have provided with our results in March has given everybody extra comfort in terms of our EEV. But, in essence, we believe that the EEV that we have is right for us. It reflects the mix of business in terms of who we are. It's an active basis, and it's one that we think actually is more developed, more refined, and therefore a very appropriate basis to be able to share with investors and share with the market. Thank you.

James: Great. Maybe we return to Andrew Baker who has this question. Regarding Pulse, can you give us a sense of how you're managing data protection risks? And, any developing regulations that you see in this area across the region?

Mark FitzPatrick: Now, that's a question that we have been discussing and looking at ourselves. So, actually, there's one of the panellists who I'll be very keen to be able to pick this up. So, I wonder, James, if you might be able to give a view on that, please?

James Turner: Thank you, Mark. Look, we manage this risk at multiple levels. We've got a single group-wide information security and privacy team. We also have cyber risk management, which is conducted locally by the business information security offices in each LBU overseen by local risk committees. But as we moved – when GDPR went live, we made sure we had a really robust framework, which has been maintained in the development and

operation of Pulse. And we have teams that take part in the hot houses that Al Noor referred to earlier to make sure that we build in these controls right at the beginning.

Now, in terms of new regulations, I guess the notable one is in China, because, historically, there's not been a single – one single data protection law in China. The major law was the cyber security law in December, 2012. But in October, 2020, a personal data protection law draft was published. And whilst the effective date has not been finalised, it does bring in stiff penalties for non-compliance. Now, what we've done is we've compared that law to our policies on GDPR. And what we found is that our policies are largely aligned. The law does bring in a multi-level protection scheme of information security, infrastructure security, operational security and data security. And what we've done is we've assessed ourselves against all of those aspects.

So, it is something that is evolving, because data protection laws are evolving across the whole region. But given our history, we're in a really good space in that in terms of our preparations.

Back to you, Mark.

Mark FitzPatrick: Thank you very much. Thank you, James. And now back to James in the studio.

James: It leaves me to say thank you very much to everybody who've been putting forward your questions, not only in this last roundtable with the management, but throughout this whole investor day. And we obviously want to thank, Mike, Mark, Nic, James, and Ben for being with us to answer these questions and to colour the many questions that people have had for you over the last couple of hours. We're going to respond to all the remaining questions that we haven't been able to answer today.

But it now gives me the great honour to hand over to Mike to close up this event. Mike, please.

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