Prudential plc 2021 Full Year Results Q&A

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Prudential plc 2021 Full Year Results

Mike Wells

Group CEO, Prudential plc

Welcome

Welcome everybody to our conference call for the 2021 Full Year Results. I am delighted to be joined today by several members of our leadership team including Mark FitzPatrick our Group CFO and COO, as well as Nic Nicandrou our CEO of Asia & Africa and James Turner who is Group Chief Risk Officer. You will have noticed that we have moved our start time for the results day to be at lunchtime in Hong Kong and we are delighted that we are joined by a number of Asian-based research analysts who have just started to cover the Group. Welcome to all of you. I will make some short remarks and then we will go directly to Q&A. I appreciate several companies are reporting today so we will try and keep this to time for your convenience.

External Environment

Let us start with the external environment. We are obviously all very conscious of the current acute global political issues. Combine this with the ongoing challenges of COVID-19 and its effects, the resulting environment remains highly uncertain. The pandemic has had an ongoing impact on our customers, the communities we serve, colleagues and we continue to support our key stakeholders. Right now, there is a record high number of COVID cases in many Asian markets. Sadly, last year we lost 52 of our staff and Asians to COVID over the year. Our thoughts and prayers are with their families, friends and colleagues. We have taken and continue to take further steps to support the emotional, mental and financial wellbeing of our people, to be clear. Our people have not only risen to the challenges of COVID but I think they have delivered to incredibly high standards across our footprint. We have also responded for our customers. We have developed and tailored our product ranges and in particular in Health & Protection to enable these products to be suitable for a wider range of income gaps, such as our bitesize insurance products, including specific coverage for COVID at very low or discounted rates.

Strategic Priorities

As far as strategic priorities are concerned, in 2021 we completed our strategic repositioning to focus entirely on the long-term opportunities for us in Asia & Africa. This of course follows the demerger of Jackson in Q3 and the equity raise in Hong Kong in Q4. Looking ahead we are very excited in particular by the four large markets of China, India, Indonesia and Thailand. In all of them there are significant structural demand drivers and opportunities to strengthen our growing positions further.

2021 Results

APE sales

As far as 2021 results are concerned let us run through them briefly. We delivered high quality resilient growth in 2021. I think that is despite the challenges posed by the pandemic. We increased our APE sales by 8%, delivered double-digit growth in nine of our 14 insurance markets. Outside of Hong Kong we grew APE sales by 16%. Again, that is driven by our business in Mainland China, India, Malaysia, the Philippines, Singapore and Thailand.

New business profit

We reported 13% growth in new business profits, over $2.5 billion, with our margins improving on better business mix. China is now our largest market for sales and I am really pleased with the way the rest of the businesses are developing across Asia & Africa. Our business, as you all know, is based on regular recurring premium income, a focus on Health & Protection and high levels of consumer retention, all of which support resilient compounding growth as you see in today's results.

IFRS earnings

Our adjusted operating profit for the continuing business was up 16% to $3.2 billion and again we believe that is in line with the market's expectations. At the same time, our asset manager Eastspring's IFRS operating profit was up 10% with funds under management reaching $258.5 billion.

Embedded value

Our embedded value grew to $47.4 billion, again leading to a 7% rise in embedded value per share and we continue to invest for the long-term in new products and additional distribution capabilities to further build out our presence as a leading agency and bancassurance player and access new pools of customers. We also announced a second interim ordinary dividend of 11.86 cents per share creating a total dividend of 17.23 cents per share for the full year.

Changes to the Board and Exec

As I am sure you are aware, last month we announced I will be retiring from my role at the end of March. Given the refocused nature of the business, the Board is conducting a search for a new CEO to be based in Asia, looking at both internal and external candidates. Mark will become Interim Group CEO at the end of March and he will assist the incoming CEO in completing the transition process as required. Then he will be stepping down from the Board. We have also announced two internal promotions of James Turner taking over as CFO and Avnish taking over as CRO, both of them experienced, highly valued internal candidates and both of them already based in Hong Kong.

Outlook

As far as an outlook, we entered 2022 with a strong balance sheet and capital position. The timing of the opening of the Hong Kong border remains uncertain and we believe COVID will continue to have an impact. Clearly there are tragic events going on in Ukraine which could have wider implications for the global economic and market conditions as well as potentially geopolitical relations. However, we think our diversified multi-channel approach focused on quality business and operating efficiency is the right strategy for dealing with volatility in any operating conditions, including these. We are confident that our investment in new business, distribution and product enhancements will continue to meet the long-term needs of the customers and build value for our shareholders over the long-term.

Let me stop there and let us go to Q&A. We will open the line up now to take some questions.

Q&A

Edwin Liu (CLSA): Hi, good morning, thanks for the opportunity to ask questions. My name is Edwin from CLSA in Hong Kong. Congratulations on the decent result in a challenging environment. If I may ask two questions, firstly on Mainland China. CPL has been able to outperform the industry in terms of gross premium or APE. Could you share a little bit more on how you could achieve that and what is the outlook for this year?

Secondly on Hong Kong, as you pivot to the domestic segment given there is no MCV what exactly have you done more specifically on agency and bancassurance channel respectively? That would be two questions from my side, one on Mainland China and one on Hong Kong. Thank you.

Mike Wells: Edwin thank you for the question and the comments, appreciate it. Let me give one general statement on Mainland China and Nic if you would not mind providing some colour on both domestic activities and the success we have had there, as well as Mainland. Edwin you probably saw too in the gross written premium numbers that are out for the market we are up 15% last year and the market was down 1%. Not only are we pleased with our results year-over-year in our business but also relative to all of our peers in China. We feel we are taking market share and our combination of bancassurance and agency is producing unique results in market. Nic, do you want to give some colour on that and what the team is doing in Hong Kong?

Nic Nicandrou (CEO Asia & Africa, Prudential plc): Okay. Thank you, Mike and good afternoon, Edwin. As Mike said, we have delivered both absolute as well as relative growth in China. We have been able to do that because of the model that we operate. We are a well-diversified business because we are spread over 20 provinces and 99 cities. We are structurally advantaged because we are multi-product. We are also multi-channel and because we have entered some of these provinces and some of these cities relatively recently there is a natural seasoning or maturation that happens every year. Those cities and provinces are getting better and better. Clearly with new products that have been launched and refreshed with good training on agency, we run an intensive agency model with a focus on quality, focus on regular premium business and a heavy Health & Protection content. All of this plays to our advantage. And the bank model that we run again a lot of the products that we sell are regular premium in nature with a very long tenure. We have added more bank relationships. We have increased the outlets through which CPL's products are marketed massively in the course of the year by more than 60%. All of this played well. We increased our share overall, as Mike said, but if you study the appendices to our slides you will see that we have done that importantly across clusters such as GBA and Beijing where our share of market is 2% or more. We are very pleased with the performance.

On outlook clearly the year is tougher for us. There are several factors that are affecting that, not least consumer sentiment, not least some restructuring that is taking place in the market. Not all of these factors affect us in the same way as the rest of the industry. We do expect for the market to slow down in the first half. We saw in the January numbers that the market declined by six percentage points. We were in positive territory again for all those structural reasons. Whilst I expect some short-term volatility and challenge, I think the structural advantages that we have, that seasoning that I have referenced should hold us in good stead and continue to grow share.

In Hong Kong, if I can move on to that, the pivot has been fully to the domestic segment. We have broadened our proposition as we focused on that segment. Again, if you look at the slides compared to pre-COVID, we have many more products and riders. Our products and where we have entered in the last three years now contribute over a third of our APE which just speaks to how much better the business is. We are multi-channel in Hong Kong with a very good partnership with SCB which we have reinvigorated. We have seen very strong improvement in sales through SCB, up more than 20% last year and new business profit more than doubling. Again, that is part of the structural advantages that we have, our experience working with banks but also the improved product set. We are offering now digital services through Pulse that are bringing a digital presence with consumers with 800,000 downloads. Generally, whilst the border is still closed, we are improving, if you like, the quality of the business that we currently have and you see that through the 9% increase in domestic NBP.

Mike Wells: Thanks, Nic, thank you Edwin.

Qingqing Mao (CICC): Thanks, congrats on the results. If I can ask to deep dive on channel a little bit, we can see your resilient growth which is quite impressive given the slowdown in the industry. Could you tell us more about what is driving this significant improvement of agency productivity? What is the outlook for this year? That is all from me.

Mike Wells: Qingqing thank you. Nic, I am going to flip it back to you again if you do not mind. Qingqing, did you have another question? One on China productivity and is there another one we can answer?

Qingqing Mao: Could you tell us what is the outlook for China this year?

Nic Nicandrou: Okay, thank you. On agency, as I have said before, we have been in China for 20+ years now and we have imported the same intensive model that we apply elsewhere in the region. By that I mean watching very carefully the ratios of the pyramid from agency leaders to downstream agents. We run relatively tight ratios of 5:1 and that if you like improves both the supervision and the support that an agency leader can give to the downstream. At the same time, we have imported many of the programmes, we call them Run to MDRT, that we use in other parts of Asia. We have seen a significant improvement in both the number of MDRTs, as shown on the slide, but also the percentage of business that is written by them. However, it does not stop there. We give quite a lot of training and we have started new programmes during the course of last year on how to support agents, new lead management, new activity management systems and how they can support productivity. Where we rolled those systems out, we have seen a threefold increase in productivity and we will gradually roll out the equivalent systems to cover 80% of our footprint in 2022.

Hiring has been a challenge. You would have heard that from a lot of players in China. However, it is just as much to do with the hiring skills as it is with the availability of candidates. Again, we have upgraded and we are rolling out new virtual hiring. The most recent one we did was a business opportunity presentation which was attended virtually by 4,000 prospects. There is demand. It is just how do we close it. The training that we give people is differentiated both in its duration, its timing and how we do that. Of course, as we enter a new city, we adopt the same model and we build highly productive pyramids as we go. Every year those pyramids get more and more experienced.

I have already referenced the outlook. The market is tough. I have given you the stats from January but all the structural advantages that I have referenced in my earlier answer should enable us to continue to deliver relative outperformance if we cannot deliver absolute. Longer-term, I think the prospects are huge given the low level of penetration across the market, the need for retirement products and the need for ongoing medical and educational savings plans. We are well-placed to do that with a very strong brand and a very good partner.

Mike Wells: Thanks, Nic, thanks Qingqing.

Sabrina Soh (UOB KayHian): Hi, thank you for this opportunity and congrats on the results. I have two small questions here I would like to ask. Could you share with us your view on Greater Bay Area development? What are some opportunities that Prudential is aiming to accomplish?

Another question about South East Asia. What are your plans to revive the business in Indonesia and what is the outlook for Indonesia?

Mike Wells: Thanks Sabrina. I think I will give some general comments and then we will let Nic add some colour to those. On GBA, it is one of the catalysts for us in Hong Kong. Clearly the border reopening, in whatever shape that takes and we are not forecasting the date on that, we are ready. That is a combination of training, the communication our agents have had with their clients, the persistency of the business in Hong Kong and those Mainland China consumers still funding these 20-year relationships they have with us each year. On GBA in particular, the final shape of it is still being discussed. You clearly see attention now and public positioning from Beijing on its importance which I think is a great message in terms of the resources that get put behind it. It continues to move forward in COVID. What it means to us, collectively it is one of the wealthiest parts of Greater China. It is markets we are operating in with the exception of Macao and we are working on that. We have roughly 10% market share of GBA, so we start with a great brand, as Nic said, our leadership position. And if it is insurance service, if it is insurance sales or if it is wealth management these are all things, to Nic's earlier comments, that I think we are incredibly well-positioned to capture. We are in these dialogues both with commercial trading partners and the government on it and we see it as a very good thing for the region. Again, it is not the only cluster model in China, as you are well-aware, but it is one that has a particularly unique benefit to us over the intermediate-term. Nic, any further comment on that or do you want to comment on all the work into Indonesia?

Nic Nicandrou: No, I think you covered the GBA. The only thing I would repeat is if you have the right brand, if you understand the needs, if you have the right relationships and distribution reach and the right products, then you are well placed to continue to win. Sales or the premiums that our joint venture writes in the GBA area are more than a quarter of our premium take. That is again shown in the slides. Of course we are one of the biggest, about 20% of what used to be written in Hong Kong from Mainland China when the borders were open, were also from GBA. Our brand resonates well and we understand the needs. We are well-placed to service that. Once the rules on how Insurance Connect will operate are announced, then we will be able to share more.

On Indonesia, the market continued to be disrupted. It was the most disrupted through COVID. If you look at the GDP, it is only just getting back to 2019 levels. Unemployment is running between 6.5% and 7%. Before COVID it was running just below 5%. It was impacted as an economy overall. The insurance sector was flat in 2021 but it was only flat because a lot of money went offshore through banks or single premium unit linked products. That is not really the business that we are in. It is opportunistic in my view. It is not a structural growth driver. The business that we are in is in regular premiums. Those were down single-digit in overall agency. In the market the regular premium business was also down partly because, as I said, the high-net-worth individuals took advantage of the single premium offerings and partly because affluent families took the view that they wanted to instead buy simpler protection-based regular premium products. What we did against that backdrop was to massively expand the product range. We have issued standalone critical illness, standalone medical products, standalone hospitalisation and standalone term. All these were termed as opposed to whole-of-life and we have written a lot more of these contracts than at any point in our history. As I said, so much so that even though our sales are down, the number of policies that we have written was up consecutively in the last two years.

Actually, in a way our business is a much better business than it has ever been before. We now have market presence in the traditional segment which we did not have before. We have market presence in the group insurance segment which we did not have before. We retained the leadership position we had in agency and unit linked. It is a much stronger business and as soon as the environment normalises, I believe that, whether it is our scale, whether it is the enhancements that we made or whether it is now the digital reach that we have with Pulse and ten million downloads and four million registrations, it is becoming the main tool our agents use to onboard customers. We are phenomenally well-placed; and as soon as it normalises, then you will see the benefits of this investment. Unfortunately, the performance is lagging, the development of our capabilities, but rest assured those are much stronger than at any point before.

Mike Wells: Thanks, Nic and then of course the development of our Shariah business continues at pace so that effectively we have created a standalone entity. Lots going on there, I could not agree more with Nic. It positions us well but it has been a difficult time in Indonesia. Sabrina thank you for your question.

Fulin Liang (Morgan Stanley): Thank you, very good results, congratulations. I have got three questions if I may. Two of them are related to Hong Kong. The first one is on the IFRS basis. Your Hong Kong profit earning year-on-year growth is falling below 10% for the first time in the last decades I think. Hong Kong is still your largest IFRS earnings contributor and if this is falling down, what is the reason behind it? I am worried if that is something we should actually expect in the future as well.

The second one is again on the Hong Kong domestic base business. I understand that currently you write about 430 new business profit in the second half of 2021 without contribution from Mainland China visitors. Is that some kind of sustainable new business profit in the future? How does the very, very strict local lockdown actually affect these numbers in 2022? That is the second one.

The last one is, I know that we have been talking about the potential pent-up demand once the COVID situation gets better. I wonder actually from the markets which has opened up gradually like Singapore, are we seeing pent-up demand there? Thank you.

Mike Wells: Let me address a couple and I am going to put Mark to work on the IFRS topics. We will give Nic a break on this one. On lockdown, at our peak, we were at 96% lockdown globally; so our capabilities were there and they certainly improved to be able to deal with lockdowns. Let me give you an example. Our agency business now is about 50% virtual selling which again in Hong Kong when the city was closed but not fully locked down that was not a tool that was used as much but now of course it is a tool that is available to them and we can adjust. It does not replace face-to-face but it has become a normal consumer preference as well as an agent preference. Of course, you have got some of the bank branches closed currently in Hong Kong; so, those will affect on a short-term basis. Again, our ability to deal with this now, there is a pretty well-travelled business plan and we know how to execute that.

On pent-up demand, we survey Mainland China consumers, and there are some in the deck, to see are they still interested in having long-term savings for education and retirement in Hong Kong; are they still interested in accessing medical care and rather specifically to go to Hong Kong for that or while they are there. The short answer is they are at pre-pandemic levels according to what the surveys show you. Again, we positioned that in our results in the appendix for you to look at. We think the demand is there. In all of our markets, I think you see an increase in Health demand that has been incrementally growing quarter-by-quarter because people are just so aware of the financial risk of this. However, it does vary by the amount of government support a bit in the markets. We do business in a lot of countries where there is little or no government health support or unemployment support so those tend to have a much more dramatic need. With that Mark do you want to go through the IFRS piece?

Mark FitzPatrick (Group CFO & COO, Prudential plc): Sure, in terms of Hong Kong IFRS operating profit on a constant exchange rate basis it is up 10%. We are really pleased with that because I think it reflects both our long-term focus on regular premium, the element of Health & Protection business and a very strong retention rate of both our domestic and Mainland China customers. Regular premium mix is 85% and the element of customer retention number is in the 90s. We are very pleased with the number. I do not think there is anything untoward to see inside there. We think that Hong Kong for the last two and a half years has been affected either through COVID or protests earlier on. To still be able to have this level of IFRS operating profit growth I think talks to that resilience, quality and the great ability that Derek and the team have had during the course of this last year to pivot to the domestic business.

The one thing that we have also seen is medical expenses coming through in 2020 have been a bit lower as people were staying away. During the course of this year, we are seeing that normalise a little bit towards the back-end of the year. We are pleased with the IFRS number in Hong Kong.

Mike Wells: Fulin, thank you for the question.

Kailesh Mistry (HSBC): I think there is three questions. The first one is obviously in terms of new business value, the health and protection mix fell. Can you just take us through why that is? I think there were some product adjustments on the savings side.

The second thing is just on the Indonesia comments. I think OPAT down impacted by both claims and worsening persistency. In particular, on persistency, is this something you have seen in other markets as well, and in particular, Mainland Chinese buying in Hong Kong?

The third thing is, obviously, in the second half, there was a slowdown in new business momentum. Can you just help us to unpick base effects versus pandemic-related restrictions on that to help us with our forecast going forward?

Mike Wells: Certainly. Good to talk to you. It is Mike. I think let me do the last one first, and then, Mark, I will turn it to you on the NBP parts.

I think the second half in most of our markets in Asia was the most severe pieces we saw, the Delta variant hitting. Sadly, it is when we had the most mortality claims, Indonesia and India; the tail of most of our markets and their heaviest lockdowns.

If you look at the GDP of the various countries, I think it is the most disrupted half for GDP across the region. Various countries, as they are in the West, are in various positions now coming out of that, as Nic flagged, some of them, Indonesia, for example, are still working through it and the economic impacts of it.

To help you out, we have got in there that the vaccination level slides and things, and it is a decent leading indicator, Kailesh. The differences when you look at that, is keep in mind, vaccination level a year ago versus the vaccination level today, the one today has the benefit of everything the medical community has learned in the last 12 months.

You have the protein-based, which effectively means non-refrigerated vaccines on the horizon, Novavax, etc., in weeks now, for these markets, which, given the sophistication of some of the delivery, a vaccine that you can ship in a box instead of needing a sophisticated refrigeration is a major breakthrough for some of these markets to get to the next level.

There is better information, better medical product and solutions now than there were if you look at that same vaccine level a year ago. It is not linear by quarter, but it is a directionally good indicator of where the markets are and the impact on our various markets.

I think it warrants you taking a minute and looking at country by country, because that is really the way we have seen it play out. None of these two started in the same place. None of these two countries are reacting the same way.

Then the last one is their economic options; what do they do with QE; what is their per capita income; those sorts of things. It is all combined. That is how we look at it. However, I would say that the second half of last year was the most difficult macro environment we dealt with, and it is definitely feels better in most markets. Does that answer that clearly?

Kailesh Mistry: I think partly. One of the other things is just to understand the base effects. In my mind, Mainland China was pretty high in the first half. I noticed that domestic Hong Kong was improving quarter-on-quarter through the year, although are there base effects that we should be considering.

Mike Wells: The other markets, I would say, no. However, I think that China and Hong Kong, I would say, no. I think Mainland China, you got to remember the industry enjoyed in the first part of 2021 a unique CI sales spike. However, you have also had policies there that are actually taking effect now, where the government has said to the insurance industry really wants you out of the short-term bank, like savings product, we want you out of shadow banking as a company. You have seen that in the decline of agency in China across the entire industry. What it does is force people to a more professional model. The agents have to learn health and protection, they have to learn long-term savings products instead of short-term bank equivalent time deposit.

That is a transition for a market that at its peak had almost nine million agents, and is losing a lot now. Everyone will lose their part-timers in that and that is not a unique occurrence and it is not – it is manageable event. For the scale of some of our competitors in China, it is a big challenge if you have got a million or more agents in market. I do not want to diminish the work those firms are doing to pivot their distribution strategy.

That is what I would say. When you look at China, that would be the only key ones. The rest of the markets, no, there is no material difference. Mark, do you want to hit NBP and the mix?

Mark FitzPatrick: Kailesh, hi. In terms of health and protection, when I look at the year, and from an APE level, health and protection last year was about 27%. 2020 was also about 27%. The mix of sales has not really changed. Overall health and protection will have grown in line with the overall growth in APE.

In terms of NBP mix, it has come down a bit. Part of that is an element also of the effect that Nic mentioned in terms of the broadening of the product range, slightly more standalone products and element of term products. Some of those products have a slightly different element of profit signature in them. As Nic said, in some of the markets, we are actually selling more, but it is at a slightly lower case size, and therefore the profitability of some of those is slightly off, relative to levels we have seen before.

However, underlying mix in terms of the underlying direction of travel in terms of health and protection, we are very pleased with that. We think it is very important. We think that as a result of COVID, it has actually increased the demand from customers and from the market as a whole for health and protection products. That is one of the reasons you have seen a strong uptick in terms of the number of policies that we call out in terms of some of the narrative in some of the slides in the deck today; so that more and more people are buying, but they may be buying slightly shorter term products and slightly less complex, and therefore less rich margin products.

Nic Nicandrou: Mark, it is Nic here, if I can interject. We are selling fewer, if you like, riders that are attached to a whole of life type contracts. This is what we are finding in one or two markets as people pull back from making the kind of commitments, given the backdrop and selling more standalone, which are term. It could be for five years, 10 years, 15 years.

When you look at the profitability of a 10 to 15-year contract, divided by the first year premium, it is going to look optically lower than that which you would get from a rider which is a whole of life.

However, if you look at other metrics, much more meaningful metrics, which are internal rates of return, for example, they are just as attractive, if not more attractive. In Indonesia, where we have seen the biggest transition from people buying effectively linked protection into standalone, the IRRs of the business that we have written in 2021 are much healthier than that which were written in years where there was more rider-based business and less standalone business. Thus, the economics on which we are writing these can be downplayed. These standalone products can be downplayed if you simply looked at margin because they are sound. I hope that makes sense.

Kailesh Mistry: There was just one more question on the persistency and claims, any other markets materially impacted?

Mark FitzPatrick: Kailesh, I think, India and Indonesia are the main ones. We have not seen I think for a while now, we have been keeping a very close eye on persistency levels in Hong Kong, especially to your question around Mainland China. I forgot about that part. We have not seen any deterioration in that in terms of business coming across the border. I think that just talks to the value that that customers attribute to that. From the survey slides that you will see in the deck, that also talks to the ongoing enthusiasm for people to continue to buy as and when they can products down in Hong Kong to provide Mainland China customers with support.

Mike Wells: Kailesh, I think, it has always been a risk-off trade for the consumer. I think we feel pretty good about the future resilience of that book.

Andrew Crean (Autonomous): A couple of questions. Firstly, I wanted to get a sense as to what is happening on the talks on China JV, whether there are live talks with Citic, and whether there is any timeline around that. I suppose as a rider, probably leave it at that.

Then secondly, I know you have yet to adopt RBC and C-ROSS II. Could you give us some sense as to what your capital position feels like relative to the comfort zones you would like to operate in?

Mike Wells: Let me speak to the Citic relationship, and James Turner, I am going to have you speak to join RBC and C-ROSS, if you would please.

Nothing to announce. The relationship you see continues to work incredibly well, outperforming the market. I do not think my view on it has changed. We have been very public that we would love to own more of it. However, there is nothing to announce today.

I think I told you once in a group meeting, in the first meeting with the new chair, I said I would do sort of thing. It is great business. I think long-term, it is probably not big enough for Citic because their capabilities in China, they could buy and operate something even bigger. However, there is no announcement there. We do not comment on ongoing conversations. We have made it very clear to them both publicly and privately that we stand ready to do more there at a reasonable price.

We are not going to pay anything for it. However, you see the model is working. We will have more competition, obviously, as people see this performance. I think we are both partners, but they are very helpful in entrance into new markets and navigating some of the complexity of China and navigating some of the political as a distribution partner, and we brought our best practices from region-wide in there. I am extremely pleased to see where that business has gotten to in last few years. It is compounding its IFRS earnings, and it would be close to 40% on both those metrics. If you look, over the last, say, five or six years or so, very, very happy with it. But that is not lost of them, Andrew. James, you want to talk about C-ROSS and RBC? You spent a lot of time on both.

James Turner (Group CRO, Prudential plc): Yeah. I am happy to. Thank you. Listen, so clearly where we are right now on the capital model we are very well capitalised with a pro forma LCSM [Editor: GWS] ratio 408%. Now, the published results do not reflect either the uplift from the early adoption of RBC in Hong Kong nor the impact of C-ROSS II. The impact of both will be shared in the half year once these regulatory changes have become effective.

To give some flavour directionally, given our health and protection focus, you are going to see additional surplus arising whenever we adopt RBC regimes. There is a number of changes across the region, where regulators are looking at RBC regimes. Certainly, the impact of C-ROSS II, is, I think, we said at the half year, is not expected to be material in terms of our surplus. We will go into more details on the impacts at the half year, but that is directionally where they are both positive.

Mike Wells: Thanks, Andrew. Thanks, James. Appreciate the question, Andrew. Good questions.

Larissa Van Deventer (Barclays): Three quick ones from my side, please. The first one, you have not spoken much about Pulse. Could you please highlight the markets where you are getting most benefit and what those are, and the extent to which you believe they can be expanded into other regions?

The second one is a very simple question on China. What is the biggest constraint on growth?

And the last one is on the China-Hong Kong border. Could you comment on how much of the last Hong Kong sales you believe may have been taken up in mainland China or maybe taken up in other regions that have been cannibalised?

Mike Wells: Yeah, so let me do a couple of these, Nic, and then I am going to flip them to you for colour on Pulse. Again, we are outgrowing the Chinese market as a whole, I think, at pretty dramatic levels. I just mentioned the compounding growth we have seen in China, which I think are certainly rival anybody in market.

We are starting from a lower base, Larissa, so it is not a fair comparison to somebody who has got a larger shop there, but it is real and they are relative and absolute benefits to us and our shareholders.

The only constraints to growth for us in China, we pretty much have the regulatory footprint of the country now available to us. Not quite, but the majority of it.

Its speed of development of quality agency. It takes a while to get good agents to build a book. However, we have roughly 4,000 wholesalers who call on banks, so we have the ability, not only to distribute the bank products, but to get them up to speed very, very quickly when we enter a new city. We have lots of new cities to enter when you look at some of the second and third tier markets and those are not lost on us. That is where we should go next.

It is an order of execution for us, not a lack of opportunity. You want to build agency quality first, not quantity first. You want to make sure you have the right people, they build a quality book. You do not want compliance issues later. You do not want reputational issues.

You are going to do that the right way and that takes time. That is the only part of our business plan in China that has got any constraint on its short-term growth. As you get more successful agency, the more agents want to work for you and the easier recruiting gets. There is a virtuous circle there.

On Pulse in China, we have said we are looking at it. We have not announced a launch there. That is a dimension of our capabilities that we have not brought there. However, we have, as Nic said, brought a virtual hiring training agency development model that is our best practices into China in this last year, and we continue to extend that. Again, for agency productivity, no barriers there other than execution.

Nic, do you want to comment on Pulse and the border question?

Nic Nicandrou: Let us start with the border question. To understand what has been lost to maybe to local competition within China, you have to go back and see who was buying in Hong Kong and why were they buying. The vast majority of people who were buying Hong Kong were high net worth individuals, particularly of a certain age group, 40- to 55-year-olds or affluent individuals with children under the age of six that were looking for educational savings type products denominated in foreign currency.

The reason they were buying is exactly that is the foreign currency, the ability to invest in US or Hong Kong dollars to tap into returns outside China, and also because of the comprehensive nature and the quality of the coverage on the CI, critical illness, as well as access to private hospitals for medical treatments.

Now, those needs remain, and the availability of equivalent products in China is not there. Difficult to be specific, therefore on your question. However, the underlying needs have not changed. They are not served anywhere near in the same way as they are in Hong Kong, which is why we believe once the border opens, the business will return. It is a question of the shape, rather than the question of the quantum.

The fact that we have broaden our product set now to appeal to mass market as well with insurance connect also gives us another leg. That with a new segment, particularly with those others in time, we will not need to travel into buy a policy.

On Pulse, we have done a lot. The focus shifted in the second half of last year to one of the embedding and conversion, 32 million downloads, 13 million registrations. I think we have plenty of users. It was all about how do we get them to use the services more so we extended the services to 56. How do we get them to spend more time those that are using the services; and, again, on average, the amount of time spent increased by about 20% by the regular users.

We also connected or hosted. We are now hosting tools on Pulse that helped with lead management, with activity management. The conversion or passing across a Pulse user into a lead and converting that into a phone call is now seamless; it all happens within the same application. That has been done now across eight markets. Indonesia and Malaysia led the way. Hong Kong has come on stream and now pretty much every single one of our big agency markets, including Vietnam, Philippines, Hong Kong, Singapore are all looking to adopt those tools.

We have had a fourfold increase in the number of agents who are now registered to use those tools and a 2.5-fold increase in the numbers that are actually using them. As we go into 2022, we will see further increases there, which is part of the reason why you have seen the percentage of APE that comes from users that are involved in Pulse increased from around 7% last year to as much as 11.5%; but in the fourth quarter, it was 13%. Look through number of cases, those numbers are even higher.

We have added direct-to-consumer products. We now have 46 products across nine markets, and a lot of them came live latter part of last year. The direct-to-consumer sales that we have had so far this year are primarily concentrated in Vietnam, Philippines and in Indonesia; but we expect to see a lot more coming across the rest of the market as we put some marketing effort behind those.

Again, these are all new relationships that we will have with Pulse users, if you like, a second relationship before we engage our agents. High usage of services, more direct-to-consumer products, greater efficiency or improving efficiency in terms of converting users to buyers for premium products, and now being spread across four markets than this time last year.

Mike Wells: Thanks, Nic. We have got time for just a couple more questions. We have opportunities to meet with you over the next few days in various meetings. Apologies if we did not get to your question today. However, we are also live to the fact there is a number of firms reporting and we were asked by a lot of you to stop at the top of the hour. I want to respect that. Next question, if we could please.

Blair Stewart (Bank of America): Two questions, please. First one on the margins. I noticed 134% Hong Kong new business margins, 70% in Singapore. These are margins that you have never seen before. What is going on there? Are you just able to sell a richer, stream of health and protection? Is that all that is going on? Is that been driven by the pandemic, or what is happening there to just to drive that uplift?

My second question, for now at least, is just not financial flexibility. You have given your indication of C-ROSS and RBC. I think, Mark, you talked in your statements earlier about having financial flexibility, and I think leverage is down at 21%. What level of financial flexibility do you think you have based on what you know about your solvency and liquidity, etc.?

Mike Wells: The general comment in the second one that I will go to Mark, just with the timing. I do not think, Blair, we have had this lowest sensitivity to rates and equities, movements in our earnings. I think our financial flexibility in my time has never been greater. However, Mark, do you want to comment on specifics on both, and then I will wrap up with this one?

Mark FitzPatrick: Yeah, I think you are right, in terms of the richer stream of health and protection that has come through in both of those components, and also with an element in Singapore, additional linked products, etc., coming through.

In terms of financial flexibility, as you say, our Moody's leverage ratio, pro forma for the debt repayment in January, it is about 21%. We think we have got decent scale. In terms of the headroom to get to about 25%, it is just under 1.5 billion headroom that we have for that perspective.

In terms of our regulatory capital levels, at the levels we are at the 408%, again, pro forma, it is an aspect where the regulatory capital is not a binding constraint in terms of how we operate and what we do. We think that is important because that enables us to operate, enable us to engage with the regulator on the front foot and be very forward looking and forward leaning in terms of the opportunities that we might have in front of us.

We saw how we deployed that locally, for example, in Thailand, recently with the TTB bancassurance deal, where that was partly funded by some surplus in Thailand and partly funded from the centre. We continue to be very pleased with the strength of the balance sheet, especially with the turbulent markets that we have, the resilience of that, and the financial flexibility, A, for the element of inorganic opportunities, but also the great organic opportunities.

In the last eight years, we have invested about $11 billion in Asia and Africa alone roughly split 50-50, between organic and inorganic. We will continue to look to invest hugely in organic and continue to explore carefully in organic opportunities ahead.

Mike Wells: Well, I am going to have to cut it there. I know we will see you later in the week and thank you for the questions. To Mark's point on Thailand, the measurable output of that is you watch the bancassurance channel market share go from 4 to 14% if you look at the detail in the results, so very happy with that.

Thank you very much, everybody for your questions. I just want to personally thank you for your interest and support in our business in my time as CEO. It has been a privilege for me to serve for the last 26 years with Prudential. I would like you to take away three things, if you would.

We are now, and I am very pleased to say, entirely focused on Asia and Africa. Clearly, we have delivered high-quality resilient growth in 2021. I think in this environment, that is valued and unique statement. We are extremely confident that the model we have built with the diversification of countries, the multi-channel structure, it is the right one to continue to execute and what is going to be very likely going to be a complex environment for the short-term.

Thank you again for your time today. We look forward to talking you all in more detail in the coming days.

[END OF TRANSCRIPT]