Strategic update video transcript

Anil Wadhwani – Chief Executive Officer

Hello and welcome, I am Anil Wadhwani. I took over as the CEO of Prudential 6 months back and have had the opportunity to meet our people, customers, distributors, partners, regulators and yourselves, our investors and the analyst community. All of those conversations and feedback, together with my own experience of operating businesses in many of these markets over the last 30 years, have informed the strategy we are announcing today.

Today we are making a promise to do things differently at Prudential. It reflects both our right-to-win in the exciting markets of Asia and Africa, as well as lessons from our recent past.

My presentation today will start with my reflections on our franchise before I go through our strategy in detail.

Accelerating value creation through operational and financial discipline

I want to leave with you my key priorities to 2027. I believe Prudential has an unmatched opportunity to accelerate value creation for all our stakeholders through operational and financial discipline.

We will build a sustainable growth platform, through targeted investment in structural growth markets across Asia and Africa.

By....

Delivering remarkable customer experiences to drive higher acquisition and loyalty for lifetime value creation.

Powering our distribution forces with upgraded technology, focused on agency and bancassurance productivity and activation.

Unlocking the enormous opportunity in health by disciplined implementation of best practices across all our markets.

Driving more consistent performance across each of our markets through changes in our organisational model and technology platform.
Prioritising value creation, with a focus on generating free surplus that can be allocated for growth.

Starting with my reflections.

**Prudential is a great franchise...**

As I said at our Full Year Results in March, I strongly believe Prudential has a number of core strengths that underpin our right-to-win.

- Our broad footprint across Asia and Africa provides us access to almost $1 trillion of growth over the next 10 years, in markets that are growing twice as fast as the rest of the world.

- We are a household name in markets that place great value on brand. Having operated for 175 years, we have the trust and confidence of over 18 million customers.

- We are one of the dominant players in this region, with top-3 positions in 12 Asian, and 4 African life markets.

- We are the only large Asian focused insurer to have scale in both agency and bancassurance, as well as in-house investment capabilities, with Eastspring managing over $220 billion of assets.

**...and benefits from a large existing in-force book of business**

Prudential’s franchise has been very successful in growing value over a period of time.

Over the last 10 years, new business contributed $27bn to our embedded value which has almost trebled to just over $40bn at the end of 2022.

We predict that over the next 5 years this value in-force will monetise into $11 billion of free surplus. This will support our future growth ambitions and returns to our shareholders.

The actual free surplus over the next 5 years is expected to be even higher once we account for new cohorts of business written in line with our growth strategy laid out today.
Prudential has not yet realised its full potential...

Despite the clear strengths of our franchise, I believe Prudential has not yet realised its full potential. Before we chart our future, it is important for us to be humble in recognising where we can do better and then embedding these learnings from our past. Only when we acknowledge them can we start to change and make a much greater impact.

Historically the business has been run more like a holding company than an operating company. This is the fundamental change underlying the new strategy. Let me unpack this in a bit more detail.

Firstly, we were not sufficiently agile in responding to changing dynamics. This led to market share loss in some key markets. When we have faced headwinds in our largest markets, we did not have enough other scaled businesses to sustain broad-based growth.

Secondly, the demergers of M&G and Jackson, while being the right strategic decisions, led the group to divert attention away from building fit-for-purpose core capabilities, particularly at a time when competitors were investing heavily.

Thirdly, we have been more product and channel oriented with less focus on creating differentiated customer experiences. This is reflected in mid-quartile net promoter scores.

Fourthly, although we had good intent to build technology at scale, we did not sufficiently involve the voice of those closest to customers and distributors in designing it. Pulse is a good example that was not sufficiently correlated with commercial outcomes. Its omnibus super-app design made it difficult to quickly adopt new market innovations or engage with partners ecosystems.

And lastly, we have run a set of federated businesses managed more as a financial holding company rather than an operating company, missing opportunities to benefit from our collective scale and individual skills.

...and a new organisational model will be critical to delivery

Before going into the details of WHAT we will do differently, I want to first talk about the HOW.

Today we have a set of 24 local market operations that are largely fragmented with different processes on key customer journeys, different standards for measuring distribution performance
and inconsistent execution of our brand. These are just some of the examples that highlight the case for change in how we work. A new organisational model will help us replicate successes at pace and scale across all our markets.

Let me summarise the design principles:

- This will not be a “command and control” model. We will continue to empower the local market CEOs and leaders of businesses to solve for the customer and focus on what matters most in their market.

- At the same time, we will establish centres of excellence to drive economies of skill and shared services across many of the functional groups to drive economies of scale.

- Collaboration between the local markets and the centre will be key, but roles and responsibilities will be clearly defined, and

- importantly, establishing a set of values that will help define our ways of working. The HOW alongside the WHAT will therefore be an important part of the reward mechanism.

To achieve this, we will need to build capabilities, particularly across our three strategic pillars of customer, distribution and health, with technology and data being common to all three.

We believe these changes in our organisational model will help us drive greater consistency of experience, as well as economies of scale, providing value for both our customers and our shareholders.

**We have a clear and simple strategy...**

The power of our strategy is its simplicity, set out here on a single page.

Starting with our purpose – For every life, for every future. I shall elaborate on this further.

We then have 4 geographic regions, 3 strategic pillars and 3 group-wide enablers.

Underpinning the execution of our strategy is our organisational model that will help us replicate successes at pace and scale across all our markets.
Starting with multi-market growth engines. I think of our footprint across the regions of Greater China, ASEAN, India and Africa.

We have 3 strategic pillars:

1. Enhancing customer experiences;
2. Technology-powered distribution;
3. Transforming our Health business model.

We will execute this strategy with renewed focus and discipline using 3 group-wide enablers:

1. Open-architecture technology platform;
2. Engaged people and high performance culture;
3. Wealth and investment capabilities.

We are confident that this will allow us to deliver sustainable value for all our stakeholders: our employees, customers, shareholders and communities alike.

...to accelerate value creation

Our strategy set out today highlights our plans for accelerating growth in our embedded value. A positive cycle of high quality new business with significant improvement in operational leverage will drive compounding capital generation for reinvestment and distribution.

We will allocate capital to support our growth agenda. Our resilient capital position allows us to prioritise investment in writing quality, “sticky” new business, managing the initial capital strain and capturing the economic value at attractive returns. Our ambition is to grow new business profit at a CAGR of 15 to 20% between 2022 and 2027, underpinned by a plan to double agency, bancassurance and health New Business Profits. To bring this to life, we are able to write new business that generates 3 times the capital invested, at IRRs above 25% and with less than 4 year payback.

Next, we will invest in building core capabilities, primarily in the areas of customer, distribution, technology and talent. We will invest in M&A where there is good strategic fit and attractive rates of return.
We will increase our focus on ensuring new business profit converts into free surplus over time. We will do this by managing expenses, claims and persistency across our markets. Our target is for gross operating free surplus generation to grow at a double digit CAGR between 2022 and 2027.

In our interims presentation we provide near term guidance on the level of ordinary dividend. All investment decisions will be made against the alternative of returning surplus capital to shareholders.

**We are inspired by our purpose**

Turning now to our purpose.

Our strategy is grounded in our WHY. Why are we in this business?

So as we crafted our new strategy, we sought feedback from our people to co-create a new purpose and mission statement that serves as the inspiration for the work we do every day.

We have launched this across our organisation today.

For Every Life, For Every Future.

Our mission to be the most trusted partner and protector for this generation and generations to come, by providing simple and accessible financial and health solutions.

“For Every Life” speaks to our ambition to meet the huge under-served needs of potentially 4 billion people across our markets in Asia and Africa. With the collective wisdom of our talented people, we will partner with customers to improve their health and financial understanding.

“For Every Future” speaks to our ambition to add value to the wider community, for a more sustainable, responsible and inclusive future. We are here to protect this generation, just as we have previous generations, and those we are yet to meet.

**We will leverage our leadership positions and scale...**

Now onto our geographic footprint. I believe we are anchored in the right markets across Asia and Africa. I think about our footprint as the regions of Greater China, ASEAN, India and Africa. We have the distinct opportunity to invest across all the regions on account of the strength of
our capital, as well as drive more consistent operating performance by leveraging shared services and centres of excellences.

Across Greater China, where we seek to sustain quality growth.

- In Mainland China, we have a strong JV partner in CITIC, and access to over 80% of GDP and licenses to operate in 100 cities. We are one of the top 3 foreign players with a unique multi-channel platform. We have an opportunity to make our agency channel larger and more productive, complementing our multiple bancassurance partnerships.

- In Hong Kong, we have revitalized our business, not only through the traction seen in the Mainland Chinese Visitor segment but crucially we are also ensuring we continue to grow our HK domestic business. With our Macau branch now open, we are present in all 11 cities in the Greater Bay Area that has an extended population of over 85 million people.

- In Taiwan, we are the number 1 foreign player having developed a sustainable bancassurance channel with good margins.

Moving to ASEAN.

Collectively, these markets have a combined population of more than 600 million people. This provides a crucial counterbalance that ensures we are not over-dependent on a single geography.

- We have the largest multi-channel distribution franchise in this region with more than 40,000 active agents per month, or 60% of total active agents across the group. We have bank partners in the likes of Standard Chartered, UOB and VIB.

- We have a prominent brand name across the region, with leading franchises across Singapore, Malaysia and Indonesia, including number 1 position in Shariah across both markets, plus leading market positions in the fast-developing markets of the Philippines, Vietnam, Cambodia, Laos and Myanmar.

- And in Thailand, we continue to grow through our bancassurance business.

Next, India. I believe India will be an important market for our scale in Asia:
• It is a compelling opportunity with over 1.4 billion people who have huge challenges with out-of-pocket health expenditure as high as 50%. We are exploring options to address the health opportunity in India.

• We are fortunate to have a very strong partner in ICICI Bank, continuing to work closely with them on both the life and asset management side.

And last but certainly not the least, Africa. While a relatively small contribution to our overall NBP today, its high growth rates present a longer-term opportunity for us. We plan to focus our footprint on the highest value markets where we have the strongest competitive advantage.

...in markets where the opportunity is large and fast-growing

This footprint gives us exceptional access to the world’s fastest-growing markets. Our markets will more than double in size, creating an almost $1 trillion growth opportunity. Growing twice as fast as the rest of the world, the rapidly rising middle-class population is expected to increase the awareness of, and demand for, protection and wealth management solutions.

Asia still has low levels of life insurance penetration relative to more mature markets like the UK, demonstrating our runway for growth. State provision of pensions and social security is limited, leading to enormous health, protection and mortality gaps. Protection out of pocket expenses are many times larger than the US, creating a large and growing unmet need.

This is what makes our business truly exciting.

So let me now walk you through the 3 strategic pillars that will drive our growth in new business.

**Enhancing Customer Experiences: Focused on driving acquisition and loyalty**

Firstly Customer...

Nowadays, customers are not buying products, they are buying experiences.

Research shows that companies that invest to provide great customer experiences, resulting in high net promoter scores, have on average, 2-3x the sales growth relative to those with low scores.
As I mentioned earlier, we have historically been organised around products and channels rather than customers. Accordingly, our Net Promoter Score is undifferentiated in the middle of the pack.

If we want to deliver on our mission be the most trusted partner to our customers, we need to deliver top-quartile net promoter score consistently across all our markets. So how will we do this?

We are very good at generating leads from our ecosystem of partners and social media, with 7.3 million leads in 2022, however the conversion rate is only 6%. We will focus our data and technology resources to drive up the quality of leads so that agents can more easily identify opportunities for engagement.

To develop impactful propositions for our customers, we must first understand what they need, and we do this based on their life stages.

Having lived in Hong Kong for almost 6 years I have seen how the need for retirement and savings has gained prominence in customer’s mind. This was only amplified by COVID. A great example of a differentiated segmented proposition is in the Golden Age segment in Hong Kong. Earlier this year we were able to engage prospective new customers sourced from a partner on our PruLeads platform by offering Legacy and Retirement solutions. Early results in the first half of this year show 75% growth in new-to-Pru customers within this segment.

To build competitive advantage we need to make sure that every customer experience is remarkable. We are curating a seamless end-to-end journey via a unified, scalable technology platform. With PruServices, we are increasingly able to offer self-service for simple enquiries anytime, anywhere.

This customer-centric strategy aims to deliver top quartile net promoter score by 2027 that supports greater retention and acquisition of customers. With a retention ratio just shy of 90%, we will focus on expanding our share of wallet with existing customers over their lifetime.

**Technology-powered Distribution: Focused on Agency and Bank productivity and activation**

Next onto our second pillar – distribution. Starting with our agency channel.
The key to driving repeatable success at scale is future proofing our agency model, focussing on productivity and New Business profits. In my mind, the era of “land grab” in Asia life insurance distribution is over, shifting from “quantity led” to “quality led” growth.

To drive repeatable success across all our markets, it will be critical for us to professionalise our agency force. This means:

Converting agents from part-time to full-time capacity;

- Refocusing them from sales to being a trusted advisor; and
- Starting this by driving tailored and strategic talent sourcing;
- Ensuring we are developing the next generation of highly productive agents;
  and lastly,
- We need to embed digital tools that allow agents to spend more productive time with their customers.

A great example of an initiative that is increasing the productivity of our agency force is the PruLeads tool within our technology platform for agents, PruForce. Where our agents have utilised PruLeads we have seen around 30% uplift in productivity versus those agents that have not. This demonstrates that we know what works but now need to focus on executing more consistently at both pace and scale across all our markets.

Next, onto bank distribution.

Bancassurance gives us significant scale. We have access to a potential customer base of over 200 million people across our more than 200 bank partners, of which 10 are strategic. While bancassurance margins are lower than agency, they are still healthy, and we have improved them from 26% to 40% over the last 5 years. There remains significant growth runway to increase the penetration of insurance product into this customer base.

For us to drive a successful bank partnership model, it is essential for us to broaden our proposition to multiple customer segments. We have to be able to engage with our customers when and how they want with hybrid, omni channel platforms, and we have to have effective targeted marketing supported by data analytics. We will reward our bank partners for customer
and value-creation outcomes, establishing an operating cadence that ensures we deliver all of
the above.

To bring this to life, in Malaysia, a modest 2% increase in penetration in one of our bank
partners generated a 1.6x increase in NBP over the last 4 years.

This illustrates the significant upside in replicating this success across all our markets with our
strategic bank partners.

**Technology-powered Distribution: Doubling value creation**

Together, our agency and bancassurance strategies will deliver 2-3 times NBP growth by 2027.

For agency, we will increase the number of active agents up to 90,000 per month by 2027, as
well as the productivity of each agent.

For bancassurance, we will increase the penetration into the customer base of our major
strategic partners by 1 to 3 percentage points by 2027. Additionally, we will support our
bancassurance margin by increasing the contribution of health and protection products.

**Transforming our Health Business Model: Disciplined implementation of best practices at
scale**

Our final strategic pillar is Health.

Prudential is already a major player in Health today with more than $2 billion Earned Premium.
But with the scale of the health market opportunity, and an ambition to enhance customer
experiences, we believe there is value in extending our role beyond reimbursement. We want to
be a trusted partner to our customers, playing a much-needed coordinating role across their
healthcare journeys.

We recognise running a Health business is different than running a Life business, which will
require us to make several key changes. Firstly, we will upgrade our core health insurance
capabilities. We will equip our distribution force with the right knowledge and tools to offer
more advanced products and value-added services. We will drive technical and operational
efficiency through data-led risk-based pricing and straight-through-processing in underwriting
and claims. Claims will be further managed by partnering with panels of preferred medical
providers and using AI and data analytics to detect and reduce fraud.
Prudential Singapore is a great illustration of a health capability that we can replicate across all our markets. It has managed to maintain underwriting profits on its Integrated Shield plan despite rising medical inflation. It has done this through a series of focused initiatives, including yearly adjustments to both premium rates, terms and conditions, as well as establishing a hospital panel with preferential costs per procedure and claims-based pricing.

The second key change within our health business is expanding our role from payor to partner by connecting health care journeys, such as disease prevention, diagnosis, rehabilitation or chronic illness management. Our strategy is an asset-light approach focusing on digital integration with preferred partners along the health care continuum.

We believe the enhanced customer propositions and improved care pathways will deliver a top-quartile net promoter score by 2027. This will drive higher retention of existing customers and help us to attract new customers, leading our Health NBP to more than double from 2022 to 2027.

Now switching gears, let me talk to the 3 group-wide enabling functions that will support new business growth and management of our in-force embedded value.

Open-Architecture Technology Platform: Critical to delivery of customer, distribution and health strategies

Starting with Technology.

You have heard me mention across all 3 strategic pillars how important a strong technology platform is in delivering superior customer and distribution experiences. It becomes even more significant today given the pace of change with developments in artificial intelligence.

With respect to Pulse, going forward we will retain some of the customer facing elements, including using Pulse as our customer engagement application, but we will transform the underlying technology platform to be open-architecture. This ensures we can plug into partners ecosystems in a seamless manner and quickly adopt new market innovations that ensures we are providing the best experiences for our customers and distributors that increases their level of engagement and loyalty. We are also continuing to grow our data platform, applying generative AI and data analytics to create actions and insights.
Customers are increasingly used to faster response times and they expect the same when they engage with our call centres. I feel the same impatience when I call a bank or any other institution. In a trial, our Malaysia call centre representatives have been using generative AI to improve their product enquiry response times from 4 mins to less than 30 seconds. Not only does this support the customer’s experience but it also speaks to the scale of efficiency benefits if we can apply this across our call centres and extend to other customer journeys in all of our 22 life markets.

A refreshed operating model with greater collaboration between the central technology team and local markets will be critical to develop customer and agent applications that are scalable.

And most crucially, we must have appropriate governance and protections for our customer data integrity.

**Engaged People & High-Performance Culture: Investing in talent to power growth**

Next, to our most invaluable asset, our People and our Culture.

Needless to say an engaged workforce is absolutely critical for us to deliver on the strategic and execution priorities I have mentioned. It is therefore imperative that we create an environment that allows our people to thrive, recognised via a top-quartile engagement score.

The skills of our people at the centre and in local markets, and how they work together, will be equally important.

We will be upgrading talent capabilities, particularly within the areas of customer, distribution, health and technology. We will achieve this by investing in internal talent via targeted development programmes and robust talent pipeline and mobility between local markets and the centre. We will also acquire capabilities in the market where they do not exist internally today. Values-based leadership and aligned reward structures will help build a culture that is customer-led and performance-driven.

Earlier I shared the design principles for our new organisation model that will help replicate successes at pace and scale across all our markets. There are a number of actions that will help drive the required change over the coming years. We will create centres of excellence to drive economies of skill and shared services to drive economies of scale. To ensure effective
collaboration, certain critical functions will have dual-reporting lines to the local CEO and group-wide functional lead.

**Enhanced Wealth & Investments Capabilities: Retention of economics and ability to customise solutions**

And our final enabler is Wealth & Investments.

Asia’s household wealth stood at over $150 trillion in 2021, broadly in line with North America and considerably more than Europe. By 2030, Asia and Africa will represent three-quarters of the global working age population.

We believe we can be successful in identifying our Affluent customers wealth needs by providing our top agents with a holistic suite of tools and customising investment solutions at a much faster speed-to-market than is possible using a third party. In this way, we can retain more of the total economics.

Our in-house asset manager, Eastspring, contributed 8% of our operating profit before tax in 2022. But we can create more value by improving the consistency of investment performance.

As an asset manager we will define our success by measuring our investment performance relative to market benchmarks. As a responsible asset owner and manager supporting a just and inclusive transition, we are absolutely committed to Net Zero by 2050 and targeting a 55% reduction in our weighted average carbon intensity by 2030.

**Accelerating value creation through operational & financial discipline**

Today I have set out a clear and simple strategy for how we are going to do things differently at Prudential.

I want to re-iterate that I think Prudential is a great franchise but I believe a new strategy focused on operational and financial discipline provides an unmatched opportunity to accelerate value creation for all our stakeholders.

We will build a sustainable growth platform, through targeted investment in structural growth markets across Asia and Africa.

By....
Delivering remarkable customer experiences to drive higher acquisition and loyalty for lifetime value creation.

Powering our distribution forces with upgraded technology, focused on agency and bancassurance productivity and activation.

Unlocking the enormous opportunity in health by disciplined implementation of best practices at scale across all our markets.

Driving more consistent performance across each of our markets through changes in our organisational model and technology platform.

Prioritising value creation, with a focus on generating free surplus that can be allocated for growth.

We believe our strategy will create value for all our stakeholders.

For our customers and employees, we aim to deliver top-quartile experiences as judged by net promoter and engagement scores.

As a responsible asset owner and manager supporting a just and inclusive transition, we are committed to Net Zero by 2050 and targeting a 55% reduction in our weighted average carbon intensity by 2030. For shareholders, our ambition is to grow new business profit at a CAGR of 15 to 20% between 2022 and 2027, underpinned by a plan to double agency, bancassurance and health New Business Profits.

At the same time, we will be disciplined in managing our In-Force Embedded Value, targeting to generate double-digit Gross Operating Free Surplus to support re-investment that accelerates the rate of compounding growth in embedded value.

I will come back to you at our Full Year results in March 2024 with further details on our plans and an update on early progress.

In the meantime, I would encourage you to watch the two videos Lilian Ng and Solmaz Altin have prepared outlining more detail on our 3 strategic pillars of Customer, Distribution and Health.

We appreciate your support as we write the next chapter of growth at Prudential.
Thank you.