



**Prudential:  
Leading in Asia**

A large, dark red silhouette of the Asian continent is centered on the slide, serving as a background for the main title.

# **China 中国**

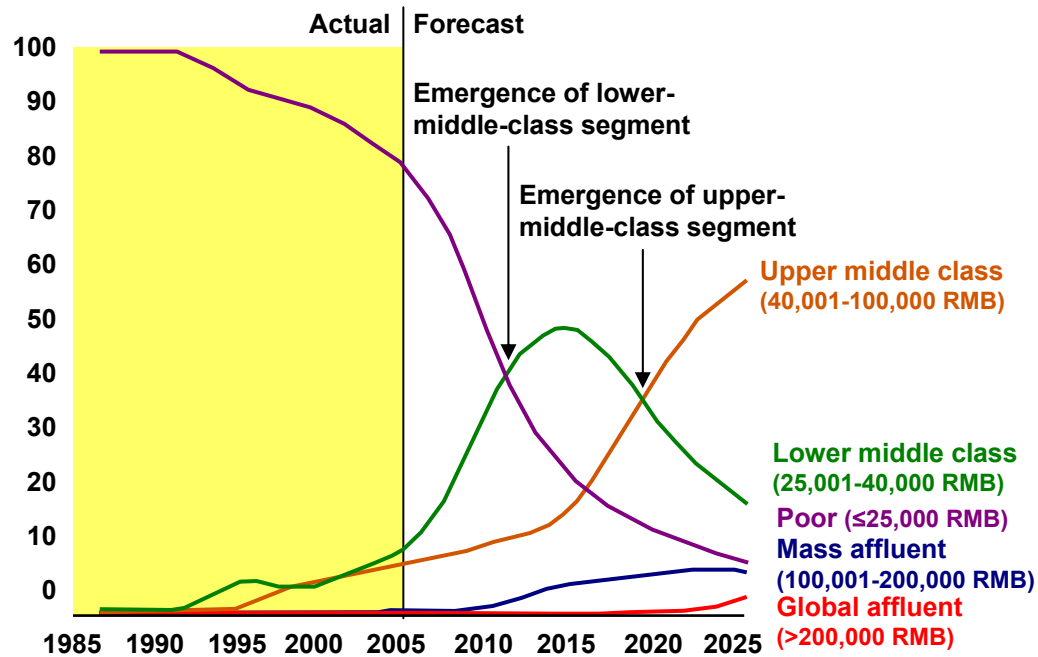
A detailed, stylized illustration of a Chinese dragon is located in the bottom-left corner, rendered in a dark red color that matches the background.

**Garth Jones  
Prudential Corporation Asia  
1 December 2006**

# China: Rapidly growing levels of individual wealth

## Emergence of a middle class

Share of urban households by income class, %



- **1.3bn people**
  - Migrating from rural to urban
  - Rapidly emerging middle class
- **Ageing population**
  - 23% will be over 65 by 2050
- **Market socialism driving personal wealth creation**
- **Increasing personal wealth seen as key to supporting political stability**

\*Base case forecast, Q1 2006

Source: National Bureau of Statistics of China; McKinsey Global Institute analysis



# China Life Insurance Market: Orderly Development over last 25 years

## Establishing Domestic Market

## Preparing for WTO

## Improving Standards

PICC resumes domestic activity

PICC monopoly broken

Ping An formed

AIG re-enter Shanghai

New Regulator (CIRC)

New insurance law

JVs launch on restricted basis

'Scramble' for JV partners

First foreign licences granted

Foreign rep offices

PICC split; China Life formed

2004: Ping An listed

2003: China Life listed

Clean up of domestic companies

Gradual easing of geographic restrictions

WTO assures 'equal' treatment for foreign jvs

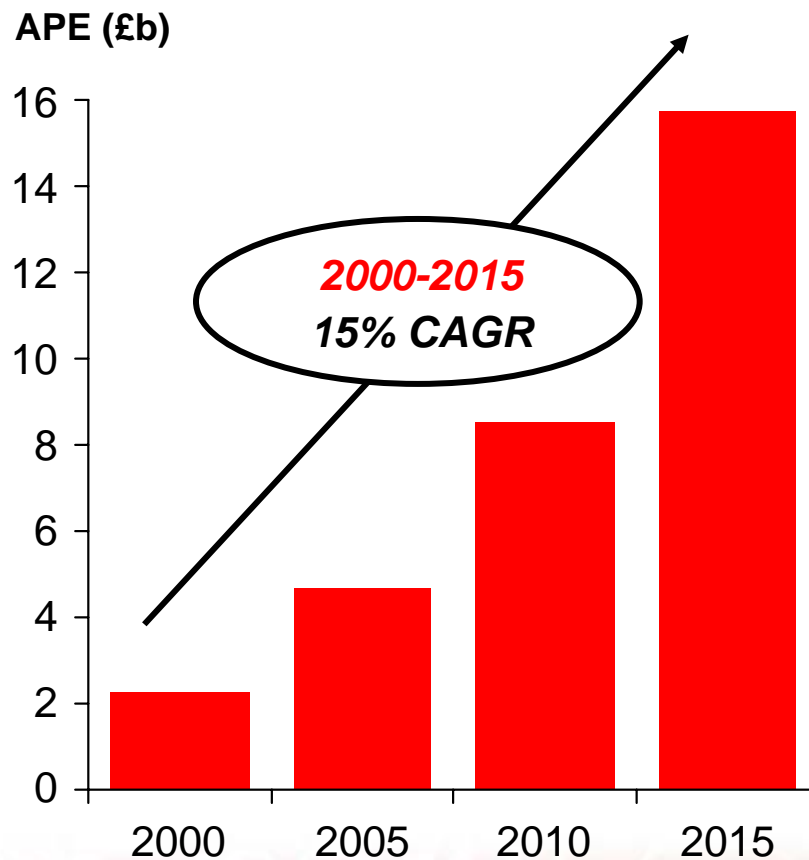
1980 — 1984 — 1988 — 1992 — 1995 — 2001 —



# Asia's 3rd largest life insurance market and ranked 8th in world

Already a large industry with drivers in place for material growth

Projected APE



- Massive reform of social security system
- One child policy shrinking base of family support
- High savings rates; 25% of net income
- Newly liberalized industry with more customer centric:
  - marketing
  - products
  - distribution
  - service



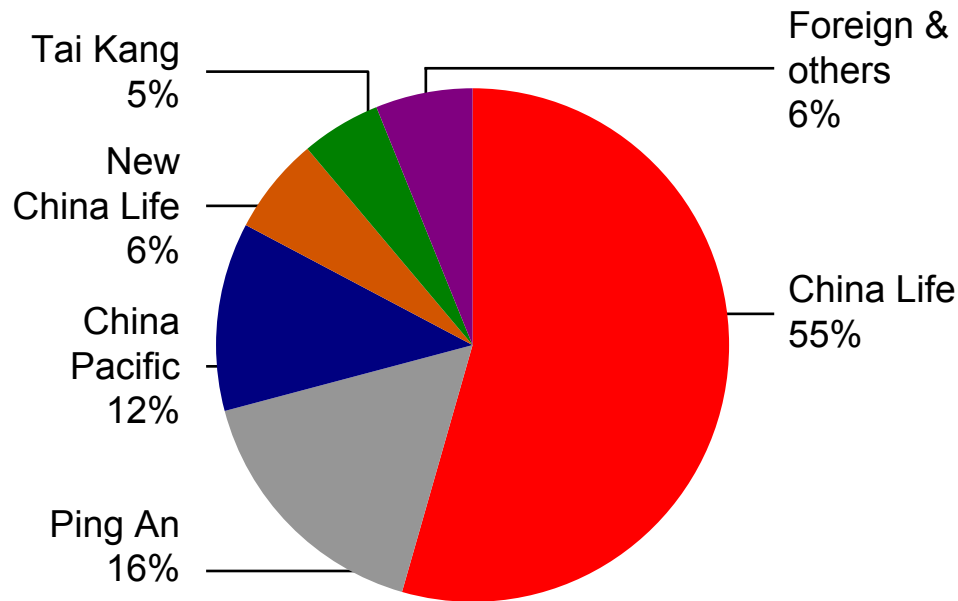
# Life insurance market is tightly regulated

## CIRC very protective of industry's reputation

- **National and provincial regulators:**
  - Rules open to interpretation
  - Multi levels of relationship required
- **High Corporate Governance standards:**
  - Annual reports on compliance and internal controls
  - Insurance Boards require 2 independent directors
  - Audit Committees required
  - CIRC have right to attend Board Meetings
- **Active monitoring:**
  - Regulators often make unannounced and very thorough investigations of branch operations
- **Solvency:**
  - Companies required to actively monitor solvency
  - Monthly returns on premiums, claims and assets to CIRC
- **Consumer protection:**
  - Standardised disclosures
  - Regulated 'small print'
  - 'Key Features' summaries
  - Policy holder protection fund established with mandatory contributions

# China Life Insurance: Large market dominated by strong local players

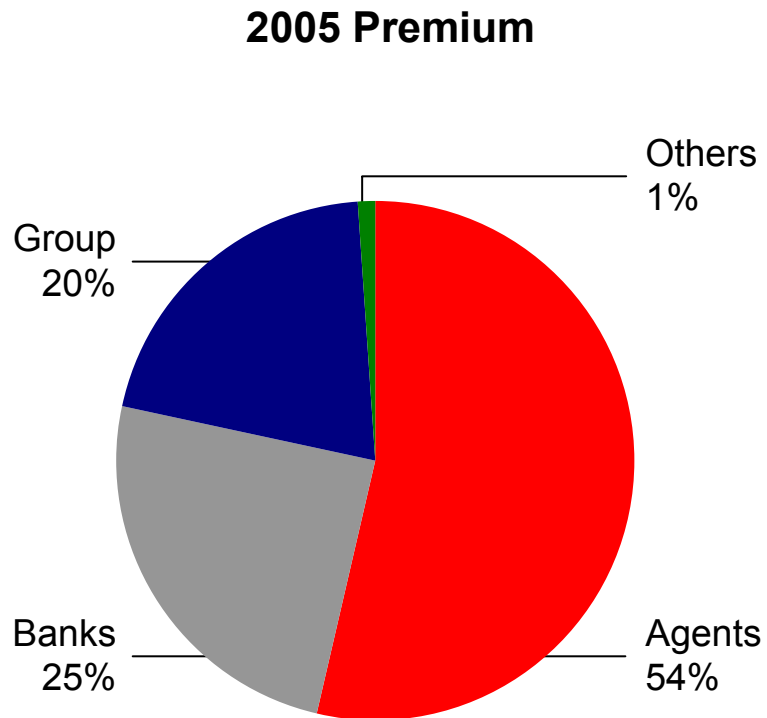
2005 APE  
(£4.6 billion)



- **13 domestic life insurers:**
  - Top 5 have 94% market share
- **23 foreign players:**
  - Licensed on a city by city basis
  - Expanding rapidly

Source: CIRC

# China Life Insurance: Multi channel distribution; tied agency dominates



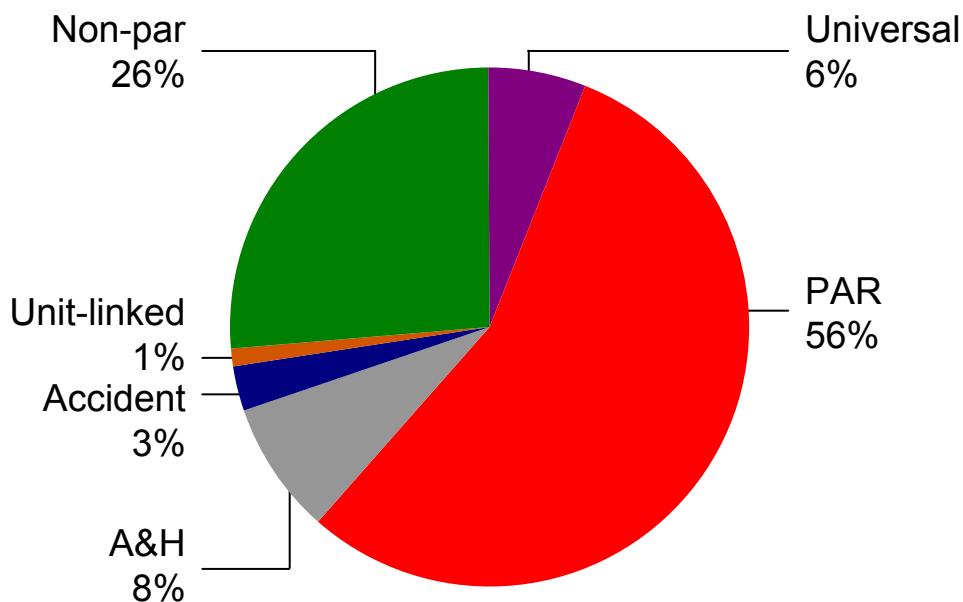
2006 CIRC China  
Insurance Yearbook

- **Tied agency dominates individual life insurance distribution:**
  - 1.28m licensed agents
  - Typically poorly trained, unproductive with high turnover rates
  - CIRC driving higher standards; poaching frowned upon
  - Takes time for foreign companies to build scale
- **Bancassurance dominated by single premiums:**
  - Branch by branch agreements
  - ‘Deposit stripping’ style products
  - Volatile and low margin business for insurers
- **Direct sales teams sell large Group policies and call centres sell simple products**
  - Generally bulk investment based



# China Life Insurance: Investment based products dominate

2005 Premium



2006 CIRC China  
Insurance Yearbook

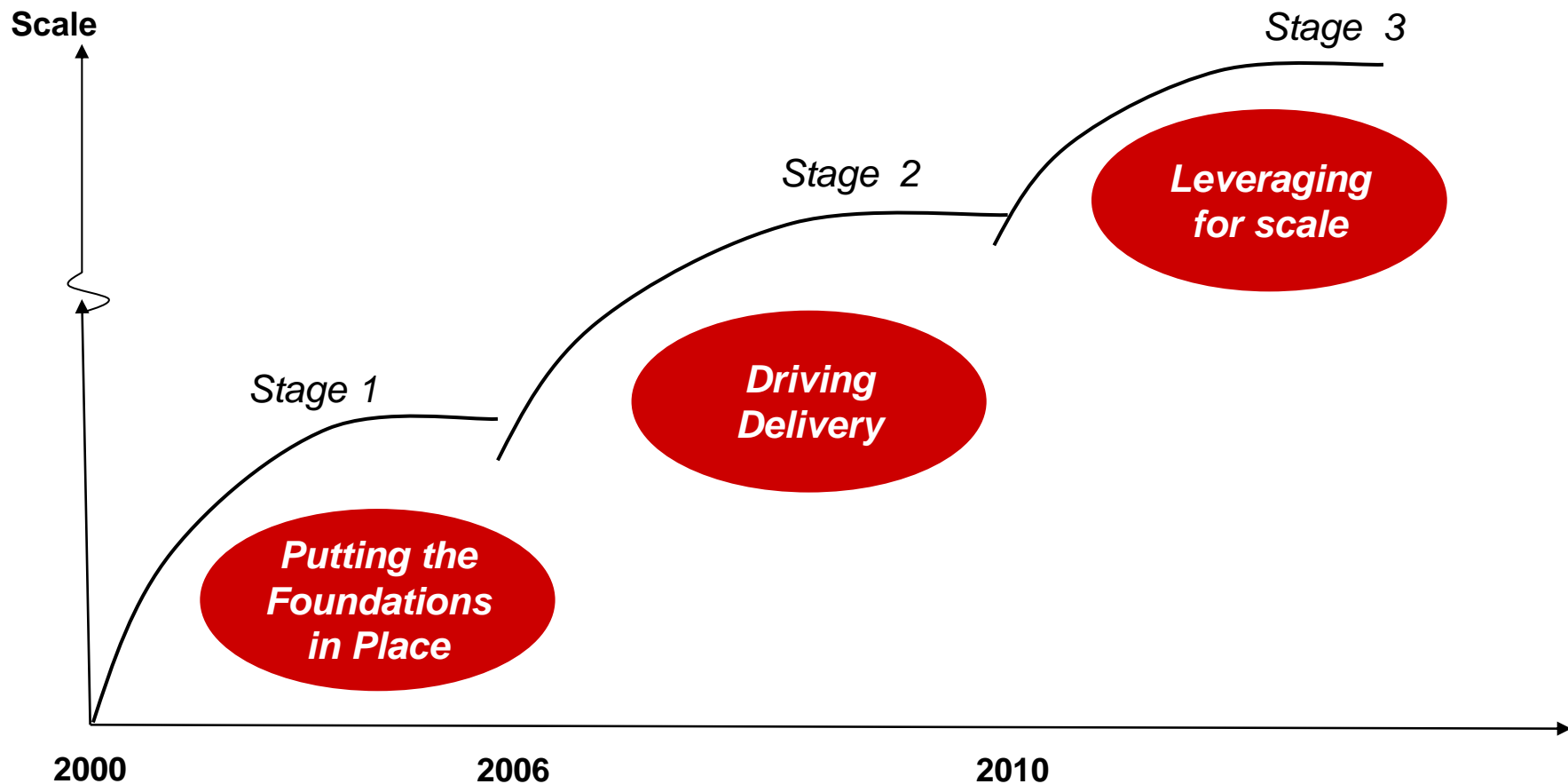
- **Life insurance principally viewed as investment product:**
  - 3yr and 5yr single premium endowments highly popular; easy sale and good for market share
  - However, low investment return environment means meeting customers expectations is challenging
  - Unit linked investment options limited to domestic markets
- **Latent demand for products to meet medical expenses and retirement:**
  - 40% of all individual bank deposits held as buffer for healthcare and old age (estimated US\$544bn)





# Prudential's China Strategy: Three horizons to delivering profitable scale

Three horizons – similar to development of Prudential Corporation Asia





# Prudential's China Strategy: Laying the Foundations

- **Long term commitment to China:**
  - Prudential plc highly respected
  - First meetings in 1980s
  - Rep offices established 1990s
  - Active engagement with industry; investment in training, education
- **Excellent jv partner in CITIC:**
  - Highly supportive
  - Leverage strengths of both partners
  - Also have jv for fund management
  - Use CITIC call centre
- **First Sino-British life joint venture:**
  - 50:50 joint venture with CITIC
  - Launched in Guangzhou 2000
- **Actively leverage Chinese speaking community within Prudential Corporation Asia**



# Prudential's China Strategy: Excellent joint venture partner



中国中信集团公司  
CITIC Group

## Financial Services

- Banking including branches in HK, US, Canada, Australia, NZ
- CITIC Industrial Bank
- CITIC Securities; leading underwriter of equity and debt
- CITIC – Prudential Life
- CITIC Trust and Investment Management
- CITIC Prudential Fund Management

## Technology

- CITIC Information Industry:
- Asia Satellite Telecomms
  - digital TV
  - call centres

## Industrial

- Major infrastructure player in Mainland China
- Power generation
- National stadium for Beijing Olympics
- Mining
- Metro line in Tehran
- Roads in Iran
- Canadian oil
- African oil and gas development

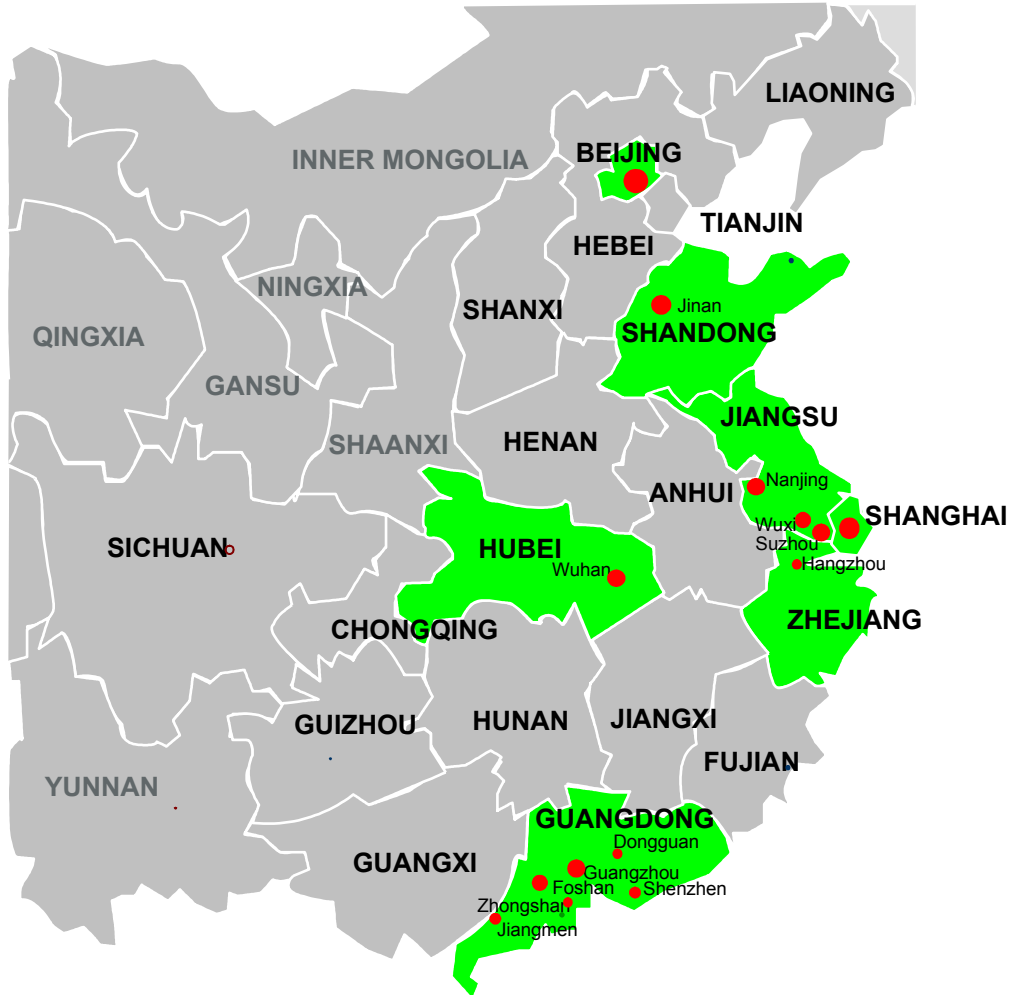
## CITIC Overview:

- Initiated by Deng Xiaoping in 1979
- Largest financial company in China
- Reports directly to State Council
- Recognised and respected brand
- Assets at 31 Dec 05 were £60bn with profits of £350m

## CITIC Management Team:

- Chairman: Kong Dan
- Vice Chairman : Chang Zhenming
- Vice Chairman : Wang Chuan
- Good relations with Prudential; keen to continue to aggressively grow life business and strong bancassurance with CITIC Bank

# CITIC-Prudential has an advantaged platform



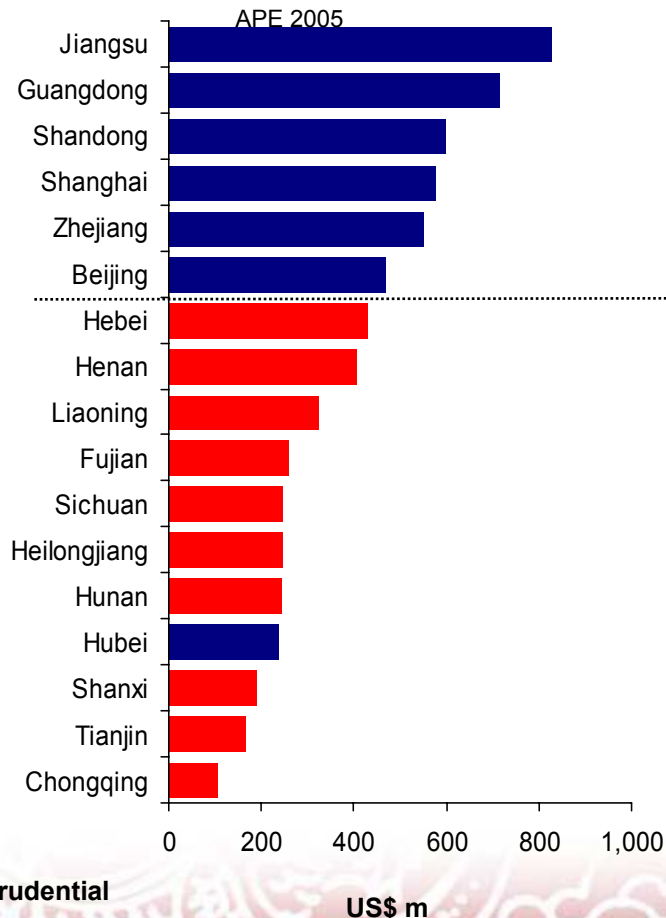
● Current Participation

- **Established in key provinces:**
  - 14 cities operating in 5 provinces & 2 Designated Administrative Zones
- **Good brand recognition**
- **Over 14,000 agents and growing**
- **1,300 staff and growing**
- **5 major bank distribution partners**
- **Full product suite of Life, A&H, Savings, Group:**
  - Average NBP margin 45%
  - RDR 12%

# CITIC-Prudential's advantaged portfolio of licences

Already operating in 6 largest provinces

Total APE by Province

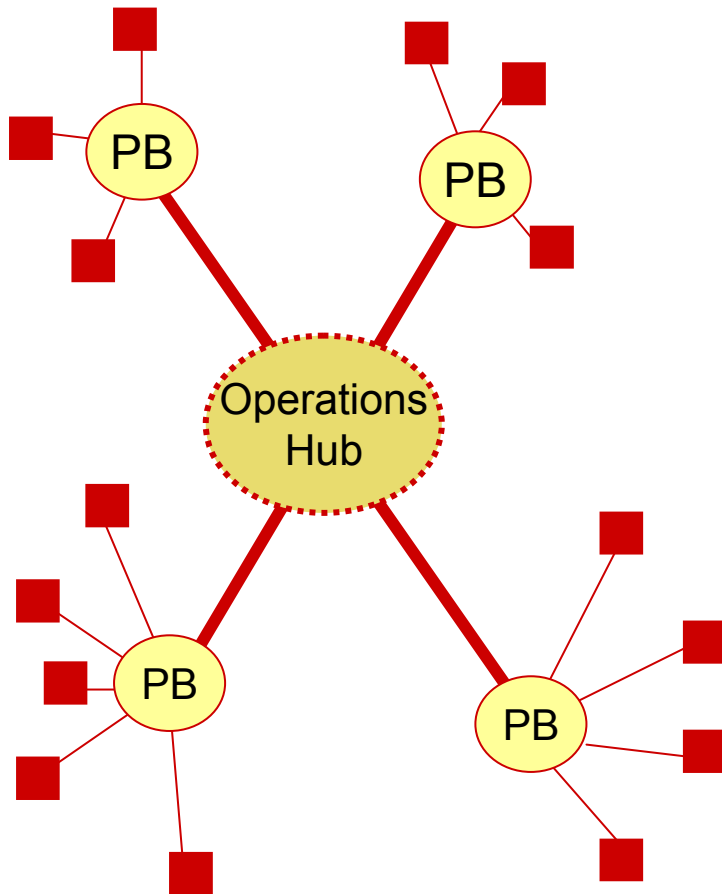


Major Foreign Players: Number of Cities Licenced

PRU	Manulife	Aviva	AIG	Allianz	Generali	NY Life	Aegon	ING	AXA
3	1	-	1	-	-	1	2	-	-
6	6	4	5	5	4	-	-	-	1
1	2	1	-	1	-	2	1	1	-
1	1	-	1	1	1	1	1	-	1
1	3	-	-	1	-	-	-	-	-
1	1	1	1	-	1	-	1	1	1
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	2	-
-	-	2	-	-	-	-	-	-	-
-	1	4	-	-	-	2	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
1	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
14	15	12	8	8	6	6	5	4	3

# Prudential's China Strategy: Efficient hub and spoke operating model

Operating platform maximises economies of scale and allows new branches to be added quickly and efficiently



Operations Hub

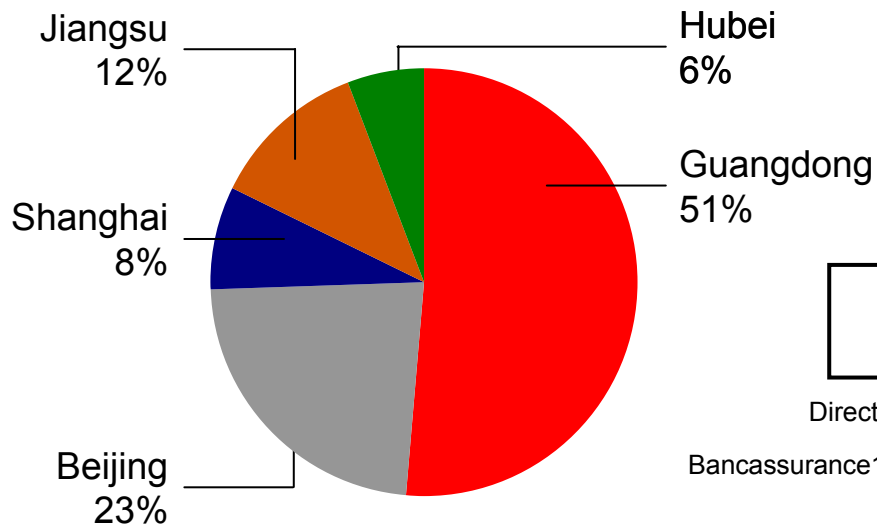
PB

- **Centralised operations hub in Guangzhou:**
  - policy admin
  - underwriting & Claims
  - Finance
  - IT
  - call centre
- **Provincial Branch:**
  - link to operations
  - regulator relationships
  - talent management
- **Branch offices:**
  - training
  - sales management
  - customer service

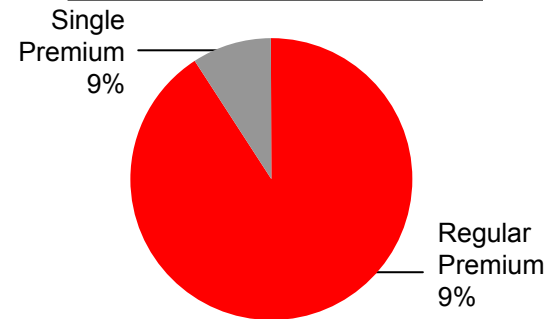
# CITIC-Prudential new business profile

APE 9 months 30 September 2006: £23m

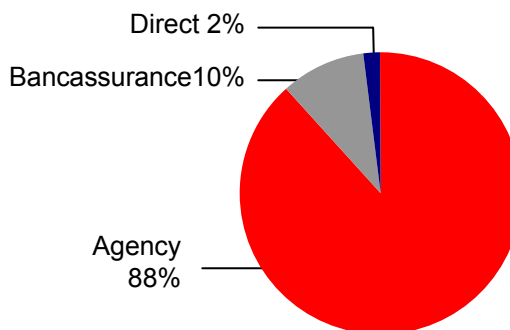
## By Geography



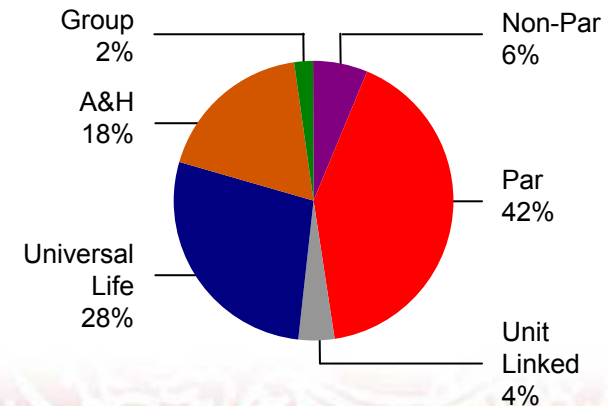
## By Premium Mode



## By Distribution Channel



## By Product

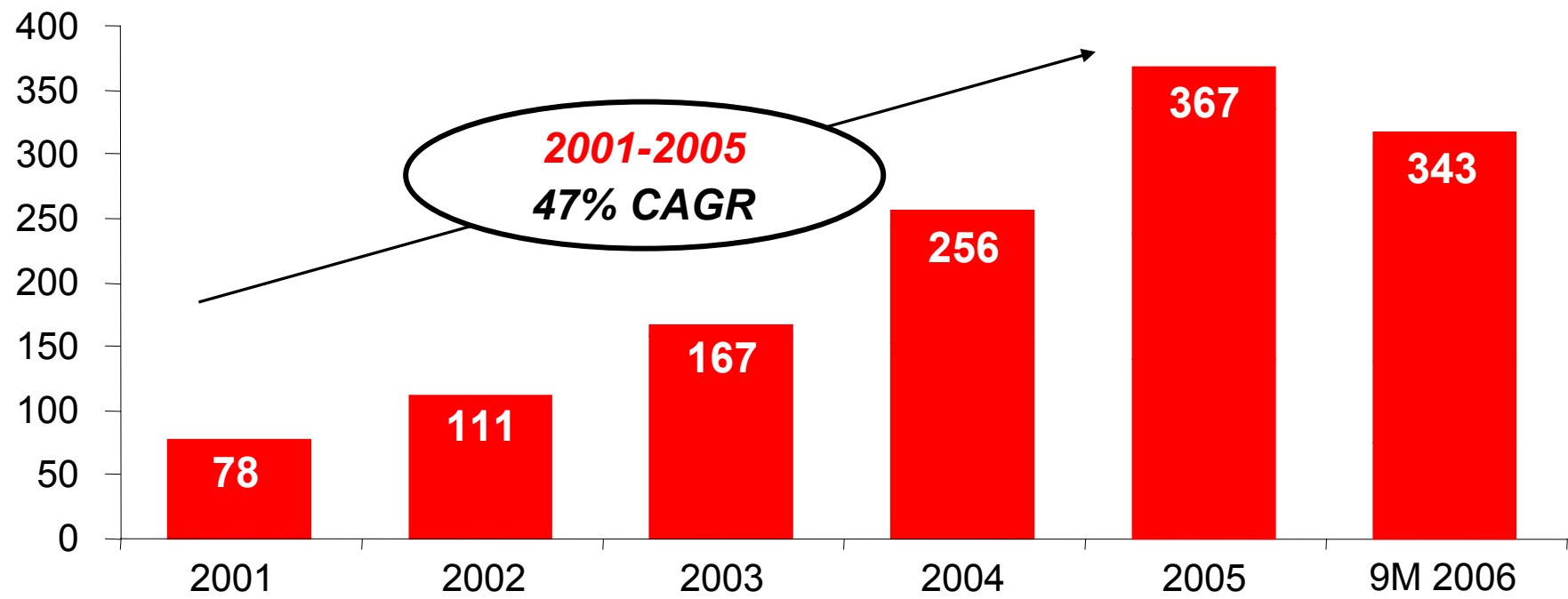




# CITIC Prudential delivery track record

Already have 300,000 customers and growing rapidly

APE (RMB m)



# of Cities

1                      1                      2                      3                      10                      14

# CITIC Prudential is leading joint venture

Building market shares, with top 5 positions in 6 cities

## APE 9M 2006

### Share of Foreign Players APE

<b>AIG</b>	(1992)	<b>44.5%</b>
<b>Prudential</b>	<b>(2000)</b>	<b>12.7%</b>
<b>Manulife</b>	(1996)	<b>5.4%</b>
<b>Generali</b>	(2002)	<b>5.1%</b>
<b>Allianz</b>	(1999)	<b>4.8%</b>
<b>Aviva</b>	(2003)	<b>3.9%</b>
<b>Aegon</b>	(2003)	<b>2.3%</b>
<b>ING</b>	(2002)	<b>2.2%</b>
<b>AXA</b>	(1999)	<b>2.1%</b>

### CITIC PRU Market Shares by City

	Started	Mkt Share*	Rank	Foreign Rank
<b>Guangzhou</b>	2000	13%	4	<b>2</b>
<b>Beijing</b>	2003	4%	5	<b>2</b>
<b>Suzhou</b>	2004	3%	8	<b>2</b>
<b>Shanghai</b>	2005	1%	8	<b>5</b>
<b>Wuhan</b>	2005	6%	5	<b>1</b>
<b>Nanjing</b>	2005	5%	4	<b>1</b>
<b>Foshan</b>	2005	3%	6	<b>3</b>
<b>Dongguan</b>	2005	8%	4	<b>2</b>
<b>Zhongshan</b>	2005	5%	5	<b>2</b>
<b>Shenzhen</b>	2005	1%	8	<b>3</b>

\*Agency

# CITIC-Prudential leveraging delivery platform

- **Building and strengthening management teams to support growth:**
  - Recruiting staff a major challenge as insurance a relatively new industry
  - Prudential able to leverage experienced Mandarin speaking staff in region
  - Material investment in training and development
  - Building pipeline of high quality staff
  - Strong culture
- **Continuing geographic expansion:**
  - New branches as natural extension of existing operations
  - Focus on large urban populations
  - Anticipate two new provinces next year



## RESPECT CULTURE

<i>R</i> ESPECT	尊重差异
<i>E</i> NCOURAGE	鼓励开放坦诚的工作环境
<i>S</i> UPPORT	尽全力支持公司，同事和
<i>P</i> RACTICE	以身作则，积极参与
<i>E</i> NJOY	乐在工作，学习成长
<i>C</i> OMMITTED LISTENING	聆听所至，信诚所在
<i>T</i> RUST	信任和授权

# CITIC-Prudential leveraging delivery platform

- **Strengthening agency recruitment and productivity:**
  - Using regional best practices
  - Emphasis on quality and professionalism
  - Making agency an attractive career choice
- **Developing alternate distribution:**
  - Increasing retail focus of CITIC Bank
  - Securing additional bank partners
  - Piloting DM
- **Broadening spectrum of accumulation and protection products:**
  - Retirement proposition launched 2006
  - Supporting linked products with regional fund management expertise
  - Developing more health based protection



## 'Olympic'

### Agency Development Programme

#### **PRODUCTIVITY:**

Basic skills, systematic managing and monitoring, improved referral tools

#### **RECRUITMENT:**

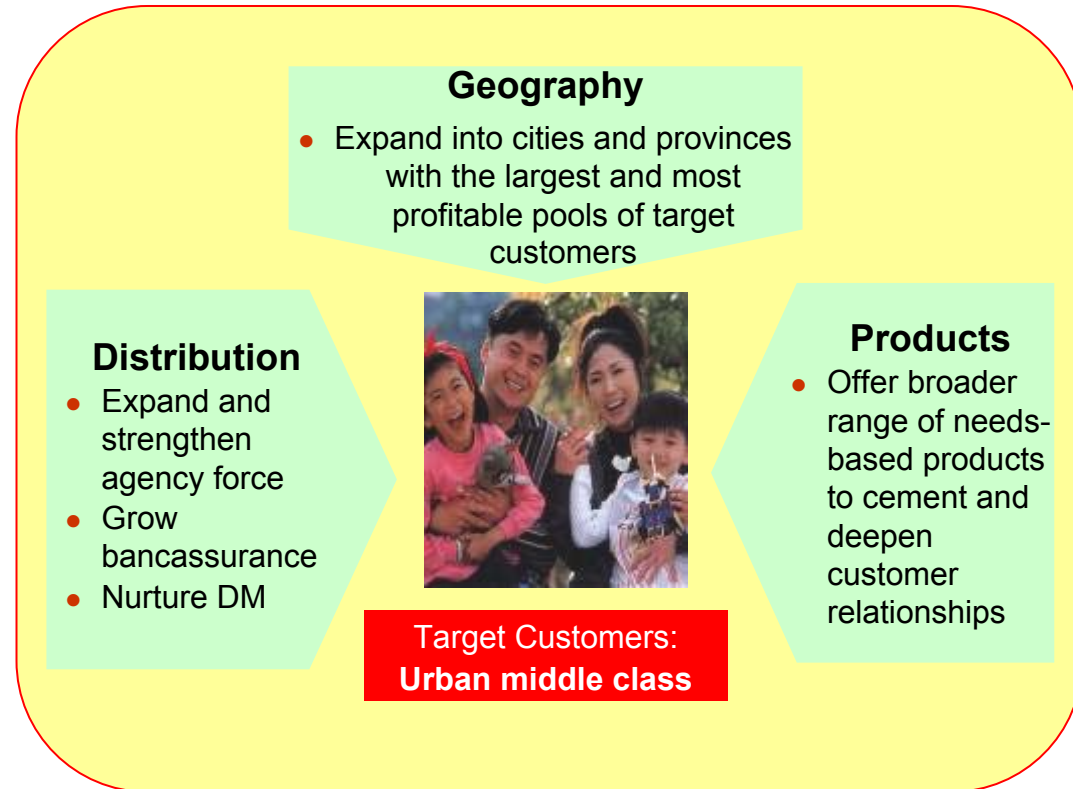
Computer based training for agent licensing exams, personality profiling, recruitment tools,

#### **TRAINING OF LEADERS:**

Classroom training and live experience, personal effectiveness training

# CITIC-Prudential's Ambition for 2010

- **Largest foreign player:**
  - Leading positions in 50 cities covering 18 provinces
  - Agency led distribution with material bancassurance and DM channels
- **Material contributor to PCA results**
- **Positive recognition Nationwide:**
  - Trusted brand
  - Employer of Choice for staff and agents
  - Partner of Choice for banks





# **Summary: Prudential has an advantaged platform for growth**

- **China life market is already huge and will become larger**
- **Compelling opportunities as market grows and transforms**
- **Prudential has inherent advantages:**
  - Excellent JV partner
  - Already leading foreign JV market
  - Readily scaleable operating model
  - Proven management team
- **Prudential very well positioned for future profitable growth**