

Prudential: leading in Asia

Mark Tucker, Group Chief Executive Prudential

Welcome

Okay if we can begin. Good morning and welcome everyone, it is good to see everyone here even at this early hour. This morning's presentation is all about Asia. I have said many times that Prudential is a growth business and Asia has been a very significant part of that growth business. As you will hear today in much more detail it will continue to be so.

It is a couple of years now since we gave you a detailed session on the region and I am very pleased today that you will hear both from many of the team you have heard from in the past as well as some people you have not heard from before. All of them have played a big part in building our Asian business to the advantaged position that we are in today and I hope that this will also demonstrate to you the depth and the quality of the team that we have in Asia.

We are going to talk about why we continue to be excited by the opportunities we see in Asia, opportunities for both our life and our asset management businesses. We did talk about PCA's asset management business earlier in the year at the asset management day, but today we will go into much more detail about what for us is a very more important and strategic operation. Today critically you will also meet Barry Stowe who joined us in October. You will hear Barry's perspective on Asia and his views on the future for Prudential in the region. As you know Barry joined us from AIG, where under his leadership AIG became the global leader in accident and health. That business had worldwide scope but 90% of its earnings came from Asia and from much the same geographic footprint as the Pru. We are all truly delighted and I am delighted to have Barry on board. I know personally how successful he has been after competing with him and AIG market by market for much of my time in Asia. I reckon we did pretty well in that competition but I am much, much happier

having him with us and I know that he has wonderful things to contribute now that he has joined the right team!

Many of you also know that we have a very close relationship with ICICI Bank in India and you will be hearing much more about that later today. I am delighted that we have KV Kamath with us today. Kamath is the managing director and CEO of ICICI Bank and I will talk a little bit about him and about the business when he comes on and speaks later this morning.

The programme is tight today but we will get time to listen to the members of the team individually as well as listening to presentations that will give you a full insight into what we are doing in Asia. All in all it should be a great day.

At that point let me hand you over to Barry to take you through the rest of the events.

Barry Stowe, Chief Executive, Prudential Corporation Asia

Prudential in Asia

Thank you for that. It is a great pleasure and privilege for me to be here and look forward to spending the day with you. I would like to start as Mark said by giving you a little bit of perspective, perhaps a different perspective than you might normally get in a presentation like this, because you see you view the Prudential from an investment perspective and the reality is I just went through a very similar process. I obviously chose to make the most important investment I will make in my career in this organisation. I thought I would give you a little insight into the thought process I went through. The fact of the matter is when I arrived in Hong Kong eight years ago with AIG it was reasonable for someone like me to assume from my perspective at AIG that there were really no regional competitors in Asia, it was a logical assumption. Now obviously there are strong successful competitors in each market but the fact of the matter is in terms of a region wide presence there was really no-

one else. Today eight or ten years later, that situation has changed dramatically and that change has been driven almost entirely by Prudential.

We look at Asia today and we look at Prudential today and we see an organisation that has gone from three markets to twelve. We see an organisation that has gone from having relatively small operations to the number one company in India, I should say the number one foreign joint venture in India in funds and in insurance by the way, the number one company in Vietnam, even larger than the State company, virtually number one, very close to number one but technically number two sadly in Malaysia, number one in Singapore, number one in Indonesia. A big geographic presence in China, fourteen licences, more than the number one foreign company in China who I will not mention again, an agency force that is growing quickly throughout the region in China, a business that is growing quickly in China, all in all it is a great success story. Now when you look at what it takes to go from three licences to twelve licences in Asia, that is actually in itself a great accomplishment because some of these licences are complicated to get but it is taking those licenses and turning them into businesses that shows the real mettle of the team.

So let us look at what sort of organisation had to be built in Asia in order to achieve what is this absolutely terrific accomplishment. Now I ended up focusing my thinking on a handful of what I would call core competences, they are clearly important competitive advantages for Prudential in Asia. The first is agency, now I would say to you based upon my experience in Asia over the last several years that anyone who is serious about building an insurance business in Asia must be serious about agency. It is the absolute only way to tap the full potential of the opportunities that are locked in these markets. The fact that Prudential has been able to go from 10,000 agents in the 90's to 250,000 agents, and growing quickly, is a spectacular accomplishment. The fact that they have been able to build a plant of that scale, that quickly, and produce the sort of quality business that this agency produces, is actually even more amazing to me, because if you look at the productivity rates and as we go

through the day and we drill down on specific markets you will see some examples of agency plants that are not just big but are incredibly productive, professional, high quality, efficient: this is really an amazing story.

Hopefully you will leave with a lot of strong messages today, obviously that is our hope. One of those messages, perhaps top of the list amongst those messages I hope, is the fact that this organisation is incredibly good at building and managing and driving efficiency through agency and that that skill set is a distinct and important, I would say critical, competitive advantage in Asia. I feel very strongly about that as I guess you have sensed. But what is interesting about this organisation is that unlike most organisations that focus on agency and really to the exclusion of everything else this organisation has had real success in building other forms of distribution that complement agency. So in fact if you look at the partnership selling we have with banks, the rapid emergence of broker selling particularly in North Asia and some still relatively small but encouraging direct marketing numbers, it is actually a great testament to the mindset of this team that they are able to manage both. The fact of the matter is that 30% of our new sales this year will come from these complementary channels. That is very unusual for an organisation the size of Prudential in Asia.

Another, what I would consider to be important core competency is product innovation. This has largely been around the ILP space and you are as familiar with all the great and wonderful things relating to ILP as I am, these are capital efficient products, good margin products, they are popular, agents like to sell them, customers like to buy them, they are on virtually every front a winner. Prudential in many instances was the first mover in markets with ILP products, we introduced them to markets and we have consistently maintained best in class products. So this is a real competitive advantage; I think there is more we can do with respect with product innovation, I will come back to that in a minute.

Then finally our funds management business, I mention this specifically in respect to India where we are number one. The fact of the matter is there is no insurance company in Asia that has had the sort of success that Prudential has had in building a retail funds business. The business that Ajay and his team have built is the number two retail funds business in Asia ex Japan, I have already mentioned it is number one in India, it is rapidly growing throughout the region. It really serves two purposes. First of all the fact that they have done so well in the retail space, obviously it is a business that adds value in its own right to the group, but in addition to that it is an investment led organisation. The fund performance has been great, they have done a great job for the life customers as well and that adds significant value, so the funds story is a success story in and of itself. Now it is not surprising when you look at all these core competences that you would have an organisation that again over a relatively short period of time, can produce these sorts of results. You know these results as well as I do, you follow this company, Sandeep is going to go into a lot more details so I will not now. It is a terrific success story there is no doubt about it.

Let us talk a little bit about what we will do in the future, obviously the first thing we will do is recognise that there is not much broken, there are a lot of things going well and we want to continue to do those things well and improve our results with respect to these core competences so, yes, agency is big, yes, agency is efficient, it will get bigger, it will get more efficient. Improve and expand distribution partnerships. We have got solid relationships with organisations like SEV and ICICI. The fact of the matter is we are a good partner, we know how to work in a partnership relationship, we know how to generate value out of partnerships, we will seek more partnerships and we will do a better job with the partnerships we have.

Product innovation: as I said we are going to continue to lead the market with ILP products, but as we move more and more into an integrated retirement strategy you will see more kinds of products coming out of our organisation, a little bit more about that in a minute. The

fact of the matter is if you just look around the region and the markets where we do business there is still just a lot of headroom, in the existing businesses there is still a lot of headroom. We have got a lot of success stories; we have got a good story to tell in virtually every market. There are some that we are going to point out today in particular that are really good success stories, I have already mentioned India where we are number one joint venture company funds and insurance rapidly growing agency force, it is a great success story. Korea, growing business, growing market share, growing agency force, growing independent agent broker force, some direct marketing success, it is a multi channel distribution platform. Pretty much everything we are doing there is clicking. China, when people think of Asia they instantly think of China, China is a great success story for us, we are the number one joint venture company, number two foreign company, we have 14 cities, rapidly growing business, we are getting good results this year, we expect them next year, Garth will tell you more about that, right Garth? And then Hong Kong, I did not just want to talk about the markets, where everyone sees enormous headroom because some people look at Hong Kong and say "Well, it is a population of you know eight million people, it is a penetrated market, it has been there a long time, it is probably just not you know as interesting a story." The fact of the matter is it is a terrifically interesting story and we are going to tell you more about it specifically today. It is in what I would call, in my vernacular, a poster child for almost everything we do right. We have got a great agency force there, which is highly efficient, highly competent, sells complex products. We have got 50% of our sales coming from alternative distribution, we have got a good product mix. I mentioned the complex products, it is not just the fact that we are selling ILP but we are selling some health products there as well so the margins you see from new business coming out of Hong Kong are a little higher than you might see in some other markets.

Let me talk about some new, new ideas now. Some things that I think are important for us to do over the next few years. Another one of the accomplishments of Prudential in Asia over the last ten years is the building of a seven million member database, again a notable

accomplishment. We have not done everything that we can do to unleash the power of that database. I come from a place where we were very focused on database marketing, in fact my last year in my previous role we wrote about four hundred million US dollars in new business, that was about 15% of our total sales, through what I call a systematic disciplined approach to upselling and cross selling existing customers. Now a systematic and disciplined approach does not mean the agent who is a good agent and of his own volition calls on a customer who has already bought a policy and sells them another one. I am talking about activities that drive the agent to call on the customer, that drive the customer to contact his agent, but use every conceivable customer touch point, be it a claim, be it a renewal, be it a bill, whatever it is as an opportunity to remind the customer he still has a problem he has not solved and we have a solution; it is actually not hard to do. When you look at the response rates, you get to some of this activity, they range around the world just by putting an offer in a renewal, the response rates generally range between 16 and 30% take up rate. We have seven million customers, do the math, there is an opportunity here.

Retirement, we have done a great job in Asia with helping people accumulate; ILP products are a great part of a larger retirement suite, but we will do more. You will see us cover the range, create a strategy that allows us to cover the range in terms of distribution and product for retirement and a product is not just about accumulation, a product is about protection, pre and post-retirement, accumulation and ultimately decumulation. We want to make sure we have strong relationships with customers, distribution systems that reach customers in such a way that we have an opportunity to get every single sale from that customer.

Direct distribution: as I have said we are having some early success, the numbers are still small, the fact of the matter is we built businesses in markets where I know from experience that direct distribution works. So you will see us, I think, place some bets over the next year or two in building a more robust platform to accomplish direct distribution. It can be very

powerful, in fact done correctly with the right products it can be transformational for business.

And in health, the health opportunity, this ties into the retirement strategy, this ties into product innovation, this ties into a lot of things. Given my background, as Mark mentioned I ran an eight billion dollar health business with my previous employer, it will not be surprising to you that I have figured out a way to get this into the presentation somehow. The reason it is in here is because I am passionate about it, because I have seen the sort of success it can generate: it is important for this organisation to do it. We have done a good job in some areas; Keng Hooi is going to tell you later today about the success we have had in places like Indonesia and Malaysia and Singapore by adding small health riders for life policies and if you are wondering why the margins that come out of these markets that Keng Hooi is responsible for are higher than some of our other markets, it is the riders, that is what drives it. Riders are great, but riders are not enough. We have to make the transition to more robust, stand alone products that offer real value for customers. They are really terrific from every perspective.

If there is a virtuous circle, this could be if because customers want these products, they sense the need and they want to buy them. Agents love to sell them because a) they are easy to sell and it is a great introductory product and because it is easy to sell you can use health sales to leverage into a large sale which is more complicated. Not only do agents love to sell these and most of the production we get obviously will be from agents but these products are the sort of products that are best suited to direct distribution. They are obviously a natural to go back to the seven million life customers we have and offer a health product for a cross sell. You are in an unusual circumstance in that you have government jurisdictions in places like India and China that actually look quite favourably on organisations like Prudential that are willing to offer health products, because they see that there are going to have to be private solutions to the public health problem in these markets

with large populations, so they actually look quite favourably on our willingness to launch products of this sort. The best news of all from your perspective is the payoff for shareholders from these products is significant; they are very high margin products. So if there was ever a case of enlightened self interest, this is it.

So what I have said here today and tried to say briefly, probably not as briefly as I should have but is this a great story to be told. You might think that this story that has been written if you will by this team over the last ten years is a great book but so far as I am concerned we are in the first or second chapter, there is still a lot to be written. We are going to continue to leverage the strengths that we have, we are going to add some new skill sets and the result is going to be an organisation that is going to produce results going forward that are consistent with the results that you have seen in the past. I have never in my life been in a position where I was more confident about an organisation to meet and achieve its goals than I have this one. I am so confident in fact that I am willing to stand here and tell you today that in 2009 you will see from this organisation new business profits that will be double the level we generated in 2005. It takes a lot of confidence to say that, but I am absolutely confident we can achieve the objective and my hope is that the presentations today will make it clear to you that we can do this and that you will leave with the same level of confidence that I have. Thank you very much. Now let me talk a little bit about what you will see the rest of the day. Next up will be Sandeep, our CFO, who will give you an enormous amount of data, give you a lot of financial information that I think will be very helpful to you. We will then start going through the insurance market presentations led by Keng Hooi from Malaysia, Indonesia, Philippines and Kevin Wright who is our CEO in Hong Kong, we will have a few moments for Q & A and then a break and then we will finish up the insurance operations with Feng on his markets. As Mark said we are very privileged to have KV Kamath to be joining us later today to give you some insight into our partnership and the opportunities in India from his perspective. Bill Lisle also one of our CEOs of a very successful business in Korea will be speaking to us about what is going on there. Garth who

I think is known to most of you will talk about Taiwan and China. We will then have another opportunity for Q & A and then we will feed you, after which Ajay and Ted Poole will do sort of an overview and then Felix from Japan, SH from Korea, Cheeseng from China and Pankaj from India will do some specific market deep dives. We will have some questions after that and then some closing comments and then we will be done.

So again hopefully it is going to be an interesting day for you and I am confident that you will leave confident, that is our hope anyway. Thank you very much. Sandeep?

Sandeep Malik, Chief Financial Officer, Prudential Corporation Asia

CFO's Perspective

Thank you, Barry. Good morning everyone. Like Barry I too made one of the most important investment decisions of my life to join the PCA team earlier this year. Unlike Barry, however, I cheated a bit, I had a lot of insider information and that is because over the last six years I have been working with the team in Asia on a whole range of strategic, financial and organisational issues, advising from the outside. In fact I was already working with Mark when some of you came out for that first analyst trip back in November of 2000 and today what I want to do is start off by going back to that time period and seeing the performance that we have delivered over the last six years. I then want to spend a bit of time drilling into the economics of the choices we have made around distribution and product so you can see the business model that underpins this performance. Then lastly I want to spend a bit of time taking a forward look as to whether and how we can sustain this performance.

I guess before I jump into the slides one observation and one apology. The observation is that I will spend a disproportionate amount of my time on the insurance business, the asset management business is critical but Ajay and Ted and team will cover it more in depth later

in the day. The apology is that I have 40 slides and 30 minutes, you can do the math, but I will be the first of many fast talking, strange sounding Asians that you have to endure today.

So with that over the next half hour I want to get across essentially four points. The first is that overall the business has delivered strong performance when you look at this 2000/2006 time period and I say overall because in reality we have not been as successful as we would like in a number of the markets that we compete in Asia, specifically Taiwan and Japan Life. The second message that I want to get across is underpinning the strong overall performance have been choices around product and distribution strategy which at their core have fundamentally been about the economics of the markets we play in. As Barry said we have a lot of confidence that we have held position to sustain profitable growth going forward, but that is not to be naive about the challenges we face in a number of our markets and new challenges that will emerge over time as we move forward. Nor is it to be complacent about the strong positions that we may have in many markets today but will undoubtedly come under challenge. But when you add it all up we believe we are still better positioned and I will talk about that. Then lastly the business is as you heard at the interims and we will share more with you today we are starting to generate net capital which will come back to the group on the one hand. On the other hand, given the sort of place Asia is, given the franchise we have created, given the opportunities we think will continue to emerge whether that is in retirement or elsewhere, we think we will have additional opportunities to deploy capital at very attractive returns.

So with that let me get into what performance has this business delivered? I should note that a lot of the numbers you will see have all been stated on a constant exchange rate basis looking at the first nine months' exchange rates for this year, so they may be slightly different to what you have seen elsewhere in the past. Size and growth; Barry already touched on this, our insurance business has been growing at a very rapid clip of 28%. AGRs over this period and as you know that has continued into 06 and on the asset management side funds

in our management have been growing at 25%. AGRs and on both sides of the fence today we have very significant businesses. The insurance business weighed in at three quarters of a billion in APE last year and it is going to grow significantly this year. If you break that down and see where the business is coming from today, this just gives you a sense of how strong the footprint is in terms of contribution coming not from one or two markets but from a number of markets on both again the insurance side and the asset management side. I should point out that Singapore looks disproportionately higher because that is where we capture the monies that we manage for the UK business in particular out of Asia.

Shifting to profitability, again if you look at how we have grown new business profits that has pretty much cracked how we have grown top line with AGRs of 27% and on the asset management we have grown profit before tax even faster. I will come back and talk about margins in the forward look, but one point I wanted to log on margins right now and that is as much as we care about margins and about APE growth, ultimately what we are looking to do is optimise the new business profit, ie the product of the two rather than one or the other. Shifting then to the multi-period variables of embedded value, you can see over the same period we have created about 1.4 billion in new embedded value and we have invested about 475 million to do that. The key parts of this embedded value equation are operating profits and non-operating profits and I will get to those in a minute, but I do want to say before I do that, that our changes in basis moving from APE to embedded value caused a shift and there is of course with exchange rates moving around an impact from that.

So let us look at operating profits. No surprise here again, new business has been the primary driver of operating profit. Given the high growth and the very healthy margins that is what you would expect. Although you can start to see now the size of the book and the development of the book starting to come through in the unwind. You can also see that the changes in operating assumptions and expense variances have been extremely small relative to the size of the business, coming in at 5% and 1% of operating profit respectively.

For those of you interested in more detail there are slides in the back that break these down further but from our perspective they are healthily small. Non-operating profits though is a slightly different story and here the story is Taiwan and the interest rate environment that we have witnessed and are seeing today in Taiwan and so 90% of what we have seen in non-operating losses have come from Taiwan. Again in the spirit of sharing the good but also sharing where we have not been so successful let me take a slight detour and talk a bit more about Taiwan.

The story on Taiwan is really a two part story, the first part is clearly the back book and the negative spread we have in the business we inherited when we bought the business and that has been a significant drag for us on both embedded value and annually in terms of the cash pots of that business. But the second more encouraging part of the story is the new business. If you look at the mix that we are writing in the new business, and I show on the right hand side the year to date mix, you can see linked is now 16% of the new business we are writing. The margins with that product mix are significantly much better than what we were writing but more significantly much more than the back book. Garth will come and talk a little bit more about what we have done and how we have gotten to such a healthy new business product mix and a lot of it has to do with avoiding following the market in a number of areas. Back to the delivered performance, again with the size of the book growing you can see that IFRS profits are starting to come through at a very healthy clip and you can also see on the right hand side in the breakdown of that, that the asset management business is also starting to contribute in a meaningful way to those profits.

Let us now talk a little about costs, something perhaps we have not spoken about as much in the past. This slide shows you where our cost ratios have been on both the insurance and asset management side, so total costs as a per cent of gross written premium on the left, total costs as a per cent of net revenue for the asset management business on the right. And in both businesses, you can see, as the footprint got developed with all the new

businesses coming in in the early part of this period, as we have grown at the rapid rate that we have grown at you can see the economies of scale have started to emerge. In fact if you drill a bit deeper into the insurance side you can see that while costs in total have grown, cost as a percentage of written premiums and, more importantly, cost for policy has trended down. We spend a lot of time looking at the non-commission part of the costs as we manage the business and let me give you an image on that as well, so the sales-related and management-related expenses. Now this is a bit of an eyesore so I apologise again but what this shows you for our major operations, how that operating expense ratio has trended from 02 to 05, not all the points are labelled just to make it a little easier. A couple of points come out of this, one the businesses, the more established businesses and the larger businesses of Hong Kong, Malaysia, Singapore but also Taiwan are already operating at very good ratios. But equally the new operations as they have come on line have been moving down that cost curve very rapidly as well and we think there is a lot more headroom for us on costs, as these businesses continue to grow. I should point out that China is a bit of an exception and that is because, as you know, we have been getting new licences and essentially within China we have been opening new businesses and that comes through in these ratios, but again once the footprint in China fully fleshes out and as that grows we we'd expect it to follow the same pattern.

Last but not least let us talk about capital. So you heard at the interims that we had gone capital positive, this is where we expect to come out for the full year. We expect to end the year somewhere in the neighbourhood of 25 million net positive capital that is going to come back to our colleagues in London and something you have not seen before, a breakdown of where the capital is being generated and where it is being consumed, so as I said before that asset management business on a number of metrics including net capital is starting to produce. Also the more established operations of Singapore, Hong Kong, Malaysia but also Indonesia are starting to contribute positive capital and where is it going? It is mostly going in the growth markets of India, China, Korea but also Taiwan. Some of it is going into the

back offices we are starting to create having multi-country operations and of course part of it gets consumed at the head office. Just as a margin one other point that I wanted to log on capital, and again I will come back and talk about it on the way forward, which is we have gone capital positive and as I will show later we expect that to start to ramp up pretty rapidly but this is to us an outcome of decisions we have made and how we have driven the business, cash per se is not an input into those decisions and certainly as we find new opportunities to deploy capital at attractive returns we would look for those in Asia as we would elsewhere in the group.

So in summary, you can cut it many ways, not everything has been rosy, but actually just about any metric that you would look at would suggest that we have delivered a very strong performance over this period.

Now let me shift gears and talk about some of the strategic choices that underpin this performance and the economics of those choices. I will start with product, a lot happening on the slides, so let me explain what is on it and then I will give you the messages. The left hand side compares the market product mix built up from the weighted mix of countries that we participate in and compares it to our product mix. The right hand side shows you how that mix has grown over time and a number of headlines, the first - our mix is very different from the market's mix, and different largely in a positive way so the link business for us is to 2x and even more of where the market is. We have actually a higher contribution from par reflecting the life funds we have in Singapore and Hong Kong and the very efficient capital nature of that because of the life fund; you can see non-par for us is a very small percentage of the business and where we do sell non-par it is because it comes with these protection riders. Protection is perhaps one area where we may be slightly underweight, although even on that there is a subtlety, which is there is protection buried within our linked business, because the riders that are sold with the linked business get captured over there. If you look

at the right hand side you can see how the business has driven this what I would call very advantaged and distinctive product mix.

Let me now get under the skin of the product economics a bit more and again this is a lot of data that you have not seen before. It is clearly commercially sensitive data but what I am showing here is I have picked three markets, so Singapore which is a well established, very attractive, structurally profitable market for us, Korea which is in many ways a developed market but still relatively new in our portfolio and Indonesia which represents more of what we see in the fast growing, emerging, still relatively nascent markets and on each of those I am showing you curves here for each of the product types, for the cumulative discounted cash flows that we see, the market will be slightly different depending upon the product parameters, but this will give you a good sense of how the economics play out. Also again in the back there is more data on each of these curves which gets at the three metrics we look at when we look at products, the top line, the policy size, the profitability so NBP margins, but equally also the capital strain, so how capital efficient these are and as you look across clearly the markets are different but you can see that non-par products is not a place you want to be. High capital strain, a very long break-even period and at the end of it frankly very, very low profitability. Now where you can pair it up as we are able do with protection products to meet a specific customer need then the proposition is a bit more attractive. Par products again on this basis may not look so attractive, but again where you have a life fund that you can leverage then you essentially get very good returns, infinite returns arguably because you are not putting in any capital and it creates slow but steady profits and has decent margins. Linked on the other hand for us is the sweet spot, very limited capital strain to begin with, very fast paybacks because of the loads we are able to put on at the front end and very strong profitability over time. Of course protection looks even better than linked but you have got to remember that protection products again will have big variations depending upon the type of product. Also higher capital strain but pretty fast payback again because of the profitability and as Barry said the policy sizes you will get on protection will be a fraction

of what you will get on the other types. So clearly on plain protection you have to realistic about how much of your business you can get from protection.

One other slide on product type to show you again the linked story and this shows you how in each of our markets, we've pushed this linked lever between 2000 and 2005 and whether it is a Singapore type market where we already had a high proportion of linked business at the beginning of the period we have been able to grow it further, with broader fund ranges, more sophisticated funds or in the developing markets like India and China where in some places we have helped develop the regulation for linked products and have been able to successfully shift our product mix to what we like to see.

One last slide before I get into distribution. One other really important economic point you need to keep in mind as you build your product strategy in addition to the product types I have talked about is this distinction between regular premium and single premium and I have changed metrics on you a bit so let me be clear about that. I am showing here now the profitability on a PVNBP basis, because that is where you really start to see the advantage that regular premium business has over single premium, it is more difficult to write regular premium and this is where our proprietary face to face agency distribution creates another advantage for us but as you can see on the right hand side we have always written a majority of our business as regular premium and we have continued to do that.

So to recap the product story, the market is selling a whole bunch of stuff, not all of it is equal even though on the top line it may sometimes appear so. We focus on profitable and capital efficient products; in particular we really successfully pushed the linked side of the business, the market incidentally is following. We also have focused on regular premium products which have again partly helped explain why our margins are as high as they are and that all said we do see further upside particularly on the protection side.

Shifting areas then to distribution and here the story is a little different. We look a lot like the market so for us as for the market almost three quarters of the business comes through the face to face agency channel. Over time we have grown agency, but again, as Barry alluded to before, we have grown non-agency even faster. Now you might look at this and say “Okay, what is the big deal?” Well the big deal is twofold. The first big deal that I will show is actually there is agency and then there is agency. If you are on the right side of the agency, the agency economics in Asia today are very different from agency economics you might see elsewhere in the world and are actually very attractive. The second thing is the data on competitors, and you will see that as we do deep drills into some of the markets. If you look at our peer set companies like ING, AXA, Alliance and AIG, AIG is the only one that will come anywhere close to the kind of distribution mix that we have created and again relative to that peer set we have created I think a unique advantage. The other subtlety with agency is you cannot just show up and scale it up over night, it takes a long time. In our case it has taken a decade and it is to my mind a real source of sustainable advantage that others cannot quickly emulate. Now when you think about agency economics you want to think about two things, productivity and I am showing here productivity on the top line basis, Ideally you also want to see productivity on a bottom line basis, and agency growth and again as with margins really over time what you want to do is maximise the product of these two metrics.

So back to the story on agency: in nascent markets where the industry is opening up customers are still not as sophisticated, agents are not as sophisticated, markets like Indonesia, China, India. What you really want to do, as we are doing, is building up the agency scale as rapidly as you can. The productivity you will get per agent will be low, but that is fine because over time as these markets develop you will start to get into this space where productivity is high, the industry is developed, the product mix is sophisticated, customers are sophisticated but there are not that many new agents you can find and Korea for us is frankly a massive outlier. You can see on productivity it is extremely high and in the

next slide I will show you how much that productivity is worth, the reason you see it for us as high growth as it is, is because of the point at which we came into the market. Again Bill will talk to you a lot about how we have created this very professional, very productive agency force in Korea and in some ways that is the model of the future that, as these markets develop, we want to get to.

So let us look at the agent economics, again a bit of a complicated slide but before I explain it the headline that comes out of this is - In each of our markets every new agent weighs in at pretty significant net present value for the franchise. What is the model behind this? And again I have chosen a couple of developed markets and a couple of emerging markets is if you assume the average agent, you spend the average acquisition cost and you give them the average tenure and they are selling the average product mix, what you get is an agent in Korea which at those averages today weighs in for us at about £45,000 per new agent we can bring into the system. As you would expect, again policy sizes are high, margins may be a little lower in Korea but these agents are very productive; contrast that with China and India where each agent is worth less but in these markets £3,000-£5,000 is still a big deal relative to where these countries are in their economic development. I think some other things to understand beneath this is in Asia agency acquisition generally is very cheap which is why these curves intersect pretty close to breakeven. Second thing is, as these agents come into your agency force, the cost that you have to put in to support them is largely variable, they produce, they get commissions, they make money for themselves and for you, they don't produce, they don't cost you much and over time you turn them over.

Okay, now let me contrast agency economics with the banking channel. A lot has been said and written about it and it is, as I showed on the first slide on distribution, growing rapidly. But again it is important to understand the economics and here I am showing you the product mix that sits in the agency channel compared to the bank channel, both on product type and on premium type and you can see the bank channel will sell a lot less of the

profitable linked product. You see a big component for par for us because of again our success in bank distribution in Hong Kong and the fact that we have a life fund in Hong Kong and again Kevin will talk a lot about that later, or whether you look at regular and single premium and again in the bank channel you will get a lot of single premium business and again if you were to look closely at some of our competitors frankly this blue pitch will be much, much bigger. If we add it all up, agency weighs in at a much higher profitability than the bank channel. Now you might get the impression that I am trying to talk down the bank channel, I am not, in fact in Asia all channels are very profitable so you want to get as much of that bank channel as you can, but I do not think you can lose sight of the fact that you have to play in it properly and as much as it grows the market and grows your business it will come in at a lower profitability than the agency channel.

So again to recap the distribution story, agency remains the dominant distribution channel and agents in Asia are very valuable. In growth markets we are focused on growing the size of the agency, in more developed markets we are focused on working to improve the productivity of these agents. We want to get as much bank distribution as we can but recognise it will be less profitable than agency and, as Barry again said, we see other channels emerging that we think there may be an upside beyond agency and banks.

So I can see I am starting to put people to sleep! Emerging from the micro-economics of product and channel, let us take a product portfolio view of our business. What this slide shows you who in Asia compared to again this peer set and what their geographic mix on a written premium basis looks like relative to ours and a number of things come out of this. One, that we have built a much more diversified footprint than almost all of these other players. Two, that a bigger percentage of our business today comes from the structurally more attractive markets of South and South East Asia and three, I think it is fair to point out again that Japan for us is a much smaller part of the portfolio than it is for the others.

Okay enough on live. Let me talk a bit about asset management and again Ajay and team will cover this in much greater detail later on. The basic point I want to make here is, as in the insurance business so too in the asset management the choices we have made have been driven by the economics of these markets. The asset management business is critical for our franchise on three fronts. One, it helps create our performance in the life funds we gather from our life customers. Second, it underpins our very successful linked product strategy, and thirdly, it acquires and retains and grows external retail money. And as we do that we focus as much as we can on equity products because the fees and the margins we get on those are far more attractive. Distribution in the case of asset management is a different story. It is genuinely a multi-distribution market out there and we have built as well a multi-distribution model, it varies a bit by market but you want to play in every channel as best you can.

So just a couple more slides. On product mix you can see equity products are more profitable and have been a growing part of our portfolio, and distribution again has become multi channelled for us. I would again note that actually banks, when you get to asset management, is a bit different to when you are talking about insurance. In asset management banks are actually on average slightly more profitable than the other channels because they bring a richer mix of equity product.

Okay, nearing the end. Let me now talk about our performance moving forward. A lot happening on the slide and let me explain it before I give you my summary to take away. As I said at the outset we are not naive about some of the things that are happening in our market place, we see increasing competitive intensity as everybody chases the very attractive returns you see in these markets. We see pressure from the regulators; we see more customer sophistication, all of which adds up to a bit of pricing pressure. Internally we do see higher growth from lower margin markets and we see a greater share coming from a slightly lower margin bank channel. On the positive side we see a whole bunch of things we

can do, particularly around product. We can do a lot more as Barry talked about on protection products, on riders. We also think there is a lot of headroom for us on generating economies of scale as we continue to get bigger both in individual markets and across the region.

The second part of the equation is the headroom for growth and here frankly there is no end in sight. If you look at our footprint today the share that we have in many of our markets even where we may be leading players, there is a lot more to go for. The macro economics in Asia are overwhelmingly attractive and on top of that over time we see new opportunities coming through.

So when you add it all up, yes, some things that are going to put pressure on margins, some things we can do to resist those pressures, multiply that with the headroom for growth and that is why we feel very comfortable as Barry said, that we will at least double our new business profits from 05 to 09. If you look at margins, we have actually done pretty well at sustaining margins and some of these things have been there over the last number of years as well, so again if you look at the 2000-2005 timeframe we started off that period with margins of about 60%, by the end of 2005 the margins had come down to 56, all of the compression we saw came from a geographic mix, in our case the growth we saw in India and Korea and China. The markets that existed in this portfolio at the beginning of this period actually saw no margin compression. The 7% positive actually flatters our case because most of that is driven by the achieved profit to embedded value change, but even if you take that 7% away we have seen no margin compression, or, put it another way, we have been able to offset whatever margin pressure we have seen in these markets.

Headroom for growth – you can cut it many different ways and I am sure you do not want to be bored by that but one way to look at it is household financial assets and if you just look at

the oodles of cash and deposits sitting with the banks that we would like to get our paws on and if you compare it with the more developed markets there is a lot of room to play for.

Lastly on cash and funding, this was an image Philip shared with you at the Interims, essentially what it does is takes the 05 product mix and projects it over time at different growth rates all the way from 10% to 50% and what this shows is our base business is starting to throw, and will increasingly throw large amounts of cash for us to remit back to London. Along the way we may see opportunities to deploy capital which may change the shape but that that is how we see it sitting here today. Thank you very much I will pass it back to Barry.

Ng Keng Hooi, Managing Director, Prudential Corporation Asia

South East Asia: Next Phase of Profitable Growth

Thank you, Sandeep. Good morning ladies and gentlemen I am Keng Hooi, the managing director looking after our businesses in South Asia and consisting of Malaysia, Singapore, Indonesia and Philippines

South East Asia has contributed significantly to the success of our business in Asia in the past, the present and will continue to do so in the future. Here is a snapshot of the businesses that we have in South Asia. First our Malaysian business is the oldest business that we have in Asia. It is operating in a market with a moderate penetration rate of 39% and Prudential in Malaysia is number two in terms of market share with a market share of 18%. Singapore is a more developed market with a penetration rate of 71% and in Singapore we are number one with a market share of 21%. Both companies have been operating for many years in this market and although I am 17 years with the Prudential, I worked 17 years with the Prudential and many of you will say that I am a veteran but in these two countries they call me a baby simply because we have people who work in these two countries for 20

years/30 years and 40 years and it is interesting to note that we have some of the longest serving Prudential staff in the world in these two countries and they are still with us, actively working for us. Because these two countries are very established in terms of the business we have a lot of people who are very experienced and we provide leadership talents to some of our newer businesses in Asia and so, what is even more important, it provides a very good environment whereby we can develop some of our top leadership talent. I want to share that with you later on as Bill comes on to talk to you. Bill is the CEO for Korea. Bill spent two years in Malaysia acting as the head of sales for Malaysia, he did a wonderful job there before moving onto Korea to become the CEO for Korea and later on Kevin Wright who is the CEO for Hong Kong too spent several years of his early part of his career in Singapore, subsequently came back to Singapore after going to another part of our businesses in Asia and became the CEO of Prudential in Singapore before moving on to being the CEO in Hong Kong. Philippines: in the Philippines we have a market share of 7% we are number five in that market, a relatively small market. And finally Indonesia, we are also number one in Indonesia with 11% market share. Indonesia is a new market with nearly 4% penetration rate, offering clearly a huge amount of potential for growth going into the future and we see our business in Indonesia as one of our new engines of growth, going forward.

Next, because of the success that we have created in these businesses you can see that South Asia contributed to 30% of our Asian APE in terms of new business and what is even more important is the fact that these countries contributed 43% in terms of business achieved profit, showing that the products that are sold in this market are of much higher margin. I will come back to why the margin is much higher later on.

The first country I want to touch on is Malaysia. In Malaysia that are two major ethnic groups, there is Muslim Malays and then there is the Chinese group. Although I mentioned earlier the penetration rate is 39%, a lot of the sales of insurance are coming from the

Chinese group. In actual fact the Muslim Malay, there is only 5% penetration rate in that market. The government is very keen to promote Malaysia as the Islamic financial services heart of the world and is also very keen to promote a Takaful insurance business. I want to explain a Takaful insurance business is Islamic insurance, it is a product that is Sharia compliant, acceptable to the Muslim population; in a way it is Kosher to the Islamic people in Malaysia and I want to say that at the beginning of this year the government issued four new licences, they issued four new Takaful licences because you need a Takaful licence to operate in this business. I am pleased to inform you that Prudential is the only foreign life insurer in Malaysia that was given one of those licences, not AIG, not ING who are operating there as well, not Alliance, not AXA, okay. I want to say Prudential is the only one who was given and that we are very proud of.

How do we compare in terms of our product and channel footprint compared to the market? You can see our investment linked product is 94%, way ahead of the market which is at 45%. Why are we able to do that? It is because our agents are better quality, better trained to be able to handle the more complex investment linked product and the other thing that we have been successful with is to persuade and convince our agents that although the investment linked product has got lower commissions it is good for them because they can sell higher volume in that, where as some of our competitors are struggling trying to deal with that particular issue. The other point to note is that we sold mostly annual premium product. Sandeep has showed you earlier the profit dynamics between annual premium and single premium products. You can see in Malaysia 99% of our business are annual premium products and we have very high attachment of riders. On average each one of our policies comes with seven riders, a lot of these are accident and health riders. So the combination of these two facts makes the products in Malaysia a lot more profitable compared to our competitors. Agency continues to be the dominant channel that we have in Malaysia. We do not have a very big distribution on the banking side, because the Malaysian regulations restrict only one partner that we can have as a foreign player in that

market. All foreign insurers are restricted to only one banking partner and the only banking partner that we have in Malaysia is SEB, but I want to let you know that we are able to overcome this restriction through the new joint venture which is the Takaful licence that I spoke about earlier, because we formed a joint venture company with a local bank called BSN we are able to overcome this particular restriction.

Here is a chart that shows the growth of the Prudential businesses in Malaysia and I want to spend a couple of minutes talking about this development in Malaysia, the Prudential success story in Malaysia. I started with Prudential in 1999 and I started as a head of sales. I would say that I am one of the rare few actuaries, I am actuary by profession, I am one of the rare few actuaries that has decided to go into the sales side and I spent a lot of time with an agency first. I literally spent time with them, going out with them, developing, understanding what issues they are facing and all that and growing with them over that period and when we first started we were number nine in the market with only merely 3% market share, only 3% market share. We set out with a vision to be number one in the market, to be number one and we even drafted a song called "We are number one" and today you know this song is being sung in all our agency and staff functions, not only in Malaysia, but in all parts of our businesses in Asia. I will say that Sir David is here today and Sir David loves the song you know and every time when he is in Asia he will say "Can you make sure that the guys sing it and I am going to join in and sing with them as well" and that is exactly what Sir David does every time he is in Asia. I want to say that the staff and agency are very, very passionate about this vision to be number one. When we first set out to do that, our competitors laughed at us, and said, "Who are these guys? Number 9, 3% market share, wanting to be number one?" They laughed at us, especially AIG. AIG had a market share of 20% at that time and they laughed the loudest. Let me tell you where we are today, today we are number two, very close to being number one and all our guys know that we are going to be number one, it is just a question of time and we have a market share of 18%. Where is AIG today in Malaysia? Their market share has dropped down to 9% and

we are more than double their size so we can laugh at them now. And you can see that you know our market, although our market has grown by 13% Prudential in Malaysia has grown at a compounded rate of 19% over that period, far ahead of our competitors and we are recognised in Malaysia as one of the most impressive, if not the most impressive, life insurers in the country. I just want to say that this same passion and vision to be number one is going on in all our businesses in South East Asia and also in all our businesses in the rest of Asia as well.

How did we do it? Our success is driven by our success with our agency distribution as Barry has said at the beginning; you can see we initiated a strategy called agency segmentation strategy. If you look at a sales force there is a huge number of people, the important thing is that we must be able to segment in and say what sort of strategy are we going to take and what we have done in Malaysia is we have identified the top two segments, the red and blue segments. The red segments are agents who produce at least 100,000 Ringgit API a year and our strategy was to drive the number of such agents up. You can see that we have been very successful in driving that segment up, both the red and the blue segments over the last couple of years, and because of that our productivity is at least two times the industry average. On the right side you can see and then you can see company A, B and C, I could not put it down in print but I want to let you know that there is Great Eastern, AIG and ING and we are very far ahead of them okay, in terms of our productivity.

Next in partnership distribution I mentioned earlier we have not had the greatest success in that because of the regulations restriction, but that is going to change because we now have our bank partner in Bank Simpanan Nasional which is a local bank, almost like a Post Office savings bank type of bank and they have something like about seven million customers. So we are optimistic that we will be able to create an equally successful bank distribution channel.

What are the opportunities for the future in Malaysia? If you look at this demographic, it looks very busy but you can see that I mentioned earlier the Chinese and then the Malay group. The Muslim Malays generally have higher birth-rate compared to the Chinese and because of this differential in birth-rate you can see that the percentage of Muslim Malay population has gone up from 45% in 1970 to 55% in the year 2005 and what is even more important, if you look at that box in the centre, 52% of those people in that group are Muslim Malays. In ten years' time that 52% is going to increase to 57% as a younger group go into that box and then in 20 years' time that group is going to increase to 59% in terms of Muslim Malay, in that purchasing group and on the right hand side you see that the Chinese are an ageing population in Malaysia.

Here is another chart which shows the demographic in terms of income level and all that, I will not go into it, I will not delve into it but just to highlight the fact that as we move into the future there will be a lot more Malays who are going to be in a high income group compared to the Chinese. So there is greater opportunity in the Muslim Malay market.

Going forward you can see that because of the changing demographic and the fact that only 5% of the Muslim Malay are insured we saw that as a very clear opportunity for our success in terms of the Takaful business and we are confident that our Takaful business will be a new engine of growth in Malaysia and as you go down further into the product side, one of the things that we are now looking at is to introduce a universal life product with high protection and high margin annual premium type product to in a way create a much more balanced product portfolio in Malaysia.

The next country I am going to touch on is Singapore. Although the population is small in Singapore, four million, but because of the high per capita GDP, in fact Singapore has got one of the highest per capita GDPs in the world, the market in Singapore is a fairly

significant market. In a way you can say all the four million Singaporeans are potential purchasers of insurance. The government is very concerned over the ageing issue in Singapore, ageing population. Singaporeans are not spending enough time reproducing, in fact the government has got to introduce programmes like dating and all those things and all that to encourage Singaporeans to have more children and because of that the government is very keen to do something into more development of both pension and health insurance sector to take care of the ageing population issue.

Again, how do we compare against the market in terms of products and also the distribution? Investment links, we have higher proportion of investment links compared to the market and Sandeep showed that earlier and these investment linked products are more capital efficient and also more profitable. We have higher proportion in terms of annual premium products and again with higher protection and all that and this combination has allowed us to create a product portfolio which is more profitable compared to our competitors. In the area of bank distribution or non-agency distribution we are a bit behind compared to the market. We have only 12% coming from that distribution, whereas the market is 29%, but I want to emphasise that that 29% comes mainly from two banks, dominated by two banks.

Here is another chart showing the sales over a period. I will mention that again it is a market where we have outperformed in the market. Although the market grew at a CAGR rate of 7% we have grown at a CAGR rate of 9%. That may not sound exciting but if you look at what has happened in 2005, we grew by 24%. We grew by 24% because of our success in growing our agency force and also our success in growing our partnership distribution. So we are very excited on our partnership side which grew by 112% in that particular year and we became number one. These are the two reasons why we were able to do so well. I will share with you the third reason; it is because of the passion of this man here who is going to talk to you later, Kevin Wright. He was the CEO in Singapore and he did a wonderful job of

pushing our business and providing the leadership to capture the number one position. Now he is going to do the same thing in Hong Kong.

How did we do in Singapore in terms of the agency side? You can see that we are able to rejuvenate our agency force in Singapore by attracting younger agents into the sales force. Why are younger agents very important? Our agency force rely a lot on young agents who are very hungry for success, who work very hard to be successful and also who are closer to the same age group, new entrants to the job market. The new entrants to the job market are younger and for that reason we have initiated a strategy to ensure that we have continuous injection of young agents into our force and that clearly shows how well we have done. In the year 2000 our total agents who are below age 30, the rate was only 22% but by 2005 you can see that that percentage has gone up to 44% and that allowed us to grow our agency by 20% over that period against a market on the right hand side, the grey part of the chart shows the market agents. The market agents were dropping by 20%, whereas we were able to increase our number of agents by 20%.

Just as our success on the agency side we are also equally proud with our success in the non-agency channel. We are able to have exclusive partnership with these three partners, significant partners. The Singapore Post or Sing Post, [82.14 inaudible] well we know that there is clear opportunity for us to do a lot more.

Here is a graph which shows where the opportunities are for us in Singapore in the future; it is a demographic profile of Singapore. You can see because on one end there are very few birthdays coming on and then on the other hand people are living a lot longer in Singapore you will see that the demographic model becomes a very pregnant sort of model. Today you know there are 11% of Singaporeans who are aged 60 and above, in twenty years' time that percentage is going to grow to 28%. Obviously the Singapore government is very concerned whether the CPF or Central Provident Fund will be adequate to cater for this

ageing population, so there is a huge amount of opportunity going forward in the retirement market. We see that there is a lot of potential for us to introduce suitable product to capture that market. Later on Bill Lisle will talk a bit about the success in Korea on the retirement side and obviously in Singapore we are learning from what we have done in Korea and trying to bring some of this experience from Korea into Singapore. Jackson National, our sister company in US is an exemplar in the variable annuity or VA market and we have already started talking to them and looking at their product; perspective too is a very successful product in Jackson. We are looking at their products, their system, expertise in this particular area and our aim is to bring all those products, system, expertise to our part of the world in Asia. You will hear that there are quite a number of our businesses in Asia who would be looking at the retirement market. Clearly there is an opportunity for us to bring this across and take us and lift from us a leap frog us ahead of the market, because the market is still at a very influential stage in terms of VA. I mentioned earlier the market is only growing at a figure of 7%. We believe that variable annuity or VA will provide a new engine of growth for us in Singapore.

The next country I am going to touch on in The Philippines. I am going to be very brief because this is a very small market. The demographic shows that the AB market, families who earn an income of at least 1,000USD or above, there are only 200,000 households in the Philippines that earn that income. Prudential is selling mainly to the AB market, so that is a very small market. Our aim is to expand that market and go to the C market. The C market is Filipinos who are earning at least 300USD per month. To do that we will need to introduce products with lower premiums to capture that market and we need to quickly skill up our agency force over there. Despite the fact that we are only in the AB market, I want to share with you that we have built a very successful business over the short period of time that we have been in the Philippines. We have grown at a rate of 25% compounded per year over the last five years compared to the market which has grown at 7%.

The last market I am going to talk to you about, as I mentioned earlier, is Indonesia, an exciting and successful story for us over there. As I said earlier, low penetration, 240 million people in Indonesia, so huge market potential. The distribution is still largely agency dominated, 88% of the sales come from the agency side. Most of the life insurance business are still sold to Chinese Indonesians who are of much higher income group, but if we can get it right and expand our business into the 240 million clearly there is huge potential for growth in Indonesia.

How do we compare against the market? We are market leader in investment linked product, very successful and this success comes from the fact that we have brought both the product and the sales method that we have in Malaysia to Indonesia and in the early part of the business we have agency leaders who were coming from Malaysia and Singapore and going to Indonesia to start the development of the agencies in Indonesia. Again, Barry mentioned earlier annual premium business with four to five riders in terms of the policy - very profitable business that we have created in Indonesia. The only thing that is missing is we do not have a bank distribution and I can assure you that we are working very, very hard to get a significant bank distribution to complete and balance our distribution channel.

Take a look at how we have performed over the last five years – very, very impressive as you can see. We have been growing at a rate of 64% compared to the market which is 24% that is why we are number one in Indonesia and we will continue to grow significantly.

On the agency side our focus has been creating skill, increasing the numbers significantly and we are very successful as can be seen by the bar chart. We were able to increase the numbers significantly. The productivity however has dropped a bit and now going forward as we look at our sales force we are initiating agency segmentation strategy that we use elsewhere in our market into Indonesia, with the aim of driving, again I mentioned earlier the top two segments in terms of number, and so the productivity and we are confident that we will be able to increase the productivity of our Indonesian agents significantly.

Here is another chart that I want to share with you. If you look at where our business is coming from there is table and a line in there which should say “Top five cities in terms of our business, not in terms of population”. You can see that our businesses are coming from Jakarta, Medan, Surabaya, Bandung, Denpasar and these five cities make up only 7% of the Indonesian population whereas we have 84% of our business coming from there. What really excites us is that we have got another 93% of the Indonesians for us to go to and expand our business, so that is the scale of the opportunity as we look at the future.

Takafur, I mentioned to you earlier we have success in terms of getting the licence and initiating our business in Malaysia. Clearly we can transfer that Takafur expertise into Indonesia, into a market which has got the largest Muslim population in the whole world. Indonesia has got 200 million Muslims. If we can do that, clearly we will have a huge amount of opportunity to grow our Takaful business in Indonesia as well and just like in Malaysia, on the product side we will be introducing universal life to balance our product portfolio so that we have a more balanced portfolio between universal life and investment linked. On the sales side, I mentioned earlier our emphasis will be growing in all the productivity of our agency force there, a huge amount of opportunity for geographic expansion and of course trying to get a successful bank channel going.

In summary, these are the strategies that we have identified to drive the next phase of profitable growth in our South East Asian countries. I want to highlight one key strategy in each one of the countries. Malaysia, Takaful; Indonesia, the VA – variable annuity products that we are looking at; Philippines, getting into the new customer segment, and Indonesia growing our agency in terms of both numbers and productivity.

Barry talked about our core competence which is agency management; I hope you know I have shown you how well we have done in terms of the agency side. We clearly are very

good at transforming our agency force in a very developed market like Singapore. In a developing market like Malaysia and in a new market like Indonesia, we have done well in all the different types of markets. That is one of our core competences and I also have shown you that we have outgrown the market by a significant margin in each one of these markets and you will be asking why so? Because we are confident that we will continue to outgrow the market in the future and I would say that it is possible because of the good people that we have in our businesses, people with great passion, with great enthusiasm and people with great energy, always searching for ideas to outgrow the market.

So sometimes when we look at our businesses which are successful we ask ourselves can we bottle this passion and enthusiasm and energy and transport it to another one of our new businesses as we enter new business. In a way we are doing it by moving our leadership around our Asian businesses. I said earlier Bill Lisle, Kevin Wright, a great example of how we have done that, they have gone from one business to another business bringing along this bottle of passion, enthusiasm and energy around our businesses. I can say Phong, my fellow MD and myself are another two examples; Phong was a CEO for Vietnam before going into a regional role. myself, CEO in Malaysia going into a regional role. I know you come today wanting to find out more about our businesses in Asia and I ask myself this question, just like I say the same thing in our business, can I bottle this passion, enthusiasm and energy that is in all our businesses and bring it to this auditorium in London today? And I hope I have been successful in doing so.

With that I want to finish with our famous war cry "We are number one".

Thank you and I will now invite Kevin Wright the CEO of Prudential Hong Kong to share his story on Hong Kong.

Kevin Wright, Chief Executive, Prudential Assurance, Hong Kong

Prudential Hong Kong

Thanks, Keng Hooi, thank you. Good morning, ladies and gentlemen. Actually just before I start you probably gleaned from the accent that I am Australian. If it hasn't crossed your radar screen, last week there was a very significant event that happened in Australia. Actually for some of my sins from my past I actually was fortunate to play for Australia back a long, long time ago when we got beaten by Mike Brierley during an Ashes series so it gives me great delight to stand up today and say that Australia is one zero up. We are very happy today that you won the toss and that you batted and Australia didn't have to bat today, that was very fortunate for all, but it is even more of a pleasure to be standing in front of Mr Tucker who is an avid English fan to say, Mark, I am happy to take your money at the end of the series.

It is, as I said, a pleasure for me to be here today to talk to about the Hong Kong story and give you an overview of Hong Kong and how important it is to Prudential. Hong Kong is a mature market, but it is a very competitive market as well, both in penetration and number of companies. We believe there are very good opportunities in Hong Kong for growth and the continued growth I will show you over the past years we believe will be replicated in the future.

As Keng Hooi said, I have been with Prudential for a number of years, in fact over 20 years and have worked in a number of countries around both Asia and in the Australasian area. I Prior to in Hong Kong, I was chief executive of Singapore. Over those three years we did achieve the number one position, we were all very proud of that and it's something we are looking to replicate in the Hong Kong market.

I just wanted to firstly say to you that Hong Kong is a very, very strong insurance market and there are some very key characteristics which make this market what it is. It has an ageing, increasingly affluent population and as a result of this it does face the challenges nations around the world with similar population profiles have. Hong Kong is also a very stable regulatory environment which does give it certainty and you can also see that the top five companies account for over 50% of the APE that was written in 2006, the first half. If I extrapolate that a little more the top seven companies account for 63% of the APE business that is written. Prudential had a market share of 8.2 that was at the end of the first half. I have actually just got the Insurance Commission statistics yesterday and that number has now jumped to 9% at the end of the third quarter, we are now 0.1% behind the number three player which is the Hang Seng Bank, so we think we are progressing well. Some of the numbers and percentages people tend to get a bit surprised about, but the Hong Kong market is a growing market. Over the last five years the compound annual growth rate has been 18%. It is pleasing to say that Prudential's growth rate over those five years has been 22%, but you can also see that growth has been driven in two major areas, one being bank insurance which in the year 2000 accounted for 17% of the market, to where now in the first half of 2006 that it accounts for 38% of the market. The second part is the unit linked business and we have talked a bit about that this morning, but in 2002 it was 27% of the business and now it is up to 48% of the business.

I have talked about the market growth and now I would like to cover why we at Prudential believe that we have unique advantages and will be able to take advantage of that growth. This slide highlights the unique key strength for Prudential in Hong Kong. It is our well developed multi-channel distribution approach and this is something that our competitors have not been able to match. Not only do we have a highly regarded, expanding agency force, but Prudential was one of the first insurers to recognise the opportunity presented by the bank channel in Hong Kong. As a result of this we have been able to put together a very well-balanced distribution split. We have taken advantage of the growth in bank assurance

with our strong SCB relationship and partnership and I will cover more about both the agency channel and the bank insurance channel in a few slides. However, I just want to go on to say before I move on to the next slide Barry mentioned about how we continue to expand our multi-distribution approach. For Hong Kong that means we are going to expand our direct marketing. We currently direct market to the SCB credit card base. However, we are in discussions with SCB on how we take that wider. We are also in discussions with other direct marketing players to enter into new agreements which will give us access to extensive new databases. Direct marketing will also be used to enter into our customer base. Barry talked about the number of policies per customer; in Hong Kong 69% of our customers only have one product. We believe direct marketing gives us great access to go back into that customer base.

I just now want to talk to you about the agency side and it is important to remember that the agency channel is the predominant market for distribution in Hong Kong. It accounts for over 63% of the business that was written in 2006 so far. My main message today is that our agency force is growing and it is very healthy. Across the market total agent numbers have declined by 24% over the past five years. However, Prudential has been able to go against that decline and our agency force in fact in this year has already grown by 9%. Not only are we growing we are maintaining the quality of our agents, which is confirmed by our very strong persistency numbers of up to 97%. We are able to deliver these recruitment numbers by focusing on organic growth and specifically this has been driven by our business opportunity seminars. We have a very attractive new financing scheme for our new advisors and through the training in our academy of financial services, which already has demonstrated very high success rates, and I must not forget the attraction of the strong Prudential brand in Hong Kong. Additionally the nature of the bundle products in this channel and which this channel sells means the profitability is very strong. In addition to NBP growth of 33% per agent we are also seeing higher average premium per sale as our advisors move into the high network segment.

The second pillar is our exclusive relationship with Standard Charter Bank. SCB and Prudential have an outstanding relationship in Hong Kong and we have been at the forefront of the development of this sector. As you can see from this chart, this foresight has paid off with the bank channel now accounting for 47% of our APE in Hong Kong. The relationship is a regional based practice for PCA and it sees 170 Prudential financial planning managers who are recruited, trained and managed by us in Hong Kong. But they are located within the 55 Standard Charter branches throughout the whole of the country. All these managers are on salaries plus bonuses, but in addition to the 170 we have over 330 Standard Charter Bank people selling Prudential's single-premium policies.

We see growth next year through increases in productivity of the financial planning managers and the push by Standard Charter into the fast growing unit linked business. Additionally, with expanded direct marketing we have confidence that bank sales growth will continue to be very, very strong. But in addition to our distribution we see opportunities in our products. One of the keys to our ongoing successes will be our well diversified product range. We continue to see strong margins in our bundled protection products and our margins in the first half are around 67%. This is up 12% on the same period last year. Our improved margins are driven by continued strong sales of long term protection products bundled with a savings element. However, increased sales of our unit-linked business have also made a positive contribution. In fact our unit linked sales for the first half of 2006 are 83% above the same period in 2005.

Going forward we see three key areas in terms of opportunity for product. Firstly, the direct marketing of simple risk and accident and health; secondly, enhancing our unit linked offer with the development of a new product design inclusive of additional fund choices. The third key area will be that of retirement. We see material opportunities in continuing to develop our range of linked and traditional retirement savings products ensuring we will maximise the

opportunity this segment will present in 2007 and beyond. In actual fact at the end of 2011 53% of the population in Hong Kong will be over 45. In another 20 years 27% of the population will be over the age of 65, we will be in that market place and we will be supplying products to these people. The average balance in the mandatory Provident Fund in Hong Kong at the moment is 72,000 Hong Kong Dollars; it is not going to buy an attractive retirement.

Ladies and gentlemen, we really do see material growth prospects for Hong Kong. It is a vibrant, growing life insurance market and we have a number of strategies in place to ensure Prudential benefits from this growth. We are planning major initiatives around retirement planning and health insurance. In particular we are working with Prudential UK regarding an innovative health insurance proposition. We are also planning to leverage off PCA Korea's successful "What is your number?" campaign of which Bill Lisle will talk to you about later on this morning.

These key strategies outlined will allow us to expand our relationship with SCB, who are currently selling mainly traditional products, but are exploring how they enter into the unit linked business. We will also look to continue to improve the productivity coming out of this channel. In parallel with this we will work with our agency network to continue the productivity and activity improvements that we know we can drive from this channel. As the Hong Kong market continues to evolve towards providing high value, quality advice, managing our agency network's transition to financial advisers is also a unique opportunity for us in this market place. We have great confidence in the platform we have in place. We believe Prudential will continue to deliver strong, profitable growth in this very, very exciting market.

Thank you very much.

Prudential: leading in Asia

Questions and Answers

Session One

Barry Stowe:

Before we answer questions let me make one comment if I may, I want to go ahead and address the subject that might come up, which you have seen already this morning is a lot of detail on the financial aspects of the business region wide, Keng Hooi has successfully brought the bottle of enthusiasm with him and actually spilled it all over the room. Congratulations, well done, and Kevin has told you about our history of success and our optimism for the future regarding a more mature market like Hong Kong. I am sure some of you have taken the opportunity to scan through the agenda and look at some of the issues we are going to deal with later in the day and you may have noted that one thing that is not on the agenda today is Japan. We are not going to say a lot about our insurance business in Japan. Now Ajay will be dealing with it in respect to the funds business where we have had a lot of success, but respect to the insurance business this morning we will not be saying a lot about Japan and that is because candidly at this point in time there is not an awful lot to say. We have not had the sort of success in Japan that we had in other markets, we have not had the sort of success we would like to have had. I can tell you from experience that there is nothing so unique about Japan that makes it impossible to build a successful business there, in fact quite the opposite. I have been part of a team that built a very large business in Japan over a relatively short period of time, it can be done. We are in the process right now of stepping back and taking a fresh, objective look at Japan and during the course of 2007 we will be talking to you about Japan and telling you what our plans are and I just wanted you to know that there is a reason why it is not on the agenda, but it is certainly front of mind for us and with that I will invite any questions regarding what we have covered this morning. Yes?

Q: It is Craig Bourke from BNP Paribas.. I just wanted to go back to this thing on the financials of the products. One of the issues that sometimes comes up on selling regular premium unit linked business as opposed to selling single premium linked business or regular premium traditional business is one of persistency. I am wondering if you could just comment on your confidence on the stability of the persistency of this book if we start to see much more volatile equity. Perhaps related to that why is it that if these unit-linked regular premium unit-linked products are so profitable, why do you pay lower commissions to sales forces selling them?

Mark Tucker:

Sandeep?

Sandeep Malik:

Let me address each in turn, and you guys may want to add from your markets. I think with regards to the persistency on the book in actual fact we see as good if not better persistency on the regular premium than we do on the single premium. Clearly persistency on unit linked product is something you have to watch and if we get into a sustained period where capital markets get very volatile it might have some impact. Our experience from the market in which we have had the most amount of linked business over the longest period of time, which is Singapore, is that actually where we've seen an issue with persistency has been when the markets go up too far, too fast, because consumer behaviour, certainly in Singapore and I suspect you might see it in other markets in Asia is customers want to lock in that gain. We haven't had any sustained downturns in the capital markets, where we have seen bits of that over the last five or six years as the link book has grown actually the persistency has gone up because people do not want to do much with it while the markets might be down. With regards to the second question, as to why do we pay lower commissions, actually it is just a factor of their lower premium sizes; it is not that the commission is lower.

Keng Hooi:

What you saw just now is only in Malaysian market, Malaysian market is because of the regulations side. The regulator basically restricts the commission of investment-linked product to a lower commission, but that is not the same in other markets. In Singapore, in Indonesia you know the commission rate is the same as traditional.

?: Pretty hard limits as you may well know on all types of products, it happens to be lower for unit linked.

KH: Yes, and you know because it is a new product they will take the opportunity to bring down the distribution cost, that is why they did that and then on the issue of persistency, I think this is a function of how it is being sold. In the case of Malaysia or Singapore when it comes to the regular premium products side a lot of these products are sold on the concept of dollar costs averaging, high protection you know and all that so persistency generally are better if it has been sold correctly up front. In any case if there is a sign of deterioration of the persistency we would very quickly adjust it in the calculation of achieved profits and all that over time.

MT: Yes?

Q: Andrew Crean of Citigroup. A couple of questions: Could you share with us a little bit about the charging structure you have on your unit linked products as high margins for the provider invariably mean no returns or higher reduction in yield calculations for the customer and secondly just an update on Taiwan, if you assume bond yields remain currently at their levels throughout the period, the enforced period, is it still the 700 million deduction?

KH: The charging structure, why we are able to do that. I think you have to look at all these markets, the regular premium investment link products are competing basically against traditional par products which has got similar charging structure except that is more opaque, that is all. So even though the charging could be giving us a good margin but if you look at it, I mentioned earlier like Malaysia, because the commission is lower after all the commission charges, everything you will find that the cash value could still add up to be higher than the traditional products that has been sold in the market.

BS: We will talk a little more about Taiwan in the afternoon. Has Sandeep Malik got a second answer?

SM: Yes, if interest rates stay where they are there is no material difference in what we have showed in the past.

MT: Is that 1% or 2% or 3% or just, sense of...

KH: There are several pieces to it; one is the charges for expense, charges for mortality and then you have the fund management charge. So equity type of product in investment linked we will charge 1.1/2% in some markets, Malaysia, Singapore you know, equity type of investment would be 1.1/2, but that is not the main contributor in [inaudible] profit margin, there is the mortality charges and in some cases the mortality charges that we are able to make give us a very attractive margin.

MT: Yes?

Q: Hi, I am Farooq Hanif from Credit Suisse. Two quick questions: Firstly when you talk about the cash flow and opportunities is that just kind of a disclaimer statement or do you have specific ideas? And question number two, when you talk about

agents and you have talked about this quite a lot in the past about how the game has moved and it all about retaining them and making a career for them, keeping them. I mean when you look at markets especially India or the developing markets which might be kind of less mature and growing fast but are very sophisticated or becoming sophisticated, surely there are lots of international companies there, good places to work, people trying very hard to get agents, is not that actually a key risk for you given your large agent footprints?

BS: Let me make a couple of comments on the opportunities issue there, you know we have got lots of ideas but nothing specific we are in a position to talk about. So clearly if opportunities arose and they made sense from a shareholder's perspective, we would want to invest in those opportunities I think that goes without saying.

With respect to the vulnerability of our agency force, it is true that in markets as they develop that the agents need to evolve but I think we have a good track record and will continue to have a good track of success in terms of offering people career progression where they can go from being essentially a sort of typical tied agent to being more of a financial consultant. You know Bill Lisle this afternoon is going to tell you about how that is happening in Korea, so sure in markets where economies are growing quickly and there are lots of foreign investment coming in and good jobs being created then everybody who has good people are vulnerable aren't they but I would like to think we are not any more vulnerable than anybody else in that market place. Again you look at the productivity numbers that we are able to generate, we are offering these people good careers, they are making good money, it is a viable career track. The other way you need to look at it is yes, you could go to work for a bank that comes in or another insurance company, investment house or something but you do not really own your own business then do you? A lot of these people not only want a good career they want to be in a situation where in many respects they

own their own business and that is an opportunity that we can offer them and no one else can.

MT: Yes?

Q: Hi, yes it is Mikir Shah from Fox-Pitt, Kelton. Just following on from Farooq's question on cash flow, could you enlighten us a bit about that cash flow chart that you put up and how much of that is predicated on the same investment mix that you currently have with the proportion of unit linked expanding or staying stable? And also could you comment further on what the implications of the cash flow would be if you were to sell more non-par business if you could sell it at the right margins? And then finally are you avoiding any non-par business to keep the cash flow strong?

MT: That is a good question, Sandeep?

SM: Okay, let me address each part in turn. I think the first part which is essentially what we are showing you here is a simulation based on if you took the mix of product and country as at the end of 05 and projected forward at different growth scenarios what does the profile look like? So yes, built into that is the current mix as it sat at the end of 05 and as you look at 06, we have tended to stay pretty close to that mix. Secondly with regards to non-par, as I showed you it is less an issue only about the capital implications. It is the overall economics of non-par products in many of these markets. Not only do they impact on the capital, but frankly the profitability that you get at the end of it for that capital is not very attractive. Now where you can selectively bundle it with very attractive protection products then certainly we would do that. Thirdly, are we today constraining any profitable growth that we might have in the market because of any sort of capital strain associated with non-par products? No, the issue I think is back to the second part of the question which is it is the

profitability of those products that frankly puts us away from those and if you drill into that further that is where a lot of the traditional players are playing. That is where you see a lot of frankly irrational pricing and general business behaviour and that is why we tend to stay away from it as best we can.

Greig Paterson: Just two quick questions. Just as a percentage of your increase in agent numbers in Korea what percentage of that was sourced from competitors, in that you know they have just had a massive increase, did you train them yourselves or were the bulk of them sourced from competitors? That is question one. The second one is could you enlighten us again on the percentage of your sales that are coming currently from unit linked and protection and in other words how far can that theme go on? And also I was wondering if you could give us an idea of how many percentage points on the margin has been added over the last five years because of that trend as you have moved up, because I am trying to understand to what extent you can support your margins as competition increases going forward or is that theme now saturated?

BS: Again we will talk about Korea in a bit but Bill do you want to go ahead and ...?

BL: Yes, quickly on the [124.06: *inaudible: agent distribution of recruitment?*] It's a pretty stable mix, month on month. You recruit around 20-25% existing agents who want to be professional financial consultants of which we are offering... 75-80% is what we call rookie, bringing them in from various backgrounds, very professional, going through very professional training programmes and the key why the industry agents want to join us is that we have really given a lot of credence to our financial consultant channel, which is next generation agents. They see us as being highly productive, very professional, good products, good training and more importantly a

career opportunity, so that is why we are able to attract some of the best people in the market at the moment.

MT: Sandeep?

SM: If I understood the question correctly, you were saying, given the high margins we have and the high proportion of linked, is there any further upside from where we are or not?

Q: You can just give us two steps. What is the percentage from your sales and currently from unit linked protection, that is statistic one. And statistic two, how many percentage points have been added to the original margin over the last five years because of the product shift? Just in those two numbers.

SM: I apologise again, somebody coughed when you said the first part, could you repeat the first part one more time?

Q: Of your sales in Asia, what percentage is currently coming from unit linked and protection, ie non-traditional unit linked protection as a percentage, question one. Question two over the last five years how many percentage points have been added to your margin, which is round about 50 odd. The cause of the shift into unit linked and protection?

SM: Okay, I think for the first question if you look year to date up to end of Q3, unit linked weighed in for us at about 68-69%.

Q: Protection is about eleven isn't it?

SM: Protection was eleven, again as I said when I talked about the product economics, in that 69% is buried a bit of protection for the riders that go with the basic linked policy. It is pretty high in certain markets like Keng Hooi talked about in Malaysia, in others it would be...

[126.39 – inaudible]

SM: I am going to have to pass on that. Garth, you may have the percentage off the top of your head but we can get you that number.

[inaudible]

MT: Let us come back to you with a specific answer on that. Yes, you in the middle.

Q: Yes, Jon Hocking from Morgan Stanley. With the Takaful products can you comment on what the margin you expect on those products will be versus the normal products and the differences in charging structure, how does this Sharia compliance change the charging structures?

MT: Keng Hooi, would you like to?

KH: Well, I think what we have done is to introduce something called Takaful link so it is very similar to investment linked products. So we won't see a great deal of difference in terms of the margin and all that. It is all in the discipline of pricing and charging mechanism that we will put in place. The important thing is the structure of the product has got to be in compliance with the Sharia regulations and we will have the Sharia body to look at it and say okay some of these things you can do and some

you cannot. For instance you cannot have interest element in a product so you have to structure it differently.

MT: Yes, you?

Q: Hi, Raghu Hariharan, Fox-Pitt, Kelton. Three quick questions really. In terms of agency persistency if you will on loyalty would you have... can you give us a sense of say of the number of agencies joining you over the last five, four, three, two years how many have actually stayed with you as you put in more agents? That is number one. Number two is I was wondering in terms of product mix, obviously with a lot of unit linked products in your product mix obviously equity market gearing is going up, where do you see that is there a limit or will you manage that through customer service? There is a third question which is obviously as you have more regular premium products the issue of persistency is raised, are you doing anything in terms of customer service and in terms of customer retention which will help you manage persistency? Thanks.

?: Obviously agency is something of a churn game so, even as loyal and productive as our agency force is, that is a very good question. It does vary from market to market. Keng Hooi would you like to talk a little bit about it and maybe Kevin?

KH: Yes, I think obviously the different markets are quite different. Firstly the selection and quality of agents coming into the businesses are quite different as well from one market to another. I mentioned to you that there is a nascent market in Indonesia so obviously the quality of agents coming in compared to Malaysia and compared to Singapore are quite different so the experience in terms of the persistency would be different. But overall our aim is to transform those which are in the more, newer market to a higher level in terms of the quality and number as well.

Kevin Wright:

Somewhere like Hong Kong after five years you generally retain round about 35% of those people after a five year period.

Q: Would you be above the industry average?

KW: ... which is probably about double industry average, candidly.

SM: With regards to the product mix if you look at underlying funds that sit beneath our link portfolio about two thirds today is equity. So it does move up and down as markets move around. I think the more you think from our perspective and this I think touches on the third part of your question as well is how are those products conceived, how are they sold? And we do have a lot of discussion and we try to create a lot of distinction between what we might sell through a *[inaudible: pure xx]* asset management again and Ajay and his team will talk about which ones will be comfortable sitting in a wrapped product which is trying to really serve a long term savings and protection type of need. So the trick is much more in which funds would you be putting in there, how would you actually train the agents to sell it, what sort of protection riders you put on it, that all changes both the perception and the consumer behaviour over time. Two other anecdotes to give you: One, Mina who is here today and you may want to pin her down during the break, did a piece of work looking at perception of ILP products back in Singapore a few years ago because we wanted to get a handle on how the consumers perceive ILP products. Do they see them simply as a unit trust with a thin wrapper and you can almost look in, or do they see them more as insurance products and at least out of that Singapore research we did with consumers and back then, consumers saw ILPs very much as an insurance product and very different from a unit trust and that was because of the regular premium, the

nature of it, it was because of the protection that sat with it and again you will find as people in the market are trying to catch up on the linked success story if you will, they can stray down the wrong path and you have to be very careful about it.

The second anecdote I will give you and I think it will come through in a number of the deep drills we do in the country market, which is Ajay and team very successfully came up with a life cycle range of funds which sit underneath the linked products that we are rolling out across the markets, where again the dialogue with the customer is more about where are you in your life stage, what is your risk appetite and it is marketed as a proposition rather than I am buying a Latin America fund or what have you because I think over the next six months it will go up.

BS: I appreciate your interest and the questions but we are running a bit behind schedule. If I could suggest that we take one more question and then take a quick break then we can obviously talk during the break time as well.

Q: Thanks, James Pearce of Cazenove. If I could say two, actually, first of all you have given us some aggressive top line target, can you tell us what you see cash flow doing over that period? And second, I think the last set of PLC accounts showed negative economic capital for the Pru Asia. Does that matter to either you or the regulators, is there a funding requirement in cash returns from the PLC, or is Andy Crossley just being too conservative in his computations?

BS: In that those are questions with group implications and they are not just specific to Asia, Philip, if I could just ask you to break in on this?

SM: If I could just add before Philip gets in with regard to the economic capital question which is, I think just to clarify again the forward looking target that Barry stated and I repeated, is not a top line growth target, it is a new business profit target.

P: That was the first thing I was going to say. So that is okay, it is just giving me a little more time to answer the second question about the cash flow implications of that. I don't think, James, I could really add anything to the chart that Sandeep showed, which was the reminder of the one we showed in July. That chart shows that even if you were to assume a 50% rate of top line AP sales growth at the current level of mix over the period to 2010 still even then by 2010 the Asia businesses as a whole are going to be remitting significant amounts of cash back to the centre for redeployment around the group as appropriate. I think also recognising that people have been sitting here for a long while, a very short summary to your final question, which I am happy to then talk more about in the break, is the economic capital model is our view, it is a different view in many Asian markets from that which is set by the regulators and therefore I would not see at a local level, at a country level any significant implications from changes in capital which are currently envisaged in terms of regulatory change.

Thanks if we could plan on reconvening at 11.00 o'clock, thank you.