Prudential: leading in Asia

Mark Tucker, Group Chief Executive Prudential

Introduction

We will just change the order slightly. I think Kamath has some external appointments he needs to go to so what we have done is reverse the first sessions after the break so we will have the pleasure of Kamath speaking in a couple of seconds. It gives me great pleasure to introduce him. I will do just a short introduction. Clearly you know him as MD and CEO of ICICI. He has had a long and enormously successful career at ICICI beginning in 1971 with a short break in-between at the Asian Development Bank in 1996. At a similar time to *[inaudible: 000.46]* to meet us we managed to convince him to become joint venture partners and we have been working together now for well over ten years. Kamath's background and pedigree, I think, is well known to all of you. He has been the main architect in leading ICICI's push into the retail side and that success almost across every business line within the Indian retail market makes ICICI one of the top banks, if not the top bank, in the country.

I am happy to talk about ICICI and their achievement all day but let me pass you to Kamath. Just with a couple of things. I mean his personal achievements, he has been voted the most e-savvy CEO. The finance man of the year and the best CEO for innovation of HR practices as part time, but I think we as Prudential have had the privilege and pleasure of working with Kamath and the ICICI team for ten years. I think to a degree the proof of the pudding is in the eating, having the number one asset management company in the country and the number one life company in the country I think is a wonderful testimony to the partnership. Over to you…

KV Kamath, Managing Director and Chief Executive, ICICI Bank

Indian Financial Sector: outlook and opportunities

Morning, ladies and gentleman, thank you, Mark for those kind words. I'll talk more of India maybe a little bit about our joint venture because I know that the next session there is a going to be a lot more on the joint venture. What's driving India? I think this is a question that is on everybody's mind and I want to give my own spin on it. The numbers that we see there are 8%. Those are official numbers. Our own belief is that we are growing at 10% and we believe we are growing at 10% on a very sound footing. The footing is something new. It is not what we have seen in maybe the past economic transformations. Most economic transformations were led by industry so basically you had an industrial revival and then services kicked in. What is happening in India is knowledge is the driver. So the knowledge is transforming the shape of the economy. Indeed, today 62% of the economy I would say is driven by the knowledge sector and surprisingly knowledge is creating jobs, because these are white collar jobs but then there are linkage effects which create the large mass of jobs that are required in a country like India.

Manufacturing is growing at almost 22%. Manufacturing is now competitive. Three or four years back if I stood before you, I would have said one of our problems is not having a competitive manufacturing industry. Today we have a research and industrial sector competent to an industrial base. That's 22%. The rest is agriculture. But having said that there is vast untapped rural opportunity and none of us, whether it is in the banking business or in the insurance business or the asset management business, have yet explored that opportunity and that will happen as we go along.

And indeed growing are the demographic forces with 70% of India below the age of 35. We have people coming into the job market, people whose earnings are rising every year and who have then aspirations and needs which we all are meeting.

As I have said that, 58% of the population is in the working age group of 15 to 59 and another 35% in the 0 to 14 age group but 75% below the age of 35. A rise in household incomes and as I said the service sector is driving the momentum; I would really use the phrase knowledge rather than services. And it is not just IT-enabled, it is the whole range of activities that we see in life sciences, bio, in R&D, in I would say the industrial sector. Again in the knowledge part of the industry sector and so on. And this has been driven by quality educational institutions, a large English speaking population, established leadership in IT businesses and success for us across a range of bio… knowledge-based sectors like Parma, biotechnology, engineering and clearly India is now heading to be an international knowledge hub rather than a services hub or manufacturing sector, which I would say three years back it was down and out, but they really re-invented themselves. They have cleaned the shop floor, got them better product duty, got them better efficiency, cut costs, increased capacity initially in, I would say, a very low cost manner, buying, balancing equipment and re-bottlenecking rather than large green field projects. This has given them the push to, the ability to be competitive in almost every area of manufacturing, which we did not believe possible a few years back.

Now they are very quickly internationalising, taking advantage of this base that they have created for low cost manufacture, taking it one day to the larger market that is now seen in India. You are seeing the rise of Indian multi-nationals.

I mean, to put in context as a Bank three years back if we saw a $15 million acquisition we said this is about the limit, we really cannot think of an Indian corporate buying a bigger asset. Then it became $150, $250, half a billion, a billion and we are now looking at multi-billion acquisitions which are getting shape. And of course, the interesting part is that whilst Indian Diaspora which is also now connecting back to India, twenty million of Indians were living outside, remitting something like $25 million a year and it's growing at 25%. Just to put that in context. The FDI into India, the foreign direct investment in India is for the first six months about five or six million and our remittances are running at a higher rate than the FDI into the country on an annualised basis.

The next growth horizon that we believe is going to pile opportunities is rural India. Typically we look at rural India as just an agrarian economy but the fact is rural GDP is about 54% so there are a whole host of activities happening in rural India, which we really ought to put in context when looking at rural India and reaching out to rural India.

It is a huge challenge to integrate rural India into the economic mainstream but it will certainly boost incomes and have a multiplier effect on the demand for goods and we are not yet seeing this happening. The challenge is 600,000 villages, 600 million people. How do you reach out to them? Well that's another story. In the banking context we are trying to reach out to this mass and if we succeed and we believe we will succeed and we will use technology to reach out to this mass. I think for our other two products, our joint ventures both in life and in asset management we then have a drive into… or a part of a drive into rural India.

These drivers and existing under penetration of the financial services honestly provide the robust growth opportunities. Low penetration of bank credit if you look at it in India, credit to GDP is just 40%. Clearly, we see what is an opportunity for growth in credit to the mass. Put it another way, in the last four years we are seeing credit expansion taking place at almost 40 to 45%. Consumer credit is growing at 40% to 45%. Mortgages, financing for cars, financing for other personal expenditure and so on, so a very large market which is growing which is riding on the growth that we have seen… 10% growth that we have seen and a large consuming class that is emerging.

Retail Credit: The demographic is rising high in household incomes and the middle bullet is important for us in that insurance and asset management context. It is estimated that the number of middle and high income households will increase to over 100 million by 2010. It is growing at almost 35% to 40%. There are families migrating from the have-nots to haves to mass-affluent to rich and then to high income is… the rate is around a 35% component over the last few years and again retail credit to the GDP is also just 11% to 12% in India. Significantly lower than in most comparable countries.

I mentioned about the resurgent corporate sector and there is a large investment pipeline. This should also provide a boost to incomes in the country. This pipeline, just to put it in context five years back it was near zero so we are now talking of an investment pipeline of almost $200 billion US dollars. I expect this to happen over the next maybe 18 to 24 months, the pipeline to be actually implemented and that will again create a momentum for the economy. On the markets and transactions banking side with connectivity – India is now connected. I think the leapfrogging that we did, we did first in communications at probably the lowest probably unit cost of operation in the world. But that has given an ability for the markets to, I would say, blossom and for transaction banking to happen using technology channels.

Along with that, there is now a growing use of modern or current banking instruments and risk mitigation instruments and there is a demand for quality products whether they are in banking, whether they are in insurance or in asset management and indeed, in later slides, I am sure it will be shown, one reason why our joint venture has succeeded is its ability to bring new products to the market. I am finding that in the life side and I am finding that in the none life side and on both sides of the insurance business the ability to innovate, in the products base is giving our market the leadership and I think this is in sync with what is happening in the country.

I mentioned 600 million that I believe the reachable population but the number is quoted 70/80 million with limited access to financial services. There is a high cost of delivery through conventional channels. These are low value and high volume transactions and that's what we will have to deal with here in the insurance business. Large numbers, to get sizes very small and we may have to provide financial services at the doorstep of the customers. How do you reach out to the customer without having a branch? This is the sort of challenge that we are trying to now resolve. 600,000 villages I said, can't work for you, you have to have a branch, whether it is for insurance or for banking, so you need to reach there. So what we are trying to do is try to work with multiple challenges and targeting specific segments of the rural population.

These are basically partnership models. Partnership models for people who are embedded into the rural space, for example in the banking business we are working with corporates who are there in rural India. Now who are these corporates, people selling let us say seed, selling fertilizer, selling pesticide, selling farm equipment, who have a relevance to be in rural India. We work through them. Or people buying output, grain, green produce and so on. Helping creating the value chain and then through this route reach out to rural India, create a buying opportunity, create wealth and then they become ripe for other products including insurance.

So one route is through work with partners, who are not in the financial services space, another is to work with partners who are in the financial space and that is micro finance institutions. It is a very simple strategy that we are now rolling out. 600 districts in India work with 200 micro grade institutions. Provide them the technology, provide them common technology operating platforms and let them work in three districts each. So they then become your outreach points to reach out to rural India and there again I think an opportunity is not just for banking products, the opportunity is for the whole set of products. And clearly this strategy we believe will work in the next three to five years.

Insurance penetration in 2005 is a premium GDP. Again you see how low it is in India. Wealth is increasing today, GDP is increasing and an opportunity to push this will ride squarely on the back of our leaders in this business and it will come through innovation. Innovation is the key to get this number up. We are facing a large government competitor who has been there for a long period. I think the only way to challenge this competitor is through innovation and initially along with other players in the Indian insurance business and then slowly start channelling the number one player on a one on one basis. But there is a huge opportunity that is there and we are ready to seize this opportunity.

Not much of a different story in the asset management business. If you look at asset management to GDP, this is about 5.2% and asset management are only about 12% of bank deposits. You may ask here, you know, we have a bank and we have an asset management company and an insurance company, aren't you competing at the same time? Indeed we are but I think we are also providing choice for the customer and that is what the customer likes about a proposition where you have a choice of several saving options and then the customer then selects what he or she believes is the best for himself or herself.

Insurance investment was opened in 2000. Just a quick snapshot: There are 6 life insurance and 15 general insurance companies to date. Most of them with government majors as partners and in the last six years the private sector players have increased their market share to 35% general insurance and roughly around 30% in the life insurance business.

Asset management investment was opened to private parties in the 1990s. There are about 30 asset management companies and private sector players have a share of 88%.

I just want to make a point here that I remember in 1997 or 1998 when I was talking to Mark that this business was a monopoly and basically there was one government company having probably not 88% but probably 94% of the market share and then there were a few private players. That has completely changed - today 88% with private players and a small 12% market share for that government major and very interestingly, I do not have a slide on this, but in the general insurance business this has already started happening. There are four government companies who held at one stage the entire 100% market share. Their market share is now down to 65% but what is more important is that by this month our joint venture, ICICI Banks joint venture would probably be the second or third largest general insurer and we expect that somewhere into the middle of next year we should be able to wrest market leadership.

So the point I am trying to make is it is possible for private players, you know, with innovation, with drive and bringing the right products that the customer wants to seize a market leadership. And that is happening at a faster rate than what we anticipated.

To complete Mark's story, Mark and I were chatting and we said this is going to be impossible on the asset management side. You have got this asset management company, they have been established for all these years, how do we actually compete? And indeed we are now running neck to neck with that company and hopefully we should be able to wrest our leadership.

On the life insurance business again I think there is a more detailed slide later on. As a partner in the joint venture I should say I am happy with the growth. You know I believe in raising the bar every time and this time when I raised the bar in March and I saw the first quarter numbers they were literally on their knees. They said these numbers are not for real. We cannot sustain them. I am not lowering the bar and we see that our fund growth continues at 97%. They now come back to me and say that there is a disruption. You know, there are new products that we are introducing. You know everybody is also introducing new products. It is creating a new market and I said I always knew that would happen, that is why the bar was high and will stay high. So I think I don't make forward-looking statements but I would believe that the growth that the insurance business has shown and our joint venture has shown is something that I would urge them to try to maintain. As not having the luxury of making forward-looking statements I cannot say anything more than that.

And that is true of the asset management company also. I think robust growth and sorry, that's the fund under management, robust growth in line with the growth in premiums and similarly, well I'll just stay at the last column and say all numbers are in sync and that is what we will keep driving our team to achieve and clearly a little bit of value has been created by our team and this business for all of us. Thank you to the team.

On the asset management side the story is looking good, we are seeing a 41% increase in asset under management and we are seeing profit after tax grow by 200%. I think we were in the investment phase as far as people and as far as distribution was concerned. I think we are now reaping the benefit of having created the distribution in this business.

On the life insurance front we are still in a growth phase. We are still growing our reach and we are still growing the agency network so we will, in the short run, while NBAB looks fair, some people may say good, but I would say looks fair I think we are still in an investment mode in terms of our own resources and it is in the face of competition which is aggressive that we need to build our people and build our distribution and we are concentrating on that.

In summary, I think that in the Indian economy looks robust, 10% growth against 8% in terms of official numbers. What it reminds me of is the sort of growth that we saw in Japan in the mid Fifties – sustained growth for about 15-20 years. What we are seeing and still seeing in China, almost 15 years of growth and still that has sustained. In India we are probably into the second or third year of growth and I would presume that in view of the fundamentals that

I have briefly tried to touch upon, this growth will sustain for some period of time. There are good drivers in the system, in the knowledge area, industrial area, industrial sector and the vast rural opportunity and in view of this as wealth increases, financial services probably starts moving at a faster and faster pace and I think we are well positioned to seize leadership… to drive our leadership in this business forward and aim at in the medium term leadership in all the businesses that we are in and in those areas where we might not as yet be leaders.

And we as Prudential and I say as a joint venture are clearly market leaders in our respective businesses are recognised as such and we will strive to create value as we go along. Thank you very much and I would be happy to take questions.

Huynh Thanh Phong, Prudential Corporate Asia

First mover advantage in nascent markets

Good morning. It is going to be very difficult to follow Kamath and his speech but I will try. I will now cover the markets which I am responsible for which are India, Vietnam and Thailand.

India and Vietnam, as mentioned by Barry, are the markets that we entered first. We quickly built a best in class operations and we occupy the industry leading position and have never looked back. In these nascent markets we had a very unique window of opportunity to execute the strategy and we did it extremely well. It is very difficult for our competitors to replicate this success and it is very expensive for them to catch up with us now.

In all three markets with a large population and a high saving rate the macro economic conditions are very favourable to life insurance companies such as Prudential. Vietnam is a medium-sized country with a large population of 84 million but the economy is still very small at $51 billion US dollar but has been growing very rapidly.

Thailand is a slightly smaller country with 64 million people but it has an economy three times the size. India is the most exciting market of all and you heard a lot from Mr Kamath on it, with a 1.1 billion people and accelerating economic growth, this economy will reach the one trillion mark in the near future.

In the emerging markets our customers tend to pool their financial resources within the family unit, we therefore need to look at and measure our potential markets in the number of household units instead of people. Both in Vietnam and Thailand if you look at the slides they have about 20 million households of which about four to five million are in our target market. Of these only a very small number have got any form of life insurance policy at all.

India. The Indian market is about ten times the size of Vietnam or Thailand with more than 200 million households of which about 30 million are squarely in the sight of our target market.

Most importantly I'd like to draw your attention to the bottom line numbers. Due to the fact that the income level is rising rapidly in these markets, we believe that our target market in these markets will increase at a rate of between 40% and 50% per annum over the next five years. The potential for these markets in the next five years is just tremendous.

While the opportunities for life insurance companies in these emerging markets are tremendous there are also challenges to operate successfully there. Often in these markets the regulatory framework is incomplete. In the case of Vietnam we actually had to start operating our life insurance operation before there are actually any insurance laws. The capital market is extremely under developed. Investing our assets is not a straightforward exercise of taking the money to the stock market and buying equities or bonds. What do you do when you sell 15, 20, 30 years' life insurance products and there is no stock market and the longest bonds available from the government is five years? The infrastructure is also very lacking in these markets.

To give you an example some of the delays we faced when we opened up a branch in Vietnam, we faced a delay of a long period and the reason why is the Post Office needed to dig a ditch to lay the cable in order for us to hook up our telephone system. Usually, when these markets are opened up to the foreign insurers, several licences are given at the same time. We found the need to compete with a very well established local incumbent.

In India's case for example, when we entered the market and started operating in the year 2000 we were faced with LIC who already have one million agents on the street and 150 million customers already on the books.

Last but not least of the challenges is the need to build the Prudential brand from scratch, nobody every heard of Prudential when we entered the markets of Thailand and Vietnam.

In this presentation I will talk about how Prudential overcame these challenges and established our leadership in these markets by building the best in class operations.

In the next few slides I will cover Vietnam. This is a special market for me, since I was involved from day one with this operation. Vietnam is the market where we came in first. We built a very large agency force quickly and we have led the market ever since. This is a unique market for Prudential where we have built best in class operations not just in life insurance and fund management but also is positioning ourselves to be the very first player in the customer finance space.

We think we can do many things in Vietnam in the near future because of our dominant position in the life insurance industry. Currently, we have about 39% of new business market share and occupy third position in Vietnam. Out of the 3.6 million policies in force almost half of them belong to Prudential. While, the entire insurance industry has slowed down somewhat since 2003 after an extremely fast, start, we believe the pace of growth will pick up again and Prudential with its best in class operations is in a very good position to take advantage of this change.

We attained this very strong position in Vietnam by having a coherent set of strategies to tackle the challenges, discussed in the earlier slide. To overcome the fluid regulatory environment we adopted a strategy of working closely with our regulators even before we enter the market. For example, Mark Tucker, a good ten years before we started operating in Vietnam came and visited the country to talk to the Ministry of Finance and I still can recall the very junior official that he met on his first trip in Vietnam four months ago. He was promoted to be the Deputy Prime Minister of Vietnam. This is the sort of relationship we have in the country.

It is therefore very rewarding, but not surprising, when Prudential were recognised last year by the government as the best foreign company in Vietnam. To overcome the investment challenge we leveraged our regional expertise to build a strong platform there. Based on our investment performance, we recently were allowed by the government to set up the very first foreign fund management company and this is run by Ajay's Team who we will talk about later.

The final point on this slide I would like to touch is the fact that we have now built the largest network or agency offices and customer service centres in the country. We have the most extensive network amongst all the financial service institutions including all banks and insurance, on the foreign ones, in Vietnam.

This comprehensive brach network we built has enabled us to round up and create the largest agency post in Vietnam. With more than 30,000 agents we are accountable for more than 40% of the total number of agents in Vietnam. And while agency distribution is the dominant channel in Vietnam, we have strategically locked up several key banking partners. We have made insurance agreements with the two largest state banks as well as the largest private sector bank. To support this growth we need to invest and develop our people. I am very proud to say after seven years we now have 1,500 staff in Vietnam of which only five are none Vietnamese.

In Vietnam, in addition to commercial success, it is important for companies such as Prudential to be seen as giving back to the local people and their community. We do this very well from day one. By setting up Prudential innovation and by placing heavy emphasis on social and charitable activities focusing on children and education. Our efforts are well appreciated by both the Vietnamese people and the government. To gain customer trust we also focus on delivering a high standard of service and by providing products that meet the customer needs.

When we first entered Vietnam it was obvious and we quickly identified a strong need for a educational saving plan in the country. Parents in Vietnam, similar to other Asian countries, place heavy emphasis on their children's education and there was no such product. We quickly created an educational plan that met this need and within a few short years we sold one million of these policies.

Our efforts are well rewarded and on this slide I just want to show off some of our achievements. Our brand is consistently ranking at the top amongst all foreign insurers in Vietnam and we were recently were recognised by the consumers as the best brand in the finance, banking, insurance and investment amongst all companies foreign and local. We also were recognised by the consumer to be one of the top ten brands among all companies in Vietnam in all industries. But personally, the one I am proudest of is the fact that Prudential has been chosen for four consecutive years as the best life insurance company in Vietnam by our own customers and was awarded with the Golden Dragon award.

So Prudential, with a most comprehensive distribution network and a very strong operating platform is in the great position to exploit the opportunity given to Vietnam with the admission to WTO recently taken place. We intend to leverage our best in class life insurance operation to establish leadership in the areas of retail fund management as well as in consumer finance. For fund management, only after one year we are stealing some of the thunder from Atavia. We have become the largest retail fund management company in Vietnam. In consumer finance last month the government gave to Prudential the only operating licence, the very first only operating licence so that we can operate in this space. Prudential's aggressive first mover strategy continued to pay very good dividend for us in Vietnam.

The next market is Thailand. We entered the Thailand market more than ten years ago. This is the one market where we did not have the first mover advantage in terms of agency distribution. We came in when the market was already well established by several companies with large agency force. However, we believe that the market dynamic is changing in Thailand and we are very excited about the new opportunities in Thailand and our recent success there.

As you can see on the chart, while the insurance industry in Thailand is much older than countries like Vietnam for example, the penetration is still very low. With 25 companies operating there, there are only 3.2 million policies in force. The industry historically has been dominated by companies with large agency force, however in the last few years this distribution channel has been quite stagnant and showed very little growth.

Emerging distribution channels, such as life insurance and direct marketing, on the other hand have been growing very strongly in Thailand. Prudential is taking advantage of this changing market dynamic. We have established ourselves as the market leader in the field of direct marketing. We are the only insurance company in Thailand with a full in-house call centre capability and we are ramping this up very fast to build the best in class DM operation. The quality of our DM organisation has enabled us to grow a very long and good list of quality partners.

So going forward, we intend to expand our DM operation in Thailand to firmly establish ourselves as the leadership in this distribution channel. This will provide us with a platform to build a multi-distribution company in the near future.

Now we come to the most exciting market of all, India. Apologies to Garth who will talk about China later, but Prudential entered this market in the year 2000 in partnership with ICICI Bank as you heard from Kamath. But, before talking more about India, I would like to pass for a few minutes to show you a video of our operation there.

Video:

> "In India primarily two things are happening at a socio-economical level. The GDP is growing at about eight and a half per cent. That also means migration of more and more consumers into the affluent and the upper income groups, which means they have greater savings potential and obviously life insurance is a key part of the savings basket for most consumers so that is really what is driving forward. The biggest opportunity really is that there is no social security system, so really individuals if they had to plan for post-retirement, they have to pretty much do it themselves. In the past there was the security of living in a joint family but that's breaking away as more and

more people are moving to a nuclear family. So there is a real self-need for people to save for retirement. Unfortunately, there are no specific tax incentives for putting away money for a retirement plan, but I am sure they will happen in India just as they have in other markets.

I think the biggest advantage that we have is the brand. The brand is well known. It is well known as a quality provider of financial services, so people are comfortable putting their long-term savings into the ICICI Prudential and that is the biggest barrier that you need to overcome.

We also have specific communication that we have done in the retirement space, so we are fairly well known players in the retirement segment as well. In fact, last year we had almost a fourth of the pension plans that were being sold in the country to individuals were sold from ICICI Prudential. We have also based the business around corporate pensions. So we do both sides of that business, the corporate pension market as well as the individual pension market and we have worked at consumer education, the range of products and the right servicing infrastructure.

We have worked hard at creating a product range which is relevant to the consumer which meets their needs and we have built a service infrastructure across the country which serves consumers at the branch, at call centres, on the web and through a widespread network of agents. So we, you know, we believe we are well positioned to sell to the consumer and that is why the consumer will come to us.

We spend a lot of time trying to make sure that our business model makes our distributors profitable and that's what builds loyalty into distribution with us, so they know that they are working with us not just for the money or the commissions they are on on every product but the quality of training that they are going to get and the quality of support. So we really treat them pretty much as an extended part of the company rather than a completely independent entity. So we actually have an in-house team of over 100 people, whose primary focus is to ensure that that distribution is well trained both on sales practices and on products, to be able to deliver the right solutions to customers.

The consumer in India is very value-conscious, so to be able to be the preferred brand and the provider in the consumer market you have to operate on thin profit margins and the way you do that is running a tight show and managing your expenses really well and making sure that you run a high quality business with high persistently low expense ratios and controllable with risk metrics in terms of claims management or area management.

Bombay and Delhi are big markets but they still account for just about 7% or 8% of the policies that we write across the country. You know, today we are in a 120 cities and India is still a very vast country and we believe that we would probably need to double the number of locations that we have at present in over the next two to three years which means building more offices, building more agents but also continuing to introduce innovative products which meet customer needs and of course, making sure that our service infrastructure gets better and better and is able to service our customers effectively."

I am very happy that at the star of the show was Shikha Sharma the CEO of ICICI Prudential who is here with us today to lend me the support as well as to answer all the tough questions later on.

Why there are more than 200 million policies in force in India today? Most of them are very small. The level of life insurance penetration as you can see is still very low at 2.5% of GDP.

I believe in Kamathi's slide we were showing 3.2% GDP but that's the total insurance penetration. This is just life insurance penetration and is at 2.5% of GDP.

While the population is quite rural, urban incomes are rising rapidly and hence life insurance penetration we strongly believe will no doubt be much higher in the future. The government opened up the market in 1999 with companies operating in the year 2000 and currently there is only 16 companies operating in India, but ICICI Prudential as you can see, was amongst the first companies to set up and we have been extremely successful. We led the market since day one and currently have 11% of the market share of the total new business market share - more than twice the nearest private sector competitor.

One important reason for our huge success in India is a great partnership between Prudential and ICICI. At the time of market entry ICICI gave the joint venture instant brand recognition. It also has a large geographic footprint for the JV to base its expansion plan on. It provides a very large customer base and a local knowledge. Prudential on the other hand brought to India our regional expertise and insurance expertise in project development in distribution management and in operation. This has proven to be a great match.

This slide shows the very fast changing landscape since we first entered India. These numbers are based on a fiscal year in India which starts April 1st and ends March 31st the following year. Up until early this year most of the growth has been driven mainly by the private insurers, who now account for more than 34% of the market. Having said that the LIC seems to be recovering, and has started to regain some momentum in the last few months. The second development is a switch from traditional to link products. Link are now accountable for one third of all new business sales from Prudential. The percentage is significantly higher. The third is the emergence of single premium which are now accountable for 40% of the total weighted premium.

Even with a strong brand recognition brought to us by ICICI from day one, as you heard from Shikha, on the interview we continued to focus our effort to build a super brand in India. As you can see on the chart, we quickly established ICICI Prudential as the top brand amongst all private insurers and most importantly we were chosen three years running as the most trusted private life insurers in India.

As you heard from Shikha even more in her interview, the major reason for our success is our ability to listen and to understand our customer needs and then deliver the products that meet those needs. ICICI Prudential has a very well deserved reputation for being innovative in creating flexible products proposition for our customers. We are the first to the markets in several product categories, including premium guarantee, cancer, diabetic care and I believe in unit link we are number two but not far behind in terms of timing after the first one. Just last month we launched a very special new product on diabetic care. This is, I believe, the first of its kind in the world. As you know a high proportion of Indians have a diabetic condition and traditionally they cannot buy insurance coverage. Our product will have for the first time enabled these people to have critical illness cover related to their conditions. This product has been very well received not only by our customers and apparently within two weeks, Shikha just told me that there are 20,000 customers who have phoned in and who want to know more about this product after we launch… before we actually launched, just after we launched the branding campaign. So it is well received not just by our customers and our distributors, but also by the regulators. This is one product that the regulators are very happy to support Prudential to launch but because it attracts a very strong link with the Indian people.

India is a vast country and to get our products into the hands of the people, we must create a very extensive distribution network. As you can see from the slides earlier, Shikha and her team after only less than six years have created an agency force of more than 130,000 agents. My number is slightly different because my number is actually based on October month end. One month after Kamath's number and it has increased from 122 to 130, that's 130,000 agents and 400 branches covering 271 locations. We have by far the largest and the most productive agency force in the private sector. Even with this huge agency force, you would have thought all our business in India comes from the agents but amazingly more than 40% of our business actually comes from other distribution channels. Our bank assurance activities through ICICI Bank certainly plays a big part of this but Sheeka and her team has established dozens of main insurance relationships with many other banks.

Building such a large operation within such a short time means that we must carefully manage our operational risk. ICICI Prudential invests heavily in our system and our people to closely manage the miss-selling risk associated with such a large agency force. Like Sheeka mentioned in her interview, we absolutely do not take shortcuts when it comes to agency training and management and we keep in touch with our customers through many touch points. For a country with several hundred official languages different for different regions the ambition of Shikha's team of providing bilingual policy documents to every customer is a huge task. Every policy we send to our customers will be in English plus a local dialect in that region.

With our success it is no surprise at all that other insurance companies constantly target our people. We are extremely proud to have a very stable senior management team. This has been achieved through an array of actions including talent development, staff development, talent management and stock options for our employees.

This next slide is my favourite slide of the whole presentation because it captures the spirit and the growth of our Indian operation. To give you an idea of how fast our operation is growing in India we just have to compare the company as of April 1 2006 at the start of the fiscal year in India this year and at the end of October, only seven months later. You can see that the number of agents in India goes from 72,000 to 133,000, almost double. The number of brands that we expand goes from 177 to 400 and if my calculation is correct this mean two brands every business day. But with that expansion of the agency force the alternative distribution channels still keep pace and actually gain ground. We actually have more sales staff on bank assurance and direct marketing compared to other agency channels and within that seven months Sheeka and her team managed to tie up ten new bank relationships for micro insurance. So, the number of policies, not surprisingly goes from 2.5 billion to three billion on the books and the fund management grow from two billion to 2.5 billion.

Basically within six months Shikha and her team have managed to create an additional very large insurance company on top of an already amazing operation that she has in India. It is such a privilege for me to be involved with this operation.

Going forward, we believe this pace of growth in India will continue. We will continue our geographic expansion by following ICICI's footprint into smaller cities and by smaller we do not mean small town of a few thousand people we mean cities of hundreds of thousands of people. We are not talking about the same rural India that Kamath has just talked about. We still have so many cities with large populations that are untapped by life insurance companies. With our geographic expansion and as our customers become more affluent, we believe the areas of pension and health will provide the new engines of growth in India. In the area of pension, as for Shikha in the interview, we already have 20% of all new pension plans sold to individuals in India, so we clearly already established ourselves as the market leader in this important growth market. In the health arena with products such as the newly launched diabetic care, we have established ourselves as the leading and most innovative life insurer in this space.

The summary slides on the key points that I mentioned for all three countries are captured here so I won't repeat them. But before ending, I would like to re-emphasise only a couple of points. Prudential was among the first companies to enter Vietnam and India. We have executed our market entry strategies extremely well and quickly established the best in class operations in these two countries. In Vietnam, this approach has resulted in a very unique position for Prudential where we can start exploiting the emerging opportunities across the entire IFS landscape. In India, we have built such a strong position, that to me it is extremely difficult, if not impossible and very expensive for any competitor to try to gain ground on us and with our pace of growth and with the ever-increasing size of the middle-class market I look forward in a few more months to come back to all of you and update you on this amazing story of India.

Thank you very much.

Bill Lisle, Chief Executive, PCA Life Korea

Ambition: to be the leading foreign insurer

Good afternoon. My name is Bill Lisle the CEO of PC Life Korea. I have to say before I start that very few of us ever volunteer to follow a presentation on India and even less of us volunteer to follow a combined presentation of Vietnam and India. I have been very fortunate to work in some outstanding businesses around the region with outstanding leaders. I was in India with Shikha, Malaysia with Keng Hooi and I'm standing here today feeling very confident that the story I am about to share with you is as exciting, if not more exciting, than anything we have happening in the region today.

When we started five years ago we started with only 1% of the new business market share for Prudential Corporation Asia. Five years later as you probably remember from Sandeep's slide this morning, Korea now represents 24% of the APE new business which makes us not just material for Asia, It's now making us very material for the group. I think where we are today we are in a great position to maximise the opportunity moving forward. Very simply our ambition is to be the leading foreign insurer in Korea. How are we going to do that?

First of all the reason I think we can do that, Korea is a large and growing market giving huge opportunities, if you look at 2005 life premiums - more than $59 billion. That makes Korea the second largest in Asia and the seventh largest in the world. That is predicted to grow circa 10% annually to 2010 but actually the biggest take away from this slide is the momentum of the foreign insurers most including PCA Life in Korea today. Just thinking over the last four or five years the big three Samsung, Korea Life, they have been reducing their market share and that really is linked into a transforming market. Korea was very traditionally an agency model but a part-time agency model. That now is dwindling and being replaced by the model I am going to share with you in a few moments which is next generation agency, full-time professional and financial consultants. So, the momentum is with the foreign players and as you will see in a moment the momentum is very much with PCA Life Korea.

Something else just to mention there is a very much a full regulatory environment there. I will touch more about that a little later but I can say we have an exceptional relationship with the regulator which you will see in a few moments. Just out of interest the fourth biggest life company in Korea today is ING Life, who are temporarily holding our position as the leading foreign insurer.

One thing I can say is that without doubt we are the fast growing life insurance company in Korea today. When we entered the market we entered at number 23. In less than five years we have moved that up to number 14 and you can see the cake over the last five years. What I would just like to do is put into perspective number 23. That is number 23 out of 23.

Now, I know you have heard many stories on multi-distribution and hopefully I am going to give you a different view on this multi-distribution which is talking about the multiple advantages that come out of this distribution and what we have been able to see in PCA Life Korea this has given us the opportunity to get our footprint, to get our brand, circulated very quickly around the Korean market and it comes with multiple advantages. It has allowed us to drive fast market penetration. It has allowed us to give differentiated products with different channels. More importantly it has allowed us to give the clients choice of how, when and where they purchase their products. The real benefit for us is that we have very little if any channel conflict. Our channels were launched simultaneously and what the competitors are now finding that they are trying to move into multi-distribution but their tied agency, traditional tied agency, is not really happy with this and there was a lot of conflict whether that be through product or distribution. So, we really are in a great position to maximise this opportunity.

I think one this it is has definitely allowed us to do, because we have different points of contact with the customer, it has allowed us to build the brand very quickly and I think the longer-term opportunity will give us up-sell cross sell opportunities our DM channel into our FC channel through re-generation, etc. You can currently see the split of our channels. The financial consultant channel is about 49% - 50%. GA, which I am going to talk about in a moment, is 39% and DM 5%, bank of 7%. So multi-distribution is driving our growth in Korea.

I'd like to just dive into the individual channels for a few moments and just give you a little bit more detail about the dynamics of each channel. Just looking at the financial consultants, as I mentioned a little earlier via a question and Sandeep mentioned, this really is the next generation agency. Traditional agency in Asia is part time, etc, etc. We have taken the next step. We have a professional full-time financial consultant model, professional full-time. We have around about 1,700 FCs today in 61 branches Bank Korea and these FCs go through a very rigorous training programme in our academy and here's the real measure. This is how you know you have a productive sales force. Activity ratio for these consultants is 93%. Let me tell you what that means, every month 93% of our team, our FCs sell business. Not only do they sell business they have a cases per average agent, average FC, of 4.5 cases. That is as good as you will get anywhere in the world, not just in Asia - 93% activity ratio.

Moving forward through de-regulation we have an opportunity to start selling funds through our FC channel next year. We are working very closely with our colleagues, SH Hwang and PCA Asset Korea and we should be launching our fund through the FCs probably end of Q1, 2007. But just in summary for this model. This model is like a machine. It is predictable and more importantly, it is scaleable and that is our focus over the next five years.

Moving over to the GA channel: actually, I was first in Korea in 2002 and part of my role was to scope the GA model and to implement it and I am very pleased now to be able to stand and share with you that PCA Life Korea was seen as the market leader in the GA model. GA, very similar to the IFA model we see here in the UK. Not quite as developed. A little bit more multi-tie, where you have a GA IFA, who is probably tied to two or three life companies, one or two general companies, etc. We still have a long way to go with that evolvement in the model.

We have around about 2,800 FAs which is the equivalent to FC agency, in 56 GA companies across Korea. Activity ratio with us is about 43% which is outstanding which means we have the servicing right and we have the product proposition right. One thing that I did mention a little earlier is the fluidity of the regulatory environment. There is a rumour that the regulator will try and abolish tied agency in 2008. We have done a lot of work in our FC channel and we are in great shape to be able to transition the FC channel straight into a GA model and maximise the opportunity there.

So, taking this to the next step we will also leverage on the expertise in JNL and take some of their ideas (a) on model and (b) on product and that will give us huge opportunity driving the scale of this model forward in the future.

Now, moving into the two smaller distribution channels at this moment and they may be small but they are critical for not only today, they are critical for the future. Let me first of all talk about bank assurance. There is quite a unique regulation in Korea that any bank can only sell maximum 25% bank assurance through any one insurer, so we call it the 25% cap. Now at this moment in time we have three bank partners, SCB, HSBC and Citibank and our relationships are exceptional with all of them and I think that is shown in the fact that we have maximised the 25% cap already this year and if we could sell more through them, they would love us to sell more through them but regulation is regulation. However, the good news is in the last month we have just signed up KB Bank, the biggest bank in Korea. This will give us a huge footprint for our brand, 2007 to 2008. We have also signed up the number five bank in Korea, IVK. Just coming back to KB, KB represents 30% of the market share for bank assurance in Korea today and we are hoping to take at least 25% of that 30%.

The opportunity moving forward: 2008 – the de-regulation of bank assurance hopefully will remove the cap of 25%. Not only that it will give us access to the bank's credit card databases to help support our DM business. In short, this could be our biggest channel of the future.

Moving into DM, DM is round about 5% of our market share at the moment. In DM, we pioneered home shopping around about two or three years ago and home shopping did us a great favour being able to get our brand to the consumer and through TV and cable; home shopping in Korea is absolutely crazy. It has become so crazy that it has become contested. Where we are at the moment we are selling low premium protection products, however trying to acquire sponsors is relatively difficult. We have recently stood back from our existing strategy with the support of Barry and obviously his expertise and we are launching a new strategy in 2007 which means we will go direct. We are going to build our own database, we are going to manage that database, up-sell, cross sell and make sure that, you know, in the future we will not have any issues when it comes to who owns the database. It will be ours. So I see the DM as an emerging opportunity and I would say watch this space for DM in the future.

Now, this is probably one our key milestones in our organisation. Much has been said about the re-timing opportunity in Asia this morning. In Korea, we identified this at a very early stage. We work with government bodies and we work with consumer groups and we have spent a lot of time and a lot of money making sure we get our proposition right. Today, we are seen as a market leader in the retirement space and we have done this through various ways, through media, through driving distribution, etc, etc. But this is where we have the distinct advantage over any of the other foreign players. We are seen and we have been given acclaim by those government bodies and consumer groups that we are the company that is educating the Korean public regarding retirement today.

The products we have used are quite simplistic. They are ILP products, balance protection, balanced investment, a few features in the products that make them a little different to the competition. You know, things like premium holiday, etc, etc. But probably the strategy that has underpinned this, is using our life cycle fund strategy which is a target retirement date for the investor. So these are packaged as accumulation products at the moment. The great opportunity we have in the future is for de-accumulation products and add health products to this but what we have at the moment is a very simple strategy with our clients, invest and forget. The main part of our product is how we've packaged it for the consumer. How we've taken that product and made them understand that this is the vehicle for you to meet your retirement needs. The way that we have done that is that we started with a very high impact campaign thanks to Meena and her team in Hong Kong, who have given us a great deal of support. We really wanted to get first mover advantage and create an impact in the market and we launched a TV campaign in October 2005 which is branded "What's my number" and this is very simply asking the question to the public, what number do you need in retirement? And I think we have this loaded up ready to show you, I hope…

[Video played – talking in Korean – video ends: 72.38 mins]

Actually the, you know, the impact of this campaign was amazing. People were walking around asking each other what's your number? And still when we do our consumer research today, the recall on this TV advert is just amazing. One feedback we did get is that it is a little aggressive. Koreans by nature do not like to be told negative things. They want to be made very positive in the spin and sometimes the number was too big. *[Laughter].* It literally was too big.

Our phase two approach in April to supplement the TV campaign we went into print and we actually used five or six of our customers and we profiled our customers in print which was fantastic. For the distribution to be able to use real-life examples when they are speaking to new prospects is very very powerful.

In September of this year, we have gone back to TV. Again, through a lot of customer research it is obvious that the way to get to the Korean public is through TV and we have just taken "What's my number?" to the next step What's my number? is still the underlying theme but we are now talking about the way to a wealthy retirement of which we have the 30 second TV scene to show you as well.

[Video played – talking in Korean- video ends: 74.36 mins]

Actually, just a quick story about the guardsman because the guardsman has become iconic with us. I was… my parents-in-law are Korean and we were having dinner one night and my father-in-law said, "What does the guy in the red suit do all day when he's not on TV?" And I did not have the heart to tell him so I said, you know, he stands outside my office most of the day.

So, we are just in a great position to maximise the potential. Let me tell you what the potential is. I have been keeping this just to share with you. We have a 48 million population in Korea today. By 2010, 4.4 million will have retired. By 2050, 14.8 million. Combine that with a low birth rate and we have a huge opportunity to develop this part of our business.

Now, we also took an integrated approach to this. This was not just about TV and the high impact that obviously you get through that medium. We also took this into seminars with our clients. We took this into our website and we even had a big red bus driving around Seoul which is the "What's my number?" bus and this gives financial planning advice in different parts of Seoul at different times of the week. We also took this information into point of sale technology, so the TVCs our distributors can show clients when they are sitting in front of them if they have not already seen them and we also wrote our own book. – the " All Book – are you ready for retirement?", which we put through book shops and already sold 26,000 copies so again, just in great shape in the retirement space.

That impact can be seen here on the impact of our results from June 05 to June 06. Our growth at 92% way outstrips any of our foreign competitors. As I mentioned ING is keeping the seat warm for us at this moment in time.

Now I just want to mention two things here. First thing, out of interest, when we first entered the market we benchmarked Pru US as the exemplar company. In February of this year, after four and a half years we overtook Pru US on new business sales in Korea. ING and Pru US have both been in Korea for about 17 years. That shows you the momentum that we have with our business at this moment in time. However, just to manage expectations, 92%

may not be the number you see every year moving forward but I will commit to outstripping the marketplace for sure.

In summary, the strategies that we have moving forward and linked in with some initiatives. We have positioned this as our focus on five. Number one: the umbrella. We recently launched Six Sigma with the support of our Indian operation and thanks to Shikha and I am not going to educate people in here on what Six Sigma is but it is basically making sure that our customer comes first. Making sure we have efficient processes that maximise the opportunity for the customer. Number two: customer first. I have already talked about the amount of time and money we spent on researchers and focus groups with our customers. We will continue to develop our retirement proposition and we will continue to focus on needs based selling which is complimented through our professional training academy for our distributors. Third area is people. Fundamentally, this business is about people. Our strategy is we recruit the best and we pay the best for the best performance. We have recently launched an employer of choice programme which basically has inside of there incubation programmes for underwriters and actuaries and we are just about to launch an international secondment proposition within that employer of choice programme. Resource is key for our business moving forward.

Number four: infrastructure. We need a robust predictable infrastructure, not just to manage the in force book but the 16,000 to 20,000 policies that are coming in on a monthly basis at this moment in time. And just to re-emphasise the relationship we have with the regulator, I have been working with the regulator for some time on getting agreement for e-submission which is basically e-transaction of policies in front of the client and we have been given the go-ahead to implement that and we are the first insurer to get the green light to implement e-submission in Korea.

Last, but by no means, least multi-distribution. Our multi-distribution model will continue to drive our growth. GA next generation. The potential if tied agency is abolished, we will move our FCs into GA and we will still maximise that opportunity. If not we will continue to scale up what is a very predictable model in the FC business at this moment in time with the de-regulation of bank assurance and the acquisition of two new banks that could become our biggest channel. Lastly going direct, building our own databases will give us a huge opportunity for up-sell and cross-sell and health products for the future.

So I hope I have been able to prove to you why I think Korea is as an exciting market as we have anywhere in Asia today. Thank you very much.

Garth Jones, Managing Director, Insurance, Prudential Corporate Asia

Taiwan and China

Thanks Bill. There is one more exciting market. As I say, it is great to be here today talking about China and Taiwan. I am particularly happy not to be talking about financial issues related to Taiwan and having Greg ask me what my number is, so… But seriously in all the discussions about Taiwan, it is easy to forget about the commercial side of the business and the fact is that we have built a very good business in Taiwan that is very well placed for the future.

The Taiwanese life insurance market is one of the largest in Asia. The environment there has seen dramatic changes over the past ten years and those changes are likely to continue in the future. Our business is very well placed and as those changes have developed we have seen opportunities created and we have made the most of those opportunities and we will continue to create new markets going forward.

Despite having a relatively small population of only 23 million people Taiwan has the fourth largest life insurance industry in Asia. Fast economic growth, high savings rates and a demographic profile that features a large proportion of middle aged couples with children have produced a high penetration rate for life insurance. Penetration levels were further boosted to exceptional levels in 2005 by sales of life products that were essentially investments. In 2005, this has produced the highest penetration rate in the world of 11%-double the level in 2000.

There are 29 companies operating in the market at present making it relatively competitive. In such an environment, it is very tempting to seek short-term booster sales without increasing the sustainable foundation, for instance by selling short term investment based products with very low margins. On the lower left-hand chart you can see the spike in sales of such products in 2005.

We have remained focused on profitable growth through a differentiated strategy. So how has this translated into measurable results? Since entering the market in 1999, our strategy has been differentiated by focusing on extending and improving the quality of our distribution, our products and our services. We have achieved a strong past performance with sales growing at 21% per annum and new business profits of 32% per annum over the past five years. We have a business of scale with competitive expense levels and a recognised market presence. Our 11,000 strong agency force has improved its skill base and professionalism, whilst we have launched bank assurance and direct channels. Products and customer service have also been extended and enhanced. Leverage and experience from across the region most notably with our introduction to the market of regular premium unit linked products.

Our customer service has also improved dramatically as we have introduced technologies such as workflow and e-servicing which now accounts for 40% of our policy related servicing transactions. Accordingly, we have a good reputation and a trusted brand with strength and this was recognised publically when we won the most trusted insurance company award recently.

Our strategies have proven successful with simultaneous strong growth in new business volumes and higher growth still in new business profits as margins levels have moved up. We have now also reached the point where the profitable new business that we have written in recent years is more than covering the negative spread on the old book and this position will continue to improve in the future.

This slide shows you how our product strategy is differentiated from the market and how our approach is delivering results. We have deliberately avoided certain unattractive products in order to focus our efforts where they create the greatest value. More profitable unit linked or ILP products and NH products with attractive margins form a greater proportion of PCA Life sales in the market. Further, our portfolio does not include annuities and interest-sensitive products both of which have single digit margin levels.

Although we have focused on higher margin products, our sales performance has improved in both the agency and bank assurance channels. We have increased agent productivity by 23% over the first nine months of this year compared with last and over the same period have expanded bank assurance sales by 150%. Leveraging our exclusive arrangement with E-Sun Bank and SCB. We are clearly doing the right things.

Looking ahead, we have two distinct streams of priorities. Firstly, we will strengthen our existing models further. We will continue to drive for an increased professionalism in the agency force, further expand bank assurance and increase NH sales. We also have initiatives to improve the level of sales to our 530,000 strong customer base, including easy to effect increases in their existing coverages as Barry covered earlier. Secondly we will create new markets. This will principally be achieved through new product offerings in order to continue to expand sales of higher margin products. These new offerings will also provide the fuel for up-selling to our existing customers. Potential new markets include the retirement space, expanding the range of internationally invested unit link funds and new direct marketing products and methods. We will in particular be using lessons from the successes in Korea that Bill has just covered to take the business to a new level.

Taiwan is a very big market in which we have successfully differentiated ourselves. We believe that by focusing on profitability and the long term, we have a strong well placed business that will continue to create significant new business profits going forward. And with that I will move to mainland China.

Over the past 20 years, I have seen first hand the dramatic changes that have taken place in China. The way in which the Chinese people have been able to achieve so much and make so much happen in such a short time has convinced me absolutely that China will continue from strength to strength in the future. These changes to society have created unique opportunities for development with accelerated increases in both the scale and the quality standards of whole industries, including the insurance and the asset management industries. Against this backcloth, I have seen many foreign insurance companies invest considerable amounts of capital and resources in China, including ourselves. Few, however, have succeeded in growing their business. China is a market that is at once compellingly attractive yet also challenging to master without the right capabilities and ingredients for success, which I firmly believe we have in place.

We have established a strong foundation in China, based on a relatively early entry through an outstanding partnership, and we are on track to leverage this to create further growth in the future. Today I would like to provide you with a context for the whole market and explain what Prudential is doing to ensure that it turns the boundless opportunity that China presents into the reality of a leading, sustainable profitable business of scale.

A great deal has been written and said elsewhere about the economic growth of China, with sustained high rates of GDP growth in the past decade, and all the ingredients for this trend to continue for many years making China one of the largest economies in the world. This economic growth also comes at a time of major demographic and socio-economic changes that are transforming Chinese society. China's vast population is rapidly becoming urbanised as people are drawn to wealthier cities. This chart shows the actual and forecast distribution of urban households, illustrating the dramatic impact that increased affluence is and will continue to have including the rapid emergence of a vast middle class that will number some 700 to 750 million people in ten years' time. The wealthy provinces to the east of China and large inland cities will continue to expand their GDP at a faster rate than inland provinces. Beijing, Shanghai, Guangzhou and their surrounding areas will continue to power the economy of China as a whole. The Chinese population is also getting older as the impacts of the one-child policy make their inevitable progress through the age distribution charts. It will be a number of years before the current wave of 30 to 40 year olds are no longer productive, but when they do start to retire dependency ratios will increase dramatically.

In this positive economic environment, China's life insurance industry has grown in a steady and ordered way with three distinct phases to date. Firstly, before 1992 the domestic market was established, led by the state insurer, PICC, which was the only insurer operating from its establishment in 1980 to 1984. In the late 1980s, more aggressive domestic companies were established and from 1992 to 2001 China's life insurance industry was prepared for WTO entry. This was achieved through the establishment of CIRC and the issuance of a new insurance law with the subsequent entry to the market of a number of foreign players. Under the new insurance law, foreign companies were required to be joint ventures with at most 50% foreign ownership and that regulation still stands. With the establishment of China Life and subsequent listings of the largest players, together with the expansion of foreign presence, since 2001 the industry has undergone a period of improved professional standards, corporate governance and increased internationalisation. This has given the industry a strong foundation for the future.

So what does this mean for the future size of the market? This chart shows how the drivers that I have just described have translated into exponential growth in the Chinese life insurance industry from 2000 to 2005 and the forecast continuation of this trend during the next decade. The Chinese market is already the third largest in Asia, behind Korea and Japan at £4.6 billion of new business sales in 2005 and is expected to become the second largest in the next few years. The urban population, in particular, is becoming more wealthy. This wealth is creating a rapidly increasing middle class who in line with other Asian markets save a large proportion of their income, perhaps 25% to 30% of net income.

The move from state to private industry and reforms of the social security system are at the same time making urban society more dependent on their own means, for retirement, in ill health, for higher education and so on. Against this background, a dynamic life insurance industry is actively addressing these needs and increasingly selling products that provide solutions for customers. Within this context there is every reason to be optimistic about its prospects.

I would just like to take a minute now to talk about the regulatory environment in China as this is a critical factor. The Chinese life insurance industry operates in a very tightly regulated market under CIRC. Regulations and guidance are extensive and CIRC approval is required in most areas of the business. CIRC operates both the central bureau and provincial branches that actively monitor companies to ensure that regulations are met and business is being conducted in a proper way. Penalties for non-compliance are severe. We work very closely with CIRC and have a good working relationship, providing input on market issues, bringing expertise developed practical experience and explaining how leading international companies operate their businesses. Already this year, for instance, we have given presentations at several training sessions for CIRC officers. Recent guidelines from CIRC include standards of corporate governance that companies are expected to meet along with wanting to see a strong professionally-managed industry.

Looking at the composition of the market at present, by far the largest player in the Chinese market continues to be China Life given its unrivalled reach and history. The market is heavily polarised with five players having a 94% market share and 31 companies making up the remaining 6%. The five biggest players are all domestic companies, although many have minority foreign shareholdings. There are now 23 foreign players operating in China which between them have a market share of about 5%. I am pleased to say that we are the number one foreign joint venture out of those 23.

Foreign players are gradually increasing their market share as they grow more quickly than the market. The latest data I have for the first eight months of 2006, for instance, on a total new business premiums basis the market grew at 22%, the foreign JVs grew at 56% and CITIC Prudential grew at 65% over that period.

Let's focus now on distribution.

This chart shows the split of sales by channel in 2005 for the whole market. Perhaps unsurprisingly with 1.3 million licensed agents in the industry, agency distribution produces the majority of sales today. Many of these agents are part-time and have low productivity, however standards are improving with minimum standards for new agent training and licensing laid down by CIRC. For instance, agents now have to undergo a minimum of 80 hours' training before they are even allowed to sit an official licensing exam. Bank assurance has grown strongly, but is predominantly product led with most sales being low margin, single-premium or short-term, endowment-based traditional products.

Historically, distribution arrangements have largely been made locally on a branch-by-branch basis with different insurers offering different products to branches at the same bank. Group policies are mostly very large cases sold by a dedicated sales force. Group cases are often captive and bulk investment based, such as the large $2.5 billion case secured last year by Generali.

Turning to product. Although all products need to be filed and approved by CIRC before they can be sold, most product types are available. The majority of products are investment based and contain guarantees with traditional par and non-par products forming over 80% of the market. Accident and health products are more profitable. However, despite the clear latent demand from customers, form only a small part of the market at present while unit link sales contribute a mere 1%. This is in large part due to their poor reputation as a result of past sales practices by some of the domestic companies and in addition, the mediocre performance of most investment funds of recent years.

Now let's move on from looking at the market to consider Prudential's business in China specifically. You will see that our strategy is based on three horizons of growth similar to the horizons over which Prudential has grown in Asia during the last ten years or so. In the first phase, putting the foundations in place, we have gathered together the people, the culture, infrastructure and licences needed to form a strong base for future growth. We have used the competitive advantages of our deep knowledge of the market and the extensive resources that are readily available to us elsewhere in Asia to get ahead of smaller competitors. In the second phase, driving delivery, we will use this foundation to rapidly expand the business increasing market share to become a top five player in the cities where we participate. In addition, we will further expand the geographical scope of the business and introduce new propositions to the market place. Lastly in stage three, levering for scale, we will use the competitive advantages of being a leading brand of material size and extensive capability to further expand the business. We will do this by transplanting successful models, opening new markets and driving cost efficiencies.

We are currently nearing the end of stage one and are well poised for future growth. We began laying the foundations in China 20 years ago and every since have been firmly committed to building a significant and lasting presence. Relationships are critical in China and for many years we have established and maintained good relationships with many key bodies and individuals with consistent representation in both China and in London. We have actively supported both the industry and related government entities as a leading and highly respected foreign player. We have an outstanding joint venture partner in CITIC, who have been highly supportive throughout and add tremendous value to our operations. We truly believe that we have the best life insurance joint venture partner in China. We have also actively leveraged the extensive capabilities within PCA, particularly those within our Chinese speaking community bringing people processes and expertise from around the region. As an example, we have had Chinese speaking people, from our businesses in Taiwan, Hong Kong, Indonesia, Singapore, Malaysia and Thailand helping build the foundation over recent years. Few can draw on this pool of resources.

Now I just want to say a little bit more about the CITIC group and its outstanding credentials as a JV player. CITIC is the largest financial company in China and is one of the very few companies that reports directly to the State Council. It is financially strong and has a high quality team of progressive management. Importantly CITIC has extensive interactions with foreign parties both through CITIC's investments overseas and in JVs with foreign companies in the Chinese market place. The CITIC group includes CITIC Securities, which is the largest brokerage in China. CITIC Bank and CITIC Trust, besides, two joint ventures. With such presence, it is not surprising that CITIC is well known as is a trusted brand within

Chinese consumers. I believe that we have established an advantage platform in China. To date we have 14 branches, a growing agency force that currently numbers around 14,000 agents, five major bank distribution partners and a full suite of attractive products.

Margins are attractive and the average margin on 2006 sales to date is around 45%. Besides high brand recognition we also have a good reputation in the market and are known as one of the leading foreign insurance companies in China. Not only is this important in recruiting new customers, it is also critical for securing agents, establishing new bank assurance relationships and attracting high quality talent, the fuel of future growth and a very scarce resource in China. We have also been steadily building a presence in the wealthiest provinces in China. These are the largest life insurance markets currently and also offer the greatest potential for future growth as the next slide illustrates.

From their initial city of establishment, the foreign joint ventures have been steadily increasing their geographic footprint across China. Not unexpectedly, with an initial focus on Beijing, Shanghai and Guangdong. We have been actively expanding our presence and have established ourselves as a leading company in the market. CITIC Prudential now has 14 cities in seven provinces with plans to further expand in a well-structured way in the future, subject to regulatory approvals. You can see from the chart on the left that we are now licensed in the top six provinces by life insurance sales, representing around 56% of the whole market. Unsurprisingly, we have the largest number of city offices in Guangdong province, where a head office was established in Guangzhou in 2000. Besides currently having the second largest life insurance market in China, Guangdong is also the province with the highest GDP. With a rapidly expanding geographic presence, having the right operating model is critical, and hence, we have built an architecture that will support our future expansion.

In establishing the right operating model for CITIC Prudential, we have been conscious of both the learnings to be gained from the development PCA's businesses in other countries such as Vietnam and India and PCA as a whole. We have also considered the ultimate size of the business, which will be far larger than today and its operations need to be readily scaleable and robust. From day one we have therefore centralised IT, underwriting, claims and general administration. For example, new applications are submitted to local branches where they are scanned before being underwritten centrally and approved. After this the policy documents are printed locally with a swift delivery to customers. This means we can continue the scale up our operations easily and efficiently.

We have also organised our branches in a way that focuses management at each level on the activities that create the most value with sales and distribution branches managed by larger regional centres.

In the next few slides I would like to show you how our sales are progressing and their composition in greater detail. This chart provides a breakdown of our new business in China over the first nine months of 2006. By geography Guangdong and Beijing are the largest markets, however diversity has increased considerably over the past year or two and this will continue as we open up new provinces.

As with most of PCA, the majority of our sales are through agency distribution although bank assurance is increasing as is the nascent DM business to bank customers. We focused on sales of regular premium products, providing a steadily increasing level of revenue premiums year by year as the business continues to grow. Unlike most of PCA's operations we have a relatively small volume of unit linked sales in line with the market. Most of our business is traditional par on universal life products with reasonable margins, however these products are usually sold with higher margin NH riders as you can see from the considerable volumes sold.

Importantly, we have a proven track record with a 47% CAGR in sales over the past five years and a strong growth in 2006 year to date. The growth has come principally from increasing the size of the agency force, with a high correlation between agent numbers and new business volumes. We have seen the positive impact of organic growth in Guangzhou and subsequently Beijing and in 2006 further new cities came on stream and began to boost growth. In addition, sales from bank related channels have grown strongly in 2006 as our bank relationships deepen. These now account for 12% of sales up from 8% last year. This performance has established Prudential as the leading foreign player in China.

CITIC-Prudential is, in fact, the largest joint venture life insurance company in China today. Our aim is to be a top five player in each city in which we participate, not just a top five foreign player but a top five player amongst all companies in the market and on a sustainable profitable basis. To date, we have achieved a top five position for agency sales amongst all players in six of the ten cities we operated in during the whole of 2006 and have clearly established our position as the foremost foreign JV operating in China along many dimensions.

As I said, our current focus is driving delivery. We will continue our geographic expansion focusing on the large urban populations in the most prosperous areas of the country, as these offer the greatest potential for market growth. We anticipate opening offices in at least two new major provinces next year in addition to opening other cities within provinces where we are already licensed. Talent management, recruiting, training, developing and retaining high quality staff remains our absolute priority, as people and relationships are the fundamental core of our business. This is particularly true in China where there is a shortage of experienced people with strong management skills and hence the effectiveness of talent management will be a critical factor to achieving success. We will continue to invest heavily in managing our talent and levering our experience and capabilities from around the region including our strong culture.

We will also continue to expand our agency force by driving recruitment using proven methods and employing selection techniques to improve the quality of recruits. We are expanding our established programme for managers with no insurance industry experience which has proven to be very successful. This programme is targeted at sales professionals with a proven track record from other industries, who are then trained in insurance products and sales techniques.

In addition to recruitment, programmes have been instigated to improve the productivity of the agency force. These programmes will improve the income level of successful agents to a meaningful level, such that life insurance selling becomes their primary source of income and therefore drives their activity.

We will also simplify initial product ranges and training for new agents with the objective of giving them a good start and accelerating the time it takes for them to develop their first cases. Whilst bank assurance sales have grown strongly, there remains enormous potential to grow this area further. Banks are looking to exert greater influence over their branch networks and see the need to grow fee income through centrally driven initiatives. We have tie-ups with several major banks and will look to develop these more fully by offering customer focussed propositions with integrated distribution training and support.

We will also extend our successful direct marketing pilot to credit card customers of CITIC Bank as the number of the cards issued continues to rise. Our product range will also be extended further by offering solutions designed for particular markets, building on the success of a retirement focused product we launched in 2006.

I would now like to talk about our ambitions at Prudential in China by 2010.

Our ambitions for 2010 are quite simple. Firstly to be the largest foreign player in China. We think this will require us to be in at least 50 cities in 18 provinces. The 18 provinces that we have prioritised represent more than 85% of China's GDP. Meeting this ambition will also require us to have a robust business to deal with varying market circumstances with material agency, bank assurance and DM channels selling a balanced portfolio of products. Secondly, our ambition is to be a material contributor to PCA's results. Given that PCA itself is continuing to expand this will require further strong growth in both sales and new business profits, however we aim to be at least 10% of PCA on both measures.

Thirdly, to have a brand that is recognised with positive sentiment nationwide. We must be known as a trusted brand by our customers, our agents and our staff. We must be known as an employer of choice for scarce high quality talent and we must be known as a partner of choice in the market.

In summary, the Chinese life insurance market is already huge and it will only become larger. There are compelling opportunities as the market grows and transforms. We have inherent advantages that can be leveraged for success. The foundations are in place for sustained growth and we have proven that we can deliver in China and we will continue to deliver in the future. And with that I now pass over to Barry to summarise this morning and Q and A.

Barry Lisle, Chief Executive PCA Life, Korea

We have a little bit of time for Q and A. We are continuing to run a little bit behind schedule but if we would ask Kamath and Garth and Bill, if you want to come up here and have a seat. What I would like to suggest in the interests of time is that we take just maybe two or three questions with the understanding obviously we are getting ready to break for lunch and we would be very happy to continue discussions over lunch and I would also encourage you, even though she did not have the opportunity to present other than via the video, that Shikha Sharma, our CEO from India, is here today and she would be happy to take any questions as well.

<u>Prudential: leading in Asia</u>

<u>Questions and Answers</u>

<u>Session Two</u>

Q&A part one

Q: Farooq Hanif from Credit Suisse. I was wondering if you would be willing to comment on the political drivers right now behind foreign ownership of JVs of insurance companies and your perspective on that, please.

KVK: It was never easy to call but I think it was made more complex by, you know, one supporter of the government that is in place, that is the Left parties. I would say that over the last two and a half years the finance minister has tried at least two times to push this in and it appears to me that finally this is the one piece that is sacrificed in the context of keeping the Left parties happy. All I can say is that again he has said that he would push the insurance bill in this session of Parliament that has opened two days back or three days back. We will need to see whether he succeeds or again this is sacrificed in order of expediency. But if you look at the majority in the government, they are very clear that the entire financial sector has to open up and as far as the insurance sector is concerned they believe they are ready to open it up. As far as the banking sector there are some issues but as far as the regulator there are some issues and so on but the government assure us they will open it up.

Q: So, from your perspective you would welcome it?

KV Kamath:

I say that we are well set, we have an understanding with our partner and we will proceed as per the understanding.

Q: Just a follow on from that, I mean, you have an understanding but do you have a formula basis for selling the annual stake and how do you feel about the state selling the annual stake in successful joint venture to 51%?

KVK: No, I think, you know, we have a joint venture partnership and the partnership states what is possible and the partners they have agreed to it and there is no question of re-visiting that so we will go by whatever is in that joint venture statement. Yes, please?

Q: Thank you. Youssef Ziai from ABN Amro. There was talk of you actually doing an IPO of your insurance business. Is that still on the cards and do yourselves have any capital requirements to do that?

KVK: Sorry, I didn't get it.

Q: The IPO of your insurance business, I think there was talk of that about a year ago.

KVK: What? IPO? You see we will have to wait again for clarity on, you know, the joint venture partners, the ability to take the stake up. This is for the industry as a whole. What is required as per the original insurance rules, which came out when we got into business, that 2010 is the date when this is to be decided and I would think that between now and that period we will have clarity on what the holding pattern and then the IPO and frankly without the first being resolved, that is the stake increased by the partner being resolved, I think it will be premature to look at the IPO. A year, year and a half back we talked about it because when this government came to power two and a half years back they said that this bill is going to pass in the next six months and we said if the bill is passed then I think we are prepared to look at it maybe in some of the businesses, but I think unfortunately given the current situation we will have to wait for a while.

Q: So what is the bank's capital position like after your rights issue of six months ago?

KVK: We are comfortable. The bank is comfortable.

Q: This is Greig Paterson of KBW. Did I understand you correctly that there is a formula within the joint venture partnership to decide what the price will be? That would be the first question and I wonder if you could venture a guess or give us some steer on how we should actually value this joint venture and its title, some ideas around that.

KVK: Well, if you let me take the second question first. You know, I am no expert in valuation of insurance companies. I am told that there are some interesting ways that it is done and I would say that it takes for a company in this sort of growth phase, the new business venture profit and apply a multiple and I am sure all of you here are experts who are probably certainly better placed than me to do that, so I will rest my case here on that part of it. You know, there is no formula for valuing the… at what price the stakes will be. I think it is confidential but I could share this, that it will be based on the market valuations.

Q: Thank you very much. Thank you.

Q&A part two

Barry Stowe:

We have a little bit of time for Q and A. We are continuing to run a little bit behind schedule but if we would ask Kamath and Garth and Bill, if you want to come up here and have a seat. What I would like to suggest in the interests of time is that we take just maybe two or three questions with the understanding obviously we are getting ready to break for lunch and we would be very happy to continue discussions over lunch and I would also encourage you, even though she did not have the opportunity to present other than via the video, that Shikha Sharma, our CEO from India, is here today and she would be happy to take any questions as well.

Q: Hi, it is Paul Lloyd at Goldman Sachs. A couple of questions on Korea and one on Taiwan. I think you hinted at it in the presentation, but could you tell me a bit more about the likely impact of the Capital Market Integration Act that is coming in at the end of 2008? Second question is how are you positioned for the flows arising from the reform of the severance payment scheme going into corporate pensions business at the moment and how large do you think that could realistically be? And on Taiwan, there's a lot of products out there at the moment with guaranteed health rates from the past, a lot of… the loss ratios are okay at the moment but some commentators are suggesting that it could be as big an issue as the spread problem in Taiwan. How is the Pru positioned? Are you aware of the issue and do you think it is as material as the spread issue in Taiwan?

BL: Just starting on question one is… there's actually a lot of unrest in the industry regarding the… the biggest issue is the abolition of tied agency, but when you look at the big three and the rest of the local players that is what their business is built on at this moment in time and believe it or not, this year we actually read in the newspaper that it was happening… we read in the newspaper in July that it was happening in August which was a little quick hence, you know, we got our heads together and we proposed a plan that if the regulator wants to go down this route then they have to give at least a year and a half to two years for us to prepare for that, hence when I mentioned we have been doing a lot of work with our FC channel which is basically branch-based with a branch manager that we can turn into a CEO of their own GA quite quickly and we feel we have a product range by then which would tie them to us on a multi-tie basis and, you know, we feel we are in a good position for it.

Garth Jones:

On Taiwan, the health product issue we have been very aware for a long time, since we entered the market. In fact, I used to work for Swiss Re so I have been aware of it for about 20 years now. I think the… we obviously monitor it very closely. We do not see any problems and no, it will not be anywhere near as big an issue as the back book spread issues I think.

Barry Stowe:

I would like to comment on that as well. I do have some background on this issue. Clearly there are some players in Taiwan that are starting to get a little bit nervous about books of business. I would agree and really underscore what Garth said about the scale of the issue. It will not be anything like the back book issue because as I think you pointed out the books of business you are referring to still are actually producing profits generally speaking. There probably are players who have written business of specific types in specific ways that might cause them to be a little more nervous. My own personal view is that people have made very long-term guarantees on cancer insurance, you know, may live to regret that at some point to get a large book of that kind of business, but we are in pretty good shape in Taiwan.

GJ: Just coming back to the second question on the pensions. We have taken the decision not to play in that space at this moment in time, which I think most, if not all, of the foreign players have taken the same position. You know, the relationship that is required for that product and to get to the distribution that you get with the client, combined with the low margins on the product, we took that decision not to play in that space.

Q: It is Matt Lilley from Lehman Brothers. A couple of questions. First, how do you stop the agent distribution which has been one of your strengths becoming a disadvantage as markets move towards advice based distribution? And second, one of the first charts you showed was just the geographic split of sales this year. How do you see that changing as you head towards your 2009 targets?

BS: On the agency issue specifically, I think one of the reasons we are in an advantaged position, as I tried to emphasise this morning and I will emphasise again, is not just because we have a big agency plant, but it is the nature of that agency plant, the fact that our training programmes are already in place, that they create a higher quality of agent and therefore a higher quality of business. Again I would point to, you know, elements of Bill's presentation regarding Korea where you see the transition of the more typical Asian part-time model is evolving into much more of an advice-based model. I feel very strongly that the way we approach agency at Prudential will not become a disadvantage in an advice-based environment, it will in fact become an advantage, because we are already so much further progressed than our competitors in that respect. In terms of where we expect business to come from geographically, I think you will continue obviously to see a big contribution from Korea, from India, I don't see any market candidly where we anticipate there will be a significant slow down. I would hope that you would start to see a greater contribution from places like Thailand and obviously from Japan, which I alluded to earlier this morning.

BS: Yes, if we can beg your indulgence, one more question and then let's go have a quick lunch and we will continue discussions there.

Mikir Shah: Just a point of clarification in terms of Taiwan. Garth said that profits off the new business now offset the negative threads on the old business but on slide 22 of Sandeep's presentation there was a negative 21 for Taiwan for this year. Now, is that new business strain or is that something else?

SM: The negative 21 you see is not for the strain for the new business we are writing on a local basis.

GJ: But we are basically at a point where, you know, the curve has crossed the line and so going forward we are now in a position whereby the profits from the business we have written since 2001 essentially and some of the old protection business is actually exceeding the negative spread over around £30 million a year, which we have talked about before.

BS: Okay. Again, we are happy to continue to discuss over the lunch break. Before we leave I would just say that, you know, we have now given you a pretty deep dive into virtually everything we are doing on the insurance side. Again, in the afternoon we are going to talk more about the fund side. Hopefully this has left you with a very good feeling about where we are going. I would emphasise to you again that I have never been more confident in an organisation's ability to meet its goal and the goal again as we have found out there is to double our new business profits in 2009 over 2005. Hopefully this gives you some confidence that we are going to meet that goal and perhaps even exceed it. So let's have lunch a little quicker than we might otherwise and if I could ask you to please be back at 1.30 so we can start the fund conversation. Thanks very much.