Prudential 2020 Half Year Results Q&A

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Welcome

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Participants

Hello, everybody. Welcome to the Prudential plc 2020 Interim Results and strategy update. This year, we have recorded our full presentation in advance, and it is up on our website with the transcript already. Today, we can use most of the call, then, to take your questions. Given the nature of our news this morning, we would expect that this will take up the full hour at least.

To give you an idea of who is with me, I am joining you from Lansing, Michigan, the home of Jackson. Also, in the US, you have Michael Falcon, CEO of Jackson; Axel Andre, CFO of Jackson. In London, we have Mark FitzPatrick, our Group CFO and COO and the IR team. In Hong Kong, we have our Group Risk Officer, Director, James Turner; CEO of our Asian business, Nic Nicandrou – and CFO of Asia; Raghu is with us as well.

I think, out of respect to time, instead of going through a summary of the comments we made on the video, I am going to go straight to Q&A and just see where we are. If need to, I will just bridge back to some of the key themes and key things we have accomplished in the first half of this year.

Patrick, if you are okay, let us just go ahead and go straight to Q&A.

Q&A

David Motemaden (Evercore): Good morning. I just wanted to maybe get a little bit of background in terms of what made you think the full separation of Jackson would be best achieved through an IPO. That is the first question.

Second, do you foresee the need to inject any additional capital into Jackson to facilitate this transaction?

Then, third, if I may, if I look at the org chart, it looks like Jackson is stacked under PCA, so I am wondering if the Hong Kong RBC ratio currently benefits at all on a local basis by having Jackson as a wholly owned subsidiary. If so, is there anything that needs to put into Hong Kong to help replace that? Thank you.

Michael Wells: Thanks, David. Mark, I am going to let you take the last one. If you think of this journey to Asia, it started with the demerger of M&G Pru, and I think there is a sell-down obviously to Athene of 11.1% and now the announcement today. What we have said all along is we maintained optionality in how we execute and in the statement today, we talk about the fact that we could still do a demerger if we thought markets required that.

That said, what you have seen us do with the Athene transactions, plural, is you have Jackson's capital levels to a range that we think is appropriate for a standalone entity versus an entity that is part of a group. We do not anticipate the need to put capital in Jackson. Actually, if you look at the M&G transaction, there would be some debt activity, some movement back and forth with capital to reduce leverage in the Group. All those things coming in the next months to get Jackson ready to be standalone. Hence the answer to your second question is it is not anticipated.

Mark, on an IPO, the advantage to an IPO is that you get more capital for reinvestment in Asia over time. The advantage of a demerger, obviously, would be less of that but faster. Again, we maintain that option, but the IPO is the route we are pursuing at pace now.

Mark, do you want to talk about the regulatory structure?

Mark FitzPatrick: David, so the LCSM for Asia is 308%. That is not affected in any way by the US. It is effectively a standalone tranche if you will. Therefore, a separation of that would not change the Asia LCSM number. If we were to do it at 30 June, that would still be a 308% number for Asia.

David Motemaden: Got it, thanks. If I could just follow up with Mike, and maybe for Axel as well, just the RBC, the 425-475% range, how should I think about any changes to your hedge strategy within Jackson, maybe from more of an option-based approach to more of a futures-based approach that would help reduce the upfront cost and improve capital generation?

Michael Wells: Jackson's bias is a futures-based approach. That was done, at the time, not so much cost-focused as it was counterparty-risk focused; to concentrate the counterparty risk on upmarket in equity, not on downmarket in equity. One of the learnings from a previous crisis was the fact that we looked back at some of the bank counterparties and realised that some of the risk that an insurer has, they are highly correlated to the same ones, so we wanted to separate that. The organisation uses both. At higher capital levels, you have more options on hedge strategy, so there is a trade-off there of return on equity, capital intensity, hedge intensity. However, it is across that range.

Axel, did you want to add any colour to that?

Axel André: I think you are right on, Mike. Essentially, when we are in a more benign environment, we would be hedging more with options. As the first quarter unrolls, the option is essentially to put options again into money, would gradually rebalance more into futures. The profile of the liability was more linear so the futures were a better match. As of now, we are tracing back. We are using a mix of futures and options.

David Motemaden: Thank you.

Kailesh Mistry (HSBC): Hi, morning, afternoon everyone, thank you for taking my question. A few on Asia. First one is on Hong Kong. What is your base case for the border reopening, is it fourth quarter or 2021?

On the domestic business, thank you for the information on slide 64. It seems to indicate a slowdown in the run rate between the first quarter and the second quarter. Is that COVID-related or is that just the high base because of the launch of QDAP and VHIS this time last year? Specifically, what was the momentum like in July? Because, obviously, the Insurance Authority approved the sale of Par online. Has there been strong pick-up? Also, has there been pent-up demand there.

Second question is just on agency. Obviously, you flagged that there is 7% growth in the agency, excluding India. Can you provide a little bit more colour, especially, what was the growth in Hong Kong, China and Indonesia?

Then on Pulse, there seems to be some very strong progress there, with 70% of customers being new and younger than your existing customer set. Can you talk a little bit about average case size, business mix compared with traditional business or your historic business and any impact that has had on the IRR that you are writing? Thank you.

Michael Wells: A couple of general comments, and Nic, I ask you and Raghu to comment as well.

As you have seen consumer interest in health and protection both in action in buying policies and also just in general interest, so there has been an increased interest in joining firms that supply those products. We are, clearly, an attractive player in that space. I will let Nic tell you more of the specifics around the growth.

The scale of the growth, from my point of view, adding 70,000+ agents in this period is larger than the agency force of most of our top ten competitors' agencies in the region. Not to say all these agents will be successful and productive. We are getting better and better at agency management. It is all virtual now, there is some great tools to improve the likelihood of success. However, I just want to add some scale to that. I think it is an incredible effort by the team.

Nic, do you want to comment on some of the specific questions Kailesh has on Hong Kong, domestic run rate?

I would say, Kailesh, we do not have a forecast now, given how fluid governments opening and closing borders and travel on COVID. I think it is pretty hard for anybody to credibly predict. What I can tell you, I think in all markets with COVID globally, we are much faster at responding to whatever the opportunity set is. For example, we did not have all of our products, as you mentioned, prior approved until well into the second quarter virtually. We now have agency up and running with that. We have the leads coming off of Pulse. Therefore, in a lockdown, we are much more effective week by week than we were previously and therefore less affected by lockdown. We are much faster coming back up to speed when a market opens. We are assuming that this is the environment we work in for the foreseeable few quarters at least.

Nic, do you want to answer the question specifically, please?

Nic Nicandrou: Okay. Thanks, Mike. Thanks, Kailesh. We stand ready when the border opens in relation to Mainland China. It is possible that it may not. However, if it was to open, then we stand ready to go. We know when we have seen opening up in other parts of the region, there is a rush to buy. So, the minute the border opens, we think there will be a rush to buy.

We included a slide in the deck, on 65, that shows the information around our latest survey on purchasing intentions and why Mainland Chinese customers prefer Hong Kong. Really, it reinforces all the structural advantages that Chinese consumers see when they buy products in Hong Kong.

I am not going to predict when it will open. However, we stand ready to take advantage of that.

In relation to the domestic, we had a good first quarter. First quarter, and these are published stats, we were down 8%, and we did better than the rest of the market that was down 25%. It was on the back of us doing really well in connection with Qualified Deferred Annuity Plan. Having added up all the information, we have secured 17% share of that market. That speaks to the business's ability to leverage an opportunity to innovate, move fast, use the distribution channels, both agency and bank, to deliver growth.

VHIS was smaller around the sector in terms of APE, clearly, important in terms of case count. We have a fair share there as well.

In Q2, to your question, there was a slowdown. There was more social distancing than we saw in the first quarter, particularly as students came back in March, and the containment measures tightened up, as you know, Kailesh, you are in this market. That slowed things down a little.

Branches, SCB branches, and generally banks reduced their capacity as we went into the second quarter. In fact, capacity was not fully restored until the back end of June, so that was another factor.

To your point, yes, QDAP having been outside its first year, also had, if you like, the uplift that was given to Q1 and the first four quarters of this product reduced. QDAP made around 28% of our sales in Q1, and only 14% of our sales in Q2.

The ability to sell virtually really only came in earnest towards the back end of June. It has been utilised in July. Sales in July were roughly at the same level as those in June in terms of comparison with prior year, roughly a third down, because we had momentum with new products and a new push in a number of areas. However, we had effectively a surge ininfection rate here, so, now in Hong Kong, we are experiencing the tightening of all the constraints that we have seen.

Nevertheless, there remain important opportunities for us. Domestic, we have a sizeable agency force. To your question on agency numbers, our Hong Kong agency force at 24,500 is up 7% compared to what it was a year ago. Most of that uplift, and a lot of the recruitment this year, was domestically focused. We are celebrating our 20th year with SCB, so an important relationship.

Also, we have launched Pulse, linking that to your last question. We have 400,000 members now, users of Pulse. The business has done a really good job in using that membership as a lead referral, if you like, to agency. We have not yet farmed the full amount, but we have managed to convert, since April, around 12,000-12,500 at full premium, full margin. That is where we are in Hong Kong.

On agency, the increase in the count is coming from Hong Kong. We said 7% increase in count relative to a year ago is coming in Hong Kong, I referenced that. Indonesia was up 13% agency count year-on-year. Philippines was another area. China was also up. In most other places, we have held, notwithstanding the fact that for large parts of the second quarter, because licensing is done by government authority, a lot of licensing was shut. Nevertheless, 72,000 new recruits, mostly, from those markets.

On Pulse, we have done 1.7 million policies. Again, there is a slide in the appendix. 1.5 million of those were offers, very short-term, whether it is personal accident, some short-term life. They were freemium, if you like. Some COVID-related covers. That is that. We have done about 165,000 cases of micro-insurance or mini-insurance, if you can call it that.

Case sizes are around $12 a year, so $1 a month. That gives you a sense now we are able to effectively make money. These are protection policies and the margins are fine, but literally very small. However, we can make profit on $1 a month now, which is something that we could not do two or three years ago. There are plans to do much more across all 11 markets where we are launched Pulse. We will do at least three digital products per market by the end of the year.

Then, we have had around 28,000 referrals. These are nurtured leads that were passed on to agents that were followed up face-to-face or some of them were done virtually. They translated, as you can see in the slide, around $60 million of APE. The average case size we have done in Hong Kong was of the order of $3,000. Where it was done elsewhere, was $1,000. These are the full loaded, if you like, policies that an agent would sell, had the referral not come through Pulse, had it come through another channel. So the margins of those are the same as we do through other channels, so high-margin products.

We can do the introductory offers to get a second point of engagement. We can do micro or mini products to act as a second point of engagement. Then, once these leads are nurtured they can be passed on to agents, using new, sophisticated, lead management systems and converted into fully fledged products.

Kailesh Mistry: Thank you. If I may just ask a slight follow-up on that Pulse thing. Your offering is pretty advanced versus some of your competitors across the region. Are there other functions that you feel you need to add to this or are you done with that, and now it is about acquisition and cross-referral and the rest of the model that you highlighted?

Nic Nicandrou: No, we are only just starting. We are only just starting. Look, there is a lot more we can do. The next phase of this is, we said earlier that 90% of our products across the region can be sold virtually. This is done through a combination of technologies at the moment, as we have joined it up together, two or three different platforms. By the end of the year, that virtual sale will be able to be done via Pulse, with video, with being able to attach documents. That is already up and live in the Philippines. It is just up and live now in Malaysia. So, the 38%, to the extent that we have another 38% in a future quarter, will be done through Pulse. It is becoming a fulfilment tool for the agency as well as a referral tool, as well as a tool where people can buy directly.

We are going to be adding a lot more mini projects and products across the piece. Also, we are trying to bring more aspects of the value chain onto this. In Indonesia, alongside the launch of Pulse, which attracted 3 million downloads earlier in the year, at the same time, we incorporated a minor claims processing functionality. We have integrated Pulse with the hospital portals, so that an issue, the e-medical cards which can admit someone on to a hospital, the bill can be submitted electronically by the hospital through Pulse to ourselves. We have connected to 570 of the 1,700 hospitals in our medical network, and we can process a claim in less than a day.

We are also using it for servicing. Again, in Indonesia and Hong Kong, in-force customers can use it to go in and do an enquiries and small servicing on their policy.

Now, from here, we will add more services. We will look at mental health. We will look at diabetes. We will broaden the direct offering. We will be tuning up the online-to-online everywhere. We will integrate PRUworks, which is our SME employer benefit, into this. We will run that through Business at Pulse. We'll be attaching it to other ecosystems. We have done that with OVO. We will be doing that with UOB.

We made another announcement with one of the biggest e-commerce platforms in Thailand today, Central. Again, we will be integrating it with that. We will look to see if we can broaden the geographical reach beyond the 11 markets that we are in. A lot of thought and development is going into this, both offering another growth market for us, but also integrating it with our end-to-end, if you like, with our traditional business model, and through that gaining efficiency.

Sorry, long-winded answer. It is a big and long answer but it is an important differentiator for us.

The other thing it gives us, and what we have learned through the crisis is that people are now asking for services to be bundled with protection. The fact that we can offer protection across the piece, and now add services to go with it, again, puts us in a unique position.

Kailesh Mistry: Thanks, Nic.

Nic Nicandrou: Thank you.

Jon Hocking (Morgan Stanley): Thank you. Good morning, everybody. I have three questions, please. Firstly, on Asian new business strain, can you comment on why that was down at a much lower rate than sales? I think it is down 7% year-on-year. Is it purely the mix shift away from Hong Kong? But there does not seem to be something else going on there. How should we think about that going forward? That is the first question.

Second question, when are we likely to get some more visibility on the Hong Kong group-wide supervisory regime? Do you should expect that by year end?

Final question, just looking at slide 20, where you have the phasing of the movement restrictions, etc., it does seem a lot of markets have actually gone into a more restrictive phase either in June or subsequent to the quarter end. You mentioned, obviously, the ability to transact online in Hong Kong. However, that seems to be one market. Can you comment a little bit about how we should think about the sales tempo Q3 versus Q2? Thank you.

Michael Wells: Yeah. Let me give a general comment on the third one, and then, James, I am going to have you comment on group-wide supervision. Raghu, how about you discuss new business strain in Asia? Try and get everybody involved on the call today.

We have 11 markets now, Jon, that we can transact virtually, as we finish the second quarter, so, basically, all of our product stats in those markets. As Nic referred to, one of the other pieces that has gone on is development of technology and tools for the agency force to be able to transact virtually, and best practice virtually and things. We are much better at that than we were, and those learnings are shared real-time. Our pace at being able to develop now, and be able to share something that is working across the region is historic for Pru.

One of the pieces of technology that helps an agent work with a Pulse lead to one of the full client relationships that Nic referenced, for example, was developed in a hothouse over three days virtually. Not just tech people, people all over the region, and our Digital team. They finished on a Sunday night. Again, none of these people could be in the same room. On Wednesday, the app was up in the iStore and Google Store, etc.

There is a pace now that is unique. When I say we are getting better weekly, that means improvement in the tools as well as sharing what is working. You have 11 markets now across Asia, and the US has virtualised its sales processes, its statements. It has always been an industry leader in its technology platform. It is clearly using that to its advantage in this environment as well. This is not just an Asian story for us.

Raghu, do you want to talk about new business strain? And, James, do you want to talk about group-wide supervision, please? Both briefly, we have to keep the pace going, guys.

Raghu Hariharan: Sure. Good afternoon and morning to everyone on the line. I think, Jon, it just reflects two things. One, is it reflects a higher product, a better product mix. We have more non-par and protection sales, and par sales as the proportion of sales are lower. That is one. The second one is just the effect of lower rates. That explains the strain levels which have gone from 13% of APE to 18%.

James Turner: Okay. On the GWS, the primary legislation enabling the new GWS framework was passed by the LegCo before the last session in July. The subsidiary legislation is required. With the announcement today to extend the LegCo, it remains our expectation that the GWS framework will come into force in Q1 2021.

Jon Hocking: Thank you. Could I just come back on the sales point? Mike, you mentioned 11 markets have got the ability to transact virtually. What proportion of product range – would it be fair to say you have got most of your best-selling products with virtual execution capability?

Nic Nicandrou: Should I take that, Mike? The reason it is not 100%, is Taiwan has not approved the use of virtual. It did not need to, because the impact in Taiwan of the pandemic was not that severe. That was one. The other one that has not virtualised is the use of linked products in Thailand. The vast majority of what we sell is not linked. That is the reason it is not 100%; it is one market and one product type in another market. The other one is linked products also in Hong Kong, but that is less than 1% share of the industry, and less than 1% share of our numbers. Some markets are increasing restrictions. In terms of impact on Q3, I referenced Hong Kong, we are now having the tightest restriction here. In Indonesia, Indonesia is struggling to contain this, so the number of cases now is increasing, as is India. That situation is live at the moment. In Vietnam, actually, part of the reason Vietnam shut and opened up very quickly is because they were decisive at the beginning, and even if they got a few cases, they shut down. Having gone three months with almost no infections, when they have had a few, they immediately introduced social distancing.

The situation is live and it is volatile, like everywhere else in the world at the moment. However, we have more strengths; we referenced a few in the call so far and in our presentation. Therefore, we should be able to mitigate better than we did immediately at the outset.

Jon Hocking: Okay, thank you.

Andrew Crean (Autonomous Research): Thank you. Good morning, all. Two questions if I can. Firstly, you were talking about debt capacity of Jackson being between 20-25%. You were saying that Jackson does not need capital put into it. By my maths, and it may well be wrong, that suggests debt raising of between $2-2.7 billion to get to the 20-25%. Is it fair to say that that level of money is earmarked for a pre-IPO dividend?

The second question is to do with where you set the dividend going forward. It is really difficult for us to judge the capital position of the company because we just do not have any idea of LCSM and that sort of thing. However, I think you said you invested $1 billion a year over the last decade. Do you require to invest more than $1 billion a year organically going forward? Also, do you need to reduce your Group debt beyond that which will be repaid as a result of the pre-IPO dividend on Jackson?

Michael Wells: Thanks, Andrew, good questions. Let me start generally, and Mark FitzPatrick, I am going to ask you to come on the various debt pieces.

On the ability to deploy capital organically, Andrew, if you look at even just the last six months, you have now a scale position in Thailand, you have an increase, as we have been talking, in Pulse and the ability to do business through a digital channel, and we have grown agency again. You are moving further from par product, as Raghu mentioned, I think, in his comment. Therefore, the breadth of products we are selling are incrementally more capital intensive. Now, this is not suggesting we are going through a heavy spread-based strategy across the region. That is not the message I want to land at all. However, these are products that are non-par disproportionally.

They are more capital intensive. We published the IRRs. As you see, these are very profitable and well-received by the consumers, etc. We believe we can deploy more capital organically in Asia, and the dividend policy does not want to constrain the organic growth.

The inorganic stuff, as we have talked before, is opportunistic. We have two or three places we look there. We are in the markets we want to be in. We have a great footprint. It is things that relate to earnings. Does something improve the actual operating earnings of the firm? There are a variety of lenses there. Improves distribution first, so a banca deal, for example, or improves capability, which you have seen us do with the Pulse platform. Those sorts of options are outside of our business plans and we view them, as they approach us, one at a time. Therefore, we could not forecast them because we pursue a lot of that all the time, but we do not know what is going to land when. It is counterparty dependent basically.

Mark Fitzpatrick, would you comment please on the questions on debt, pre-IPO dividend, those pieces?

Mark FitzPatrick: Yeah. Good afternoon. In terms of the debt number that you spoke about, I think 20-25% leverage based on the Jackson IPO IFRS equity, and also, if you add in the additional $500 million from Athene that closed last month in terms of its equity investment, that would get you somewhere in the $1.8-2.5 billion debt type range. Effectively, we would expect that that would come up to PLC or to the shareholders during the course of the pre-IPO dividend. That would be then used by Group to effectively, as we mentioned, repay some of our debt at the centre.

We have quite a lot of debt that we can redeem. That is 2020-21 call dates, so we have the option. We are looking to be able to do that, to be able to repay some of our debt, to be able to ensure that our leverage ratio stays at a good and sensible level.

Andrew Crean: Great. Thanks for answering.

Blair Stewart (Bank of America): Thanks very much, and good afternoon. Just a couple of follow-ups, also addressed in Andrew's questions. What can you tell us what the level of organic RBC build is at Jackson now that it is not paying a dividend back to Group? That is the first question to get an idea of where the RBC might land, everything else being equal.

The second question just relates to the equity story for Jackson, as we stand today. We have gone from various levels of appetite on sales and new business, and also an objective, I think, from Michael to improve the stat capital and cash generation. Just wonder where we are on all that. I think those two things are linked to my first question.

My final question is just an observation on Indonesia. It was definitely a standout in terms of IFRS profits growth across the region. It was very strong in all countries except for Indonesia. I am sure there is some obvious reasons for that, but perhaps you can just comment on that? Thank you very much.

Michael Wells: Blair, remember where we are with the SEC pending an S1, so forecasting RBC would fall into that underlying category.

How about Mark FitzPatrick first, and Mark, what we can say on capital generation, let us call it that? Michael, just a little bit on equity story. Then, Nic, we will come back to you on Indonesia, please, on IFRS.

Mark FitzPatrick: Okay. Blair, good afternoon. In terms of organic RBC build, effectively, you have heard us say for a little while, it is based in terms of approximately $1.0-1.1 billion, in terms of organic capital creation. Effectively, post the Athene reinsurance transaction, we have indicated that that would probably take about $150 million off that level. The guidance would probably be somewhere between $850-ish million element. That is on the half, so that is $425 million. So, that is about 20-25% RBC points in term of the half that we would ordinarily look at on that particular patch.

So, I cannot guide in terms of a forward piece, other than that component. However, when you look at the element of the RBC role, and you look at the op capital generation during the component of the first half, you see that that is a strong number. That is a strong contributor in the first half and very much in line with levels that were spoken about in the past.

Blair Stewart: Sorry, Mark, can you just clarify? Did you say 20-25 RBC points – is that in the half-year?

Mark FitzPatrick: Correct. That is in the half-year, yeah. Ordinarily, we would operate at about – I said about $1 billion in terms of operating capital generation pre-Athene. Post-Athene, we are guiding that that is effectively closer to the $850 million mark per annum. That is where you get the $425 million for the half-year, and at the half year that is circa 20-25 RBC points.

Blair Stewart: Yeah, thank you.

Michael Falcon: Blair, good morning or good afternoon there. Michael Falcon here, and thanks for the question. As Mike said, given the announcement that we have made and SEC rules, I am going to stay away from forward-looking statements or potential indication of what that equity story might be. However, I can talk to where we are now, and build on what we have said in the past, which is consistent with our view. Which is that there is a big demand for protection products around retirement in the US, particularly around income and replacement income guarantee, as well as principal protection in the markets that we are in. We are the leading player in variable and we have demonstrated our ability to quickly lead in other categories.

We do not see any change in terms of the market demand. In fact, there are many indications that that can increase with demographics. Certainly, volatility reminds people of why they want, and need, and use our products to begin with. I think we have excellent capabilities around distribution in that place and a low-cost platform that allows us to effectively and profitably write business, and a proven historic ability to price and manage the risks associated with those.

I cannot go forward. Obviously, as we go through the process, at appropriate times there will be more information about the nuance of the go-forward strategies, and we can get into that detail. However, I think the fundamentals that we rely on today are still there and they are consistent with what's built the company to this point.

Michael Wells: And Indonesia, Nic. Thanks, Michael.

Mark FitzPatrick: Thanks, Mike. Blair, what you are seeing is the lag effect from past years where we were seeing a decline in sales. As we picked up last year, then that should change. I guess the other factor is we are investing heavily in that business in terms of automation, retooling, the agency force. In terms of some of the developments we are doing with Pulse, Indonesia is a little ahead of other markets. They are developing a lot of things on behalf of the region, as we look to develop it more, and standardise, and use it elsewhere. We have done a lot of work in the last year to refresh the entire products and launch new ones. We have 17 new product launches and all that requires investment in technology to pull through.

Indonesia, now all our recruitment is done virtually. Again, that is more investment that we are making in that business. So again, that’s more investment that we’re making in that business. It’s a shame on a number of levels, but certainly for Indonesia, sales on COVID, the underlying improvement in that business over the last year, year and a bit, has been phenomenal. As soon as things normalise, we see a lot of demand coming back and into a business that is much better placed now to fulfil that demand on a number of dimensions.

Blair Stewart: Thanks.

Patrick Bowes: I have two different questions. One from Thomas Wang in Goldman Sachs in Asia. The first part of it is, are you providing any financial support to agents that used to sell to Mainland customers, and do you think you can continue to provide financial support if Mainland customers do not return in any meaningful way until H2 2021? Secondly, what is the impact of expense overruns on operating profit and new business profit in H1? That is Thomas Wang's questions. I will pause there, probably to Nic.

Michael Wells: Yeah, agreed. Nic?

Nic Nicandrou: Yes, we are allowing Mainland customers to defer payment. Our normal periods are 60-90 days. Some of them are availing of that, but nothing that impacts our overall figures. You saw the profit grow in Hong Kong strongly. The thing, though, that we have seen is – and we always known that – a lot of Mainland customers that transact with us have other business interests and other sources of income in Hong Kong. We have seen a switch away, or rather a switch up in the electronic payment. It was around 65% of payment were received electronically. Now, it is in the high 80s. Yes, it is there to provide relief, but that is on the customer side.

Now, on agents, there are a number of initiatives that we have in place. Clearly, a lot of them are benefiting from trail commission from sales that they have done in the past. We do have financial support schemes available. They are available to all agents. They need to be, though, underwritten by leaders. We have not seen a big take up in those in the last six months. As I said, they are there for people to use.

On expenses, it is not impacted. Clearly, not all our sales costs are direct. However, it is not giving us any cause for concern or indeed, impacting the financials as you see them.

Patrick Bowes: Thanks, Nic. I have got one more, it is actually one for Nic again. And then a second one for Mark FitzPatrick, from Waverton Investment.

The first one is, as business is increasingly done online has this reduced barriers to entry in your view for the market?

For Mark, which is, could you just run through the differences that existing investors should think about between a minority IPO and a demerger?

Nic first.

Nic Nicandrou: A lot of the business is human-supported at the moment. All the virtualisation still requires a trained agent, albeit via video, to engage the prospect, engage with a customer. Yes, there is more research that is now done online. There are simple products that are made available, and can be made available, and we are doing that as well. It is producing a lot of number of cases but not necessarily a lot of premiums at the moment until such time as further engagement is made.

No, I do not think it is reducing the barriers to entry, not for the fuller policies, the fuller sized policies.

Patrick Bowes: Thank you. Then over to Mark.

Mark FitzPatrick: Minority IPO and demerger, ultimately, this is going to be driven by our desire to maximise shareholder value in terms of where we are at. Clearly, the element of an IPO, there is an aspect of sell-down proceeds to be able to fund future growth in Asia, and that is a very important consideration. Also, the aspect of an IPO would actually target Jackson's natural owners for the future on that particular piece.

I cannot really go into anything much more on that particular patch. However, hopefully, that gives you a sense of how we are looking at it in our primary lens, which is ensuring we maximise shareholder value.

Patrick Bowes: Thank you, Mark.

Greig Paterson (Keefe, Bruyette & Woods): Morning everybody, can you hear me?

Michael Wells: We can, Greig. Good morning.

Greig Paterson: I actually went and lost the call when Andrew asked the question about the Group debt, so I do not know to what degree that was answered. However, if it was not, I wonder if you would talk to the mechanics of the journey; how one should think about how much of the Group debt will reduce, considering money coming out from Jackson, inorganic growth, etc., and Moody's leverage ratio, fixed charge coverage, etc. That is question one.

The second two questions, one is I wonder if you could provide us the sensitivity of the RBC ratio to changes in interest rates. The second one is you did provide at the first quarter an RBC ratio for downgrades. However, subsequently, you have obviously transferred $28 billion of assets over to Athene. I was wondering how that sensitivity would have changed post the reinsurance contract. Thank you.

Michael Wells: Greig, thanks for the questions. We did answer the debt piece. I will let Mark address that again in a moment to give you a summary.

You have a flooring of rates in RBC, and we gave a greater-than number at the half year. Just given everything that is what we are announcing, we wanted to make sure you knew it is in the target range. Again, we want to see that continue to move up.

Mark, why do not you do the debt first, and then Axel, a quick overview of where rates are in the US floors and how that affects RBC in general. Let us not get into specifics on Jackson, but I think there is a clear mechanic piece that is important in that.

Mark?

Mark FitzPatrick: Okay. Greig, hey. In terms of the debt, Greig, first and foremost, we do not have any concern re the ratings agencies or the ratings headroom. We have been in conversations with the ratings agencies in the run up to today, as you would expect, and would expect to hear something from the rating agencies in terms of them providing some update on today's news imminently to the market.

I think in terms of the pre-IPO debt that Jackson would raise and then dividend up to the Group, the area of the $1.8-2.5 billion debt in that range, so the 20-25% leverage. That would be predominantly used to an element of debt repayment. We have lots of flexibility in that in terms of the debt that we have, and a lot of debt that is available in terms of the call date that is there and that is available.

So, no issues in terms of the debt, and no issue in terms of the rating agencies from a debt perspective as well, whether that be Moody's or any of the lot.

Michael Wells: Axel, impact of the de-risking the credit portfolio with Athene and then why do not you do a little bit on the floor rates in this RBC model.

Axel André: Sure. Yeah, let us start with the easy one on credit. At the end of the first quarter, we did a hypothetical that if 20% of the debt portfolio was downgraded by one whole letter rating, the RBC ratio impact of that would be 16 points of RBC. That was at the end of Q1. Post the transfer of a significant amount of assets as part of the reinsurance contract, that sensitivity has decreased now to 12 points versus the 16.

On the rate piece, as Mike said, the RBC methodology has an inherent flooring of interest rate. The reality is given where rates are today, they are essentially below that floor that is embedded into those scenarios. Therefore, from a liability perspective and reserves and capital requirements have relatively little sensitivity to interest rates at this point in time. Whereas on the hedge and asset side, derivative hedges would be mark-to-market. Interest rate derivative would be mark-to-market. And to the extent that we have some rate protection embedded in fixed income asset, such as long-duration US treasury, as we have mentioned in the past, those are carried on the on the stat balance sheet and at a group level.

Michael Wells: Thanks, Axel.

Ashik Musaddi (JP Morgan): Thank you and good morning everyone, just a couple of questions if you can help me. The first one is, if I look at the embedded value report, there is a bit of economic assumption changes in Hong Kong business and that has resulted in $3.5 billion reduction in embedded value. I'm a bit surprised with that big number, because if I look at the embedded value of Asia, it is about $35 billion. Even if we say that Hong Kong is about a third, let us say $10 billion, it feels like the interest rate drop has wiped out a third of Hong Kong's embedded value. Can you give some clarity on that? What sort of assumptions were used in the past and what has changed? I mean, it looks like a massive drop.

The second question is on the demerger. You mentioned that if the IPO is not successful for market reasons, then you would demerge the US business. What does that mean for capital for Asia? Because, on the one hand, you are suggesting that you might need that capital that comes from the US to help the growth, to accelerate the growth in Asia. However, at the same time, if you demerge then you are not going to get that. How should we get that?

Lastly, can you give some sensitivity on RBC for equity market at well? I think you gave clear answers on interest rate, but anything on equity market would be helpful as well. Thank you.

Michael Wells: Okay, Raghu, do you want to explain the embedded value changes from the half-year, Hong Kong?

Raghu Hariharan: Sure. Hi Ashik. The first thing I will do is consider both, as you know, the short-term flux and the effect of the economic assumption changes together, to give the total impact. That is point one.

Second, as you know, we update assumptions on an active basis. Here, what is potentially happened is that the risk discount rates have undershot the fall in risk-free rate. The US ten-year is down 126 bps. Risk discount rates have only come down 100 bps, so we are holding some for market risk. While the FER has actually overshot the fall in risk-free rate, so the earned rates are lower; to give you a sense, it is about 1.5 times the 126 bps fall in risk-free rate. And this is because of two reasons. One, we do not assume a mean reversion, and this is an important point. The second, we assume June levels stay forever. Clearly, we also do not assume a dynamic rebalancing of the asset, so as bond values go up, proportionately, you have more bonds and therefore your earned rates are lower. Therefore, it is purely a mechanical impact of the assumption coming through our EV

Michael Wells: Then on demerger, so I think we have been pretty clear on the advantages and disadvantages of both. I do not think we are looking, necessarily, if it were to be a failed IPO. I would disagree with your choice of language there. I think if we looked at the market and thought we can create more shareholder value by demerger, you still have the debt that has been discussed on the call, that transference of an internal dividend, if you will, up to Group. It would be a decision by the board and management that that was more accretive to value than an IPO, given a unique market.

I think we are pretty clear that we think we can do a market, an IPO in the first half of next year. We have workstreams, Ashik, that are consistent with an IPO, are consistent with a demerger on timing and on effort. Hence, we do not anticipate any issues with an IPO. However, we are just making sure everyone knows we are maintaining the option and we have a backup plan if we do not think the market – think of it like March of this year, that difficult environment, where we completed one of the largest reinsurance transactions ever done, and we got off an equity sale in that climate.

I think we are confident we can do this, but we are also maintaining optionality, which I think is appropriate given the importance of the transaction.

On RBC, Axel, do you want to comment? I am not sure what our last public comment on RBC sensitivity is. I want to keep to what we have said publicly, please. Just given the SEC.

Axel André: Yeah. So on RBC, I would simply say that, as we have indicated in the past, we are essentially in capital preservation mode. Really, on any one day, you would have us look at interest rates and equity sensitivity, and putting on hedges to reduce, to minimise the sensitivity as much as possible. On any one day, we may be more exposed to the up than to the down. However, essentially, we are attempting to stabilise that.

Michael Wells: Thanks, Ashik.

Abid Hussain (Credit Suisse): Hi, morning all. Thank you for taking my questions, I think I have got three questions left. Firstly, to come back to the capital construction and the debt leverage within the interaction in the US and the Group. You said you can take out about around $2 billion of debt from the US, and you are looking to use those proceeds to retire debt at the Group. I am just wondering, what is the right level of debt leverage that you are thinking of at Group? I know there is a separate conversation going on with the rating agencies. However, just in terms of Group debt leverage, where are you aiming for on that?

Just linked to that, can you just confirm that any debt raise you do for Jackson will count as available capital? That is just the first question.

Then the second question is on the RBC ratio. Just wondering why you feel 425-475% is the right level and how does that compare to peers What sort of metric are you thinking of when you set that level?

Then the final question is on China, it is more of a broader question really. I am just wondering if you could perhaps talk through some of the growth initiatives in China. In particular, how you might reduce the reliance on Hong Kong.

Michael Wells: Okay, thanks, Abid. Mark, I am going to have you handle the first one. And Nic, some of the initiatives in China.

I think on RBC, let me just make a general statement, and Michael, if you think it’s that. So, the range comes from a number of things. It is relative to market and what we see going on there. It is discussion with key stakeholders, so think of rating agencies and others that would opine on the financial strength and commercial rating of the entity. As we have discussed, so you are into a new RBC regime, which Jackson adopted early. I said before, I think it is personally a better regime than the old one, and I think it is more conservative than the old one. We think that creates a well-capitalised, still high return on equity business, still generating capital, again, at very attractive returns, and allows Jackson to operate as a standalone entity without the Group. That was the lens at which we looked at what capital level we wanted for Jackson as a standalone listed entity.

Michael, did you want to add anything to that?

Michael Falcon: Mike, I think you captured it right in terms of the mechanics of the direction and how the range was set and come to. I mean, our principle focus is on economic and economic value creation, economic risk management. We, obviously, have accounting earnings and statutory capital that are really important measures that we need to focus on as well. There is a number of things that go into it, and the RBC is only one component.

Michael Wells: That is a good point. Okay, so let us go to Mark, please, on debt US Group leverage.

Mark FitzPatrick: In terms of debt, we are looking at, and we plan on holding onto our current AA rating. We think we have got lots of headroom today. Ideally, look to use some of the proceeds that come up to reduce the debt, as I have said. That will be the essence of how we are looking to use the proceeds from the Jackson debt raise as it comes up.

So, the AA rating for us, financial strength rating is an important piece. We have got that today, and we plan on holding onto that. As I said, we have got plenty of scope for that.

In terms of the debt raise for Jackson counting as available capital, yes it does, on that particular piece.

Regarding leverage target, I have not commented or have not said necessarily a particular target. However, I think it is fair to say that we'll be aiming to make sure that in the medium- and long-term that we are comfortably within the leverage range that Moody's sets for that type of rating.

Michael Wells: Thank you, Mark. Nic, do you want to give a little colour on the growth we are seeing in China, and maybe a little bit on sequential as well, if you do not mind. Just to give him a feel for a recovering market.

Nic Nicandrou: Okay. Thanks, Mike. However, before I do that, let me just correct a point. It is not Hong Kong or China, or China instead of Hong Kong. Hong Kong will compound strongly. The needs are real. On the medical side, we see them now, on the retirement side and the savings. The same is true in China but on a much bigger scale with 1.3 billion people.

A few comments on progress in China. To Mike's point, China has been a highlight for us, so far, in 2020, actually, showcasing the power of our franchise, not only in that market, but the potential everywhere else.

Now, the resilience in the depth of the crisis, if you like, at the start of the year, and our recovery since is really underpinned by three things. The first is the broad geographic reach. We are in 20 provinces, so not all were affected in the same way, at the same time. The second is the balanced channel strategy with 36,000 agents, and now 40 bank relationships, giving us access to 4,000 outlets. And the third one is the diverse product strategy.

We saw sales rebound strongly in the second quarter as restrictions were eased. We grew by 20%. Agency grew by 15% in the second quarter. Three drivers. The first was boosted by the recruitment that we did in the first part of the year; in the first four months, we upped our recruitment by 32% through January and April. Higher agency productivity that came from the use of virtual tools; 67% of our sales were virtual. And a higher focus on H&P; H&P mix in agency increased from 40-60%, fulfilling demand that was obviously there.

On the banca side, we built on the first quarter growth to deliver a 25% increase in the second quarter, as we made further inroads in not only the existing, but added new relationships. That is what drove that.

Looking at how we faired versus competitors, we had a better March through June than the rest of the market. When we look at how we have done in each of our provinces, we grew market share in the first half of the year in 17 out of the 20 provinces. NBP fared better, so to our minus 5 per cent overall in APE, were plus 4 per cent NBP. Agency margins, because of the health and protection mix, are now north of 80%. Just to give you a sense of how well our agencies are now doing, we have increased productivity, more focus on H&P.

The banca channel, as I've said before, we manage that on an IRR basis, given that it is selling mostly investment products and IRR stayed healthy in the 20s, with a very short payback period. Overall in China, IRRs are 30% plus, and payback period 3-4 years.

We are growing the platform. We are looking to enter our 21st province. We have expanded a number of cities by three. We have expanded a number of sales offices. Therefore, it is product initiatives, it is channel initiatives, it is footprint initiatives, and it is debt initiatives. All this has made for a very strong progression in all the financial and business indicators of that market.

Michael Wells: Great. Thanks, Nic. Abid, thanks for the question. Patrick, back to you.

Patrick Bowes: Thank you very much everyone on the call. We look forward to speaking to you in due course as we come forward with the next stages. Thank you very much everyone and good afternoon.

[END OF TRANSCRIPT]