Prudential plc Business Update for 2020 Annual General Meeting

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Business Update for 2020 Annual General Meeting

Mike Wells

Group Chief Executive, Prudential plc

Welcome

Good day everybody and thank you for joining us. We felt it appropriate to bring you up to speed on how the business is responding given the external environment we are in. It has been a while since we have done a quarterly update so appreciate you joining us. We are not going to continue to do these on a scheduled basis but if the environment continues we will keep these updates coming. As you know, we had our AGM today, our first virtual AGM in almost 200 years so we thought it would be an appropriate time to bring you up to speed.

Let me start with some brief opening remarks and then we will follow it by a few brief comments from Michael Falcon, CEO of our US business, Nic Nicandrou, heads up PCA for us and then we will open up for questions. Also to the Prudential team I am also joined by Mark FitzPatrick and Nic Nicandrou, also James Turner, our Chief Risk Officer, Michael Falcon again, Axel André who is our CFO in the US and Raghu is joining us as well from Asia so we have both CFOs of the major business units as well.

Group Business Update

Our immediate priority, as you are probably hearing in a lot of management teams, was the needs of our colleagues, our agents and distribution model, our customers obviously and then where we could have impact on the communities we are in. We make sure we are delivering on all of those fronts concurrently and I think we are to-date doing all of that. We performed well though I think there has been a substantial disruption and obviously a lot of market volatility. It demonstrates the strength of the business model, the resilience of our capital and particularly uniquely I think our operational capabilities and digital capabilities.

In Asia two thirds of our products now can be sold without face-to-face interactions and again that is based on the first quarter sales mix. We have utilised our digital platform to issue 1.2 million policies during this time, the majority of which were new customers and we continued to roll out our digital ecosystem, Pulse. Also now that we are live in eight markets. We have seen four million downloads and the benefit of our diverse portfolio is evident I think from ever-increasing sales, double-digit sales growth and new business profits in markets outside of China and Hong Kong.

Let us start with China and Hong Kong. The impact of COVID-19 and social restrictions there hits first and that led to lower new business sales and profits. Importantly our in-force business remained resilient. Our renewal premium base continues to compound, driving earnings growth at 14% over the first quarter across Asia and we invested heavily in Asia again this period. With bancassurance deals in Thailand and Laos. We continued to [inaudible] second payment on the UOB relationship and good committed over $1 billion of capital to the region for inorganic and expansion of our capabilities.

In the US preparations for a minority IPO continue alongside our active evaluation of other options. We moved to an independent Jackson and we have committed to provide an update with our half-year results in August. Over the extraordinarily volatile first quarter with Jackson's risk programme in place the RBC ratio finished the quarter in a 340-365% range.

Again, that is only marginally below the level at the beginning of the year and we have managed our investment portfolio quite conservatively there, not stretching for yield as we have discussed many times, and significantly increasing our cash and US Treasury holdings in the period to nearly 20% of our portfolio on that basis. We have managed a good balance sheet and liquidity carefully and we successfully accessed the US debt market $1 billion US. Finally, our solvency both of the Group business unit remains robust. As at 31st March the Group had an estimated LCSM surplus of $11.1 billion and a ratio of 302%. We see resilient diversification and prospects for long-term growth coming in our Asian businesses. We are continuing to invest and innovate to meet the important needs of our customers. We have a highly resilient business model and we are well positioned over the long-term to weather the disruptions caused by this COVID-19 pandemic and to support our customers and the communities we are in, in the recovery regardless of that shape.

Jackson Business Update

Michael Falcon

CEO, Jackson

Good morning, good afternoon to everybody. Thank you for joining the call. Jackson performed well in the first quarter showing resilience in what, as Mike said, was a volatile and challenging environment. Our statutory capital increased by over $3 billion in the quarter to almost $8.4 billion at 31st March. Our operating capital generation remained in line with our expectations. From a credit exposure perspective we began the year well-positioned and continued to carefully monitor and actively manage the portfolio. Critically important, Jackson's business operations have remained fully functional even as roughly 95% of our associates are working remotely. We remain connected to each other, our clients, markets and key partners. We have maintained service and quality at historically high levels. Sales in the quarter were strong compared to a year ago levels although we did see a slight decline compared to fourth quarter 2019.

I note that VA origination in the quarter increased both year-on-year and sequentially. That was offset somewhat by fixed annuity and fixed index annuity volumes when we compare to the fourth quarter last year. Given market and rate conditions we took pricing actions on fixed and fixed index annuities late last year and again in the first quarter. The lower volumes are expected and they are likely to continue in the months ahead. We have also initiated actions in our VA product line we expect to come into the market later this year. That is subject to the regulatory approval process. Our longstanding approach to pricing discipline is intended to keep sales origination aligned to both our risk and our return hurdle rates. As regards our in-force book, we have not seen any notable changes to policyholder behaviour or overall asset mix in the separate account book.

A few words on sales activity. There is still no face-to-face meetings taking place in the US between our wholesalers and financial advisors. At least, fortunately Jackson is digitally capable across our product range, as are many of our distribution partners. We are continuing to write new business through this period. Financial advisors, along with our external wholesalers are getting increasingly comfortable with digital and video engagement and we have seen virtual client meeting counts increased meaningfully over the past several weeks, as well as attendance in virtual events. Long-term this creates some potential cost and scale efficiency for us but I think it is too soon right now to know exactly how that is going to play out. Overall I am very proud of the way our associates and the Jackson leadership team have worked through this extraordinarily demanding period.

In closing, let me just highlight that it is during these periods of market stress and volatility that the value of our products and services best come to light, both for advisors and their clients. Jackson's ability to manage effectively through these periods, coupled with our leading distribution franchise, really means we are well-positioned in the US retirement market I think for the months and years to come. With that, let me turn it over to Nic.

Asia Business Update

Nic Nicandrou

CEO, Prudential Corporation Asia

Good afternoon, good morning everyone, I hope that you are all staying safe and healthy. PCA's efforts in the current volatile operating environment are focused on three key areas. One, ensuring the safety of our staff, two, meeting the needs of our customers, and three, digitising our business model. For our staff we put our business continuity plans into action as movement restrictions were in force across our 15 markets, helping over 12,000 of our employees, excluding JVs, to work from home at literally the flick of a switch. At the peak 80% of our staff worked from home. Today this figure is around 60%. We have also provided masks and sanitisers to ensure that those employees who are at work feel safe.

For our customers we have responded to the needs and concerns in multiple ways. By offering in-force customers COVID-19 related cover and benefits across all our markets. By allowing grace periods on premium payments to enable customers in financial hardship to retain their valuable protection cover. Lastly, by innovating to provide bitesize health products and by rolling out Pulse, our digital health services app, in eight markets and in six languages.

Mike referenced our resilient first quarter sales and NBP performance outside Hong Kong and China. With the latter, in other words NBP, up 23% reflecting both the portfolio diversity and the demands for protection across our ten markets. From mid-March however, all our markets in addition to Hong Kong had imposed social restrictions and even though China saw an easing and a return to growth in April at +28%, these developments will adversely impact our overall second quarter sales and NBP performance.

In response to these growing restrictions we accelerated our efforts to digitise our business model from front to back by moving agent recruitment online, virtualising the sales process so that agents can sell non face-to-face, launching digital bitesize products on Pulse and providing customers access to multiple electronic payment channels across all of our markets. As Mike said, two thirds of our APE is now capable of being sold virtually while we recruited 40,000 new agents in the first quarter, up 11%.

Complementing this capability, 4 million Pulse Downloads which provide a rich source of leads and have enabled digital customer acquisition with 1.2 million micro Pulse directly, the majority to new Prudential customers. A China playbook where rapid digitisation and agent recruitment through February and March enabled the business to benefit strongly from the recovery we saw in April, gives me confidence and the improvement in our digital capability across the rest of our markets positions us well to benefit from the eventual rebound.

To conclude, the improvement in our sales capability will over time amplify the traditional strengths of PCA's business, namely strong capital, low asset side risks and higher customer retention, to deliver sustainable, profitable growth.

Q&A

Jon Hocking (Morgan Stanley): Good afternoon everybody, I have got three questions, please, two on Jackson and one on PCA. Starting with Jackson, on the fixed annuity products and the fixed index annuity products general account strategy, check if you have got to tilt the mix towards those products does that still look sensible given what is going on with the yield curve and where the new business ROEs are presumably moved to despite the repricing? This is my first question. Second question, again on Jackson, I think at the year end you made a comment that you will be looking at spreading the dividend payments back to plc through the year at Jackson rather than the usual annual payment. Could you comment when you expect to make the first payment and is that contingent on the solvency ratio improving at Jackson? Then finally on Singapore, it was in the set of markets you called out for some strong performance in Q1. I wondered whether that is a market that is going to be particularly impacted in Q2 given that the lockdown is a little bit out of phase with the rest of South East Asia. Thank you.

Michael Falcon: The dividend remittance I would actually put back to Mark FitzPatrick because it is a function of Group policy. I think it is more appropriate that he handle that. On the general account strategy and the FA and FIA, I think it is an important point. It is something we have heard a lot in investor meetings. There are a couple of things. One is the strategy we talked about last year still holds. This idea of additional capital into Jackson against diverse risk to realise co-variance benefit is important but we have said all along that the organic ability to move that in the short-term is somewhat limited, principally given the size of our installed VA book and how well that has performed through markets. That is true even given the correction in market values we have seen. Last year we had pretty good success of establishing additional distribution by forming relationships and actual sales on fixed annuity and fixed index products.

In terms of the first quarter activity, pricing and a drop in those volumes now, I would not read too much into that. One is that while rates have come down and the treasuries have come down, corporate spreads have widened too. We are comfortable with the business that we have written during this time and particularly in the first quarter. I think going forward in the short-term with rates where they are as well as looking at the capital position and the capital required to put up those products, we are expecting to see lower levels and we have priced accordingly. However, I do not think long-term anything that we have said relative to that strategy has changed.

Importantly though, there is also a commercial element to this which is that our clients and our distribution really want a more complete solution set for their clients across the annuity platform spectrum. That includes fixed, fixed index and includes the RILA products which we are in the process of exploring and VA as well which is our traditional strength.

Mark FitzPatrick (Group CFO, Prudential plc): On dividend last year we said that we would look to spread remittances over the course of the full year rather than just taking them in the first half. Last year and traditionally I think we have tended to take the dividends in June of the year which is why you do not see anything coming through in the first quarter. You will be able to get to see the cash flow disclosures when we publish our interims in August. It has been an extraordinary quarter. We are very mindful of where markets are at and look forward to being able to update you on the level of remittances at the interim stage.

Nic Nicandrou: Good morning, Jon. Singapore had a muted response to the COVID-19 outbreak in the first quarter but the government just tightened up by introducing the circuit breaker measures on 7th April. In fact, these measures will last until 1st June at the earliest. Now, as part of those measures any face-to-face facilitation by agents was prohibited. Agents, like everyone else, had to work from home and whilst banks were allowed to open, because of the slowdown in foot traffic both UOB and SCB closed between a third and half of their branches. That is how severe the restrictions were and how severely they have hit Singapore now. Immediately from 1st April we were able to launch all our products, every single one of our products, virtually, trained all our agents and they literally from 1st April were able to sell virtually face-to-face. The virtual activity stepped up as agents were trained and became far more familiar with it. So much so that as of now every sale that is made in Singapore is on a virtual basis. We rolled out the same technology to our bank partners, which is now also up and running. Now, all this to say is because the measures were quite severe and came in on 7th April, yes, the outlook for Singapore in the second quarter is more challenging until those circuit breaker restrictions are lifted.

Now, we are launching more products that are more bitesize and easier to sell virtually face-to-face. As I said, a third of our agents did a virtual sale in April and that number is increasing all the time. Having launched Pulse, which it was the latest market in which to launch Pulse, that is producing a rich source of leads. I referenced that across the region, it is also true in Singapore, which we can sell to directly online or refer to agency downstream.

Jon Hocking: That is great, thanks.

Kailesh Mistry (HSBC): Good evening, good morning, thank you for taking my questions. I wanted to follow up on the virtual sales. Nic, just to clarify, I think in the first wave of rules virtual sales were only applied to existing customers but not to new customers. Has this now been rolled out or have the regulations allowed this to be rolled out to new customers as well now? Second question is on Pulse. What type of product mix are you selling on that? Is it equivalent to product mix in the respective countries where it is being sold from? From a profitability and a quality perspective. Then lastly on the operating profit, 14% growth, is there a big positive experience in there or is it significant? Most of the competitors have been saying in the region that claims for other types of illnesses etc. have fallen. A bit of colour around that operating profit would be helpful too. Thank you.

Nic Nicandrou: New versus existing, I think you mean the older markets when virtual sales came in and I can give you a run through by market. They were allowed for both new and existing products. As I mentioned to Jon earlier, in Singapore everything can be sold virtually both to new and existing. The same is true in Malaysia. The same is true in the Philippines. The same is true in Vietnam. The same is true in China. In Thailand we can sell virtually face-to-face all products except linked. In Hong Kong we can sell standalone protection products and qualifying deferred annuity plan virtually but not products with an account value, which is what our Evergreen Saver is. In Indonesia we can sell products to new and existing customers standalone protection virtually but not the linked product with an account value. However, as I said, we came in pretty much with new and existing everywhere and the activity is picking up in a number of these countries. Most of the sales as we sit here today are now done virtually.

To your second question on Pulse the products that we are currently offering are purely protection and they are there, if you like, to establish a second relationship with a customer or with a user that may be for now has just downloaded the app and is using Babylon symptom checker, health assessment, using the telemedicine. What we are doing is that we are pushing limited duration products, whether it is personal accident, whether it is a Dengue Fever type product, whether it is short-term life or whether it is COVID-19 cover in case you are diagnosed or hospitalised. Those are the products that we are selling. Some of them are done on a freemium basis, others are done on very low case size but as I said, at this point it is just to establish a second relationship before we can offer either higher priced products or indeed ultimately refer them to either an offline or a virtual sale to one of our agents.

On the operating profit question, there was some extra benefit coming through from a lower normal claims count. Not significantly so. It was not until March that we saw across our portfolio a 15% reduction in the medical claims count relative to our normal run rate. That stepped up further in April. We saw a reduction in the claim count in April across our portfolio by around 30%. There is some effect but not that significant in the Q1 earnings mix. In the meantime the claims that have to be paid for COVID-19 cases continue to be minimal, a few million dollars.

Kailesh Mistry: Thank you.

Blair Stewart (Bank of America Merrill Lynch): A couple of questions from me as well. Coming back to the US, I wondered if you could comment on the conflict between sales growth and preserving cash and capital. I was slightly surprised to see the VA sales up in the quarter. Added to that, could you maybe comment on the new VA product that you filed. How is that different? Second question in the US would be linked to hedging costs. You have reported I think a $500 million incremental hedge spend over the last few years. I wondered if the run rate of that has maintained at the same level or if it has changed. Thirdly, could you perhaps talk about Thailand, you saw this as an opportunity. What does the acquisition do to your scale and ambition in Thailand? Thank you.

Michael Falcon: Blair, thanks for the question. I am not sure I totally follow the question on capital relative to VA. VA tends to have a lower capital drag and the increase in VA sales in the first quarter really followed the momentum that we saw through the balance of last year. It was built on an increase. The quarter on quarter versus first quarter a year ago which was at very, very low levels historically, it built up throughout last year and we saw a continuation of that through March. Clearly, by the middle of March we started to see new activity tail off as the country went into lockdown. We would suggest that that is going to continue and we expect lower levels, particularly in the second quarter and for some time. However, there was still a backlog of pending cases and work to do that was cleared through March and the beginning part of April.

On the capital side, that is the issue particularly around the spread business, on FA and fixed index annuity. As we ramped up you will recall last year we introduced new product and distribution partners on the fixed annuity mid-year and fixed index in January/February. Those volumes built throughout the year, peaking really in our third quarter. The second half of the year in fixed and fixed index was much greater than the first half of the year. We saw a tapering of that last year and you saw it in the full-year results. There is a capital drag on new business and I think we talked about it in the call earlier this year. That drag is greater in the first year when you are writing higher levels of business. There is a look back. One of the capital charges is adjusted up if you are writing more of the business-type than you had previously. As you would anniversary those levels of higher activity you would have less of that incremental capital drag. When you compare first quarter this year to last year we are still at higher volumes than where we were so that look back is still in there. We pay attention to not just the profitability on that but the capital component too given where RBC and our current capital position is as well.

In terms of the new VA product that we have filed, maybe I misspoke earlier in my comments but we need to file product changes through the regulatory process, mostly with the SEC for product changes on the VA relative to security. I think those are actually going in within the next day or so if they have not gone in already. It takes time for them to run through but once they are filed and become public they will become public.

Axel André (CFO, Jackson): Hi Blair, this is Axel. On the hedge cost question, I would say that yes the first quarter was clearly a more volatile quarter. The price for things like equity options or anything that is an option related derivative was elevated. Incrementally we did spend a little more on that. I would say offsetting that or as a counterpoint to that, we really entered the period at the end of the year with a significant option book already on the balance sheet. As the quarter occurred and as the markets started to trade down essentially a lot of our options book became in the money. We saw a lot of gains obviously on the derivatives and a lot of actual hedge pay-offs with derivatives maturing. Then the underlying exposure on the liability really became a lot more linear so the incremental hedging was more in the form of futures rather than options. However, nonetheless, yes, this was a quarter where hedge costs were more elevated than normal. Again, we price for this very [inaudible] and then we assess the hedge cost over a long period of time, over the life of the product. We are still comfortable with what we are seeing there.

Michael Falcon: Relating specifically to the 500 that we referenced last year, I think that was very specific to the issues related to moving between regimes and actually moving between regimes at a time when rates were volatile. If we remember back to August/September last year, at least what we thought was volatile and large swings in rates and equities at the time. Not what we have seen obviously in March of this year.

Blair Stewart: I think incremental capital to protect capital has been at 500 for the last three years, Michael.

Michael Falcon: I do not have a quantification on the comparable basis of where that is.

Blair Stewart: Thanks. Okay, no problem.

Nic Nicandrou: Okay, Thailand is a market where historically we have been underweight both on the asset management side, in fact we were not present there, and also on the life side. We have had a share of somewhere between 3% and 4% now. For a market which is ASEAN's second largest economy with 70 million people, a market where the demand for saving and investments has grown and will continue to grow at a double-digit rate, this was a gap. This was a gap in our business which is what we have invested to address over the last few years, firstly by acquiring controlling stakes in two fund managers which gives us, based on the year-end, perhaps around 12% of the retail AUM in that market. We have cemented that by partnering with TMB to also serve the customers with traditional health protection and savings products. Now, TMB following its merger with Thanachart will be one of the largest banks there. Importantly, they look after 17% of the country's adult populations so it is a serious relationship we now have in place with a bank that is very ambitious and very digitally-minded. What it offers us and what I like about this particular deal is the opportunity to actually bring the strengths of both sides of our house, both asset management and the life part of our house, in a combined way to a single partner, which we do not do that in any of the key partnerships that we have. That is going to be very, very powerful. On the life side once we are up and running we will be exclusive with the entire TMB franchise from 1st January next year but it will give us the opportunity to make much faster progress in a very important market and hopefully grow from a 3%-4% market share position to closer to 10%. It is a great opportunity and one that we were delighted to secure in March.

Blair Stewart: Great, thanks, that 10% number was the one I was looking for. Thank you.

Andrew Crean (Autonomous): Good afternoon, three questions if I can. Firstly, could you give us a bit more on second quarter outlook for the non-Hong Kong/China businesses? I knew it grew 1% in the first quarter, there is a lot of markets there so it is very difficult for us to get an assessment. Could you give us a broad feel for how that is likely to develop in the second quarter? Secondly, in terms of the IPO, is the current US balance sheet strong enough for an IPO in your view or do you think you may need to strengthen it to put that through? Then thirdly, you made comments on 24th March which were subtly changed from the messaging prior. You said that you are still pursuing your minority IPO but you would look at other avenues. Could you talk a little bit more about that, in particular taking in whether the other avenues are still limited by a minority position or whether you would entertain ideas of a majority sale? Thank you.

Nic Nicandrou: Andrew, I think you were asking about the markets outside China and Hong Kong. Let me give you a colour about what happened in Q1 and then to address your point in relation to the near-term outlook. We did see an imposition of movement restrictions. We talked earlier in my answer that Singapore was 7th April and in Malaysia it was on 20th March. In Indonesia it was also around that time as well or in early April. We saw an imposition of movement restriction in pretty much all the markets outside China and Hong Kong. That started from mid-March and they tightened as we got into April. For those markets that started being affected from mid-March it arrested the double-digit momentum that we had up until that point. Now, all of the businesses and I talked in talk to detail to Singapore but I could have said the same thing about all of them. The businesses pivoted very quickly to the virtual sales tools. As I said, 100% of the products to new and existing customers are now available virtually in Singapore, Malaysia, Philippines, Vietnam and India. Actually, recruitment moved online everywhere and agency hires were up 20% in all these markets ex-Hong Kong and China in March and 13% in April. The virtual tools are allowing us to build out further our distribution. All these businesses also double down on the quality focus. You do not see it in the numbers but behind the 1% increase in the APE in Q1 was a 19% increase in health and protection. Moving the mix of health and protection in ex-Hong Kong/China markets from mid-20s to low-30s. We have had several launches of new protection, standalone protection propositions during the first quarter and then into April and May, which is really the reason why the NBP stayed much better at +23% in Q1 with five markets double-digit. Yes, the near-term outlook is challenged as restrictions were in place pretty much everywhere through April. As we sit here today it is only Vietnam and Taiwan who have eased. A couple more, Malaysia and Thailand, will start the easing later in May but Singapore, Indonesia and even India the easing will not happen until June. However, the 1Q performance just shows what the power of the franchise is in a period which is mostly, not totally undisturbed. That has not gone away and everything that we have done since the lockdown, be it moving to more digitally-enabled a business when it comes to agent onboarding and customer onboarding, the broadest suite of products that we are now launching that have a higher protection focus on a standalone basis and the 3.7 million of Pulse downloads across these markets that we have, again provide a rich vein of customer leads. I said earlier in my prepared remarks and also give us the ability to start positioning direct to consumer some of the central products. All of these will make us even better when we have a return to normality. I know you have not asked about China but China effectively sets the template. China did everything that I have described for the markets that we have just been talking about. They went virtual, they innovated on products and then when things eased up we saw a recovery of sales and margin, a 28% growth in April. That is the template for all these other markets and we are using the same playbook as China did in all of them.

Andrew Crean: Nic, I suppose what I was after is a number, the +28%, for non-China/Hong Kong.

Nic Nicandrou: Sorry, just to be clear in making the point that I see no reason why we cannot follow the same playbook in these markets as we did in China, I used the China growth in April of 28% to illustrate the power of our franchise with all these additional strengths in place when normality returns.

Andrew Crean: I was simply asking the question, what is the equivalent number outside China and Hong Kong to the +28% that you gave us for China in April?

Nic Nicandrou: It is much more challenged there, Andrew, because we are in lockdown in the same way that China was in February.

Andrew Crean: And the number?

Mike Wells: Let us keep to Q1 metrics for now, please. We are not trying to do a monthly update. Andrew, one of the dimension on the success the team has had in Asia and particularly South East Asia, because we already had this working in China, is you have seen a really strong pickup in the digital payment, automated payment. As you can imagine, as these transactions get more digital they look much more like our mainland business where using digital payment technology away from cash, which is a trend we have been managing for years but it has had a nice pickup in the quarter as well. The number varies by market but the consumer behaviour is changing and that is one of the elements. In the Pulse technology in most of the markets there is a digital payment capability or sometimes more than one. That also gives us the ability in some of the markets to do digital claims. Again, these sorts of things are what we think will stick as consumer preferences for some part of the market post this current COVID-19 environment. It is a great pickup in capability. I think it is better quality business when it comes in on cash in terms of persistency. Those are all good things.

The questions on the US, I know this is a frustrating answer from the full-year but I will give you a fairly similar one. Given where we are and SEC rules, we cannot and are not going to comment on timing or our options in the US. The reason I cannot tell you where we get to the broader answer is we were not going to pre-judge the outcomes on what is the fastest or best path to an independent Jackson. There is obviously public and private sources of capital. There are different routes to market and we have been very clear that nothing is off the table. I can be very clear here, when we talk about working on our strategic objectives we continue with this at pace but I cannot give you specifics on that one. I know that is frustrating but we have got to be clear that we are inside of the line based on what sort of choice we make. If we are going to do something with a public filing we cannot talk about it ahead of time.

Andrew Crean: Okay, thank you.

David Motemaden (Evercore): Good morning, good afternoon, just a few questions if I could on the US capital levels. First, could you talk about the moving pieces for the RBC ratio where you said at 24th March that it was broadly similar to the 366 at year-end 2019. When I look at where it shook out this quarter it included about a 25 point benefit from the CARES Act and that would have put it at 315-340 which is quite below the 366 level when you guys put out that 24th March press release. I am wondering what the driver was for the drop between 24th March and Q1 if I strip out the tax benefit from the CARES Act. Second, a more technical question maybe for Axel on hedging the VA book. I know a couple of years ago you guys have started to move to buy treasuries to hedge interest rates on the book, which a few of your US peers have done this too. I would assume if you did this there is a pretty big mark to market gain that would not be reflected in the RBC ratio. I am hoping if you could size that for us so we could get a sense for how much the RBC ratio would have benefitted if that gain was realised. Then lastly for Michael a follow-up on the fixed index annuity sales and the outlook there. A question in terms of wondering how much of capital does $1 of fixed index annuity sales consume, to help us think about what sort of tailwind to capital generation that could be as we progress through the year. Thank you.

Michael Falcon: We are giving ranges on the RBC because these are estimates. We only calculate this number officially once a year actually through the NAIC software. We obviously monitor estimates and model it much more frequently than that. We did the reporting in the RNS on the 24th and now relative to the end of the quarter given the extraordinary events that we have been through particularly in the month of March and that markets are currently experiencing. There are lots of puts and takes to that number. The biggest impacts that we have seen and there were changes certainly even in the last week of March if you think back, you had equities climbing, you had rates moving, you had credit spreads coming back in, there are a number of factors. You can look at the benefit computation from the movement in the CARES Act application as of the end of the quarter, that is certainly one of the elements but there are a lot of other components there. I think what we are trying to show is the range and the relative stability to where we were at year-end and give some indication of the progression of that. One of the important things, and we have this in the release and I had it in my comments earlier, was we did see additional statutory capital generation as you would expect and as you would hope during the period. We are pleased with the way the hedging programme is designed and has performed in a particularly stressful environment. We saw peak to trough 30% declines. We saw in the quarter 20%-25% decline in S&P and 125 basis point drop in rates, the shortest corrections in both rates and equities that we have ever seen in those markets. We saw statutory capital generation and we saw capital generation in excess of what we saw in the increase in required capital based on the model. Those dynamics are holding and ultimately they are the basis behind the disclosure today.

Axel André: I think you summed it up well, Michael. There are various moving pieces but obviously the big ones are equity, interest rates and credit spreads. On the treasuries, yes, they are part of the overall general account. They are part of our overall ALM strategy and they play a role therefore in the way that we think about the VA economic risk. Yes, it is absolutely logical to think that those bonds are in high gain positions currently and rather than talk about a specific number I would just point you to the blue books that are due to come out shortly, or if not public right now. The numbers are there.

Michael Falcon: On the FIA outlook, I do not know exactly how to direct you in terms of information that we release on how to direct the FIA outlook for the year other than you saw what the volumes were in the guidance that we have given in the first quarter and at the outlook. At least currently given levels of activity and where we moved the pricing to the book, we would expect lower levels of FIA and FA origination to continue for some time. Order of magnitude if I think back to last year in a broad range a significant portion of the capital drag on new spread origination was due to the increase in volumes year-over-year, maybe plus or minus half of that, depending on how you look at it. It remains to be seen where rates move and how markets recover in the second half of the year. Markets [inaudible] like sales activity recovers. We are already seeing a pickup in advisor interaction with our external wholesalers and a lot more engagement with end clients. In past cycles it has taken 60-90 days to up to six months if we go back to the financial crisis, to see field sales activity levels normalise. Again, I would not point on the fixed index and fixed annuity book. Certainly, the absolute level of treasury rates are important but the investment rates, the new money rates and corporate spreads figure that in as well. If we have a decline of treasuries of 125 basis points and a widening of corporate spreads of 150 which we had, you still have expansion of the underlying return and that has an impact on rate and profitability to book as well. Again, we are trying to be realistic given the environment we are in, in terms of COVID-19 in both market and commercial activity but I would not read too much across on the FIA piece or any one piece in particular.

David Motemaden: Great. If I could just follow up with Axel on wondering if you would be willing to share the dollar amount of treasuries that you use to hedge the VA book because I think that could be a pretty big benefit depending on the size of it that is not reflected in your RBC ratio.

Mike Wells: It is but for those of you who are not fans of US statutory accounting, before all the treasuries today have to be amortised over their life effectively to come back into capital but you are right, economic value is absolutely there. Given the 20+ year commitment to these consumers with their investment first. They are a very effective hedge, particularly

GMWB withdrawal benefit but when you see the blue books you can get a good idea of the percentage and the values. It is pretty easy to mark a treasury to market but I think that is it. The other question, David, you asked on capital strain by product, if you just want some general categories, and these vary by feature on the product, but think of a VA somewhere around 2%-3% regulatory capital, fixed index somewhere in the 5%-7% and then the fixed somewhere between 7% to 9%, again depending on structure, duration and other nature. Without getting into our pricing model, that would be industry trends. The more rigid the rate guarantee the higher the capital requirement by the US regulators.

David Motemaden: Great, thanks very much.

Scott Russell (Macquarie): Hi everyone, afternoon, just two questions, please. Firstly on Hong Kong, with sales having halved in the first quarter that obviously makes earning income for an agent difficult. How is the agent team holding together in Hong Kong, particularly perhaps those agents who are mainlanders, joined fairly recently and may not have that trail commission coming through yet? Second question is about dividends and remittances. Obviously, banks have been told by regulators to exercise caution around dividends. I was wondering to what extent your regulators across the world are perhaps paying closer attention to your dividend and remittance decisions at present. Thank you.

Mike Wells: Scott, obviously now as of this year our legal regulator is Hong Kong, not the UK, and the regulatory college looks at it collectively.

Mark FitzPatrick: In terms of the international regulators we have around the Group, the only who has come out publicly and said anything around remittances is in India where the authorities effectively said no remittances for effectively the sector for the majority of this year. The other regulators, as you would expect, we are in regular contact with them and the Hong Kong insurance authority as our Group-wide supervisor has not said anything publicly about any levels of remittances. Pointing out that remittances are for the company and the board to determine provided they have the appropriate solvency and liquidity to be able to pay them out.

Nic Nicandrou: In terms of agents, the veterans have trail commissions and that is sustaining them at a period where sales are not as high. Clearly, in 24,500 agency force you have people that are more [inaudible] time and those are still selling. In fact, the top end of the agency force is selling almost at the same level as case account even through this crisis. Where we are seeing lower activity is in the more part-time agents. The reason they are part-time is because selling products is a supplement to their income as opposed to their sole source of income. There is a lot of activity that is taking place to ensure that agents complete all their CPD requirements now, whilst demand is lower so that actually they can spend all of their time once the situation eases up in the rest of the year to sell, getting them to upgrade to the client profiles again so they can up-sell to clients. There is a lot of activity when they are not able to sell.

In terms of recruitment actually the run rate of agents in the first quarter of last year was about 500 a month. We actually recruited 600 in January and then it dropped to around 350 a month but it is only 15% down. However, attrition is down by a third so our agency count in Hong Kong is 11% up on what it was this time last year. People are coming in. Like ourselves, they believe that once normality returns the demand will be there both in the domestic but also the mainland China market. The other thing of course that we can now do that we were not able to do before is having launched Pulse in Hong Kong towards the end of March, we have 400,000 users, 48% of which are new to Pru customers and we have already started the process. These are [inaudible] customers [inaudible] agents and looking to deepen our relationship with those customers beyond being a Pulse user.

Scott Russell: I appreciate the colour, thanks.

Mike Wells: I want to tell everyone thank you for your time and I hope everyone is safe and functioning well as best they can in this current situation. I know it has changed a lot of work styles. I hope what you hear in this and the reason we wanted to continue to give you updates on how the business was doing is the business is shifting. I think it is showing its agility. I think some of our investment in the tech now is clear. You cannot talk about Pulse and digital and online without having the ability to digitally process and handle digital currencies. The scalability now of our platforms and our capabilities are very unique in our history. You are seeing that play out in a very stressed environment.

We have referenced a couple of times earlier in the call, regardless of the shape of the recovery in this pandemic we think some of these consumer behaviours will stay. Some of it is scalability, some of it is convenience, some of it is age of clients but the idea that all of our sales if you think of one of our agents the other day he has gone from business at home, business in an office to business in a Starbucks and now business on an interactive screen on Zoom or Microsoft Teams. Those are consumer preference changes as much as they are prerequisites for us to be able to stay with that and have the capability to execute however that client wants to do business with us. Those things are all happening at pace. The earnings, as we have said, it was important to shift to health and protection. It was important to shift to recurring earnings. You see those recurring earnings in retention rates in the high 90%s and the earnings following from that.

Strategically I think we are very well positioned to deal with whatever shape this comes. The shape and the size of this cohort of profitable new sales and client relationships is hard to determine because that is dependent on the next few quarters or however long normality takes and whatever shape it comes in. However, that does not affect the overall profitability of the business as much as we have shown in the various presentations over the last few years. It defines one increment, one vintage, if you will. Consumer behaviour is not changing and policyholder behaviour in the US and Asia again is as expected. There is a lot of disruption but there is a lot of what we built for playing out here and working as we expected.

I want to thank everybody for their time. We are going to keep giving you updates on things that we think are material, some requiring an RNS, some more informal, just so you can get some feedback formally and informally on how some of the things we are doing are shaping. We will keep those coming as we think the information needs to be in the market. Appreciate everyone’s time, attention and support, and thanks for joining us today.

[END OF TRANSCRIPT]