Prudential PLC HY 2021 Results: Live Q&A

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Results Highlights

Mike Wells

Group CEO, Prudential PLC

Welcome

Welcome, everybody, to our conference for our resilient 2021 interim results and the news on Jackson. I am delighted to be joined today by several members of our leadership team, including Mark FitzPatrick, our Group CFO and COO; as well as Nic Nicandrou, our CEO of Asia; Ben Bulmer, who is interim CFO or Asia and James Turner, who is our Group Chief Risk Officer. Welcome to them all.

I will make some short remarks and then we will go into Q&A. I appreciate the sheer number of companies reporting today, so we will try and keep this tight. Thank you for joining us again, I appreciate it.

Tributes and thanks

First, I want to pay tribute to our staff and agents of the group that, sadly, have passed away as a result of COVID, including a number since the year end. My condolences to their families and their loved ones. We are, of course, taking steps, as you would expect, to support them and their families in this very difficult time. Notwithstanding that, our continued focus on our staff and their efforts to focus on customers have proved incredibly adaptable, dedicated and resilient once again. I think, on behalf of all of us, the management team, I want to record my thanks to all of them. They have really done a phenomenal job for you, as you can see by the breadth of the results and the amount of strategic work completed in this difficult environment.

Key strategic priorities

Turning to the key strategic priorities for 2021: to pursue at pace an independent Jackson, then to enable our investors to fully benefit from the opportunities in Asia and Africa. On the first priority, we announced further substantial progress in the journey. As you know, on 6th August, the Jackson Form 10 listing was declared effective. We have now called for a General Meeting on 27th August. Again, subject to shareholder approval at that meeting, the proposed demerger will be complete on 13th September.

On the second priority, following the completion of the proposed demerger of Jackson, we will be in the final phase of our transformation of Prudential into a pure-play Asia and Africa group, which we think has exciting and substantial growth opportunities.

Jackson demerger

So, let us move in, a bit, to the details. Firstly, the Jackson demerger process is now in the final five weeks or so of execution. It will come to market with the ticker JXN. Jackson has a clear strategy to deliver shareholder returns in its first full year after demerger. It will have an RBC ratio at or near the target range of 500–525%. The management team is starting its formal market engagement. We will host a virtual teach-in for the sell side on 17th August, so you will be hearing from them directly up to and then post the day of the completion on 13th September.

Interim results

Secondly, our interim results. Again, another resilient result: APE up 17%, new business profits up 25%, IFRS profit up 19%. This continues our track record of strong growth in all of our key metrics despite the ongoing disruption in some of our markets due to COVID.

I would also point out that the growth market segment, which includes, for the first time, Africa, is now making an increasing difference in our results. I am very pleased and proud of them.

Strategy in growth and developed markets

In terms of strategy, in our big growth markets we continue to expand our distribution capabilities and product set, including in digital, to build out our capacity for 50 million clients. In our more developed and historic markets and those with substantial COVID disruption impact, we have to run a nimble business model. We are making changes to take into account the operating environment. This means focusing on appropriate actions on efficiency and staying close to existing customer bases and so maintaining, again, that renewal premium and the associated embedded value.

Outlook

Looking forward, we expect the vaccination programmes being rolled out to facilitate a gradual return to normal. That includes economic patterns, although the pace and their effect are going to vary substantially, we think, by market. We expect the Hong Kong and mainland China border to remain closed, at least for the balance of the year. We also are consider still the raising of about $2.5–3 billion of equity, following the completion of the proposed demerger of Jackson.

In the long term, again, the right business model, the right markets and we have strong, diverse local management teams and dedicated staff, I think, to drive substantial growth. Further out, we are focused on those large markets with significant structural demand drivers and opportunities to strengthen our position further. This next phase of our growth is all about discipline, execution and consistency.

Let us go to the Q&A session. I realise that several of you are in Europe. You have a lot going on today, so let us open it up for questions and see what you want to talk about.

Q&A

Fulin Liang (Morgan Stanley): Hi, congratulations on a very good set of results. I have three questions. The first one is: we notice that Singapore and China have been growing in importance for the group. I just wonder, actually, in Hong Kong, when Hong Kong was the most important region, you had a bit of a back-end loaded IFRS profit challenge from the Hong Kong with-profit business. I just wonder whether we will see the same situation in Singapore and China, as they are catching up. So, that is the first one.

Secondly is: in Hong Kong, on a quarter-to-quarter basis, your new business margin actually improved despite the fact that the US yields actually went down during the quarter. I just wonder, actually, could you just give a bit more colour on what you have done to improve the margin in Hong Kong?

The last question is again with Hong Kong. We understand that you have many of the high productivity agents actually specifically aiming for the mainland Chinese travellers to Hong Kong. I understand that they've been kind of trying to transform themselves. However, as the lockdown actually extended, I just wonder whether we see some kind of people movements, for this kind of bench of agents. Will they consider, actually, moving back to mainland China, so therefore will impact your future sales once the lockdown actually lifts?

Mike Wells: Okay, thank you for those questions.

Fulin Liang: Maybe another question: what kind of support are you going to give to those mainland Chinese kind of agents in Hong Kong?

Mike Wells: So, I think there are some structural differences in what our product sets are in those markets. Mark, why don't you address the cash flow and the embedded value signatures of Singapore and China, to start and then, maybe, Ben, if you would talk about Q1, Q2 margins in Hong Kong and Nic, the health of agency and what we are seeing in Hong Kong itself? So Mark, why don't you take the first question?

Mark FitzPatrick: Thank you very much. In terms of Hong Kong UK-style with-profits funds, we have those in Hong Kong; we have those in Singapore as well. ~~We do not really have it to the same extent in China~~[Editor's correction – "We do not have this in China"], so we would not see that element of that kind of profile. In Singapore, as well, in terms of the product mix, you will see us actually starting to shift a little bit more towards linked products going forward and a lot of it on the health and protection component. So we do not think it is the same size or same scale of back-end loading that we have in Hong Kong.

So, Mike, that is the response to the first question.

Mike Wells: Okay. Ben, on margins in Hong Kong improving?

Ben Bulmer: Yes, thanks Mike. So, the key thing there, really, has been the pivot to domestic protection business. We have been driving VHIS sales. That is where the government is encouraging private plans with tax concessions, so we have successfully launched a very popular medical product there. That has helped margins on the agency side of things. Equally, though, on the Bancassurance side, we have managed to pivot the bank to a greater concentration on health and protection offerings and trying to meet customer needs in that regard, as well as savings.

So, a very, very strong business mix performance driving the Hong Kong margin.

Mike Wells: Thanks, Ben. Nic, do you want to talk about health of agency in Hong Kong?

Nic Nicandrou: Sure. So, a number of initiatives are ongoing. Clearly our focus is continuing to have those agents engaged. So, what are the kind of things that we are doing? There is continuous training on new tools, particularly technology, as we pivot some of the tools that underpin onboarding, fulfilment, servicing to Pulse. Ben just referenced new products. Of course, those new products are, at the moment, being made available to the domestic segment but also have relevance to the MCH segment, once the border reopens, so there is training on new products. Continuing professional development and codification is key. Clearly, they are required to do that every year. Just as an indication, even though the deadline for completing that for 2021 is 31st October, 80% of our predominantly mainland

China focused agents have already done it. So that is a signal of intention that they want to keep their contract, they want to maintain their contract with us as we go forward.

A large proportion have also pivoted to starting to do a share of domestic business, fed by the leads from Pulse. We have had 800,000 downloads. The vast majority of those are new-to-Pru users. We have been able to distribute some of them to agents that perhaps, in the past, have solely focused on mainland China. We are confident that they will return, as I said, because they continue to keep active is high.

The final point I would make is that there are still significant amounts being paid to them in the form of trail commission for business that has been written, effectively, before the border was closed. There are significant amounts that are due to them through long-term incentive plans that have been issued that come to vest in March 2022, that come to vest in March 2023. So there are a lot of both financial incentives but also operational activity, which supports our confidence that they are engaging and they are waiting for the border to open.

In the meantime

Mike Wells: Thanks Nic. Thank you for those questions. Obviously, we are pursuing and gearing up to pursue some of the opportunities that come with the GBA initiatives as well.

Kailesh Mistry (HSBC): Hi, thank you for taking my questions. Good morning and good afternoon. The first one is new business value in China. Obviously, you had strong performance in the first quarter, moderated in the second quarter. However, overall, it is still probably much better than the industry. Could you provide some colour on why you feel you outperformed on that front? Is it simply your distribution is more stable?

Outside of the first quarter, in China again, are you experiencing the same customer reluctance for buying long-term protection and a move towards short-term health?

So, that is the first question. The second question is, again, on Pulse in China. Does the sort of development on the regulatory side, with respect to data regulation, internet regulation, etc., in any way affect your desire, or ability, to eventually operate in that market?

Then, thirdly, once the demerger is completed, what strategies can you employ to increase the stock's [] appeal in Hong Kong? Obviously, you have the capital raise, which can help to improve stock liquidity, but is there anything that you can do in your power to get into stock indices and Stock Connect?

Mike Wells: All right, so, Nic, I am going to bring it back to you on mix in China and some of the success we are having there and why it is outpacing the market by the level it is. Let me address Pulse directly.

With the data regulations, what you see with customer data is, first of all, you comply with everyone's regulations, every market you are in. There is tremendous consistency, though, between what is the EU standard we originally built our data models effectively to internally and then what the Chinese regulations are. The differences are things on reporting frequency, a cycle of a breach being immediate instead of 72 hours, things like that. They are not materially different. You are seeing this, I think, for everybody's benefit, with capital regulatory models, too. There is a convergence in principle.

The data is country by country, so our Group-wide supervisor does not see all the data we have in different markets. Every regulator wants data protection locally. Clouds tend to be adjusted locally. We use an independent cloud, for example, with Alibaba in China. Those models are national in structure, for the most part, certainly the management of the data.

However, the primary pressure on data protection is consumer, because it is a trust factor. So our focus on that is are we protecting the consumer data, are we accessing only parts of it that a customer would be comfortable with? As we get more and more data about customers, we discuss this a lot as a management team, we discuss it in our boardroom. We have ethics policy on AI, as well as data privacy. Candidly, I think they exceed the market requirements because you are dealing with a consumer relationship here that is incredibly valuable to us and it is fragile if you make a mistake in that space.

I think that is our overarching standard. However, from a country-to-country point of view, I would say there is an intersect in the demands not dissimilar to what you are seeing with the various capital models. Every regulator we have, in every market, expects data privacy to be maintained and is unaccepting of a breach. Access is hypothetical and who is going to want what? There certainly is not anything coming out of China on insurance that is concerning to us.

No, it is not affecting our view of Pulse options in China.

I will just touch quickly on the liquidity. Liquidity on the exchange, trading on the exchange in Hong Kong, are key elements for indexation inclusion and Stock Connect. I think our shareholders understand that and we are getting interest from investors in Asia. We will see how much trade is there. However, the requirements are public and we know what they are. One of the benefits, I think, of the equity raise is it could help us approach that. We clearly see value in both those two structural changes and so we would like to see them happen. However, other than that, I cannot comment on where people will trade. That is a shareholder decision.

However, as you see more coverage moving to Asia, as you see more investors coming from Asia, I think there is a natural trend towards Hong Kong liquidity. Hopefully the equity raise accelerates that a bit.

Nic, do you want to talk about China, the success we are having versus the market? That is the first question, if you would.

Nic Nicandrou: Sure. Hi, Kailesh.

Kailesh Mistry: Hi.

Nic Nicandrou: So, the good returns, or the high returns, we have achieved in the half and I guess in the second quarter, which was your questions specifically, are really a function of the kind of products that we are pushing, that are long-duration products, health and protection. It is also because of the fact that we have both our channels, the agency channel and indeed the bank channel, properly trained and equipped to continue to sell them. It is no more complicated than that. That is really what is driving us, retaining healthy margins, in the high 70s, low 80s on agency and in the 40s on the Bancassurance side. We are adding relationships. We are strict with agents, in terms of the mix and the quantum of business that they write, enforcing contract maintenance rules. We have not really introduced products that are shorter in duration. So we are keeping the discipline. Thank you.

Mike Wells: Kailesh, thank you. I appreciate the questions.

Farooq Hanif (Credit Suisse): Hi everybody and yes, congratulations from me too. Just on your GWS model, can you just talk about the downwards interest rate sensitivity? I mean it is clearly high, not that anybody is talking about lower yields anymore. However, I just wanted to understand that asymmetric nature.

Secondly, also on GWS, what is the capacity of debt that could be grandfathered, if you wanted to increase? How close to the limits are you on the GWS framework?

Then, thirdly, can you talk a little bit about the COVID-19 claims risk, so I mean health and mortality claims risk in H2 going forward and whether that will become a material drag on your reported IFRS earnings? Thanks.

Mike Wells: Farooq, thank you. Mark, I am going to have you handle the first two and Nic, the third. However, on the general comment on the claims, Farooq: I think what you are seeing is still where we are 55,000 claims, both medical and death, is not a number we want to see. It is a fraction of what we would normally see in medical claims, so we are still running below those levels. I will let Nic give you a little bit more colour. Mark, do you want to talk about GWS, the rate sensitivity and the debt structure in it, what is admissible, etc.?

Mark FitzPatrick: Yes, certainly. Farooq, hi there. In terms of the interest rate stress, the 50bps, a 50bps fall in rates really would, ordinarily, kind of slightly increase surplus, as the high asset values are kind of only partially offset by the higher liabilities. At the lower rate, effectively, the sensitivity of the Hong Kong liabilities to change in the VIR is based on a more prudent NPV basis, resulting in a duration of the liabilities that is longer than the asset duration. However, we are all very comfortable with that. Actually, the way it has shifted, in terms of Q1 versus Q2, we are comfortable in the direction of that particular component. It is a slightly larger number than some of the others. However, actually, at the level we are at, it is not something that is causing us any particular concerns at all.

As regards the limits, in terms of the capital structure, we are actually fine, in terms of how those are positioned, in terms of the senior debt. We are very pleased that the HK agreed to that and approved that component. You have seen that coming through. So we are very comfortable, we have met all our tests with good headroom, so we have no concerns in terms of that particular piece.

Farooq Hanif: Okay. Just following up very quickly on interest rate stress, basically you are saying it is convexity because of the local environment in Hong Kong, on that with-profit footprint?

Mark FitzPatrick: Correct.

Farooq Hanif: All right, thank you very much.

Mike Wells: Nic, do you want to give a little bit more colour on claims, if you would?

Nic Nicandrou: Sure. So, 55,000 claims since the start of the pandemic. Just to give you, maybe, some additional data, 18,000 of those were last year, and in the first half of this year you have seen that number go up to 37,000. There has been, if you like, an acceleration.

However, it is still relatively small when it comes to the totality of the business-as-usual type of claims that we face in a normal year. Pre-pandemic, we were paying 110,000 claims cases a month. Normal claims are still not yet back at that 110,000. They dropped to 90,000. Last year, they were back up to 100,000. So that is what we are seeing. However, 90% of the COVID-related claims, if I can go back to the 50,000, come from Indonesia and India. Indonesia has been a market which has borne the brunt of both hospitalisation and death claims. 70% of those cases were from Indonesia. 20% of those cases were from India, the rest of the markets were more modest. The, if you like, fully-jabbed proportion of the population is only 10% in those markets. The single-jabbed are 10% in India, 20% in Indonesia. It is still likely, therefore, that we will see some more COVID-related claims, particularly in those two markets, as we go into the second half of the year.

Farooq Hanif: So, basically, just your frequency benefit, otherwise, kind of has absorbed this?

Nic Nicandrou: Yes, overall.

Farooq Hanif: Thank you.

Nic Nicandrou: Overall, we are still positive, in terms of experience.

Farooq Hanif: Yes. Thank you very much, thank you.

Mike Wells: Thanks Farooq.

Larissa Van Deventer (Barclays): Thank you. I would like to focus on the impact of COVID in the second half and growth, please. On the impact of COVID, you did mention that it is still an issue in some of your markets. Can you please give us an indication of the areas where you are most concerned and the impact it is having on demand for products in those areas?

Then, on organic growth, you mentioned that as your first priority for deploying capital. What is currently taking up most capital? Can you give us more insight as to where your preference would be to deploy, especially in light of the capital raise you intend to do later in the year?

Mike Wells: We can most certainly do that. Nic, do you want to talk about the markets that are most impacted and Mark, talk about the use of capital? I think the overarching comment on the capital is fund growth. There is no market that we are restricting on organic growth. However, I will let Mark give you a little colour on the deployment of that capital in just a second. Nic, do you want to do COVID impact and the impact on demand and some of the product innovations and things we are doing to address that?

Nic Nicandrou: Okay. Thank you and hello, Larissa.

Larissa Van Deventer: Hi.

Nic Nicandrou: In the appendix slides that we have posted up on our website, there are two and I will reference them now. I will talk you through some of the key messages that effectively speak to your question.

These are slide 30, which is a normal chart that we show on the severity or otherwise by market, over a time period, and slide 31, which is the vaccination rates. We have extended this to cover July and August, so it is as we speak.

What started in India in April and May quickly transferred to other parts of South East Asia. Where we are today is countries like Malaysia, Vietnam, Thailand and the Philippines are at, if you like, the highest level of infections that we have seen, pretty much, through the pandemic.

Indonesia has come off the peak; clearly India has come off the peak. Only amongst our markets, the ones that are looking a little more normal are Taiwan, Singapore and Hong Kong.

Where the impact will be more noticeable, I guess, in terms of the restrictions is a combination of a red colour on slide 30, which is the most severe restrictions and a low vaccination rate. Thus, the Philippines, Vietnam, Indonesia, Thailand, where vaccination rates are still relatively low, the double-jab people are anything between mid-to-low single digits, through to the teens and there is a severe rate of infection. Therefore, this is where we are seeing some challenges. Malaysia, whilst challenged, is very fast vaccinating its population, so any impact will be relatively short-lived.

That is really the picture that we are seeing now. Clearly, against that backdrop, you have seen the resilience of our performance through the second quarter, which was probably the worst quarter so far since COVID started. What is giving us the resilience are new products that we have launched. If you go back the last 18 months, we have launched more than 270 products. 180 of those are health and protection, many standalone protection products, much simpler products, are looking to appeal to first-time buyers, particularly from the mass segment. Our resilience is also due to the use of Pulse, the number of downloads and now our improved ability to convert those users into sales: 156 million through agency. It is also due to the extension of bank relationships, the professionalisation of agency; and also, more importantly, the use of virtual face-to-face technology. That is critical, from both channels. In agency, in the second quarter, nearly half of the business that was – the cases that were written were done virtually in banks, that was 26%. However, if we looked at June specifically, the numbers were 60% in agency and closer to 35% in banks. The familiarity of the distributors, but also the ease with which consumers are now prepared to do business through that virtual face to face is also giving resilience to our businesses.

That is the landscape as we see it, as we go into the third quarter.

Larissa Van Deventer: Thank you. Is it fair to assume then that although it may be going worse from an infection perspective it is unlikely to be as bad as the first lockdown we saw, the sales volume?**Nic Nicandrou:** Well, as I said, vaccination rate is improving. If we look across our markets the percentage of people that have had at least one dose, at the end of the first quarter, that number was low single-digit. That jumped to around 24%, and this is across all our markets, right. By the time we got to the end of June, now the very latest figure is 30%. Again, at one level you can say the pace is increasing and that it giving more confidence at one level. Another way of looking at it: 30% is still low, and as I said, the vast majority of places, still a single jab.

I cannot tell you whether it is going to be worse or not, but Q2 what pretty bad in terms of the backdrop. And in a number of markets – Malaysia, Thailand, Indonesia, Philippines, and Vietnam – the infections are still at a high level.

Larissa Van Deventer: Thank you.

Mike Wells: And Mark, do you want to talk about capital deployment?

Mark FitzPatrick: Sure. Larissa, hi, good afternoon. In terms of capital deployment our capital allocation framework clearly is defined by the opportunities we see for profitable growth in each market. And as we set out, we see the most significant opportunities for growth in life insurance and asset management in the four largest economies in our footprint, and those are China, India, Indonesia, and Thailand. Also, we do apply the same rigorous capital allocation and pricing discipline to both organic and inorganic. However, typically, we see higher risk-adjusted returns from the organic investments.

Now, vis-a-vis the equity raise that we are considering, the intention around that is to effectively accelerate de-levering which would then provide the flexibility to pursue opportunities for further growth and enable us to do more, and consider more through the capital allocation framework. However, the capital allocation framework is core and centre to what we do, how we do it, and we spent a lot of time with the board going through that in terms of shaping our thinking.

Larissa Van Deventer: Okay. If you say you are looking to accelerate de-levering, does that mean that you may consider doing early redemptions on your debt?

Mark FitzPatrick: We have highlighted that there is I think about $2.25 billion worth of debt that has passed its first call date – relatively expensive debt – but that would be the debt that we would probably look to move on first and that would bring our leverage down on a proforma basis to low 20s, and that would save interest cost of about $125 million per annum, there about.

Larissa Van Deventer: Thank you very much.

Mike Wells: Thanks for the questions.

Patrick Bowes: Thank you, Operator. There are three questions, Mike. The first question is from Temasek. Could you please share more colour on the equity financing post the demerger and the targeted size range for the new issuance?

The second question is from Justin Floor at PSG South Africa, with two questions on Pulse. What are the penetration rates you are expecting as a percentage of APE? And what value of new business margin do you earn on Pulse sales in the last quarter and how are the economics evolving?

And thirdly, from CreditSights in Singapore I think it is, please confirm whether any conditions surrounding the grandfathering of debt under GWS and does the regulatory capital last for the remaining duration of the bond?

Mike Wells: Okay. Mark, I will let you discuss the credit we are getting for debt and GWS. On the equity financing, we have said $2.5-3.0 billion is the target. We are staying with those comments. We think that is appropriate given some of the comments Mark has made today on what we would like to do with capital for again, retiring debt and just increase financial flexibility.

On Pulse, it is roughly 10% of APE now in the markets it is available in. It is early days on some of the other metrics. I appreciate it is a fair challenge – you value this like an insurance company, earnings or dotcoms are [inaudible] metrics. What we are seeing for sure is high interest on the platform, a decade younger consumers coming on the platform, and we have some freemium-to-premium services, if you will, so effectively zero margin, but relatively low acquisition cost to clients and very effective acquisition of clients and it has produced millions of leads for our agency channel. I think we have nodded clearly, that we are looking to add wealth components to it next. It is the front-end of Pulse and those are all consumer-facing elements of Pulse. What is definitely measurable is an absolute increase in new client count to Prudential in age brackets we were not seeing before or were harder to get to before, and consumers definitely like some of the interactive tools on it that allow everything from symptoms checker to telemedicine, to – in some market it has got a digital payment capability, where you take a market like Indonesia, that is a key element socially – not just health inclusion, but financial inclusion.

Then on the back-end side which we do not talk about as much, there is operational efficiency. We move more and more of these operating platforms to these more cloud-based tech-lite, sort of product models which should over time bring our operating expenses down, and our ability for product generation faster, marginal costs lower – all of the sorts of economies of scale you would expect. However, that is a journey we are on. We are not there yet. We are still working hard and that is one of our ambitions.

And I think I have said on previous calls, an element of the service being mobile-based, instead of just calling it digital for a second with consumers, it sure is a little late, too. There are various arguments for that. One is you often only interact with an insurer a couple of times a year. I have heard others, but we think in the very, very short-term future – very close in – it is a client expectation. And we are seeing there is much more frequent interaction with that with Pulse. That is a good thing for the business model, and that is a good thing for us to adjust our offerings to consumers as we see what they need, and it is getting us to go into channels and partner with digital providers we have not partnered with before to make Pulse available or services available.

I think it is too early to draw value of new client metrics. Some of these are blended, it is for digitising all of our channels, so I do not want to give targets. We just know they are all growing, and they are growing by age cohort, usage, all the things that we want to see. As we think the stats are old enough and mature enough we will give them to you. However, right now, I think it is just early days to get any more granular than effectively 10% of APE in the markets where we have Pulse available. And again, that is primarily through the agency channel.

That is equity. That is Pulse. Mark, do you want to talk about grandfathering in terms on debt structures with the regulator?

Mark FitzPatrick: In terms of grandfathering of debt, we have grandfathering of the debt for ten years and then the credit amortises 20% per annum for the following five years. If you look at the debt stack that covers pretty much all, bar one, of our debt. Thus, we have lots of opportunity to refinance if required before grandfathering expires. However, I am very comfortable with where we are, and no conditions other than that.

Andrew Crean (Autonomous Research): Good morning, everyone, I have three question if I could. Firstly, are you prepared to say now or perhaps in the future the boundary on your LCSM coverage ratio as to what you feel you are comfortable operating within?

Secondly, just coming back on this issue that with profit it is about just over half the reserves but only contributes about 3% of the profit, the traditional with-profits. Do you think if you move in the new world, it would be worth considering closing the With-Profits Funds and writing shareholder-backed participating business, which is a lot higher and earlier cash emergence?

And then, thirdly, as you come down to an Asian business, what are you thinking and sharing with people about the layers of management at the top?

Mike Wells: Okay. At the very top I guess is me, so let me address the last one. And then Mark, I would have you address the other two, if you would.

Andrew, good morning. What you are going to continue to see is evolve the business model and the structure of the operating model. We have still got a lot of work to do still. Again, as you have watched, we brought down the central cost. About 60% of our home office is now in Hong Kong, the balance in London. No intention of closing London, and we will de-layer the organisation and combine roles as we continue to do over the last few years, as the structure warrants and as the workflows warrant. We are not making any announcements on that today, and I think you have seen us give targets on the cost side – the business model will reflect. We think the targets we have given you give us plenty of room for an appropriate management structure for the business going forward.

I just would say that the needs of the business have evolved and you have seen this. Again, we spend more on digital. How we have structured is different than some of the competitors. The major business units we have in Asia, we expect to run as if they were listed with no intention of listing them, so they are very well built out. And then you have seen us use the structure of growth markets where our home office and our team support them more because they are earlier in their development, not necessarily earlier development as a market. Sometimes it is [inaudible], and sometimes it is our position there is newer, as in the case of Africa, for example. Therefore, we are putting more resources there that would be considered 'home office'.

I think it is going to stay a dynamic model. We will keep it fit for purpose and a number of people, including senior people and expenses, and we are clear on our targets.

Mark, do you want to talk about boundaries on LCSM, and we have no intention of closing with-profits, but do you want to talk about the shareholder versus with-profits question?

Mark FitzPatrick: Certainly. Andrew, hi. Good afternoon. Firstly, in terms of the GWS, as it is now called in terms of the capital regime That regime is now three months old, so I am probably going to let it kind of marinade or mature if you will for a little bit before we start looking at elements of boundaries or layers. We are very comfortable with the 383% and we will continue to work with the regulator and see how the market publishes its numbers in due course, and just make sure we are in a good place. We are very comfortable with where we are with the GWS coverage ratio.

On the With-Profits Fund –

Andrew Crean: And will you be going to Hong Kong? Sorry, just on that, will you be going to the Hong Kong RBC early adoption this time next year?

Mark FitzPatrick: Andrew, great question in terms of Hong Kong RBC. We are working closely with the Hong Kong Insurance Authority on the RBC. We do expect Pillar 1 rules to be finalised this year. However, the HKIA are currently developing plans to enable early adoption and we are working closely with them, and we are very keen to adopt an economic capital regime that is aligned to our capital allocation framework. We think that will reflect the business very well. We are working closely with that and we remain optimistic in terms of timing on that particular patch.

On the With-Profits Fund, a couple of points. Firstly, what Mike said, we are not looking to close the With-Profit Fund. It generates good shareholder IRRs. Both do, both shareholder backed and the With-Profits Fund. We have started, and we started at the back end of last year, shifting some of our mix more from With-Profits Fund to more shareholder backed, so exactly what it is you are saying. You have started to see that come through. You will see that coming through as we continue more of that pivot.

We think it is good to have an appropriate balance between the With-Profits Fund and the shareholders' funds. The strength of the With-Profits Fund is an incredible competitive advantage. It gives our customers great comfort seeing the strength of that; seeing the cover that that has; seeing the performance of that fund and seeing the element of support that it can actually give consumers. It is good for consumers. It is good for agents in terms of selling the product. Then we are looking to make sure we have an appropriate balance, but we are definitely looking to shift that balance to create more shareholder backed, and that was one of the things that we highlighted when we spoke about the pivot about this time last year. Thank you.

Andrew Crean: Thanks.

Mike Wells: Thanks, Andrew.

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

Mike Wells: Hi Greig, thanks for your question.

Greig Paterson: How is it? I hope all is good and safe – three questions. One is it always puzzles me you have got $34 billion of Asian value of in-force. I am sure the reinsurance companies would love to securitise that in the form of financial reinsurance. Why did you not make [inaudible] for capital as opposed to an equity raise which typically does not got down so well with the shareholder base? That is question one.

The second one is in terms of China and India and Pulse, where previously you said – because I do not believe you have the Babylon relationship in those markets, and I think Nic said a while back that they would consider buying into the Babylon relationship in those two markets. I was wondering what the sort of price tag would be on that?

Then, thirdly, IFRS 17, I know last time was in Hong Kong players were all concerned about the whole project – the size of it and the implications. I wonder if you could just update us on your IFRS 17 plans and implications as it pertains to Asia? Thank you.

Mike Wells: Okay, thanks Greig. Mark, I am going to let you have IFRS 17. Just for anyone on the call, repeatedly it is the investors who want that, so apparently, we are doing that for you. On the reinsurance, I think Greig, it is a hypothetical question which would have a lower cost-to-capital or what the demand will be for the equity. I think it is probably a better debate after the equity raise. We will see how we do. We think there is a lot of interest in the company and we think we can successfully raise equity. However, again, that is to be seen. Let us debate that on the next call I think is probably fair.

We have not disclosed the Pulse economics, but we do have the option if we want to go into China and India with Pulse. There are a variety of other – you have got to customise it for different markets, and there are different considerations in both of those markets going in, and so that is a decision that I would say we are still reviewing and creating optionality to do.

Clearly, the demand for digitally supported health inclusion is there, and we have learned a lot in the last couple of years. We think it is obviously a competitive advantage or we would not have focused on it the way we have. We have views on what you would do in the two markets. Just for competitive reasons I do not want to get into it, but there is no one Pulse platform from the consumer-end. We adjust it to every market we are in that it is available. That is not just language or cultural factors, that is the types of services that are more important in that market, and that could be addressing the lack or existence of, say, a government programme for health, or retirement, or that could be existence of digital payment. For example, in China, our entire business is on Alipay and WeChat versus a market like Indonesia, where digital payment is in its infancy but a critical element of development. Thus, the OVO relationship is very important.

We customise it in every market, and for China and India in particular you would want to customise it. Virtual doctor-type services are not new to China. There are fragmented players in India. However, some of the AI technology we have around self-diagnosis, symptom checker of the Babylon type, some of the other features we have in it would clearly be valuable in those markets, and so we are still looking hard at that. And if we do it, we want to succeed, and we want to succeed at scale. The contract with Babylon would not be a barrier in either market for us. However, I do not want to get into the economics with that. We have not been public with that.

Mark, IFRS 17; you want to talk about some of the elements around it?

Mark FitzPatrick: Right, I will try and keep this tight, in the interest of time. Greig, I think IFRS 17, you and I have discussed my views on it, and where it is or is not. However, generally speaking I think we are in a good place. We are spending a lot of time on IFRS 17. It is a large-scale project. It is a complex project, but we have got great guys on the ground. We are getting great support from people, and they are very detailed plans and we are getting through those, and we are executing through our plan.

We will look to update the market at the appropriate time, and we are very keen to make sure that we give you and investors a good run into IFRS 17, in terms of shape, in terms of the decisions we have made, in terms of the impact and implications around those decisions – the shape and numbers and things like that. It is a big change. It is a big data project firstly, and then secondly, an element of technical accounting piece. However, we are making good progress on it across the patch and we will be able to share some stuff with you in due course.

Greig Paterson: Just one point, just on the securitisation of the business either straight into the markets or via a reinsurance vehicle, am I correct in there is capacity to release from $34 billion and it is material?

Mark FitzPatrick: Well, we have a good VIF. We have a very strong VIF. Securitisation can be expensive, candidly less inclined to try and kind of flesh out an answer on a hypothetical to be honest. We have set out our stall in terms of our route what we believe we want to do. And we think the route of raising equity in the way that we are advocating is important for numerous elements is not least to be able to help address some of the focus in terms of Asia getting greater interest in Asia as regards to one of the questions to one of the analysts earlier this morning getting people more focused on it.

One of the ways to do that is to raise significant sum of money in Asia to get people to look at us and to focus on it a little bit in a different way. So I think that is where our component is in terms of where we are at.

Blair Stewart (Bank of America): I have got two questions. Firstly, you have talked in the past about the relationship between the recurring in-force premium base and profits growth. And indeed, the two moved very closely together. The recurring premium base, I think, is broadly flat year-on-year in H1 and it was normally up about 6% last year. Clearly, there has been a dislocation between that and profits growth. I just wonder if you can talk about the reasons why you managed to achieve double-digit profits growth in the first half of the year against a flat and actually slightly down recurring premium base? Is it simply the fact that any claims frequency that you talked about was about 10% below normal levels? Is it simply that?

Secondly just on cash. Mark, thanks for the slide on cash. I see there is just over £1 billion of cash remitted in the first half of the year. You have made some comments around that saying that that is possibility a bit more than you would normally expect. Just wondered if you could flesh that out a little bit in terms of what we should expect in cash remittances as we go forward?

Mike Wells: Thanks, Blair. And Mark, I guess, both of those are yours.

Mark FitzPatrick: Okay. The element to the recurring premiums component is got an element of with-profits and shareholder-backed component. And effectively what we have at the moment if you strip out the with-profits component renewal premiums, you will see actually up 8%. So the delta between that and the 11% is really an element of fee income and that helps close the gap.

In my slides supporting my script for the set piece earlier on today, there is a bit of a bridge in terms of the IFRS earnings and you will see those are key components. In Hong Kong, there was a higher 2016 sales of 5 pay with-profits component that has kind of reached its cycle. The policy remains in force till it lapses but the policies, they would continue to generate some IFRS profits but no renewal premiums on that particular piece. That really is the shareholder component if you strip that up. You will get renewal premiums up 8% and therefore that helps to bridge the gap.

On the cash piece, I think what we are looking at on the element of the cash, yes, we did bring up more in the first half and we are expecting the second half [Editor's correction: "to be lower"]~~cash outlays in the first half higher~~, A, because of some of the bancassurance, the ad hoc, some of the payment with UOB and with Vietnam and then also the more regular bancassurance payment tends to be more front-end loaded to the beginning of the year.

So that together with the second interim dividend for FY20 has been paid in the first half meant actually we wanted to bring more up in this half versus the next half. So I am expecting next half to be considerably lower, but again my element is we take up what we look at, what we need and what our requirements are. And at this stage, I am expecting those to be significantly lower than the level we had in the first half.

Blair Stewart: Can I come back on the recurring premium point? So is the lower frequency I think it is 10% that Nic referenced. Is that not a relevant factor? And secondly with the maturing of the 5 pay policies that you sold in 2016, did that create some additional profit as you got the bonus element of those maturities?

Mark FitzPatrick: On the second piece, first, Blair, those policies have not really lapsed. They carry on for longer in terms of duration. It is not that they have lapsed. There is not like pick up from the with-profits in terms of a terminal bonus component at all on that particular piece.

And then in terms of claims, as Nic said earlier on in the call, there is still an element of a tailwind from the claims level because it is still below the expected but it is not as much as that we saw last year.

Nic Nicandrou: Blair, it is Nic here. If I can add maybe, Mark. Yes, the recurring premium, I think what Mark has said if you exclude the par business and you look purely at the shareholder backed. There is a continuation of the slope. However, of course we also make money in the first year of new business as well for health and protection products, and those have grown significantly.

On slide 45, you will see in the middle, effectively are life-weighted premium for the shareholder-backed business. That bridge is more closely, if you like, through the IFRS progression that you referenced.

Dominic O'Mahony (Exane BNP Paribas): Three questions if that is okay. Firstly, just coming back to the GWS capital regime. What sort of disclosure do you think we are going to get on these? Are we expecting anything equivalent to SFCR. Is there any chance you might give us a level of detail of the components of capital and capital requirement maybe by market?

Secondly, on China. In terms of the Greater Bay Area initiative, Mike, you mentioned that earlier as the opportunity there. As you look at progress on Insurance Connect and when you look at other sort of equivalents so for instance Wealth Connect, what are you learning about the direction of there?

Then third question, in China we are expecting C-ROSS 2, I think in beginning of next year. There are some commentary in the press that the industry may need to raise capital or at least the capital ratios will decline. What is your perspective on that?

Mike Wells: Okay. Mark, I will let you do, GWS. Ben I am going to have you do the C-ROSS. However, generally the capital regimes in China have been additive to our net positions. I will let Ben give a little colour on that. On GBA, I think, what you are seeing that is clear is from Beijing down, it is held out as an important project. That is important in China just from an execution point of view because you have got endorsement from the top.

Different than Wealth Connect. I think you are seeing, I would say, more different than Stock Connect as well. You are seeing a move toward what will be a little more flexible architecture. So instead of trying to build those specific products, there is a lot of discussion around a more dynamic pipeline, if you will, for the connect element. We are involved in those conversations. I do not want to cross disclosure conversions with various regulations and make feel them uncomfortable. However, I think we think the direction of travel is good. We have said all along that we thought service was the initial element claims, etc. I think that is probably still true. Again, there is a lot of support for the project and I think it is my strong view that it is additive for Prudential and some of the products and services that are going to be in it are go to our core strength. Therefore, we are staying as close to it as we can and so far I think we are well positioned in it.

I think the real change I guess in the last few months has been a move away from trying to get it to product specific. If you think of the term insurance, right, it is about like when we agent. It can really have a lot of different meanings and there is no reason the technology needs to limit that. I think that is probably the biggest. How we connect? We are getting little different perspective. And again, we are in the midst of that, so I do not want to disclose any competitive or regulatory elements to it. But I think you will see a more flexible pipeline than some of the previous connect models.

Sorry for the dancing around a bit on it, but I do not want to get into – I do not want to give competitor ideas what we are working on there.

On the per country, Mark, do you want to talk about the capital and then Ben would you follow up please with the acceleration of C-ROSS and how it affects us?

Mark FitzPatrick: Sure. Dom, hi there. In terms of GWS, there will be a public document. We think it will be published in about May next year. The requirements aren't quite the same as in the SFCR. There is not same kind of detailed templates included in SFCR that you might be used to from the UK component, but we will be publishing something in May next year as per the GWS requirements. And therefore, that will give you a little bit of extra colour in terms of some of the building blocks. Ben?

Ben Bulmer: Yeah. Thanks, Mike. Hi, Dom. So you are right, we are expecting C-ROSS 2 to come in 1st January 2022. We are actually still awaiting the final rules to be published. But under C-ROSS 2 what you see is capital being classified as either core or supplementary depending upon loss absorbing capacity level of support in Asia and so on. That is going to give rise two ratios core and comprehensive. What we expect to see is the core ratio falling across the industry. That is because C-ROSS 2 introduces a cap on the amount of negative reserves that can be counted as core capital.

Along with that fall though the MCR is also falling. So based on where we are today, we see CPL our business there remaining very well capitalised under both core and comprehensive bases and we are not anticipating any change in business strategy as a result of C-ROSS 2 coming in.

Abid Hussain (Shore Capital): I have got two questions remaining for me. Firstly coming back to the equity raise. Can you just remind us how you arrived at the 2.5 to 3 billion equity raise number? I asked really because after the deleveraging, does it really actually leave you with much room for the inorganic opportunities that you might see in China, India, Thailand and elsewhere?

Then second question is on Pulse. Can you just share with us what the ROI payback period on your investment in Pulse is? Then related to that, I know you do not have Pulse in China. Are you actively considering Pulse for China, or are you screening competitor platforms there?

Mike Wells: Okay. So on the equity raise, no, the intent was not to fund major inorganic. It does certainly give us room to do lot of the small things we do with banks that would be below in equity or debt raise or in some of the digital work we are doing. I think it does increase our financial flexibility. And clearly, it will continue to fund organic. So you are correct, we are not attempting to raise a war chest, if you will, or some of the unique opportunities we have to deploy capital at scale, China, India, some of our JVs, etc., even now Africa. I think that is a different consideration, different point in time and we will deal with those when both the regulatory and counterparty and strategy and pricing all meet.

On Pulse, we would not disclose the metrics on it, so I am not in a position to answer that today. The products that we are selling to the agency channel are normal margins. I guess, the general comment I would tell you is relative to other metrics we are seeing and the digital space, not necessarily the insurance space, we are very happy with client acquisition costs. I think in the early days that is a key driver where we are doing something that is efficient from a tech platform, so we are not getting ourselves on cost of funds and things.

I think it is disciplined but we are not in a position yet. In terms of with some more mature model in terms of value of new clients, we got quarters of data instead of just relatively short period of time, we are holding back on disclosure on it. But the sales we are talking about are in our normal margins full channel.

As far as Pulse in China and India, they are both actively under consideration. We have a variety of ways we can do that. You would customise the platform for both markets very differently, because again as we have customised Pulse for every market, we have rolled it out to now. I think, mentioned earlier, it is not language or virtual medical providers etc., it is also other needs in that market that you can address with this ecosystem and that can be anything from financial inclusion. Remember, we launched Pulse in Malaysia with a dengue fever predictive mapping technology because that was the primary concern pre-COVID in the market. Again, there are markets where that is relevant. There are markets where it does not.

We have a variety of tools and other things we can add to it that change the shape of what is the Pulse offering. We have also nodded that in a couple of our markets, so you are going to see a wealth piece attached to Pulse. The reason that we think that is logical is we always talk about this 40% of spend on health in Asia is out of pocket. Clearly, there is a high use of digital by consumers in the markets regardless of per capita household income.

Well, when you are starting to get the consumer to say, 'Instead of saving for a health event or retirement, I will use some of that with an insurance product,' you are talking about their savings now. It is a logical extension for us to have we think some investment options, some wealth options on a platform. When they are considering, again, de-risking that cash position, maybe we can improve the return on that for them.

So that is the next iteration. However, again, it will be market by market. We are very intentionally not trying to have a single Pulse platform across the region. We think that would be a little tone deaf, if you will. If we want to customise it for each market, and China and India do have their own specific requirements if we are going to succeed with the platform there. However, we are not announcing a launch in either at this point. We are still looking at our options and addressing various concerns, regulatory structure, technology, etc., before we make that decision.

Abid Hussain: Can I just quickly come back on the equity raise? Just to be clear, it seems like you would be happy to come back to the capital markets if a large inorganic opportunity did come your way?

Mike Wells: Well, if we thought it was the right price, the right deal, yes. However, I think it is an interesting question, some of the options we created. You can look at them sort of glass half full, half empty. I think we are unique and that we have created for our shareholders a series of what are effectively hybrid inorganic options, or we can deploy capital at scale at some point in the future.

The difference between these and traditional inorganic is these are businesses we know incredibly well. They are effectively integrated or partially integrated now. The due diligence risk, execution risk, all those sorts of things are a fraction of a standard relationship that came for sale at one of the banks on the phone took the market, and every insurer in the region was fighting over, we do those too. However, these are really unique execution opportunities for us at some point in the future, but we are not saying when. The price has got to be right. We have got to view as appropriate time for all of our stakeholders. As you see with the metrics on China sales, for example, up 29%, new business profits at 65, it is working now, so we are not missing anything by not executing on one of them. I think they are a unique portfolio to deploy capital very effectively, not just efficiently, in the future. Much lower risk than someone trying to do something cold and buying something and seeing what is in it later, which is a risk on traditional inorganic; it is why a lot of M&A fails.

I really like the options we have in front of us. These are partnerships and we know the businesses well, we know how to integrate and all of the above. Would we come back later? Yes. Do we have any plans to do that in the near future? No. We will just see when that is or we may have the capital in-house to do it at the time, but I really like the options that we have created over time; I think it is unique for an insurer globally.

Abid Hussein: That makes sense. Thanks for the clarification.

Mike Wells: Appreciate it. Thanks for the question.

Ashik Musaddi (JP Morgan): Thank you and good morning, Mark, good morning, Mike. Just a couple of questions I have. First of all, on Indonesia, I think Nic mentioned that there is definitely some sort of Covid-related impact in terms of claims, but is it possible to get a bit more colour as to the drop in earnings in Indonesia? How much of that is driven by the extra claims and how much is driven just because of lower economic activity? Any thoughts on that could be helpful to understand a bit more the underlying dynamics.

Secondly, the profitability in markets like Philippines and Thailand have been relatively very strong. If I look at Philippines, it is up 40%, if I look at Thailand, it is up 20% and last year was as well; last year, first half, it was strongly up as well in both these geographies. What is driving such strength? Is it that Covid is not really impacting these markets at all or is it any other dynamic that we should be aware of? Thank you.

Mike Wells: Thank you, Ashik. Nic, do you want to address Indonesia and maybe we will let Ben talk about the growing value we are seeing in Philippines and Thailand? You guys can mix that up as you see fit. Either one of you can answer either question, but Nic, why do you not go first on Indonesia, what is working there and what our challenges are there?

Nic Nicandrou: Yes. As I said earlier, 70% of all the claims that we saw on Covid came from Indonesia. The year-on-year impact of those claims – and a lot of them were weighted to the first half of this year – the year-on-year impact on those claims was of the order of US$30 million, so that is the effect that has come through that particular line.

In relation to the other two, and I will do this quickly, what is driving Philippines is a very disciplined operational delivery. We have the largest agency force in the market. We are increasingly selling more health and protection business. APE was up 55%, H&P within that was up by more. 96% of everything we sell in Philippines is regular premium, long duration business and customer retention is running at 95% in the first half. A young business in an under-penetrated market, got to number one in the year through all the disciplines that you have seen us adopt across the piece.

On Thailand, what supported the growth and profitability of that business and remains the case is, Thailand is effectively a banca business, two relationships, Thanachart and TMB, now TTB. The profitability has been supported again not only by reference to regular premium business – regular premium business is 92% of our mix – historically, it was the credit life that we attached to anything between 80-90% of all the loans that Thanachart Bank was making. Now, clearly, we have a bigger platform to attach that to through the TTB relationships. Of course, the number of loans, at the moment, in Thailand is down as people are not focused on buying cars and motorcycles, but what is sustaining our profitability of that business is now, with the extended relationships, as you will have seen at the Capital Markets Day, we have launched many other types of health and protection products which we are selling to their customer base, so the health and protection mix has grown in that business to around 30%. Again, normal disciplines, but through that tied relationship, achieving good sales of H&P.

Ashik Musaddi: That is very clear, thank you.

Mike Wells: Thanks, Ashik.

Operator: Thank you. Our last question comes from Colm Kelly of UBS. Colm, please go ahead.

Colm Kelly (UBS): Thanks a lot. Firstly, on Asia growth, obviously strong numbers today. It is clear the shift to health and protection and its growth is continuing to be one of the key drivers to outperform on expectations around sales growth, margins and new business profit. For the Asia growth strategy in totality, you have identified four markets you think have the highest growth potential. I am just wondering, for the health and protection strategy more specifically, can you highlight those specific markets where you think the highest growth potential exists to accelerate from here?

The second question is related to Jackson. Obviously, you have revalued the Jackson valuation and the embedded value to reflect more fair value, which is fairly obvious. It is fair to say that that is quite a bit below the prior embedded value valuation for that business, so clearly a disconnect has emerged between the external valuation of that business versus Prudential's own valuation for it. When we think about the go forward Group, this is important because embedded value is the framework you emphasise for Asia and you are also raising equity. Aside from continuing to deliver strongly on growth and operationally, what steps are being taken, be it disclosure or otherwise, to increase the likelihood that investors and external participants will be more aligned to how you see the value of Asia based on that embedded value framework that you have?

Lastly, on regulatory capital changes. Between C-ROSS and Hong Kong, RBC, etc., there are a lot of changes going on in Asia, which is likely going to continue for some time. Experience from the US and from European markets suggests that moving to a risk-based capital regime tends to benefit those with limited or low guarantee business, limited ALM mismatches, from an interest rate perspective, and also low credit risk exposure. They tend to be the relative winners from these types of regulatory transitions. When I look at Prudential on all three of those metrics, the business screens particularly well based on the work we have done, but perhaps can you give a bit of commentary around that in terms of you have low credit sensitivity, your ALM mismatches appear to be somewhat limited and the level of guarantee business in Asia is very low? Perhaps some colour from yourselves would be helpful just to contextualise how the business is positioned for the broader regulatory capital changes that are happening in Asia.

That is it from me, thank you.

Mike Wells: Okay. Thanks for those. Nic, I am going to come back to you on the health and protection markets you think have the most upside right now, and Mark on the Jackson embedded value.

I mostly agree with your comment on the regulatory. I do think it is not an accident that we are well positioned. We de-emphasised spread product and we like the interest rate sensitivity of the health and protection, as well as the profit signature of it and the other things we are doing. Where I disagree with you a little bit on the change in Asia is what you are actually seeing is a convergence, and you flag it correctly: they are all going to what is effectively an RBC regime and there are different elements and executions of it. There is always the discussion about international capital standards and the US and the Europeans, I have watched this fight my whole career, they cannot agree, mostly because of annuities, but the principles are now pretty much global. The meeting of the regulators globally, Asia has taken a much larger role in that and they are looking at things like if you are taking credit or liquidity risk you need to hold more capital; the spread business has more risk to your capital base than a unit-linked product; all the historic Western views are coming through. There are differences at how they look at rate, market consistency, things like that, but you can look through those pretty easily. If you look at C-ROSS, if you look at RBC in Hong Kong, there is the same fundamental message to the insurers, which is: if you are writing product that is spread-based and you are taking credit risk or duration risk, you are going to need a whole lot more capital. That is a maturing of the models. Again, as Ben mentioned, this is not having a lot of impact on us in any market, it is generally a tailwind for us; and, I agree with you, all those three lenses are the right ones and we are very pleased and it is intentional we are where we are.

Where I disagree is I think once you get through this round of individual markets adjusting, you have all the major markets mostly aligned on an RBC regime and I do not think you are going to see material changes – knock on wood – in regulatory from here; there is not a new Solvency II coming or anything on the horizon. However, as was referenced earlier in the call, there are material changes – and the IFRS 17 project is not small – and all of these give stakeholders a more comparable lens on insurers in the region and none of them give you a single number that you can use to compare companies; that has always been the Holy Grail of some of these regulatory conferences. They are just similar companies, you will have to look at them individually even with the alignment of their work in markets.

That rant aside, Nic, do you want to talk about which markets you see the greatest demand in health and protection from here? Then Mark, please, on Jackson embedded value.

Nic Nicandrou: Okay. Thank you, Mike. Hi, Colm. When we look across all our markets in Asia and we aggregate the trends that we see, we see two things. One is that healthcare consumption has increased at a rate of 13% per annum over the last 10 years and the last time the published stats were available that was, for the first time, over a billion dollars across the market. 43% of that is out of pocket. When you consider the population and their consumption in India, China, Indonesia and Thailand, if you like, four of the most populous, they contribute the lion's share of the numbers that I have just quoted. All of them have significant gaps that can be protected.

What makes it more immediate in China and Thailand is the fact that this is coupled with an ageing population. People are living longer, a bigger part of the population is over 65 and they have more incidence. There is an increase in the level of communicable diseases, so the critical illness type cover and the medical cover that is needed by the population of China and Thailand is significant.

Indonesia and India are slightly younger populations. Nevertheless, the access to public health is often gated by being able to cover the incident that you are coming in. Particularly in Indonesia, you have an Islamic segment that is largely under-penetrated. We are the biggest insurer, 400,000 customers and, by a long way, the number one player in that market. So, yes, there is a huge opportunity there for any form, particularly medical insurance. In India, insurance is something new for consumers and our business, our JV, is the number one writer of protection in that market on an individual basis, certainly amongst private players, with a 16% market share.

We have great capabilities and a great opportunity in all four of them and we are excited about the opportunity to execute against those. I could have made similar statements elsewhere, which is why it is such a priority in our business strategy historically and also going forward.

Mike Wells: Thanks, Nic. Mark, on embedded value.

Mark FitzPatrick: Yes. Colm, on the US piece, the US discount is not Pru specific. I think you will see significant industry discounts to book value and the like. It is the way I think the market is looking at the US industry as a whole.

As for the level of embedded value disclosure at the full year, from March, we have increased quite significantly the level of detail and sensitivities to be able to allow investors to be able to make their own judgements in terms of embedded value and the like. Ultimately, the test, as we have said, is what is the overall picture in terms of variances and, typically, our variances are and have been positive over the last ten years or so.

Colm Kelly: Are you anticipating further disclosure for Asia from here? There was good progress in the full year; should we expect to see a bit more of an evolution for the next full year perhaps?

Mark FitzPatrick: I think what we will do is continue to keep it under review, not make any firm commitments at this stage. We will look to see in terms of how we may continue to evolve it, as we do with the balance of our disclosures.

Colm Kelly: Okay, that is great, thanks a lot, all three, and well done today.

Mike Wells: Thank you very much. Appreciate the questions. Lydia, that was the last question, correct?

Lydia: Yes, that was the last question, so I will hand back over to you.

Mike Wells: Thank you, appreciate the help today. I hope you see with these interim results, and those of you who participated in our virtual Investor Day that we held in June, that this year highlights our prospects despite the complexity of the current operating environment. You have heard about the expanding customer focus capability, the cultural shifts, the modernisation of Prudential. We are ready to be a standalone Asia Africa business and I am confident in the long-term structural growth drivers we have discussed today and our strong position, again discussed today, to benefit from them. We appreciate your support and your patience with the structural work and thank you very much for your time today. We will sign off now.

[END OF TRANSCRIPT]