

# **Prudential plc - Conversation with CEO Indonesia**

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## Introduction

Patrick Bowes

*Head of IR, Prudential plc*

### Welcome

Thank you. Hello and welcome, and thank you for joining us again for the second of our snapshot sessions with the leadership teams of several of our operations.

With us today in Jakarta are Nic Nicandrou, CEO of Asia and Africa, and Dhany, the CEO of the Indonesian operations, alongside Omar, CEO of the Prudential Sharia Life Assurance business.

We will have around 30 minutes of discussion between Nic, Dhany and Omar, and then another 30 minutes for open questions. The conference call host will then explain how to pose your questions via the conference call and on the webcast in the same way as we do for our results call.

Now over to you, Nic. I see you are all in your traditional batik outfits.

## Management Q&A

**Nic Nicandrou:** Thank you, Patrick. Good morning, good afternoon, good evening, to everyone joining this next edition of the snapshot sessions that we started last week in Manila, the Philippines.

As Patrick said, today, I am in Jakarta, visiting our Indonesian operations ahead of the launch of our Sharia business, which will, in fact, is scheduled for tomorrow morning. In fact, we are connecting from the very venue that we will be holding the launch tomorrow. Attending the event will be several political leaders, several religious leaders and regulators, reflecting, if you like, the importance of being the very first multinational insurer to be launching effectively a scaled stand-alone entity. That is very important to the local authorities and to the local communities.

And of course, as you know, Indonesia is one of the four key markets that we have highlighted as representing the best growth opportunities for Prudential as we go forward. So as Patrick said, I have with me, Dhany, who is our new CEO of our country operations here in Indonesia, and Omar, who is the CEO of our Sharia business.

Both are new to Prudential, having joined us in the course of last year. So let us get straight to the question that I am sure are in the audiences mind. Dhany, let us start with you. If you just introduce yourself, say a few things about yourself, the skills that you bring to the role having joined us now for a few months, and actually what also attracted you to the role of CEO of Prudential here in Indonesia?

**Michellina Laksmi Triwardhany:** Thank you, Nic. Thank you, and hello, everyone. I am very happy to be here with you today. I have been working in the financial services industry for the last 30 years; 20 years in global and multinational companies, half of which I have spent overseas. I have been working in Singapore, Hong Kong, Philippines, Malaysia. And the last 12 years I have been working with the domestic banks, top 10 banks in Indonesia, covering the consumer as well as small and medium enterprise segment.

I have a very deep knowledge and good understanding of the consumer business because that has been my primary focus in the last 30 years, understanding the consumer, who are the consumers, what do they need, and to be able to translate that into a product and services that suits to their needs and their preference.

And I have done many of the transformation in the organisation, including transforming the sales organisation, digitising our services, as well as our offerings. So I believe that will create a tremendous value as we move toward a more customer-centric organisation in Prudential.

When Nic approached me last year to join Prudential, I was very interested to join Prudential. Obviously, in Indonesia, the name Prudential is very well known, with number one recognition as the life insurance business, and has a very strong and high number of agents, representing about 44% of the agents in Indonesia. And that speaks very well to me, because I wanted to make a difference. And agency is one of the ways that we make a difference in this market, as we create sense of stronger entrepreneurship among our agencies and greater employment.

Obviously, being number one, as well as a robust distribution channel, and most importantly, with low penetration in terms of insurance business in the Indonesian market, it is only 1.1%. So this is very early stage of this business, and the opportunity to grow is tremendous. And that is what attracted me more to join Prudential.

**Nic Nicandrou:** Thank you, Dhany. Thank you for that answer. Maybe next explain to the to our investors why they should be excited about Indonesia, the prospects of the industry here in Indonesia, and maybe after doing that, describe our business a little and some of our priorities from here.

**Michellina Laksmi Triwardhany:** Thank you. So Indonesia, obviously, we have a huge population [ Editor's correction- of around ] So 274 million, and has been growing, 68% of which are at the productive age. So we are by no means an ageing population.

And we have seen in the past at the pre-pandemic level, the GDP has been growing at a 5% rate annually. And that represents a huge opportunity for us, as in the next few years, in the next 10 years we will be contributing to the largest growth of economy in the Asian market.

Per capita also has been expected to grow in the next 10 years from, especially in the high net worth, which is right now at 24 million individuals to become 62 million individuals in 10 years' time, and the number of middle class segments to grow from 140 to 160 million.

Obviously, that creates a need for a better assurance and life assurance businesses and a better protection, because as of today, 35% of the medical part is paid out of pocket expenses. And that creates a real opportunity for us. And therefore, it is forecasted that the GWP to be growing at 11% per annum in the next 10 years and growing from what it is today 15 billion market size to 42 billion. And obviously, that is very exciting, as we are still at a very early age of this business.

And I think Prudential brings something very unique into this opportunity. We do have the scale. We are currently [ editors correction- holding a ] leading market share with 10% market share. We have the fastest growing Sharia business. Our Sharia business currently holds about 29% of market share. We have wide distribution, large number of agency. And we have the broad product set beyond linked protection to include four stand-alone traditional products.

And on top of that, we have been working on our digital capability by launching across Pulse, which in Indonesia is being downloaded by 10 million [Editors correction -times], and we have four million registered users. This is something that we can bring and leverage as we grow our business. And some of our priorities is obviously we want to maintain our operational and service excellence.

We are able to retain our number one position as a customer satisfaction, increase our promoter score, as well as broaden our product to serve both the high net worth as well as mass market. And obviously, we are all here today because also tomorrow, we are going to set up our Prudential Sharia Life Assurance business.

**Nic Nicandrou:** Great. Thank you, Dhany. So that brings us nicely, as you referenced, that the launch of Sharia, to Omar. Omar, welcome. Maybe describe a little about yourself, the skills that you bring to the role and describe to our audience, the importance of Sharia in this market. So please, over to you.

**Omar Sjawaldy Anwar:** Thank you, Nic. Thank you for giving me this opportunity to tell about myself, and more importantly, about the opportunity in Sharia market.

Regarding myself, I have over 30 years of financial services experience, running large and complex organisations, which includes 15 years of exposure in managing AXA Mandiri bancassurance, setting up a de novo Sharia banking franchise and plus also establishing investment management business. In addition to that, I have run global multinational top tier asset management. This is also in Indonesia.

Now other than financial services, I also have served in large resources based companies, which brings connection to large potential customer base, which can also bring value to Prudential.

Now being a Muslim, I have a personal passion in expanding the Sharia market. I knew that the Sharia market in Indonesia is at an early stage with only 0.1% market penetration. Now currently, Prudential has secured a strong position in Sharia. We were the early mover back in 2007. We now have around 143,000 Sharia licensed agents now.

For the Sharia market to expand, we recognise that we would need to increase the issuance of the Islamic fatwa as the guiding principles to grow the insurance products and services. Fatwa, in this context are the approval of the religious authority in the country for the consumers to use the Sharia products.

Now currently, there are only 10 fatwas in the insurance industry, compared to 100 plus in the banking. With the Sharia Knowledge Centre that we are building, focusing on the increasing the literacy of the average Indonesian, we want to be seen as the top leader in the industry and get more fatwas created.

I also want to say that Prudential is already at a scale so that we can continue to leverage on the existing infrastructure and operation of the largest conventional business in order for us to grow and expand our Sharia business.

A little bit of context, as Nic asked about the about the Sharia business. Sharia is a form of financial services that is based on the principle of sharing both risk and return. It has similarities to the concept of mutuality. The product and operational structure are all approved by the religious authorities. For example, the concept of interest is not permitted, but participation in investment return is.

The government of Indonesia vision is to make Indonesia a global Sharia financial services hub. And this is evidenced by the plan launched tomorrow being officially inaugurated by the Vice President of Republic of Indonesia, as referenced earlier by Nic.

Now you also heard from Dhany that there is a growing need and demand for health and protection solutions in Indonesia. And as we know, the GDP per capita for the majority of the population is still relatively low, and much of this population are the Muslim segment. This means that affordable bite-sized premium, including stand-alone protection with Sharia approval is important in getting traction of the business.

Indonesia has a young population. 55% are millennials and Generation Z. This demographic of young adults are more aware and conscious in embracing the Sharia allowed lifestyle. We are committed at Prudential to expand the inclusive product offerings to the mass market segment. For example, we have launched the PRUCerah, which is the first Sharia compliant education product in the market. We have continued to sell and promote our popular PRUCinta product, which is a traditional Sharia product.

A little bit more salient data on the Sharia market. The Sharia industrial growth is significantly faster than the conventional life insurance. Premiums grew in 2021 by 39% year-on-year, reaching IDR20 trillion or about US\$1.4 billion. The global Sharia insurance market, meanwhile, is expected to nearly double from \$27.6 billion in 2021 to \$49.8 billion in 2027. As an example, this is how we see this translated into our own business in Indonesia. Our Sharia policies grew by 19% in 2021, despite an overall decline of market share.

Now, as a separate entity, Prudential Sharia will have its own distinct stand-alone brand standing on its own, which will be seen as Sharia-compliant by the market. This will bring more opportunities to tap into the Sharia market, and also bring to the table more potential partners. We are already well regarded in this segment.

Last year, for example, our Tabarru funds, we shelled out IDR1.2 trillion, which is nearly US\$90 million, through public claims. And our Tabarru fund has a total of about US\$541 million which is far ahead of the next competitor.

Now as part of the drive to increase the insurance literacy in Indonesia, we are going to build and establish the Sharia Knowledge Centre to be the centre of innovation for Sharia product and services. And this, clearly, will establish Prudential as the clear thought leader in this sector.

We are also enhancing our Sharia digital platform to be a halal lifestyle offering, which is going to be delivered through the Pulse platform. As a leader in Sharia life insurance, we can also play our part in this flagship drive by the government, and also Prudential Sharia and to maximise this long term value for our stakeholders. We also expect that the learning and also the experience will help us in other markets, where Sharia packed opportunities exists, not only in Asia, but also in Africa.

So over to you, Nic.

**Nic Nicandrou:** Thank you, Omar. From what you have just covered, I can see that there is a lot of exciting opportunities ahead in the Sharia space, and of course, for us to play an even bigger role. And those opportunities are exciting when you bear in mind that Indonesia has the largest Muslim population of any country globally.

When you bear in mind that Muslim population in Indonesia today is 10 times that of Malaysia, yet the Islamic insurance market is only a third of what it is in Malaysia. So when you do the math, you can see the opportunity there.

I want you to also bear in mind that the local authorities have made it a policy objective for Indonesia to become the largest Islamic financial services centre in the world. And of course, we play into this phenomenal opportunity with the largest and most impactful player in the Sharia market.

So Dhany, back to you, if I may, what has been the impact of COVID on Indonesia more broadly, on the insurance sector more specifically and our own business? And in answering the question, maybe you can also explain what is happening on the ground now for COVID? And when might sales return to growth?

**Michellina Laksmi Triwardhany:** So I think Malaysia is not immune to the negative impact of COVID. It has been very disruptive to the Indonesian economy. That is at the sheer size of our population, about 274 million, and well as the vast geographic area that needs to be covered, and the social restriction, mobility restrictions has severely impacted our economy.

In 2020, we registered a negative growth of 2.1% and has rebounded slightly in 2021 at 3.7%, but it is nowhere near to the pre-pandemic level, which is at the 5% level. And obviously, this has impacted the market of life assurance business. The market has declined in two consecutive years. In 2020, it declined by 10% and then in 2021 by 1% further decline.

And what we see in the market, there is slight changes in the market with the single premium unit-linked growing at the pace of 18%, whereas the regular premium unit-linked has declined by 15%. And obviously, Prudential, we are focusing on a more sustainable business, which is the regular premium unit-linked. And hence, we also registered 7% decline in our business.

However, we remain focused operationally and providing service to our customer. We maintain our number one position in customer satisfaction. We have actually paid in the last two years 51,000 claims related to COVID. And I was told by Nic that this is actually contributed about 60% of the Group-wide claims.

And we also take the opportunity in the last three years to reflect and expand our product sets. So we have moved from just a pure unit-linked protection product to a stand-alone traditional product. And we also retooled our sales people providing them with a digital tool to manage their businesses from recruitment to their sales process and self management, as well as receive training and critical and important information from us.

In some of the cases, we are very happy that we are able to increase the number of cases that being sold by 7%. And most importantly, the health and protection case has increased by 50% in 2021.

In the second half, we experienced a growth of 16%. And that is reflected the easing of the social mobility. But obviously, unfortunately in 2022, obviously everybody knows, we got hit again by Omicron. And that sense of optimism was somehow subdued a little bit because the Omicron is widely spread, although not as diverse, I think, impact as Delta.

Right now, the situation is much better. It is much under control. The social mobility restriction has been eased to level one in Jakarta. And what we see also, about 70% of our population has

at least one job. And in major cities, like Jakarta, Surabaya, Medan, we have reached 100%. And that creates a sense of confidence in our population.

When are we going to grow again? I think that is likely depends on the economic situation. If we see back to normal, the social restriction being lifted, we will eventually see market growth. And obviously, the customer confidence needs to improve, as they feel they are more confident about the future, about the employment, as well as about the opportunities.

We remain focused. We know that we will be ready to capture the opportunity that is being presented in Indonesia. As I have mentioned, the low level of penetration, which is at 1.1% and the GDP growth that is still going to be, we expect it to go back to the pre-pandemic level, and we are ready to capture that potential need.

**Nic Nicandrou:** Thank you, Dhany. It is encouraging to hear that notwithstanding the challenges that Indonesia has faced from a macroeconomic, from unemployment perspective, that the business has proved to be resilient, retaining number one positions in customer satisfaction, brand recognition and preference are clearly key to that. And it was great to see that in this environment, the much needed protection was offered to many more thousands of customers, 7% growth, I think, you said in the number of policies; 19% growth, you said, Omar earlier, in terms of the number of Sharia policies and the 50% in health and protection.

But that speaks to an evolving story in the way our product offering has evolved. So say a little more about that evolution that has taken place through the pandemic?

**Michellina Laksmi Triwardhany:** So in the last two years, basically, as we want to be more a customer-centric organisation, try to understand what is it that the customer needs from us, whether it is this investment-linked protection product or traditional products. We also note that the pandemic creates some challenges in terms of how people allocate their resources and funds.

And we intentionally set up a strategy to rebalance our portfolio. Five years ago, our portfolios are mostly unit-linked protection products. Now it is [Editor's correction -around]50-50, 50% unit-linked and 50% non-unit-linked products, stand-alone traditional products. And that has created a very strong and balanced portfolio and meets the needs of both our high net worth clients, as well as our mass market. From nowhere, we are now number two in traditional markets. And that is a significant achievement that Prudential has achieved.

SME also provided significant opportunities for us. Two years ago, we embarked in a journey to capture the SME market. SME in Indonesia constitute of 64 million players. And they are basically the backbone of Indonesian GDP, contributing about 60% of Indonesian GDP. So we started to work, which is targeting the SME segment. And now we have captured about 3% of the market share and have grown 30% in the last year. And this is something that we want to continue to focus on and will become our next business engine for growth going forward.

We also are continuously retooling our agents to make them more professional and more capable to scale up their capability to be able to serve the client and meet their full insurance needs, whether it is linked protection as well as traditional products. We expanded not just in the mass market, also in our bank partners during this time, even though the APEs were relatively flat, we see a significant increases in terms of NBP in our bank assurance business by as much as 25%.

So we are actually a much stronger business, a much resilient business than we are a few years ago. And that I think, gave us the confidence to meet up the challenge, not just only to meet up the challenge, but obviously to take the opportunities going forward.

**Nic Nicandrou:** Thank you, Dhany. Let us now move to distribution and routes to market. I would be interested in your views of the agency channel as a distribution channel and its importance, I guess, as Prudential as we go forward.

**Michellina Laksmi Triwardhany:** Thank you. Agency, I think it is the most important channel and continue to be the important channel for Prudential. Our agency comprise of about 200,000 registered agents, which is 44% of local registered agencies in Indonesia. And they played a critical role, because insurance is not an easy product to understand. It is a product that requires some press and some advices from a knowledgeable agent.

And therefore, it is very important to establish this long-term relationship with an agent, so that they can provide and guide our customer in terms of their needs and advising of their needs. It is also very important to note that our agents' plays a critical role in terms of financial literacy. They are educating clients one by one on the importance of life assurance, the importance of protection, to protect the well-being as well as the wealth.

Our agency business, as I mentioned, we have about 200,000 agents. And they are very resilient. And in the last two years, they have proven to be very adaptive.

Now, our agency is actually using our digital tools that we have providing to them, and they are able to onboard about 42% of the clients to the digital channels. And I think one of the things to note also that we have the largest MDRT in Indonesia. We have close to 1,000 MDRT in 2021. And obviously, they are very professional and they are very knowledgeable, and have created a strong brand in the market due to their professionalism.

**Nic Nicandrou:** Let us talk a little about the investment that we have made in digital assets and the importance of digitalisation more broadly, having those capabilities in Indonesia.

**Michellina Laksmi Triwardhany:** I think that is always top of mind. I think digital Indonesia has been something that everyone focuses on 190 million internet users in Indonesia. We have more hands on than we have people. Probably if we calculate it, maybe you should have maybe two hands on here.

So we are very defensively saving consumers. And I think you have taken advantage of the situation by introducing us. And in the past platform, we have a complete way of servicing our clients, but they can do their own self service, as well as transactions. We have PRUforce. And this is top of the line even among financial services. The PRUforce really assisted our agents and our sales force to do their business to recruit, to train, as well as to monitor the sales process. And this is really something that is ahead of its peers.

And our agent has embraced it in doing the business in the last few years. We also started working with the digital ecosystem. We have strategic partner in OVO. OVO is one of the largest wallets in Indonesia. We also work with a digital bank. Recently, we signed up with Bank Neo Commerce. And Bank Neo has about 50 million customers that they acquired purely through digital. And obviously, through this collaboration, not only we are able to tap the client, but we also can learn from them how they are able to grow their business, through pure digital and online capabilities.



So this is something that we are very excited about that the growing of a digital savvy customer and our ability to meet that needs is there. And this is something that we want to continue to focus on going forward.

**Nic Nicandrou:** Thank you, Dhany. With roughly 40% of the population being millennials being of an age, where digital tools are part of the day-to-day way in which they live their lives, having that connection as we try and penetrate the market is going to be incredibly important. How about progress in the bank channel?

**Michellina Laksmi Triwardhany:** I think bancassurance is something that we will need to focus on. We are under a market share is behind in some of the bancassurance. We have two partners. They are boutique banks focusing on a high net worth client, which is SCB and UOB.

And UOB recently obviously acquired Citi's portfolio and that more than doubled their number of their customers. And Citi portfolio is known in the market as the best portfolio in terms of net worth as well as the credit card space. So this is an opportunity that we see is right for us. And despite the size, we are only penetrating about 6% of the customer base. So there is an opportunity to do better and to grow.

But most importantly, I think we have recently expanded our product mix. And the NBP in our bancassurance grew by 25% and despite a flat APE. So this is something that we are going to continue to build to continue to strengthen. We are always on the look out of more traditional players in the market, who is ready to be partnered, whether it is from our Sharia business, or the conventional business.

But in addition to that, other than the traditional market, we also look at, like I have mentioned before, we have Bank Neo Commerce, digital partners. We are going to also have a partnership with Jenius, which is the pioneer in digital bank, as well as TMRW by UOB. So these are both traditional and digital players as an important aspect that we want to focus on.

**Nic Nicandrou:** And as we have shared before with our investors, we remain on the look out for a relationship that will help us access the mass market segment more broadly than the ones that we have currently today. A couple of maybe numbers questions, if I may. The NBP, the new business profit margin has declined in 2021 from 58% in 2020 to 50% in 2021. Just what are the reasons for that?

**Michellina Laksmi Triwardhany:** There are two main reasons for that. One behind it is the economic assumption and the interest rate environment. The second is obviously the product mix. As I have mentioned, we have re-shifted our portfolio to be more robust, to be more resilient. But we have right now around 50% linked product protection and another 50% of non-linked products, and that obviously have shifted our margin.

**Nic Nicandrou:** Thank you for that. IFRS operating profits have also been declining in recent years, and indeed in 2021 they dropped by 16%. What is the reason? What is the outlook?

**Michellina Laksmi Triwardhany:** So I think the IFRS profit, finally one of the reason of the decline is obviously the rise of claims and this is related to the COVID-related claims that obviously we have seen in the last two years has increased quite significantly. And also the IFRS also reflected the trajectory of ourselves, which has been declining in the past few years. And they are lagging number. As and when we recover, they are lagging number and they will increase eventually as and when we grow.

But obviously our focus is not about just the IFRS profits. We are focusing on the long term. We are focusing on growing the business and to regain and gain our market share.

**Nic Nicandrou:** Thank you, Dhany. And Omar, the final question to you. There is rising inflation across the globe. It is also true here in Indonesia. Just your sense of how that affects the average Sharia consumer and what might they do about it? How might they impact their spending trends?

**Omar Sjawaldy Anwar:** Thank you, Nic, for the question. As you may very well know that Indonesia is a US dollar based economy, where the energy needs is imported through oil. The average gasoline price has increased recently. As you go to the pumps in various cities in Indonesia, it has increased. So this will surely have a negative impact on the discretionary spending of the mass market segments.

But having said that, we are fortunate that the customer base that we have right now consists of the high net worth segment and plus also the middle affluent. However, the future customer base, which is the next market segment, is going to be feeling more of the impact of the high price of oil and plus also the inflation effects. But we are confident that with the low ticket sizes in our product portfolio, we can still offer them affordable protection. For example, the PRUCinta Sejati, which is a sharia traditional product campaign with low ticket sizethat has a wide range of price options, you can pay \$8 per month for the premium.

Another example is the PRUTect Care, which is a bite-sized product for life health and plus also accident with a premium as little as \$1 per month. Therefore, we feel that we are well positioned through the product range, despite the inflationary pressure coming to the country of both of the units.

**Nic Nicandrou:** Thank you, Omar, and thank you, Dhany, as well for the Q&A. So with that, I suggest we go back to Bethany to start the open Q&A session.

## Audience Q&A

**Greig Paterson (KBW):** Just three quick questions. Just in terms of the Sharia operations, could you just remind us how much you will own of that operation and how the with-profit mechanism works there? Second question is agent numbers growth. Total agents, I see are 198,000 agents. I wonder how much that has grown year-on-year to the end of December? Maybe you can talk about what has happened in the New Year as well. And then it was a statistic mentioned 11% compound annual growth rate for the next five years. I was not sure whether there was APE or gross written premiums, or whether that was a Prudential target, or some expectation for the market's growth?

**Nic Nicandrou:** Okay. I think we heard most of that. Let me start with the third part of your question. Yes, it is our own estimate based on the rising economic growth, the demographic trends. We believe that, and we work with consultants from time to time to estimate the growth in revenue pools and in value pools. So it is a combined exercise. One of our advisers indicates it is 11% and so that is what we believe.

The gross written premium CAGR will be between 2020 and 2030, as Dhany said, raising the gross written premium size of this market from 15 billion to 42 billion in 2030. And even then,

by then the economy will be over 2 trillion, just to give you a sense. So even at that point, penetration will only be just touching 2%. That is how massive the opportunity is in this market. You had a question on the mechanics of how Sharia products work. Maybe, I will ask Omar, and then I will give you some statistics on the size of our operation.

**Omar Sjawaldy Anwar:** As you know, we spin-off the Sharia business to a legally stand-alone entity. So basically, we retained most of the back office, most of the infrastructure of the existing portfolio and plus also the operations, the claims, the technology. So basically, it is still the same. So what the regulator requires us to do is to separate the legal responsibility into a separate company, which we are doing right now.

So predominantly having an identity on its own, standing on its own, the perception by the market is it is a Sharia-compliant company. Therefore, the opportunity to expand and to grow the Sharia market is going to be even more than being combined with the conventional business.

**Nic Nicandrou:** On the product specifically, let me just supplement Omar's answer on the product specifically. If you have a product where there is an investment chassis and a protection chassis, I mean clearly the part of the premium gets split, if you like, into three. There is one that pays for the cost of insurance. That goes into a Tabarru fund. Claims are paid out of the fund. And to the extent that there is any profit at the end of it, it will be shared between the underlying policyholders and the shareholder.

The part of the premium that goes into the investment fund, that appreciation accrues to the customer and we will charge a fee as one would on a unit-linked type policy. And then additionally, a part of the premium will effectively represent a wrapper fee, if I can call it that, for bringing that entire product architecture to the consumer. So shareholder makes a fund fee, a wrapper fee and shares into the insurance result. That is how it is operated. And more broadly, that is the structure.

In terms of, to give you a sense of the size of our business. Let us start with the size of the market. The Sharia market is about a tenth of the total market in Indonesia. Weighted new business premium has grown by about 25% last year. So ahead, if you like, of the overall market, because Dhany said it was flat.

We have a 30% share of the new weighted business premium. That is the largest amount. The APE that we did for Sharia was 70 million compared to the 334 million of APE of Indonesia. So you will see that in our numbers, it is just under 30% of our production compared to the market, the market weight being 10%, and that shows by being an early mover by prioritising this particular line, the progress that we have made.

If we look at the AUM that is managed on behalf of our customers, that is around \$473 million compared to the \$4.7 billion. This is all in dollars of AUM. So in terms of size of assets managed, it is about a tenth of our total, but that is equivalent to 23% of the market. So again, new business flow with 30%. But if you take the stock of money that we manage, it is a great share.

Around 143,000 licensed agents, as Omar said. That is about three quarters of the licensed Sharia agents. But what is interesting is that only one in three of those are Muslim. So when we talked about earlier what are some of the benefits of having a stand-alone entity, will become a magnet for those that want to become agents and want to align themselves and ally

themselves with a pure play Sharia business, and therefore, we will attract a disproportionate share of those Muslim agents going forward.

And in terms of the customer base that we have, it is 400,000 compared to 1.5 million of the totality of our customer, so about 30% of the total. But it is still early days. I said 220-odd-million, 100 million of those are millennials. The opportunity now with the simple products that we have in place is phenomenal.

You had a question on agency, although I have to say I did not quite catch it. And I do not know if it was Sharia-related habited in my answer or it was broaden than that?

**Greig Paterson:** I basically wanted to know how much the total agency force had grown year-on-year as opposed to the Sharia? I also wanted to know what percentage of the Sharia operation you will own? And will that be different from your current percentage ownership?

**Nic Nicandrou:** So our agency force declined last year as we enforced contract maintenance requirements. Our push was more on the increasing productivity. Our push was more on retooling many of those agents that are highly productive or appropriately productive or sufficiently productive with using new tools on PRULeads and PRUforce.

So yeah, we started the year with roughly 240,000 agents, but we whittled down the least productive ones, as I said, as we focused on productivity. And taken over a one year trend, you can miss some of the underlying improvements. MDRT, we are putting a lot of our emphasis on the elite agents, on the MDRT agents. Compared to five years ago, we have a lot more.

So, as Dhany said, we have 1,000. If we go back to 2015, we had 77. Just to give you a sense. I can share that information. I was around. Dhany was not around. So you see the focus, the delivery that we are the number one producer of MDRT qualifiers in this market and the contribution from MDRT has increased from about 15% back five, six years ago to around 30% now.

So focus is less to do with numbers now and more to do with the productivity and we are retooling them. We are providing them with new products. And we continue to triage, if you like, what products are sold by, depending on your experience, your tenure and the tools that we make available to you to approach consumers.

The percentage of the contribution to APE, all our Sharia is agency sourced today. That is the point that we have achieved all this progress by simply through the agency channel. We are only just starting to put Sharia products through all the other channels.

Last year, we put the very first Sharia products in our bank relationships. And it is now contributing from nowhere, Dhany, to 4%. We have created some high end Sharia products. PRUWarisan is an example. Maybe if you want to say a little about what that product does?

**Michellina Laksmi Triwardhany:** Yeah. So I think we started in the bancassurance on offering the Sharia products in our bank partners and has been well received in particular is the PRUCinta and PRUCinta Sejati that obviously focusing on the more of the high end of the customer pick. So this is a stand-alone traditional product.

And we believe that this represents a big opportunity still to offer a more of traditional product A lot of our bank partners, obviously focusing on the single premium unit-linked. But we believe also and this is also what we learn from our agency business is that there is a need for the high

net worth who have more of complete and coverage from versus the single products. And it is something that we want to focus on going forward as well.

**Nic Nicandrou:** And on the share, honestly, Greig, I still did not understand your question. Agency is about 77% of what we sell. 15% is bank.

**Greig Paterson:** Does that include 10% to a third-party in terms of ownership of the company?

**Nic Nicandrou:** I see. No, we are structuring the Sharia entity to be a subsidiary of the conventional business. And therefore, we will retain a 100% economic interest in the stand-alone entity. We have not had to divest the proportion of that business.

Previously, Sharia was a division or a product, if you like, of the conventional business. We are subsidising it for want of a better expression, and we are retaining the economic interests. So there is no value leakage in that sense. Does that address your question?

**Kailesh Mistry (HSBC):** Couple of questions. The first one is the Sharia agents. I think Dhany mentioned there was 143,000 Sharia agents. Now just wanted to clarify. So those 143,000, they can sell both Sharia and traditional or conventional products? And how different or onerous are the licensing requirements for those agents? The second question was, again, just trying to compare Sharia versus the conventional products. Can you give us a little bit of colour around average premium case size, the type of product features people typically buy between those two entities and then how that relates to, for example, new business margins or internal rates of return?

**Michellina Laksmi Triwardhany:** I can tackle the first one. And maybe, Omar the second one.

Yeah. So currently we have 200,000 agents in Prudential in Indonesia, out of which around 143,000 also carry a Sharia licence. So the licensing required is that the agents have to carry two license. One for the conventional and one is for the Sharia. Obviously, to carry a Sharia licence, you have to understand the basic product and differences in the product of conventional for Sharia, the concept of Tabarru fund and how it works. And this is something that the Sharia agent must understand.

So there is an overlap. And that is by design, because this has been the same agents that had been growing our Sharia proceeds, as well, where it is today, about 30% of market share in Indonesia.

**Nic Nicandrou:** And maybe to supplement on that, I mean, clearly the training that we give to our agents as they come into the business allows them to go down both routes. So the training is supportive of licensing in relation to both Sharia and to conventional. Maybe a comment on case size and on profitability vis-à-vis the traditional.

**Omar Sjawaldy Anwar:** I think it is basically the difference between conventional and plus also Sharia. Sharia is more Group sharing, whereas conventional is non-Group sharing. So in terms of Group size, the Group investment is about \$8 per month that you can subscribe on the lower end of the segment of the product itself. On the other, perhaps Dhany?

**Nic Nicandrou:** I mean, just maybe to add some colour, the average case sizes is lower on the Sharia, be reflecting the type of products that they are buying. So we did roughly a couple of 100,000 of new cases of Sharia business last year. We can see them improved 2.5 times

what we did pre-COVID, just to give you a sense. 85% of those were simple stand-alone products.

So it is PRUCinta Sejati, which is a sharia traditional product campaign with low ticket size, which starts as little as \$8. But of course, at the higher end it is \$200 to \$300 or so. We had PRUCinta, which is effectively a life, that tends to start as little as \$50 a year and it will go up to \$300 or so.

We have the hospitalisation, the PRUTect, that tends to be lower case size. So it is really the product that they are buying, whereas the conventional tends to be more at the high end of the \$600, \$700, \$800 a piece.

The profitability is high, because we are talking about stand-alone insurance, so the margins tend to be above the average on all these stand-alone insurance products and look through an IRR lens and a payback lens, they are very, very attractive. So we are delighted to write that business on the economics that we are doing it and of course delighted to be expanding the insurance umbrella to people that were not protected previously.

In fact, Sharia guys versus a traditional guys, again, we have lots of products that come in both formats. Because of the risk sharing, the margins, the equivalent margins like-for-like would be lower, but again, appropriately attractive from an IRR and a payback period perspective. Thank you, Kailesh.

**Kailesh Mistry:** Just one quick one on the back of that. So on the Sharia, from an IFRS lens, does the way that three parts of the premium gets split up get reported effectively as a fee-based type fee and insurance earnings?

**Nic Nicandrou:** I mean, the fee will be part of the fee income. I think the other two components are probably reported within the technical income. But if I am wrong on that, we will get back to you.

**Nasib Ahmed (UBS):** So I guess you mentioned some of the benefits of a stand-alone Sharia business, as well as the benefits also being able to sell more different types of products? And then just comparing the business in Indonesia after you have got a stand-alone business to Malaysia, is Malaysia similar structure? And are there any learnings you can get from Indonesia to Malaysia and vice versa? So given Malaysian Sharia penetration that you mentioned was a little bit higher. And then finally, banca channel you mentioned is not that important for Sharia at the moment. But is that the same across the industry? Is Sharia not sold that much through banca? And do you have an expectation that the banca channel would be a bigger part of the Sharia product or both?

**Nic Nicandrou:** Okay, let us maybe start with the second question, Omar. What fraction does the Sharia products have in banks? I guess, you are both worked in banks, both of your perspectives. I am sure our investors will be interested in understanding. Omar, why do not you go first, Dhany supplement? And then I will come back on the comparison with Malaysia.

**Omar Sjawaldy Anwar:** Thank you, Nic, for the question. The banca channel traditionally from the early 2000 has been very strong, predominantly because Indonesia is a bank-based economy. So a lot of the resources are based from the banking side. So insurance traditionally has been on the back side in trying to train, in trying to acquire those relationships in this channel So therefore, especially the bancassurance channel has gained momentum, and what

you have seen for the last 10 years, for the last five years, the bancassurance has actually come at par with the agency channel.

But having said all that, as you know, the Sharia market for the banking side has consolidated. We have seen a large player now coming up, which has merged in the last few years. So we feel that there is an opportunity to partner, but are only at an early stage. So we are keeping an eye on that opportunity.

**Nic Nicandrou:** The question was in terms of the proportion of insurance that is written by banks, that is of a Sharia nature. We said earlier that it is 4% through our two relationships that is Sharia, I made the point that most of the 70 million of APE can effectively from agency as very small number came from banca. But more broadly in the industry, is that a trend in the industry or not?

**Michellina Laksmi Triwardhany:** Well, I think, based on my experience is that because the banks in Indonesia, if you look at the top 10, top 15 or top 20 banks, they are mostly conventional banks. And they have a small Sharia business. So in a conventional bank, it is a very universal bank, they offer products that suit their customer needs. So a lot of the focus that is coming out from the life assurance companies are primarily, because it is more on the conventional product and that has to be offered by the bank partners to their customers.

But obviously, I think what we have seen so far is an interest in the Sharia for us. And if you think about it, the biggest banks in Indonesia and in mass market bank, 95% will be Muslim. So, if I am right, there should be increased interest in the Sharia business or Sharia type of product.

**Nic Nicandrou:** Okay. And in relation to the comparisons with Malaysia, so we have around 1.2 million Takaful customers in Malaysia. So, in terms of numbers, it is already three times larger, and the premium base is higher. It is a much more developed market at this stage. It makes up around 30% of the industry in Malaysia. Part of the reason the Malaysia market is more developed is because there has been more fatwas which provide the guide rails, if you like, in order to construct and architecting insurance products.

There has been more fatwas on the banking side and they do more fatwas on the insurance side. Part of our sponsoring the Sharia Knowledge Centre is to start to provide, if you like, a mechanism and the thought leadership to support the communities to effectively do like more fatwas that then will help the insurance sector expand. So there is a number of infrastructure things, if you like, that needs to be put in place before the market expands. It is more advanced, as I said, in Malaysia but there is nothing that prevents the authorities from catching up.

In terms of product design, there is quite a lot of flow of ideas, of exchange of ideas. The product set now on the Sharia side has caught up in Indonesia. The product set in Indonesia has caught up with a lot of what it is that we are offering in Malaysia. So there is good cross fertilisation of ideas between our two businesses. Thank you for your question. We can go to the next one, please.

**Andrew Crean (Autonomous):** I just really have a question around growth, or the return to growth. And when you see that, both in terms of new business growth and IFRS profitability, I think you had said the number of agents for last year. There is some impact from the Omicron. So I know quarter-by-quarter sales or new business profits grew through year, but over time,

compared with 2020, it was lower. So just give us a bit more granularity there? And then also on the IFRS profitability, what was the impact in 2021 in terms of COVID claims, and how that affect your profitability and how you see that in 2022?

**Nic Nicandrou:** So I mean on growth, what we have seen is whenever there is an improvement, if you like, in the ability to connect with clients, when footfall returns back to branches, it is true in Indonesia. It is true elsewhere. We see demand ramp up and come back relatively quickly. So Delta hit Indonesia in the summer. Therefore, Q2 was impacted in 2021. Q3 again, we saw a return to normality. Q4 tends to be a strong quarter in any event, as we get to the end of the year, again.

And then Omicron hit us in November. We carried good momentum into January. But inevitably, the increase from level one to level three restrictions for about a six, seven week period has had an impact. We are now back to level one. And therefore, we are seeing business come back. Now short of giving you our first quarter number, I do not how else to answer that question.

So I can reassure you being in Jakarta, the traffic is just as bad as ever coming into the airport. And usually the footfall in airports is a good indication of how economic activity is resuming and at the airport it coincides as well with the start of Ramadan. And there is a lot of religious travel that takes place as well. But it was beginning to feel a normal.

On IFRS, a big chunk of the drop was claims related. We are down 16%, the majority of that was claims related. There is a single digit drop that is linked to the fact that we have not seen the growth in the recurring premium business that historically we have enjoyed, if we go back a few years in Indonesia.

We are cautious about when we call the end to claims. And clearly, Omicron is less severe from a health perspective. But there has been two years of people not accessing hospitals of normal BAU activities. So we are being cautious in terms of what that might entail. Really we are monitoring closely and we will update you at the next opportunity that we have when talking about results.

But medium term as the claims environment normalises, I guess, as all the things that we have talked about that have delivered a structurally better business because we are now broader. We now have digital assets that we did not have before. We have a much more balanced look. We should be phenomenally even better placed than before to capture the demand as it resumes, as consumer confidence returns. The demand is there. It is tapping into it.

And yes, we will return to growth. But it will be very closely correlated with the growth in regular premium business and a continuation of the mixing help and protection that we have built historically. Next question, please.

Okay. Well, thank you once again for joining the session today. I hope you found it useful. I hope you have taken some insights from it. Please keep providing us with your feedback as you did after the session that we held in Manila. There is a lot more that we plan to do in the coming months as we give you effectively a tour of all of our businesses.

I would like to thank Dhany and Omar, for your questions. I would like to thank your teams for organising the session. Appreciate we have taken an hour away or an hour plus the preparation,



I guess, that you have done from your preparation for the launch event tomorrow. But I am sure that will go well.

By way of closing, I want to leave you with four key messages, that as a business that is entirely now focused on Asia and Africa, we are operating in the part of the world, where the drivers of demand are structural, underscored by strong economic growth by favourable demographic trends, and also a lack of social safety net.

This is abundantly evident in Indonesia, which is the sweet spot of the Asia insurance market for all the reasons that we have outlined in the last hour with what Dhany and Omar have covered. We operate here with all of our historic strengths, strengths relating to scale, strengths relating to distribution, and we have supplemented those with a much broader product set, and now digital assets and an increasing number of digital relationships.

We remain on the lookout for a mass market bank. And as we continue to make the business stronger and stronger, I am very optimistic that not only we will return to growth in sales relatively quickly, and that will in turn translate to growth in IFRS profitability from here as well.

So thank you once again. I look forward to the next iteration, the next edition of the snapshot sessions. Goodbye. Thank you for joining us.

[END OF TRANSCRIPT]