Prudential Q&A

Speaker: I'd now like to introduce our Q&A session where we're being joined by Mike Wells, Nic Nicandrou, Mark Fitzpatrick, James Turner and Ben Bulmer. The lines are now open, so callers, please dial in with your question, and for everyone else who prefers to type in, you can put your question into the Q&A function on the event website. Now, to ensure that everyone has the opportunity to ask your question during this Q&A, can we ask you to keep your questions brief? Thank you very much.

And with that, let's go now to our first question. It comes from Kailesh Mistry from HSBC. Kailesh asks us this: Other than delivering double-digit EEV per-share growth and dividend growth in line with Asia cash generation, are there any other financial targets? For example, NBP, IFRS, OPAT, cash flow? Mike Wells?

Michael Wells: I think we've given today some indications of our views of where the structural growth is in the organisation. And I don't want too – I think the targets are effective in giving you a clear view of where we're going, but too many targets, I think, start defining the strategic optionality of the group. So, I think we've given you clear indications of what we can and can't do per market. And some of those other metrics you're talking about are correlated highly to the forecast that we've given, I think, so far.

So, we're going to leave the targets we have in place. Again, highly confident in the growth of all of our metrics, and I think we've demonstrated over the last decade plus, our ability to grow all these metrics in parallel. And that's one of the core capabilities of the group.

Speaker: So, let's go now to our next question. We have a live caller. It's Andrew Crean. Andrew, please can you tell us which company you represent and then your question please?

Andrew Crean: Good morning, it's Andrew Crean at Autonomous. The questions I have are firstly, there's a relatively slow monetisation of value into cash each year, which I think is related to the proportion of with-profits business which is back end loaded. Could you say whether over the next five years you expect an accelerated level of cash monetisation as you change the product portfolio?

And secondly, I think the importance of India has increased in terms of your perceptions. You only own 22% of the life business. Are there plans to increase that and do you currently have much control over the business?

Michael Wells: So, Andrew, I'll start that and then I'll give it to Mark on the financial piece. I think on India, you've seen structural changes in monetary policy there, which we think long-term has some impact on saving behaviour. So, historically it was cash, gold, real estate and then a growth of unit linked and other products, and I think the growth of the life business, you know, is clearly emerging and clearly underserved at this point in the market. So, we continue to watch that space very carefully.

From a structural point of view, to your question on ownership, like many of the other things we do, it gives us opportunities that if there was a period of time where we thought it was appropriate to increase, we have that option. But that's also true of our CITIC joint venture, that's true of our Takaful businesses, the value chain in Pulse. One of the unique things about Prudential is not only do we have an ongoing effective growing business and growing back book, but we also have optionality that other firms don't have the same call on, if you will.

Mark, do you want to talk about the metric question?

Mark FitzPatrick: Sure. Andrew, hi, good morning. So, in terms of the element around the monetisation, as you quite rightly say, with-profits is a very, very important component of that. And one of the things through the EEV video and slides for today's session, you would have seen that 35% of the effective return to policyholders is effectively doing regular bonuses and terminal bonus is 65%. So, it is massively backend loaded in terms of where we are.

So, we've provided the monetisation profile in the slides. We expect it to grow in line with cohorts of a new business, but really focusing on growing EEV as a whole. And effectively, I think as we change our product mix, we'd expect to see that evolve over time, but I'm not going to be able to commit to anything at this stage in terms of any acceleration. Effectively, new business investment that we make every year is effectively a use of our cash flow. And as I mentioned in the video snippet earlier on, for every dollar that we have invested, we have created four dollars of new business profit.

Thank you.

Speaker: Great. Thank you very much to Andrew Crean for your question. Let's move to our next caller. We're joined now by Farooq Hanif. Farooq, please can you identify your company and then your question?

Farooq Hanif: Hello, everybody. I hope you can hear me. This is Farooq Hanif from Credit Suisse. Firstly, on China, I noticed in the chart that you showed of China's new-business-by-province group, that the very, very early provinces you entered into are seeing a decline in sales. And I just wondered if that's correct and what might be driving that.

Secondly, on China, in terms of margin, it seems to me that what you're saying is that there could be further margin expansion from market share growth in some of the provinces as you move more towards agency, but also you just grow volume. Are you expecting, therefore, this margin in China to grow even further?

And last question is on Pulse. Do you have any evidence that Pulse is generating – for the new customers, is generating greater penetration into customers that have normally not been customers of Pru? So, if you could share maybe in Indonesia as an example. Thank you.

Michael Wells: Nic, do you want to address those please?

Nic Nicandrou: Okay. Good morning, Farooq. I didn't quite catch the first question. If the question was around the development of APE between the various clusters, I mean, clearly China was disrupted last year. So, what drove the relative increase, whether you were looking at the early cohorts versus the late cohorts or the clusters within that, what drove that was the mix that's coming from each, from bank or agency. Agency was more disrupted, so in those segments or those cohorts where bank is a bigger contributor, that gave a positive impact on the 2020 flows. And, of course, as we're very new in some of the more recent provinces, those continue to be on a growth path. So, it's more to do with product mix within each cohort or within each cluster and more to do with the maturity, if you like, of the business that we have there.

I mean, your question on margin, margin is always a function of the relative growth of channel. I've said before that the bank channel is predominantly – 99% of what we sold in Q1 and last year was savings products. Regular, premium, long-tenured saving products, but clearly they will never have the same margin as health and protection, which is an agency sold product. So, it will depend on which channel they're coming from and also, will depend on the mix within that channel.

Is there further opportunity to increase it? Yes, there is. There are scale economies, the productivity of our agents in some of the more recent provinces and city entries will improve. And as they become more mature and more experienced, the productivity and product mix within that will improve. So, there is further runway there.

On Pulse, it's just too early to say in our development of the tool whether the loyalty of a customer coming in, be it in terms of length that they stay with us or, indeed, whether the propensity to buy a second and a third product, it is just too early to say. These are hypotheses that we have but we're only 21 months in, so we don't have enough information, certainly statistically valid information.

Back to you, Mike.

Michael Wells: And Farooq, the majority of the clients coming into Pulse are new to Prudential, to the other part of your question. So, that is expanding the households that we're reaching into.

Speaker: Great. So, thank you very much to Farooq for your question. We're approaching the halfway point in this management live Q&A session. So, please dial in or put your questions in to the Q&A function. We have another question over here and it comes from Dominic O'Mahony from BNP Paribas. Dominic asks you this: Where is the PCA capital allocated between the geographies? Like many investors, I calculate the COE based on the weighted average COE by geographic segment, building up from the local risk free rates, and this varies considerably across your markets. That's the question from Dominic.

Michael Wells: Mark, would you like to take that one please?

Mark FitzPatrick: Sure. So, Dominic, there are many different ways in terms of which we look at our capital and at our return on capital. You would have seen in the additional segmental information we gave with our prelims earlier this year, in terms of the extra analysis around Asia, so you can expect to see a little bit more of that. And we gave that predominantly on an EEV split as well as an IFRS. So, in terms of the way that we ultimately look at capital, look at return of capital, EEV is a very, very important lens to us, and you would have seen as well in terms of the way that we have changed our AIP and our LTIPs also, a greater focus in terms of EEV.

So, I would point you in terms of the additional EEV disclosure that were provided in terms of the segments and in terms of the element of the capital and the operating profitability and performance of the main segments. And as I said during the course of the half year, and the full year, we will be providing further information and further disclosure around that.

Speaker: So, thank you very much to Dominic for your question. We've got a live caller coming in now and it's Greig Paterson. Greig, if you could tell us which company you're from and then please put your question to our management panel.

Greig Paterson: Good morning, everyone. Can you hear me? It's Greig Paterson from KBW. Three questions. One is, Mark, you referenced your embedded value basis. I was wondering how you think your basis differs from the other Asian insurers. Question one.

Second one is, Nic, in terms of the Pulse rollout, the 9% in the first quarter, can you tell us, just so we can get a feel with being rolled out completely and where it hasn't, which countries were contributing the most to the 9% in the first quarter? And then in terms of Pulse margins, if I remember, if my memory's correct, Pulse margins – Pulse products typically have lower margin. Does that mean we're going to get margin compression as you rollout Pulse further into Asia and Africa? Thank you.

Michael Wells: So, Mark, do you want to start please? Nic, on the Pulse, and then maybe, Ben, do you want to talk about incremental effect of Pulse on margin?

Mark FitzPatrick: So, Greig, thanks for your question. Actually, Ben did a video and some slides, which were uploaded earlier today, which you may not yet have seen, which actually talks to our embedded value in a little bit more colour. It gives a little bit of colour in terms of some of the cash flows by some of the major product sets as well for some of the main markets. That will hopefully give you a better sense of our embedded value. But net-net, we believe embedded values is a very robust, transparent methodology which was introduced to address the shortcomings in traditional embedded value. We have explicit allowance for the time value options and guarantees.

It's very much a bottom-up approach so that really reflects the product by product and the business and product mix of the products that we sell. It's also active based, which means that the interest rates at any moment in time that we draw our balance sheet and that we report on, we presume that those rates are well persistent to the future. So, there's no mean reversion or anything like that.

So, we believe that it's a robust process. We believe it's a very thorough, it's a very clearly understood process and a very clearly understood metric that we report against. But I think when you have a look at the video and you get a chance to have a look at some of the extra information that Ben and the team have shared in that video today, I'm very happy to pick up any further questions you may have.

Speaker: Great. So, let's now jump to our next question. We have… Sorry, James?

Michael Wells: Nic, do you want to talk about the success, for a second, in Pulse in the first quarter, and then, Ben, I think on margin were also part of Greig's questions?

Nic Nicandrou: Yes. Greig, you saw the increase in terms of the user base, the number of registrations. Importantly, more engagement mechanisms. And as I said in my speech earlier, it's really what Pulse is giving us is the ability to capture engagement and behavioural data. 20 gigabytes of data; we roughly have about 280 pieces of data per user once they register, once they engage in a number of the activities. So, we're trying to be a little more selective about the leads that we pass down, and we're looking to improve, if you like, the conversion ratio. And we have seen an improvement in that.

At the same time, we're trying to bring more agents, unique agents that haven't yet used, have had a referral, a Pulse referral come to them in order to fulfil. So, again, relative to the 34,000 agents last year, 15,000 just in the first quarter this year, and we're now trying to spread it across more of the market. So, the contribution, to your question, was predominantly Hong Kong, Indonesia and Malaysia. There were small numbers from elsewhere, but there's a lot more to come from everywhere.

Ben, over to you on the question of margin.

Ben Bulmer: Thanks, Nic. Hi, Greig. I'll be brief. The majority of sales we've seen to date through Pulse are online-to-offline sales. So, the margins really reflect those of the existing product set and the agency margins in the countries Nic's mentioned. So, to get a feel for that, you can reference the margins of Hong Kong, Indonesia and Malaysia.

Back to you, Mike.

Speaker: Great. So, we will proceed now with the next question. We have a caller and it is Ming Zhu. Ming, can you please tell us who you represent and what's your question?

Ming Zhu: Hi, good afternoon, everyone. This is Ming Zhu from Panmure Gordon. Three questions please. First question is, could you just give some colour in terms of you had a good Q1, but since Q1, some of your Asian countries have gone back into full lockdown or increased restrictions. What's your outlook in terms of remaining of the year and have you done any preparation ahead on for such things happen?

And the second question, you talk about digitalisation, and where would you see the really full benefits coming through across Asia and Africa?

And the third question, is Asia also having this rising inflation problem as outside of Asia and how have you actually priced or reserved accordingly for your health and protection product? Thank you.

Michael Wells: Ming, thank you for those questions. On the health and protection products, we have the ability to reprice, again, subject to local market competitive and also local market regulatory issues in some cases. So, that's embedded in the product designs. We also have product designs where the consumer benefits from low claims in certain markets, so they tend to be self-managing as some of the inflationary costs related to them, because we stay aligned with the consumers. But I think on speed to market when markets are closed, Nic, do you want to give some colour on that?

And I think, Ming, on the digitalisation part of your question, the benefits are now. I mean, I hope the takeaway from the meetings is that this is not an ambition for Prudential, this is where we are in various markets. We've been working on reducing our marginal costs, we've been investing heavily to make sure that we capture benefits at scale and we have more work to do on that. And I think if we were here 10 years from now, we'll still have more work to do on that, to be clear, because there's new technologies and new ways to get to clients and new efficiencies that we always want to be evolving into the business. But we are seeing incrementally improvements in just about every area of the business and I think the biggest thing that I've seen in5-6 years here now, is the group's ability to share across markets, so we don't have to recreate things over and over again, even in-house, is really creating an adoption rate that we've just not had historically. I think our management team down to the very local level, in most entry level operational roles now sees the benefit of this. So, there's a real alignment in how people are addressing it.

But, Nic, do you want to talk a bit about our ability to deal with an open or closed market and some of the challenges we see as COVID comes in and out of our Asia markets?

Nic Nicandrou: I will do, Mike. I mean, we put some information on the website to update you using our usual chart, the chart that we've used before. On the level of opening up or re-lockdown in many of the markets, it is true that over the last five, six weeks there has been more severe, another spike if you like, in a number of these markets. And even since we've put up the chart last Friday, we saw that Malaysia has gone into full lockdown for the next two weeks. So, Taiwan is worse than it was than during Q1. Malaysia is on the list, Vietnam, Thailand. So, those are some of the markets. Singapore, Philippines and Indonesia have been on a constant up rising curve, so the only markets which are completely normal at the moment are China and Hong Kong other than for the border. Inevitably, there will be some disruption, but we're better equipped than we were this time last year – in fact, at any point in the course of 2020.

We now have the capability to use virtual technology to do remote sales. In fact, the remote sales through both channels, both banks and agency, were 30% for agency, 33% for banks. They were higher in the first quarter than what we saw in the full year last year. We had the ability to access and engage with customers through Pulse in a way that we didn't a year ago as we were still launching many of the products, many of the services in those markets. And we're just used to the rhythm of doing this now, so that will act as a mitigant. All these effects will be short-lived and really, what today's about and really what all the videos were about is showcasing the new capabilities that we're bringing online, that will withstand the test of time.

So, we have more tools to face into the challenging environment through all the peaks and troughs. And fundamentally, we're constructing a much more robust and a stronger business.

Michael Wells: And Ming, a lot of those tools were developed last year during a much more severe lockdown for us across the region, almost 100% of our employees locked down. So, from a cultural point of view, you're seeing tremendous productivity regardless of the office structure we're working under.

Speaker: Great. So, let's move on to our next question, and before we do, a very gentle reminder that we have dedicated time coming up in our markets and capabilities panels where you'll also be able to put your questions specifically on Pulse. So, that's all still coming up ahead and we'll have time for you for that.

I think we've got time here in this management Q&A for possibly one more question. And panellists, this is a three-part question coming from Ashik Musaddi. So, Ashik says: May I ask three questions? This is the first one, Indonesia has very high protection and UL element in its products, but it has very low EV, whereas Hong Kong has very, very high EV. How do we think about the difference between the two? That's the first question.

The second question from Ashik is this: Can you please provide examples of the products you have in Hong Kong and highlight what drives such high H&P EV from Hong Kong?

And the third question from Ashik is this: How are you thinking about India now, given you haven't increased your stake? Do you want to sell down out of India or do you want to maintain/increase?

Michael Wells: So, we've got seconds to do this one, Ashik, so apologies for the fast answer. On India, we don't comment on strategic M&A, which a sell-down or an increase in our stake would be, but obviously it's an opportunity set that we have that's unique to us versus peers. Nic, did you want to quickly comment on product differential and the treatment of them?

Nic Nicandrou: Okay. On the product differential, in the end, whether is a unit-linked chassis or with-profit chassis, it's a mechanism to attach riders and offer protection to customers whole of life. It's just that the riders in Hong Kong, both in terms of sophistication, both in terms of case size, are much higher than they are in Indonesia. So, case size and richness of cover is much higher, and that really is what accounts for the difference in margin. Multiple products in Hong Kong, as we've been expanding our product range from beyond educational savings with protection riders to standalone medical, standalone critical illness. Now we have an annuity product, so we are spanning the entire need analysis, but Lillian and Derrick will join us in the next session, so perhaps we have an opportunity to expand further on that answer.

Speaker: Great. I think we've covered that question from Ashik. Ashik, thanks very much for asking that. That wraps up our panel, so thank you for your questions, and we also thank Mike, Mark, Nic, James and Ben for being here with us. There are going to be several opportunities through this investor day event for you to ask questions during the course of our time together and we're going to come back on this later. But first, we're going to take a very quick break and we ask you to be back at your monitors at 19.45 PM Hong Kong time. That's 45 minutes past the hour where you are.

We're very grateful and we'll see you shortly.

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