Q3 2015 Sales and Revenue Call - Interim Management Statement

Company Participants

- Barry Lee Stowe
- John William Foley
- Michael Andrew Wells
- Nicolaos Andreas Nicandrou
- P. Chad Myers
- Tony Wilkey

Other Participants

- Abid Hussain
- Alan G. Devlin
- Ashik Musaddi
- Blair Stewart
- Fahad U. Changazi
- Gordon Aitken
- Greig N. Paterson
- Jon M. Hocking
- Lance M. Burbidge

MANAGEMENT DISCUSSION SECTION

Operator

Hello and welcome to the Prudential Plc 2015 Q3 IMS Conference Call. Throughout the call, all participants will be in listen-only mode. And afterwards, there will be a question-and-answer session. Just to remind you, this conference call is being recorded.

Today, I'm pleased to present Group Chief Executive, Mike Wells. Please begin your meeting.

Michael Andrew Wells {BIO 4211236 <GO>}

Thank you, Jerry. Good morning, everybody. I'm joined by Nic Nicandrou, our Group CFO; Tony Wilkey is on the line, our CEO of PCA, as is Barry Stowe and Chad Myers from the U.S.; and John Foley and Aki Hussain from our Prud UK business. So welcome, everybody.

Prudential has obviously reported a very strong performance for the nine-month period 2015, again, led by Asia. On a local currency basis, the group has reported new business profits of £1.8 billion, up 13%, an APE of over £4 billion, up 14%. In the discrete third quarter, despite the significant market instabilities we've seen, we've seen very healthy momentum with new business profits growing 14%, tracking APE sales volume, which were up 16%.

This performance highlights the attributes that are distinctive to us – the clear strategy focused on structural growth opportunities, the scale and diversity of our franchise and the high quality of our execution.

Now, let me walk you through some of the highlights by each of our business units. Let's start with Asia. In the life business, new business profits grew by 24% to £976 million for the nine-month period reflecting APE volumes that were up 27 percentages to over £2 billion. And reported currency, new business profits grew on even stronger 26% but APE grew by 31%.

Going beyond the headlines, the performance is broad based highlighting both the quality and the diversity of the business across the regions. In the first nine months, 9 of our 12 countries grew APE at double digits. Both our channels, agency and our existing bank assurance partners also grew APE at double digits. And regular premium continued to drive high quality resilient growth, contributing 92% of APE and growing by 31%.

So stepping through some of the details in a few select markets, starting with Hong Kong, Hong Kong is having a record year. In the first nine months, APE sales grew 73% with regular premium again accounting for 96% of these sales. Multiple drivers of performance across Hong Kong channel, customer, product, I think innovations in all those spaces. On our channels, agency bank and broker all delivered double-digit growth. There's ongoing strong demand both in domestic, mainland and – mainland Chinese customers and also local.

The sale of the protection products which were up 58% complemented our traditional with profit strength in that market. Our investment over the years in Hong Kong and expanding the scale and scope, the distribution of the products are all paying off and enabling us to outperform both the fast-growing market and our peers. And we're going to showcase this business and detail at our Investor conference in January, so you can judge for yourself both the quality and depth of what's one of our finest operations in the region.

And Singapore, new business profit is probably a better guide of our underlying performance since the reported APE is down 14%, that's distorted by the loss of the Maybank and the Singpost distribution relationship last year and also by the increasing portion of higher value, lower volume protection products being sold. On this basis, we're making good progress with new business profits in the agency channel, actually growing by 15% year-over-year.

In Indonesia, our new business sales have declined 3%, but we're continuing to see robust in-force premium growth, which, again, as we've discussed before, is the key driver of earnings. We're a scale business in Indonesia with 23% market share, 260,000 plus agents and clearly the undisputed market leader. We continue to invest counter-cyclically by further growing our agency scale and we're well-positioned to deliver long-term growth in a market with a population of just over 255 million, where insurance penetration is just approaching 1%.

A few words about China. This is clearly a market that saw a significant equity and currency volatility in the third quarter. And amid this backdrop, our performance continues to remain solid. In the first nine months of the year, APE grew by 32% to a £115 million. Third quarter headline APE only grew by 4% year-over-year, but again, there was a strong underlying momentum with regular premium sales growing by 23% and a doubling of protection sales attesting to both the resilience and the quality to growth.

On a 100% APE basis, China is now the fourth largest market for PCA, and we're very excited about the long-term opportunities in China and remain extremely positive to deliver long-term growth. Our market share, folks, is up to 39 basis points in contrast to some of the Southeast markets. So, we got a little bit of room to go there.

While our largest market is right in the center of our performance, some of our smaller markets, the growth engines also did exceptionally well. If you take a look at Philippines, Thailand, and Vietnam, for example, they're contributing strongly with year-over-year APE growth of 20%.

At the outset, I referenced the third quarter momentum for the group. The strength was echoed in Asia with Q3 APE growing by 20%, but by regular premium, which were up 27%, and as a result PCA has extended its record a quarter-over-quarter APE growth to 24 consecutive quarters since Q4 2009. Our Asia APE growth has averaged 17% in that period of time, underlying our consistent execution in the region. And my congratulations to the team.

This performance highlights the well-rehearsed but underappreciated strength of our business in the region. In this market with low social protection, we're offering affordable, regular premium products that provide downside protection, be it health or wealth to a rapidly growing but uninsured middle class. And time and time again, I think we've seen that the approach mix are business less correlated to markets and economic cycles.

Moving to Eastspring, our asset management business, it is more directly impacted by market volatility. But here, too, we've seen strong progress. Our third-party business delivered £4.9 billion of net flows, 34% higher year-over-year. We also saw positive external net flows of £382 million in the third quarter. And for the nine months overall, AUM including both external and internal business grew by 18% to £82.4 billion with year-to-date inflows more than offsetting the adverse market movements.

We've delivered a strong regional performance despite challenging external conditions. And our long-term prospects for the region remained intact, underpinned by secular demand for savings and protection and our unrivaled ability to profitably capture this opportunity.

Let's move to the U.S. Here, we're continuing to operate in a disciplined fashion, writing variable annuities exclusive of Elite Access of volumes of £14 billion, 4% lower year-over-year. This is consistent with our risk appetite. Elite Access sales were resilient at £3.8 billion, and it remains one of the best-selling products in the overall variable annuity market, now ranking fourth in the total industry via league tables.

Total annuity sales for the year were £19 billion, 4% lower year-over-year with total new business profits of £853 million again tracking the sales trend.

Separate account assets, which drive earnings and cash flow grew by 4% year-over-year to £127 billion again reflecting very strong net inflows of £9.2 billion, which more than offset adverse market movements. And our in-force book remains healthy, our hedging performance in line with our expectations and our capital position solid.

On the proposed DOL regulations, Department of Labor, we have filed our supplemental comments in September. We're now awaiting the final rules. Again, we like the market. We'll see an announcement from the DOL sometime next year is the current guidance. It's going to come down to capabilities. We think our profitable back book, our low cost base, our strong commercialization skills, be it distribution, operation, technology, product development, they all position us well to succeed in a new regulatory environment however large or small those changes end up being.

Over to the UK, we're well-positioned to succeed in this pension freedom landscape. Our UK business continues to benefit from the strong legacy and good long-term performance of our PruFund, with growing demand for its multi-asset class capabilities across a wide range of wrappers, bonds, income drawdown, individual pensions and ISAs.

As a result, PruFund APE were up 84% in the nine-month period, and overall AUM has increased by 29% in 2015 to £14.9 billion. In the nine months, overall retail APE sales were up 26% to £613 million with growth for our new and existing retail propositions outpacing the decline in corporate pensions and individual's annuities. And the retail new business profits grew by 13% to £127 million, reflecting the sales mix. We remain selective in bulks, completing two additional transactions in the quarter, bringing the year-to-date total APE to £149 million and NBP to £104 million.

As you know, we announced the departure of Jackie Hunt, the UK CEO, on the 21st of October. We're in the process of hiring her replacement. We'll update you in due course. In the meantime, John Foley, who's here with us today, is one of our most seasoned senior executives. He's actively involved in managing our UK operation and the team. And as you can see from the results, the business is delivering good performance.

Moving to M&G. As flagged at the half-year stage, M&G continues to experience net outflows primarily from its European retail bond funds. These outflows have been partially offset by strong inflows into our institutional products. Reflecting this position in weaker markets, M&G's overall AUM has declined by 4% year-over-year but still strong at £247.5 billion.

The outlook for the Retail business remains soft, and we expect to see outflows in Q4, while the institutional pipeline remains robust. This is a reminder that - again that M&G operates in a cyclical business for a portion of its business. At the same time, the capabilities that helped M&G deliver a strong financial performance is intact and is in fact remains clearly a driver of value for both the shareholders and their clients in the future.

So that completes the business tour. Let's go to the balance sheet. So we're on the cusp of transitioning from one older capital regime to another. The underlying picture for Prudential is the group remains well-capitalized and generates significant amounts of organic capital. At the end of September, our IGD surplus was robust at £5.1 billion, which is stated after deducting the 2015 interim dividend of £315 million. And this equates to cover 2.5 times. On Solvency II, we've stayed closely engaged with the PRA. Our Matching Adjustment application has been approved by the PRA, and we expect to receive their final decision on our internal model application in early December with the rest of the industry. We'll update the market on our full Solvency II position at our January 19 Investor Conference.

So, outlook, the market and investments - market environment is clearly volatile, a bit uncertain. And it's providing a challenging context. That said, our business has had a long and successful track record of dealing with such external changes. And I think these results show the strength in both our developed and developing markets and how we can handle this sort of climate.

Fundamental drivers of our business remained intact. We have a clear, consistent strategy of focusing on structural demand in the middle class in our markets. And that could be anything for protection in Asia or savings globally. We have market-leading positions and incredible capabilities in each of our markets, enabling us to capture a disproportionate share of this demand. And the diversification recurring nature of our income, the strength of our back book gives us the luxury of taking a long-term view without compromising shareholder returns in the near term.

So, our performance in the third quarter and indeed in the nine months, I think demonstrates these strengths, and we remain confident in delivering substantial profitable growth.

With that said, let's go to Q&A.

Q&A

Operator

Thank you. And our first question comes from the line of Jon Hocking of Morgan Stanley. Please go ahead. Your line is now open.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Good morning, everybody. I've got three questions, please. Firstly on Hong Kong, I wonder if you could unpack the growth a little bit in terms of the diverse drivers you highlighted in the release and your comments. You talk about agency head count and productivity, the SCB effect, and also the brokerage growth. I wonder if you could give us some idea about whether any of those are contributing in an outsized way to growth. That's the first question.

Secondly, on M&G, the sort of roughly £4 billion of inflows and about £8 billion of outflows, could you comment on whether the products are different between inflows and outflows? Have you got certain products which are an outflow and certain products which are in inflow? That's the second question.

And then just finally on the UK, does the change in leadership signal any change in strategy in the UK? Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. I think I'm going to ask Tony to help with the first one, given we have him available to us. But I think, Jon, generally, the answer to your question on Hong Kong is all of the above. But Tony, do you want to give him a little detail about the mix of things that are working in Hong Kong?

A - Tony Wilkey {BIO 19184129 <GO>}

Yeah. Absolutely. I think the growth is coming from a series of places. I think you folks know well that a lot of the growth is being driven by the expansion in the agency force. We stand today with an agency force 11,000 strong, which is up 40% compared to last year. We have engaged more with the broker networks in Hong Kong. We're now working with 250 Hong Kong independent brokers.

SCB has registered very nice double-digit growth on a year-to-date basis. The further split would then be between the mainland business and the local business. The mainland business is growing faster, but we take – we're very pleased with the growth in the local segment. This is Hong Kongers buying in Hong Kong, where that segment on a year-to-date basis is up over 40%. So, broad-based growth across the board, distribution and customers.

Q - Jon M. Hocking {BIO 2163183 <GO>}

The mainland business, I think, historically, you said it's roughly half of the Hong Kong sales. It sounds like it's materially more than that now. Is that fair?

A - Tony Wilkey {BIO 19184129 <GO>}

Slightly over half, within 50%-55%. It's around that range.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Tony Wilkey {BIO 19184129 <GO>}

Sure.

A - Michael Andrew Wells {BIO 4211236 <GO>}

So, Jon, your other questions on M&G: disproportionately, the outflows of the European retail bond funds and the inflows have been institutional, the multi-asset class, equity and property. So, not that you ever want to lose funds, but from a revenue point of view, that's a good trade.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

And then on the UK business, you asked about the change in strategy. No, it's not leadership-driven. The strategy in the UK continues to evolve around, I think, key elements in the market, in pension freedom, advice, Solvency II. Most of these lead towards a more asset-based model. Some of the key leverage points are probably advice and the consumers learning to make decisions. But, John, did you want to add anything to that?

A - John William Foley {BIO 4239156 <GO>}

Not at this stage. But I think two weeks in its difficult to come to any firm conclusions, but the direction of travel seems pretty clear. But the one point I would like to emphasize, business has done extraordinarily well in the face of some really tough conditions both from the market and regulatory. So, hats off to the team.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Thank you very much.

Operator

Thank you. Our next question comes from the line of Blair Stewart of Bank of America Merrill Lynch. Please go ahead. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you very much and good morning. I've got three questions as well. Firstly, just on Indonesia. I wonder you commented on the in-force book growing nicely or something like that. Mike, could you maybe put a bit more flesh around that comment? And when would you expect the Indonesian business to start to post positive new business growth from what you're seeing on the ground?

And secondly, just with regards to the U.S. business, you talked about the 4% growth in separate account assets. That's point-to-point. I just wonder if you can comment on what the average AUM growth might have been, which is probably a more important indicator of profit generation and cash generation.

And thirdly, just on the DOL changes in the U.S. I mean, you've been pretty clear about your own views. I just wonder if you can add any color or feedback you might have got from the distribution side in terms of what they're expecting and what their various challenges are. Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

So, on the Indonesian piece, the agency was up 15%. And then just to give you an idea in general scale, Blair, it was 150,000 new clients. So, again, they're still beyond activity levels and there's plenty of success there given the overall magnitude of scale of our business there.

On the U.S., Nic, you want to jump in here? And Barry, I'm going to have you address the DOL piece.

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Good morning, Blair. It's Nic here. The average AUM on separate accounts increased year-on-year is 13%. That's in dollars though.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Then, Barry, do you want to talk to your last conversations on DOL or just some general color on it?

A - Barry Lee Stowe {BIO 15021253 <GO>}

Sure. Yeah. So, essentially, we're in a kind of a quiet period now. And the industry, as you know Blair, has provided an enormous amount of input on the potential impact of the DOL changes. And our views have been clearly expressed, Jackson specifically, as well as Jackson as part of the coalition of variable annuity writers, who were concerned about this and concerned specifically about the loss of advice to middle-class Americans, which we think will be the principal impact of the rule changes.

We spent a lot of time on Capitol Hill talking to senators on both sides of the aisle who have a lot of influence over where this goes. And as I think you know, about 100 Democratic members of congress – members of the House of Representatives have opined on this, disagreeing with the proposed changes and about 15 Democratic senators as well. So, we're hopeful that all this different input from a variety of different sources is having an impact on the Administration, the Department of Labor's thinking, we think it is.

What's unknown at this point is what sort of changes will be made to the proposed rule of how significant those changes will be. I think we won't know that. My guess would be until sometime in the second quarter next year, and then we will have about eight months to adjust and adapt. We've got a pretty good idea what we need to do. We're already doing a lot of preparatory work.

I think the key point, which we've been saying I think for several months is that, whatever the changes are, we think that our platform at the U.S. is the most skilled, most capable, most nimble, and therefore, most able to adapt to the changes. And perhaps, even take commercial advantage of them, and use them to increase the gap between Jackson and its competitors in the U.S.

A - Michael Andrew Wells {BIO 4211236 <GO>}

And, Blair, I'm sorry, to make sure I answered your question correct, you asked about premium in-force book, and that was the number I said, it was 15%.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. That's fantastic. And just maybe a follow-up on one point to Barry, I know you're confident that the Jackson platform is scaled and nimble, but do you think you can take advisors with you?

A - Barry Lee Stowe {BIO 15021253 <GO>}

Yes. I think we can.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

Operator

Thank you. Our next question comes from the line of Ashik Musaddi of JPMorgan. Please go ahead. Your line is now open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi. Good morning. Just a few questions. First of all, if I look at your Asian volumes just in this quarter, not yet today, just in this quarter, it's kind of down 3% constant exchange rate ex-Hong Kong. So, what is really driving? Because if I remember correctly, this is probably the first quarter in past many years where your volumes had come down on an annual quarterly basis. That would be interesting to get some color. Mainly I'm interested in Singapore and Malaysia and Indonesia, what's going on there Q-on-Q?

Secondly, your variable annuities continue to grow very fast ex Elite Access because Elite Access was down a bit, I don't know which currency, but it was down a bit, whereas your other guaranteed variable annuities is still up 7%, 8% or something like that. So, are you still comfortable taking on that balance sheet risk or have you done material changes to your product already so that there's not much of risk? These two questions.

And thirdly, on Hong Kong, can you give us some color about how should we think about Hong Kong margins on IFRS and cash basis, and not embedded value margin basis? Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

I think Ashik, just personally, I'm a little agnostic in Asia as to where a dollar of quality sales and earning comes from. So, yeah, this is a regional play. We've always said it's a portfolio.

Given the change of the treatment, I think the - it's not surprising in some of the markets and - that you've seen an elongated sales process that's no different than you see now in the U.S. in the VA business where you have equity and interest rate volatility. So, again, that's just normal consumer behavior.

The flipside of that, as we've seen, is the consumers are much more likely, on the recurring premium products and the protection products, to make those payments. So that's just human nature and that does vary much market to market. And I think I mentioned the Singapore changes in our distribution. So, those are what they are.

Malaysia and Indonesia, again, they're - I think they follow the general comment I made that you're seeing a longer sales process, the more cautious investor more likely to pay protection. But, Tony, did you want to add any other color to that? Is that a fair - is that consistent with your view?

A - Tony Wilkey {BIO 19184129 <GO>}

Yeah. Thanks, Mike. I think folks know that we've been challenged by economic headwinds for essentially all of the year with Indonesia, and that's starting to come through. The CSI, the consumer sentiment index has dropped below 100 in September for the first time and again in October. GDP just came in at 4.7% versus the 7% that Jokowi claimed when he took office.

And this results in customers taking a little bit more time to make their decision to buy the product, notwithstanding that we continue to build at the platform. We're at 260,000 agents and we've been adding 7,000 new agents a year. They're just having a little bit tougher time closing. We're working on enhancing training. This is not dissimilar in Indonesia to what we saw in 2009 after the financial crisis where cases per active (25:44) went down, and that's where we're seeing the compression now. I hope that helps.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Thanks, Tony. And then I guess on the VA piece, these aren't unusual prospective two levels. Matter of fact, they're sort of – just they're sort of average for us at this point in the cycle. And there have been product changes to your question. There's now multiple levels of guarantees, more conservative levels available for the clients. So, we continue to look how we measure risk and what our appetite is in that market.

And the EA sales issue is more a factor of broker dealers wanting EA off, qualified platforms for a variety of reasons, competitive products, the view of a product without a guarantee on a qualified platform. And so, the sales of EA of nonqualified are up nicely. And the nonqualified piece as a function of distribution relationship is changing preference. So, I think generally, the number is very good. And relative to any other competitor in the U.S., the total volume is up, and the net flows, the last metric I saw exceed the entire market materially.

So, I think that franchise looks great. The Hong Kong product mix and profitability, Nic, you want to cover that?

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Thanks, Mike. I like the shape of our sales in Hong Kong because we've got good growth coming from health and protection. As Mike said, the nine-month health and protection was up 58% year-on-year. Then, of course, both the free surplus/cash and IFRS signature of that particular product type is very attractive.

So, that's going to come through, and you saw that come through the half-year results as well. At the same time, power business is also going strongly in excess of 80%. And that, although, it doesn't have a day one cash or IFRS signature, what it does give you, it does build if you like to the AUM, that we're managing, that with profit side business. And that will produce steady profits and growing profits for a long, long time to come. So we have the – if you like a very strong combination of a product that is IFRS and cash-friendly with something else, at the same time which will give us sustainability to that performance as we move forward.

If I can lend – maybe add one or two things to the first question as well on your third quarter discrete performance, Malaysia, and I wasn't sure whether you got to that. Actually, Malaysia was actually up third quarter certainly in local currency terms. It was up 16%.

And of course, what you see in Malaysia is a shift in the mix of business towards the boomie (28:38), the tackable side of the business, which is lower case. So, at the top line it will have an impact compared to historic trends but we are adding a lot of customers each year, indeed each quarter.

And in relation to Singapore, I will reiterate what Mike said that – I mean, the Singapore trends this year are distorted by the effect of not continuing with two bank deals. Of course, in the third quarter, we also saw a fall away in single premium sales as well. So perhaps, the best way to look at this is on a regular premium lens or an agency lens, and agency has been strong 1% year-to-date. In fact, in the third quarter, agency was broadly flat with very positive double-digit increase in the contribution that agency makes to the health and protection. So there is a quality story within Singapore that is not evident when you simply look at the total.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Very clear. Just to follow up on your health and protection. I mean, are you doing this growth mainly on the riders, or is it like base product now? Because if I remember correctly, in the past you used to mention that your riders used to be – every product used to have like seven, eight riders, or something like, maybe I don't remember those numbers. But is it mainly done on the base product, or is it mainly still driven by riders?

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Is your question on Hong Kong or the portfolio?

Q - Ashik Musaddi {BIO 15847584 <GO>}

No, that will be Hong Kong, Singapore. Because keep – your health and protection sales keep on going up. So, is it basically based to your markets Hong Kong and Singapore?

A - Michael Andrew Wells {BIO 4211236 <GO>}

It's by market, Ashik, different product chassis, the different markets.

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

So, I think the six or seven was Indonesia, specifically, as Mike has said, it differs by country and Hong Kong and Singapore is lower, but maybe Tony can expand.

A - Tony Wilkey {BIO 19184129 <GO>}

Yeah. Happy to. And the answer is absolutely, it is different by market. So, the health and protection will be sold more on a stand-alone basis in markets like Hong Kong. And in Singapore where we sell a lot of the Shield product. In markets like Indonesia and Malaysia where we have the underlying linked chassis you will typically find, as Nic said, five to seven riders attached.

Q - Ashik Musaddi {BIO 15847584 <GO>}

That's very clear. Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Thanks, Tony.

Operator

Thank you. Our next question comes from the line of Gordon Aitken of RBC. Please go ahead. Your line is now open.

Q - Gordon Aitken {BIO 3846728 <GO>}

Good morning. First question is on DOL. I see there's nothing to add to the proposed fiduciary standard. But I'm just wondering, any sense that agents are sort of pushing customers to sort of buy now while stocks last, or was all the growth we're seeing in the third quarter sort of underlying growth? That's first.

And the second one is on Hong Kong, you mentioned that the Mainland's proportion was roughly now about 55%. What was that number a year ago?

And finally, I mean there's also speculation about why Jackie Hunt left the business. I'm just wondering if you could tell us what the reality is please.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. So, DOL. Barry, do you want to comment on broker reaction to the DOL proposed changes?

A - Barry Lee Stowe {BIO 15021253 <GO>}

Yeah. I think the only real reaction that we're seeing right now is – I think as Mike already alluded to, is the Elite Access coming off qualified platforms, which is not entirely DOL, but that's impacted, to a degree, by the proposed DOL changes.

So, that's happening. I think you would have seen some of that in any event. And, as I think Mike said, as well, in that investment only VA space we continue to utterly dominate that market.

But in terms of a fire sale sort of impact, which I think it's what you're referring to, we're not seeing that yet. Those sales levels that you're seeing are consistent I think with what you'd see based upon the kind of stimuli that we're getting from the market, the volatility in the third quarter and so forth. So there's no evidence of any sort of fire sale activity.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Gordon. It's Mike. The Hong Kong number, I think Tony referenced on the percentage change, but it was 43% Mainland at this time last year and 55% roughly now.

And on the UK personnel changes, for a lot of reasons we don't comment on staffing changes. But I think as far as strategy goes, the direction it travels, as I mentioned earlier, continues to be asset-led. I think the inflection points are – as the UK government looks at advice, personal view is there's clearly room for more advice in the marketplace, and the more advice there is in the marketplace, the better solutions we can bring, more complex solutions we can bring.

The other I think is – and just living here a while now, people are adjusting to the decision process. I mean, this is culturally a pretty material shift, as you know, and you get a lot of – I've always joked with friends if I want to talk to the person next to me on the plane, I would say, tell him I work in retirement assets, and they'd talk to you the whole flight about their views. And if you tell them you sell insurance, they leave you alone the whole flight. You can do your work and read your book.

People here are talking about – that I am meeting socially what their choices are, how they do things. This is – it's new and I think it's concerning at some levels, but it's also – people seem very engaged in – I think as the market gets better at reallocating their own assets, we're a beneficiary both at M&G and Pru UK.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thanks, Mike. When I am on planes, I just tell people I'm an actuary, and they'll say I'll just look at my shoes for the rest of the flight.

A - Michael Andrew Wells {BIO 4211236 <GO>}

I'd stop talking to you.

Q - Gordon Aitken {BIO 3846728 <GO>}

Right.

Operator

Thank you. Our next question comes from the line of Lance Burbidge of Autonomous. Please go ahead. Your line is now open.

Q - Lance M. Burbidge {BIO 3978332 <GO>}

Good morning. Yeah. A couple of questions. Firstly on the U.S. business in Jackson. I wonder if you've got any comments on the FINRA fine that has been imposed on MetLife Securities and whether there's any read across to the kind of behavior that might have been happening in NPH? And secondly, on Jackson on VAs, do you know roughly when you might hit your annual cap in terms of timing? And then finally, on the Asia new business margin, I think you helpfully gave a kind of constant interest rate number, which looks like the margin basically year-on-year is flat despite the fact that basically regular premiums have gone up quite significantly in terms of the proportion. So, I mean is that solely down, I suppose, the negative effect that you've got less Indonesia and more Hong Kong, or is there something else in terms of pricing?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. Lance, I'm going to let – I'll take the first couple and I'll have Nic cover the last one. So, on the U.S. business, there is no read across to our broker dealers for a couple of reasons. One, we don't know the specifics and can't comment on the MetLife situation. And to the – we do know what is the relationship with FINRA and NPH and if there was a process there, we would be aware of it. So, they're independent issues, but we don't have line of sight on what their actual – the specifics are on their situation and thought it wouldn't be probably appropriate to comment anyway. On the VA, I'm sorry – on your second question, could you repeat that for me?

Q - Lance M. Burbidge {BIO 3978332 <GO>}

It was just on the kind of the point in the year where you might hit the annual cap on sales.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah, no. That would be a little too far into the forward guidance category, but our - I think we've said our risk appetites are broadly consistent with what you've seen. And historically, we - and we're continuing to look at that process as the product gets - has different - lower types of risk in it. We're developing a more mature model, and we'll socialize that with our various stakeholders before we move off of the old one.

But I think that's - we're certainly not solving for the same equation we were four years ago. So, there's quite a bit of time and energy on redefining our risk appetite in the U.S., and how we look at that business in total. And then, embedded in that is the potential - the growth of the - a bolt-on or any other sort of opportunistic behavior, as well is a part of that. Nick, you want to talk about Asia new business margin?

A - Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Yeah. You're right. If you backed out, the effect of interest rates, then you would have had APE plus 27%. This is on constant currency and new business profit up 28%. So slightly ahead or margin sort of slightly higher.

It is a fact that ultimately, what drives that roughly stable or slightly up margin is mix. Yes, we have more from Hong Kong, less from Indonesia, more from the protection that ties business, but we've also written more par and on a margin basis. That is, given that we only share one-ninth in terms of profits or thereabouts. It contributes less on margin, but clearly very strong IRRs.

Operator

Thank you. Our next question comes from the line of Greig Paterson of KBW. Please go ahead. Your line is now open.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Good morning, gentlemen.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Good morning, Greg.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Just three quick questions. One is I saw that announcement about a funding agreement in the third quarter, and I booked a lot higher GICs. I wonder if you can just relate how that announcement or US$750 million funding agreement is related to APE. I mean shall I be penciling them in the next quarter or does it reflect the first half of the year et cetera?

Second one is the African distribution deals. I wonder if you could just tell us how much to pay upfront for those two deals one in Ghana and one in Kenya?

And the third thing, just in terms of your comments about the U.S. and looking at your risk appetite, how things have changed, I mean, simplistically I saw you slowing sales in the U.S. to redirect money towards purchasing Asian bank issuance. And now that the opportunities for new deals there are less, is it possible would you look grow the U.S. quicker at the expense of Asia going forward or is there a pipeline or some deal, a new big deal that you know is going to come in Asia that you need to finance?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. So, Greig, let me go through a couple of those and then Barry and Chad, I'll flip the funding agreement question to you. The U.S. piece, we were never slowing sales in the U.S. to fund Asian growth. We defined our risk appetites based on balance sheet, on a variety of metrics, okay? So that is not – historically that was not correct and directionally there is no change in how we would deploy capital. The U.S. is not – is well capitalized. It has all the capital it needs to sell at volumes materially higher than it is now.

Guys, to be very clear, I'm just saying that, as a business we are growing in capability, and part of those capabilities are risk management apparatus and our ability to look at markets, a) with the benefit of hindsight and, b) in a more sophisticated fashion as we continue to move forward. So, there is no change in strategy or capital allocation between the U.S. and Asia to make that very clear.

On the African distribution, don't want to get into the specifics. These are not large dollar amounts, but we are still working there on distribution agreements. So, for competitive reasons that really rather not get in to the map because it could affect existing negotiations and/or something we want to do in the future. But in these large scale, even in the regional scale, these are not material dollar amounts for the group, but they are important to each transaction, that are viewed through the same metrics we would any other potential distribution relationship, I would say, the big difference in Africa for us, when you think about it, is we will bring various capabilities we've built in other markets to bear – sooner there. We don't have to follow the same path we did as these markets mature.

So as these markets skip technologies, as these markets skip consumer preferences, distribution preferences, we know how to do that. And so you will see the better part of our playbook plan there, not the same order of our playbook plan there to not get again into too competitive of tactics here. But that's – and as I've said before, that's a future endeavor. That's a J curve for us. That's a part of the world that we will continue to grow. And those of you that have been investors a long time know some of our businesses in Asia started very small and have incredible value for shareholders and the group now in both total value and in cash flow.

And Barry, Chad, the funding agreement?

A - Barry Lee Stowe {BIO 15021253 <GO>}

Yeah. Chad, do you want to take that?

A - P. Chad Myers {BIO 15469831 <GO>}

Sorry. Just the one part of the question I'm trying to figure out is – I mean, agencies is growing very, very strongly and bank issuance (42:55) charter is starting to move to more normal levels. I mean, we know agencies have cycles going forward. And I can't see on the horizon any new bank insurance deals. And you add it all up, it seems that there's a period of slower growth in Asia coming in the next two years because I can't see any levers you can pull. Am I – I mean, are there any bank insurance levers you can pull or something, right?

A - Operator

Without getting into competitive specifics, you're wrong. Okay, Greig. And I say that as a – I respect your work. But I think there are multiple levers in Asia and distribution channels are growing. The relationships in the bank channel are not all locked up. The upside in agency is there, the upside in digital is there, there are a lot of clients who will define – if they need the product, it will define how we reach them. And we've got a tremendous potential ahead of us to make sure that we're in front of them when they make that decision. And it's going to be a multichannel approach.

Q - Greig N. Paterson {BIO 6587493 <GO>}

All right. So, I just wondered interest in the bank issuance, you are saying there are some deals out there?

A - Michael Andrew Wells {BIO 4211236 <GO>}

There's always – if you think of the sheer number of banks, it's a very mature market. And there's lots and lots of banks in the region and a handful of them are locked up. And again, each one of those relationships we'd look at individually. Each one we would measure the upside, the future potential, their capabilities in our view going forward.

You're right. The Standard Chartered relationship is really kicking on nicely, great growth in it. It's a very valuable partnership for us, (44:36). We've got some very good relationships in the region, but I think the only constant there is the pan-regional banks need pan-regional partners, which certainly favors us in AIA. The local banks, a little more of a local competitor you can compete with. Or if somebody wants to try a single country agent strategy.

But at the end of the day, I think we have capabilities that few people have in that region. And they're very appealing to bank partners, if it's a single-country bank or a pan-regional player. So, I have a lot of confidence on the upside on the bank side, and the agency side. And again, those won't be the only way consumers get to make decisions and we'll stay in front of the other pieces as well.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Perfect. Perfect. And just on the GICS.

A - Operator

Yeah. Chad, do you want to take that?

A - P. Chad Myers {BIO 15469831 <GO>}

Yeah. So, Greig, that transaction actually took place on October, first week of October. So that will be our Q4 transaction. But, as you know, it's an opportunistic business so we'll just wait for the perfect time to do it.

Q - Greig N. Paterson {BIO 6587493 <GO>}

So, I just need to put it through as an APE number in the fourth quarter.

A - P. Chad Myers {BIO 15469831 <GO>}

Right.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Cool. Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Thanks, Greig.

Operator

Thank you. Our next question comes from the line of Abid Hussain of Société Générale. Please go ahead. Your line is now open.

Q - Abid Hussain {BIO 17127644 <GO>}

Hi. Morning, guys.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Morning.

Q - Abid Hussain {BIO 17127644 <GO>}

I just have two questions if I can, please. The first one is on UK bulks and Solvency II. It looks like that you very much still want to participate in the bulks market. And I was just wondering how do you intend to do that going forward in January. Will you be utilizing reinsurance of the outfit of these transactions? And if so, are you able to give us a flavor or share some of the economics behind using this reinsurance and IRRs, paybacks and that sort of stuff. That's the first question.

The second one, sticking with Solvency II. So, the PRA you've said has approved the matching adjustment or the use of the matching adjustment. Is there any more detail around that? I'm assuming it's been approved for use on individual annuities, bulk annuities. Is it also approved for with-profit annuities and equity release? So, if you can give us any more details that will be very helpful. Thanks.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Abid, its Mike. On the Solvency II question, we have a standing agreement with the bank that we won't comment on this in process. And so, I apologize for – but you've got a few more days when we can. December 5 is around the corner and we can – you'll see the output. But again I would just say that we're confident in the way the process is proceeding. But I apologize, we are not to give any more color than we've given on the – and I want to respect the commitment we've made to the regulator on that.

On the UK bulks and Solvency II, in general, there are a couple of percent of group IFRS in a given year – roughly the theater (47:49) metric, the – that we have for the last couple of years on reinsurance. So I think you can see the historic economics there. The reality of the bulks, we had a couple on this quarter of good example of this. Each one varies by average age of the participants. There's a variety of things. And that's going to change the earnings signature of each and the impact to the reinsurance.

So, there's isn't a general answer to give you other than, like any other discretionary trade or anything that we don't do as required in the plans, you judge them each individually. And then the reinsurance agreement is an entirely separate decision tree on what you would and won't do, how much you will or won't give up on that piece.

And so, we don't know, January 1, if reinsurance reprices. We don't know – we do know capital strain increases. But at the end of the day, the net of those and what that looks like are – our hurdle rates aren't going to change. We know how to price product. We have lots of places to deploy capital, as was brought up in the call. So, we're not – we don't feel obligated to do bulks if we don't like the math. It's sort of to Chad's last point on GICs, they're opportunistic. There isn't a quota here or a planned level for them. On the reinsurers should have an appetite for this. Longevity is a natural offset to the mortality risk they carry. But again, I think we'll get to January 1 and we'll see how the market settles.

Q - Abid Hussain {BIO 17127644 <GO>}

Understood. Thanks.

Operator

Thank you. Our next question comes from the line of Fahad Changazi of Nomura. Please go ahead. Your line is now open.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Good morning. Just follow-up questions on Asia, please. I'm sorry if I missed it, but did you actually say when you expected Indonesia to come back to new business and growth?

And sticking – going back to Hong Kong, 43% last year from Mainland China, 55% this year. Could you just give us some idea where this can go or the comps are going to get tougher as we get to 2016?

And against Malaysia, it looks like again, there was good growth. That's nice to see. You did mention it was partly driven by the booming agency force start accounting for around 50%. Again, if you could give us some color on where you could, perhaps go, in terms of driving growth there? Thanks.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. But I think I'm going to give to Tony since the three of them are in Asia. We obviously can't predict country turnarounds or – what we can do is measure our capabilities when that, in fact, occurs. But Tony, I'll flip it to you for the Asia, China, percentage in Hong Kong, and your view on our strengths in Malaysia.

A - Tony Wilkey {BIO 19184129 <GO>}

Certainly, Mike. I mean I'm certainly not – I don't have a crystal ball, so I can't tell you when the economy is going to rebound in Indonesia. But I can, as I did say earlier, notwithstanding the economic conditions, we continue to build out the franchise, in terms of opening new agency offices and hiring new agents at a run rate of around 7,000 per month. So, we continue to do what we do best there. Frankly, it's not a dissimilar story in Hong Kong, where we currently have 11,000 agents, up 40% year-on-year. And I think, in Q3, we were adding approximately 400 to 500 new agents every month. I mean, that just flows through the machine and that's how you manage the agents' machine.

Malaysia is – Q3 was the best quarter in history. We grew the business very nicely on a local basis at 17%. The industry just came out with market data. It looks like – for the period, the market was flat. We grew by 17%. You take out Prudential, you've got a negative growth in that market. What's driving our growth? Once again, it's the agency story, where we now have over 18,000 agents, the largest agency force in Malaysia and the most productive.

Simultaneously, our bancassurance business in Malaysia, where we do business with our regional partners and some local partners, is actually growing at record rates there, too. So, it's a diversified distribution play, significant agency competency flowing through in all the three markets.

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Thanks, Tony.

A - Tony Wilkey {BIO 19184129 <GO>}

Thanks.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Did that answer your question, Fahad?

Q - Fahad U. Changazi {BIO 15216120 <GO>}

Yes, as far as it can be answered, I suppose. Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay. Thanks.

Operator

Thank you. Our next question comes from the line of Jon Hocking of Morgan Stanley. Please go ahead. Your line is now open.

Q - Jon M. Hocking {BIO 2163183 <GO>}

I just wanted to follow up on Mike's comments about the UK. A couple of comments you've said about the UK becoming a more asset-based market, and you also mentioned advice. I just wondered whether you're thinking about M&G working more closely with the UK business. And on the advice side, whether you've got any plan structurally to start offering advice yourself like a lot of your peers are doing? Thank you.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Jon, we have a PSP unit that actually provides advice primarily to our existing clients. And I think we're going to watch the market and see how the advice space develops. We don't have any current plans to change that model, but we are certainly open to watching what occurs in the space.

My comment was intended more that I think advice is – again, it's a bit of an opposite direction, the travel between the DOL work and the Treasury here on this, that one is expanding advice in one sense, and one sense contracting if they're not careful.

But I do think with the expansion of advice, we're a major benefactor of that. I mean, this is a – we have the – if you look at the UK business, and this is true of the U.S. business as well, the flagship product, the with-profits product and perspective too are some of the highest-performing for consumer products in their sector, and that gives you the optionality when these changes occur to build products off that because your reputation with the advisors is there, and they care about their reputation and how their clients are treated, and that's true in both countries.

The M&G's portfolios are obviously very attractive platforms to advice providers given the quality. So, as advice expands, that has a levered effect on our UK business plans. So, I like anything that improves advice for consumers. And then from a shareholder point of view, I like it for the group. As that moves forward, that's highly levered for us. That was more my point.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. And on the asset base comment, you're not trying to say that the end market for M&G and the insurance business in the UK have increasingly blurred. Was I just reading too much into that?

A - Michael Andrew Wells {BIO 4211236 <GO>}

Well, I think they are blurred, don't you? I mean, I think the lines between what the market here is driving to, and it's not unique in the U.S. either, with what you've seen in variable annuities or even at the outer edge, some of the fixed index products, at least how they're marketed, consumers in a low rate environment move towards equities, and so more and more the products are balanced fund, total return, equity-based. The with-profits fund is a joint venture effectively of our two UK franchises.

So, I think that is the direction of travel. I don't see individual annuities coming back even if rates come back in a material way. It just doesn't feel like there's the social appetite for it or political. So, I think we have to play in the market that's in front of us. And I think, again, we have those capabilities in the group and in the country here to do that.

So, I just view it as a tactical shift that we're already making and as more product reform or more product initiatives are coming, some of the current discussions on the pension side and also the advice side, those just lever the increase to markets for us for both entities.

Could they work closer together? The one thing I tell everybody in the group as I travel all over the group is we have a lot of internal capabilities globally. And I'd like to see them used first before we go outside. I mean, we should - we're best in class at a lot of activities that other firms have to partner externally with. And M&G and UK working close together, makes sense as it does. UK with Eastspring, PPMA, all those elements. This is a highly capable group, and would love to lever that as much as we can. And part of that is my job.

Q - Jon M. Hocking {BIO 2163183 <GO>}

Okay. Great. Thanks, Mike.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Okay, Jon. Any more questions?

Operator

Our next question comes from the line of Alan Devlin of Barclays. Please go ahead. Your line is now open.

Q - Alan G. Devlin {BIO 5936254 <GO>}

Thanks, guys. Just a couple of questions on your asset management divisions, just on M&G, the retail outflows. Is the worst behind you yet, do you think? Or should we expect these outflows to continue?

And then the stock price on Eastspring, very strong first-half inflows, continue to be inflows in the third quarter even with the volatile markets. I wonder if you can give us an idea for how Q4 is looking and what your outlook is there? Thanks, guys.

A - Michael Andrew Wells {BIO 4211236 <GO>}

I think on the M&G one, it's a little easier to call, Alan. It's – you're seeing a – I think it's fair to say in the fourth quarter you'll see a bit more of the retail bond funds flow out. I mentioned earlier, I think there's a lot of elements to those flows in. It was M&G's size and scale in the midst of a European crisis, their European distribution has improved materially over the last 10 years.

But some of that money has a yield chase to it, some of it has a political – currency play to it, all of it. And as those things settle down, or if you just own those assets a long time as a consumer, you need to diversify.

So, I'm not particularly – I think we've been pretty direct in saying that that money we saw is cyclical. And I think we're still in the – and maybe its stopping, but we're still in that cycle. So, again that's the – that's mostly retail bonds.

I think I mentioned earlier, you are seeing that it's going towards more equity-oriented, balanced real estate, et cetera, which again seems like a logical place for those funds to go. And the institutional mandates continue to increase. So, people have to invest.

To your Eastspring question, so that – I saw a number on the weekend, the Chinese market, I'm not a fan of the Shanghai Index as an indicator of – it's pretty retail of much in Asia but it's – I saw a number that surprised me. It bounced back up. It's up 20 from its bottom, or so, talk about volatility.

There is a perception of volatility in Asia in equities. It's a less mature retail consumer market unless you're in Japan, Korea, the northern markets. That's where Eastspring is successful in its retail raise. And again, it's got the natural relationship of being the fund manager for our Life Company. So, it's got a, I think, very much like M&G. It's got a very healthy business model. We have said before that Eastspring is an entity we're investing in. That's everything from systems and infrastructure to expanding their portfolio of capabilities. I think it's being a younger manager, it's going to be – it has the potential of being more volatile. They're not – certainly not showing that this year. I think it's actually doing exceptionally well given the climate it's in. But it is in a region where the retail behavior and funds is newer. And so, I don't think it's – I wouldn't be surprised if it's all volatility and that's not any leading indicator. It's just more a personal view on where they are in their business plan.

Q - Alan G. Devlin {BIO 5936254 <GO>}

Good. Thanks for the answers.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Yeah.

Operator

Thank you. As we have no further questions, I'll hand the call back to Mike Wells for closing comments.

A - Michael Andrew Wells {BIO 4211236 <GO>}

Thanks, Jerry. I think the – where I'd like to leave you, guys, if you think about – I was thinking about some of the questions a couple of folks asked. There was this chart we used to show you that had the growth of – the far-right axis was the U.S. and the UK and per capita income, and the bottom was some of the emerging markets. And we play – and it was per capita income but it's a great argument at the time for how fast some of these markets are maturing and you've all seen a number of times and I know it's well-rehearsed with us but it's a – I think its message was clear.

If you just think about where this year and this quarter are for us, so across all this volatility, the interest rate, equity, regulatory, our mature markets measured as high per capita income, and our developing markets, all of them are doing well, and our ability to generate growth as a group, growth in our regions, leading market position in the regions hasn't been affected by some of these factors.

Now, we're not running the business to 90-day quarters. We're running this for the long term. But you combine that on the distribution side with the back book and the resilience and the growth of that, off these quarters, new relationships we're getting from clients, I'm extremely pleased with where we are. And obviously, we look forward to moving the enterprise forward.

So, thank you for your time today. Appreciate it.

Operator

This now concludes our call. Thank you for attending. Participants, you may disconnect your lines.