Y 2019 Earnings Call

Company Participants

- Chad Myers, Chief Financial Officer
- James Turner, Group Chief Risk Officer And Compliance Officer
- Mark FitzPatrick, Group Chief Financial Officer And Chief Operating Officer
- Michael Andrew Wells, Group Chief Executive
- Michael Falcon, Chief Executive Officer, Jackson Holdings Llc
- Nicolaos Nicandrou, Chief Executive, Prudential Corporation Asia
- Unidentified Speaker

Other Participants

- Abid Hussain
- Analyst
- Andrew Baker
- Andrew Crean
- Ashik Musaddi
- Greig Paterson
- Johnny Vo
- Jon Hocking
- Nick Holmes
- Oliver Steel
- Thomas Wang

Presentation

Michael Andrew Wells {BIO 4211236 <GO>}

Well, good morning, everybody, and thank you for joining us. I know the actual gatherings are getting a little more interesting subject to company policy, so I very much appreciate you being here with us. We've got a full presentation for you today in a couple different dimensions. 2019, I think, was a fascinating year in terms of global challenges and convergences, health, economic, political. And I think it's an excellent backdrop for how we're positioned coming into this year.

So I know it feels like end of the year was a while back, but we want to spend a little time walking you through the successes of the business, its capabilities, its resilience and then, we'll talk a little bit about where we are today. The structure of the day is I'm going to go through a strategic update including some of the forward-looking initiatives that they're working on and we've announced. Mark will come up and do a financial update and then, as usual, we'll do Q&A.

We have Nicandrou and James Turner, our CRO, joining us from Hong Kong. We have Michael Falcon, our U.S. North American CEO; Axel Andre, CFO, here with us in the room. Welcome, Axel. And on the phone, we have Chad Myers from our U.S. as well. So we've got the full team available to you to answer your questions in a variety of directions post the presentation itself.

So with that, let me go ahead and get started on -- a quick update on the results. Again, I think the performance of the group last year, my 26 years is the strongest I've seen and I would suggest, it's the environment that we operated in was unique and the amount of projects, processes, products and things that we accomplished was commendable. I'm extremely proud of the diversity of this success, obviously the scale of the success, and some of the choices that the teams has made.

I want to spend a little bit of time highlighting that. But, obviously, Asia sales and new business were up, which is no small feat given the climate last year. The earnings up 20% to $5.3 billion. Our new capital regime, which we transition to in Hong Kong is at 309%, $9.5 billion, Asia NBP up -- Asia NBP ex-Hong Kong up 29%. And now, we are, again, with return on equity metrics still in the mid 20s. Very, very strong on an investment in Asia, now that's totaling $7 billion since 2013.

We add to the column on the left, the positioning that where an active portfolio manager of the group's capital and I think, capabilities both. You see a summary of where we've chosen to invest, to divest and to partner. Those decisions are all key, I think, to our capabilities and our shape going forward. Today's announcement on the U.S. is the latest on that. But we continued in Asia to invest in distribution and banks, acquired an asset manager. That $7 billion investment I mentioned earlier, is now produced a doubling of embedded value. Our -- the percentage of our insurance income is now up to 71% in Asia and double-digit earnings growth across that cycle as well. So very, very broad and resilient returns on the decisions we made, and we can delete the products we chosen not to sell.

The other thing that I'm extremely proud of is inside these businesses now, you see more and more of what we've talked about here for years, which is the attributes of scale. We can add clients faster, more efficiently, better and how they want to be serviced across our Asian market places.

So I would define the Asian business now as a combination of growth diversification and these results demonstrating resilience. The growth is the choice of markets, it's a choice of channels, it's the choice of consumer products and propositions that you choose to write and those you don't choose to write. And diversification, that's obviously, our ability to execute in multiple markets concurrently. I think we're much better.

Nic gets a lot of credit for this for getting the teams to take best practices across geographies. So you're seeing much faster adoption of some of our agency segmentation, our technology platforms, our operational, our digital across region. And that's something, again, that 5 years ago was not in our operating models. And then the resilience is the sheer percentage of earnings now that come from recurring repeat consumer relationships across the region. And again, it's -- in this sort of climate that resilience clearly stands out.

Our strategy in Asia is, I think well rehearsed with you. The team's responsible to focus on 4 key areas. First enhance the core. It's been our feeling, we started with an advantage position. We need to continue to self challenge, self disrupt that. One example would be a complete reboot of Indonesia and its product set and its capabilities, one of our largest businesses just a few years back.

We continue to invest in our leadership position in the banca channel. You saw the extension of the UOB relationship last year, you saw entrances in SeABank in Vietnam and other banks. You're also seeing us going into the digital platforms of our bank partners, which again new capabilities for us.

Product development. We refreshing and innovating in our products cycle, 160 new products. Those new products were 16% of new business profits last year. Continuing to focus on the agency force, all right. Continue to focus on the quality and the productivity at agency force, and investing in those capabilities as well.

We highlight to you why we think health is so critical. And again, in a period of volatile rates, credit cycles, everything, you see the -- why we think this business is so material. The gap in Asia, roughly $1.7 trillion, $1.8 trillion in need for health products. The team's been phenomenal here. The product innovation, the speed to market, right, the expense management as well as the pricing management both matter, okay. And then now the digital -- adding a digital dimension to this with Pulse. So this is a proprietary platform. It's an environment where multiple pieces of technology operate together. It's customized for each of the markets and we rolled it out an 8 so far and has 1.3 million downloads from what's really a late second half launch. But we continue to work well there. Again, the new products on the group sales now, businesses we weren't in before, Singapore and Indonesia, 13%.

We told you we need to build Eastspring into a bigger and more powerful regional asset manager. So that's been -- as we've discussed investments in technology, infrastructure, last year you saw us buying asset manager in Thailand. Okay. So expanding markets. Nic was just there for the closing. We anticipate owning a 100% of that business soon. In a fairly difficult year for asset managers, this is a room I think that understands the challenges fully. This is a firm that grew its AUM by 25%, and tracked it almost $10 billion of external capital. Okay. So Eastspring is doing exceptionally well. Lots of new management talent, just growing -- again, we continue to invest in their capabilities and their footprint.

And then finally, China. As I've said many times, we need to succeed in China if we're going to succeed in the region. We continue to add markets. We're now 20 branches, 94 cities. We continued to grow faster than the market, improved productivity of the agency force. We have 31 bank distribution partners, okay. And the -- we established the WFOE last year. This business continues to evolve towards the opportunity in China, right. So that's -- it's complemented by its -- the business in Hong Kong and the greater area initiative and some of the other more macro issues in Northern Asia. But as a standalone, it continues to succeed and continue to get the management focus it deserves.

Okay. Success drivers in Asia. So structural demand, I think is incredibly well rehearsed and I'm not going to tell you the number of Asians are in the middle class or savings rates or things they -- we have done that for a long time up here with you.

We take a slightly different approach today. So the structural demands for growth in Asia, right, represent effectively 2/3 of the future growth of the insurance industry in the next decade. I'll just start with that. So if you're not successful in Asia, you're not going to be a growing insurer. Second market is the U.S., all right. So we've got the markets right. So why can't someone else come in and just replicate what we did by spending more money faster. So to start with that as -- again, self disrupt here, right. First up, it takes time, right? The licenses and the businesses we built out, the technology, the distribution partners, right, take decades to build. And we have a long and successful track record of investing in Asia.

It also goes to brand and trust of key stakeholders. That's consumers, business partners, regulators, policymakers, all those things enable you to do unique and interesting things. Pulse is a perfect example of that. We need a government support in markets to try something that innovative. Okay. And that's a great example of where our history in the markets and our alignment with social and political policy allows you to produce unique outcomes.

The -- you need a -- we have an efficient and a U.K. style with profits fund in Singapore and Hong Kong. Very much like the M&G fund here, first our -- our now ex subsidiary, incredibly difficult to build from scratch. Very efficient for consumers and the kinds of propositions you can build, very efficient for investors, and its deployment on a capital basis. Okay. Unique to us.

I mentioned Eastspring earlier. Depending on who's measuring, we are one of the largest most successful asset managers. Why does that matter? Accumulation and decumulation of products are a part of the maturing demand from these investors and these savers. They particularly, as yields get lower and lower and lower. Okay. We're extremely well positioned to capitalize on that demand and to provide those services that are very high quality.

And then finally, I think when you get into China, pre virus, the dynamics in China were Greater Bay Area initiative, cross-border service, Shenzhen, Hong Kong, how are these markets going to align and servicing clients that move freely between the marketplaces. Those macro issues in Northern Asia were incredibly well positioned to take advantage of. We have excellent businesses on both sides.

So those sorts of trends, you can't replicate quickly and we have them, we have the management teams, we have the brands, we have the reputations, the regulatory and political relationships at scale, right, at scale. The scale, also, I think comes through in the diversification of our success, particularly, times like this in earnings. So earnings cross the cycle, right, you need recurring premium to do that. Those existing consumer relationships. It's the quality columns on the right hand side. How much of your premium occurs if you sell nothing? How resilient is your book to interest rate and equity side? Those sorts of factors. And we think, we built an incredible business from a shareholder point of view on those metrics.

Recurring premium drives are Asia growth, our IFRS profit and our free surplus generation. Right. That's a material change from where we were just 5 or 6 years ago.

The renewal base is growing at 16% a year, right. The new business profit growing around 13%. We continue to invest in the existing clients, right. The repeat sales box in the upper right-hand side. I've stood up here many times, I told you one of the things that's right in front of us is the millions and millions of clients we have with a single relationship. Okay. We are getting much, much better, get going broader and deeper with our household relationships by bringing new and unique capabilities to their homes that address real risk they have, right.

45% is a fantastic. I'd love it to be a 100. Okay. But it's a really good outcome, given everything else again the teams are doing. Customer retention, we continue to invest in. How do they want to get paid? How do they want to interact with us financially? Do they want statements digitally? What's the experience feel like? How fast do our call services answer the phone? All that sort of back office, less glamorous spend, right, improves the service relationship we have with the consumers. We have excellent service with our consumers now, and that goes to retention and the retention goes to the growth of those earnings.

On the left hand side, the diversification, you have 8 markets with double-digit growth in new business profits and earnings. You also have 8 markets with now more than $150 million of earnings, right. So if there is a slowdown in sales in Northern Asia, and that's the outcome of the year, what we get is further diversification across our footprint. This is a very, very resilient model and the team executing concurrently in all these markets is produce that outcome. How resilient?

So there's the 16% and 13%. The key for us in growing our Asian business is our effective maintaining relationships with consumers who trust us and believe we provide value. That renewal premium compounding 16% is the base of the financial strength of the business, right. Each year sales are growing, and each year sales are profitable cohort and important relations to us financially. But this is where the resilience comes to go cross cycle if we don't like pricing of our competitor or we have an external event like the virus, right, or a market shock, right. This is the strength of this franchise, right here. And you see it in the cash, and you see it in the free surplus generation.

Let's drill down to a couple of markets. Hong Kong, $734 million or earnings 22% of PCAs, overall earnings. This is an excellent example of our playbook and how we execute it. It's also an extreme example of the intensity of the challenges a market can have at once, right. So effectively cross-border sales stopped this year. They slowed through political unrest and they stopped with the virus and a government policy.

The business continued to execute well. You see the resilience in the earnings again. Why? Derek Yung and his team, excellent management team. We invested in distribution when things slowed down. So they grow agency by 15% to 24,000. Again, we want to be countercyclical whenever we can. They launched new products, right, pension space, health space, education space and they grew domestic sales by 8%. Most of their earnings come from the current premium, which is undisrupted by travel.

Now, we also participate socially -- the issues in Hong Kong are different right now than the issues in different markets. For example, the virus. We talked to our friends there is a concern, unemployment effect on small businesses is a bigger concern. Everyone knows someone with a small business that's being stressed. So we work with the reinsurers, more forgiveness on payment timing, things to make sure that we're alongside our clients in that. This is an incredibly well-run business that's growing through the cycle, right?

Earnings here are up 24%. They've adjusted how they're working. The regulators now allowed some sales of products no longer face to face. We have the technology to do that, digitally. We also have the training of our agents to do that, right. So they'll continue to move forward as whatever is being thrown at them from an external environment. It just shows the resilience of the model. They're continuing to add digital, they're continuing to add other capabilities to the business, nothing is slowed down here. Right? But they do have an external strain that they're dealing with and they're dealing with it, I think, as effectively as any management team in the region.

Indonesia and China. So combined this is $759 million of our earnings. Again, call it a quarter of PCA. But it's 37% of the population in the region. So we've got to succeed in both these markets, right. Again, you're not going to be successful in Asia without a major presence in both these markets.

So I still to start with China. Pre virus, a lot of the good macro and China got lost in the noise last year on trade and other issues. I think the -- the one to me that's standout single most impressive is almost 10,000 per capita GDP, which is a key goal for the government for a lot of actual critical reasons, and that's a 39% increase in 5 years in one of the largest populations in the world, right. That is a staggering number, right.

We think post virus, this market comes back fast. I'm not trying to predict when that changes, but this is an economy that adjust quickly through external threats and challenges. The Greater Bay Area initiative and other initiatives that were in process, were completely disrupted by the corona crisis -- by the coronavirus, right. The work didn't go away. It's still in place. And again, those sorts of structural changes cross border help us.

We're looking now, we've applied in the process setting up a data center in Shenzhen, okay, a tech center. We can do that very quickly when things return to normal as can other businesses. Okay. Again, there's no -- one of the things about finance, so there isn't a physical plant or a factory that we're trying to retool up. These are very, very scalable at pace operations.

So we think, our China business is doing incredibly well. It's growing faster than the market. New business profits up 38%, earnings up 20% last year. We got 80% of the country's GDP and population under our footprint. We mentioned earlier, we keep expanding our bank distribution, we keep improving our agency in scale and productivity. We got a long way to go to catch the size of the agency as some of the larger firms measure them in millions, but also the regulatory direction of travel in China is towards health and protection and some of the products that our teams are used to and focus on our agency model.

So we like where we are in this. We love to be bigger and faster in China and we're doing everything we can to accelerate that. But they had another great year outpacing the market, adding new cities, right, and continue to expand the opportunities that are in front of us.

Moving to Indonesia. We asked the Jens and the team to retool and refresh one of our largest businesses, right. So 5 plus years ago, 6 years ago, we're standing here and this was a paper intensive business, right. That was disproportionately cash collection and led by a single product, and it was extremely successful, okay. And we -- well rehearsed from these meetings, the challenges that came with that growth. You now have an incredibly automated back office. You have new distribution, recruiting, segmentation, right, of the agency force, a great agency force. Number one in that country, number one, $9 million roundtable, create the Elite status, 30% plus growth of Elite agents or about a quarter of our APE now. Products across the spectrum from both experienced and consumer. The -- with one of their new health products PRUPrime Health, it's 40% of APE last year, right.

So this business now has digital partners. OVO is the largest digital payment provider in Indonesia. And remember, this is a country where $237 million depending on the number you use or the data the -- the data you're using million people with about 2 million using credit cards. So there is a big space here for digital payment providers to come in. It's one of the countries that'll have the most impact. So although it's the largest, we're just launching product with them now. Their payment capability is inside a Pulse. So again, giving us the ability to be -- to transact with our consumers, they want to in a digital basis in that environment. And now, you have 97% of the business submitted last year of Indonesia, digital. This is now a highly scalable business with a broad product set, a tuned up distribution organization, new channels, group product and an excellent management team, right. But again, the opportunity here is ahead of us, right. This is the start of where Indonesia is going and penetration of insurance is still about 2.2%. So long way to go in a country that effectively individual self assured, and we've got a number of initiatives to drive our growth in this market.

I was asked to give an update on the virus, and I want to sort of segment this into 3 parts. So our lens on this has been pretty consistent. We look at the impact on our customers. The impact on -- what we're doing in the markets given our scale socially, what's our role as a corporate citizen in that and then, how is it affecting. We get a lot of questions from you on our staff and our agency force given the sheer size of it.

So from a customer point of view, in every market that we have, any sort of material outbreak, we have scaled up our benefits. As you are probably aware in most markets, the governments have -- are covering disproportionate amount of hospital costs. So we've increased cash coverage in a market like Hong Kong. We've added benefits for -- if you're unemployed in Singapore, if you're quarantined and they're customized with the demands and the policies in each of the markets we're in.

There's been very, very low utilization of those benefits, because we've been very fortunate so far that we've not had a lot of our consumers affected by the virus. It's in the few hundreds and so, this is not had a financial impact on us yet.

Socially, aside from making the products benefits faster, better and available quickly to our consumers. We've also contributed millions in China and other markets to prevention in health, infrastructure, healthcare support for workers, and I think you'd probably hear that from any responsible firm operating in the region, right. It's our role at our size and scale to do those things. We had prudence foundation, we had partnerships in China, other things set up to do that, and we can move very quickly to support it.

On the agency and staff side, again, we've been very fortunate. We've had very, very few incidents of the virus. But we did fairly early go to our alternative work models. So work at home in some markets, split teams in others. Very similar to what I hear from some of the firms in the room, on travel policy, on separating key people with similar responsibilities on how the executive committee travels together. All those sorts of things have been in place for a while, and we went to those very quickly. And to date, we've had very, very few incidents of customers or employees or agents having any exposure. And obviously, we're staying very close to the developments.

Some of the most disruptive things as you're probably well aware, policies around schools and things where that we've been dealing with that previously on political unrest. We're certainly -- those are challenges for us in the markets, because that affects working parents that we've made a accommodations for that voluntarily as well as structurally in the organization as well. So we'll continue to evolve our position on this as the issue becomes greater. But so far, I think it's been a conservative position operationally. Our normal support you'd expect into the communities we're in and it's had minimal impact on us from a financial point of view or a claims point of view.

Switching to the to the U.S., if I could. So first, let's talk about what the U.S. did last year and then, I'll reference a bit context around the announcement we made today. So one of the key is the challenges we put to Michael and the team. And you heard up here on the review of the strategy was, it was critical for Jackson to be able to demonstrate that it could execute on multiple product agendas, right, and multiple financial metrics at once, right. Was this a single product firm, was that it's only niche could have demonstrate to external investors and the external market that as the clients risk preferences change, the Jackson is welcome to compete in those segments of the market.

So what you saw was very successful and quick product launches, successful distribution of those products and support of those products across the consumer risk spectrum. You saw an expansion of an already strong management team, and you continue to see investment and capabilities added in advisory, Fintech and some of the areas that are coming for the future -- for future growth of this business. So -- and again, the number stand on their own -- incredibly fast diversification organically. And we've said that again, the opportunity for Jackson at scale is inorganic as well. But I think we demonstrated in the market that the market wants products from Jackson across a wide range of risks.

Now consistent with the announcement we made today on Jackson. And I apologize for reading this, but that I learned today there are 3 lawyers in the United States for every one doctor. If anyone would like to know. And I understand 1.3 million of them are listening to how I say this next paragraph.

Consistent with our announcement today, external capital requires certain prerequisites to be in place. The U.S. team is focused heavily on delivering those. You can see it's demonstrated efficiency and effectiveness on capital management, sales management, and risk management. You see regulatory alignment by early adopting the new RBC regime, a more stable less interest sensitive regime.

We've expanded the management team, increased our operational capabilities, maintain tight management over expenses, and this is designed to manage the growth of distributable operating earnings across cycle. You'll all be aware that given the announcement today, our ability to discuss certain aspects of what we're doing in the U.S. are restricted by regulatory requirements in the multiple jurisdictions where we have listings.

Okay, thank you. It's first time you guys have ever seen me read. A few of you questioned if I could. All right.

So the key takeaways. Just think back on the year, right. There are new variables in the marketplace that accelerate all sorts of the challenges we face. And we had multiple markets with political challenges. We had elections in multiple key markets, we had an impeachment in the market, we had changes in political structure, we had protests globally.

What was a dramatic movement of the time and rates, right, very high -- shape in U.S. equity market, all -- the performance for the group in that setting I could not be prouder of. I think it's shows the mix of business's strength in very volatile environments.

And then the growth in Asia. And it's easy in these meetings to focus on the financials, because that's what we're -- the core reason we're here and what Mark's going to come up and highlight in just a moment. But spend a moment when you're looking at these materials and talking to our teams and when Nic and James come up from Hong Kong, on the capability differences firm has now and where we are positioned going into this year, right. We have never been in a better position to capitalize on consumer trends globally and the markets we've chosen globally, okay.

And then, finally, the Jackson team, the agility, I think the movement in design and structure, managing to 2 regulatory regimes being one of the early adopters of the new regulatory regime, the build-out of the things that needed to be true for us to say what we said today on the RNS. Right? All this was going on while we demerged M&G Pru, okay, and continue to move the shape and structure of this business forward. So very, very productive task-filled year where the organic growth of the businesses came from the efforts that you would expect out of the teams we have. So very, very pleased with it. I'm going to turn it over to Mark and then I'll come back up for the Q&A.

Mark FitzPatrick {BIO 20178326 <GO>}

So thank you, Mike, and good afternoon to you all. In my presentation this afternoon, I will address 3 main topics: firstly, the results of our Asia business; secondly, the U.S.; and thirdly, I will provide some commentary on a number of group related topics.

As you can see on this slide, our 2019 financial performance demonstrates the group's ability to deliver against a challenging market backdrop, while executing a pace including delivering the M&G demerger. The 23% increase in Asia EEV, net of remittances is a demonstration of the growth potential of our diverse and high-quality portfolio of businesses in Asia. At the same time, our U.S. business has started to deliver on the diversification strategy outlined at our half year results in August.

So onto the first main topic, which is our Asia results. What really stands out in our Asia numbers is the quality and the broad-based nature of these earnings, and the balance between the growth of new business, and the steady expansion of the in-force book. Now, all of these would live it against a challenging macroeconomic backdrop and political issues in the number of our markets.

Asia APE sales increased 4% overall, and excluding Hong Kong was 17% higher. The middle of the slide shows the extent of the diversity of our businesses with 6 markets producing double-digit sales growth. In Hong Kong, new sales were 11% lower. And within this, sales from mainland China were down 21% for the year and 41% in the second half, reflecting lower level of visitors coming to Hong Kong as a result of the protests.

However, our domestic Hong Kong business grew 8% in the year, growing by 12% in the second half. Our performance in Indonesia is encouraging and follows a substantial reform of our agency channel and new product launches. Over 2019, as a whole, new sales were up 23% with growth of 41% in the second half, following 4% growth in the first half of the year.

Turning to NBP. Overall, this grew by 2%. But underlying this, our Hong Kong NBP was down 12%, which was broader in line with the reduction in new sales. Importantly, outside of Hong Kong, our life business has delivered NBP growth of 29%, and these were well-diversified with 8 markets delivering double-digit NBP growth.

Following Mike's comments a moment ago in respect to the impact of the virus, the outbreak has slowed economic activities and low levels of new sales in affected markets are to be expected. Year-to-date, we have seen impacts on sales in China and Hong Kong. However, outside of those markets, our major businesses are continuing to see double-digit sales growth.

Over 2019, the embedded value of our Asia business has increased to $39 billion. This EEV growth continued to be driven by the further addition of yet another year of profitable new growth with $3.5 billion of NBP, adding a 11% to the opening balance. NBP and 20% growth in post-tax asset management earnings, alongside the in-force result driven 19% overall operating return on opening embedded value.

The $2.3 billion in-force return includes favorable operating assumption changes and experience variances, totaling $0.8 billion, which again illustrates the quality of our business and the prudent assumption basis. This enforced performance and continued focus on capital efficient, profitable new business contributed to 13% increase in free surplus generation and the higher net remittance to the group.

Within non-operating and other, we saw favorable fluctuations in investment returns, mainly representing higher bond and equity values in Hong Kong and better than expected investment returns in Singapore, Thailand and Taiwan.

Note that within our closing embedded value, our Eastspring asset management business is carried at its IFRS net asset value of $1.1 billion. While our share in ICICI Pru in India had a market value of around $2 billion, significantly above that in our embedded value.

2019 with Eastspring 25th anniversary year, and also a very strong year across all of its key metrics, characterized by balanced high quality growth. Third-party net flows reached $8.9 billion with Asia Life flows also up strongly. FUM increased to $241 billion and operating profit was up 18% to $283 million. So we are pleased with both the organic and inorganic growth for Eastspring as evidenced by the acquisition of TMB asset management in 2018, and more recently Thanachart Fund, which added $7.5 billion of AUM.

We believe that Eastspring is strongly positioned in an attractive market, in that, we saw strong investment performance with 60% of funds in the top 2 quartiles, good balance between equity and bond mandates, and third-party inflows were positive in our retail and institutional businesses with fixed income products accounting for the majority of net flows. Flows for the early part of 2020 are continuing this trend. But what's also important to me is that these higher asset levels and the underlying investment performance are also accompanied by an equally robust financial performance.

Operating revenues before performance fees increased by 14%, and our focus on operating costs resulted in the smaller 8% increase. This positive operating leverage lead to an improved cost income ratio of 52%, which supported the 18% increase in IFRS operating profit.

Turning now to an IFRS lens. Our life insurance result again reflects our ongoing focus on recurring premium health and protection products, and the associated continued growth of our in-force business. This contributed to a 12% increase in renewal premiums to $19 billion, and in turn, a 14% increase in life IFRS operating profit. And at a business level, you can again see our track record of long-term investments continuing to deliver.

We are generating very solid and broad-based growth from multiple businesses operating at meaningful scale. We now have 8 businesses delivering operating profit of $150 million a year or more, 8 life operations, delivering earnings growth of 10% or more, and 5 of these had growth of 20% or more. And this is perhaps best exemplified by Hong Kong, where the in-force resilience was clearly evident with a 24% increase in operating profit, notwithstanding a more difficult new sales environment.

In Indonesia, the team are making good progress to drive a return to growth. However, this is a work in progress and these improvements will take time to convert into IFRS profit.

In conclusion on Asia, we're very pleased with the financial and operating performance of the business in 2019. We believe this demonstrates the scale, resilience and quality of our diverse portfolio, and the power of our focus on renewal premium life insurance business, and a high retention levels at over 90%, which underpins growth of the in-force earnings, even in periods of more challenging new sales.

I will turn on to my second main topic, which is a performance of the U.S. business. So some of the headline numbers are driven by market movements, regulatory impacts and accounting asymmetries. Notwithstanding this, the underlying position is that this is a resilient business that is well positioned in a market where there is a growing customer need.

By way of context in 2019, the S&P500 was up 29%, and the U.S. 10-year treasury yields fell 80 basis points. Consequently from an economic perspective, our separate accounts performed very strongly, returning 24%.

From an IFRS result perspective, favorable DAC accounting effects boosted our reported IFRS operating profit, while negative marks on hedge positions decreasing yields and accounting asymmetries, depressed the overall IFRS result.

Breaking that down, there are 3 key drivers of the IFRS operating result. Firstly, fee income was effectively flat. This was due to a relatively stable average separate account balance compared to 2018, which is a function of the particular path of the markets over both years. Although, we had a favorable starting point going into 2020, given market movements year-to-date, much of the Q4 market uplift and the benefit in the 2019 year-end separate account balance has since unwound.

Secondly, spread income fell. This results from lower investment asset yields and lower swap income. The spread margin was also reduced by a full year's consolidation of the assets acquired with the John Hancock transaction in late 2018. At half year, you will remember I indicated, I expected, the spread margin to trend towards a 100 bps based on 30 June 2019 interest rates of 201 basis points.

During the year, the team actively repriced products to mitigate some of the impact of the overall reduction in rates and have continued to do so post year end. Given current market conditions, reinvestment rates on the portfolio and reducing swap income, I expect the total spread margin to continue to compress further.

Thirdly, at an operating level, the 24% separate account return was well ahead of the 7.6% assumed within the DAC mean reversion calculation for 2019. This drove favorable DAC deceleration of $280 million, and I've included a slide in the appendix providing you with more details on the associated accounting mechanics.

While collectively these factors, together with the negative short-term fluctuations led to an IFRS loss of the tax of $380 million, the same interest rate falls have led to gains on bonds, and an overall increase in Jackson's shareholder equity in the period to $8.9 billion.

By a way of a reminder, we hedge the economics and accept the accounting volatility that may result in the IFRS numbers. In particular, when increased equity markets will ultimately deliver increased profitability to Jackson through higher future fee income, the benefit is not recognized in the IFRS results in the short term. This contrasts with the impact of the hedging program decided to provide protection when the markets fall, where rises in equity markets lead to short-term losses in the IFRS results. These losses will then exacerbated by the falls in interest rates.

2019 was a year of transition both with respect to the business taking its first steps in the implementation of this new strategy, and the transition to the new NAIC variable annuity framework, which re-elected to early adopt. Reflecting these transitions our year end RBC ratio was 366%. At end of February, it remains within a 340% to 360% range, and illustrates the new regimes improve sensitivities in stress scenarios.

Now this slide shows the evolution of the RBC position over the year. So we start on the top left with the 458 under the old regime. We have a 141 points of in-forced generation, 75 points of investment in new business, remittances accounted for 37 points, and the remaining movements related to non-operating variances and the impact of the NAIC changes.

So I'd like to draw out a few points on these. In respect of new business, you've heard from Mike, how we are delivering on our diversification strategy. Fixed annuity, fixed index annuity and the institutional business represents 34% of 2019 new sales. Thereby demonstrating the strength of the Jackson franchise. This shift in mix has resulted in a higher investment in new business than has been seen in recent periods. Over time, we expect this to contribute to more balanced mix of policyholder liabilities, which will enhance statutory capital and cash generation.

Non-operating and other variances primarily reflected net hedge losses. Favorable rising equity markets led to negative marks on our equity derivatives with the limited offsetting movement in statutory reserves. This also includes the non-admitted DTA impact of 26 points, which we expect to be utilized over the next 2 years, subject to market conditions.

In addition, we incurred one-off hedge losses of $395 million as a result of needing to manage risks under both the old and new regimes as we went through the transition. This reduce the RBC ratio by 28 percentage points.

Looking forward, our previous guidance of total operating capital generation often new business strain of around $1 billion remains unchanged. In our usual disclosures, you will see a projection of this operating capital generation over the long term under EEV assumptions for the in-force business. There is a slide in the appendix which illustrates this. For 2019 and future years, we have updated our EEV projections and assumptions to more closely align to the new U.S. capital regime.

Summing up on Jackson, you can see the strength of Jackson's distribution capabilities has enabled it to pivot to new and different products as demonstrated by the shift in new sales mix over the year. We've implemented a new NAIC variable annuity framework, and particularly anticipate its improved sensitivities in stress scenarios. To that end, we've seen the RBC ratio showing considerable resilience so far this year.

And finally, as Mike mentioned, our preferred route to introduce third-party financing to Jackson is to seek a listing in the U.S. in due course, subject to market conditions. We have commenced preparations for minority IPO, and can now commence detailed engagement with key stakeholders with the view to ensuring Jackson will have capital strength as a separately listed business to support its continued success.

Our plans for the potential listing of Jackson do not extend beyond preparing for this initial offering. Jackson remains a subsidiary, and accordingly, we would continue to support it as required in the same way that we support all our subsidiaries.

My third and final topic is on the overall group results for the year. Now these clearly include a number of demerger related effects. And therefore, the central overhead is not reflective of the expected go-forward position. We signaled during the demerger that we would move towards a leaner operating model, and that we would be looking for substantial cost savings by removing inefficiencies and duplication. As such, we expect to reduce central costs by around a $180 million by the first of January 2021, by adjusting our corporate expenditure to reflect the footprint of the post demerger business.

We expect cost to achieve of approximately 1x annual savings. We commenced work on this initiative before the demerger concluded, and are now proceeding at pace. We have already made progress towards this target, completing the first phase of this work, which will deliver annual savings of 55 million from the beginning of next year.

We have a one head office, 2 location model with functions based in the most appropriate and effective place for the key stakeholders. By way of example, we have really commenced the relocation of our risk and compliance functions to be closer to our new regulator in Hong Kong. And James Turner, our CRO is there today.

Restructuring costs, primarily it comprised the much loved IFRS 17, which ramped up considerably in 2019, and we expect to increase further in 2020. As the 2019 interest cost on core structural borrowings include the cost of the debt stack up to the point of demerger, a $179 million related to interest on debt that's been transferred to M&G.

As I've mentioned previously, we expect interest cost of around $300 million per year based on the current debt stack. So in total then, we are reducing overall central costs by around $400 million. This will be achieved by savings of around a 180 million in corporate costs and over 200 million in respect of interest costs.

We introduce you to the LCSM capital framework with our half year '19 results. The LCSM is expected to transition to a new group wide supervisor framework, which we expect to be finalized later this year. Overall, the group ended the year with an LCSM shareholder surplus of $9.5 billion, and a cover ratio of 309%. On a consolidated basis, the ratio is 348%, and it provides us with confidence as we enter the turbulent markets today.

Our businesses are strongly capital generative. This provides considerable capacity to fund investment in growth, both organically and inorganically, and enables us to absorb considerable market movements and support our dividend policy. Specifically, the $0.8 billion you see in the chart represents our inorganic investment in Asia. This is notably the extension of the UOB bancassurance partnership, which for LCSM includes the full upfront payment and the Thanachart Fund acquisition during 2019. Now this is the first time we have published LCSM sensitivities, which show the resilience of our capital position to a range of market shocks.

As at the end of February, the LCSM is estimated to be in the 270% to 280% range, slightly better than the sensitivities imply, mainly reflecting the benefit of some management actions. 2019 holding company cash developments really reflect the demerger and associated transition effects. Asia net remittances increased to $950 million, broadly in line with the long-term growth in FSG.

Moving down the table, I've really explained how interest costs and central costs management actions will play through in the coming year. And following the demerger, we expect that the central tech shield will decline sharply in 2020 and that is not expected to recur going forward.

Other movements is driven primarily by various demerger items, including the debt substitution the pre demerger dividend, and the demerger transaction costs. While this line also includes a number of components, which vary from period to period, you should continue to expect an annual outflow of around $200 million in respect of supporting existing bancassurance arrangements.

As I said at the half year, we built up the central cash to be able to deal with all the demerger-related movements. With this now completed, and appropriately calibrated, but lower level of cash will be held centrally.

Strong cash generation in the business enables us to declare a second interim dividend of $25.97 per share. This is in line with the 19.6p, indicated in the demerger circular translated at the year end spot rate. This brings the total dividend proposed for 2019 to $46.26 per share. For 2020, the dividend policy will be applied to the post demerger 2019 base dividend of $36.84 per share.

Looking forward, I want to remind you that post demerger, our priority is to deliver on our Asia focused growth strategy. In the last 2 years, we have increased average annual investment by over 50% to $1.3 billion per year. As such, when setting the level of dividend growth, we will take into account investment opportunities, capital generation capacity, financial performance, and prevailing market conditions.

So to summarize, the results of our structurally growing Asia businesses once again demonstrate the benefits of a high quality resilient and broad-based business operating at scale. Our U.S. business has taken the first steps in the strategic journey, outlined at half year, demonstrating that it can pivot to new and different products. We remain focused on improving our operational efficiency across the group, and we are well placed to capitalize on the growth opportunities, and build upon the strong and resilient capital position.

And with that, I will hand you back to Mike to conclude.

Michael Andrew Wells {BIO 4211236 <GO>}

I think why don't you go ahead and stay up here as well. Michael, why don't you come on up as well, please. So I think from that what we'd like to do is, go just directly to Q&A. We're obviously very pleased with the breadth and depth of the numbers and the activity that's been highlighted for you. Can we -- the technical folks, I want to see we can get and there we go.

Nic, James welcome.

Nicolaos Nicandrou {BIO 15589153 <GO>}

Hi, Mike.

Michael Andrew Wells {BIO 4211236 <GO>}

Good set of buildings behind you. Well done.

Nicolaos Nicandrou {BIO 15589153 <GO>}

Yeah, we thought you might like that.

Michael Andrew Wells {BIO 4211236 <GO>}

I do. Chad, you wear this is well?

Chad Myers {BIO 19162601 <GO>}

I am.

Michael Andrew Wells {BIO 4211236 <GO>}

Great. Thank you, everybody. I appreciate the technical support on this. So let's go to the first question if -- I'm sorry, where's -- let your quarterback this.

Questions And Answers

Operator

(Question And Answer)

Now let's start the Q&A session. As Mike has highlighted in respect to our announcement about the preparation of the minority IPO for Jackson, we are unable to comment on this or provide further details at this time. We'll make further updates to the market in due course and any offering would only be made pursuant to prospectus. Thank you for your indulgence.

With that in mind, we're happy to open up to questions.

I'm going to open up to Hong Kong first just to see if kind of -- sure Scott have -- they haven't answered, okay. So I'll hand over to the first question on this side, will if you can handle it. Greig, if you could just let us know where you work and introduce yourself. Thank you.

Q - Greig Paterson

Hello. I'm Greig Paterson, KBW. Good morning. Three questions. One is, could you just update exactly how you're hedging for interest rates in the U.S.? Previously didn't have a hedge so you all yet -- it was well out of the money. So if you just explain that.

Second point, if you could just comment on the potential to increase your stake in China? There was no comment anyway about that even though it's in the stated intention. And the third thing is, I wonder if you could update on the RBC ratio in the U.S., given market movements and interest rate movements that we've seen the last week? I think that's more relevant into Feb.

A - Chad Myers {BIO 19162601 <GO>}

Okay, so I think hedging for rates -- I'm Chad, you want to give a specific that Michael an overview on that and go in that order?

A - Michael Falcon {BIO 17026942 <GO>}

Sure, so with respect to -- Greig, the hedging on rates is something that's been long-standing within Jackson. I'll say as Mark mentioned earlier, under the new regime we are a little bit less rate sensitive requiring a little bit less rate hedging than we previously had.

But we do have a significant rate hedge on you recall. We previously had a permit of practice on which muted the impact of the interest rate swaps coming through statutory with the new regime that's not required anymore.

And so what you see is combination of interest rate swaps, swap options and treasury futures that we use to manage interest rates. And while the new regime is more muted than the prior regime, it's still obviously is impacted by interest rates. So we continue to adapt the interest rate positioning to the market and as rates have dropped as you might guess that our interest rate position continues to grow.

A - Unidentified Speaker

Michael or Axel, do you want to add anything to that or?

A - Michael Falcon {BIO 17026942 <GO>}

No.

A - Chad Myers {BIO 19162601 <GO>}

Good. Okay.

Q - Analyst

(Inaudible)

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

So the answer is, we're hedged forward consistent with the strategy that's been in place and while we're less sensitive at any starting point of capital and interest rate in the new regime to where we would have been in the old regime. We still have rate hedges on and as rates drop, we add to those positions, because we get more sensitive to rates as they drop. The dynamics have changed the magnitude of the sensitivity to rates has changed favorably, like we think it's more reflective to the economic value in the new regime versus the old regime. I think you had a question around RBC ratio as well.

Q - Analyst

(Inaudible)

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

So we don't disclose RBC on an interim basis. I think it's again more stable in the current environment. We certainly do estimates on the run and at month end and with full sensitivities. We're directionally, I think somewhat lower than that where we were at year-end, but not significantly.

And in the context of that, let's think about what drives RBC, there's two components. One is the actual tack that we're carrying and that's the numerator and then the denominator of course is the capital that's required. As markets have fallen and has rates have fallen, we have the hedging positions that payoff and generate capital.

We also have the economics and then the moneyness of the portions of the book that would be more in the money, you have required capital that goes up. And the dynamic that we've seen since year-end is encouraging and that the amounts of capital that we're putting up are in excess of the amounts of capital required. So it may not be at the same 366% dollar-for-dollar, which would lead to the dilution of that RBC number. But this actual surplus has grown and grown substantially and that's what we would look to see in terms of the effectiveness of the program. We're protecting capital and we're increasing surplus at exactly the time when the market is under stress.

A - Chad Myers {BIO 19162601 <GO>}

And Nic, do you want to comment please on China on the JV a quick?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Yes, Greig. I mean look we -- as you know, we like the business, we would like to have a bigger share of the business, if possible. But of course that requires our partner to be willing to divest. For now as I said, we were both concentrating on delivering value by growing into our footprint and you see through our results today, that we're making great progress in driving the joint venture forward together.

A - Unidentified Speaker

Jon?

Q - Jon Hocking {BIO 2163183 <GO>}

Good afternoon. I am Jon Hocking from Morgan Stanley. Three questions please. First on Jackson. Could you help us understand a little bit more about what RBC level you're trying to defend? I think with the change in regime, it's quite hard for us to have a number on our hedge, because previously we were probably hoping to it would rest at 400 or 450. So where do you think the competitive number that you need to print is now business going forward?

And then secondly, I think you've previously spoken about $1 billion of statutory capital generation in Jackson, about hundred RBC points a year. Can you update that for the change of regime and what's happening with markers, et cetera? You're still increasing that sort of capital over year?

And then just finally on the Asian business, can you comment on agent attrition? I guess with the disruption we've seen in Hong Kong and China, you've got agent income down quite a long way. What are you doing is of all those agents and you're actually seeing any income -- any impact on productivity? Thank you.

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

Good question. Okay. So again on the RBC, we're not going to get any more specific than what we've said. I think, Mark has given good guidance on capital formation in the materials you've seen. Michael, do you want to add anything to what's --

A - Michael Falcon {BIO 17026942 <GO>}

No. I would say, look, the biggest components towards the RBC were at end of the year. If you look at -- we've given direction in the past, that would say we'd ideally want to be between 400 and 450 through cycle. We are obviously slightly below that. So the biggest contributor to that is that not admitted deferred tax assets and this asymmetry between what happens with the positive effects of the hedging program and what can be reflected in terms of reserve release in the book. And so we get into these floored out positions that cash surrender value and you can't take the full economic benefit and stat for what may seem obvious reasons. And when you make again their pro forma, but when you make those adjustments, we're right there in the low 400 range.

So, I don't think anything changes in regard to that in terms of direction and I'm not prefer a higher number on RBC, but we're not upset or worried about where we are relative to the 360 at year end and what we're seeing in terms of the performance of the business so far this year.

And the statutory new capital generation, I think you saw it already in the chart that Mark showed earlier with net of new business, which had higher friction cost than in the past, because we've stepped up our -- in the middle of last year, we stepped up significantly our spread in other businesses relative to what we've done in the recent past.

And despite all that, we generated in excess of $1 billion of operating statutory capital through that and that's before the Hong Kong release. So, I don't see any change, the majority of our contribution in that comes from the back book, it's quite stable and continues to perform well. We also put in context of the drop in equities and the change in rates.

Again, this business has been written in the VA portion, which I know many of you are quite sensitive to. It's been written over the past decade, there's been quite a steady and quite consistent actually over time progression of those account values. And the shareholders have -- the policyholders have done well through that, but so have the stakeholders. So it's Jackson and crew in that regard. And so most of these positions are still very in the money in terms of investors and we have NAV to support the future claims. It's still a very healthy book, right, despite the recent dropout.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you, Michael. The other things on your question relative. Mike I think it's fair to say that you still have just a handful of firms that are really adopted been -- so there's the full comparison of how does everyone look under this is just as I'd say spotty, is that fair? It's just early.

A - Michael Falcon {BIO 17026942 <GO>}

Yes, it's early and people are resetting us with dictations. A number of firms have early adopted, a number have indicated that they're going to adopt this year. I haven't seen anybody yet choose the three-year averaging method, because possible someone's out there too.

A - Mark FitzPatrick {BIO 20178326 <GO>}

So on that the relative questions will more difficult, because of other people's behavior, not ours.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. And Nic could you update on Asia -- particularly I guess North Asian attrition, given that be the only -- want to talk about what we're doing there and I'd -- the activity is around the agent per se in Hong Kong and China?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Yes, we can talk about that more broadly than the North Asia. Attrition levels are pretty much in the first two months of this year are pretty much in line across our businesses to where they were in the first two months of 2019. We're not seeing a spike. Of course, you have to recall, you have to take into consideration that a lot of agents earn trail for the first few years, depending on the contract.

Clearly, when it comes to rookie agents, agents that have only joined us in the last say or so six months, they don't benefit from that. But we do have programs in place, where we can give them advances provided, the agency leader stands behind those advances. That facility is available all the time. It's been used sporadically though. So we haven't seen any change in the exits.

In terms of recruitment, we're also seeing no change. Roughly, our recruitment numbers in the first two months of the year are the same as last year across the portfolio. In Hong Kong, through January and February, we've recruited about 450 a month, but that's just down a little on the 500 or so, that was our run rate last year. But interestingly in China, our recruitment in February went up 83% as we now deploy the technology that you referenced Mike in your prepared remarks, we're using online profiling tools, online assessment tools, and they are generating an increase in the recruitment. So technology is coming into its own here.

A - Unidentified Speaker

Got a question from David in New York. Operator, will you open the line, please? David?

Q - Analyst

One question. You did gave the update on operating capital generation of $1 billion, but that were hedge costs. I guess how should I think about capital generation after hedge cost and how should I think about your hedge costs going forward following the NAIC rule changes?

Secondly, just wanted to get a sense for, just in terms of the change in business mix. Maybe you can give us some sort of sense for what the ideal mix of business would be between VA and non-VA? And how that could impact capital generation going forward? Thank you.

A - Michael Falcon {BIO 17026942 <GO>}

So I can handle it and I'll -- let me -- I'll turn it to Chad in a second for some thoughts on the hedge cost component more specifically. But the way to think of the difference -- the way I think of the difference between the new regime and the old regime is that at any given level of rates market and capital, the requisite hedge position that we would have on is lower in the new regime than it would have been under the old regime. The -- what we experience in any given quarter or year is going to be very subject to market conditions and path of market. But Chad, maybe you have something to add about in response to that question if you could, if you heard it.

A - Chad Myers {BIO 19162601 <GO>}

Sure, so I guess I would echo, what you said Michael under the new regime, there is the expectation that we would have lower hedging cost than the old regime. You've all seen, as we've talked about over the last couple of years for various reasons including things like floored out reserves and on the staff side, there's been a need to do additional hedging to support the statutory limits relative to the economic, which is our preferred place to be.

The expectation has been that we would see less that statutory hedging going forward, which should give us better position -- there was actually a question about, the 1$ billion of operating surplus. We generally would expect to run the hedge program more or less at breakeven, so the $1 billion will come through we had additional hedge cost attached to the statutory piece that I was just talking about.

Unfortunately, haven't really been able to road test the new regime very easily, because the markets been so volatile about the last many weeks and rates have dropped as precipitously as they have. But I still say we're better off on the new regime than we were, but this is not really the environment attached to long-term, the theory on the new regime. These are the hedging and additional surplus generation.

A - Michael Falcon {BIO 17026942 <GO>}

And then David on product mix, we're not trying to get to an ideal mix there, it's a -- given the size of Jackson, it's a bit more opportunistic than that in the lenses[ph]. The capital generation first that how that's deployed and one of the options, obviously that's in management's control is how much capital is deployed towards new business, expenses those sort of things, so it's a part. It's formulaic on available capital not necessarily on a sales target. Jackson's never had a sales target.

A - Chad Myers {BIO 19162601 <GO>}

That said, we're not talking about anything in the IPO realm in terms of what a target mix of business would be nothing. Just currently we're being -- the drop in rates has an impact on that spread business we've taken. Pricing actions through the balance of last year and several this year, we've increased our cadence of reviewing pricing on spread and the normal review on VA product features as well. And so, we'll just continue to do what Jackson's always done, which is to be very proactive on those pricing actions.

A - Unidentified Speaker

Andrew?

Q - Analyst

Great. If I could just ask one quick follow-up just on the RBC ratio. Michael, I believe you made a point that you expect some of the DTA to reverse over the next couple of years and get you to the 400% range on the RBC ratio. Just wanted to confirm if that, that's would be the case even where we are today with interest rates? And I guess how dependent on statutory earnings is that reversal of the DTA?

A - Michael Falcon {BIO 17026942 <GO>}

So I mean the DTA comes in through a couple of routes, one is the portion that's allowed for -- from IRS, which is spread on certain portions. DTA originates from a couple of different differences. One of which is the losses, the tax impact of the loss on derivatives and that come -- that's what I'm talking about coming in over a three-year period.

Against that, and that's based on not on statutory, but on taxable profits and those losses are usable in the new tax code and definitely going forward. So they do get used. I guess the constraint on that would need taxable income and Jackson has been a tax payer and is expecting to continue to be a taxpayer. So we can monetize those.

The other restriction is that deferred tax assets is capped to 15% admission into the TAC is capped at 15% of the non-DTA number. And so, it's a combination of the statutory earnings, the operating statutory capital generation and the recognition of taxable income in the U.S., which can be offset by the DTA coming in. Those two things combined will play out over the time.

Q - Analyst

Thanks, Michael.

A - Chad Myers {BIO 19162601 <GO>}

Next question? Andrew?

Q - Andrew Crean {BIO 16513202 <GO>}

It's Andrew Crean from Autonomous. Can I ask three questions? Firstly, with the current level of 10-year bonds in the states just over 50 basis points spreads and the hedge cost index over 225. What -- can you talk about the outlook for new business volumes and margins and also give something on the spread? You said the spreads would be coming down on general account, but by how much?

Secondly, you talked about with changing mix of policyholders in the U.S., i.e. more general account less separate account, you could generate more cash and capital. Could you give the market some senses that in terms of the potential for the dividends going forward, so we can put some numbers around that.

And then thirdly in Asia, the margins which -- new business margins that you have in Asia in China are much, much lower than IRR in China, which is pursuing a similar strategy in terms of products. Could you tell us why that is and whether control of your business wouldn't allow you to materially close that gap in terms of Chinese margins?

A - Michael Falcon {BIO 17026942 <GO>}

So unfortunately, we don't do outlooks on IRRs in our product sales and mix and we certainly can't do that with the U.S. pre-IPO rules. So the -- that's we can't answer the what do we think, we're going to sell, where we're going to earn on it next year of course --

Q - Andrew Crean {BIO 16513202 <GO>}

No. What you can say -- what happens to margins with this macro environment?

A - Michael Falcon {BIO 17026942 <GO>}

Well, I think we've shown what the margins were last year, but again we're not going to forecast what the U.S. margin is, what the pre-IPO statement out. I'm not going to get into that space. On the -- again, the pricing actions will defend the pricing in the U.S. as we have across cycle and if something is not profitable, they won't write it. Okay, but we can't -- I don't want to get into a forward-looking statement on what they can and can't do, given their current rate market.

And Nic, do you want to discuss the differences between our approach and in China and IRRs and if control -- if additional control would impact that?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Okay, look, the margin and we've said this before, is really the outworking of either channel mix and product mix. And our JV really is equal weighted between the two channels, banca and agency and pretty much have equal weight of between health and protection and savings products.

So -- but let me just maybe drill behind that a little, because we don't just look at margin, we look at IRRs. And when we take the IRRs of the business that we write through, all the channels that we writed and through all the products, it's around 35% in China with a payback between three and four years. So look that through a proper return metric, the business is attractive.

Now let me address your question specifically on margins. Now when we split it between kind of agency and bank, our agency channel is producing a margin of around 75%. In 2016, the year before I arrived, it was doing 45%, in fact the year before, that it was doing 30%. So we've seen quite a lot of improvement in that time as we have driven agency to be much more health and protection focus and we've driven agency through our richer content of regular premium business. Now, there is further headroom -- there's further room in even under the current ownership structure to drive that forward as we push for further initiatives, our productivity -- agency productivity initiatives, Mike referenced the improvement that we saw last year and also we look to agency to sell longer tenured product.

Now, let's turn to banca. As I said banca, is predominantly savings focused, 98% of what it sells is savings related. Margin is not the right measure to look at the profitability of that and those products that are sold through banks have an IRR in the high 20s with a payback of four years. More importantly, and that IRR has improved again over the last three years, as we've got the bank to sell more regular premium products. So again, compared to three years ago, we're selling three times as much volume through banks and we're doing so at very attractive economics.

Now, why do we have multi channel and why do we have multi product, because it's the best strategy that we think we can -- we need to drive in order to drive and accelerate the penetration and the access to this huge footprint that we have. And the other reason really we write the banca product is we need to cover, we need the premium to cover the cost. Because broadening, if you like our infrastructure, adding more cities every year, adding more branches every year, adding more sales offices does require an investment before these paybacks.

So hopefully, you have a good sense now of looking behind just that single margin trigger of what it is that we're doing by channel and indeed by product, to drive value in this business and the returns are plenty good enough. And I said, we're doing that together with a partner, we're aligned when it comes to the disciplines that we need to adopt in driving value going forward.

A - Chad Myers {BIO 19162601 <GO>}

Got a question from Blair, who's stuck in Scotland.

Q - Analyst

Worst places to be here Patrick[ph]. Good afternoon, everyone. I've got three questions if I may. Firstly on the group, could you comment on what financial flexibility you have in the business both from a liquidity perspective and also with regards to access to capital?

Secondly on the U.S., given what you said about the benefits of having a higher capital base. How should -- how do you think about the conflict of perhaps not paying a dividend to group to build capital in the U.S. stats. And what ties into my question about financial flexibility? And thirdly, maybe two very quick questions on Asia. On Hong Kong, you talked about non face-to-face sales, I was wondered if you could quantify or give a bit more color on that. And secondly, with Indonesia returning to growth again from a new business perspective, should IFRS profits growth follow from that? Thank you very much.

A - Michael Falcon {BIO 17026942 <GO>}

Okay, so from the group financial flexibility, Mark, do you want to cover that in the -- I think we're probably okay, saying a top down -- impact of no dividend from the U.S. versus what's our dividend policy from the U.S. with a virtual main angle.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Okay. Blair, hi. In terms of the group piece, in terms of our financial flexibility, we think we are very well positioned. So at year-end, we had $2.2 billion of stock. Bear in mind that was after having paid out a lot in terms of the demerger and we also had redeemed $500 million of expensive debt earlier in the course of the year. And we've made sure that our activities in the market in terms of the debt market, we're really focused on supporting the M&G and substitutable debt during the course of last year.

So we're feeling comfortable in terms of liquidity, comfortable in terms of the stock of cash that we have and ability to be able to access the markets, whether it is through our -- the facilities we have or whether it is through capital markets in terms of opportunities that we might see over the course of the coming quarters in Asia and alike. So from that perspective, feeling comfortable.

In terms of the aspect of the U.S. piece in terms of the element of capital versus dividend, one of the things, you've heard me say consistently for a little while now is that we only bring up the cash that we need at the center and we're very conscious of the fact that there is inevitably a degree of friction whenever we bring money up to the center, whether it's from Asia in terms of withholding tax or whether it's from the U.S. in terms of the potential DTA angle that we might be missing out on. So it's something that we were up and something that we look very, very carefully at.

Having said all of that, we are very confident in terms of the capital generation that we have in terms of the U.S. As I mentioned, the $1 billion that we're looking at. When you look at last year, not withstanding how the markets moved and what happened to the element of rates. You strip out a lot of the one-off effects in terms of the RBC, you strip out the elements in terms of the change to the NAIC regime. You see a business that has got a very mature book that is capable of generating good capital and therefore giving us the flexibility and the choice in terms of what we might do vis-a-vis level of remittances from the U.S.

Q - Analyst

Great. And next is Indonesia, new business profits converting to IFRS and also the non face-to-face options emerging and are emerging developed in Hong Kong?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Okay. Let's start with the non face-to-face. Look, we have all the technology in place. This is the outworking of the investment that we've made in the last few years. To be able to conduct the compliance sale remotely. Even Pulse which was issued, which was now launched in Hong Kong can allow an agent to effectively converse with a customer using that particular. In fact, we're using that already in Indonesia, so. But there are plenty of other social apps and other means of being able to connect through video like we're doing, like we're doing just now.

So technology is not the inhibitor, the inhibitor is regulation. And the reason regulation is translated as requiring a face-to-face meeting in Hong Kong is because a big chunk of the market is Mainland China and you need to be able to prove that the sale is taking place in Hong Kong.

Now, what's the relief that the Hong Kong insurance authority has granted only last week, they said on two specific products, this is a qualifying deferred annuity plan and the voluntary health insurance scheme. These are tax incentivised products that are aimed at the domestic market. They've removed the need to do that face-to-face, it can be done remotely and we've been able to get that up and running within two days of relief being granted. Now we're going to push to -- as I said to be able to do that on our other standard products as well, but that will require some regulatory relief.

But Hong Kong is not the only place that we're looking to do more non face-to-face sales, in other words remote sales. The -- in China, where again, we've invested very heavily in automation. We launched a very simple kind of low premium product called Amchin[ph], it's effectively a cancer product and it was -- we were able to launch that remotely through We Chat platform, but also our own platform there and it's met with a phenomenal amount of demand, we have 200,000 literally in less now just over a month. Consumers buying this effectively this product. 45% of those are new one, our new two Prudential customers. And although, the premium is relatively low on this simple product, we'll have the ability to go back and upsell at a later stage.

200,000 is a lot of customers for our business in China, the whole of last year, we on boarded 220,000 albeit at full fat premium customers. So it's -- the remote technology and the remote selling is being deployed them not only in Hong Kong, but also in China.

Your question on Indonesia. Well look, the structure of our Indonesia product has the profitability coming through in the first couple of years. We've had five years of declining sales, and the effect of that is what their lag effect of that is what you're seeing coming through the IFRS numbers. In the same way as when sales were coming down, the IFRS profit decline lagged. You are going to have the opposite, the reverse of that as we go back into growth. We've made some tweaks also to the product pricing in order to make it a little more attractive, putting some of the yield back to consumers and that will also have an effect. But look, provided we continue to deliver growth in time the IFRS profits will come back and I'm confident that it will from here.

Q - Analyst

Great. Thanks very much. Maybe just one quick follow-up to Mark. Mark, are you able to say what debt capital headroom you might have in the group?

A - Mark FitzPatrick {BIO 20178326 <GO>}

So the debt headroom that we are having in the group is about $1.5 billion based off year-end.

Q - Analyst

Okay. Thank you very much.

A - Chad Myers {BIO 19162601 <GO>}

Okay, definitely time for the room that -- Ashik, do you want to?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes. Hi. Thank you. Ashik Musaddi from JP Morgan. Just a few questions. So first of all, can you just -- I mean if I understood correctly what you're saying is that the recent drop in interest rate I -- if interest rates remain here at 70 basis point for two, three years, it will not change your capital generation that $1 billion number. I mean, is that understanding correct? Because what I'm saying on the hedge cost in the exit, it has already more or less doubled and that is not factoring in the most recent drop in interest rate. So your hedge cost could actually more than double. So is my understanding correct that $1 billion will not change if rates remain here for two, three years.

The second thing is, Mark you mentioned that you only take out cash which is necessary. So how should we think about potential extra cash from Asia? The reason I'm asking is again, I mean you grew the cash remittance by 3% year-on-year in Asia versus earnings of about 10% or 15%. So why was the cash not coming -- I mean keeping in mind that we -- you're still planning to grow 10%, 15%. What would be your max dividend capacity from Asia?

And the last bit is about China. I mean, what's -- your $2.2 billion holding company cash might not be enough to fund the acquisition of Citic in case your partner is ready. So what are the options available for you to think about funding? That would be the third one. Thank you.

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

Okay. So let's -- so Ashik, I think on your 70 basis points though, it is very much equity market dependent. So it -- just it's what scenario do you want to add to that? Do you want rate markets up, down as everything going to remain right where it is today is short-term ball going to be at 45. There's -- it's not a -- again, it's forward-looking, which we can't do, but in a general theoretical sense, it also is one metric in the new capital regime, so it's a very difficult question to answer without saying these other assumptions were built-in that.

So I'm going to ask Michael -- but I'm not going to answer that. But you got the answer on the hedging on the rates and I think you could back into how those hedges would perform and then you choose the equity path that you think is appropriate for that. And that way we're not providing you an assumption on equities or things. On dividends, Mark, do you want to mention if you mean -- I think you said that you want to --

A - Mark FitzPatrick {BIO 20178326 <GO>}

So Ashik, hi. The key element in terms of the level of remittances coming out of Asia. If you think of the payout ratio, it's somewhere in the 50s, whether it's in terms of IFRS or in terms of a free surplus generation component. Then coming to that Mike and Nic mentioned early on in terms of the level of investment for putting into Asia. With the IRRs that Nic spoke about a few minutes ago in terms of the returns, in terms of velocity of those returns, in terms of the speed of payback, in terms of those particular components.

And in terms of, when I said when we look at our dividends, one of the first things we consider in terms of looking at the dividend component is our investment opportunities that we have.

So while Nic and the team continue to look at with our scale and with our size, we get to see everything of any size is happening in Asia. The bankers are knocking down our door, but Nic and the team and we are incredibly disciplined. There's lots of things, we won't look at if we don't think the price is right and we don't think it's going to be additive and we don't think it's going to be able to take our business forward in a meaningful fashion. So there's a lot of capacity in terms of Asia on the ground. Some of the elements in terms of that were announced at the back end of last year. Nic and his team have been able to fund elements of those locally along the way, that's because they have the flexibility there to be able to do that from that particular piece.

And then from the China perspective, I mean when the land of hypothetical's, you've got all options open in terms of what you may or may not do in terms of -- if something came along. But there isn't anything specific I can say for you at that particular period.

A - Michael Falcon {BIO 17026942 <GO>}

And maybe the same issue of compounding. So if you set it as at 1%, the control premium is it 50, is it something you -- but that would define price. I mean this is a business that sales grew 50 plus percent, your business profits, dramatically and earnings dramatically. So as it continues to grow and continues to grow in value and it's one of the most unique platforms now, I think in China for a new player, so it's -- we recognize it's valuable, but we are -- every market option would be open to us with that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay.

A - Chad Myers {BIO 19162601 <GO>}

Oliver?

Q - Oliver Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. My understanding is that when bond yields fallen the states, the RBC ratio only reflects that over a period of one or two years, is that right? And if bond yields do remain at these levels, what is the ultimate impact on the RBC ratio?

And second question is on the dividend, I think the dividend policy is still progressive, so I just wanted to check that you aren't thinking of cutting the dividend, which seems to be implied by some of the comments you're making about opportunities in IRRs in Asia?

And then thirdly, net flows, Nic, into Asian health and protection policies seem to be about 17% of start year liabilities. Is that a relevant metric? Because that has jumped enormously, so I'm just wondering what's driven that? And whether we should be seeing that as a sort of indicator for future IFRS profits growth from that segment?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

So, on the forward-looking IVC, go back to the same question. We, we're not --

A - Michael Falcon {BIO 17026942 <GO>}

If there's a mechanical question about it maybe Chad can answer, because I'm not exactly following, but maybe he understood that and --

A - Chad Myers {BIO 19162601 <GO>}

Yes, I would say, there's no specific lag that comes through actually in the stat regime at least vis-a-vis VA. it would come through immediately and the discounting mechanism and the reinvestment embedded in the reserves. I'd say the only place it would come through on a normal cost basis if rates stay down low is through this spreads on. So if rates stay low and you got the reinvestment piece, but we're obviously closely managing the duration on the back book there as well. So there's no mechanical dynamic, there's got a lag other than just the normal spread dynamics.

A - Michael Falcon {BIO 17026942 <GO>}

Maybe without commenting, because we're not going to give forward statements or projection about our business but a market commentary on low rates for insurance, right? If the rate stay at this level or get lower and therefore sustained periods of time, it would be naive to think that it doesn't have an impact on the insurance market, in the annuity market in the U.S. we know. But there are mechanisms around that one is, we're managing those risks in the pricing, two, consumers will have something to say about the demand for products at various rates and they already are and you'll see that as market level data flows through.

And three, there's such thing as product innovation. And so, if we find ourselves in different rate market circumstances, we have proven that we have the ability to come up with creative solutions for that, that meet consumer needs. And I think the fundamentals are actually strong. These periods of shock and volatility, particularly long into bull markets speak to the value of the risk transfer in the insurance that we provide.

People have 11 years of bull market and they feel that they don't need to pay for insurance, because markets always go up and then they reminded that they don't. And so, there's value in what we do and the value that we provide is not going away because of low rates or high fixed. But the industry will change and evolve and will adapt and what you can be confident from a Jackson perspective is we're on top of it through dynamic hedging and our strategies, we're paying attention to product feature and pricing and we increase the cadence of that during times of stress and we're doing all of the things you would be expecting us to do and we go forward.

Q - Oliver Steel {BIO 6068696 <GO>}

So Nic, flows into health and protection Asia?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Yes, so in 2019, roughly health and protection was around 27% of our APE. Remember this is so highly persistent business. So what you see is that layering effect that we've talked about sort of coming in and you have another cohort of business, which is why the insurance margin coming out of Asia has increased by 14% this year. But I think what is also in the column that you're referring to, it's not just as an protection, it's anything that is not with profit and it's also anything that is not unit length.

So in that column, this year specifically, we're also including the -- effectively the annuity flows that we generated in the course of 2019 on the back of a very successful queued up launched in Hong Kong, which saw about $162 million of APE come through. That's effectively a non par type product and therefore the flows will also be reported in the column that you're sourcing your information from and clearly annuity is not as profitable as self and protection, but it's plenty profitable.

A - Chad Myers {BIO 19162601 <GO>}

Okay, Abid?

Q - Abid Hussain {BIO 20229932 <GO>}

Hi. It's Abid Hussain from Credit Suisse. Thanks for taking my questions. Three questions, if I can. Firstly coming back to the U.S. capital position, it feels like most of your peers have reported RBC ratios of in excess of 450% and I suspect most investors expect you to rebuild to that sort of level, the 450 level. So relative to where you are as of today feels like a sizable gap pulling that into the dollar amount, it feels like the gap is around $1.5 billion in terms of preparing back to the 450 level?

What sort of -- any comment around that you might make to investors we're sort of thinking along those lines would be very helpful, I think. And then secondly, sticking with Jackson on the reserve mix. I recall, last year that you said that you were seeking to optimize the reserve mix between VA and non-VA and you would be seeking to bring the reserve mix down to about 60% VA, in order to optimize the net hedge costs. Is that still the case under the new regime? If you can just update on that, please. And then finally on China, is there anything that you're looking to do to expand your footprint in China outside of the Citic JV? Is anything that you can indeed do or is it mainly focus on the Citic JV? Thanks.

A - Michael Falcon {BIO 17026942 <GO>}

Okay. So capital position, again, I think we've commented where we were historically 400 to 450. I think you're comparing old regime new regime numbers, which is a difficult comparison to do, because it's company by company. So I would suggest until more firms going on the new regime that side-by-side, needs a lot of specific work per firm to try and compare them, because we're not reporting under the old regime, we're reporting in the new regime. The -- as far as an absolute level of capital projected forward that goes back to the pre-IPO statements, we're not going to -- we're going to forecast that. I think we've been pretty granular on what the elements of our RBC that would naturally emerge from the U.S. business and then again not going to discuss the forecasted level pre-IPO prospectives.

I would -- I don't think most of the early adopted. But again we can grow offline and go through who -- but I think most of them have guided lower on RBC thresholds is that would you agree?

Q - Abid Hussain {BIO 20229932 <GO>}

(Inaudible)

A - Michael Falcon {BIO 17026942 <GO>}

Again, it depends on nature of the book and their liabilities are out. They've got quality of the book.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Yes. Alongside of that and you have your books with more capital, but multiples and multiples of required capital versus our required capital, even though they're separate account, balance may be lowering in total.

So I think health and composition of the book has a lot.

A - Michael Falcon {BIO 17026942 <GO>}

So -- and I think the general common reserve mix is against the overall liabilities not sales that demonstrating do it on sales, but if that's more why bolt-ons and further transactions would get that mixed not. I think Mike was pretty clear at the half year, you're not going to get there organically.

A - Mark FitzPatrick {BIO 20178326 <GO>}

So I want to clarify, because we said directional we would look to start to get into something that was in the 60s, given that we're in the mid to upper 70s now. We also despite the success we've had in providing a broader solution set to our clients, which is one of the key motivators of the diversification strategy. You had a big run up in market values and saw our separate accounts performed quite well, which more than offset the move. I think we actually ticked off a portion of a percent and percentage mix. So, I don't think we set -- I'm quite sure we didn't set a specific target on where we want to see that mix, but we said directionally, we would look to at least get into the 60s to start, but as Mike said that takes time and bolt-ons and other.

A - Michael Falcon {BIO 17026942 <GO>}

And I think on the China question, so there is the legal option for foreign firms to own multiple investments in China with percentage limits on second and third innings and -- but I think our focus is just has been on and continues to be with Citic. But Nic, do you want to comment further on that?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

I mean maybe just to add some color to what you just said on the regulation, you're only allowed to control one business in a 50-50 JV, it could -- is considered control under that rule. So if we own, if we had a second presence in the life side, we would have to restrict our ownership to below 33%. And I'm not sure I would want to do something in China, I didn't have the ability to control.

Now beyond that, what else can we do? Clearly, there's a GBA initiative that we're working with the Hong Kong on both sides if you like of the border to see how we can leverage as we go forward. On that, there's the ability to do Pulse at least if not whole of China, in some aspects of China before that belong had a contract with another party that's expired.

So as we gain traction on that and as we're able to deliver revenues in the rest of Asia, that's a possibility. And of course on the asset management side, there is, we've already established the wholly foreign-owned entity. And in the first year, we've either sourced the supervised about a billion renminbi of funds. So that's getting good traction as well.

Q - Abid Hussain {BIO 20229932 <GO>}

Thanks, Nic.

A - Unidentified Speaker

Actually, we've got one from Hong Kong, actually it's your colleague in Hong Kong he says, I'll allow him to -- Thomas Wang from Goldman Sachs in Hong Kong Research.

Q - Thomas Wang {BIO 18056117 <GO>}

Yes. Hi. Can you hear me promptly?

A - Michael Falcon {BIO 17026942 <GO>}

Thomas, we can hear you. Go ahead, please.

Q - Thomas Wang {BIO 18056117 <GO>}

Okay. Thank you. So three questions. First question on Asia, firstly on the margin, if you can talk about how it's -- because I'm seeing margins decline here for the first-half and second-half as well. I'm not required -- to achieve that you kind of keep[ph] you at least a 50-50 balance between (inaudible). So how we should think about that margin, the most that would go out I think coming before?

Secondly, you talk about a quick recovery. Once this viral outbreak (inaudible) is there anything can give out that -- sort of what gave you that confidence that you can see this recovery? And finally on the LCSM, you gave us on both (inaudible). Can you help me to understand why that's the case? Thank you.

A - Michael Falcon {BIO 17026942 <GO>}

Thomas I think, we didn't hear two-thirds of that? I think we did hear a question about margin in China.

A - Mark FitzPatrick {BIO 20178326 <GO>}

I was just going to hand it to Nic.

A - Michael Falcon {BIO 17026942 <GO>}

But I'd suggest Thomas if you want to put us it give us a call off to at or near the --

A - Mark FitzPatrick {BIO 20178326 <GO>}

Nic -- Thomas let me see if I got a couple. You talked about target agency mix again, one of the important takeaways from this is we are -- the mix is a byproduct of the success of the channels not a target. So we are not looking to manage one up or down or limit capital available and then on the quick recovery, I think it's operational agency training all those sorts of things and I couldn't -- I'm sorry, I didn't get the LCSM at all.

Q - Thomas Wang {BIO 18056117 <GO>}

(inaudible).

A - Chad Myers {BIO 19162601 <GO>}

Thomas, we literally can't hear anything probably best if you send me an email, and we'll follow up afterwards --

A - Michael Falcon {BIO 17026942 <GO>}

(inaudible) we're doing so well with -- right up to then.

A - Chad Myers {BIO 19162601 <GO>}

Let's get back to Nick.

Q - Nick Holmes {BIO 3387435 <GO>}

Thank you very much. Nick Holmes of S. Generale. Just a couple of questions on claiming. First one is pretty obvious one. Why are you thinking of this IPO now, you could have done it many, many times in the past. You could have done it in better markets, you could have done it in all sorts of better circumstances. So well that's my opinion.

So why -- can you tell us why now -- what is your rationale? And then the second question is on the RBC ratio, 366% is a little bit disappointing, it seems to me, when you've had a 10-year bull market. Obviously, you've had low interest rates. But do you think you could have managed that ratio in a different way? Do you think you should have put more capital more reserves into Jackson? Thank you very much.

A - Michael Falcon {BIO 17026942 <GO>}

So to answer your second question, no. I think we -- the decisions we made on capital allocation and on hedging multiple regimes and then diversification which was 75 points of, it was a conscious decision. The final outcome at year-end is market does have market elements to it and we don't -- there wasn't a -- the fourth quarter was a fascinating period of time for interest rates in the U.S. and that's -- it was what it was.

The why now, fair question. So the first Board strategy way meeting I can think of the group equipment around when I was about 9 years ago, where we reviewed group structure, including options in the U.S., and there's a variety of dynamics around approvals, cash flow. You think 8, where age has been cash flow we talk, very proudly about putting $7 billion in Asia, that same period of time the U.S. has created $5.5 billion. So -- and in those days Asia wasn't creating $900 million a year distributable cash flow. So there is an alignment of the portfolio in total. There's diversification benefits, there's opportunity in the market as you saw from the growth of the U.S. business.

And then market wise, four firms brought product or equities into public to private to the U.S. market. And my personal view is a disproportionate amount of the capacity for those sorts of risk assets, given what they brought and how it was funded and how they had to reassure those things, that defined a lot of the market elements. What we're saying is we we're preparing for this. If we thought for some reason the market wasn't attractive to it. We can scale it, we can change timing, we have all the same options because there isn't the -- there isn't a -- we're not forced into doing this necessarily. This is more of what we think is the most effective path to grow this business. So very different circumstances, someone disposing of a business that's not performing and needs capital.

Q - Johnny Vo {BIO 5509843 <GO>}

Its Johnny Vo from Goldman Sachs. Just three questions. The first question is again while the IPO is the central scenario. I guess does this preclude any other options for Jackson? That's the first question. The second question just in relation to the expenses, Mark. If I look at the group liquidity position and you have the corporate activities line there with the expenses predominately coming out at corporate activities line and the third question is just in relation to Hong Kong. I mean Nic you've been able to toggle between the domestic and the Chinese visitors. If disruption continues, is this sustainable? Can you keep the level of growth, because it's been much more resilient than most people had expected? Thank you.

A - Mark FitzPatrick {BIO 20178326 <GO>}

So let me comment. generally another options. We were very clear at the half year that all options are on the table and very specific in our language this is our preferred option.

Okay, so when I need to -- I need to leave it at that, but we're aware of other paths.

The -- Nic -- I'm sorry, I missed the second one -- I was right.

Q - Johnny Vo {BIO 5509843 <GO>}

Expenses --

A - Chad Myers {BIO 19162601 <GO>}

Mark, on expenses and sources of that --

A - Mark FitzPatrick {BIO 20178326 <GO>}

Yes. It will come out of that line. In terms of the corporate sector. In terms of the line that you're looking at for the element of the cash inflow, if you're looking at the liquidity position post the merger, the element of the corporate activity lines, there's an element of half of that will come out of that line of that of that 260, yes.

Q - Johnny Vo {BIO 5509843 <GO>}

And then the China question, I'm sorry.

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Yes. So I mean, look, we haven't given up on the China opportunity. We think the reasons why the Mainland Chinese, particularly the high network by in Hong Kong haven't changed, it's asset diversification, it's currency diversification, it's access to the health system here, and it's coverage for conditions and illnesses that you just cannot buy at this point time in China not least because you don't have as active or as deeper insurance market as you do in Hong Kong, where we can take advantage of global coverage.

Now to your question though on the domestic, we put a lot of emphasis on the domestic in the course of 2019. Our Hong Kong business has roughly 13% share of the overall market, but within that, it's 25% share of the Mainland China and a single-digit share of the domestic. So there's no reason why we can't be better, which is why we pushed very hard last year. In fact, our agency sourced domestic sales went up 20%. So behind that 8% number that Mark referenced for domestic sales agency was up 20 and behind the 12% that Mark referenced in the second-half agency was 23%.

As we pushed hard not only in relation to the QDOT and VHIS products, but also more broadly. That emphasis will continue as we go into 2020. I mean clearly, the Mainland China sales are going to be linked to a number of visitors and with the restrictions that we've seen from the beginning of February, flow is relatively modest. But the sales on the domestic, we came into 2020 with a velocity that was above where we started 2019 and even though there's been some slow down, we're feeling good about domestic sales so far this year and we think there's plenty to go forward.

A - Chad Myers {BIO 19162601 <GO>}

Just conscious, I need to get mike off after, somewhere else where shortly. We got one more and then we will need to take it offline. Andrew?

Q - Andrew Baker {BIO 20402705 <GO>}

Hi, thank you. Andrew Baker, Citi. And it is just one actually. So in Asia shareholder back their exposures by 25 billion, approximately 50% I think is in corporate bonds. Given the slow down over there, is there anything we should be worried about -- concerned about with that shareholder back to that exposure? Thank you.

A - Michael Falcon {BIO 17026942 <GO>}

So James Turner, I'm going to -- we're going to put you to work. Enjoy not -- even enjoying this. You want to talk about our bond exposure. Once you quickly go through Asia just specific to the question and then just a little more broader overview on our exposures globally.

A - James Turner {BIO 21226013 <GO>}

Okay. So in terms of Asia and corporate bonds, it's a relatively small amount and it is of the -- of that corporate bond exposure, it's got an excellent profile. The piece that is BBB is 84% of that is BBB or BBB plus and the whole exposure in terms of the corporate bonds. A bit like the group's exposure to corporate bonds more broadly is very prudently placed.

So I'm happy as well Mike if you want to go back to kind of the group and work down between the two, but if you're looking at Asia's total corporate exposure, in terms of credit ratings, then AA and above is 64%, BBB is 19%. And so, you've got a total investment grade of 83%. And within that BBB, as I said, over 80% odd is BBB or BBB plus.

And importantly, when you look at the debt exposure that is below investment-grade, over half of it relates to sovereign debt in Vietnam. And if you take that out, then again you get a sense of just how prudently positioned the Asian credit portfolio is. And that does have an impact, because it means that the work we are sacrificing yields for this more prudent position.

A - Michael Falcon {BIO 17026942 <GO>}

Slide 49 of the appendix, if you're really interested.

A - Chad Myers {BIO 19162601 <GO>}

I think we need to --

A - Michael Falcon {BIO 17026942 <GO>}

I think we're done. Thank you very much everyone. Obviously, you know how to get hold of us, if you have any follow-up questions. And look forward to see you in the -- with the interims in August. Thank you very much.

A - Chad Myers {BIO 19162601 <GO>}

Thank you.