Business Update for 2020 Annual General Meeting

Company Participants

- Axel Andre, Executive Vice President and Chief Financial Officer
- Mark Thomas FitzPatrick, Group Chief Financial Officer, Chief Operating Officer & Executive Director
- Michael Andrew Wells, Group Chief Executive & Executive Director
- Michael Irving Falcon, Chairman & Chief Executive Officer of Jackson Holdings LLC
- Nicolaos Andreas Nicandrou, Chief Executive of Prudential Corp. Asia
- Unidentified Speaker

Other Participants

- Andrew Crean
- Blair Stewart
- David Motemaden
- Jon Hocking
- Kailash Mistri
- Scott Russell

Presentation

Michael Andrew Wells {BIO 4211236 <GO>}

Good day, everybody, and thank you for joining us.

We felt it appropriate to bring you up to speed on how the business is responding given the external environment we're in. It's been a while since we've done a quarterly update, but appreciate you joining us. We're not going to continue to do these on a scheduled basis, but if the climate -- environment continues, we'll keep these updates coming. And as you know we had our AGM today, our first virtual AGM in almost 200 years. So, we thought it'd be appropriate time to bring you up to speed.

Let me start with some brief opening remarks, and then we'll follow it by two comments from Michael Falcon, CEO of our U.S. business and Nic Nicandrou, Head of PCA for us, and then we'll open up to questions, and also the Prudential team, I'm joined by Mark FitzPatrick and Nic Nicandrou. We also have James Turner, the Chief Risk Officer; Michael Falcon, again; Axel Andre, who is our CFO of the U.S., and Raghu is joining us as well from Asia on -- so, we have both CFOs of the major business units as well.

So, our immediate priority, I think, as you're probably hearing a lot of management teams and when this first started the needs of our colleagues, our agents, and distribution model, customers obviously, and then the -- where we could have impact on the community for -- and make sure we're delivering all those run concurrently and in speed. I think we are to-date doing all of that.

We've performed well through, I think, what's been a substantial disruption and obviously a lot of market volatility. I think it demonstrates the strength of the business model that we bring into the capital, and particularly uniquely, I think our operational capabilities or digital capabilities.

In Asia, two-thirds of our products now could be sold without face-to-face interactions, and again that's based on the first quarter sales mix, and we've utilized our digital platform for issuing 1.2 million policies during this time, and majority of which were new customers, and we continue to roll out our digital ecosystem Pulse. Pulse is now live in eight markets. We've seen 4 million downloads and the benefit of our diverse portfolio is evident, I think, from ever increasing sales and double-digit sales growth and new business profits, and markets outside of China and Hong Kong -- China and Hong Kong.

The impacts of COVID-19 and social restrictions there hits first and they led to lower new business profits -- excuse me, lower new business sales and profits. And importantly, our in-force business remains resilient. Our renewal premium base continues to compound, driving earnings growth at 14% over the first quarter across Asia, and we invested heavily in Asia again this period, the bank assurance deals in Thailand and Laos. We continue to -- Japan's second payment on the ULB relationship and committed over $1 billion capital to the region for inorganic expansion of our capabilities. In the U.S., operations for minority ideal continue on side our active valuation to other options as we move towards an independent Jackson and we've committed to provide an update with our half year results in August.

Over the extraordinary value of first quarter, Jackson's this program in place the RBC ratio finished the quarter in a 340% to 365% range. Again, that's only marginally below the level of beginning of the year, and we've managed our investment portfolio quite conservatively. They are not stretching for yield as we've discussed many times and significantly increasing our cash and U.S. Treasury Holdings in the period, and netting out 20% of portfolio on that basis.

We've managed a good balance sheet and liquidity carefully, and we successfully access the U.S. debt market -- in U.S., and finally our solvency both of the group business remains robust. As of 31st of March, the group had an estimated LCSM surplus of $11.1 billion in a ratio of 302%. So, we see resilience, diversification and prospects for long-term growth coming in our Asian businesses. We'll continue to invest and innovate to meet the important needs of our customers with a highly resilient business model and we're well positioned over the long-term to weather the disruptions caused by this COVID-19 pandemic, and to support our customers and the communities we're in and the recovery regardless of that shape.

So, next I'd like to hand it over to Michael Falcon, CEO Jackson, and then Nic Nicandrou, CEO PCA to make some brief prepared comments on how things are going for their customers, staff, businesses, and then we'll go to questions for the bulk of the hour.

So, firstly, Michael.

Michael Irving Falcon {BIO 17026942 <GO>}

Great. Thanks, Mike, and good morning/good afternoon to everybody. Thank you for joining the call.

Look, Jackson performed well in the first quarter, I think, showing resilience in what Mike -- as Mike said was the volatile and challenging environment. Our statutory capital increased by over $3 billion in the quarter to almost $8.4 billion at March 31, and our operating capital generation remained in line with our expectations. From a credit exposure perspective, we began the year well-positioned and continue to carefully monitor and actively manage the portfolio, and critically important, Jackson's business operations have remained fully functional even as roughly 95% of our associates are working remotely, we remain connected to each other, our clients, markets and key partners, and we've maintained service and quality at historically high levels.

Sales in the quarter were strong compared to a year ago levels, although we did see a slight decline compared to fourth quarter '19. I'd note that VA origination in the quarter increased both year-on-year and sequentially that was offset somewhat by fixed annuity and fixed index annuity volumes, when we compare to the fourth quarter last year. Given market and rate conditions, we took pricing actions on fixed and fixed index annuities late last year and again in the first quarter. So, the lower volumes are expected, and they're likely to continue in the months ahead. We've also initiated actions in our VA product line. We expect to come into the market later this year that's subject to the regulatory approval process.

Our long-standing approach to pricing discipline is intended to keep sales origination aligned to both our risk and our return hurdle rates. As regards our in-force book, we haven't seen any notable changes to policyholder behavior or overall asset mix in the separate account book. A few words on sales activity; there's still no face-to-face meetings taking place in the U.S. between our wholesalers and financial advisors. At least -- fortunately, Jackson is digitally capable across our product range as are many of our distribution partners, and we're continuing to write new business through this period.

Advisors -- financial advisors along with our external wholesalers are getting increasingly comfortable with digital and video engagements, and we've seen virtual client meeting counts increase meaningfully over the past several weeks as well as attendance in virtual events. Long-term this creates some potential cost and scale efficiency for us, but I think it's too soon right now to know exactly how that's going to play out. Overall, I'm very proud of the way our associates and the Jackson leadership team have worked through this extraordinary demanding period.

In closing, let me just highlight that it's during these periods of market stress and volatility that the value of our products and services best come to light as both for advisors and their clients. Jackson's ability to manage effectively through these periods coupled with our leading distribution franchise really means we're well positioned in the U.S. retirement market, I think, for the months and years to come.

With that, let me turn it over to Nic.

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Thank you, Michael. Good afternoon, good morning, everyone. I hope that you are all staying safe and healthy.

PCA's efforts in the current volatile operating environment are focused on three key areas. One, ensuring the safety of our staff; two, meeting the needs of our customers; and three, digitizing our business model. For our staff, we put our business continuity plans into action as movement restrictions were enforced across our 15 markets helping over 12,000 of our more employees excluding JVs to work from home at literally the flick of a switch. At the peak, 80% of our staff work from home. Today, this figure is around 60%. We have also provided masks and sanitizers to ensure that those employees, who are at work, feel safe.

For our customers, we have responded to the needs and concerns in multiple ways, by offering in-force customers COVID-19-related cover and benefits across all our markets, by allowing grace periods on premium payments to enable customers in financial hardship to retain their valuable protection cover. And lastly, by innovating to provide bite-size health cover and by rolling out Pulse, our digital health services app in eight markets and in six languages.

My preference by resilience first quarter sales and NBP performance outside Hong Kong and China, with the latter in other words, NBP up 23%, reflecting both the portfolio diversity and the demands of protection across the end markets. For mid-March however, all our markets in addition to Hong Kong had imposed social restrictions, and even though China saw an easing and a return to growth in April at plus 28%, these developments will adversely impact our overall second quarter sales and NBP performance.

In response to these growing restrictions, we accelerated our efforts to digitize our business model from front to back, by moving agent recruitment online, virtualizing the sales process so that agents can sell non face-to-face launching digital bite-size products in Pulse, and providing customers access to multiple electronic payment channels across all of our markets.

As Mike said, two-thirds of our APE is now capable of being sold virtually, while we recruited 40,000 new agents in the first quarter, up 11%. Complementing this capability -- Pulse downloads, which provide a rich source of leads and have enabled digital customer acquisition with 1.2 million micro Pulse directly the majority to -- Prudential customers.

Our China playbook, a rapid digitization and agent recruitment in February and March enabled the business to benefit strongly than the recovery we saw in April, gives me confidence with the improvement in our digital capabilities across the rest of our markets, positions us well to benefit from the eventual --.

So, to conclude, the improvement in our sales capability will over time amplify the traditional strengths of PCA's business, mainly strong capital, low asset side risks, and higher customer retention to deliver sustainable, profitable growth.

With that, I'll hand you back to Mike.

Michael Andrew Wells {BIO 4211236 <GO>}

Thanks Nic. So, I think Maxine, if you would -- let's open the session up to Q&A, so we maximize the amount of time you guys have today to ask any specific questions you may want. You know the breadth of the management team that's available to you there. So, Q&A please, Maxine if we could.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions). We have a question from Jon Hocking from Morgan Stanley. Your line is now open.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you and good afternoon, everybody. I've got some 3 questions please, 2 on Jackson and 1 on PCA. So starting with Jackson. On the fixed annuity products, the fixed index annuity product which are our current strategy, the -- Jack, if you've got a telecom mix and all those products, does that still looks sensible given what's going on with the yield curve? And where the new business ROEs have presumably moved to, despite the repricing? This is the first question.

Second question again on Jackson. I think at the year-end you made a comment that you'll be looking at spreading the dividend payments back to PLC through the year at Jackson, rather than the usual annual payment. Can you come up with when you expect to make the first payment? And is that contingent on the statutory RBC ratio improving at Jackson? And then finally just on Singapore, it was in the set of markets you called out for strong performance in Q1. I just wondered whether that market is going to be particularly impacted in Q2, given the lockdown is a little bit out of phase with the rest of Southeast Asia? Thank you.

A - Mark Thomas FitzPatrick {BIO 20178326 <GO>}

So, Michael, do you want do the first 2? And Nick, handle the Singapore question please.

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

Yes, sure. So let me take the second one first. So the dividend remittance, I would actually am going to put back to the Mark FitzPatrick, as it's a function of group policy, and I'm not sure we're going to comment on that, but I'll let Mark FitzPatrick. I think that's more appropriate that he handle that.

On the general account strategy in the FA and FIA, I think it's an important point, that's something we've heard a lot investor meetings. Let me -- a couple of things. One is, the strategy we talked about last year still holds, right. This idea of additional capital into Jackson against diverse risk to realize covariance benefit is important. But we said all along that the organic ability to move that in the short-term is somewhat limited, principally given the size of our installed VA book and on how well that's performed through markets. And that's true given the correction in market values we've seen.

In the current environment -- and we did move last year when we had I think pretty good success of establishing additional distribution platform relationships and actual sales on fixed -- annuity and fixed indexed product. In terms of the first quarter activity and the pricing and sort of a drop in those volumes, now I wouldn't read too much into that. One is, while rates have come down and treasures have come down, corporate spreads have widened too. And so we're comfortable with the business that we've written during this time and particularly in the first quarter.

I think going forward, in the short-term, with rates where they are and as well as looking at the capital position and the capital required to put up those products, we're expecting to see lower levels and be priced accordingly. But I don't think long-term anything that we've said relative to that strategy has changed. I think importantly, though, there's also a commercial element to this, which is that our clients and our distribution really want a more complete solution set for their clients across the annuity platform spectrum. And so that includes fixed, fixed index, it includes the RILA products, which were process exploring, and NVA as well which is our traditional strength.

Mark, on dividend?

A - Mark Thomas FitzPatrick {BIO 20178326 <GO>}

Hi, John. It's Mark here. So on dividend, last year we said that we would look to spread remittances over the course of the full year, rather then just taking them in the first half. And last year, in traditional, I think we've taken -- tended to take dividends in June of the year. And so that's why you don't see anything coming through in the first quarter. And I think you'll be able to get to see the cash flow disclosures when we publish our interims in August. It's been an extraordinary quarter that we're very mindful of where markets are at, and look forward to be able to update you on level of remittances at the infant stage.

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

So, Nick on Singapore, please.

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

Thanks, Mike. Good morning, John. So Singapore had a muted response to the COVID outbreak in the first quarter. But the government just tightened up by introducing the circuit breaker measures on the 7th of April. In fact, these measures will last until the 1st of June at the earlier. Now as part of those measures, any face-to-face solicitation by agents was prohibited. So agents, like everyone else, had to work from home. And whilst banks were allowed to open because of the slowdown in foot traffic, both UOB and SEB closed between a third and a half of their branches.

So that's how severe the restrictions were and how severely this has hit Singapore now. Immediately from the 1st of April we were able to launch all our products, every single one of our products virtually, train all our agents, and they literally from 1 April were able to sell face-to-face. The virtual activity stepped up as agents were trained and became far more familiar with it, so much so that as of now every sale that is made in Singapore is on a virtual basis.

We rolled out the same technology to our bank partners, which is now also up and up and running. Now all this to say is because the measures were quite severe and came in on the 7 of April. Yes, the outlook for Singapore in the second quarter is more challenging, until those -- the circuit breakers restrictions are lifted. Now, we're launching more products that are more bite-sized easier to sell face-to-face.

As I said, a third of our agents with a virtual sale in April, and that number is increasing all the time. And having launched Pulse, which was the latest in the market and we still launched Pulse, that's producing is a rich source of leads, I referenced that across the region is also true in Singapore, which we can sell to both directly online or referred to agency downstream.

Q - Jon Hocking {BIO 2163183 <GO>}

Sure. Thank you.

Operator

We have a question from Kailash Mistri from HSBC. Your line is now open.

Q - Kailash Mistri

Hi, good evening, good morning. Thank you for taking my question. I wanted to follow-up on the virtual sales. So just to clarify, I think in the first wave of rules, virtual sales were only applied to existing customers, but not to new customers. Has this now been rolled out or have the regulations allowed this to be rolled out to new customers as well now? Second question is on Pulse. What type of product mix are you setting on that? Is equivalent to product mix in the respective countries where it's being sold from profitability and a quality perspective?

And then lastly, just on the operating profit, 14% growth. Is there a big sort of positive you've experienced there? Or is it significant? Because I guess most of the competitors have been saying the region that plays for other types of illnesses, et cetera, have fallen. So just a bit of color around the operating profit thing. Thank you.

A - Mark Thomas FitzPatrick {BIO 20178326 <GO>}

Okay. No -- so, new versus existing, in the -- I think in nearly all the markets virtual sales came in. I can give you a run through market-by-market, they were allowed for both new and existing products. So as I mentioned to Jon, earlier, in Singapore everything, and we sold virtually both to new and existing, the same is true in Malaysia, the same is true in the Philippines, the same is true in Vietnam, the same is true in China.

In Thailand, we can sell virtually face-to-face all products, except linked. In Hong Kong, we can sell standalone protection products in qualifying Deferred Annuity Plan virtually, but not products with an account value, which is what our evergreen say there is. In Indonesia, we can sell products new and existing customers standalone protection virtually, but not selling product with the account value. So that, as I just said, we came in pretty much for new and existing everywhere. And the activity is picking up as we're a sitting member of these countries. Most of the sales, as we sit here today, are now done virtually.

To your second question on Pulse. The products that we are currently offering are purely protection, and they are -- there if you like to establish a second relationship with a customer or with a user that simply -- that maybe for now has just downloaded the app and was using Babylon symptom checker, health assessments, using the telemedicine. So what we're doing is that we're pushing small limited duration products, whether it's personal accident, whether it's a daily fever type product, whether it's Chilton [ph] term life, whether it's COVID cover, in case you're diagnosed or hospitalized.

Those are the products that we are selling. Some of them are done on a premium basis, others are done on very low case size. But as I said, at this point it's just to establish a second relationship before we could -- before we can offer either hire price products or indeed ultimately refer them to either an offline or a virtual sales to one of our agents.

And on your operating profit question. I mean, there was some extra benefit coming through from a lower normal, if you like, claims count. Not significantly so. It wasn't until March that we saw across our portfolio a 15% reduction in the medical claims count relative to our normal run rate, that's up further in April, we saw a reduction in the claim count in April by -- across our portfolio by around 30%. So there is some effect but not that significant in the Q1 earnings. In the meantime, the claims that we paid for COVID cases continue to be minimal, to a few million dollars.

Q - Kailash Mistri

Thank you.

Operator

We have a question from Blair Stewart from Bank of America. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you. A couple questions for me as well. Just coming back to the U.S., just wondered if you can comment on the conflict between sales growth and preserving cash and capital, I was slightly surprised to see the VA sales up in the quarter. And added to that, could you maybe comment on the new VA product that you filed, how is that different?

Second question in the US would be linked to hedging costs, you've reported I think $500 million incremental hedge spend over the last few years. I just wonder if the run rate of that has maintained that the same level or if it has changed? And thirdly, could you perhaps talk about Thailand, you saw it as an opportunity, what does the acquisition do to your scale and ambition in Thailand? Thank you.

A - Mark Thomas FitzPatrick {BIO 20178326 <GO>}

Michael, why don't you talking about sales, and actually let's put you to work, we've got you on the call as well on hedge cost, and the normal tension that exists in the capital deployed by product type versus sales growth. And then Nick, quick overview on what we like about Thailand and why we keep expanding there?

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

Yes. So -- hey Blair, thanks for the question. So, sales -- that's right, I totally follow the question relative to --capital relative to VA. VA tends not to have a lower capital drag, and the increase in VA sales in the first quarter really followed the momentum that we saw through the balance of last year. So it was built on an increase. And so the quarter-on-quarter versus first quarter year ago, which was at very, very low levels historically has built up throughout last year and we just saw a continuation of that in -- through March. And clearly, by the middle of March we started to see new activity tail off as the country went into lock-down. And we suggested that that's going to continue and we expect lower levels, particularly in the second quarter and for some time. But there was still a backlog of pending cases and work to do, that was cleared through March and the beginning part of April.

On the capital side, I mean that's the issue particularly around the spread business and on FA and fixed-index annuity. And as we ramped up, you'll recall, last year we introduced new product and distribution partners on the fixed annuity mid-year and fixed index in January, February and those volumes built throughout the year of kicking really in our third quarter. So the second half of the year in fixed and fixed index was much greater than the first half of the year. We saw a tapering of that in the last year, and you saw it in the full-year results, there is a capital drag on new business and I think we talked about it in the call earlier this year. That drag is greater in the first year when you're writing higher levels of business. So if you look back, one of the capital charges was adjusted up if you're writing more of the business-type than you had previously.

So as you would anniversary those levels of higher activity, you would have less of that incremental capital drag. We're not -- when you compare first quarter this year to last year, we're still at higher volumes than where we were, so that look back is still in there.

And so we're paying -- we pay attention to not just the profitability on that but the capital component to given where RBC and our current capital position is as well.

In terms of the new VA product that we've filed, we haven't -- maybe I misspoke earlier in my comments, but we're filing -- we need to file product changes, a certain product changes through the regulatory process, mostly with the SEC for product changes on the VA relative to security. And so so those -- I think those are actually going in within the next -- if they haven't gone in already within the next day or so. So it takes time for them to run through. But once they're filed and become public, they'll become public.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks.

A - Mark Thomas FitzPatrick {BIO 20178326 <GO>}

I don't know, if you want to turn back, so maybe you want to talk about the reference to the incremental spend that we did last year, and where sort of hedging costs are right now?

A - Unidentified Speaker

Yes, sure. Hi, Blair, this is [ph]. So yeah, the hedge cost question, I would say that, yes, the first quarter was clearly a more volatile quarter, the price for things like equity options or anything that's an option related derivative was elevated. So incrementally we did spend a little more on that. I would say, offsetting that or as a counter point to that, we really entered the period at the end of the year with a significant option book already on the balance sheet. So as the quarter occurred and as the markets started to trade down, essentially a lot of our options became in-the-money. So we saw a lot of gains, obviously, on the derivatives and a lot of actual hedge payoffs with derivatives maturing.

And then the underlying exposure on the liability really became a lot more linear. So the -- we were able to -- the incremental hedging was more in the form of futures rather than the options. With nonetheless, yes, this was a quarter where hedge costs were more elevated than normal. Again, we priced for this very -- and then we assessed the hedge cost over a long period of time, over the life of the product. And we're still comfortable with what we're seeing there.

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

Relative to -- I'd like to agree to the 500 that we referenced last year, I think that was very specific to the issues related to moving between regimes. And obviously, moving between regimes at a time when rates were volatile, we go back to -- of you remember, back to August, September of last year. At least what we thought was volatile and large swings in rates and equities at the time, not what we've seen, obviously, in March of this year (inaudible).

Q - Blair Stewart {BIO 4191309 <GO>}

But I think incremental hedge spend to protect capital has been at 500 for the last three years. Michael?

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

Yes. I don't have a quantification on the comparable basis of where that is.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Okay, no problem.

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

Okay. So Thailand is a market where historically we've been underweight, both on the asset management side, and in fact we were not present there. And also on the life side, we've also -- we've had to shelve somewhere between 3% and 4% now. For one of them, for a market which is ASEAN's second largest economy, 70 million people, a market where the demand for savings and investment is growing, has grown and will continue to grow at a double-digit rate, this was a gap.

This was a gap in our in our business, which is what we've invested to address over the last few years, firstly by acquiring controlling states in two fund managers, which gives us, based on the year-end stats, around 12% of the retailer UON in that market. And we've cemented that by partnering with TMB to also serve the customers with traditional health protection and savings, and savings products. Now TMB, following its merger with Thanachart will be one of the largest banks there. And importantly, they look after 17% of the country's adult population, so it's a serious relationship.

We now have a place with a bank that is very ambitious, very digitally marked there. And what it offers us, and what I like about this particular deal, it gives us the opportunity to actually bring both sides of the -- strength of both sides or our house, both the asset management and the life are part of our house, bring it -- bring those in a combined way to a single partner. Which we don't do that in any of the key partnerships that we have.

Now, that's going to be very powerful. Look, it has a potential on the life side. Once we're up and running and we'll be exclusive with the entire TMB franchise from 1 January next year, but it will give us the opportunity to make much faster progress in a very important market. And hopefully go from a position that we've been, as I said, a 3% to 4% market share position closer to 10% or so, and again, it's a great opportunity and one that we are delighted to secure in March

Q - Blair Stewart {BIO 4191309 <GO>}

Great. Thanks. That 10% number was the one I was looking for. Thank you.

Operator

We have a question from Andrew Crean from Autonomous. Your line is now open.

Q - Andrew Crean {BIO 16513202 <GO>}

Thank you. Good afternoon. I've 3 questions, okay. Firstly, could you give us a bit more on second quarter market for the non Hong Kong, China business? I knew it grew 1% in the first quarter, can you -- there's a lot of market that's very difficult for us to get an assessment. Can you give us a broad feel of how that's like in the second quarter?

Secondly, could you also talk in terms of the IPO. Is the current U.S. balance sheet strong enough for an IPO in your view? You may need to strengthen it to put that through.

And then thirdly, you made comments on the 24th of March, it has starkly changed from the messaging prior. You said that you're still pursuing your minority IPO as you look at other avenues. Could you talk a little bit more about that? In particular, taking in whether the other avenues are still limited by minority position or whether you would entertain ideas about majority sale? Thank you.

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

So Nick, you want to take just the general -- very general feel of what Hong Kong, Mainland China, is that coming back online? And then I'll address the other two.

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

Okay. So Andrew, I think you are you asking about the market outside China and Hong Kong, right?

Q - Andrew Crean {BIO 16513202 <GO>}

Yes.

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

Oh, I'm sorry, I misunderstood that, Andrew. I thought you're asking Mainland China. Apology.

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

So -- I mean, just let me give you a color about what happened in Q1, and then to address your point in relation to the near-term outlook. So we did see an imposition of movement restrictions. We talked earlier in my answer, Singapore was 7th of April, in Malaysia it was on the 20th of March, and Indonesia it was also around that time as well. So we -- or in early April.

So we saw an imposition of movement restriction pretty much all of the market outside China and Hong Kong. And that started from mid-March and they tightened as we got into April. And for them for those markets that started being affected from mid-March, we kind of arrested the double-digit momentum that we have, up until that point. Now all of the businesses, and I'll talk in detail to Singapore, but I could have said the same thing about all of them.

The businesses pivoted very quickly to the virtual sales tools, as I said, 100% of the products to new and existing customers are now available virtually in Singapore, Malaysia, Philippines, Vietnam, India. And actually recruitment moved online everywhere. And agency hires were up 20% in all these markets, ex Hong Kong and China, in March; and 13% in April. So the virtual tools are allowing us to build out further distribution. All these businesses also doubled down on the quality focus. So, I mean, you don't see it in the numbers, but behind the 1% increase in the APE in Q1 was a 19% increase in health and protection, moving the mix of health and protection in ex Hong Kong China markets from mid 20s to low 30s.

We've had several launches of new protection, standalone protection propositions during the first quarter and then into April and May, which is really the reason why the NBP fared much better at plus 23% in Q1 with five markets double-digit. Now, yes, the near-term outlet is challenged, as restrictions were in place pretty much everywhere through April. As we sit here today, it's only Vietnam and Taiwan have eased; a couple more, Malaysia, Thailand will start the easing later in May. But those Singapore, Indonesia, easing won't happen in India, the easing won't happen until June.

But if you like, the Q1 performance just shows what the power of this franchise is, if you like, in a period which is mostly or totally undisturbed. So that hasn't gone away. And everything that we've done since the lockdown, be it moving to more digitally enable the business, when it comes to agent on-boarding and customer on-boarding, the broadest suite of products that we're now launching that has -- that are more -- that have a higher protection focus on a standalone basis, the 3.7 million Pulse downloads across these markets that we've had, again, provide a rich vein of customer leads.

As I said earlier in my prepared remarks, they also give us the ability to positioning direct-to-consumer some of the simple products. All of these e will make it even better when we have a return to normality. And I know you haven't asked about China, but China effectively sets the template, China did everything that I've described, for the markets that we've just been talking about, they went virtual, they incubated on products. And then when things eased up, we saw a recovery of sales in March, and 28% growth in April. So that is the template for all these are these other markets and we are using the same playbook as China did in all of them.

Q - Andrew Crean {BIO 16513202 <GO>}

Nick, I suppose what I was after is a number, is it plus 28% the non-China Hong Kong?

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

No, the 28% was the -- sorry, just to be clear, I slipped to talking about -- in making the point that I see no reason why we can't follow the same playbook in these markets as we did in China. And I used the China growth in April of 28% to illustrate kind of the universal power, the power of our franchise with all these additional strength in place when normality returns.

Q - Andrew Crean {BIO 16513202 <GO>}

Yes. Basically, Nick, I was simply asking a question, what is the equivalent number in outside China and Hong Kong to the plus 28% that you gave us for China in April.

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

It's much more challenged there, Andrew. Because we are in a lockdown, in the same way of China was in February.

Q - Andrew Crean {BIO 16513202 <GO>}

And the number? Because this is what's complete the Q1 metrics for now, not trying to do a monthly update.

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

So Andrew, on the U.S. piece, just one other dimension on the success that seems that in Asia, particularly southeast Asia. We already have this working in China, but you've seen a really strong pick up in the digital payment, automated payments. As you can imagine, as these transactions get more digital, s they look much more like our Mainland business, we're using digital payment technology away from cash which is a trend we've been managing for years, but has had a nice pick up in the quarter as well.

So again, the number varies by market, but it's -- the consumer behavior is changing and that's one of the elements. And then in the Pulse technology and most the markets there is a digital payment capability, sometimes more than one. And that also gives us the ability in some of the markets individual claims. And again, these sorts of things are what we think will stick as consumer preferences for some part of the market post this current COVID environment. So it's great to have the capability. I think it's better quality business when it comes in on cash and comes up persistency with all good things.

And the question is on the U.S., so I know this is a frustrating answer for the full year, but it's -- I'll give you a fairly similar one. We can't -- given where we are with SEC rules, we're not -- we can't and aren't going to comment on timing or options and things in the U.S. The reason I can't tell you where we -- well, we'll get to the broader answer is we, we'll kind of prejudge the outcomes on what's the fastest or best path to an independent Jackson.

And so there's obviously public and private sources of capital, there's different routes to market and we've been very clear that's nothing -- nothing is off the table. And I can be very clear here, this is -- we are talking about working in our strategic objectives, we'll continue with the set pace. So that's not a -- but I can't give you specifics on that one. I know that's frustrating, but we've got to be clear that we're inside of the line based on what sort of choices make up. We're going to do something with the public filing. We can't talk about it ahead of time.

Q - Andrew Crean {BIO 16513202 <GO>}

Okay. Thank you.

Operator

We have a question from David Motemaden from Evercore. Your line is now open.

Q - David Motemaden {BIO 18818634 <GO>}

Hi, good morning, good afternoon. Just a few questions if I could on the U.S. capital levels. First, I guess could you just talk about the moving pieces for the RBC ratio? Where you said at March 24 that it was broadly similar to the 366 at year-end '19. When I look at where it shook out this quarter, that it included about 25 point benefit from the CARES Act, and that would have put it at 315 to 340, which is quite below the 366 level, when you guys put out that March 24 press release. Just wondering what the driver was or the drop versus between March 24 and Q1, if I strip out the tax benefit from the CARES Act?

Second, just a more technical question maybe for Axel on just hedging the VA book. And I know, a couple years ago you guys had started to move to buy treasuries to hedge interest rates on the book, which a few of your U.S. peers have done this too, that I guess there would be, I would assume if you did that there's a pretty big mark-to-market gain that would not be reflected in the RBC ratio. So I'm hoping if you could sort of size that for us so we could get a sense for how much the RBC ratio would have benefited if that gain was realized?

And then just lastly for Michael, just a follow-up on the fixed index annuities sales and sort of the outlook there. Just a question in terms of -- just wondering how much of capital does a dollar of fixed index annuity sales consume, just to help us think about what sort of tailwind the capital generation there could be as we progress through the year? Thank you.

A - Mark Thomas FitzPatrick {BIO 20178326 <GO>}

So, Michael (inaudible) framing and then Axel.

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

Yes. I was going to frame and then have Axel talk to the specifics. I can come back and finish on the FAA outlook. So look, we're giving ranges on the RBC because these are estimates, we only calculate this number officially once a year actually through the NAIC software. We obviously monitor estimates and model it much more frequently than that. And we've done the reporting in the RNS on the 24th now relative to end of the quarter, given the sort of extraordinary events that we've been through, particularly in the month of March and what markets are currently experiencing. So there's lots of puts and takes to that number. I would say the biggest impacts that we've seen and there were changes certainly even in the last week of March.

If you think back you had equities climbing, you had rates moving, you had credit spreads coming back in, there's a number of factors. So you can look at the benefit computation from the movement in the CARES Act application as of the end of the quarter. That's really one of the elements, but there's a lot of other components there. And I think what we're trying to show is the range and the relative stability to where we were at year end and give some indication of the progression of that. I think the -- one of the important things that I had -- we have this in the release and I highlighted in my comments earlier.

We did see additional statutory capital generation as you would expect and as you would hope, I guess, during the period. So we're pleased with the way the hedging program is designed and performed, and performed in a particularly stressful environment. We saw peak to trough 30% declines, we saw in the quarter I think 25% decline in SMP, 20% or 25% SMP, 125 basis point drop in rates. The shortest corrections I think in both rates and equities that we've ever seen in those markets. And we saw a statutory capital generation and we saw capital generation in excess of what we saw in the increase in required capital based on the model. And so those dynamics are holding and ultimately that's sort of I think the basis behind the disclosure today. I'll let Axel, why don't you comment on that or add to it or correct me if I'm off base, but also the question on the VA book.

A - Axel Andre {BIO 19072099 <GO>}

Yes. So no, I think you summed it up well, Michael. There's fast moving pieces, but obviously the big ones all equity, interest rates and credit spreads. On the treasuries, so you have -- the treasuries are, they're part of the overall general account, they're part of our overall A&M strategy, they play -- and they play a role therefore in the way that we think about the VA economic risk. Yes, it's absolutely logical to think that those bonds are in high gain positions currently and rather than talk about the specific number, I would just point you to the group books that are due to come up shortly or its public right now, so the numbers are there.

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

And on the FIA outlook. I don't know exactly how to tell you or direct you in terms of information that we released on how to direct the FIA outlook for the year, other than to say that we expect -- you saw what the volumes were in the guidance that we've given in the first quarter and that the outlook, at least, currently given levels of activity and where we move the pricing of the book, we would expect lower levels of FIA and FIA origination to continue for some time

Order of magnitude, as I think back to last year in a broad range, a significant portion of the capital drag on new spread origination was due to the increase in volume year-over-year, maybe plus or minus half of that, depending on how you look at it. But it remains to be seen where rates move and how markets recover in the second half of the year. Markets beating like sales activity will recover, we're already seeing a pickup in advisor interaction with our external wholesalers and a level of engagement with end client.

In past cycles, it's taken 60 to 90 days to up to six-months if we go back to the financial crisis to see field sales activity levels normalize. Again, I wouldn't point on the fixed index and fixed annuity book, certainly the absolute level of treasury rates are important but the investment rates, new money rates and corporate spreads figure that in as well. So we have a decline of treasuries of 125 basis points and a widening of corporate spreads of 150 basis point which we had, you still have expansion of the underlying return. And that has an impact on rate profitability to book as well. So again, we're trying to be realistic given the environment we're in, in terms of COVID-19 and both market and commercial activity. But I wouldn't read too much across on the FIA for getting one piece in particular.

Q - David Motemaden {BIO 18818634 <GO>}

Okay. Thanks Michael and Axel. And if I could just follow-up with Axel just one -- just wondering, if you'd be willing to share the dollar amount of treasuries that you use to hedge the VA book because? Because I think that that could be a pretty big benefit depending on the size of it, that is not reflected in your RBC ratio.

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

David, it's Mick Wells. It is, but for those of you that are not familiar -- for those of you that aren't fans of U.S. statutory accounting, the gains we have to be -- we sold all the treasuries so they have to be amortized over the life effectively to come back into capital. But you're right, the economic value is absolutely there, and given the 20 plus year commitment to these consumers, again, with their investments first and they're very effective hedge, and in particular GMWB withdrawal benefit. But it's a -- if you see the bill books you can get a good idea of the percentage and the values, and it's pretty easy to market for you to market, but I think that's it.

The other question, David, you asked on capital strain by product. If you just want some general categories, and these vary by feature on the product. But think of VA somewhere around 2% to 3% regulatory capital, fixed index somewhere in the 5% to 7%, and then the fixed is somewhere between 7% to 9%. Again, depending on structure, duration, other nature, that as an industry would be, without getting into our pricing model, that would be sort of industry trends. So the more rigid the rate guarantee the more explicit the higher the capital requirement by the U.S. regulators.

Q - David Motemaden {BIO 18818634 <GO>}

Great. Thanks very much.

A - Unidentified Speaker

Mike, we've got a few minutes left. And I think we've just got space for a couple of more calls on the conference call. There are no call or no messages from the online. So back to the operator. So Scott, please.

Operator

We have a question from Scott Russell from Acquiring. Your line is now open.

Q - Scott Russell {BIO 15107992 <GO>}

Hi, everyone. Good afternoon. Just two questions please. Firstly on Hong Kong, with sales having halved in first quarter, that obviously makes the only income for an agent difficult. Can you tell us how's the agent team holding together in Hong Kong? Particular perhaps those agents who are Mainlanders join fairly recently and might not have that trail commission coming through yet.

Second question is just about dividends and remittances. Obviously, banks have been told by regulators to exercise caution around dividends. Just wondering to what extent all regulators across the world are perhaps paying closer attention to your dividend and remittance decisions at present? Thank you.

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

So Scott, appreciate the questions. Let me put this to Mark Fitzpatrick first for the dividend; and then Nick, if you want to talk about Hong Kong a little bit. But it's got obviously now as of this year our regulators -- are lead regulator is in Hong Kong, not the UK. And the regulatory college looks at it collectively, but Mark you want to go -- Mark, actually James you too, but let Mark FitzPatric, why don't you start?

A - Mark Thomas FitzPatrick {BIO 20178326 <GO>}

Certainly. Scott, hi. So in terms of the international regulators we have round the group, the only one who has come out publicly and said anything around remittances is in India, where the authorities effectively said no remittances for effectively the sector for the majority of this year. The other regulators, as you would expect, we are in regular contact with them. And the Hong Kong Insurance Authority is our group wide supervisor, has not said anything publicly about any levels of remittances, pointing out that remittances are for the company and the board to determine, provided they have the appropriate solvency and liquidity to be able to pay them out.

Q - Scott Russell {BIO 15107992 <GO>}

And next is Hong Kong agent recruiting, retention, rookie versus a veteran, just a little color on (inaudible) that sort of thing.

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

Sure. I mean, I think, yes, the veterans have trail commissions, and that is sustaining them for a period where sales are not as high. I mean, clearly within a 24,500 agency force you have, people that are more free time and those are still selling, I mean, they are selling, in fact the top end of the agency force is selling almost same level of case count even through this crisis. Where we are seeing the kind of lower activity is in the more part-time agents. And I guess the reason they're part-time, and in fact the reason they are part-time is because they are selling products to supplement to their income as opposed to the sole source of income.

So, there's a lot of activity that is taking place to ensure that agents complete all their CPD requirements now whilst demand is lower, so that actually they can use all of their time once the situation is up in the rest of the year to sell, getting them to update the client profiles again so they can up-sell to clients. So there's a lot of activity where they're not able to sell.

In terms of recruitment, actually the run rate of agent recruitment in the first quarter of last year was about 500 a month, we have to recruited 600 in January, and then it got to around 350 a month. But its only 15% down, but attrition is down by a-third. So our agency count in Hong Kong is 11% up on what it was this time last year. So people are coming in with sales, we believe that once normality in terms of the demand will be there, both from the domestic but also the mainland China market.

And the other thing, of course, that's we can now do that we weren't able to do before is, having launched Pulse in Hong Kong towards the end of March, we have 400,000 users, 48% of those are new to good customers and we've already started the process. And these are all domestic customers as we're assigning those leads to agents and looking to deepen our relationship with those customers beyond being a Pulse user.

Q - Scott Russell {BIO 15107992 <GO>}

Okay. Appreciate the color. Thanks.

A - Unidentified Speaker

So Mike, we're off the time now.

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

Yes. We then go to Patrick.

A - Unidentified Speaker

Hi, everybody. Well, I want to tell everyone thank you for your time. And I hope everyone is safe and functioning well the best they can in this current situation. I know it's changed a lot of work styles. I hope what you hear in this and the reason we wanted to continue to give you updates on how the business was doing is the business is shifting. I think it's showing its agility. I mean, some of our investment in the tech now is clear, you could -- you can't talk about Pulse is digital and online without having the ability to digitally process and handled digital currencies. And the scalability now of our platforms and our capabilities, I think are very unique in our history. And you're seeing that play out in a very stressed environment.

We've referenced a couple times earlier on the call, regardless of the shape of the recovery of this pandemic we think some of these consumer behaviors stay, some of the scalability, some of its convenience, some of its major clients. But the idea that all of our sales, if you think of it, one of our agents said the other day that he's gone from business at home, business in an office to business in a Starbucks and now business on a interactive screen on Azure or Microsoft teams. Those are consumer preference changes as much as they are sort of prerequisites for us to be able to stay with that and have the capability to execute however that client wants to do business with us.

So both things are all happening at pace. The earnings, as we've said, it is important to shift to health and protection and it is important to shift the recurring earnings. You see those recurring earnings and retention rates in the high 90s on the retention rate and the earnings falling from that. So strategically I think we're very well positioned to deal with whatever shape this comes. The state and the size of this cohort are profitable new sales in client relationships is hard to determine, because that's dependent on the next two quarters or however long normality takes and whatever shape it comes in.

But that doesn't affect the overall profitability of the business, as much as we've shown in the various presentations over the last few years. It defined one increment, we know one vintage if you will. So consumer behavior is not changing, policy holder behavior in U.S., Asia, again, is sort of as expected. And so there is a lot of disruption, but there is a lot of what we built for playing out here and working as we expected.

So I just want to thank everybody for their time. We're going to keep giving you updates on things that we think are material, some requiring I know some more informal just so you can get a scale of -- you get some feedback on how informally and formally on how some of the things we're doing are shaping. And we'll just keep those coming as the -- as we think information needs to be in the market.

So appreciate everyone's time and attention and support. And thanks for joining us today.