Y 2018 Earnings Call

Company Participants

- Chad Myers, Chief Financial Officer, Jackson
- James Turner, Chief Risk Officer
- John Foley, Chief Executive Officer, M&G Prudential
- Mark FitzPatrick, Chief Financial Officer
- Michael Falcon, Chief Executive Officer, North American Business
- Michael Wells, Chief Executive Officer
- Nic Nicandrou, Chief Executive Officer, Prudential Corporation Asia

Other Participants

- Abid Hussain, Analyst
- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Greig Paterson, Analyst
- Johnny Vo, Analyst
- Jon Hocking, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst

Presentation

Michael Wells {BIO 4211236 <GO>}

Thank you for joining us today for our results presentation. We've got a lot to go through with you this morning in, I think, a good level of detail. And hopefully, maybe you've had a chance to review the early comments. I'm going to assume you've all read and studied the disclosures and move right to the highlights.

So, again, resilient results on all of our key metrics in what was an interesting year, I think, from a market volatility, interest rate, political point of view in most of our markets. And we're obviously very pleased with the strength and the depth of the performance of the varied business units. New business profits, again, up 11%, Asia up 14%, health and protection helping that materially, Group IFRS up 6%. Looking through those numbers a little bit. Asia up 14%, US fee income, up 8%. And if you strip out some of the one-timers in the M&G Pru business, you see it up 5%. So, again, I think, a very strong performance given the climate we were in. Free surplus generation at GBP4 billion, up 14%. Again, Asia free surplus generation, up 14%. Dividend per share up 5%, again, consistent with our policy. And our solvency ratio at 232%.

So I'm going to spend a few minutes on some of the non-financial metrics for the year. So, if you consider the normal practice of selling profitable product in the channels for what you expect us to do, I'm going to give you a little color on the amount of work that was done to further expand our capabilities, further extend our distribution, product, technical reach around. And I'm going to focus on this slide, particular on the International business. But to just give you a general feel for the magnitude of what the Group is accomplishing concurrently with its day-to-day operations, and again, concurrently with the strategic objective of the demerger.

So, starting with UOB and our bank partnerships, I'll start upper left, and I'll move across. So, UOB at 2010 and 2018, excellent performances. I think everyone's aware in APE and new business profits, great partner. The new relationship extends 15 years. It adds Vietnam and has a core component around their digital initiatives, their new digital bank, or their focus on digital banking, which, again, aligns with some of the work we've been doing. Standard Chartered, we brought into Ghana, so again, bringing an existing relationship into one of our newer markets. This is the model you've seen of a successful playbook being applied to a new regime that, we think, has excellent characteristics to it.

You also saw Siam Commercial, Robinson, O-Bank and OCBC, as well as some other bank relationships brought into the fold. Now, these vary in size and structure. Some are exclusive. Some are single product. Again, it just shows the team's flexibility, taking some of the things we're best at and going in and partnering with these entities and coming up with relationships that are highly profitable for us, for them and for the consumers.

On the distribution side, segmentation, we've been talking to you about for a while. In Asia, 7,000 of our agents are now $1 million roundtable. That's up 20%. That's a material number. And it's an absolute sense, certainly, as a percentage of million-dollar roundtable producers around the world. And it goes to what we were talking before about one of the things we needed to address is make sure that the more senior agents in our networks have the products, skills, tools available to them to continue to succeed, and we're very happy with that performance.

Two new provinces in China, again, one, January this year; one, end of last year. Materially extending our footprint there. We continue to develop our China footprint and capabilities. I want to remind you, this is a web-based -- excuse me, cloud-based, digital-based, highly scalable platform we have in China. So, we still do build that physical presence. We still need to build sales and support as we enter a market. But the infrastructure, this is one of our most efficient businesses to expand. So, these are very exciting for us on the licenses.

On the -- on extending distribution partners, TPL, digital provider for the UK for fee advised. State Farm will launch later this year. I had a chance to meet those folks in Nashville last week. And Morgan Stanley, on their advise platform, again, is coming up in just a few months. So, continue to expand distribution platforms.

Babylon, we showed you Ollie and his team, for those who join us in Singapore. This is arguably the world's leading artificial intelligence medical platform. We're taking it into 10 cities -- excuse me, 10 countries this year in Southeast Asia, localizing it for each geography, that can be anywhere from the language, to the illnesses, to the medical provider model and support, but this is part of our desire to continue to build out a health ecosystem for our consumers and in a larger consumer set, potential consumers and people in these marketplaces to help them with health and longevity in the same way we use robo-advice and technologies to help them with wealth. So, a continued expansion of our capability there.

Environest [ph] is another US -- it's a very sophisticated platform for registered investment advisory distribution, arguably, the most successful in the US, now connected with them. PRUone is a point-of-sales technology that can now help, in Asia, our advisers, agents and bank distribution folks, make presentations where the illustration materials come in seconds. This is a material upgrade in some of the support they had, historically. And then, PRUforce is an agent management technology that we're moving across the region.

And in the latter part of the year, the team embedded auto-underwriting in this. So, a disproportionate amount of the cases can be underwritten point-of-sale, very convenient for the client, very important for our agent field. So, this is, by no means, an exhaustive list of what was done last year. But if you look at the combination of organic, inorganic, new partnerships, new technologies, new distribution relationships, new geographies, it's -- this is running concurrent with our normal business as usual. Obviously, we're happy with the amount accomplished and proud of the work.

On progress towards demerger, this is the strategic separation of M&G Prudential from Prudential plc, very good progress. We announced this a year ago. Probably, my least favorite question is, Gosh, it seems like you've been working on this a long time. We have in terms of hours, but I can tell you -- one year, we accomplished tremendous amounts, and we stay at pace, and it feels like it's exactly where it should be, if not a little bit ahead of where it should be. There's a lot to do here, and the majority of that work, we feel like, has been accomplished.

If you think about the project and around, we announced three things this time last year. And you see the legal transfer of Hong Kong, and the first piece is done. That was a fairly unique transaction, historically. And that required a number of regulatory approvals, lots of work by the teams, that's been completed. We are -- the reinsurance piece on the GBP12 billion UK block with Rothesay is done. There are still some court steps to that, that are live, currently scheduled for June 30 of this year. But some approvals are required in that, but good progress towards a Part VII transfer. We see that as a prerequisite before the split, just to make sure that there's a clean separation and the entities and their interest.

The -- Hong Kong Insurance, HKIA, our new regulator, has been chosen as a group-wide supervisor by the regulatory college and has been -- done a tremendous amount of work for us, working with us and the industry, working with the global regulators on a group-wide supervisory regime, as well as an interim regime, very good progress on that.

And again, their desire to -- as you heard in Singapore, to have a well-respected, well-regarded capital regime and a competitive environment for insurers as well. So, a good balance in agendas. They've done a tremendous amount to help us over the last year and get to where we need to. The teams raised GBP1.6 billion of new subordinated debt. That is, again, about 9 points of that solvency ratio, just to be clear. But very good progress on debt and restructuring. And this gives us, again, the ability to model the balance sheets of the two entities the way we think is appropriate.

M&G Prudential, there's been a tremendous amount of work done here, from operational platforms, tech platforms. We mentioned Aladdin, improving the client experiences. Clients are very -- the time it takes for us to interact with a client in the various transaction in almost every case is improving materially. Some of those core capabilities that we wanted to get in place, you're seeing great progress there. We've added a Holdco, which will be a legal entity that'd be listed. Approvals are required for it. Mike Evans has been hired as Chairman. Mike, and John, and their team continue with good progress on building out the rest of that Non-Executive Director board, and that's progressing well.

And then, integrating the support teams, getting to a single management team, getting the cost saves, getting the structure correct to run it as one business continues at pace. And again, the merger and transformation targets that were given to you continue at pace and are still viewed as achievable in the time frames they were given.

Shifting back to the International business. So, why don't -- just spend a couple of minutes to go back through what the ambition and the operating principles will be for the International company. And you can start with the question of why is the US in? Why is -- insert whatever country you'd like here. Why are we in a particular market? So, I want to give you the filter we're using for that, okay, and give you the rationale for how we're looking at it, and also remind everybody that we have been active managers of the business, and we continue to -- that's the perspective we continue to keep. But it starts with the idea that we're looking for markets with structural opportunity.

Is there a demonstrated demand for a product or service that we think we're the natural owner of that risk or bring a unique capability to that solution? Okay. We're not looking to enter every and every -- any possible good business that's got good returns. You see we're more than comfortable, taking pieces of the value chain, if we think someone can out-execute us or have scale of something we don't think is a critical component. But we're looking, first and foremost, for structural opportunity.

Is there a natural demand in that market for products and services that we think we're a logical provider of? Can we operate in that market with discipline? That may go to the ownership structure, regulatory models, competitive behavior. But do we think that a disciplined model will succeed in that space? Okay. And that lens varies by country and by issues that come out of that. But you've seen -- this is the capital allocation piece that, we think, is most critical. You have to look at risk-adjusted returns. You have to expect higher returns in markets where you're taking more risk, and you have to take market factors into account when you're looking at allocating that capital. Okay.

These businesses compete amongst themselves. I've said this before, we always have more ideas than we have capital, and we have a lot of capital. That's a healthy dynamic for a firm that's our size and growing, okay. And that's as true today as it was my first time up here. We got a great set of ideas the team's looking at. We always do. And that just tells you we've got creative people focused on new ways to deploy capital, and we're looking very seriously at them.

Can we enhance capability? Is there something we have in our skill set and our toolkit that -- in our team and our model that gives us a unique advantage in that marketplace, right. Is it a cost advantage? Is it a technology advantage? Can we bring a partner in? Standard Chartered, one of the most successful bank relationships in the industry with us, into Ghana, okay.

Well, a lot of the -- the period of time where the partners get to know each other is behind us in something like that because that's a highly productive relationship with very good relationships and the principles, and it starts at a very different place than a relationship with a bank we haven't done business with before. It could be a tech provider. It could be a reinsurer. There's a variety of ways that we can approach this. But are there things we can do with the relationships and capabilities we have to give us a unique advantage in that market?

And then, finally, does that produce outcomes that justify the work, the capital? This goes to scale. This goes to risk-adjusted returns. This goes to currency. All of those sort of things, and if it produces those outcomes, again, it gives us the ability to continue investing in initiatives like this, okay. That's the model. We expect the various pieces to complement each other. We expect them to reduce risk. We expect them to diversify the kind of exposure we have. We expect very fast returns on that capital and high returns on that capital. I think you see that in the materials in front of you today. And so, this is where our track record has come from historically, and we think this is the critical element for the business to succeed going forward, okay.

You've got to have a discipline in how you go into a market. You've got to have a discipline on when you come out of a market. Again, I think we've demonstrated, we'll look very actively at businesses, channels, product lines, and if we like them at a certain point in time, we'll do -- we'll compete aggressively with anyone. If we don't, we'll back off or exit. And that's part of the firm's discipline, and that's part of the view how the entity will go forward, okay. So, it's underpinned by the track record, right, but it's also where the confidence comes from on where we see the business going forward, and where we think the capabilities are in the group.

I'll switch to M&G Prudential for a moment. So, with the same sort of lens, right, on M&G Prudential, okay, why should it succeed in its market? Well, first off, if you're going to be an asset manager, if you're going to be a wealth manager, if you're going to provide individual retirement accounts, you need investment performance. There is no -- that's from an advisory platform, that's the consumers, that's in the institutional space. So, we start with some good track records, the far-left column, if you will, PruFund's performance at 88% relative to its comparables. The retail funds being 74% above median and 93% of the institutional funds outperforming their benchmark.

But what portfolios, right. So, we go back to capabilities. So, you have -- in this space, we know we've got the need in Europe and the UK, in particular. And certainly, they can expand outside of those boundaries. But for an individual's self-funding retirement, for pensions looking to diversify assets for -- but particularly, around certain asset classes that are harder to commoditize, okay. So, if you go upper right-hand side for a moment, and we'll jump back to the center in a second, look at the types of asset classes where M&G has succeeded, okay. The multi-asset fund proposition, some of the higher value, more complicated, I think, more difficult-to-replicate models have been a huge success for M&G.

Fixed income, it's clearly been successful, but very little dependency on a pure equity play, okay. And again, some of the alts in the real estate that -- again, more complicated, harder up, very good track records in those as well. But we think -- you get a couple of things out of this. Very good track records with the right types of portfolios, you also don't have an asset manager that's dependent on a single category being in vogue, okay. This is a well-diversified company, right, across the respectrum. If a client wants to move out of one position, they've got excellent alternatives, and they tend to be in the conservative long-term space. That's their niche. That's what they're best at and the track record to support it.

And then, you see, from the fund growth in the center, where the success is coming from. It's very diverse in distribution and types of clients, okay, which, again, helps them across different cycles. And at the most conservative, and I think on the fund flows, the GBP8.5 billion you saw last year go into PruFund, an asset manager with the option to have a smooth product. It's a very unique characteristic. It serves a particular niche very well, and it's got the performance of M&G wrapped by the capabilities of Prudential. So, it's a tremendous combination, and we think it makes for a highly competitive model.

I'm going to do a couple of countries in Asia one at a time. A little bit of a deep dive. And then, of course, Nic and all the rest of the CEOs and the team will be up here later to answer any specific questions, if you want to go a little further. But taking that earlier lens, the structural first. So, let's do Hong Kong. A lot of questions about Hong Kong in the last couple of years. Tremendous success, how big can it get? Where does it continue to grow? It's one of our best-run businesses. Derek and the team are just a great management team. You have there markets there. You have domestic, and you have Mainland. And now, we add this Greater Bay initiative, okay, which is effectively a hybrid.

The structural demand, locally you've seen, has been tremendous for us and a couple of key competitors with the local residents, high net worth. Again, insurance is a core part of savings and wealth planning and modeling. Health and protection has been a big part of our push there very successfully. Mainland Chinese with economic interest in China continue to increase in their foot traffic. You've added high-speed rail, new bridge, even easier access. So, that continues to be fundamental pieces for the growth of the business.

And then, on the Greater Bay Area initiative, this is an alignment, if you will, of interest on effectively 11 cities, Hong Kong, Macau and nine of the Mainland cities, with an insurance connect model, very similar to Stock Connect where the intent of the regulators on both sides of the Bay is to allow a client to be serviced on a health product or similar product, or if you think about it as a claims paid through an insurance connect pipeline through the Bay. So, now, our Chinese Mainland client, who buys in Hong Kong, can have a bill paid in the Mainland, okay. Now, this is work in progress. It's been announced by the government. We'll get more details as it plays out.

This is a tremendous opportunity for us. At GBP1.5 trillion in GDP, okay. Think of this about the size of South Korea, just this one -- 11-city project, you're seeing good cooperation between Hong Kong regulation and the regulators in Beijing, okay. And I think it's an interesting message on the role of insurance cross-border as well, okay. China views penetration, Hong Kong views penetration as important social initiatives. Can we do a better job of privatizing the risk of consumers in these markets? And so, again, further alignment in that is beneficial to us.

Are we positioned to take advantage of that? Well, we have the Number 1 agency force in Hong Kong, tremendously productive, highly skilled, well-educated, incredible energy, largest number of million-dollar roundtable producers, and the -- it's -- they're very, very dynamic. It's a stunning group of people to spend some time with. We have, arguably, the most successful bancassurance partnership with Standard Chartered. And then, we have our resources go back to the -- to China for a second on the other side of the bay, where we have capabilities there as well. So, watch this space. But this will continue to be a market that, we think, has tremendous upside. You may have seen in the materials, Hong Kong's fourth quarter sales were up 18%, continues to grow.

On execution, just strong, strong results. Continued product innovation focus. When you're in that operation, they know exactly what they're working on. There's tight alignment between the management team. There's tight alignment with the distribution team. Very high quality presentation materials, support, very high quality from a regulatory point of view, from a risk management point of view. And again, last year, IFRS up 33% for the business.

Okay. China. So, structural demand. We don't need to spend a lot of time on growth in China. But significant underinsurance, a government target to move that to 5% by 2020. About half that now, pretty well discussed. GAAP is about the size of the US insurance market, okay. For us, a material increase in the scale of the middle class. So, these are the sorts of structural things we look at and say, okay, this is a market we -- has got the fundamentals we need to succeed. It has the measurable structural demand that would suggest we have a long time to run there, if we do a good job to compete effectively with domestics.

So, we added two new provinces, as I mentioned. We're now in 87 cities, okay, branches of provincial license. We have access to about 75% of the population and 78% of the GDP. A reminder, we are a 50-50 joint venture with CITIC. The law now allows 51. Other than AIA, no other insurer has 51, to be clear. Some noise around that in the marketplace, okay. So, that conversation, for us, would be both the commercial discussion with CITIC, this is a highly successful business, and then, like any highly successful business, if you were ever to change ownership, both parties would want to agree to that, and it would be a regulatory discussion because the entity is regulated by multiple regulators.

So, we're very happy with them as a partner. As we enter these new markets, they're tremendously helpful for us going into provinces where they have experience, and they have brand, and they have presence. So, it absolutely accelerates our success in that space. And we are very interested in continuing to do more and investing more in China. But that said, we have 48,000 agents focusing on productivity, a 32% increase in million-dollar roundtable producers, we have 40 bank partners. So, we're continuing to grow banca there as well. And we continue to grow our footprint.

On execution, we were -- we participated in their -- this pension trial. China, like many other countries in Asia, has a very large aging population, and they are looking for ways to manage the pension demands of those pensioners as the family model changes. The historic model for pension support was their children and extended family. And the one-child policy has certainly changed the dynamic of that. And there is a clear and growing need for a pension product in China.

So, again, we're participating in that. We established -- I was over in December, we opened up the WFOE. This is our wholly-owned foreign enterprise. It allows us, through Eastspring, to service institutional and retail consumers in China. We got tremendous support in doing that. And it's worked well in the remaining licenses that needs the QDLP and others as well are in place. We've got a very good team. We're starting with there experienced, capable, and we're very confident in how they are going to do.

On the risk management, again, received the Number 1 rating from the regulator on risk management. Risk-adjusted returns, aligning with government's objectives. Again, it's important for us to run these businesses at risk levels that we're comfortable with and risk levels that local regulators are comfortable with. So, very pleased with the outcome there. And then, I mentioned this briefly, but we continue to be -- this is -- because in some ways, it's a late entrance for us. It's some of our most cutting-edge technology. So, this is a cloud-based, primarily mobile-based, there's one signature piece towards the end, but primarily mobile-based, and certainly, digital currency-based company for us. Almost all transactions are on WeChat or Alipay, including the payment of claims.

Indonesia. So, we still very much like the structural opportunities in Indonesia, okay. We are continuing to invest and to make progress towards getting its sales growth there. You see the earnings are flat. And there's lots to do. And I'll give you an update now on some of the progress there, and Nic will answer any questions you have later on it. But we've seen some interesting behavior by competitors in that marketplace this year. It's been an interesting year there. But fundamentally, the structural demand is there. It's a large population, growing middle class, underinsured, all these same characteristics we like, okay.

We talked about segmentation last time we were together. So, our lead agents are now 19% of the APE. This was the -- getting them more product difference support, technology at the higher end of our book as far as agent productivity goes. A material increase in million-dollar roundtable. Activation, training, all those elements are faster. Takaful is succeeding very nicely in country. OCBC, on board now, is giving us some good support in the bank channel. And then, we've revamped the flagship product and brought additional products online. And again, this was one of the things this business needed, was newer and broader product sets to continue to actually monetize that and support the agency base that we built. So, good progress towards those goals.

Up to the portfolio level for a second on Asia. So, again, Asia was not without its market volatility this year, macro level. Lots of interesting challenges in Asia. And just stepping back, you see the benefit of the portfolio. You see quality and resilient growth, all right. You see compounding, insurance income being a larger and larger piece of what we're doing. In the second graph, you see the compounding of 94% of what we're selling in Asia is now recurring or regular premium.

We told you we needed to penetrate more into the deeper, better relationships with our consumers. 42% of our sales now are to existing clients. That is great progress. And 90% retention rates on the client relationships. So, a very, very healthy set of metrics on the recurring earnings, quality of the back book. And then, diversification, seven markets now, over GBP100 million of IFRS earnings, 10 growing double digits. Good mix of product. The bottom AP, a good mix of channel. So, very, very happy with the blended effect of our position, the portfolio position we have in Asia.

Correlation to markets, the outcome is compounding, with very little market correlation. That shouldn't surprise you, given the risk-off nature of the products and services we sell in Asia. But again, you just see the renewal premium compounding 18% on the 10-year, and then, as a measurement of scale, if you will, as a measurable benefit of scale, the earning's compounding 22 would suggest we're doing this in a way that we're using our scale to our advantage. And I think, there's a -- the dynamic of, can we continually keep clients happy, pleased with what we're doing, products relevant to their lives, correct amount of touch, correct support, all those things. You see that embedded in here. There's a massive amount of work by our distribution and service people to make this slide true. But again, it's compounding at scale.

Switching gears to the US. Structural. So, baby boomer movement through the US economy is well-rehearsed. Still very true. $40 million in the next 10 years. The concern about individual retirement, the headlines about pension funds, funding level of the state and fed, all those sorts of things are as front and center as they've been in a very long time, and the demand is there. Now, there has been regulatory, and there has been headwinds that are well-rehearsed in this room that the business has dealt with, but the underlying consumer demand for a -- some level of protection and a long-term savings vehicle is absolutely intact.

And we think we have an advantaged position -- advantage platform to take advantage of that. We have the industries' best wholesaling products, service platform, okay, technology. You see the sort of things that the group's been able to do in linking with partners that have highly complex or very, very modern sophisticated RIA platforms. That gives us a cost advantage in the US. And again, we recognize there's a concentration risk in the US business. So, you've seen us, from a strategic diversification point of view, look at a number of things, that could be organic, that could be bolt-on, as we showed with John Hancock. That's about a 10% increase in the general account. So, we're continuing to keep an eye towards ways to diversify the US business.

On execution, good year on growth and channel. Growth in selling group agreements. Penetration of those relationships, new distribution partners, I mentioned earlier. And again -- and the technology build to connect with these people at very, very sophisticated levels, okay. It's a barrier to entry for some, and it's one that the team is quite comfortable in meeting. So, we like the structural piece. We like how Jackson's positioned. We see the need to do more with Jackson. And we think the execution of Jackson is fit for the task.

US resilience, again, coming off of Singapore. We've been paying for hedges for a long time. In a decade where markets have gone up, that's been an expensive luxury. I think you saw, in the fourth quarter, the value of them. They did what they were supposed to do. They produced about GBP900 million of capital, okay, in Q4. They -- The buffers we discussed with you performed -- in Singapore performed exactly as we anticipated they would. And you see where the RBC ratio is in Jackson. This is a well-protected business. And there's not a whole lot -- from a granular point of view, not a whole lot to say here, other than everything did what it was supposed to do.

And I know there's been some concern about some of the changes to capital models in the US. So, let's -- we intentionally went back to 2016. So, you start with a 485 RBC, you generate 178 points of capital, again, highly capital-generative business -- excuse me, pay the dividend, we have the impact of tax reform broken into two pieces, we show it here as one. And you finish the year at 458. Let me give you a different look at this. If you look at the right-hand side, we are managing this capital base to a specific set of parameters. I hope that slide demonstrates that. We recognize what a properly capitalized business looks like.

That said, come back to the left, you see we can do that while producing very good cash flow off the business. You can do both of these at once, right. So, the strain in the market produced no material difference in the RBC ratio. Again, the consistency is the story here. So, the resilience of this business, as I mentioned to you in Singapore, only really gets tested in a little bit of a strain. And it -- it did what it was supposed to do. The RBC -- for the industry, the RBC 12/31 was not a particularly easy mark. But that said, Jackson's fine.

And one of my favorite slides. I guess, the question on this one, can we continue to grow at scale? The answer is, yes. I think the key is a focus on all of the elements I discussed earlier. Can you produce? Are the products you're selling efficient with capital? Do they pay back the capital in a reasonable period of time? Do they provide a service to the consumer? Are there consumer values, and they're willing to pay for it year-after-year? Have we got those risks correctly priced and diversified or hedged?

And if we do, then, these slides should look like this. That should produce a supportable, sustainable dividend. And this is now -- last year was GBP1.2 billion paid out, GBP800-plus-million invested in new business. You see a material investment in organic and new capability. We can do all of that and still have a very strong capital position. That's -- we want to be -- we want the growth, but we also want a good, highly predictable, well-covered dividend. And again, you see that here.

So, with that, hopefully, what you see in there is quality growth, material increase and the capabilities that this firm has year-over-year. I think that's one of the things we owe you when we stand here. I think it positioned it more competitively for where it's going and what it needs to be able to do in an ever-increasingly challenging market. M&G proved, getting a tremendous amount done towards, not just the divestiture, to but be a better firm, closer to their clients, better service, great performance. PCA doing what everyone hopes PCA does, which is continue to grow highly profitable across a good diversified portfolio of successful businesses. And then, Jackson demonstrating its resilience, its capital management capability, its market position and its ability to diversify.

So, with that, Mark, I'll ask you to take over.

Mark FitzPatrick {BIO 20178326 <GO>}

Good afternoon, everybody, and thank you for coming, and extend my welcome that Mike started off with. I'm very pleased with the Group's financial performance in 2018. It reflects our strategic focus on driving growth while, at the same time, making good progress on the preparations for our planned demerger.

During the year, our businesses faced up to a number of external headwinds, with market volatility and general global uncertainty ever present throughout the period. Yet in this environment, we still delivered growth across our major earnings and cash metrics and improved the capital position of the Group. You can see that here in the key measures with, new business profit up 11%, IFRS operating profit up 6%, 11% growth in embedded value, and Solvency II cover increasing by 30 percentage points to 232%.

Now, this is not a chance outcome, but the direct consequence of our disciplined approach, which is reflected both in the quality of the business we have written over a number of years, and the way we manage it while it is on our books. It also demonstrates the strength of our platform and the market positions, enabling the Group to grow even when the external environment is less favorable and to accelerate when the conditions are right. So, what this means is that Prudential's financial performance benefits from resilience throughout the cycle and is able to maintain the attractive combination of both growth and quality. And I'll bring that to life now as we go through the next slides.

Before I run through each of the businesses in turn, I will cover some high-level observations at a group level, and then, conclude with a more detailed outlook at the overall group metrics. I've used this slide before to demonstrate that the long-term consistency in the group's performance is ultimately driven by our ability to keep building the base of earnings by writing good quality business in the first place, and then, actively managing the in-force book to ensure we are able to retain it. In Asia, this can be measured by the stock of recurring premium income from highly valuable sticky business and in the US and at M&G Pru, at the accumulation of assets under management. Our progress in 2018 continues this long-standing trend.

Importantly, we are growing in the areas that we have identified as strategic priorities. In Asia, health and protection provides the earnings of the highest quality, which are largely immune to investment markets and which grew by 15% in 2018. And our increasing presence in China really highlights the progress we are making in this very important market. This is the outcome of our investment in growth and in building a platform for the future, which, in the last five years alone, has seen us expand into six additional provinces, providing access to another 380 million people.

Over the same period, IFRS earnings have also grown strongly, resulting in China advancing from our eighth largest contributor to our fourth largest on 100% basis. China is a good example of our approach across the region, but at a much larger scale, where the headroom is material for many years to come. In the US and at M&G Prudential, we are achieving growth in revenue in the areas where our products are differentiated, and our execution is hard to replicate.

Turning now to the performance of our individual business units and starting with Asia. Across each of the major metrics shown here, our business has continued to extend its track record of resilient growth with double-digit increases, which have been achieved at the same time as improving the quality of the financial result. Asia remains well-capitalized overall as well as in each of our local markets with significant headroom over regulatory requirements.

Asia IFRS operating profit increased by 14%, driven by the continued strong contribution from the Life business, which was up 15%. In asset management, like others in the industry, Eastspring has seen more difficult conditions for external asset accumulation, impacting both mix and margin. But unlike many others, it benefits from the structural underpin of recurring growth in internal assets from the Life business. External flows improved towards the end of 2018, and we have seen this continue into 2019, with positive net flows and improvements in relative investment performance. We remain focused on building further on Eastspring's leading asset management platform, which continues to be a significant point of differentiation among our insurance peers in the region.

Within the Life result, there have been some excellent contributions at a country level. In Hong Kong, earnings are benefiting from the significant increase in scale of our business over the last five years, where APE is now three times higher than it was in 2013, and the move to a higher health and protection content meeting growing customer needs in this area and has improved both the margin and the earnings profile. In Singapore, we have repriced our products to good effect, and initiatives we have taken to improve claims experience are having a positive impact. And in China, we are building our presence to take advantage of the multitude of large scale opportunities, and we are very pleased with the progress we are making.

In each of these markets, earnings will go at a different pace, but we're building scale and breadth overall across the portfolio. And we now have seven countries contributing over GBP100 million in IFRS profit. The pivot to a higher quality mix remains a key feature of our strategy, with eight countries seeing an increase in the proportion of profit that comes from insurance margin, which is predominantly derived from health and protection business.

Asia's EEV operating profit increased by 23%, benefiting from higher contributions for both new business and in-force profits. The strong new business performance, with profits rising 14%, can be viewed across a number of lenses. By geography, we've achieved growth of over 10% in 10 of our markets. By channel, we've seen double-digit growth in both banker and agency, and through the continued prioritization of higher margin health and protection growing up 15%.

APE sales recovered well in the second half of the year, up 8%, underpinned by increasing momentum in Hong Kong and China through the fourth quarter and strong growth in our Asian markets of Thailand, Vietnam and the Philippines. In Indonesia, we are progressing with the multiple initiatives that Mike has covered but will need time for these to be reflected in the new business metrics. However, across all markets, our focus on writing sales with high-quality characteristics and attractive margins remains undiminished.

On the right-hand side, you can now see the profit from our in-force portfolio. The result is driven by an increase in the unwind, predominantly reflecting the growing scale of the business and also, to a lesser degree, the benefit of higher interest rates compared to the prior year. In addition, through active management of the portfolio, we continue to generate positive experience variances that, in turn, provide the basis to update our assumptions. During 2018, these effects have been seen across a broad range of factors, including persistency, expenses and claims, together with repricing of medical products in Hong Kong and in Singapore.

So, in summary, our Asia business is in good shape. We are growing new business at scale. This is adding to the stock of recurring premium income, and the quality is clearly evident in both what we're writing today and what we have written in the past.

Turning now to the US, Jackson's underlying performance has proved resilient through a period of significant market volatility. This saw a marked rise in yields before reversing much of this benefit towards the end of the year and nervous equity markets that turned sharply in the fourth quarter. So, over this period, Jackson has paid a dividend of $450 million, absorbed the impact of tax reforms, and through the effectiveness of its hedging strategy, maintained its RBC capital ratio above 400%.

The underlying components and drivers of IFRS operating profit continue the trends of the first half of the year. Fee income increased by 8%, reflecting the growth in average separate account assets in our variable annuity business. Following the equity market decline in the fourth quarter, 2019 will start the year from a lower base, although policyholder asset values have already benefited from the market recovery in the year-to-date. The reduced level of spread income is driven mainly by the factors I outlined at the half-year stage, namely the contribution from swaps, which is becoming less material as the instruments roll off, and secondly, the impact of lower reinvestment rates on the overall portfolio yield. Given the increase in available yield since 2016, we expect the pace of the decline in spread margin to moderate from here.

Jackson's headline results have been impacted by debt accounting effects relating to the effects of market return on the mean reversion approach. This has generated a high level of deck acceleration compared to a positive deceleration in 2017. Overall, these market-related effects resulted in an adverse swing of GBP277 million. We'll put a slide in the appendix to explain these dynamics more fully. Jackson's RBC capital ratio improved by 49 basis points over 2018 to end the year at 458%. While the equity drop in Q4 is not something to be wished for, it has provided a tangible proof point for the effectiveness of Jackson's hedging strategy and the ability of the business to manage market risk and the impact of tax reform while generating capital and cash for shareholders.

Now, we talked about Jackson's statutory capital buffer in November in Singapore, and you recall that this existed because of the healthy position of the in-force block leading to floored out statutory reserves. This, what we call latent capital, helped to mitigate the impact of the fall in equity markets in the fourth quarter as we anticipated. In addition, the hedge portfolio, which is defensively positioned to protect against equity market weaknesses, performed as expected, generating capital gains in excess of the movement in reserves.

So far in 2019, equity markets have performed better, rebounding off December lows. This has also generated capital as the increase in statutory reserves posted at the year-end has largely unwound. Now, any further increase in equity markets from here is likely to see more limited benefit recognized in statutory capital as reserves would move back to the floored-out position, although the recreation of a latent capital buffer would, once again, provide protection against downside market risks.

M&G Prudential has delivered good financial progress alongside a year of significant structural and operational change, highlighting the strength of the underlying business. It's important to note that both operating earnings and capital have benefited from favorable contributions from sources that may not recur. While some of these might offer scope for further positive development, they're unlikely to be of the same magnitude on a go-forward basis. Nonetheless, these are very real contributions, recognizing the store value that exists in the in-force book. I'll pick out these items individually on the following slides to help demonstrate the robust performance.

IFRS operating profit of GBP1.634 billion was 19% higher than 2017. Focusing on the core parts of the business on the left-hand side of the chart, M&G Prudential delivered strong growth from the PruFund component of the with-profits fund with shareholder transfers increasing 30% to GBP55 million. As we explained in Singapore, the PruFund product profit signature is back-end loaded. And so, there is a substantial store of future shareholder transfers embedded in the balance sheet as a result of the very strong sales in the recent years.

Annuity earnings have performed in line with expectations, adjusted for the GBP12 billion annuity liability block reinsured to Rothesay Life, which accounted for GBP140 million of IFRS core operating profit in the previous year. Asset Management revenues increased by 6%, with higher overall margin achieved on favorable mix effects. The cost income ratio increased to 59%, mainly reflecting costs related to preparation for Brexit, which accounted for 2 percentage points. Taken together, these components of core IFRS operating profit delivered 5% growth on a like-for-like basis.

Of the one-off items, I will draw your attention to two, in particular. Firstly, as reported at the half year, we have booked GBP166 million from insurance recoveries related to the review of past annuity sales. And secondly, we have updated our longevity assumptions, following favorable experience and the adoption of updated mortality tables under CMI '16, which together added GBP441 million. Notwithstanding the current favorable trend in mortality, our annuity reserves remain conservatively positioned, and we will continue to assess our assumptions against our own experience and more recent CMI tables.

2018 was a tough year for the Asset Management industry, with investors generally moving to more conservative positioning. In such an environment, M&G Prudential's wide portfolio of investment and savings products provided a degree of resilience for both flow and stock. Total AUM moved from GBP351 billion to GBP321 billion over the year. Of this, GBP12 billion related to the UK annuity block sold to Rothesay and GBP6.5 billion was a result of the redemption of a single institutional mandate with very low revenue attaching.

The underlying decline of GBP11.4 billion was primarily driven by GBP9 billion of negative market movements combined with modest net outflows of GBP2.4 billion. The residual net flow reflects the balance of continued strong net inflows into PruFund of GBP8.5 billion. Institutional demand for M&G's differentiated strategies in areas such as infrastructure, illiquid debt, property and public debt and a growing presence in multi-asset funds, all of which mitigated the impact of outflows from some of M&G's more established retail funds.

M&G's experience in retail flows over 2018 is largely consistent with market trends. Although financial markets have recovered somewhat since, investor sentiment remains cautious, with investment association data showing January '19 to be the fourth consecutive month of retail net outflows for the UK industry. However, the relatively resilient performance of the 2018 overall across M&G Prudential demonstrates the value of our diversified mix of assets and strategies and the compelling long-term performance track record.

Given the number of moving parts in M&G Prudential's capital during the year, I thought it would be helpful to break these out and show you the impact on PAC's shareholder Solvency II position on the left. The impact of the Hong Kong transfer now completed and reinsurance of the UK annuity portfolio was in line with the pro forma position we disclosed at the time of their announcement. The rest of the capital build through the year mainly reflects the components I referenced in IFRS, including items of a one-off nature and net of remittances to group and together, have contributed 22 points of Solvency II cover. The policyholder position on the right is an additional and very material source of strength. This is a key point of differentiation for M&G Prudential amongst its peers and represents a significant source of ongoing competitive advantage.

My next slide turns to Group level and completes the P&L. On both an IFRS and embedded value basis, the operating performance remains the key driver of the progression in shareholders' funds. This is stated after restructuring costs, which mainly relate to M&G Prudential's merger and transformation in 2018, but also include a small amount relating to the wonderful IFRS 17. As we're now entering the design and build phase of IFRS 17, you should expect our costs for this program to increase accordingly.

Higher rates in both Asia and the US had an adverse impact on the unrealized value of fixed income securities, with the Asia element recognized in investment variances and the US piece in the available-for-sale line. Investment variances related to the US favorable annuity block were immaterial on an IFRS basis, reflecting favorable fair value movements on equity derivatives. However, on an embedded value basis, investment variances recognize the negative impact on future fees of lower account balances following the decline in equity markets at the end of the year. Currency effects were strongly positive as non-sterling balance sheets were translated at a more favorable rate. Shareholders' equity on an embedded value basis increased to GBP49.8 billion at the end of the year, equivalent to 1,920 pence per share.

As you have seen from the business unit headline results, the group has delivered good progress on free surplus generation, up 14%. Asia's in-force result was the largest component of the Group total in 2018, emphasizing the growth and the scale of the book and the quality of cash conversion in the product portfolio. M&G Prudential free surplus generation from the in-force portfolio increased by GBP129 million, reflecting positive experience. The non-recurring items I mentioned earlier added another GBP461 million, which I've included separately as one-off items in the gray box.

We continue to invest in high-quality new business growth opportunities. The reduced level of sales in the US and measures to optimize capital absorption at M&G Prudential resulted in slightly lower new business strain. As a result, new business profit, expressed as a multiple of new business strain, increased from 3.9 times in 2017 to 4.8 times in 2018. These results, therefore, demonstrate that we are successfully managing both the back book and the front book.

As we progress towards demerger, we are maintaining a keen focus on the quality of our balance sheet and the sources of central liquidity available to the Group and in the future, to each stand-alone business. Remittances from our operating entities continue to generate a material source of dependable cash to fund central activities. Like free surplus generation, Asia is the largest contributor to the total after-funding investment in new business growth. We have additional funding flexibility through untapped credit facilities of GBP2.6 billion and significant headroom remaining within our existing MTN program.

Ahead of the demerger, we have issued debt equivalent to GBP1.6 billion as we prepare to rebalance the Group's current debt across Prudential and M&G Prudential. We were pleased to have issued these bonds with substitution clauses, which will enable the rebalancing process at the time of the demerger. These recent issues included sterling and US dollar denominations, and we retain capacity to issue capital across both businesses in sterling and non-sterling markets, and we'll focus on good execution, so each business is capitalized with the appropriate quantity and mix of capital.

Turning now to the Group Solvency II capital position. Driven by the strength of our operating results, the surplus has increased to GBP17.2 billion with a 30 percentage points increase in the coverage ratio to 232%. Adverse market effects were largely offset by positive currency impacts and other items were net neutral too, after including 9 percentage points of net debt issuance in the period. We have been engaging closely with the Hong Kong Insurance Authority as it develops a new Group capital regime for which it has begun discussions with the industry.

As part of our engagement and based on estimated demerger timing, the hedge KIA has confirmed that our existing subordinated debt instruments can continue to count as capital resources towards meeting the group regulatory capital requirements that will apply immediately post demerger. As the group capital framework develops, we will update you on its progress. Overall, our current capital position under both internal and external measures and at both local and group levels remains robust.

So, in my final slide, I leave you with an update of the embedded value growth I showed you in Singapore in November. The messages then were as follows. Firstly, that new business is the key driver of value and cash for the group centered on Asia's high-quality compounding contributions. Second, that through the year, we are adding to the stock of future profit in cash every year. And third, that this provides a powerful positive dynamic that underpins the outlook for earnings and cash generation. You can see that 2018, through the addition of another material cohort of high-quality new business, has added yet another proof point in this consistently strong trend.

With that, I will hand you back to Mike.

Michael Wells {BIO 4211236 <GO>}

Before we do the Q&A, if you don't mind, I asked Michael Falcon, who has joined us at the beginning of the year as the CEO of the US, just to give you a few of his initial observations and then we'll bring the whole team up for Q&A. Michael?

Michael Falcon {BIO 17026942 <GO>}

Thanks, Mike. Good afternoon now. My name is Michael Falcon. I'm the new guy. I've spent the better part of the last 20 years of my life in the savings, investment and retirement space, mostly in the US and the last four-plus years in Asia. I couldn't be more proud or pleased to be here today and part of a great team at Pru and a fantastic team back in the US at Jackson, some of the team is here today as well, meeting what I see as a really great goal, not just financial, but social goal in terms of helping people retire successfully and live a life post work with dignity. And I think guaranteed income is a big part of that. And as you've heard over the years before, that's really at the core of what Jackson does.

So, as Mike said, he asked me to share a few early thoughts and observations. And I'll do that this morning. I started 10 weeks ago. And since that time, I've spent a lot of time learning about our business. Most of that meeting and working with my leadership team, the management team at Jackson, employees, I've been through the sales conference, I've been through an internal board cycle through our subsidiary boards, as well as through group board cycle, all of the various control investment and asset liability committee meetings, I've had time to spend with the teams in each of the operational centers, listening to client calls, watching how businesses process, time with our technology group, looking at projects and prospects there, and even time on our internal sales desk, listening to interactions with and advisors.

Over the past few weeks, I've done a little more external facing work and that will continue over the next couple of months with clients, intermediary platforms as well as our fund and asset management partners. I've listened and observed a lot. And I'm telling you, I'm pretty impressed by what I've seen and heard since joining. It's also nice that it's consistent with the opportunity I was told coming in. I'm finding it very much as bargain for.

But I'm really left with three, I think, key takeaways at this early stage that, I think, are relevant today. The first is Jackson is a great business. It really has a tremendous set of capabilities built over a long time and I think it demonstrates that in lots of ways, some of which Mike and Mark have talked about this morning. I think it's a disciplined organization, not just in terms of the way it protects and allocates capital, but in its operation. It's pretty deliberate and has generally recognized for very, very high service levels and quality in really every aspect of the business.

And I think that drives from a strong service culture. And it's an organization where it is historically very sales forward, but that sales to service, and particularly, interesting to hear still reactions of how the business, the products and the teams performed through the financial crisis for advisors and for end clients. And it's that distinguishing us from a number of peers in the industry that, I think, one demonstrates a continued culture, but really the impact that that has.

The second takeaway I have, and Mike highlighted this, I think, as well in his comments is, Jackson is a resilient business. And I think we saw that through the market volatility, hedges performing as we would have expected them to through the fourth quarter, but I also think there's commercial resilience to this. There are obviously a number of headwinds in the brokered VA market, in particular, in the US and brokered products being somewhat out of favor.

We're also at the cyclical point with, deep into recovery, or maybe we're mid-cycle or late cycle. There's arguments, but with the equity markets and rate environments, there's a lot of headwind in the market, and yet, we have very, very strong commercial relationships that we can continue to expand and build on. And so, I see a lot of resiliency in the business, and particularly given that we're in the business of guaranteeing retirement income, guaranteeing income and assets, if you will, I think resiliency is important.

And that leads really to my third takeaway again early on is that I'm optimistic about the future of Jackson. I think the needs and demand for the capabilities that Jackson brings are growing. We have a leadership position, particularly in fee-based and advisory, which is still almost embryonic. I mean, it's really just in its infancy. And there's a lot to do. And there's no question it's a difficult and complex product. It's a difficult and complex market. But there is a market there. We are a leader in it and we have the ability to, I think, solve a lot of these friction points and make it easier for intermediaries, and then, clients to do business with us.

It's no secret. And I think, there could be some more balance commercially in the book over time between VA and other products. And the good news is that over its history, and even currently, Jackson writes those types of exposures and has real capability to originate across a spectrum of products, meeting end-client needs, and I think we'll see more of that. And the final thing that gives me optimism is what I term sales alpha. There's a real sustainable, competitive and differentiated advantage in terms of how effectively Jackson and the team go to market, and that's really integrated from the back end all the way to the front, but the most obvious, the point of the spear is the sales force of 180-plus people out in the field, close to 200 back in the sales desk office, covering advisors and platforms across the country.

And it's a highly trained, skilled technical sales force with good longevity. And I think it's -- as we shift into this advisor and fee-based model over the next three, five, 10 years, I think it's extremely well-positioned to be cross-trained and meet the changing demands of the market to deliver these products and services. So, going forward, I'll be back obviously to share more solid plans or visions of the future, but I do appreciate the opportunity to at least address you all at the start of my tenure here.

I think you'll see me continuing to spend time with the teams and spending more time the external marketplace to get a gauge on where our biggest and best opportunities are. You'll see a focus to continue on strategic diversification, which is important. And also, what we can do to broaden our offering both new product as well as distribution, deepening distribution relationships. And then, I'll be spending a fair amount of time with the leadership team, aligning the organization to make sure we're putting resources correctly behind the biggest opportunities, maybe pulling back from some of the less important ones.

With that, I'm looking forward to many years of continued success at Jackson, building stable, prudent, profitable and balanced growth.

So, I'll turn it back to you, Mike. Thank you.

Michael Wells {BIO 4211236 <GO>}

Thank you, Michael. I'll ask my colleagues to come on up here and we'll do some Q&A, if we're good.

Questions And Answers

Q - Oliver Steel {BIO 6068696 <GO>}

Morning. Oliver Steel of Deutsche Bank. So, three questions. The first is, just historically, you've described 5% dividend increase as the worst case assumption. So, I'm just wondering, in the light of double-digit growth elsewhere in your business, why you've chosen then to increase the dividend by 5%? Secondly, can you talk a little bit more about the extra balance that you want in the US business? How far you want to go? What sort of products you need to introduce? How you're going to achieve that? And then, thirdly, you talked about the PruFund profits being back-end loaded. Can you give us some sort of idea, I don't know, on a five-year view, let's say, based on the current business? What sort of latent profit you've got there?

A - Michael Wells {BIO 4211236 <GO>}

Okay. So, I'm not sure, I've described the dividend as worst case. We think -- I think that the language was earn it, stress it and pay it, specifically. And I think, the key of a sustainable dividend is just that. There's plenty of case studies on dividend distribution getting ahead of actual core earnings. And that's not how we see this firm. So, we've got a lot going on this year, Oliver. I think you see the cash and the resilience of the center. It was just viewed as cautious given the structural changes and the fact we're not done with the final look at what the two entities will be. But it's certainly not -- it's not a reflection on our confidence in the growth or earnings. It was just simply up here where the board thought we would be cautious and think it's a good dividend increase, and obviously, one that we can comfortably pay.

Extra US balance, I don't think we want to get too much -- and we've a variety of options there. But I don't think we want to -- I think -- let's give Michael a little time to settle in before we get into some of the specifics. You are seeing an increase in the index annuity product sales in the US. You'll see that in the league tables. And Jackson is looking in a variety of product initiatives. I think, for competitive reasons, anything else we're doing, we'd want to keep confidential at this point. And then, Mark, a statement on PruFund profits, looking forward, I'll let you...

A - Mark FitzPatrick {BIO 20178326 <GO>}

So, in terms of PruFund profit, I think we're going to be wonderfully consistent in our messaging in terms of not disclosing anything in terms of some of that latency at this stage, but I appreciate the attempt on it.

Q - Jon Hocking {BIO 2163183 <GO>}

Good afternoon. Jon Hocking from Morgan Stanley. I got three questions, please. First on Jackson. The guidance you've given today, and I think this is the same guidance that you gave in Singapore about there being a sort of 40 to 50 point hit in 2020 for the VA changes. I just wondered whether there's some offset here because you had the additional hedging that you've had to put in place to cover the inadequacy of the current regime, to cover the rate cap positions over and above the economic hedging, is that 40 to 50 basis points net of this, what you expect to save on hedging or is that potentially on top? I just don't think about what the direction of the statutory cash flow is because you seem to have had -- you potentially got four years on the banks, where you've got exceptional items clouding the statutory cash flow. This is the first question.

And then, second question, again, on Jackson. Some of the movements we saw in the S&P in the fourth quarter, we had some incredible zigzag markets sort of down 5%, up

5%. I just wondered, if you could comment in terms of how you handled the over hedging, handled it and was that within the range of what was foreseen. And then, just finally, on Asia and the Greater Bay initiative you mentioned, I can see the opportunity, but also presumably, there is a threat here as well. You've got a dominant position in Hong Kong, but not in the mainland. What's the risk of mainland companies encroaching on the Hong Kong core business? Thank you.

A - Michael Wells {BIO 4211236 <GO>}

So, Chad, if you don't mind, I'm going to put you and Steve to work on the first two questions, and then, Nic on the Greater Bay initiative. Is that okay? The US team, get a microphone, if we could.

A - Chad Myers {BIO 19162601 <GO>}

Okay. So, I guess the -- both questions kind of come together, so let me just start with the second one, and then, we can roll -- wrap back around. So, in terms of Q4, the volatility was there. That's exactly the kind of scenario we're built for. It's primarily an option-based program, and it's resilient for gappy markets. It's not a purely futures-based dynamic hedging model like a lot of the competitors do. So, those gappy markets actually help us. When we got to the point we talked about in Singapore, and we talked about a couple times about how the more difficult scenarios for us, two that we've seen in the last several years, one was that 2017-2018, where reserves were floored out, and we're having to spend more on hedging than we'd otherwise be inclined to do to protect statutory balance sheet, and also, what we saw back in first quarter of '16 or first half of '16, when the market was down fairly significantly, but we also had rates go to an all-time low, which also is difficult on a statutory basis.

In both those cases, we were having to do additional hedging above and beyond what our normal economic base, cash flow-based hedging program would do. So, what you saw in Q4 was as reserves started to build, and we saw very nice balance between hedge gain loss and reserve build, so -- and you saw -- because we had that kind of latent capital position coming into a good capital formation in Q4. And obviously, the market's reversed back up since then. We've seen those reserves release, as Mark mentioned, against hedging losses we would've taken, but all-in-all, still well-balanced and very happy with the outcome.

As we look into the new VA changes, that range we talked about is really kind of a point-in-time range. So, if you just said, today, we're going to flip regimes, that's where we get our kind of 40 to 50 point result. As I think I've talked about before, that should be a generally -- what you're seeing is an increase in adjusted capital and an increase in required capital, and of similar magnitude, which is why the -- with the formula we're starting at a 450% ratio. That's going to, by definition, bring the ratio down if it's one-for-one top and bottom.

But what that will do is give us better alignment going forward. So, we'll have some more reserves up than we would have had before, so there should be a little bit less pressure on the upside. And if we saw Q1 '16 replay, we wouldn't expect the extra hedging we'd have to do on the statutory side. So, it's not so much that there's a point-for-point today. If we said, we're going to put the new one in, we're going to get some sort of relief vis-a-vis hedging, but what we should see is, on a go-forward basis, a little bit less hedge spend, specifically around those statutory-related tails. Okay?

A - Michael Wells {BIO 4211236 <GO>}

And Jon, just one last comment, I think you do -- there is an interesting question of what the market will see as AA-level RBC as you are talking about a more -- a less-volatile regime? So, that's, again, outside of our control of the market.

Nic, on Greater Bay Area initiative competitors coming over.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. Well, the threat needs to be contextualized vis-a-vis the reasons why people come across from Mainland China to buy in Hong Kong. There's a number of reasons why they do that. The first one is diversification of assets, if you like. It gives Mainland customers access to overseas types returns. The second reason is exposure to hard currencies, in that, it allows them to effectively invest in products that are US dollar-denominated or linked to the US dollar. Also, there's more comprehensive cover that they combine on many of the critical illness and medical products, not least to cover them for early-stage diseases and multistage-type illnesses, better hospital access, and actually, access to Western brands, which are not as readily available in Mainland China.

So, all these -- that's why people buy in Hong Kong. Yes, ultimately, in time, they close maybe the other way, particularly where, say, a Hong Kong resident wants to buy a renminbi-denominated product. But those products are already available in the market. So, my assessment -- our assessment is that the opportunity is much, much greater than the threat. Just to build on what Mike covered earlier, we saw a 15% increase in the number of visitors from Mainland China and Hong Kong, from 44 million to 51 million. In fact, we saw a record level of visitors in the fourth quarter of 2018, aided by the increased connectivity that's coming through the new road and the rail services. It's no coincidence that behind the 18% increase in Hong Kong sales in the fourth quarter lies a 42% increase in the Mainland China sales. So, you see those effects coming through as traffic of visitors increases.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi from JPMorgan. Just a few questions. First of all, on cash remittances, it looks like you've moved to around 100% payout at the moment on a cash remittance net of holding company. I think it's largely driven by lower US dividend. But how do you think about this number going forward? And especially, how do you plan to fund the things like the payments you'll make to UOB, GBP600 million? Would you be using the debt that you have recently raised or that has to be paid down as a restructuring or -- and you'll go down on cash balance? Any thoughts on that would be great.

Secondly, in terms of US RBC. I mean, Mark, you also mentioned that US RBC is still doing all right. But any thoughts on how things have moved in first quarter this year -- year-to-date, I mean, how your equities' hedges have performed? How interest rates have performed? Because it kind of feels like equities up is negative, interest rate down slightly is negative as well. So, shouldn't it be moving down more back to 400% RBC? Or do you still believe it's around 450% at the moment? And what does it impact, like the dividend from US? And lastly is on the UK capital. I mean, UK capital has moved up nicely because of this longevity release, which will most likely happen for next two years as well. But you still aim to maintain, say, 1.70%. So, are you looking to extract more dividend out of UK because of that? Thank you.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Should I start off?

A - Michael Wells {BIO 4211236 <GO>}

Sure. Please.

A - Mark FitzPatrick {BIO 20178326 <GO>}

So, in terms of the cash remittance, effectively, the philosophy and the approaches, we bring up what we need to the center. And candidly, in terms of where we're at, at the moment, given the fact that we raised GBP1.6 billion, and we have a cash stock at the end of the year to over GBP3.2 billion, bringing up extra for the US just didn't seem to make a whole lot of sense. There's also capital efficiency, with actually having some of the extra capital in the US because of some of the inadmissible DTA that we can bring in through that component. So, there's a financial play in terms of doing that piece. But in essence, we bring up what it is we need when it is we need it on that particular piece.

A - Michael Wells {BIO 4211236 <GO>}

On UK capital, I guess, Mark as well, I think or John, it doesn't -- I mean...

A - John Foley {BIO 4239156 <GO>}

That's probably more a question for Mark.

A - Michael Wells {BIO 4211236 <GO>}

Yeah.

A - Mark FitzPatrick {BIO 20178326 <GO>}

So, in terms of the UK capital, in terms of where we're at, so we're very pleased with the performance of that business, how it's done with the element of capital creation. We're going to continue to keep a close eye on it. We're expecting the guys to continue to work hard over the course of this year, continue to keep a close eye on it in terms of -- up to the stage of demerger. We have set out the element of that we would -- we're aiming for 1-70. We'll look to see what happens closer to the time in terms of what that ultimate ratio is going to be and what the ultimate capital position is going to be. The key thing to bear in mind is that it's in our interest as a plc board to ensure that M&G Prudential and plc are well-capitalized, well-regarded and set up for success. So, we will make sure that we do those things for both those companies as part of the demerger.

A - Michael Wells {BIO 4211236 <GO>}

And then, Ashik, on the US RBC, so we don't give off-cycle, as we've discussed. December 31, actually, was a perfect example. It's a point in time metric. That's a hard mark, and Jackson did well on it. Directionally, capital is improving. I think Mark referenced that in his comment. So, if you were running that calculation, that would actually be better, but we're not going to disclose monthlies.

Q - Andrew Crean {BIO 16513202 <GO>}

Andrew Crean, Autonomous. Just one question. There's an awful lot of talk about growth in the presentation, yet the stock trades on 0.8 times embedded value, which is a kind of rating that (inaudible) would have bought closed books for. So, there's a gap -- a major gap in perception here. I wonder, whether you could talk a little bit about what you perceive that gap because it's been around for some time to be about? And what concrete proposals you have to close it?

A - Michael Wells {BIO 4211236 <GO>}

Andrew, I think it's our job, as a management team, to manage the earnings, the quality of the growth. I don't think -- the share price has some market factors to it that are outside of our control. So, I think you're seeing that the messaging, the deployment of capital, the performance, the consistency, all those things that are management's control. But I think commenting on the share price is really a market issue and...

Q - Greig Paterson

I'm surprised you only have two questions this time. Just in terms, though. The -- It surprised me that you increased the debt by a net GBP1.2 billion. And I read quickly the release today that, post demerger, it would increase a little bit more. Has it been a decision to increase the structural leverage within the group, and we've seen this benefit? Or is some of that money going to be earmarked to redeem some debt when we go back to the old level? That's question one.

And the second one, excuse my memory, I saw something about Babylon raising money and whatever, just top rated, had some negative thoughts about why were they raising money when Pru's just injected some money and etcetera, etcetera. So, I wonder if you could just update on -- and I know it's only two or three months since you did it before, but how's the Babylon rollout going? Is everything hunky-dory? Or is there any issues there?

A - Michael Wells {BIO 4211236 <GO>}

So, Mark, do you want to comment on structural debt and something on the Babylon rollouts? Probably, should stay away from Babylon's equity story, though, just for the record. It's probably not -- it's outside of our jurisdiction as well.

A - Mark FitzPatrick {BIO 20178326 <GO>}

So, in terms of the debt, the idea is to make sure that we have some flexibility as we go through the changes in the movements in the debt stack ahead of the demerger, so making sure that we've got the right debt in the right place and that we've got flexibility in terms of the tools that we use to move the right debt in the right place. And then, over time, I'd expect to see the debt numbers coming back down. But over the course of the buildup to and immediately post, there may well be, which is well worth highlighted in terms of the MPN [ph] as well, the fact that it might lift up a little bit.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. On Babylon, the plans to launch this service in our first market, which is Malaysia, are pretty well advanced. We -- as Mike said, the first phase was to get Babylon to help us localize the app, both in terms of language, so it's now -- now exists in Bahasa, and also in terms of local illnesses. So, that's done. We've engaged with the health ministry to get approval as a health information service. So, we've gone through that, that particular step. And of course, it's been very, very heavily tested by our 3,000-or-so staff that we have in Malaysia.

The launch is scheduled for April. It will include some of the basic features that we showcased in terms of the diagnosis, the system checker, the digital twin. We've added a number of additional services, such as AIME's dengue detection service, and also an online doctor consultation, which will be available for free for our own customers but at a charge for non-customers. And also, medicine dispensation will be part of that as well. Later in the year, we will add wellness, rewards, chronic disease management and hospital admission. So, as I said, it's well advanced in Malaysia. We've also started in Hong Kong, Singapore, Indonesia and Thailand.

But just to manage expectations, our emphasis at the first 12 to 18 months will be on ramping up the user numbers, establishing service partners and connecting to existing and new partners' platforms. We will be tracking the number of downloads that we're achieving, how many of those are -- then convert into monthly active users, and then, in time, how many of those will convert into revenue-generating users. We're also developing our digital marketing tools and looking to put in place a very smooth model to move from kind of online to offline handoffs, to telemarketing and agencies, so all that is in -- is pretty much progressing as we expected, and we'll be able to give you more updates later in the year.

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes at SocGen. Couple of questions just on Jackson's hedging program, just to come back to that. Wondered if you could give us more color about how you handle the basis risk? And -- because I mean, looking at the disclosures, you seem to be hedging with index options, mainly. And I'm just interested to hear how you structure the policyholder asset liability management because I think policyholders have pretty broad asset allocation choices. So, how do the options reflect that? And then, second question is, looking at the cost of options, I think, Chad, you said the zigzag markets actually favor options. But I didn't quite understand that because don't options rise in cost when markets are volatile? So, wondered, if you could also just explain -- give us more color on that.

A - Michael Wells {BIO 4211236 <GO>}

So, Chad, do you want to do the basis risk and cost of options across the cycle?

A - Chad Myers {BIO 19162601 <GO>}

Sure. I think on the basis risk, Steve covered some of that in Singapore, too, so there's some refreshing there too on the slides. But just broadly speaking, when we put funds on our platform, we underwrite them to certain characteristics. And so, while there might be good funds out there that generate good alpha but don't really track well, those are the types of funds we don't put on our platform. The ones that have more stable investment offerings over time, that have relatively consistent betas that are easier for us to track on a basis risk type of basis, those are the types of funds we have there.

So, what we find is couple things. The funds that we -- because we do underwrite them, they are very stable through time. We don't see a lot of short-term basis risk coming through. We -- and over the long run, we really wouldn't expect to see much anyways because most equity-type of markets and most equity-type of investments are going to tend to correlate over time. The one exception of that will be the -- more the international emerging markets, things like that. We do have hedges that we specifically have, and a lot of that is more currency than it is actual direction of equity markets, although the last 12, 18 months has been fairly disbursed across global equity markets. But we do have hedges on (inaudible) in addition to the S&P that have mitigated most of the basis risks that we've seen in the underlying separate accounts.

With respect to -- also, what we don't see from our underlying policyholders is a lot of movement, so they tend to stick with -- make allocations and stick with them. We don't get a lot of in-and-out activity going on there, so that's very stable through time, which also helps with the basis risk. With respect to cost of options, the point I was making about the zigzag, so if you own options going into a market, you're effectively long gamma. So, to the extent that you're doing like a delta row hedging replication-type program, you're going to get -- you're going to see the sensitivity of the underlying equity instruments moving on you, and you have to rebalance the delta -- the futures types of position.

When you walk into that type of environment with options already in place, which we do, which is expensive relative to just hedging with futures and steadily grinding up markets, when you walk into that type of environment with options already in play, you're going to outperform because the options are going to have a similar type of gamut to the underlying liabilities, which is a key feature for us in stress times. And with respect to the pricing or the costing of those options, there's things we can do to do things differently. Instead of just outright owning put options, you can do put spreads and take advantage of SKU. There's things like that, that we do that'll help in those environments. But typically speaking, our option book is long enough in duration to get through these shapes of all -- kind of all shocks.

A - Michael Falcon {BIO 17026942 <GO>}

My one quick comment on the first point, we also have something coming from the Asset Management side, been very impressed with this. It's a very large separate account portfolio with a wide diversity of funds. There's diversification and balance on that portfolio itself. And there's great visibility, like instant visibility. So there isn't a lot of change in allocations that end consumers make. But even where they do that, it's instantaneously visible to the team. So they can see exactly what's there. And there's a level of risk mitigation just in the size and diversification of those holdings. They're not all equity funds. They're not all -- especially [ph] not all emerging market equity fund.

A - Michael Wells {BIO 4211236 <GO>}

And Nick, if you're managing money in the platform, they're seeing your net actual holdings effectively realtime. So, they're hedging the actual underlying stocks and positions in the sub-accounts, not necessarily trying to just track the fund, so it's the best (inaudible).

A - Michael Falcon {BIO 17026942 <GO>}

It's at the balance sheet level. It's not at the contract -- the hedges aren't at the contract level, which would be extremely expensive and problematic for that reason.

Q - Johnny Vo {BIO 5509843 <GO>}

It's Johnny Vo from Goldman Sachs. Just 3 questions. I guess in China, as we get closer to liberalization of the market, I mean, how do you see the relative merits of your joint venture versus a wholly owned subsidiary of one of your competitors? That's the first question. Second question just in regards to PruFund. I mean, it's been doing extremely well. I'm not sure whether it's sold on third-party platforms.

And if it isn't, are you planning to do because that could, obviously, give a boost in terms of sales volumes? And third question, just regards to all the movement on the holding company, the debt and various other things. I guess, Mike, when would you be in a position to give us more information on the synergies of these holding companies that are demerging and the benefits that you'll see from the demerger to the market?

A - Michael Wells {BIO 4211236 <GO>}

Okay. Nic, you want to do China first?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes. I mean, look, it's -- we've been quite open about our desire now that the market is liberalized to own more than 50% of the business. If we're able to do that, then that will give us an instant pickup, if you like, in the -- in our numbers. But as Mike said, that's dependent on a couple of factors which are not entirely within our control. But I think the market is wrong to underestimate the potential of simply growing this business and the operational leverage within that. And let me just give you some more color around that, if I may. When we look -- and we put up a slide in Singapore that's showing where our flows and the new business value comes from amongst the now 19 provinces that we have. When you go beyond -- beneath or rather, beyond that, you see that in a couple of places in Guangzhou and in Beijing, we have penetration of between 1% and 2% in terms of gross written premiums. And everywhere else, we're well below the 1% level.

Overall, we're about 72 basis points of market share. Simply adding 10 basis points of market share a year would increase over that 5-year period the new business contribution. If you then overlay the projected 10% to 12.5% increase in growth in -- in gross written premiums, that becomes 3.5 times the NBP. So, the operational leverage is huge. And I think these numbers are conservative, bearing in mind that, over the last five years, our NBP increased 5fivetimes. So really, the challenge is to grow that footprint, which is where we've been investing time. We've added -- we're now operational in our 19th branch. We're preparing for our 20th branch. We upped the number of the presence that we have in 10 extra cities. We're 87 now. That's not the only driver. We've increased -- we now added 32 new sales support offices, bringing the total number to 214.

We've increased our agency account 9%, from 44,000 to 48,000. We've signed up three new bank partnerships, so that we're now operating with over 40 partners. That gives us access to 5,000 bank outlets in that market. That's 20% up on a year ago. And we've increased the number of wholesalers that are servicing those bank outlets by 28% to 1,400. Therefore, we're just going after that opportunity. We're doing all of that at the same time as focusing on the high-end products. Health and protection is now 45% of our sales.

Regular premium has gone up to 97%. Client retention is 94%. All of these drivers mean that all the key indicators of future financial earnings and value have increased double digit, whether it's embedded value, whether it's the gross written premiums, whether it's the size -- the assets that we manage in that business. So simply by going after the opportunity systematically, diligently and making sure we're doing quality gives us huge operational leverage, which is actually much, much bigger than simply increasing our ownership by 1% or by '25, 2030 as we said before.

A - Michael Wells {BIO 4211236 <GO>}

Thanks, Nic. John on PruFund and third-party platform?

A - John Foley {BIO 4239156 <GO>}

We don't sell it on third-party platforms. But what we are looking is to -- how we are looking to grow PruFund is through Europe. So, we are busy diligence or others are diligencing us in terms of the product to sell-through our partners in Europe, our bank channel partners in Europe. So, that's where we're heading with that product. Clearly, we've got to maintain the integrity of the performance of that product. That's what drives the sales. So, that's how we choose to do it.

A - Michael Wells {BIO 4211236 <GO>}

And Johnny, on the synergies. So, I think the -- for M&G Prudential, before we announced the demerger, we announced the merger of the two entities, and they set cost targets, and part of that was improving service and capability, and you're absolutely seeing that now. And part of that was cost reduction, which is (inaudible) was mentioned was on track. They're embedding -- as we're adding the capabilities to be a stand-alone firm, the governance, the sovereign functions, etcetera, that's embedded in that model. So, that's an added challenge for them.

On the international side, when you're doing this level of work, it creates a sort of inflection point to look at why you do things. You can argue as a management team, you can come up with a reason to do that by yourself without any sort of external catalyst, but this absolutely is a catalyst. So, there is a soup-to-nuts look at every process we have, every role we have, how can we get closer to the client, do things faster, all that, and that has some clear cost savings in it. But we'd like to announce, though, as we get to them, not project them, but we do see a leaner closer-to-the-consumer model when this is all done, and I think you need to be to stay relevant to the consumers in the accounts we have, that's how we should be.

Q - Abid Hussain {BIO 20229932 <GO>}

It's Abid Hussain from Credit Suisse. I have three questions, if I can. Firstly, if I can just come back to the debt leverage. I was just wondering if you can get a sense of what the releverage capacity for Pru plc post the demerger is? I think if I -- so if my math is correct, I think you end up with a IFRS debt leverage of around 22%, 24% for the International business, so I've allocated about GBP3.5 billion to the UK. I was wondering if that's the right sort of level? Or would you look to increase the leverage from that level going forward?

And the second question, also on debt but regarding Jackson. I just wanted to understand how much of your existing external debt counts towards the RBC ratio? And if there's any room to inject more debt locally into the US and what the constraints are around that? And then just finally, around the demerger timeline. I think I heard you say that you have a court date for the Part VII transfer for the end of June. Assuming you get approval at that point, what else is left? And how long would it take? Is there a risk that the demerger might spill into next year?

A - Michael Wells {BIO 4211236 <GO>}

Okay. Mark, do you want to do debt? Chad, do you want to do Jackson RBC? And then I'll do timing.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Okay. So, in terms of debt, the kind of ballpark that you're talking about in terms of your numbers, I think, are fair. Clearly, we'll be looking at future opportunities in terms of where we are with our debt levels in terms of the cost of debt. There's still quite a lot we need to do with debt overall in terms of the restructuring of the debt in terms -- in anticipation of the demerger, so we need to get the debt in the right buckets with the right features, with the right characteristics. And from plc going forward, we'll be keeping a close eye in terms of our overall debt levels. We'll be keeping a close eye on just ongoing opportunities we have in the market and then how best to be able to fund those.

A - Chad Myers {BIO 19162601 <GO>}

So, the only external debt that we have at Jackson outside of the spread lending business is a surplus note that's due later -- due later next decade. It does count for capital purposes and therefore, for RBC. There is more capacity to do that within Jackson's. So, then, I think, past that, it's just more of a question at plc where the most effective place to raise debt.

A - Michael Wells {BIO 4211236 <GO>}

And the size of the note, just to give an order of magnitude?

A - Chad Myers {BIO 19162601 <GO>}

It's $250 million surplus notes, all it's -- currently is external debt.

A - Michael Wells {BIO 4211236 <GO>}

On the demerger timing, so we haven't said it would be this calendar year. We -- clearly, we have to go off a full set of -- an audited [ph] set of financials, so that's one of the criteria so half year or full year. You need the -- the debt piece Mark was mentioned, we need to finalize what the balance sheet of both these entities look like, the governance in place for the stand-alone firm, which is its board. The regulatory approvals in both jurisdictions includes reconvening regulatory college on the international side.

And then, I think the task we've been given by the plc board is to make sure that the quality, the execution is fit for purpose for two standalone FTSE companies of this scale. So, it's as much a quality lens to make sure everything's ready to go. But the -- as you saw from one of the earlier slides, a tremendous amount of work has been done to-date. And we think we have the teams in place. And we think we're making very good progress for it, but we'll keep you posted as we knock back some of these requirements. But think of one of the dynamics being that the financials date -- and we want to go off out in financials. We don't intend to do a counter -- an off-cycle set of books.

Q - Blair Stewart {BIO 4191309 <GO>}

It's Blair Stewart from Bank of America. First question is, you gave an indication of the Asian surplus against local minimums. I just wonder how much of an indication of that is the true surplus -- where would you be happy bringing that down to? And how fungible is that as well? But I guess, more importantly, have you had anything you share with us with your conversations with the Hong Kong regulators to how the plc capital position would be regarded? That's the first question. Now secondly, for Nic, two smaller questions. Indonesia, we've not really seen any impact of the initiative yet. Is there anything that you're seeing that you can share with us that may be good, bad or different? And is the Greater Bay Area initiative, is that a signal, do you think, of a more relaxed view from the Chinese regulator on Mainland Chinese business after some tightening they did a year or so ago? And finally -- actually, that's it.

A - Michael Wells {BIO 4211236 <GO>}

Okay. I appreciate that. Let me take the last one first. And then, James, if you wouldn't mind, I'm going to have you just give him a little bit of -- and then Nic, you can do Indonesia. So, I'm heading to China next Wednesday night for the China Development Forum. And Blair, one of the specific questions will be with the various political leadership is their view -- including the German regulator, what's their view of cross-border. It's come up before. I mean, it's never been -- you do not hear the same -- I've never heard the same concern in Beijing or in a meeting with senior Chinese regulators that I've heard in a meeting like this about Chinese -- what the concern is, is on penetration rates and levels and quality of product and strength of balance sheet and asset liability.

That's the dialogue, and I've been a minimum of four to six times a year since I've taken this role. So, there's been plenty of opportunity if they had a concern about cross-border to raise that, and I've never had that come up. So -- but I intend to bring it up. The Greater Bay initiative, I think, is -- got a lot of dynamics to it. The first key to it is to make sure -- for us to make sure we're servicing those clients up to their expectation and candidly, up to their regulator, government's expectation. So, that's one of the things you wanted to find, is what do they see what that Insurance connect, what do we need to build to be ready for it? I assume -- we're assuming Stock Connect is the model, just given the names. But that's the type of thing to validate in one-on-one meetings and in various sessions with the leadership of the country. So, we've got a shot to do that the next couple weeks. James, on the discussion with HKIA.

A - James Turner {BIO 20145412 <GO>}

Yes. Okay, so Blair, in terms of HKIA, we are, as Mark said, actively participating in the HKIA industry engagement on the development of the group-wide super ridge function. And so that includes the future capital models. Because as you said, in a number of the countries, the local stat is actually inviting constraint not the Solvency II numbers. And that said, we're also continuing to engage with IIS and also on the development of conframe and ICS. But the discussions with HKIA on the principles of the group supervision [ph] on capital have progressed well. We've been working really closely with them for some time now. And whilst it's too early to give you indicative numbers, we will update you once the HKIA's proposals have been published for consultation.

A - Michael Wells {BIO 4211236 <GO>}

And Nic, on Indonesia?

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes. There's a lot of -- there's a -- don't really want to give a forward-looking statement on Indonesia. There's a lot of work that we're doing to address what I referenced back in November as the strategic dimension of the business as well as the operational dimension. On the strategic dimension, if we can segment the market into kind of four buckets, there is the agency linked, where we have a leading position. That part of the market continues to be subdued. It's a big part of the market. It's around 25%, but it's not moving. The product that we launched in September has introduced many customer-friendly features.

And of course, it's only available through our electronic platforms. In a country such as Indonesia, with over 250,000 agents, it takes time to effectively train everyone to use those electronic platforms and to also learn about the product. We -- that was taken place through the fourth quarter. We're seeing good takeup of the product. We're seeing high case sizes. But it's -- there's more to do. And there'll be a high net worth -- mass affluent high net worth version of that coming later in the year. So, that's our response to that. The second part of the market is the agency traditional. That's about 11 points in the market, 11% market.

Historically, we haven't done anything in that space. We launched our first simplified endowment product in January, targeting effectively the rookies and the core agents. We're seeing a good momentum in that. About 77% of the sales of that product are coming from rookies and core agents. We are iterating that product. We are finding -- we're trying to simplify it further. And we'll be introducing further simplification such as underwriting with five questions later this quarter. So, we -- again, sales there are picking up. It's making up about 6% of our APE in the early part of the year. There's a lot more we can do there.

On the banker, which is 40% of the market, we continue to push through with UOB. We've now started doing business with the OCBC. Mike referenced that. We're visibly onboarding another kind of small, medium-sized bank in Q1. And of course, once the Taiwan CFC transaction completes, we'll get access to (inaudible) branch network there. And we continue to look for opportunities in the retail space because UOB and SEB really are in the wealth space, be it on an exclusive or nonexclusive basis. The balance of the market, which is 23%, is on group business. There, we've had no presence historically. We're launching, on the 22nd of April, our employee benefit-type business. The systems are built. We're ready to roll that out. And we'll target the 27 million SMEs in that particular market. I think we can get some decent traction.

At the same time, Babylon will -- is coming online later in Q2. And we're also exploring opportunities to work with nontraditional and platform-based partners. And of course, there's a lot of platforms that are getting a lot of traction in that market. The operational dimension, which looked at where we were looking to retool our agency, is also proceeding as I would like it to proceed at this stage. We've seen a -- we're giving better training, better tools, better products to be Elite in the MDRT. That's around 2,000 of our top agents, and their contribution is improving. So, you -- we saw a fair contribution to APE rise from around 8% to 19%, and you saw that on the slide. We're putting a lot more emphasis on Shariah. That grew 17% last year. It's now about 25% of our agency sales. And we have a leadership position in that particular market.

We've set that up now as a separate business, with a separate CEO, separate budget. And we are -- we expect to get more traction there. When it comes to the agency leaders, we're giving them more support with hiring. One of the things that we saw in '17 and '18 is only about 60% of them hired a new agent. That number needs to get much, much closer to 100, and we're giving them the appropriate support. And we're also strengthening the infrastructure that we have to manage this -- very many branches, the internal infrastructure. We're doubling the number of effectively sales support managers and are reorganizing the management's structure. So, a lot of work. The -- A lot of work. We've got, as I said, a great business there and a great platform. Notwithstanding some of the difficulties, it is the #1 provider in that country. As I said before, I don't really want to give a forward-looking statement. But the action plan that we referenced in November is in motion.

A - Michael Wells {BIO 4211236 <GO>}

Thanks, Nic. And then, one additional comment on China -- the cross-border. We have had Hong Kong validate and look at, from a regulatory point of view -- we're complying with their rules on cross-border, and that's a normal part of their governance and their previous form and their current form, so we have had those reviews, just to be clear.

Well, again, thank you very much for your time and attention, and we look forward to seeing you at the half year.