Prudential plc and Jackson Separation Call

Company Participants

- Mark FitzPatrick, Chief Financial Officer and Chief Operating Officer
- Michael Falcon, Chairman and Chief Executive Officer, Jackson Holdings
- Michael Wells, Group Chief Executive
- Nicolaos Nicandrou, Chief Executive, Prudential Corporation Asia
- Patrick Bowes, Head, Investor Relations

Other Participants

- Andrew Crean, Analyst
- Blair Stewart, Analyst
- Dominic O'Mahony, Analyst
- Farooq Hanif, Analyst
- Jon Hocking, Analyst
- Larissa Van Deventer, Analyst

Presentation

Michael Wells {BIO 4211236 <GO>}

Welcome to our call, everybody, today and I appreciate you doing this on short notice. Today is an upgrade of the -- an update, excuse me, on our next phase in the transformation of Prudential plc into a pure play Asia and Africa group, with obviously exciting growth opportunities. At the start of this pandemic, I said that during this uncertain period that the company would be providing more frequent updates to investors, the wider market community, and all of our stakeholders. And today's communication should be seen in that context.

As you've heard me say in a number of occasions over the past year, we have two key priorities. One, to pursue, at pace, a fully independent Jackson. And second, to ensure our investors fully benefit from the opportunities of Asia and Africa. The developments that we are announcing today support both of those priorities.

So let's start with Jackson where there are three key points. First is the acceleration of our plan for full separation of Jackson in Q2 2021. We intend to conduct a demerger, whereby the majority of Jackson's shares will be distributed to existing Prudential financial shareholders. This will lead to the earlier creation of a separate, fully independent Jackson that wouldn't have been possible through a minority IPO. Shareholders and various regulatory approvals will be required, but the Board is determined that this is the right path to take.

Second, the appointment of Steve Kandarian. Steve is a well -- excuse me, is a -- will be and independent non-exec Chair of Jackson's Board of Directors. And Steve is a well-regarded industry figure. He was previously CEO of MetLife and he will bring the tremendous expertise and tremendous experience to Jackson.

Third, good progress is being made with other steps to complete the proposed demerger in the second quarter of this year, namely in the debt raising and the regulatory process underway. You have also seen that from 31 December 2020, Jackson is revising the modeling for calculating reserves and capital for US statutory reporting. Then, that's in respect to its hedge program.

As I mentioned, our full-year audited 2020 results will be out on the 3rd of March, where we can go into more detail as you're used to. However, for this short call today, with me are several other key members of the leadership team, including Mark FitzPatrick, Nic Nicandrou, Michael Falcon, and Axel Andre, CEO and CFO of Jackson, respectively. All here to join us and answer your questions as best we can, given the environment and the process as we have underway.

So, Michael, over to you for some short points and remarks on Jackson, if you would, please.

Mark FitzPatrick {BIO 20178326 <GO>}

Great. Thanks, Mike, and good morning to everybody. Let me start by echoing Mike's remarks that we're really proud and happy to share the news of Steve Kandarian's appointment as Jackson's non-executive Chair and we look forward to his official arrival effective February 1. His appointment marks another key step on our path towards becoming an independent public company.

As Mike mentioned, in this morning's release, we confirmed several actions we've taken to position Jackson as an independent US life insurance company and we continue to move forward. We are actively engaged with the rating agencies, with our banks, and our regulators. We place a high value on those relationships. Jackson remains committed to building on our decades-long history of helping US retirement savers by offering valuable product solutions, supported by excellent service and a strong balance sheet.

Our expectation is that at the time of demerger, Jackson will have an RBC ratio between 425% and 450%, with a total financial leverage ratio of between 25% and 30%. The proceeds from debt or hybrid security issuance prior to separation will be retained by Jackson and largely held at our operating company. As we said previously, we are committed to a strong credit rating and capitalization and we are confident on our path forward.

This morning's announcement also addresses changes Jackson is making to our hedge modeling approach under US statutory accounting, which are the standards used for US insurance regulatory reporting. At the outset, I'd like to emphasize that we are not changing our approach to hedging or the manner in which we execute it. Rather, we are changing how we model the anticipated future net benefits of our hedge program under the US statutory accounting for variable annuities.

We're making this change to refine the simplification that we made in our modeling last year and because it has benefits on a go-forward basis, including enabling us to better track and communicate the performance of our hedge program against objectives. But the change in approach will result in a one time in the level of hedging credit that Jackson will recognize under the statutory accounting regime. We estimate that reduction to be around 80 RBC points at year-end 2020. At year-end, as we've noted in the release earlier, we expect our RBC ratio to be in the range of 340% to 355%.

When preliminary results are released by the group on March 3, we will of course provide detail on the RBC go forward from last year, just as we always do. Again, this change does not affect our approach to hedging or the effectiveness of our hedge program which continues to perform well and as expected. It is a one time change in our statutory accounting approach, which we will reflect at year-end 2020. The change does not have an explicit impact on GAAP or IFRS financial reporting, nor does it change the underlying fundamental health and economics of our in-force business.

Jackson is well positioned on our path through the planned demerger to trade as an independently listed company. The management team at Jackson and myself are keenly focused on moving this process to completion in the second quarter and we look forward to building our business in the years to come.

Let me turn it back to Mike.

Andrew Crean {BIO 16513202 <GO>}

Thank you, Michael. Turning to the key points now for the Prudential Group, we've also given you a brief update on trading for last year. And despite quite extraordinary markets and operating conditions, the businesses across the group proved resilient, adaptable, and agile. And in particular, we can confirm that the overall quarterly sales trajectory in Asia has continued to improve during the second half of 2020. We'll give you the full picture when we do report our full year results again on 3rd of March.

Pivoting to the demerger, we are able to complete the transformation of Pru into a pure business that's purely focused on our exciting growth opportunities in Africa and Asia sooner than would have been possible with the minority IPO. To spell this out into the IPO route, Prudential, in all likelihood, could still have been a majority owner of Jackson for some considerable time to come and a demerger means that within the next six months, Prudential will be down to a very small stake in Jackson.

We want the new Prudential to be best possible positioned to take advantage of the full range of opportunities that we have to invest in in terms of growth. This means having a capital structure and a leverage position which reflects our position as a growth-oriented business. We've invested heavily in Asia for many years and we have never passed on a deal we wanted because of lack of financial flexibility. That said, as we confirm today, the new Prudential, once Jackson is separated, would have a pro forma debt-to-equity ratio somewhere in the low 30s in percentage terms. And that's above where our pure play operating models and our target of 20 to 25 midterm plans.

Prudential is and will be a highly capital-generated business. And just through the normal course of business, we would be able to get down to an appropriate level of leverage in just a year or two. However, the pure play in Asia Prudential is, as I said, a new company and we want that new company to have the best possible start in life and with further financial flexibility to invest in growth opportunities. So that's why we've said today that we are considering raising $2.5 billion to $3 billion in equity with the objective of being -- to increase the group's investor base in Asia. Such a transaction, if executed, would maintain and enhance the group's financial flexibility in light of the breadth of opportunities to invest in for growth. The exercise would allow us to get our medium term -- excuse me, to get to our medium-term leverage targets faster and to take advantage of the recovery in our Asian and African markets, build future new business value, and grow our embedded value for those regions. I'm sure you'll appreciate these are early stages. We can't comment on timing. We're limited to how much we can make on process and other details than what we've said in today's news release. We'll be able to give you more updates in due course.

Finally, looking ahead, while the pandemic still has a long way to run and its impacts will no doubt continue to be felt in the balance of 2021, overall quarterly sales trajectory in Asia has continued to improve during the second half of 2020 and we anticipate our operating performance for 2020 to be in line with current expectations. And in particular, our teams continue to get better and better at adapting to the restrictions caused by COVID in meeting the needs of our customers. We are well positioned for growth and today's announcement shows we are moving at pace in executing on our strategy.

I'm going to pass it back over to Patrick, who'll just remind everybody how we need to manage the questions and the answer session. Patrick?

Patrick Bowes {BIO 16444249 <GO>}

Thank you, Mike. As you've heard, we have our results due out on the 3rd of March and you'll appreciate that we have a number of legal and regulatory limitations in providing details over and above what we've announced day. Following those results, there will be a number of documents for the proposed demerger. In respect to the listing of Jackson in the US, this will be what is called a Form 10 and for the group a UK circular to Prudential shareholders. So there will be much more information in due course. On that basis, please bear in mind when asking your questions today for the next 45 minutes or so.

And now over to Britta, our call operator to start the Q&A. Over to you, Britta.

Questions And Answers

Operator

(Operator Instructions) And the first question we have from the phone line today comes from Andrew Crean from Autonomous Research. So, Andrew, your line is open. Please go ahead.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, all. I've got three questions, if I can. Firstly, can you comment at all on headquarters costs now that you're demerging and getting a clean break from the US business, whether you'll keep both London and Hong Kong and whether there are any further cuts there? Secondly, could you talk about the -- you talked about the debt in the -- at Pru Group, but could you talk about the LCSM, which was 334% at the half year, what it looks like on a pro forma basis? And I think you said that the group-wide supervision ratio will be roughly in line. So talk a bit more on that. And then thirdly, could you talk a little -- you talked a lot about management teams in Jackson. Are those -- what are the management plans for the existing business?

A - Michael Wells {BIO 4211236 <GO>}

Andrew, thank you, good morning. Mark Fitzpatrick, can I ask you to comment on the headquarters and the LCSM? And I guess general comment, Andrew, on the management team. We're going to continually -- we've been working, I would say, on an evolving model for getting to the cost targets we discussed. And also to improve the speed at which we make decisions in Asia. So we've made a number of structural changes in last year in our management model, specifically who reports to Nic. And you're treating the more mature businesses both an expectation and in line of communication differently than our developing markets. So, Nic, why don't you spend a couple of minutes after explaining the objectives of that work stream and how that's working since you've got a little bit of history with that?

So Mark to the cost and LCSM, please.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Certainly. Andrew, good morning to you. So in terms of the right-size [ph] central costs, if you recall, we previously committed to a reduction of $180 million saving by FY21, which we said at the half-year we are on track on and I will be able update you more on that on the 3rd of March. And we also indicated at the half year further $70 million of saving through rightsizing the head office costs given the expected evolution of the footprint of the business. So we're still on track to that and we're still looking at that. So that's $250 million of head office -- headquarter cost that we are looking to reduce. And we're on our way to doing that.

In terms of the LCSM at the half year, you're quite right. The half year group LCSM number was 334%. The RBC changes that have been announced today and in isolation are equivalent to -- are kind of in the ballpark of about 15 to 20 percentage point reduction in group LCSM shareholder position. So we'll announce full details of the year-end capital position alongside the results in early March, but I hope that gives you a sense of the overall scale that we're talking about. Thank you.

A - Michael Wells {BIO 4211236 <GO>}

Nick, if you would please.

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Yes, Mike. Hello, Andrew. About a year ago, we made a number of changes to the management architecture at PCA. I was Chairman of the China business from day one, no change there. But the other four businesses, big businesses Hong Kong, Singapore, Malaysia, Indonesia, Eastspring, their CEOs report directly to me. And all the other more developing markets were grouped together. And that's since been led by Wilf Blackburn, who you would have met at the Singapore Investor Day. And as I said, that's been in place for a year and designed to speed, to accelerate and speedup the decision making of the larger businesses and ensuring that the other developing businesses have more full-time oversight and support.

And actually, this structure has helped us respond with considerable agility and help us accelerate, if you like, or do far -- many of the capabilities -- additions, new capabilities that we got it in the course of last year in face of the pandemic. We can roll them out much more effectively and faster. The interaction with London hasn't changed, but I have always participated in the Executive Committees, participate at the Board, so the focus on and the support that I get has remained unchanged and is very much appreciated.

A - Michael Wells {BIO 4211236 <GO>}

And then Andrew, in general, the consolidation of the support functions has been going on for the same time period. So HR, risk compliance are now all based in Hong Kong for the group and the teams are working together between London and -- one actually, our Hong Kong facility and it's been a single team. There's no longer a regional office concept. There's a single operating model. So we've been getting a lot of those efficiencies you asked about on the cost side by just consolidating teams and getting them to work. It gives us an advantage on the clock and then also talent in key markets. So we're very pleased with the way it's going so far.

Q - Andrew Crean {BIO 16513202 <GO>}

Great, thank you.

A - Michael Wells {BIO 4211236 <GO>}

Thank you.

Operator

We now have the next question from Jon Hocking of Morgan Stanley. Please go ahead, John. Your line is open.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Morning everybody. I've got three questions, please. First in terms of the indicative capital raise, the $2.5 billion to $3 billion, is that purely for deleveraging and for expansionary CapEx in Asia or is there some underlying strengthening of the -- your Hong Kong group ratio in that number? Second question. In terms of the deleveraging, you're talking about 20% to 25% in the medium term in terms of leverage ratio. I'm assuming that's including some book value growth. Can you put a dollar number please on the 2021 deleveraging in terms of what that might be? And then just finally on Jackson, in terms of the 80 points RBC reduction from the modeling change on a statutory basis. Does that suggest that there's going to be an increased level of statutory capital generation going forward and RBC points given you've taken a hit upfront? Thank you.

A - Michael Wells {BIO 4211236 <GO>}

Thanks, Jon. Good morning. So again, I think I'm going to have Mark on the first two and then Michael Falcon, if join us for the third one. But, Jon, directionally, as you know, we've got some more expensive debt that we'd like to retire and I think -- the first call on the capital. But, Mark, do you want to go through the detail a bit as we can in this environment?

A - Mark FitzPatrick {BIO 20178326 <GO>}

So Jon, hi, good morning to. So the potential equity raise that we're considering would, in essence, help us to accelerate the intended deleveraging and also enhance the financial flexibility for the growth strategy that we talked about in Asia. So we have about $2.25 billion worth of relatively expensive debt that is either past first call or due to past first call in the next quarter. So redeeming that would increase our financial flexibility and put us towards the lower part of that 20% to 25% range, or the medium-term range that we speak about in the announcement today.

So that I think is a key element in terms of that piece. And hopefully, that gives you a sense in terms of how we're looking at the potential raise and how we're looking to use the potential raise. The potential savings (inaudible) on that, the potential saving, if we were to go down to the $2.25 billion on interest cost will be about $125 million per annum.

A - Michael Falcon {BIO 17026942 <GO>}

Yeah. And it's Michael Falcon here, Jon. Hello. Thanks for the question. So the impact of the change is modeling change in terms of the credit we received in the capital calculation under stat and it doesn't impact either the installed book or the go-forward business in terms of capital generation from the business. There's no impact on the underlying economics of the health of our book, which we're obviously pleased with.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, thank you.

Operator

The next question from the phone line today comes from Larissa Van Deventer of Barclays. Larissa, please go ahead when you are ready.

Q - Larissa Van Deventer {BIO 20764470 <GO>}

Thank you and good morning. Two quick questions from my side, please. The first one leading into the second. If you could please comment, you mentioned accelerate -- the continued acceleration in growth in Asia as a recovery of the first lockdown. Could you give us a sense of what is happening under the current COVID situations and also on the reopening of the border between Hong Kong and Mainland China? And then related to that, you talk about the deleveraging, but you also speak of growth opportunities. Could you give us a sense of where in Asia you would look to invest if you were to do the potential capital raise?

A - Michael Wells {BIO 4211236 <GO>}

Certainly. Nic, I think you're best positioned given you're there. Why don't you comment on our -- I think the three really blend into it, similar sort of update on the feeling on the ground and obviously, a status update on the border is relatively straightforward, and where you see opportunity.

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Okay. Thank you, Mike. Good morning, Larissa. Again, within the confines of what we can say at this stage and mindful, we will give you a full trading update at the prelims. What can I say in response to your question? Well, the first thing is, despite, if you like, ongoing disruptions, which are varied in both severity and duration in different markets, the business has successfully deployed, not only its existing strengths but also its new digital and physical capabilities, many of which we talked about at the interims, to achieve what I would characterize as a strong rebound in Q3 and a good sequential progress in Q4.

So when I'm talking about what are the capabilities, what do I mean? I mean capabilities such as establishing virtual sales. We said at the interims is that they accounted for 37% of all agency sales in Q2. And that percentage remain meaningful in the third and fourth quarter, not only for agency, but also for the bank channel. I also mean capabilities such as the Pulse-led customer engagement and acquisition where we've doubled the number of downloads from the 8 million we announced in August. And at the same time, we've broadened both our digital offering and accelerated their sales to Pulse subscribers from referrals to agents. I also mean capabilities such as the launching of very many new health and protection products.

We're now offering simpler standalone cover at lower price points, which has enabled us to tap into the much increased demand, which has been driven by the backdrop into these products. And as a result of this, the trend that we reported in the half year of seven businesses growing the health and protection mix continued in the second half. And finally, I mean, capabilities, such as the -- those that come from stepping up our agent recruitment. We stepped up our recruitment in the first half. We said at the time, it was up 7%. And that provided a tailwind in the second half as did the expansion of our reach in the first half to 19,000 bank branches in that channel following the addition of new partnerships. So those that -- if I can stop there on that as a teaser for now, as I said, more color on the 3rd of March.

In relation to your question on the COVID situation, some markets are the same. Some markets have improvements, some markets have deteriorated. Maybe a bit more color. Countries such as Philippines and Indonesia have never had the COVID under control. So we had to live with that pretty much throughout the year since March and that continues. There's no change there. In places such as Malaysia, Hong Kong, and Thailand, we've seen some deterioration at the back end of the year or indeed, some in position of additional restrictions early in this year. Places like China, Taiwan, and Vietnam where we saw a return to normality after the first quarter, that normality pretty much continued and remains the case. And the one place where we've seen an improvement is in Singapore, where from the beginning of January, there's been a lifting of some of the restrictions. Now, all that said, and to Mike's earlier comments, we now have many more tools, much more experience and better know-how on how to phase into all these -- for this type of backdrop. And candidly, our approach and mindset is to pretty much go for growth irrespective.

As to the question of where there are opportunities to grow, I mean, the answer is everywhere. The markets remain under penetrated. The current backdrop has increased and reinforcing people's minds and the importance of protecting themselves and indeed having enough protection, there are -- there is investment that we're making in both our physical route to market, whether it's agency or bank. The investment that we're making in our digital routes to market through Pulse, the investment that we're making in automating and streamlining our servicing.

And, yeah, there are one or two gaps that we have in one or two markets. We've talked about historically about expanding our access and our presence in the bank channel in Indonesia that we're looking to plug at the earliest available opportunity. So there's no shortage of opportunities. No shortage of new product type areas to invest in, whether it's retirement or protection. And really, the enhanced financial flexibility that a capital raise would bring lends further support to our growth ambitions as we go forward.

Q - Larissa Van Deventer {BIO 20764470 <GO>}

Is it fair to assume that protection products are relatively low capital in their requirement?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Are they low cap? Well, it depends whether they are whole of life or whether they are...

Q - Larissa Van Deventer {BIO 20764470 <GO>}

No, pure protection, because you mentioned that is what you're focusing on writing at the moment. But those are relatively capital light?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

We're focusing on addressing all the needs and savings needs and health and protection needs are abundant. The backdrop has increased the demand for health and protection. Health and protection, no, it's not capital light, not as capital light as linked to all (inaudible) as with profit business. In fact, because we have to put this capital behind to protect against the current -- under the current regimes. On the new regimes, RBC regimes, which is what we're evolving to in many of our markets, where we can take credit for future premiums, they are -- those regimes make this business more attractive from a capital perspective.

Q - Larissa Van Deventer {BIO 20764470 <GO>}

Thank you.

A - Michael Wells {BIO 4211236 <GO>}

So -- and again, I know we've got a few new people on the phone, but that focus is on recurring premium health and protection business. And again, we have multiple channels. We're taking that to market, bank, digital, and our successful agency force. And from a range of capital intensity, Nic sort of went through it, we have a Par, which is very efficient, link very efficient. Some of these products have more traditional capital stream, but they also have very attractive payback and return on equity metrics. Thank you for your questions.

Q - Larissa Van Deventer {BIO 20764470 <GO>}

You're welcome.

Operator

Thank you. We now have the next question from Farooq Hanif of Credit Suisse. Farooq, please go ahead. Your line is now open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks for the opportunity. First question is on ambitions for liquidity in Hong Kong. You've mentioned -- you implied that you are going to try and raise as much as possible in Hong Kong. Do you think this will be enough and what are you going to do? What are your plans going forward to further increase that? Second question is, yeah, forgive me if you said this already, but taking the half year, what would your LCSM be excluding Jackson's RBC ratio in that ratio? Just to get a sense of that. And then last question is, what is your thinking process behind retaining the 20% in JNL? And how are you going to think about allocating the value to those JNL shares in the group? Just qualitatively, if you can help us with that. Thank you.

A - Michael Wells {BIO 4211236 <GO>}

Yeah, we can. So again, we're subject to regulatory comments and approvals what we can say, but our intent would be to seek to 20% as an investment with the flexibility to sell down opportunistically, but also because we see value in the company for the shareholders and as far as Jackson. The capital raise that we have proposed decides to what we think we need. There's not a plan for excess or we would have disclosed that.

But I'll let Mark give a little more color on that and LCSM. Mark?

A - Mark FitzPatrick {BIO 20178326 <GO>}

Mike, thanks. So in terms of the half year LCSM number, we indicated that the RBC change that we announced today would have an impact of about 15 to 20 percentage points in the group LCSM position. So pro forma for the -- also for the separation of Jackson, we estimate the LCSM would be kind of in the 300s, but it's not a constraint. It's not a concerning factor at all.

Q - Farooq Hanif {BIO 4780978 <GO>}

And sorry, just to come back on the liquidity longer term, but do you think it's a concern that you need to address to sort of rebalance some of that liquidity towards Hong Kong going forward? And how much do you think you would have to do there? Is that going to be in areas potential significant news flow going forward? Thank you.

A - Michael Wells {BIO 4211236 <GO>}

No. I think we said all along in that, we started this journey that alignment of regulatory or some of our future opportunities, our capital base needed to be accomplished. In doing that, there's obviously tremendous demand for investors in that part of the market, an interest in the company and we think that there's a chance to tap into that. And there's also -- I think it's good for all of our shareholders, regardless of where they are sitting.

And then the other piece is, we continue to move towards an embedded values, being a better metric to measure the recurring cash flow that we're just talking about in the last question. And that tends to be the lens for some of the investors in that market. And I think the other one that's not trivial is assuming we pursue successfully a Hong Kong equity lift, again, I'm trying to caveat this for all the various regulatory requirements we have to step through here in this call today, but it also is supportive of extending our retail brand even further because there is a retail element to that in that marketplace. And so there's -- I think there's a number of benefits for us in going that marketplace. But again, the sizing was based on what we think is the current efficiency of capital, reducing expensive debt, giving us a little bit of headroom and getting to the targets that we think produce the highest returns for our shareholders. It's not a -- we're not -- we think it would be an appropriate amount period. It's not an implication that there's more to come.

Does that answer your question?

Operator

Thank you. The next question comes from Blair Stewart of Bank of America. Blair, please go ahead.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Good morning. Good evening to Nic. Three questions from me. Firstly, just on Jackson and the change to stat capital modeling. Obviously, having a very significant cascading impact and which leads to an equity raise, which is unpleasant for the market. So I'm just wondering, why that changed now? Was the modeling not compliant with the requirements in the past? So just trying to get an idea of what's changed in your own thinking. And also, why is it, if you are effectively putting more capital in or receiving less capital credit, same thing, why does that not have an impact on future statutory profits or capital?

My second question is the IPO versus demerger route. I'm just intrigued as to why you've abandoned the IPO route given that market conditions are probably better, if anything, than they were when you first announced it and obviously, the timing of selling down on an IPO would not have been a surprise to you back then. So what's changed in your thinking? And what feedback have you had from investors on appetite for a demerger? And what will you do to combat flowback by way of investor education, et cetera, in the US?

And thirdly, and I suspect this will be a short answer. But is there anything you can say on Jackson National strategy going forward with a new Chair in place? Thank you.

A - Michael Wells {BIO 4211236 <GO>}

Yeah, Blair, good morning. It's Mike. So I think I can get a couple of those and Michael Falcon, the capital model, the first piece, I'm going to let you answer.

On the IPO versus demerger, Blair, I think that where we got to -- what changed, I think, is just the continued volatility in markets, the timing. You asked about investor feedback. We got a tremendous amount of feedback that -- from our investors across the board that the highest way to generate our shareholder value was to -- with certainty, execution certainty and timing. So if you look at today is a perfect example. I'd agree with you, two weeks ago, you'd have said, equity markets are up, rates are up, you're bringing an IPO. It's a wonderful day. You do it today and it would have been a difficult day. We just -- the demerger has a fraction of the market sensitivity, market hurdles to clear and it's quicker. We're out quicker. They're independent quicker, which gives them less -- their own trading characteristics are better. On developing on flowback and managing the creation of a new investor base, there's already a -- we're going to be very careful here in what we say because, again, they are in filings. But obviously, there's a -- the normal processes for a company doing these sorts of things would be road shows and meeting with the institutional investors that buy these shares in North America and we're well aware of the playbook for companies in that sense.

And then the other comment on leverage. So if you can see, we're not -- from a rating point of view and from a capital generation point of view, we don't need to do a capital raise. We're doing this because we think it accelerates the shape and the ability to address opportunities, the ability to pay down that expensive debt faster. I mean, we could do this organically, but we think this produces a -- positions the firm more competitively quicker. So it's not a -- there is no need to do the capital raise in the sense of a rating pressure and things post Jackson. So I would separate those two a bit.

Michael, do you want to talk about capital modeling?

A - Michael Falcon {BIO 17026942 <GO>}

Yeah. Great. Blair, good to hear your voice, if not see your face, and one day we'll all be together again in person. So your question, first question relative to Jackson, why now and why doesn't the -- it had an ongoing impact. So the change in statutory capital modeling is not related to the underlying economics of our business. It's related to the computational model by which we get credit for the hedge programming capital. And that component changed with the VM-21 regime that we adopted early last year. In the course of that, we made a simplifying assumption as we do and as everybody does in the models and in reviewing that this year. And that's part of the -- our process in preparation for Jackson on the path to public. We found that one of those assumptions was inconsistent with what the intent of it was. And so we've corrected that and adjusted it, and it's a one-time change.

So I would think of it as a ratcheting, a recalibration of a sort of the thermometer of where that is. And that's really the answer of why it doesn't have an impact in terms of capital on a go-forward basis. It's not like we're taking something upfront from the future and bringing it now and so the future flows have different. This doesn't affect the economic value generation. And as you know all too well, there are gaps in how economics of VA would perform relative to the statutory construct around the VA. And this means it relates only to that statutory.

Q - Blair Stewart {BIO 4191309 <GO>}

Michael, can I just ask -- sorry interrupt. But does that mean that you hold more statutory capital? Is that the impact of the change?

A - Michael Falcon {BIO 17026942 <GO>}

No, I mean, it means that the capital level raises to get to the same -- to a similar level of RBC, if you will. It's an adjustment to the credit that we received in the computation.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. So my read of that is that you hold more stat capital, which I would assume, given you've talked about the inefficiencies of having a low capital requirement and low stat capital in the past that there would be efficiencies of having more stat capital. But we can maybe defer to that, but that's why I'm slightly surprised that having more capital -- generate more efficiencies going forward, given you've talked about the inefficiencies in the past.

A - Michael Falcon {BIO 17026942 <GO>}

So from the standpoint of capital going up, you do have changes in terms of macro, hedge overlay and other things like that. But that's not the focus of the change. There's changes in the underlying required capital to that increase. So it's not -- we can follow up later, but it's not a -- it's not accretive or diminutive in terms of go-forward position.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

A - Michael Falcon {BIO 17026942 <GO>}

On the strategy, some of that, you'll have to wait for the Form 10. I think I'm going to defer into the normal process around this going forward. But suffice it to say, we remain committed to the US retirement market and we see that as large, dynamic and growing, and we're going to be very, very excited to attack that market as an independent company.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you.

A - Michael Wells {BIO 4211236 <GO>}

Thanks, Blair.

Operator

Thank you.

A - Michael Wells {BIO 4211236 <GO>}

So Patrick, how are we on time? We take one more? I know we committed you guys to get you off quarter after. I'm just conscious of that. Britta, do we have one more in the queue?

Operator

We have a question from Dominic O'Mahony of Exane BNP Paribas. So, Dominic, please go ahead.

Q - Dominic O'Mahony

Hi, folks. Thank you for taking my questions. I have two. Most of my questions on the US I think have been answered. Thank you for the clear answers. Can I ask one small clarification? So the 80 points of RBC ratio you've pointed to, can you give us a split of the effect from requirements versus capital or it is just qualitatively an indication of that? And then secondly, just turning to Asia. You've been very clear -- Nic, you are very clear about going for growth despite the COVID effects. I wonder if I could just ask about Hong Kong. Clearly, there's a feature there, which is that Mainland Chinese have to be there physically to buy new products. And there's -- and that's the core part of your business. Could you just tell us what sort of the agency forces in Hong Kong had you been growing? Have you had any attrition as agents see that there is not much business from the Mainlanders and so they are stepping away? Could you give us some update on that, please? Thank you.

A - Michael Wells {BIO 4211236 <GO>}

Yeah. And I apologize, I realize we did not -- let me just -- so the border is not open between China and Hong Kong to make sure we're clear on that. Nic, why don't you go first -- I'm sorry, Michael, why don't you go first on the US piece on what (multiple speakers) and then Nic, let's go to Asia, Hong Kong.

A - Michael Falcon {BIO 17026942 <GO>}

Yeah. So on the components of the 80-point drop, the answer is, we will give the -- just as we always do in the roll forward of RBC at the full year results, we'll break out the impacts relative to both capital and required capital as we -- in the context of the way we present that usually. But no additional information now other than the estimated range of where we're going to be, where we expect to be in separation and the impact of the change.

A - Michael Wells {BIO 4211236 <GO>}

Nic, Hong Kong, what's the agency force?

A - Nicolaos Nicandrou {BIO 15589153 <GO>}

Thank you, Mike. And apologies, no, you're right, I didn't answer Larissa's question in relation to that, which, as you said, the border remains close. So has there been any attrition? No. The agency count is actually up in Hong Kong overall. But clearly, we've retained the agents that are registered with us, whether they are from focused or exclusively in Mainland China or not. We saw a lot of the agents that did the majority of their business with Mainland China customers. So a lot of those pivot into the domestic market. And we've been able to feed them leads from the 0.5 million or so downloads that we had on Pulse from domestic customers in Hong Kong. So they -- yeah, as I said, they pivoted the focus into domestic and to support the building of a customer base that used the tools that came with the Pulse investment that we made across the region, including Hong Kong.

Q - Dominic O'Mahony

Very helpful. Thank you.

A - Patrick Bowes {BIO 16444249 <GO>}

Yeah. Mike, we're probably out of time now, so if you want to go to your closing remarks?

A - Michael Wells {BIO 4211236 <GO>}

I can do that. Dominic, thanks for your question. Well, obviously, we need to close the call now. So I just want to thank everybody for your attention today and joining us on short notice. Obviously, look forward to spending some more time and give you a much more granular look at the beginning of March in terms of your questions and the key successes that we're seeing in the company.

I hope everybody stays safe. And again, thank you for your time, and have a good day.